yieldreport Daily

Your Income Advantage

8th May 2025

Overview of the US Market

Buy on Dips, Sell on Rips. Because that is the Moniker Currently. It's a Trader's Market. Happy VE Day. Or Happy Friendshoring. So, the UK sets an agreement. And Tech Led the Market Down, and they're Leading it up. And the Most Sensible City in the US – Chicago – just got a Pope. Right now, **the US has no immigration**. Think about that. And think about the Fed given its dual mandate.

A **risk-on wave enveloped Wall Street** on Thursday, with stocks up and bonds down as **The Mister** announced, as noted or inferred, a trade deal with the UK while noting that if China talks go well, tariffs could be lowered. Equities gained after **The Mister** said investors should buy shares now. For a market hoping for an easing of tensions between the US and its top commercial partners, that was enough to drive a rally of about 1.3% for the S&P 500. Almost every major corner of the stock market advanced, with gains led by economically-sensitive sectors.. As the safety bid ebbed, gold and haven currencies fell. Short-term Treasury yields surged as traders pared bets on rate cuts.

By circa close, the **S&P 500** rose 1.3%. The **Nasdaq 100** gained 1.8%. The **Dow Jones Industrial Average** added 1.3%. The Russell 2000 climbed 2.3%. The yield on 10-year Treasuries advanced 10 basis points to 4.36%. A soft $25 billion sale of 30-year bonds also weighed on the market. The Bloomberg Dollar Spot Index rose 0.6%.

Trump announced a trade framework with the UK, hailing it as a "breakthrough" that will bring down barriers and expand access for American imports. The president also said he believed negotiations launching this weekend with China would result in tangible progress, predicting Beijing would be willing to make concessions and saying he could consider cutting punishing tariffs.

As we get the details of this trade deal today, and find out how much progress the **US and China** are making towards **the most important trade deal this weekend**, it should give investors some more clarity about how much of an impact the trade issue will have on the US and global economy going forward.

Overview of the Australian Market

The **S&P/ASX 200 Index** rose 0.2% to close at 8,192 on Thursday, extending gains from the previous session as US President Donald Trump hinted at a major trade deal with a "big" country. **Subsequently known as the UK**.

Meanwhile, Trump said he would not lower tariffs on China as a condition to begin trade negotiations ahead of US-China talks in Switzerland this weekend. Elsewhere, the US Federal Reserve held interest rates steady, with Fed Chair Jerome Powell signalling a cautious approach and ruling out a pre-emptive rate cut in response to the potential economic impacts of tariffs.

Leading gains on the ASX were NAB (1.4%), Northern Star Resources (2.4%), Evolution Mining (2%), and Zip Co (0.8%). In corporate news, Pro Medicus jumped 3.4% after the medical imaging platforms maker secured a A$20 million, five-year contract with the University of Iowa Health Care.

Overview of the US Bond Market

The **yield on the US 10-year Treasury note** climbed 8 basis points to 4.35% on Thursday, as investor sentiment improved following the announcement of a US-UK trade deal, viewed as a potential first step toward de-escalating global trade tensions.

Bond traders expect the Fed will lower interest rates three times this year despite the central bank leaving borrowing costs on hold and flagging mounting risks of both higher inflation and unemployment. The world's most important central bank has now kept its benchmark at the range of 4.25% to 4.5% for a third straight meeting after cutting it three consecutive times last year.

"It's not a situation where we can be pre-emptive because we actually don't know what the right response to the data will be until we see more data," Powell said. US Treasury yields fell on the news, with the two-year yield easing 3 bps to 3.78%. The 10-year return lost 5bps to 4.28% as the yield curve flattened, suggesting that the Fed is unlikely to lower the cash rate at its next meeting.

Overview of the Australian Bond Market

Australia's 10-year government bond yield steadied around 4.28%, following a sharp decline in the previous session after the U.S. Federal Reserve left interest rates unchanged but warned that economic uncertainty has increased further due to President Donald Trump's trade war.

Meanwhile, on the domestic front, markets continue to price in a 25bps rate cut by the Reserve Bank of Australia at its upcoming meeting on May 20th, amid signs of easing inflation and weaker consumer spending. Investors are also anticipating further cuts in July and August, taking rates to a floor of 3.25%, with some expectations that it could fall to 3.0% or below by year-end. In global developments, President Trump said on Wednesday he would not reduce tariffs on China as a condition to begin trade negotiations. This statement came ahead of a scheduled meeting between senior U.S. and Chinese officials in Switzerland on Saturday to discuss trade matters.

ETFs -Domestic & Global

Let's look at the US, where there was 19 new ETF offerings launched in the past week, each with a distinct value proposition for investors. Detailed below are a few of the launches that we believe are pertinent to Australian investors in terms of market dynamics.

Summit Global Investments launched the SGI Enhanced Market Leaders ETF, an actively managed solution that seeks to deliver **enhanced income** and capital appreciation by investing in stocks of companies it considers "market leaders". The portfolio focuses on companies with consistent leadership in earnings, debt, and valuations, and adjusts positions based on changing risk/return profiles and idiosyncratic risks. The fund's active strategy aims to generate an **enhanced yield by an options overlay**. **Options overlays in the US are the biggest theme going. Called in downside preservation**.

VistaShares launched the VistaShares Target 15 **USA Quality Income** ETF, an actively managed solution offering investors a core equity portfolio of U.S. based companies that exhibit strong quality financial characteristics, while leveraging the experience of the portfolio management team to seek to generate high monthly income. The strategy involves two components: (1) investing in a portfolio of equity securities that exhibit strong quality characteristics defined by high profitability, low earnings variability, and low leverage; and (2) generating income through an options portfolio. **Call that Qual and Low Vol over Growth**. **Factors matter.**

PGIM Investments launched the PGIMS&P500MaxBufferETF-May, which seeks to provide investors with returns that match the price return of the SPDR S&P 500 ETF Trust up to a predetermined upside cap **while seeking to maximise the downside protection** against the SPDR S&P 500 ETF Trust's losses over the one-year target outcome period. **You seeing a theme**.

Astoria Portfolio Advisors launched the **Astoria Dynamic Core US Fixed Income ETF**, an actively managed solution that operates as a 'fund of funds' and allocates its assets among underlying US fixed income funds that invest in a variety of fixed income sectors, including, but not limited to, US Treasuries and other debt securities issued by the US Government and its agencies and instrumentalities, corporate bonds, mortgage-backed and asset-backed securities, municipal bonds, high-yield bonds and private credit offerings.

ETF Shares, the emerging new boy on the Australian ETF block, has announced a collaboration with index provider Solactive supporting **the launch of three ETFs designed to offer local investors differentiated access to US equities.** The firm writes that each ETF benchmarks a distinct Solactive index, delivering focused exposure to American companies characterised by strong financial fundamentals, technological leadership, and transformative innovation.

The three ETFs are the **ETFS US Quality ETF**, the **ETFS US Technology ETF** and the **ETFS Magnificent 7+ ETF**. The firm writes that amid rising uncertainty about the US economic outlook, investors are turning to companies with consistent free cash flow and strong quality fundamentals, as these firms tend to have resilient business models, the ability to self-fund operations, and the financial strength to reward shareholders while navigating market volatility.

Timo Pfeiffer, CMO at Solactive, says "These traits help reduce exposure to interest rate risk and create a more stable investment profile. To capture this, the Solactive United States Quality Cash Flow Index is built from the Solactive GBS United States 500, a liquid and tradable universe of the 500 largest U.S. companies. From this universe, only companies with at least 10 consecutive years of positive free cash flow are considered. These are then ranked by a combined quality score, and the top 100 are selected. Final index weights are determined by each company's free-float market capitalisation adjusted by its quality score. "For Australian investors, whose domestic equities are largely concentrated in financials and commodities, these three indices offer differentiated exposure to resilient and innovative US sectors, enhancing diversification across both growth and quality dimensions."

ARK Invest Europe has published its quarterly thematic update detailing Q1 2025 European Thematic ETF Flows. The firm writes that, using data from ETF Book and based on ARK Invest Europe Megatrend Sub Theme Classification, Defence ETFs saw the most net inflows of USD4.184 billion, representing 72 per cent of the total net inflows (USD5.776 billion) to European ETFs in the first quarter of 2025.

Investor positioning in defence remains robust. The demand for next-gen military and aerospace technology continues to attract capital, with defence-tech firms benefiting from increased procurement budgets globally.

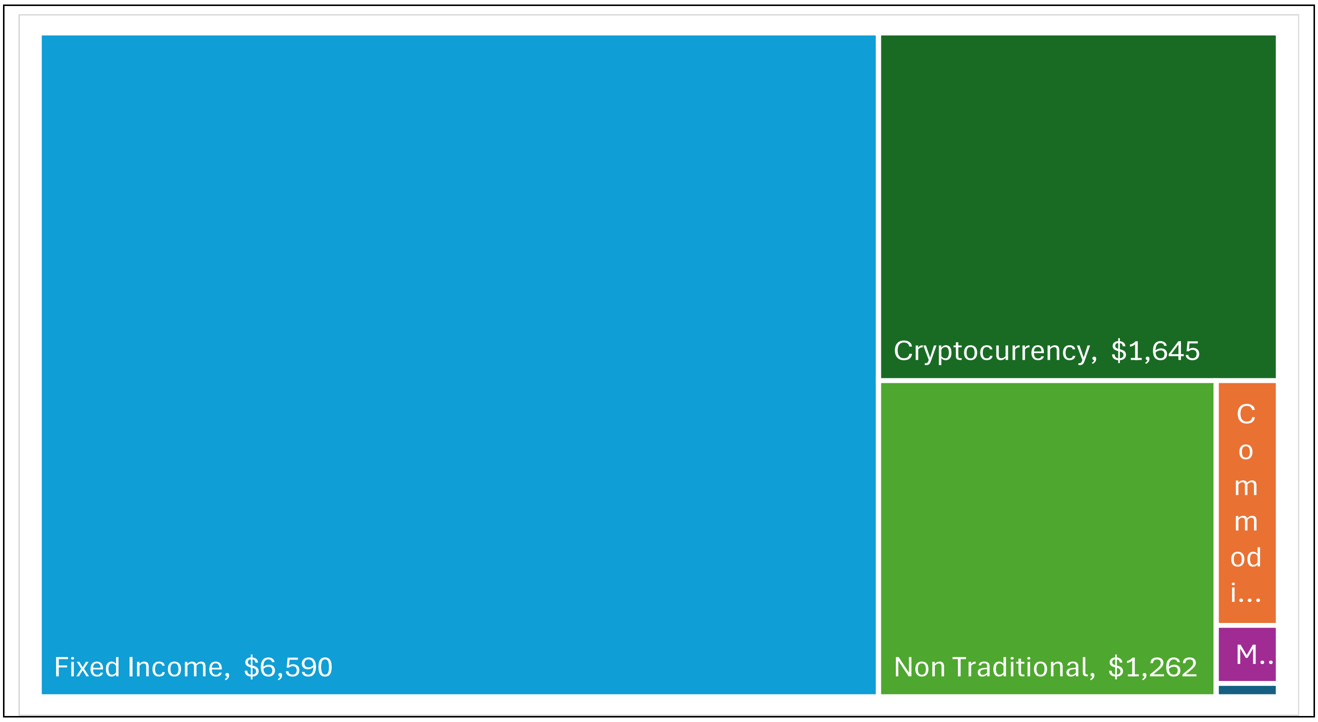
Artificial Intelligence ETFs rank second with USD678 million in net inflows. AI remains the defining technological revolution, with investor appetite fuelled by relentless innovation in large language models, robotics, and autonomous system. Meanwhile, **Clean Energy ETFs** posted the weakest Q1 2025 net flows, with a loss of USD227 million. The firm writes that capital continues to exit clean energy ETFs as investors adjust to a new global policy landscape. Investors are redirecting capital toward solutions like nuclear energy, grid modernisation, and energy efficiency, which are less dependent on policy incentives. **EV and Battery Tech ETFs** recorded the second-worst net flows at -USD136 million. Near-term headwinds—ranging from subsidy rollbacks to a cooling demand environment—have weighed on sentiment, the firm writes.

New research covering equity and fund managers across Europe and the US, commissioned by Carne Group, reveals more than 28% of those surveyed believe ETFs are critical to their company's long-term growth and prospects. A further 69% say they have an important role to play. Respondents expect ETFs to account for even greater proportions of their AUM in the next five years. Looking to 2030, 49% of fund managers believe that between 15% and 20% of their company's AUM will be held in ETFs.

Weekly Flows data. What happens in the US regarding TAA happens in Australia.

- Total 5-day ETF flows reached $9,229.4 million. **The punters are all-in**, but they are in selectively.
- **Fixed Income** led in one-week asset class flows with $6.590 million **while Equity ETFs saw modest net outflows**
- **Global Ex-U.S. Large Cap** - Blend ETFs had the top category flows with $4,023.26 million
- Sector ETFs saw mixed flows last week; Financials ETFs saw almost $500 million in net outflows while Health Care ETFs gathered $386 million in net inflows. **Call it Defensive**.
- Disruptive Tech gathered $224 million in net inflows bringing its YTD total to over $2 billion in net inflows
- **Corporate Bond ETFs** saw $3.638 billion in net inflows for the week while Government Bond ETFs lost $1.788 billion in net outflows
- Bitcoin ETF pulled in $1.454 billion in net inflows on the week, **IBIT** gathered $2.046 billion.

Figure 1: Weekly US ETF Flows by Sector



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