yieldreport Weekly

Your Income Advantage

19th May – 23rd May 2025

Overview of the US Equities Market

A significant week in US equities and one that was all about bonds. After the relative calm of Monday and Tuesday, on Wednesday equities investors learned the hard way that the bond market has enough sway over equity pricing to disrupt even the most resolute traders. On Friday, Trump reminded investors that **the tariff issue has not gone away**, threatening a sweeping 50% tariff on the European Union and a 25% levy on Apple Inc. if the tech giant fails to move iPhone manufacturing to the US. Major indices declined circa 0.6-1.0% on the day.

Over the course of the week, the **S&P 500 declined 2.6%**, the **Nasdaq 100 fell 2.4%**, and the **Dow Jones declined 2.5%**.

On Wednesday, stocks fell sharply in the afternoon trading as rising Treasury yields and concerns over mounting US deficits weighed heavily on investor sentiment. The cause? A weaker than expected auction of 20-year treasuries. Given the context, the ballooning fiscal deficit, that spooked both the bond and equities markets. Yields on longer-term bonds spiked, with the 30-year yield jumping to around 5.08%, the highest since 2023 amid **heightened worries that the proposed tax-and-spending bill could further inflate the federal deficit**. A cautious calm was restored **on Thursday**, but it was hardly convincing with slight intra-day gains eroded towards the close and all major indices unchanged on the day.

The long end of the US treasuries curve has been a theme all week, starting with the Moody's downgrade issued after-market the prior Friday afternoon. The move in the **10-year yield (the risk-free rate and used in equities valuations)** meaningfully above 4.5% is something that confirms a key change in long-term yields. These higher yields make it much tougher to justify today's very high valuation levels. So, it's something that will likely **create some renewed headwinds for stocks**. It is hard for US equities to stay resilient in this environment - it is hard to make the case that such a (negative) driver of the rising cost of capital is positive for risk assets.

On Thursday, Goldman Sachs issued a note to clients stating that **the recent move in Treasuries neared the pain threshold for the equity market**. Based on their calculations, when the 10-year bond yield moves higher by two standard deviations within a one-month period, the stock market comes under pressure. At what level do yields start to put real pressure on the stock market? The easy big round number is the 10-year at 5%. The more nuanced answer is above 4.7% before the end of May as velocity of move in rates matters much more than absolute levels in regards to impacting stocks.

On evidence that **rapidly declining consumer sentiment is now starting to feed into harder data**, two developments. On Wednesday, Target slashed its outlook and warned of weaker consumer demand. Then have been a host of other consumer discretionary companies that have done the same. **Most consumer-facing companies** have reported soft results in recent weeks, citing volatility in demand and economic disruption. Procter & Gamble Co. and Kraft Heinz Co. slashed their annual outlooks, while Southwest Airlines Co. and other airlines have voiced concerns about a looming recession.

Then on Thursday, **Existing Homes Sales for April showed a greater than expected decline**. The figure represents the slowest pace in seven months, restrained by affordability constraints and highlighting a lackluster start to the spring selling season. More significantly, it was **the weakest April since 2009**. Odds of a sustained pickup in the resale market are limited as **mortgage rates march higher** and prices stay elevated, despite more listings coming on the market. What's more, **consumer sentiment is near the lowest level on record**, and the share who say now is a good time to buy a home is also close to an all-time low, according to the University of Michigan. **Mortgage rates rebounded last week to a three-month high of 6.92%**, and are continuing to move up even more as Treasury yields climb. **It is the 30-year that sets mortgage rates** – where the rubber hits the road regarding Main Street.

So, we are now starting to see the soft data move to the hard plus the impacts of rising yields in the long-end of the curve.

There's been a lot of talk about the recent rally, and there was an expectation that there was going to be somewhat of a breather, but it gets to this idea as to **who was actually buying into that rally and more importantly, who wasn't.** It was due to a combination of forces, but the retail trader was absolutely a big part of it because you can look at proxies for the retail trader. Goldman Sachs has a number of interesting baskets, one of which is retail favourites that handily outperformed the S&P 500 on the way up. It was evident in the meme stocks, and it was evident in non-profitable tech. However, there was also short covering because of where positioning was in the institutional community, because the most heavily shorted stocks also outperformed the S&P 500 handily on the upside.

However, **we should also be mindful of what the big picture was and, more importantly, what it is now**. In other words, what the setup was and is now. Going into the intraday low on April 9th, the setup was one of an oversold market with severely washed-out sentiment and breadth. In that context, if there is a positive catalyst there is usually a significant pop higher. By the beginning of this week and coming into this weakness, the setup was one of some complacency, breadth had improved, and technicals were in overbought territory. In this context, a negative catalyst typically leads to quicker downside. And that catalyst occurred on Wednesday.

So, what becomes the next potential upside catalyst? You would have to think that it would be a **further de-escalation in the trade war**. It is hard to envision a scenario where the US gets some significant improvement in economic data, particularly of the hard data variety. It is hard to conceive of a trigger by way of a miraculous improvement in the economy given all the weights of uncertainty associated with the trade war. And even if, for example, the US has another month of somewhat benign inflation data, the knowledge around that is that the US has yet to see the full effect of tariffs, either those that are already in place or what is proposed in the midst of the now less than 90-day delay. Additionally, while pressures on the Treasury market eased slightly on Thursday-Friday, stocks may need a **material move lower in bond yields to have the green light to return to recent highs**.

It appears that US equities analysts must finally have received the tariff-recession memo. In recent weeks, they've been slashing their estimates for S&P 500 companies' operating EPS for the final three quarters of 2025. That's despite Q1's big earnings beat.

At the start of the latest earnings reporting season, the analysts collectively expected a 6.0% yoy increase in S&P 500 companies' aggregate EPS for Q1. As of the May 8 week, after 90% of the S&P 500 companies had reported Q1 results, the blended estimated/actual growth rate was up to 11.2% yoy. With Q1 growth nearly double the analysts' initial expectations as reporting began, this was far from a weak quarter. Obviously, it was what company managements said on the conference calls that caused analysts to take paring knives to their estimates for the rest of this year; and obviously, it was Trump's Liberation Day shocker that festered rampant uncertainty and pessimism among managements.

As a result, the analysts' 2025 and 2026 EPS estimates were revised down since the start of the year through the May 8 week by about $10 each to $265 and $300. Refer to Figure 1 below.

Figure 1: S&P 500 2025 Qtrly Analyst Consensus Forecasts

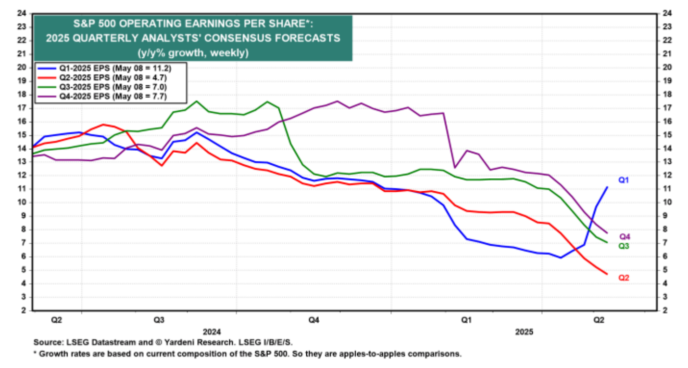
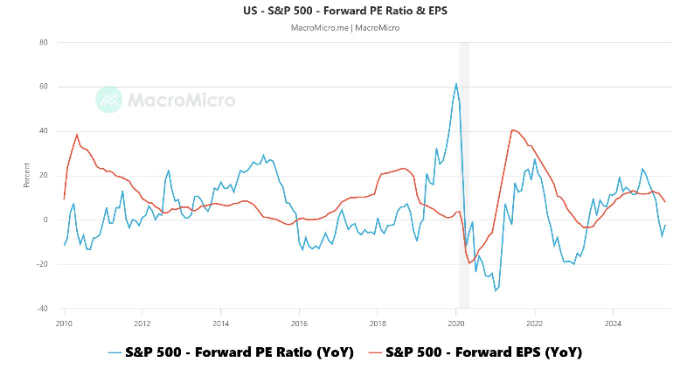


Figure 2: S&P 500 Forward PE Ratio & EPS



Overview of the Australian Equities Market

Over the course of the week, the **S&P/ASX 200 declined 0.7%**.

On Monday, the Australian share market snapped its longest winning streak since August and tracked US futures lower as risk-off sentiment flooded equity markets, helped by Moody's decision to strip the US of its AAA credit rating.

On Tuesday, the share market extended gains after the Reserve Bank of Australia followed through with a 25 basis point interest rate cuts that had been widely expected by economists. The S&P/ASX 200 rose around 0.2% after the RBA's rate call. Interest rate sensitive stocks rallied, including financial and technology stocks. Conversely, profit-taking hit typically defensive utilities stocks.

On Wednesday, a rally in the big banks led the Australian share market higher on Wednesday, with sentiment buoyed by the RBA's rate cut on Tuesday and expectations of more policy easing to come.

On Thursday, profit-taking in the big banks and miners dragged the share market lower on Thursday, spurred by heavy selling on Wall Street that saw US equities report their steepest losses in a month.

On Friday, the market inched up ever so slightly. Banking stocks led the market higher, with notable gains from Commonwealth Bank (+0.7%), National Australia Bank (+0.9%), and ANZ Group (+0.8%). Uranium miners also saw strong buying interest amid reports that US President Trump may sign executive orders soon to accelerate growth in the nuclear energy industry. Boss Energy surged 12.1%, followed by Paladin Energy (+6.7%) and Deep Yellow (+8.3%).

There was an interesting article in the AFR over the weekend which basically alluded to the view that as the Australian share market inches towards fresh highs **the rebound and levels are being driven more by technicals than fundamentals**. As noted in the article, "Just two years ago, the S&P/ASX 200 was trading on a 12-month forward price-to-earnings ratio of 14.6 times, smack bang in line with its long-term average. Since then, the outlook for corporate profits has deteriorated, dividends have fallen and bond yields have surged, while the cash rate is unchanged. Yet, the benchmark index is now trading on a forward PE of 18.3 times, and sits just 3% away from its February record."

One view is that the resurgence has been largely driven by the **huge wave of buying by the superannuation funds, which are chasing a shrinking pool of stocks**. While that has recently worked in the share market's favour, there is a warning that super funds are close to reaching their self-imposed limit on investing in the local stock market this year, potentially removing the largest buyer of Australian shares.

A few charts below for general observation.

Regarding Figure 3, the **ASX All Ords Fundamental Index** is an integral index for Australian stock market. Going up means the fundamentals for Australian stocks are looking good. Components of ASX All Ords FI include OECD Composite Leading Indicator, Retail Sales and Monetary Supply. Weight of each component might be adjusted according to the latest Australian stock market conditions. The Fundamental Index is updated with the monthly value on the last Friday of each month, and there may be subsequent changes due to data revisions for its constituent variables. **Latest Statistics as of 30 April 2025**: Australia Stock Fundamental Index (L) 2025-04: **Now: 1.11. Previous month: 2.54**.

Figure 4 shows the estimated EPS and the annual growth rate of the estimated EPS for the next one year for the ASX All Ordinaries Index. **Latest statistics as of 30 April 2025**: Australia - ASX All Ordinaries Index - Forward 12M EPS (L1) 2025-05. **Now: 468.19. Previous month: 473.09**; Australia - ASX All Ordinaries Index - Forward 12M EPS (YoY, L2) 2025-05. **Now: -0.49%. Previous month: -0.60%.**

Figure 3: ASX All Ords Fundamental Index

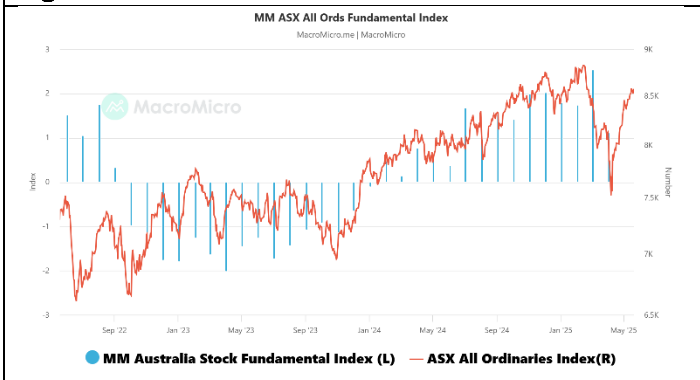
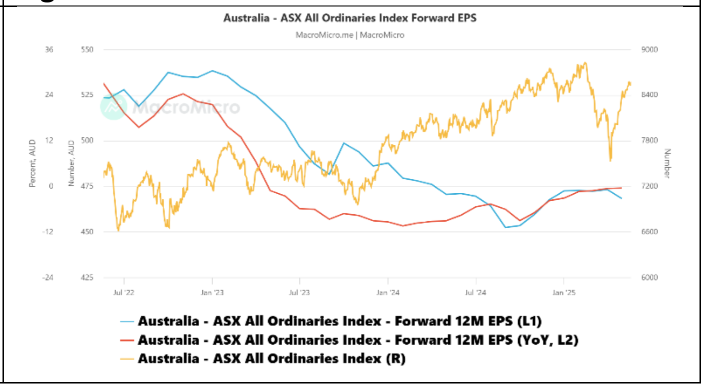


Figure 4: ASX All Ords Estimated Forward EPS



Overview of the US Treasuries Market

A tumultuous week in the US treasuries market. First, the **Moody's downgrade**, which did not overly move yields as the downgrade simply told bond managers what they already knew but what it did was bring the ballooning budget deficit front of mind. Secondly, and more importantly, was **Wednesday when a 20-year auction was met with weak demand**. The long-end of the yield curve got slammed as well as stocks selling off materially given the valuation impacts on the risk-free rate, the 10-year. By Thursday, the US treasury markets had calmed, with the US 10-year Treasury note falling 6 bps to 4.54% and the US 30-year Treasury note falling 4 bps to 5.05%. On Friday yields retreated on up to the 10-year after Trump threatened a 50% tariff on the EU and the consequent flight to the safety of the treasuries. The 30-year remained unchanged – the long-end is not popular.

Over the course of the week, the yield on the **US 10-year Treasury notes increased 3bps to 4.52%,** the **30-year gained 8bps to close at 5.04%**, and the more interest sensitive **2-year was effectively flat over the week, remaining at 4.0%**.

On Wednesday, **as news on the weak auction rolled out circa mid-day, treasuries got hammered**. Not surprisingly, given we are talking about budget deficits, long-term debt bore the brunt of the selling, with

30-year yields jumping 10 bps to 5.08% and toward the highest since October 2023. The 20-year bonds jumped 12 bps to 5.11%. The 10-year jumped 10 bps to 4.60%. The two-day moves on all the above were universally significant at the circa 15-20 bps level. These developments only reinforced investor concerns about just how 'safe' US Treasuries are. **Keep in mind that it is the long-end of the curve that impacts US main street. For example, housing mortgages are based on the 30-year**.

To emphasis the point with regards to the long-end, at its peak intra-day on Wednesday the **30-year yield** climbed to 5.15% — just shy of its highest level in nearly 20 years. The real rate for the same tenor — which is adjusted for inflation — **closed at the most elevated level since 2008 on Wednesday**.

The tax bill (the 'Big Beautiful Bill') was passed by the House on Thursday and which will only further add to the US deficit. The bill now heads to the Senate, where groups of Republicans are pressing for extensive change. Lawmakers plan to vote on approval by August.

On the topic of the fiscal deficit, even if the inability to reduce the deficit in the US doesn't lead to default, **a large deficit still implies greater bond supply**, and perhaps eventual inflation as the debt is monetized to avoid default. Either way, it makes nominal fixed-income instruments less attractive as long-term investments.

Which brings us to the Bond Vigilantes. If Trump is going to shepherd the signature legislative package of his second term through the Senate, he may have to reckon with an even more demanding constituency: customers for the ballooning amount of US debt. The moves on Wednesday were reminiscent of Trump's wrangle with the bond markets last month, when he blinked. In the early morning hours of April 9, Treasury yields surged as Trump's steep retaliatory tariffs — the highest in more than a century — went into effect. While a months-long slump in equities barely fazed him, the bond market got his attention.

If Treasuries continue to stay 'queasy', the higher yields not only threaten to dampen economic growth — as they translate into higher borrowing costs for everything from homes to cars — but to accelerate the government's fiscal deterioration. As rates rise, so does the Treasury's interest bill. **Let's be honest, the bond market hates this 'Big Beautiful Bill'.**

And encapsulating all the issues in the US and impacts on the bond markets, the **giants of corporate America from Pfizer Inc. to Alphabet Inc. are borrowing in euros like never before** as the anxiety triggered by President Donald Trump's tariff threats pushes them to hunt for alternative funding avenues in case their home market freezes up. A record number of these so-called reverse Yankee deals have been sold this year. The shift is being driven not only by anxiety over Trump's tariff threats and fears about the US debt burden but also by dollar volatility/weakness, making the European market a more attractive funding avenue.

Talking about the Main Street impact of rising yields at the long-end, on Thursday Existing Homes Sales data for April was released. It was materially lower than expected. In fact, it was the weakest read for the month of April since 2009. Odds of a sustained pickup in the resale market are limited as **mortgage rates march higher** and prices stay elevated, despite more listings coming on the market. What's more, **consumer sentiment is near the lowest level on record**, and the share who say now is a good time to buy a home is also close to an all-time low, according to the University of Michigan. **Mortgage rates, set of the 30-year, rebounded last week to a three-month high of 6.92%.**

Finally, worth noting that on Wednesday KKR & Co. published a note stating that **US government bonds are no longer working as an effective hedge against risky assets**, creating a challenge for global investors and spurring a search for asset diversification. Bigger fiscal deficits and stickier inflation suggest that bonds will not always rally when stocks sell off, breaking down the traditional relationship between the two assets, Henry McVey, KKR's head of global macro and asset allocation, said in a research note. "During risk off days, government bonds are no longer fulfilling their role as the 'shock-absorbers' in a traditional portfolio," McVey wrote.

Figures 5 & 6: **global government bond yields follow the 800-pound gorilla, namely US treasuries**. Rising government bond yields is currently a global developed market phenomenon despite varying budget deficits, growth outlooks, and monetary policy timelines. And that applies to Australian long-end government bonds too.

Figure 5: Australian & US Government Bond Yields

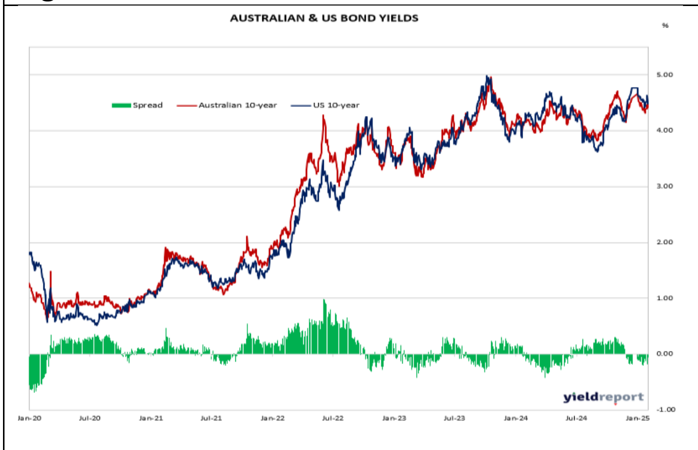
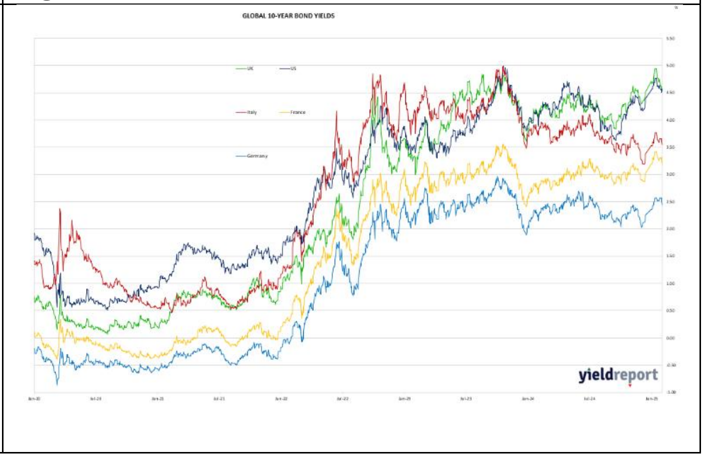


Figure 6: Global Bond Yields



Overview of the Australian Government Bond Market

Locally, of course the RBA rates decision that was off most significance. And bond markets obviously reacted – that was the good news story of the week. Over the course of the week, **Australia's 10-year government bond yield** declined by circa 10 bps to 4.41%.

Post the RBA decision on Tuesday, the 3-year government bond yield fell a **very large 15 bps to 3.50%** and the 10-year return lost 5 bps to 4.44%. Yields fell as the tone of the RBA's statement appeared **more dovish than the market had anticipated**. **Which is why the more interest rate sensitive part of the curve fell so significantly**. Additionally, feeding into to those yield moves, the **RBA reduced its inflation projections** reflecting a view that risks have subsided to a degree and indicating that headline inflation will likely remain near the midpoint of the 2–3% target range throughout much of the forecast period. All up, both the **market and economists will likely increase the number or degree of expected interest rate cuts**.

In money markets, **bond traders rapidly dialled up rate cut expectations** and now expect the cash rate to end the year at 3.17%. That compares to 3.3% before the policy meeting and implies between two and three additional rate cuts by Christmas. Over 1H2026, the implied rate is slightly above 3.0% - call it the terminal rate.

The Tuesday reaction was short-lived. By Wednesday the local bond market had reverted to following the moves in the US treasuries market and which, of course, meant yields increased. More significantly was the Thursday trade. Following the hammering the long-end of the market US bonds suffered on Wednesday, Australian bond yields rose.

Concluding Remarks

This week the bond markets were the definitive driver. The long end of the US treasuries curve has been a theme all week, starting with the Moody's downgrade. The move in the **10-year yield (the risk-free rate and used in equities valuations)** meaningfully above 4.5% is something that confirms a key change in long-term yields. These higher yields make it much tougher to justify today's very high valuation levels. So, it's something that will likely **create some renewed headwinds for stocks**. It is hard for US equities to stay resilient in this environment - it is hard to make the case that such a (negative) driver of the rising cost of capital is positive for risk assets. It's not just a Wall Street issue. **The 30-year has a big impact on Main Street** – it's the level by which mortgages are set.

Stocks were already getting stretched? The S&P 500's 14-day Relative Strength Index is at the highest since December. Meantime, the CNN Fear/Greed gauge approached "extreme greed" levels. **Equities investors should bear in mind that some bond managers believe the term premium, already at the highest levels than more than a decade, can increase by a further 50 bps.**

Charts of the Week

The two charts below are self-evident and relate to the big driver of markets this week.

Figure 7: US 10-year Term Premium

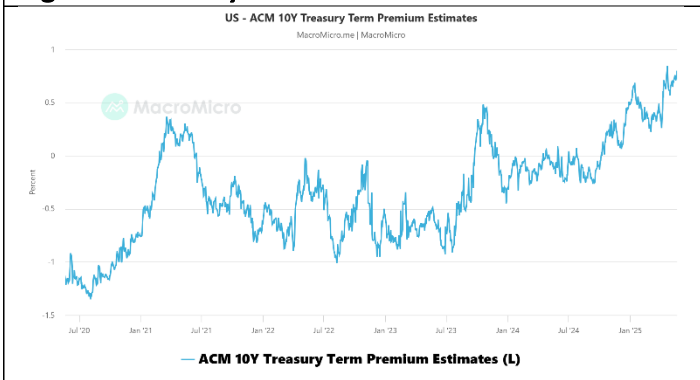
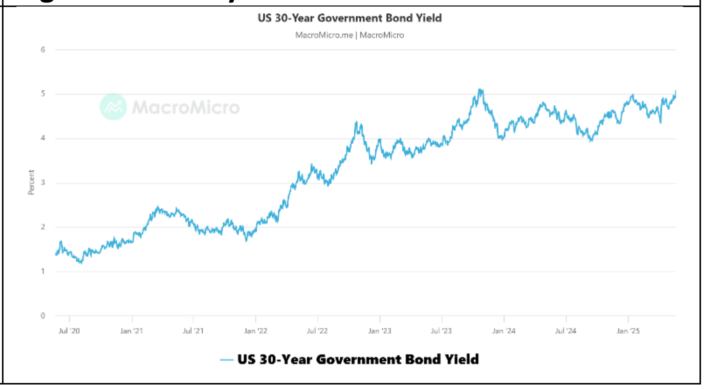


Figure 8: US 30-year Government Bond Yield



Looking Ahead: Major Economic Releases for the Week Ended 30 May

Last week was a particularly quiet week in the US regarding economic data, which may partly explain the very high focus on all things related to the budget deficit. This week is different. On Tuesday Consumer Confidence and Durable Goods is released. On Wednesday, Nvidia releases its earnings as well as the release of the FOMC Minutes. On Thursday and Friday, GDP data will be released, Jobless Claims, and the all important PCE inflation print. US markets are closed on Monday.

In Australia, the monthly CPI for April and Retail Sales will be the most important releases.

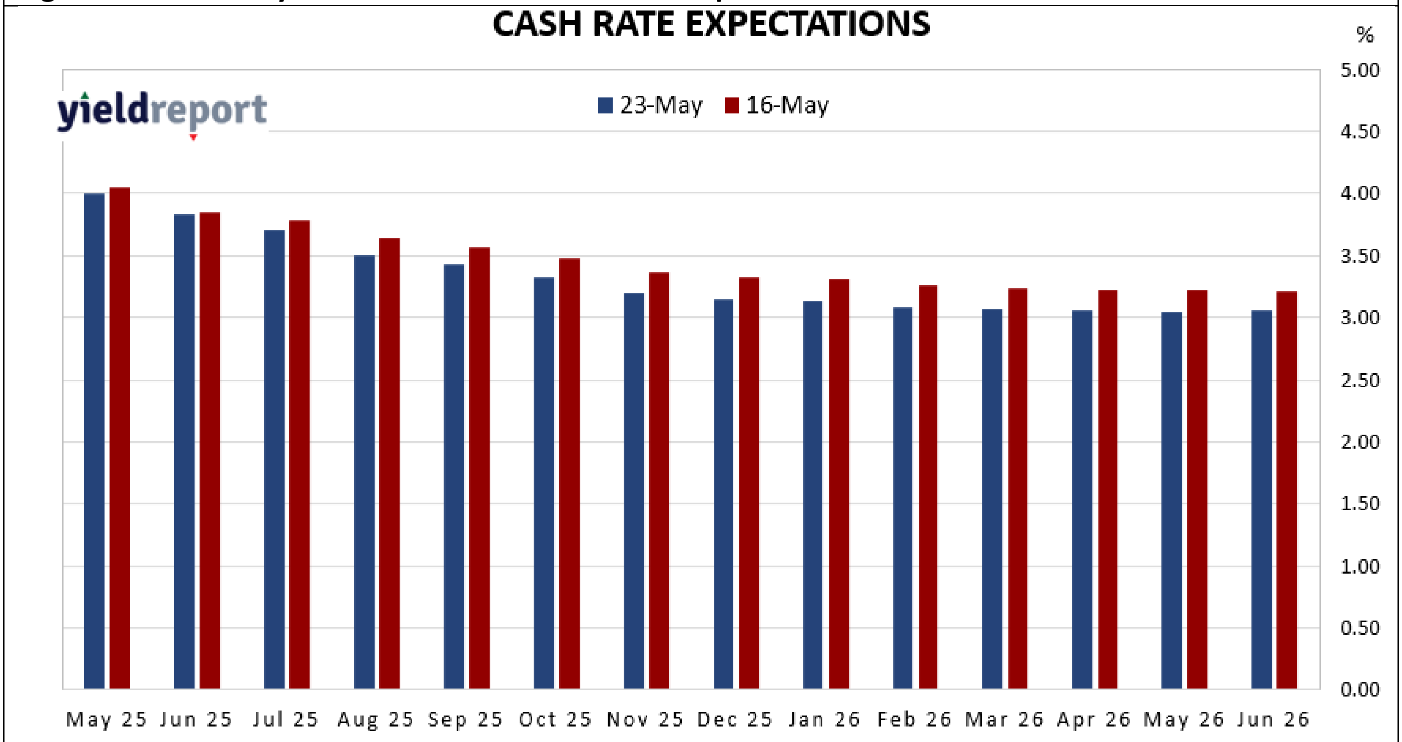
Major Economic Releases for the Week ended 30 May, 2025				
Date	**Country**	**Release**	**Consensus**	**Prior**
Tuesday, 27/5	US	CB Consumer Confidence Index	88.0	86.0
Tuesday, 27/5	US	Durable Goods Orders	n/a	n/a
Wednesday, 28/5	Australia	Monthly CPI Indicator April	1.9%	2.4%
Wednesday, 28/5	US	Initial Jobless Claims	n/a	227,000
Wednesday, 28/5	US	Corporate Profits After Tax (SAAR, YoY)	n/a	12.09%
Thursday, 29/5	Australia	Private Capex Q1	0.5%	-0.2%
Friday, 30/5	Australia	Retail Sales April	n/a	n/a
Friday, 30/5	US	Personal Consumption Expenditures Price Index (YoY)	n/a	2.29%
Friday, 30/5	US	University of Michigan Sentiment May	n/a	n/a

Cash

Locally, the RBA cut the Official Cash Rate 25 bps to 3.85%. Additionally, feeding into to those yield moves, the **RBA reduced its inflation projections** reflecting a view that risks have subsided to a degree and indicating that headline inflation will likely remain near the midpoint of the 2–3% target range throughout much of the forecast period. All up, both the **market and economists will likely increase the number or degree of expected interest rate cuts**.

In money markets, **bond traders rapidly dialed up rate cut expectations** and now expect the cash rate to end the year at 3.17%. That compares to 3.3% before the policy meeting and implies between two and three additional rate cuts by Christmas. Over 1H2026, the implied rate is slightly above 3.0% - call it the terminal rate.

Figure 9: ASX 30 Day Interbank Cash Rate Futures Implied Yield Curve



Term Deposits

While homeowners celebrate another cut to the Reserve Bank of Australia cash rate in 2025, savers may not be quite as enthusiastic. Let's look at the movers this week.

Westpac. First-mover Westpac made the unusual move to cut its savings accounts rates before announcing changes to its home lending variable rates. Effective Friday 30 May, the standard variable bonus rate on Westpac Life accounts will be cut 25 basis points to 4.10% p.a. (from 4.35% p.a.). That takes the total variable interest rate available to 4.50% p.a. (down from 4.75% p.a.). The Westpac eSaver account will see its five-month introductory fixed rate drop to 3.15% p.a. (from 3.40% p.a.).

Bank of Melbourne. The bonus variable rate for total account balances below $250,000 will be cut to 4.25% p.a. (from 4.50% p.a.) with the total variable rate with online bonus (0.10% p.a.) for new customers dropping to 4.75% p.a. (down from 5.00% p.a.). For customers with account balances $250,000 or more, the bonus variable rate falls to 4.10% p.a. (down from 4.35% p.a.) with the total variable rate with online bonus (0.10% p.a.) dropping to 4.60% p.a. (from 4.85% p.a.). The three-month introductory fixed rate drops to 3.30% p.a. (down from 3.55% p.a.).The three month online bonus rate remains unchanged at 0.35% p.a.

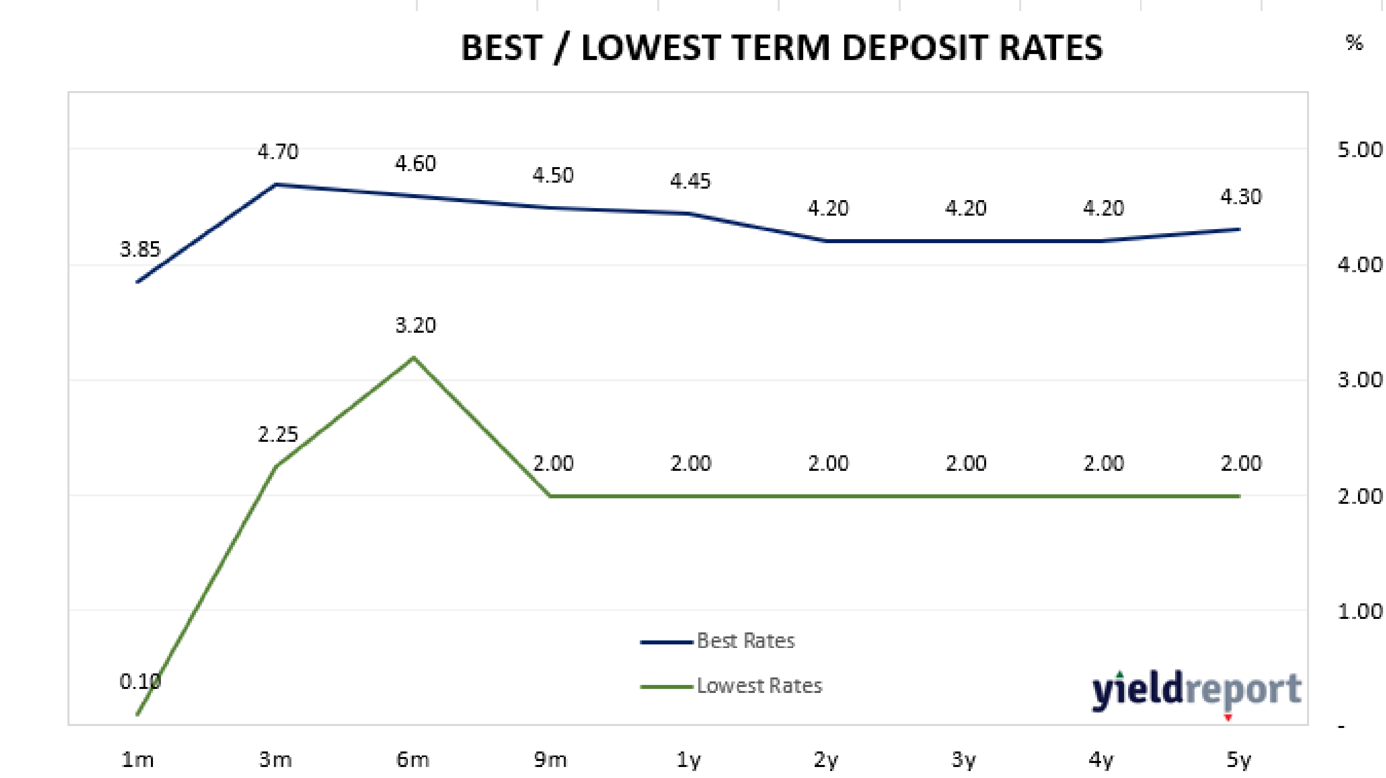
BankSA. The bonus variable rate for total account balances below $250,000 will be cut to 4.25% p.a. (from 4.50% p.a.) with the total variable rate with online bonus (0.10% p.a.) for new customers dropping to 4.75% p.a. (down from 5.00% p.a.). For customers with account balances $250,000 or more, the bonus variable rate falls to 4.10% p.a. (down from 4.35% p.a.) with the total variable rate with online bonus (0.10% p.a.) dropping to 4.60% p.a. (from 4.85% p.a.). The three-month introductory fixed rate drops to 3.30% p.a. (down from 3.55% p.a.). The total variable rate with online bonus for new Maxi Saver customers will drop to 4.65% p.a. (down from 4.90% p.a.).

St George Bank. For Incentive Saver accounts with total account balances below $250,000, the bonus variable rate will drop to 4.25% p.a. (down from 4.50% p.a.) while the total variable rate with online (0.10%

p.a. bonus) will fall to 4.75% p.a. (from 5.00% p.a.). For account balances of $250,000 or more, the bonus variable rate falls to 4.10% p.a. (down from 4.35% p.a.) while the total variable rate with online (0.10% bonus) for new customers will drop to 4.60% p.a. (from 4.85% p.a.).

As noted last week, the big banks jumped the gun on term deposit rate cuts ahead of RBA move. NAB and Westpac led the wave of term deposit rate drops a few days ahead of what was the widely expected RBA cash rate cut.

Figure 10: Highest Term Deposit Rate by Term



Government / Treasuries Yield Curve

Well, given Wednesday's events, the term premium on US treasuries, which has been rising for weeks now, jumped higher this week. **On Wednesday 21 May, the US term premium hit 0.92, a level not seen for over a decade going back to the beginning of 2014**. The US term premium has now been on an upward trend for 18-months, starting from December 2023. The curve is **likely to steepen further over the next six to 18 months** because the front end will eventually follow the Fed cuts. In contrast, in the long end there is likely only a modest reduction from here because of the budget deficit issues and what appears to be a supply/demand mismatch. So, unless the treasury cuts back on long-end issuance, the curve can continue to steepen.

For those following the markets closely, it has been clear for all of 2025 that **bond managers are favouring the shorter end of the curve (0-3 year) or the belly of the curve (5-7 years)**. This weight of money, or movement out the long-end, in itself may prove self-reinforcing. And given the current risks at the long-end, higher yields are likely required to entice bond investors back to that part of the curve. All in all, **not great news for the real economy / main street** nor is it great news for the US government's interest expense payments.

Figure 11: US 10-year Term Premium

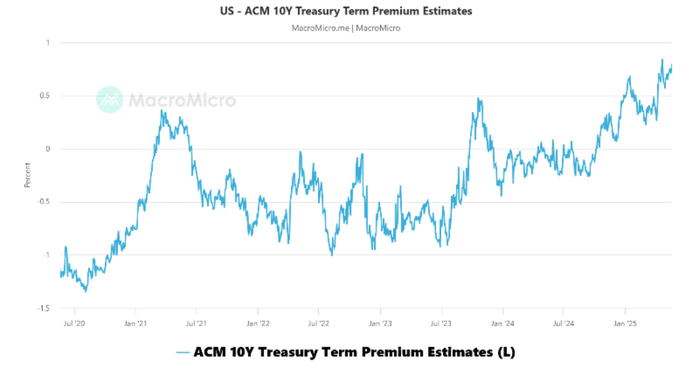


Figure 12: US Public Debt % of GDP

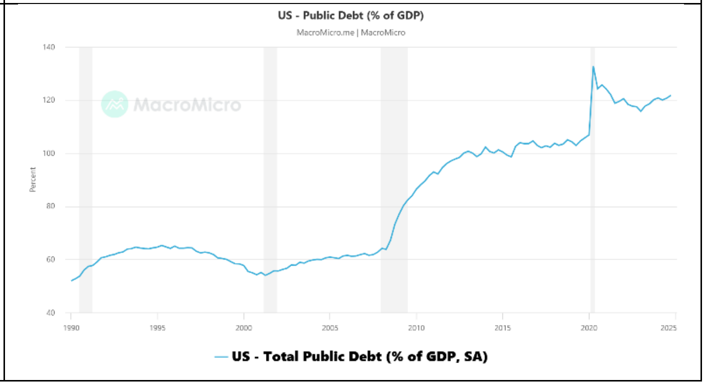
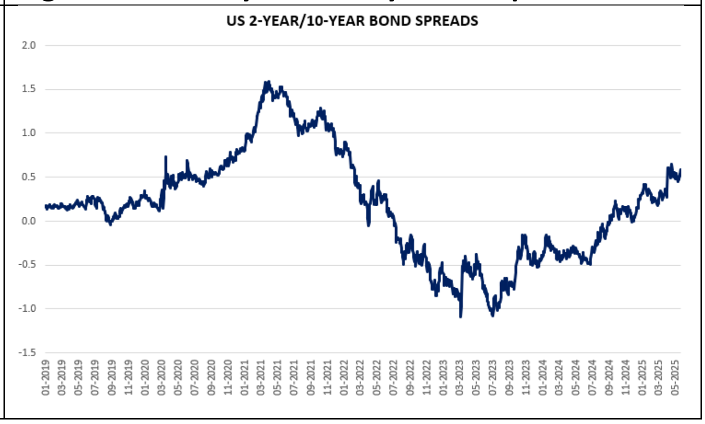


Figure 13: Aust. 10 yr minus 3 yr Bond Spread

Figure 14: US 10 yr minus 2 yr Bond Spread



Corporate Bonds

Why buy US treasuries given what has been happening in the market when you can buy debt in a corporate of your choice and with a better debt outlook than the US government's deficit.

On yields by Wednesday close, IG corporate bonds were largely unchanged over the course of the week. AAA +3bps to 4.95%, AA +1bps to 4.97%, A unchanged at 5.22%, BBB -1bps at 5.60%. moved slightly higher. By Friday close, the high yield aggregate yield had increased 6 bps to 7.75%, the BB 4bps to 6.36%, the B 4bps to 7.88% and the CCC 2bps to 13.70%. It was actually a de-risk week.

Over the course of the week as at the end of the tumultuous Wednesday 21 May, **changes in US corporate spreads varied by Investment Grade (IG) and High Yield (HY) markets**. Interestingly in IG spreads actually marginally compressed over the course of the week, generally by 1-3 bps. In HY, spreads increased from 11bps (BB) to 27 bps (CCC). Overall, that's a pretty impressive performance given what occurred in treasuries market.

The above goes to a point that we have been making for some time, namely that **US corporate debt is proving less volatile than the US treasuries market**, or at least at the longer end. Of course, US treasuries do not have default risk. Corporate debt does.

On the flip side regarding spreads, on a fundamental basis there is no doubt **spreads are tighter than they should be**. For example, for B rated HY at circa 350 bps, that equates to a forward implied default rate of about 3.5% when the trailing 12-month default rate is closer to 4.5%. However, it is the technicals, with a structural excess demand and particularly in the HY market. And that does not look like changing anytime soon. For example, looking at the bond auctions this week in both the US and Europe, all issuance of note was characterised by very significant oversubscription. And this comes in a week that, for example, in Europe was the biggest on record.

As we noted last week, there is a mountain of money going into new issuance. In recent weeks, US and European companies have raced to issue debt looking to seize on the risk on mood in markets (up until Wednesday 21 May, at least) after the easing of US and China trade tensions.

Figure 17: US Investment Grade Bonds Effective Yields

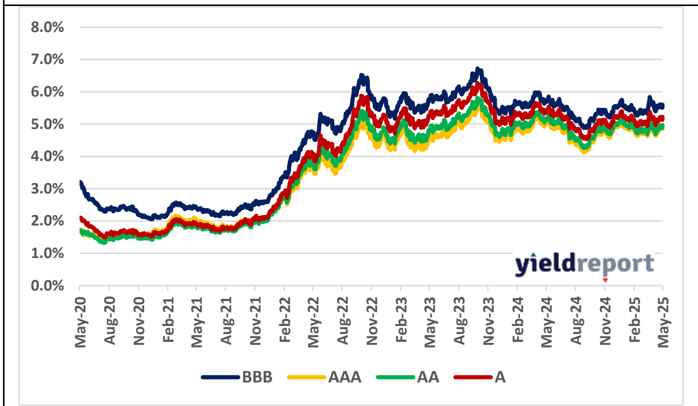


Figure 18: US Investment Grade Bonds OAS Spreads

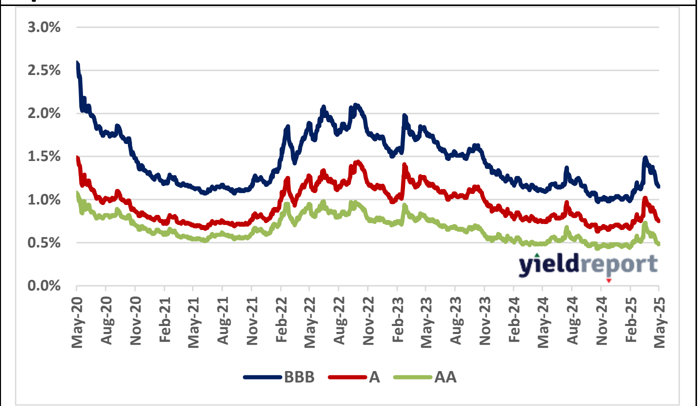


Figure 19: US High Yield Bonds Effective Yields

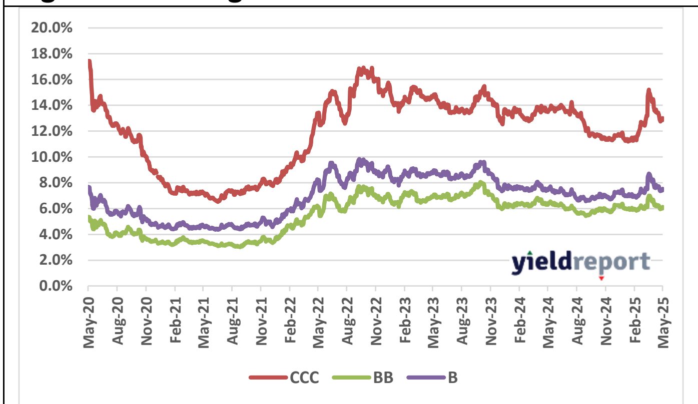


Figure 20: US High Yield Bonds OAS Spreads

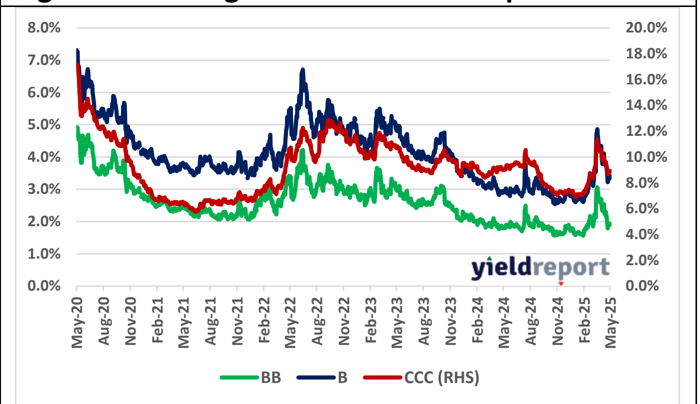


Figure 21: ITRAXX Australia - CDS Index

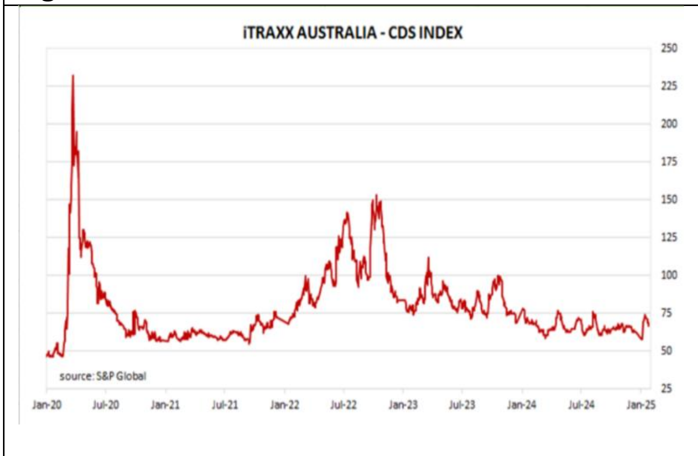
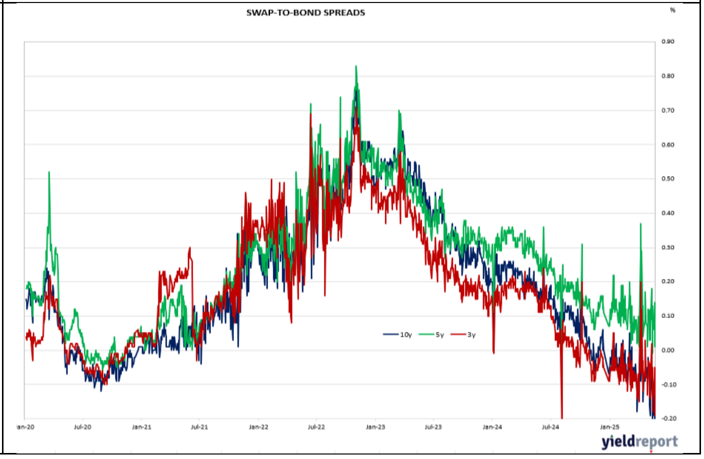


Figure 22: Australian Swap to Bond Spreads



Hybrids

On 22nd May 2025, ASX-listed hybrids saw a mixed performance, with a slight bias toward price declines. Sixteen securities posted gains, led by Westpac (WBCPH) and Challenger (CGFPC), both rising by 0.27%. In contrast, 20 securities declined in value, with Bendigo Bank (BENPH) experiencing the largest drop at 0.39%, followed by CBA (CBAPJ) and ANZ (AN3PI), each down 0.31%. Despite the downward pressure, the average trading margin remained healthy at approximately 2.97%, while the average running yield stood at a strong 6.94%.

Judo Capital (JDOPA) continued to offer the highest running yield at 9.50%, supported by a 6.50% margin including credits and a trading margin of 3.81%. Latitude (LFSPA) also stood out with a 9.12% yield, driven by its discounted price of 96.56 and an elevated trading margin of 10.17%.

ETFs – Domestic & Global

The inclusion of global ETFs, specifically the US and Europe, is intended to provide two types of investor insights and that are ultimately pertinent to the Australian ETF market.

Firstly, inflows / outflows data and which clearly provides a strong signal regarding investor sentiment regarding asset classes, geographic preferences or otherwise, thematic / sector preferences, and finally fear and greed levels.

Secondly, new issue ETFs reflect 'real-time' investment theme investor sentiment. i.e, what's 'hot'. Additionally, the largest Australian ETF issues are all part of large international entities. And often what ETF is issued in their home markets and, to some degree, subsequently issued in Australia.

Australian ETF News

ETF industry growth streak continues, shatters net inflow records. The ETF industry has stretched its growth streak to 71 months of consecutive net inflows, and amassed a record US$620.5 billion year-to-date, according to consultancy firm ETFGI. These record-breaking net inflows year-to-date steamrolled the previous record of US$464.2 billion set last year, and before that, US$464.2 billion in 2021.

This was achieved despite turbulence in the VIX Index, the US market's "fear gauge," which spiked earlier this year following President Donald Trump's announcement of sweeping tariffs on all US imports. The initial shock triggered a global market selloff, erasing US$5 trillion in S&P 500 market value within 48 hours. That sent the VIX Index to levels unseen since the pandemic panic, and prior to that, the Global Financial Crisis. In April, the most recent reporting date, net inflows totalled US$157 billion. A substantial portion (US$88.3 billion) came from the top 20 ETFs by net new assets, according to ETFGI.

Vanguard ETFs claim first, second, and third place for April inflows. A trio of Vanguard ETFs topped April inflows, pulling in over $1.1 billion, according to Betashares' Australian ETF review. The Vanguard Australian Shares Index ETF brought in $533.6 million in inflows, followed by the Vanguard MSCI Index International Shares (Hedged) ETF with $374.5 million, and the Vanguard MSCI Index International Shares ETF at $262.2 million. The first two ETFs are also the largest by market capitalisation at $19.27 billion and $10.47 billion, respectively. Year to date, Vanguard has recorded the highest ETF issuer flows, amassing $5.3 billion, 33.28% of the industry total.

ETFs Crush it, Unlisted Unit Trusts Struggle – Inflows / Outflows. According to Rainmaker, over the past year of the 160 managers in Rainmaker's database, 90 had net outflows, with a median outflow of $104 million. Among managers with net inflows, the median was $142 million. Betashares posted the highest net flows over the period ($8.8 billion), followed by BlackRock ($8 billion), Vanguard ($6.6 billion), and VanEck ($4.2 billion). This placement is reflective of the **stark divide between unlisted unit trusts and ETFs: unlisted unit trusts saw negative net flows of $15.7 billion, whereas ETFs benefited from positive net flows of $29 billion. Seven asset class sectors had positive net flows** over the period: short-duration bonds (credit, high yield and absolute return), Australian equities large cap, diversified bonds, international equities small caps, cash, international equities large cap, and emerging markets equities.

US ETF Flows by Asset Class

The value of ETF flows data is relatively obvious – it highlights asset class inflows and outflows. As such, it illustrates investor asset class preferences at any given time. Relative to the ASX data, which is monthly, US data is available on both a more frequent and timely basis. The data below is as at 22 May 2025.

Figure 23: One Week US ETF Flows (as at 22 May)

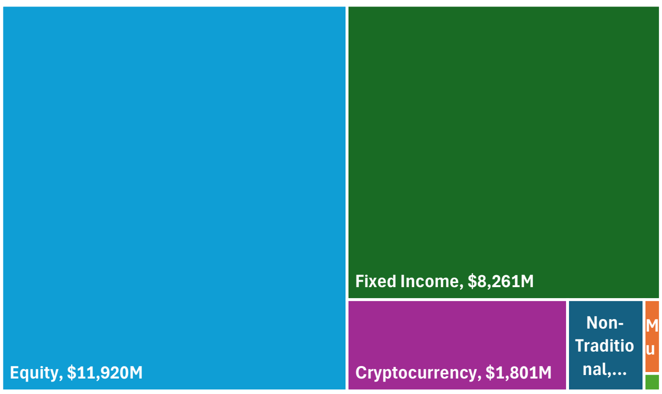


Figure 24: US ETF Flows by Asset Class (as at 22 May)

Asset Class	1-week	1-month	3-month	YTD	1-year
Non-Traditional	$624M	$4,577M	$37,857M	$51,805M	$103,931M
Multi-Asset	$109M	$262M	$1,238M	$1,238M	$3,468M
Fixed Income	$8,261M	$30,287M	$77,004M	$141,592M	$354,390M
Equity	$11,920M	$31,425M	$134,346M	$213,889M	$739,687M
Currency	-$52M	$17M	$968M	$1,042M	$950M
Cryptocurrency	$1,801M	$7,701M	$2,673M	$7,745M	$35,422M
Commodity	-$1,885M	-$4,178M	$8,950M	$13,300M	$18,093M
Alternative	$26M	$241M	-$79M	$654M	$1,731M

Global Select ETF Launches

New issue ETFs reflect 'real-time' investment theme investor sentiment. i.e, what's 'hot'. Additionally, the largest Australian ETF issues are all part of large international entities. And often what ETF is issued in their home markets and, to some degree, subsequently issued in Australia.
Regarding the table below, there are several distinct themes reflecting investor preferences currently:

- **German equities ETFs** – Germany has been running hot all of 2025. Initially it was a relative value play vs the US. Then it became a defense sector play as well as the major theme of a diversification away from the US.
- **Income related ETFs** – defensive, fixed income products, partly reflecting the more defensive or at least diversification of portfolios given a range of uncertainties, particularly in the US and in US equities.
- The Innovator Capital Management launched the Innovator Equity Managed 100 Buffer ETF is an interesting product. It is an actively managed solution that seeks to **provide 100% downside protection** through a one-year laddered options portfolio. It is reflective of many ETFs that have been issued over the circa last 4-6 weeks particularly in the US – equities exposure but with either downside preservation or downside protection.
- **Global / international equities ETFs**. Same theme – diversification away from the US.
- Franklin Templeton to **convert 10 Putnam Municipal Bond mutual funds to ETFs**. I wonder why. These is a very common dynamic these days.

Figure 25: Select ETF Launches, for May 8th to 22nd 2025
Select European ETF Launches
STOXX launches DAX Composite Indices
First Trust launches three ETFs on Deutsche Börse
Crédit Agricole and Solactive launch Solactive Constant Maturity Government Bond Index Family
Janus Henderson launches UCITS mortgage-backed securities ETF
Franklin Templeton to convert 10 Putnam Municipal Bond mutual funds to ETFs
Select US ETF Launches
Vontobel Asset Management, Inc. launched the Vontobel International Equity Active ETF
Lazard Asset Management converted the Lazard International Equity Advantage mutual fund into an ETF
Innovator Capital Management launched the Innovator Equity Managed 100 Buffer ETF
Russell Global Infrastructure Active ETF

Finally, **Trackinsight published its 2025 global ETF survey** last week revealing that the ETF Industry has broken new barriers as global growth accelerates.

Active ETFs: The breakout story. **Active ETFs now represent 27% of global listings** (up from 13% in 2019). They attracted USD352 billion in 2024—22 per cent of total flows—and made up 51% of all ETF launches. **The US leads** with USD973 billion in active ETF AUM and 60 per cent of new listings. Share class reform and fund conversions are poised to fuel further growth. Europe is catching on, with active ETF AUM quadrupling since 2019, the firm says.

APAC (ex-China/India) is gaining speed. Australia, Korea and Japan are driving growth with AI, income, and flexible strategies. Regulatory changes have helped level the playing field, Trackinsight writes.

Fixed Income ETFs: maturing & expanding: Bond ETFs exceeded USD2.6 trillion in AUM (ex-China/India). The US dominates with USD1.9 trillion, but Europe, Canada, and APAC are growing fast. 2024 saw 572 new bond

ETFs globally. Active strategies took the lead, with 269 launches and USD127 billion in inflows — a third of all Fixed Income ETF inflows. Their market share hit 15%, up from 9% in 2019.

Thematic ETFs: growth, but selective. Thematic ETFs hit a turning point. US assets reached USD278 billion, led by crypto, infrastructure, AI, and nuclear. But closures are rising, especially in niche fading or volatile areas like metaverse and blockchain.

Listed Investment Companies & Trusts

Brookfield spearheads La Trobe's push for listed private credit LIT. As published by the AFR on Friday, Brookfield-owned La Trobe Financial, the asset management and lending group being primed for auction, is pushing into public markets with a private-credit-focused investment trust. Stockbroking firms are contacting potential investors about an IPO for the La Trobe Private Credit Fund, seeking to raise as much as $300 million. The trust's IPO is part of a bigger push by La Trobe into listed investments as Brookfield prepares to dispatch sale documents to potential buyers of the company in the second half of June, the AFR reported. No word yet on the exact nature of the private debt strategy.

Metrics says higher disclosure could hurt private lenders. Australia's largest domestically based private credit manager, and provider of **two LITs, MXT and MOT**, has warned that regulators could disadvantage the industry if they enforce higher disclosure standards than those of banks. Metrics managing partner Andrew Lockhart, told delegates at the Morningstar Investment Conference this week that sound governance trumped the need for more disclosure. His comments follow the launch of a review into private asset by ASIC in February.

LIC & ETF providers take aim at high managed fund fees. Speaking at the Stockbrokers and Investment Advisers Association's (SIAA) 2025 conference, experts working across LICs and ETFs took aim at managed fund fee structures. During a "debate" over ETFs versus LICs, Australian Foundation Investment Company (AFIC) managing director Mark Freeman and VanEck deputy head of investments Jamie Hannah agreed that managed funds have put themselves in a bad position over the fees they charge. "They've got themselves into that a bit, because there are a bunch [of managed funds] that probably look okay pre fees, but they are so fixated on charging high fees and performance fees when things go well, and if they were prepared to take less for themselves and charge a lower fee some of them might be alright," Freeman said.

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