yieldreport Weekly

Your Income Advantage

**26th May – 30th May 2025**

## *Weekly Overview (for website intro)*

**There really is only one take away from this week, and it is uncertainty.** Markets remain headline driven related to tariffs largely and it is only when we see more clarity on trade that you'd expect traditional drivers of markets, like earnings and fundamentals, to lead the way and drive sentiment. Don't hold your breath.

**Conniptions in the long end of government debt continue** andit got scary this week in relation to the Japanese bond market. Then the Japanese central bank did the only sensible thing – move down the bond tenor curve regarding issuance. Crisis averted; although the underlying problem is still unresolved. The Japanese Prime Minister stated the state of Japanese finances is worse than Greece during the GFC. Okay, an over-statement, but if yields keep moving up in Japan guess where that money is likely to come out of – the carry trade / US Treasuries. And all global bond yields track the US market. **That is the risk. And if the 10-year sells off (the risk-free rate for equities valuations) well, you get the picture.**

## *Overview of the US Equities Market*

Over the course of the week, the **S&P 500 index** gained 1.76%, the **Nasdaq 100** up 1.88%, and the **Dow Jones** up 1.68%. The **10-year treasury note** declined 9 bps to 4.42% and below the psychologically important 4.5% level. **If you expected additional clarity in relation to the raft of uncertainties this week, then you'd be disappointed.** There was a slew of economic data, but while we are not sure if the soft data has yet to hit the hard data. The Thursday market response post Nvidia and a court ruling regarding Trump's tariffs was perplexing, although the economic data that day was not great.

On Monday, **European stocks climbed along with US equity futures** after President Donald Trump **extended a deadline on aggressive Euro area tariffs**, reinforcing a pattern of leaving markets guessing by making trade threats before backtracking. The Stoxx Europe 600 index erased Friday's losses sparked by Trump's threat of 50% tariffs on the European Union. The US President later said he had agreed to delay the date for the levies to July 9 from June 1. **Contracts for the S&P 500 and the Nasdaq 100 advanced more than 1%.** A gauge of the dollar hovered near its lowest level in almost two years. Cash Treasuries didn't trade due to holidays in the UK and US.

The tariff war has returned as the major driver once again after concerns about Trump's proposed tax cuts, and their impact on the US deficit, churned markets much of last week. Trump's whiplash moves have increased uncertainty in markets and his broadside against Europe on Friday, followed by a backtrack, was a stark reminder of the president's volatile policy making. Call it the **'Trump Pattern', and which is increasingly seen as a successful strategy for risk-tolerant investors**. That said, the fact is that the rebounds that follow these selloffs are losing strength as we go on. Investor fatigue.

European Commission President Ursula von der Leyen stated Europe is ready to advance talks swiftly and decisively, but "a good deal" will need "time until July 9." That's the date on which Trump's 90-day pause of his so-called reciprocal tariffs had originally been set to end.

The trade tensions and weak demand for US assets are showing up in the dollar. **Bloomberg's dollar spot index was on track for its lowest close since July 2023**, while the greenback is at or approaching key levels against a host of currencies including the Euro, British Pound, Yen and Swiss Franc. Enthusiasm has faded for the world's reserve currency this year. Speculative traders remained bearish on the dollar but trimmed their short positioning to $12.4 billion in the week ending May 20 from $16.5 billion in the week prior, according to CFTC data reported Friday.

On Tuesday, it was very much a risk-on market with sectors such as consumer discretionary and technology performing strongly. There was also very broad breadth in the upwards move. **The positive market was driven by three key factors: developments in the Japanese bond market, the release of strong US consumer confidence data, and the EU speeding up negotiations on trade.** It was a day of buy equities, buy bonds, buy the dollar – buy US.

**Global bonds rallied** as Japanese authorities signaled they are considering adjusting their debt plan after a selloff that drove the nation's long-term borrowing costs to the highest levels in decades. Worries about the ability of governments to cover massive budget deficits weighed on developed-market debt in recent days and, by extension, equities markets.

Meanwhile on the murky world of **US economic data** currently and what to make of it. Bookings for all **durable goods** — items meant to last at least three years — fell 6.3%, on a pullback in orders for commercial aircraft. The report underscores caution among businesses as they assess the outlook for demand and focus on cost-cutting in the wake of President Donald Trump's trade policy. The value of core capital goods orders, a less-volatile proxy for investment in equipment that excludes aircraft and military hardware, decreased 1.3% last month.

Conversely, **US consumer confidence rebounded sharply in May** from a near five-year low as the outlook for the economy and labor market improved amid a truce on tariffs. The Conference Board's gauge of confidence increased by 12.3 points to 98, marking the biggest monthly gain in four years. The figure exceeded all estimates of economists. The cutoff for the survey was May 19, after the US and China agreed to temporarily reduce high levies on each other's goods while they negotiate a trade deal. About half the responses were collected after the agreement was reached on May 12.

The gauge's improvement may be an indication that worries about tariffs — a key source of anxiety in the previous surveys — abated in recent weeks. This is likely a slightly confused survey result given timing issues noted above.

Views of the present job market were more mixed, however. While more respondents said jobs were plentiful in May, there was also a larger share that said jobs were currently hard to get. The difference between these two — **a metric closely followed by economists to gauge the job market** — narrowed for a fifth month.

On Thursday (actually Wednesday after market), **Trump's global tariffs were deemed illegal and blocked by the US trade court as well as a strong result being released from Nvidia**. But during the reality of the trading day the indices were little changed.

On the former, **the Trump administration filed a notice that it was appealing the ruling**. The US Supreme Court may ultimately have the final say in the high-stakes case that could impact trillions of dollars in global trade. Irrespective of the outcome, there is a general view that the best guess at this stage is that the administration has enough powers to bypass the ruling and implement tariffs on several grounds. To keep it simple, **there is a stay on existing tariffs and nothing changes at the moment**. **More interestingly is who initiated this case – it was small businesses**. Because many are facing an existential crisis and are not afraid to take on Trump. Wall street listed entities are in a very different position.

On the latter, **upbeat earnings from Nvidia Corp.** also boosted investor sentiment. **On the one hand**, Nvidia Chief Executive Officer Jensen Huang soothed investor fears about a China slowdown by **delivering a solid sales forecast**, saying that the AI computing market is still poised for "exponential growth." **On the other hand**, he may have accentuated fears by warning that **Chinese AI rivals are now 'formidable'**. Huang said that Chinese AI rivals are filling the void left by the departure of US companies from that market, and their technology is becoming more powerful. Rather than keeping AI technology out of Chinese hands — the intended purpose — local companies are just finding alternatives.

So what gave on Wednesday? **Well, soft data moving into hard data to keep it simple.** Wall Street traders cheering solid results from Nvidia Corp. had to face the harsh reality of slowing economic data. The S&P 500 pared most of an advance that earlier approached 1%. That's even as the world's largest chipmaker climbed 4%. The **US economy shrank at the start of the year**, restrained by weaker consumer spending and an even bigger impact from trade than initially reported. **Pending sales of previously owned homes last month fell** by the most since September 2022, while **a rise in recurring jobless claims** signalled higher unemployment. All up, negative signals unless you are looking at it from the perspective of **Fed rate cuts**.

Updated aggregates continued to show that the US GDP contracted in the first quarter. Not really big news – this was simply a revision to the previously released 1Q25 GDP figure.

**Pending sales of previously owned US homes** last month fell by the most since September 2022, illustrating a disappointing spring selling season as prospective buyers balk at **high asking prices and borrowing costs**. An index of contract signings dropped 6.3% in April to 71.3. The decline was steeper than all estimates in a survey of economists. The disappointing figures suggest the resale market will continue to trudge along until prices come off their record levels and mortgage rates settle somewhere closer to 6% than the current 7%.

**Recurring applications for US jobless benefits jumped** to the highest level since November 2021, **possibly presaging a rise in the unemployment rate this month**. Continuing claims, a proxy for the number of people receiving benefits, increased by 26,000 to 1.92 million in the week ended May 17. That exceeded the median forecast of 1.89 million in a survey of economists. The period includes the reference week for the government's employment report for the month of May, which is due June 6. The numbers suggest the combined impact of the Trump administration's trade policy and government spending initiatives are starting to take a larger toll on the labour market as those out of work increasingly struggle to find new positions. So far, it's yet to show up meaningfully in the monthly jobs report — the unemployment rate stood at 4.2% in April, a level it first reached in July 2024.

As an aside, on Thursday arguably the most interesting development on the day was the reporter that asked Donald Trump about **the 'TACO' trade (Trump Always Chickens Out)**. Ouch. And the reporter was being messaged by Wall Street types not to ask about it (he had not heard the acronym) because it will only encourage him to maintain higher tariffs.

On Friday, the **personal consumption expenditures (PCE) price index** showed US consumers hit the brakes in April while goods imports plummeted by a record as companies adjusted to higher tariffs. Inflation-adjusted personal spending rose 0.1% after rising 0.7% a month earlier. Separate data showed an almost 20% slump in imports, leading to a massive narrowing in the US merchandise-trade deficit in April. Meanwhile, the Federal Reserve's preferred price gauge remained tame. Compared with a year earlier, the **core inflation gauge rose 2.5% from April 2024** — the smallest annual advance in more than four years.

The figures reflect an undercurrent of anxiety among many American consumers about the economy after the weakest quarter for spending in nearly two years. Higher duties on imports had yet to show up more broadly in higher goods prices, as sentiment slumped and the outlook for personal finances stood at a record low. However, in April US businesses pulled back significantly on imports after months of pulling forward economic activity to avoid tariff policy. But here's the irony, because of the way GDP is calculated, the April slump in imports of goods after months of front loading will likely give a boost to GDP in the second quarter. The Atlanta Fed's GDPNow forecast pencilled in a 3.8% increase for the second quarter, which would mark a bounce back from the 0.2% drop last quarter.

**The S&P 500 is back into positive territory for the year**, and just 3.6% off the all-time high recorded on February 19. The market's belief in the TACO theory – "Trump always chickens out" – grows stronger than ever.

The **rally has pushed the equity risk premium on the S&P 500** – the difference between the market's earnings yield (currently 3.54%) and the risk-free 10-year bond yield (currently 4.21%) **to -0.91%, the lowest level since October 2009** (bar December 2024 – January 2025). Over the last ten years up until mid 2022, the equity risk prmium was averaging a little over 2%. Investors are still expecting S&P 500 earnings will grow by between 9% and 10% in 2025, and between 13% and 14% across 2026 and 2027. That suggests that returns on equity and profit margins, already at historically high levels, will actually improve from here.

But investors should surely ask themselves how likely it is that US companies can continue to deliver the greatest returns in history and the fastest margins they've ever seen, in an environment where tariffs will be higher than they've been in a century – even allowing for TACO.

Let's examine Figure 2 below. **Consumer discretionary** forward EPS growth for CY2026 of 14.8%! **Industrials** EPS growth of 16.0%. Really?The sector is heavily exposed to tariffs. **Information technology** EPS growth of 16.6% - some exceptionally strong companies no doubt but at what point does the law of very large numbers kick in?

**Figure 1: S&P 500 Equity Risk Premium**

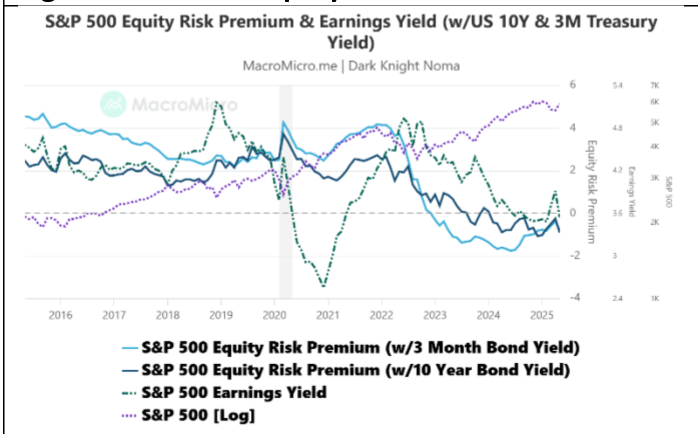
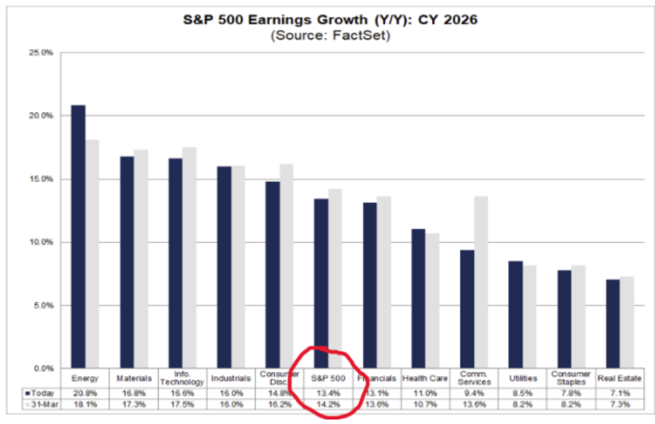



**Figure 2: S&P 500 CY2026 Forward EPS Growth**




## *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.

On a related topic, MST Marquee Australia's share market is on the precipice of a near-20% collapse as a downturn in company earnings delivers a brutal reality check to sky-high valuations and complacent investors who have been riding the **wave of passive money flowing into the ASX**. It is the latter point we are most interested in because it is having a significant impact on certain ASX shares, **with CBA being the poster child**. MST makes the point that over the last two years the Australian equity markets has been carried higher by a combination of buoyant global economic activity, large superannuation inflows and little equitisation, referring to the lack of IPOs pushing more investor money into bigger stocks.

On Friday, a **surprise fall in retail sales**, down 0.1% in April, sent government bond yields plunging 10 bps and helped spur optimism that the RBA will step up interest rate cuts. Retail turnover ended its 2025 run of gains falling -0.1%mth in April to be 3.8%yr higher. The weakness was centred on clothing & footwear and department stores, which the ABS attributed to warmer weather delaying purchases. Retail trade rebounded in Qld (1.4%mth) following weather-related impacts last month. Excluding Qld would have resulted in a -0.5%mth fall in retail turnover. Meanwhile, NSW posted its sharpest decline in over a year. **The suspicion is the April read has also been impacted by holiday-related disruptions.** Supporting this, the weekly Westpac-DataX Card Tracker showed significant disruptions from the late timing of Easter and its proximity to the ANZAC Day public holiday, spending only stabilising in mid-May.

Meanwhile, the **ASX's quarterly rebalance** will be announced next Friday and take effect a fortnight later. Gold stocks have been identified as significant inclusions. For example, Evolution Mining is expected to headline a flurry of changes to the ASX's biggest indices as gold producer stocks soar amid investor interest in the precious metal as a haven from broader market turmoil. Evolution, which has mines around the country, is set to join the S&P/ASX 50 index in the quarterly rebalance.

Markets are now turning their attention to **Q1 GDP figures released next week**. Consensus is for growth to slow from 0.6% in Q4 2024 to 0.2% in Q1 2025, largely owing to slower household consumption

## *Overview of the US Treasuries Market*

A fresh round of trade uncertainty hits markets as Trump accuses China of violating the deal with the US fresh economic data show us consumers hitting the brakes on spending and imports plummeting and US treasuries on track to deliver their first monthly loss.

Over the course of the week, the **US 10-year** decline 9 bps to 4.40% and below the psychologically important 4.5% barrier. Similarly, the problematic long-end of the curve, **the 30-year, (now a risk asset)** ended at 4.92% and below the important 5.0% threshold. Over the month, US Treasuries registered their first loss this year as Trump's abrupt policy shifts shake investor confidence. Worry about the budget deficit picked up in May tied to a tax-cut bill moving through Congress. But back to the week, and during the week, it was the Japanese bond market that spooked investors globally in relation to government long dated debt.

While tariff-related anxieties are easing, **market concerns about US debt persist**. As Congress debates debt issuance for the second half of the year, Moody's recent downgrade reignited worries. **The real challenge** lies in how to address the **high interest costs** created by the US's current $36 trillion debt, alongside the House's newly passed legislation that would **add another $3 trillion to the deficit over the next decade**.

Trump will likely continue to use tariffs as a means to offset debt growth. According to estimates from the Yale Budget Lab, a 10% reciprocal tariff would suffice to offset 80% of the deficit increase. Thus, **tariffs need not be excessive but cannot be absent entirely**—this explains why Trump emphasized 10% as a baseline during UK negotiations. If future debt issuance can be managed, the immediate concern shifts to the risk of interest payment defaults, which hinges on the Federal Reserve's actions.

It is estimated that given the current pace of Treasury refinancing, a single Fed rate cut (25 bps) could reduce annual interest expenses by roughly $27 billion (with total current interest outlays at approximately $880 billion). **This is a key reason why Trump is pressuring the Fed to cut rates**. At its May meeting, the Fed remained inclined to its wait-and-see approach, but it is generally anticipated that in the second half of the year, as rapid inventory restocking slows economic growth, the Fed may cut rates or even pause quantitative tightening to ease interest payment pressures.

**On Friday** and on the data front, the **PCE price index** came roughly in line with expectations, with both the headline and core readings edging up 0.1% month-over-month. On an annual basis, both measures slowed, offering some relief over inflation pressures. Personal spending growth also eased to 0.2%, in line with forecasts. The data reinforced expectations that the Federal Reserve may have room to cut interest rates later this year. **Considering the May month, the benchmark bond yield in the US is down more than 20 bps**.

US consumers hit the brakes in April while goods imports plummeted by a record as companies adjusted to higher tariffs. Inflation-adjusted personal spending rose 0.1% after rising 0.7% a month earlier. Separate data showed an almost 20% slump in imports, leading to a massive narrowing in the US merchandise-trade deficit in April. Meanwhile, the Federal Reserve's preferred price gauge remained tame. The **PCE price index**, excluding food and energy, increased 0.1% from a month earlier. Compared with a year earlier, the **core inflation gauge rose 2.5% from April 2024** — the smallest annual advance in more than four years.

The figures reflect an undercurrent of anxiety among many American consumers about the economy after the weakest quarter for spending in nearly two years. Higher duties on imports had yet to show up more broadly in higher goods prices, as sentiment slumped and the outlook for personal finances stood at a record low. However, in April US businesses pulled back significantly on imports after months of pulling forward economic activity to avoid tariff policy. But here's the irony, because of the way GDP is calculated, the April slump in imports of goods after months of front loading will likely give a boost to GDP in the second quarter. The Atlanta Fed's GDPNow forecast pencilled in a 3.8% increase for the second quarter, which would mark a bounce back from the 0.2% drop last quarter.

All up, we don't have data right now that is conclusive in terms of there's been a lot of changes in relation to the end state of tariffs over the past six weeks. So all the data points incorporate a different amount of time of that six weeks with different kind of facts at the baseline. What we're seeing now is a bit of information depending on the day that can be read more positively, more negatively. Ultimately, we need to see more data. However, what is crystal clear though is that the impacts of tariffs cause uncertainty, making consumers consume less on the margin and it will be impactful to the negative side to growth. It's just a question of how much.

Meanwhile and more broadly, **a slump in the US long bond is clouding the comeback of a classic 60/40 investment strategy**. While a bedrock of retirement savers over decades, the approach lost some of its luster in recent years as its underlying mechanism fell out of whack, with US stocks and bonds moving more in lockstep rather than offsetting each other.

**This year, the strategy has come back into its own**, performing as advertised even amid violent swings in both stocks and bonds. A US gauge of the 60/40 mode returned some 1.6% this year through mid-May, besting the S&P 500 Index's return in the period, and with lower volatility. A key part of the revival has been the return of the traditional inverse relationship between stocks and bonds. The correlation between US equities and fixed income over the past six months has reached the most negative level.

One recent major development has cropped up, though, to **threaten that balance**. Benchmark 30-year Treasury bonds have taken a tumble this month, sending yields above 5% toward the highest in almost two decades as investors grow increasingly wary of holding long-term US debt amid spiraling debt and deficits. **What you are seeing in the back end of the curve globally is that they are behaving like risk assets, not like the typical kind of defensive risk-averse assets**.

But in actual fact, it may be **more a case of the model being bent but not broken**. The **key is to pick the right bonds along the yield curve**. While a lot of the concerns that deficits impact bond valuations further out the curve, we do think that the front end is likely to behave as investors would expected. The outperformance of shorter-to-medium term bonds also explains why the benchmark US bond index – which has similar interest-rate risks to that part of the curve — remains negatively correlated to stocks. The average duration of the Bloomberg Treasury Index, a measure of interest-rate risk, is about 5.7 years.

| Figure 7: Price PCE & Core Price PCE | Figure 8: Initial Jobless Claims |
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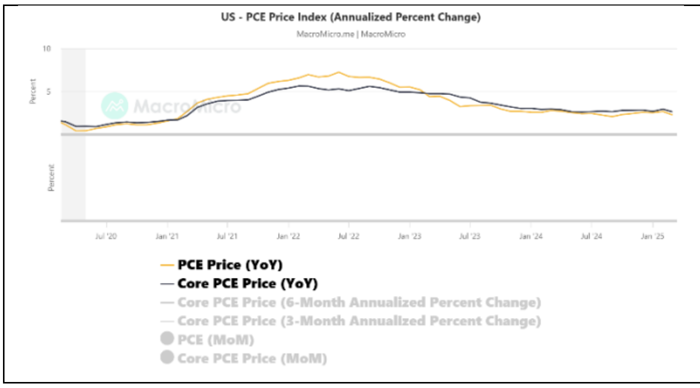


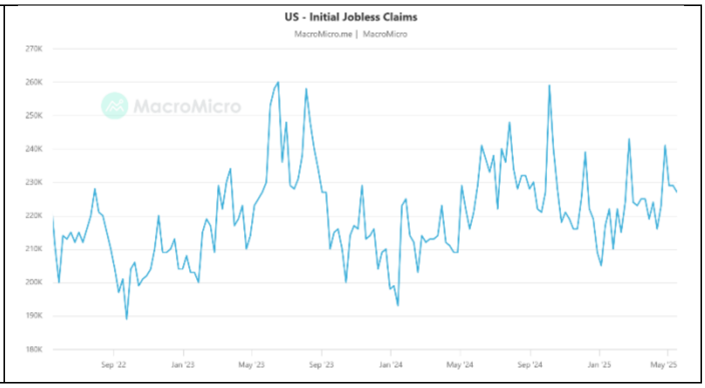


| Figure 9: Australian & US Government Bond Yields | Figure 10: Global Bond Yields |
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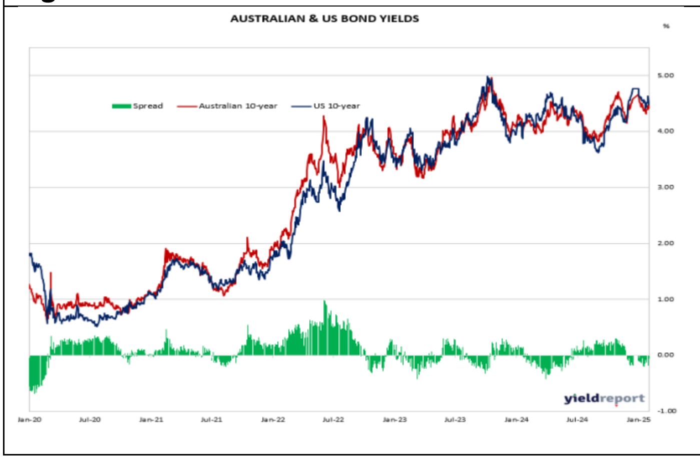




## *Overview of the Australian Government Bond Market*

On Wednesday CPI data was released. The rise in the **CPI for April** held at 2.4% year-on-year from the previous month (and the month before that) and a little higher than expected. Market consensus was for it to slow to 2.3%. Trimmed mean inflation, the RBA's preferred measure of underlying inflation, inched up to 2.8% in April from 2.7% in March. The RBA's own forecast has the trimmed mean at 2.6% by Q2.

So, inflation is at the very upper end of the RBA's target band and proving relatively 'sticky'. While it is wise not to read too much into a one month print, **we are getting the sense that the pace and quantum of RBA cuts may be less than the market is currently pricing in.** Friday's retail sales figures are expected to provide crucial insights into consumer spending, a key factor in the RBA's policy outlook.

On stickiness of inflation, some **global companies are thinking of spreading the additional costs** incurred in relation to importing goods into the US **across their global networks** so as to reduce price rises in the US market. If so, Australia may not be as immune to Trump's tariffs as initially thought.

On Friday, retail sales unexpectedly declined in April, driven by unseasonably warm weather—which reduced demand for winter clothing—and fewer promotional events at department stores, **highlighting growing consumer caution. Or does it??**

**On retail sales**, yes, it was a surprise and it sent government bond yields plunging 10 bps and helped spur optimism that the RBA will step up interest rate cuts. Retail turnover ended its 2025 run of gains falling -0.1%mth in April to be 3.8%yr higher. However, what needs to be borne in mind is two things. First, the weakness was centred on clothing & footwear and department stores, which the ABS attributed to warmer weather delaying purchases. Retail trade rebounded in Qld (1.4%mth) following weather-related impacts last month. Excluding Qld would have resulted in a -0.5%mth fall in retail turnover. Meanwhile, NSW posted its sharpest decline in over a year. Second, **the suspicion is the April read has also been impacted by holiday-related disruptions.** Supporting this, the weekly Westpac-DataX Card Tracker showed significant disruptions from the late timing of Easter and its proximity to the ANZAC Day public holiday, spending only stabilising in mid-May. Seems like the bond markets over reacted.

**Figure 11: Australian Monthly CPI (YoY)**

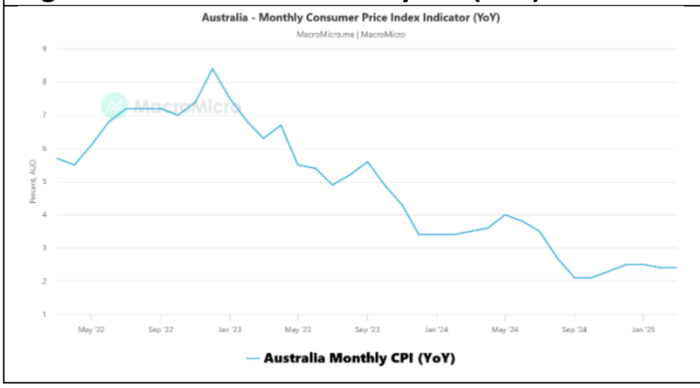
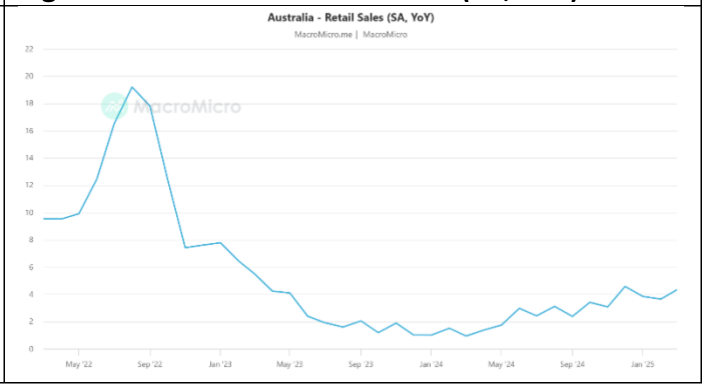



**Figure 12: Australian Retail Sales (SA, YoY)**




The TD-MI price index is data jointly released by TD Securities and the Melbourne Institute. This data is monthly data. Historically, the correlation between expected inflation and the annual CPI growth rate is 0.861. The latest data in the chart below is 30 April, so may well overstate the inflationary impact of Trump's tariffs. We would expect the May 2025 figure to be somewhat lower, such is the volatility / uncertainty in the market and the rapid pace of the changing tariff situation.

More broadly and in terms of the **wealth effect and how this may impact spending (and by extension the RBA) the new Demographia International Housing Affordability report** doesn't pull punches when it comes to housing affordability in Australia and globally. Launched 21 years ago, the report is considered a standard bearer when it comes to the cost of housing in developed markets. When Demographia released its first report, almost every major housing market (it covers 95 markets across eight countries) was deemed affordable. Now, not one of them falls into this category.

Australia is one of the least affordable for housing. The report says that we have one market, Perth, which falls into the 'severely unaffordable' category with a median house price to median household income ratio (median multiple) between 5.1x and 8.9x. And we have four other major markets – Sydney, Adelaide, Brisbane, and Melbourne – that are 'impossibly unaffordable', with median multiples of 9x or more. Australia is the second most expensive nation for housing, only behind Hong Kong. Note that our housing is twice as expensive as that in the US, and it's well above the UK's multiple of 5.6x.

## *Concluding Remarks*

**There really is only one take away from this week, and it is uncertainty.** Markets remain headline driven related to tariffs largely and it is only when we see more clarity on trade that you'd expect traditional drivers of markets, like earnings and fundamentals, to lead the way and drive sentiment. Don't hold your breath.

**Conniptions in the long-end of government debt continue** and, my, it got scary this week in relation to the Japanese bond market. Then the Japanese central bank did the only sensible thing – move down the tenor curve regarding issuance. Crisis averted, underlying problem not solved. The Japanese Prime Minister stated the state of Japanese finances is worse than Greece during the GFC. Okay, an over-statement, but if yields keep moving up in Japan guess where that money is coming out of – the carry trade / US treasuries. And all global bond yields track the US market. **That is the risk. And if the 10-year sells off (the risk-free rate for equities valuations). Well, you get the picture.**

## *Charts of the Week*

The two charts below – **why people are fixated on the Japanese bond market.**

**Figure 14: Japan 10-year Govt. Bond Yield**

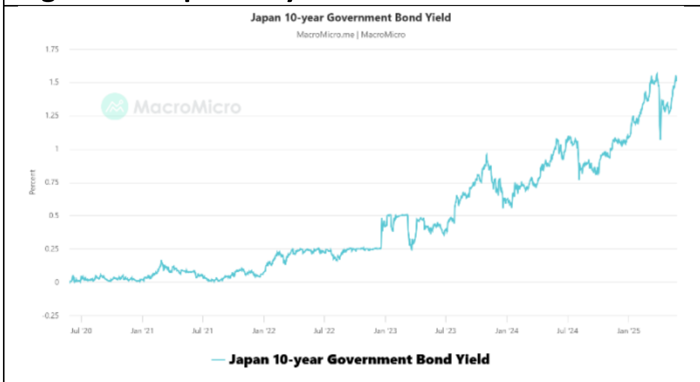
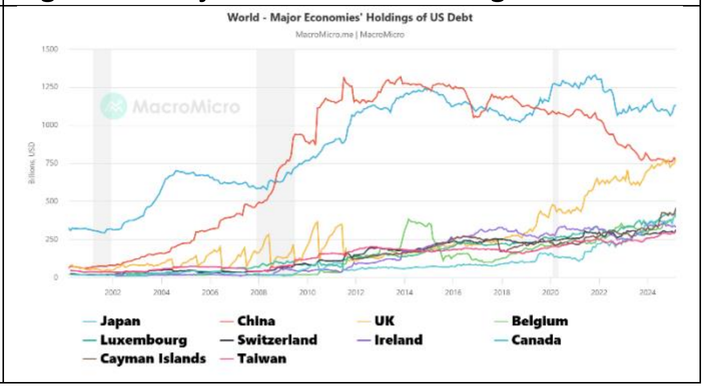



**Figure 15: Major Economies' Holdings of US Debt**




## *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. (not updated, leave it out Sarang)- Jay

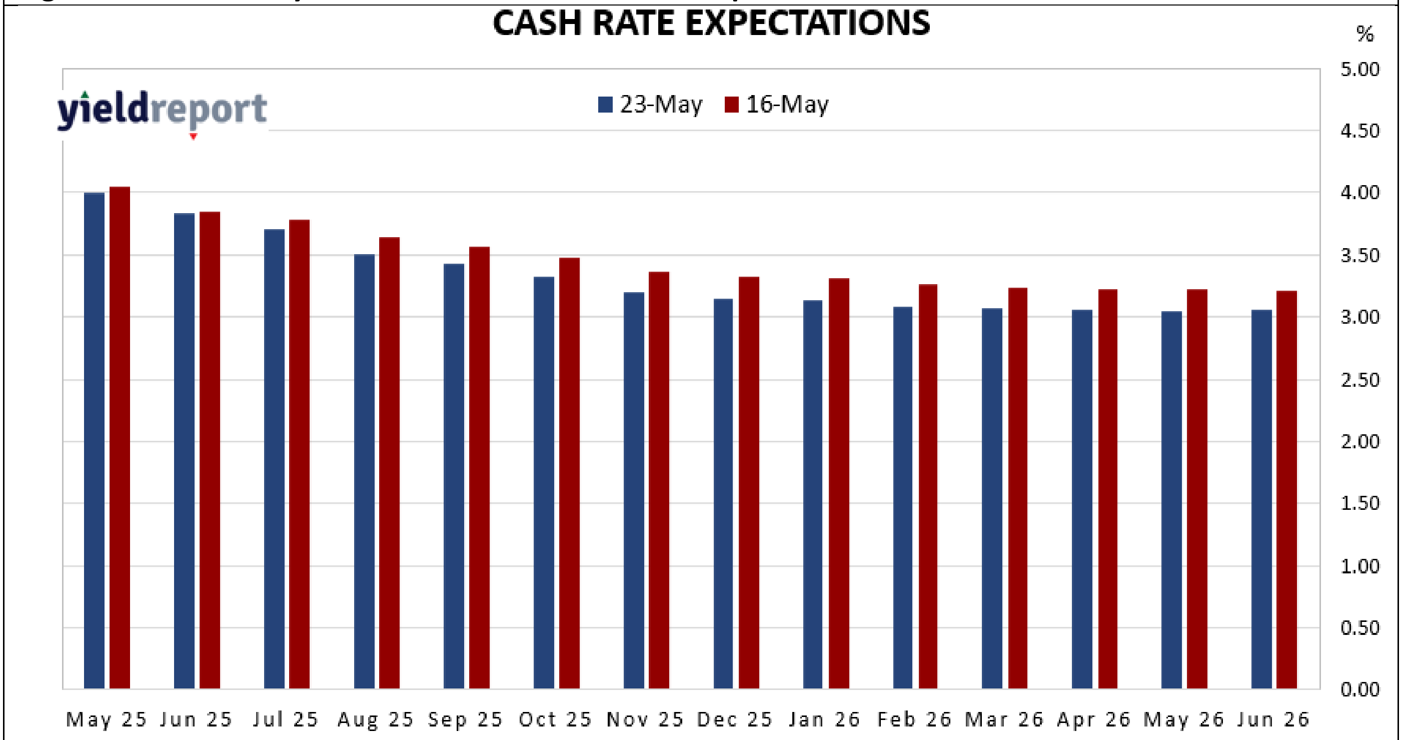
## *Cash*

**Market expectations of an interest rate change at the next RBA Board meeting (8 July)** in recent days whipsawed. On Monday, it was sitting at 75%, it dropped to 59% on Thursday **(sticky CPI print)**, then on Friday jumped to 73%. The key catalyst? **Retail sales on Friday**, which unexpectedly declined in April, driven by unseasonably warm weather—which reduced demand for winter clothing—and fewer promotional events at department stores, **highlighting growing consumer caution. Or does it??**

**Not so quick we say.** Yes, it was a surprise, and it sent government bond yields plunging 10 bps and helped spur optimism that the RBA will step up interest rate cuts. Retail turnover ended its 2025 run of gains falling -0.1%mth in April to be 3.8%yr higher. However, what needs to be borne in mind is two things. First, the weakness was centred on clothing & footwear and department stores, which the ABS attributed to warmer weather delaying purchases. Retail trade rebounded in Qld (1.4%mth) following weather-related impacts last month. Excluding Qld would have resulted in a -0.5%mth fall in retail turnover. Meanwhile, NSW posted its sharpest decline in over a year. Second, **the suspicion is the April read has also been impacted by holiday-related disruptions.** Supporting this, the weekly Westpac-DataX Card Tracker showed significant disruptions from the late timing of Easter and its proximity to the ANZAC Day public holiday, spending only stabilising in mid-May. **Seems like the bond and cash markets over reacted**.

**Figure 16: ASX 30 Day Interbank Cash Rate Futures Implied Yield Curve**




## *Term Deposits*

**Major banks, ex-market leaders cut term deposit rates.** With CommBank, Macquarie, Heartland Bank and numerous others among the latest term deposit rate casualties, returns above 4.50% p.a. are becoming increasingly rare.

This week brought **a fresh round of TD rate reductions from the major banks**, not to mention a few ex-market leaders. When lenders cut home loan rates you can rest assured they will also move to reduce their cost of funding, so the onslaught shouldn't come as a surprise to even the most optimistic of term deposit enthusiasts. TD rates beginning with a 5 are now extinct. The benchmark for a quality return is becoming 4.50% p.a. with a few products that still crack this threshold after the latest cuts.

**CBA, NAB and Macquarie Bank** were the biggest names of this weeks round of term deposit rate cuts. Australia's biggest bank slashed basically its entire range to all now sit well below 4% p.a. - with the exception of its latest special offer rate of 4.10% p.a. for one year. That rate is available for a limited time, exclusively to existing retail or business banking customers, and is 0.30% lower than the one year rate at G&C Mutual Bank (4.40% p.a.).

NAB went further, with its highest rate now just 4.00% p.a. for seven month terms after widespread cuts. At Macquarie, three, four, and six month rates were on the chopping block, taking its top rate down to 4.20% p.a. for three months.

Elsewhere, **Heartland Bank** cut its six month rate down to 4.55% p.a., nine month down to 4.40% p.a.. **Gateway Bank** was another ex-heavy hitter to cut, although the 0.05% cut still leaves its top products among the strongest on market, as we touched on above.

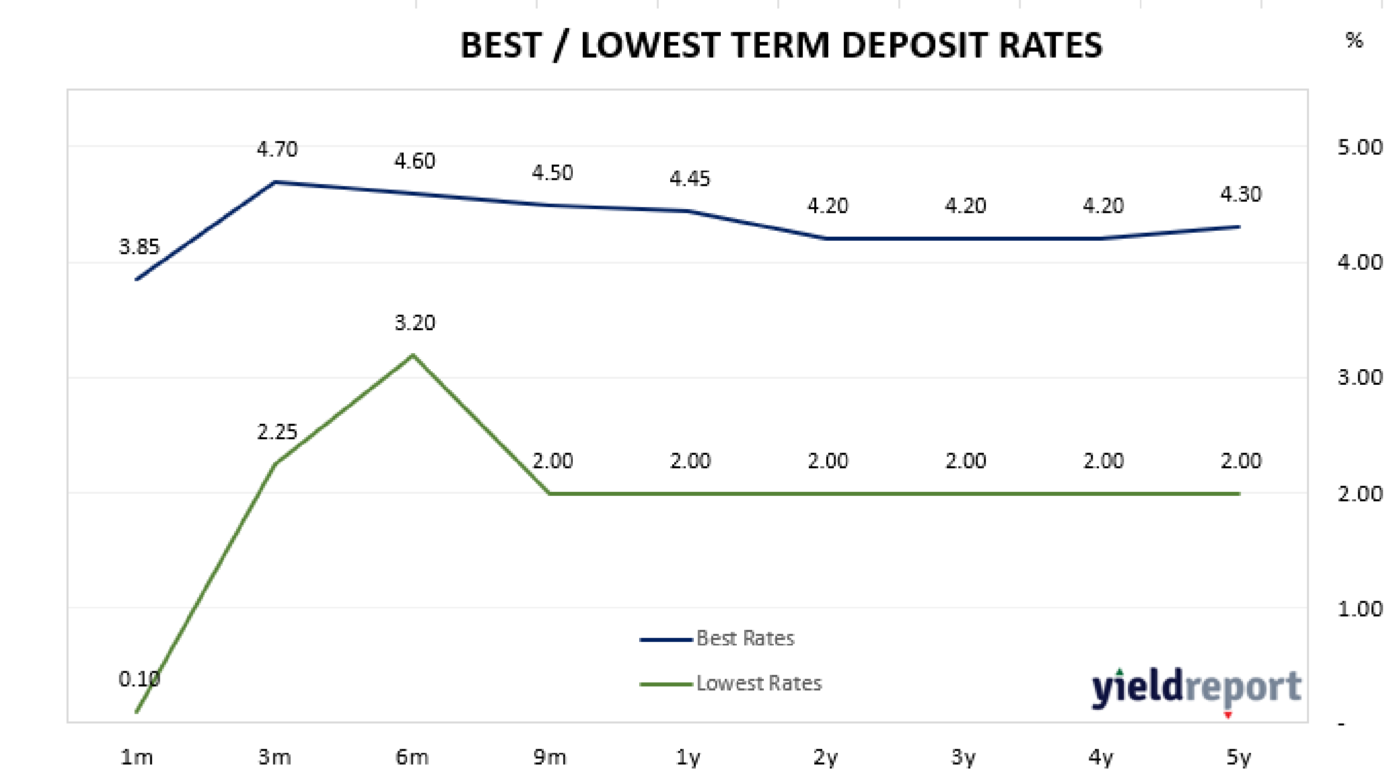


**Other movers:**

- Qudos Bank cut rates by up to 60 bps, leaving a new top rate of 4.15% p.a. for six month terms Community First Bank and;
- Police Bank also cut.

**Figure 17: Highest Term Deposit Rate by Term**




## *Government / Treasuries Yield Curve*

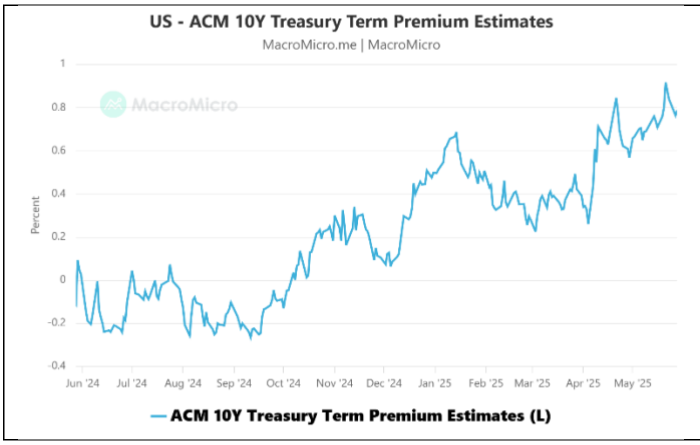
After last week's tumultuous events, the US term premium compressed by weeks end. **On Wednesday 28 May, the US term premium declined to 0.79 versus 0.92 the week before, the latter being a level not seen for over a decade going back to the beginning of 2014**. But let's be clear, and despite the aversion of catastrophe in the Japanese bond market, 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 18: US 10-year Term Premium** | **Figure 19: US Public Debt % of GDP** |
|---|---|





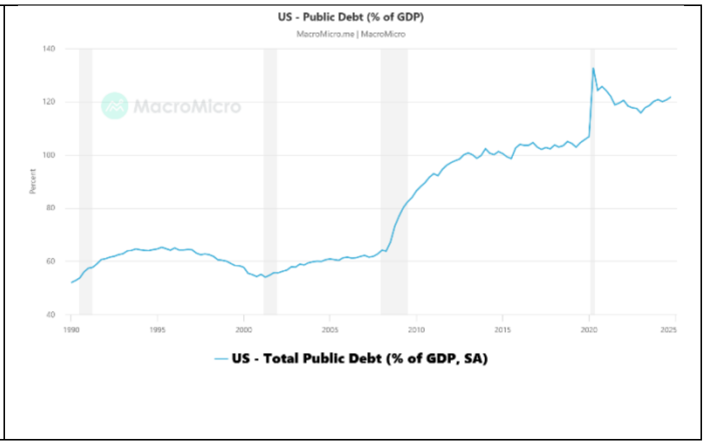




**Figure 20: Aust. 10 yr minus 3 yr Bond Spread**

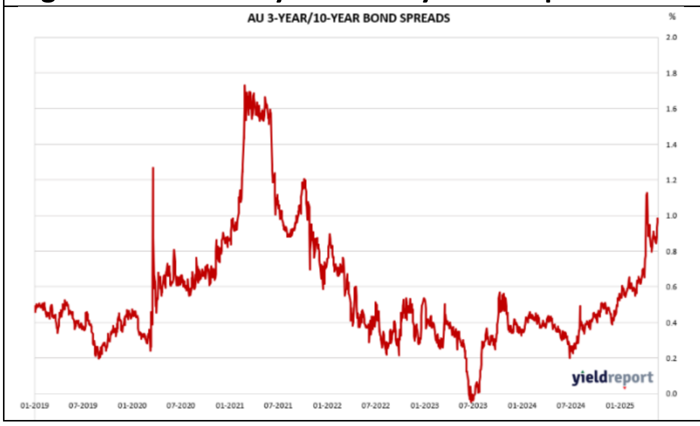
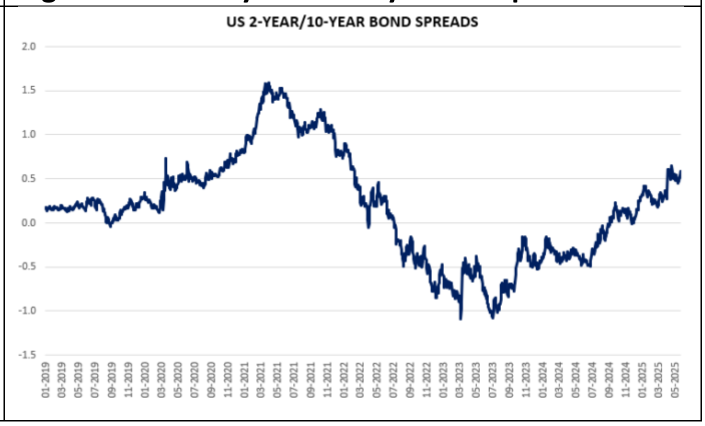



**Figure 21: US 10 yr minus 2 yr Bond Spread**




## *Corporate Bonds*

Spreads compressed meaningfully this week. In HY, CCC was down 18 bps and B and BB both down 8 bps. In IG, all ratings categories shrank ever so slightly by 1-2 bps.

**We make the point again – spreads are not reflecting economic risks. We all know that. We also know that the reason is that there is a fundamental demand/supply imbalance, and that is not going to change. This is akin to Australian equities with Super and ETFs chasing stocks, and a reality few seem to grasp – it is a new world order. Private markets are eating the lunch of public markets in terms of issuance, but there is an ever increasing flow of funds in public markets, and largely through ETFs.**

Case in point, in the US IG market in the last three months, $400 billion has been issued. But if you net that of maturities and coupons it reverts to circa zero.

We know that on a fundamental basis **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 after the easing of US and China trade tensions.

**Figure 22: US Investment Grade Bonds Effective Yields**

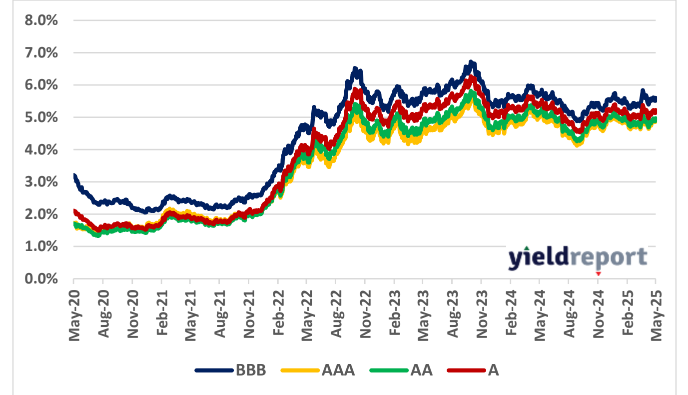



**Figure 23: US Investment Grade Bonds OAS Spreads**

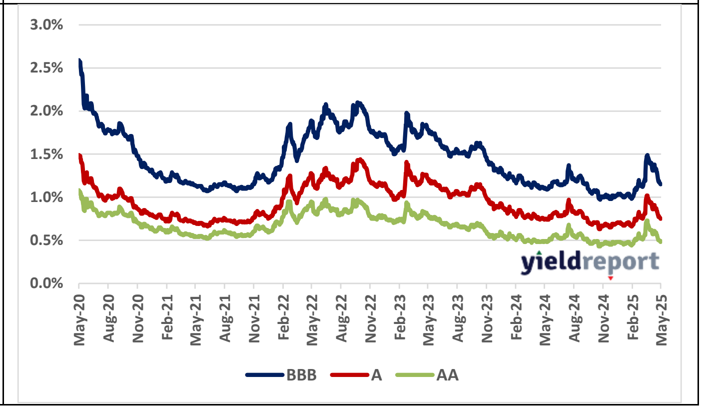



**Figure 24: US High Yield Bonds Effective Yields**

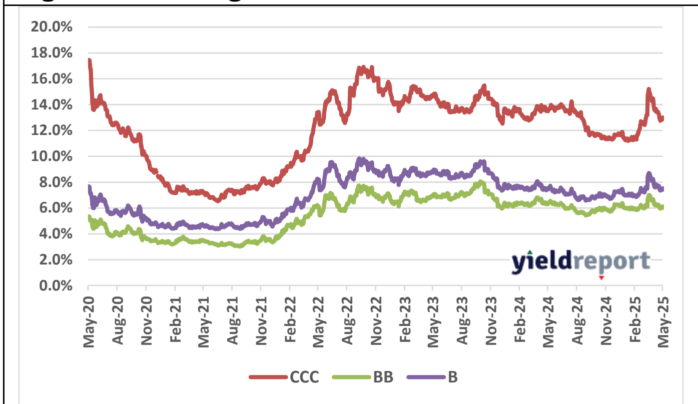
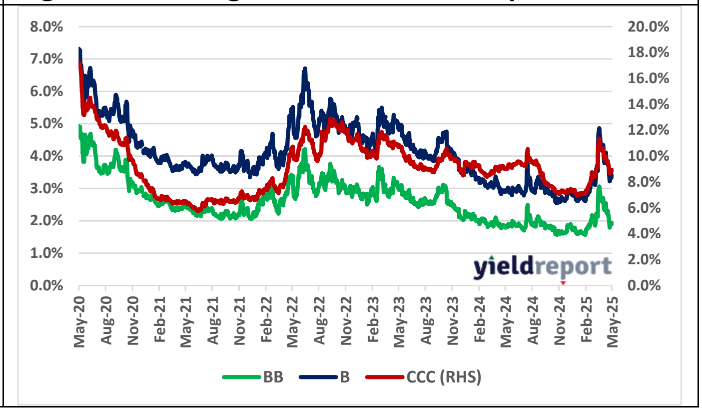
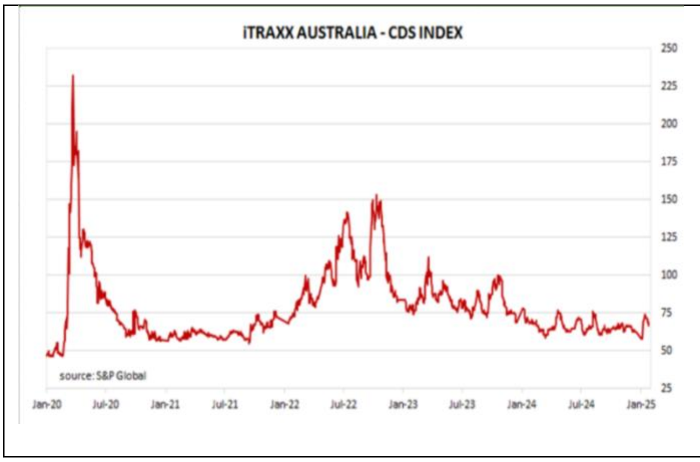
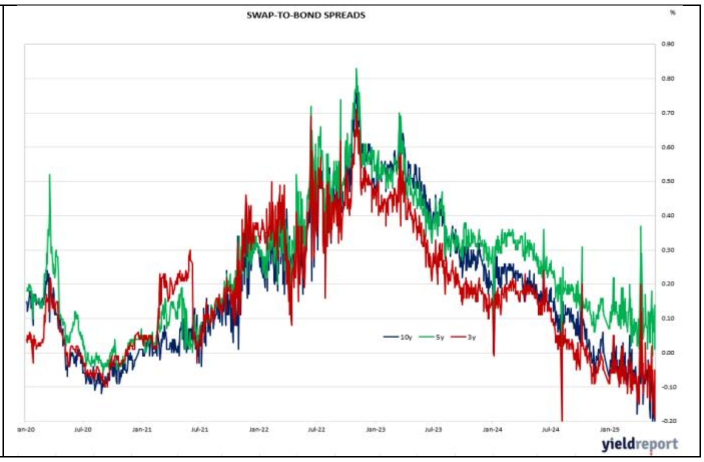



**Figure 25: US High Yield Bonds OAS Spreads**




| Figure 26: ITRAXX Australia - CDS Index | Figure 27: Australian Swap to Bond Spreads |
| --- | --- |




## *Hybrids*

On 30rd 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.

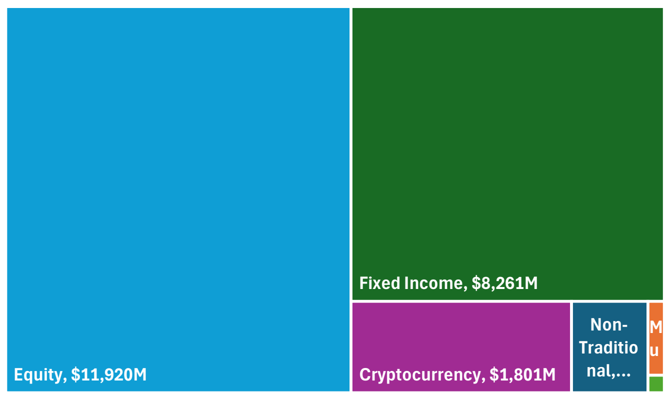
### *US ETF Flows by Asset Class*

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 30 May 2025.

| **Figure 28: One Week US ETF Flows (as at 30 May)** | **Figure 29: US ETF Flows by Asset Class (as at 30 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 News*

### Wall Street's Rush to Launch Vanguard-Style Dual Listed Funds Draws Warnings

The US Securities and Exchange Commission is expected to approve applications for **dual-share-class structures**, allowing managers to add an ETF sleeve to an existing mutual fund, which could bring the two vehicles closer together. More than 50 firms, including BlackRock Inc. and State Street Corp., are waiting for the regulator's greenlight to deploy the hybrid structure — made possible after Vanguard Group Inc.'s exclusive patent expired two years ago.

The **two-in-one blueprint is a tantalizing prospect for asset managers looking to break into the ETF market at scale**, without having to launch a new strategy from scratch. It also offers a lifeline to firms battered by years of mutual-fund outflows, as investors fled for more tax-efficient alternatives and the convenience of daily liquidity. The hybrid structure famously helped Vanguard save its clients billions in taxes over two decades.

But there are two key concerns. First, some Wall Street experts caution the shake-up could erode key benefits of the wrapper, especially **if hybrid funds face significant withdrawals during market stress**. Second, At the heart of the concern is a tax dynamic that ETFs were built to avoid. These funds rarely pay capital-gains tax distributions, thanks to their in-kind redemption process, which allows the issuer to swap securities with authorized participants rather than sell them outright. By contrast, mutual funds redeem in cash, meaning managers may need to sell securities to meet outflows. **If those sales generate capital gains, they may distribute them to investors. In a hybrid vehicle, those taxable gains risk getting passed onto ETF shareholders too**.

### Newly Minted ETFs Buck Vanguard Effect as Fees Hit Record High

The **average fee of an exchange-traded fund launched this year has surged to a record 65 bps**, with leveraged trades, cryptocurrency, and active management among the slew of nearly 350 new offerings. That said, despite the high fees of new ETFs, the average asset-weighted expense ratio across all funds is falling and hovering around its lowest level on record, at 17.5 bps.

Paradoxically, the all-time high costs can be linked back to the race toward lower fees among the highest ranks of the ETF league tables. Fund giants like the Vanguard Group, BlackRock Inc. and State Street Corp. have spent years slashing fees, or expense ratios, on their index-tracking, core portfolio funds to near zero, in an effort to attract new investors. But as the so-called Vanguard Effect has lowered fees for investors, it in turn has given them the resources to allocate a slice of their portfolios to more expensive, niche funds. The scale and efficiency of ultra-low-cost products have helped subsidize the expansion of higher-fee offerings elsewhere, supporting broader innovation and diversification across the ETF landscape.

## *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 32: Select ETF Launches, to May 30th 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 |

## *Listed Investment Companies & Trusts*

**La Trobe debuts first ASX-listed investment product.** La Trobe Financial, the Brookfield-owned alternative asset manager with $20 billion in assets under management, has launched its first fund on the ASX. The IPO seeks to raise between $100 million and $300 million, with units priced at $2.00. La Trobe Financial chief executive Chris Andrews said the ASX listing marks a very "significant milestone" for La Trobe and its 110,000 investors.

The La Trobe Private Credit Fund (ASX: LF1) is a diversified private credit strategy. The fund offers a "balanced and flexible" exposure to Australian real estate private credit through La Trobe's 12 Month Term Account and US-mid market corporate private credit via its US Private Credit Fund, which was developed in collaboration with Morgan Stanley.

La Trobe ranked among the top wholesale fund managers by net flows over the year to March 31, according to Rainmaker Information. Only Metrics recorded higher net flows outside ETF heavyweights Betashares, BlackRock, Vanguard, and VanEck. La Trobe's Australia Credit Fund 12 Month Term Account topped actively managed funds by net flows over the period.

**Metrics Credit Partners** has ruled off its $315 million master income trust placement after investors streamed into the offer. Street Talk understands the book build was shut before the market closed on Thursday as joint lead managers Morgans, Taylor Collison, E&P Capital, Ord Minnett and NAB hit the phones. Metrics funds and Pinnacle-associated entities had put up $100 million to cornerstone the raising. However, this was scaled back to roughly $21 million given the demand. The effort shows retail investors' continued demand for private credit against the backdrop of volatile equity markets and the phasing out of the $43 billion bank hybrid market. After the raise, the Metrics Master Income Trust will hold a $2.44 billion net asset value.

## *About YieldReport - Your Income Advantage*

YieldReport is Australia's leading online investor platform on interest rate markets and yield investments. YieldReport provides research, data, advice, news review and insights on what's shaping the yield curve and fixed income markets. It also provides a great source of reference for pricing and performance data on yield focused investment opportunities including cash, term deposits, government and semi-government bonds, managed funds, ETFs, corporate bonds, floating rate notes and hybrids. YieldReport insights and analyses are designed to help anyone capital allocation or investment selection – whether it be their own or whether they sit on a finance committee, board etc. – to make informed decisions about where interest rates are going and to have access to the best rates and latest performance data available on yield-oriented investments.

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