yieldreport Daily

Your Income Advantage

2nd June 2025

Overview of the US Market

Coming off the best May for the S&P 500 in 35 years, indices were little changed. Energy and tech shares drove a bounce in the benchmark, following a slide of almost 1% earlier in the session. US steel and aluminium shares surged on Trump's pledge to double levies on the metals. Longer-term Treasuries yields rose yet again. **Are investors just waiting for Payrolls on Friday, or are they paying attention to the bond markets.**

Stocks churned with a slight rally towards the close. By close, the **S&P 500** was up 0.2%. The **Nasdaq 100** rose 0.5%. The **Dow Jones Industrial Average** fell 0.1%. The Mag 7 rose 0.2%. The **yield on 10-year Treasuries** advanced 6 bps to 4.46%. **The 30-year is back at the psychologically interesting 5.0%,** rising circa 6 bps. Gold surged. The **messy oil market rallied**, but that was likely short covering in relation to the Opec Plus meeting. West Texas Intermediate crude rose 3.7% to $63.05 a barrel. Below $60, oil is at a price that risks some producers are stepping away. **So much for 'Drill Baby, Drill'**. The steel and aluminium announcement triggered a sharp rally in US steel-related stocks: Nucor jumped 10.6%, Steel Dynamics rose 11%, and Cleveland-Cliffs surged 21.9%. Meanwhile, **Tesla shares** were down more than 2% after its new-vehicle registrations in France fell 67% year-on-year in May.

What was at least partly driving the overall markets was the latest **ISM Manufacturing PMI**, which signalled a deeper-than-anticipated contraction in the sector, marking the third consecutive month of decline. Notably, the import component of the index fell to its lowest level in 16 years, reflecting a sharp pullback by firms facing increased tariff-related costs. Statistically, this had to happen, due to the pull forward in previous months. **Moving forward – empty shelves? Probably.**

At the same time, **trade tensions** continued to escalate. **China accused the US** of violating their recent trade agreement and vowed to take retaliatory measures to defend its interests. This followed similar accusations from Trump last week, who claimed China had broken the terms of the deal. On this topic, Trump and President Xi Jinping are likely to speak this week, the White House said.

Meanwhile, **tensions with the EU intensified** as Trump announced plans to double tariffs on steel and aluminium to 50%, further adding to investor concerns. The EU is preparing for another round of trade talks with the US and warned that it may speed up retaliatory measures if Trump follows through on his tariff threats, the latest of which includes a 50% levy on steel and aluminium imports.

On the ISM Manufacturing PMI, US factory activity contracted in May for a third consecutive month and a gauge of imports fell to a 16-year low as firms pulled back in the face of higher tariffs. The ISM manufacturing index edged down 0.2 point last month to 48.5. Readings below 50 indicate contraction. Two of the report's trade-related indexes highlighted the widespread uncertainty caused by the uneven rollout and frequent changes in tariffs. The ISM's import measure dropped 7.2 points, one of the largest monthly slides on record, to 39.9.

Overview of the Australian Market

The Australian sharemarket fell on Monday as the latest developments in Trump's global trade war weighed on investor appetite for risk assets. The **S&P/ASX 200** slipped 0.3%. Eight of the 11 sectors were in the red, with energy leading losses.

The ASX tracked a late sell-off on Wall Street on Friday after Trump bounced back from a court ruling last week that tried to put a brake on his trade war with a new 50% tariff on steel and aluminium imports. Banks pushed lower with WBC dropping 1.8% and NAB 1.2%. Energy and utilities stocks were also heavily sold. Aluminium stocks suffered losses following news of higher tariffs for the sector. Alcoa dropped by 4.5% and South32 by 3.1%. Iron ore miners also retreated as the steelmaking ingredient touched a one-month low below $US100 a tonne in Singapore. Rio Tinto and Fortescue both dropped 1.9%.

There is a public-to-private late entrant to Perpetual wealth bidding. This in itself is not significant, but it is reflective of a broader trend and which is materially impact listed equities valuations, and HY bonds for that matter too. There is a lack of equitisation in all markets, and particularly the ASX. So, there is an ever increasing flows of mandated portfolio allocation by constrained Super and ETFs going into a constrained publicly listed market. This is incremental to certain valuations (CBA is the poster child) to levels that, against risk-free bonds, makes no sense. **There is an ever-shrinking ASX problem. And Brickworks too will leave the ASX soon** as part of plans to merge the company into Soul Patts, as announced on Monday. We are in what is traditionally the busy IPO period – there is all of 3 IPOs in the market currently, Virgin being the only notable one.

So, the rise of private markets is likely contributing to higher valuations in public markets. Case in point, the US HY market has not grown volume dollar wise since 2015 – the issuers have turned to the sole / co- / club / BSL private debt markets. Yet, the HY and LL ETFs keep growing – read we are now at historically tight spreads and which are not reflecting economic risks. It is a New Paradigm. **It is not necessarily a conversation of Private Debt / Equity vs Public Markets, it's a conversation of how Private Debt / Equity is contributing to Excess in Public Markets**.

Overview of the US Bond Market

The **yield on the US 10-year Treasury note** rose 6 bps to 4.46% on Monday, amid renewed trade uncertainty and a wave of risk-off sentiment following weaker-than-expected economic data. **The 30-year is back at the psychologically interesting 5.0%,** rising circa 6 bps. Traders digested the latest ISM Manufacturing PMI, which signalled a deeper-than-anticipated contraction in the sector, marking the third consecutive month of decline. Notably, the import component of the index fell to its lowest level in 16 years, reflecting a sharp pullback by firms facing increased tariff-related costs.

At the same time, **trade tensions** continued to escalate. China accused the United States of violating their recent trade agreement and vowed to take retaliatory measures to defend its interests. This followed similar accusations from President Trump last week, who claimed China had broken the terms of the deal. Meanwhile, tensions with the European Union intensified as Trump announced plans to double tariffs on steel and aluminium to 50%, further adding to investor concerns.

US factory activity contracted in May for a third consecutive month and a gauge of imports fell to a 16-year low as firms pulled back in the face of higher tariffs. The Institute for Supply Management's (ISM) manufacturing index edged down 0.2 point last month to 48.5. Readings below 50 indicate contraction. Two of the report's trade-related indexes highlighted the widespread uncertainty caused by the uneven rollout and frequent changes in tariffs. The ISM's import measure dropped 7.2 points, one of the largest monthly slides on record, to 39.9.

Figure 1: US ISM Manufacturing PMI

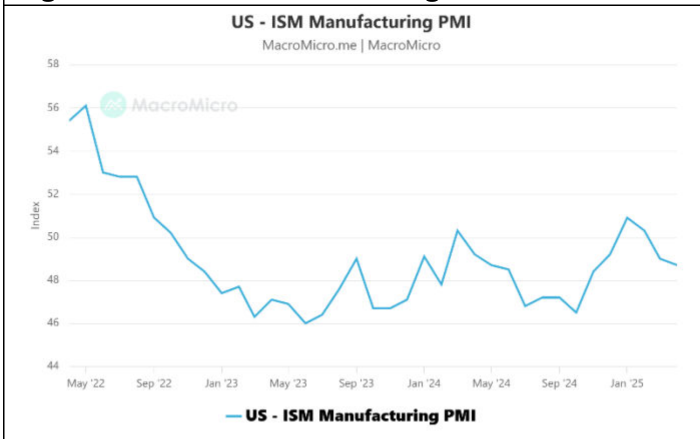
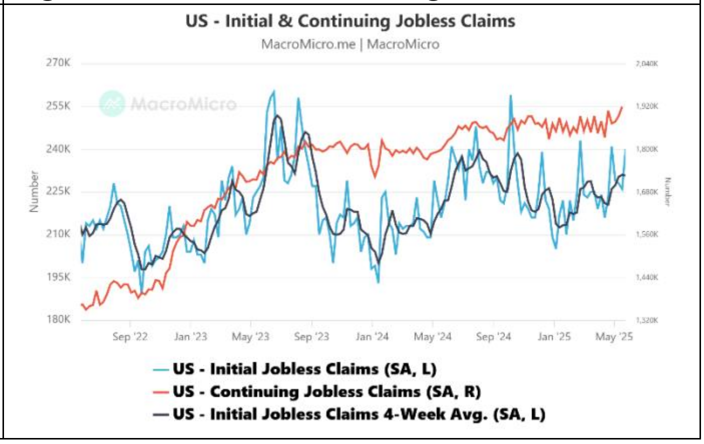


Figure 2: US Initial & Continuing Jobless Claims



Investment firms are **avoiding or shorting 30-year US Treasuries** due to concerns about America's growing federal budget gap and debt burden. Wary of America's swelling federal budget gap and growing debt burden investment firms are steering away from the longest-dated US government bonds in favour of shorter maturities that carry less interest-rate risk but still offer a decent yield.

The **US 30-year bond has been a stark underperformer in 2025**. Yields on the maturity have risen, while those on 2-, 5- and 10-year notes have fallen. This sort of divergence is rare — the last time it happened over a full year was in 2001 — underscoring the pressure on the long bond as investors demand added compensation to lend to the US government for such a long period. So bad has been the rout that speculation has even begun to swirl that the Treasury might scale back or halt auctions of its longest tenor.

If you can outright short it, you go in the steepener, the bet that anticipates that long-dated rates will rise relative to those on shorter maturities. But in other strategies where it's purely long only, you just basically doing a buyers' strike and move to invest more in that middle part of the curve. The Fed won't be happy with this, but it forces them to issue at the intermediate term. **Now, that's the insto market. But, ...**

Want to be the one to stand in front of the steamroller?? Well, Retail Investors keep Piling in to US Long-end Treasuries ETFs to take that Yield & Convexity. The iShares 20+ Year Treasury Bond ETF (TLT) is one of the most popular options for investors seeking to establish exposure to long-dated Treasuries, an asset class that is light on credit risk but may offer attractive yields thanks to an extended duration and therefore material interest rate risk. For those looking to extend the duration of their portfolio and potentially enhance the current return offered, TLT can be a useful product.

The retail trade has been clashing with the institutional trade pretty much all of 2025 and particularly since early April. While insto investors have shunned the US treasuries long-end, TLT has taken in billions of dollars over the past couple of weeks. And for some this has been a widow maker trade. It feels like yields, long end yields in particular have just been on a roller coaster. So how do you explain just this off the charts demand still for long end bonds in particular, and from retail investors?

In short, there seems to be an insatiable demand when long bonds and the 10-year bond hits 5% and retail investors just keep hoovering them up. It's actually served to limit the 30-year moving meaningly above 5.0%, or at least sustainably so.

But how can you explain this concept of buying TLT, yielding 5%, when you can get almost the same yield in a money market fund or the short end of the curve, specifically circa as high as 4.7%. Why bother with the duration risk? **Or is this a bet on the Fed? Yes, it's the latter. The long-end gives you convexity, the short-end doesn't. And at some point the Fed will begin cutting rates.**

And furthermore, while the Insto market is focusing on the belly of the curve, 3- to 7-year, the retail investors are not. The attitude appears to be 'if I'm going to take risk, I want to take more risk'. Anyway, so far this year it has been a one-zero scoreline of retail investors (the 'dumb money') over institutional investors (the 'smart money'). **We can see the merit in the trade. To our mind, the probability of the 30-year yield being below 5% is higher than being above. You get a higher yield, and you get an extra kicker from the convexity when the Fed inevitably starts cutting again.**

But the negative is the fiscal picture and which cautions towards 30-year Treasuries. And on that basis, if there is a bond-market rally, it will likely be led by the 5- to 10-year and less by the long end. **Shock, horror, (and the story of last week)** auctions last week offered endorsement for this. Sales of 2-, 5- and 7-year notes all saw solid demand. **And we know what happened at the long-end – the US and Japan.**

Retail trade or Insto trade????

Overview of the Australian Bond Market

Australia's **10-year government bond yield** was flat at 4.27%, but basically nearing a three-week low. That comes on Friday's weak retail sales. And today . . . data showed that Australia's manufacturing sector weakened in May for the second consecutive month, falling to its lowest level since February—signaling a potential slowdown in industrial activity. And as we alluded to, this followed last week's data showing an unexpected decline in April retail sales, highlighting growing consumer caution. These developments reinforced expectations of continued monetary policy easing by the RBA.

Although, as we noted regarding retail sales was that the decline in April was driven by unseasonably warm weather—which reduced demand for winter clothing—and fewer promotional events at department stores.

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.

Looking Ahead: Major Economic Releases for the Week Ended 6 June

US payrolls on Friday, what is everyone is waiting for. Economists are predicting no change in unemployment. But look at the ISM that came in on Monday. Friday's report may be the last of the good news. Companies were bitten by Covid in terms of letting go of employees. So, companies are probably holding off. In Australia, the household spending indicator is worth watching.

Major Economic Releases for the Week ended 6 June, 2025

Date	Country	Release	Consensus	Prior
Tuesday, 3/6	US	ISM Manufacturing Purchasing Managers Index [Manufacturing PMI]	48.7	48.7
Wednesday, 4/6	Australia	GDP Q1 (YoY)	1.5%	1.3%
Wednesday, 4/6	US	Job Openings - Total Nonfarm	7,000K	7,190K
Wednesday, 4/6	US	ADP Nonfarm Employment (Monthly %)	110K	62K
Thursday, 5/6	Australia	Household Spending Indicator (MoM)	-0.2%	-0.3%
Thursday, 5/6	US	ISM Services PMI	52.0	51.6
Thursday, 5/6	US	Initial Jobless Claims	232K	240K

ETFs -Domestic & Global

Australian ETF News

Betashares to expand into private credit ETFs. Betashares expects its private asset business to launch by offering investors access to private credit products in the United States. While the details have yet to be finalised, Betashares said the first funds would be highly diversified and very cost-effective strategies. Interest from ASIC has not dulled demand for private credit, although some financial advisors have become wary. Last week, one of the sector's biggest players, Metrics Credit Partners, said it raised $315 million for its flagship listed fund amid strong demand. There is more than $259 billion invested in ETFs listed in Australia, a 33% increase in the 12 months to April 30. BetaShares has been the second-most popular ETF provider for the year to the end of April, accounting for about 27% of inflows.

Australian ETF investors are allocating more money to bitcoin than gold in a major rotation that points to growing acceptance of the world's largest cryptocurrency as a store of value and portfolio hedge amid the volatility of Donald Trump's trade war. **Australian bitcoin ETFs** attracted $87.3 million last month, far exceeding the $1.5 million that flowed into gold bullion ETFs. **Bitcoin ETFs in the US** attracted more than $US9 billion in capital over the five weeks to May 29 including $US6.35 billion flowing into BlackRock's Bitcoin Trust. That was its largest ever month of inflows. Here's the only sensible thing we know about **Bitcoin and gold: they are distinct asset classes. The two have a negative correlation in ETF flows – when money moves into one, it tends to flow out of the other. That's consistent with how investors position them; gold is a defensive, risk-off asset, and bitcoin is a high-conviction, risk-on bet.**

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 29 May 2025.

Figure 1: One Week US ETF Flows (as at 29 May)

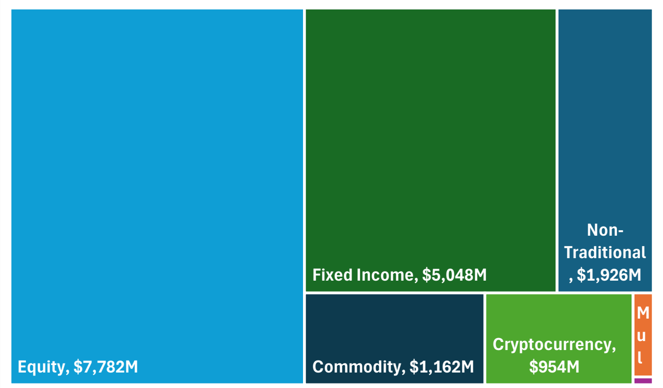


Figure 2: US ETF Flows by Asset Class (as at 29 May)

Asset Class	1-week	1-month	3-month	YTD	1-year
Non-Traditional	$1,926M	$5,469M	$36,248M	$53,457M	$105,154M
Multi-Asset	$119M	$369M	$1,179M	$1,406M	$3,553M
Fixed Income	$5,048M	$37,720M	$74,793M	$153,019M	$363,983M
Equity	$7,782M	$39,748M	$110,088M	$223,768M	$734,619M
Currency	$11M	(-$117M)	$990M	$1,055M	$1,023M
Cryptocurrency	$954M	$6,233M	$8,248M	$10,348M	$37,204M
Commodity	$1,162M	(-$1,801M)	$8,791M	$14,845M	$20,536M
Alternative	(-$14M)	$164M	$46M	$675M	$1,684M

US ETF Flows Focus

US Long-end Treasuries ETFs - Retail Investors keep Piling in to take that Yield & Convexity. The iShares 20+ Year Treasury Bond ETF (TLT) is one of the most popular options for investors seeking to establish exposure to long-dated Treasuries, an asset class that is light on credit risk but may offer attractive yields thanks to an extended duration and therefore material interest rate risk. For those looking to extend the duration of their portfolio and potentially enhance the current return offered, TLT can be a useful product.

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below 5% is higher than being above. You get a higher yield, and you get an extra kicker from the convexity when the Fed inevitably starts cutting again.

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:

- **Fixed Income – Go Active, Not Passive** – The release of the JPMAM fixed income ETF is reflective of how fixed income should be done – active management not passive. By 2030, JPMAM forecasts that the global fixed income ETF market will grow to USD6 trillion (33% growth from 2024 year-end), with active fixed income ETFs expected to be a key driver for the overall ETF industry.
- **European Defense ETFs** – this sector has been a tear this year and which includes a host of ETF launches. Such ETFs provide an opportunity to tap into the growing European defense sector, which is expected to benefit from increased government spending on defense and security.
- The Invesco Global Enhanced Equity UCITS ETF is **a factor based strategy**, a strategy that we believe Australian investors do not pay enough attention to. For example, in the US 1Q25, outperformance was all largely factor-based.

Figure 3: Select ETF Launches, for May 22nd to 28th 2025
Select European ETF Launches
J.P. Morgan Asset Management launches Global IG Corporate Bond Active UCITS ETF
BNP Paribas Asset Management launches Europe defence ETF
Global X ETFs Europe launches Global X Europe Focused Defence Tech UCITS ETF
Invesco launches ETF with systematic active approach for outperforming global equities
Select US ETF Launches
Tidal ETFs launched the Alpha Brands Consumption Leaders ETF
Simplify Asset Management launched the Simplify Kayne Anderson Energy and Infrastructure Credit ETF

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