yieldreport Daily

Your Income Advantage

28th May 2025

Overview of the US Market

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.** At the close, the **S&P 500** rose 2%. The **Nasdaq 100** climbed 2.3%. The **Dow Jones Industrial Average** added 1.5%. Nvidia rallied 3.3% on the eve of its results while Apple Inc. halted its longest selloff in more than three years. The **yield on 10-year Treasuries** fell 7 bps to 4.44%. The Bloomberg Dollar Spot Index rose 0.4%. 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. Friday's **personal consumption expenditures (Core PCE) price index** will provide greater clarity on what consumers are actually doing rather than simply saying what they think.

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.

A key event this week will be **Nvidia Corp.'s results on Wednesday**. The chip-making giant is seen as a bellwether for so called growth stocks and the sustainability of the artificial intelligence boom. Its outlook will be crucial given macro risks and tariff uncertainty.

Investors are also gearing up for the Federal Reserve's preferred inflation measure, the **US personal consumption expenditures (Core PCE) price index** excluding food and energy, which will be released Friday. The April reading is forecast to rise 0.1% based on consensus expectations.

To keep it really simple, in this environment: **What are the Bulls Saying?** They're saying, look, earnings growth this quarter, 13% compared to the same quarter last year, and the Fed is still interested in cutting rates, so it's okay. **And what are the Bears Saying?** High valuations and coupled with rising yields that becomes more worrisome. Slowing growth. We started the year at 54 on the PMI composite, now we're at 51. We all know the soft data's cratered, so slowing growth and continued geopolitical uncertainty.

Overview of the Australian Market

The sharemarket crept higher on Tuesday afternoon, with a rise in US futures and expectations for a soft inflation reading on Wednesday helping to boost sentiment. The **S&P/ASX 200 Index** lifted 0.3% after having see-sawed in the morning session. Eight of 11 sectors were in the green, led by energy. The All Ordinaries edged up 0.3%.

Australian **technology shares** extended Monday's advance and tracked a rise in futures contracts for the technology-heavy Nasdaq. WiseTech rose 1.9% and TechnologyOne was up 2%. Utilities were dragged lower by Origin Energy, which retreated 0.8%. The stock was heavily sold on Monday after it informed investors earnings from its stakes in Australia Pacific LNG and Octopus Energy would be lower than expected.

Iron ore miners edged lower while a sell-off in the metal's price rumbled on Tuesday. BHP was off 0.7% and Fortescue Metals down 0.8%. **Copper stocks** were some of the index's best performers following reports an offshore suitor is closing in on Mac Copper – marking the third such bid for an ASX-listed copper stock in the past month. Mac's shares are in a trading halt. Capstone Copper rose 6.2% and Sandfire rose 2.2%. Higher prices also boosted sentiment, with copper futures in London rising 1.2% to $US9610 a tonne on Monday.

In corporate news, REA Group retreated 1.2% after news emerged the ACCC is looking at whether the News Corp-controlled real estate listings giant has been misusing its market dominance to hike prices unreasonably.

As an aside and as somewhat evident in Figures 1 & 2, **both copper and iron ore prices have a high correlation with the AUD**, specifically 0.81 and 0.76, respectively.

Figure 1: Copper Price vs AUD/USD

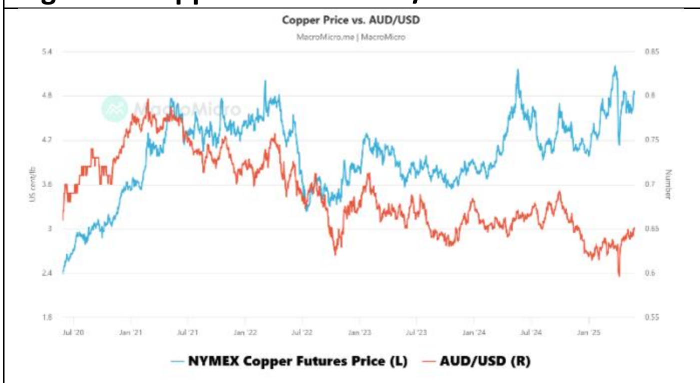

Figure 2: Iron Ore Price vs AUD/USD

Overview of the US Bond Market

Global bonds rallied, with US Treasuries leading gains, on signs that **Japanese authorities may adjust debt sales following a rout in the market**. Long-dated debt led the move, with the **30-year US yield** falling as much as 9 bps to 4.95% as the market reopened after a holiday. In Japan, similar yields fell more than a massive 20 bps. European bonds also rallied. 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, pushing long-dated US yields toward levels last seen in 2007. The **US 10-year Treasury note** fell by nearly 7 bps to 4.44%.

That potential lower issuance is supporting Treasuries. For those seeking to buy long-term debt, lower Japanese government bond supply could force such investors into the Treasury complex. Japan's finance ministry sent a questionnaire to market participants on Monday evening asking for their views on issuance and the current market situation. It was an unusual move and traders took it as a sign that authorities are seeking to stabilize rout in long-dated bonds. **Some other governments have already shifted issuance toward shorter-dated tenors**. The UK has been steering away from longer bonds given falling investor demand.

On the topic of shorter-dated tenor, the moves in the US extended after a $69 billion **auction sale of two-year Treasuries** was met with solid bidding metrics. But the shorter-end of the curve certainly isn't the issue. Quite the contrary.

The chance that Japan's government will reduce its bond supply goes at least some way to addressing the worries over demand. **But it doesn't address wider concerns about government finances globally**, raising the possibility that Tuesday's bond rally is only a brief pause in the tumult. Japan's bond market has also been squeezed by signs that the central bank may attempt to taper its huge holdings of government bonds further. Long-end yields are experiencing some relief, but US yields may find it particularly difficult to shake off a bearish taint over the coming weeks and months as fiscal trajectory still matters.

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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.

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US bond investors are now looking ahead to auctions of two-, five- and seven-year debt this week, as well as the release of the Federal Reserve meeting minutes, economic growth and inflation data.

Regarding Figure 1, if there is one chart that portrays de-dollarisation and repatriation of capital out of the US it is this one. Note the marked break between US 10-year treasury yields and the US Dollar index over the last few months.

Figure 1: US Dollar vs 10-year Yield

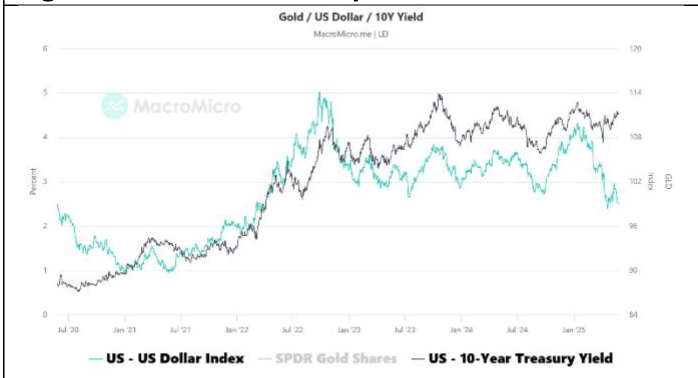
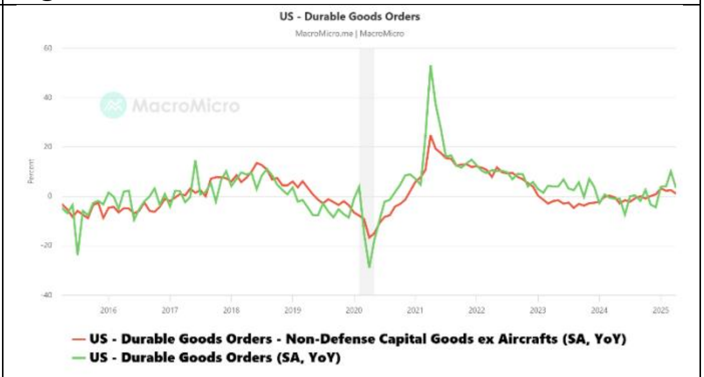


Figure 2: US Durable Goods Orders



Overview of the Australian Bond Market

The yield on the Australian 10-year government bond yield fell to below 4.32% on Tuesday, its third consecutive session of decline and tracking bond yields from G10 economies amid signs that Japan may curb its bond issuance. Japanese authorities signaled they might lower their debt plan to halt the selloff in its bonds after poor auctions for long-dated JGBs drove the yield on the key 30-year bond to a record high.

Domestic investors await domestic economic releases later this week. The upcoming data, including Wednesday's monthly CPI indicator and Friday's retail sales figures, are expected to provide crucial insights into inflation trends and consumer spending, as both are key factors in the Reserve Bank of Australia's policy outlook.

Markets are now pricing in a 65% probability of another rate cut in July, with expectations of a total 75 bps of easing by the first quarter of 2026. Additionally, the country's financial markets have a pretty firm view about where interest rates will go – down to 3.1% by the end of the year, where they will remain for at least six months. That's three quarter-point rate cuts from the RBA.

As per a BondAdivisor report and as reported last week, the **A$ Tier 2 market** (all being floating rate notes) continued its hot streak last week with Macquarie Bank hitting the market with a dual-tranche FRN transaction last Thursday (22-May). Both legs were met with substantial demand, with the tranches pricing 20bps and 30bps inside IPG respectively. However, the latter of the 2 issues (a fixed to FRN) stole the show with a $4.4bn final orderbook – equating to coverage of almost 6x. This marks the second largest orderbook for an A$ Tier 2 instrument in the past 12 months, only outdone by ANZ's transaction in July 2024 at $4.7bn (2.5x coverage on $1.9bn deal size). BondAdvisor noted that the instrument has since tightened ~20bps in the grey market, with the cash price popping above $101. Unsurprisingly, Westpac has quickly followed suit, announcing its own Tier 2 issuance which was due for pricing yesterday.

Figure 1: Australian Monthly CPI (YoY)

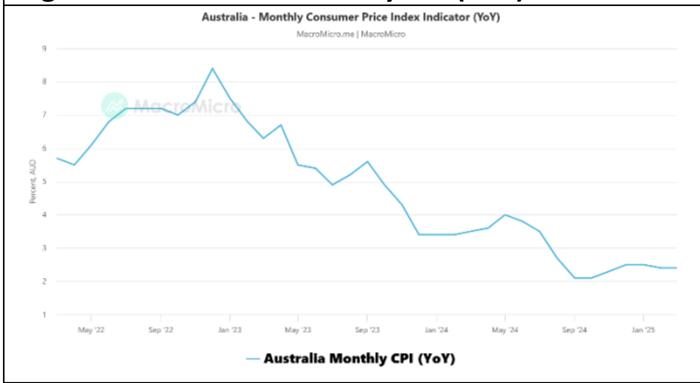
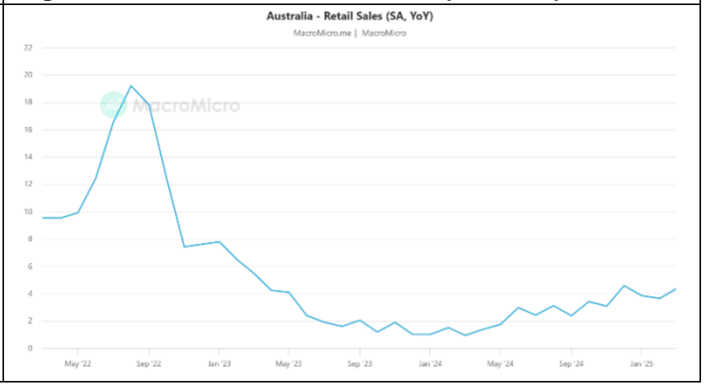


Figure 2: Australian Retail Sales (SA, YoY)



ETFs -Domestic & Global

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

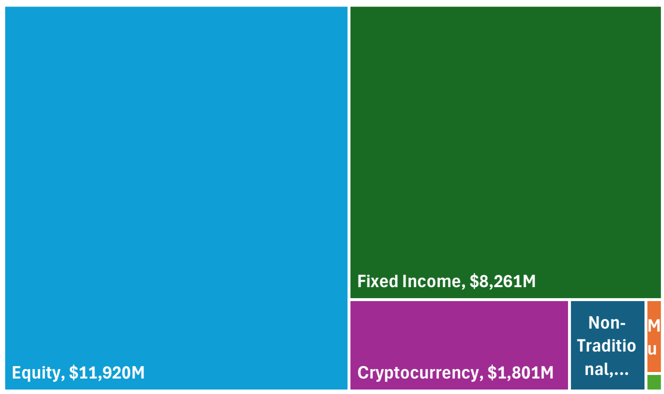


Figure 2: US ETF Flows by Asset Class (as at 22 May)

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

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YieldReport is Australia's leading online data and research platform for interest rate markets, securities and products that focus on fixed income and yield generation. YieldReport provides advice, news review, analysis 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 generating investment opportunities including cash, term deposits, government and semi-government bonds, managed funds, ETFs, corporate bonds, floating rate notes, hybrids as well as other yield instruments. YieldReport insights and analyses are designed to help anyone managing money – 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.

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