yieldreport Weekly

Your Income Advantage

23rd to 27th June 2025

PART 1 – Equity & Bond Market Analysis

Weekly Overview

The three major U.S. stock indexes surged around 4% for the week as falling oil prices and easing trade tensions boosted investor sentiment. The S&P 500 on Friday eclipsed a record high it had set four months earlier, while the NASDAQ topped a record reached last December. The Dow remained nearly 3% below its historic peak.

Yields of U.S. government bonds fell for the third week in a row, with yields of notes with shorter maturities posting the biggest declines. On Friday afternoon, the yield of the 10-year U.S. Treasury was 4.28%, down from a recent peak of 4.60% on May 21.

U.S. crude oil was trading around $65 per barrel on Friday afternoon, down 11% for the week as tensions in the Middle East eased, calming fears of a potential supply disruption. As recently as June 18, the price had surged above $75 per barrel.

Ahead of a July 9 deadline on reciprocal tariffs, investor sentiment was lifted by updates from the Trump administration on negotiations with China and the European Union. However, the administration terminated trade talks with Canada on Friday afternoon in a dispute over dairy product tariffs and a digital services tax.

The U.S. economy's contraction in the first quarter of year was deeper than initially estimated, based on an updated figure released on Thursday. GDP contracted at a 0.5% annual rate versus an earlier estimate of a 0.2% contraction. It's the first negative GDP reading since the first quarter of 2022. In contrast, the economy expanded at a 2.4% rate in last year's fourth quarter.

At roughly the midpoint of 2025, an index that measures investors' expectations of short-term U.S. stock market volatility was slightly below its year-end 2024 level and down sharply from its year-to-date high reached in early April. The Cboe Volatility Index closed at 16.3 on Friday, below its year-end level of 17.4 and down from 52.3 on April 8.

Inflation climbed further above the U.S. Federal Reserve's 2.0% long-term target, based on Friday's reading from the Personal Consumption Expenditures Index. Core PCE inflation excluding food and energy prices rose at an annual rate of 2.7% in Mayabove economists' consensus forecast and above the previous month's 2.5% figure. On a month-to-month basis, inflation rose 0.2%, higher than expectations for 0.1%.

A monthly labor market report due out on Thursday—the day before a U.S. market closure due to the Independence Day holiday—will show whether a recent trend of moderate but better-than-expected jobs growth extended into June. In May, the economy generated 139,000 jobs, above consensus expectations for around 130,000. However, initial estimates for the previous two months' gains were revised downward.

Overview of the US Equities Market

Wall Street investors set aside a flurry of tariff headlines to drive stocks to all-time highs, capping a week that saw a cooling in Middle East geopolitical risks and signs the US economy is holding up amid subdued inflation.

A surge in equities after April's tariff-fuelled meltdown drove the S&P 500 to its first record since February, with the gauge topping 6,170. Tech mega caps led gains, with Nvidia Corp. approaching the $4 trillion mark and Alphabet Inc. up almost 3%. President Donald Trump touted progress on trade deals with a few countries, naming agreements with China and the UK, while saying he was ending discussions with Canada.

Indeed, with earnings season just weeks away, stocks will get a major test.

While a report on Friday showed US consumer sentiment hit a four-month high in June as inflation expectations improved, other data this week painted a less encouraging picture. Purchases of new homes fell in May by the most in almost three years. Recurring applications for unemployment benefits are now at the highest level since 2021, aligning with other data pointing to a slowdown in the labor market. Consumer spending declined in May by the most since the start of the year.

On the economic front, consumer sentiment rose sharply to a four-month high and inflation expectations improved notably. Data also showed that while the core personal consumption expenditures price index rose slightly more than expected, the pace was consistent with limited price pressures that will allow the Federal Reserve to resume rate cuts later this year.

Those reports were the backdrop to testimony this week by Fed Chair Jerome Powell before Congress, where he said interest rates would probably be coming down already if not for uncertainty around Trump's trade policy. He joined a parade of central bank officials who made clear in speeches that they'll need a few more months to be sure tariff-driven price hikes won't persistently raise inflation.

None of that derailed the risk rally. The S&P 500 surged 3.4% this week and closed at a record high. Junk bonds extended gains for a fifth week as 10-year Treasury yields fell around 10 basis points. Bitcoin is back above $100,000 and Coinbase Global Inc. hit its first record since 2021. Altogether, the pan-asset tandem rallies in June of US stocks, long-dated Treasuries, junk bonds and the Bloomberg Commodity Index set them for their best monthly performance in 13 months.

Overview of the US Treasuries Market

Yields of U.S. government bonds fell for the third week in a row, with yields of notes with shorter maturities posting the biggest declines. On Friday afternoon, the yield of the 10-year U.S. Treasury was 4.28%, down from a recent peak of 4.60% on May 21. The 2-year yield ended at 3.3% while the 30-year yield reached 4.85%. Junk bonds extended gains for a fifth week as 10-year Treasury yields fell around 10 basis points.

The advance has been driven by several economic data points that reinforced rate-cut wagers and by speculation that President Donald Trump will name a more dovish Fed chief. Fed officials Christopher Waller and Michelle Bowman have also signalled in recent days they'd be open to lowering rates as soon as the next meeting.

The gains for the week came even after the bonds have slipped on Friday. Yields on maturities across the curve rose following the release of economic data that pointed to firmer-than-expected inflation.

The move pushed down yields across maturities, with most tenors falling to the lowest level in more than a month. A Bloomberg Treasuries index has returned about 0.6% for the week.

Other tailwinds to Treasuries include proposed US changes to a key capital buffer, which Powell said should bolster banks' roles as intermediaries in the market. Meanwhile, the removal of the Section 899 "revenge tax" proposal that had been worrying Wall Street had little market impact, though it could improve sentiment toward US assets at the margin.

Short-dated bonds — which are more tied to the outlook for Fed policy — gained the most following the release, with two-year yields dipping seven basis points to 3.71% by the end of the session. The widely watched spread between the five- and 30-year points increased to more than 101 basis points for the first time since 2021, and a $44 billion auction of seven-year notes was well received. A steepening yield curve is generally associated with expectations for Fed rate cuts.

Money markets continued to project at least two Fed cuts by the end of this year. Wagers on a third reduction could gain momentum with other data released during the week. While a report on Friday showed US consumer sentiment hit a four-month high in June as inflation expectations improved, other data this week painted a less encouraging picture. Purchases of new homes fell in May by the most in almost three years. Recurring applications for unemployment benefits are now at the highest level since 2021, aligning with other data pointing to a slowdown in the labor market. Consumer spending declined in May by the most since the start of the year.

The U.S. economy's contraction in the first quarter of this year was deeper than initially estimated, based on an updated figure released on Thursday. GDP contracted at a 0.5% annual rate versus an earlier estimate of a 0.2% contraction. It's the first negative GDP reading since the first quarter of 2022. In contrast, the economy expanded at a 2.4% rate in last year's fourth quarter.

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Ahead of a July 9 deadline on reciprocal tariffs, investor sentiment was lifted by updates from the Trump administration on negotiations with China and the European Union. However, the administration terminated trade talks with Canada on Friday afternoon in a dispute over dairy product tariffs and a digital services tax.

Investors and analysts reckon Powell's replacement will grant the president's demands that the Fed cut interest rates right away, causing traders to price in faster and deeper cuts beginning around mid-2026, when Powell's term ends. Fed Governors Christopher Waller and Michelle Bowman, in the past week, have signalled they'd be open to lowering rates as soon as the next meeting.

Potential contenders to succeed Powell include former Fed Governor Kevin Warsh, current Fed Governor Christopher Waller, National Economic Council Director Kevin Hassett, former World Bank President David Malpass and US Treasury Secretary Scott Bessent, Bloomberg News has previously reported.

US consumer sentiment rose sharply in June to a four-month high, and inflation expectations improved notably as concerns eased about the economic outlook and personal finances.

The final June sentiment index increased to 60.7 from 52.2 a month earlier, according to the University of Michigan. The 8.5-point increase was the largest since the start of 2024. The median estimate in a Bloomberg survey of economists called for no change from the preliminary reading of 60.5.

Consumers expect prices to rise 5% over the next year, data released Friday showed. That is down slightly from the preliminary reading. It's also far better than the 6.6% registered in May — the biggest monthly improvement since 2001. They saw costs rising at an annual rate of 4% over the next five to 10 years, also lower than a month earlier.

Overview of the Australian Equities Market

On 27 June 2025, the Australian share market experienced a modest decline. The benchmark S&P/ASX200 index gave up its modest morning gains on Friday to finish on the lows of the day, losing 36.6 points, or 0.43 per cent, at 8,514.2. Solid gains by the mining sector were not enough to keep the Australian share market in the green, while the dollar has climbed to its highest level of 2025 against its faltering US counterpart.

The materials sector rose 2.3 per cent on Friday, its best day since a 6.3 per cent gain on April 10, as iron ore prices climbed to $94.50 a tonne. BHP advanced 3.9 per cent to $108.97, Rio Tinto gained 4.6 per cent to $108.97 and Fortescue added 3.6 per cent to $15.46. Across the banking sector, Commonwealth Bank (CBA) dipped 0.4% to $190.71, National Australia Bank (NAB) fell 0.4% to $39.89, ANZ surged 2.2% to $29.74, while Westpac edged up to $34.57.

Within Tech and Industrials, DroneShield (DRO) jumped 11.7% after announcing a major European military deal., Humm Group (HUM) rose 3.7% following a takeover offer, and Neuren Pharmaceuticals (NEU) gained 6.1% after a US patent approval. Xero (XRO) dropped 5.3% after completing a $1.85 billion capital raise.

The ASX200 finished the week up 0.1 per cent after a rally on Tuesday following the Iran-Israel ceasefire. Over the week, the best performing sectors were Gold (+5.5%), Banks (+0.9%), Small Ords (+0.6%) and Tech (+0.4%). With one more day of trading left in 2024/25, the ASX200 is on track to deliver an annual return of 13.9 per cent, including dividends or 10 percent excluding dividends. This is not a bad return for the FY, given the tariff and geopolitical noise that investors had to accept in their decision making.

Overview of the Australian Government Bond Market

On 27 June 2025, the Australian government bond market posted modest gains, reflecting a mix of global uncertainty and domestic economic signals. The Bloomberg AusBond Composite 0+ Yr Index rose 0.16%, indicating a slight uptick in bond prices. The benchmark 10-year bond yields increased to 4.17%, up 4 basis points from the previous session. The 3-year bonds edged up to 3.27%, while 30-year bonds held steady at 4.83%. The short-term 3-month bank bills dropped 15 basis points to 3.73%.

Figure 1: US/Australia 10-year Bond Yield Spread

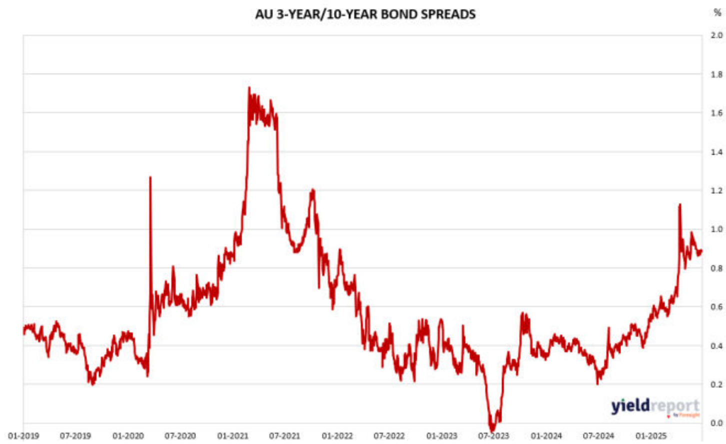


Figure 2: Australia 10-year Bond Spread vs US

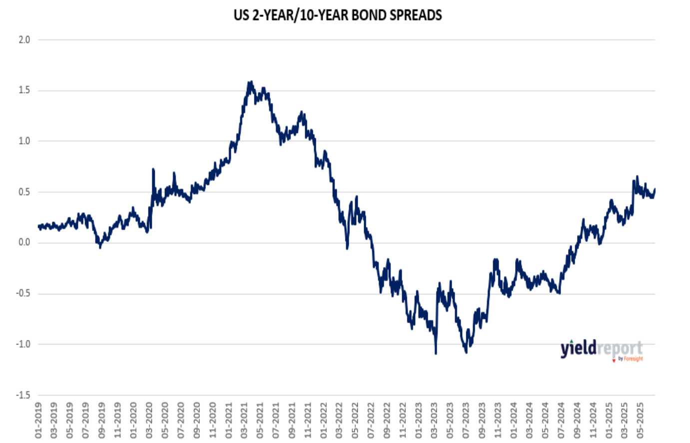
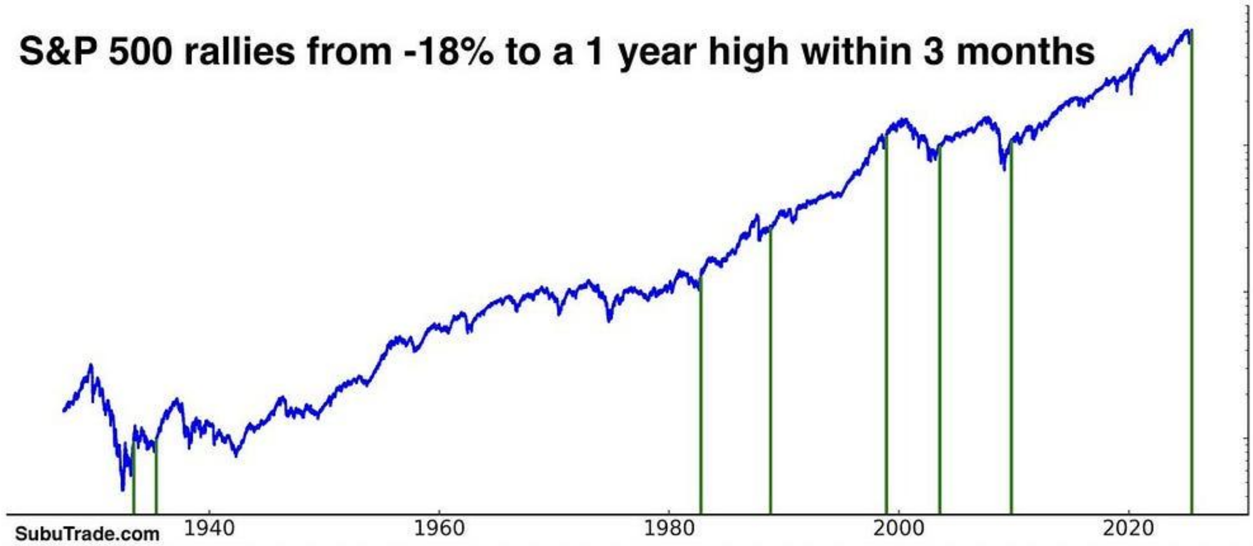


Chart of the Week- S&P500 Rallies

Our chart of the week shows past instances when the US stock market rallied to a 1-year high within 3 months following a major decline, such as big and fast recoveries. This is the type of behaviour you see around major market bottoms. But perhaps the best historical analogue of all these examples is the late-90s (i.e. a late-cycle reset, rather than a bear market bottom).

Figure 3: S&P Rallies



S&P 500 after it rallies from -18% to a 1 year high within 3 months

SubuTrade.com, 1927-present, using daily HIGH $

	1 Week Later	2 Weeks Later	1 Month Later	2 Months Later	3 Months Later	6 Months Later	9 Months Later	1 Year Later
May 27, 1933	2.18%	7.99%	6.02%	26.56%	8.71%	-4.36%	13.38%	13.59%
May 16, 1935	0.20%	-1.89%	0.90%	4.28%	10.36%	19.12%	33.47%	48.01%
October 7, 1982	4.48%	7.97%	10.37%	10.81%	12.79%	17.83%	30.09%	30.23%
October 18, 1988	1.07%	-0.11%	-5.57%	-1.11%	2.56%	9.94%	20.17%	22.11%
November 24, 1998	-0.99%	0.04%	3.66%	5.09%	4.68%	8.32%	15.13%	19.79%
July 14, 2003	-2.50%	-0.73%	-1.35%	1.25%	3.41%	12.29%	12.51%	10.72%
October 14, 2009	-0.97%	-4.52%	-0.44%	2.02%	5.17%	9.17%	-2.49%	7.49%
June 27, 2025								
Average:	**0.50%**	**1.25%**	**1.94%**	**6.99%**	**6.81%**	**10.33%**	**17.47%**	**21.71%**
% Positive:	**57%**	**43%**	**57%**	**86%**	**100%**	**86%**	**86%**	**100%**
Average Max Loss	-1.09%	-1.79%	-3.33%	-3.33%	-3.33%	-4.92%	-5.09%	-5.09%
Average Max Gain	2.04%	2.75%	4.39%	8.07%	9.88%	16.32%	22.90%	26.54%

Looking Ahead: Major Economic Releases for the Week Ending 04 Jul

This week, ending June 27, 2025, the Australian Consumer Price Index (CPI) data for May 2025 is likely to show inflation continuing to ease, potentially reducing household financial strain. This could encourage the Reserve Bank of Australia (RBA) to consider interest rate cuts at its July 2025 meeting to stimulate growth in sectors like retail and housing. However, global trade uncertainties, particularly US tariffs, may pose risks to Australia's export-driven economy. As for the US, the final GDP estimate for Q1 2025 is expected to confirm an economic contraction, driven by increased imports and reduced government spending. Despite this, May 2025 PCE price indices and personal consumption data are expected to indicate moderating inflation and economic resilience. Consumer confidence and sentiment for June 2025 are likely to remain stable, supported by recent trade deal progress, though geopolitical and trade tensions persist.

Major Economic Releases for the Week ending 04 Jul, 2025				
Date	**Country**	**Release**	**Consensus**	**Prior**
Monday, 30/06	Australia	S&P Global Mfg PMI Final	n/a	51
Tuesday, 01/07	United States	S&P Global Mfg PMI Final	n/a	52
Tuesday, 01/07	United States	ISM Manufacturing PMI	n/a	48.5
Wednesday, 02/07	Australia	Retail Sales MM Final	0.3	-0.1
Wednesday, 02/07	Australia	S&P Global Svs PMI Final	n/a	51.3
Wednesday, 02/07	Australia	S&P Global Comp PMI Final	n/a	51.2
Thursday, 03/07	Australia	Goods/Services Imports	n/a	1.1
Thursday, 03/07	Australia	Goods/Services Exports	n/a	-2.4
Thursday, 03/07	United States	Non-Farm Payrolls	129	139
Thursday, 03/07	United States	Unemployment Rate	4.2	4.2
Thursday, 03/07	United States	International Trade $	n/a	-61.6

Source: Refinitiv

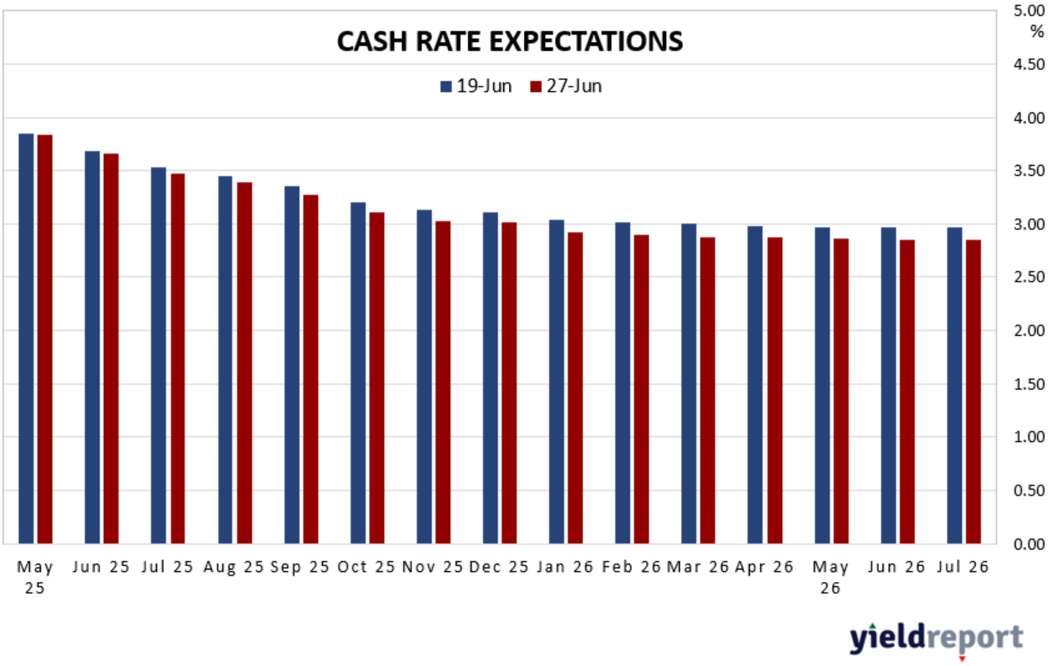
PART 2 – Investment Opportunity Review

Defensive Income - Cash

This across-the-curve decline suggests a market in a holding pattern, with investors positioning defensively amid expectations of a potential pivot by the Reserve Bank of Australia (RBA). The Bloomberg AusBond Composite Index ticked up by 0.09%, continuing its gradual rally. This indicates cautious optimism, with investors favoring fixed income as they await clearer signals from both domestic and global central banks.

Markets are increasingly pricing in a 90-basis point rate cut over the next year, targeting a 2.85% cash rate. However, no aggressive moves are being made yet—investors are largely in a wait-and-see mode for further developments on tariffs and geopolitical fronts.

Figure 4: Swaps on RBA Rate Cuts



Defensive Income- Term Deposits

The movement in term deposit rates by major and non-major banks continues to see movements. Over the past week, there were a lot more down moves than up moves.

Our survey across 43 institutions continues to indicate that the most contested term deposit is a term included 6 months, followed by 3 months and 5 years.

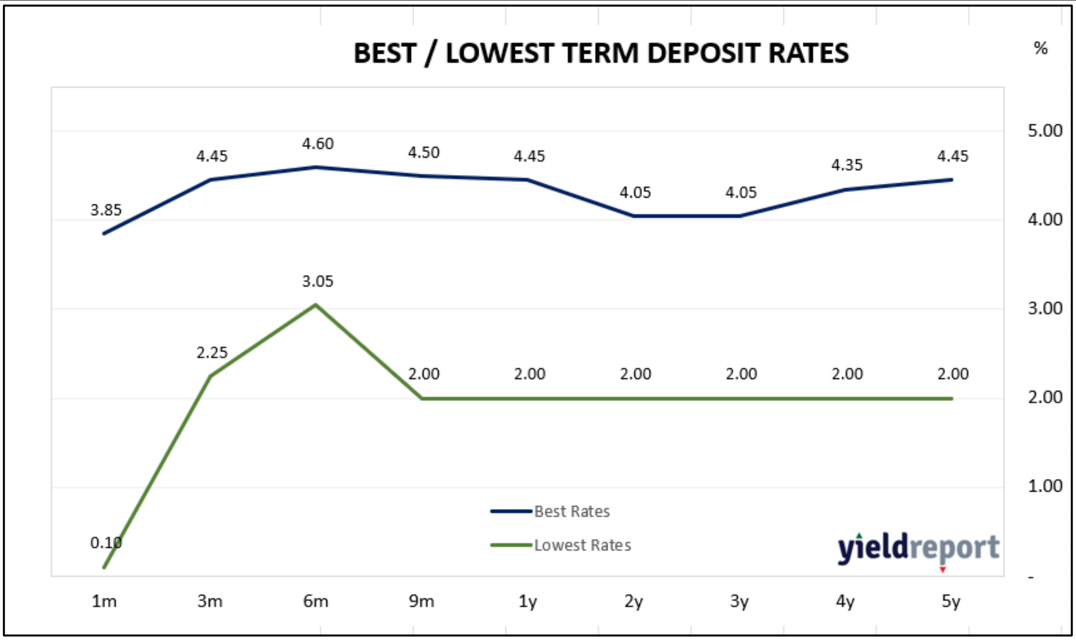
This week, the best rate with a 3-month term was 4.45%, down from 4.7% in the week before. Both IN1Bank and Teachers Mutual are offering the best rates in the 3-month category.

This week, the best rate within 6-months term was 4.6 %, steady from the week before. The 6-month term is now the best offered rate with a median of 4.1%, down 0.05% from the week prior.

Interestingly, the best 5-year rate went up this week to 4.45% compared to 4.3% in the week prior. This best 5-year rate is offered by Judo Bank. The median rate for 5-year term across the 43 banks/non-banks remained unchanged over the week at 3.25%.

Our analysis also shows that the term deposit offering across the market with greater than 4% rate continues to improve or remain steady. In the 3-month category, we now observe 11 institutions offering greater than 4% rate compared to 9 in the prior week. In the 6-month category, we now observe 21 institutions offering rates greater than 4% compared to 20 during the previous week. This is why we observe that the 6-month category is the most contested segment of the term deposit market.

Figure 5: Highest Term Deposit Rate by Term



Defensive Income – Government Bonds

On 27 June 2025, the Australian government bond market posted modest gains, reflecting a mix of global uncertainty and domestic economic signals. The Bloomberg AusBond Composite 0+ Yr Index rose 0.16%, indicating a slight uptick in bond prices. The benchmark 10-year bond yields increased to 4.17%, up 4 basis points from the previous session. The 3-year bonds edged up to 3.27%, while 30-year bonds held steady at 4.83%. The short-term 3-month bank bills dropped 15 basis points to 3.73%.

Figure 6: Aust. 10 yr minus 3 yr Bond Spread

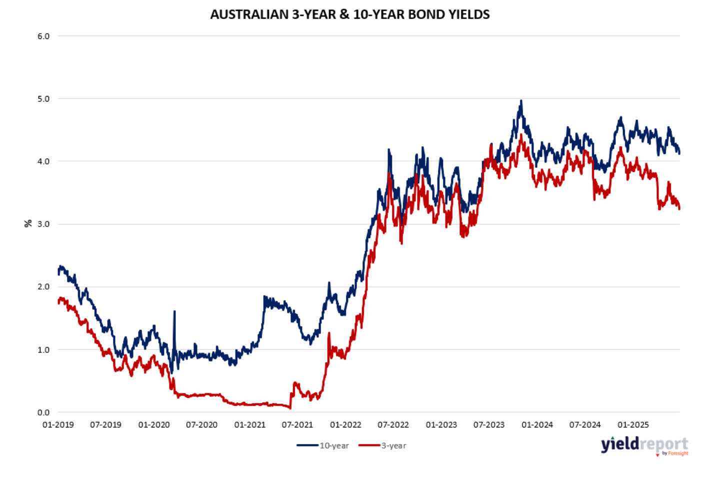


Figure 7: US 10 yr minus 2 yr Bond Spread

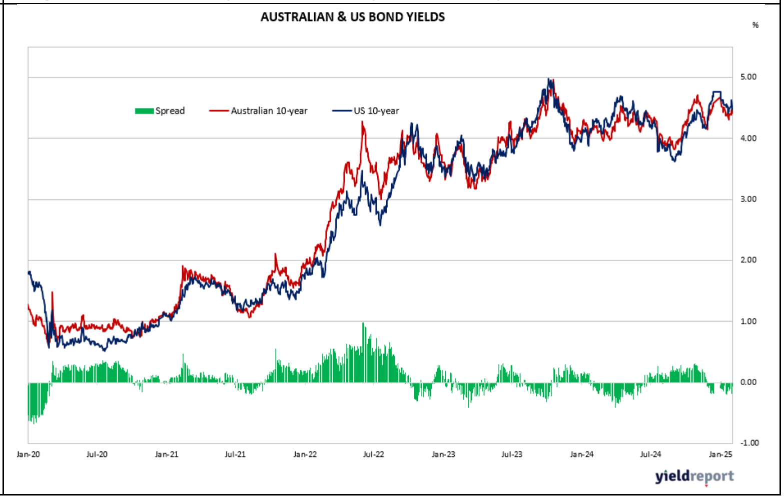


Figure 8: Global 10 yr Bond Yields

Corporate Bonds

Spreads generally compressed again this week, except for CCC. In HY, B and BB were down 8 bps and 10 bps, respectively. CCC was up a very meaningful 45 bps. In IG, all ratings categories were effectively unchanged.

As we have noted, spreads are historically tight and not insignificantly due to a demand/supply imbalance. But looking at the fundamentals, generally speaking, at this point, companies are in good shape, and if we look at US investment grade companies, as an example, we are not seeing any cracks in the facade as it relates to balance sheets. We are not seeing defaults pick up.

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 notes 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 9: ITRAXX Australia - CDS Index

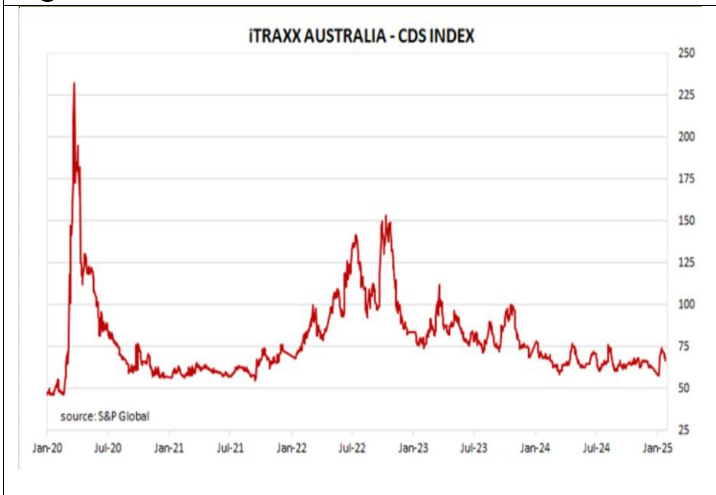
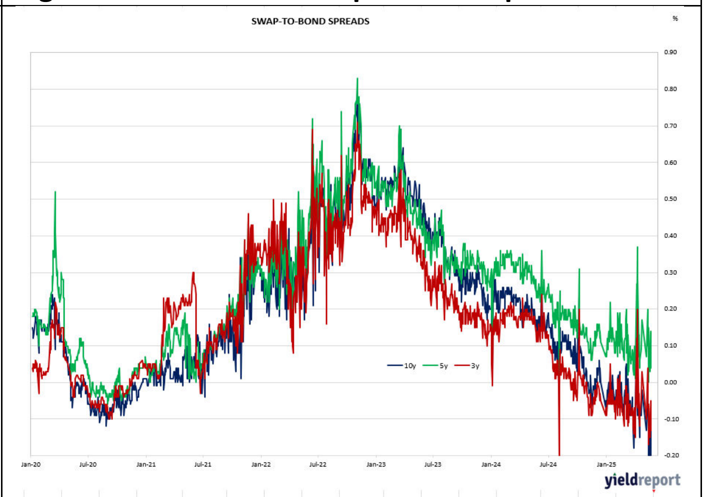


Figure 10: Australian Swap to Bond Spreads

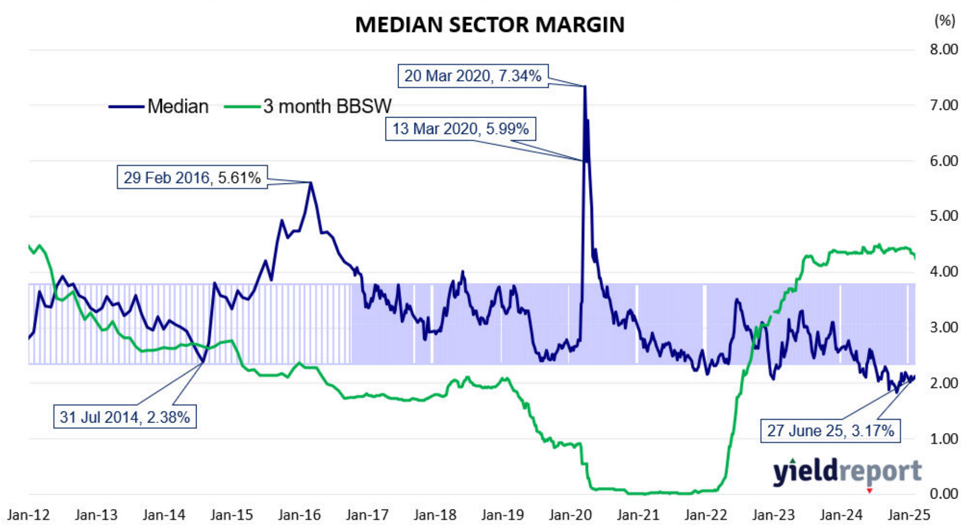


Bank & Corporate Hybrids

The **ASX-listed hybrid** market experienced a moderate rebound this week, with key indicators showing signs of marginal recovery. The **median trading margin** across bank hybrids edged up to **3.17%**, a slight uptick from prior weeks, yet still significantly lower than the early-2023 peak. The **3-month BBSW** remained steady around **4.25%**, maintaining the compression in margin spreads witnessed throughout 2024.

From the chart, it's evident that sector margins have narrowed steadily post-2022, after the sharp COVID-era spike (peaking at **7.34% on 20 March 2020**). Current margin levels now align more closely with pre-pandemic norms, indicating ongoing market normalization amid stabilised monetary policy.

Figure 11: Hybrids: Median Sector Margin



ETFS

Investors added a strong $31.1 billion to U.S.-listed ETFs in the week ending Friday, May 16, according to FactSet data, as stocks continued to climb. Year-to-date inflows have now topped $400 billion, putting 2025 on track to be one of the biggest years ever for ETF demand.

The S&P 500 jumped again last week, pushing the benchmark index into positive territory for the year, a remarkable turnaround from its April lows, when it was down as much as 15%.

Leading the ETF inflows list once again was the **Vanguard S&P 500 ETF (VOO)**, which pulled in $4.8 billion. The fund has now amassed a staggering $62.5 billion in inflows for the year, by far the most of any ETF.

In second place was the **Invesco QQQ Trust (QQQ)**, with $4.6 billion of inflows. The Nasdaq-100 has mirrored the broader market's rebound and is now up 2% year to date after being down 18.5% at its trough last month.

The **iShares 20+ Year Treasury Bond ETF (TLT)** was another notable flows winner, adding $2.1 billion. The 30-year Treasury yield briefly crossed 5% for the first time since early April as markets digested the potential fiscal impact of the tax package that is working its way through Congress. The inflows suggest some investors view long-term bonds as attractive at current yields.

Among other top gainers, the **iShares Bitcoin Trust (IBIT)** picked up $1.1 billion, continuing its streak of strong inflows, while the **Avantis Emerging Markets Equity ETF (AVEM)** saw $1 billion in demand.

On the outflows side, the **SPDR Gold Trust (GLD)** led the pack with $2 billion in redemptions. Gold prices dipped last week as risk appetite returned and demand for safe havens faded. Still, GLD remains up 23% year to date.

Cash-like ETFs also saw sizable outflows: The **SPDR Bloomberg 1-3 Month T-bill ETF (BIL)** and **iShares 0-3 Month Treasury Bond ETF (SGOV)** shed $1.6 billion and $1.2 billion, respectively—another sign that investors are rotating out of safety and back into risk assets.

Rounding out the outflows list was a pair of leveraged ETFs: The **ProShares UltraPro QQQ (TQQQ)** lost $1.1 billion, while the **Direxion Daily Semiconductor Bull 3x Shares (SOXL)** shed $1 billion, as traders locked in gains after a big run.

Asset Class	**Net Flows ($, mm)**	**AUM ($, mm)**	**% of AUM**
Alternatives	167.71	9,922.00	1.69%
Asset Allocation	71.40	24,537.79	0.29%
Commodities ETFs	-2,334.48	203,026.36	-1.15%
Currency	600.14	136,481.02	0.44%
International Equity	3,818.75	1,759,207.52	0.22%
International Fixed Income	2,174.76	284,461.63	0.76%
Inverse	997.74	14,922.99	6.69%
Leveraged	-1,518.04	129,084.96	-1.18%
US Equity	23,350.48	6,795,279.71	0.34%
US Fixed Income	3,795.75	1,649,802.81	0.23%
Total:	**31,124.22**	**11,006,726.79**	**0.28%**

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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