yieldreport Daily

Your Income Advantage

9th June 2025

Overview of the US Market

Wall Street traders **focused on commercial talks between the US and China** and which drove stocks higher, adding to an advance that put the S&P 500 within a striking distance of its record. Treasuries bounced after Friday's selloff amid a drop in consumer expectations for inflation. The US equity benchmark is now just about 2% away from its February peak. Big tech led gains Monday, but Apple Inc. slipped 1% as it hasn't featured much in the way of major AI releases during its Worldwide Developers Conference. Tesla Inc. erased losses that were earlier driven by a pair of analyst downgrades.

The **S&P 500** rose 0.1%. The **Nasdaq 100** rose 0.3%. The **Dow Jones Industrial Average** was unchanged. The **Magnificent 7** rose 1.0%.

The S&P 500 has round-tripped from selloff to full recovery in under two months, marking the shortest "vol shock" on record. During prior volatility shocks, equities would typically take six to seven months for a round-trip and usually at this stage the US gauge would still be down almost 10%.

Trade talks between Washington and Beijing stretched on in London, with the US signalling a willingness to remove restrictions on some tech exports in exchange for assurances that China is easing limits on rare earth shipments. The meeting, which began Monday just after 1 p.m. local time, extended into the UK evening and may restart Tuesday if necessary. But markets moved higher on tariff postponement and the perception that they will be more moderate than initially announced. Markets are remaining headline-sensitive, as trade deals take time to negotiate and unsettling tariff news is likely to cause noticeable volatility.

Wall Street strategists are growing optimistic about US stocks, with forecasters at Morgan Stanley and Goldman Sachs Group Inc. suggesting resilient economic growth would limit any pullback over the northern hemisphere summer. A slate of strategists including at JPMorgan Chase & Co. and Citigroup Inc. have raised their year-end targets for the S&P 500 in recent days, on bets that the worst shock from the trade war was over.

The **S&P 500 equity risk premium** — the spread between the earnings yield on stocks and the yield on the 10-year Treasury — is negative, below its long-term average, and likely still too low to support an expectation for strong forward returns. We should note though, a negative or low risk premium isn't necessarily a predictor of poor forward returns. It was negative for two long stretches in the post-WWII era — from October 1968 to October 1973 and from September 1980 to June 2002. During the first stretch, stocks gained 1.1% annually, but they surged an annualized 10% in the latter.

Overview of the Australian Market

Closed for Monday. However worth reflecting on a topic raised by the AFR over the weekend, and a topic we are all too familiar with. The **ASX is dominated by 5 banks**. As was noted, **it's a stark contrast to the US share market, where innovative technology companies take out the top seven positions**: Nvidia, Microsoft, Apple, Amazon, Alphabet, Meta and Broadcom. Productivity is booming in the tech-savvy US. See Figure 1.

While healthy banks are a positive, bank profits are earned from lending to a relatively unproductive asset class: residential property. The national obsession with loading up on debt to build wealth from property is likely contributing to stagnant productivity, a lack of business dynamism and failure to produce more world-leading businesses.

And there is a bigger problem. A growing pool of either actually constrained or home country biased 'constrained' money chasing a decreasing pool of ASX stocks (there's a lack of ASX equitisation). CBA is the poster child. The valuation metrics on a company with subdued profit growth is staggering. CBA is trading at circa 31 times and well above the 16.5 times long-term average. The tech giants like Nvidia, Microsoft, Meta, Apple and Google have carried international share markets to prosperity by growing their profits at double-digit rates. But as we sit here today, CBA's 31 times valuation is on par with some of the so-called magnificent seven tech giants, namely Apple and Meta, but below that of Microsoft, Amazon and Nvidia. **And all those stocks are both Growth and Defensive – they have massive Moats and throw off huge amounts of cash.**

Regarding Figure 2, well, **the upside is the ASX has less Beta than the US markets**, and that typically translates into a lower drawdown profile.

Figure 1: Top 10 Companies by Mkt Capitalisation

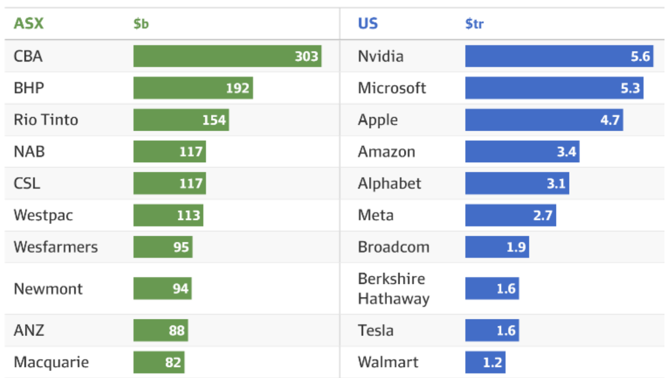


Figure 2: Drawdowns of Select Global Stock Mkts

Overview of the US Bond Market

The **yield on the US 10-year Treasury note** declined circa 3 bps 4.48% on Monday, as traders awaited the outcome of US-China talks taking place in London. The meeting follows a phone call last week between President Trump and President Xi, which has rekindled hopes of easing trade tensions. Broadly though, the entire curve was largely unchanged.

Market participants are also looking ahead to key US economic data, **with CPI and PPI reports due later this week** expected to provide fresh insight into inflationary pressures and the broader economic impact of the ongoing trade dispute. Additionally, attention is turning to this week's Treasury auctions, with a $39 billion sale of 10-year notes and a $22 billion offering of 30-year bonds set to serve as a critical gauge of investor appetite for long-dated US government debt.

Overview of the Australian Bond Market

Markets are now almost certain of a July interest rate cut after a week of underwhelming economic data, as the RBA's former chief economist Luci Ellis questions whether the Central Bank has waited too long to ease policy. Financial markets now ascribe a 97% chance that the RBA will deliver the third rate cut this year when the board next meets July 7 to 8, cutting the cash rate to 3.6% from 3.85%.

Bets on another rate cut shot up last week after data released on Wednesday showed that GDP grew by just 0.2% in the first three months of the year, far short of the RBA's expectation for an expansion of 0.45%. The figures were followed by separate data on Thursday, showing consumer spending barely grew in April, with economists warning the uncertainty from Donald Trump's trade war could cause both businesses and households to rein in spending. Financial markets predict the central bank will cut the cash rate to 3.1% by the end of the year.

Last week, figures released on Thursday showed consumer spending rose by just 0.1% in April, underscoring concerns among economists that households were still cautious despite lower interest rates. The data are consistent with some loss of momentum in the consumer rebound that was evident in March quarter GDP data, and point to the risk that real consumption growth is slower than the RBA's June quarter expectation of around 0.5% quarterly growth. Separate data released on Friday showed the total number of jobs across the economy fell 0.2% in the March quarter to 16.3 million.

Figure 1: Probability 0.25bps cut: RBA's 7-8 July meeting (%)

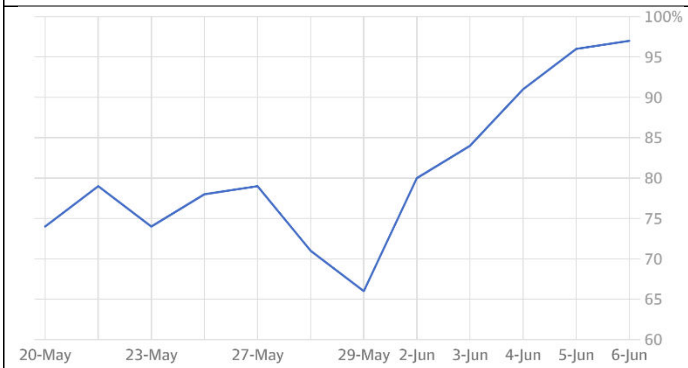
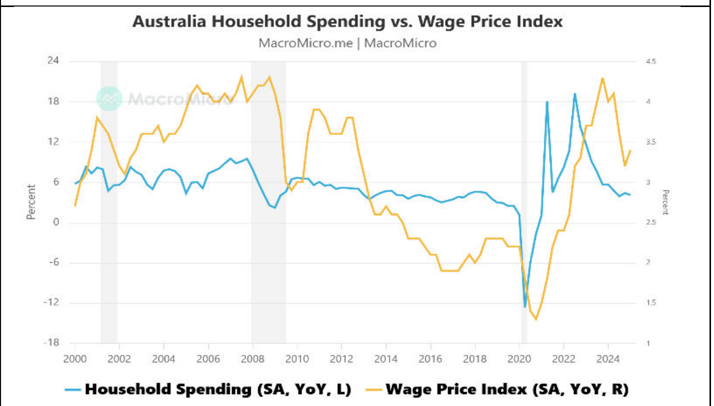


Figure 2: Aust. Household Spending v Wage Price



Looking Ahead: Major Economic Releases for the Week Ended 13 June

Last week was dominated by US labour market data. **This week is dominated by the other side of the Fed mandate - inflation.** Additionally, and of course related to both prices and employment, is sentiment data, both in Australia and the US. **In Australia, the two key monthly sentiment indicators are out – the Westpac Consumer Sentiment and the NAB Business Survey.**

Major Economic Releases for the Week ended 13 June, 2025				
Date	**Country**	**Release**	**Consensus**	**Prior**
Monday, 9/6	US	Wholesale Inventories	n/a	n/a
Monday, 9/6	US	NY Fed Inflation Expectations May YoY	n/a	3.63%
Tuesday, 10/6	Australia	Westpac Consumer Sentiment June	n/a	92.1
Tuesday, 10/6	Australia	NAB Business Survey May	n/a	-1, 2
Tuesday, 10/6	US	NFIB Small Business Optimism May	n/a	95.8
Wed, 11/6	US	Consumer Price Index (NSA, YoY)	2.31%	2.39%
Thursday, 12/6	Australia	MI Consumer Inflation Expectations YoY	n/a	4.1%
Thursday, 12/6	US	Producer Price Index (NSA, YoY)	2.41%	3.39%
Friday, 13/6	US	Michigan Consumer Sentiment	52.2	53.3

Figure 21: US CPI

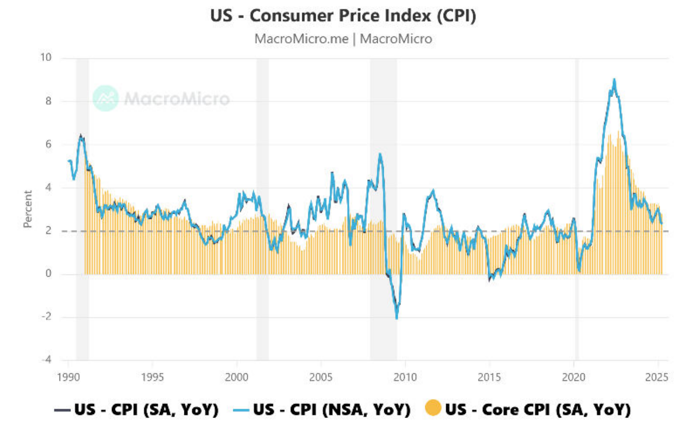
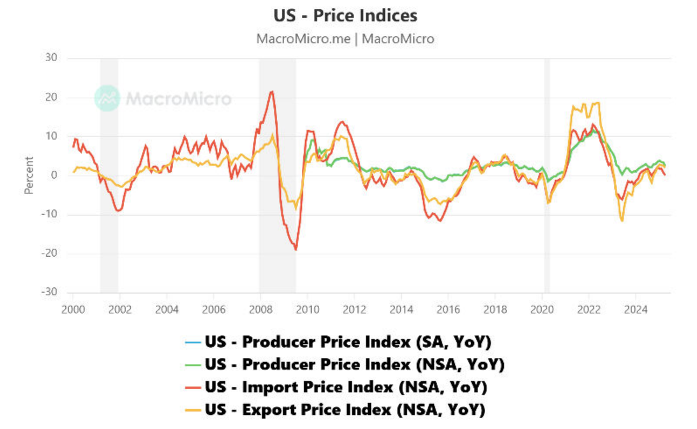


Figure 22: US PPI



ETFs -Domestic & Global

Australian ETF News

Schroders expands active ETF suite. Schroders Australia has launched a new active ETF, bringing a listed version of its Global Core active strategy to market. Schroders listed the Schroder Global Core Fund - Active ETF (ASX: CORE) today, marking its fifth active ETF. The launch is a celebration of its Global Core active strategy celebrating 25 years in market. CORE is an actively managed, quantitative global equity strategy and is priced at 0.25% per annum with no performance fees. The portfolio typically holds about 400 global companies, derived from a universe of over 15,000. The underlying strategy has outperformed its benchmark in 20 of its 25 years.

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 timelier basis. The data below is as at 6 June 2025.

Figure 1: One Week US ETF Flows (as 6 June)

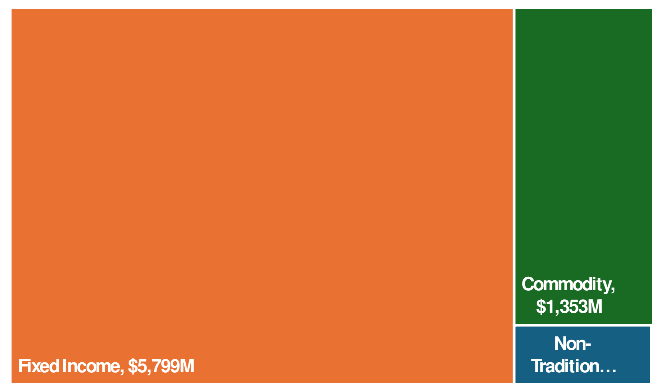


Figure 2: US ETF Flows by Asset Class (as 6 June)

Asset Class	1-week	1-month	3-month	YTD	1-year
Non-Traditional	$249M	$5,108M	$33,305M	$53,709M	$103,723M
Multi-Asset	$4M	$353M	$1,031M	$1,410M	$3,522M
Fixed Income	$5,799M	$35,090M	$74,565M	$158,825M	$360,731M
Equity	-$1,466M	$42,084M	$109,832M	$222,307M	$729,684M
Currency	-$30M	-$137M	$962M	$1,025M	$1,031M
Cryptocurrency	-$349M	$4,412M	$8,155M	$9,999M	$35,229M
Commodity	$1,353M	$554M	$9,916M	$16,198M	$21,089M
Alternative	-$15M	$168M	$275M	$660M	$1,650M

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 defense ETF
Global X ETFs Europe launches Global X Europe Focused Defense 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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