yieldreport Daily

Your Income Advantage

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Overview of the US Market

Wall Street traders drove stocks higher as oil tumbled, with Iran's retaliatory strikes at a US air base in Qatar seen as symbolic and unable to trigger a broader economic fallout.

The S&P 500 rose almost 1% as Qatar said it intercepted the Iranian attacks — without any casualties. West Texas Intermediate dropped below $70 as Iran's response eased concerns that the conflict would immediately disrupt supplies from the Middle East. With the drop in energy prices, worries about an imminent threat to inflation abated, with bond yields down as Federal Reserve Governor Michelle Bowman signaled support for a potential rate cut as soon as July.

U.S. crude oil futures tumbled 7.2% after Iran launched missiles at a U.S. base in Qatar and at Iraq, with no casualties reported. The drop was a sharp reversal from Sunday night, when oil initially rose as much as 6% in response to the U.S. bombing of Iran's nuclear sites over the weekend. President Trump's decision to bomb Iran had raised fears that Tehran might retaliate by attacking critical energy infrastructure.

The Middle East accounts for about a third of global crude production and there haven't yet been any signs of disruption to physical oil flows, including for cargoes going through the Strait of Hormuz. Since Israel's attacks began earlier this month, there have been signs that Iranian oil shipments out of the Gulf have risen rather than declined.

According to the Morgan Stanley team, prior geopolitical risk events have led to some volatility for equities in the short term, but one, three and 12 months after the events, the S&P 500 has been up 2%, 3%, and 9%, on average, respectively.

Overview of the Australian Market

The Australian sharemarket fell to a three-week low as investors braced for Tehran's response after the US attacked Iran's nuclear sites over the weekend, pushing oil prices higher.

The benchmark S&P/ASX 200 Index fell 30.6 points, or 0.4 per cent, to 8474.9 on Monday – its lowest since June 3 – as seven out of the 11 sectors slipped.

The Australian dollar dropped to around US64¢, its lowest level in almost five weeks. The Aussie, which is often used as a proxy for global growth and risk appetite, is on track for a 1.6 per cent drop this month but was still sharply higher on the year.

Still the losses on the ASX were more modest than some had feared.

Risk off sentiment hit the tech sector as investors took profits. **WiseTech Global** dropped 1 per cent to $106.14, **TechnologyOne** slipped 0.9 per cent to $40.21, and **Zip** slid 3.5 per cent to $2.77.

Mining stocks also weighed on the bourse led by a 1.6 per cent drop for iron ore giant **BHP** to $35.64 and a 1 per cent fall for **Fortescue** to $14.54. And gold stocks tracked the precious metal lower, despite its usual safe-haven appeal. **Northern Star** dropped 3.1 per cent to $19.88 and **Evolution declined** 2.6 per cent to $7.62.

Energy stocks, meanwhile, climbed after Brent rallied as much as 5.7 per cent to $US81.40 a barrel after the US bombed three main nuclear sites in Iran. **Santos** climbed 1 per cent to $7.78, while **Ampol** rose by 0.5 per cent to $25.87.

And while banks initially sold off in the morning session, **Commonwealth Bank** continued to push higher after resetting its intraday record of $184.41. It closed up 1 per cent to $184.35.

Overview of the US Bond Market

Treasuries gained on Monday following Iran's retaliatory attack on a US air base, adding to demand for US government debt as a haven from escalating tensions in the Middle East.

Renewed expectations that the Federal Reserve could start cutting interest rates as soon as next month also fueled the gains, with the yield on 10-year notes sliding to the lowest in a month. The moves mostly held after Qatar said the Iranian barrage was intercepted, alleviating some concern about disruptions in oil supply.

The five-year note's yield declined as much as 10 basis points to 3.86% and remained eight basis points lower on the day. Traders boosted their bets that the Fed will lower rates by at least 50 basis points before the end of the year, with a roughly 20% probability of a reduction in July. Markets are pricing in a September move as more likely.

Yields on two-year Treasuries, most sensitive to the Fed's monetary policy, are lower by nine basis points at 3.82%.

The Fed at its meeting last week held its benchmark interest rate in a range of 4.25% to 4.5%. Following the meeting, Fed Chair Jerome Powell reiterated his view that policymakers can afford to take a patient approach on rate adjustments, as they wait for additional details on how Trump's economic policies, particularly on trade, evolve.

Bond investors watching the latest geopolitical developments are on alert for hints on when the Fed will deliver the two 2025 rate cuts officials projected at their latest policy meeting.

Overview of the Australian Bond Market

Australian government bonds gained on Monday as investors sought safety following Iran's retaliatory strike on a U.S. military installation, echoing global flows into sovereign debt amid renewed geopolitical instability in the Middle East.

The move was compounded by dovish signals from the Reserve Bank of Australia (RBA), which raised expectations that interest rate cuts could begin as early as the fourth quarter. The yield on 10-year government bonds fell to 4.22%, its lowest in over a month, reflecting both global risk aversion and growing conviction that monetary policy may ease in the months ahead.

The three-year bond yield declined as much as 8 basis points to 3.33%, while two-year yields—more sensitive to central bank expectations—slipped 7 basis points to 3.41%. Markets are currently pricing in nearly 90 basis points of easing over the next year, with a modest probability (~25%) of the first cut occurring in October. A December move remains the base case among traders.

The RBA held its cash rate steady at 3.85% earlier this month, signaling a more patient stance as it awaits clearer signs of a sustainable downtrend in inflation. Governor Michele Bullock noted that while inflation risks remain, the economy's weaker-than-expected growth and a softening labor market allow for greater flexibility in policy settings.

Bond investors are now watching closely for further clues on the timing of the RBA's expected rate cuts, particularly as geopolitical developments threaten to disrupt commodity markets and global growth.

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