yieldreport Daily

Your Income Advantage

3rd June 2025

Overview of the US Market

Wall Street moved higher as data showed the US labour market is holding up despite concerns about risks stemming from Trump's tariff war. Just days ahead of the US payrolls report, an unexpected increase in job openings buoyed sentiment. Tech giants led the S&P 500 bounce from session lows, with Nvidia Corp. up 2.5%. Energy shares joined a rally in oil. Earlier equity losses were driven by a cut in OECD's growth forecasts as the institution said combative trade policies have tipped the world economy into a downturn. The **S&P 500** rose 0.6%. The **Nasdaq 100** rose 0.8%. The **Dow Jones Industrial Average** rose 0.6%. The Magnificent 7 rose 0.3%. It was a broad based advance - the **Russell 2000 Index** rose 1.5%. The yield on 10-year Treasuries advanced two basis points to 4.46%.

In terms of data, the JOLTS report showed a surprise increase in job openings for April, indicating continued strength in labour demand. US job openings rose in April to 7.39 million, driven by private-sector industries such as professional and business services and health care and social assistance. The advance in openings was accompanied by a pickup in hiring, which reached the highest level in nearly a year, despite a decline in openings in manufacturing and the leisure and hospitality sector. However, factory orders declined slightly more than expected. The JOLTS report tracks nonfarm job openings, voluntary quits, hiring, and layoffs. It is a key indicator often used by former Federal Reserve Chair Janet Yellen to assess the state of the U.S. job market.

In relation to Figure 2 below, **the Jobs-Workers Gap (JWG)** is calculated with the following formula: (Household Survey Employment + JOLTS Job Openings - Household Survey Labor Force Participation) / Household Survey Labor Force Participation. Household Survey Employment and JOLTS Job Openings represent labour demand, while Household Survey Labor Force Participation represents labour supply. A high JWG ratio suggests strong demand in the labour market and a shortage of supply. While a lower JWG ratio indicates weak demand and oversupply in the labour market.

Figure 1: Job Openings & Labour Turnover (JOLTS)

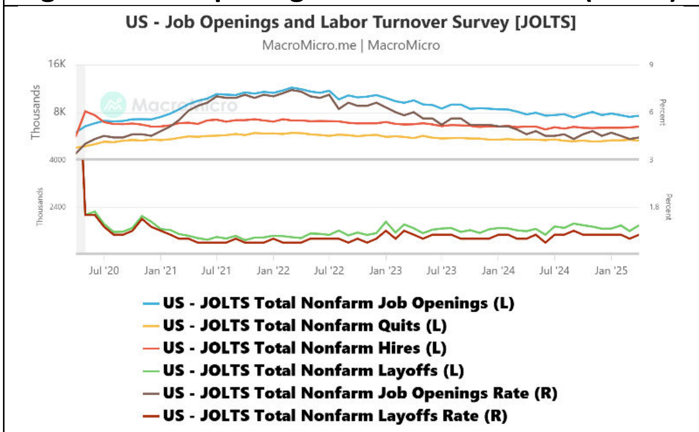
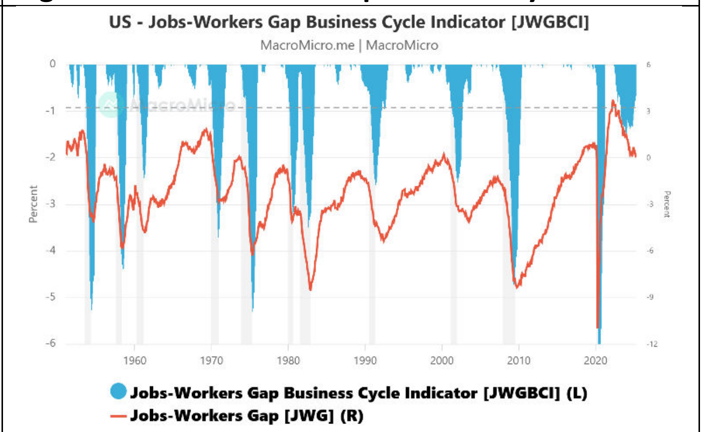


Figure 2: Jobs-Workers Gap Business Cycle



Meanwhile, **Atlanta Fed President reiterated a cautious stance on interest rates**, stating he's in no rush to cut and wants to see "a lot" more progress on inflation. The Fed is expected to keep the fed funds rate steady once again this month. The rise in job openings helped reinforce the Federal Reserve's assertion that the labour market is in a good place. While some economists fear a more notable weakening in coming months under the weight of tariffs, that hasn't shown up in the data yet, supporting officials' posture to keep rates steady.

Overview of the Australian Market

The ASX recorded its strongest day in a month, tracking a rebound on Wall Street after news emerged Beijing and Washington could revive trade talks in the coming days. The **S&P/ASX 200 Index** rose 0.6%, its best one-day gain since May 2. Nine of 11 sectors were in the green, with financials leading gains. The All Ordinaries was up 0.6%.

Australian **financial stocks** pushed an advance on Tuesday, with CBA rising 1.3%. Westpac was up 1.4% to and ANZ 1.3%. **Iron ore miners** tracked a fall in iron ore futures, spurred by a gauge of China's manufacturing activity falling to its lowest level in more than two years. BHP retreated 0.6% and Rio Tinto 0.7%. **Gold stocks** were some of the best performers as gold held near $US3400, retaining most of Monday's more than 2.8% advance. Genesis Minerals gained 4.6%, Newmont was up 4.3% and West African Resources jumped 5%.

Traders were also awaiting the latest US data on job openings due on Wednesday to help gauge the strength of the world's largest economy. Consensus is for a fall in job openings in April to 7.11 million, down from 7.19 million the prior month.

A Side Note on the USD

Meanwhile, **Australian super funds need to focus in relation to their foreign currency exposure** to help mitigate losses from Trump's trade agenda. Australian super funds currently have an estimated $379 billion invested in overseas shares, of which around 20% is hedged against the US dollar. It used to be 35% a couple of years ago. Temporary phenomenon or a more permanent shift is really the question. **Since April 2 the USD/AUD swing has been -10%, clearly adversely impacting US holdings unless hedged.**

NAB forecasts the AUD to climb to US70¢ by year-end. Westpac estimates that a 10 percentage point increase in hedging ratios to 30% would add $100 billion in Australian dollar demand. If that happens over five years, the impact is not that much, but if it happens in 18 months, it's a different story.

As we know May saw widespread gains against the dollar, with the USD falling below key technical levels across multiple pairs. The Taiwan Dollar's 8.4% surge stood out, but strength was broad, fuelling speculation about a deliberate US devaluation—dubbed a potential "Mar-a-Lago Accord." Yet today's dollar plays a different role than during the Plaza Accord era: a large share of US assets is held by foreign investors, who would suffer from sustained dollar weakness, creating destabilizing feedback loops.

Preserving dollar hegemony outweighs trade deficit concerns. Major currency gains hurt foreign holders of US assets via portfolio losses, discouraging future dollar exposure. If the US signalled sustained depreciation, global demand for dollar assets would erode—undermining its financial dominance instead of improving trade balances.

Since April 2's extreme reciprocal tariffs, the dollar experienced massive outflows creating a rare "triple kill" in stocks, currencies, and bonds. Trump's renewed threats—50% EU tariffs starting June 1 and 25% on non-US iPhones—pushed the dollar back below 100 despite May agreements with the UK and China. This mirrors 2018-2019 trade war volatility, making short-term confidence restoration nearly impossible.

Combined net speculative long positions in the dollar and euro hedges have collapsed to early 2024 levels, with the dollar twice breaching the critical 100-level since April. Asian rush exports in H1 further pressure dollar demand while market positioning data reveals underlying sentiment remains structurally damaged by policy uncertainty.

Unlike 1985's Plaza Accord, current dollar holdings are highly diversified, requiring Chinese cooperation despite reduced US export reliance and strategic competitor status. China's PBOC maintains RMB weakness intentionally, making active collaboration with US dollar depreciation virtually impossible—eliminating the critical partner needed for coordinated intervention.

Deliberate dollar depreciation would reduce overseas willingness to hold dollar assets, undermining America's fundamental advantage—dollar hegemony. This strategic imperative explains why policy-driven depreciation remains unviable, as maintaining reserve currency status takes priority over trade balance improvements, supporting H2 dollar stabilization expectations.

In relation to Figure 2 below, Australia is the 2nd largest producer of gold and the 6th exporter of gold. Gold accounts for 6% of Australia's overall exports. Historically, AUD and gold price have a correlation coefficient of 0.77 which shows high correlation.

Figure 1: AUD vs. US Dollar Index

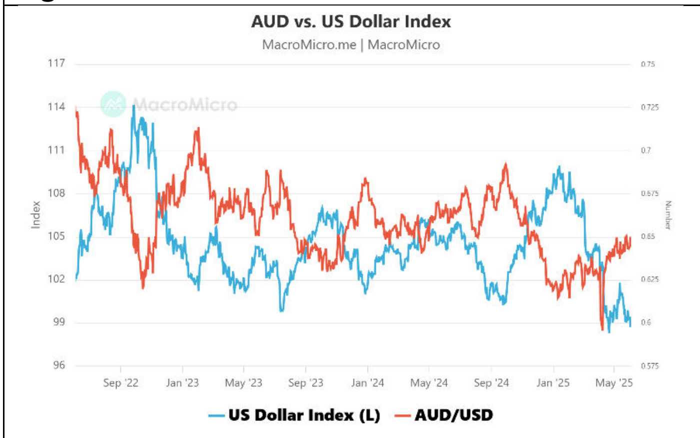
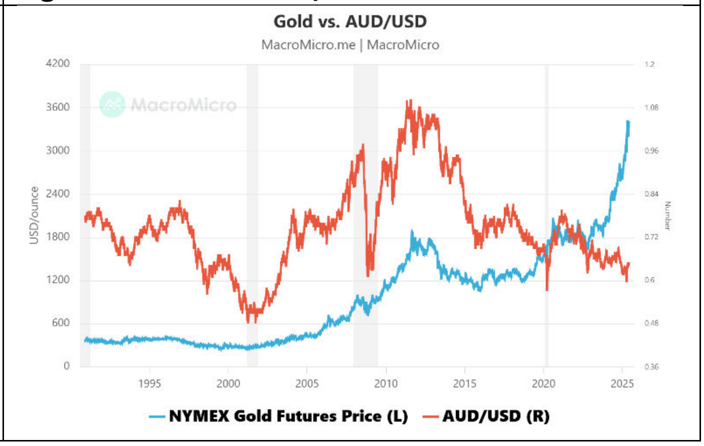


Figure 2: Gold vs. AUD/USD



Overview of the US Bond Market

The **yield on the US 10-year Treasury note** hovered around 4.46% on Tuesday, as investors weighed the global and domestic economic outlook and awaited further developments on the trade front. The **30-year** was largely unchanged but moved below 5.0%, only just to 4.99%. The OECD downgraded its global growth forecast for the second time this year, citing rising trade barriers, tighter financial conditions, weakening business confidence, and heightened policy uncertainty. On trade, President Trump and President Xi are expected to hold talks later this week amid intensifying US-China tensions.

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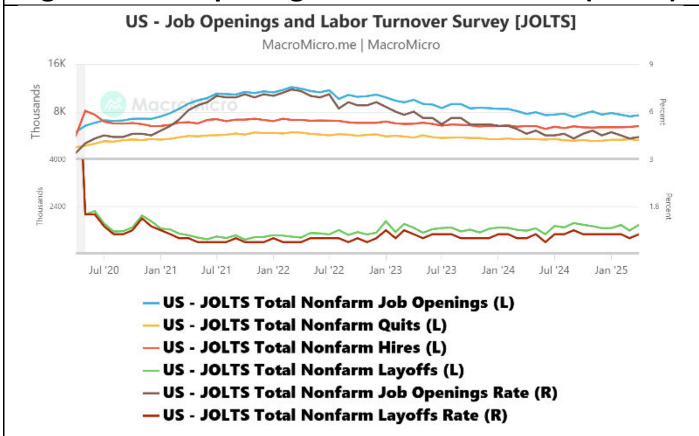

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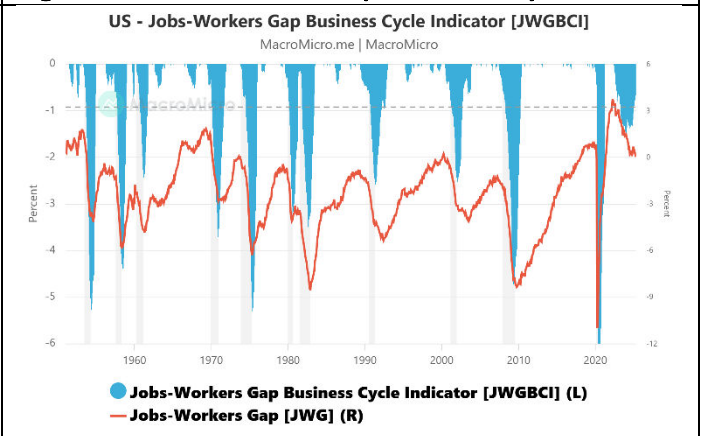

Meanwhile, **Atlanta Fed President reiterated a cautious stance on interest rates**, stating he's in no rush to cut and wants to see “a lot” more progress on inflation. The Fed is expected to keep the fed funds rate steady once again this month. The rise in job openings helped reinforce the Federal Reserve’s assertion that the labour market is in a good place. While some economists fear a more notable weakening in coming months under the weight of tariffs, that hasn’t shown up in the data yet, supporting officials’ posture to keep rates steady.

As we noted yesterday, 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.**

Overview of the Australian Bond Market

Australia's 10-year government bond yield declined circa 6 bps 4.26%, as investors digested the latest meeting minutes from the RBA. The minutes revealed that the RBA had considered an outsized 50 bps cut as insurance against slowing global growth, particularly amid rising trade policy uncertainty. However, the board ultimately opted for a smaller, more measured 25 bps cut to 3.85%, citing continued resilience in the domestic economy, a tight labor market, and the limited impact of US trade policies on Australia so far. Still, policymakers noted that if downside risks materialize, rates could fall below the neutral level of around 3%. Markets currently price in a 70% chance of another rate cut in July. **GDP data is out later this week – backward looking and pre-tariffs as it is**.

On RBA speak, according to RBA Assistant Governor Sarah Hunter **it expects global trade uncertainty will weigh on the domestic economy and employment**, helping explain policymakers' surprise switch to a dovish stance last month. "The baseline forecast is for recent global developments to contribute to slower economic growth in Australia and a slightly weaker labor market,". Sarah Hunter added that the RBA expects the price of tradable goods will be "slightly dampened" too. The comments underscore the RBA's shift in focus to downside risks to growth from the Trump administration's tariff regime after it wrapped up a three-year campaign to rein in inflation. **Money markets are now pricing in three more RBA cuts this year**.

Bonds in Australia are getting a lift as questions about the appeal of US Treasuries send investors toward top-rated alternatives. Strategists and portfolio managers are re-examining whether Treasuries offer enough compensation, a rare challenge to the world's largest bond market after a recent ratings downgrade and fears that a proposed tax bill may hit foreign investors. And that is just the fiscal risk.

Taiwanese insurers recently got crushed on FX moves. They are making plans to back away from dollar assets, while Hong Kong pension funds have been told to draw up contingency plans for a further downgrade of the US. One large Taiwanese insurer has already begun building a small position in top-rated Australian and UK corporate bonds to diversify from US dollar-denominated assets. **And that is just a sliver of what Asia is thinking of when it comes to somewhat stepping away from US assets** – they are heavily exposed.

All of the recent ructions in the US are adding to the appeal of the world's dwindling supply of AAA rated bonds. The spread between Australian 30-year bonds and equivalent US Treasuries is around its narrowest level in a year, a sign that investors are putting more of their money into the Australian debt. The gap between the same maturity bonds from Singapore and the US is near a record discount. And, by the way, should we add the trajectory of easing – it will be well ahead in Australia vs. the US. **In Figure 1 below this is evident by the spread moving into the positive. In Figure 2, evident in the negative.**

The technicals in Australian bonds were robust already, and leading to tight spreads. Foreign investors in Australia's government bond market are set to face competition from local pension funds, whose demand for Aussie notes may outpace issuance. Only Singapore offers a comparable option in the SE Asian market. **This is a bigger topic we have been noting – how the private markets are leading to shrinkage in the public markets and how (passive) ETF and Super flows are compressing valuations in bonds and equities alike**. **On that basis taken in isolation, tight spreads are likely to persist.**

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

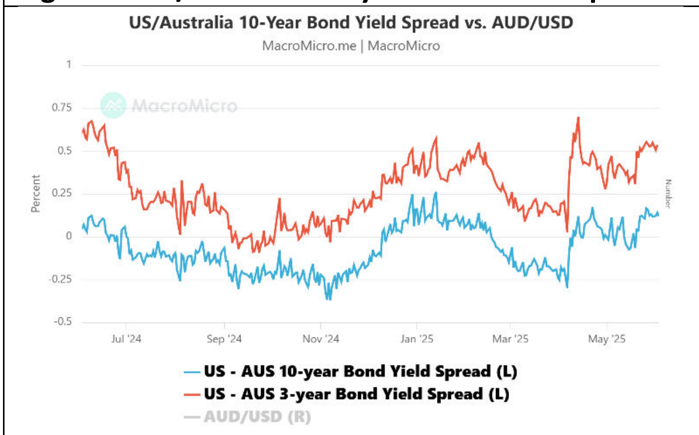

Figure 2: Australia 10-year Bond Spread vs US

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)

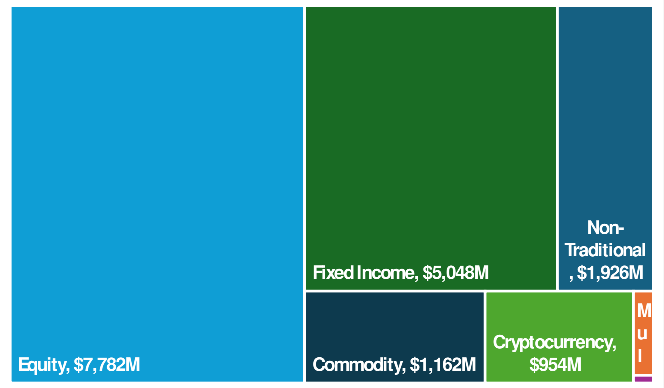

Figure 2: US ETF Flows by Asset Class (as at 29 May)

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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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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