yieldreport Daily

Your Income Advantage

6th June 2025

Overview of the US Market

Stocks closed at their highest since February and bond yields rose as **jobs data allayed concerns of an imminent economic slowdown**. Equities also gained amid hopes US-China trade tensions are easing, with Trump saying negotiators will talk Monday. A 1% advance in the S&P 500 drove the gauge to the 6,000 mark. All major industries climbed. Tesla Inc. jumped over 3.5% to lead megacaps higher. Treasuries dropped across the curve, with two-year yields topping 4%. Money markets trimmed bets that the Federal Reserve will cut interest rates this year.

US job growth moderated in May and the prior months were revised lower, indicating employers are cautious about growth prospects as they weigh the Trump administration's economic policy. Nonfarm payrolls increased 139,000 last month after a combined 95,000 in downward revisions to the prior two months. The unemployment rate held at 4.2%, **while wage growth accelerated**. Employers have been 'hoarding labour' in the face of massive corrosive uncertainty. It costs money to fire workers, and we believe firms have been reluctant to lay off workers until they saw the extent of the Trump tariffs. Lessons were learnt during Covid.

But dig deeper. Cracks in the façade of labour market resilience are now starting to show and the longer the tariff uncertainty and government spending cuts continue the worse the labour market reports are bound to be. The advance in payrolls reflected strength at service providers, including health care and social assistance as well as leisure and hospitality (see Figure 2). The latter is a seasonal market, **so the read we'd say is not as solid as it may have appeared at a headline level**. On that front, industries that are more exposed to tariffs flashed warning signs. Manufacturing payrolls dropped 8,000 last month, the most this year, while employment growth in transportation and warehousing rose slightly after declining in each of the prior two months. Employment at temporary-help agencies fell by the most since October.

Furthermore, the household survey, showed a 254,000 increase in the number of people who went from employed to out of work during the month. That was the biggest rise since the start of 2022. Another major question for economists and policymakers is the extent to which Trump's efforts to cut back on government spending will take a toll on employment. The federal government shed 22,000 jobs in May, the most since 2020. Economists contend that at least half a million US jobs could be on the line as federal spending cuts spread to contractors, universities and others who rely on public funding.

Cracks in employment and wage growth – **the Fed remains very much 'wait and see'.** Forget about Trump's exhortation for a 100 bps cut – they are not even thinking 25 bps currently. **And indeed that is what the markets are reflecting.** Interest-rate swaps showed traders now see a roughly 70% chance of a 25 bps rate cut by September, compared with a probability of about 90% on Thursday. The amount of easing priced in for the year declined to about 43 bps, fewer than two quarter-point cuts.

Figure 1: US Nonfarm Payrolls (of May 2025)

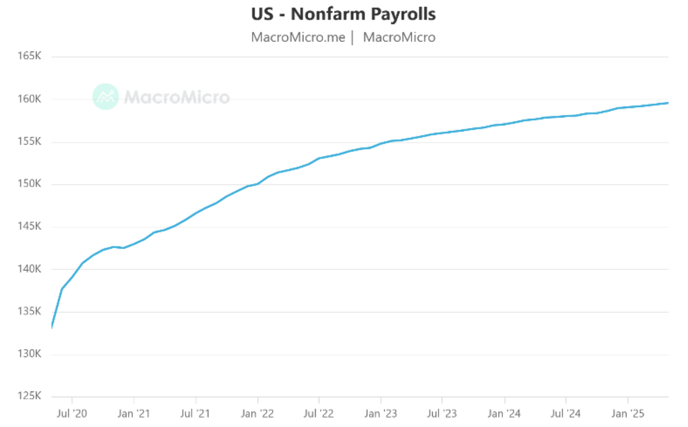
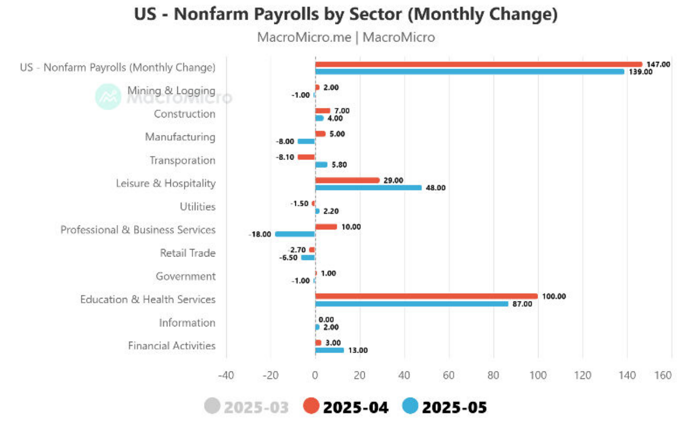


Figure 2: US Nonfarm Payrolls by Sector (May '25)



Overview of the Australian Market

On Friday, the **S&P/ASX 200** fell 0.3% with eight of the 11 sectors in the red. Still, the bourse notched a 1 per cent gain over the week. The All Ordinaries edged down 0.3%. But for the week, the ASX recorded its fourth consecutive weekly gain. If there was a positive yesterday, then it related that Trump said he would resume trade talks with Chinese President Xi Jinping, which helped soothe concerns about the global trade war. That said, no concrete details were provided. Analysts noted that despite the renewed dialogue, tensions remain elevated and risks of further escalation persist amid limited substantive progress.

Among **the miners**, BHP rose 0.7% and Fortescue rallied 1%. The rise in the mining giant's share price tracked the higher iron ore price. Futures in Singapore were up 0.8% to $95.65 a tonne. **Critical minerals stocks** were heavily sold on expectations China could ease export restrictions on rare earths. Pilbara Minerals slumped 5.2% and IGO lost 3.5%.

Wider losses swept across the ASX 200 as investors took money off the table ahead of the latest US monthly jobs report that will fan speculation about the Fed's next round of interest rate cuts. Profit-taking in technology and the bank stocks gathered momentum, with index heavyweight CBA retreating 0.8%.

Meanwhile, the AFR ran an interesting article on the weekend, and on 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 sharemarket, 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 contrained 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 sharemarkets 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

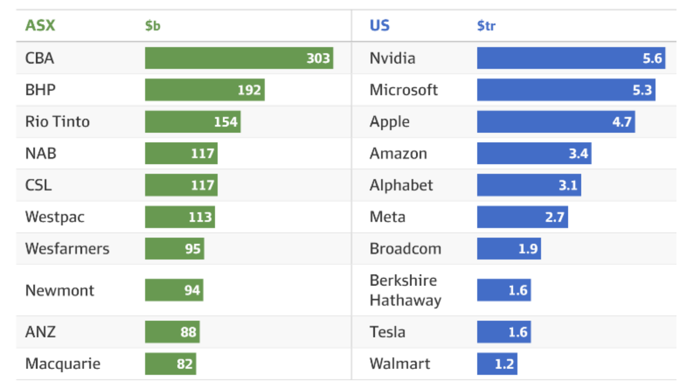


Figure 2: Drawdowns of Select Global Stock Mkts

Meanwhile, the **Australian dollar** recorded a 1% gain during the week after renewed weakness in the greenback overnight helped boost the local currency. The dollar held just above US65¢ on Friday afternoon after earlier hitting US65.37¢ – a six-month high.

Overview of the US Bond Market

Treasuries slumped after stronger-than-expected US job and wage growth prompted traders to trim bets that the Federal Reserve will cut interest rates this year. The Friday selloff lifted yields across maturities by as much as 12 bps, led by shorter-dated tenors more sensitive to Fed rate changes. The benchmark **10-year note's** rate rose 12 bps to 4.51%, and yields across the spectrum once again exceeded 4%. Interest-rate swaps showed traders now see a roughly 70% chance of a quarter-point rate cut by September, compared with a probability of about 90% on Thursday. The amount of easing priced in for the year declined to about 43 bps, fewer than two quarter-point cuts.

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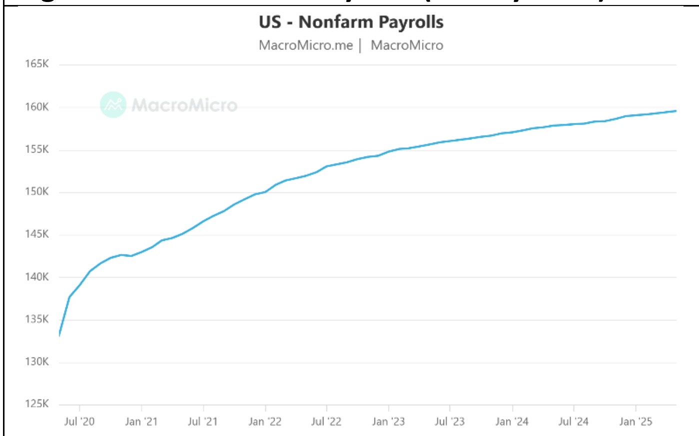
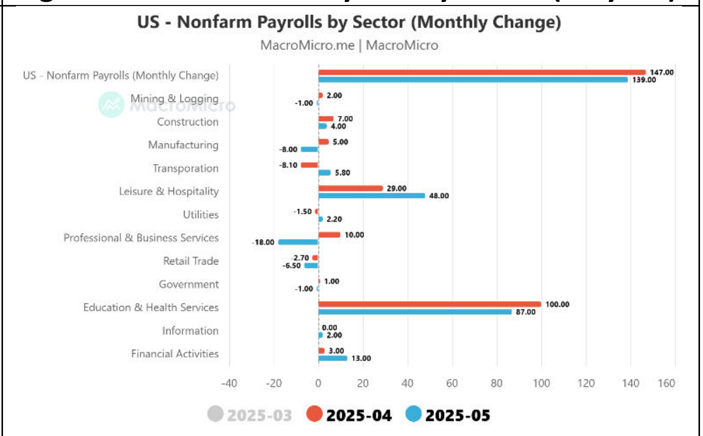
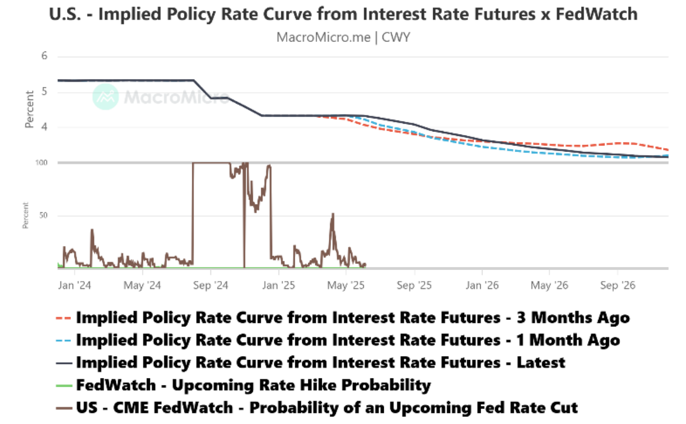
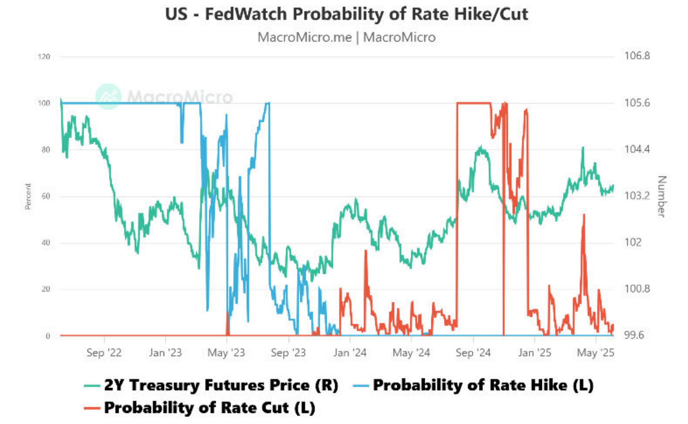


Figure 2: US Nonfarm Payrolls by Sector (May '25)



Regarding figure 4, the CME FedWatch Tool forecasts the probability of a rate hike (or rate cut) at upcoming FOMC meetings, allowing market participants to gauge the likelihood of changes in interest rates and the direction of the Fed's monetary policy. You can see why the 2-year bond jumped 12 bps on Friday.

Figure 3: Swaps Market Pricing of Fed Cuts	Figure 4: Probability of a Rate Hike / Cut
	

Overview of the Australian Bond Market

Australia's 10-year government bond yield fell to around 4.27%, staying near its lowest level in over four weeks, weighed by a dovish Reserve Bank outlook. Q1 GDP growth came in below expectations, while PMI surveys indicated slowing expansion in the services and manufacturing sectors in May. The trade surplus also narrowed, reflecting a monthly decline in exports due to moderating overseas demand.

These weakening economic indicators support the case for further monetary easing by the central bank, especially given the latest RBA minutes, which emphasized that future policy decisions will remain data-dependent. Assistant Governor Sarah Hunter also recently cautioned that "higher US tariffs will slow down the global economy," warning that increased uncertainty could reduce investment, output, and employment in Australia, further raising the prospects of looser monetary policy.

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)

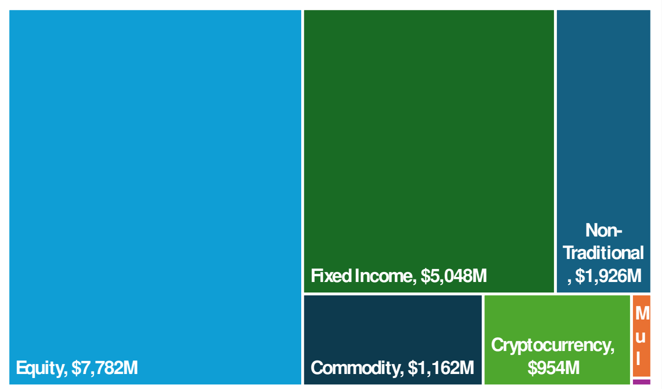


Figure 2: US ETF Flows by Asset Class (as at 29 May)

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.

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.**

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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For inquiries, please contact contact@yieldreport.com.au or call 0408 266 713.

YieldReport – Interest Rates &Yield Investment Data & Research
Level 2, Suite 208
33 Lexington Drive
Bella Vista NSW 2153

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