yieldreport Weekly

Your Income Advantage

9th June – 13th June 2025

PART 1 – Equity & Bond Market Analysis

Weekly Overview

U.S. stock indexes fell on Friday amid heightened anxiety in the Middle East, sending the market to a negative week overall. After recording gains the previous two weeks, the S&P 500 and the NASDAQ posted fractional weekly declines while the Dow finished down more than 1%.

A monthly report on U.S. consumer prices showed that inflation remained somewhat muted, which eased concerns about the potentially inflationary impact from elevated tariffs. On a month-to-month basis, the Consumer Price Index rose 0.1% in May, less than most economists had expected. The annual inflation rate was 2.4%—in line with expectations and near a four-year low recorded in April.

The US Nonfarm Payrolls for May showed a monthly increase of 139,000, surpassing the forecast of 126,000, though slightly down from the previous month's 147,000. The unemployment rate remained steady at 4.2%, aligning with both previous and forecasted figures.

An auction of U.S. 30-year Treasury bonds generated stronger-than-expected demand from investors, easing government debt worries that recently sent the 30-year bond's yield above 5.00%. Thursday's auction drew a yield of 4.84%, below the 4.91% closing yield recorded on Wednesday.

U.S. Treasury yields fall to a one-month low in the wake of Israel's strike on Iran's nuclear facilities. The 10-year Treasury yield falls to 4.314% before recovering to last trade at 4.325%, still down 3 basis points on the day, according to Tradeweb. The 30-year Treasury yield has also hit a one-month low, falling to 4.802%, helped by solid demand at Thursday's auction. It last trades at 4.817%, down 2.5 basis points, according to Tradeweb. (

The price of U.S. crude oil surged more than 7% on Friday to the highest level in four months after Israeli military strikes on Iranian nuclear facilities raised the prospect of oil supply disruptions and renewed inflationary pressures for the broader economy. On Friday afternoon, oil was trading around $73 per barrel, up nearly 12% for the week.

The price of gold resumed its year-to-date climb, rising to new highs that eclipsed earlier records set in late April and early May. The precious metal was trading around $3,450 per ounce on Friday afternoon, up from about $3,320 at the end of the previous week and $2,600 at the end of last year.

Overview of the US Equities Market

The escalating conflict in the Middle East dragged stocks lower and sent oil prices surging on Friday, marking the latest geopolitical episode to rattle the markets this year. Stocks fell sharply after Israel launched a wide-ranging attack against Iran's nuclear facilities and military leadership, and Tehran retaliated with drone strikes and missile barrages.

The specter of a regional war and its potential disruption to global energy flows drove oil prices sharply higher. Iran is a major oil producer and strategically controls the northern side of the Strait of Hormuz, through which about a third of global seaborne oil flows. These developments make the Fed decisions that much more challenging because energy prices are just a different driver of inflation than what we've been focused on for the last six months."

The S&P 500 retreated 1.1%, while the Nasdaq Composite declined 1.3%. The Dow Jones Industrial Average lost 770 points, falling 1.8%.

The CBOE Volatility Index—known as the VIX, or Wall Street's fear gauge—jumped above 20, a sign of elevated investor anxiety. The index last skyrocketed in early April, after President Trump unveiled plans to impose tariffs on the rest of the world.

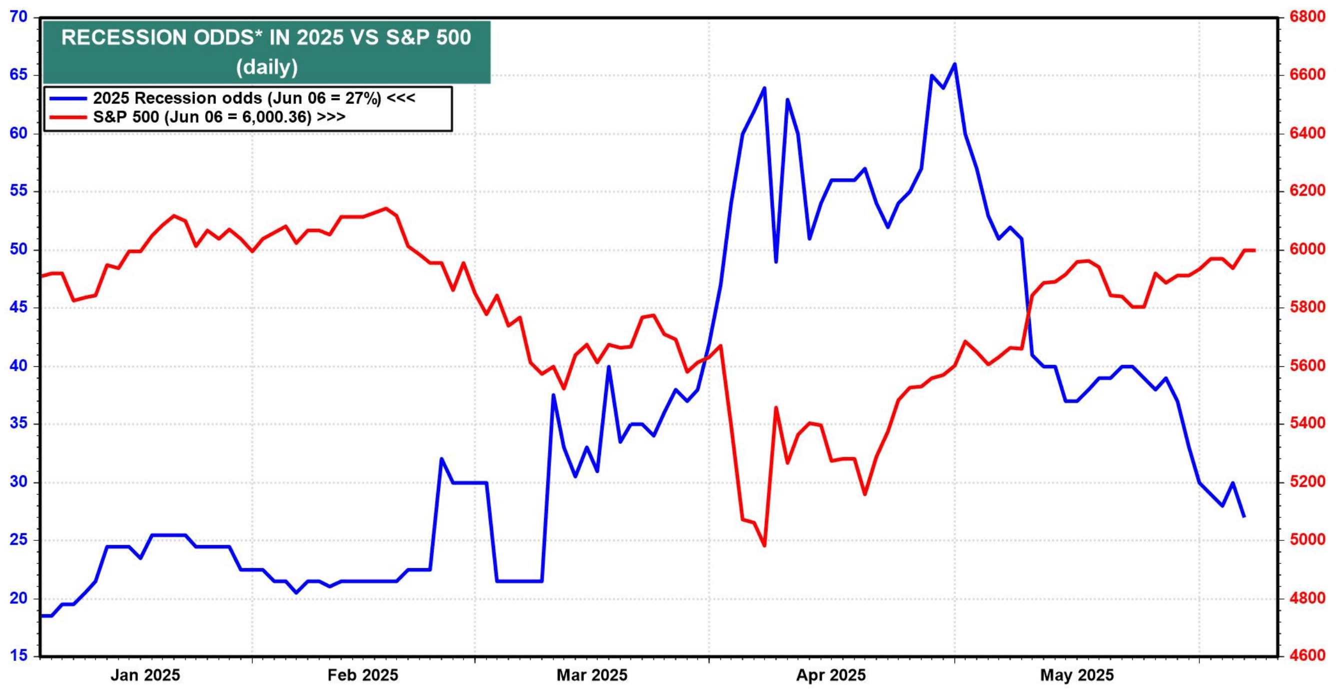
Brent crude rose over 7% to more than $74 a barrel. The U.S. oil gauge, West Texas Intermediate, advanced 7.3% to about $73 a barrel. Both logged their largest one-day percentage gains since the early days of the Russia-Ukraine war, according to Dow Jones Market Data.

For the week, the S&P 500 and Nasdaq posted weekly declines of 0.4% and 0.6%, while the Dow shed 1.3%.

U.S. and Chinese officials discussed tariffs and other trade issues in a two-day session and reached a consensus on some of the key areas of dispute. Both sides said they'll seek approval for the framework from the U.S. and Chinese presidents before implementing its terms.

The odds of a recession in 2025, according to Polymarkets.com, rose from around 20% during January and February of this year to over 60% during March and April. On Friday, the odds were back down to 27%. Not surprisingly, the S&P 500 has been inversely correlated with the Polymarkets.com recession series.

Figure 1: US Recession Odds



Source: LSEG Datastream and © Yardeni Research. Polymarket.com & Standard & Poors.
* Updated at 8 p.m. on business days

Overview of the US Treasuries Market

The US Treasury bonds rallied last week, sending bond yields lower, as cool inflation reports from the Labor Department and another week of elevated jobless claims spurs hope of a Fed rate cut sooner rather than later—albeit not at the June meeting next week. The Treasury Department also notched solid auction results as it sells new bonds, a reassuring sign that despite volatility this spring, demand for federal debt is holding up. On Friday, yields ticked higher despite a risk-off swing in other markets following Israel's attack on Iran. The 10-year yield ends the week at 4.423%, up from 4.357% Thursday, and the 2-year yield finishes at 3.957%, compared with 3.904% Thursday.

U.S. Treasury yields started Friday 13th session modestly higher, in relatively calm trading considering Israel's attack on Iran. Israel's attacks seem to have spared Iran's oil infrastructure, a decision that could limit the conflict's implications for the global economy, at least initially.

Increasing attention to the possibility of a Fed rate cut amid some weaker data this week—although the market still deems a rate cut next week highly unlikely. The 10-year yield trades near 4.387%, versus 4.357% Thursday, and the two-year yield is near 3.941%, up from 3.904% a day ago.

It's widely expected that the U.S. Federal Reserve will keep interest rates unchanged again when it concludes a two-day meeting on Wednesday. However, rate cuts could still be coming; Friday's prices in interest rate futures markets implied that most investors were expecting at least one to as many as three quarter-point rate cuts by year end.

German 10-year Bunds has outperformed 10-year U.S. Treasury's by about 50 basis points since President Trump's reciprocal tariff announcement early April.

The US Consumer Price Index (CPI) for May revealed lower than anticipated inflation rates. The CPI (NSA, YoY) recorded a 2.35% increase, down from the forecasted 2.5% and slightly higher than the previous 2.31%. The CPI (SA, MoM) showed a 0.08% rise, below the expected 0.2% and previous 0.22%.

Core CPI figures also fell short of predictions. The Core CPI (NSA, YoY) rose by 2.79%, under the forecasted 2.9% and marginally above the prior 2.78%. Meanwhile, the Core CPI (SA, MoM) increased by 0.13%, missing the expected 0.3% and previous 0.24%.

Figure 2: US CPI Picking Up on Tariffs Spillover

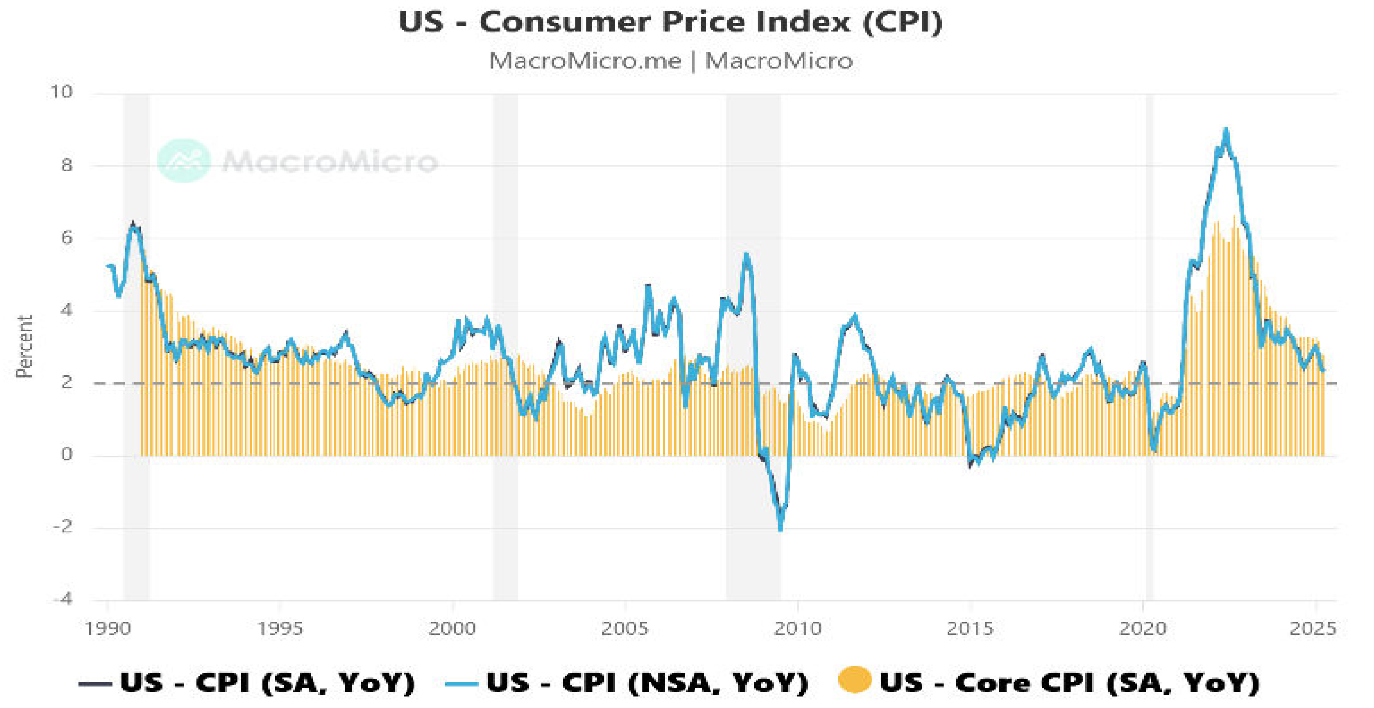
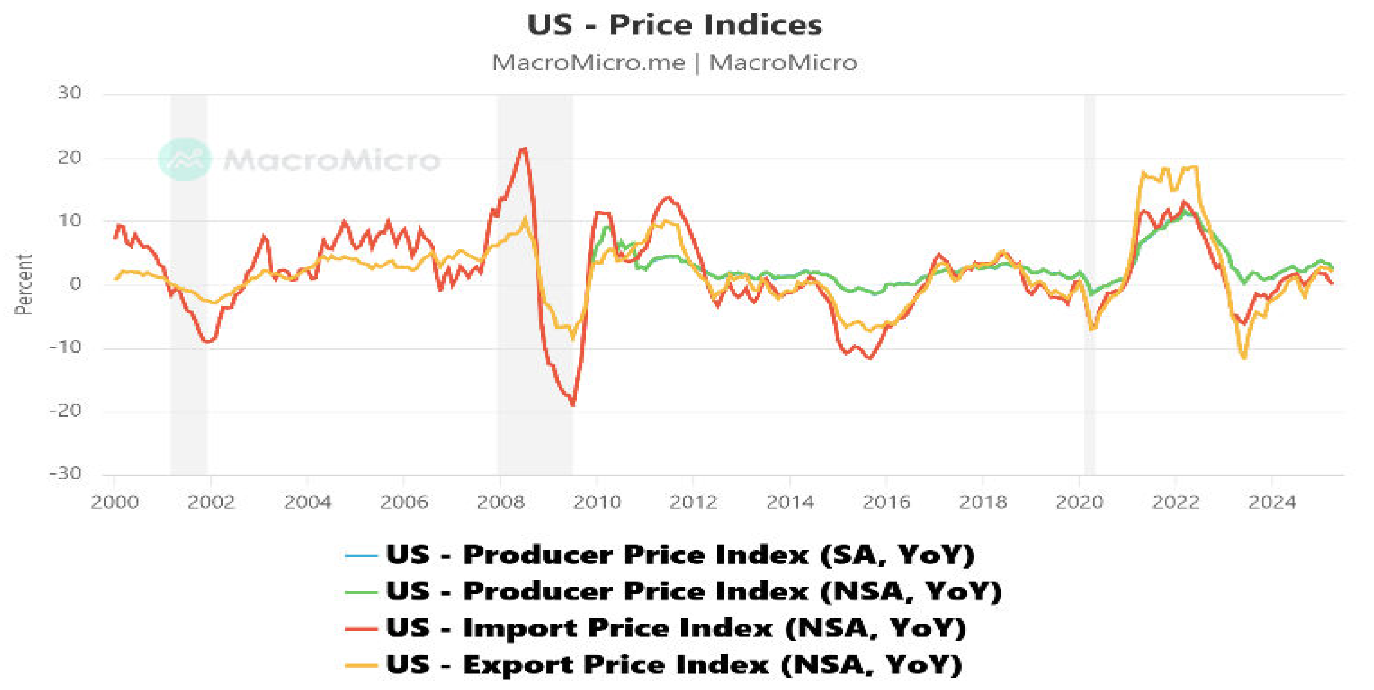


Figure 3: US Core PPI (YoY)



Overview of the Australian Equities Market

Australia's share market has lost much of the week's gains, after Israel's attack on Iran proved a brutal reality check for risk sentiment.

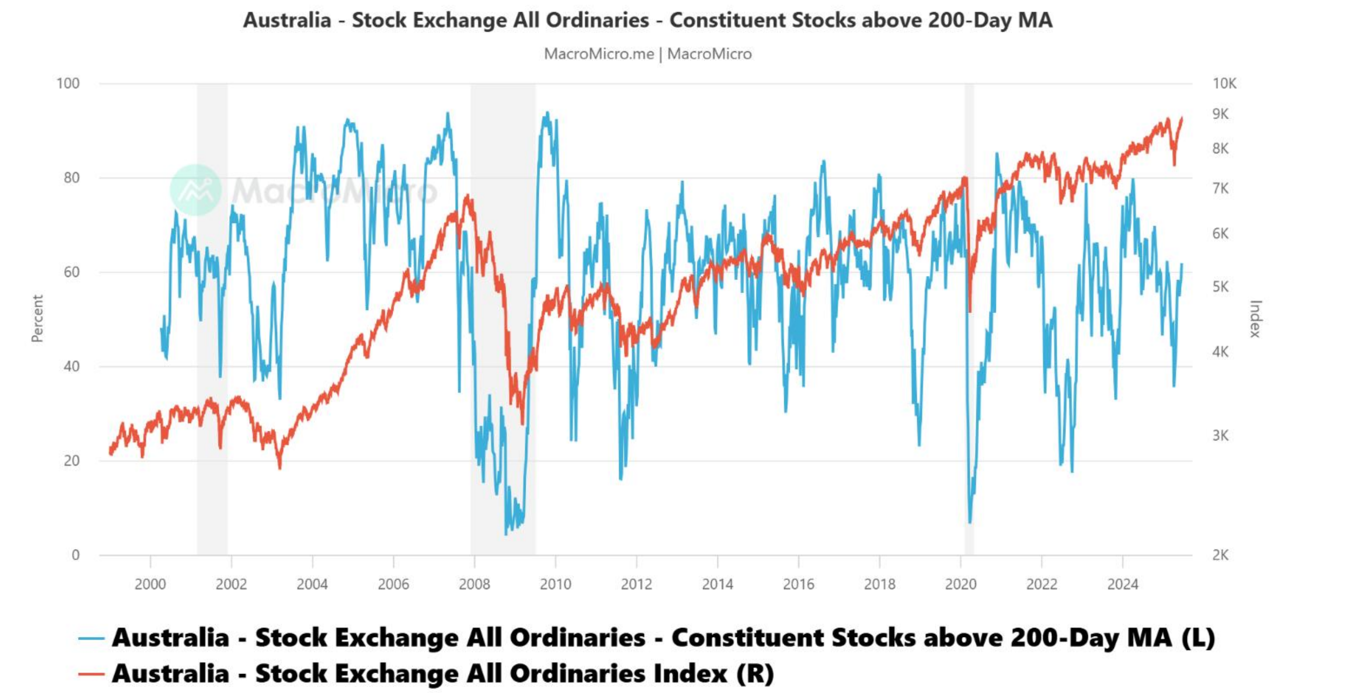
The S&P/ASX200 fell 17.7 points, or 0.21 per cent, to 8,547.4, as the broader All Ordinaries gave up 25.4 points, or 0.29 per cent, to 8,770.6.

Wednesday's dual-record intraday peak and best-ever close for the top 200 became a distant memory as Israeli air strikes on Iranian military targets and nuclear facilities prompted retaliatory drone attacks. Eight of 11 local sectors lost ground on Friday, while energy and utilities stocks surged after oil prices spiked to four-month highs in the wake of the attacks.

The elevation of global risk came at an inopportune time for the ASX and its financial sector, both of which hit new highs this week and showed signs of being overbought in the short term.

Figure 4 below shows the ASX All Ords index and market breadth (stocks above 200 day moving average of share price). After falling to below 40% during the Liberation Day sell-off, the market breadth in the broad index has now moved to above 60%, indicating improving participation in the rally be index stocks.

Figure 4: Australian Stocks – Improving Market Breadth



Energy stocks and utilities both surged more than four per cent, and the defensive consumer discretionary sector was the only other division in the green, up 0.25 per cent. The spike in crude prices was good news for Woodside investors, as the oil and gas giant rallied more than seven per cent to $25.21, the top-200's best performer.

Financial stocks, which account for roughly half of the top-200's value, fell 0.4 per cent as three of the big four banks - excepting a flat Westpac - grinded lower. The sector was roughly flat for the week.

Materials stocks fell 0.2 per cent, as rallying gold miners helped soften a sell-off in large cap miners BHP (-2.6 per cent) and Rio Tinto (-1.1 per cent), tracking with an uplift in gold and continued weakness in iron ore prices.

Australia's tech sector took the biggest hit on Friday, down 1.2 per cent as investors fled to safety.

Overview of the Australian Government Bond Market

Over the course of the week the Australian governments bonds rallied across the curve. The Australian 1-year government bonds rallied 5bps to end the week 3.41%, the 2-year bonds rallied 8bps to end the week at 3.26% while the key 10-year bonds rallied 11bps to end the week at 4.16%.

Australian government bond yield fell to the lowest point since March 2025 in the wake of Israel's strike on Iran's nuclear facilities. The 10-year US Treasury yield fell to 4.314% before recovering to last trade at 4.325%, still down 3 basis points on the day.

Figure 5: US/Australia 10-year Bond Yield Spread

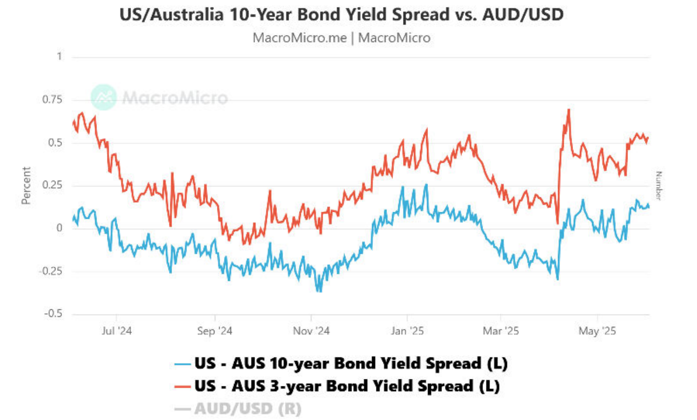
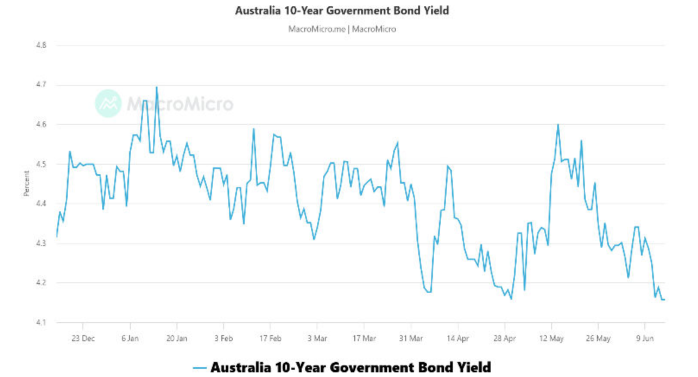


Figure 6: Australia 10-year Bond Spread vs US



Domestically, the two key sentiment surveys were released. The Westpac-Melbourne Institute Consumer Sentiment Index rose 0.5% month-on-month to 92.6 in June—its fourth gain this year—supported by the May rate cut and signs of easing inflation.

The NAB Monthly Business Survey for May showed that business conditions eased again in May to 0 index points. Conditions have fallen steadily over late 2024 and early 2025; in trend terms the series has eased from around average at +6 index points in September 2024 (to +2 index points currently). The decline in business conditions in recent quarters has narrowed the gap between business confidence and business conditions; it will be hard for confidence to lift sustainably if conditions deteriorate further. Business confidence improved again in May, though trend confidence remains below the long run average.

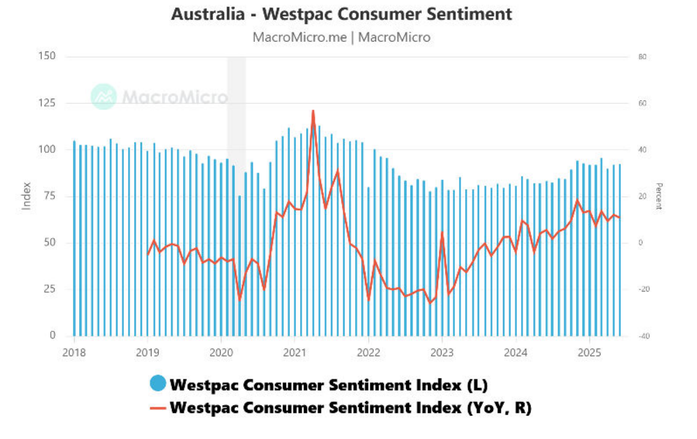
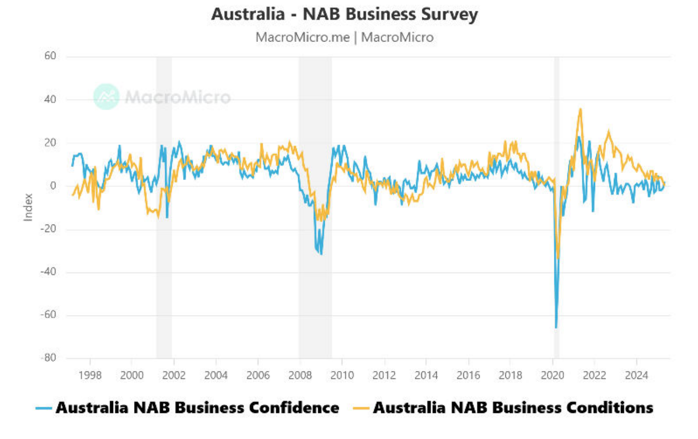
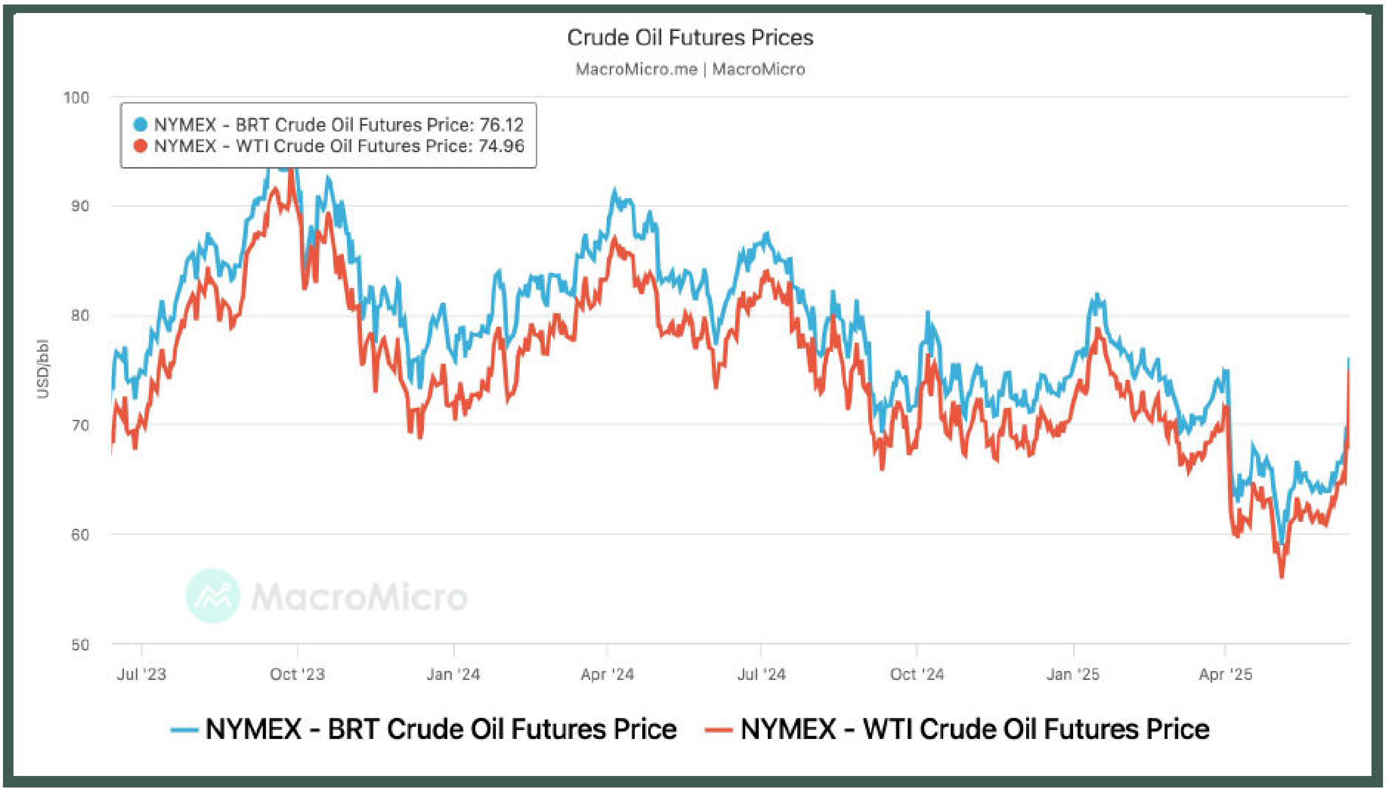
Figure 7: WBC Consumer Sentiment - June	Figure 8: Figure 2: NAB Monthly Business Survey
	

Chart of the Week- Crude Oil Futures

Israel launched Operation "Strength of a Lion", targeting Iran's nuclear facilities, ballistic missile sites, and military assets in a preemptive strike amid escalating tensions over Iran's nuclear ambitions. Israeli Prime Minister Netanyahu stated that the attack aimed to permanently neutralize Iran's nuclear threat. Iran responded by declaring a state of emergency, with explosions reported in Tehran. Reuters warns that the situation could spill over into neighboring oil-producing nations. Market reactions were swift—oil prices surged over 10%, gold surpassed $3,450, and safe-haven currencies like the Swiss franc and Japanese yen rallied, while US equity futures declined.

Figure 9: Crude Oil Futures



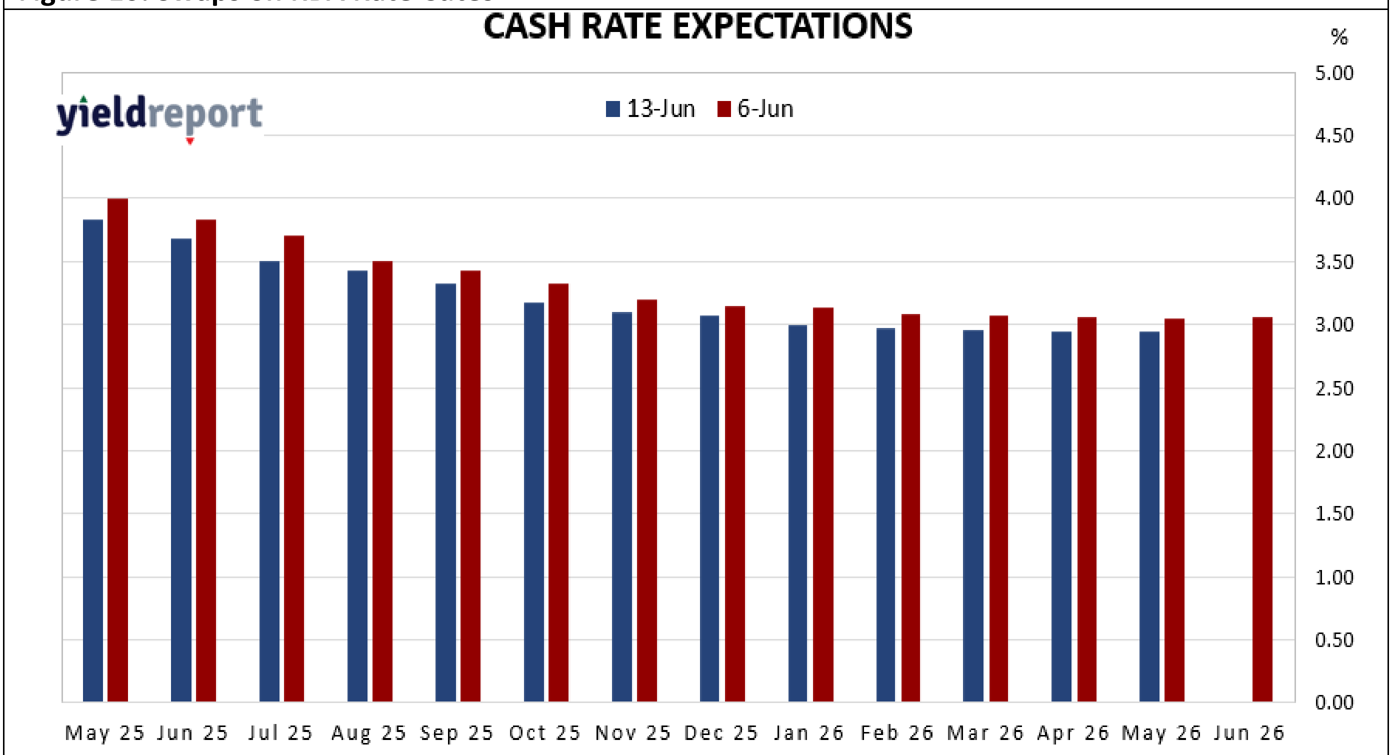
PART 2 – Investment Opportunity Review

Defensive Income - Cash

As reported on Thursday, the Australian economy expanded by 1.3% in the first quarter, the same pace as in the previous quarter but lower than the expected 1.5% growth. The soft growth was attributed to declining public spending and weakened consumer demand and exports. The subdued growth—attributed to shrinking public spending, weaker consumer demand, and reduced exports—has reinforced expectations of further monetary easing by the RBA. **Markets are now implying an 82% probability of a rate cut in July, up from 77% prior to the data release.**

Additionally, 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.

Figure 10: Swaps on RBA Rate Cutes



Defensive Income- Term Deposits

Another wave of term deposit **rate cuts has landed, and the retreat is gathering pace**. **CommBank, NAB, Westpac,** and a host of former rate leaders including Judo Bank, Macquarie, and Heartland have all trimmed their boards. **Returns above 4.50% p.a. are now endangered territory, with few outliers defying the trend**.

CommBank now offers just 3.60% p.a. for 1 year, a far cry from the once-common 4%+ levels. Its "special rate" of 4.10% p.a. appears to be missing altogether from the current table, suggesting that's either ended or pulled back. NAB and Westpac have followed suit, both reducing across terms, with top 1-year rates now under 3.90%.

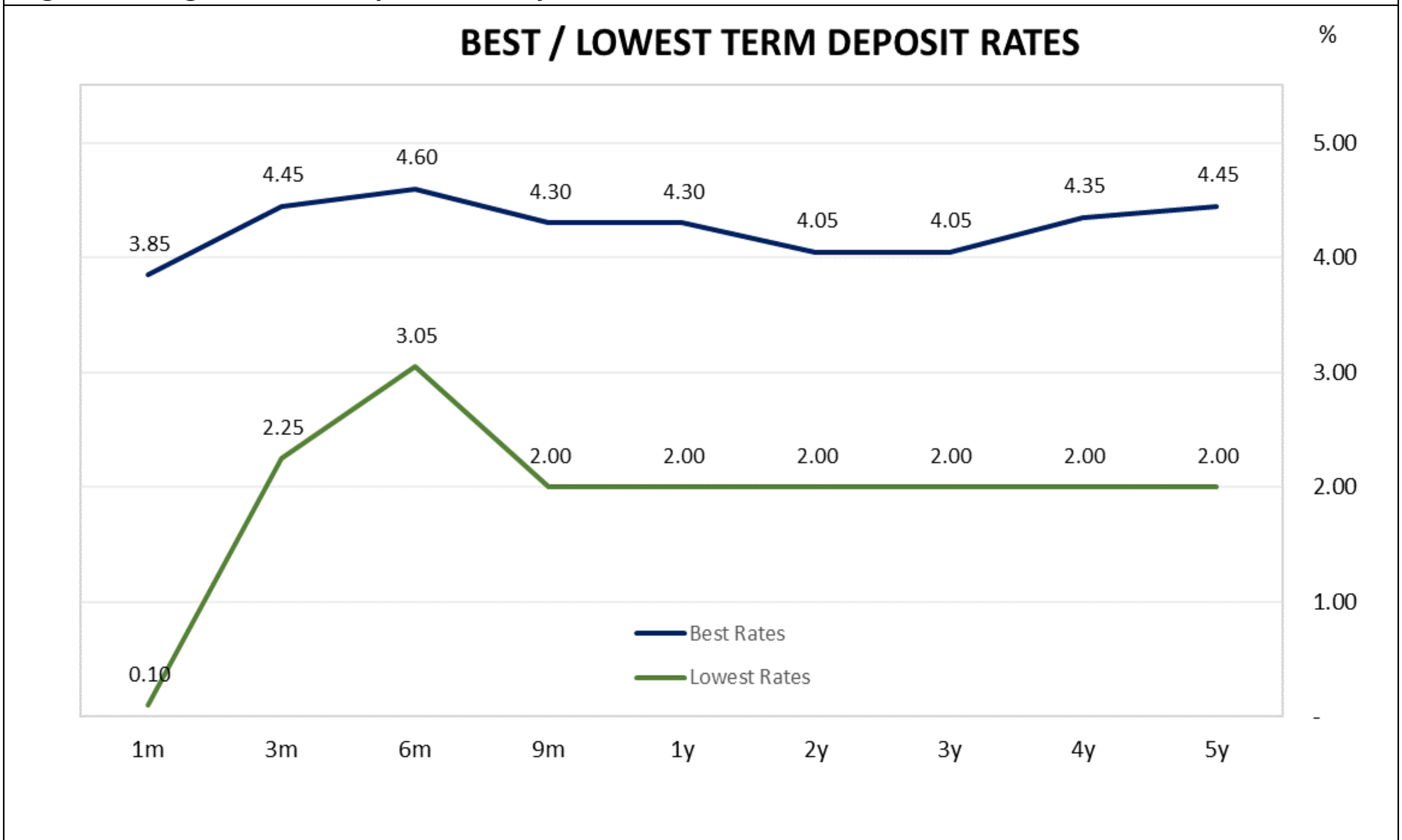
Macquarie Bank cut key short-term rates—its 3-month term now sits at 4.20% p.a., down from earlier highs, and its 6-month has slid to 4.05% p.a.. Judo Bank, long considered a rate-setter, also pulled back, with its 6-month at 4.55% and 1-year at 4.15%, down from prior peaks.

In the mid-tier and challenger bank space, Heartland Bank's presence is missing in the updated list, but others like BankVic, IMB, and Teachers Mutual Bank are still posting top-end **rates of 4.35%–4.60% in select terms.**

Notable movers:

- BOQ Specialist and Rural Bank cut across the board; many terms now sit at or below 4.00%.
- Rabobank Australia offered a rare bright spot, *increasing* its 3-year to 3.70%, 4-year to 4.25%, and 5-year to 4.40% p.a.
- Bank First, BankVic, and in1bank still offer select rates at or above 4.30%, though the list is shrinking.
- P&N Bank and Teachers Mutual Bank are holding firm in the longer terms, offering up to 4.45%.

Figure 11: Highest Term Deposit Rate by Term



Defensive Income – Government Bonds

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As noted, the US Treasury is set to sell $22 billion of 30-year government bonds on Thursday, which will be closely watched as a test of market sentiment amid investor pushback against long-term government debt. All the auctions will be viewed through the lens of a test of market sentiment. It may also be a key determinant of the yield curve over the course of the week.

The curve is **likely to steepen further over the next six to 18 months** because the front end will eventually follow the Fed cuts. In contrast, in the long end there is likely only a modest reduction from here because of the budget deficit issues and what appears to be a supply/demand mismatch. So, unless the treasury cuts back on long-end issuance, the curve can continue to steepen.

For those following the markets closely, it has been clear for all of 2025 that **bond managers are favouring the shorter end of the curve (0-3 year) or the belly of the curve (5-7 years)**. This weight of money, or movement out the long-end, in itself may prove self-reinforcing. And given the current risks at the long-end, higher yields are likely required to entice bond investors back to that part of the curve. All in all, **not great news for the real economy / main street** nor is its great news for the US government's interest expense payments.

Figure 12: Aust. 10 yr minus 3 yr Bond Spread

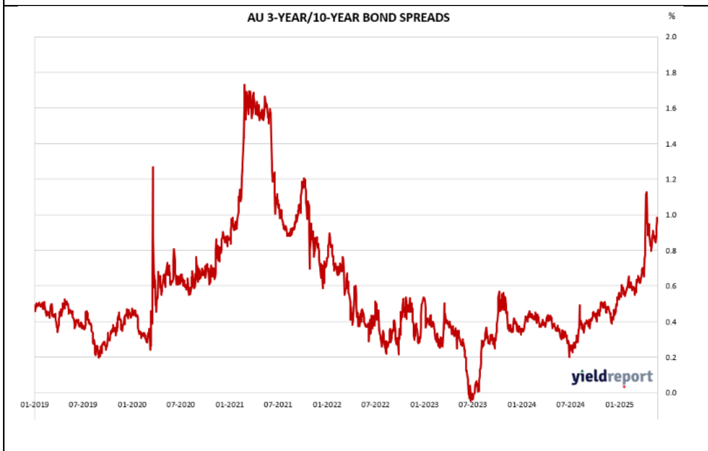


Figure 13: US 10 yr minus 2 yr Bond Spread

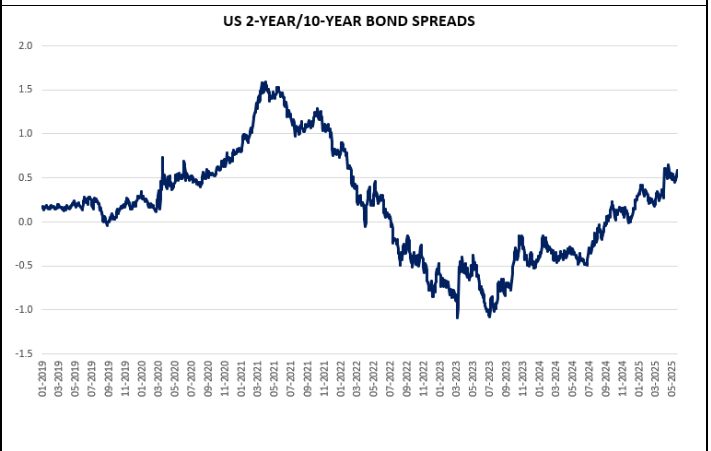
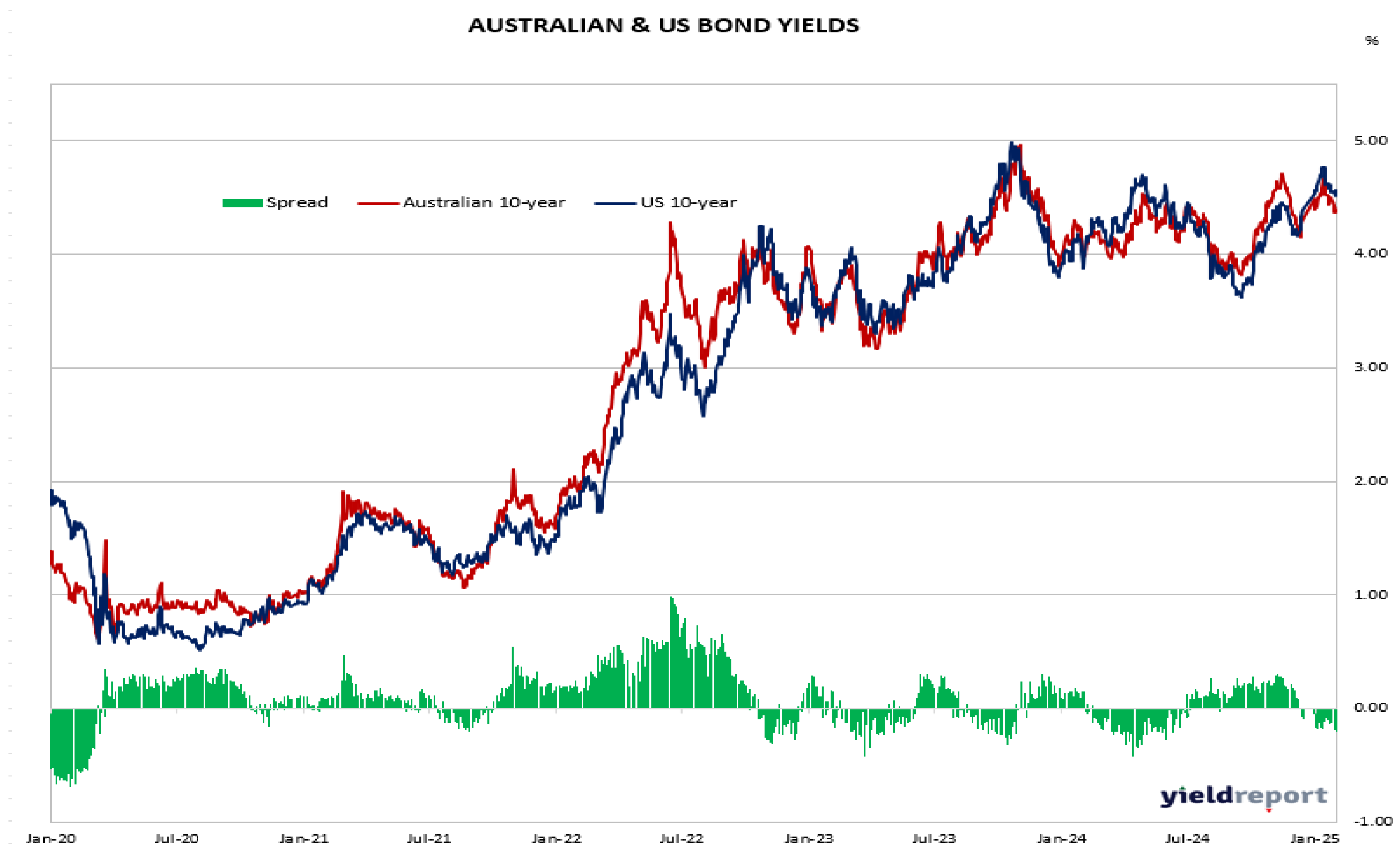


Figure 14: Australian & US Bond Yields



Corporate Bonds

Spreads generally compressed again this week, with the exception of 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 note 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 15: ITRAXX Australia - CDS Index

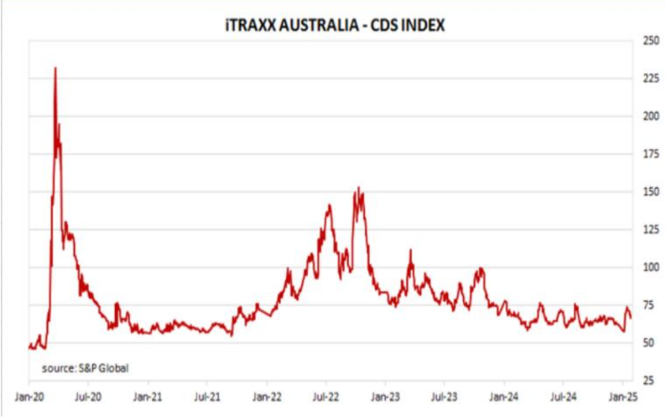
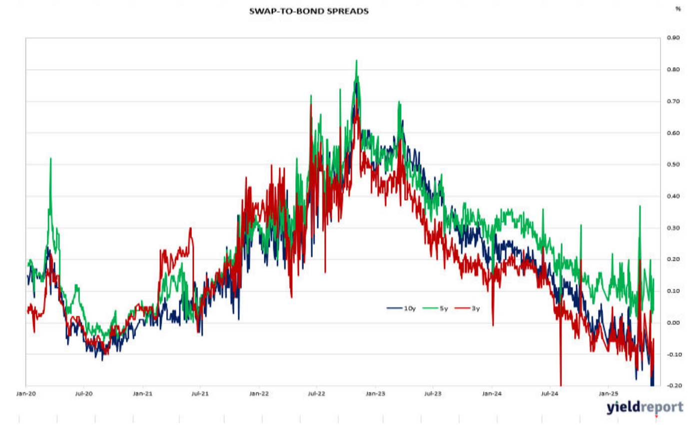


Figure 16: Australian Swap to Bond Spreads



Bank & Corporate Hybrids

It was an active week in the ASX-listed hybrid space, with yields holding firm and a few standouts shifts across the curve.

Judo Capital's JDOPA once again claimed the top spot with a **9.44% running yield**, continuing to trade at a premium near **$112**. **Latitude's LFSPA** followed closely at **8.98%**, offering high yield at a discount (**$97.80**), while **Macquarie's MBLPC** and **Challenger's CGFPC** delivered impressive yields of **8.50%** and **8.38%**, respectively.

Westpac's WBCPH drew attention with the **highest trading margin of the week at 18.74%**, rising **3.09%**, and closing near par. The movement signals renewed market activity in near-term callable hybrids.

Most major bank hybrids including **CBA's CBAPJ**, **ANZ's AN3PJ**, and **NABPI** saw minor shifts, reflecting steady demand in the 2028–2031 maturity band. Longer-dated notes like **NABPK** and **MQGPG** traded within tight ranges, with lower yields around **6.2–6.3%**, reflecting their duration and pricing stability.

Highlights:

- **JDOPA** remains the yield leader at **9.44%**
- **LFSPA** offers high yield at a discounted price
- **WBCPH** saw the biggest trading margin jump, up **3.09%**
- **Premium names** stayed firm with minimal movement in margins

Market Tone:

Investors chased yield this week, especially among mid-tier names and short-duration hybrids. Trading margins in premium issuers remained tight, while names like **Westpac**, **AMP**, and **Macquarie** showed relative activity across both ends of the curve.

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

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