yieldreport Weekly

Your Income Advantage

16th to 20th June 2025

PART 1 – Equity & Bond Market Analysis

Weekly Overview

A jittery week ended with losses in stocks as investors weighed geopolitical and trade developments, chipmakers sank, while a $6.5 trillion options expiration spurred a surge in volume. Short-dated yields fell as Federal Reserve's Christopher Waller said rates could drop as early as July.

The S&P 500 closed modestly lower after a volatile week in which investors braced for escalation between Israel and Iran, and amid signs of a split at the Federal Reserve over when to renew interest cut rates.

Elsewhere, the global market continued to exhibit material dispersion. The figure shows the weekly performance of key equity markets. The data shows that South Korea and (interestingly) Israel were the best performing equity markets in USD terms. On the other hand, Thailand, Mexico, and Germany were performing worst over the week.

The yield on 10-year Treasurys held roughly steady after Fed officials left interest rates unchanged and signalled that they were open to cutting rates in the second half of the year. The 10-year yield settled Friday at 4.374%.

Demand for U.S. government debt remains resilient, pushing Treasury yields to a second consecutive weekly decline. Monetary policy remains largely unchanged after the Fed meeting. Chair Powell will address lawmakers Tuesday in the House and Wednesday in the Senate. Investors will likely tune in for clues on the Fed's next moves.

Meanwhile, markets brace for the potential escalation of the Iran-Israel conflict, which could trigger flights for safety. GDP and PCE inflation reports are due late next week.

In May, US retail sales experienced a decline, with the month-on-month (MoM) figure dropping by 0.91%, compared to a previous decline of 0.08%. This decrease was larger than the forecasted 0.5% drop, marking the lowest level since March 2023. Year-on-year (YoY), retail sales grew by 3.29%, down from 5.0% in the previous period.

Overall, the Industrial production had slightly declined in May, mainly due to a drop in utility output. Manufacturing remained stable, while mining continued to show strength. Capacity utilization remains below long-term averages, suggesting some slack in the industrial sector.

The price of oil is likely to spike as markets open tomorrow and could even soar beyond $US100 a barrel after the Trump administration's intervention in a weeks-long war between Israel and Iran unsettles financial markets.

While the price of Brent crude has drifted more than 10 per cent higher since Israel first launched an attack on Iranian nuclear assets two weeks ago, traders fear US President Donald Trump's authorisation of bombing at the weekend will lead to a rapid escalation in the conflict.

Overview of the US Equities Market

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The S&P 500 closed modestly lower after a volatile week in which investors braced for escalation between Israel and Iran, and amid signs of a split at the Federal Reserve over when to renew interest cut rates.

In a note, Goldman Sachs' David Kostin highlighted how swings have dented markets in 2025. "High volatility and low returns have weighed on risk-adjusted performance across US equity indices so far this year. The S&P 500's 2 per cent return year-to-date (through Thursday's market close) and volatility of 17 have yielded an annualised risk-adjusted return ratio of 0.1, well below the median annual reading since 1990 of 1.0."

The best-performing sectors were financial services, up 0.89%, and energy, up 0.87%. The worst-performing sectors were healthcare, down 2.43%, and basic materials, down 1.33%. Large-cap stocks lost 0.31%, mid-cap stocks rose 0.54%, and small-cap stocks rose 0.89%. Growth stocks gained 0.49%, blend stocks fell 0.22%, and value stocks rose 0.12%. The S&P 500 lost 0.15% and the Nasdaq rose 0.21%.

Of the 849 US-listed companies covered by Morningstar, 386, or 45%, were up, two were unchanged, and 461, or 54%, were down.

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.

Global equity funds recorded net outflows of $19.82 billion for the week ended June 18, the largest in three months, as escalating Middle East tensions and lingering uncertainty over U.S. trade policies dampened investor sentiment.

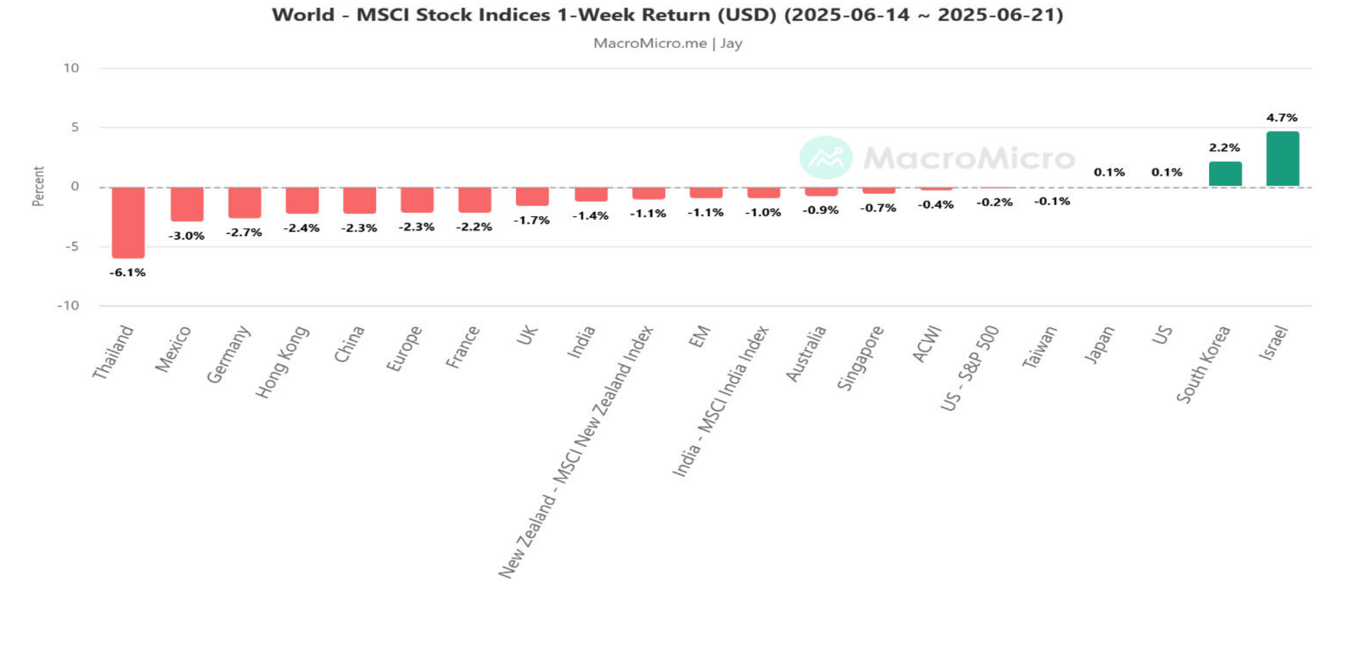
Investors divested a net $19.82 billion from global equity funds during the week, according to LSEG Lipper data.

U.S. equity funds led regional outflows with net sales of $18.43 billion, their steepest withdrawal in three months. Asia saw outflows of $2.86 billion, while Europe recorded net inflows of $640 million.

Global bond funds were popular for the ninth consecutive week, attracting around $13.13 billion in net inflows.

Elsewhere, the global market continued to exhibit material dispersion. The figure shows the weekly performance of key equity markets. The data shows that South Korea and (interestingly) Israel were the best performing equity markets in USD terms. On the other hand, Thailand, Mexico, and Germany were performing worse over the week.

Figure 1: Global Equity Market Performance



Overview of the US Treasuries Market

The yield on 10-year Treasurys held roughly steady after Fed officials left interest rates unchanged and signalled that they were open to cutting rates in the second half of the year. The 10-year yield settled Friday at 4.374%.

Demand for U.S. government debt remains resilient, pushing Treasury yields to a second consecutive weekly decline. Monetary policy remains largely unchanged after the Fed meeting. Chair Powell will address lawmakers Tuesday in the House and Wednesday in the Senate. Investors will likely tune in for clues on the Fed's next moves.

Meanwhile, markets brace for the potential escalation of the Iran-Israel conflict, which could trigger flights for safety. GDP and PCE inflation reports are due late next week. The 10-year falls 0.048 percentage point to 4.374% and the two-year sheds 0.051 p.p. to 3.907%.

Weaker-than-expected Philadelphia Fed business activity index saps some momentum from Treasury yields, which are rising as U.S. markets reopen after the Juneteenth holiday. The indicator was a negative 0.4, unchanged from May. Economists surveyed by WSJ expected a negative 0.2. The Fed left the monetary policy outlook basically unchanged Wednesday, and markets are still mostly pricing two cuts this year. The 10-year is at 4.437% and the two-year is at 3.949%.

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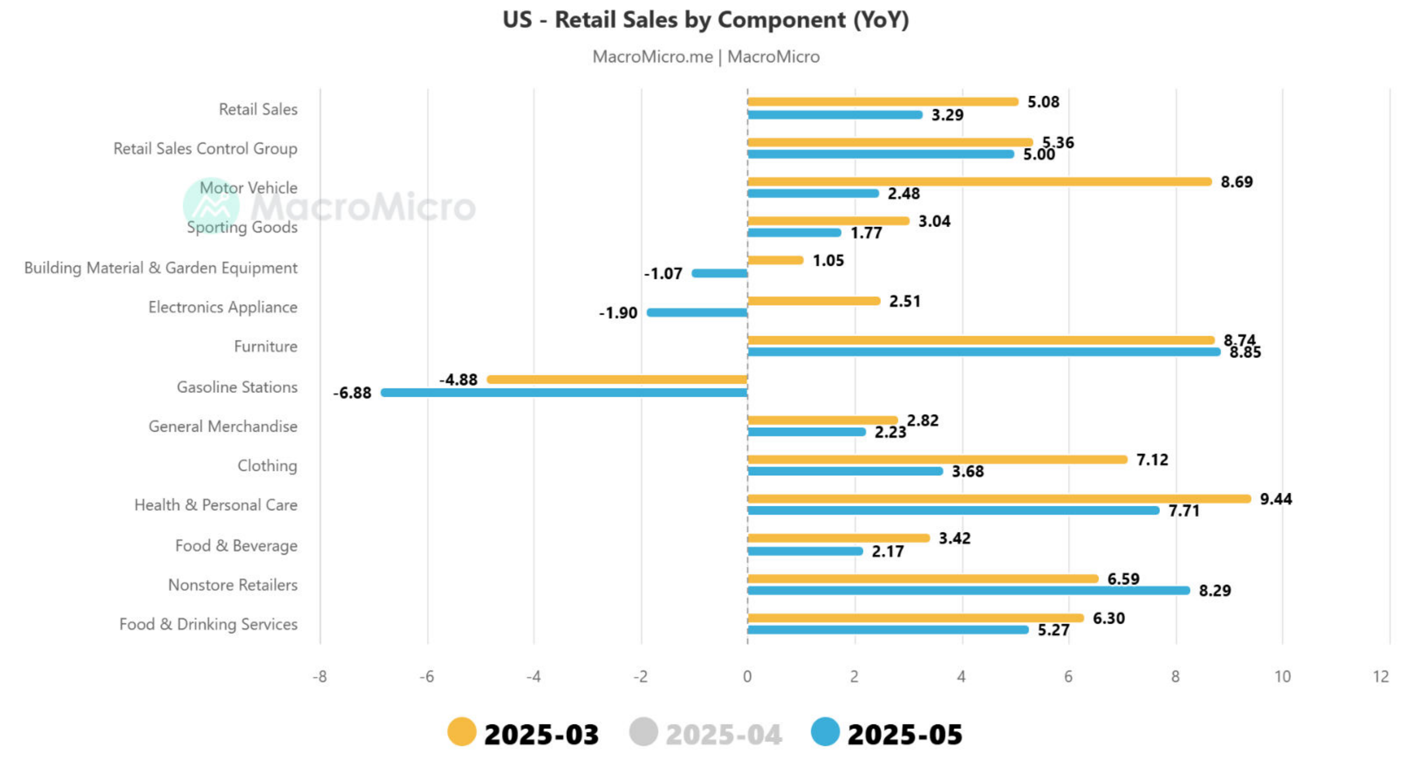
Motor Vehicle sales saw a significant YoY slowdown, with growth at 2.48% compared to 8.9% previously. Sporting Goods showed an increase to 1.77% from 0.46%. Building Material & Garden Equipment sales declined by 1.07%, reversing from a previous growth of 2.11%. Electronics Appliance sales decreased by 1.9%, down from a previous decline of 0.22%. Furniture sales rose to 8.85% from 8.13%. Gasoline Stations saw a slight improvement, with a decline of 6.88% compared to 6.94% previously. Non-store Retailers grew by 8.29%, slightly down from 8.67%.

Figure 2: US Retail Sales



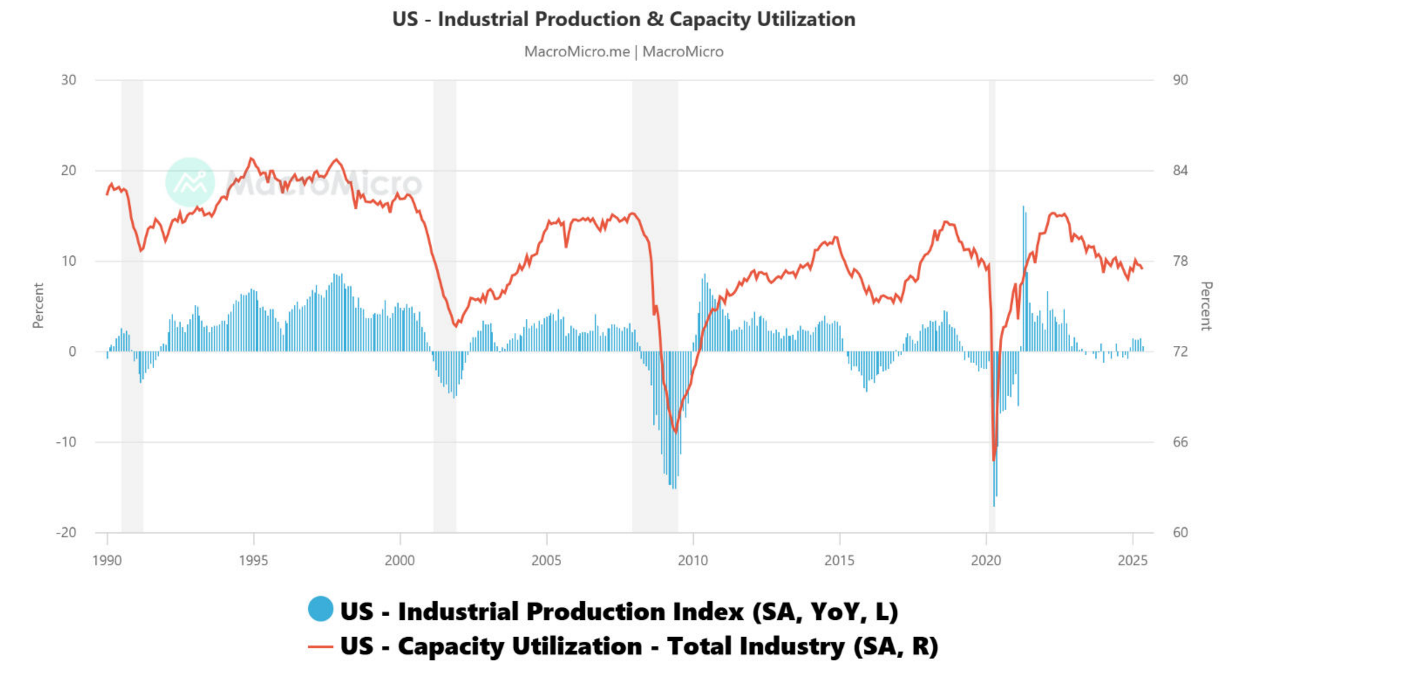
The latest U.S. industrial production data for May 2025 showed Total Industrial Production Index: 103.6 (2017 = 100), while the month-over-month change was –0.2% and Year-over-year change was +0.6%.

Within the Manufacturing sector, the monthly change: +0.1% and the Year-over-year: +0.5%. Within the Mining sector, the monthly change: +0.1% and year-over-year: +2.9%.

Within the Utilities sector, the monthly change was –2.9% and year-over-year: –1.6.

Overall, Industrial production slightly declined in May, mainly due to a drop in utility output. Manufacturing remained stable, while mining continued to show strength. Capacity utilization remains below long-term averages, suggesting some slack in the industrial sector.

Figure 3: US Industrial product



Overview of the Australian Equities Market

The Australian equity market fell to its lowest in more than two weeks on Friday as investors took some money off the table as they wait to see if the United States joins Israel's conflict with Iran.

The benchmark S&P/ASX 200 Index fell 18.2 points, or 0.2 per cent, to 8505.5 on Friday AEST – its fourth day down in a row and the lowest level since the start of June as six out of 11 sectors traded in the red. Over the week, the bourse has fallen just 0.5 per cent.

Australia's share market has given up a five-week winning streak, as investors grapple with military conflict, global growth concerns, and lofty valuations.

The slump came after six sessions of surging oil prices amid escalating Israel-Iran conflict and as US President Donald Trump flagged potential American military involvement within two weeks.

The broader investor uncertainty then collided with heavy falls in big miners after weak economic data from China, as Rio Tinto plummeted to its lowest close since 2022, IG Markets analyst Tony Sycamore told AAP.

Five of 11 local sectors improved on Friday, but a whopping 4.4 per cent drop in materials stocks over the week weighed on the bourse.

Financials slipped 0.6 per cent on Friday to finish roughly flat for a second week, a day after CBA etched its latest record high of $183.31 a share.

All four big banks closed in the red, with ANZ facing the sharpest decline with a 2.5 per cent slip to $28.39.

In banking news, former federal coalition finance minister Simon Birmingham was appointed the Australian Banking Association's chief executive, replacing Anna Bligh after eight years at the helm.

Australian energy stocks have had a massive week, surging almost 11 per cent since Israel launched air strikes on Iran last Friday.

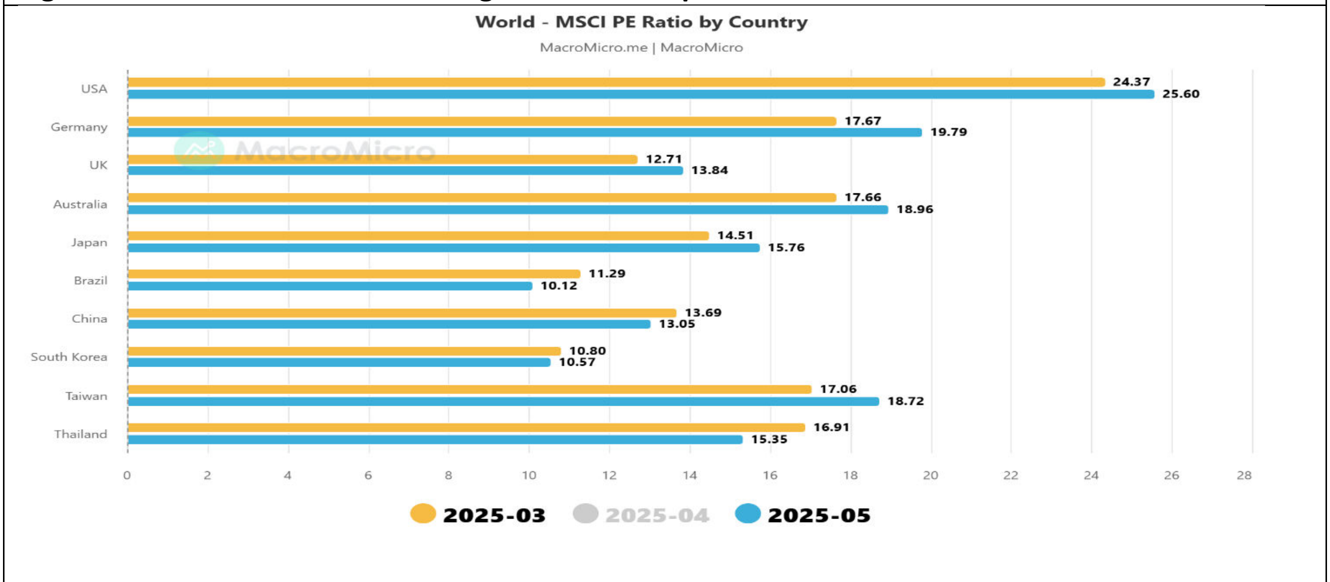
Woodside is up 7.7 per cent over the same period, while Santos has rallied 12 per cent.

Oil prices hit their highest levels since January overnight as the conflict raged on, but eased to US$75.24 a barrel after Mr Trump's two-week decision window relieved fears of an immediate US attack.

The IT sector had a surprisingly good week despite broader risk-off sentiment, edging 0.3 per cent higher since Monday's open.

Figure 4 below shows the PE Multiple of various equity markets. The MSCI USA is the most expensive at 25 times. The market is now more expensive than it was before the tariff-related sell-off. The MSCI Australia is also quite expensive to its history and relative to the pre-tariff related sell-off, as stock prices moved higher while the EPS growth has lagged. Based on this data, Brazil, South Korea and China are the cheapest markets on PE measure.

Figure 4: Australian Stocks – Amongst the most expensive markets



Overview of the Australian Government Bond Market

The Australian bond market continued its recent trend of softening yields on 20 June, reflecting a cautious but steady investor sentiment ahead of key economic data releases. The 10-year bond yield eased to 4.22%, down 3.3 bps from the previous session 1. The 3-year government bond yield slipped to 3.36%, a modest decline of 1.4 bps. The longer dated 20-year bond yield declined to 4.82%, a 0.04 percentage point drop from the previous day, while the 30-year bond yield also softened, settling at 4.92%, down 3.7 bps.

This across-the-curve decline suggests a market in a holding pattern, with investors positioning defensively amid expectations of a potential pivot by the Reserve Bank of Australia (RBA). The Bloomberg AusBond Composite Index ticked up by 0.09%, continuing its gradual rally. This indicates cautious optimism, with investors favoring fixed income as they await clearer signals from both domestic and global central banks.

Markets are increasingly pricing in a 90 basis point rate cut over the next year, targeting a 2.85% cash rate. However, no aggressive moves are being made yet—investors are largely in a wait-and-see mode for further developments on tariffs and geopolitical fronts.

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

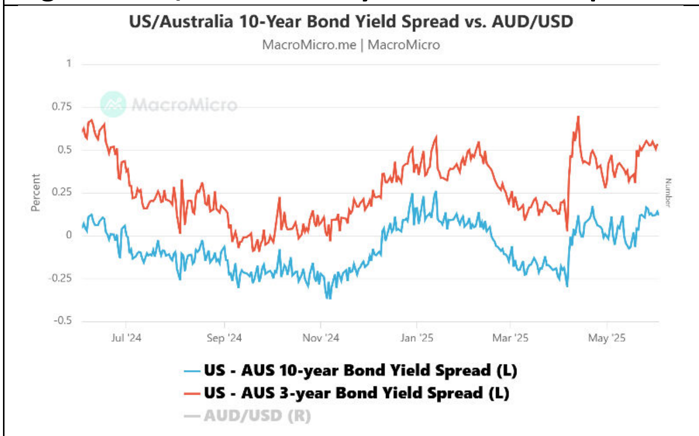
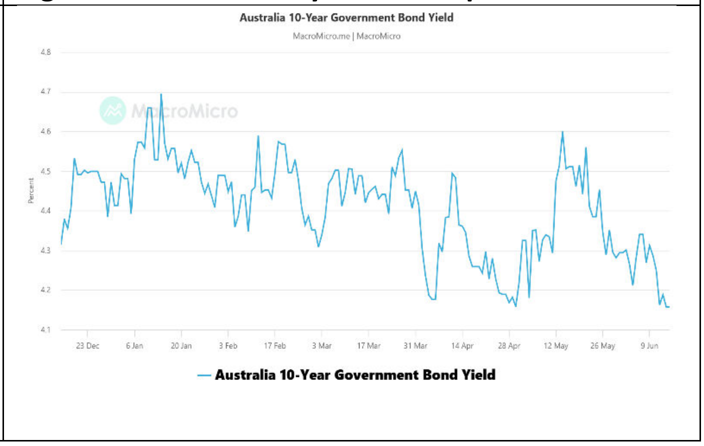


Figure 6: Australia 10-year Bond Spread vs US



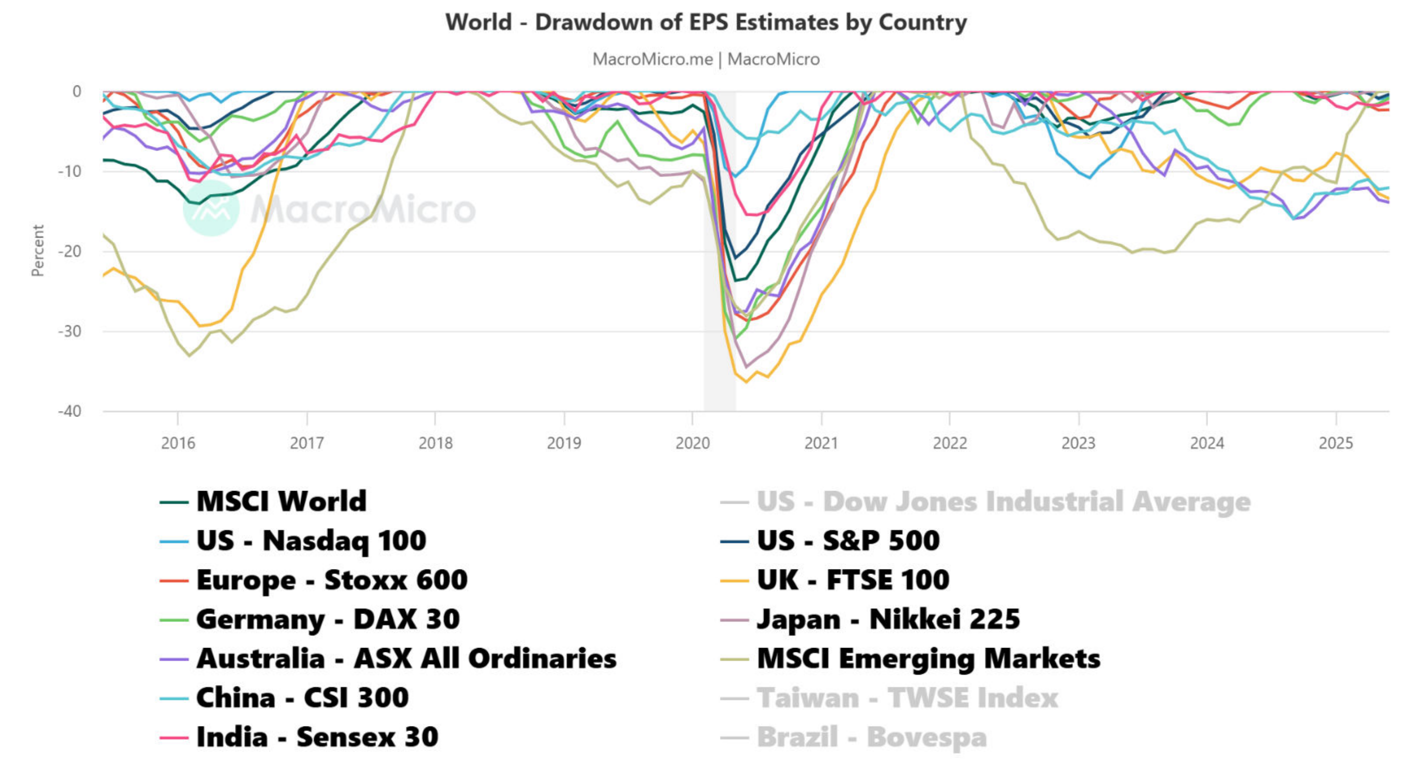
The Fed on Wednesday (Thursday AEST) kept the benchmark interest rate unchanged between 4 per cent and 4.25 per cent at its policy meeting, as expected. Chairman Jerome Powell noted that the US labour market remained solid and was at or near maximum employment.

While US policymakers reaffirmed they expected lower borrowing costs this year, they also dialed back the anticipated pace of future cuts, saying inflation would pick up in the coming months due to the White House's sweeping tariffs.

Chart of the Week- Crude Oil Futures

Global share market valuation continues to be influenced by the country-heavyweight, USA. The world's largest market is currently trading at the Price to Earnings (PE) multiple of 25 times which is above its historical average. The rest of the world (Ex-USA) is trading much cheaper. In this week's chart of the week, we profile the Earnings Per Share (EPS) growth drawdown (fall from recent high) to gauge the trajectory of earnings. The latest data shows that countries witnessing a falling EPS trend include China, Australia and UK. On the other hand, emerging markets as a region/block are witnessing rising EPS growth and have recovered from the recent drawdown. There are several countries like India, USA, Germany, Japan and Europe (bloc) are witnessing small drawdowns. While the numbers include some of the impact from tariff uncertainty, it remains to be seen

Figure 7: EPS Drawdown by Major Country/Region



Looking Ahead: Major Economic Releases for the Week Ended 27 May

This week, ending June 27, 2025, the Australian Consumer Price Index (CPI) data for May 2025 is likely to show inflation continuing to ease, potentially reducing household financial strain. This could encourage the Reserve Bank of Australia (RBA) to consider interest rate cuts at its July 2025 meeting to stimulate growth in sectors like retail and housing. However, global trade uncertainties, particularly US tariffs, may pose risks to Australia's export-driven economy. As for the US, the final GDP estimate for Q1 2025 is expected to confirm an economic contraction, driven by increased imports and reduced government spending. Despite this, May 2025 PCE price indices and personal consumption data are expected to indicate moderating inflation and economic resilience. Consumer confidence and sentiment for June 2025 are likely to remain stable, supported by recent trade deal progress, though geopolitical and trade tensions persist.

Major Economic Releases for the Week ending 27 Jun, 2025				
Date	**Country**	**Release**	**Consensus**	**Prior**
Tuesday, 24/06	United States	Consumer Confidence	99.8	98
Wednesday, 25/06	Australia	Weighted CPI YY	2.3	2.4
Wednesday, 25/06	Australia	CPI SA MM	n/a	0.2
Wednesday, 25/06	Australia	CPI SA YY	n/a	2.3
Thursday, 26/06	United States	Durable Goods	8.5	-6.3
Thursday, 26/06	United States	GDP Final	-0.2	-0.2
Friday, 27/06	United States	Consumption, Adjusted MM	0.1	0.2
Friday, 27/06	United States	Core PCE Price Index MM	0.1	0.1
Friday, 27/06	United States	Core PCE Price Index YY	2.6	2.5
Friday, 27/06	United States	PCE Price Index MM	0.1	0.1
Friday, 27/06	United States	PCE Price Index YY	2.3	2.1
Friday, 27/06	United States	U Mich Sentiment Final	60.5	60.5

PART 2 – Investment Opportunity Review

Defensive Income - Cash

This across-the-curve decline suggests a market in a holding pattern, with investors positioning defensively amid expectations of a potential pivot by the Reserve Bank of Australia (RBA). The Bloomberg AusBond Composite Index ticked up by 0.09%, continuing its gradual rally. This indicates cautious optimism, with investors favoring fixed income as they await clearer signals from both domestic and global central banks.

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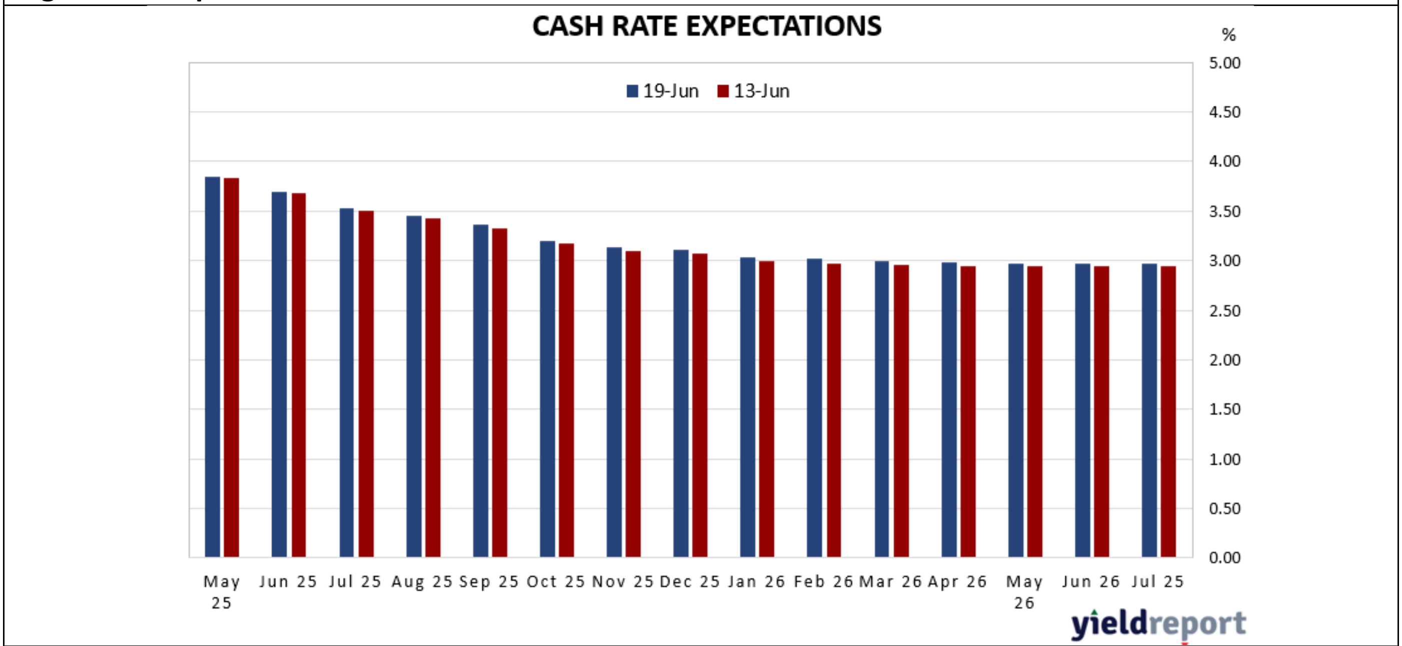
Figure 8: Swaps on RBA Rate Cutes



Defensive Income- Term Deposits

The movement in term deposit rates by major and non-major banks continues to see movements. Over the past week, there were a lot more down moves than up moves.

Our survey across 43 institutions continues to indicate that the most contested term deposit is a term included 6 months, followed by 3 months and 5 year.

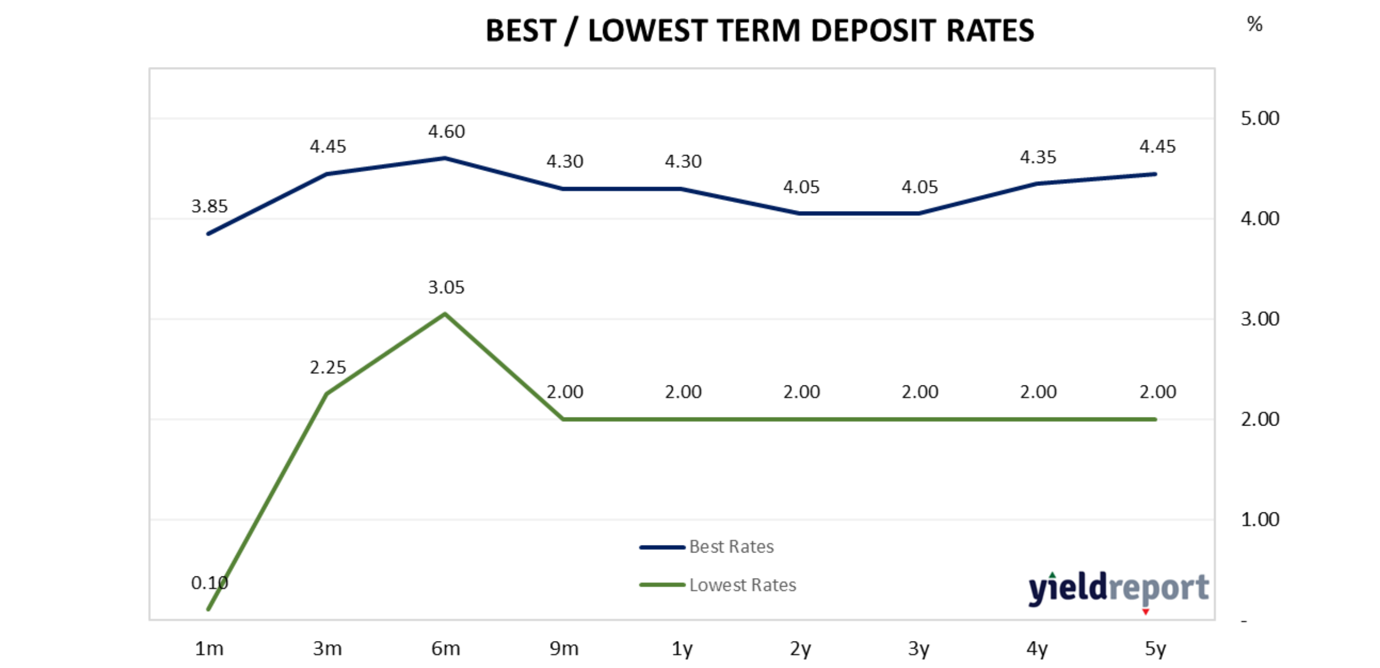
This week, the best rate with 3 month term was 4.45%, down from 4.7% in the week before. Both IN1Bank and Teachers Mutual are offering the best rates in 3 month category.

This week, the best rate within 6 months term was 4.6 %, steady from the week before. The 6-month term is now the best offered rate with a median of 4.1%, down 0.05% from the week prior.

Interestingly, the best 5-year rate went up this week to 4.45% compared to 4.3% in the week prior. This best 5-year rate is offered by Judo Bank. The median rate for 5 year term across the 43 banks/non-banks remained unchanged over the week at 3.25%.

Our analysis also shows that the term deposit offering across the market with greater than 4% rate continues to improve or remain steady. In the 3-month category, we now observe 11 institutions offering greater than 4% rate compared to 9 in the prior week. In the 6 month category, we now observe 21 institutions offering rates greater than 4% compared to 20 during the previous week. This is why we observe that the 6 month category is the most contested segment of the term deposit market.

Figure 9: Highest Term Deposit Rate by Term



Defensive Income – Government Bonds

The Australian bond market continued its recent trend of softening yields on 20 June, reflecting a cautious but steady investor sentiment ahead of key economic data releases. The 10-year bond yield eased to 4.22%, down 3.3 bps from the previous session 1. The 3-year government bond yield slipped to 3.36%, a modest decline of 1.4 bps. The longer dated 20-year bond yield declined to 4.82%, a 0.04 percentage point drop from the previous day, while the 30-year bond yield also softened, settling at 4.92%, down 3.7 bps.

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

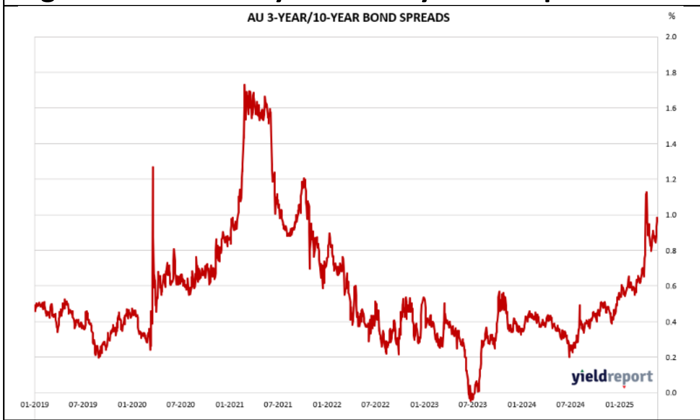


Figure 11: US 10 yr minus 2 yr Bond Spread

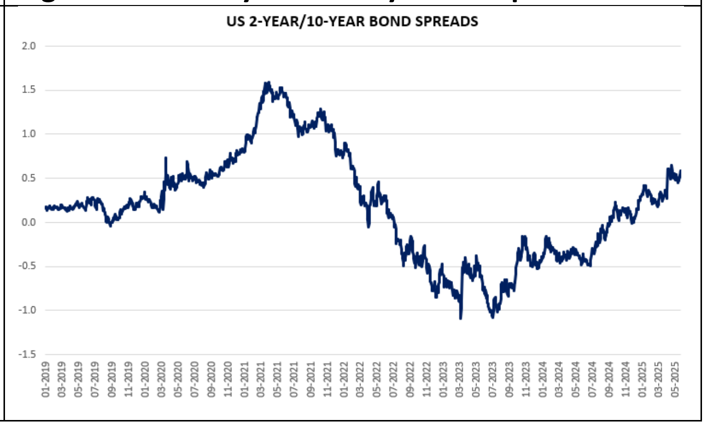
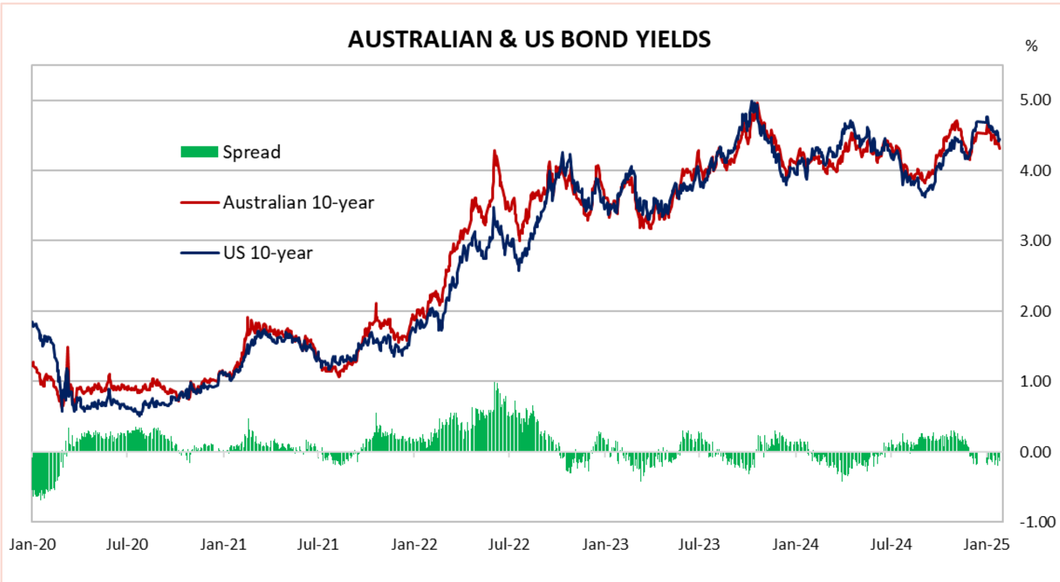


Figure 12: Australian & US Bond Yields



Corporate Bonds

Spreads generally compressed again this week, except for 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 notes 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 13: ITRAXX Australia - CDS Index

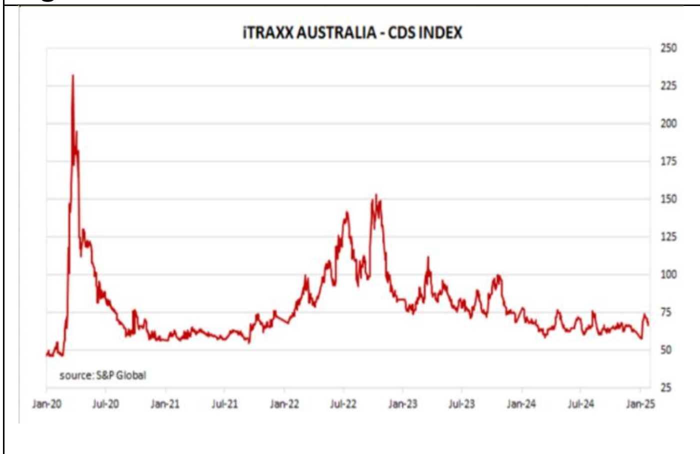
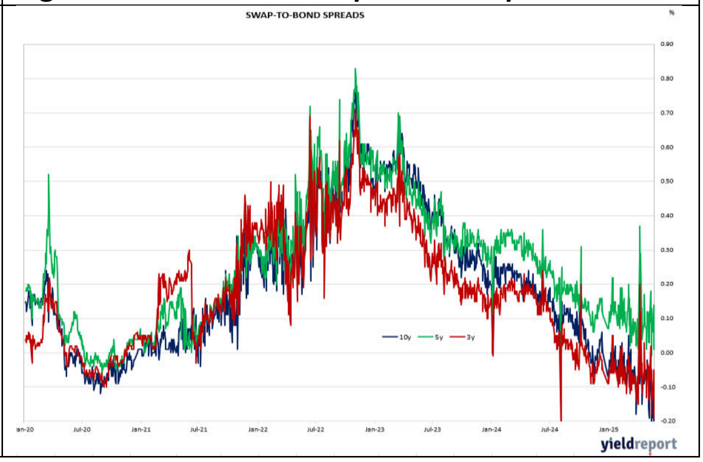


Figure 14: Australian Swap to Bond Spreads



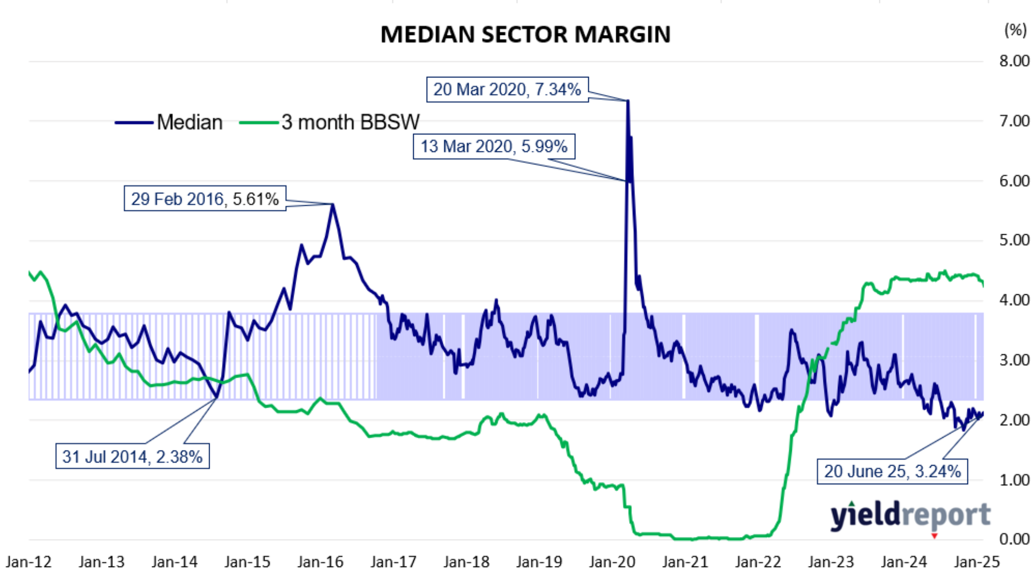
Bank & Corporate Hybrids

From 16 to 20 June 2025, Australian bank hybrids delivered steady performance with selective strength in mid-tier and short-duration issues, reflecting a market still hungry for yield despite looming structural changes.

Top performer: Judo Capital's JDOPA led with a 9.44% running yield, trading at a premium near $112. Latitude's LFSPA followed with 8.98%, offering high yield at a discount ($97.80).

Macquarie's MBLPC and Challenger's CGFPC also stood out, yielding 8.50% and 8.38%, respectively. Westpac's WBCPH posted the largest trading margin jump, up 3.09%, closing near par—signalling renewed interest in near-term callable hybrids.

Figure 15: Hybrids: Median Sector Margin



About YieldReport - Your Income Advantage

YieldReport is Australia's leading online investor platform on interest rate markets and yield investments. YieldReport provides research, data, advice, news review and insights on what's shaping the yield curve and fixed income markets. It also provides a great source of reference for pricing and performance data on yield focused investment opportunities including cash, term deposits, government and semi-government bonds, managed funds, ETFs, corporate bonds, floating rate notes and hybrids. YieldReport insights and analyses are designed to help anyone capital allocation or investment selection – whether it be their own or whether they sit on a finance committee, board etc. – to make informed decisions about where interest rates are going and to have access to the best rates and latest performance data available on yield-oriented investments.

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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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