yieldreport Daily

Your Income Advantage

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Overview of the US Market

Wall Street's optimism propelled stocks to fresh highs at the start of a promising July, fuelled by hopes of stabilising trade negotiations with key partners and expectations of Federal Reserve rate cuts. The S&P 500 edged down 0.11% to 6,198.01, while the Nasdaq Composite slipped 0.82% to 20,202.89, reflecting minor profit-taking after a robust quarter. Despite the slight declines, both indices posted significant year-to-date gains of +4.84% and +5.70%, respectively, marking their best first-half performance since 2021, driven by a surge from April lows.

Technology stocks continued to lead the rally, with companies like Apple Inc. and Oracle Corp. standing out. Apple Inc. advanced after strong iPhone sales data, while Oracle Corp. soared on news of a $30 billion annual cloud-services contract. Major banks also gained traction following the Federal Reserve's annual stress test approvals, paving the way for increased dividends and buybacks. The market's resilience came despite a relative calm after a volatile first half, marked by trade war uncertainties, geopolitical tensions, and deficit concerns under President Donald Trump's administration.

With the July 9 trade deadline looming, the European Union is negotiating a deal that might include a 10% tariff on many exports, seeking exemptions, while Trump has hinted at new tariffs on Japan. His economic adviser signalled progress toward finalising trade deals after the July 4 holiday. Bonds also saw gains, with Treasury yields easing, as Treasury Secretary Scott Bessent suggested avoiding increased long-term debt sales given current yield levels, anticipating further declines as inflation cools. Goldman Sachs projects a September Federal Reserve rate cut, noting tariff-related inflation impacts are milder than anticipated.

Ahead of the June employment report, due Thursday due to the July 4 holiday, economists surveyed by Bloomberg expect job growth to slow to approximately 110,000 from 139,000 last month, with the unemployment rate ticking up to 4.3%. This data could further influence market sentiment and rate cut expectations.

Overview of the Australian Market

The Australian share market closed higher on Tuesday, wrapping up a strong financial year with a solid double-digit gain, buoyed by optimism over potential trade agreements and expectations of Reserve Bank of Australia (RBA) rate cuts. The benchmark S&P/ASX 200 index finished up 34.79 points, or 0.41%, at 8,575.90, while the broader All Ordinaries index rose 36.76 points, or 0.42%, to 8,808.80. The S&P/ASX 300 index also gained 34.49 points, or 0.41%, to 8,508.30.

For the financial year, the ASX 200 achieved a 10.2% gain, or around 14% total return including dividends, marking a resilient performance amid global uncertainties. The index also recorded a 1.92% rise over the past month and a 11.11% increase over the year, reflecting steady growth. Seven of the ASX's 11 sectors ended higher, with materials and financials leading the charge, while energy and utilities saw modest declines.

Materials surged 1.3%, with BHP climbing 1.9% to $36.75 and Rio Tinto advancing 1.4% to $107.13, driven by a rebound in commodity prices. Financials rose 0.8%, with Commonwealth Bank up 0.3% to $190.71 and Westpac steady at $34.57, supported by expectations of lower interest rates. Health care also performed well, gaining 1.1% as CSL rose 1.5% to $295.50 after positive clinical trial results.

On the downside, energy dipped 0.5% as Woodside fell 1.2% to $24.10 amid oil price volatility. The market's upward trend was underpinned by hopes of a trade deal with the US ahead of the July 9 deadline, though caution lingered with the RBA's July 7–8 meeting on the horizon.

The June employment report, due later this week, is forecasted to show job growth easing to around 100,000 from 120,000 last month, with unemployment steady at 4.1%, according to market analysts. This data could further shape expectations for monetary policy adjustments.

Overview of the US Bond Market

The US Treasuries experienced a modest rally as yields declined, influenced by ongoing speculation about Federal Reserve leadership changes. The 10-year Treasury yield fell 4 basis points to 4.24%, while the 2-year yield dropped to 3.77%, reflecting market expectations of potential rate cuts. This movement follows reports of President Donald Trump considering a replacement for Federal Reserve Chair Jerome Powell by September or October, amid his continued push for lower borrowing costs.

Investors anticipate a dovish successor, potentially accelerating rate cuts beyond current projections, with traders pricing in a 95% likelihood of a 25 basis point cut in September and two cuts fully expected by year-end, with a third cut partially anticipated. The Bloomberg Dollar Spot Index weakened by 0.5% to its lowest since April 2022, impacting the dollar against Group-of-10 peers, with Commerzbank predicting the euro could reach $1.18 soon if rate cut expectations persist.

Economic data supported this outlook, with US consumer spending in Q1 growing at a revised 0.5% annualized rate, contributing just 0.3 percentage points to GDP—the weakest since Q2 2020—down from a prior 0.79 point boost, per Bureau of Economic Analysis figures. Durable goods orders surged 16.4% in May, driven by a 48% rise in transportation equipment, notably nondefense aircraft parts, though broader business investment remained sluggish, according to Commerce Department data.

Overview of the Australian Bond Market

The Australian bond market saw steady movements, reflecting a mix of domestic economic stability and global influences. The Bloomberg AusBond Composite 0+ Yr Index edged up 0.12%, signalling a slight rise in bond prices. Short-term yields softened, with three-month bank bills declining 2 basis points to 3.23% and six-month bank bills dropping 5 basis points to 3.54%. Government bond yields varied: the 2-year yield fell to 3.23%, the 5-year yield held at 3.54%, the 10-year yield decreased 3 basis points to 4.13%, and the 15-year yield rose slightly to 4.47%.

These shifts occurred amidst expectations of Reserve Bank of Australia (RBA) rate cuts, supported by stable inflation at 2.1% in May and unemployment steady at 4.1%. Markets are pricing in a 92% chance of a 25 basis point cut to 3.60% at the July 7–8 RBA meeting, with two more cuts expected by year-end to bring the cash rate to 3.10%, and a terminal rate of 2.85% projected for early 2026. Key drivers include:
- Weak Q1 GDP growth of 0.2% quarterly and 1.3% annually, below forecasts.
- Subdued consumer and business sentiment.
- A disinflation trend with May CPI at 2.1%.
- Stable unemployment at 4.1%, with minimal wage pressure.

Analysts from CBA, Westpac, NAB, and ANZ forecast a cut to 3.60% in July, followed by a further reduction to 3.35% in August, aligning with expectations of deeper easing. Global trade tensions and geopolitical factors continue to shape market dynamics, though Australia’s bond demand remains robust.

Australian Bank Hybrids

The hybrid securities market has shown signs of stability and yield compression, particularly among major bank-issued instruments. With cash rates holding steady, investor appetite for fixed income assets has been resilient.

Key Observations for Australian Banks:

Hybrid Prices Firming: Major bank hybrids have seen mild price appreciation, driven by strong demand in the secondary market. The average trading margin across Tier 1 bank hybrids has tightened, reflecting reduced perceived credit risk.

AT1 Instruments in Focus:

Recent performance of Additional Tier 1 (AT1) securities like NABPH, CBAPG, and AN3PF indicates growing investor confidence in the capital strength of Australia's major banks.

Most major bank-issued hybrids are now trading above face value, with margins tightening to the 2.5%–3.2% range.

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