yieldreport Daily

Your Income Advantage

23rd July 2025

Overview of the US Market

The S&P 500 hit all-time highs on news reports the EU and the US are progressing toward an agreement that would set a 15% tariff for most products.

Stock indexes started the day higher after the Japan pact was disclosed late Tuesday, and then climbed to new highs after reports that the European Union is negotiating a trade agreement with the Trump administration that would see the bloc accept 15% tariffs on most exports to the U.S.

During Wednesday's trade, the Dow Jones Industrial Average gained 1.1%, or 507.85 points, to close at 45010.29. The S&P 500 rose 0.8% and the Nasdaq composite added 0.6%, also hitting a record and closing above 21,000 for the first time.

The rally in equity markets came on the back of statements from President Trump who said said that the U.S. will levy 15% tariffs on Japan, with tariffs at the same level on the country's auto industry. Japan will also invest $550 billion in America, and the U.S. will receive 90% of the profits from the investments, he said. The whirlwind of trade deals has raised investors' hopes that the Trump administration will sign more agreements with trading partners before the Aug. 1 deadline for the president's tariffs to kick in. The U.S. announced deals with the Philippines and Indonesia on Tuesday.

In late hours, Alphabet Inc. reported better-than-expected revenue, but said capital expenditures will be higher than previously forecast. Tesla Inc.'s earnings fell short of Wall Street's estimates.

Tesla's net income plunged 16% in the second quarter, marking another quarter of steep declines at the company as automotive sales continue to fall. The company's second-quarter revenue declined after a drop in automotive deliveries, which were down 13.5% from a year earlier. Tesla reported $22.5 billion in revenue for the quarter, down 12% compared with the same period last year. Revenue from the company's automotive business fell 16%. The energy business fell 7%.

Google's parent company reported a 14% jump in year-over-year revenue, driven by growth in its cloud and search divisions that was tempered by heavy spending on artificial intelligence. Alphabet beat expectations and said it was lifting its 2025 capex budget by $US10 billion ($15 billion) to about $US85 billion amid surging demand for its cloud products and services. The firm had record sales of $96.4 billion in the second quarter but also said capital expenditure expectations for the year would increase by 13% to about $85 billion. That compares with $52.5 billion in 2024. Google's results were the first in a series of quarterly tech earnings, with Microsoft, Apple, Amazon and Meta Platforms reporting next week. Investors are keeping a close watch on spending levels at most of the biggest companies, which have ballooned as they race to stay ahead in an escalating AI arms race.

International Business Machines' investments in artificial intelligence are helping it stay agile as customers continue to shift their spending to keep up with a shifting macroeconomic environment. Revenue rose 8% to $16.98 billion in the second quarter. Analysts surveyed by FactSet forecast revenue of $16.59 billion. Software sales were driven by 16% growth in its hybrid cloud revenue, which includes its Red Hat cloud-management, and increased at a higher rate than the prior quarter. Automation revenue also increased 16%.

The EU and the US have accelerated talks over the past weeks to avoid a full-blown trade war. Bloomberg News reported that European officials are optimistic that a deal can be reached, but negotiations remain fluid.

Equities will beat Treasuries and deliver better volatility-adjusted returns as the reporting season ramps up in the coming weeks, according to nearly two-thirds of the 102 participants in a poll conducted July 10-17. The positive outlook for stocks continues to be underpinned by technology, and the sector is poised to perform strongest this earnings season, respondents noted.

Overview of the Australian Market

The S&P/ASX 200 finished higher despite mixed sector performance, as a surge in materials and energy stocks offset ongoing financials pressure.

The broad index advanced 0.69% to 8,737.2, nearing last Friday's record close within 0.1%. The All Ordinaries rose 60.2 points, or 0.67%, to 9,001.4, while the Small Ords Index gained 0.52% to 3,381.3, showing broad-based strength. The Australian dollar strengthened 0.15% to 0.6565, buoyed by positive US futures, with the S&P 500 up 0.27% to 6,364.0.

Investors digested corporate updates on Wednesday, with some reflecting resilience amid tariff concerns from Trump's 30% threats on EU and Mexico goods due August 1. Materials stocks led gains, with Fortescue Metals up 2.3%, Rio Tinto gaining 1%, and BHP advancing 0.9% as iron ore futures hit $US105.65—a five-month high—driven by China's Tibet dam project. Energy rallied 0.83%, led by Woodside Energy's 1.5% rise after strong Q2 production, despite oil weakness.

Financials rose 0.79%, with Insurance Australia Group jumping 3.2% after an UBS upgrade, though the sector remains volatile. Telix Pharmaceuticals plunged 15.1% to nine-month lows after a US SEC subpoena, while Paladin Energy tumbled 11.3% due to missed FY26 guidance. Whitehaven Coal surged 6.5% as China cracked down on coking coal overproduction, and homebuilders like James Hardie gained 5.1%.

The market's strength signals broadening leadership beyond financials, with the Energy Index hitting a nine-month high and Materials up 6.2% over five days, breaking above its 200-day moving average. Today's strong PMI flash data for Jun, alongside the new Japan-US trade deal and potential EU agreement add optimism further.

Overview of the US Bond Market

Treasury 10-year yields raised four basis points to 4.39%. Bonds remained lower even after a strong $13 billion sale of 20-year securities that tested the appetite for long-maturity debt. Japan's 40-year government bond auction saw its weakest demand since 2011.

Bond traders are boosting bets that the Federal Reserve will cut interest rates more aggressively next year, as speculation mounts that an eventual change of leadership at the central bank will deliver the easier monetary policy that President Donald Trump is demanding.

The U.S.-Japan trade deal spurs risk appetite and Treasury sell off, putting yields on pace to snap a three-day decline. The U.S. will levy 15% tariffs on Japanese goods. President Trump says Japan will also invest $550 billion in America. Trade talks have been driving markets in the absence of major U.S. indicators. June existing home sales data are due at 10 a.m. ET and expected to contract, in a WSJ survey. Weekly jobless claims tomorrow are forecast to accelerate a little. The 10-year is at 4.376% and the two-year at 3.853%.

The shift shows how traders are increasingly convinced that a successor to Powell — whose term ends in May 2026 — will fall in line with the president's demands for lower rates. While Trump last week quickly walked back threats to fire the Fed chief after they sparked a brief spasm in markets, investors appear to have latched onto the idea that he will succeed in bending the central bank to his will.

Powell has been under fire from Trump and his allies for holding back on rate reductions due to concern over the inflationary impact of the administration's tariff hikes. A number of Republicans this month have also taken issue over a costly renovation of the central bank's buildings.

Potential candidates to replace Powell, including Kevin Hassett and Kevin Warsh, have all voiced their support for lower rates. Two Republican-appointed Fed governors — Christopher Waller and Michelle Bowman — have also signalled their openness to cutting rates as early as at the July 29-30 policy meeting.

While traders see zero chance for a rate cut next week, futures tied to the fed funds rate are reflecting a 58% probability for a 25-basis point cut in September as of Wednesday.

Overview of the Australian Bond Market

Australian 10-year Treasuries rose for a third day as the market absorbed today's ASX gains and awaited key data, with the yield ticking up 2 basis points to 4.32%. The 2-year yield climbed 4 basis points to 3.37%, reflecting short-term rate sensitivity, while the 5-year yield raised 3 basis points to 3.71%. The 15-year yield increased 3 basis points to 4.69%, supported by a steeper yield curve amid global trade developments.

Yields have edged higher over the past month, with the 10-year up 11 basis points, driven by optimism from China's infrastructure push and softer domestic employment data (unemployment at 4.3%) reinforcing an 85-basis point rate cut expectation over the year, targeting 3.02% by mid-2026. The August cut to 3.68% holds at 94%. Yesterday's composite leading index, down 0.03% and PMI flash data (manufacturing 51.6, services 53.8) signal modest growth, tempering aggressive easing bets.

Interest-rate swaps remain stable, with the 10-year yields rise blending domestic resilience with global caution ahead of US data. Today's strong PMI flash for Jun could shift yields, especially with the Japan-US trade deal and potential EU progress reducing tariff fears. The AUD's 0.15% gain to 0.6565 reflects this optimism, though focus remains on the August 1 deadline.

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, and 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.

Explore more via the website - www.yieldreport.com.au. Find daily updates on social media platforms such as LinkedIn and Twitter.
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

Disclaimer