



Your Income Advantage

7th July 2025

Overview of the US Market

Bearish sentiment gripped stocks as escalating trade tensions and uncertainty ahead of the July 9 tariff deadline overshadowed the release of solid economic data. Treasury yields rose, while the dollar steadied. Oil prices remained steady amid ongoing ceasefire talks in the Middle East.

The S&P 500 fell 0.79% to 6,229.98, and the Nasdaq Composite dropped 0.92% to 20,412.52, retreating from recent highs. West Texas Intermediate crude remained around \$67.27 a barrel, stabilizing after recent volatility. In after-hours trading, Tesla Inc. saw significant volume but a sharp decline, hinting at profit-taking.

Tech stocks struggled, with Nvidia slipping 0.69% despite high volume, losing ground to Microsoft in market cap rankings. The sector's pullback reflects caution after a rapid recovery from April's tariff-driven lows. Investors are closely monitoring trade negotiations, with Canada and the EU still in talks with the Trump administration.

Traders remain focused on Middle East developments, as the Israel-Iran ceasefire holds tenuously. Analysts suggest oil price movements will stay muted unless energy infrastructure is targeted. Federal Reserve Chair Jerome Powell's recent comments on a cautious approach to rate cuts, amid tariff-related inflation risks, added to market jitters.

The risks to equities persist, with trade uncertainties and geopolitical tensions overshadowing resilience. The S&P 500, now 1% below its record high, faces pressure as the market digests tomorrow's US jobs report and the tariff deadline.

Overview of the Australian Market

The ASX 200 closed 13 points lower (-0.16%) at 8,590, following Friday's record close of 8,603, reflecting choppy but bullish price action. The market remains within striking distance of record highs despite consecutive down days, with tomorrow's RBA decision as a key catalyst.

Market breadth was slightly negative, with 108 S&P/ASX 200 constituents (54%) finishing lower. Heavyweight stocks were mixed, with CBA down 0.11% and BHP off 0.34%, offset by CSL's 2.1% gain. Utilities surged 3.5%, led by Origin Energy's 6.5% jump after a Sky News report suggested a potential \$14 billion valuation for its Kraken Technologies stake. Healthcare rose 0.9%, buoyed by CSL's rebound from six-year lows, though no specific news drove the move.

Markets are pricing an 86% chance of a 25-basis-point RBA rate cut on Tuesday to 3.60%, with three more cuts expected by year-end. The focus is on the 1:30 PM AEST announcement, which could shift sentiment given the current proximity to record levels.

Overview of the US Bond Market

Treasury yields climbed as trade tensions and inflation concerns dominated, with the benchmark 10-year note yielding 4.38%, up 13 basis points from a month ago. The 30-year yield rose to 4.92%, gaining 44 basis points over the past year, reflecting unease about US fiscal sustainability.

The 2-year yield dipped 14 basis points to 3.89%, while the 5-year held at 3.96%, down 16 basis points monthly. The yield curve steepened, signalling mixed expectations for rate cuts. Federal Reserve Chair Jerome Powell's testimony yesterday reiterated a cautious stance, with markets now pricing two cuts by year-end, leaning toward September over July despite a slight uptick in July bets.

Treasury Secretary Scott Bessent's push to ease bank capital requirements, allowing more Treasury purchases, supported yields. Investors await tomorrow's jobs report, which could sway the Fed's next move as the tariff deadline looms.

Overview of the Australian Bond Market

Australian government bond yields edged higher, with the 10-year yield rising 3 basis points to 4.21%, and the 15-year up 4 basis points to 4.56%, reflecting cautious optimism ahead of tomorrow's RBA decision. The 2-year yield increased 1 basis point to 3.28%, while the 5-year rose 2 basis points to 3.61%.

The uptick follows last week's softer May CPI data (2.4% trimmed mean), reinforcing an 86% probability of a 25-basis-point rate cut tomorrow to 3.60%, with three more cuts priced by year-end. Credit spreads tightened, with 5-year major bank seniors at +80 basis points and Tier 2s at +160 basis points, supported by low EOFY supply expectations.

Global yields were subdued overnight, with a focus on Powell's cautious Fed stance and tariff impacts. The Australian dollar held steady at 0.6586 US cents, as markets brace for the RBA's 1:30 PM AEST announcement, which could drive further yield adjustments.

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