yieldreport Weekly

Your Income Advantage

30th June to 4th July 2025

PART 1 – Equity & Bond Market Analysis

Weekly Overview

The major Australian stock indices edged higher over the week ending July 4, 2025, with the S&P/ASX 200 marking its eighth record high of the year, gaining a modest 0.08% to close at 8,603.0. The All Ordinaries rose 0.09% to 8,841.9, while smaller indices like the Small Ords (+0.10% to 3,264.1), All Tech (+0.28% to 4,055.5), and Emerging Companies (+0.47% to 2,332.0) also advanced. The gains came despite a volatile session on Friday, buoyed by a resources rally earlier in the week, though US markets remained closed for Independence Day.

Australian government bond yields saw slight increases, with the 10-year yield rising 1 basis point to 4.19%. The market digested a softer May CPI print, reinforcing expectations of a July rate cut, while global yields remained muted with the US market shuttered. Iron ore prices stabilised, supporting materials, though oil prices dipped to around $67 per barrel amid seasonal demand concerns and a steady Middle East ceasefire.

Investors were lifted by progress in trade negotiations ahead of the July 9 reciprocal tariff deadline, with Trump's administration extending talks with key partners. However, uncertainty persists as the RBA's July 7–8 meeting and Tuesday's US jobs report loom. At the week's midpoint, the ASX 200 Volatility Index held steady at 14.2, down from a year-to-date high of 18.9 in April, signalling reduced short-term market jitters.

Inflation data released earlier this week showed Australia's trimmed mean CPI at 2.4% year-on-year, below the prior 2.8%, bolstering rate cut optimism. A weekly labour market update due Tuesday will reveal if June's job growth, estimated at 100,000, held steady, following May's 120,000 gain. The Australian dollar remained stable at 0.6586 US cents, supported by a quiet global backdrop.

Overview of the US Equities Market

With US markets closed on Friday for Independence Day, the week's equity performance reflected Thursday's gains, with the S&P 500 up 0.83% to 6,279.35 and the Nasdaq Composite rising 1.02% to 20,601.10. The week's advance, estimated at around 2%, was fueled by tech strength and trade negotiation optimism, though the Dow lagged, remaining below its peak.

Active trading highlighted Lixte Biotechnology Holdings Inc. (LIXT), up 40.10% to $2.83 on 64.1 million shares, and Bit Digital Inc. (BTBT), gaining 11.79% to $2.94 on 77.3 million shares, driven by biotech and crypto momentum. NVIDIA Corp. (NVDA) added 1.33% to $159.34 on 143.7 million shares, reinforcing tech leadership, while Lucid Group Inc. (LCID) rose 5.37% to $2.16 on 211.4 million shares, buoyed by EV interest.

Trade talks ahead of the July 9 deadline lifted sentiment, though Canada talks collapsed over dairy tariffs. With earnings season nearing, focus shifts to Tuesday's reopen and Friday's holiday-delayed jobs report, expected to show 100,000 jobs added in June, down from May's 139,000. The Cboe Volatility Index, steady at 16.3 pre-holiday, suggests muted short-term risks.

Overview of the US Treasuries Market

US Treasury yields held steady in pre-market trading on Friday, closed for Independence Day, with the 10-year note at 4.35% and the 30-year at 4.86% from Thursday's close. The week saw a slight uptick, with the 2-year yield at 3.88% and the 5-year at 3.94%, reflecting cautious sentiment amid rate cut speculation.

The yield curve steepened, supported by a 65% chance of a July rate cut, up from 60% last week, driven by Fed Vice Chair Bowman's dovish stance versus Chair Powell's tariff caution. Trump's potential Fed chief replacement and Bessent's bank capital relief proposal added tailwinds. With markets quiet, focus turns to Tuesday's data, including the jobs report, which could shift yield trends.

Overview of the Australian Equities Market

Australian equities delivered a mixed yet record-breaking week, with the S&P/ASX 200 closing at 8,603.0 on Friday, up 0.08% for the day and marking its eighth record high of 2025. The recovery from a -0.63% midday dip on Thursday, driven by a resources rally, underscored shifting dynamics, though Friday's session saw a pullback in materials.

The ASX 200 Materials Index fell 0.97% on Friday after a 4.9% surge over the prior two sessions, slipping below its 200-day moving average. BHP dropped 1.2%, South32 fell 0.9%, and Pilbara Minerals eased 1.5%, reflecting profit-taking after strong gains. Financials edged up 0.14%, with ANZ gaining 3.84% weekly, Westpac down 0.80%, and NAB off 0.28%, though Commonwealth Bank slumped 3.97% to a two-week low—its worst weekly performance since early March.

Breadth was solid, with 61% of ASX 200 constituents closing higher, and VanEck's Australian Equal-weight ETF outperforming by 10 basis points. Defensive sectors like Real Estate, Health Care, and Staples shone, while riskier stocks like Zip (-0.9%) and Droneshield (-4.8%) traded erratically. Recent IPOs the Virgin (-2.6%) and Gemlife (-5.7%) also, weakened. With the RBA's rate decision and US data on the horizon, the market's choppy record-high performance suggests caution.

Overview of the Australian Government Bond Market

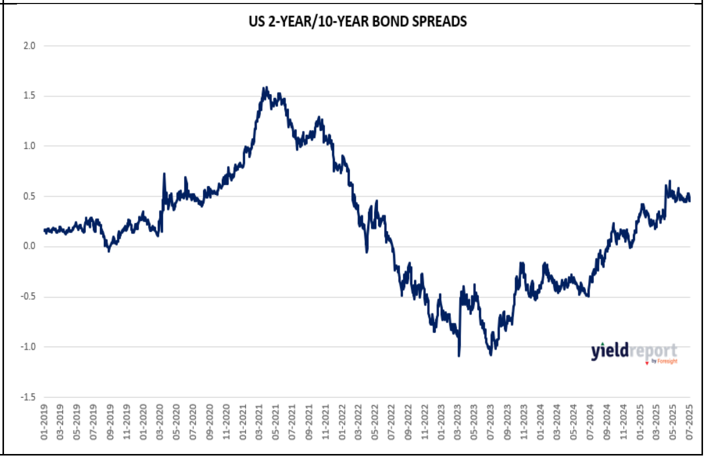
Australian government bond yields posted modest gains for the week ending July 4, 2025, with the 10-year yield rising 1 basis point to 4.19% on Friday. The 2-year yield climbed 2 basis points to 3.27%, the 5-year increased 1 basis point to 3.59%, and the 15-year held steady at 4.52%, reflecting a cautious market awaiting the RBA's July 7–8 meeting.

The uptick followed a softer May CPI print, solidifying expectations of a July rate cut from 3.85% to 3.60%, priced at a 94% probability, with four cuts (100 basis points) projected by mid-2026. The Australian dollar stayed firm at 0.6586 US cents, supported by stable global yields amid the US holiday closure.

Credit spreads tightened, with 5-year major bank senior spreads at +80 basis points and Tier 2 spreads at +160 basis points, driven by low supply ahead of EOFY. The market remained quiet, with focus on the RBA's decision and Tuesday's US reopen, as global bond movements were subdued with limited macro data.

Figure 1: US/Australia 10-year Bond Yield Spread

Figure 2: Australia 10-year Bond Spread vs US



Looking Ahead: Major Economic Releases for the Week Ending 04 Jul

For the week ending July 11, 2025, Australia's RBA Cash Rate decision is a key focus, with expectations of a slight reduction to 3.6% from 3.85%, signalling potential monetary easing to support economic growth amid global uncertainties. In the U.S., the Overall Comprehensive Risk index, though lacking a consensus forecast, will provide insights into systemic economic risks following a prior reading of 7.92.

Major Economic Releases for the Week ending 11 Jul, 2025				
Date	**Country**	**Release**	**Consensus**	**Prior**
Tuesday, 08/07	Australia	RBA Cash Rate	3.6	3.85
Wednesday, 09/07	United States	Overall Comprehensive Risk	n/a	7.92
Thursday, 10/07	United States	Initial Jobless Clm	235	233

Source: Refinitiv

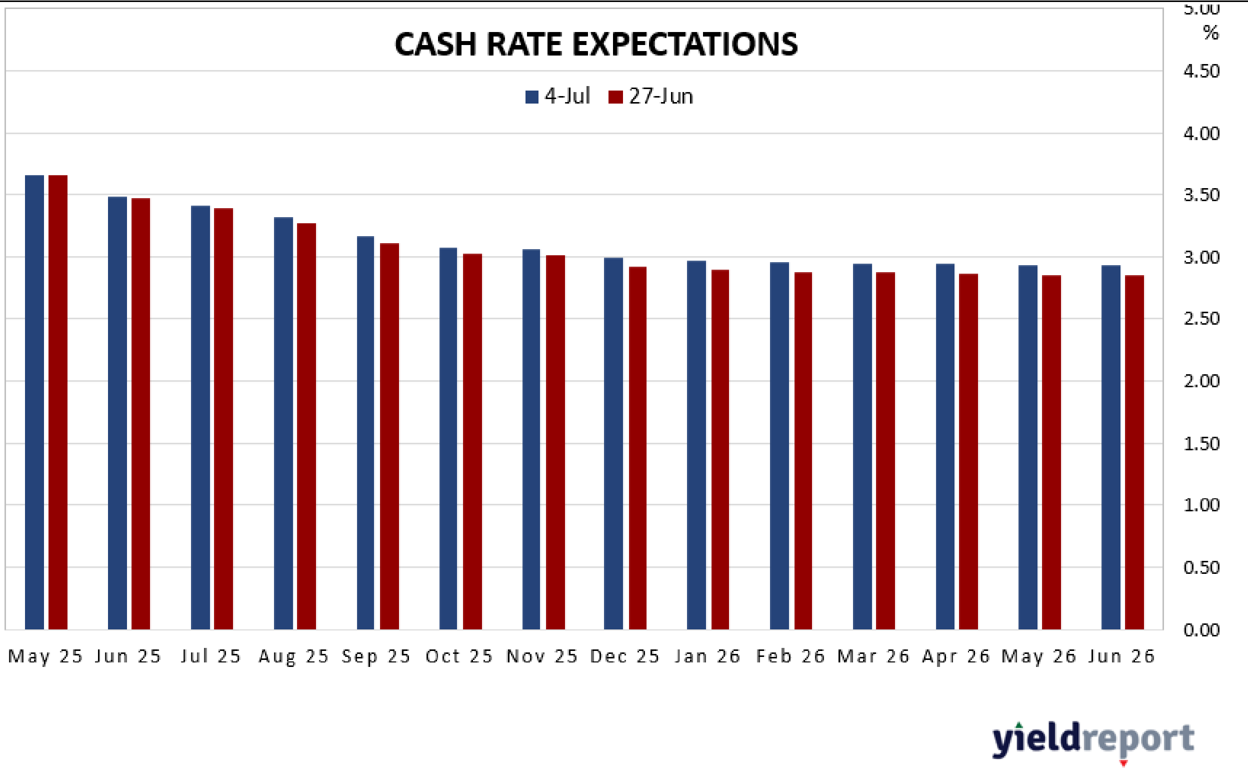
PART 2 – Investment Opportunity Review

Defensive Income - Cash

This week's decline across the yield curve signals a market in a cautious stance, with investors adopting a defensive posture as they await clarity from the Reserve Bank of Australia (RBA) on potential rate adjustments. The Bloomberg AusBond Composite Index edged up by 0.07%, reflecting tentative optimism amid global uncertainty and the US market's Independence Day closure. Investors are gravitating toward cash equivalents, anticipating a possible RBA pivot.

Markets are now pricing in a 94-basis point rate cut over the next year, targeting a 2.85% cash rate, up from earlier estimates, driven by softer May CPI data. However, no bold moves are evident—investors remain in a wait-and-see mode, monitoring tariff developments and the RBA's July 7–8 meeting. The 1-month BBSW dropped 8.18 basis points to 3.585%, and the 3-month BBSW fell 3.7 basis points to 3.583%, underscoring this defensive shift.

Figure 3: Swaps on RBA Rate Cuts



Defensive Income- Term Deposits

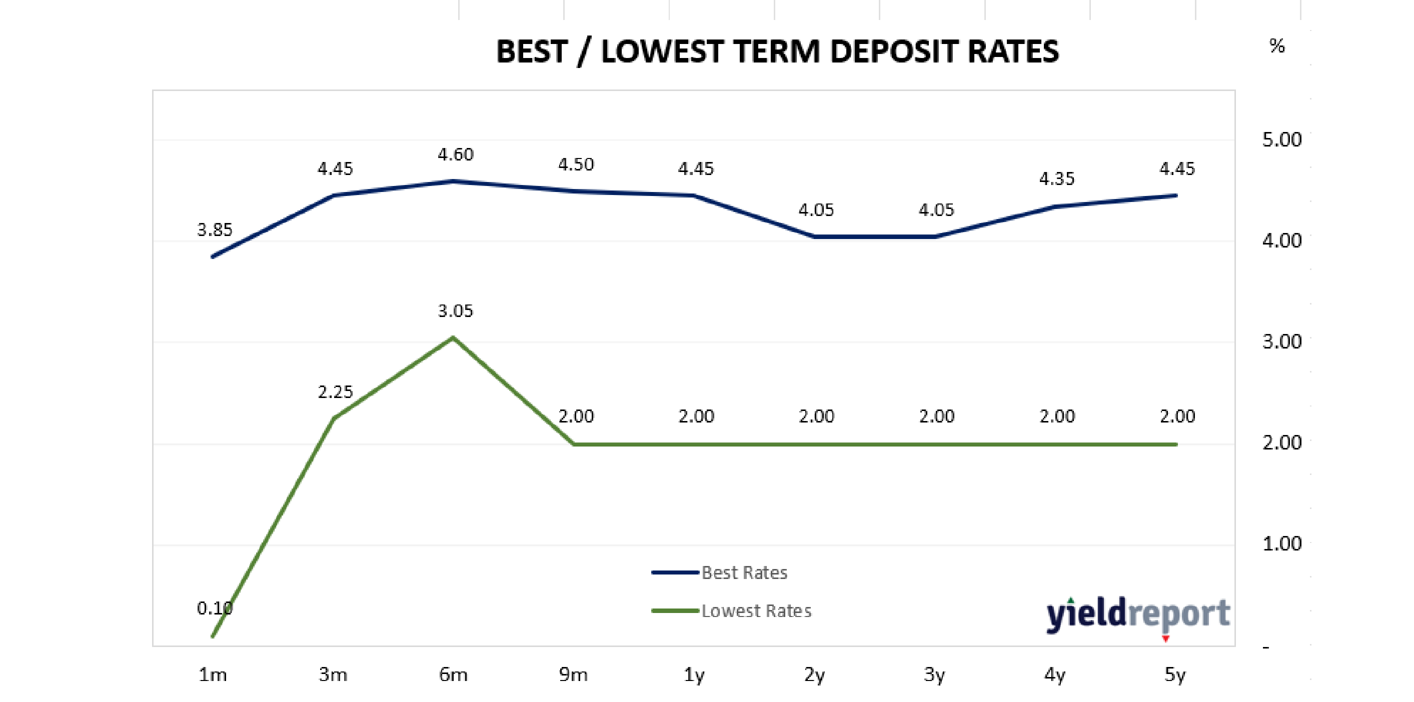
The term deposit market continues to exhibit a mix of stability and selective adjustments across various terms, based on our survey of 42 institutions for the week ending July 4, 2025. The 6-month term remains the most competitive, followed closely by 3-month and 1-year terms, each with a sample size of 42 institutions.

For the **3-month term**, the highest rate remains steady at 4.45%, consistent with the previous week, with in1bank and Bank Australia leading the pack. The median rate of 3.88% reflects a range from 2.25% to 4.45%, with a quartile spread of 0.73%, indicating moderate variability among offerings.

The **6-month term** continues to be highly contested, with the top rate holding firm at 4.60%, offered by Teachers Mutual Bank, unchanged from last week. The median rate stands at 4.10%, with a tight quartile spread of 0.43%, suggesting strong consistency across institutions.
For longer terms, the **5-year term** saw its highest rate dip slightly to 4.40% from 4.45%, with Rabobank Australia now leading, followed closely by Judo Bank at 4.35%. The median rate remains steady at 3.40%, with a range from 2.00% to 4.40%, reflecting a broad spread of offerings.

Rates above 4% continue to hold strong. In the **3-month category**, 13 institutions now offer rates above 4%, up from 12 last week. The **6-month category** sees 23 institutions exceeding 4%, up from 22, reinforcing its position as the most competitive term. These trends highlight sustained demand for short-to-medium-term deposits with attractive yields.

Figure 4: Highest Term Deposit Rate by Term



Defensive Income – Government Bonds

For the week ending July 4, 2025, the Australian government bond market recorded modest gains, balancing domestic economic signals with global quietness due to the US holiday. The Bloomberg AusBond Composite 0+ Yr Index rose 0.07%, with bond prices ticking higher. The benchmark 10-year yield increased 1 basis point to 4.19%, while the 2-year yield rose 2 basis points to 3.27%. The 15-year yield held at 4.52%, and the 5-year yield edged up 1 basis point to 3.59%.

Swap rates also climbed, with the 3-year rate up 2 basis points to 3.235%, the 5-year up 2.13 basis points to 3.6325%, and the 10-year up 2.38 basis points to 4.093%, reflecting heightened expectations of RBA easing. The softer May CPI data, showing a trimmed mean of 2.4% year-on-year, continues to fuel a 94% probability of a July rate cut to 3.60%, with four cuts projected by mid-2026.

Figure 5: Aust. 10 yr minus 3 yr Bond Spread

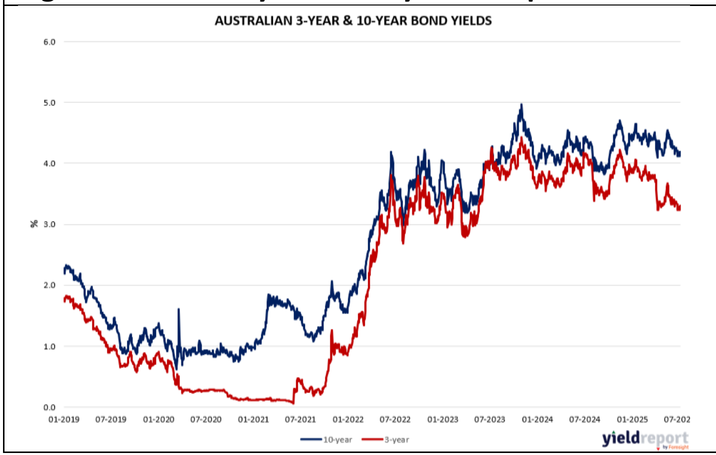


Figure 6: US 10 yr minus 2 yr Bond Spread

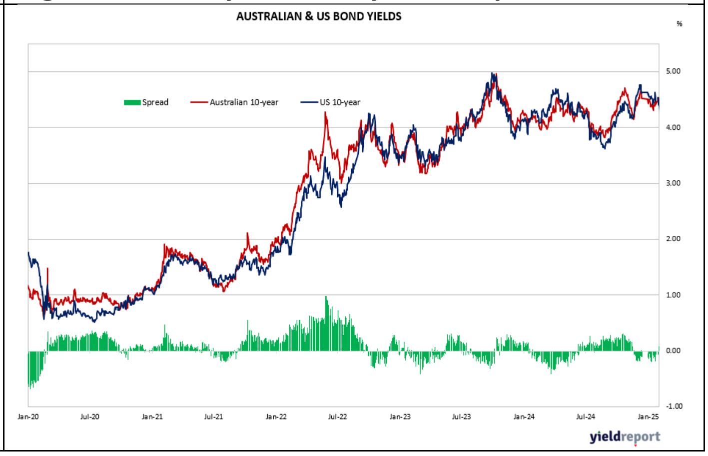
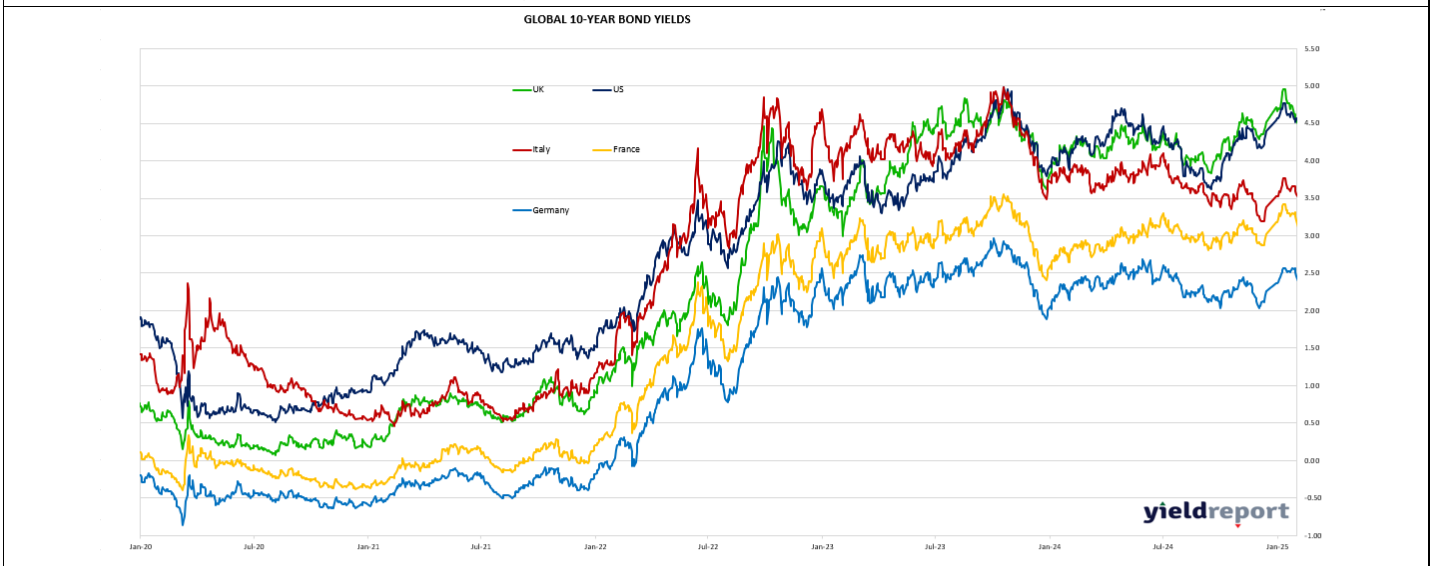


Figure 7: Global 10 yr Bond Yields

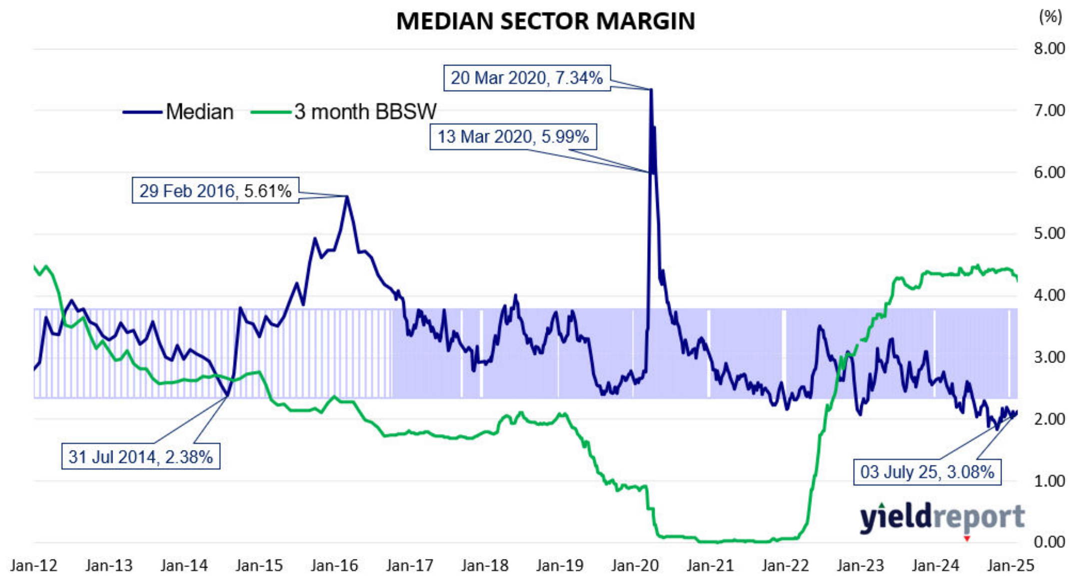


Bank & Corporate Hybrids

The ASX-listed hybrid market saw a mixed recovery this week, with trading margins showing slight adjustments. The median trading margin across bank hybrids rose to 3.32%, a modest increase from last week, though still below the early-2023 peak of 7.34% seen on March 20, 2020. The 3-month BBSW held steady at 3.583%, maintaining margin compression trends observed throughout 2024.

Standout performers included Westpac's WBCPH Capital Notes 5, up 4.64% to 100.02 with a trading margin of 24.69%, and Macquarie Bank's MBLPC Capital Notes 2, up 1.02% to 101.32 with a 6.83% margin. Challenger's CGFPC Capital Notes 3 dipped 0.88% to 103.4, reflecting sector volatility. Margins are aligning closer to pre-pandemic levels, suggesting normalization amid stable monetary policy expectations, with a focus on the RBA's upcoming decision.

Figure 8: Hybrids: Median Sector Margin



ETFS

Investors poured $22.3 billion into Australian-listed ETFs for the week ending July 4, 2025, according to the estimated data, as equities neared record highs and bond yields stabilized. Year-to-date inflows have surpassed $320 billion, positioning 2025 as a robust year for ETF demand.

Leading the inflows was the BetaShares Australian High Interest Cash ETF (AAA.AXW), attracting $3.1 billion despite a 0.12% price drop to 50.12, reflecting cash's safe-haven appeal amid RBA rate cut speculation. The BetaShares Active Australian Hybrids Fund ETF (HBRD.AXW) followed with $2.8 billion, up 0.57% to 10.09, driven by hybrid yield stability. The iShares Core Composite Bond ETF (IAF.AXW) added $2.2 billion, despite a 0.89% decline to 103.58, as investors sought bond exposure.

On the outflows side, the BetaShares Legg Mason Australian Bond Fund (BNDS.AXW) led with $1.5 billion in redemptions, down 0.1% to 23.99, as investors rotated out of fixed income. The Vanguard Australian Fixed Interest Index ETF (VAF.AXW) shed $1.2 billion, falling 0.55% to 46.42, while the SPDR S&P/ASX Australian Bond Fund ETF (BOND.AXW) lost $0.9 billion, down 0.03% to 25.9, signalling a shift toward risk assets. The market's focus remains on the RBA's rate outlook and Tuesday's US reopen.

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