



Your Income Advantage

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Overview of the US Market

All major US equity indexes climbed more than 1%, with the S&P 500 and the Nasdaq 100 hitting all-time highs. The Russell 2000 of smaller firms jumped 3%.

Underlying US inflation accelerated in July though the cost of tariff-exposed goods didn't rise as much as feared, boosting expectations that the Federal Reserve officials will lower interest rates when they meet next month.

The core consumer price index, which excludes the often volatile food and energy categories, increased 0.3% from June, the strongest pace since the start of the year, according to Bureau of Labour Statistics data out Tuesday. That was in line with economists' forecasts, as was the overall CPI on a monthly basis.

Sentiment among US small businesses climbed to a five-month high in July as owners grew more upbeat about the economic outlook, fuelling a pickup in expansion plans.

The National Federation of Independent Business optimism index increased 1.7 points last month to 100.3, according to data out Tuesday. Six of the 10 components that make up the gauge improved.

A net 36% of owners expect better business conditions, up 14 percentage points from a month earlier and the most this year. A net 16% said now is a good time to expand their business, the largest share since January.

The S&P 500 enjoyed broad-based gains, buoyed by market optimism over potential Federal Reserve interest rate cuts.

All eleven sectors closed higher, with Energy leading the pack, rising around 0.8%.

Airlines and Banks also posted strong gains as transportation costs surged and hopes for cheaper borrowing rose. Technology and Semiconductors performed particularly well, powered by big tech and favourable earnings.

Overview of the Australian Market

Australia's share market soared to record highs on August 12, 2025, buoyed by the Reserve Bank of Australia's third interest rate cut of the year, which lifted banks, consumer stocks, and overall sentiment.

The S&P/ASX 200 climbed 0.41%, or 36 points, to 8,880.8, while the broader All Ordinaries rose 0.36% to 9,150.3. Despite the benchmark's strength, market breadth was narrow, with advancers edging decliners 138 to 134 on the S&P/ASX 300—the second consecutive record-setting day without a decisive majority of winners.

The rally was driven by a classic formula: strong banks plus big resources. Eight of 11 sectors advanced, led by utilities (+0.84%), consumer discretionary (+0.83%), and financials (+0.83%). Communication services (+0.49%) and materials (+0.37%) also contributed, while industrials lagged with a 0.85% decline.

The big four banks powered financials higher: ANZ surged 2.2% to \$31.93, NAB and Westpac each gained 1% to \$39.19 and \$34.63, and CBA edged up 0.1% to \$178.80 ahead of its full-year earnings on August 13. In materials, BHP rose 1% to \$41.26, Rio Tinto added 1.2% to \$116.72, and Fortescue climbed 1.2% to \$19.66.

Standout performers included Lindian Resources (+37.0%) on continued positive momentum, Tuas (+29.6%) after completing an institutional placement, and The Star Entertainment Group (+23.6%) following a binding deal for its Queen's Wharf stake. Rebounds in recent laggards boosted the index: JB Hi-Fi (+5.6%) recovered from Monday's selloff, Light & Wonder (+6.0%) on ownership changes, and QBE Insurance (+2.1%). On the downside, Loneer (-10.7%) and Lontown Resources (-8.0%) pulled back sharply after Monday's lithium surge, though Pilbara Minerals (-0.87%) held a net 29% gain over three days. Gold stocks dipped 0.35% as prices fell on reports that gold would escape US tariffs.

The RBA's unanimous 25 basis-point cut to 3.60% met unanimous economist expectations, with the board citing inflation near target but emphasizing caution amid high uncertainty and readiness to respond. Governor Michelle Bullock stressed a data-dependent approach in her press conference, noting forecasts include "a couple of more cash rate cuts" but no fixed endpoint, as the bank absorbs incoming data like July's resilient PMIs (Services at 54.1) and June's strong trade surplus (AUD 5,365 million). US CPI data released overnight aligned with polls (core monthly at 0.3%, headline yearly at 2.7%), reinforcing Fed cut expectations and global easing tailwinds.

AMP chief economist Shane Oliver views the cuts as share-positive if recession is averted, boosting profit growth and making equities more attractive than cash, though he warns of volatility from stretched valuations and President Trump's trade wars. Investors now watch August 13's Wage Price Index (poll 0.8% quarterly), which could signal wage pressures and influence further RBA moves.

Overview of the US Bond Market

While an initial rally in Treasuries faded, money markets priced in an about 90% chance of a Fed reduction next month. Two-year yields, more sensitive to imminent policy moves, slid four basis points to 3.73%.

Short-term Treasuries rallied following a mostly benign report on US inflation that prompted traders to boost expectations the Federal Reserve will cut interest rates next month.

The rally pushed yields on two-year notes which are more sensitive to changes in monetary policy, down by four basis points Tuesday afternoon to 3.73%. And swap traders priced in nearly 90% odds of a Fed rate cut on Sept. 17, up from about 80% before the data.

Underlying US inflation accelerated to the strongest since the start of the year, but a tepid rise in goods prices tempered concerns about tariff-driven pressures.

The core consumer price index, which excludes the often volatile food and energy categories, increased 0.3% from June, the strongest pace since the start of the year. That was in line with economists' forecasts, as was the overall CPI on a monthly basis.

One of the key drivers of inflation in recent years has been housing costs, the largest category within services. Shelter prices rose 0.2% for a second month, reflecting steady housing costs and a continued decline in prices of hotel stays.

With risks to the labour market rising, the Fed would likely tolerate temporarily higher-than-expected inflation prints, provided that the risk of second-round effects remains contained and price expectations stay well-anchored.

US officials have kept rates unchanged this year in hopes of gaining clarity on whether tariffs will lead to sustained inflation. At the same time, the labour market, the other half of their dual policy mandate, is showing signs of losing momentum.

In a social media post, President Donald Trump resumed his criticism of Jerome Powell over the central bank's decision to hold rates steady. Trump also said he is weighing a lawsuit against the Fed chief over the renovation of the central bank's headquarters - a project whose cost overruns have drawn scrutiny.

Overview of the Australian Bond Market

Australian government bond yields showed a mixed response on August 12, 2025, following the RBA's rate cut, with shorter maturities rallying on dovish signals while longer ends edged higher amid persistent inflation concerns. The 2-year yield fell 2 basis points to 3.32%, the 5-year dropped 2 basis points to 3.62%, the 10-year raised 1 basis point to 4.25%, and the 15-year increased 1 basis point to 4.61%. Over the past month, yields have trended lower (10-year down 7 basis points), reflecting building expectations for easing despite recent CPI stability.

The cut to 3.60%—the third this year—spurred immediate equity highs and a brief AUD dip to 0.6498 (-0.23%), but Bullock's comments on uncertainty and potential for more reductions (forecasts imply "a couple" additional) tempered aggressive positioning. June's robust trade data and July's expanding services PMI at 54.1 highlight economic resilience, potentially capping further short-end declines, while global macro factors like US-China tariff truce extension talks (with a 90-day option floated) add layers of caution.

Bond traders are monitoring US developments, where inline CPI (core 3.1% yearly, slightly above poll) supports a 60% chance of a 25 basis-point Fed cut in September from the current 4.25%-4.5% range, though trade war durability and recent EU/Japan deals could keep rates higher longer, and pressuring prices. Locally, steady demand for fixed-rate bonds persists amid equity rotations into banks and resources, but upcoming August 13 Wage Price Index (poll 3.3% yearly) could sway views if it underscores cooling labour costs.

In positioning, net long bets likely increased post-cut, per implied surveys, with swaps pricing in about half a point of further RBA easing by year-end. Asset managers may have added to shorter tenors, while leveraged funds trim longs in longer bonds. Dealers anticipate unchanged auction sizes for August-October, aligning with prior guidance, though tariff risks and soft-landing optimism may sustain elevated longer yields as diversification hedges against volatility.

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