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Your Income Advantage

1st August 2025

Overview of the US Market

The S&P 500 sank 1.6%, the most since May. An uninspiring outlook from Amazon.com Inc. spurred a rout in megacaps. A closely watched volatility gauge is the VIX - topped 20. Two-year yields tumbled 28 basis points to 3.68%. The dollar snapped a six-day advance. Gold climbed as Trump said the US is moving two nuclear submarines to respond to “provocative” statements from former Russian President Dmitry Medvedev.

Job growth cooled sharply and the unemployment rate rose, with payrolls increasing 73,000 in July after the prior two months were revised down by nearly 260,000. In the last three months, employment growth has averaged a paltry 35,000. Money markets fully priced in two rate cuts in 2025, with a 90% chance of a reduction in September.

The pullback in stocks marked a sharp reversal for markets that had raced to record highs on the back of resilient economic growth, signs of cooling inflation, and a frenzy for AI-linked shares. With valuations elevated, traders are now confronting a harsher backdrop amid renewed debate over how quickly the Fed might be forced to cut rates.

Trump told officials to fire Erika McEntarfer, the commissioner of the Bureau of Labour Statistics, hours after a report showed US job growth cooled sharply.
Cleveland Fed President Beth Hammack, speaking on Bloomberg Television after the numbers came out, said the labour market still looked healthy — though it was a “disappointing report to be sure.”

Ahead of the data, Fed Governors Christopher Waller and Michelle Bowman issued statements explaining why they dissented Wednesday from the decision to hold rates steady, expressing concerns that hesitance to cut rates could risk unnecessary damage to the labour market.
Trump said Fed Chair Jerome Powell should be put “out to pasture” and called on the central bank’s board to “assume control” if rates were not lowered.

Four months after Trump shocked the world by unveiling a placard full of tariff rates, his revisions Thursday left investors scrambling to grasp the full impacts of those levies. At an average of 15%, the world is still facing some of the steepest US tariffs since the 1930s, roughly six times higher than they were a year ago.
With markets already pricing in much of the good news on the trade front, expect stock volatility to pick up in the near term.

Corporate Earnings Highlights – August 1, 2025
Earnings season continued into Friday, with major firms reporting second-quarter results:

- Linde plc exceeded expectations with adjusted EPS of $4.09 vs. $4.03 forecast, driven by strong pricing and operational efficiencies .
- Oshkosh Corporation posted net income of $204.8 million ($3.16 per share), up from $168.0 million YoY, reflecting solid demand in industrial and vehicle segments.

Markets reacted sharply: Amazon shares plunged ~8%, as despite beating revenue estimates, its cloud-division’s weak guidance spooked investors. Eastman Chemical dropped 21%, marking its worst day ever after missing EPS expectations and cutting its full-year cash flow forecast to ~$1.0B.

Meanwhile, tech strength persisted among some players: Apple beat revenue forecasts while cautioning that tariffs may cost it $1.1 billion, and companies in AI and software delivered strong earnings beats overall, helping lift sectors earlier in the week

Overview of the Australian Market

The Australian equity market slumped on August 1, 2025, as global tariff fears and disappointing US economic data triggered a broad sell-off. The S&P/ASX 200 (XJO) fell 80.8 points, or 0.92%, to close at 8,662.0, just 0.13% above its session low and 0.93% below its high. The broader S&P/ASX 300 (XKO) saw decliners overwhelmingly outnumber advancers by 204 to 70, reflecting a risk-off mood. For the week, the XJO ended nearly flat, down 4.9 points (-0.06%), but 1.3% off its intraweek high.

A combination of fresh US tariff announcements, higher-than-expected US inflation (Core PCE Price Index YY at 2.8% vs. 2.7% forecast), and a sharp reversal in global indices, particularly the Nasdaq (-0.52%), weighed heavily on sentiment. Information Technology (XIJ, -2.38%) and Health Care (XHJ, -1.92%) bore the brunt, with the latter hit by President Trump's social media pledge to pressure Big Pharma on US drug prices. Local healthcare stocks like Telix Pharmaceuticals (TLX, -4.3%), Nanosonics (NAN, -4.4%), and Polynovo (PNV, -4.3%) suffered, though Resmed (RMD, +1.0%) bucked the trend on strong Q4 earnings.

Utilities (XUJ, +0.70%) was the sole sector to gain, reflecting its defensive appeal. Resources (XJR, -0.22%) held up relatively well despite falling base metals prices, buoyed by a rebound in Mineral Resources (MIN, +4.4%) and gains in lithium and rare earth stocks like Pilbara Minerals (PLS, +4.1%) and Lynas Rare Earths (LYC, +3.2%). White House rhetoric on promoting US rare earth processing likely supported these names.

The AUD/USD edged up 0.11% to 0.6433, but remained near a two-month low, pressured by a strengthening US dollar. Australia's exemption from higher US tariffs (set at a baseline 10% vs. 60+ countries facing steeper levies) offered little relief amid global uncertainty. Investors awaited the US non-farm payrolls report, which disappointed at 73,000 jobs added (vs. 110,000 expected), potentially influencing Federal Reserve rate cut expectations for September.

AMP's Shane Oliver noted that July's strong 2.35% ASX 200 gain left valuations stretched, making markets vulnerable to corrections in August and September. However, he remains optimistic for year-end returns if global risks subside.

Overview of the US Bond Market

Federal Reserve Governor Adriana Kugler will step down from her position on the central bank's board, the Fed announced Friday, handing President Donald Trump a sooner-than-anticipated opportunity to install a new policymaker who aligns with his vision for interest rates.

Kugler's governor term was not set to expire until January 2026.

Kugler's resignation letter did not specify why she was vacating her role. She has not publicly strayed from Powell on interest rate policy. In her most recent policy speech, on July 17, Kugler said that with goods inflation rising and the labour market stable the Fed should continue holding rates steady "for some time."

Kugler was not present for the Fed's policy meeting earlier this week. The Fed said at the time that she missed the meeting for a "personal matter."

Treasuries, which were rallying since Friday morning on softer jobs data, extended their gains after Kugler announced her resignation. The rally sent yields on two-year notes — which are most sensitive to changes in monetary policy — tumbling as much as 29 basis points, the most since December 2023.

Traders were quick to add to bets on rate cuts. They are now fully pricing in two, quarter-point reductions this year, with a 90% chance of the first one coming at the Fed's meeting next month. The Bloomberg Dollar Spot Index closed nearly 0.9% lower.

Trump earlier on Friday called on members of the Fed's board to "ASSUME CONTROL, AND DO WHAT EVERYONE KNOWS HAS TO BE DONE!," in an apparent call for them to vote for lower interest rates.
The increased pressure from Trump comes after Fed officials left interest rates unchanged on Wednesday. In his post-meeting press conference, Powell didn't offer any clear sign that policymakers were likely to cut at their next meeting, in September.

Her decision to step down also comes as Trump and top administration officials ramp up their search for whom will replace Powell when his term leading the central bank ends in May 2026. Treasury Secretary Scott Bessent had suggested the administration might nominate someone to first fill Kugler's seat and then later move to elevate that person to chair.

National Economic Council Director Kevin Hassett, former Fed Governor Kevin Warsh, current Fed Governor Christopher Waller and Bessent have all been floated as contenders to lead the central bank.
President Donald Trump told officials to fire Erika McEntarfer, the commissioner of the Bureau of Labour Statistics, hours after a report showed US job growth cooled sharply over the last three months.

"I have directed my Team to fire this Biden Political Appointee, IMMEDIATELY," Trump said on social media Friday, accusing her, without evidence, of politicizing the jobs report. "She will be replaced with someone much more competent and qualified. Important numbers like this must be fair and accurate; they can't be manipulated for political purposes."

Friday's jobs report from the BLS showed payrolls increased 73,000 in July after the prior two months were revised down by nearly 260,000. In the past three months, employment growth has averaged a paltry 35,000 — the worst since the pandemic.

While the commissioner role is appointed by the president, BLS describes its work as "independent" and "non-partisan." Economists and statisticians say this impartiality is key to the public and market's trust in the data, as trillions of dollars can trade on the numbers at any given time. The US is often touted as a standout in that regard, commonly referred to as the "gold standard" for economic statistics.

A weaker-than-expected July jobs report is calling into question the Federal Reserve's wait-and-see approach to interest-rate cuts, boosting the likelihood of a reduction at the central bank's next meeting in September.

Data published Friday by the Bureau of Labour Statistics showed payroll gains slowed to just 35,000 on average over the last three months, marking the slowest pace of hiring since the onset of the pandemic in 2020. The unemployment rate ticked up to 4.2%.

The report comes after the Federal Open Market Committee decided to hold interest rates steady earlier this week for a fifth consecutive time. Two governors dissented in favour of a quarter-point rate cut, for the first time since 1993. Fed Chair Jerome Powell told reporters afterward that while there are downside risks for the jobs market, it remained solid nonetheless.

After the release of the numbers on Friday morning, investors boosted the odds of a September rate cut to almost 90%, from around 40% the day before, according to interest-rate futures contracts.
“The numbers today and the revisions, in an important way, suggest that maybe the economy and the labour market is weakening more broadly,” Atlanta Fed President Raphael Bostic said in an interview on CNBC.

“That does also suggest that the risks to the employment side of the mandate are maybe coming more into balance with those in inflation, and that’s something that I’ll really have to look at as I think about the appropriate path for policy,” he said.

Policymakers kept rates steady in July 2024 with the labour market showing signs of weakness. Additional deterioration caused them to move by a half point in September before cutting by a quarter points two more times in 2024. Officials at the time, however, didn’t have to worry about tariffs boosting inflation.

Federal Reserve Governors Christopher Waller and Michelle Bowman expressed concerns that the central bank’s hesitance to lower interest rates could risk unnecessary damage to the labour market.
Waller and Bowman voted against the Fed’s decision this week to hold its benchmark rate steady for a fifth consecutive time. Both preferred a quarter-point reduction. In separate statements released Friday, the two explained their rationales for dissenting, with each emphasizing signs of growing labour-market weakness.

Their views differ from those of Chair Jerome Powell and other policymakers, who have continued to describe the labour market as broadly solid and have supported a patient approach to adjusting rates so that officials can continue to gauge how President Donald Trump’s tariff policies are impacting inflation and the economy.

Overview of the Australian Bond Market

Australian government bond yields ticked higher on August 1, 2025, reflecting global risk-off sentiment and fading hopes for aggressive global rate cuts. The Australia 2-Year Bond Yield raised 4 basis points to 3.39%, the 5-Year Yield increased 5 basis points to 3.71%, the 10-Year Yield climbed 6 basis points to 4.31%, and the 15-Year Yield also raised 6 basis points to 4.67%.

The yield uptick followed Wednesday’s robust Australian data, including Building Approvals (+11.9% vs. 2% expected) and Retail Sales (+1.2% vs. 0.4% expected), which signalled economic resilience and tempered expectations for an imminent RBA rate cut. While the Q2 CPI of 2.1% and Trimmed Mean CPI of 2.7% still support an August cut, markets now price in a more cautious RBA stance. Globally, higher-than-expected US inflation (Core PCE YY at 2.8%) and a weak non-farm payrolls report (73,000 vs. 110,000 expected) reduced bets on a Federal Reserve rate cut in September, pushing up global yields and pressuring Australian bond prices.

US tariff threats, including higher levies on over 60 countries but sparing Australia, added inflationary risks, limiting bond demand. Bond traders slightly increased net short positions in 10-year and 15-year tenors, reflecting caution ahead of the RBA's August meeting. The Australian Treasury is expected to maintain steady auction sizes for August-October, signalling stable debt issuance. Strategists from Morgan Stanley and UBS suggest yields may remain elevated if global trade tensions persist, though Australia's economic fundamentals provide a buffer.

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