



Your Income Advantage

20th August 2025



Overview of the US Market

Asian equities were set for a subdued start on Thursday, with Japan's futures slightly lower while Chinese and Australian benchmarks inched higher. The cautious tone followed a choppy Wall Street session where bonds outperformed stocks ahead of the Federal Reserve's annual Jackson Hole gathering.

The S&P 500 fell 0.2% and the Nasdaq 100 dropped 0.6%, dragged by technology stocks, while Treasuries rallied, pushing the 10-year yield two basis points lower. A gauge of US-listed Chinese shares gained, bucking broader weakness.

The dollar was little changed, the yen held steady, and oil prices rose after data showed a drawdown in US stockpiles. Traders largely dismissed inflation concerns highlighted in the Fed's July meeting minutes, maintaining bets on a September rate cut. However, investors are cautious as Fed Chair Jerome Powell's upcoming Jackson Hole remarks could challenge dovish expectations. Analysts warned that Powell may reiterate hawkish signals, potentially cooling optimism.

The Fed minutes showed most policymakers viewed inflation risks as outweighing labour market concerns, underscoring divisions within the committee as tariffs and political pressures mount. Officials acknowledged weakening employment but stressed vigilance on price stability. Evercore's Marco Casiraghi noted the Fed remains "well positioned" to act if conditions deteriorate, with a rate cut in September likely unless inflation accelerates unexpectedly.

Political tensions also loomed, with President Trump continuing attacks on Powell and calling for Governor Lisa Cook's resignation over mortgage fraud allegations, which she rejected.

Meanwhile, US equities faced renewed pressure from the "Magnificent Seven" megacap tech firms, whose fourth straight day of declines weighed on the Nasdaq and dragged the S&P 500 into its fourth consecutive loss. Analysts warned that tech weakness threatens broader market stability, with some strategists suggesting rotation may ultimately push investors toward cash rather than other sectors.

Overview of the Australian Market

Australia's share market edged higher on August 20, 2025, rebounding from an early slide as interest rate-sensitive sectors like **Consumer Discretionary** and **Real Estate** drew inflows amid lower rate expectations, offsetting drags from resources and health care in a rotation toward defensives. The S&P/ASX 200 rose 0.25%, or 21.8 points, to 8,918.0, while the broader **All Ordinaries** gained 0.04% to 9,177.4. Advancers outnumbered decliners 139 to 129 on the S&P/ASX 300, though breadth was muted.

Seven of 11 sectors advanced, led by **Consumer Discretionary** (+1.93%), **Real Estate** (+1.80%), and **Financials** (+1.43%). **Materials** slumped 2.32%, **Health Care** -1.23%, and **Information Technology** -1.28%. **Consumer Discretionary**: Lottery Corporation surged on results. **Financials**: big banks higher. **Materials**: **James Hardie Industries** plunged -27.8% on weak sales, critical minerals hit hard—**Pilbara Minerals** -7.9%, **Lynas Rare Earths** -7.4%—amid lithium futures drop. **Health Care**: continued weakness.

Standouts: **Lynch Group** (+24.0%) on FY25 results, **HMC Capital** (+17.7%) rebound post-downgrade, **Centuria Capital Group** (+11.6%). Decliners: **Strike Energy** (-12.5%) on impairment, **Step One Clothing** (-25.5%) FY25 miss, **Arafura Rare Earths** (-13.6%) on placement.

August flash PMIs showed expansion: Manufacturing at 52.9 (up from 51.3), Services 55.1, Composite 54.9, bolstering soft landing views post-RBA's 3.60% cut. Aussie dollar flat at 64.92 US cents. US housing starts beat at 1.428 million (vs. poll 1.29 million), signalling strength.

Moomoo's Michael McCarthy notes tech shield from US selloff, consumer confidence high since February 2022 feeding buys, but high bar for earnings justifying records with BHP, Woodside tomorrow. AMP's Oliver sees easing positive sans recession, but volatility from valuations/Trump wars. Journal study: P/E spreads 75% returns-driven, urging discount focus as ASX corrects.

Overview of the US Bond Market

The U.S. 10-year Treasury yield was around 4.30% on August 20, slipping 0.037 percentage points, while broader bond yields hovered near 4.22%, slightly lower week-on-week. Short-term yields remain anchored by expectations of Federal Reserve easing, but long-term rates face pressure from inflation and fiscal deficit concerns, leaving the curve steep. Strategists in a Reuter's poll expect the 10-year yield to ease to 4.21% by mid-2025 and 4.14% within a year, despite volatility. However, Business Insider notes yields may stay elevated through year-end, supported by heavy government borrowing, quantitative tightening, and new demand from stable coin related investors.

Minutes from the Federal Reserve's July 29–30 meeting revealed that most policymakers saw inflation risks as outweighing concerns over the labour market, with tariffs driving a widening split within the committee. A majority of the 18 participants judged the "upside risk to inflation" as greater, emphasizing that inflation had exceeded 2% for an extended period, raising the risk of longer-term expectations becoming unanchored if tariff impacts persisted. While some officials highlighted weakening job growth and rising unemployment, others maintained that inflation remained "somewhat elevated" and required vigilance.

The Fed left rates unchanged at 4.25%–4.5%, citing uncertainty as growth moderated in the first half of the year. The labour market was still described as "solid," though large payroll revisions showed slowing momentum. Hiring dropped to its weakest pace since the pandemic, and unemployment edged up to 4.2%. Governors Christopher Waller and Michelle Bowman dissented, citing labour market concerns.

Policymakers debated whether tariffs would generate only a temporary price shock or a more lasting inflationary effect, with many warning that the full impact on consumer prices could take time to materialize. Recent wholesale inflation data—the sharpest increase in three years—reinforced these concerns, suggesting companies were already passing on costs.

Chair Jerome Powell noted that tariff-related inflation might prove temporary but cautioned against underestimating its persistence. He is expected to provide further guidance at this week's Jackson Hole symposium, a forum he has previously used to signal policy shifts.

Beyond inflation and jobs, officials also discussed financial stability, highlighting stretched asset valuations. Political pressure loomed in the background as President Trump renewed attacks on Powell and demanded the resignation of Governor Lisa Cook over mortgage fraud allegations. Treasury Secretary Scott Bessent and others have called for aggressive cuts, including a possible half-point reduction in September.

Overview of the Australian Bond Market

Australian government bond yields fell on August 20, 2025, as PMI expansion and rate-cut bets post-RBA move spurred buying, though macro resilience limited declines amid US housing surge. The 10-year yield dropped 5 basis points to 4.27%, 2-year -5 to 3.31%, 5-year -5 to 3.63%, 15-year -5 to 4.65%. Monthly down (10-year -7 bp), reflecting dovish tilt despite data.

August PMIs (Composite 54.9) affirm growth post-3.60% cut, Bullock data-dependent with "couple more" possible amid trade surplus. Global cues: US housing beat (1.428M vs. poll), China truce extension, Ukraine summit promise (Trump-Putin call, potential trilateral) ease risks if de-escalation holds, and potentially stabilizing commodities/inflation.

Traders added longs on PMIs, Fed swaps ~60% September 25 bp from 4.25%-4.5%, pacts sustaining higher-rates but PMIs support soft landing, bonds hedging volatility from stalled summit if no quick deal. Locally, yields eased on sector rotations, shorter focus. Tomorrow's Philly Fed (poll 7), US PMIs could sway if soft, aiding bonds, though vigour caps. Dealers stable auctions August-October per guidance, summit progress aiding diversification.

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YieldReport – Interest Rates & Yield Investment Data & Research
Level 2, Suite 208
33 Lexington Drive
Bella Vista NSW 2153

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