yieldreport Daily

Your Income Advantage

5th August 2025

Overview of the US Market

US Stocks wiped out gains after data showed weakening US services amid sticky price pressures, raising concern about the Federal Reserve's policy challenges.

Following a rally that put S&P 500 on the brink of all-time highs, the benchmark lost steam. A gauge of chipmakers slid more than 1%. In late hours, Advanced Micro Devices Inc. gave a stronger-than-expected sales forecast but warned that its access to the crucial China market remains uncertain. Super Micro Computer Inc. tumbled after its results missed expectations.

The S&P 500 edged slightly lower today, declining 0.5% as softer-than-expected U.S. economic data pushed sentiment downward.

However, robust corporate earnings helped cushion losses. Palantir jumped 7.8% on better-than-expected results and stronger guidance, fuelled by AI demand, while Axon Enterprise surged over 16% thanks to strong profit growth.

Pfizer rose about 5% on upbeat results, while DuPont gained 2.4% for delivering solid earnings and a shareholder buyback plan. Axon Enterprise rocketed 16% after strong profit growth and improved guidance linked to its AI-based tools.

Overall earnings sentiment remains optimistic, especially among tech and AI leaders like Nvidia and Microsoft.

Today's sector rotation favoured defensive and commodity-linked sectors like Utilities, Energy, and Real Estate while economically-sensitive areas like Health Care, Information Technology, and Industrials lagged amid macroeconomic uncertainty and rising costs.
A chorus of stock market prognosticators at some of Wall Street's biggest firms is warning clients to prepare for a pullback as sky-high equity valuations slam into souring economic data.

On Monday, Morgan Stanley, Deutsche Bank AG and Evercore ISI all cautioned that the S&P 500 Index is due for a near-term drop in the weeks and months ahead. The predictions come after a furious rally from April's lows that propelled the gauge to levels it has never seen before.

Morgan Stanley strategist Mike Wilson sees a correction of up to 10% this quarter as tariffs hit consumers and corporate balance sheets. Evercore's Julian Emanuel is expecting a more substantial decline of as much as 15%. And a team at Deutsche Bank led by Parag Thatte notes that a small drawdown in equities is overdue considering they've been on a tear for over three months.

At Jefferies, Andrew Greenebaum says the Fed could be poised to trigger a stock-market regime change that sees smaller companies perform better than megacap tech. Data going back to 1990 show that the S&P 500 Equal Weighted Index outperformed the traditional market-cap weighted version of the benchmark when the Fed is reducing rates

The calls are coming amid mounting concerns about the US economy after data last week showed an uptick in inflation as well as weakening job growth and consumer spending. In addition, stocks are entering what's usually their weakest time of the year. Over the past three decades, the S&P 500 has performed the worst in August and September, losing 0.7% on average in each month, compared with a 1.1% gain on average across other months, according to data compiled by Bloomberg.

Overview of the Australian Market

The Australian share market soared to a record high on August 5, 2025, shrugging off global economic jitters. The S&P/ASX 200 index surged 106.7 points, or 1.23%, to close at 8,770.4, surpassing its previous record close of 8,757.2. The broader All Ordinaries index climbed 106.8 points, or 1.20%, to 9,028.8, reflecting broad-based strength. Advancers dominated decliners in the S&P/ASX 300, with a decisive 245-to-42 ratio, signalling robust investor confidence.

Consumer discretionary stocks led the charge, rallying 1.81%, driven by standout performances from Wesfarmers (+2.83% to $87.52) and JB Hi-Fi (+1.8% to $115.80). Financials followed closely, up 1.49%, with all big four banks posting gains of 1.4% or more, NAB being the strongest at +1.6% to $38.80. Real estate (+1.42%) and information technology (+1.27%) sectors also benefited, buoyed by optimism around potential US and Australian interest rate cuts. Miners saw a second day of gains, with BHP, Rio Tinto, and Fortescue up 0.4% to 0.5%, supported by resilient iron ore prices. Gold producers like Newmont Corporation (+4.1%) and Ramelius Resources (+3.9%) shone despite a slight dip in gold prices. Iluka Resources was the top performer, surging 8.7% after government signals of a price floor for rare earths, while Austal jumped 7.9% on defense contract wins and strategic asset designation.

The rally was underpinned by strong demand for Australian shares, outstripping supply and pushing prices higher. Despite global concerns, including a weak US jobs report and tariff uncertainties, Australia's stable banking sector and diversified economy positioned it as a safe haven, as noted by Pepperstone's Chris Weston. Investors appeared unfazed by risks heading into earnings season, with market sentiment bolstered by a global tech rally sparked by US AI stocks like Palantir and NVIDIA.

Overview of the US Bond Market

Bond traders are ramping up bets on the Federal Reserve cutting interest rates this year, as signs of a weakening US economy bolster the case for the central bank to reduce borrowing costs as demanded by President Donald Trump.
Swaps currently price in a combined amount of easing equal to about 60 basis points, up from around 30 basis points priced ahead of the payrolls report. Treasury yields have reflected the shift, with the 10-year yield recently at 4.20%, compared to a high of 4.49% last month.

Meanwhile, Fed members are also showing signs of leaning toward easier monetary policy. San Francisco Federal Reserve Bank President Mary Daly said on Monday that the time is nearing for interest rate cuts, while Federal Reserve Governors Christopher Waller and Michelle Bowman voted against the Fed's July decision to hold its benchmark rate steady, preferring a quarter-point reduction.

Last week's soft payrolls data has made investors more confident that the Fed will cut rates to buffer US growth — a move that Trump has called for, but central bank officials have so far resisted. A report on Tuesday showed that the US service sector stagnated in July, further exacerbating those worries.

The Institute for Supply Management's index of services declined last month to 50.1, below all estimates in a Bloomberg survey of economists. The employment index contracted. The group's measure of prices paid for materials and services climbed to the highest since October 2022.

A soft $58 billion sale of three-year notes kicked off a trio of US auctions this week. The yield on 10-year Treasuries was little changed at 4.20%, while those on two-year notes raised four basis points to 3.72%.

Overview of the Australian Bond Market

Australian government bond yields edged lower on August 5, 2025, reflecting cautious optimism amid global economic signals. The 2-year yield fell 8 basis points to 3.31%, the 5-year yield dropped 10 basis points to 3.61%, and the 10-year yield declined 9 basis points to 4.22%. The 15-year yield saw an 8 basis point decrease to 4.58%. These movements align with expectations of softer monetary policy in both Australia and the US, driven by recent economic data.

The S&P Global Services PMI Final for July 2025 came in at 54.1 and the Composite PMI at 53.8, indicating continued expansion in Australia's services and broader economy. However, global growth concerns, including a disappointing US ISM Non-Manufacturing PMI of 50.1 (below the expected 51.5), tempered enthusiasm. Investors are closely watching upcoming Australian trade data, with the Balance on Goods for June 2025 expected to show a surplus of AUD 2,500 million, alongside export and import figures due on August 7. These could influence bond yields if they signal shifts in economic momentum.

Globally, bond markets are navigating uncertainty tied to US tariff talks and Federal Reserve policy. Treasury Secretary Scott Bessent's comments on extending the US-China tariff truce by 90 days have reduced some market anxiety, but the resilience of the US economy suggests the Fed may hold rates steady, keeping pressure on bond prices. In Australia, the stable economic backdrop and expectations of lower borrowing costs are supporting bond market sentiment, though investors remain vigilant for global spill-overs.

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