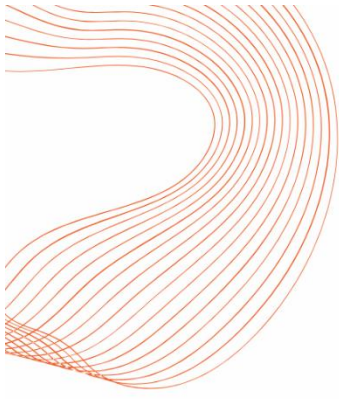




yieldreport Weekly

Your Income Advantage

25th to 29th August 2025



PART 1 – Equity & Bond Market Analysis

Weekly Overview

Narrow Foundations

Global markets extended gains in August, powered by easing trade tensions, limited tariff fallout, and a dovish shift from Fed Chair Powell. US indices rose between 3.9%–4.6%, led by technology, while Asia also advanced, with China up 6.8% and Vietnam surging nearly 12%. Bonds rallied alongside equities, reinforcing liquidity-driven momentum.

However, the rally rests on narrow foundations. Earnings growth is decelerating globally, especially in Europe, where less than half of industries report rising EPS. Despite this, over 90% of markets trade above their 200-day moving averages, reflecting support from rate-cut expectations and explosive AI sector growth.

A September Fed cut now looks almost certain. US payroll growth slowed sharply to 73,000, with weak consumer spending and stagnant income. Powell signalled rate cuts do not require inflation below 2%, reframing policy to prioritize labour market stability. Next year's FOMC is expected to lean more dovish, ensuring ongoing support.

AI remains the key growth engine, with Taiwan tech exports surging and inventories at major chipmakers lean, suggesting strong demand through mid-2026. Yet outside AI, fundamentals weaken—China's industrial growth slowed, with gains confined to semiconductors, EVs, aerospace, and drones, while most sectors contracted.

Looking ahead, we expect choppy consolidation at high levels, with stock-specific drivers dominating. Focus remains on three long-term themes: AI and nuclear power (productivity race), defence and aerospace (hegemony race), and gold/stable coins (currency race). Monitoring labour market softness and AI inventory trends will be crucial for assessing sustainability.

September Cut Now All But Certain

The Fed looks poised to cut rates in September, supported by cooling US economic data. Nonfarm payrolls slowed sharply in August, with revisions highlighting weaker labour momentum. Hiring outside education and healthcare is flat, while real disposable income and consumption have stagnated. Powell emphasized labour softness at the July FOMC and at Jackson Hole flagged employment risks, signalling a dovish pivot. Importantly, Powell reframed the policy framework: cuts no longer require inflation below 2% as “compensation.” Instead, steady disinflation is sufficient, broadening flexibility.

Tariff-related inflation impacts appear temporary, reinforcing the case for easing. The timing also allows the Fed to cut without political interference, especially as 2026 FOMC voters skew dovish. Taken together, the groundwork is set for a September cut, with further easing possible if growth decelerates. This shift underscores the Fed's focus on labour market resilience and its willingness to act pre-emptively rather than reactively.

Liquidity Is Assured—But What About Fundamentals?

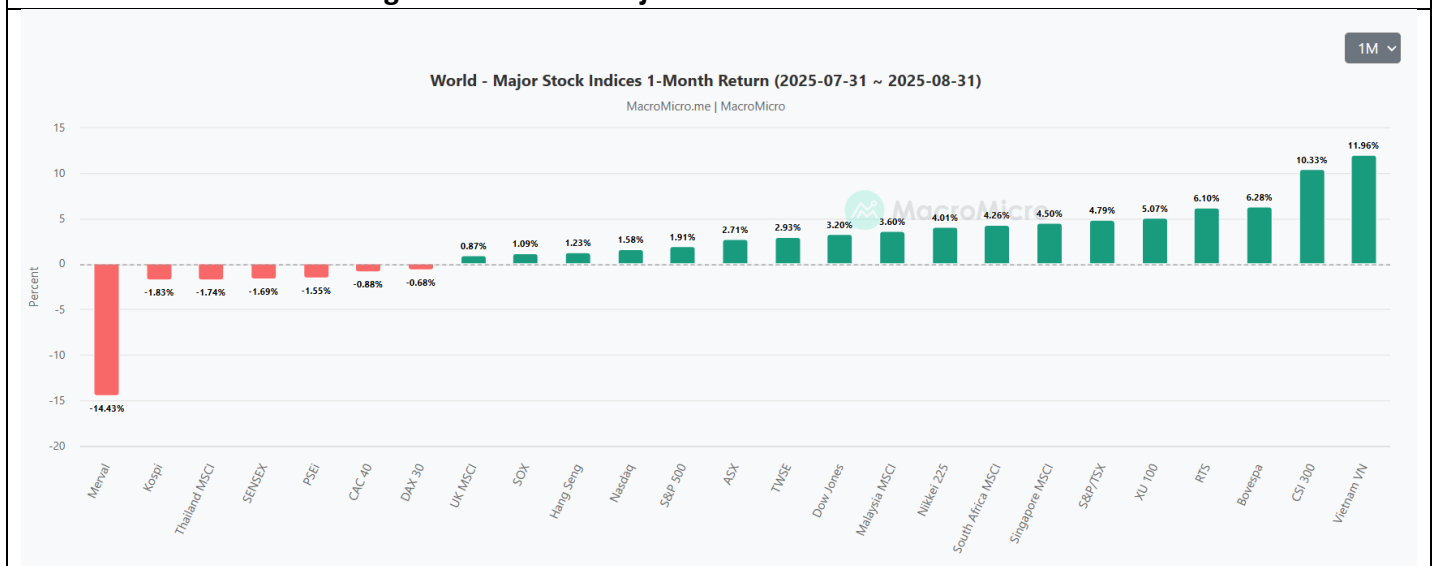
While liquidity from expected Fed cuts underpins valuations, fundamentals remain uneven. The AI sector dominates growth, while most industries show softening momentum. Taiwan’s tech exports surged to \$24 billion in July, confirming robust AI demand that could sustain double-digit revenue growth through mid-2026. Inventory trends at firms like TSMC and Broadcom remain lean, though NVIDIA saw a small uptick linked to delayed shipments. Outside AI, the picture weakens.

US consumer spending has cooled, while China’s industrial growth slowed to 5.8%, with gains concentrated in semiconductors, EVs, aerospace, and drones—sectors tied to “new productive forces.” Most traditional industries are contracting. This divergence highlights fragility in the global recovery: a strong AI-driven boom coexists with broad industrial stagnation. For investors, the challenge is separating sustainable growth from liquidity-driven rallies. AI remains a core driver, but overreliance raises risks if momentum slows or inventories normalize. Broader industrial participation is still lacking.

Market Outlook & Positioning

The market backdrop suggests consolidation at high levels, with Fed liquidity supporting valuations but fundamentals dependent on narrow sectoral strength. Investors should expect stock-specific performance rather than broad rallies. The recommended approach emphasizes long-term quality themes: the productivity race (AI, nuclear power), the hegemony race (defence, aerospace), and the currency race (gold, stablecoins). Monitoring US labour data remains crucial; modest payroll growth (0–100k) would enable the Fed to ease without destabilizing inflation, supporting a soft landing. AI inventory conditions are also a key gauge—sustained lean levels would confirm resilient demand. While risks of volatility persist, policy support and AI strength keep upside alive. Strategic positioning should balance near-term liquidity tailwinds with the fragility of fundamentals.

Figure 1: World – Major Stock Indices 1 Month Return



Overview of the US Equities Market

Global equities extended gains to record highs in August, buoyed by easing trade frictions, limited impact from semiconductor tariffs, and dovish signals from Fed Chair Powell at Jackson Hole. US indices rose strongly, led by the Nasdaq (+4.6%) and Philadelphia Semiconductor Index (+5.4%). Asia also advanced, with China's Shanghai Composite (+6.8%) and Vietnam's market (+11.9%) notable standouts. However, the rally rests on narrow foundations.

Earnings momentum has slowed, with fewer industries reporting rising EPS, particularly in Europe. Yet liquidity expectations and AI's explosive growth continue to fuel valuations, leaving most markets above their 200-day averages. This creates a divergence between fundamentals and prices, raising questions about sustainability. Going forward, market direction hinges on two drivers: whether the Fed follows through with September rate cuts, and whether AI's growth broadens into other industries. Momentum remains strong, but sectoral concentration and stretched valuations increase risks of volatility.

A federal appeals court delivered a major ruling late Friday, striking down former President Trump's signature tariffs, declaring that he exceeded his emergency powers in reshaping U.S. trade policy. However, the judges permitted the tariffs to remain in place until mid-October to allow the administration time to appeal to the Supreme Court. The decision represents the most significant legal setback yet to one of Trump's hallmark economic initiatives of his second term.

The ruling coincided with a weak end to August for U.S. markets. Technology stocks tied to artificial intelligence led declines, as disappointing results weighed on sentiment. Dell's softer AI-related guidance sent its shares down 9–10%, while Nvidia, Broadcom, and Oracle each fell over 3%. The Nasdaq fell 1.2%, the S&P 500 dropped 0.6%, and the Dow shed 0.3%. Despite Friday's pullback, the S&P 500 still posted a fourth consecutive monthly gain, supported by expectations of monetary easing.

Inflation data offered little surprise. The personal-consumption expenditures (PCE) index, the Federal Reserve's preferred measure; showed prices rose 2.6% in the 12 months through July, unchanged from June. The Core PCE, excluding food and energy, has rose 2.9%. While inflation remains above the Fed's 2% target, markets are increasingly confident that a September rate cut is likely. Futures data show traders now pricing an 87% chance of a cut, up from 63% a month earlier.

At the same time, political tensions added uncertainty. Fed Governor Lisa Cook's lawsuit against Trump, seeking to block her dismissal, was heard in federal court Friday. Judge Jia Cobb pressed both sides but issued no ruling. The case could set important precedent for presidential authority over the central bank. Other developments highlighted shifting trade and consumption dynamics. On Friday, the U.S. formally ended the long-standing "de minimis" rule that exempted packages under \$800 from tariffs, closing a loophole widely used by Chinese exporters. This followed the administration's broader tariff rollouts earlier this year.

Markets elsewhere showed mixed signals. Gold surged to a record \$3,473.70 per ounce, reflecting investor demand for safe havens. Oil fell 0.9% to \$64.01 a barrel, while the 10-year Treasury yield rose slightly to 4.227% after three days of declines. Bitcoin slid 3% to \$108,221. Consumer sentiment also weakened in August, with the University of Michigan index falling to 58.2 from 61.7, while inflation expectations ticked higher.

Overall, the week ended with a sharp intersection of politics, markets, and monetary policy: a legal blow to Trump's tariffs, elevated inflation pressures, expectations of Fed easing, and volatility across equities, commodities, and currencies.

Last week saw broad divergence across S&P 500 sectors amid shifting investor sentiment:

- Technology and Communication Services led the pack, buoyed by strength in media, telecom, and software names, even as specific tech subsectors faltered
- Energy and Financials also gained, reflecting robust investor interest in oil and banking names
- Conversely, semiconductor and AI-related tech—notably Nvidia, AMD, Broadcom, and especially Marvell—faced sharp declines, pressured by concerns over AI infrastructure growth and weaker China exposure. The semiconductor index logged its weakest weekly performance since April
- Healthcare trailed behind most other sectors, consistent with broader market softness in defensive names.

Despite these disparities, the S&P 500 managed only a slight weekly dip ($\sim -0.1\%$), as gains in communication services, energy, and financials helped balance out semiconductor-heavy losses. The index even hit all-time highs mid-week, supported by upbeat economic signals and optimism for upcoming Fed policy easing.

In summary, last week's sector rotation highlighted investor caution toward AI-related tech, favouring cyclical like energy and financials, and reinforcing the S&P 500's resilience amid volatility.

Overview of the US Treasuries and Other Fixed Income Markets

Short-maturity US Treasuries slipped on Thursday after stronger-than-expected economic data raised doubts about the extent of Federal Reserve rate cuts. Yields on two- to five-year notes climbed at least two basis points, with the two-year rising to 3.64% after GDP growth was revised up to 3.3% for Q2 and weekly jobless claims fell more than anticipated, signalling continued labour market strength. Analysts said the figures underscored consumer resilience despite tariff pressures, complicating the Fed's dovish tilt.

Despite the move, shorter-dated yields remain near their lowest levels since early May, following a rally on growing expectations for policy easing. Swap contracts still price in a quarter-point Fed cut by October and a second by year-end, with about an 80% chance of a September reduction. Citigroup economists cautioned, however, that underlying demand outside a few sectors is weakening and that growth should slow further as tariffs weigh and labour conditions soften.

Political developments are also influencing expectations. President Donald Trump's push to accelerate Fed appointments has bolstered market bets on cuts, with his nominee Miran expected to be confirmed before the September meeting.

Longer-dated Treasuries, in contrast, rallied after a seven-year note auction, sending yields to session lows and narrowing the yield curve. The two- to 10-year spread shrank to 57 basis points from 62, while the five- to 30-year gap fell to about 118 from 122. Recent steep curve levels prompted traders to unwind positions.

Auctions earlier this week also reflected strong demand: two- and five-year sales cleared at the lowest yields since September 2024, before rallying further in secondary markets. End-of-month bond index rebalancing, particularly large in August, also supported demand for new issues.

Overall, markets remain split between strong near-term data supporting higher yields and expectations that tariff-driven inflation and labour softness will push the Fed toward easing.

The US economy grew more strongly than initially estimated in the second quarter of 2025, with revised figures showing a 3.3% annualized expansion compared with the 3% originally reported. The upward revision was driven by robust business investment and a historic boost from trade. Business spending rose 5.7%, well above the prior estimate of 1.9%, with notable gains in transportation equipment and the strongest growth in intellectual property products in four years.

The trade sector provided an extraordinary lift, with net exports contributing nearly five percentage points to GDP, the largest on record after weighing on growth in the first quarter. This reflected both a rebound from earlier import surges tied to tariff anticipation and stronger overseas demand for US goods. Consumer spending, the backbone of the economy, grew at a modest 1.6%, slightly above initial estimates but still sluggish compared with past expansions. Retailers like Walmart and Home Depot remain optimistic about consumer resilience, though tariff-driven price increases are beginning to filter into stores.

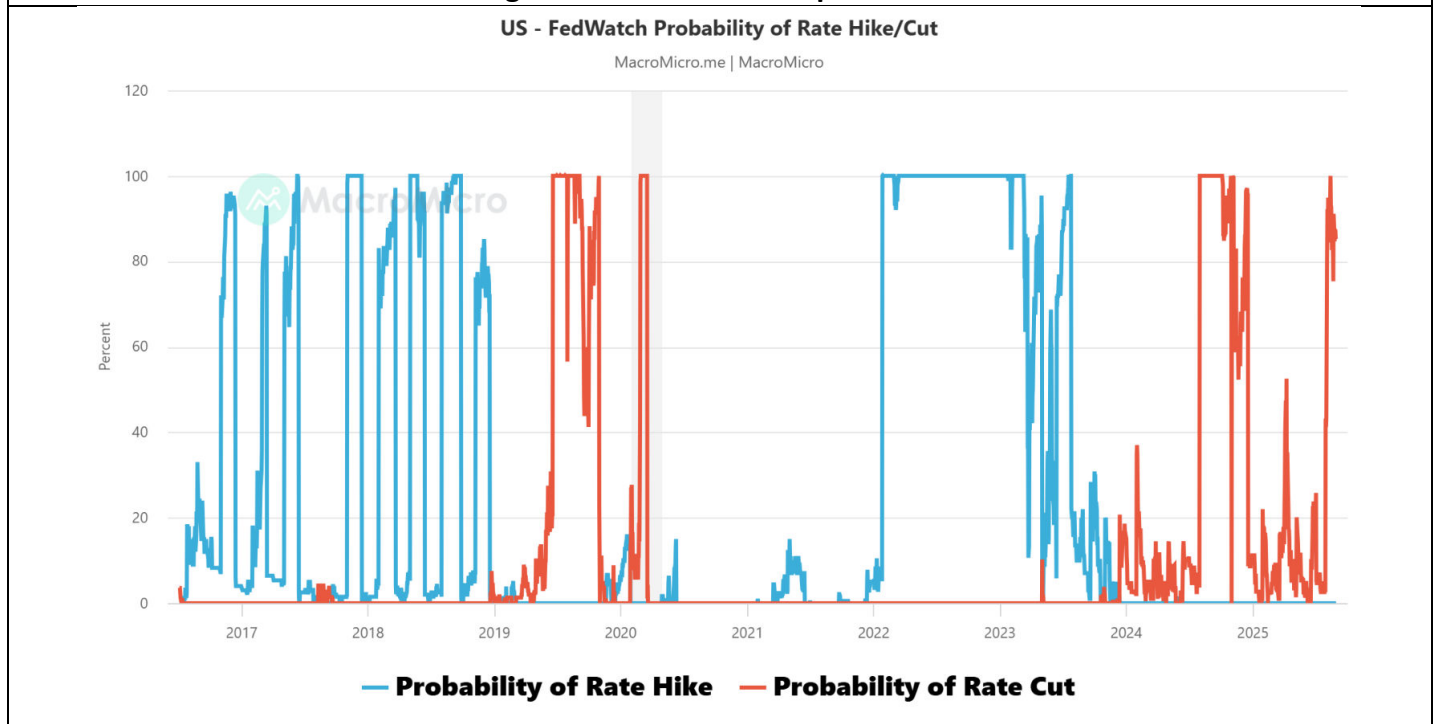
Corporate profits improved in Q2, rising 1.7% after suffering their sharpest decline since 2020 earlier in the year. Margins, measured as after-tax profits for nonfinancial firms relative to gross value added, held steady at 15.7% although elevated by historical standards. Economists caution, however, that whether firms pass tariff costs to consumers or absorb them will shape profit trajectories and inflation pressures going forward.

Gross domestic income (GDI), an alternative gauge of economic activity, surged 4.8% in Q2 after barely growing in Q1, reinforcing the picture of stronger momentum. Still, analysts warn underlying demand outside specific sectors remains subdued, with labour market weakness and higher tariff costs likely to restrain activity in the months ahead. Final sales to private domestic purchasers, a cleaner measure of household and business demand, rose just 1.9%, suggesting slowing core momentum beneath the headline GDP figure.

Inflation dynamics remain central to the outlook. The Fed's preferred core PCE index rose at 2.5% in Q2, unchanged from the earlier estimate. Policymakers are closely monitoring whether tariffs will further pressure prices. Chair Jerome Powell, speaking at Jackson Hole, acknowledged tariff-driven inflation but highlighted labour market risks as a potential justification for a September rate cut. Markets are still pricing in easing, with traders betting on at least one cut before year-end.

In addition to the GDP revision, the Commerce Department announced it will begin distributing GDP data via public blockchains, aligning with the Trump administration's push for greater adoption of digital technologies. Meanwhile, labour market signals remain mixed, with jobless claims falling in mid-August even as concerns mount about broader hiring trends.

Figure 2: US Cash Rate Expectations



Overview of the Australian Equities Market

The August corporate reporting season highlighted how Australian businesses are navigating productivity pressures against a backdrop of subdued long-term growth. With Treasurer Jim Chalmers' productivity summit running in parallel, results underscored a clear theme: companies are prioritising disciplined capital allocation, internal efficiencies, and leadership stability.

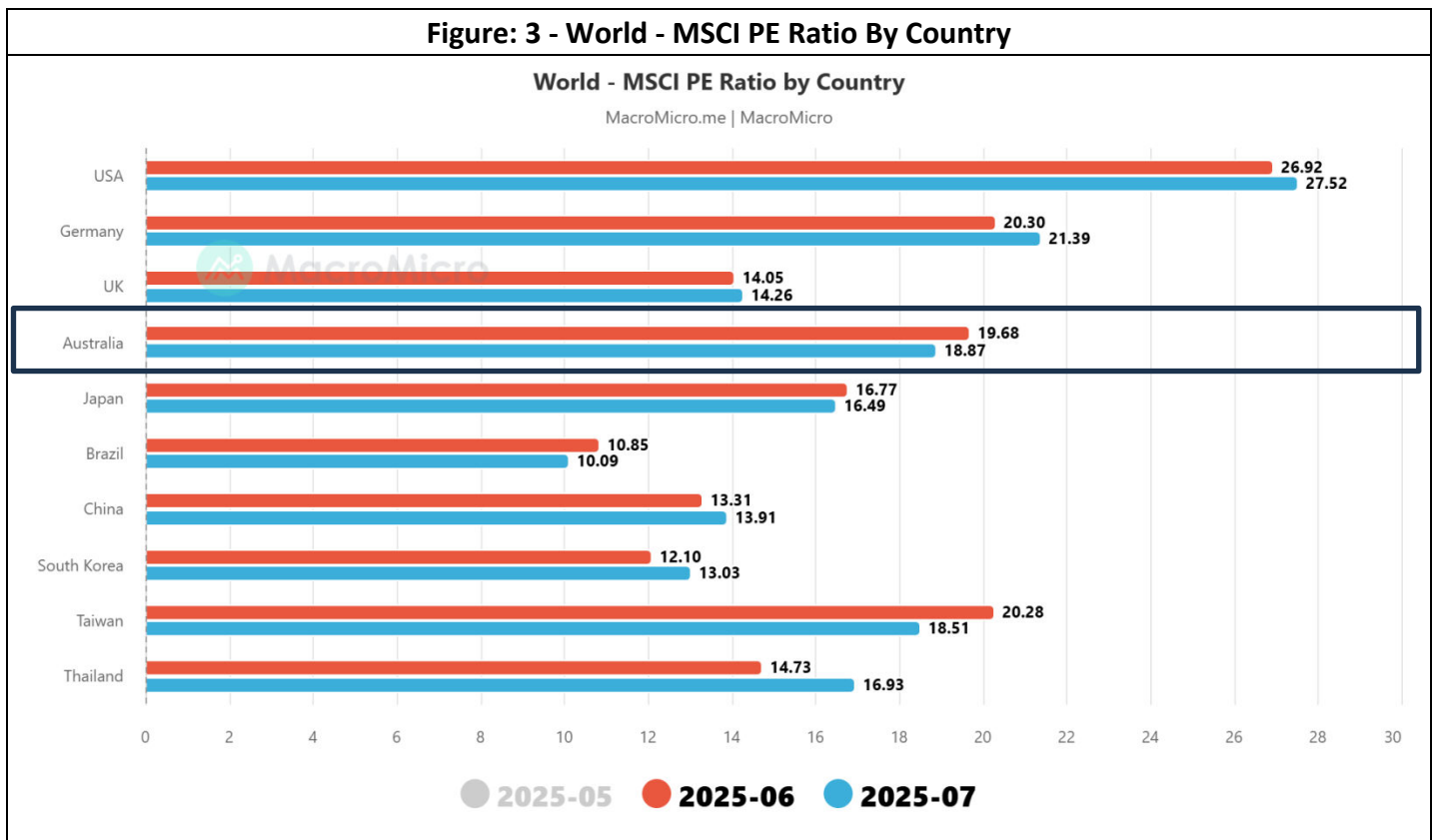
Success stories reinforced this trend. SGH's turnaround at Boral illustrated how sharper pricing and capital discipline can lift profitability. Many corporates—including CBA, Telstra, BHP, AGL, and Origin—are investing in targeted, low-risk projects such as AI, digital infrastructure, and energy transition assets, balancing growth with dividend commitments. Retailers also delivered strong results, buoyed by improved household spending power from tax cuts, easing inflation, and rate reductions. Consumer resilience benefited names like Nick Scali and Super Retail, while CBA data showed a rare simultaneous spending lift across all age groups.

Leadership proved a differentiator: REA's smooth CEO transition reassured investors, while JB Hi-Fi briefly wobbled on succession news. Proven leaders such as Breville's Jim Clayton gained investor confidence, while strategic missteps were harshly punished—CSL's Seqirus demerger plan and James Hardie's \$14bn Azek acquisition triggered steep sell-offs. Even strong performers like CBA and Guzman y Gomez were marked down for meeting but not exceeding lofty expectations.

At the market level, Australian equities have delivered solid returns but lag global benchmarks, reflecting the sectoral imbalances—heavily weighted to banks and miners with limited tech exposure. CBA alone has accounted for 40% of ASX 200 gains this year, though its valuation premium raises sustainability questions. Many companies continue to list offshore, attracted by higher multiples and growth-oriented investors. Overall, the season revealed a “two-speed” market: firms with pricing power, disciplined execution, and credible leadership were rewarded, while missteps, overreach, and unmet expectations were swiftly penalised.

Figure 3 shows the PE ratio of key equity markets around the world. It’s worth noting that the Australian share market is trading well above its historical PE Ratio average and is one of the most expensive markets in the world. The latest reporting season will provide further clarity on the future direction of earnings growth and any further rally that can be sustained without the support from offshore market sentiment.

Figure: 3 - World - MSCI PE Ratio By Country



Overview of the Australian Government Bond Market

Australian government bonds were mixed on August 29, 2025, with yields edging slightly higher at the short end amid U.S. inflation alignment and global equity jitters, as earnings season wrapped and monthly gains solidified. The 10-year yield dipped 1 basis point to 4.27%, the 2-year rose 1 bp to 3.33%, the 5-year held at 3.64%, and the 15-year eased 2 bps to 4.64%. Month-to-date, yields declined 5-7 bps, reflecting dovish sentiment post-softer Q2 capex (0.2% vs. 0.7% expected) and July CPI surprise, though August's equity rally tempers aggressive RBA cut bets. U.S. PCE meeting forecasts—core YY at 2.9%, supporting Fed's easing path—bolstered resilience views but fuelled a tech-led selloff, amplifying tariff truce talks (U.S.-China extension eyed) and European duty reductions, potentially stabilizing flows yet heightening September correction risks from valuations and U.S. debt. Trump's Fed independence challenge risks higher global borrowing costs, indirectly pressuring Aussie yields via commodity ties, as lithium and uranium surges highlight supply constraints. Bond traders eye next week's jobless claims (230k expected) and Australia's leading index for further RBA clues, with swaps implying ~60% September Fed cut chance influencing cross-currency dynamics.

Figure 4: Australia 3 and 10-year Bond Yield Spread

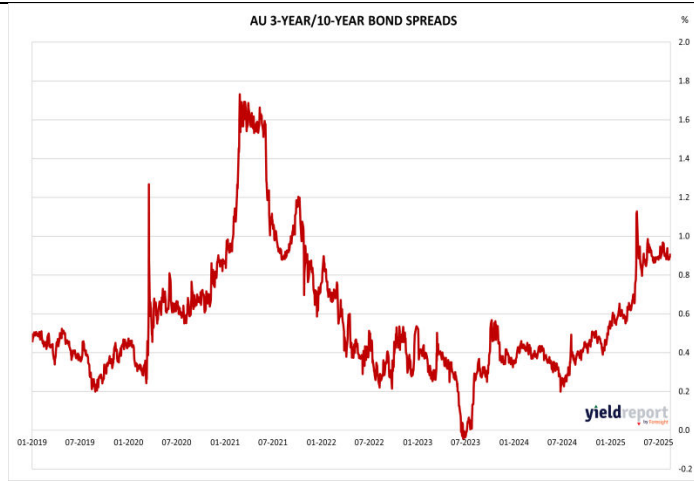
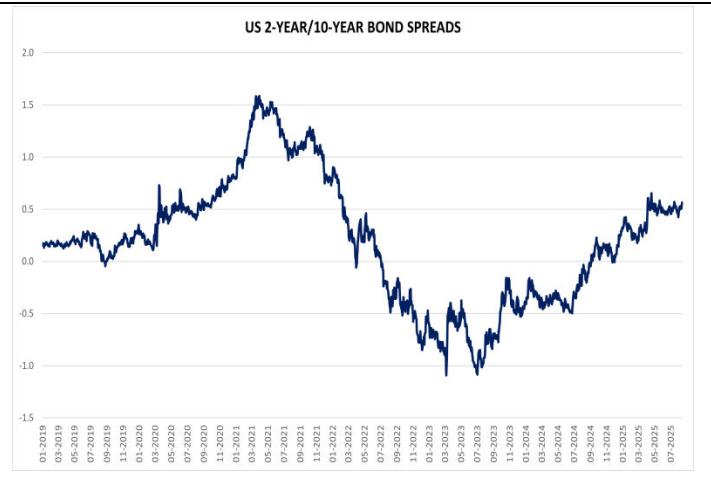


Figure 5: US 2 and 10-year Bond Spread



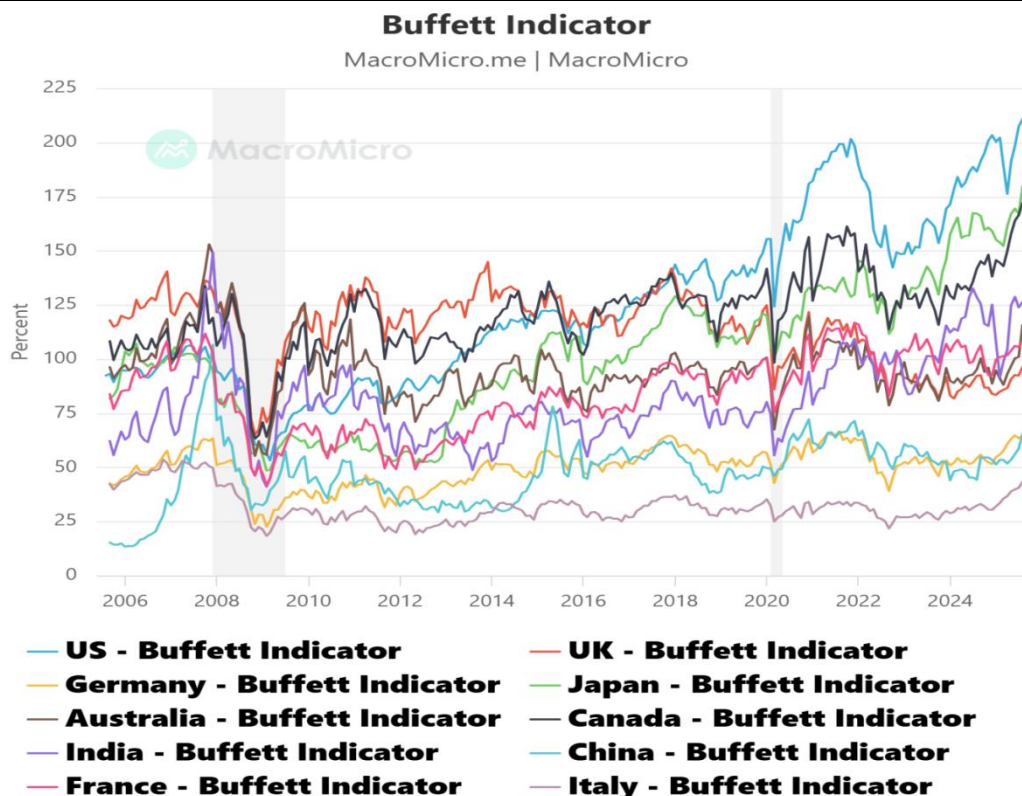
Market Summary Table

Name	Week Close	Week Change	Week High	Week Low
Cash Rate%	3.60%			
3m BBSW %	3.5622	-0.0094	3.5622	3.5363
Aust 3y Bond %*	3.384	-0.002	3.4	3.358
Aust 10y Bond %*	4.296	-0.024	4.331	4.291
Aust 30y Bond %*	5.037	-0.031	5.088	5.048
US 2y Bond %	3.637	-0.157	3.73	3.623
US 10y Bond %	4.221	-0.118	4.275	4.207
US 30y Bond %	4.8928	-0.0398	4.913	4.872
iTraxx	67	0	71	67
\$1AUD/US¢	65.33	1.03	65.39	64.7

Chart of the week: Buffett Indicator – Stock Market Valuations

The Buffett Indicator highlights sharp valuation divergences across countries since 2006. The U.S. and China stand out, with ratios above 200% and 225% respectively by 2025, signalling possible overvaluation. In contrast, Germany, Japan, France, and Italy remain subdued between 50–100%, reflecting modest market valuations relative to GDP. The UK and Canada show stable ranges around 90–130%, while Australia tracks slightly lower at 75–100%. India has steadily risen, now above 125%, suggesting growing market optimism. Overall, the data underscores a widening global gap, with the U.S. and China at elevated levels, while most developed markets remain more restrained.

Figure 6: Buffett Indicator – Stock Market Valuations



Looking ahead: Major Economic Releases for the Week Ending 5th September

For the week ending September 5, 2025, Australian economic data will be in the spotlight, with the S&P Global Manufacturing PMI Final expected to confirm ongoing expansion in the sector, reflecting resilient activity despite global headwinds. Building approvals are anticipated to show a notable decline both month-on-month and year-over-year, signaling potential cooling in the housing market amid high interest rates. The current account balance may widen its deficit slightly, while net exports are projected to contribute positively to growth, offsetting some domestic weaknesses. S&P Global Services and Composite PMI Finals could indicate steady service sector momentum, and real GDP figures (quarterly and annual) are expected to reflect a modest pickup in overall economic growth from prior softness. Trade data, including goods balance, imports, and exports, may highlight a robust surplus driven by stronger exports. These releases could reinforce the Reserve Bank of Australia's cautious stance, potentially supporting further rate cuts to bolster recovery in construction and consumer sectors, though persistent trade uncertainties pose downside risks.

In the United States, the S&P Global Manufacturing PMI Final and ISM Manufacturing PMI are anticipated to show continued contraction but with marginal improvement, suggesting tentative stabilization in the sector. Factory orders may contract less sharply than before, indicating easing manufacturing pressures. International trade is expected to post a wider deficit, reflecting import growth amid tariff concerns. S&P Global Composite and Services PMI Finals, along with ISM Non-Manufacturing PMI, could confirm expansion in services, underscoring economic resilience. Initial jobless claims are likely to remain stable at low levels, while nonfarm payrolls may edge up modestly, with the unemployment rate ticking higher and average earnings softening slightly, pointing to a cooling but solid labor market. These indicators might prompt the Federal Reserve to consider further rate cuts to sustain growth, though global trade uncertainties, including U.S. tariff policies, may continue to pose risks to both economies.

Major Economic Releases for the Week ending 5 Sep, 2025				
Date	Country	Release	Consensus	Prior
Monday, 01/09	Australia	S&P Global Mfg PMI Final	n/a	52.9
Monday, 01/09	Australia	Building Approvals	-4	11.9
Monday, 01/09	Australia	Building Approval Total YY	n/a	5.4
Tuesday, 02/09	Australia	Current Account Balance SA	-15.1	-14.7
Tuesday, 02/09	Australia	Net Exports Contribution	0.3	-0.1
Tuesday, 02/09	United States	S&P Global Mfg PMI Final	n/a	53.3
Tuesday, 02/09	United States	ISM Manufacturing PMI	49	48
Tuesday, 02/09	Australia	S&P Global Svs PMI Final	n/a	55.1
Tuesday, 02/09	Australia	S&P Global Comp PMI Final	n/a	54.9
Wednesday, 03/09	Australia	Real GDP QQ SA	0.5	0.2
Wednesday, 03/09	Australia	Real GDP YY SA	1.6	1.3
Wednesday, 03/09	United States	Factory Orders MM	-1.4	-4.8
Thursday, 04/09	Australia	Balance on Goods	n/a	5365
Thursday, 04/09	Australia	Goods/Services Imports	n/a	-3.1
Thursday, 04/09	Australia	Goods/Services Exports	n/a	6
Thursday, 04/09	United States	International Trade \$	-74.5	-60.2
Thursday, 04/09	United States	S&P Global Comp PMI Final	n/a	55.4
Thursday, 04/09	United States	S&P Global Svcs PMI Final	n/a	55.4
Thursday, 04/09	United States	ISM N-Mfg PMI	51	50.1
Thursday, 04/09	United States	Initial Jobless Clm	230	229
Friday, 05/09	United States	Non-Farm Payrolls	75	73
Friday, 05/09	United States	Unemployment Rate	4.3	4.2
Friday, 05/09	United States	Average Earnings YY	3.7	3.9

Source: Refinitiv

PART 2 – Investment Opportunity Review

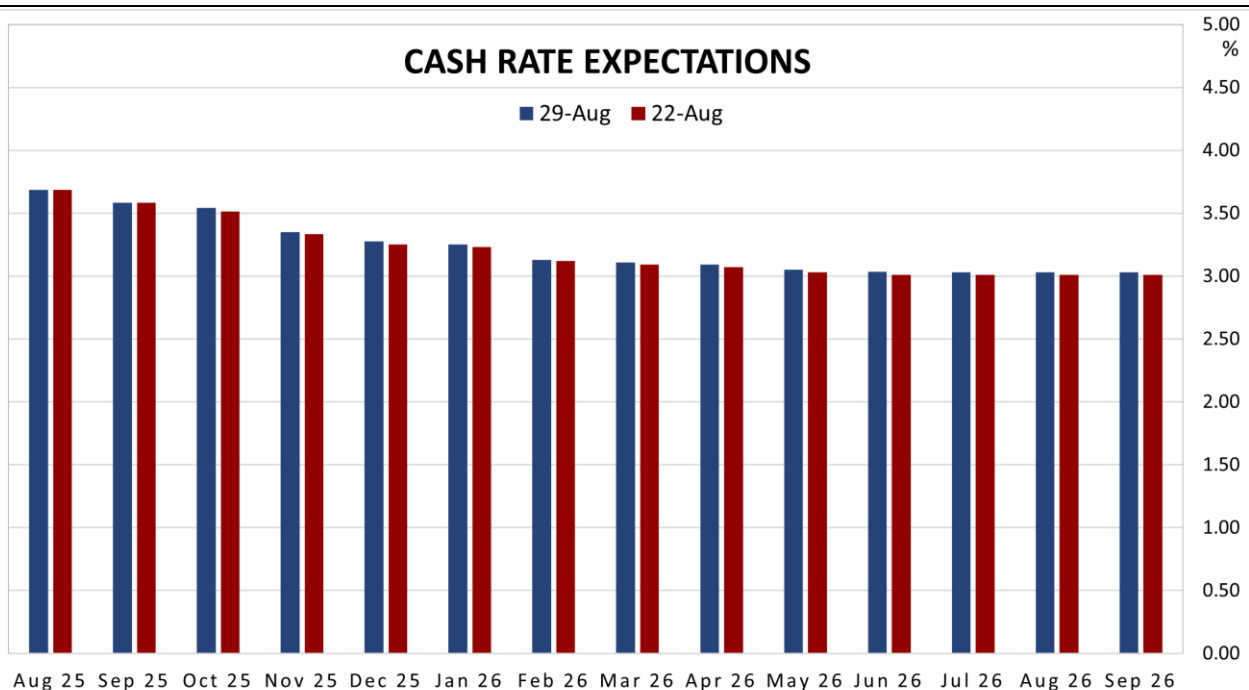
Defensive Income – Cash

Last week, Australia’s interbank (cash) market held steady at the RBA’s official target of 3.6%, with the overnight money-market rate hovering around 3.59%, underscoring stable market alignment with central bank policy. This stability suggests liquidity and policy transmission remain smooth, with no surprises in overnight funding costs.

The Reserve Bank of Australia continues to signal further policy easing ahead, though the pace remains data-dependent. Minutes from the August policy meeting confirmed that future rate cuts are likely, with decisions to be calibrated based on labor market dynamics, inflation trends, and global conditions. Market expectations currently point to an additional rate cut by November, with a pause anticipated in September.

Global uncertainties, including trade tensions and slowing GDP growth in major economies, also continue to influence investor sentiment.

Figure 7: Market Expectation on Cash Rate



Defensive Income- Term Deposits

The movements in term deposit rates by major and non-major banks continue to show variability. Over the past week, ending August 29, 2025, there was a mix of up and down movements, though stability is notable in some terms.

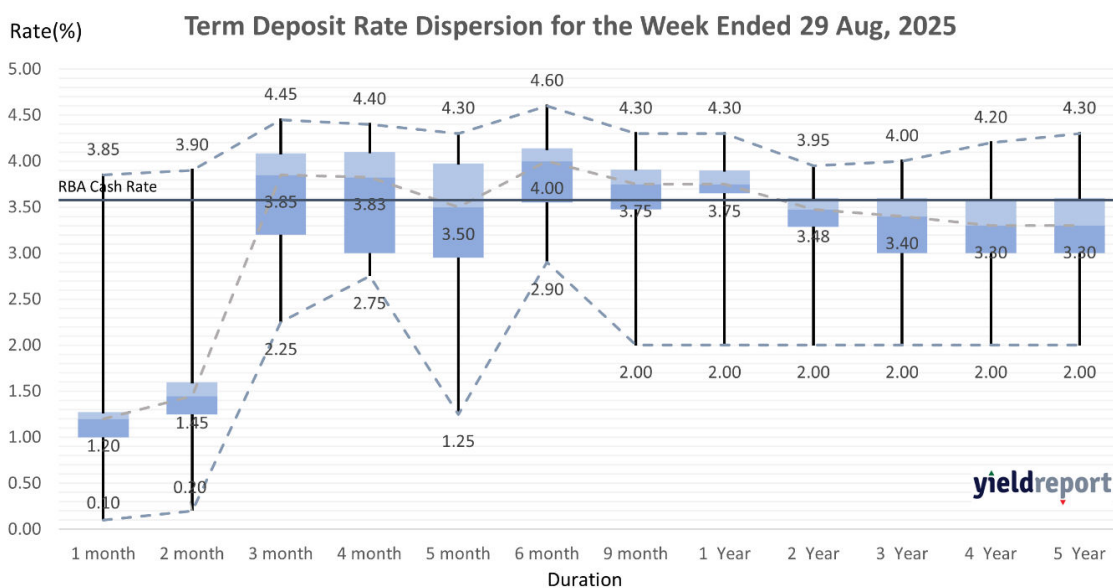
Our survey across 42 institutions indicates that the most contested term deposit term remains 6 months, followed by 3 months and 1 year, with sample sizes of 42 each.

This week the best rate with a 3-month term was 4.45%, steady from the week before, with in1bank offering the top rate. The median rate of 3.85% reflects a broad range from 2.25% to 4.45%. This week the best rate within 6 months term was 4.60%, unchanged from last week, offered by Teachers Mutual Bank. The median rate of 4.00% shows a quartile spread of 0.59%, indicating consistency.

Interestingly, the best 5-year rate fell to 4.30% from 4.40%, led by Rabobank Australia and Judo Bank. The median rate held at 3.30%, with a range from 2.00% to 4.30%.

Our analysis shows term deposits with rates above 4% are holding strong. In the 3-month category, 14 institutions now offer over 4%, unchanged from last week. In the 6-month category, 20 institutions exceed 4%, down from 21, reinforcing the 6-month term's competitiveness.

Figure 8: Highest Term Deposit Rate by Term



Defensive Income – Government Bonds

Australian government bonds ended mixed on August 29, 2025. Short-end yields edged higher, with the 2-year rising 1 bp to 3.33%, while the 10-year dipped 1 bp to 4.27% and the 15-year eased 2 bps to 4.64%; the 5-year was steady at 3.64%. Month-to-date, yields fell 5–7 bps as softer Q2 capex and a weaker July CPI reinforced dovish sentiment, though August's equity rally tempered aggressive RBA cut bets. U.S. PCE data aligned with Fed easing views, but equity volatility, U.S.-China tariff talks, and Trump's Fed independence challenge pose risks. Traders watch jobless claims and local indicators for RBA signals.

Figure 9: Aust. 10 yr minus 3 yr Bond Spread

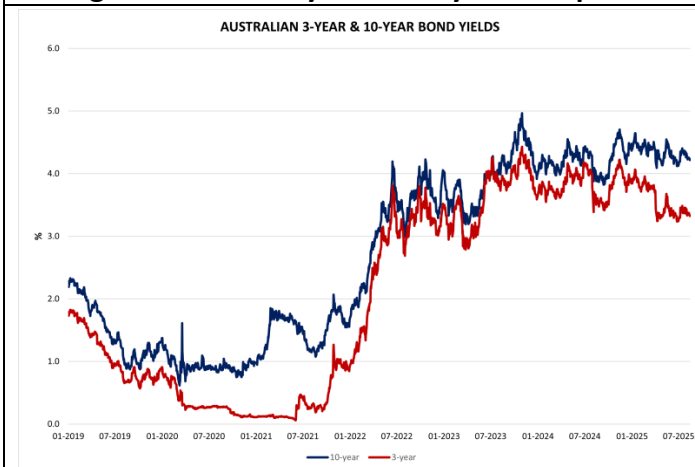


Figure 10: Aust & US Bond Yields Spread



Figure 11: Global 11 yr Bond Yields

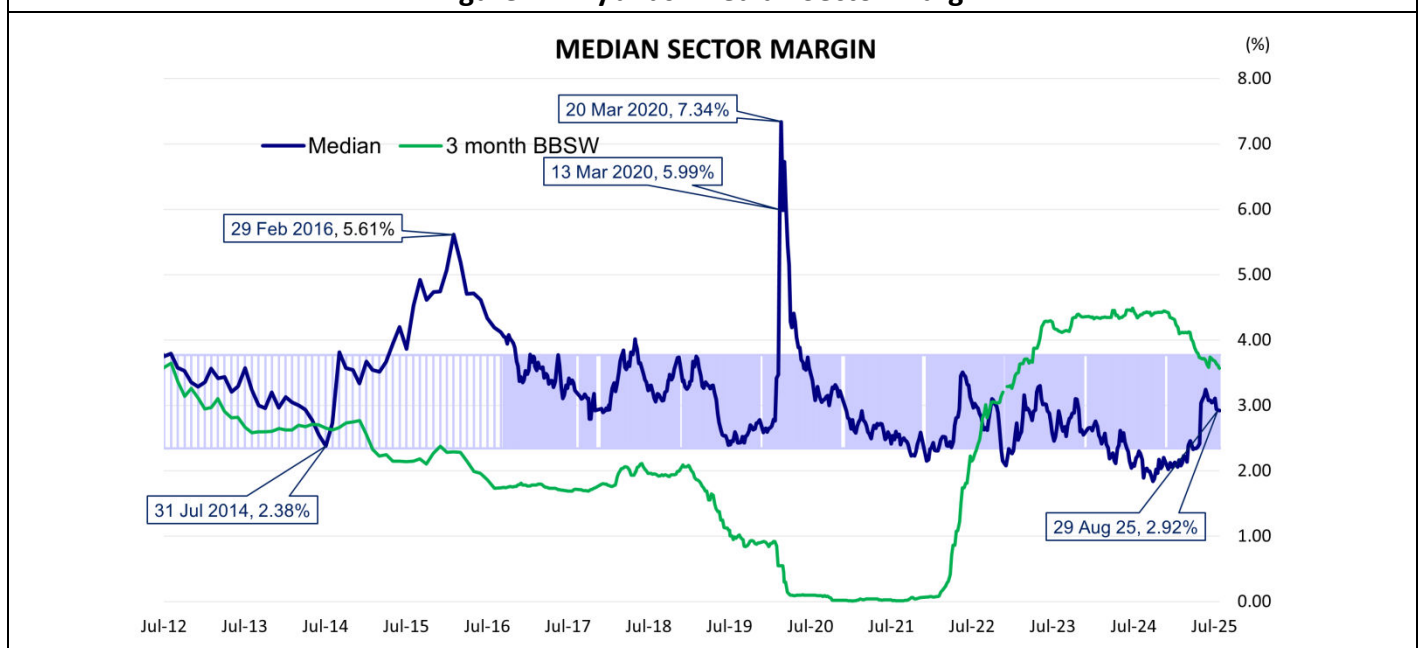


Bank & Corporate Hybrids

Bank hybrid securities again delivered high income with little price volatility. The YieldReport data shows the average trading margin 2.92 % and running yields sat mostly in the between 6 and 7%. Key “capital note” issues remained in tight ranges (day-to-day price moves <0.1%), reflecting balanced demand. Notably, Westpac Capital Notes 5 (WBCPH) traded with a very wide margin (~40%) owing to its imminent call date.

Overall, the average trading margin of hybrid securities is below long-term average and demonstrates lower level compensation for the risk taken by investors. This type of tight spreads is also observed in the local and global corporate bond markets, particularly in the investment grade segment.

Figure 12: Hybrids: Median Sector Margin



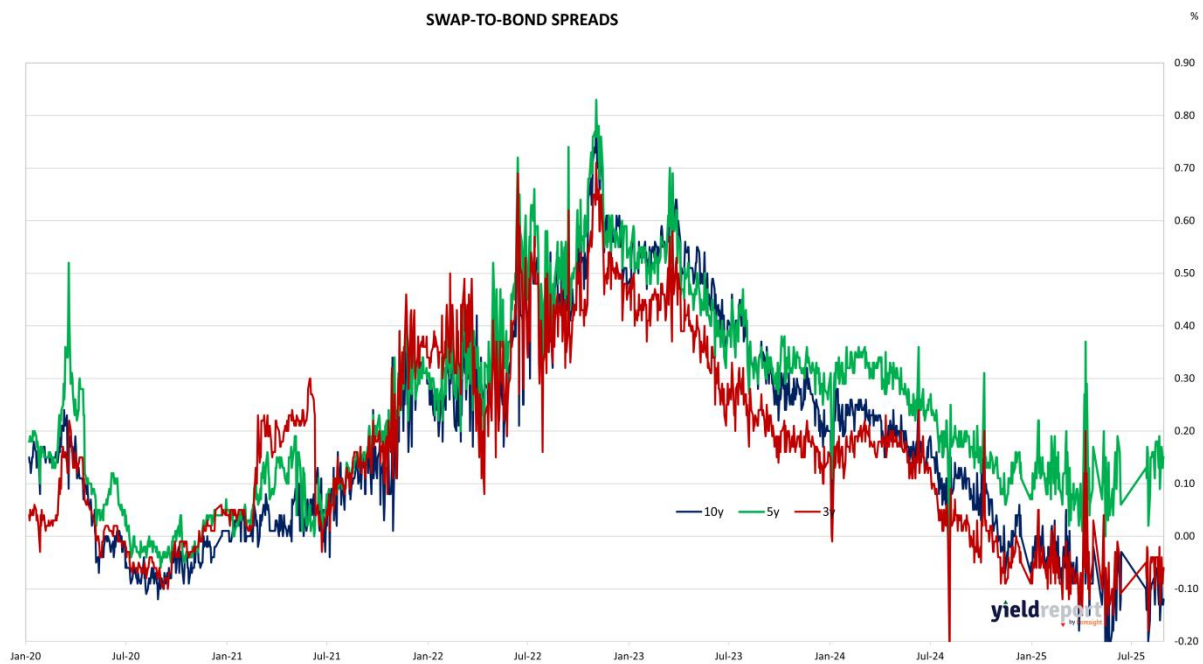
Bank Bill Swaps

The Bank Bill Swap Rate (BBSW) market moves reflected the RBA’s decision to cut the cash rate by 0.25% to 3.6% earlier this month.

For the week ending 29nd August 2025, the 1-month BBSW held at 3.56% (flat), while the 3-month BBSW closed at 3.56% (flat), based on daily data trends. The 6-month BBSW was also flat at 3.66 reflecting lack of any interest rate sensitive news and neutral market sentiment towards short term rate expectations.

The longer end of the swap rate curve also remains steady over the week with the 1-year swap rate up 2 basis points to 3.32%. The 3-year swap rate increased 3 basis points to end the week at 3.32%. The 5-year swap rate increased 6 basis points to 3.72%, reflecting investor expectations of revised cash rate path for Australia following RBA’s highly anticipated rate cut amid slowing domestic growth and uncertainties around US tariffs.

Figure 13: Bank Bill Swaps



ETFs

ETF Update - August 29

ETF investors remained highly active last week, adding \$18.3 billion to U.S.-listed funds in the five days ending August 22. This pushed year-to-date ETF inflows past \$750 billion, putting 2025 on track to potentially set a new annual record.

U.S. equity ETFs led the charge with \$8.7 billion in net inflows. The Vanguard S&P 500 ETF (VOO) topped the leader board, attracting \$2.5 billion as U.S. markets hovered near record highs.

International equity ETFs also performed well, particularly the Vanguard FTSE Developed Markets ETF (VEA), which brought in \$940 million. VEA has been a strong performer in 2025, reaching an all-time high last week and delivering a 25% year-to-date return—more than double that of U.S. equity benchmarks.

Fixed income ETFs attracted nearly as much investor attention, bringing in \$6.9 billion. Markets responded to Fed Chair Jerome Powell's Jackson Hole speech, interpreting his balanced tone as a signal that rate cuts may arrive as early as next month. This sparked widespread bond buying.

In the week ending August 22, U.S.-listed ETFs saw \$18.3 billion in net inflows across all asset classes, representing a 0.15% increase in total assets under management (AUM) of \$12 trillion.

U.S. equity ETFs led with \$8.7 billion in inflows, reflecting continued investor confidence in domestic markets. U.S. fixed income ETFs followed closely, adding \$6.9 billion, as expectations of potential interest rate cuts drove demand for bonds.

International fixed income ETFs saw strong inflows of \$2.2 billion, suggesting growing interest in global bond exposure. International equity ETFs also attracted \$1.5 billion, though that represented just 0.07% of their total AUM.

Leveraged ETFs recorded \$1.5 billion in inflows, while alternative strategies and asset allocation ETFs brought in smaller amounts of \$261 million and \$137 million, respectively.

On the downside, currency ETFs saw the largest outflows, shedding \$1.6 billion (a 0.92% drop in AUM), likely due to reduced hedging activity or shifts in macro views. Inverse ETFs lost \$643 million, and commodities ETFs dropped \$674 million, continuing a trend of declining interest in non-equity inflation hedges.

Overall, flows show strong risk-on sentiment with investors favouring equities and bonds while pulling back from hedges like commodities, currencies, and inverse strategies.

Key beneficiaries included:

- Capital Group Municipal High-Income ETF (CGHM): +\$1.8 billion
- Vanguard Intermediate-Term Corporate Bond ETF (VCIT): +\$1.2 billion
- iShares 0-3 Month Treasury Bond ETF (SGOV): +\$1.1 billion

Other segments saw solid inflows as well:

- International fixed income ETFs: +\$2.2 billion
- Leveraged ETFs: +\$1.5 billion

Overall, investor appetite remained strong across asset classes, with flows reflecting optimism in equity markets and a growing belief in near-term easing by the Federal Reserve.

Here's a summary of the Top 10 ETF creations (net inflows) from the latest data:

1. Vanguard S&P 500 ETF (VOO) led the pack with \$2.51 billion in net inflows, reinforcing continued demand for broad U.S. large-cap exposure. Its assets under management (AUM) now stand at \$723.8 billion, up 0.35%.
2. Capital Group Municipal High-Income ETF (CGHM) saw the second-highest inflows with \$1.83 billion, growing its AUM by an impressive 88.44% to \$2.07 billion, reflecting strong demand for tax-advantaged income.
3. Vanguard Intermediate-Term Corporate Bond ETF (VCIT) added \$1.15 billion, boosting AUM to \$56.86 billion (2.03% growth), and highlighting interest in credit duration exposure amid shifting interest rate expectations.
4. iShares 0-3 Month Treasury Bond ETF (SGOV) brought in \$1.06 billion, reaching \$55.96 billion AUM (up 1.89%), indicating ongoing demand for cash-like instruments with low risk.
5. Vanguard FTSE Developed Markets ETF (VEA) attracted \$939.83 million, growing AUM to \$171.86 billion (0.55% increase), suggesting renewed interest in international developed markets.
6. iShares Core S&P 500 ETF (IVV) had \$838.15 million in inflows, with modest AUM growth to \$651.47 billion (0.13%).
7. SPDR Portfolio S&P 500 ETF (SPLG) received \$808.81 million, pushing its AUM to \$81.71 billion (up 0.99%).
8. Vanguard Growth ETF (VUG) gained \$625.94 million in inflows, increasing AUM to \$183.02 billion (0.34% growth), and reflecting appetite for growth stocks.
9. Schwab U.S. Large-Cap Growth ETF (SCHG) added \$600.26 million, with AUM rising 1.28% to \$46.95 billion.

10. Tema S&P 500 Historical Weight ETF (DSPY) saw \$593.33 million in inflows, growing its AUM to \$13.71 billion (4.33% increases), suggesting interest in alternative index strategies.

Key Trend: Investors continue to favour U.S. large-cap equities, tax-efficient income, and low-duration bonds.

Corporate Bonds

US corporate-bond valuations have surged to their highest level in nearly 30 years as investors rush to secure elevated yields amid expectations of Federal Reserve rate cuts next month. The extra yield, or spread, over Treasuries for investment-grade bonds fell to 73 basis points on Friday—the lowest since 1998—indicating bonds have become unusually expensive. Investors are prioritizing locking in current interest rates despite economic slowdown risks and ongoing trade tensions.

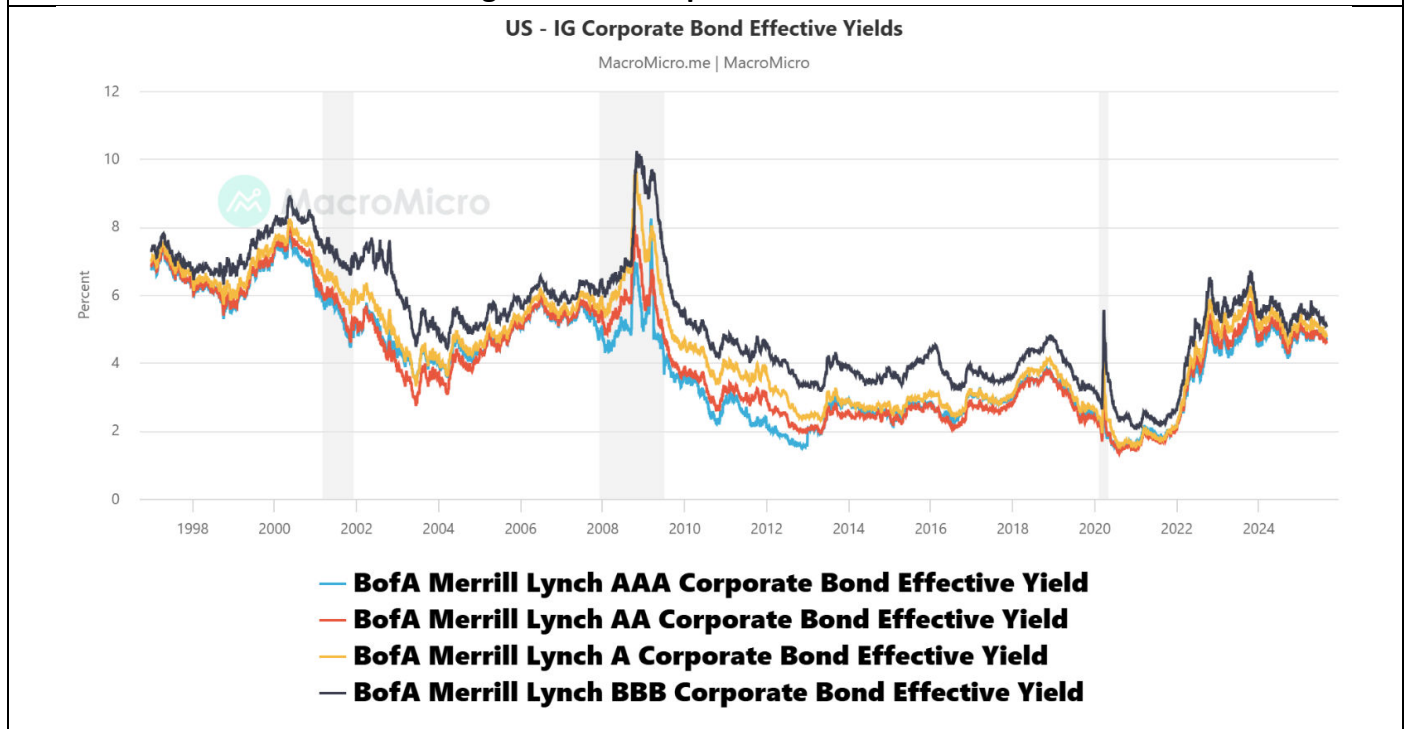
High-grade bond yields have averaged over 5% in the past three years after the Fed raised rates to combat post-pandemic inflation, attracting strong demand from institutional investors, pension funds, and insurers. Some previously cautious investors, scarred by the 2022 market rout, are now rushing in, driven by “FOMO” as opportunities to secure attractive yields diminish.

The surge in demand is fueling record inflows into investment-grade bond funds, according to JPMorgan strategists, particularly as rate cuts are increasingly priced in for upcoming Federal Open Market Committee meetings. Limited new issuance adds further support, as companies delay borrowing in anticipation of lower rates. With lower supply and compressed spreads, traders find it increasingly challenging to identify profitable trades, highlighting the intensity of the current market rally.

Figure 14 tracks effective yields on U.S. corporate bonds across rating categories—AAA, AA, A, and BBB—from 1997 to 2025. Overall, yields have shown cyclical patterns, rising during periods of economic stress and declining during stable or easing monetary policy phases. The early 2000s recession and the 2008 global financial crisis produced significant yield spikes, with BBB bonds consistently offering higher yields than higher-rated counterparts due to greater credit risk.

Yields declined steadily from 2009 through 2020, hitting historic lows during the pandemic as monetary stimulus compressed spreads. However, yields surged again in 2022 following aggressive Federal Reserve rate hikes to combat inflation, peaking near 6–7% before moderating slightly. Throughout the period, the spread between BBB and AAA bonds has persisted but remained relatively narrow during stable conditions. The chart underscores the sensitivity of corporate borrowing costs to macroeconomic cycles, monetary policy, and investor risk appetite.

Figure 13: US Corporate Bonds Yields



Listed Notes

The current landscape of ASX-listed floating rate notes reveals a nuanced interplay between call dates, trading margins, and investor sentiment. The scatter plot highlights two key instruments—AYUHD and AYUHE—both issued by Australian Unity, with margins above BBSW clustering around 3.25%. AYUHD is callable in June 2026, while AYUHE extends to June 2027, offering investors a slightly longer exposure with similar margin uplift.

Complementing this visual, the tabular data introduces Centuria Capital's C2FHA note, which stands out with a significantly higher trading margin of 6.58% and a running yield of 7.92%. This suggests a market premium for shorter-dated instruments with elevated credit or liquidity risk, as C2FHA matures in April 2026 and carries a notably higher issue margin of 4.25%.

Key Observations:

- **AYUHD vs AYUHE:** Despite differing maturities (2026 vs 2028), both maintain comparable trading margins (~3.1–3.2%), indicating stable investor confidence in Australian Unity's credit profile across tenors.
- **C2FHA Premium:** The 6.58% trading margin and 3.89% weekly delta suggest heightened market activity or repricing, possibly due to macro shifts or issuer-specific developments.
- **Yield Dynamics:** AYUHE offers the highest running yield among the Unity notes (6.15%), reinforcing its appeal for yield-seeking investors with a longer horizon.

Overall, the data underscores a bifurcation in investor appetite—between high-yield, short-dated notes like C2FHA and more stable, mid-term instruments from Australian Unity. This reflects broader themes in the hybrid and note market: balancing credit risk, duration, and yield in a shifting rate environment.

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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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