yieldreport Daily

Your Income Advantage

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Overview of the US Market

Wall Street staged a strong rally this week as investors digested softer inflation data alongside signs of a weakening labour market, reinforcing expectations that the Federal Reserve will deliver its first interest-rate cut of 2025.

U.S. stocks surged to fresh records on Thursday after the final inflation report ahead of next week's Federal Reserve meeting strengthened expectations of an imminent rate cut. The consumer price index rose 2.9% year-on-year in August, up from 2.7% in July and in line with forecasts. While inflation remains above the Fed's 2% target, investors believe the central bank will prioritize supporting the slowing labour market. Weekly jobless claims climbed to their highest level since 2021, underscoring the growing strain in employment conditions.

The data reinforced market conviction that the Fed will cut interest rates next week, with many expecting further easing through the year. The move comes against the backdrop of the European Central Bank holding rates steady, after a more aggressive earlier round of cuts compared with the U.S.

Equity markets reacted positively, with the Dow Jones Industrial Average closing above 46,000 for the first time ever. The S&P 500 and Nasdaq also notched new all-time highs, reflecting broad investor optimism that policy easing will extend the market's momentum.

Corporate news added to market momentum. Adobe projected strong AI-driven revenue growth, while insurers like Centene gained on upbeat Medicare and Medicaid commentary. Technology stocks advanced, with Micron and Nvidia drawing optimism from AI-related demand. In contrast, Boeing flagged further delays to its 777X program, and RH cut its sales outlook due to tariff disruptions. Meanwhile, M&A activity stirred with Paramount Skydance exploring a bid for Warner Bros. Discovery, and Citigroup's CEO signalling a pickup in deal making.

Across asset classes, the rally was broad: Bitcoin climbed above $114,000, ether gained 2%, and equities worldwide echoed the US uptrend. Veteran strategist Ed Yardeni even raised his year-end S&P 500 forecast to 6,800, citing potential for a "meltup" if Fed policy remains supportive.

In short, while inflation remains above target, the rising strain in the jobs market has shifted the Fed's priorities. A rate cut next week looks almost certain, with markets now debating not whether, but how many, will follow before the year's end.

Overview of the Australian Market

Australian shares closed lower on September 11, 2025, with the S&P/ASX 200 slipping 0.29% to 8,805.0, erasing the prior day's 0.31% advance amid weakness in health care and financials. The All Ordinaries fell 0.26% to 9,071.4, while small ords gained 0.20% and emerging companies rose 0.34%. 6 of 11 sectors ended higher, led by real estate up 0.68%, energy 0.65%, materials 0.55%, and utilities 0.55%. Health care tumbled 1.76%, financials dropped 0.77%, and consumer discretionary declined 0.45%.

The session was uneventful with mixed breadth, as 113 of 200 constituents fell. Real estate neared a two-week high amid slipping bond yields, while energy snapped a four-day skid on a three-day oil price streak up 2.9%, though rebounding from recent lows. Health care led downside, with broad weakness including Neuren Pharma down 7.4%, Telix 4.4%, ResMed 2.7%, and CSL 2.4% to its lowest since May 2019, down 8.7% post-FY25 results, highlighting post-earnings drift. The market lacks momentum after a 2.7% four-day drop late August to early September, now consolidating between 20- and 50-day averages amid weak seasonality, fiscal debt concerns, and tariff volatility.

Top gainers included 4DMedical up 18.8% rebounding from recent dip, Sunrise Energy Metals 17.3% extending gains, Service Stream 16.0% on DoD contract, PolyMetals 8.0% ramping production, Orora 4.5%, Perenti 4.1% on mine contract. Gold miners shone: Resolute Mining 8.2%, Evolution Mining 6.2%, Regis Resources 6.2%, Pantoro 5.3%, Capricorn Metals 4.5%, St Barbara 4.0%. Decliners featured Nine Entertainment down 35.8% ex-dividend, Boss Energy 12.1% on Honeymoon update, Neuren Pharma 7.4%, CSL 2.3%.

Banks and health care dragged, with all big four lower as Bendigo joined ANZ and NAB in job cuts, weighing cost-cutting versus economic weakness narratives. Energy rebounded, with Woodside and Santos up over 1.2%, the latter on Orica gas deal. Materials posted first gain in a week, though BHP and Rio Tinto faded 0.5% and 0.3% as iron ore dipped below $US105/tonne. Gold held near $US3,633/ounce, about 1% from record, boosting miners like Northern Star up 3.5% and Evolution 6.2%.

The AUD/USD slipped 0.16% to 0.6603, after touching 10-month highs overnight. Investors were in holding pattern ahead of key data and central bank meetings, including US CPI overnight, BoJ, BoE, Fed next week, and AU jobs Thursday. Forecasts eyed core CPI at 0.3% monthly and 3.1% yearly, headline 0.3% monthly and 2.9% yearly; JPMorgan projected S&P 500 reactions from +1.5% on soft to -2% on hot above 0.4%.

Overnight, US CPI showed headline up 0.4% monthly exceeding 0.3% poll, yearly 2.9% in line, core 0.3% and 3.1% as expected, while jobless claims jumped to 263k versus 235k forecast, highlighting labour concerns. Despite hotter headline, US stocks hit records with Dow up 600 points closing above 46,000 first times, S&P 500 and Nasdaq at highs, as markets focused on core stability and jobs weakness, reviving Fed cut bets.

ON THE ASX: The S&P/ASX 200 fell 25.4 points, or 0.29%, to 8,805; All Ordinaries slipped 23.8 points, or 0.26%, to 9,071.4. NZX 50 lost 0.36% to 13,229.15; Nikkei gained 1.21% to 44,372.50.

Companies commencing ex-dividend: Air New Zealand, Breville Group, Kogan.com, McMillan Shakespeare, Navigator Global, Nine Entertainment, Perpetual, SGH, Westgold Resources.

Overview of the US Bond Market

In bond markets, the 10-year Treasury yield briefly dipped below 4% for the first time since April before settling at 4.01%. The drop reflected expectations of easier monetary policy, though yields later steadied as traders reassessed the outlook.

Commodities moved in the opposite direction, with oil prices falling as markets weighed OPEC+ plans to raise crude output against geopolitical tensions in the Middle East and Russia.

Overall, the combination of firmer inflation and weakening jobs data has cemented market expectations that the Fed will move to cut rates next week. With equities at record highs and bond yields easing, investors are positioning for a period of looser monetary policy, even as inflation remains above target.

The consumer price index (CPI) showed prices rising 0.4% in August, while core CPI, which strips out food and energy, climbed 0.3%. Both readings remain above the Fed’s 2% target but were tame enough to ease fears of runaway inflation. More impactful for markets was the sharp rise in initial jobless claims, which jumped to 263,000, the highest since late 2021, signalling growing cracks in employment conditions.

The combination of slowing jobs momentum and cooling inflation spurred speculation that the Fed will trim rates by 25 basis points at its meeting next week, with many investors now pricing in multiple cuts before year-end. Treasury yields briefly fell below 4% as bonds rallied, while equities surged to record highs. The S&P 500, Dow Jones, and Nasdaq all closed at fresh peaks, with small caps rising 1.8%. Gold topped its inflation-adjusted 1980 record, although oil and energy shares slipped. Analysts from firms including Morgan Stanley, PIMCO, and Regan Capital largely agreed that the Fed will move cautiously, starting with a modest cut but leaving open the door to further easing.

Fed Chair Jerome Powell had hinted at policy flexibility during the Jackson Hole symposium, and the latest data strengthened the case for a pivot. However, debate continues on the scope of cuts. Some economists believe a larger 50-basis-point move could be discussed, though the Fed is more likely to pursue a gradual path to avoid signalling panic. Others warn that persistent core inflation complicates the picture, raising stagflation risks. While jobless claims are climbing, they remain historically low, and broader economic indicators do not yet suggest imminent recession.

Market strategists framed the dynamic as a shift in emphasis from price stability to maximum employment—the dual mandate’s other pillar. With hiring slowing, policymakers appear more concerned about protecting labour-market health, even if inflation remains sticky. This perspective underpins forecasts from Evercore and others that the Fed could deliver three successive cuts in September, October, and December, recalibrating rates back toward neutral levels.

Overview of the Australian Bond Market

Government bond yields declined on September 11, 2025, with the 10-year dropping eight basis points to 4.19%, five-year down four to 3.62%, two-year off one to 3.36%, and 15-year falling eight to 4.56%. The slide to one-month lows reflected anticipation for US CPI and global easing signals, supporting bond proxies like real estate amid AU market consolidation.

Overnight US CPI printed mixed, with headline accelerating 0.4% monthly above 0.3% consensus and 2.9% yearly in line, core steady at 0.3% monthly and 3.1% yearly, while initial jobless claims surged to 263k exceeding 235k estimate, underscoring labour cooling post-record payroll revisions. Despite hotter headline hinting persistent tariff effects, focus shifted to jobs downside, with Fed Chair Jerome Powell likely prioritizing employment mandate. Traders nearly fully priced three 2025 cuts, potentially starting 25 basis points next week, though hotter data tempers 50 basis-point odds.

US Treasuries rallied post-data, 10-year yield dipping below 4% to 4.010% close—lowest since April—two-year down three to 3.51%, extending gains as mixed inflation leaves easing intact. This spill over could ease pressure on RBA, with AU yields tracking lower amid commodity weakness, debt concerns, and tariff volatility. IG's Tony Sycamore noted holding pattern ahead of central bank flurry and AU jobs, where softening could align RBA with global cuts if inflation moderates.

Positioning data outdate but recent CFTC showed asset managers trimming longs, leveraged paring shorts, signalling caution pre-data. Dealers anticipate steady auction sizes August-October per guidance. The upcoming University of Michigan sentiment in September 12 was seen at 58, potentially influencing sentiment amid weak seasonality.

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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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