

yieldreport Weekly

Your Income Advantage

15th to 19th September 2025



PART 1 – Equity & Bond Market Review

Weekly Overview

U.S. stock indexes sustained a modest midweek pullback but finished strongly, with the NASDAQ up more than 2% for the week and the S&P 500 and Dow over 1% higher. The results pushed each index's record level higher, and it was the sixth positive week out of the past seven for the S&P 500.

On an 11-1 vote, U.S. Federal Reserve policymakers approved a quarter-point interest rate cut, the first reduction since late 2024. The move aligned with market expectations, which on Friday afternoon pointed to the prospect of two further quarter-point cuts in October and December. Prices in rate futures markets implied a 92% probability that the Fed would cut twice by year end, according to CME FedWatch.

A U.S. small-cap stock benchmark outperformed its large-cap peer for the week and on Thursday eclipsed a record high set in November 2021. The Russell 2000 Index failed to maintain that level on Friday but finished up about 2.2% overall for the week. Even with that strong result, small caps continued to trail large caps on a year-to-date basis.

Despite Wednesday's rate cut by the Fed, yields of U.S. government bonds rose modestly for the week, with longer duration bonds posting the steepest yield increases. The yield of the 10-year U.S. Treasury closed around 4.13% on Friday, up from 4.06% at the end of the previous week.

The effects of the Fed's rate cut continued to ripple through the U.S. housing market, as the average 30-year U.S. fixed-rate mortgage rate fell for the fourth week in a row. The average for the weekly period ended Thursday was 6.26%, down from 6.35% the previous week, according to Freddie Mac. As recently as January 2025, the average was as high as 7.04%.

U.S. retail sales rose 0.6% in August relative to the previous month, despite recent labour market weakness and persistent inflationary pressures. The latest monthly sales gain exceeded economists' consensus forecast and followed a similar increase in July.

U.S. companies spent less to buy back their shares in this year's second quarter amid uncertainty over tariffs and economic policy. Share repurchases by companies in the S&P 500 totalled nearly \$235 billion in the April to June period, down 20% from the first quarter's record figure of almost \$294 billion, according to S&P Dow Jones Indices.

A report due to be released on Friday will show whether a recent trend of modestly rising inflation extended into August. The most recent release of the Personal Consumption Expenditures Index showed that core PCE inflation rose in July at an annual rate of 2.9%, the highest level in five months.

Global Themes Shaping Markets

The BLS benchmark revision erased 911,000 jobs, signalling weaker hiring and reinforcing downside risks. Slowing inflation allows the Fed to balance employment support against price risks. Taiwan's record export growth confirms AI supply chain realignment, with ICT and AI server components driving demand. Taiwan strengthens its alignment with US AI leadership while South Korea lags. Global bond markets flash warning as deglobalization, defence spending, and demographics threaten fiscal sustainability.

Governments increasingly rely on short-term debt and unconventional buyers like stablecoin reserves. AI-driven productivity gains may determine whether debt burdens stabilize or worsen in a fragmented financial world.

Historic Job Revision & Cooling Inflation Cement Fed's Shift to Easing

The BLS cut March 2025 non-farm employment by 911,000, the largest downward revision on record. This reduces monthly job growth estimates from 122,000 to about 46,000, revealing significant labour market weakness. Despite this, equilibrium job growth remains aligned with slower immigration trends. The revision underscores Fed concerns about employment risks ahead of the final adjustment in 2026.

Technology Rally Drives Global Equity Surge

Global equities climbed to record highs led by technology stocks. The Nasdaq and Philadelphia Semiconductor Index achieved new peaks, while Asian indices in Taiwan, South Korea, and Japan posted strong 4–5% weekly gains. US 10-year Treasury yields fell below 4% amid growing rate cut expectations. The US Dollar Index consolidated under 98, gold moderated after gains, and oil traded flat.

CPI Data Meets Expectations Amid Mixed Inflation Pressures.

August CPI rose 2.94% annually, driven by energy and vehicle price rebounds, while core inflation held steady at 3.11%. Core goods inflation accelerated to 1.5% but non-rent services cooled, containing broader price pressures. The data supports the Fed's rate cut timeline despite temporary upticks in some components.

Market Consensus Points to Certain September Rate Cut

Fed funds futures fully price a September rate cut, with expectations for six total cuts through 2026. Investors anticipate three cuts in 2025 and three in 2026, reflecting belief in a sustained easing cycle. Key focus remains on balancing employment support with inflation control, as the Fed's dot plot will guide expectations.

Taiwan's Export Surge Signals Global Tech Upcycle Strength

Taiwan's exports jumped 34.1% in August to \$58.4 billion, driven by a 79.8% surge in ICT products. Controlling 90% of global AI server manufacturing, Taiwan has become a leading indicator of AI infrastructure demand. Broad-based component growth signals a multi-year global capex cycle.

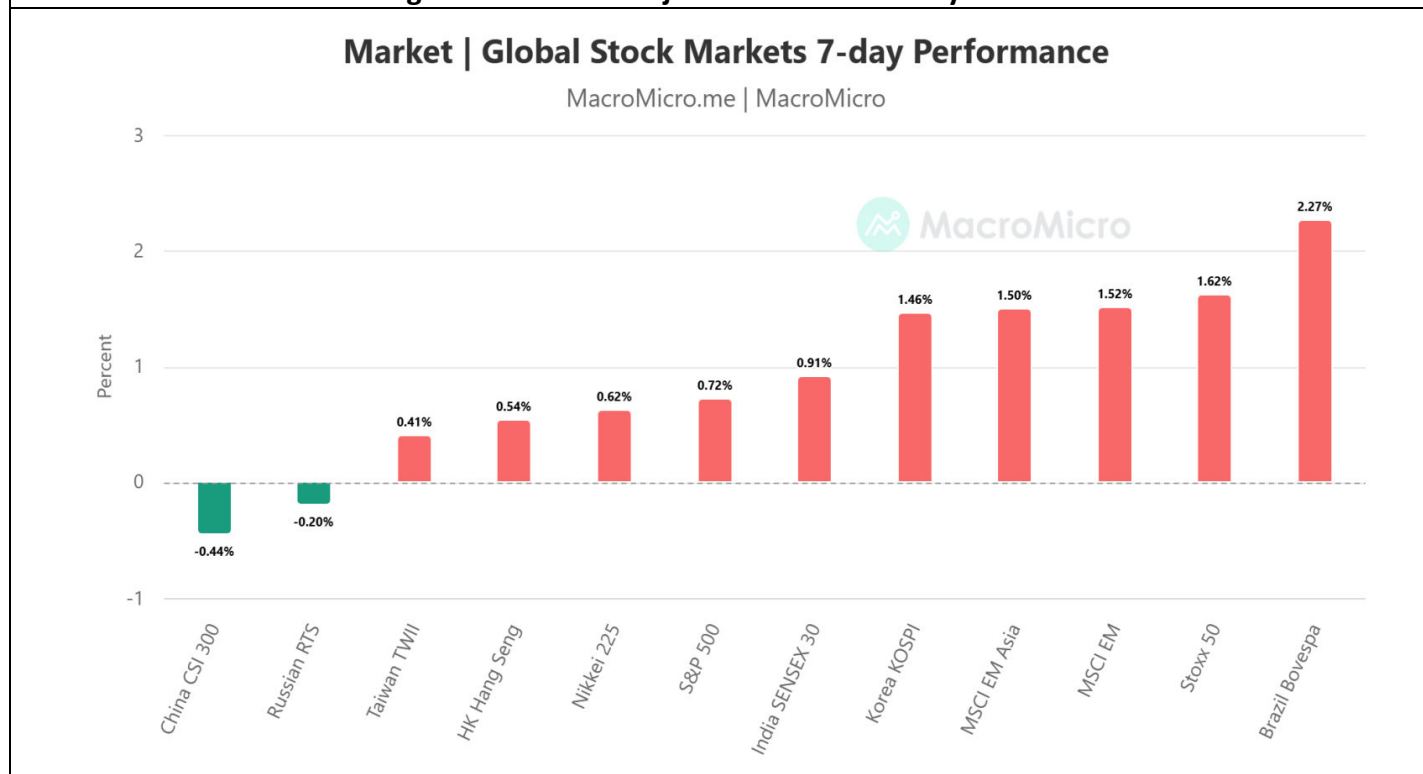
Global Debt Pressures in a Fragmenting World

Long-term bond yields rose to decade highs amid concerns about fiscal sustainability, driven by deglobalization, defence spending, and aging populations. Reshoring and tariffs raise costs, eroding profits and savings while increasing government funding needs. Governments shift toward short-term debt to limit interest rate exposure as central banks prepare rate cuts. Stablecoin reserves are emerging as major buyers of short-term US debt, potentially reaching \$1 trillion by 2028 and providing demand support amid higher issuances.

AI as the Engine for Enduring Growth

Historical parallels to the internet boom suggest AI could boost US productivity by 1–1.5 percentage points over the next decade, enabling sustainable debt dynamics. Service-heavy economies like the US and UK stand to gain the most, while manufacturing-focused economies lag.

Figure 1: World – Major Stock Indices 7 Day Return



Overview of the US Equities Market

U.S. stocks ended the week at record highs, buoyed by investor optimism that the Federal Reserve will continue cutting interest rates, sustaining the current market rally. All three major indexes—S&P 500, Nasdaq, and Dow Jones—posted weekly gains exceeding 1%, following the Fed's 0.25% rate cut on Wednesday. Traders now anticipate further reductions in October and December, with the Fed's median projection suggesting two additional cuts in 2025.

Liz Thomas of SoFi summed up the sentiment: "We got our cut and we are going to get a few more cuts, we're back onto the rate-cut rally bandwagon." On Friday, the S&P 500 rose 0.5%, the Nasdaq gained 0.7%, and the Dow added 0.4% (173 points). The Russell 2000, which tracks smaller companies, dipped 0.8% Friday but surged 2.2% for the week, outperforming larger indexes. Investors are betting that smaller firms, often reliant on floating-rate loans, will benefit more from falling interest rates.

Treasury yields remained relatively stable, with the 10-year note edging up to 4.138%. Meanwhile, investor appetite for risk increased, as evidenced by the narrowing premium on investment-grade corporate bonds versus Treasuries, now at its lowest level since 1998. This reflects growing confidence in the Fed's ability to manage economic risks.

Corporations are capitalizing on the favourable rate environment. So far this month, \$140 billion in bonds have been issued by creditworthy companies, nearing the \$150 billion monthly target. Blair Shwedo of U.S. Bank noted that the bond market signals confidence in the Fed's control, though he remains cautious about inflation and the potential impact of tariffs.

As the third-quarter earnings season approaches, investors are watching closely for signs of strain from tariffs and a cooling labour market. FedEx, for instance, projected a \$1 billion hit to annual earnings due to tariffs. Despite being down 18% for the year, its shares rose 2.3% Friday after posting stronger-than-expected quarterly results.

S&P 500 companies are expected to report a 7.7% increase in third-quarter earnings compared to the same period last year, marking the ninth consecutive quarter of growth. SoFi's Thomas noted that companies are entering this phase from a position of strength, with above-average margins providing some cushion against tariff-related pressures.

In other corporate developments, Apple shares jumped 3.2% following the global launch of the iPhone 17. Additionally, President Trump announced a TikTok deal with Chinese President Xi Jinping after their recent conversation, adding another layer of intrigue to the week's market narrative.

Quarterly Earnings Cycle under Review

Donald Trump has proposed replacing quarterly corporate reporting with semi-annual disclosures, arguing that frequent reporting encourages short-term thinking and imposes unnecessary costs. He contrasts this with China's long-term corporate planning, claiming U.S. firms would benefit from a similar approach. However, critics argue that his proposal is misguided and unsupported by evidence.

Reducing reporting frequency to every six months is unlikely to shift managerial focus to the long term. Quarterly reporting hasn't prevented major U.S. companies from making substantial long-term investments. For example, Big Tech is investing nearly \$400 billion in artificial intelligence this year, and Big Oil continues to fund multibillion-dollar infrastructure projects. In fact, corporate investment in the U.S. reached 10% of GDP last year—higher than before quarterly reporting was mandated in 1970.

Evidence from the U.K., which made quarterly reporting optional in 2014, shows no significant change in investment or research spending among companies that switched to semi-annual reporting. This undermines the argument that less frequent reporting fosters long-term thinking.

While quarterly reporting does involve costs, it also reduces companies' cost of capital by increasing transparency and investor confidence. Some red tape could be trimmed—such as eliminating the formal 10-Q filing—but the core principle of regular disclosure remains vital.

China, ironically, also mandates quarterly reporting. Its aggressive investment is driven more by state intervention than transparency. This has led to misallocated capital, overcapacity, and declining profit margins. Chinese listed companies average below 8% in profit margins, compared to nearly 14% in the U.S. Eliminating quarterly reports could also harm ordinary investors by giving insiders more time to exploit non-public information. It would shift power from shareholders to executives, reducing accountability. A more constructive reform would be ending earnings guidance, which incentivizes short-term manipulation. In short, quarterly reporting could be streamlined—but not scrapped.

Overview of the US Treasuries and Other Fixed Income Markets

This week's global bond market activity reflected a complex interplay of central bank decisions, economic data, and investor sentiment, with U.S. Treasury yields and the dollar showing upward momentum amid signs of long-term uncertainty.

In the U.S., Treasury yields rose modestly following stronger-than-expected labour and activity data. The 10-year yield climbed 0.031 percentage points to 4.104%, while the two-year increased by 0.021 points to 3.567%. These moves came after weekly jobless claims dropped to 231,000—lower than economists' expectations—and the Philadelphia Fed's activity survey surprised to the upside. Although the Federal Reserve recently enacted its first rate cut of the year, the data suggests it may not need to rush further easing. Market odds still favour another cut in October, with CME data showing an 88% probability. The WSJ Dollar Index rose 0.4%, reflecting investor confidence in the U.S. economy's resilience.

Fed commentary remains a key focus, especially with new governor Stephen Miran—who advocated for a deeper 50-basis-point cut—set to speak at The Economic Club of New York. His views could influence market expectations for future rate moves.

Across the Atlantic, the Bank of England (BOE) held interest rates steady at 4.0% but announced a slower pace of quantitative tightening (QT), planning to unwind £70 billion in bond holdings over the next year, down from £100 billion previously. This decision had mixed effects on U.K. gilt yields. The 30-year gilt yield rose to 5.496% from 5.434%, as the QT reduction was smaller than some analysts anticipated. Conversely, the 10-year gilt yield fell to 4.611% post-announcement, reflecting eased pressure from the BOE's more cautious approach.

Ahead of the BOE decision, gilt yields remained largely unchanged, with markets expecting no major shift in policy guidance. Analysts noted that the central bank was unlikely to provide clear signals about future rate paths.

In the eurozone, bond yields edged lower following the Fed's rate cut. The German 10-year Bund yield dipped to 2.673%, and the French 10-year OAT yield fell to 3.477%. Attention turned to upcoming bond auctions in Spain and France, particularly as France faces its first auction since Fitch downgraded its credit rating.

Asian markets also responded to the Fed's move, with U.S. Treasury yields easing slightly in early trade. The 10-year yield fell 1.2 basis points to 4.063%, and the two-year dropped 0.7 basis points to 3.537%. Analysts noted the Fed's prioritization of labour market risks over inflation, reinforcing expectations for a gradual easing cycle.

Overall, the week underscored the delicate balance central banks are navigating between inflation control and economic support, with bond markets reacting swiftly to every signal.

US Fed Policy

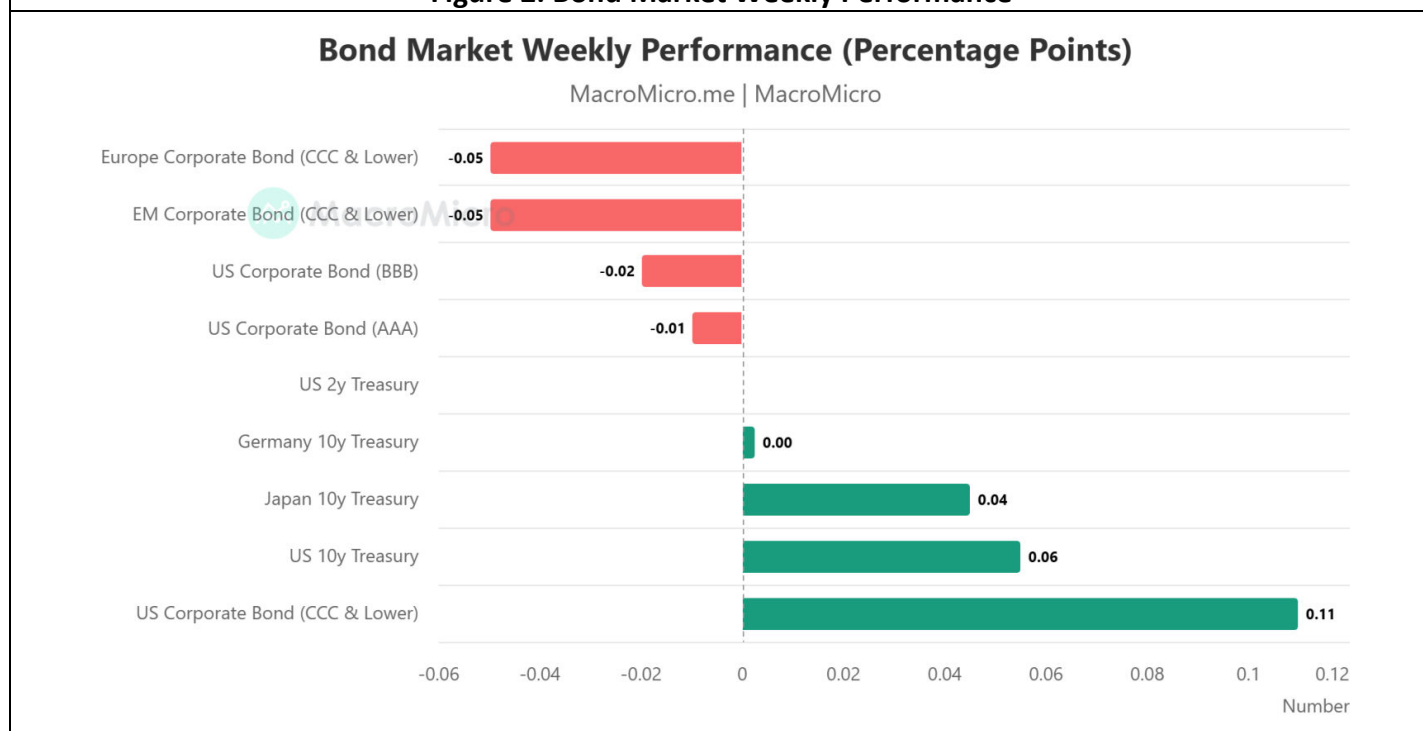
Wall Street investors are increasingly betting that U.S. interest rates will fall more rapidly than the Federal Reserve anticipates a view that is already influencing markets and borrowing costs. Futures market data from LSEG suggests that investors expect the Fed's benchmark short-term rate to drop below 3% by the end of next year, down from just over 4% currently. This is a notable shift from earlier expectations in May, when rates were projected to fall only to around 3.5% by late 2026.

Historically, both investors and the Fed have struggled to accurately forecast interest rate trajectories. For example, in late 2024, Treasury yields fell ahead of the Fed's rate cuts amid recession fears. But strong job data later reversed those expectations, and President Trump's election win spurred concerns about inflation and budget deficits, pushing the 10-year Treasury yield from 3.6% to 4.8% by January—even as the Fed lowered rates by a full percentage point.

Currently, the 10-year yield has risen slightly to 4.14%, up from 4.01% earlier in the month. Yet, many investors believe the scope for dramatic rate shifts is smaller than last year, especially with no imminent presidential election and more stable government policy.

Political dynamics are also in play. Trump has been lobbying for lower rates and reshaping the Fed's leadership, including appointing Stephen Miran to the board and attempting to remove Governor Lisa Cook. Despite this, market indicators suggest investors don't view recent rate cuts as politically motivated, with inflation expectations remaining stable.

Figure 2: Bond Market Weekly Performance



Overview of the Australian Equities Market

Australia's share market ended the week slightly higher on Friday but still recorded its third consecutive weekly loss, extending September's pullback. The S&P/ASX200 rose 28.3 points, or 0.32 per cent, to 8,773.5, while the All Ordinaries gained 32.6 points, or 0.36 per cent, to 9,063.5. Market analyst Kyle Rodda said the retreat reflected global and macroeconomic factors rather than company fundamentals, with earnings results revealing a weaker underlying picture despite capital flows supporting equities.

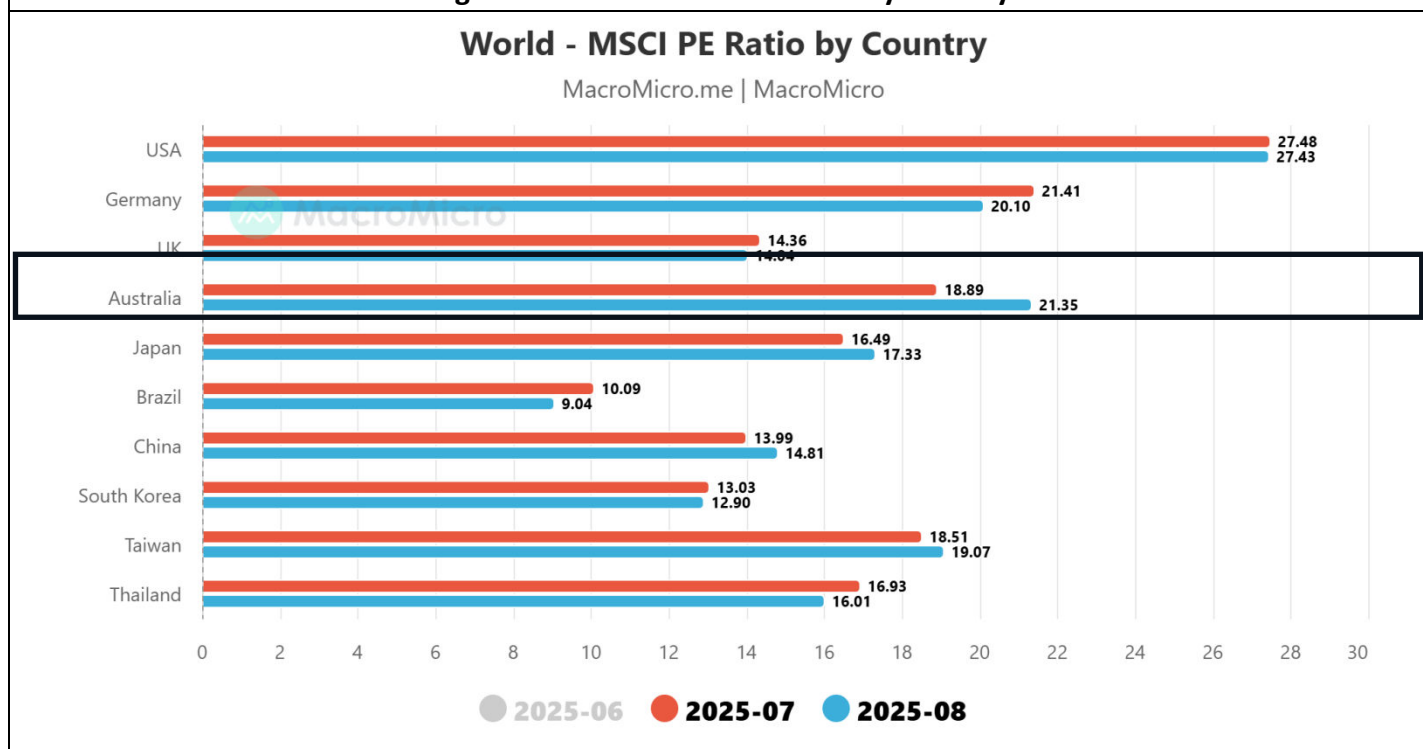
Financials led the market's Friday gains, with the Commonwealth Bank lifting three of the big four banks and nine of 11 industry groups closing in positive territory. However, eight sectors finished lower for the week, dragged down by a 3.6 per cent fall in energy stocks after Santos slumped on Thursday following a failed takeover. Materials also lost 1.8 per cent as BHP dropped over three per cent after announcing job cuts and the closure of a Queensland coal mine.

Technology, consumer discretionary and utilities were among the few weekly gainers. Gold miners shone late in the week, supported by bullion near US\$3,650 an ounce and a fresh all-time high of US\$3,707.65 midweek after the US Federal Reserve confirmed an interest rate cut and signalled more to come in 2025. Evolution Mining rose 3.2 per cent and Northern Star added 1.2 per cent.

Health care edged up 0.9 per cent on Friday after five straight weeks of losses, with Telix Pharmaceuticals jumping 6.4 per cent to \$14.53 after a bullish Citi "buy" rating on its prostate cancer treatment. Consumer discretionary stocks benefited from a 4.1 per cent rally in JB Hi-Fi to \$118.94, though Super Retail fell 3.9 per cent after sacking its CEO over misconduct allegations.

The Australian dollar weakened to 65.95 US cents as the greenback regained strength. Offshore, New Zealand's NZX 50 gained 0.84 per cent, while Japan's Nikkei slipped 0.57 per cent.

Figure: 3 -World - MSCI PE Ratio By Country



Overview of the Australian Government Bond Market

Australia's labour market showed further signs of softening in August, with new data from the ABS revealing that 5,400 people lost work during the month, against market expectations for a 21,000 increase. Despite the decline, the unemployment rate held steady at 4.2 per cent as the participation rate slipped to 66.8 per cent from 67 per cent in July. Economists say the shift highlights a gradual cooling in employment conditions, strengthening the likelihood of another Reserve Bank of Australia (RBA) cash rate cut before year-end.

JPMorgan's Tom Kennedy noted a sharp downshift in hiring momentum since April. While 80,000 jobs were added in the first four months of the year, only 24,000 were created between May and August. He attributed this to weaker supply-side dynamics, including slower population growth and reduced participation. Supporting this view, ABS migration figures showed net overseas arrivals fell to 315,900 in the year to March, 43 per cent below the September 2023 peak, easing pressures that previously drove outsized job gains.

Treasurer Jim Chalmers highlighted that migration was running below Treasury forecasts, disputing claims of "mass migration," and argued that unemployment remains low by historical standards despite global volatility. However, the composition of jobs was a concern: full-time employment fell by 40,900, partly offset by a 35,500 rise in part-time work. Independent economist Justin Fabo said the broader trend is one of labour market weakening, with the unemployment rate edging higher and both participation and the employment-to-population ratio declining.

Even so, the RBA views the market as close to full employment, with chief economist Sarah Hunter projecting unemployment to hover around 4.3 per cent. Financial markets expect one or two more rate cuts by mid-2026, with traders placing a 90 per cent chance on a November cut to 3.35 per cent. Governor Michele Bullock has stressed the importance of maintaining a balanced labour market—strong enough to support growth but not so tight that wage competition fuels inflation.

Overall, while Australia's jobs market remains resilient compared with historical standards, the latest figures point to cooling conditions, slower migration, and increasing prospects of further monetary easing to support growth.

Reserve Bank of Australia is forecast to lower its cash rate from 3.6% to 3.35% this year, supported by inflation returning to target and a weaker-than-expected August jobs report showing a 5,400 decline in employment. Bond markets now imply a 75% chance of a rate cut at the RBA's November meeting.

Currency Risk in Superfunds

The Reserve Bank of Australia (RBA) has warned that superannuation funds must strengthen their foreign currency risk management as offshore investments grow and hedging needs surge. Deputy governor Andrew Hauser said super funds' foreign currency exposure, now about \$500 billion, could reach \$1 trillion within a decade as the \$4.2 trillion pension sector expands from 150 per cent to 180 per cent of GDP. With more capital headed overseas, protecting portfolios from a rising Australian dollar will become increasingly complex and costly.

Super funds hedge foreign assets by taking long positions in the Australian dollar through short-term derivatives with global banks such as JPMorgan, Citigroup and Goldman Sachs. These contracts, which typically expire every three months, require up-front cash collateral to guard against trading losses.

Hauser cautioned that Australia's relatively small derivatives market and concentration of hedge providers could create bottlenecks, with some US banks already signalling they are nearing credit limits. Funds may face higher margin requirements and be forced to diversify counterparties to maintain cover.

Recent volatility has challenged traditional hedging assumptions. Until last year, funds reduced hedging because the Australian dollar typically fell during crises, offsetting losses in foreign investments. But during April's market rout triggered by US tariffs, the US dollar fell alongside equities, eroding this "natural hedge." Super funds have responded by lifting the share of global equities that are hedged to 22.2 per cent, up from 20.6 per cent in June, though two-thirds of offshore holdings remain unprotected.

Hauser warned that relying on short-term swaps to hedge long-term assets exposes funds to liquidity risks if markets seize up, making it costly or impossible to roll contracts. Without adequate planning, funds could be forced to sell foreign assets during downturns. He urged funds to scale up risk management and scenario analysis to navigate a more uncertain currency environment.

This week, Australia's cash rate remained steady at 3.60%, with the 3-month BBSW unchanged at 3.58%. Short-term bond yields were stable, with the 3-year government bond at 3.45%, unchanged from last week. Longer-term bonds saw modest declines: the 10-year bond fell 12 basis points to 4.23%, and the 30-year bond dropped 15 basis points to 4.94%, with respective weekly highs of 4.35% and 5.09%. Overall, the week showed stability in short-term rates and slight easing in longer-term yields, reflecting cautious market sentiment and limited pressure on interest rates.

The Australian Bond spreads (3 & 10 years) narrowed slightly reflecting downward moves in the longer dated bond yields.

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

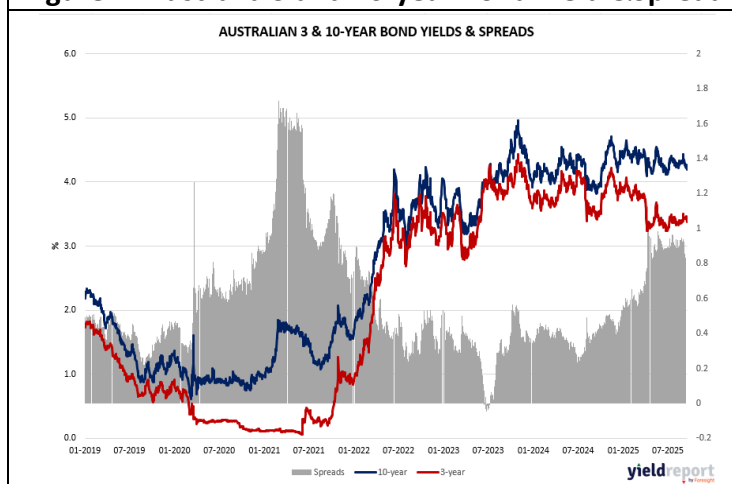
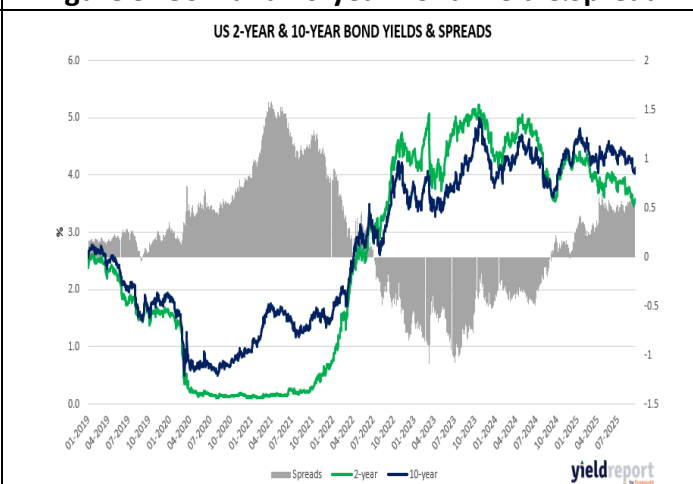


Figure 5: US 2 and 10-year Bond Yield & Spread



Market Summary Table

Name	Week Close	Week Change	Week High	Week Low
Cash Rate%	3.60%			
3m BBSW %	3.56	-0.02	3.58	3.56
Aust 3y Bond %*	3.44	-0.01	3.46	3.38
Aust 10y Bond %*	4.25	0.02	4.19	4.28
Aust 30y Bond %*	4.99	0.05	4.90	4.98
US 2y Bond %	3.58	0.02	3.58	3.51
US 10y Bond %	4.13	0.09	4.13	4.03
US 30y Bond %	4.75	0.09	4.75	4.65
\$1AUD/US¢	66.07	-0.59	66.88	66.01

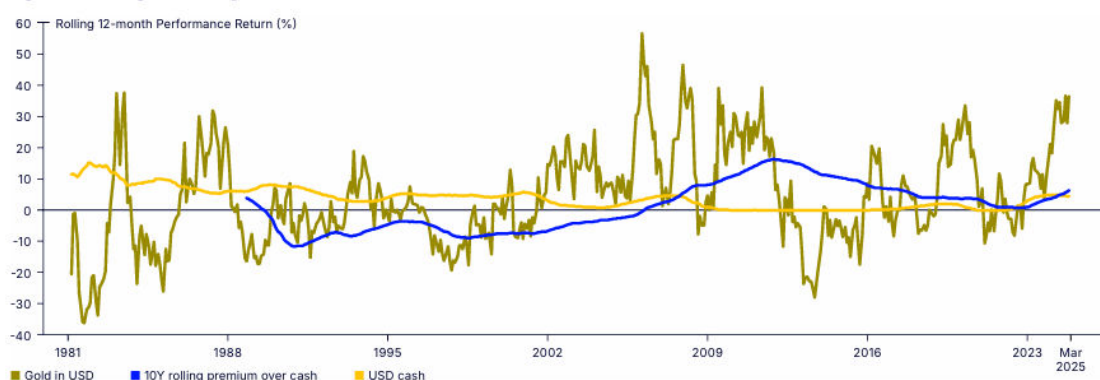
Chart of the week: Gold Return in USD vs Cash Return

Forecasting gold's expected return within strategic asset allocation is challenging due to its lack of cash flow, making traditional valuation methods ineffective. While gold's price is influenced by fundamental factors like jewellery demand, industrial use, and currency reserves, its role as a safe haven and inflation hedge adds complexity to predicting future performance. Historical analysis suggests a consistent premium of 2–4% over cash returns, with an average of 2.5% annually since 1971. This positions gold's medium-term return/risk profile is on par with small-cap equities, though below large-cap stocks and bonds.

Small allocations can allow investors to benefit from gold's diversification properties. Gold's inclusion in multi-asset portfolios enhances downside protection, especially when paired with fixed income and real assets. Ultimately, gold serves as a strategic complement rather than a core growth driver.

Figure 6: Gold Return Vs Cash

Figure 20: Rolling 12-month gold return vs. Cash returns



Looking ahead: Major Economic Releases for the Week Ending 26th September

For the week ending September 26, 2025, Australian economic data will be in the spotlight, with S&P Global PMI Flash for manufacturing, services, and composite expected to reflect continued expansion, signaling resilient business activity amid moderating growth forecasts.

The Weighted CPI YY, CPI SA MM, and YY are anticipated to show a slight uptick in inflation, potentially driven by intensified cost pressures in key sectors. These indicators could reinforce the Reserve Bank of Australia's dovish outlook, possibly delaying further rate cuts to manage persistent inflationary risks while supporting a projected slowdown in annual growth to around 1.6% in 2025.

In the United States, S&P Global PMI Flash for manufacturing, services, and composite may indicate a modest slowdown, highlighting cooling economic momentum following recent acceleration. New Home Sales are expected to hold steady, while Durable Goods orders could contract less sharply, and the GDP Final is anticipated to confirm solid Q2 performance. Initial Jobless Claims should remain stable at relative low levels, underscoring labor market strength, though Existing Home Sales may dip slightly amid housing sector challenges. Consumption is projected to stay robust, with Core PCE Price Index MM softening but YY holding firm, and headline PCE showing a monthly pickup, as the Fed's key inflation gauge influences policy expectations. These releases could affirm the Federal Reserve's gradual easing path if inflation remains contained, though global trade uncertainties, including U.S. tariff policies, may continue to pose risks to both economies.

Major Economic Releases for the Week ending 26 Sep, 2025				
Date	Country	Release	Consensus	Prior
Monday, 22/09	Australia	S&P Global Mfg PMI Flash	n/a	53
Monday, 22/09	Australia	S&P Global Svs PMI Flash	n/a	55.8
Monday, 22/09	Australia	S&P Global Comp PMI Flash	n/a	55.5
Tuesday, 23/09	United States	S&P Global Mfg PMI Flash	52	53
Tuesday, 23/09	United States	S&P Global Svcs PMI Flash	53.9	54.5
Tuesday, 23/09	United States	S&P Global Comp PMI Flash	n/a	54.6
Wednesday, 24/09	Australia	Weighted CPI YY	2.9	2.8
Wednesday, 24/09	Australia	CPI SA MM	n/a	0.9
Wednesday, 24/09	Australia	CPI SA YY	n/a	2.8
Wednesday, 24/09	United States	New Home Sales-Units	0.65	0.652
Thursday, 25/09	United States	Durable Goods	-0.5	-2.8
Thursday, 25/09	United States	GDP Final	3.3	3.3
Thursday, 25/09	United States	Initial Jobless Clm	235	231
Thursday, 25/09	United States	Existing Home Sales	3.96	4.01
Friday, 26/09	United States	Consumption, Adjusted MM	0.5	0.5
Friday, 26/09	United States	Core PCE Price Index MM	0.2	0.3
Friday, 26/09	United States	Core PCE Price Index YY	2.9	2.9
Friday, 26/09	United States	PCE Price Index MM	0.3	0.2
Friday, 26/09	United States	PCE Price Index YY	2.7	2.6

Source: Refinitiv



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PART 2 – Investment Opportunity Review

Defensive Income – Cash

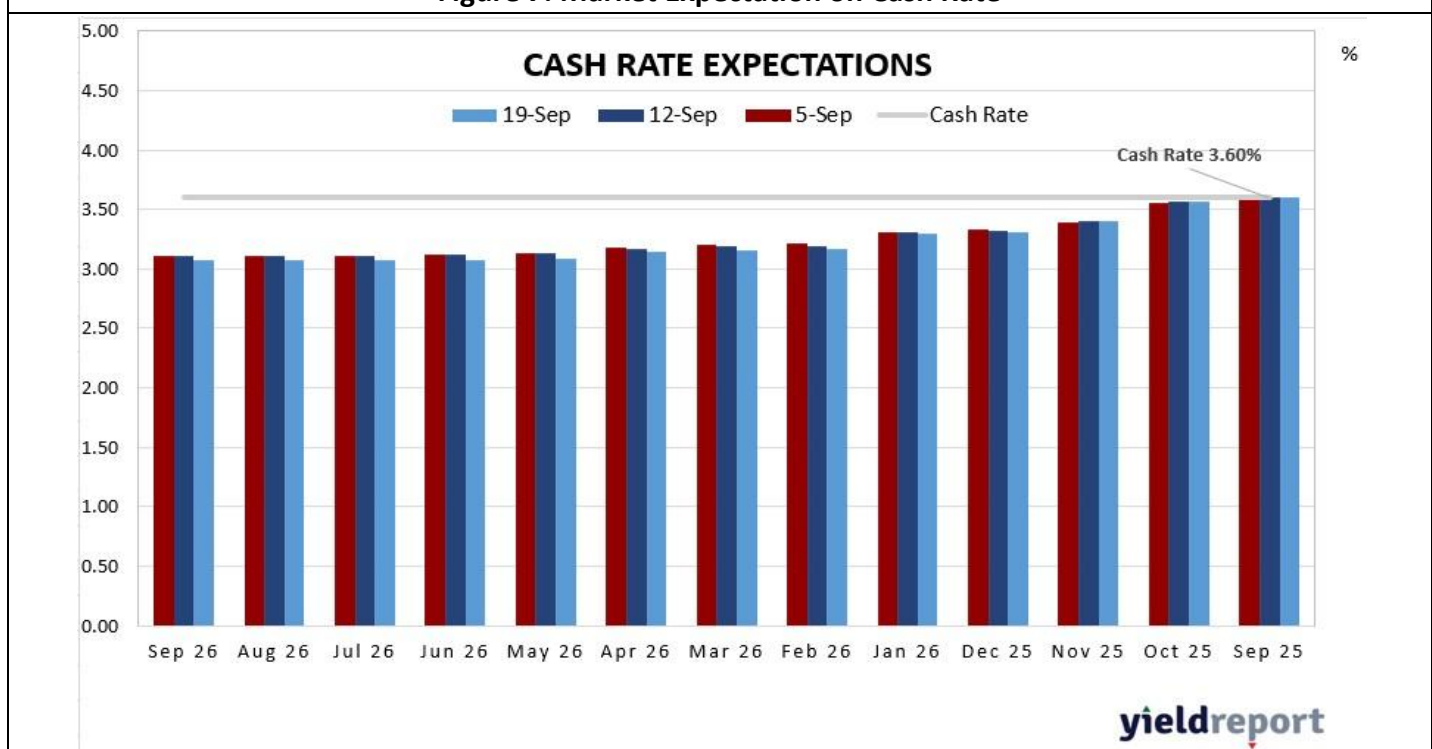
The US Federal Reserve tempered market expectations for aggressive rate cuts, delivering a modest quarter-point reduction to a target range of 4.00%–4.25%. While this move was widely anticipated, the Fed’s updated dot plot revealed only two additional cuts for 2025 and one in 2026—far fewer than the 1.5 percentage points of easing previously priced in by markets. Chairman Jerome Powell emphasized a cautious, “meeting-by-meeting” approach, framing the cut as a risk management measure rather than a signal of a broader easing cycle.

Markets reacted swiftly. US Treasury yields rose modestly, with the two-year yield up 4 basis points to 3.55% and the 10-year yield climbing 6 basis points to 4.09%. The US dollar rebounded, lifting the dollar index by 0.3% to 97.17, which in turn dragged the Australian dollar down 0.5% to US66.23¢ after it had touched an 11-month high. Wall Street closed lower, and gold briefly hit a record \$US3,707.57 before retreating.

Cash rate expectations show a steady decline from 3.6% to below 3.00% by September 2026. This week, the cash rate and short-term yields held steady, while long-term bond yields eased modestly. Savings account rates vary widely, with online banks offering up to 5.00%, while traditional accounts lag. Market sentiment remains cautious, with limited upward pressure on interest rates.

Reserve Bank of Australia is forecast to lower its cash rate from 3.6% to 3.35% this year, supported by inflation returning to target and a weaker-than-expected August jobs report showing a 5,400 decline in employment. Bond markets now imply a 75% chance of a rate cut at the RBA’s November meeting.

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 September 19, 2025, there was a mix of up and down movements, though stability is notable in some terms.

Our survey across 41 institutions indicates that the most contested term deposit term remains 6 months, followed by 3 months and 1 year, with sample sizes of 41 each.

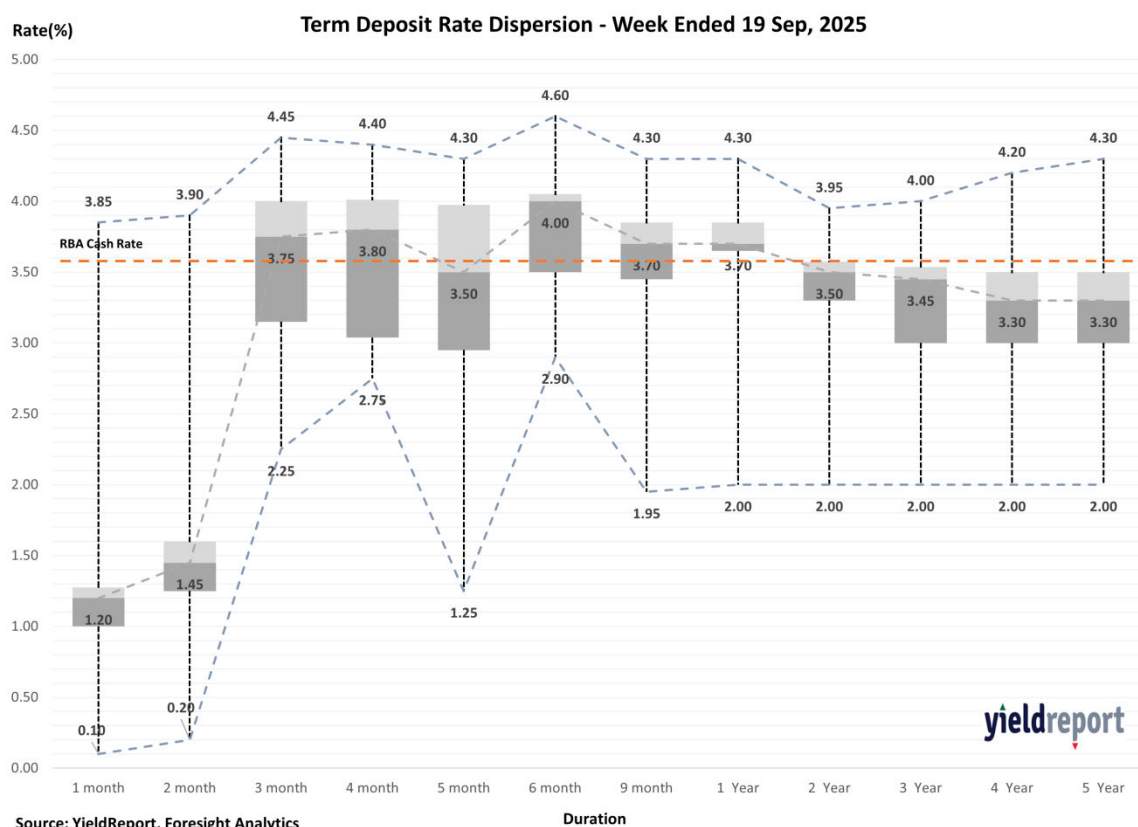
This week the best rate with a 3-month term was 4.45%, offered by in1bank. The median rate of 3.75% reflects a broad range from 2.25% to 4.45%.

This week the best rate within 6 months term was 4.60%, offered by Teachers Mutual Bank. The median rate of 4.00% shows a tight quartile spread of 0.55%, indicating consistency.

Interestingly, the best 5-year rate reached 4.30%, led by Judo Bank and Rabobank Australia. The median rate of 3.30% shows 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, 10 institutions offer over 4%. In the 6-month category, 13 institutions exceed 4%, down from 15 last week, reinforcing the 6-month term's competitiveness.

Figure 8: Highest Term Deposit Rate by Term



Defensive Income – Government Bonds

Australia's labour market is showing clearer signs of cooling. ABS data revealed a loss of 5,400 jobs in August, defying forecasts for a 21,000 gain, while the unemployment rate held at 4.2 per cent as participation dipped to 66.8 per cent. Hiring momentum has slowed sharply, with only 24,000 jobs added between May and August compared with 80,000 in the year's first four months. Economists link the slowdown to weaker population growth and falling participation, as net overseas migration dropped to 315,900 in the year to March—43 per cent below its 2023 peak. Full-time employment fell by 40,900, partly offset by a 35,500 rise in part-time roles. Despite these signs of weakening, the RBA still considers the market near full employment and expects unemployment around 4.3 per cent. Financial markets now price a 90 per cent chance of a November rate cut, reinforcing expectations of further monetary easing to support growth.

Reserve Bank of Australia is forecast to lower its cash rate from 3.6% to 3.35% this year, supported by inflation returning to target and a weaker-than-expected August jobs report showing a 5,400 decline in employment. Bond markets now imply a 75% chance of a rate cut at the RBA's November meeting.

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

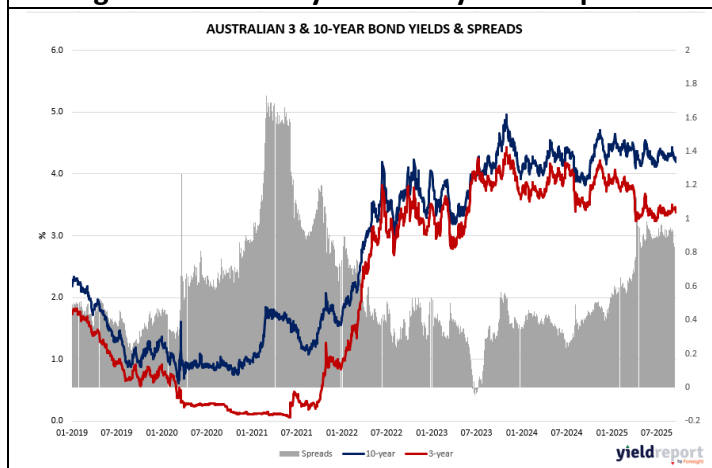


Figure 10: Aust & US Bond Yields Spread

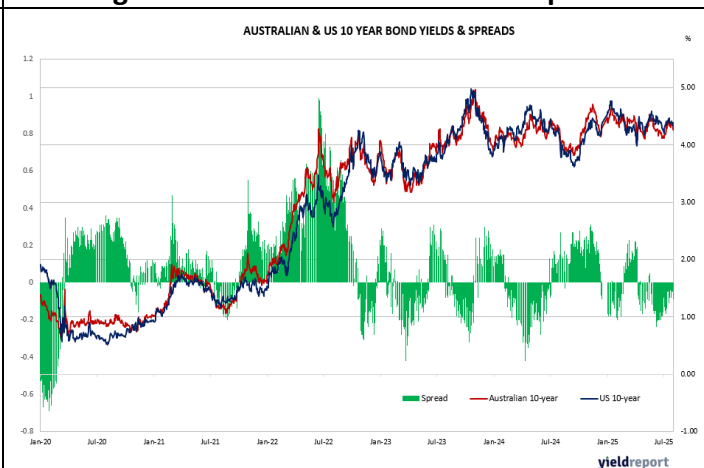
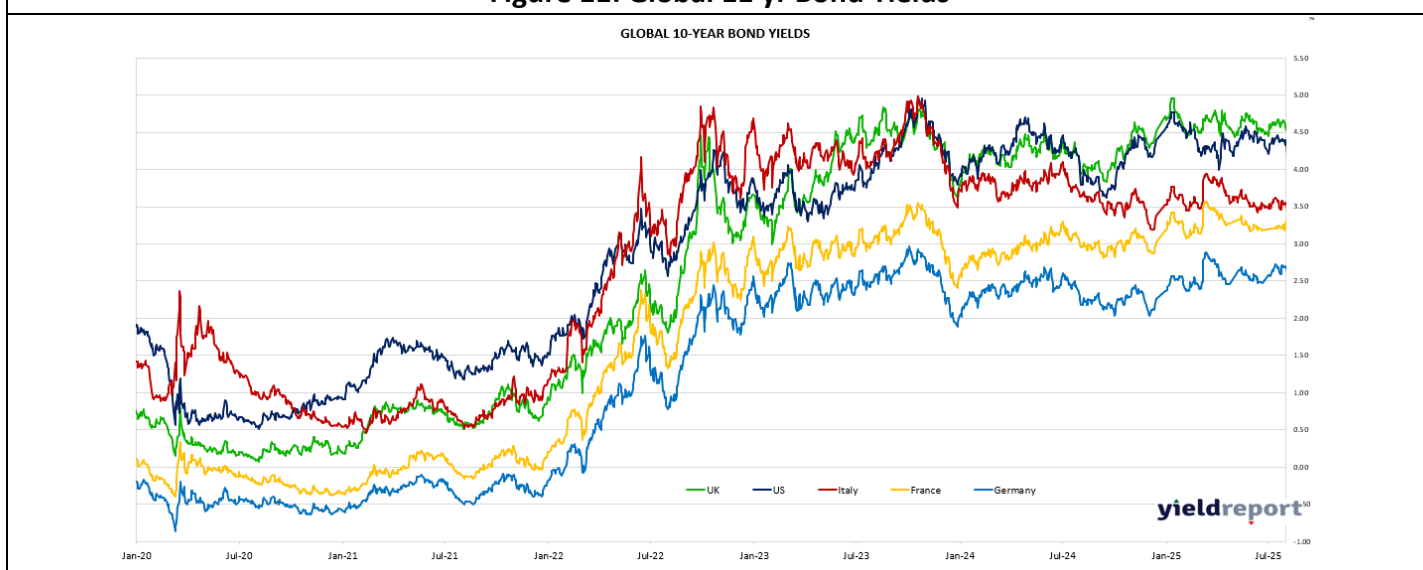


Figure 11: Global 11 yr Bond Yields



Bank & Corporate Hybrids

The hybrid securities market remained active this week, buoyed by global credit momentum and investor appetite for yield. Offshore, U.S. corporate bond issuance surged past \$56 billion, marking the busiest week since March. Issuers moved swiftly to lock in funding ahead of anticipated rate cuts, compressing credit spreads and drawing demand even for lower-rated names. This global backdrop provided a supportive tone for domestic hybrids.

On the ASX, trading margins and running yields continued to reflect a bifurcated landscape. High-spread instruments such as **AMP Group's AMPPB** and **Macquarie's MBLPC** offered margins of 23% and 19% respectively, underscoring investor caution around call risk and credit outlook. Meanwhile, **Judo Capital's JDOPA** maintained a robust 5.00% margin with a running yield of 9.55%, positioning it as a standout among newer bank-issued hybrids.

Non-standard structures also drew attention. **Nufarm's NFNG**, a step-up perpetual, delivered an 8.62% yield, while **Ramsay Health Care's RHCPA** preference shares offered 8.13%, reflecting steady demand for perpetual income instruments.

Overall, the week highlighted a continued search for yield amid shifting rate expectations, with investors balancing credit quality, call risk, and structural nuances. As global central banks signal policy pivots, hybrid pricing dynamics may evolve further—making issuer fundamentals and margin discipline key watchpoints heading into Q4.

Figure 12: Hybrids: Median Sector Margin



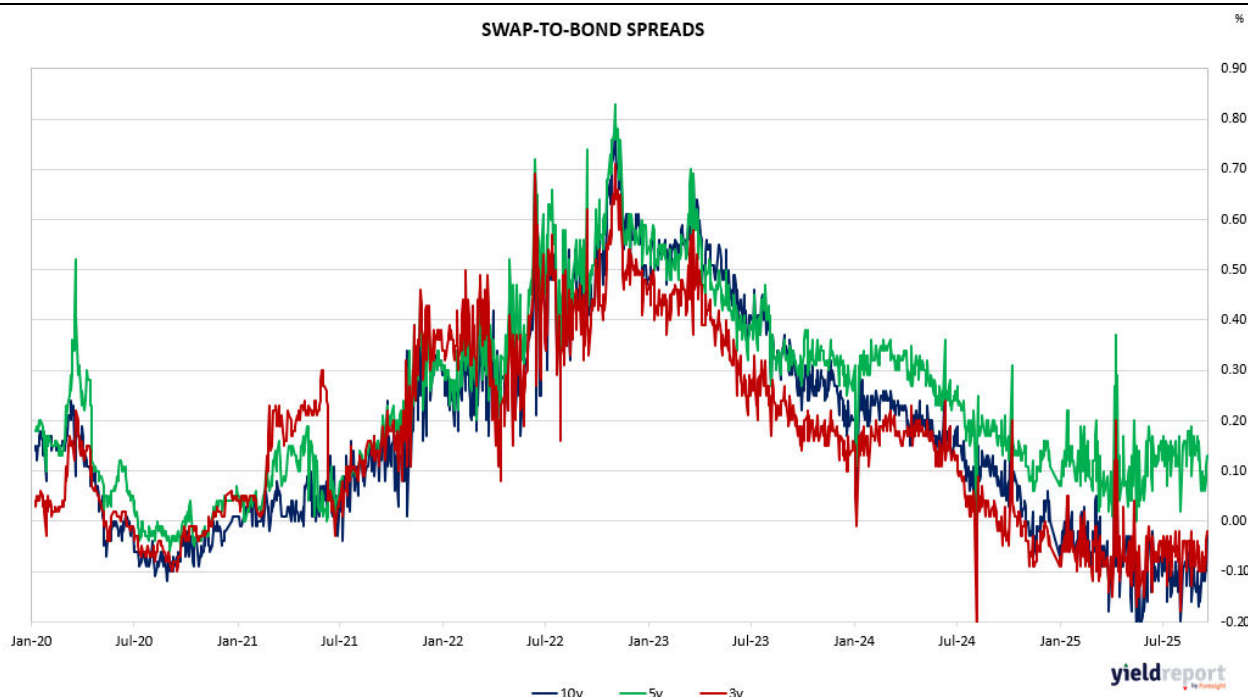
Bank Bill Swaps

Swap rates moved lower across the short- and long-term maturities. The Short-term swaps (1–6 months) was lower over the week, with the 1-month rate at 3.54% (-0.01% weekly) and the 6-month rate at 3.67% (-0.03% weekly).

Medium- to long-term swaps (1–15 years) edged lower, both weekly and monthly, reflecting modest downward pressure on medium dated rates. The 1-year rate was 3.33% (-0.03% monthly), while the 10- and 15-year rates rose to 4.18% and 4.41%, up 0.04% and 0.04% over the week, respectively.

Figure 13: Bank Bill Swaps

SWAP-TO-BOND SPREADS



ETFS – Australia and Global

Australia

In August 2025, the Australian ETF industry continued its strong momentum, nearing the \$300 billion mark in assets under management (AUM), reaching \$299.4 billion—a monthly increase of \$10.2 billion or 3.52%. Over the past 12 months, the industry has grown by 36%, adding \$79.2 billion in AUM. Monthly net inflows totalled \$4.9 billion, the second-highest on record, though slightly below July's \$5.8 billion. ASX trading activity remained elevated at approximately \$15 billion.

Product innovation resumed with six new ETFs launched, including the High Yield Australian Shares Fund (ASX: HYLD), Emerging Markets Equity Fund (ASX: BEMG), and Global Bond Fund (ASX: WBND). International equity ETFs led inflows with \$2.4 billion, followed by fixed income (\$1.2 billion) and Australian equities (\$823 million). Within sub-categories, developed market international equities and Australian bonds were top contributors.

Global gold miner ETFs, particularly the Betashares Global Gold Miners – Currency Hedged ETF (ASX: MNRS), were standout performers for the month. Notably, there were no broad category outflows, though some sub-categories such as geared Australian equities and sustainability-themed international equities saw modest redemptions.

The narrowing of bond spreads and easing long-term yields reflect cautious investor sentiment amid stable short-term rates. The ETF market’s resilience and diversification—across asset classes, geographies, and strategies—continue to attract investors seeking cost-effective exposure and tactical positioning.

Overall, August 2025 highlighted robust investor demand, product expansion, and strong performance in select thematic and international segments. The industry’s trajectory suggests continued growth, supported by innovation, macroeconomic tailwinds, and evolving investor preferences

USA

Last week, global ETFs saw net inflows of \$21.4 billion, representing 0.17% of total assets under management (AUM) of \$12.28 trillion. US equity ETFs led inflows with \$7.28 billion (0.10% of AUM), followed by US fixed income ETFs at \$5.42 billion (0.30%). International equity ETFs also recorded strong inflows of \$4.28 billion (0.22%), while international fixed income ETFs attracted \$1.85 billion (0.57%). Commodity ETFs saw notable demand with \$2.58 billion inflows (1.05% of AUM), reflecting continued investor interest in raw materials. Alternative and inverse ETFs gained \$189 million (1.63%) and \$241 million (1.69%) respectively. Conversely, leveraged ETFs experienced outflows of \$408 million (-0.29%), and currency ETFs had modest outflows of \$74 million (-0.04%). Overall, the week showed a preference for equities, fixed income, and commodities, while riskier or leveraged strategies saw slight reductions in holdings.

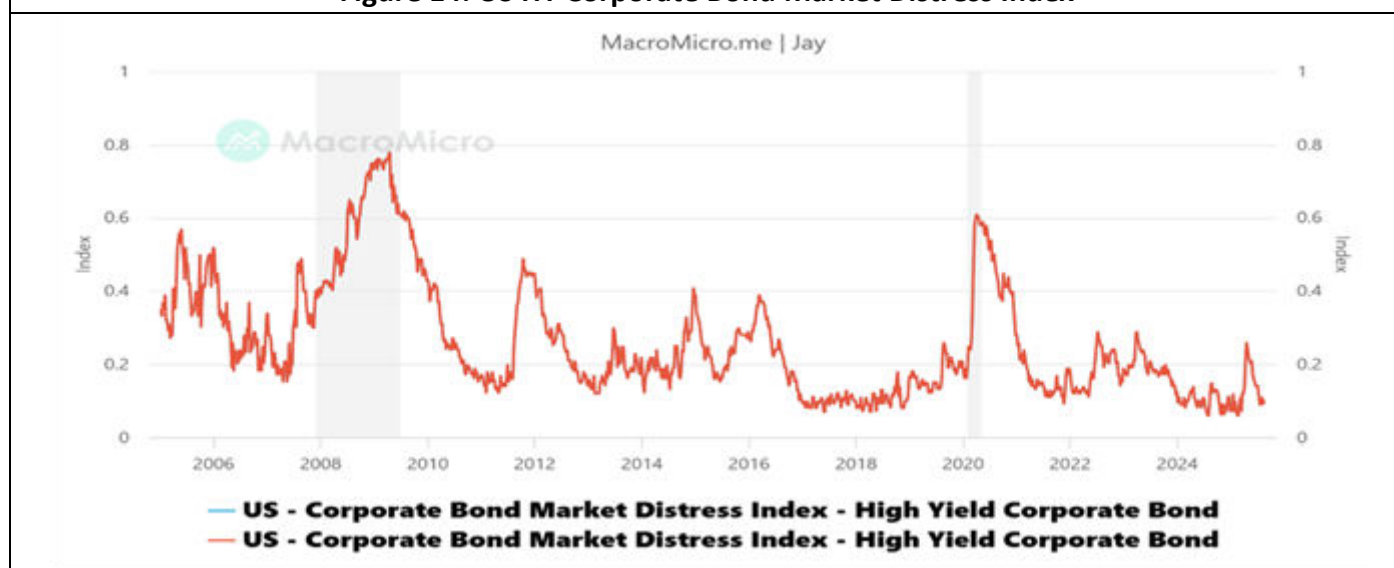
Corporate Bonds

U.S. corporations kicked off September 2025 with a surge in debt issuance, capitalizing on falling borrowing costs and strong investor demand ahead of anticipated Federal Reserve rate cuts. Investment-grade bond sales totalled \$56.4 billion through Thursday, alongside \$9.6 billion in high-yield (junk) bonds—marking the busiest week since March, though slightly below last year’s comparable figures.

Companies are eager to lock in current yields before rates decline, prompting a narrowing of credit spreads between corporate bonds and Treasuries. On Tuesday alone, 27 issuers raised \$40.8 billion, nearly matching last year’s post-Labour Day record. Merck led with a \$6 billion issuance to fund its \$10 billion acquisition of Verona Pharma, while Ford’s financial arm issued \$1.25 billion in bonds maturing in 2030. Investor appetite extended to lower-rated issuers as well, with renewed flows into high-yield mutual funds and ETFs enabling refinancing and new borrowing. This marks a sharp turnaround from April’s market freeze triggered by tariff concerns.

September remains a historically active month for corporate issuance, with firms typically front-loading funding needs for the remainder of the year. The current environment, marked by stable financial asset pricing despite geopolitical noise, offers a favourable window for both issuers and investors to secure capital and returns before volatility resurfaces.

Figure 14: US HY Corporate Bond Market Distress Index



Listed Notes

The ASX-listed Floating Rate Notes (FRNs) market remains a niche but increasingly relevant segment for yield-focused investors seeking protection against rising interest rates. Instruments like Centuria Capital's C2FHA stand out with a trading margin of 8.19% and a running yield of 7.90%, reflecting either elevated credit risk or strong demand for short-duration, high-yield exposure. Meanwhile, Australian Unity's AYUHD and AYUHE notes offer more moderate yields in the 5.8%–6.2% range, with tighter margins and longer maturities, appealing to investors prioritizing credit stability and duration balance.

The accompanying chart highlights AYUHE's position with a 3.25% margin above BBSW and a call date around June 2027, placing it in the mid-range of the FRN universe. This visual reinforces the limited issuance in the listed FRN space and the potential for price discovery as more notes enter the market. Overall, the data suggests a clear tiering among issuers, with spreads reflecting both credit perception and liquidity, while the floating-rate structure continues to attract tactical allocations amid elevated short-term rates.

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