



yieldreport Weekly

Your Income Advantage

22nd to 26th September 2025



PART 1 – Equity & Bond Market Review

Weekly Overview

Each of the major U.S. stock indexes set record highs on Monday, but the S&P 500, NASDAQ, and Dow ended the week fractionally lower after posting three consecutive daily declines beginning Tuesday. For the S&P 500, it was just the second negative week out of the past eight.

The U.S. Federal Reserve's preferred inflation gauge extended a recent string of slow-but-steady monthly increases. The Personal Consumption Expenditures Index rose at an annual rate of 2.7% in August, slightly above the previous month's 2.6% figure and the highest in six months. Excluding energy and food prices, the core PCE Index rose 2.9%, matching economists' consensus expectations.

With the U.S. fiscal year scheduled to end on Wednesday, October 1, Democratic congressional leaders on Friday remained at odds with their Republican counterparts and the White House over how to continue funding government operations and avoid a partial shutdown. Although Republicans hold majorities in both the House and Senate, they'll need support from a number of Democratic senators to get a funding extension passed.

The U.S. economy expanded in the spring at a faster rate than two previous estimates had shown. Thursday's update pegged the second quarter's annual GDP growth at 3.8%, up from estimates of 3.3% and 3.0% released in August and July, respectively. The recent growth marks a sharp turnaround from the first quarter's slight GDP contraction.

The price of gold futures climbed for the sixth consecutive week and set another record high, eclipsing \$3,800 per ounce on Friday afternoon. Over the six-week string of gains, gold has risen around 14%.

A monthly indicator that tracks U.S. consumer sentiment fell for the third month in a row, with many survey participants citing concerns about inflationary pressures and labour market weakness. The University of Michigan's Consumer Sentiment Index's September reading of 55.1 was down from August's figure of 58.2.

The price of U.S. crude futures rose more than 5% for the week and posted its biggest weekly gain in more than three months. On Friday afternoon, oil was trading at nearly \$66 per barrel. Since early August, oil had traded in a narrow range from about \$62 to \$65.

A monthly labour market report due out on Friday will show whether a recent weakening trend for the labour market extended into September. In August, the economy generated 22,000 jobs—far below economists' consensus expectations—and the unemployment rate rose to 4.3%, the highest since 2021.

Global Themes Shaping Markets

1. Trump's Tariffs Aim to Rebalance Global Economic Order

President Trump's tariff strategy has evolved beyond deficit reduction into a broader geopolitical tool. The tariffs, typically set between 10–20%, are designed to influence three major fronts: trade, capital, and currency.

Rather than targeting fiscal gaps alone, they serve to pressure global partners into investing in U.S. supply chains and opening markets, particularly as a counterweight to China's economic influence. The tariffs also help offset domestic fiscal pressures, such as those stemming from large spending bills. The approach **reflects a shift from market liberalism to strategic economic nationalism**, positioning tariffs as leverage in reshaping the global economic hierarchy.

2. Manufacturing Cycle Faces Downturn but Supported by AI and Monetary Easing

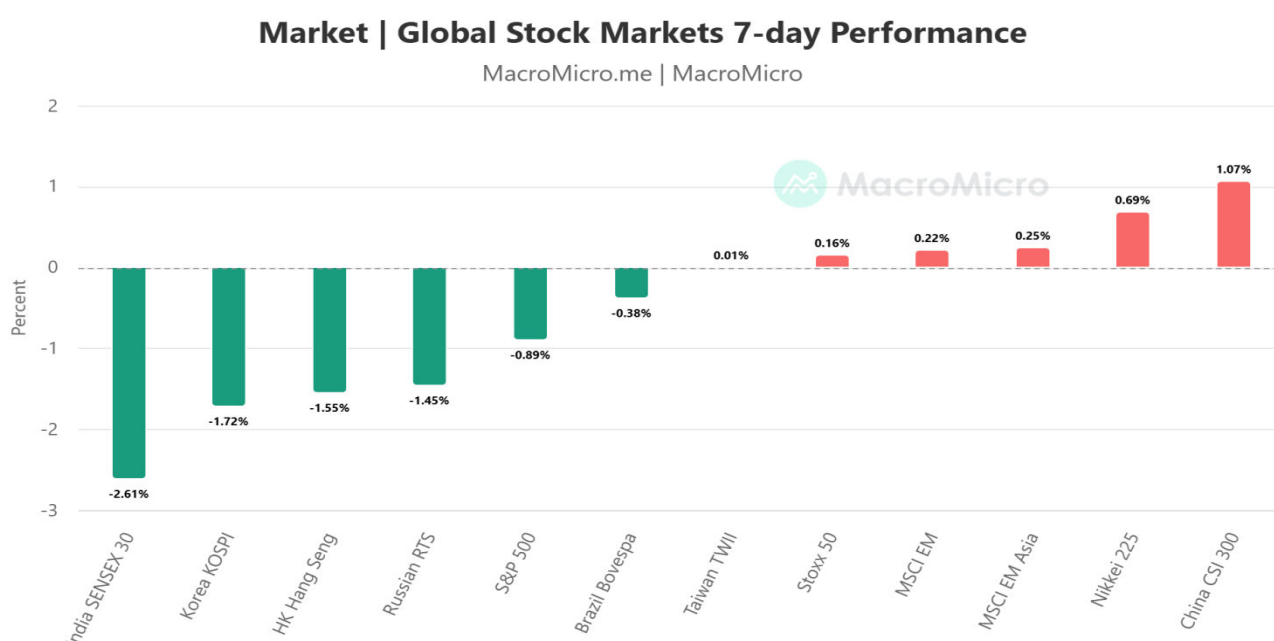
Global manufacturing is entering a cyclical downturn in late 2025, driven by early stockpiling ahead of tariffs and resulting inventory overhang. Despite this slowdown, two stabilizing forces are noted: anticipated central bank rate cuts, especially from the U.S. Federal Reserve and sustained demand from AI-related industries.

These factors are expected to cushion the downturn and prevent a deep recession. Semiconductor demand remains robust, particularly in advanced nodes, as AI adoption accelerates across sectors. The key is that while traditional manufacturing metrics are weakening, structural support from tech innovation and monetary policy provides a buffer against broader economic contraction.

3. AI-Driven Productivity Cycle Underpins Long-Term Economic Resilience

There is plenty of evidence to confirm the momentum behind long-term productivity cycle fuelled by AI innovation, compared to past tech booms like the dot-com era. Unlike short-term manufacturing cycles, this AI-driven phase is expected to last 10–20 years, offering durable support for global growth. Rising corporate adoption of AI and increased semiconductor sales, especially in high-performance computing, signal a foundational shift in productivity. This cycle is seen as a stabilizing force amid geopolitical tensions and tariff disruptions. The convergence of AI momentum, moderated tariffs, and superpower rivalry suggests a resilient economic trajectory, with innovation acting as a counterbalance to cyclical and policy-driven volatility.

Figure 1: World – Major Stock Indices 7 Day Return



Overview of the US Equities Market

U.S. stocks rebounded on Friday, ending a three-day losing streak as investors looked past persistent inflation and newly announced tariffs from President Trump. The S&P 500 rose 0.6%, the Dow Jones Industrial Average gained 0.7% (about 300 points), and the Nasdaq added 0.4%, reflecting cautious optimism despite underlying economic concerns.

The personal-consumption expenditures (PCE) price index, the Federal Reserve's preferred inflation gauge, showed inflation remained above the 2% target in the latest monthly reading. However, the data aligned with expectations, easing fears of accelerating price pressures. Traders maintained their outlook for two more rate cuts from the Fed in October and December, following last week's 0.25 percentage point reduction in the benchmark rate. Economic data released throughout the week reinforced the view that the U.S. economy remains resilient.

Despite Friday's gains, all three major indexes posted weekly losses. The Dow slipped 0.1%, the S&P 500 fell 0.3%, and the Nasdaq declined 0.7%. Treasury yields were relatively stable, with the 10-year note edging up to 4.185% from 4.138% a week earlier, indicating muted movement in bond markets.

Market sentiment was also shaped by President Trump's announcement of new tariffs on pharmaceuticals, trucks, and furniture. The measures include 50% duties on kitchen cabinets, 30% on upholstered furniture, and 25% on heavy trucks, set to take effect on October 1. However, the reaction was subdued compared to previous tariff announcements. Investors appeared desensitized to trade tensions, viewing the tariffs as part of ongoing negotiation tactics.

U.S. pharmaceutical stocks, including Eli Lilly, Merck, and Pfizer, rose after Trump clarified that the 100% tariff would apply only to patented or branded drugs from companies not investing in domestic manufacturing. European drugmakers were less affected. In the auto sector, German manufacturer Daimler Truck fell 1.8%, while U.S. truck maker Paccar surged 5.2%, benefiting from anticipated competitive advantages. Furniture stocks showed mixed performance, with Wayfair up 2.2% and RH down 4.2%.

Investor sentiment remains cautiously optimistic, driven by expectations of further rate cuts and strong corporate earnings. September, typically a weak month for equities, has seen repeated new highs, though some analysts warn of complacency. Stephen Searl of Conning noted that tight credit spreads and stretched equity valuations could signal vulnerability, even if the trigger for a downturn remains unclear. Adding to the caution, the University of Michigan's consumer sentiment survey showed a decline in confidence this month, suggesting that economic anxiety persists beneath the surface of market gains. As Stephen Kylander of Pallas Capital Advisors observed, the market is "treading water," awaiting a catalyst to determine its next direction.

Overview of the US Treasuries and Other Fixed Income Markets

U.S. Treasury yields rose over the week despite mixed daily performance, as investors digested inflation data and anticipated key labour market figures. The 10-year yield climbed 4.7 basis points to 4.185%, while the two-year yield increased 6.4 basis points to 3.646%. The WSJ Dollar Index also rose 0.6%, reflecting broader market resilience amid cautious optimism about the Federal Reserve's policy trajectory.

The Fed's preferred inflation gauge—the personal consumption expenditures (PCE) price index—met expectations, with headline inflation rising to 2.7% and core inflation steady at 2.9%. This followed an upward revision to second-quarter GDP growth (3.8% from 3.3%), signalling economic strength that could temper the Fed's appetite for further rate cuts. Despite sticky inflation, traders still expect two more rate reductions in October and December.

Next week's September employment report is seen as pivotal for shaping the Fed's next steps. BNP Paribas' Andrew Husby forecasts a 60,000 job gain and unemployment holding at 4.3%, supporting the case for continued easing. However, a potential U.S. government shutdown could delay the release, shifting attention to the ADP employment report due Wednesday. Market participants remain cautious, with Sky Links Capital's Daniel Takieddine warning of renewed volatility if inflation data diverge from expectations.

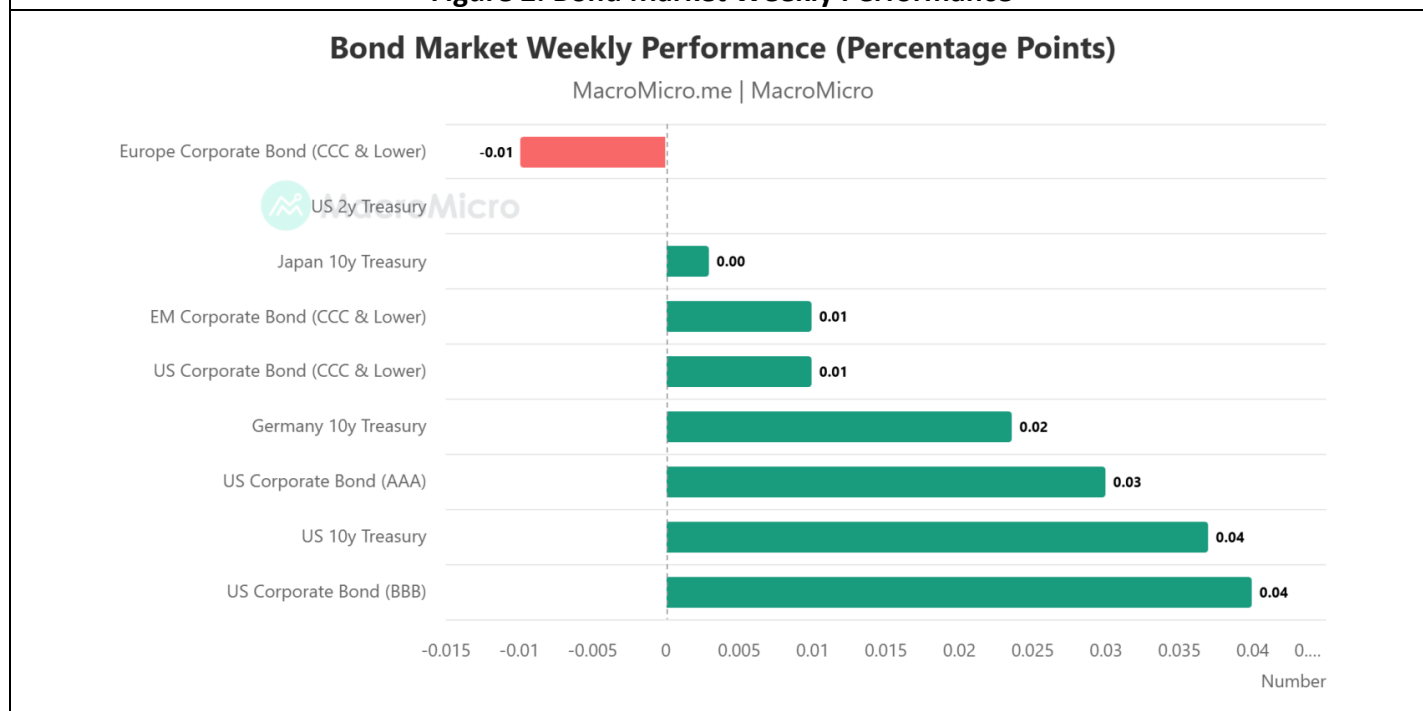
In Europe, bond market dynamics were shaped by supply and fiscal concerns. Eurozone government bond issuance is expected to slow in October to €116 billion, down from €127 billion in September, while redemptions will rise to €118 billion. Barclays estimates that eurozone sovereigns have already issued 84% of their annual target. The euro firmed slightly to \$1.1679, and eurozone bond yields edged lower, with the 10-year German Bund yield down to 2.764%.

SEB Research strategists anticipate structural upward pressure on eurozone yields due to increased German issuance and reduced Eurosystem asset holdings. Meanwhile, Societe Generale notes declining volatility in European bond markets, favouring carry trades, particularly in French, Spanish, and Italian bonds.

In the U.K., long-dated gilt yields surged to three-week highs amid weak auction demand and growing fiscal concerns. The 10-year yield hit 4.767%, and the 30-year reached 5.582%, as investors questioned the Labour government's fiscal discipline ahead of the November budget.

Looking ahead, SEB forecasts a steeper U.S. yield curve driven by significant Fed rate cuts over the next year, with the two-year yield projected to fall to 3.00% and the 10-year to 3.80% by mid-2026. However, they caution that the path will likely be volatile.

Figure 2: Bond Market Weekly Performance



Overview of the Australian Equities Market

Australia's share market ended the week of 26 September 2025 marginally higher, snapping a three-week losing streak with a modest gain. The S&P/ASX200 rose by 14.7 points (0.17%) to close at 8,787.7, while the broader All Ordinaries also climbed 15.8 points (0.17%) to 9,079.2. Despite a sharp midweek sell-off on Wednesday, the index managed to finish roughly 15 points higher for the week, thanks largely to a rally in the mining sector.

Investor sentiment was dampened by mixed macroeconomic signals. A hotter-than-expected local inflation print and cautious commentary from the US Federal Reserve led markets to reassess the likelihood of interest rate cuts before year-end. According to Capital.com analyst Kyle Rodda, the partial CPI data may have triggered an overreaction, but it nonetheless raised doubts about whether the Reserve Bank of Australia had successfully curbed inflation. As a result, markets are now pricing in a rate cut only by early 2026, despite signs of labour market deterioration.

The materials sector was the standout performer, surging over 5% for the week, buoyed by strong gains in gold and copper prices. BHP and Rio Tinto each jumped more than 6%, aided by a copper price rally following a supply disruption caused by a landslide in Indonesia. Silver reached a 14-year high, while gold hovered just below its record of \$US3,791 (\$A5,800) an ounce set earlier in the week. Energy stocks rose 1.4%, and utilities edged up 0.3%, contributing to the overall market resilience.

On Friday, four of the 11 ASX sectors closed higher. Financials gained 0.5%, and mining stocks added 0.9%, helping offset losses in other areas. However, the healthcare sector was notably weak, falling 1.4% on the day and 2.6% for the week. The decline followed US President Donald Trump's announcement of 100% tariffs on branded and patented pharmaceuticals. Despite assurances from companies like Telix Pharmaceuticals and Mesoblast that they were exempt, their shares dropped more than 3%, while CSL fell 1.9%.

Cryptocurrencies also faced headwinds, with Bitcoin plunging nearly 7% over the week to \$US109,450 (\$A167,465), marking a 12% decline from its August peak. Rodda noted that this sell-off could signal waning investor appetite for risk, suggesting crypto may once again be acting as a leading indicator for broader equity market sentiment.

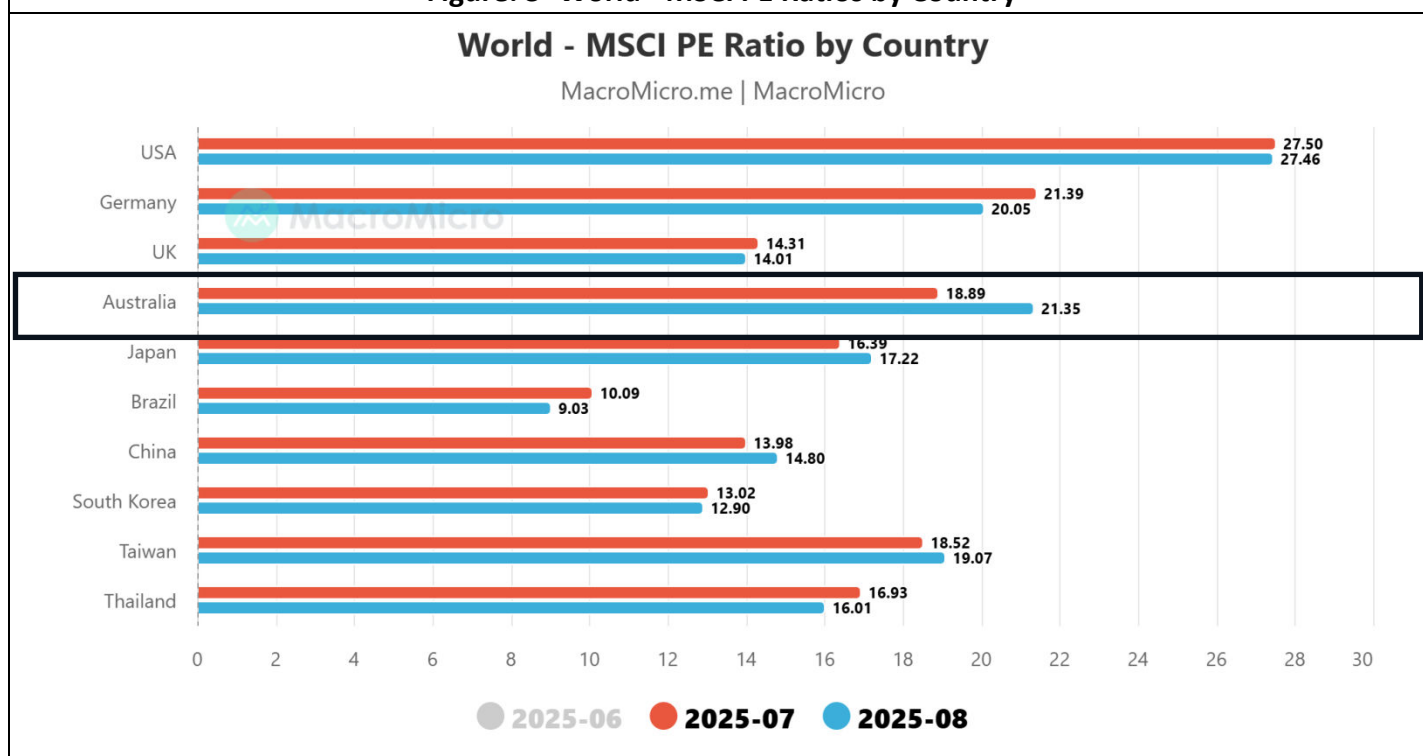
The Australian dollar weakened to 65.36 US cents from 65.93 the previous day, as stronger-than-expected US economic growth reduced the urgency for rate cuts, further pressuring the local currency.

In regional markets, New Zealand's NZX 50 fell 42.06 points (-0.32%) to 13,111.73, while Japan's Nikkei dropped 399.94 points (-0.88%) to close at 45,354.99, reflecting broader caution across Asia-Pacific equities.

Overall, the Australian market's modest rise was driven by strength in commodities and select sectors, offsetting macroeconomic uncertainty and weakness in healthcare and crypto-related sentiment. The week's close suggests investors remain cautious, awaiting clearer signals on inflation, interest rates, and global growth.

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 Ratios by Country



Overview of the Australian Government Bond Market

Bond traders have sharply reduced expectations for further interest rate cuts in Australia following a hotter-than-anticipated inflation reading for August. The consumer price index rose to 3.0%, up from 2.8%, surpassing economists' forecasts of 2.9% and marking the fastest pace in over a year. This surprise spike triggered a swift reaction in financial markets, with the Australian dollar climbing to US66.21¢ and three-year government bond yields jumping 8 basis points to 3.53%.

The inflation data prompted major banks—including Deutsche Bank, Citi, NAB, and Barrenjoey—to revise down their forecasts for rate cuts by the Reserve Bank of Australia (RBA). Money markets now reflect less than a 50% chance of a rate cut in November, a stark shift from earlier expectations that had fully priced in a reduction. Bond traders are now anticipating just one more cut this cycle, likely in February, down from two earlier in the week.

Andrew Lilley, chief rate strategist at Barrenjoey, described the CPI print as “very hot,” suggesting it undermines the case for further easing. He argued that the RBA has already achieved a “perfect economic landing,” having slowed the economy enough to bring inflation within its 2–3% target without triggering a recession or spike in unemployment. The trimmed mean inflation, the RBA's preferred gauge, eased slightly to 2.6% in August from 2.7% in July.

Despite the hawkish sentiment, not all market participants agree that the RBA is done cutting. Kris Bernie of Kapstream Capital emphasized that monthly inflation figures carry less weight than quarterly data, with the September quarter report due on October 29 seen as pivotal. Alex Joiner of IFM Investors echoed this caution, noting the RBA would need to see a more pronounced rise in unemployment to justify further cuts.

Labour market data showed a surprise drop in employment last month, though the jobless rate held steady at 4.2%, indicating a gradual softening. Rodrigo Catril of NAB now expects the cash rate to remain unchanged until May, citing mixed signals from the economy. Meanwhile, Charlie Jamieson of Jamieson Coote Bonds interpreted the bond market's reaction as repositioning rather than a fundamental shift, though he remains open to revising his outlook if inflation continues to accelerate.

Overall, the inflation surprise has cast doubt on the RBA's rate-cut trajectory, with markets now split between cautious optimism and a wait-and-see approach ahead of key economic data.

Main themes & messages from RBA Governor's address to the Parliamentary Committee

1. Inflation is easing but price levels won't fall

Bullock emphasised that while inflation has materially declined and is heading toward the RBA's 2-3% target band, the overall level of prices is unlikely to revert to what they were pre-pandemic. She said that many everyday staples—milk, bread, petrol etc.—will remain more expensive than before, and that households should expect that “new normal.”

2. Tight labour market and employment close to full

The Governor noted the labour market remains strong and is close to full employment. She suggested this is helping to sustain demand and putting upward pressure on wages—one of the challenges for inflation.

3. Policy stance — cautious easing, data-dependent

Bullock described the RBA's policy path as gradual and cautious. The recent interest rate cuts (in February, May, and August) are designed to support growth, but future moves will depend heavily on incoming economic data. She made it clear that rate cuts are not off the table, but also not guaranteed; risks remain.

4. Cost of living pressures persist, with disproportionate impact

Although inflation is moderating, the elevated price level continues to weigh heavily on low-income households, renters, people in vulnerable circumstances, and those in regional or remote areas. Bullock acknowledged that while everyone's affected some more than others.

5. Cash remains important; concern over its distribution & access

A notable focus was placed on preserving access to physical cash. As cash usage declines, issues around its storage, processing, and distribution—especially to rural/regional areas—are becoming more expensive and fragile. The RBA is working with the regulators to design a sustainable framework for cash distribution, ensuring resilience even if cash-in-transit providers fail.

6. Risks and external uncertainties

Global economic uncertainty remains a concern—supply-side shocks, volatile energy prices, geopolitical risk, and how international conditions could affect Australia's export, inflation, and domestic demand dynamics. Also, domestic data is being watched closely: inflation data, labour market indicators, and how households are adapting to elevated costs.

This week, Australia's cash rate remained steady at 3.60%, with the 3-month BBSW increasing 4bps to 3.6% reflecting strong CPI numbers and shifting market expectations on further RBA rate cuts in October.

The stronger than expected inflation data caused the short and long end of the yield curve to shift higher. Short-term 3-year government bond yield increased 16 bps to end at 3.6%. Longer-term bonds also sold off (yield increased) by 14 bps to end at 4.4% while the 30-year bond yields increased 7 basis points to 5.06%.

Overall, the week showed material volatility in short-term rates but much bigger moves in the long dated rates, reflecting investor nervousness around price pressures in the system and cautious future pathway of RBA cash rates.

The Australian Bond spreads (3 & 10 years) expanded slightly reflecting upward moves in the 3 year dated bond yields that were bigger than the move in the 10 year bond.

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

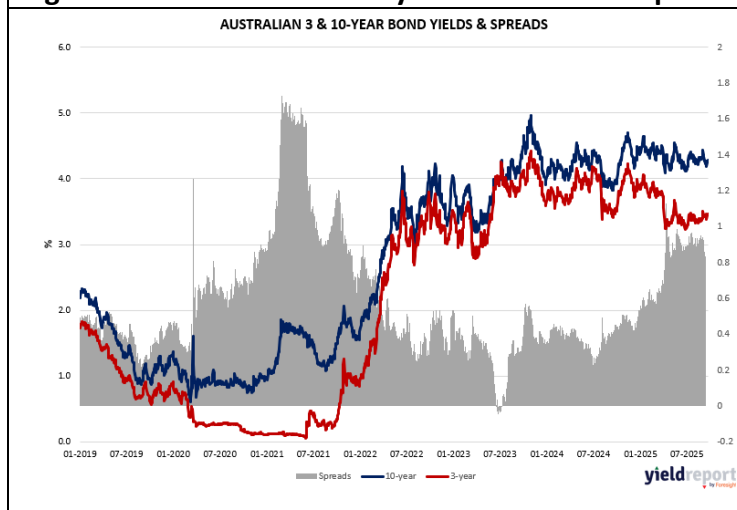
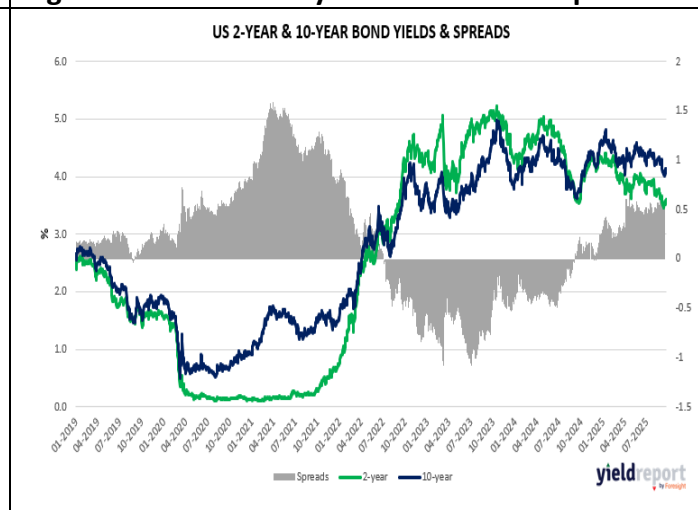


Figure 5: US 2 and 10-year Bond Yield & Spread



Market Summary Table

Name	Week Close	Week Change	Week High	Week Low
Cash Rate%	3.60%			
3m BBSW %	3.60	0.04	3.60	3.55
Aust 3y Bond %*	3.60	0.16	3.56	3.44
Aust 10y Bond %*	4.39	0.14	4.34	4.25
Aust 30y Bond %*	5.06	0.07	5.05	4.99
US 2y Bond %	3.66	0.08	3.66	3.59
US 10y Bond %	4.17	0.04	4.17	4.12
US 30y Bond %	4.75	0.00	4.76	4.74
\$1AUD/US¢	65.28	-0.79	66.22	65.28

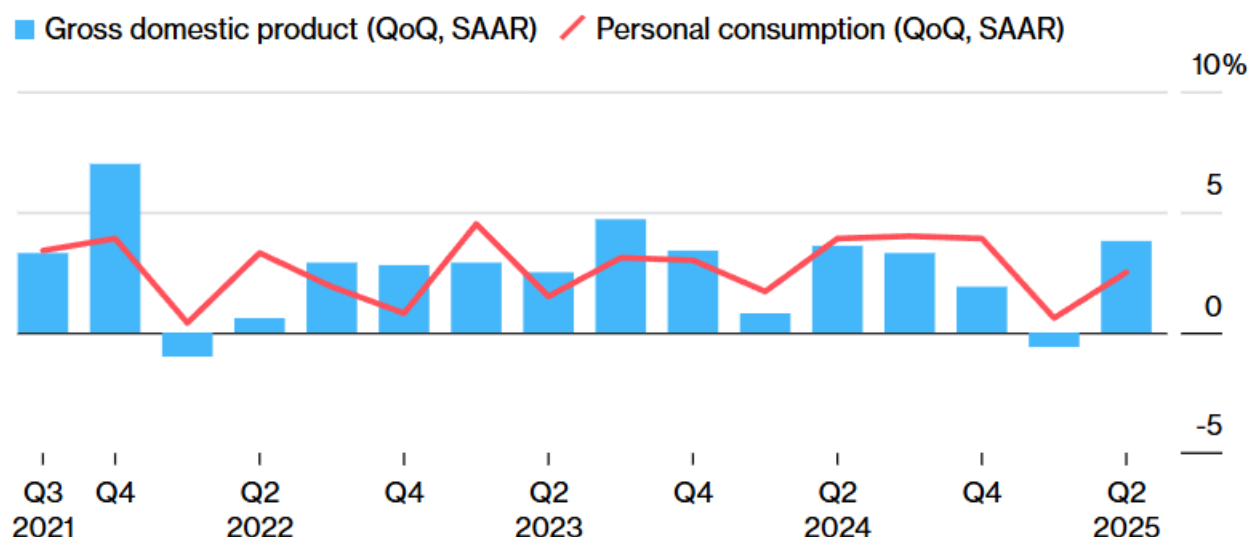
Chart of the week: US Economic Growth Rate Fastest in 2 years

The US economy grew in the second quarter at the fastest pace in nearly two years as the government revised up its previous estimate of consumer spending. Inflation-adjusted gross domestic product, which measures the value of goods and services produced in the US, increased at a revised 3.8% annualized pace, a Bureau of Economic Analysis report showed Thursday. That was stronger than the previously reported 3.3% advance and followed an outright contraction in the first quarter. The BEA also issued its annual update of the national economic accounts, which showed real GDP still increased at an average annual pace of 2.4% from 2019 to 2024. The revisions paint a picture of an economy that quickly rebounded from the initial shock of the pandemic and has since transitioned to a period of steadier, trend growth with lingering inflation.

Figure 6: US Economy Growing Faster than Expected

US Economy Expands at Fastest Pace in Nearly Two Years

Revised second-quarter data reflected pickup in household spending



Source: Bureau of Economic Analysis

Looking ahead: Major Economic Releases for the Week Ending 3rd October

For the week ending October 3, 2025, Australian economic data will be in the spotlight, with Building Approvals and Building Approval Total YY expected to show a rebound from the prior decline, suggesting potential stabilization in the housing sector amid ongoing rate pressures. The RBA Cash Rate is anticipated to remain unchanged, reflecting a steady monetary policy stance. S&P Global Manufacturing, Services, and Composite PMI Finals may indicate continued expansion in activity, while trade data including Balance on Goods, Goods/Services Imports, and Exports could point to a robust surplus driven by export growth offsetting import softness. These releases could signal resilient external sector performance, potentially reinforcing the Reserve Bank of Australia's dovish outlook for gradual easing to support domestic demand if inflation moderates further.

In the United States, Consumer Confidence is expected to edge lower, highlighting cautious sentiment amid economic uncertainties. S&P Global and ISM Manufacturing PMI Finals may reflect marginal improvement but ongoing contraction in the sector, with Factory Orders anticipated to rebound modestly from the prior drop. Initial Jobless Claims are projected to rise slightly, signaling minor labor market softening, while Non-Farm Payrolls could show subdued job gains, with the Unemployment Rate holding steady and Average Earnings easing. S&P Global Composite and Services PMI Finals are likely to confirm expansion in services. These indicators may underscore a cooling economy with persistent labor resilience, prompting the Federal Reserve to maintain a dovish bias toward potential rate cuts, though global trade uncertainties, including U.S. tariff policies, may continue to pose risks to both economies.

Major Economic Releases for the Week ending 3 Oct, 2025

Date	Country	Release	Consensus	Prior
Tuesday, 30/09	Australia	Building Approvals	3	-8.2
Tuesday, 30/09	Australia	Building Approval Total YY	n/a	8.3
Tuesday, 30/09	Australia	RBA Cash Rate	3.6	3.6
Tuesday, 30/09	United States	Consumer Confidence	96	97.4
Tuesday, 30/09	Australia	S&P Global Mfg PMI Final	n/a	51.6
Wednesday, 01/10	United States	S&P Global Mfg PMI Final	n/a	52
Wednesday, 01/10	United States	ISM Manufacturing PMI	49	48.7
Thursday, 02/10	Australia	Balance on Goods	n/a	7310
Thursday, 02/10	Australia	Goods/Services Imports	n/a	-1.3
Thursday, 02/10	Australia	Goods/Services Exports	n/a	3.3
Thursday, 02/10	United States	Initial Jobless Clm	223	218
Thursday, 02/10	United States	Factory Orders MM	1.4	-1.3
Thursday, 02/10	Australia	S&P Global Svs PMI Final	n/a	52
Thursday, 02/10	Australia	S&P Global Comp PMI Final	n/a	52.1
Friday, 03/10	United States	Non-Farm Payrolls	50	22
Friday, 03/10	United States	Unemployment Rate	4.3	4.3
Friday, 03/10	United States	Average Earnings YY	3.7	3.7
Friday, 03/10	United States	S&P Global Comp PMI Final	n/a	53.6
Friday, 03/10	United States	S&P Global Svcs PMI Final	n/a	53.9

Source: Refinitiv



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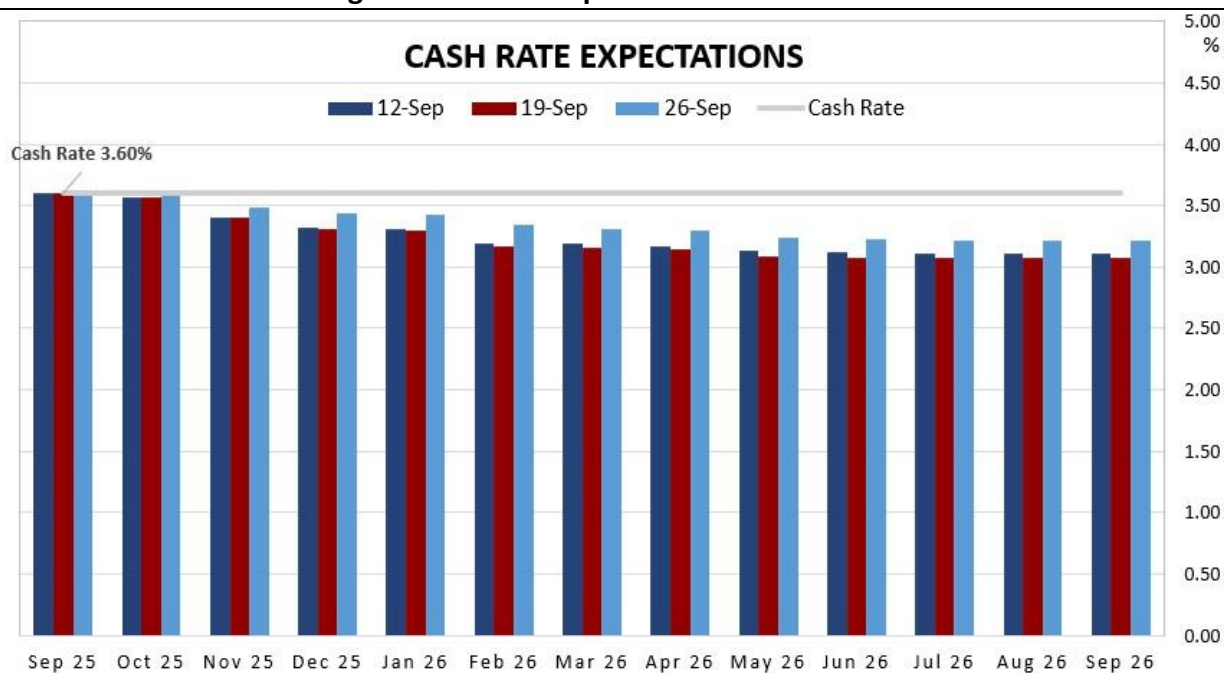
PART 2 – Investment Opportunity Review

Defensive Income – Cash

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Figure 7: Market Expectation on Cash Rate



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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 26, 2025, there were down movements, though stability is notable in some terms.

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

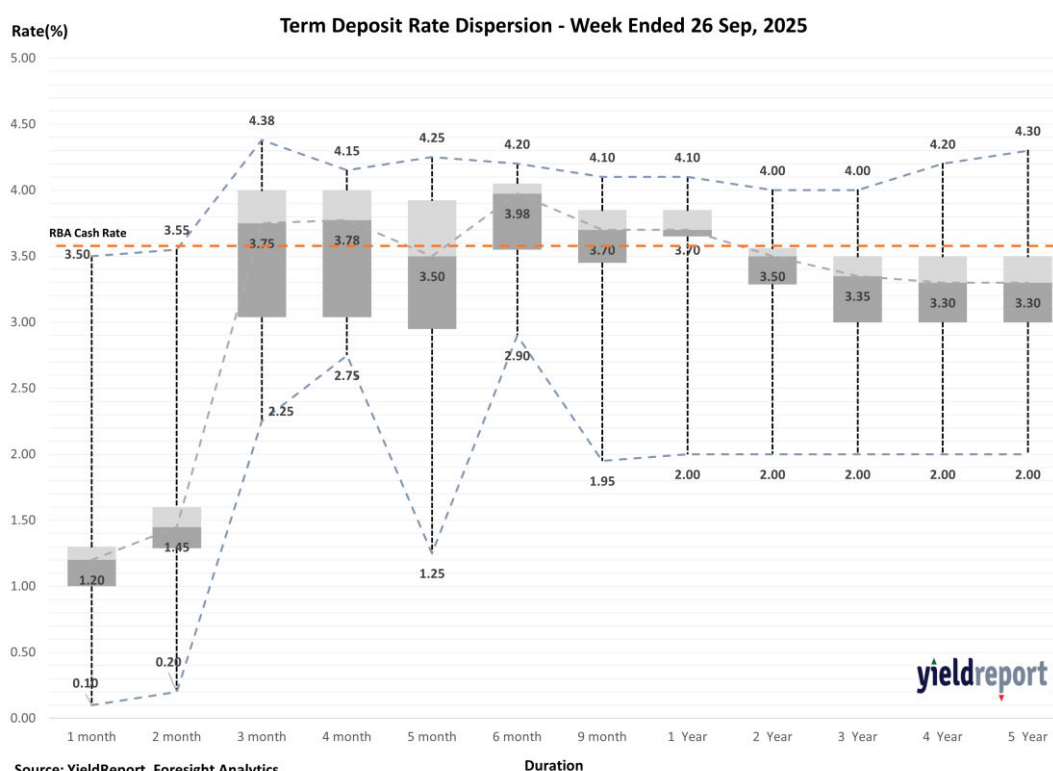
This week the best rate with a 3-month term was 4.38%, with in1bank offering the top rate. The median rate of 3.75% reflects a broad range from 2.25% to 4.38%.

This week the best rate within 6 months term was 4.20%, offered by Arab Bank Australia and Great Southern Bank. The median rate of 3.98% shows a tight quartile spread of 0.50%, indicating consistency.

Interestingly, the best 5-year rate held at 4.30%, led by Judo Bank and Rabobank Australia. 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, 9 institutions now offer over 4%, down from 10 last week. In the 6-month category, 13 institutions exceed 4%, steady from 13, reinforcing the 6-month term's competitiveness.

Figure 8: Highest Term Deposit Rate by Term



Defensive Income – Government Bonds

Australia's cash rate held steady at 3.60%, while the 3-month BBSW raised 4bps to match, driven by stronger-than-expected CPI data and shifting expectations around RBA rate cuts. The yield curve is steepened, with the 3-year bond yield up 16bps to 3.6%, 10-year up 14bps to 4.4%, and 30-year rising 7bps to 5.06%. Short-term rates showed volatility, but long-dated yields moved more sharply, reflecting investor concern over inflation and future RBA policy. Bond spreads between 3- and 10-year maturities widened slightly, as the shorter end rose more aggressively than the longer end, signalling heightened sensitivity to inflation risks.

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

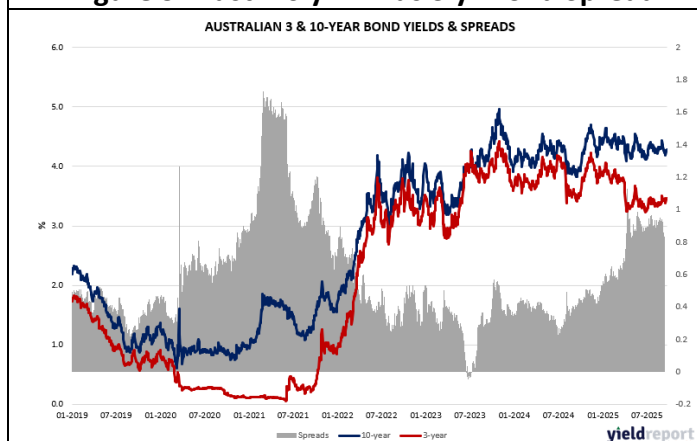


Figure 10: Aust& US Bond Yields Spread

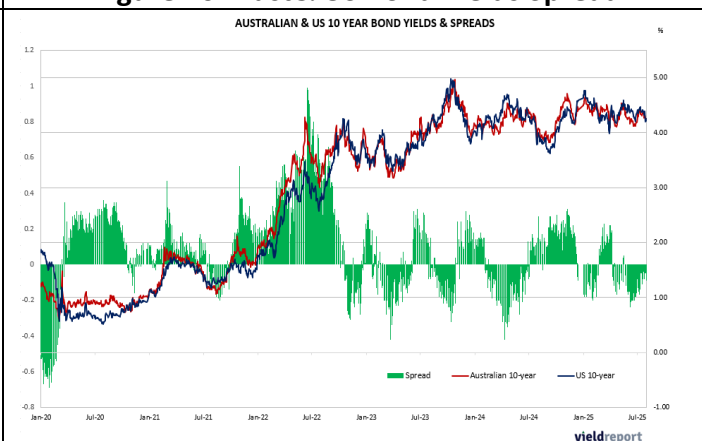
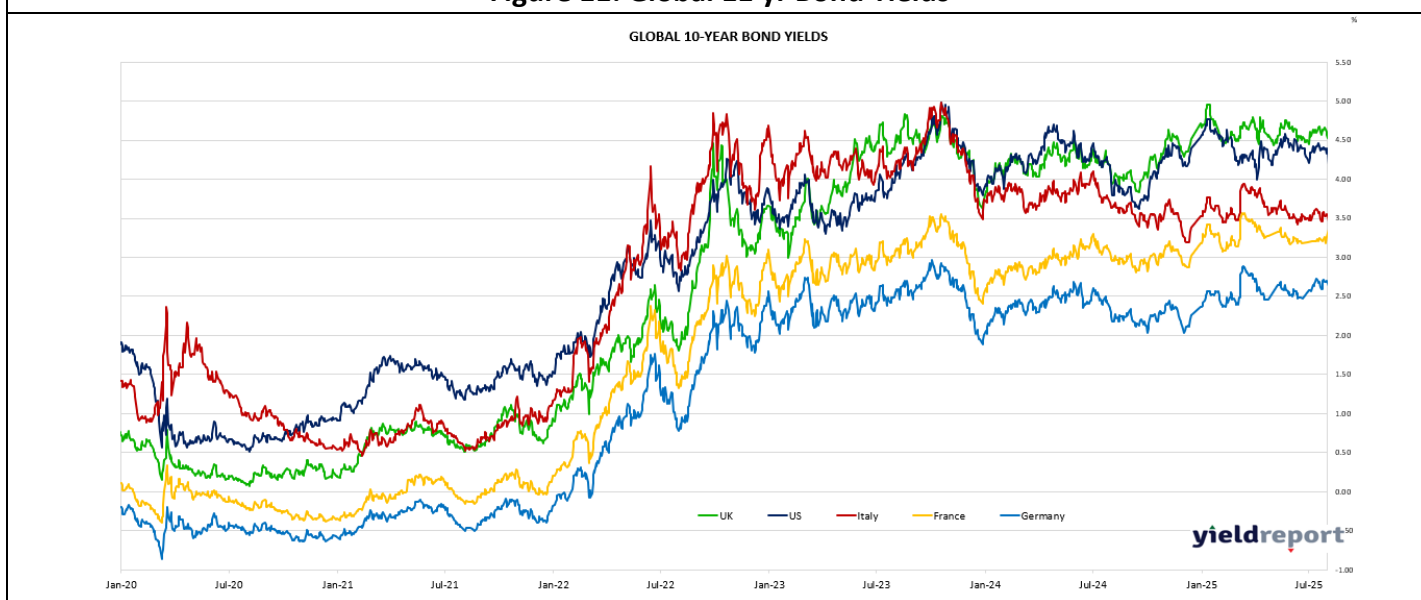


Figure 11: Global 11 yr Bond Yields



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.

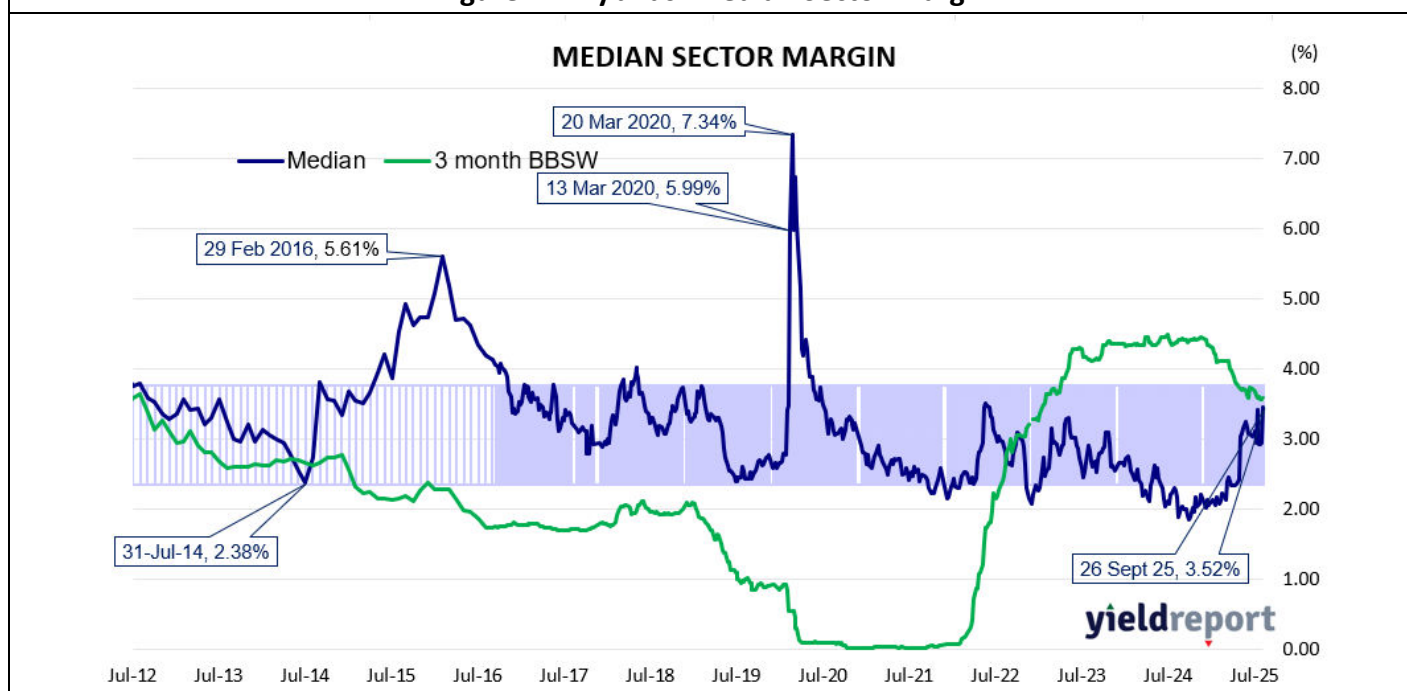
Trading margins have tightened across major bank hybrids, reflecting strong investor demand and confidence in credit quality. Instruments like CBA's PERLS and Westpac's Capital Notes maintain yields between 6.3% and 7.2%, while non-bank hybrids from Judo Capital and Latitude offer higher running yields above 9%, attracting yield-seeking investors.

Issuance activity has remained steady, with banks managing rollover risk by calling and refinancing maturing hybrids. Nearly \$5 billion in bank hybrids are set to expire this year, with similar volumes expected in 2026. Retail investors—who hold 20–30% of ASX-listed hybrids—face a narrowing window to reinvest in these instruments.

As the market transitions, capital is expected to flow into alternative income products. Overall, the hybrid market continues to offer attractive yields, but investors must prepare for a gradual decline in supply and evolving risk-return dynamics.

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



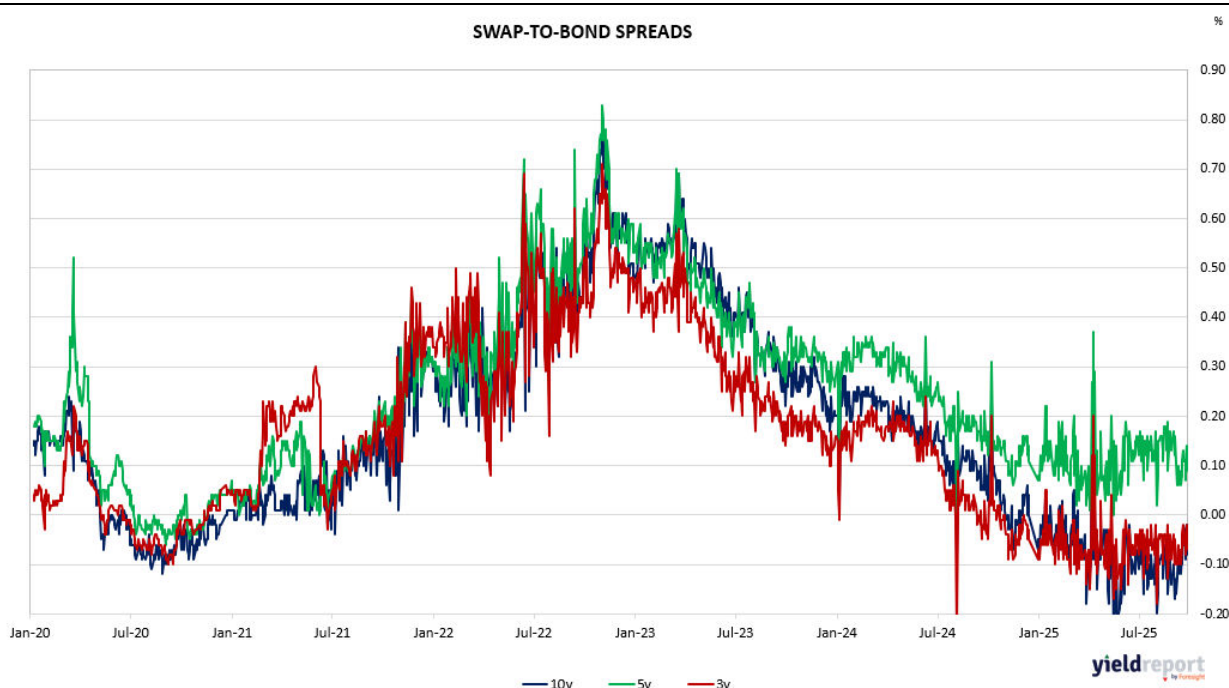
Bank Bill Swaps

Short-term interest rates in Australia rose modestly over the past week, with the 1-month rate at 3.55% (+1bp) and the 3-month at 3.6% (+4bps). Medium-term rates saw stronger gains: the 6-month rose 9bps to 3.76%, and the 1-year jumped 14bps to 3.47%.

Longer maturities also increased, with the 3-year up 16bps to 3.53%, 5-year up 14bps to 3.9%, and 10-year up 13bps to 4.31%. The 15-year rate rose 11bps to 4.52%. Monthly changes show a consistent upward trend, especially in the 3-year segment (+22bps), reflecting rising inflation expectations and market reassessment of future rate paths.

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.

US and EM Corporate Bonds

The “Credit Spreads” chart tracks the evolution of credit risk premiums across major debt instruments from April 1992 to September 2025. It compares spreads for U.S. senior loans, high-yield bonds, investment-grade credit, and emerging market credit, alongside the 10-year Treasury term premium. Key instruments include the S&P/LSTA US Leveraged Loan Index (495bps), Barclays US High Yield Index (396bps), Investment Grade Credit (72bps), and Emerging Market Credit (318bps). The Adrian, Crump & Moench Treasury term premium is also plotted for macro context.

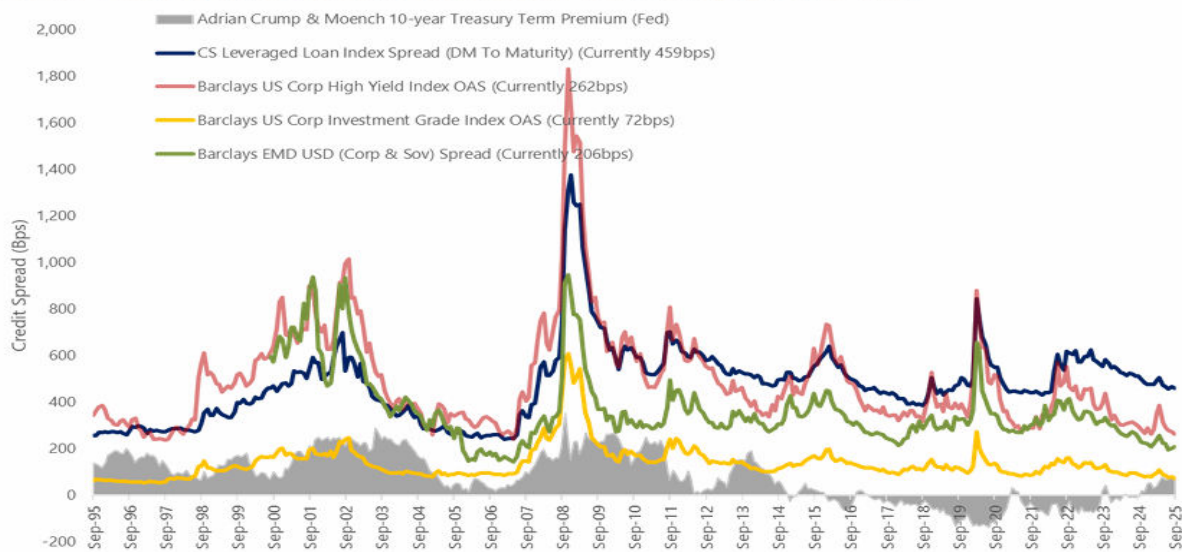
Historically, credit spreads spike during periods of financial stress—most notably during the 2008 global financial crisis and the 2020 pandemic—reflecting heightened investor risk aversion. The current elevated spreads in leveraged loans and high-yield bonds suggest persistent concerns about credit quality and economic uncertainty. Investment-grade spreads remain relatively tight, indicating continued demand for safer assets. Emerging market credit spreads are elevated, reflecting geopolitical risks and tighter global financial conditions.

The chart underscores the cyclical nature of credit markets and the sensitivity of spreads to macroeconomic shocks, monetary policy shifts, and investor sentiment. As of September 2025, the divergence in spread levels across instruments signals a cautious market stance, with investors demanding higher compensation for riskier exposures amid lingering inflation and rate volatility.

Figure 14: US Senior Loans, IG, HY and EM Credit Spreads (Source: Bentham)

Credit Spreads

US Senior Loans, High Yield Bonds, Investment Grade Credit, Emerging Market Credit



Source: Bloomberg, Barclays US HY series commences Apr-94, CS LL Index commences Jan-92, Bloomberg Barclays US Corp IG series commences Apr-90

As at 19-Sep-2025

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 tiring 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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