



yieldreport Weekly

Your Income Advantage

1st to 5th September 2025



PART 1 – Equity & Bond Market Analysis

Weekly Overview

Australian and U.S. bond markets diverged over the past week, underscoring shifting global policy expectations and heightened volatility across asset classes. In Australia, yields moved higher across the curve, with the 3-year rising 7bps to 3.45%, the 10-year up 4bps to 4.35%, and the 30-year climbing 5bps to 5.09%. The move reflects lingering concerns around inflation resilience and global market turbulence, which prompted investors to demand higher long-term compensation.

The domestic cash rate remains anchored at 3.60%, while short-term benchmarks such as the 3-month BBSW edged only modestly higher, reinforcing expectations that the Reserve Bank is largely on hold for now.

By contrast, U.S. Treasury yields eased slightly as markets grew more confident that the Federal Reserve will cut rates at its September meeting. The 2-year yield slipped 5bps to 3.59%, while the 10-year one fell 6bps to 4.16%, highlighting growing conviction that policy easing is imminent. The 30-year yield eased 3bps to 4.86%, suggesting a modest bid for duration even as U.S. fiscal and supply concerns remain elevated.

Equities reflected these crosscurrents. Australian shares endured a sharp mid-week sell-off, wiping \$53 billion from the ASX200 in a single session, before staging a modest recovery into Friday. Global equity sentiment also softened as bond market volatility rattled risk appetite. However, strength in gold provided a counterpoint: the precious metal surged to a fresh all-time high above US\$3,578 an ounce, up 35% year-to-date, as investors sought safety and anticipated a lower-for-longer U.S. dollar interest rate environment.

The Australian dollar edged higher, up 0.12% to 65.45 US cents, supported by Fed-cut expectations that weighed on the greenback. Looking ahead, upcoming U.S. payrolls and inflation data will be pivotal in determining the magnitude of Fed easing, while bond market moves remain central to risk sentiment across equities and commodities.

Investor sentiment is being shaped by a complex mix of fiscal concerns, looming U.S. monetary policy shifts, and global bond market turmoil. Central to this is the expectation that the Federal Reserve will cut rates in 15 days, even as inflation risks resurface from recently imposed tariffs. The markets had to worry that easing policy into rising price pressures could destabilize financial conditions further.

Adding to U.S. concerns, a recent court ruling rejecting Trump's tariff regime has unsettled bond traders. If the U.S. Supreme Court upholds the decision, it could undermine government revenues and worsen the already fragile fiscal outlook. Trump has vowed to seek an expedited ruling. These developments amplified the sell-off in U.S. Treasuries, pushing yields higher as investors reassess both inflation and debt sustainability risks.

However, the U.S. is not alone in experiencing bond market volatility. Globally, long-dated bonds are under pressure. German 30-year yields raised 5 basis points, reaching a 14-year high. In France, yields continued to surge amid political instability, with fears the government could collapse as soon as next week. Japan's 30-year bond yield has been steadily climbing through 2025, hitting another record high due to persistent inflation concerns and questions over debt sustainability.

The sharpest move came in the UK, where 30-year gilt yields spiked to 5.723 per cent, and the highest in 27 years. Investors are bracing for Chancellor Rachel Reeves' upcoming budget, which is expected to tackle the UK's deteriorating fiscal position but could involve politically sensitive spending cuts or tax hikes.

Taken together, these developments highlight a fragile global environment where monetary easing collides with fiscal fragility. The Fed's impending decision is pivotal, but the broader backdrop of rising yields and political uncertainty underscores how vulnerable sovereign debt markets have become.

September Cut Now All But Certain

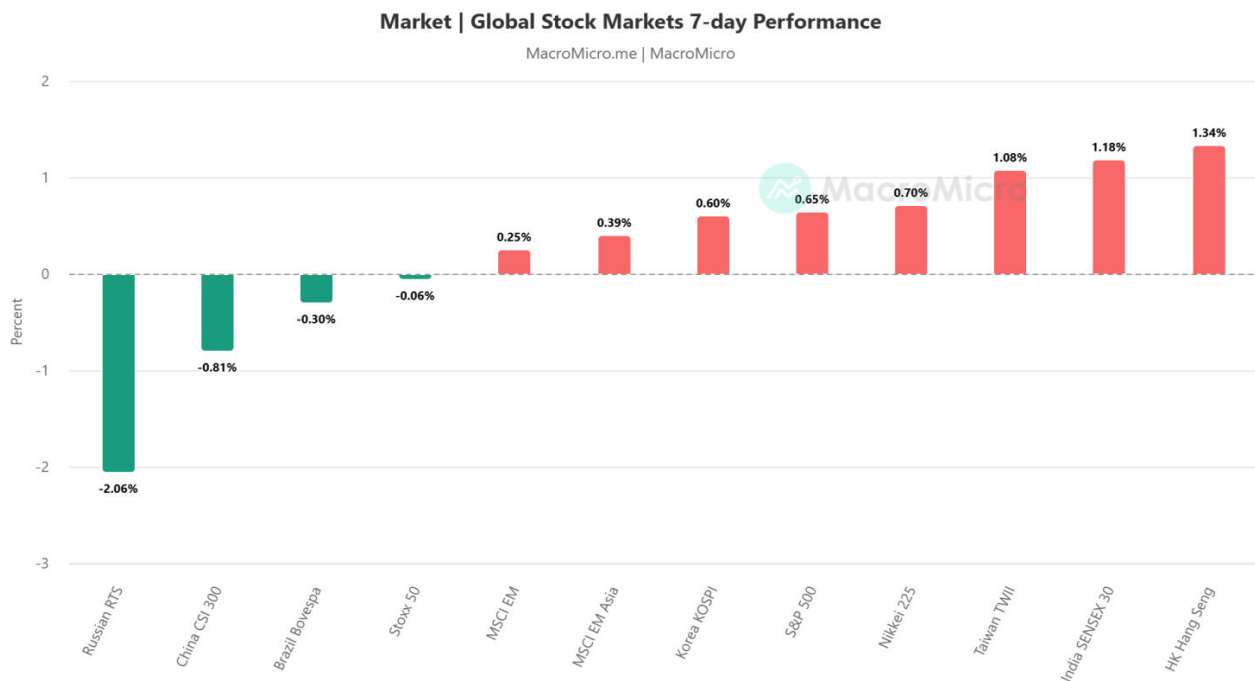
The convergence of softening job growth (35,000 three-month average), subdued inflation (2% goods price rise despite tariffs), and Treasury liquidity demands creates ideal conditions for the Federal Reserve to initiate rate cuts. This environment supports a data-driven easing approach, reinforcing the Fed's institutional credibility. Powell's Jackson Hole shift to symmetrical inflation targeting allows the Fed to focus on future inflation expectations near the 2% target, rather than correcting past deviations. Markets anticipate a 25–50 basis point cut starting in September, with the updated dot plot offering key insights into the Fed's policy path through 2026 amid evolving macro and fiscal dynamics.

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.

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

Australia's share market closed higher on September 5, 2025, buoyed by gains in interest rate-sensitive sectors amid softer bond yields and a positive lead from overseas markets. The S&P/ASX 200 rose 0.51% to 8,871.2, while the broader All Ordinaries climbed 0.54% to 9,140.5. Real estate led the advance with a 1.37% gain, followed by consumer discretionary at 1.33% and information technology at 1.18%. Energy and consumer staples lagged, falling 0.28% and 0.31% respectively. For the week, the ASX 200 ended down 1.1%, reflecting post-earnings profit-taking and a mid-week sell-off tied to global bond market volatility.

Top performers included Peak Rare Earths, up 25.4% after an increased scheme consideration, and Gateway Mining, rising 21.2% in line with its uptrend. Other notable gainers were Vertex Minerals at 18.5% and 4DMedical at 17.9%, both continuing positive momentum from recent announcements. On the downside, Tamboran Resources dropped 8.3%, Chalice Mining fell 7.4%, and Native Mineral Resources declined 6.7%, with no specific news driving the moves.

Gold miners showed strength, with Ora Banda Mining up 9.6% and Catalyst Metals gaining 9.2%, amid broader sector gains as spot gold hovered near its all-time high. The financial sector added 0.47%, helping offset weakness in materials, which rose just 0.28% despite mixed performances from majors like BHP.

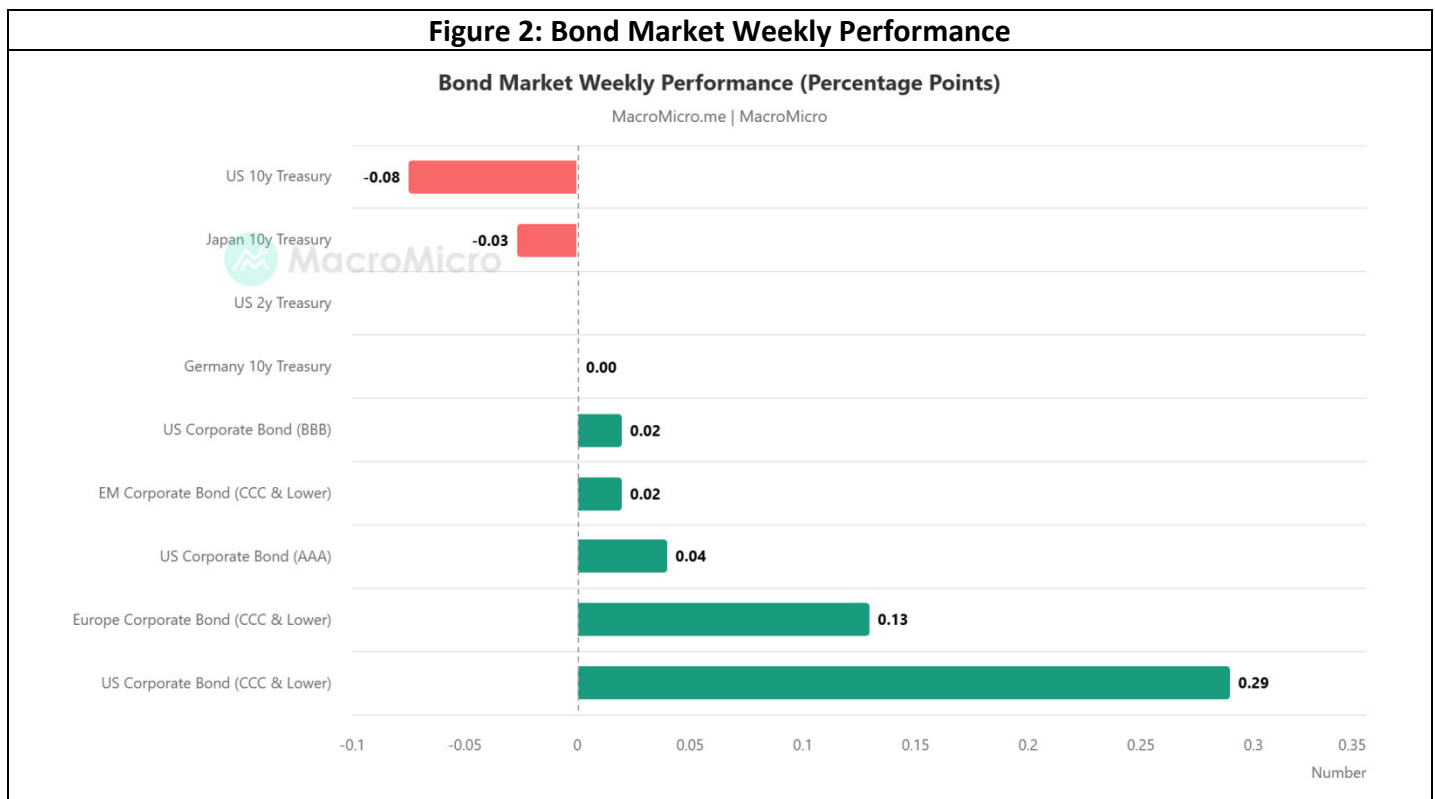
The Australian dollar strengthened 0.26% to 0.6535 against the US dollar, supported by a weaker greenback ahead of key US jobs data. Investors are eyeing the upcoming Reserve Bank of Australia meeting for clues on rate cuts, with recent data showing a Q2 GDP growth of 0.6% quarter-on-quarter, beating expectations, and a current account surplus narrower than forecast at -13.7 billion AUD.

Strategists at Capital.com noted mediocre earnings overall but highlighted resilience in tech and real estate, suggesting the pullback was overdue after recent highs. With trade tensions lingering and geopolitical risks from the Middle East and Ukraine, some see gold-related stocks as a hedge, though valuations remain stretched in parts of the market.

Overview of the US Treasuries and Other Fixed Income Markets

The convergence of softening job growth (35,000 three-month average), subdued inflation (2% goods price rise despite tariffs), and Treasury liquidity demands creates ideal conditions for the Federal Reserve to initiate rate cuts. This environment supports a data-driven easing approach, reinforcing the Fed's institutional credibility. Powell's Jackson Hole shift to symmetrical inflation targeting allows the Fed to focus on future inflation expectations near the 2% target, rather than correcting past deviations. Markets anticipate a 25–50 basis point cut starting in September, with the updated dot plot offering key insights into the Fed's policy path through 2026 amid evolving macro and fiscal dynamics.

Figure 2: Bond Market Weekly Performance



Overview of the Australian Equities Market

Australia's economy grew by 0.6 per cent in the June quarter, exceeding expectations of 0.5 per cent and accelerating from 0.2 per cent growth in the previous quarter. Annual growth lifted to 1.8 per cent, also above forecasts. The stronger-than-expected figures were driven largely by robust household consumption, reinforcing the resilience of the economy despite global uncertainties.

Australian shares closed the week lower despite a modest recovery on Friday, as investors digested lacklustre earnings and a sharp mid-week selloff tied to global bond market volatility.

The S&P/ASX200 rose 44.7 points, or 0.51%, to 8,871.2 on Friday, while the broader All Ordinaries added 49.1 points, or 0.54%, to 9,140.5. However, the benchmark index still finished about 1% down for the week and remains 145 points shy of its record close set in late August.

Market analyst Kyle Rodda said the combination of profit-taking after reporting season and global bond jitters contributed to the ASX's \$53 billion wipeout earlier in the week. He noted that results were "mediocre overall" and with valuations stretched at record highs, a pullback was expected.

On Friday, nine of 11 sectors advanced, led by real estate (+1.4%), technology (+1.2%) and consumer discretionary (+1.3%). Tech stocks staged a late rebound with Life360, NextDC and Technology One all higher, though the sector still ended 3.7% lower for the week. Real estate stocks bucked the trend with gains across Goodman Group, Charter Hall, Mirvac and GPT, finishing the week stronger.

Financials also bounced on Friday as NAB and Westpac led the big four banks higher, but the sector still closed 0.9% weaker for the week. Materials were mixed, with Rio Tinto and Fortescue offsetting weakness in BHP, leaving the sector up 0.3% on the day but down 0.7% over the week. Gold miners extended their strong run, buoyed by bullion prices hovering just below record highs. Northern Star jumped 5.4% to \$19.94, while Evolution and Newmont each gained around 4% across five sessions.

Energy stocks underperformed as oil prices slipped on expectations of higher OPEC+ output, while Coles and Woolworths fell after losing a Federal Court ruling on underpayment claims.

The Australian dollar traded firmer at US65.33c, supported by a weaker greenback as markets increasingly price a September rate cut by the Federal Reserve. Investors now await key U.S. payrolls data to gauge the scale of upcoming Fed easing.

August's corporate reporting season has boosted Australian share prices, but broader trends suggest caution. While earnings have helped lift equity markets, including Australia's, analysts are beginning to question the sustainability of this momentum. As a result, some asset managers have tactically reduced exposure to Australian equities, shifting to an underweight position relative to strategic benchmarks.

Although the ASX has delivered solid returns — up 11.8% over the year to July, with three- and five-year averages around 12% — it lags behind global markets. The MSCI All Countries World Index ex-Australia, driven largely by US equities, has significantly outperformed, with annualised returns exceeding 16% over five years.

One key issue is the **composition of the Australian market**, which is heavily concentrated in financials (35%) and materials (23%), with only 4% exposure to information technology — far behind the US S&P 500, where tech makes up 34%. This imbalance limits growth potential.

Commonwealth Bank (CBA) has driven much of the ASX 200's performance, contributing 40% of gains this year with a 22% return. Yet, CBA trades at a global premium that many see as unjustified, especially compared to higher-growth international banks.

Meanwhile, many of Australia's top companies are choosing to list overseas to access higher valuations and growth-focused investors. The US market, for instance, prioritises total return and reinvestment over dividends, while Australia's system favours high payouts due to franking credits.

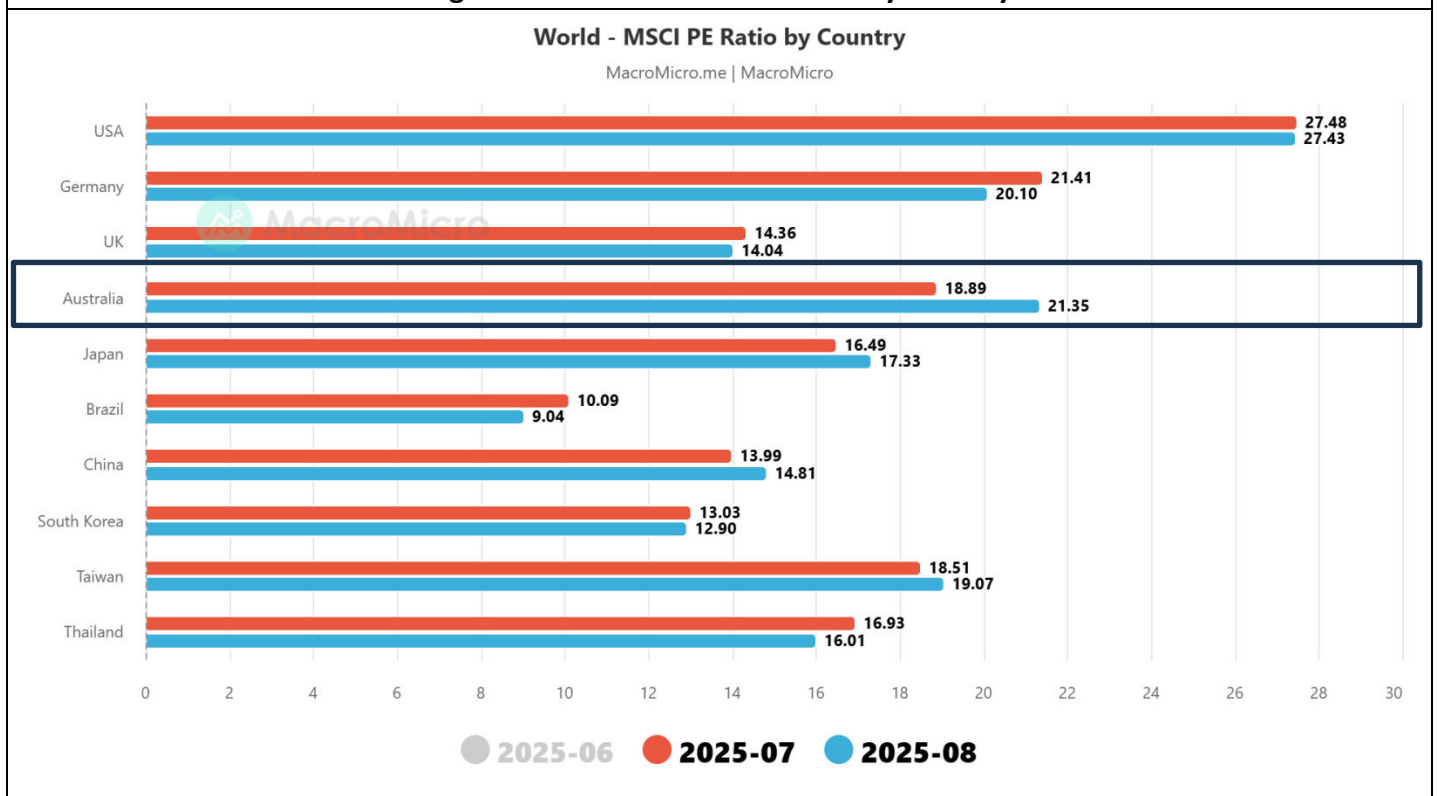
Income investing in Australian equities presents strong opportunities, but dividends are highly concentrated. Just seven companies—including the big four banks, BHP, Fortescue and Woodside—regularly account for more than half of the market's payouts. Banks and resources together deliver nearly 60% of dividends, yet both are cyclical, making them unreliable as sole income sources.

The S&P/ASX 200 currently yields about 2.6% (forward), below the long-term average of 4%. While payouts have dipped slightly with weaker commodity prices, the main reason yields have fallen is the rise in share prices. Active management can add value by balancing exposure across sectors. For example, telecommunications, insurers, diversified financials, consumer discretionary and REITs offer both reasonable yields and moderate growth potential.

Long-term challenges for Australia include stagnant productivity, overregulation, high government spending, and rising energy costs. Despite these headwinds, opportunities exist in underperforming mid-caps, tech, utilities, and globally focused companies. Active stock selection and sector rotation within the ASX 200 will be essential as the broader index shows little growth potential through 2027, according to Capital Economics forecasts.

This season was classic "two speeds": companies with pricing power, structural tailwinds or cost discipline largely delivered, while those exposed to weak discretionary spend or regulatory/reputational headwinds struggled. Results also showed an economy easing but still resilient: travel stayed buoyant, digital advertising improved off stronger listing/activity cycles, and energy utilities benefited from cash generation and capital returns. In contrast, supermarkets diverged sharply, select tech names missed investor hopes despite growth, and healthcare was rocked by one blockbuster move.

Figure: 3 - World - MSCI PE Ratio By Country



Overview of the Australian Government Bond Market

Australia's economy grew by 0.6 per cent in the June quarter, exceeding expectations of 0.5 per cent and accelerating from 0.2 per cent growth in the previous quarter. Annual growth lifted to 1.8 per cent, also above forecasts. The stronger-than-expected figures were driven largely by robust household consumption, reinforcing the resilience of the economy despite global uncertainties.

The data complicates the outlook for the Reserve Bank of Australia's (RBA) monetary policy. Having already cut interest rates three times this year to 3.6 per cent, the central bank had been expected to deliver further easing. However, analysts argue that strong consumption, a tight jobs market, and evidence of inflation remaining above target will make the RBA more cautious. State Street's Dwyfor Evans noted that the results reduce the scope for aggressive rate cuts, likely lending support to the Australian dollar as global peers continue to ease policy.

Market reaction reflected this reassessment. Bond yields rose, with the three-year yield climbing to 3.45 per cent and the 10-year to 4.40 per cent, both at six-week highs. The Australian dollar edged up to US\$65.24¢.

Analysts remain divided on the policy outlook. eToro's Josh Gilbert suggested the latest GDP report likely rules out a September cut but acknowledged markets still expect at least one more easing before year-end. KPMG's Brendan Rynne predicted just one additional rate cut in 2025, with the next easing steps postponed into 2026. He pointed to improved consumer sentiment, near-full employment, and stage 3 tax cuts as factors supporting household spending.

Looking ahead, RBA Governor Michele Bullock is scheduled to speak in Perth, where markets will seek further clues on the central bank's stance. While growth has surprised to the upside, the RBA must balance stronger domestic demand against ongoing global risks, including U.S. trade tariffs.

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

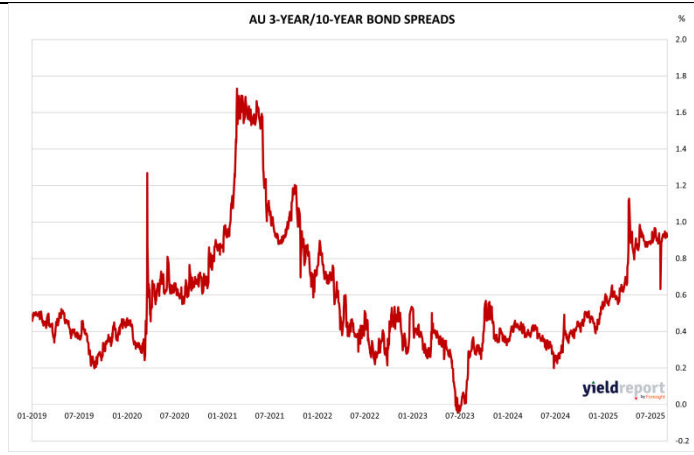
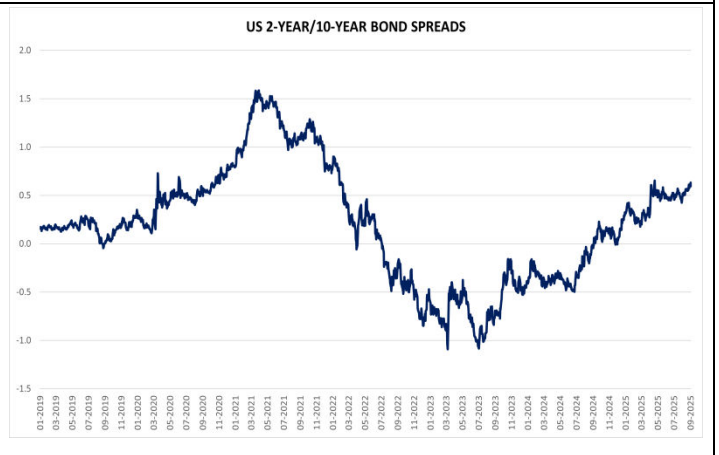


Figure 5: US 2 and 10-year Bond Spread



Market Summary Table

Name	Week Close	Week Change	Week High	Week Low
Cash Rate%	3.60%			
3m BBSW %	3.58	0.02	3.58	3.56
Aust 3y Bond %*	3.45	0.07	3.51	3.38
Aust 10y Bond %*	4.35	0.04	3.51	3.38
Aust 30y Bond %*	5.09	0.05	5.18	5.04
US 2y Bond %	3.59	-0.05	3.66	3.59
US 10y Bond %	4.16	-0.06	4.28	4.16
US 30y Bond %	4.86	-0.03	4.97	4.86
\$1AUD/US¢	65.45	0.12	65.57	64.86

Table of the week: Australian Equity Market Fundamental Scorecard

The ASX200 offers a forecast dividend yield of 2.62% with modest EPS growth of 4.21% and dividend growth of 1.18%, reflecting cautious corporate outlooks. Financials dominate with a 34.3% weight, yielding 3.65% and providing stability. Materials show strong EPS growth (12.63%) but minimal dividend expansion, suggesting reinvestment. Health Care and IT lead in growth, with EPS forecasts of 23.67% and 19.18% respectively, though yields remain low. Defensive sectors like Utilities (5.71% yield) and Energy (4.05%) offer income but face earnings pressure. Consumer Staples and Communication Services balance yield and growth, while Real Estate and Consumer Discretionary act as cyclical plays with higher market sensitivity.

Figure 6: Australian Equity Fundamental Scorecard

Sector	Weight	Forecast Dividend Yield	Dividend Payout Ratio	Forecast EPS Growth 12M	Forecast Dividend Growth	MCap Mill (AUD)	Market Beta	Volatility 1Y
Utilities	1.40%	5.71%	67.55	-7.51%	1.2%	15,187	0.63	18.22
Energy	3.94%	4.05%	60.80	-16.16%	-17.9%	33,200	0.66	26.77
Consumer Staples	3.61%	3.70%	73.73	11.61%	8.2%	25,239	0.57	16.14
Financials	34.29%	3.65%	72.30	3.03%	2.0%	155,979	1.11	18.80
Industrials	7.45%	3.59%	55.41	9.17%	6.4%	22,963	0.85	19.19
Materials	17.35%	3.41%	64.18	12.63%	0.4%	100,266	0.90	26.16
Communication Services	3.96%	3.33%	46.61	15.53%	8.7%	38,488	0.81	16.88
ASX200		2.62%	47.91	4.21%	1.18%		1.00	14.98
Real Estate	6.95%	3.20%	52.92	6.51%	2.7%	33,947	1.68	20.95
Consumer Discretionary	7.98%	2.45%	69.54	11.79%	11.2%	57,656	1.21	20.69
Health Care	9.62%	1.70%	47.49	23.67%	18.2%	83,130	1.07	25.02
Information Tech	3.44%	0.30%	16.78	19.18%	12.8%	23,610	1.86	38.55

Looking ahead: Major Economic Releases for the Week Ending 13th September

For the week ending September 13, 2025, no major economic releases scheduled for Australia .In the U.S., Core CPI (MM and YY) and headline CPI (MM and YY) expected to show ongoing inflationary pressures, with consensus forecasts indicating steady month-on-month increases for core and a pickup for headline, while year-on-year figures hold firm for core and rise modestly for headline. The PPI Machine Manufacturing index may reflect stable producer prices, building on recent trends of margin expansion in wholesale and retail. Initial Jobless Claims are anticipated to edge lower, suggesting continued labor market resilience amid low layoffs. The University of Michigan Sentiment Preliminary could dip slightly, pointing to cautious consumer views on the economy despite recent improvements. These releases could reinforce the Federal Reserve's watchful approach to monetary policy, potentially delaying or moderating rate cuts if inflation proves stickier than anticipated, while a stable jobs picture supports growth. However, global trade uncertainties, including U.S. tariff policies, may continue to pose risks to both economies.

Major Economic Releases for the Week ending 13 Sep, 2025

Date	Country	Release	Consensus	Prior
Wednesday, 10/09	United States	PPI Machine Manuf'ing	n/a	191.4
Thursday, 11/09	United States	Core CPI MM, SA	0.3	0.3
Thursday, 11/09	United States	Core CPI YY, NSA	3.1	3.1
Thursday, 11/09	United States	CPI MM, SA	0.3	0.2
Thursday, 11/09	United States	CPI YY, NSA	2.9	2.7
Thursday, 11/09	United States	CPI Wage Earner	n/a	316.349
Thursday, 11/09	United States	Initial Jobless Clm	235	237
Friday, 12/09	United States	U Mich Sentiment Prelim	58	58.2

Source: Refinitiv

PART 2 – Investment Opportunity Review

Defensive Income – Cash

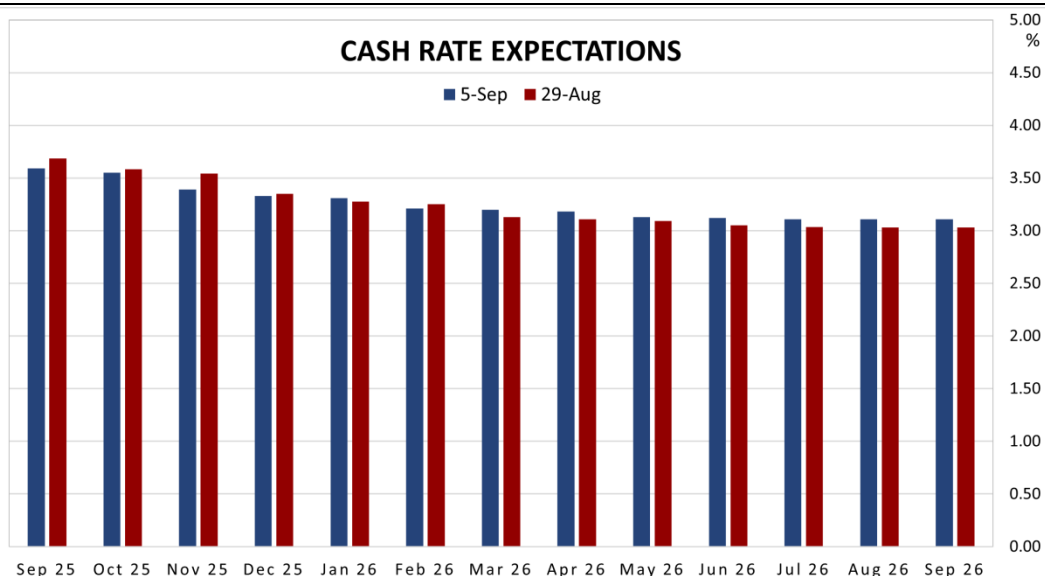
Our cash market expectations data reveals a consistent downward trajectory in expected cash rates over the next year, with projections gradually declining from current 3.6% to below 3.00% by September 2026.

Australia's economy grew 0.6% in the June quarter, beating forecasts and lifting annual growth to 1.8%. The upside surprise was driven by strong household consumption, underscoring resilience despite global uncertainty. The figures complicate the Reserve Bank of Australia's policy outlook. After three cuts this year, further easing is less certain given solid demand, a tight labour market, and sticky inflation. Bond yields rose to six-week highs, while the Australian dollar edged higher. Analysts now see reduced scope for aggressive cuts; with at most one more expected this year or in 2025, as the RBA balances growth with inflation risks.

Looking ahead, RBA Governor Michele Bullock is scheduled to speak in Perth, where markets will seek further clues on the central bank's stance. While growth has surprised to the upside, the RBA must balance stronger domestic demand against ongoing global risks, including U.S. trade tariffs.

Interest rates on Australian savings accounts tracked by YieldReport vary widely. The highest rates are offered by Ubank Save Account at 5.00%, ING Savings Accelerator at 4.70% and Rabobank PremiumSaver at 4.65%. Major of the banks generally offer rates between 4.00% and 4.45%, including AMP Saver, CBA NetBank Saver, and NAB iSaver. Lower rates are seen in accounts such as Macquarie CMA (2.00%), RAMS Saver (1.40%), and ANZ Premium (0.05%). Mid-range options include ME Online Savings and Up Savers Account at 3.85%. Overall, online and specialty savings accounts tend to offer higher returns, while traditional or tiered accounts remain comparatively low.

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 5, 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.

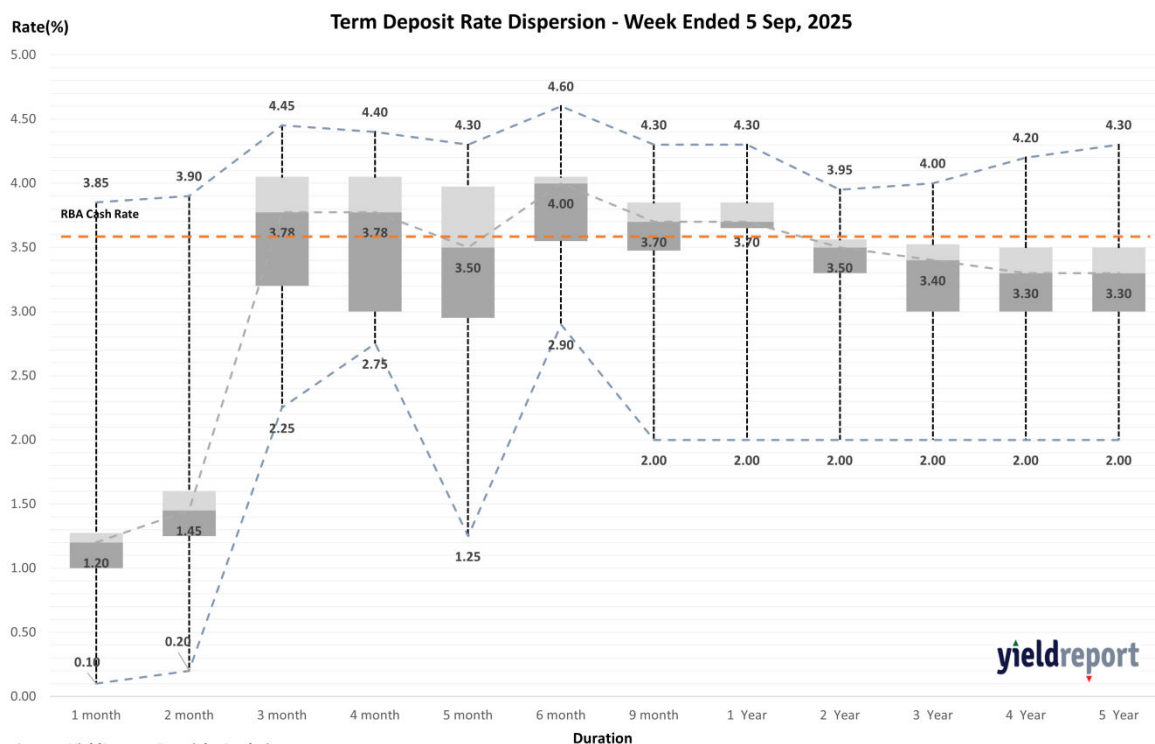
This week the best rate with a 3-month term was 4.45%, steady from the week before, with in1bank offering the top rate. The median rate of 3.78% reflects a broad range from 2.25% to 4.45%.

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 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 at 4.30%. 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, 11 institutions now offer over 4%, down from 13 last week. In the 6-month category, 16 institutions exceed 4%, down from 20, reinforcing the 6-month term's competitiveness.

Figure 8: Highest Term Deposit Rate by Term



Defensive Income – Government Bonds

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The 4.34 per cent yield on Aussie government bonds is also 27 per cent higher than their average yield since 2008 and superior to the average 4.14 per cent yield since 2000. Locking in these yields can furnish significant profits – and portfolio insurance – in the event there is a recession or crisis that warrants deep interest rate cuts.

This is particularly true if you are doing so via an investment that has no credit risk, such as a risk-free government bond with the highest possible AAA credit rating.

The flip side of this coin is that a fixed-rate bond will suffer large losses if these long-term interest rates climb a lot further. And the truth is that there are many good reasons as to why debt investors are demanding elevated fixed rates right now.

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

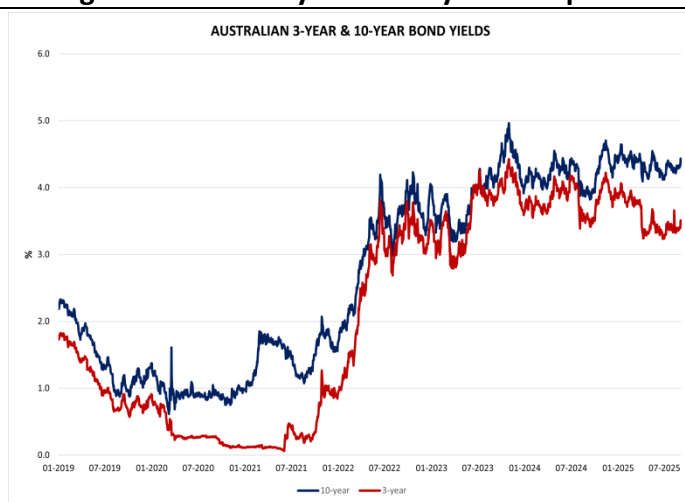


Figure 10: Aust & US Bond Yields Spread

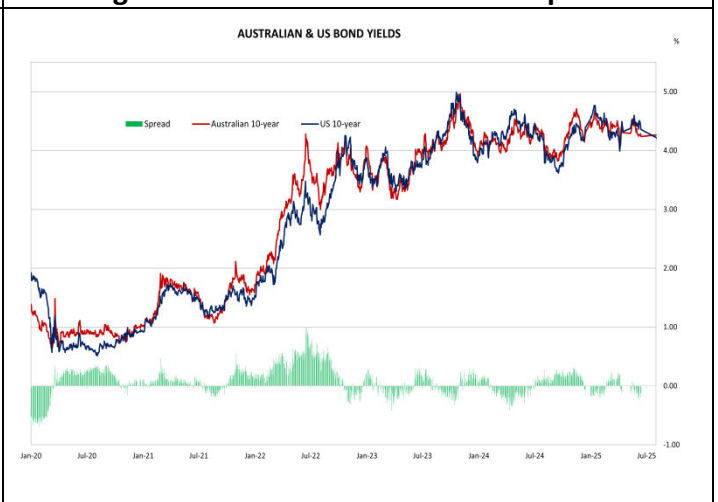


Figure 11: Global 11 yr Bond Yields



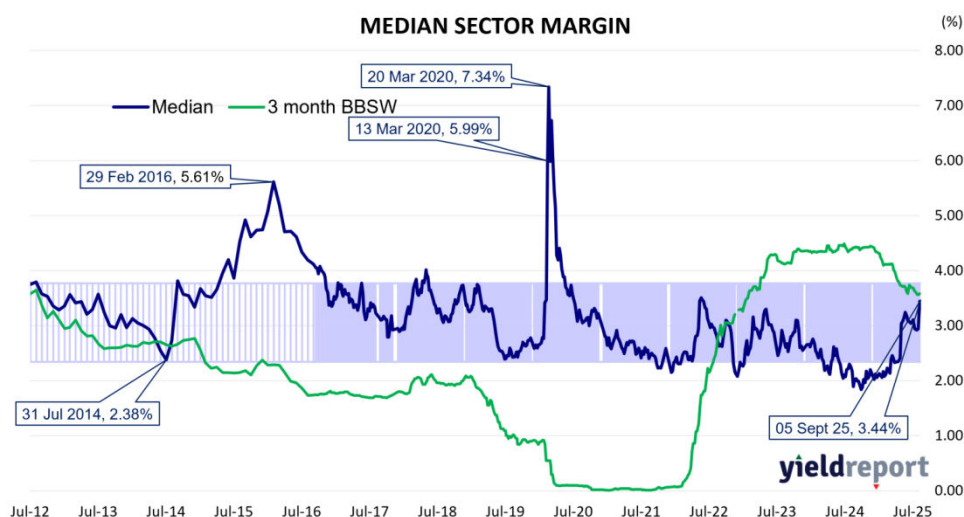
Bank & Corporate Hybrids

Hybrid spreads have compressed to historically tight levels. Five-year major bank hybrids, which typically yield 3–4 per cent above the Reserve Bank of Australia's (RBA) cash rate, are now offering only about a 2 per cent margin. This is the lowest spread since before the global financial crisis, signalling limited compensation for the embedded credit and equity-like risks of 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



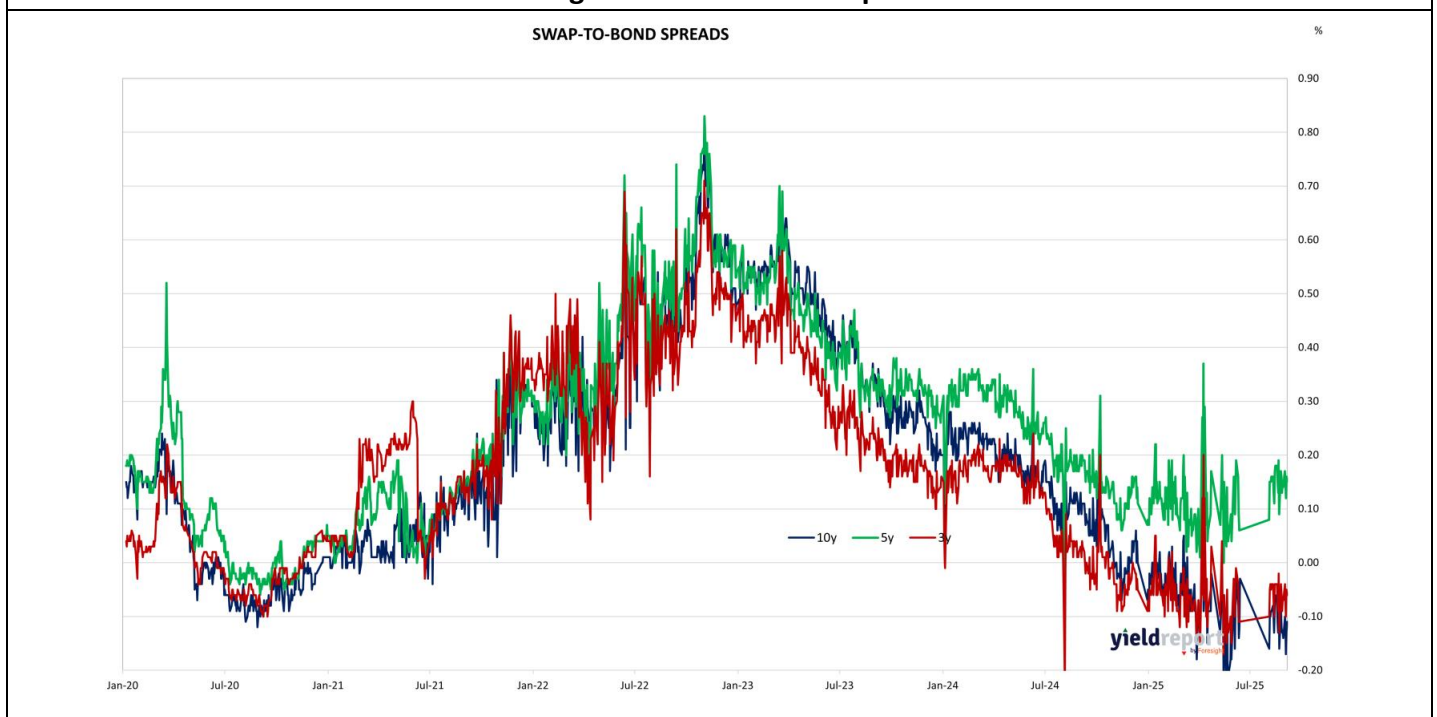
Bank Bill Swaps

Swap rates showed mixed movements across short- and long-term maturities. Short-term swaps (1–6 months) were mostly flat to slightly lower over the month, with the 1-month rate at 3.66% (-0.11% monthly) and the 6-month rate at 3.75% (-0.03% monthly). Medium- to long-term swaps (1–15 years) edged higher both weekly and monthly, reflecting modest upward pressure on longer-dated rates. The 1-year rate was 3.37% (+0.03% monthly), while the 10- and 15-year rates rose to 4.24% and 4.49%, up 0.11% and 0.12% over the month respectively. Overall, short-term stability contrasted with gradual long-term increases.

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

Australian and global bond ETFs showed modest weekly price changes with mixed short- and long-term returns. High-yield and hybrid ETFs, such as VanEck Australian Subordinated Debt (SUBD, 6.08% yield) and BetaShares Active Australian Hybrids (HBRD, 6.19% yield), delivered strong running yields and 0.5–0.7% monthly gains.

Investment-grade corporate and global bond ETFs, including iShares Core Global Corporate (IHCB, 5.30% yield) and Betashares Inflation-Protected US Treasury (UTIP, 2.95% yield), posted moderate returns. Cash and short-duration ETFs, like iShares Core Cash (BILL) and BetaShares High Interest Cash (AAA), offered stable yields around 4.2–4.3% with minor weekly losses.

Government-focused ETFs generally experienced slight declines, with Vanguard Australian Government Bond (VGB) and Russell Australian Government Bond (RGB) down 0.21–0.41% over a month, reflecting lower short-term returns.

Market caps vary widely from smaller funds like Janus Henderson Sustainable Credit (2.57M) to large ETFs such as BetaShares Australian High Interest Cash (4,252M). Overall, hybrid and high-yield ETFs remain attractive for income, while government and cash ETFs prioritize stability, showing minimal monthly gains or slight declines.

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.

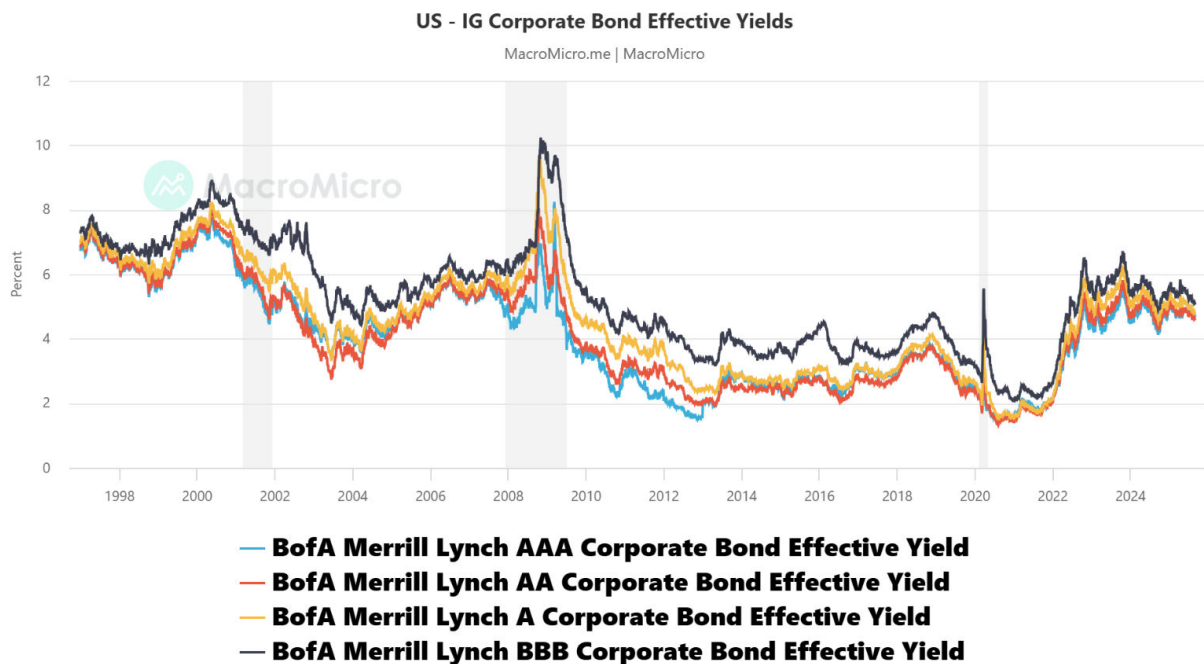
High-grade bond yields have averaged over 5% in the past three years after the Fed raised rates to combat post-pandemic inflation, attracting strong demand from institutional investors, pension funds, and insurers. Some previously cautious investors, scarred by the 2022 market rout, are now rushing in, 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 14: US Corporate Bonds Yields



Listed Notes

This week's snapshot of ASX-listed floating rate notes reveals a notable shift in trading margins, with several instruments showing upward movement. The standout performer is Australian Unity's Series E note (AYUHE), which offers a margin of approximately 3.50% above BBSW and a call date around June 2028. This places it firmly in the higher-yielding category among mid-to-long term maturities.

Centuria Capital's note (C2FHA) leads the pack with a trading margin exceeding 6%, accompanied by a strong running yield—suggesting either heightened investor demand or a perceived risk premium. Meanwhile, Australian Unity's Series D note (AYUHD), maturing in late 2026, shows moderate margin uplift and remains attractive for those seeking shorter duration exposure.

Across the board, the weekly increase in margins may reflect broader market recalibration or a growing appetite for credit risk. For income-focused investors, AYUHE presents a compelling long-term option with steady yield, while C2FHA may suit tactical strategies targeting near-term returns.

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