

yieldreport Weekly

Your Income Advantage



6th to 10th October 2025

PART 1 – Equity & Bond Market Review

Weekly Overview

The U.S. stock market's recent upward trend was interrupted after a sell-off on Friday left the S&P 500 down 2.4% for the week and sent the index to just its third negative result out of the past 10 weeks. The NASDAQ finished down 2.5% and the Dow ended 2.7% lower.

The S&P 500 had been on course for a modest weekly gain until midday Friday, when escalating tensions between the United States and China sent the index down 2.7% for the day. President Trump announced that he was considering a further tariff increase on Chinese imports and said there was “no reason” to keep a previously scheduled meeting with China's leader. The president cited new restrictions that China imposed on its export of rare earth minerals.

President Trump announced a 100% additional tariff on Chinese imports and new export controls on critical software, effective November 1, in retaliation for Beijing's decision to restrict rare-earth mineral exports—materials vital to U.S. industries such as semiconductors, electric vehicles, and defence manufacturing. The move escalates tensions after months of fragile trade negotiations that had shown tentative progress. China's restrictions, effective December 1, are seen as a calculated show of leverage, given its dominance in rare-earth processing.

Trump suggested the tariff's delayed start date allows room for Beijing to reconsider, hinting at potential de-escalation. Within the White House, officials including Treasury Secretary Scott Bessent and Trade Representative Jamieson Greer were angered by Beijing's move, prompting discussions about restarting trade talks and imposing broader sanctions. Trump even threatened to cancel a planned summit with Xi Jinping in South Korea, though later signalled openness to meet.

Gold futures posted their eighth weekly gain in a row, and the precious metal topped the \$4,000-per-ounce level for the first time ever. At Friday afternoon's price of around \$4,030, At Friday afternoon's price of around \$4,030, gold's year-to-date gain was around 50%. Silver was up more than 70%.

The price of U.S. crude oil sank more than 5% on Friday following President Trump's threat about the prospect of higher tariffs on imports from China. In afternoon trading, oil was trading around \$58 per barrel, the lowest level in more than five months. Concerns about a potential global oversupply have recently weighed on oil prices.

Australian shares ended the week slightly lower as falling gold and copper prices weighed on miners, offsetting gains in other sectors. The S&P/ASX 200 slipped 11.5 points, or 0.13%, to 8,958.3 on Friday, while the broader All Ordinaries lost 12.3 points to 9,264.3. For the week, the ASX 200 declined 0.4%, as investors contended with uncertainty stemming from the partial U.S. government shutdown and persistent local inflation concerns tempering hopes of further RBA rate cuts.

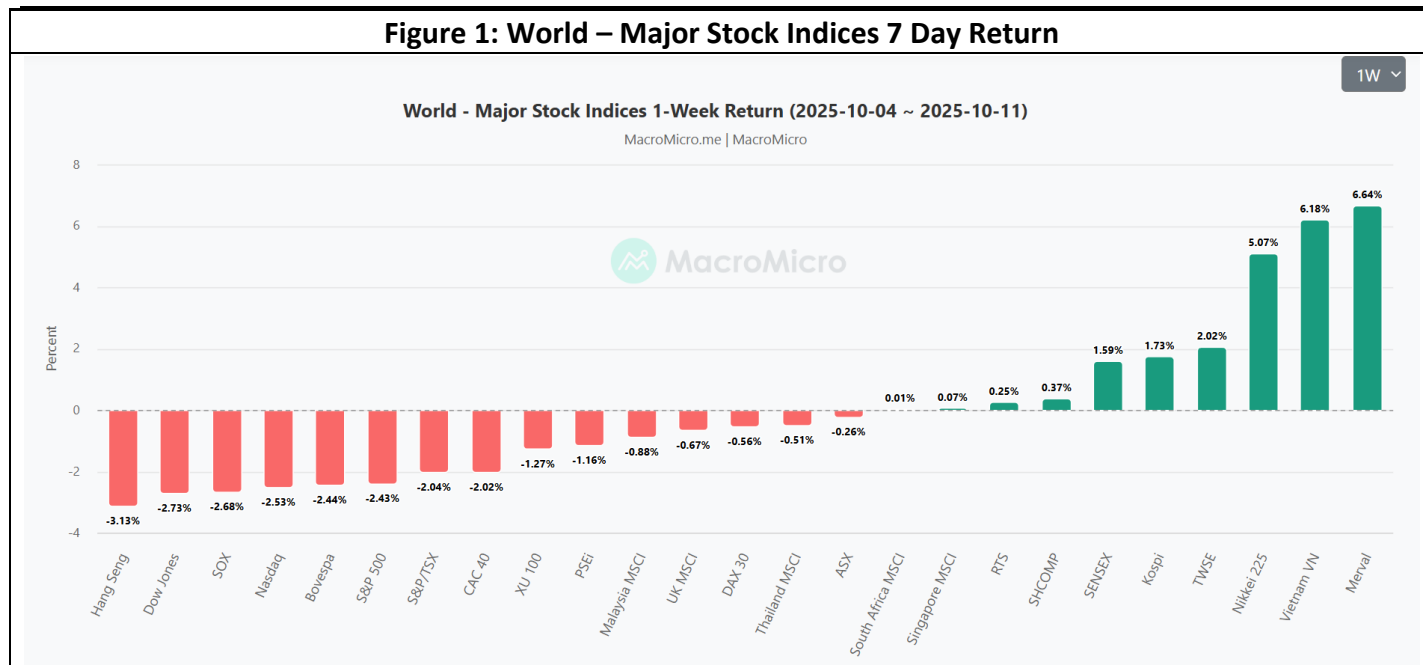
Although the U.S. government shutdown continued to delay the release of economic reports, it didn't stop the U.S. Federal Reserve from releasing minutes from the recent meeting at which it cut its benchmark rate by a quarter points. Wednesday's release reaffirmed investor expectations for further cuts before year end, as a majority of Fed members cited risks that labour market conditions could weaken further without additional rate cuts.

As major U.S. banks prepared to open quarterly earnings season on Tuesday, analysts were forecasting that third-quarter earnings for all companies in the S&P 500 rose by an average of around 8.0% overall, according to FactSet. A positive result would mark the ninth consecutive quarter of year-over-year earnings growth.

A Japanese stock index surged nearly 5% on Monday and set a record high after a leadership change atop Japan's ruling Liberal Democratic Party. However, the index retreated later in the week after a political coalition partner withdrew its alliance with the party, creating uncertainty about whether Sanae Takaichi will become prime minister.

The growth rate for dividend payments by U.S. companies accelerated in this year's third quarter. The \$10.6 billion in net dividend increases recorded by companies in the S&P 500 was well above the previous quarter's \$7.4 billion, according to S&P Dow Jones Indices, which said it expects full-year dividend increases to climb to a record level in 2025 with a forecast for a nearly 6% rise over 2024

Figure 1: World – Major Stock Indices 7 Day Return



Global Themes Shaping Markets

Senate Deadlock and Shutdown Trigger

The U.S. federal government entered a shutdown on October 1, 2025, after the Senate rejected a Republican continuing resolution (CR) by a 55–45 vote. The impasse arose as the new fiscal year began without passage of the 12 appropriations bills or a temporary funding extension. Under federal law, only 26% of federal operations—discretionary spending—ceases, while mandatory programs such as Social Security and Medicare continue. The conflict reflects partisan divisions: Democrats demand inclusion of Medicaid extensions and ACA subsidies, while Republicans insist on a “clean CR” free of policy riders. Because a 60-vote supermajority is required to pass any spending resolution, bipartisan cooperation is essential despite the Republican majority. The dispute also touches on concerns about executive overreach in spending allocations.



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Economic Impact of Past Shutdowns

Historically, U.S. shutdowns have had short durations and limited GDP effects. The average lasts about eight days, with the longest—2018–2019—running 35 days and cutting GDP by only 0.1–0.2 percentage points. S&P Global Ratings estimates that each week of shutdown trims growth by 0.1–0.2 percentage points, primarily through lost federal work hours, though these are partially recovered when back pay is issued. Financial markets typically absorb such disruptions quickly—in fact, the S&P 500 has risen in 86% of cases one-year post-shutdown, averaging 13% gains. The Federal Reserve usually adopts a dovish tone during data blackouts, which helps stabilize risk assets. *However, the 2025 shutdown is distinct because it aligns with deeper fiscal shifts involving permanent job cuts, implying potential longer-lasting effects.*

Permanent Job Cuts and Fed Policy Uncertainty

For the first time, the Office of Management and Budget have directed agencies to prepare for permanent federal staffing reductions, breaking precedent where furloughed employees were reinstated with full pay. President Trump’s commitment to dismiss “non-essential personnel” and recent buyouts eliminating nearly 100,000 positions mark a structural change with consequences for consumer confidence and discretionary spending. This occurs amid persistent inflation and weak hiring, deepening downside risk. Simultaneously, the Federal Reserve’s rate-cut cycle is disrupted by a data vacuum, as the Bureau of Labor Statistics has halted operations. The Fed had planned two more 25-basis-point cuts in 2025 and 50 basis points in 2026, but the absence of data complicates decision-making. The lack of labour and inflation data may push the Fed toward a more accommodative stance in upcoming meetings.

Watchpoints

With the Senate’s next recess approaching in two weeks, both parties face pressure to reach a resolution. The stalemate is unrelated to the debt ceiling, which was already raised by \$5 trillion in July, focusing the issue purely on appropriations. Investors are closely monitoring bipartisan negotiations, the scope of data release delays, federal worker sentiment, and consumer spending trends. Market volatility is expected to remain elevated as risk assets react to policy uncertainty. The key determinant of future fiscal credibility and market confidence will be whether Congress passes a “clean” CR or one loaded with policy riders—a decision that could shape fiscal governance norms in the years ahead.

Data Vacuum and Labor Market Uncertainty

The federal shutdown caused a complete halt to Bureau of Labor Statistics (BLS) operations, delaying the October Non-Farm Payrolls (NFP) report and leaving markets reliant solely on the private ADP employment data. The September ADP report showed a 32,000-job decline, following a downward revision of August figures to –3,000, marking two consecutive months of job contraction. This unexpected weakness pushed the market expectations for additional Federal Reserve rate cuts in 2025 to 90% probability.

The absence of official data represents an unprecedented challenge for the Fed’s data-dependent policy stance ahead of its October meeting. Although employment has visibly softened in private data, the headline unemployment rate remained stable, creating a confusing picture where job creation stalls without rising unemployment. The uncertainty undermines the Fed’s confidence in gauging the economy’s true momentum, potentially tilting policymakers toward a more dovish bias.

Structural Employment Decline and Sector Weakness

ADP data revealed that job losses were broad-based, with the most significant declines in Leisure & Hospitality (–19,000), Professional & Technical Services (–13,000), and Other Services (–16,000). This pattern indicates weakness not only in cyclical, consumer-facing industries but also in white-collar, knowledge-intensive roles, a sign of structural rather than temporary slowdown.

The Quarterly Census of Employment and Wages revised employment levels down by 43,000, implying earlier reports overstated labour strength. Fed officials, including Atlanta Fed President Raphael Bostic, noted that immigration-related labour shortages explain only one-third of hiring weakness; the remaining two-thirds stem from demand-side factors such as tighter budgets and automation. Together, these revisions point to deep-seated softness in employment fundamentals that could weigh on consumption and growth.

AI-Fuelled “Three-Low” Labour Equilibrium

The U.S. labour market now exhibits a “Low Hiring, Low Layoffs, Low Labor Force Growth” equilibrium. Firms have largely frozen hiring but are not initiating mass layoffs, reflecting cost discipline amid automation-driven productivity gains. Corporate leaders like Salesforce’s CEO and Duolingo’s CEO confirm this transition, stating that new hires will occur only once automation is fully utilized.

The research from the St. Louis Fed and San Francisco Fed shows that industries with high AI adoption, such as data processing, finance, and professional services, have seen above-average unemployment increases and subpar NFP growth. Moreover, reshoring efforts are driving investment into robot density, not human labour, confirming that AI and robotics are substituting for workers, not complementing them. This suggests that AI-induced automation, not tight monetary policy, is now the dominant force suppressing job demand.

As the shutdown drags on, the Trump administration’s directive for permanent federal staff cuts, potentially up to 100,000 positions, raises new downside risks to public-sector employment and household income stability. These moves depart from previous furlough-based shutdowns and could trigger legal disputes that prolong uncertainty.

Despite weak job creation, U.S. productivity growth has accelerated, exceeding 10-year averages since AI adoption surged. Intellectual property and IT investment now outpace equipment spending, suggesting capital is flowing into knowledge-based, high-tech sectors. This could underpin a “jobless recovery” dynamic, where automation-driven productivity sustains GDP growth and consumption even amid labour market stagnation. The key risk for policymakers is balancing the short-term employment drag against the long-term efficiency gains driven by AI and capital deepening.

Overview of the US Equities Market

Global markets tumbled on October 10, 2025, after President Donald Trump threatened a “massive increase” in tariffs on Chinese goods, reigniting fears of a renewed U.S.-China trade war. The announcement triggered a sharp selloff across asset classes, with investors fleeing to safe havens such as U.S. Treasuries and gold, while stocks, oil, and cryptocurrencies plunged. The S&P 500 dropped 2.7%, marking its worst day since April, while the Nasdaq 100 lost 3.5% and the VIX volatility index spiked above 21. The 10-year Treasury yield fell 11 basis points to 4.03%, crude oil slumped over 4%, and Bitcoin tumbled 5.5%.

On Friday’ close, the U.S. equity markets showed broad weakness, with decliners far outnumbering advancers across both major exchanges. On the NYSE, 2,400 issues declined versus only 411 advancing, while on the Nasdaq, 4,012 fell compared to 816 gaining. New lows also outpaced new highs, particularly on the Nasdaq, which recorded 192 new lows against 229 new highs, and the NYSE saw 122 new lows versus 71 new highs. Trading volume was heavy, totalling 6.7 billion shares on the NYSE and 12.2 billion on the Nasdaq.

Declining stocks accounted for the vast majority of that volume—over 5.5 billion shares on the NYSE and nearly 9.7 billion on the Nasdaq—indicating broad-based selling pressure. Overall, the session reflected a negative market breadth, with losses dominating despite some isolated strength among select stocks reaching new highs.

Trump's remarks, saying he saw "no reason" to meet Chinese President Xi Jinping, followed escalating tensions over mutual export controls on technology and materials, jeopardizing a planned meeting between the two leaders later this month. Analysts described the selloff as a wake-up call for markets that had become complacent amid record valuations and optimism around artificial intelligence and Federal Reserve rate cuts. Michael O'Rourke of JonesTrading warned that the end of the tariff truce could trigger a deeper correction, while others, like Michael Hirson of 22V Research, noted that both sides still have time to de-escalate before implementing the measures.

Despite the turmoil, strategists said the broader market backdrop remains solid, with expectations for a rebound later in the year if economic fundamentals hold. October's volatility, historically typical, could create buying opportunities for "dip-buyers," according to Northlight Asset Management's Chris Zaccarelli.

Meanwhile, cross-asset volatility rose, and analysts such as Dan Wantrobski at Janney Montgomery Scott said technical indicators suggest markets may experience a 5–10% correction but not a structural downturn. Fund flows remained robust: investors poured \$20 billion into global equities, \$25.6 billion into bonds, and \$5.5 billion into crypto funds, while cash funds saw \$73 billion in inflows—evidence of sustained liquidity and investor flexibility.

Corporate headlines added, Tesla's Shanghai shipments rose, Alphabet's Google faced new UK antitrust scrutiny, and China imposed new port fees on U.S. ships while investigating Qualcomm. The day's turmoil underscored how fragile market confidence remains as trade tensions, high valuations, and AI exuberance collide in an increasingly unpredictable geopolitical and economic environment.

Overview of the US Treasuries and Other Fixed Income Markets

U.S. Treasury yields and the dollar fell sharply on October 10, 2025, as renewed U.S.-China trade tensions and political uncertainty rattled financial markets. President Trump accused Beijing of pursuing monopolistic control over rare earth exports and threatened significant new tariffs, sparking a broad selloff in equities and rally in safe-haven assets. Major U.S. stock indices fell over 1%, while gold rose 1% to US\$4,012 an ounce. The 10-year Treasury yield dropped 9.2 basis points on the day to 4.05%, and the two-year fell 7.1 bps to 3.53%, extending weekly declines of 6.5 and 4.6 bps, respectively. The WSJ Dollar Index slipped 0.3% but remained up 1.2% for the week, as the dollar weakened nearly 1% against the yen and 0.5% versus the euro.

Markets were also weighed down by ongoing uncertainty from the partial U.S. government shutdown, which has delayed key labour data releases. The Bureau of Labor Statistics confirmed CPI inflation data would still be published on Friday, but other economic data were postponed. Preliminary October Michigan consumer sentiment came in slightly above expectations, dipping only marginally to 55 from 55.4. Fed officials remain divided on the pace of interest-rate cuts, though markets continue to price in a 25-basis-point reduction this month.



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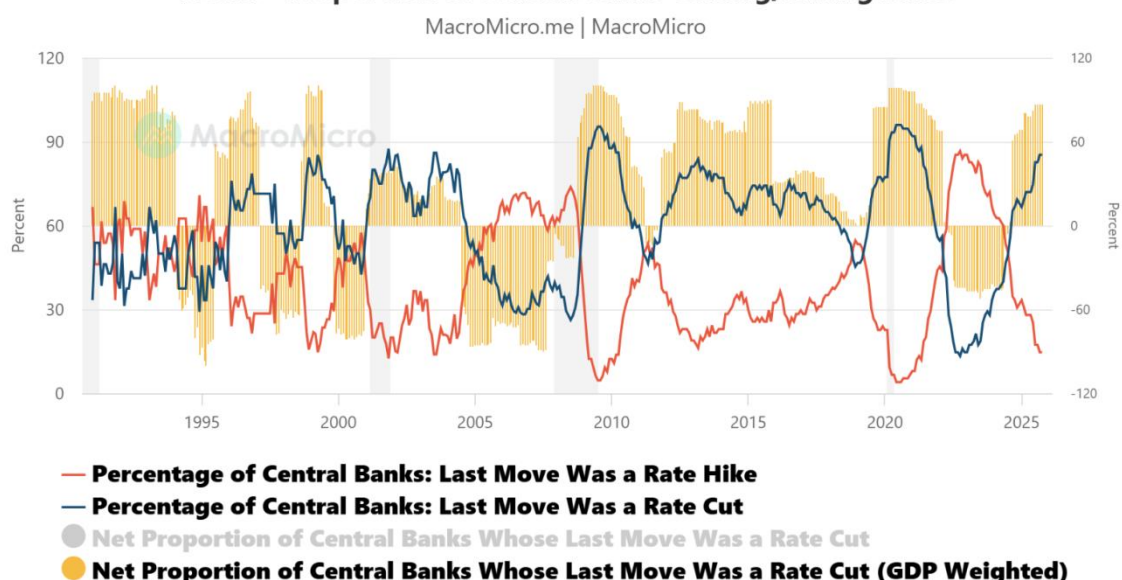
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Global bond markets mirrored the U.S. move, with yields falling across Europe amid political developments in France and Italy. French 10-year OAT yields dropped around 3–4 basis points to 3.49% as President Emmanuel Macron prepared to name a new prime minister, easing near-term volatility. The German 10-year Bund yield fell to 2.68%, while the spread between French and German yields narrowed to around 81 basis points—below long-term averages. Italian BTP yields also eased, with analysts suggesting S&P Global Ratings could upgrade Italy’s outlook to “positive” due to improved fiscal performance.

Analysts, including those from AXA Investment Managers and LBBW, noted that global bond vigilantes remain wary of fiscal indiscipline, while yield curves stay historically flat, reflecting restrictive monetary conditions. As U.S. markets prepare for Monday’s bond market closure, investors are bracing for the next wave of economic data—including inflation and employment indicators—that could determine the Fed’s policy trajectory heading into year-end.

Figure 2: Majority of the Global Central Banks are Easing
World - Proportion of Central Banks Cutting/Hiking Rates



Overview of the Australian Equities Market

Australian shares ended the week slightly lower as falling gold and copper prices weighed on miners, offsetting gains in other sectors. The S&P/ASX 200 slipped 11.5 points, or 0.13%, to 8,958.3 on Friday, while the broader All Ordinaries lost 12.3 points to 9,264.3. For the week, the ASX 200 declined 0.4%, as investors contended with uncertainty stemming from the partial U.S. government shutdown and persistent local inflation concerns tempering hopes of further RBA rate cuts.

AMP’s chief economist Shane Oliver noted that while the medium-term outlook remains positive due to anticipated global rate cuts and market-friendly U.S. policies, near-term correction risks remain elevated given high valuations.

Mining stocks were the major drag, with the materials sector tumbling 2.2%. BHP fell 2.1% to \$42.22, while gold producers such as Northern Star, Evolution, and Newmont dropped between 2% and 3.8%. Despite the pullback, gold remains up 93% in 2025 and near record highs of US\$4,059/oz. Rare earth miners Iluka and Lynas fell over 3% after earlier gains tied to Beijing’s export restrictions.

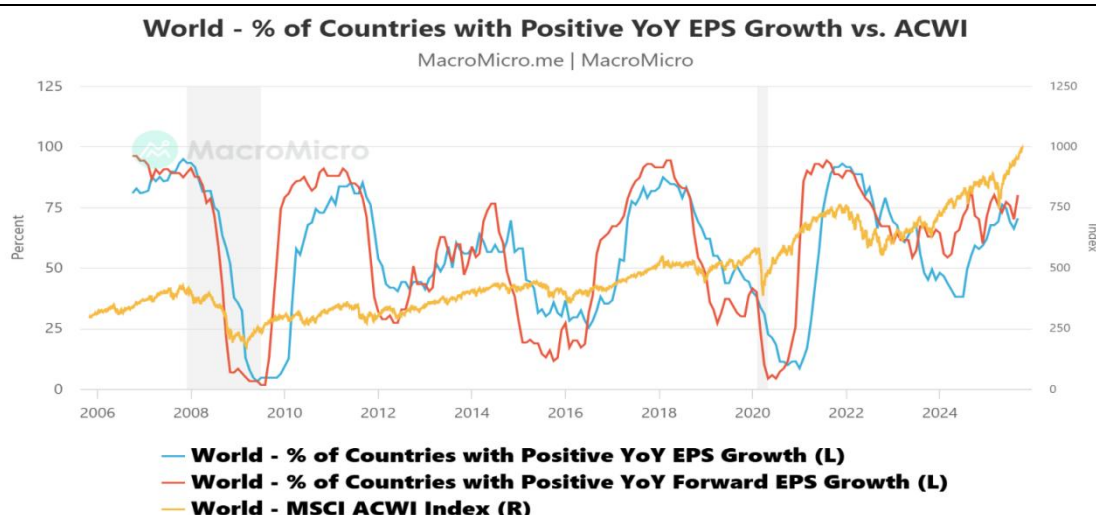
Financials fared better, with NAB and CBA each rising 0.6%, narrowing the sector's weekly loss to 0.3%. Energy stocks weakened 0.7% as oil prices eased following progress in Gaza peace talks, while Woodside fell 1.2% to \$22.55.

Technology led gains, rising 1.1% on strength from Xero, Technology One, Life360, and NextDC. Consumer discretionary stocks rebounded, with JB Hi-Fi up 2.3% and Temple & Webster surging 5.7%.

The Australian dollar slipped to US\$0.6565 amid global political uncertainty, while Bitcoin traded near US\$121,585, supported by ongoing "currency debasement" sentiment. Investors now await the RBA's September meeting minutes and upcoming employment and inflation data for rate guidance.

The chart compares the percentage of countries with positive year-over-year (YoY) earnings per share (EPS) growth and forward EPS growth against the MSCI All Country World Index (ACWI) from 2006 to 2025. Both EPS measures (blue and red lines) show cyclical patterns, peaking when global earnings momentum is broad and dipping sharply during crises such as 2008–09, 2015–16, 2020, and 2023. The ACWI Index (yellow line) generally lags changes in global EPS breadth—rising after recoveries in earnings growth. As of 2025, EPS breadth has rebounded from 2023 lows, supporting the continued rise in global equity markets.

Figure: 3 -World Equity Market – EPS Growth Breadth



Overview of the Australian Government Bond Market

RBA Cash Rate Held Steady

The Reserve Bank of Australia (RBA) held the cash rate steady at 3.6% during its October 2025 meeting. Governor Michele Bullock emphasized a cautious but optimistic outlook, citing signs of recovery in consumption and labour markets. Inflation remains within the target band, though pressures from services and housing persist. The RBA refrained from forward guidance, opting for a data-dependent approach. Markets and government commentary have shifted expectations, with fewer anticipating further rate cuts. The next policy decision will be informed by updated CPI data and labour market indicators in November.

Market participants have recalibrated expectations, with fewer anticipating further rate cuts. The RBA acknowledged stronger-than-expected inflation data as a key driver of this shift. While the RBA did not directly reference government commentary, economists and markets have adjusted expectations. Earlier forecasts of further rate cuts have been tempered by stronger-than-expected inflation data.

The RBA will reassess conditions in November, incorporating new labour and inflation data. The transition to full monthly CPI reporting will enhance policy responsiveness. The following exhibit 3 offers insight into sector drivers of economic momentum.

The RBA will reassess in November, with new data on labour markets, inflation, and forward-looking indicators. The transition to a full monthly CPI from the ABS will also influence future decisions.

Bond Yield Steady

Australian government bond yields rose modestly, reflecting continued market caution around interest rates. The 3-year yield climbed 2 basis points to 3.58%, while the 5-year rose 1.8 bps to 3.77%. The 10-year yield increased 1.47 bps to 4.38%, and the long 30-year bond edged up 1.37 bps to 5.01%, suggesting slightly higher long-term inflation or funding expectations. Bond prices fell marginally, with the 5-year note trading around \$87.06 and the 30-year at \$96.07.

The Reserve Bank of Australia's cash rate target stands at 3.60%, down from 4.35% a year earlier, while the 1-month Bank Bill Swap Rate eased to 3.53%, reflecting a broadly stable short-term funding environment.

In currency markets, the Australian dollar traded at US\$0.6475, virtually unchanged (+0.03%). The euro and British pound both strengthened sharply—up 1.44%—while Asian currencies saw minor movements. The Chinese yuan rose 0.21%, and the Thai baht led gains with a 2.16% rise. In contrast, the Malaysian ringgit weakened 0.86%. Overall, the Australian dollar was steady against most major currencies, indicating a period of relative calm in FX markets despite shifting global interest rate expectations.

RBA Governor's Address to Parliament

RBA Governor Michele Bullock's latest address to Parliament's House Economics Committee highlighted Australia's progress in restoring price stability while managing employment risks. She noted that inflation has eased to within the RBA's 2–3 per cent target band, with the trimmed mean around 2.7 per cent and headline inflation near 2.1 per cent. The RBA's policy rate now stands at 3.6 per cent, reflecting a more balanced stance after the sharp tightening cycle of recent years. Bullock emphasised that the labour market remains close to full employment, but wage growth and productivity trends will be critical in sustaining non-inflationary expansion.

The Governor also outlined structural reforms arising from the RBA Review, including the creation of separate Monetary Policy and Governance Boards to improve transparency and accountability. On the financial system, she discussed ongoing work to modernise payments regulation, enhance cybersecurity, and improve consumer protections in digital transactions.

Bullock cautioned that housing affordability measures must focus on boosting supply, warning that demand-side subsidies for first-home buyers could inflate prices. She stressed that global uncertainty—particularly from China's slowdown and geopolitical tensions—remains a risk to Australia's outlook. Overall, the Governor reaffirmed the RBA's commitment to a data-driven, steady approach to achieving sustainable growth and stable inflation.

The Australian Bond spreads (3 & 10 years) continue to indicate positive sloping yield curve with significant steepening in the curve occurring from July 2023 (phase 1) and then accelerating from July 2024. The current spread continues to be at cyclical highs although lower than record highs observed in 2021. From an investment perspective, steepening yield curves and a rebounding lending environment are likely to boost domestic economic environment and bank profitability. In a similar vein, the spread between the US 2 year bonds and US 10 Year bond has also been steepening since July 2023.

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

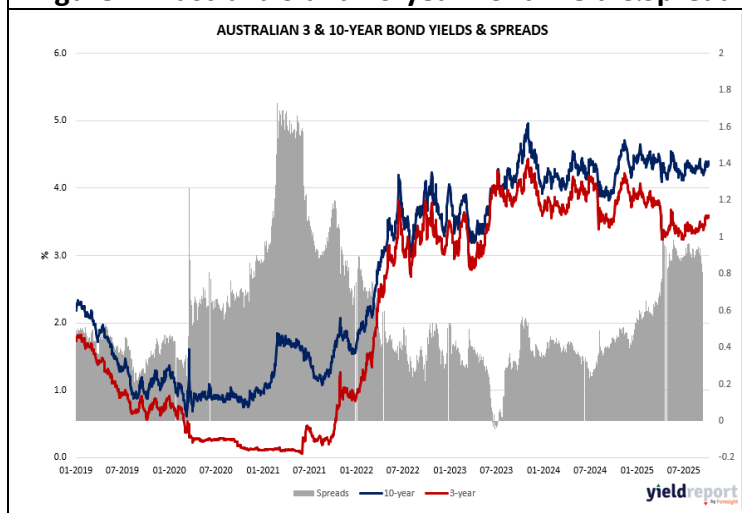
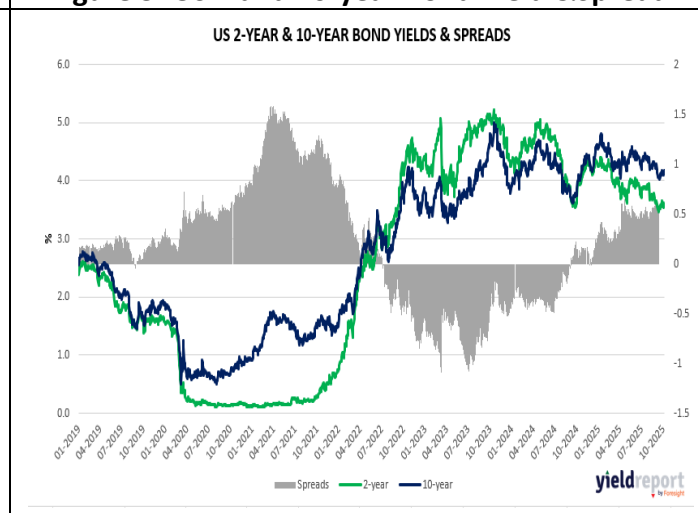


Figure 5: US 2 and 10-year Bond Yield & Spread



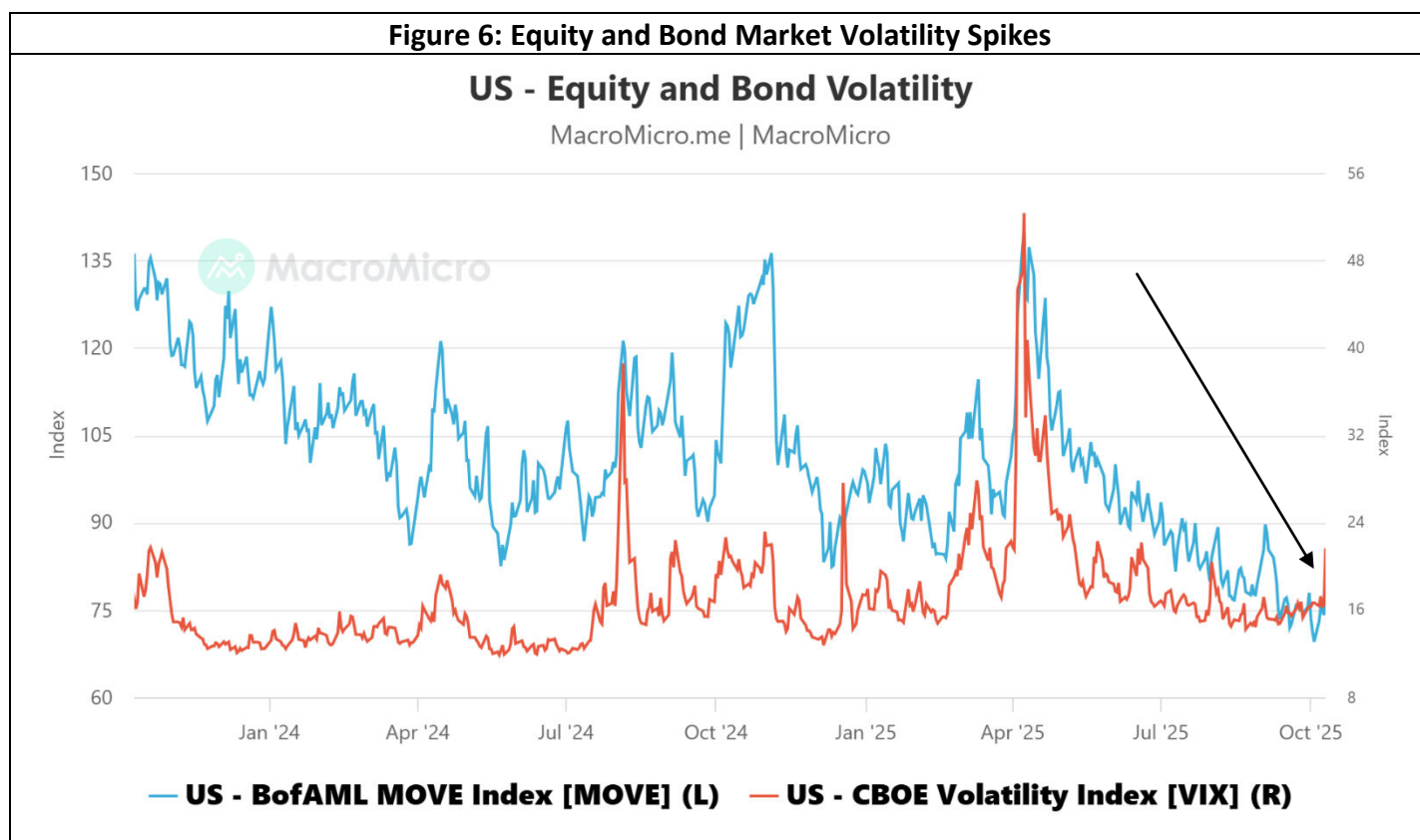
Market Summary Table

Name	Week Close	Week Change	Week High	Week Low
Cash Rate%	3.60%			
3m BBSW %	3.58	-0.02	3.59	3.58
Aust 3y Bond %*	3.59	0.04	3.58	3.55
Aust 10y Bond %*	4.37	0.05	4.40	4.32
Aust 30y Bond %*	5.01	0.00	5.07	5.00
US 2y Bond %	3.58	0.03	3.60	3.57
US 10y Bond %	4.11	0.02	4.16	4.11
US 30y Bond %	4.69	0.00	4.76	4.69
\$1AUD/US¢	65.52	-0.52	66.18	65.42

Chart of the week: Bond and Equity Volatility Spike

The chart tracks U.S. equity and bond market volatility from late 2023 to October 2025. The BofA MOVE Index (blue), representing bond volatility, shows significant fluctuations, peaking around late 2024 and early 2025 before trending downward. The CBOE VIX Index (red), measuring stock volatility, mirrors these movements with smaller spikes, notably aligning with major market stress events in early 2025. Both indices decline through mid-2025, indicating easing market uncertainty. Last Friday, both indices spiked up amid heightened uncertainty around US Government Shutdown and latest 100% tariff imposition on China that will take effect from 1 November 2025. Overall, bond volatility remained more elevated and volatile than equity volatility throughout the period, reflecting shifting macroeconomic and policy dynamics. Will equity volatility settle at a higher level than bond volatility for the rest of the year?

Figure 6: Equity and Bond Market Volatility Spikes



Looking ahead: Major Economic Releases for the Week Ending 17th October

For the week ending October 17, 2025, Australian economic data will be in the spotlight, with the Composite Leading Index MM expected to reflect subdued but stable economic momentum, building on recent mild contractions. Employment is anticipated to show a rebound in job gains following the prior decline, with the Unemployment Rate holding steady, indicating ongoing labor market resilience amid moderating growth projections. These releases could reinforce the Reserve Bank of Australia's dovish stance, potentially supporting further rate cuts to bolster consumer and housing sectors if inflationary pressures remain contained, though external headwinds like commodity price volatility may temper recovery.

In the United States, economic data may face delays due to the ongoing government shutdown that began on October 1, affecting agencies responsible for key reports. The Philly Fed Business Index is expected to moderate from recent highs, suggesting cooling manufacturing sentiment, while PPI Machine Manufacturing may indicate stable producer prices. Retail Sales MM could slow modestly, pointing to cautious consumer spending, with Housing Starts anticipated to edge higher, reflecting tentative housing market stabilization, and Import Prices YY potentially showing emerging upward pressures from tariffs. These indicators, if released on schedule, could affirm the Federal Reserve's gradual easing path to sustain growth amid softening demand, but shutdown-related disruptions might increase market uncertainty. Global trade uncertainties, including U.S. tariff policies, may continue to pose risks to both economies.

Major Economic Releases for the Week ending 17Oct, 2025				
Date	Country	Release	Consensus	Prior
Wednesday, 15/10	Australia	Composite Leading Idx MM	n/a	-0.05
Thursday, 16/10	Australia	Employment	17.5	-5.4
Thursday, 16/10	Australia	Unemployment Rate	n/a	4.2
Thursday, 16/10	United States	Philly Fed Business Indx	10	23.2
Thursday, 16/10	United States	PPI Machine Manuf'ing	n/a	191.6
Thursday, 16/10	United States	Retail Sales MM	0.4	0.6
Friday, 17/10	United States	Housing Starts Number	1.32	1.307
Friday, 17/10	United States	Import Prices YY	n/a	0

Source: Refinitiv



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PART 2 – Investment Opportunity Review

Defensive Income – Cash

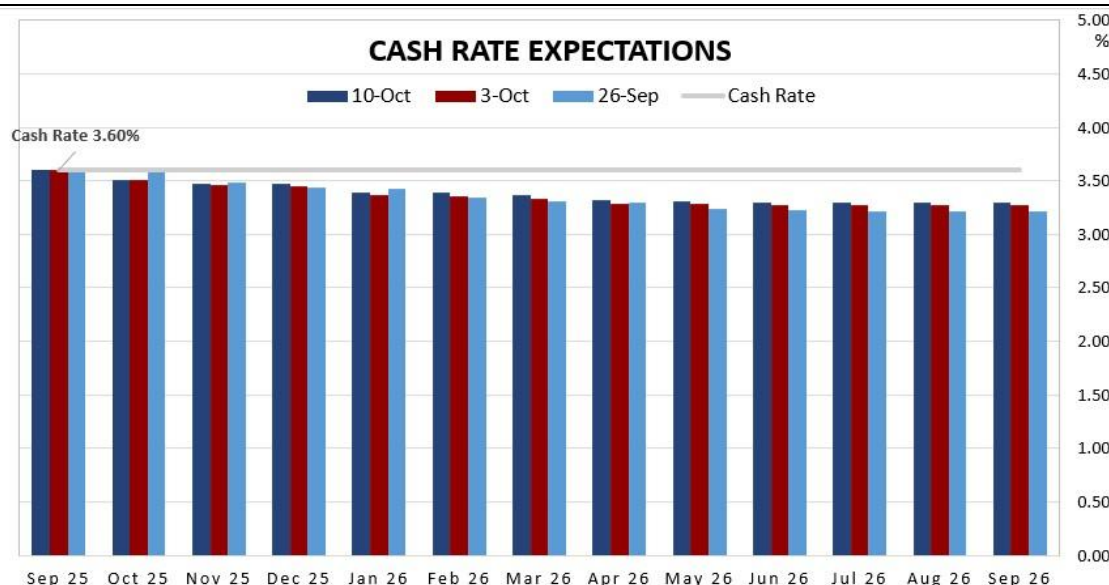
The Reserve Bank of Australia (RBA) maintained the cash rate at 3.6% during its October 2025 meeting, reflecting a cautious but constructive stance amid signs of recovery in consumption and labour markets. Governor Michele Bullock reiterated the Bank's data-dependent approach, noting that while inflation remains within the 2–3% target band, underlying pressures persist in services and housing. The RBA provided no forward guidance, emphasizing flexibility as it awaits updated CPI and labour market data in November.

Markets have recalibrated expectations, with fewer participants now anticipating further rate cuts, following stronger-than-expected inflation data. While the RBA did not directly comment on government statements, economists acknowledge that recent inflation readings have tempered prior easing forecasts. The transition to full monthly CPI reporting by the ABS will enhance the RBA's ability to respond swiftly to evolving inflation trends.

In her address to Parliament, Governor Bullock reaffirmed that inflation is now 2.1% headline and 2.7% trimmed mean, highlighting policy success in restoring price stability. She also underscored structural reforms from the RBA Review, including separate Monetary Policy and Governance Boards, and addressed ongoing efforts in payments modernization, cybersecurity, and digital consumer protection.

Overall, the RBA's steady stance underscores policy stability amid cautious optimism, balancing inflation control with sustained employment and financial-system resilience.

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 October 10, 2025, there was a mixed pattern of up and down movements, with stability notable in several key terms.

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

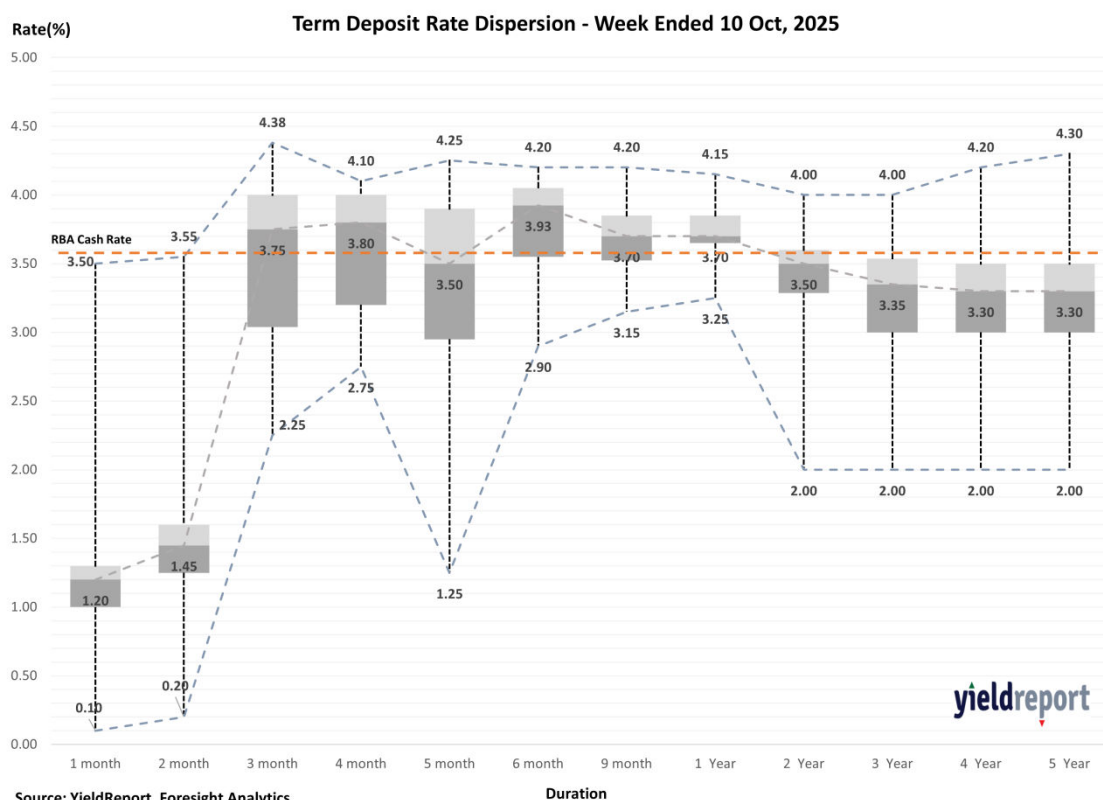
This week the best rate with a 3-month term was 4.38%, steady from the week before, with in1bank offering the top rate. The median rate of 3.75% reflects a broad range from 2.25% to 4.38%. The median rate for the 3-month term is unchanged from last week.

This week the best rate within the 6-month term was 4.20%, unchanged from last week, offered by Arab Bank Australia. The median rate of 3.95% shows a tight quartile spread of 0.50%, indicating consistency. The median rate for the 6-month term is unchanged from last week.

Interestingly, the best 5-year rate held steady at 4.30%, unchanged from last week, 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, 6 institutions now offer over 4%, unchanged from last week. In the 6-month category, 12 institutions exceed 4%, unchanged from last week, reinforcing the 6-month term's competitiveness.

Figure 8: Highest Term Deposit Rate by Term





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Defensive Income – Government Bonds

In the bond market, yields edged higher as investors priced in sustained policy caution. The 3-year yield rose to 3.58%, the 5-year to 3.77%, and the 10-year to 4.38%, while the 30-year bond reached 5.01%—implying modestly higher long-term inflation or funding expectations. The yield curve remains positively sloped, having steepened since mid-2023, signalling improving growth prospects and potential support for bank profitability.

On currency markets, the Australian dollar held steady at US\$0.6475, showing minimal volatility despite global rate adjustments. The euro and pound strengthened, while most Asian currencies traded narrowly mixed.

The Australian Bond spreads (3 & 10 years) continue to indicate positive sloping yield curve with significant steepening in the curve occurring from July 2023 (phase 1) and then accelerating from July 2024. The current spread continues to be at cyclical highs although lower than record highs observed in 2021. From an investment perspective, steepening yield curves and a rebounding lending environment are likely to boost domestic economic environment and bank profitability. In a similar vein, the spread between the US 2 year bonds and US 10 Year bond has also been steepening since July 2023.

In her address to Parliament, Governor Bullock reaffirmed that inflation is now 2.1% headline and 2.7% trimmed mean, highlighting policy success in restoring price stability. She also underscored structural reforms from the RBA Review, including separate Monetary Policy and Governance Boards, and addressed ongoing efforts in payments modernization, cybersecurity, and digital consumer protection. Overall, the RBA's steady stance underscores policy stability amid cautious optimism, balancing inflation control with sustained employment and financial-system resilience.

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

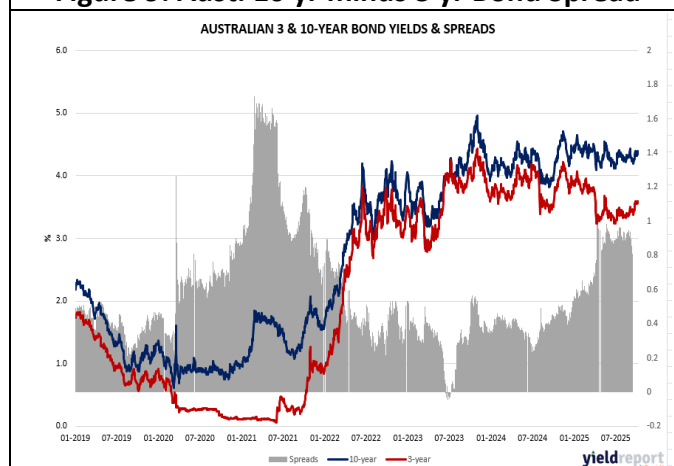


Figure 10: Aust& US Bond Yields Spread

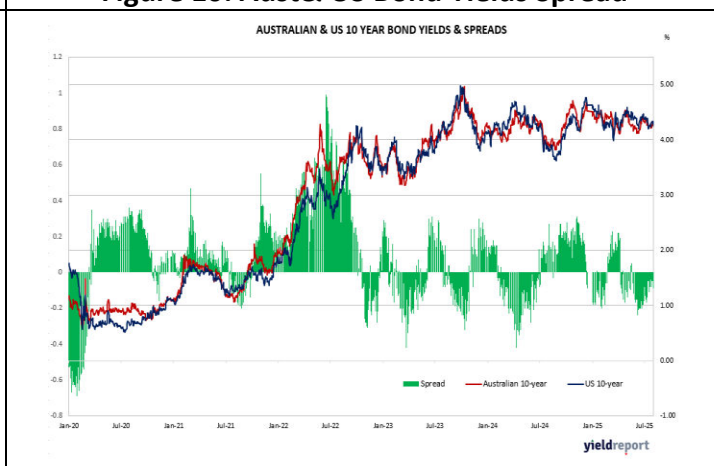
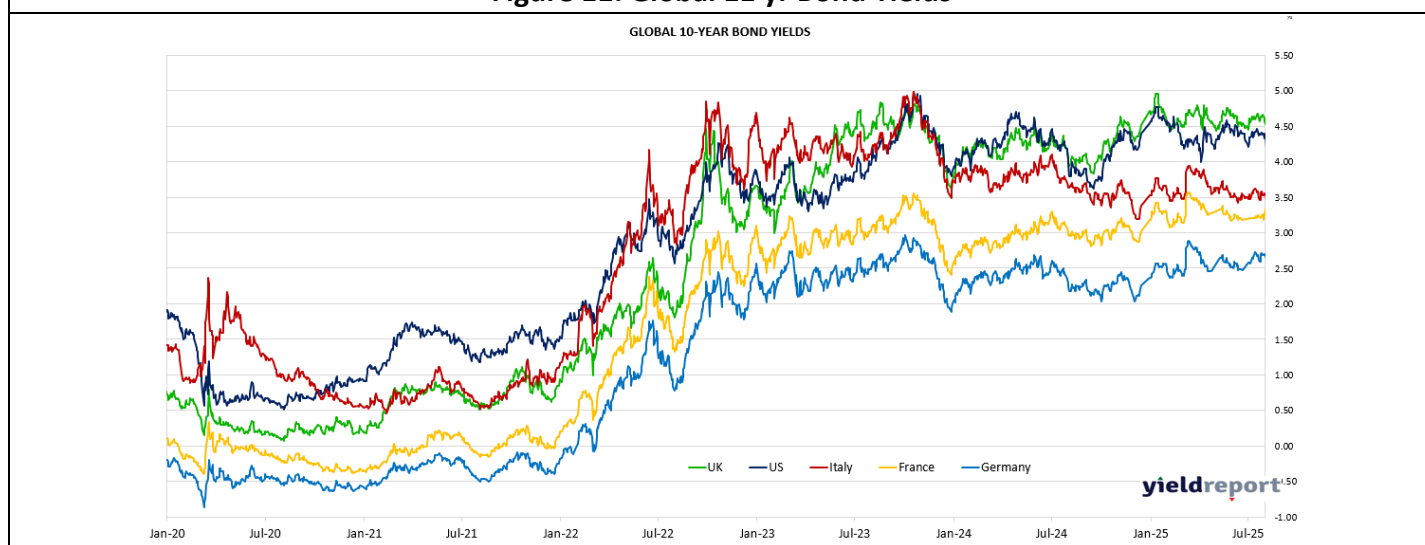


Figure 11: Global 11 yr Bond Yields



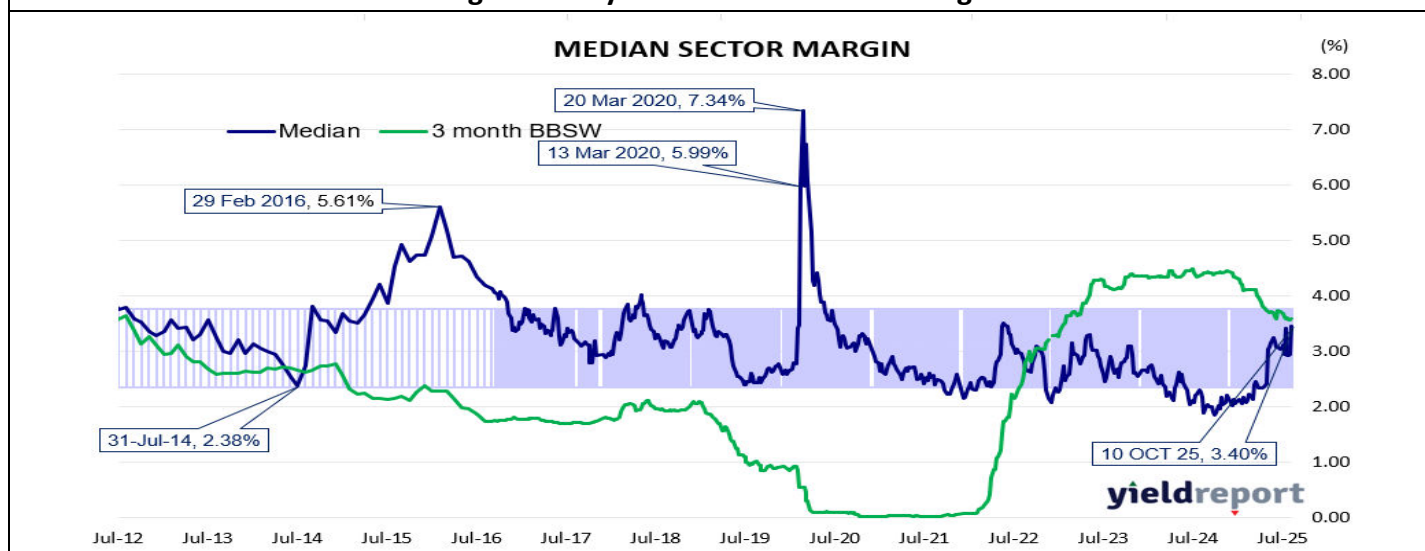
Bank & Corporate Hybrids

This week, Australian bank ASX-listed hybrids delivered a steady performance across both standard and non-standard instruments. Among the top performers in terms of running yield were **Nufarm (NFNG)** with **8.55%**, **Latitude (LFSPA)** with **8.42%**, and **Ramsay Health Care (RHCPA)** with **8.06%**, highlighting attractive income returns for investors.

Day-to-day price movements were modest, with **Latitude (LFSPA)** gaining **0.20%**, followed by **Challenger (CGFPC)** at **0.10%** and **NABPF** at **0.09%**. Trading margins remained broadly stable, with **Latitude (LFSPA)** standing out again at **6.05%**, indicating a higher risk-reward profile.

Average closing prices hovered near par, though select instruments such as **MQGPF** and **RHCPA** traded above **106**, reflecting continued investor confidence. Overall, the hybrid market maintained its resilience, offering consistent yields and low volatility, reinforcing its appeal as a reliable income-generating option for investors.

Figure 12: Hybrids: Median Sector Margin



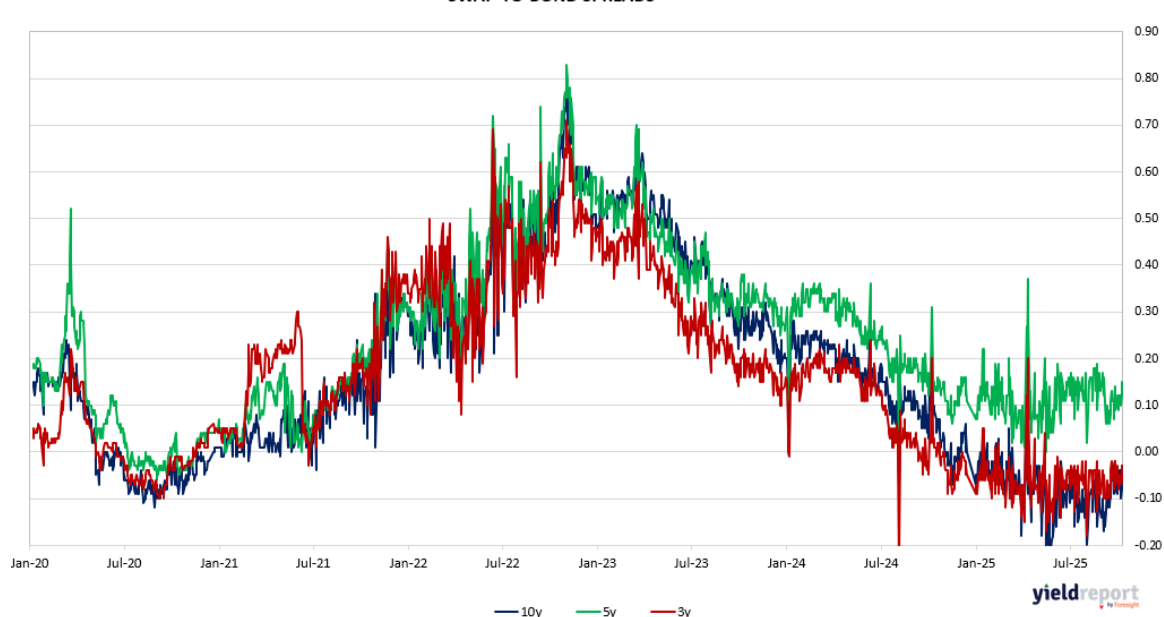
Bank Bill Swaps

Short-term money market rates softened slightly over the past week. The **1-month BBSW** rate declined by **1 basis point** to **3.53%**, the **3-month** rate fell **3 bps** to **3.58%**, and the **6-month** rate eased **1 bp** to **3.78%**. Over the month, the 1-month rate dropped **3 bps**, the 3-month remained unchanged, and the 6-month rose **8 bps**. This reflects a **flattening bias** at the short end of the curve, suggesting a modest reduction in near-term funding cost expectations, over the next half-year amid stabilising monetary conditions.

Medium- to long-term bond yields rose across all maturities during the week, indicating a shift toward higher long-term rate expectations. The **1-year** rate increased **2 bps** to **3.48%**, the **3-year** rose **5 bps** to **3.54%**, and the **5-year** climbed **3 bps** to **3.91%**. Longer tenors also saw gains, with the **10-year** up **5 bps** to **4.32%** and the **15-year** up **4 bps** to **4.54%**. On a monthly basis, yields rose between **10–16 bps**, led by the **3-year (+16 bps)** and **5-year (+15 bps)** tenors. The curve remains **upward-sloping**, suggesting a potentially higher long-term rate environment- expectations, amid resilient economic conditions.

Figure 13: Bank Bill Swaps

SWAP-TO-BOND SPREADS



US and EM Corporate Bonds

While U.S. stocks continue setting records, corporate bonds have become the real stars of financial markets in 2025. Despite the Federal Reserve beginning to cut interest rates, investor demand for company debt is soaring, driving **investment-grade credit spreads**—the premium over U.S. Treasuries—down to just **0.72 percentage points**, the lowest since 1998. This reflects an extraordinary level of market confidence that major corporations won't face credit downgrades or defaults anytime soon.

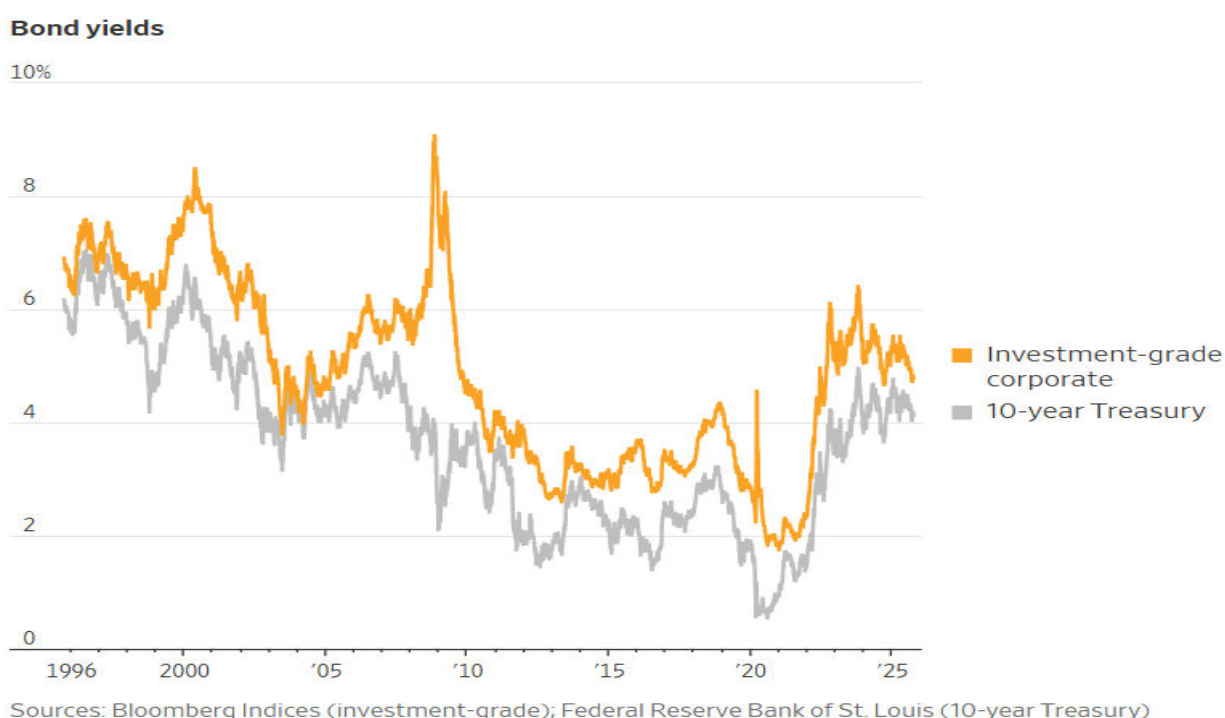
One key reason is that yields on corporate bonds remain historically attractive. Even though spreads are narrow, absolute yields are still higher than during the 2010s and early 2020s. As rates decline, investors—many of whom have been parked in money-market funds—are eager to lock in these elevated yields before they fall further. Memories of the near-zero interest rate era after 2008 are fresh, reinforcing the rush to secure long-term income while it lasts.

The **economic backdrop** also supports this optimism. Although job growth has slowed, unemployment remains low, and inflation pressures are easing, allowing the Fed to cut rates preemptively rather than reactively. Corporate balance sheets are strong, with high earnings-to-interest ratios indicating that firms can comfortably service their debts. This has reassured investors that corporate credit remains fundamentally sound.

Another major factor fuelling the rally is **limited supply**. Companies have been reluctant to issue new debt while borrowing costs remain elevated, resulting in a scarcity of both investment-grade and sub-investment-grade bonds. The modest increase in nonfinancial corporate debt and the slowdown in leveraged buyouts highlight this supply shortage.

This imbalance—strong demand meeting tight supply—has created a powerful tailwind for corporate bond prices. As **Neha Khoda of Bank of America** noted, the contraction in debt growth is normal during high-rate periods, and combined with persistent investor appetite, it has driven credit spreads to multi-decade lows. Together, these dynamics suggest that, at least for now, **corporate bonds are outshining even the record-setting stock market** as Wall Street’s preferred asset class.

Figure 14: US Corporate and 10 year Treasury Yields



Listed Notes

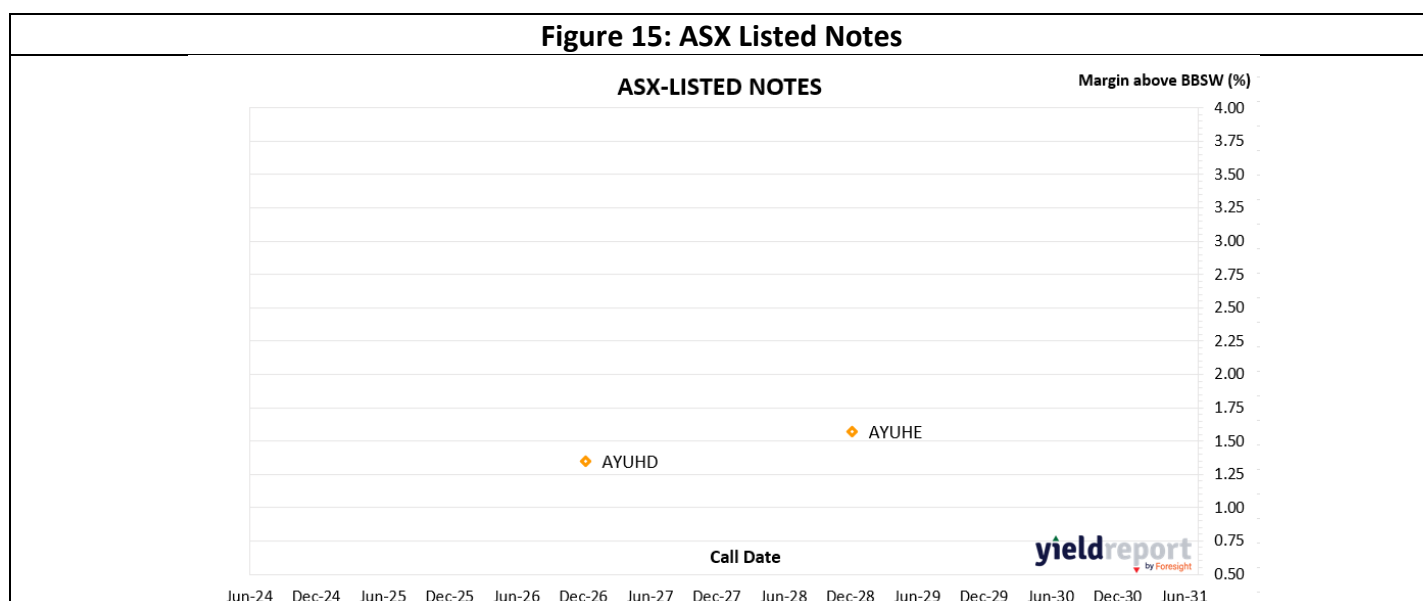
Floating rate notes (FRNs) continue to attract attention from yield-focused investors, especially in a rising interest rate environment. Here's a quick look at how select ASX-listed notes are performing, based on recent trading margins and yield data.

The scatter plot highlights two Australian Unity bonds:

- AYUHD (Call Date: June 2027) offers a margin of approximately 1.25% above BBSW.
- AYUHE (Call Date: June 2028) edges slightly higher with a margin of around 1.50%.

This upward trend in margin with longer call dates reflects the market's demand for greater compensation on extended maturities.

Figure 15: ASX Listed Notes



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