yieldreport Weekly

Your Income Advantage

27th to 31st October 2025

PART 1 – Equity & Bond Market Review

Weekly Overview

The major U.S. large-cap stock indexes climbed for the third week in a row and pushed their record levels higher, although mid- and small-cap indexes fell. The NASDAQ outperformed its peers with a 2.3% weekly total return owing to strong earnings reports from some of the index's biggest technology stocks.

The U.S. Federal Reserve fulfilled market expectations as it cut its benchmark rate by a quarter percentage point for the second meeting in a row. However, Chair Jerome Powell added to the uncertainty over prospects for another cut at the Fed's December meeting. Powell said that a reduction "is not a foregone conclusion," citing a lack of consensus among Fed members.

The S&P 500 and the Dow both finished more than 2% higher for October as each index extended its positive streak to six months in a row. The NASDAQ outperformed with a 4.7% rise—its seventh consecutive monthly gain.

Mostly strong results during the busiest period of quarterly earnings season led analysts to lift their overall earnings growth forecasts again. As of Friday, analysts projected that S&P 500 companies' third-quarter earnings rose by an average of 10.7%, based on results already released and expectations for pending reports, according to FactSet. Entering earnings season, analysts had expected an 8.0% rise.

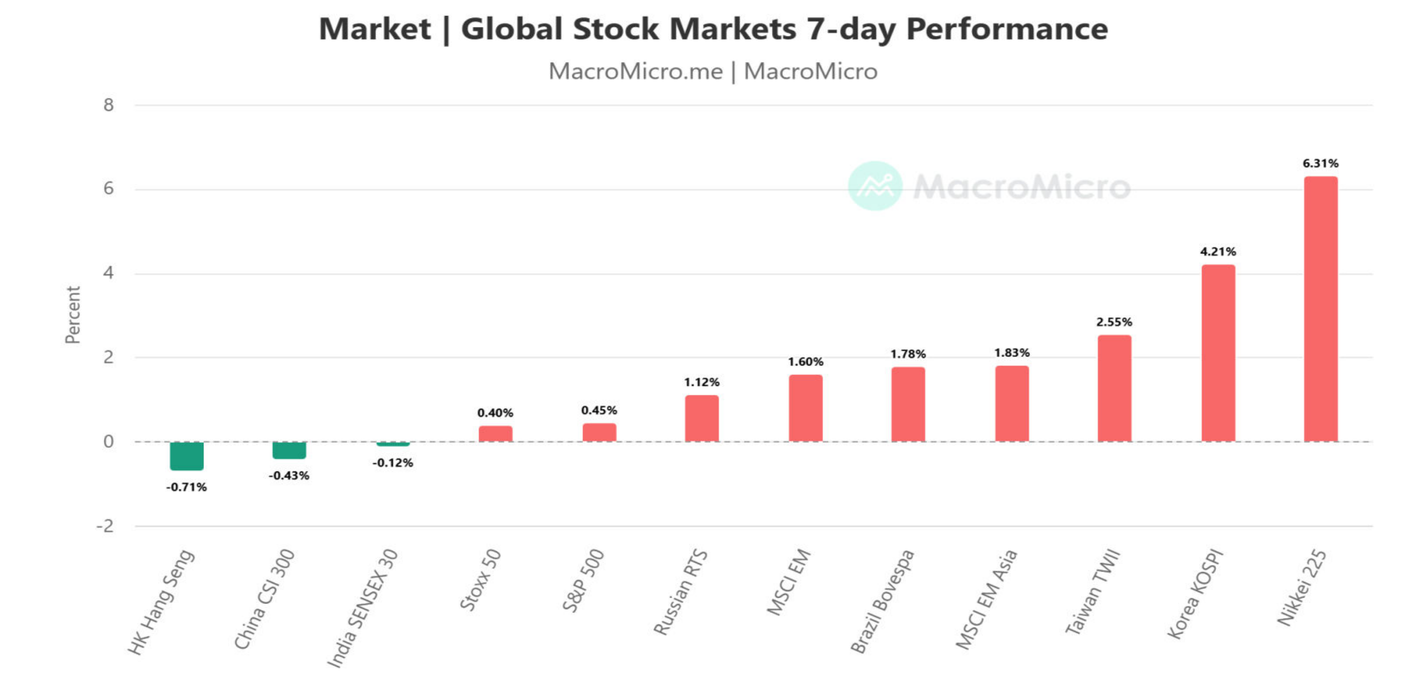
The leaders of the world's two largest economies announced an agreement partially rolling back tariffs implemented earlier this year. President Trump said the total combined tariff rate on Chinese imports will fall from 57% to 47%. The pact extends to other trade issues, including rare earth export controls, fentanyl trafficking, and U.S. soybean exports.

U.S. government bond yields climbed, with most of the week's rise coming on Wednesday afternoon following comments from U.S. Federal Reserve Chair Jerome Powell that increased uncertainty about prospects for another rate cut in December. The yield of the 10-year U.S. Treasury finished the week at 4.09%, up from 3.99% at the end of the previous week.

A U.S. small-cap stock benchmark fell during a week when its large-cap peers posted gains. The Russell 2000 Index finished down around 1.3% overall, with most of the decline coming on Wednesday afternoon in the wake of the Fed meeting

The first week of November would normally yield a bevy of U.S. economic reports, but the government shutdown that began on October 1 meant that data releases continued to be delayed or potentially cancelled. In the past week, investors didn't get an initial third-quarter GDP estimate. For the week ahead, prospects were in doubt for Friday's monthly jobs report as well as releases on construction spending, trade, and factory orders.

Figure 1: World – Major Stock Indices 7 Day Return



Global Themes Shaping Markets

I. Liquidity: The Fed Cuts Rates Again & Announces QT Pause

In October, the U.S. Federal Reserve delivered a 25-basis-point rate cut and formally announced an end to quantitative tightening (QT) effective December 1, reinforcing market confidence amid tightening liquidity. The decision followed signs that banking system reserves had fallen below $3 trillion, raising funding stress concerns. The QT pause was thus both timely and pre-emptive, aimed at stabilizing liquidity before strains escalated.

Fed Chair Jerome Powell’s caution that a December rate cut “is not guaranteed” was interpreted as a deliberate effort to temper excessive optimism, not a policy reversal. MacroMicro identifies three reasons for this stance: (1) to reset market expectations; (2) to signal confidence in economic resilience; and (3) to reaffirm the Fed’s readiness to act if liquidity deteriorates. Combined with potential fiscal stabilization once the U.S. government resumes operations, the policy mix, rate cuts, QT suspension, and fiscal funding, creates a constructively accommodative monetary backdrop.

The report concludes that U.S. monetary conditions will remain supportive from Q4 2025 through Q1 2026, providing a strong liquidity cushion for risk assets. The Fed’s actions are seen as a stabilizing force that mitigates funding volatility, strengthens investor confidence, and sets the stage for sustained equity momentum heading into early 2026.

II. Fundamentals: AI Boom Delays Manufacturing Downturn to Mid-2026

Macro fundamentals remain robust, driven by the AI-led industrial expansion that has now evolved from an “AI-only” rebound to a broad-based electronics recovery. In October, semiconductor bellwether TSMC raised its full-year revenue growth guidance to 35%, forecasting Q4 stability even during the usual off-season, evidence of persistent, high-intensity AI demand. Taiwan’s ICT and electronics exports are maintaining $22 billion monthly averages, representing 80–100% YoY growth, confirming enduring sectoral strength.

Supporting indicators reinforce this expansion: rising 3nm foundry prices, upward smartphone shipment revisions, and falling TSMC inventory ratios, all pointing to a sustainable cycle rather than overheating. MacroMicro now forecasts the manufacturing upcycle to extend into Q1 2026, with no signs of a peak yet.

Caution is advised from March 2026 onward, when base effects will amplify export comparisons, and by July 2026, analysts should watch for potential moderation signals in inventory and shipment data. Overall, AI-driven capital expenditure continues to delay the cyclical downturn, pushing the next manufacturing inflection point to mid-2026, underlining the resilience of global tech and supply-chain sectors.

III. US Earnings

U.S. equities saw strong corporate-led moves this week, with major industrial, technology, and consumer names reporting sharply divergent earnings outcomes that shaped market sentiment.

Caterpillar led industrial gains, surging 12% after posting better-than-expected quarterly results and raising its annual sales forecast. The machinery maker highlighted a 31% jump in power generator sales, driven largely by surging demand from AI data-centre developers, which boosted its engine division's profit. The performance underscored the broader tailwind artificial intelligence is creating across industrial and infrastructure supply chains.

Similarly, Whirlpool shares climbed 5.2% after reporting an unexpected rise in North American sales, credited to new product traction and renewed strength in domestic manufacturing. The appliance producer said U.S. tariffs are increasingly weighing on foreign competitors, providing a competitive advantage to its home-market operations.

In technology, Nvidia became the first company to hit a $5 trillion market capitalization, cementing its dominance in the AI economy. Its valuation now exceeds that of Qualcomm, AMD, Arm, ASML, Broadcom, Intel, Lam Research, Micron, and TSMC combined, according to Dow Jones data. Nvidia's ascent reflects relentless AI-driven optimism and partnerships with companies including OpenAI, Oracle, Nokia, and Eli Lilly.

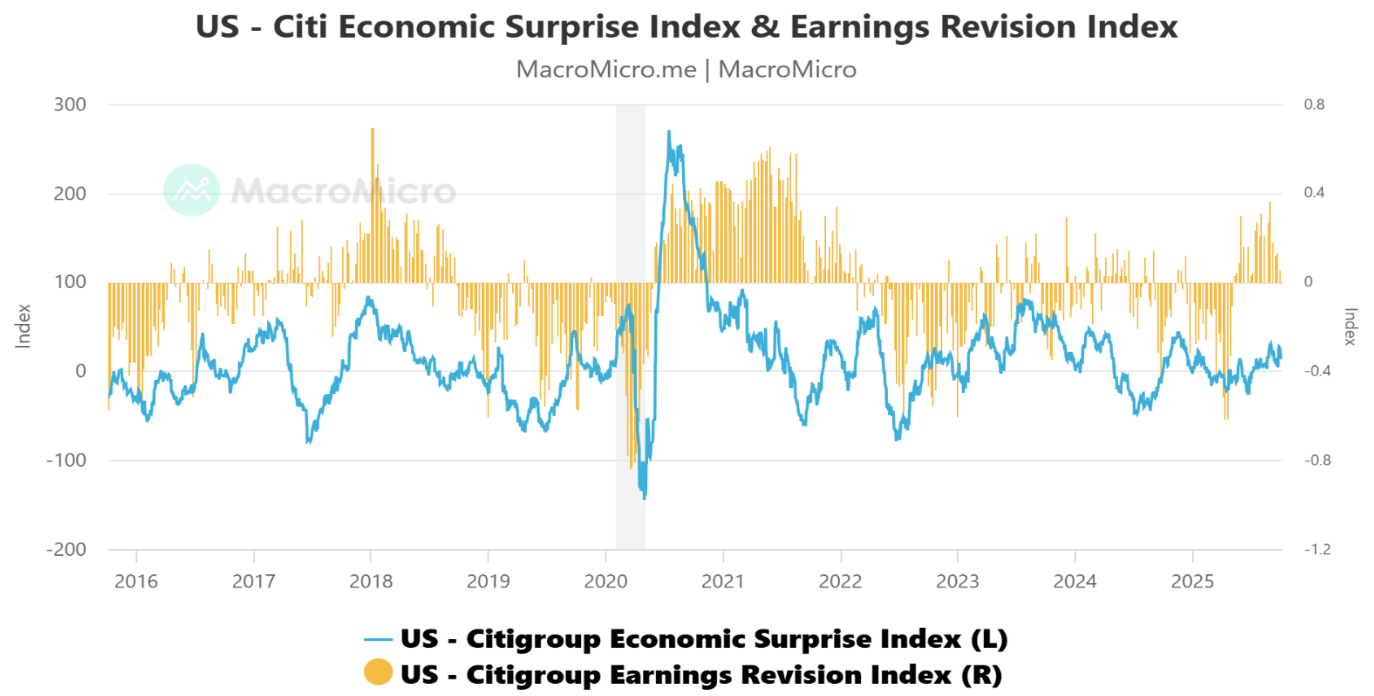
Other corporate developments were mixed. Chipotle Mexican Grill shares plunged 18% after the chain warned of weakening demand among younger and lower-income consumers, citing inflation, unemployment, and wage stagnation. The company's quarterly net income fell 1.4%, and it forecast a modest sales decline in 2025.

Kenvue, the Tylenol maker, dropped 3.8% after Texas sued the company for allegedly concealing autism risks tied to acetaminophen—claims the firm and medical authorities called "baseless."
Among tech giants, Meta Platforms tumbled 11% after pledging to "aggressively" ramp up AI spending, contrasting with Alphabet's 2.4% rise on strong advertising and cloud revenue. Microsoft slipped 2.9% despite robust results and a $4 trillion valuation milestone, while Amazon jumped 9.6% on a 13% revenue surge and accelerating AWS cloud growth.

Market Outlook & Positioning

Both liquidity and fundamentals currently underpin market resilience, while sentiment indicators show no signs of euphoria. Despite record equity highs, the CNN Fear & Greed Index remains subdued—suggesting further room for upside as investors remain cautious rather than complacent. MacroMicro maintains that until Q2 2026, the combination of accommodative liquidity, strong earnings, and restrained sentiment will support equities, particularly in AI, semiconductor, and electronics sectors.

Figure 2: US Equity Earnings Revisions Index



Overview of the US Equities Market

Wall Street ended October on a powerful note as stock bulls pushed the S&P 500 and Nasdaq 100 to historic highs, capping one of the longest winning streaks in years. Despite geopolitical risks, a U.S. government shutdown, and debate over lofty valuations, optimism around corporate earnings and AI-led growth kept markets surging. The S&P 500 has now rallied nearly 40% since April, climbing to around 6,840, while the Nasdaq 100 extended its seven-month winning run, its longest since 2017.

The latest leg higher was driven by strong earnings from Amazon and Apple, though the latter's gains faded on weaker China sales. Amazon jumped nearly 10% after reporting accelerating cloud growth, while optimism over AI infrastructure investment continued to dominate market sentiment. "Confidence in Corporate America and expectations of rate cuts sustaining profit growth outweighed macro headwinds," said Nationwide's Mark Hackett, noting that indicators still point to a "strong market through year-end."
The rally, however, remains highly concentrated, with the "Magnificent Seven" mega caps leading gains and market breadth narrowing. Analysts like Piper Sandler's Craig Johnson warned that many smaller stocks are being "left empty-handed," even as the S&P's leadership holds firm.

The index now trades at 23x forward earnings, above the two-decade average, raising questions about sustainability. Still, the fourth quarter is historically the strongest for equities—with an average 3.3% gain since 1950—and inflows remain robust: global equities drew $17.2 billion in the week to October 29, according to Bank of America.

AI remains the dominant driver. UBS's Mark Haefele and BofA's Michael Hartnett both said AI leadership is "not budging," urging investors to increase diversified exposure. Corporate transcripts show accelerating mentions of AI spending, with strategists like Ryan Grabinski (Strategas) arguing that robust capital expenditure is extending the cycle.

While value stocks lag, growth continues to outperform. Analysts at Lombard Odier and Janus Henderson noted that unlike the 2000 tech bubble, today's valuations are underpinned by solid profitability and rising return on equity.

Corporate highlights reinforced the bullish tone. Amazon posted strong cloud and retail results, Apple tempered enthusiasm with weaker China demand, and Meta and Nvidia continued heavy AI investment. Exxon and Chevron diverged in energy strategy, Cloudflare and Coinbase beat expectations, and Tether reported over $10 billion in profit.

With the S&P 500 up 16% year-to-date, history suggests momentum could carry into the year's final months. Yet, strategists like Chris Senyek at Wolfe Research caution that a broader market rotation is unlikely until fundamentals for small- and mid-cap stocks improve. For now, AI optimism, strong earnings, and robust fund flows continue to power the historic bull run, making 2025 one of the most resilient years for U.S. equities since the 1950s.

Overview of the US Treasuries and Other Fixed Income Markets

U.S. Treasury yields ended October largely unchanged after a volatile month marked by shifting rate expectations, a partial government shutdown, and renewed caution from Federal Reserve officials. Despite intermittent swings, the 10-year Treasury yield finished down 5 basis points to 4.10%, its third consecutive monthly decline, while the 2-year yield edged up marginally to 3.61%, reflecting diverging views on the path of monetary policy.

The month's volatility stemmed from alternating bouts of optimism and concern. Early October saw yields drift higher after the Fed's 25-basis-point rate cut, followed by Chair Jerome Powell's hawkish tone, which dimmed hopes of another cut in December. The ongoing government shutdown exacerbated market uncertainty by delaying key data releases, leaving traders reliant on speeches ("Fedspeak") for clues about policy direction. Several officials, including Governors Cook, Bowman, and Miran, expressed unease with cutting rates further, citing persistent inflationary pressures and the need for more evidence of a slowdown.

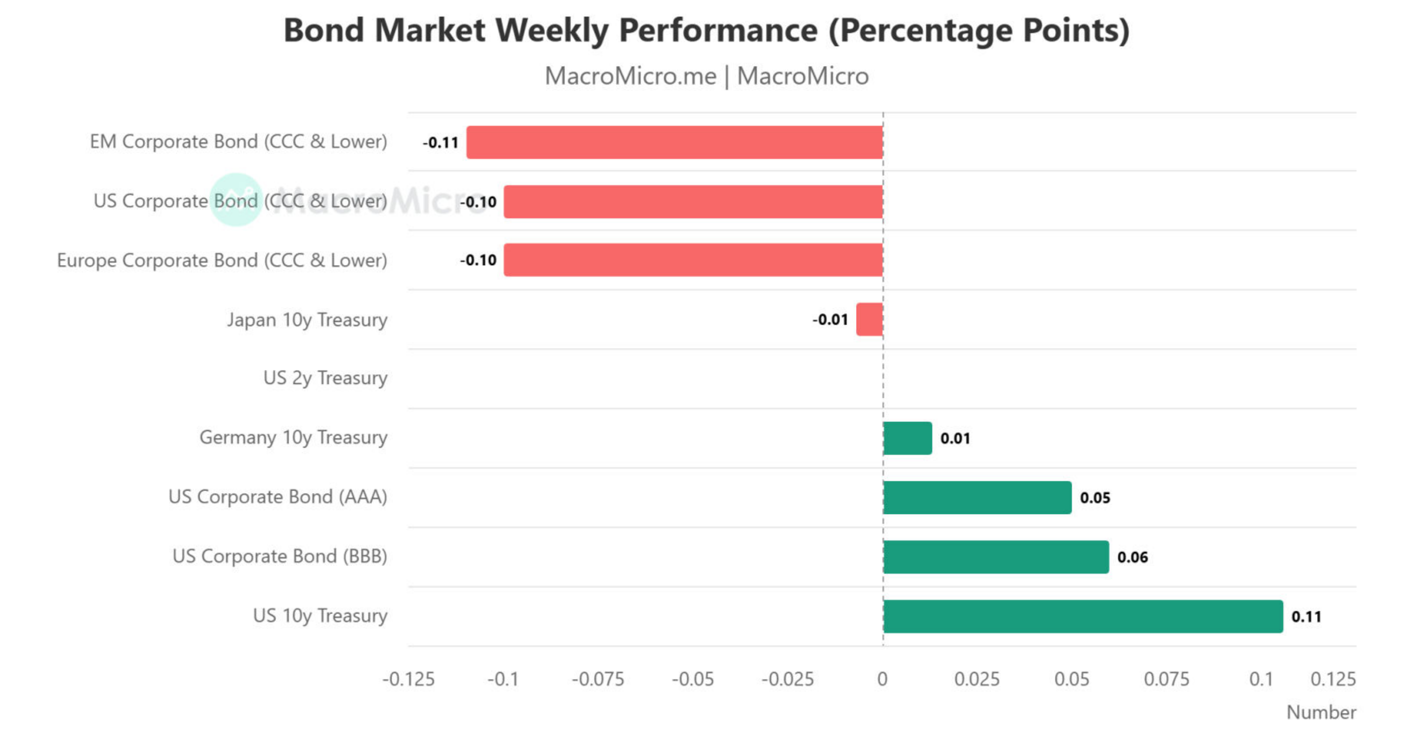
Data signals were mixed. The Chicago Business Barometer rose more than expected to 43.8 yet still indicated contraction in regional activity. Meanwhile, the WSJ Dollar Index ticked up 0.1%, and the two-year Treasury yield traded narrowly around 3.61%, underscoring subdued conviction ahead of upcoming Fed commentary.

Market strategists began viewing longer-duration Treasurys as increasingly attractive. RBC BlueBay's CIO Mark Dowding suggested that yields near 3.75% (2-year) and 4.80% (30-year) could mark "buy zones," while Barclays recommended going long two-year Treasurys, anticipating a potential 25-basis-point yield decline as the Fed eventually resumes easing.

Across the Atlantic, Eurozone government bond yields edged higher following the ECB's decision to hold rates steady while striking a relatively upbeat tone on growth. Analysts, including Fidelity's Salman Ahmed, believe the ECB has likely ended its rate-cutting cycle, with the 10-year Bund yield rising to 2.65%. In the U.K., gilt yields climbed to 4.43% as markets scaled back expectations for Bank of England rate cuts, while political tensions surrounding Treasury Chief Rachel Reeves briefly pressured sterling and gilts.

Overall, October closed with longer-term yields easing modestly, while short-end rates held firm, reinforcing a mildly bull-flattening curve. Investors are now awaiting November's refunding announcement and additional Fed guidance, with consensus forming that U.S. Treasurys are approaching more attractive entry levels after months of repricing.

Figure 3: Bond Yield Movements in the Past Week



Overview of the Australian Equities Market

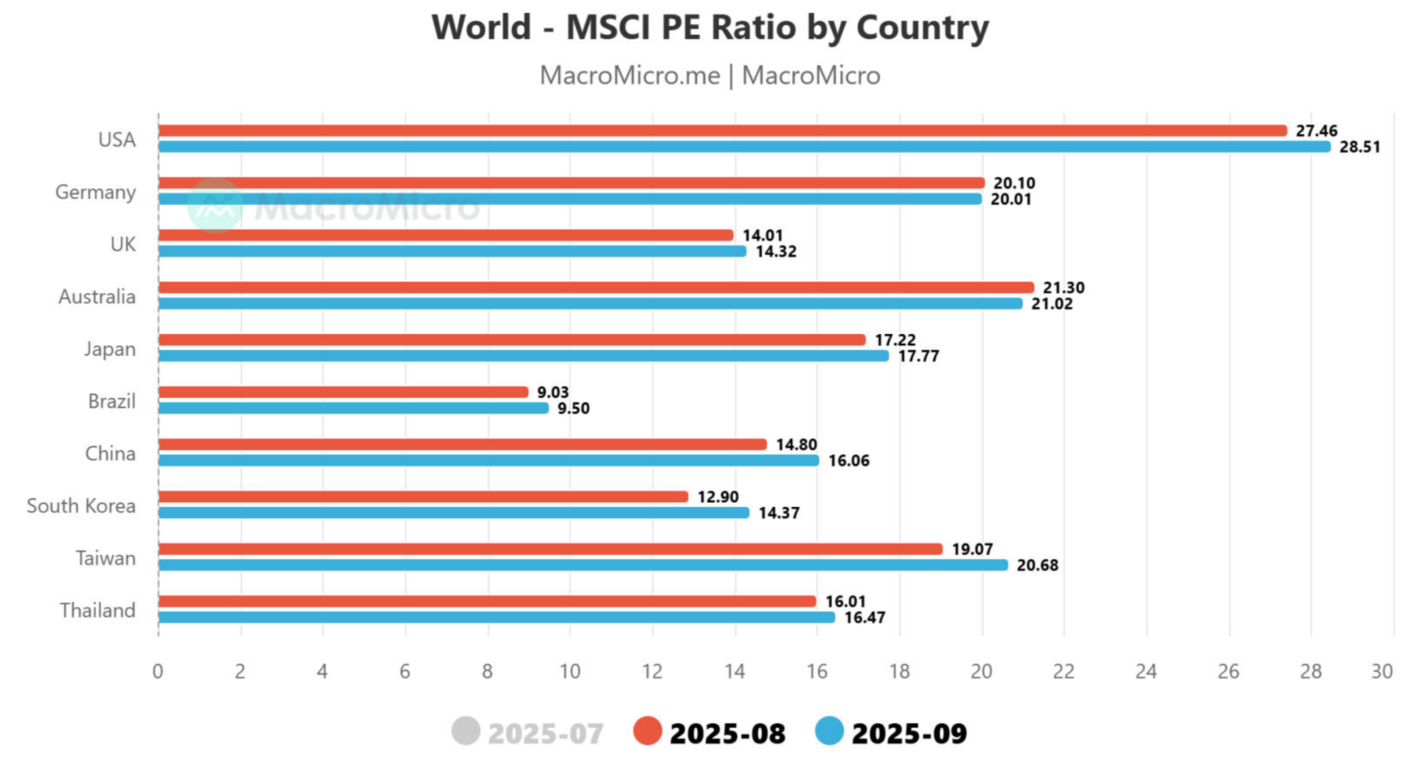
Australia's share market ended October on a subdued note, capping off a difficult week marked by stock-specific shocks and stronger-than-expected inflation data that dampened investor sentiment. The S&P/ASX 200 slipped 3.6 points (-0.04%) on Friday to 8,881.9, while the All Ordinaries edged down 0.01% to 9,178. Despite modest weekly stability, the ASX materially underperformed global peers, posting only a 0.5% monthly gain, compared with double-digit rallies in Japan's Nikkei and South Korea's KOSPI and record highs on Wall Street.

The September-quarter inflation data reset expectations for near-term rate cuts, hitting interest-rate-sensitive sectors hardest. Consumer discretionary and real estate stocks both fell over 4.5% for the week, while analyst Tony Sycamore (IG Markets) noted persistent headwinds for property and consumer names amid a "more neutral" monetary outlook.

Seven of eleven sectors advanced on Friday, led by energy and communications, with financials and materials providing some stability. Gold miners Northern Star, Evolution and Newmont each jumped more than 3% after a rebound in spot gold, although prices slipped back below US$4000/oz by the close. Iron ore majors BHP, Rio Tinto and Fortescue softened on Friday but still posted weekly gains on stronger iron ore and copper prices. Rare earth and critical minerals producers (Lynas, Iluka, Liontown) also rallied on shifting commodity expectations.

Among individual names, Steadfast Group plunged nearly 10% after CEO Robert Kelly stepped aside for an investigation, and Mayne Pharma collapsed almost 30% following Treasurer Jim Chalmers' move to block a US$672m Cosette takeover, citing economic risks. CSL's second profit warning in two months dragged the healthcare sector more than 8% lower for the week. Meanwhile, energy stocks rose 1.4% for the week, supported by uranium optimism after U.S. nuclear expansion plans.
At week's end, the Australian dollar traded at US$0.6541, down from US$0.6592, reflecting broader risk aversion.

Figure: 4– World MSCIPE Ratio by country



Overview of the Australian Government Bond Market

Australia's labour market remains tight and inflation stubbornly elevated, prompting Reserve Bank of Australia (RBA) Governor Michele Bullock to signal a more cautious approach to further monetary easing following three rate cuts earlier this year. Speaking at an economists' dinner in Sydney, Bullock said the central bank needs "a bit more data" on jobs and prices before making its next policy move, emphasising that monthly figures can be volatile.

Her remarks immediately reverberated through markets, with traders trimming bets on a November rate cut, the probability fell from about 60% to below 40%—and the Australian dollar strengthening 0.6% to US$0.6555, its highest level since early October. Bullock reiterated that the RBA board remains "cautious" and data-dependent, describing policy as still "a little bit restrictive" but not yet at a point where further easing is assured.

The comments come ahead of critical data releases, including the third-quarter CPI report, which will heavily influence the RBA's November 3–4 meeting.

Economists expect the trimmed mean inflation measure to hold at 2.7%, above the RBA's August forecast of 2.6%, suggesting disinflation has stalled near the midpoint of the 2–3% target band. Bullock noted that a 30-basis-point upside miss on inflation would be "material" and could delay any additional cuts.

Analysts interpreted Bullock's tone as less dovish. Commonwealth Bank economist Belinda Allen said the speech confirms the RBA will remain cautious and is unlikely to match the pace of rate reductions seen abroad, predicting the next move only in February 2026. Similarly, Goldman Sachs' Andrew Boak said policy remains "contingent on the Q3 CPI outcome," reinforcing the RBA's emphasis on evidence-driven decision-making.

Bullock also highlighted that the RBA's new staff forecasts, due next week, will guide the board's judgment on whether the balance of risks favours further easing to support employment or holding steady to contain inflation. While she acknowledged progress in restoring price stability and preserving labour-market gains, she warned against "counting the chickens too soon."

Despite higher unemployment at 4.5%, the labour market remains tight, job vacancies are elevated, and home prices continue to rise amid chronic supply shortages. Together with firmer credit growth and resilient household spending, these trends underscore why the RBA sees a narrower window for further cuts, opting instead for patience as it navigates the "last mile" of disinflation.

Figure 5: Australia 3 and 10-year Bond Yield &Spread

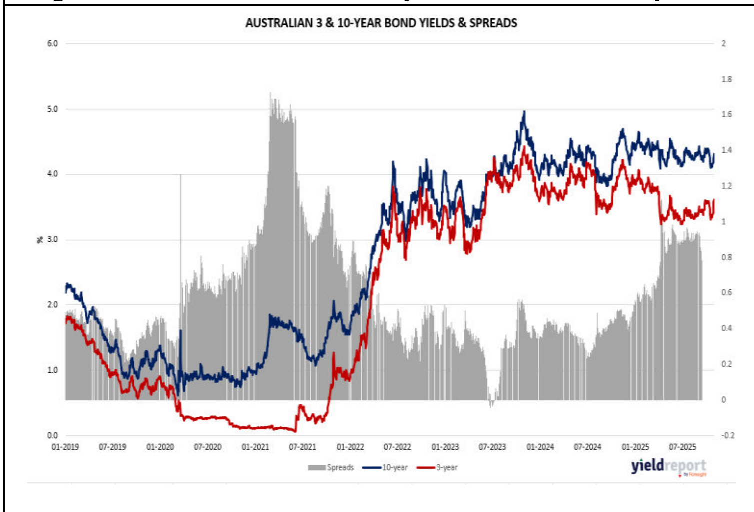
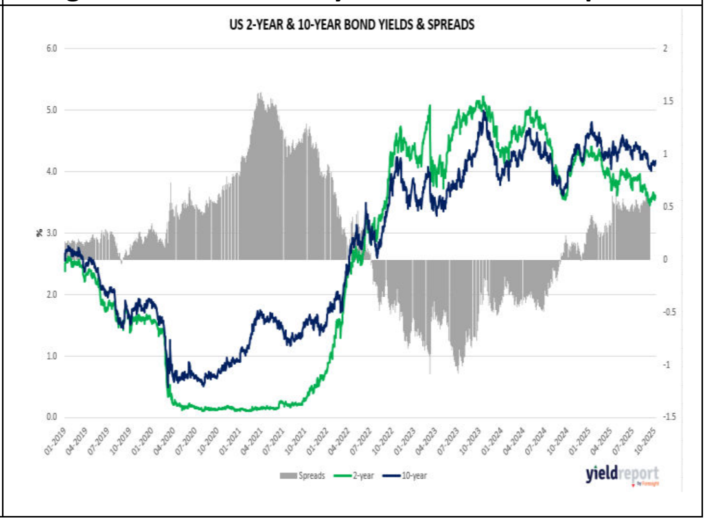


Figure 6: US 2 and 10-year Bond Yield &Spread



Market Summary Table

Name	Week Close	Week Change	Week High	Week Low
Cash Rate%	3.60%			
3m BBSW %	3.65	0.15	3.65	3.50
Aust 3y Bond %*	3.62	0.25	3.62	3.37
Aust 10y Bond %*	4.31	0.17	4.31	4.14
Aust 30y Bond %*	4.95	0.12	4.94	4.83
US 2y Bond %	3.61	0.11	3.61	3.49
US 10y Bond %	4.11	0.10	4.11	3.98
US 30y Bond %	4.67	0.07	4.67	4.55
$1AUD/US¢	65.39	0.46	66.11	65.33

Chart of the week: US Equities - % of Industries with Positive EPS (Historic and Forward)

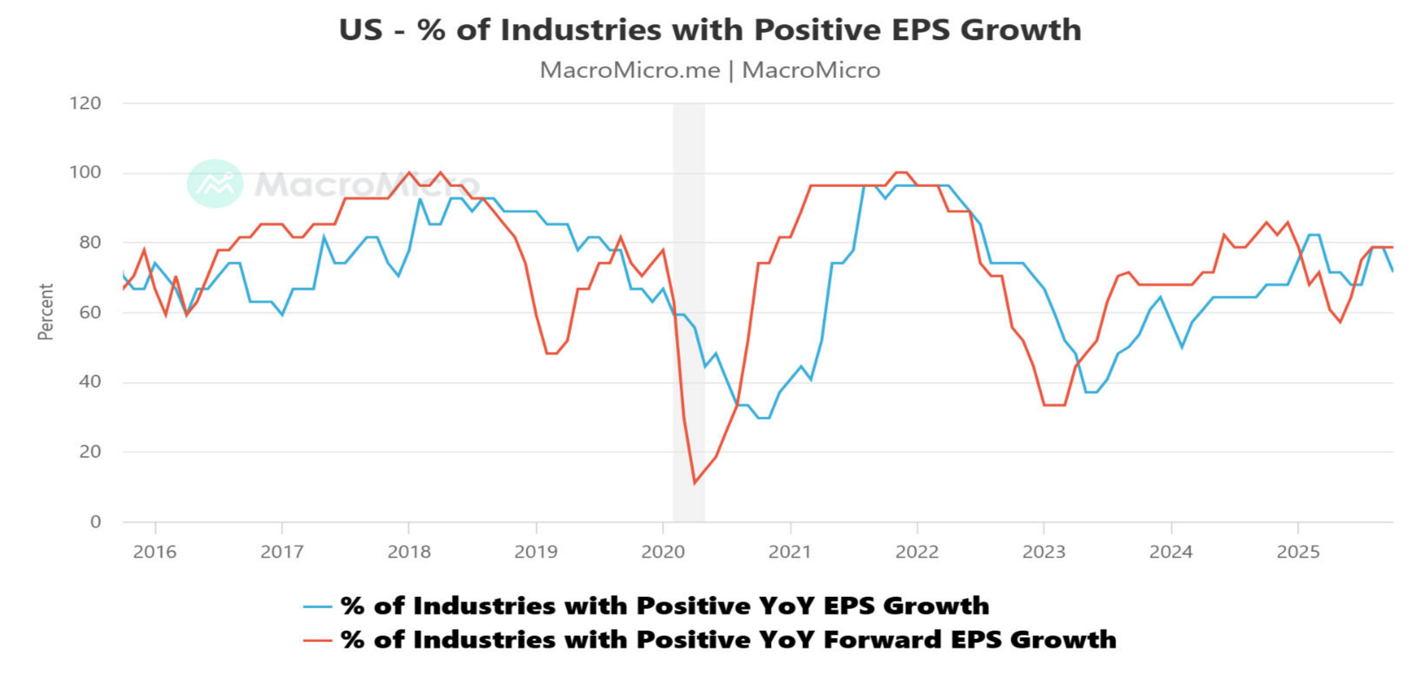
The chart tracks the proportion of U.S. industry groups (GICS Level 2) experiencing positive earnings-per-share (EPS) growth, both on a year-over-year (YoY) and forward-looking basis. A higher percentage reflects broader earnings momentum across sectors, signalling improving corporate profitability and economic resilience.

As of October 2025, about 71.4% of industries reported positive YoY EPS growth, indicating that earnings are rising in roughly three-quarters of the U.S. economy. Meanwhile, 78.6% of industries showed positive forward EPS growth, suggesting that analysts expect earnings expansion to continue across most sectors in the coming quarters.

This combination points to a broad-based and relatively stable recovery in corporate profits following a period of volatility in 2023–2024. The alignment of current and forward metrics at near 80% levels indicates confidence that profit growth is both sustained and well-distributed, rather than concentrated in a few sectors such as technology or consumer discretionary.

Overall, the data suggests the U.S. earnings cycle remains firmly in expansion, supported by resilient demand, easing input costs, and improving margins across multiple industries, a constructive signal for equity market breadth and the durability of the current corporate profit upswing heading into late 2025.

Figure 7: US Equities - % of Industries with Positive EPS (Historic and Forward)



Looking ahead: Major Economic Releases for the Week Ending 7th November

For the week ending November 7, 2025, Australian economic data will feature prominently, beginning with the final S&P Global Manufacturing PMI, expected to signal continued contraction in factory activity amid global headwinds. Building approvals are anticipated to recover from prior weakness, potentially boosting confidence in the housing and construction sectors. The RBA cash rate decision is likely to hold steady, underscoring a cautious approach to balancing inflation control with economic support. Final services and composite PMIs are projected to indicate solid expansion, highlighting service-sector resilience. Trade figures, including goods balance, imports, and exports, may show volatility due to shifting international demand, with implications for the current account and overall growth momentum. These releases could reinforce Australia's moderate recovery trajectory, though external risks like commodity price fluctuations remain.

Shifting to the United States, several major indicators are delayed amid the ongoing government shutdown, now entering its second month since October 1, exacerbating operational strains in areas like air traffic control and federal assistance programs, potentially dampening consumer and business sentiment. On-schedule data include the final S&P Global Manufacturing PMI and ISM Manufacturing PMI, both poised to reflect subdued industrial conditions. The ISM Non-Manufacturing PMI, along with final S&P Global services and composite PMIs, are expected to show steady service-sector growth, offering some offset to manufacturing softness. The data delays may amplify market uncertainty, complicating Federal Reserve policy decisions and risking broader economic slowdown if the shutdown persists.

Major Economic Releases for the Week ending 7Nov, 2025				
Date	**Country**	**Release**	**Consensus**	**Prior**
Sunday, 02/11	Australia	S&P Global Mfg PMI Final	n/a	49.7
Monday, 03/11	Australia	Building Approvals	5	-6
Monday, 03/11	Australia	Building Approval Total YY	n/a	-1.2
Monday, 03/11	United States	S&P Global Mfg PMI Final	n/a	52.2
Monday, 03/11	United States	ISM Manufacturing PMI	49.5	49.1
Tuesday, 04/11	Australia	RBA Cash Rate	3.6	3.6
Tuesday, 04/11	Australia	S&P Global Svs PMI Final	n/a	53.1
Tuesday, 04/11	Australia	S&P Global Comp PMI Final	n/a	52.6
Wednesday, 05/11	United States	ISM N-Mfg PMI	50.7	50
Wednesday, 05/11	United States	S&P Global Comp PMI Final	n/a	54.8
Wednesday, 05/11	United States	S&P Global Svcs PMI Final	n/a	55.2
Thursday, 06/11	Australia	Balance on Goods	4000	1825
Thursday, 06/11	Australia	Goods/Services Imports	n/a	3.2
Thursday, 06/11	Australia	Goods/Services Exports	n/a	-7.8

Source: Refinitiv

PART 2 – Investment Opportunity Review

Defensive Income – Cash

Australia's inflation outlook has shifted sharply after the September-quarter CPI came in hotter than expected, prompting economists to warn that the interest rate cutting cycle may be over, and the next move could be up. The Australian Bureau of Statistics reported underlying inflation rising to 3.0%, above the 2.7% consensus forecast, marking the first annual increase in three years. Headline inflation also rose to 3.2%, driven by higher services, energy, and housing costs.

Key contributors included rising prices for travel, veterinary, hospital, and construction services, as well as the expiry of state energy rebates, which led to a 23.6% spike in electricity prices. Economists said businesses were passing on higher wage and power costs to consumers amid a still-tight labour market. The trimmed mean inflation, the RBA's preferred measure, rose 1.0% for the quarter, exceeding Governor Michele Bullock's "material miss" threshold and the RBA's August forecast of 0.6%.

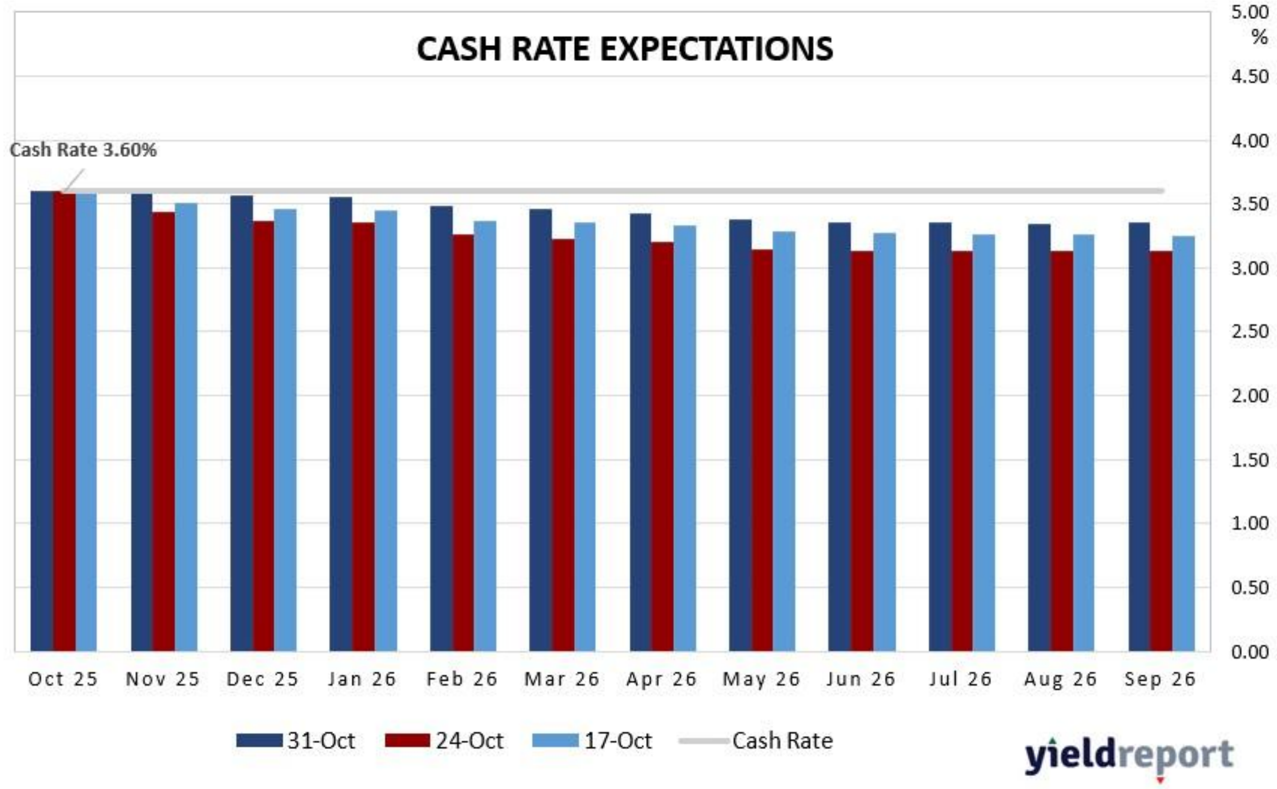
Markets reacted swiftly: the probability of a November rate cut collapsed from 80% to just 4%, as traders priced out further easing. Economists from CBA, Goldman Sachs, and Bank of America now expect the cash rate to remain at 3.6% through 2026, with potential hikes by mid-2026 if inflation persists. HSBC sees rates on hold until 2026, before an increase in 2027.

Treasurer Jim Chalmers sought to downplay the data, arguing inflation "remains much lower than its peak," though opposition politicians accused him of complacency. Overall, the report underscores persistent inflationary momentum, likely forcing the RBA to delay or abandon further cuts and consider tightening again in 2026.

In Australia, the cash rate remained unchanged at 3.60%, while short-term funding costs eased, with the 3-month BBSW falling 7 basis points to 3.50%, suggesting ample liquidity and stable interbank conditions. Government bond yields rose modestly across most maturities, led by the 3-year yield, up 6 basis points to 3.37%, and the 10-year yield, up 4 basis points to 4.14%, reflecting expectations of a prolonged period of higher rates. The 30-year bond yield edged slightly lower to 4.83%, hinting at steady long-term inflation expectations.

A dovish pivot by the RBA could relieve pressure on indebted households, corporate borrowers, and property markets, where signs of stabilisation are emerging. However, global uncertainties — particularly the escalating U.S.–China trade tensions over rare earths — continue to cloud the economic outlook.

Figure 8: 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 31, 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.

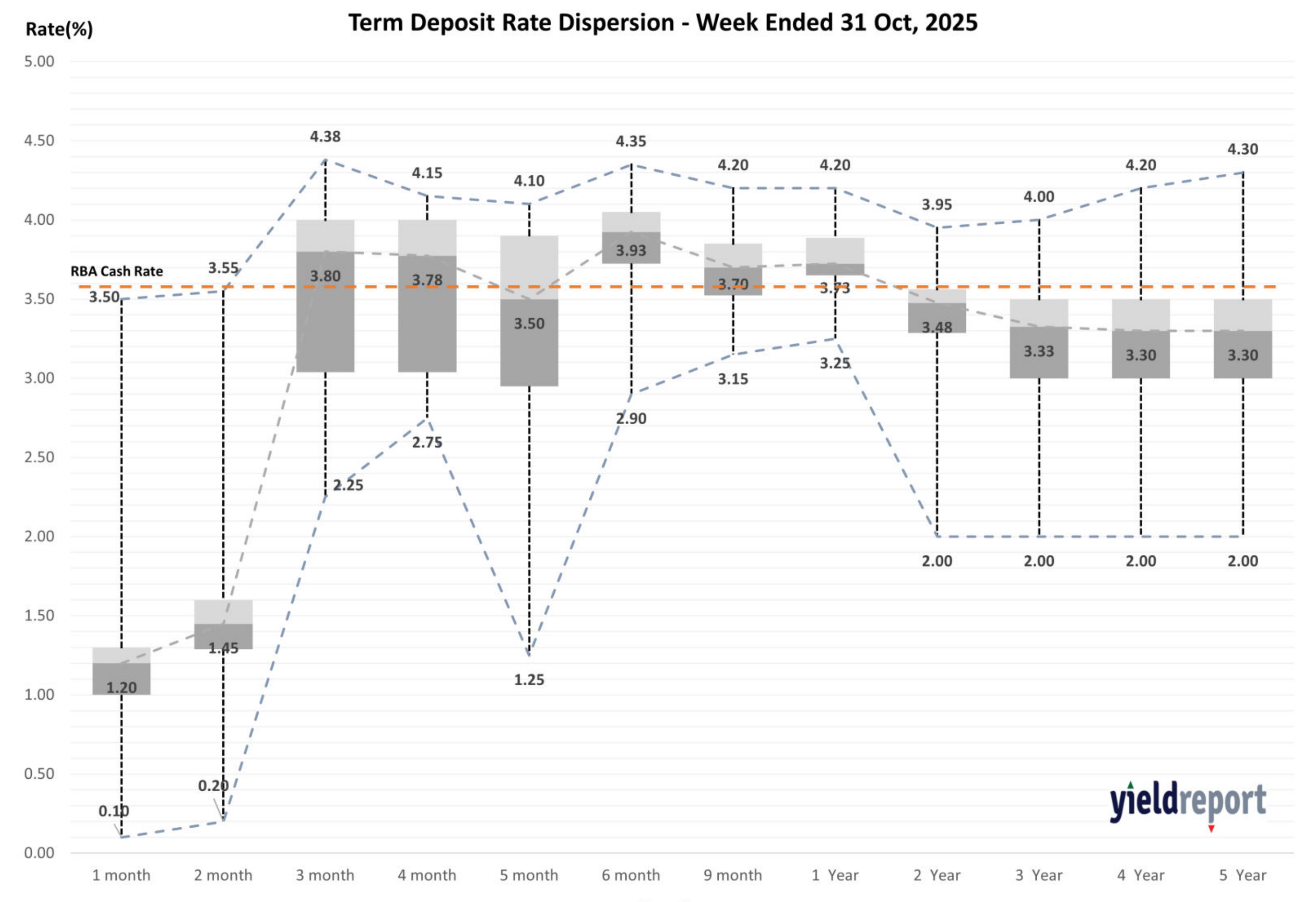
This week the best rate with a 3-month term was 4.38%, steady from the week before, with in1bank offering the top rate. The median rate of 3.80% reflects a broad range from 2.25% to 4.38%.

This week the best rate within 6 months term was 4.35%, unchanged from last week, offered by ING Direct. The median rate of 3.93% shows a tight quartile spread of 0.33%, indicating consistency.

Interestingly, the best 5-year rate held at 4.30%, led by Judo Bank and Rabobank Australia both 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, 5 institutions now offer over 4%, unchanged from last week. In the 6-month category, 12 institutions exceed 4%, up slightly from 11 last week, reinforcing the 6-month term's competitiveness.

Figure 9: Highest Term Deposit Rate by Term



Source: YieldReport, Foresight Analytics

Defensive Income – Government Bonds

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The comments come ahead of critical data releases, including the third-quarter CPI report, which will heavily influence the RBA's November 3–4 meeting. Economists expect the trimmed mean inflation measure to hold at 2.7%, above the RBA's August forecast of 2.6%, suggesting disinflation has stalled near the midpoint of the 2–3% target band. Bullock noted that a 30-basis-point upside miss on inflation would be "material" and could delay any additional cuts.

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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 in2021. 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 10: Aust. 10 yr minus 3 yr Bond Spread

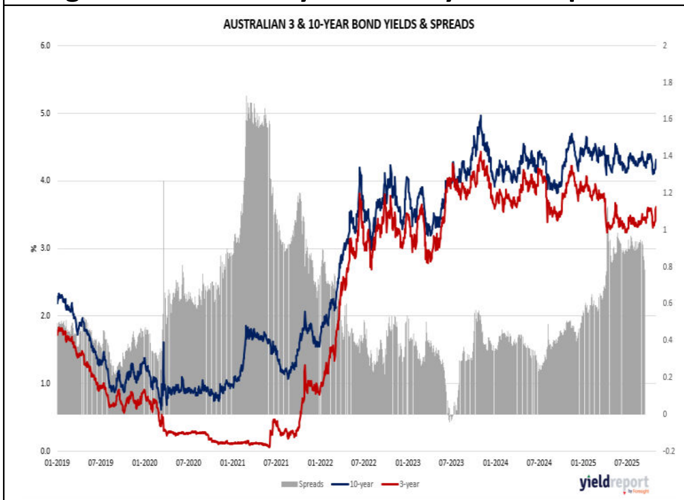


Figure 11: Aust& US Bond Yields Spread

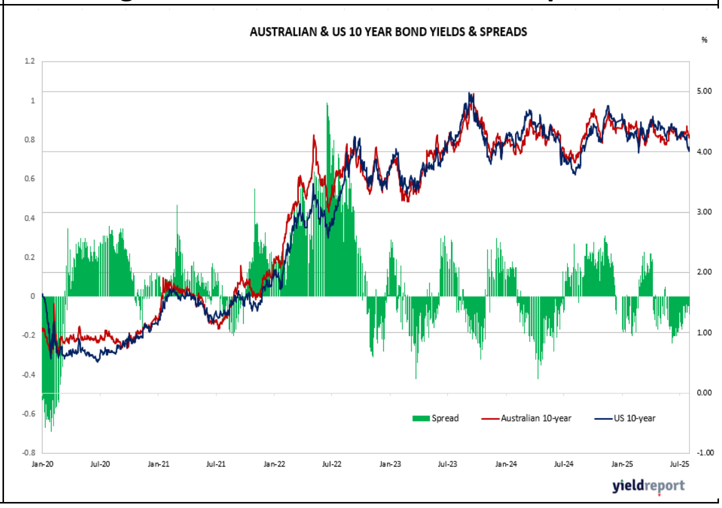
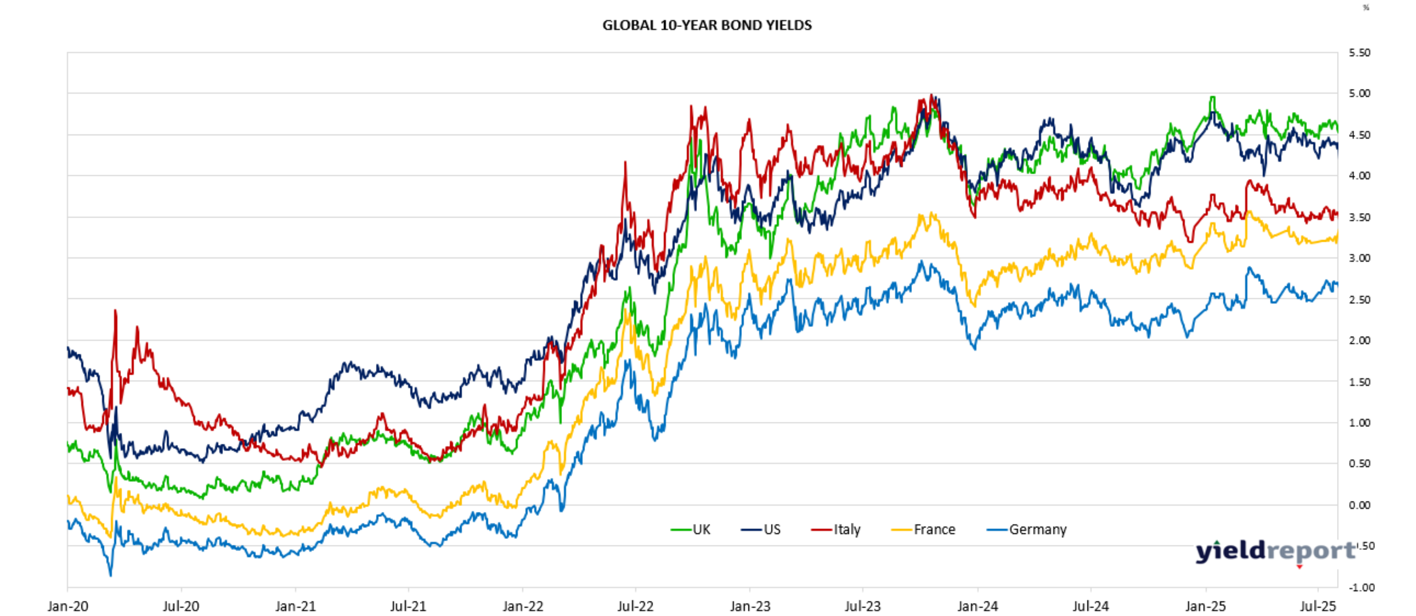


Figure 12: Global 11 yr Bond Yields



Bank & Corporate Hybrids

Australia's $38.8 billion listed bank hybrid market is being wound down under an APRA-led phaseout, forcing investors into higher-risk assets in search of yield and potentially reshaping global regulatory attitudes toward hybrid instruments. The decision, unique in its scope, comes amid global reassessment following the Credit Suisse hybrid wipe-out in 2023, where Swiss authorities controversially wrote off US$17 billion of Additional Tier 1 securities—an action later ruled legally baseless by Switzerland's Federal Administrative Court. That episode underscored the fragility of hybrids, which sit between debt and equity and can be written down or converted during crises.

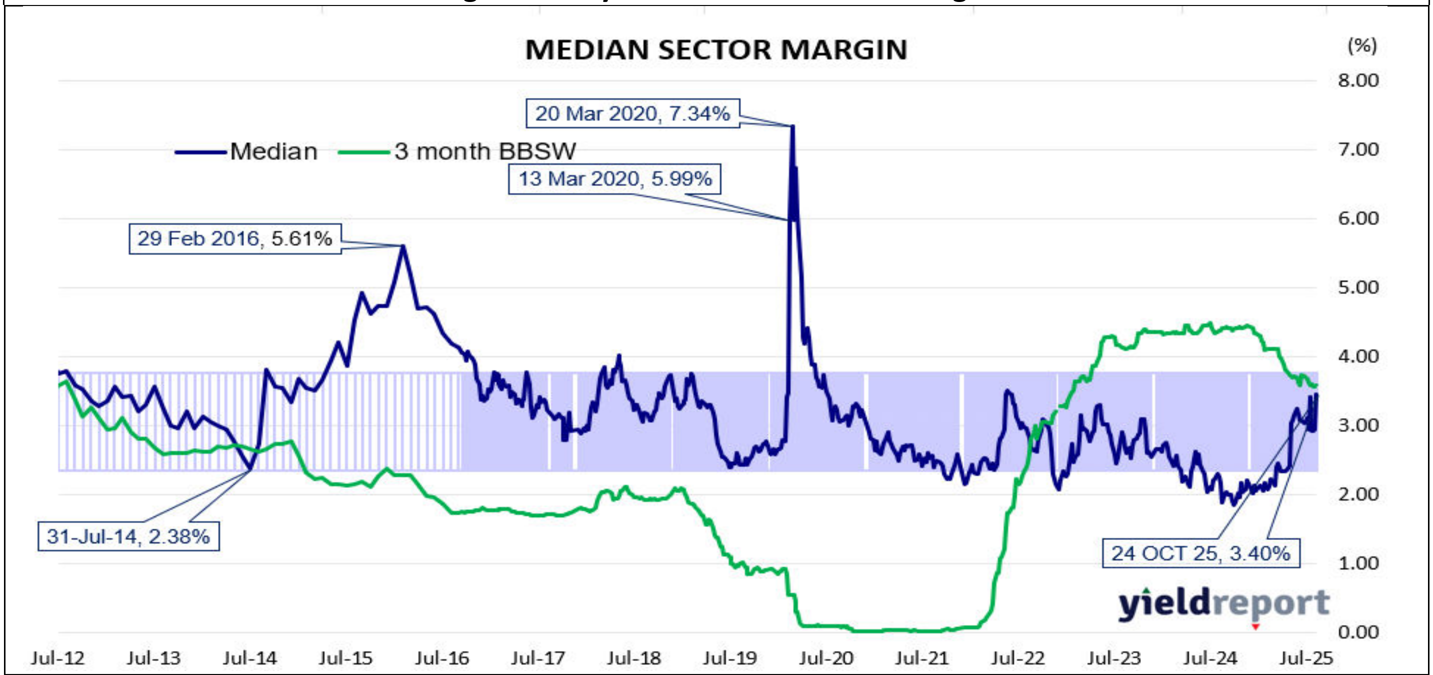
APRA argues that retail ownership of hybrids could pose a political moral hazard—that the government might hesitate to enforce losses on "mum and dad" investors in a bank failure. Critics like Christopher Joye contend this logic is inconsistent, as retail investors hold far larger exposures in bank equities. Hybrids, he argues, are simpler and less volatile than shares, with predictable income streams and lower price risk. APRA's move could paradoxically increase system risk, by removing a layer of contingent capital and boosting bank leverage.

The unwind will see a wave of redemptions, including $900 million in AMP and Macquarie hybrids by year-end and another $2.7 billion from Challenger, Suncorp, and NAB by June 2026. With yields compressed to pre-GFC levels—new five-year bank hybrids offering just 1.9% above BBSW, or roughly 3.8% cash yield—investors are being pushed toward subordinated debt, private credit, and structured convertible notes, all of which carry higher liquidity and credit risks.

Globally, regulators are also rethinking hybrid frameworks. New Zealand is considering replacing bank hybrids with subordinated bonds, while global banks are issuing hybrid-like instruments in Australian dollars to fill the gap. Meanwhile, private credit funds are exploiting the vacuum with high-yield listed notes.

Critics warn that APRA's policy may have unintended consequences: by eliminating a vital capital buffer, it could make banks riskier and leave consumers chasing returns in **less transparent, less liquid markets**—a shift that benefits regulators more than investors.

Figure 13: Hybrids: Median Sector Margin



Bank Bill Swaps

Short-Term Money Market Rates (BBSW)

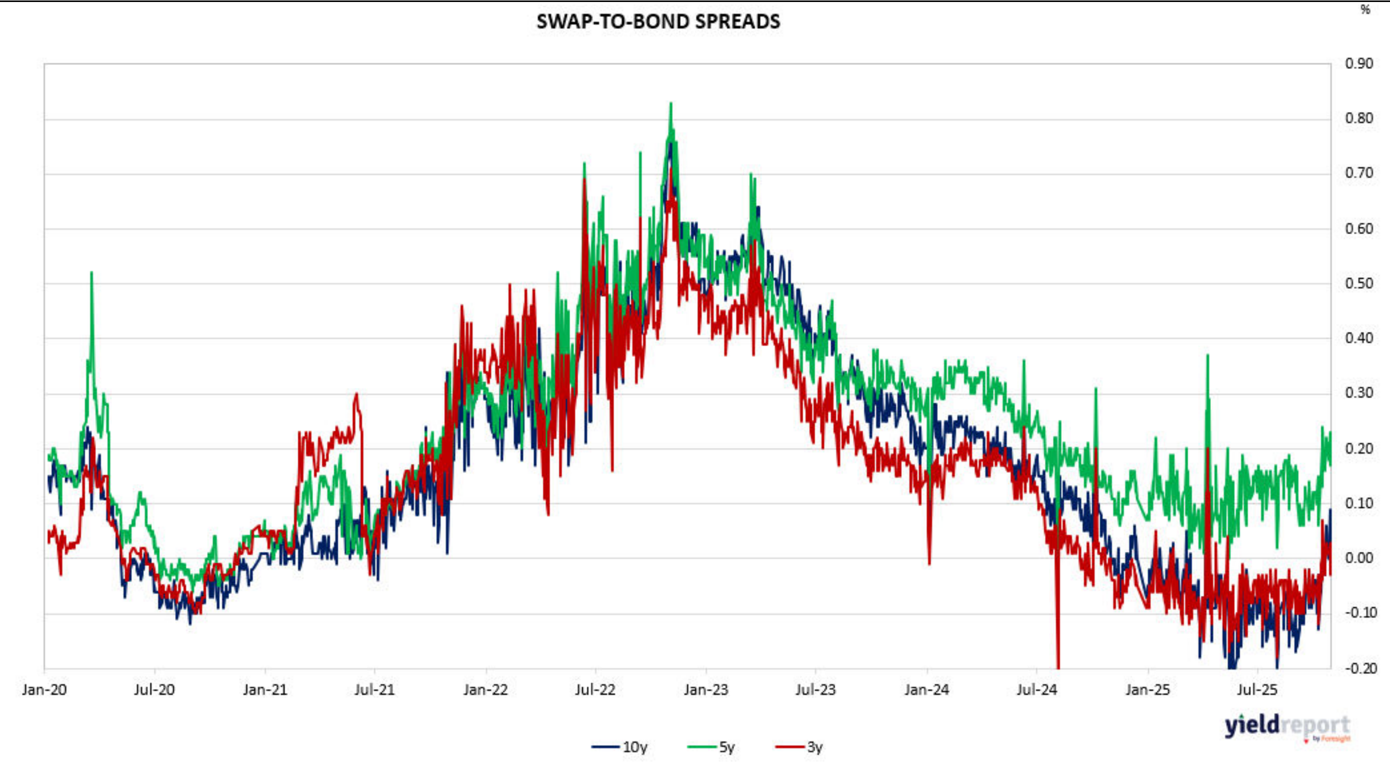
Short-term BBSW rates rose across all tenors this week. The 1-month rate increased by 7 basis points to 3.54%, the 3-month rose 15 bps to 3.65%, and the 6-month jumped 23 bps to 3.89%. Over the month, the 1-month rate remained unchanged, while the 3-month and 6-month tenors rose 7 bps and 15 bps respectively. This reflects a steepening bias at the short end of the curve, suggesting rising expectations for funding costs over the next half-year, possibly driven by tightening liquidity or renewed inflationary concerns.

Medium- to Long-Term Swap Rates

Swap rates climbed across all maturities during the week. The 1-year rate rose 18 bps to 3.53%, the 3-year increased 19 bps to 3.59%, and the 5-year gained 18 bps to 3.96%. Longer-term yields also moved higher, with the 10-year up 14 bps to 4.33%, and the 15-year rising 12 bps to 4.53%. Monthly changes were more moderate, with gains of 4–6 bps across the curve.

The broad-based rise reflects reduced expectations for near-term RBA cuts following hotter-than-expected inflation data. The relatively larger increase at the short end represents a bear flattening, indicating markets are reprising the timing of rate cuts rather than fundamentally reassessing long-term inflation or growth dynamics.

Figure 14: Bank Bill Swaps



US Bond Spreads and EM Bonds and Equity

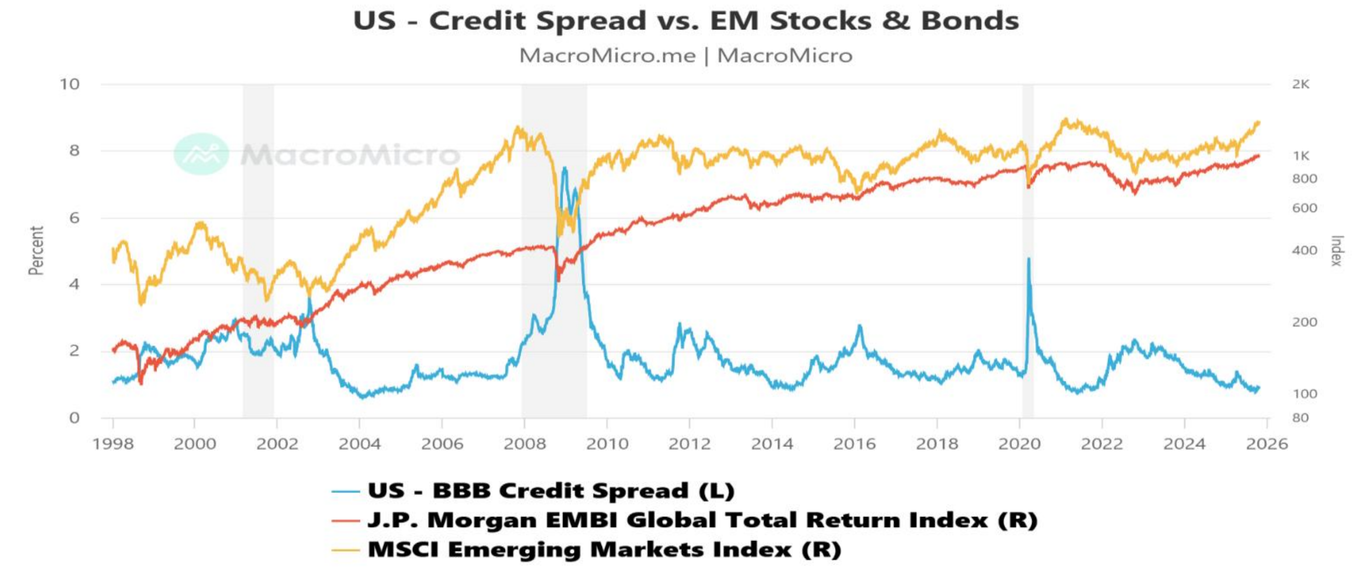
The chart compares U.S. BBB credit spreads (blue line, left axis) with emerging market (EM) stocks and bonds—the MSCI Emerging Markets Index (yellow) and J.P. Morgan EMBI Global Total Return Index (red), both on the right axis, over 1998–2026.

Historically, widening U.S. credit spreads (a rise in blue) correspond to downturns in EM asset performance, reflecting tighter global financial conditions and higher risk aversion. Major spikes in spreads, notably during the Global Financial Crisis (2008–09) and COVID-19 shock (2020), coincide with sharp declines in EM equity and bond returns. Conversely, when spreads compress—indicating easier credit and strong risk appetite, EM markets rally, as seen in the 2003–2007 and 2016–2019 upswings.

Since 2022, U.S. credit spreads have remained moderate near historical averages, suggesting stable risk sentiment, while both EM stocks and bonds have trended upward. The EMBI Global Index (red) shows steady long-term gains, reflecting resilient returns from sovereign and corporate debt, whereas the MSCI EM Index (yellow) remains more volatile and sensitive to global liquidity cycles.

Overall, the chart underscores a negative correlation between U.S. credit stress and EM performance: when U.S. credit risk rises, EM assets typically weaken, and vice versa. The current environment of relatively contained spreads implies continued global risk appetite supporting EM assets—unless another credit-tightening cycle emerges.

Figure 15: US BBB Corp Spreads vs EM Stock, Bonds



Listed Notes

The ASX-listed floating rate notes (FRNs) market was steady this week, with only minor movements across key securities. Activity remained concentrated in two Australian Unity issues — AYUHD and AYUHE — which continue to anchor the listed note segment for retail investors seeking income from floating rate securities.

AYUHD, maturing in December 2026, traded at a margin of 1.55% above the 3-month BBSW, while AYUHE, maturing in December 2028, offered a slightly higher margin of 1.65%. The narrow margin spread reflects the market's preference for shorter-dated notes amid steady expectations for the Reserve Bank of Australia's (RBA) cash rate and stable credit conditions.

Overall, the floating rate bond market remains supported by demand for high-quality, investment-grade issuers. With yields staying elevated and spreads stable, investors continue to find value in ASX-listed notes as part of diversified fixed-income portfolios.

ETFs

Australia – Performance Dispersion continues

The Global ETF landscape remained buoyed by investor interest in commodities, defence, and energy transition themes, though performance dispersion widened across sectors.

Performance

The week ending October 24, 2025, saw notable gains across thematic ETFs, particularly in technology, energy, and commodities. The Global X China Tech ETF (DRGN) led weekly performance with a 7.7% return, followed closely by the Betashares Crude Oil Index ETF (OOO) at 7.6%. Defence and robotics sectors also performed well, with DFND, DTEC, and RBTZ posting gains between 4.5%–6.1%.

Year-to-date, the Betashares Global Gold Miners ETF (MNRS) and VanEck Gold Miners ETF (GDX) topped the charts with returns of 110.2% and 105.0%, respectively. Uranium and hydrogen ETFs such as ATOM and HGEN also delivered strong YTD returns above 70%, reflecting investor interest in energy transition themes.

Over a 12-month horizon, HGEN continued to dominate with a 98.4% return, followed by DTEC and GAME, both above 80%. On the downside, bearish and short ETFs underperformed significantly. The Global X Ultra Short Nasdaq 100 Complex ETF (SNAS) and Betashares US Equities Strong Bear HF (BBUS) posted steep 12-month losses of -40.3% and -35.7%, respectively.

Flows & Turnover

In terms of fund flows, Vanguard Australian Shares Index ETF (VAS) led with A$4.18 billion in 12-month inflows, followed by VGS and VBND, indicating continued investor preference for broad-based equity and bond exposure. A200, IVV, and VGAD also saw substantial inflows, each exceeding A$1 billion.

On the turnover front, VAS again topped the list with a YTD average daily turnover of A$45.4 million, followed by AAA and IVV. The Global X Physical Gold ETF (GOLD) showed strong weekly turnover at A$49.4 million, reflecting heightened interest in precious metals amid market volatility.

Among thematic ETFs, GXLD, ETPMAG, and BGBL showed consistent trading activity, while newer entrants like GXAI and FTEC gained traction with modest but growing turnover figures.

The week highlighted strong performance in energy transition and tech-focused ETFs, while bearish strategies continued to lag. Investor flows remained concentrated in diversified equity and bond ETFs, with gold maintaining its role as a liquidity magnet.

USA - Flow Trends

Global ETF flows surged again, with investors adding $38.6 billion to U.S.-listed ETFs for the week ending October 24, 2025, pushing year-to-date inflows well past $1 trillion, marking another historic year for the industry.

Equities remained the dominant driver, with $18.3 billion flowing into U.S. equity ETFs as the S&P 500 hit record highs. International equities followed with $9.8 billion, while U.S. fixed income ETFs attracted $9.7 billion, supported by easing bond yields and growing expectations of a Fed rate cut.

Among top-performing funds, the Vanguard S&P 500 ETF (VOO) led with $5.6 billion in inflows, followed by Invesco QQQ (QQQ) at $3.1 billion. International exposure was led by JPMorgan BetaBuilders Europe (BBEU), which added $1.6 billion, while the SPDR Dow Jones Industrial Average ETF (DIA) saw a notable $1.4 billion inflow, reflecting renewed interest in blue-chip benchmarks.

Bond ETFs also saw strong demand. The iShares 7–10 Year Treasury Bond ETF (IEF) and iShares Core U.S. Aggregate Bond ETF (AGG) each drew over $1.1 billion, as Treasury yields hovered near yearly lows.
On the outflows side, the SPDR S&P 500 ETF Trust (SPY) led redemptions with –$4.3 billion, followed by WisdomTree Floating Rate Treasury (USFR) and Vanguard Short-Term Bond ETF (BSV), which lost –$1 billion and –$862 million, respectively. Overall, flows were broad-based across asset classes, with commodities and leveraged/inverse products seeing modest outflows, while core equity and bond exposures remained in favour.

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