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WEEKLY ECONOMIC UPDATE APRIL 14, 2025

Stocks ended the week with a strong gain as traders continued to focus on tariff talks while appearing to overlook upbeat news on inflation.

The Standard & Poor's 500 Index rose 5.70 percent, while the Nasdaq Composite Index gained 7.29 percent. The Dow Jones Industrial Average picked up 4.95 percent. The MSCI EAFE Index, which tracks developed overseas stock markets, increased by 0.72 percent.[1,2]

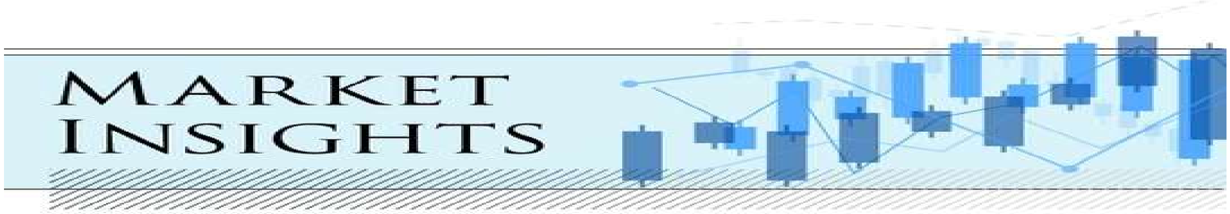
Stocks Rebound

Stocks rallied on Monday after a report surfaced that the administration was considering a 90-day pause on tariffs. But when the White House clarified its position, sellers stepped in.

On Tuesday, prices jumped at the next opening bell after the Treasury Secretary said the U.S. was open to tariff negotiations with trading partners. The rally stalled and reversed on news the administration was adjusting tariffs on Chinese imports.[3]

After the White House announced a 90-day pause on specific tariffs on Wednesday, markets pushed higher. The S&P 500 gained 9.5 percent, its largest one-day increase in 17 years.[4]

Stocks fell again Thursday morning, appearing to overlook an upbeat Consumer Price Index report showing that core inflation (excluding food and energy) rose at a 2.8 percent annual rate–the best number in more than four years. Stocks finished the week with a powerful rally, capping a volatile trading week.[5,6]



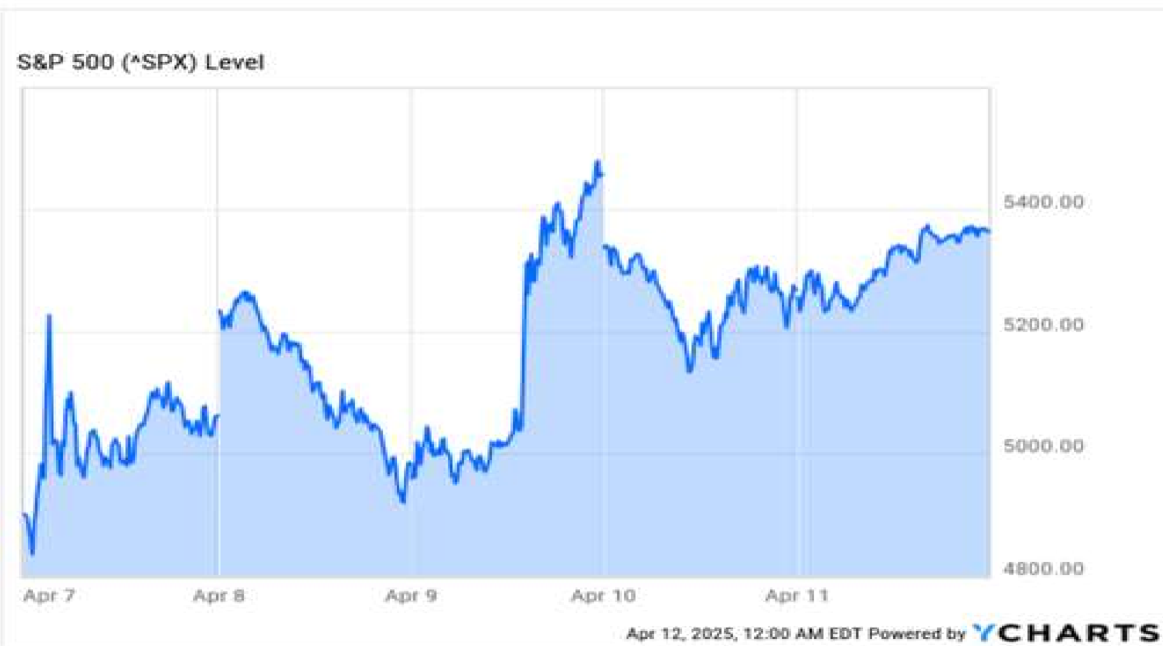
YCHARTS

Weekly Market Insights (WMI)

Major Index Return Summary

Name	1M TR	1Y TR	5Yr TR
MSCI EAFE	-6.45%	2.36%	65.50%
Nasdaq Composite	-6.13%	2.07%	108.9%
S&P 500	-6.06%	3.47%	104.0%
Dow Jones Industrial Average	-5.42%	4.79%	84.51%

S&P 500 Daily Close



10-Year Note Review

Indicator Name Date	Latest Value	1M Ago 3M Ago 1Y Ago	1M Change 3M Change 1Y Change
10 Year Treasury Rate 04/11/25	4.48%	4.28% 4.77% 4.56%	4.67% ▲ -6.08% ▼ -1.75% ▼

Watching the Bond Market

The yield on the 10-year Treasury rose more than 50 basis points for the week, marking one of the most significant moves on record. (When bond yields increase, bond prices tend to move lower.)

The week's action was unexpected. In the past, investors have turned to U.S. bonds during market turbulence. However, the ongoing tariff talks have, at least temporarily, influenced how some overseas investors view U.S. bonds.[7,8]

The bond market activity influenced the mortgage market, where the average rate on the popular 30-year fixed mortgage closed Friday at 7.1 percent, its highest level in two months.[9]

This Week: Key Economic Data

Monday: Philadelphia Fed President Patrick Harker and Atlanta Fed President Bostic speak.

Tuesday: Import Price Index.

Wednesday: Retail Sales. Industrial Production. Business Inventories. Home Builder Confidence Index. Cleveland Fed President Hammack speaks.

Thursday: Housing Starts. Building Permits.

Friday: San Francisco Fed President Mary Daly speaks.

"You are entitled to your opinion. But you are not entitled to your own facts."

– Daniel Patrick Moynihan

Of Note

Back in September 2019, when the Fed's aggressive tightening led to a sudden catastrophic "repocalypse" when the lack of liquidity pushed overnight rates orders of magnitude higher and crushed levered Treasury cash-swap pair trades reliant on ultra-cheap funding (also known as the "basis trade" - where hedge funds seek to profit from tiny price gaps between Treasuries and derivatives known as futures) there was a brief period of time when the world's largest multi-strat hedge funds such as Citadel, Millennium and Balyasny, who are exposed to hundreds of billions in basis trades, were on the verge of collapse. (A basis trade involves taking offsetting positions in two or more related securities or markets with the expectation that their price differential will narrow or converge. The trade typically involves instruments that are related but not identical, such as futures contracts and the underlying physical commodity or different maturities of the same type of futures contract.)

Several months later, when the same hedge funds were hammered by the double whammy of the covid crash, things hit a breaking point and had it not been for the Fed stepping in with unlimited multi-trillion repo operations and unleashing a massive $100BN+ monthly QE, the financial system would surely collapse, as not just we but later Bloomberg also admitted. We discussed this just as the world shut down due to covid, in "Fed Bailed Out Hedge Funds Facing Basis Trade Disaster" where we reminded readers that "hedge funds such as Millennium, Citadel and Point 72 are not only active in the repo market, they are also the most heavily leveraged multi-strat funds in the world, taking something like $20-$30 billion in net AUM and levering it up to $200 billion. They achieve said leverage using repo."

We also quoted Morgan Creek CEO Mark Yusko who (correctly) said that "too big to fail is back, and this time it's not the banks, it's levered financial institutions." Yusko, who may have forgotten that the original Fed bailout was not of a bank but of an extremely levered hedge fund (LTCM), said he supported the Fed's stepping in, but added that hedge fund firms have gotten too big by borrowing too much. "It's a bailout," Yusko said.

It was a bailout, yet one which took place under the cover of the covid crash, when both the Treasury and the Fed jointly injected tens of trillions into the financial system and economy (the rest of the world joined too, in case anyone has forgotten what sparked the biggest inflation in 50 years), and without which the largest US hedge funds would no longer exist.

Unfortunately in nearly six years since the first basis trade implosion... nothing has changed. We bring up all of this because it's almost time for the Fed's next hedge fund bailout. Bloomberg reports that a panel of financial experts advised the Fed to set up an emergency program that would close out highly leveraged hedge-fund trades "in the event of a crisis in the $29 trillion US Treasuries market."

According to the experts, a vicious unwinding of the roughly $1 trillion in hedge fund arbitrage bets would not only hamper the Treasuries market, but others as well, "requiring Fed intervention to assure financial stability." When the US central bank did that in March 2020, during the initial Covid crisis, it engaged in massive outright purchases of Treasury securities, to the tune of about $1.6 trillion over several weeks.

So, the thinking goes, since the Fed is powerless to regulate several multibillionaire hedge fund managers and rein them in, the next obvious action is to prepare trillions in taxpayer funds for another massive bailout and leave them on the hook for trillions in capital just so the billionaires can keep on billionaireing.

The regulatory capital of just the "Big 6" multistrats - Millennium, Citadel, Balyasny, Poin72, ExodusPoint and Lighthouse - is a record $1.5 trillion, an increase of $300 billion from the previous year. What is far scarier is that the average regulatory leverage, or the ratio of regulatory assets (i.e., levered exposure) to assets under management (or actual, tangible capital), has increased to a record 7.8x from 6.3x a year ago!

And for those wondering why a blow up in the $1 trillion basis trade would almost certainly require a Fed bailout, it's because the inherent leverage in going long cash and shorting futures is anywhere between 20x, and a stunning 56x, according to the Treasury Borrowing Advisory Committee.

If hedge funds need to unwind their basis pair trade positions

quickly, similar to what they did in Sept 2019 and March 2020 when the move itself crippled the entire bond market, the danger is that bond dealers will not be able to handle the enormous sudden volume of transactions. And consider this: when the Fed had to intervene in 2020, the basis trade was roughly $500 billion in total — less half today's figure.

Ironically, a paper written recently to discuss managing these issues with a Fed sponsored bailout facility recognized that "bailing out hedge funds" - similar to what the Fed did after LTCM, after the Sep 2019 repocalypse and again in the depths of the covid crash, would raise questions, including moral hazard, where the existence of the facility could potentially encourage hedge funds to take on even more risk.

Repo operations are used by everyone in the market, directly and indirectly, while basis trades only serve to pick the proverbial penny in front of steamrollers, and the only ones profiting from this are "less than 10 hedge funds." Might as well put all taxpayers on the hook for when this trade eventually blows up, why not?

Policymakers in recent years have put forward suggestions to improve Treasury market functioning, ranging from adjusting bank regulations that impair dealer capacity, the creation of a Standing Repo Facility where the Fed could lend directly to hedge funds and imposing minimum margin requirements for repo-financed Treasury purchases. A mandate for central clearing for Treasuries and repo is set to take effect Dec. 31, 2026.

"Hedge funds are in a very aggressive position, where a

relatively small move in the basis could push them out," Harvard University's Jeremy Stein, a former Fed governor, recently said. "It doesn't look like the dealers are super well positioned to handle this."[10]

Footnotes and Sources

1. The Wall Street Journal, April 11, 2025

2. Investing.com, April 11, 2025

3. CNBC.com, April 8, 2025

4. The Wall Street Journal, April 9, 2025

5. The Wall Street Journal, April 10, 2025

6. MarketWatch.com, April 11, 2025

7. WSJ.com, April 9, 2025

8. MarketWatch.com, April 9, 2025

9. CNBC.com, April 11, 2025

10. zerohedge.com/markets/fed-urged-bail-out-hedge-funds-during-next-market-crash-trillions-basis-trades-risk

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The Dow Jones Industrial Average is an unmanaged index that is generally considered representative of large-capitalization companies on the U.S. stock market. Nasdaq Composite is an index of the common stocks and similar securities listed on the NASDAQ stock market and is considered a broad indicator of the performance of technology and growth companies. The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) and serves as a benchmark of the performance of major international equity markets, as represented by 21 major MSCI indexes from Europe, Australia, and Southeast Asia. The S&P 500 Composite Index is an unmanaged group of securities that are considered to be representative of the stock market in general.

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