WEEKLY ECONOMIC UPDATE JUNE 16, 2025

Stocks fell last week as an up-and-down mix of trade progress and anxiety, economic news, and geopolitical tensions netted out.

The Standard & Poor's 500 Index slid 0.39 percent, while the Nasdaq Composite Index slipped 0.63 percent. The Dow Jones Industrial Average declined 1.32 percent. The MSCI EAFE Index, which tracks developed overseas stock markets, edged down 0.18 percent.[1,2]

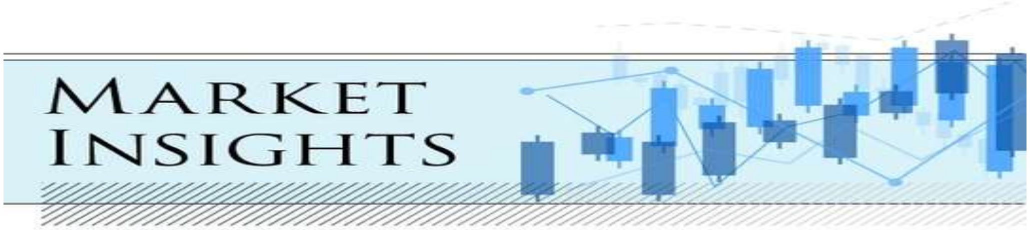
Trade, Geopolitics Dominate Sessions

Stocks largely languished for the first half of the week as investors awaited news from U.S.-China trade talks and key inflation reports.[3,4]

Sentiment began to rise late Tuesday afternoon following upbeat comments about trade talks. Most of the market gains came before the U.S. and China separately announced the trade update, with little reaction when markets opened the next day.[4]

Stocks peaked midweek, then declined despite a May report showing consumer inflation rose less than expected. Markets then trended a bit higher after a better-than-expected wholesale inflation report.[5]

Beginning Friday morning, all three averages were under pressure all day following news of an escalated conflict in the Middle East. Oil prices pushed higher on Friday on supply concerns.[6]



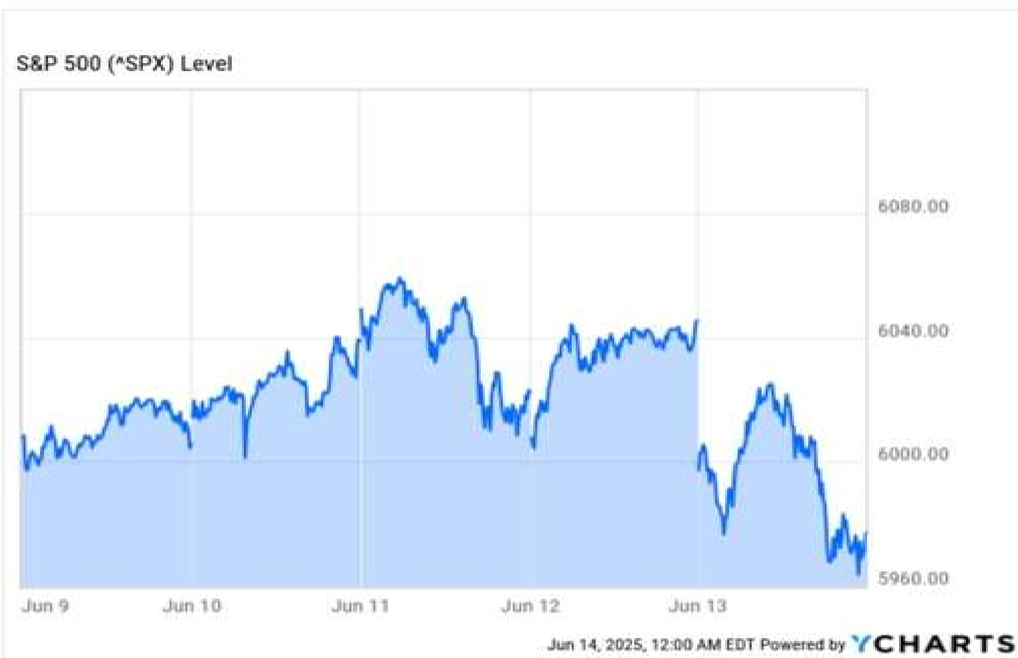
YCHARTS

Weekly Market Insights (WMI)

Major Index Return Summary

Name	1M TR	YTD TR	1Y TR	5Yr TR
MSCI EAFE	5.57%	19.32%	14.91%	74.65%
Nasdaq Composite	5.19%	2.14%	12.45%	112.9%
S&P 500	3.59%	3.40%	13.02%	114.4%
Dow Jones Industrial Average	1.58%	1.81%	12.95%	85.14%

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 06/13/25	4.41%	4.49% 4.27% 4.24%	-1.78% ▼ 3.28% ▲ 4.01% ▲

Brighter Notes

As the week ended with rising tensions in the Middle East, it was easy to overlook some good economic news.

First is inflation: both the Consumer Price Index (CPI) and the Producer Price Index (PPI) showed signs of cooling or holding steady. And both the CPI and PPI slightly beat expectations.

Second, consumers. Consumer sentiment jumped in May—the first such rise in six months. Economists took note, as consumer spending drives two-thirds of the U.S. economy.[7]

This Week: Key Economic Data

Tuesday: Retail Sales. Industrial Production. Capacity Utilization. Business Inventories. Homebuilder Confidence Index. Federal Open Market Committee (FOMC) Meeting, Day 1.

Wednesday: Housing Starts. Building Permits. Jobless Claims (weekly). Federal Open Market Committee (FOMC) Meeting, Day 2. Fed Chair Powell Press Conference.

Friday: Leading Economic Indicators.

Quote of the Week

"The truth is not always beautiful, nor beautiful words the truth."

– Lao Tzu

Of Note

The federal government, financial markets and most Americans are all in a state of denial about interest rates. Whenever someone goes on business TV, gets a mortgage or makes a long-term debt projection, we usually hear some variation of the phrase, “when rates go back down.” We’re sorry to be the bearer of bad tidings, but rates are not going back down, especially to the levels of the 2010s. And almost any attempt to try to force them down — what economists call financial repression — will only bring pain.

With higher debt, global decoupling, a more uncertain inflation outlook and the natural economic cycle, rates are probably going to stay high. That poses a big problem for President Donald Trump and his administration’s plans for the economy. Not only do higher rates make it more expensive for the federal government to borrow, but they also do the same in the private sector, reducing economic growth. Perhaps most worrying for the administration, they keep the cost of housing high.

It’s no wonder that Treasury Secretary Scott Bessent is focused on bringing down the 10-year bond yield — or that the president is so obsessed with getting the Federal Reserve to lower rates. But the Fed does not have much direct control over the natural level of interest rates. They are a function of the market, particularly inflation expectations, the risk outlook for bonds, and the macro economy. And with increasing debt and the possibility of high tariffs, rates will probably rise even further.

Thus far, the Fed is holding firm against cutting rates. So it’s not unreasonable to expect financial repression — that is, “strongly encouraging" investors to buy bonds. Historically that has meant capital controls, which essentially force investors to buy domestic debt. That seems to be off the table at the moment. The more common path to financial repression is through regulation.

A few possibilities are already evident. One is something called the supplemental leverage ratio. Currently banks must maintain a 3% to 5% ratio of equity to assets (regardless of their risk). Banks argue that, because US Treasury debt is treated like a risky asset, they are limited in how much of it they can buy. This makes the market for US debt less liquid.

The Fed is considering changing the way this ratio is calculated, or lowering it, and there are good arguments for doing this — both from a risk-management perspective for the banks and because it may well make the Treasury market more robust. The timing is also pretty good for the government, because if banks bought more longer-term Treasuries, that would probably mean lower bond yields.

Another possibility for repression is the push to regulate stablecoins — crypto assets that hedge dollar risk. The hope is that regulation will make stablecoins more mainstream. This would have implications for the Treasury market. The value of stablecoins is tied to the value of the dollar — the issuer hedges by buying lots of short-term Treasuries. More demand for stablecoins would bring more demand for Treasuries, which would also lower their yields.

Financial repression, it must be said, does not have a great track record. Keeping rates lower than where the market would set them tends to provoke inflation. Alternatively, the strategy just stops working at some point. Japan, for example, was able to be financially repressive for decades, as its banks and pension funds bought a lot of domestic debt, keeping rates low despite very high government debt levels. But when inflation returned, the Bank of Japan could not hike rates, and the yen depreciated — then rates went up anyway.

That said, the US government's current plans also pose risks. A smart adjustment to the leverage ratio may be necessary to keep Treasury markets more liquid, but if the goal is simply to lower rates, the change may just feed inflation and debase the dollar. And regulatory changes to crypto, which despite some clever marketing nomenclature is not the most stable asset, could make the system riskier. There is no obvious reason to own stablecoins, for example, unless you think their price will increase or you engage in criminal activity. This makes it susceptible to a collapse in demand, which would precipitate a Treasury selloff, which would mean a spike in rates.

Of course, there is one fail-safe method for the government to lower rates: It could show that it has a credible plan to reduce long-term debt by reforming entitlements. That seems highly unlikely to put it mildly — which explains why we're talking about financial repression instead.[8]

Footnotes and Sources

1. WSJ.com, June 13, 2025
2. Investing.com, June 13, 2025
3. CNBC.com, June 9, 2025
4. WSJ.com, June 10, 2025
5. CNBC.com, June 12, 2025
6. CNBC.com, June 13, 2025
7. WSJ.com, June 13, 2025
8. advisorperspectives.com/articles/2025/06/06/financial-repression-wont-interest-lower?topic=economic-insights

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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