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WEEKLY ECONOMIC UPDATE MAY 12, 2025

Stocks were mixed last week as volatility dropped despite ongoing trade concerns and the Federal Reserve's update on short-term rates.

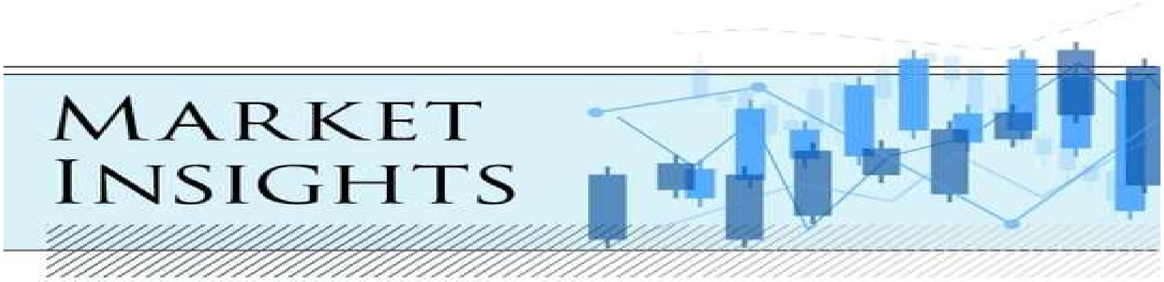
The Dow Jones Industrial Average added 0.16 percent, while the Standard & Poor's 500 Index lost 0.47 percent. The tech-heavy Nasdaq Composite Index slipped 0.27 percent. The MSCI EAFE Index, which tracks developed overseas stock markets, fell 0.37 percent.[1,2]

Stocks Go Sideways

Stocks dropped on Monday, ending the S&P 500's 9-day winning streak as the trade anxiety weighed on investors.[3,4]

Sentiment picked up midweek, however. In a widely expected move, the Fed held short-term interest rates steady but warned of lingering uncertainty around tariffs' effects on inflation and unemployment.[5,6]

On Thursday, the U.S.-U.K. trade deal sparked a slight rally, but stocks flattened as the week ended. Investors appeared to be risk-averse with U.S.-China trade talks scheduled for the weekend.[7]



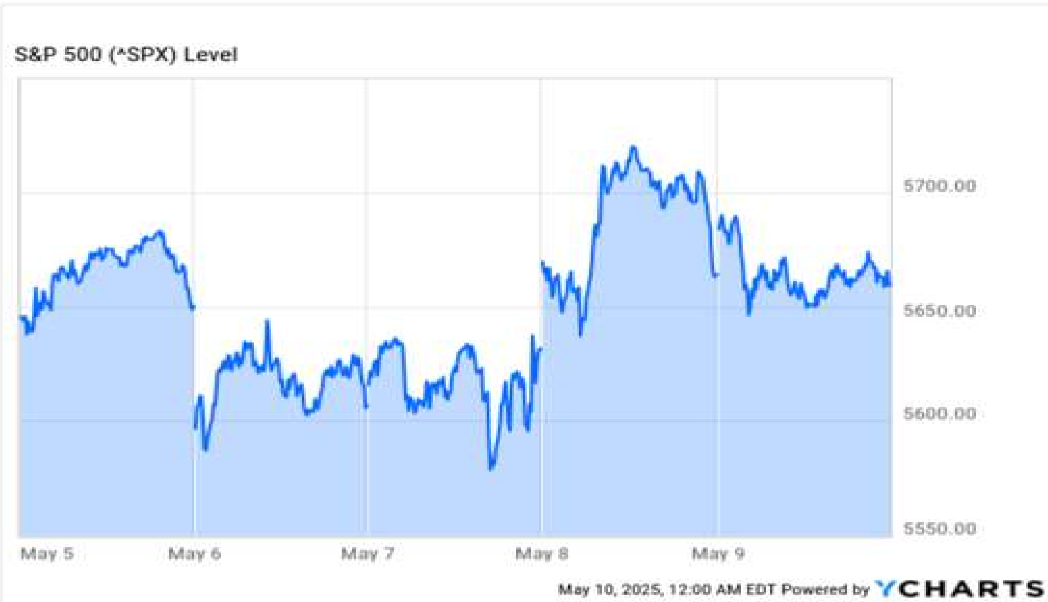
YCHARTS

Weekly Market Insights (WMI)

Major Index Return Summary

Name	1M TR	YTD TR	1Y TR	5Yr TR
Nasdaq Composite	17.45%	-6.97%	10.75%	104.1%
MSCI EAFE	14.46%	12.92%	11.69%	77.76%
S&P 500	13.75%	-3.29%	10.66%	108.7%
Dow Jones Industrial Average	9.95%	-2.27%	7.82%	87.71%

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 05/09/25	4.37%	4.34% 4.51% 4.45%	0.69% ▲ -3.10% ▼ -1.80% ▼

The Fed Fans Out

The Federal Reserve wanted to get its message out last week. Within 48 hours of the Fed's decision to leave interest rates unchanged, nearly every Fed governor gave a solo speech or discussed the decision on a panel.

One Fed official spoke about the benefits of long-term stability from an independent Fed. At the same time, another said the Fed was paying close attention to what consumers did—and not just what they said, suggesting that flagging consumer sentiment didn't necessarily mean a slowdown in spending.[7]

The Fed seemed to focus on managing expectations. Perhaps more importantly, Fed officials spoke from a coordinated playbook, possibly designed to help settle financial markets.

This Week: Key Economic Data

Monday: Federal Budget.

Tuesday: Consumer Price Index (CPI). NFIB Small Business Optimism Index.

Wednesday: San Francisco Fed President Mary Daly speaks.

Thursday: Retail Sales. Jobless Claims (weekly). Producer Price Index (PPI). Industrial Production. Business Inventories. Home Builder Confidence Index.

Friday: Import Price Index. Housing Starts. Building Permits. Consumer Sentiment.

Quote of the Week

"One of humanity's most pernicious traits is the ease with which we habituate to conditions over time that we would have rejected out of hand if the transition had been sudden."

– Charles Hugh Smith

Of Note

The Treasury market will continue to face the risk of higher yields and a steeper curve even if a liquidity reform, touted by Treasury Secretary Scott Bessent as a "high priority," is introduced.

It's no big secret that the Treasury market has faced greater challenges in recent years.
A huge, procyclical fiscal deficit, stubborn inflation and weaponization of the dollar are deterring some buyers unless yields move higher to accommodate the perceived heightening in risks.

Bessent made his comments at a hearing at the House Financial Services Panel in reference to potential demand for Treasuries. The reform in question involves carving out of Treasuries from the Supplementary Liquidity Ratio, meaning banks would be penalized less for holding them.

This will help, but it's far from clear whether it'll be enough to put the Treasury market on firmer ground. Banks are one of the smallest holders of USTs, currently accounting for about 6% of the total outstanding. The largest holders are foreigners and non-bank financials. But over the last few years, foreigners have been more reluctant to own Treasuries for reasons that are now fairly obvious. It's US households who have been the largest buyers, followed by financials.

Banks are increasing their holdings, but the amount is paltry, less than $0.5 trillion in the year to 4Q24. Deposit banks in the US hold about 6% of their financial assets in Treasuries. That was a lot higher in the 1950s and 1960s before the era of credit loosening. We can safely assume banks will not hold anything like 50%-60% proportion of Treasuries they did back then. Yet even if banks took their Treasuries back to 10% if the SLR is tweaked – as high as it's been since the late 1960s, and quite unlikely – it would still represent only about $1 trillion of additional UST demand.

That's barely a sixth of the increase in Treasuries outstanding over the last three years, and only half of what the Federal Reserve has divested from its balance sheet in that period. It may come to financials and households to be the marginal buyer of Treasuries. However, the latter's buying has already tailed off, perhaps deterred by inflation fears.

Investors may demand a higher premium to lend to the government, risking a steeper yield curve, especially if the Fed cuts rates despite elevated price pressures.[8]

Footnotes and Sources

1. The Wall Street Journal, May 9, 2025
2. Investing.com, May 9, 2025
3. CNBC.com, May 5, 2025
4. CNBC.com, May 6, 2025

5. The Wall Street Journal, May 7, 2025

6. CNBC.com, May 8, 2025

7. The Wall Street Journal, May 9, 2025

8. zerohedge.com/markets/treasuries-will-have-demand-problem-even-liquidity-reform

Investing involves risks, and investment decisions should be based on your own goals, time horizon, and tolerance for risk. The return and principal value of investments will fluctuate as market conditions change. When sold, investments may be worth more or less than their original cost.

The forecasts or forward-looking statements are based on assumptions, may not materialize, and are subject to revision without notice.

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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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