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WEEKLY ECONOMIC UPDATE MAY 5, 2025

Stocks pushed higher last week as investors cheered the White House's constructive comments on trade, upbeat Q1 corporate reports, and an encouraging jobs report.

The Standard & Poor's 500 Index gained 2.92 percent, while the Nasdaq Composite Index rose 3.42 percent. The Dow Jones Industrial Average added 3.00 percent. The MSCI EAFE Index, which tracks developed overseas stock markets, advanced 2.56 percent.[1,2]

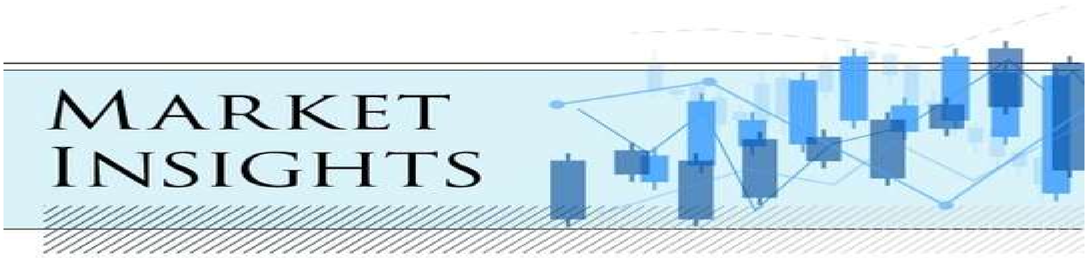
Longest Winning Streak in 20 Years

During the first two trading days, stocks increased as investors responded favorably to White House comments on tariff deals.[3]

Then midweek—on the last day of the month—fresh data showed the economy contracted by 0.3 percent in Q1—the first decline in gross domestic product (GDP) in three years. Stocks initially fell on the news, but staged a stunning recovery to add a seventh day to the S&P 500's and Dow Industrial's winning streaks.[4]

Q1 corporate reports from a couple of mega-cap tech companies boosted all three major averages over the next session, with Nasdaq leading the rise. By Thursday's close, Nasdaq had returned to its pre-April 2 levels.[5]

The rally accelerated on Friday as a better-than-expected April jobs report eased some concerns about the economy's strength. Signs of a potential thaw in Washington-Beijing trade relations also boosted enthusiasm. The Dow Industrials rose for a ninth straight session, as did the S&P 500—its longest winning streak in 20 years.[6]



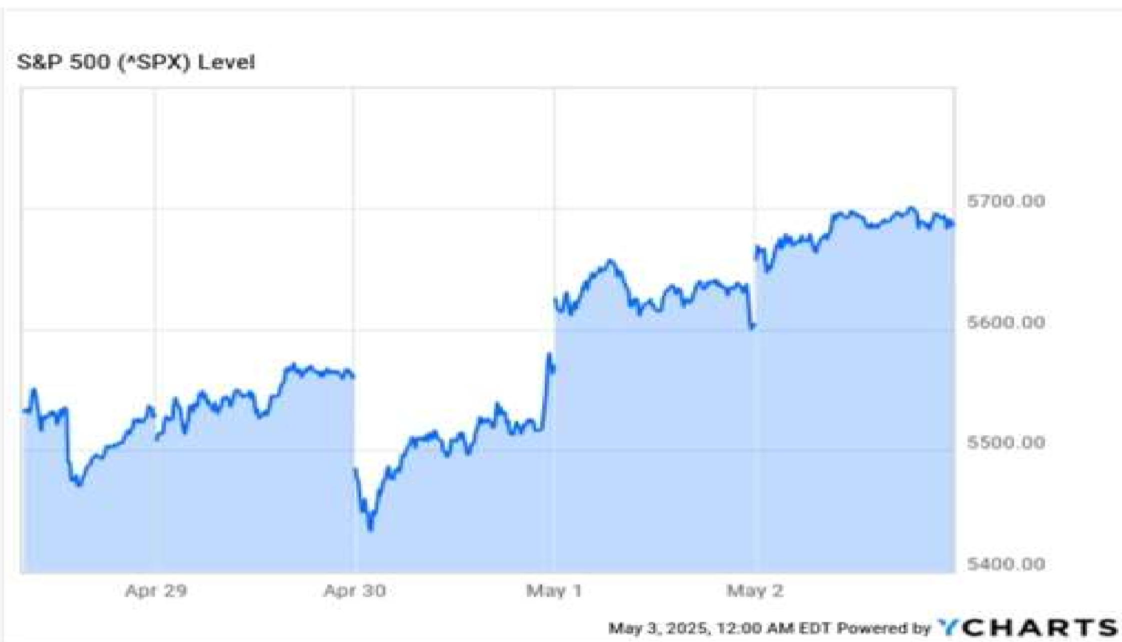
YCHARTS

Weekly Market Insights (WMI)

Major Index Return Summary

Name	1M TR	YTD TR	1Y TR	5Yr TR
Dow Jones Industrial Average	-2.85%	-3.72%	9.45%	89.85%
MSCI EAFE	2.83%	11.15%	12.71%	76.55%
Nasdaq Composite	1.52%	-8.10%	14.30%	113.9%
S&P 500	-0.43%	-4.32%	13.19%	113.8%

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 05/02/25	4.33%	4.20% 4.54% 4.58%	3.10% ▲ -4.63% ▼ -5.46% ▼

Solid Jobs Report

The April jobs report showed employers added 177,000 jobs last month—34,000 more than economists expected.

The report quieted talk about a recession, which was welcomed news. The April figure also showed the economy was still adding jobs despite a sluggish Q1 GDP report. However, the strong report did prompt some traders to push out expectations for an interest rate adjustment until the Fed's July meeting.[7,8]

This Week: Key Economic Data

Monday: ISM Services Index. PMI Composite (final).

Tuesday: Trade Deficit. FOMC meeting – Day 1.

Wednesday: FOMC meeting – Day 2. Fed Decision / Fed Chair Powell Press Conference. Consumer Credit.

Thursday: Jobless Claims. Productivity & Costs. Wholesale Inventories. Fed Balance Sheet.

Friday: Fed Officials speak: Austan Goolsbee (Chicago Fed President), John Williams (New York Fed President) and Beth Hammack (Cleveland Fed President).

"I'm not sure that college is preparing people for, like, the jobs that they need to have today. I mean, I think that that's like there's a big issue on that. And like, all the student debt issues are like really big issues."

– Mark Zuckerberg

Mr. Zuckerberg waxed eloquently about the state of American education (You can't make this stuff up!)

Of Note

Practically every financial meltdown or crisis can be traced back to a misunderstanding of which assets are "risk-free." Investors think they have a risk-free asset — it could be a mortgage-backed security, shares in a Bernie Madoff fund, Greek debt — and are surprised when it turns out not to be.

For the last several years, the term has been used a lot to describe one of the most widely traded securities in the world: U.S. Treasuries. The markets for 10 and 30-year government bonds experienced more volatility in April in response to uncertainty around tariffs and the future of the world financial order. Rising yields and falling prices amid market turmoil suggest markets no longer see Treasuries as a safe haven. Treasuries, which have long held a special place in the global financial system because of their ubiquity and liquidity, may be less special in the future.

All of this means that U.S. bonds may be losing some of their status as a risk-free asset. But make no mistake: Treasuries were never risk-free, aren't now, and won't be anytime soon.
The proximate cause of the recent volatility is the possibility of a trade war: Treasury prices fell rightly in response to the prospect of less trade. President Donald Trump has articulated a

desire to shrink the current account deficit, which by definition means foreigners will have less need or desire to buy bonds.

It adds up to a world where yields are much higher. The prospect of a trade war does change the role of bonds in financial markets. It does not necessarily mean the dollar and Treasuries are now risky, even if they are certainly going to be less valuable going forward (which would be true whether it was foreigners ditching bonds or hedge funds unwinding their positions).

Risks in the Treasury market had already been brewing for the last several years. Bond prices have been falling and becoming less predictable, in response to higher inflation and the realization that the U.S. government has no serious plan or desire to reduce its debt. Even before Trump took office, Treasuries were cheaper than other similar or synthetic bonds.

For a variety of reasons, it was easy for investors to ignore all this. Regulations define highly rated government debt as low-risk, increasing demand for Treasuries despite their troubling issues. It was also reassuring that the U.S. debt market was so liquid and well-functioning, and that a credible and independent Federal Reserve was ready to step in if there were any problems.

And overall, despite everything, it remains highly unlikely that the U.S. government will default. As globalization proceeded and the world became more financially integrated, Treasuries were "the least dirty shirt on the floor."

Bond buyers could also ignore risk because "risk-free" remained ill-defined. If you think of a risk-free asset as one that is liquid and has a guaranteed return — or as one with low volatility — then a short-term Treasury could be considered risk-free. Longer-term bonds have more risk. They tie up your money for longer. You can of course sell them before they mature (as most bond investors do), as the market for them is fairly liquid, but their prices are more volatile than those of short-term bonds.

And yet it is not so simple that a short-term Treasury is risk-free for everyone. If you have a longer-term liability — if you are a pension fund that has benefits to pay decades into the future, for example — then a short-term bond does not ensure you can make your pension payments and exposes you to inflation risk. The definition of "risk-free" is complicated; it depends on what you are investing for, the inflation environment and the fiscal outlook.

From this perspective, Treasuries were never risk-free, especially longer-term debt. Inflation is always in danger of returning, and the fiscal situation in the U.S. is not sustainable. And Treasury yields do revert, which means the low-rate era was never going to last and bond investors were bound to lose money. Every dozen years or so, investors convince themselves that Treasuries of all duration are risk-free, and vulnerabilities build up based on that assumption. Even so, the level of cognitive dissonance in the last few years was something to behold.

The threat of a trade war may have brought the risks that were always lurking into the light and hastened the inevitable. And while investors may be changing how they think of risk in the bond market, it is premature to say that Treasuries are no longer a low-risk asset. There will still be high demand for U.S. debt, even if it's smaller than before. The market for European debt is not as liquid or deep, and the structure of the eurozone means high-risk debt is often overpriced and volatile.

The test of a risk-free asset is not low volatility in good times, or even a lower yield relative to U.S. debt. It is how it performs in times of market turmoil. If there is a global trade war, there will probably be a global recession, which will also subject European countries to financial stress. And the euro region still has structural weaknesses that could make their debt markets more tumultuous U.S. than America's.

A world in which the U.S. retreats from trade and runs high debt will change the U.S.'s role in debt markets. It will still be a low-risk asset and in high demand. But what is considered "risk-free" will probably be a portfolio of different lower-risk bonds — some from Europe, some from America, some from Asia, or maybe some digital currency. Maybe it should have always been that way since U.S. bonds were never risk-free to begin with.[9]

Footnotes and Sources

1. The Wall Street Journal, May 2, 2025
2. Investing.com, May 2, 2025
3. CNBC.com, April 29, 2025
4. The Wall Street Journal, April 30, 2025
5. CNBC.com, May 1, 2025
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