# WEEKLY ECONOMIC UPDATE MARCH 10, 2025

Stocks continued their slide through a volatile week. U.S. trade policy drove much of the market's movement, broadening investors' concerns about economic growth and inflation.

The Standard & Poor's 500 Index declined 3.10 percent, while the Nasdaq Composite Index dropped 3.45 percent. The Dow Jones Industrial Average slid 2.37 percent. By contrast, the MSCI EAFE Index, which tracks developed overseas stock markets, rallied 2.85 percent.[1,2]

## Tariffs Take Effect

Big price swings and tariff uncertainty loomed over the entire week. Stocks opened lower out of the gate after the White House confirmed the planned 25 percent tariff on Mexican and Canadian goods would go forward. Soft manufacturing and construction data also put broad downward pressure on markets. Meanwhile, European stocks continued to rally on anticipated defense spending.[3]

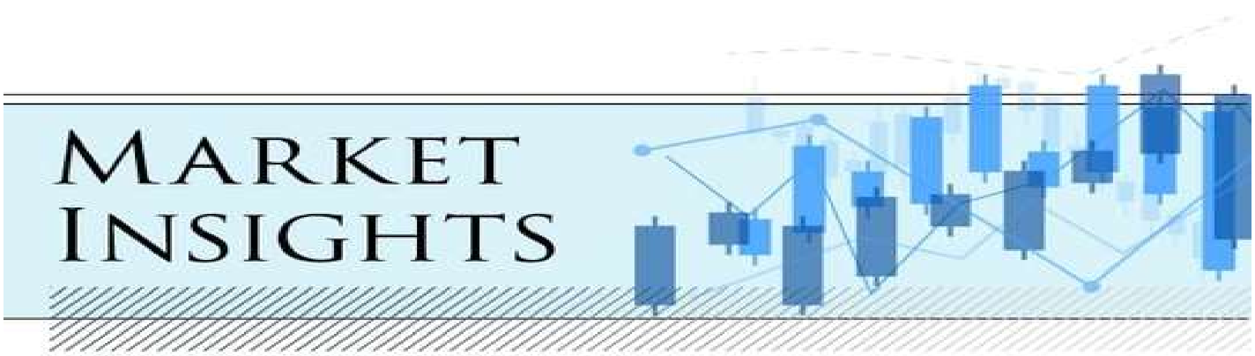
Stocks fell further as tariffs affected Canada, Mexico, and China. Each country announced retaliatory tariffs of their own, further fanning inflationary fears among investors. By Tuesday's close, all three averages were down 3 percent on the week, and the S&P had given up its post-election gains.[4]

Markets rebounded midweek after the White House announced a one-month reprieve from tariffs for North American automakers

complying with the existing United States-Mexico-Canada Agreement (USMCA). The recovery rally built momentum as the administration hinted that exemptions for other sectors could follow.[5]

However, as trade policy fatigue rose again, the rebound reversed—despite the White House pausing more tariffs on Canadian and Mexican imports until April 2. Comments from the Treasury secretary defending U.S. tariffs and downbeat economic reports put further pressure on share prices. The Nasdaq entered correction territory, and for the first time in five years, the S&P 500 hit its sixth consecutive day of +/-1 percent price swings.[6]

Stocks continued to fall after an underwhelming February jobs report. Later, markets rebounded after Federal Reserve Chair Jerome Powell said that the economy "continues to be in a good place" and that the Fed was holding firm on current rates. The S&P, Dow, and Nasdaq all finished Friday in the green despite being down for the week.[7]

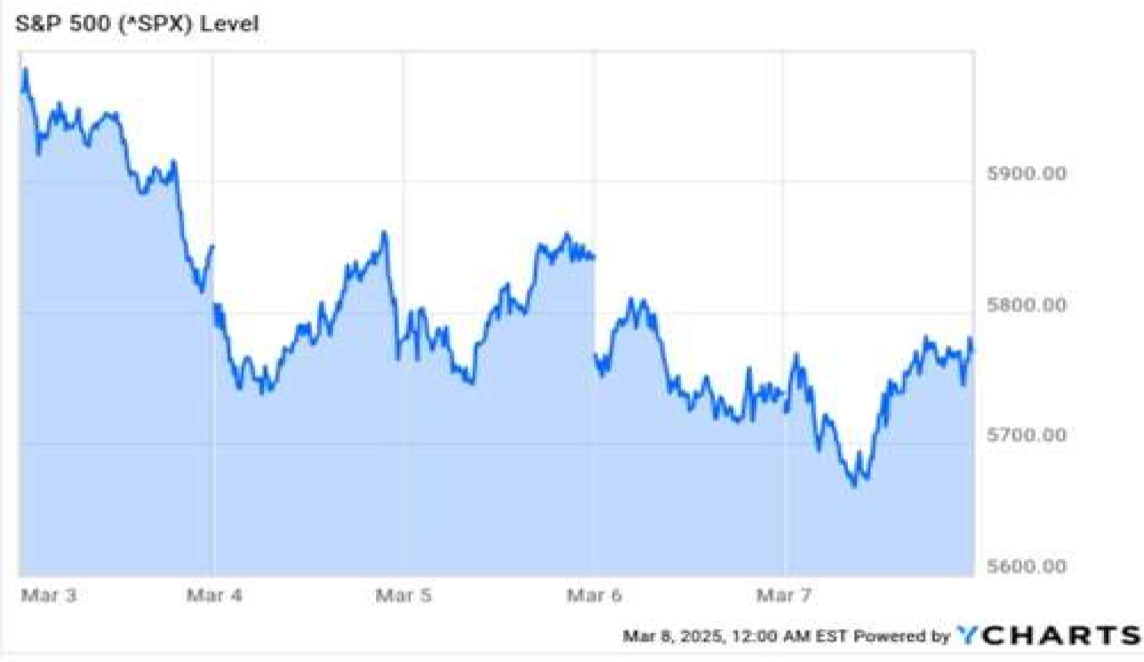


# Weekly Market Insights (WMI)

## Major Index Return Summary

| Name | 1M TR | YTD TR | 1Y TR | 5Yr TR |
|---|---|---|---|---|
| Dow Jones Industrial Average | -4.63% | 0.39% | 12.08% | 82.06% |
| MSCI EAFE | 4.86% | 11.21% | 11.44% | 60.55% |
| Nasdaq Composite | -8.63% | -6.33% | 13.49% | 119.0% |
| S&P 500 | -5.55% | -2.22% | 13.92% | 108.7% |

## S&P 500 Daily Close




## 10-Year Note Review

| Indicator Name<br>Date | Latest Value | 1M Ago<br>3M Ago<br>1Y Ago | 1M Change<br>3M Change<br>1Y Change |
|---|---|---|---|
| 10 Year Treasury Rate<br>03/07/25 | 4.32% | 4.49%<br>4.15%<br>4.09% | -3.79%<br>4.10%<br>5.62% |

## Under the Hood

The Institute for Supply Management (ISM) published fresh manufacturing data on Monday. Although headline numbers were decent, a closer look revealed that new orders dropped in January from a years-long high into correction territory while deliveries and prices paid jumped.[8]

## This Week: Key Economic Data

**Tuesday:** Job Openings. NFIB Small Business Optimism Index.

**Wednesday:** Consumer Price Index (CPI). Federal Budget. Treasury Announcement.

**Thursday:** Producer Price Index (PPI). Initial Jobless Claims.

**Friday:** Consumer Sentiment.


***"Sooner or later, everyone sits down to a banquet of consequences"***

**– Robert Louis Stevenson**

# Of Note

David Swensen is regarded as one of the greatest capital allocators of all time, if not the greatest. Before his passing in 2021, Swensen's tenure at the Yale University endowment office was legendary. The endowment returned over 13% per annum, higher than any relevant benchmark, including the unstoppable US stock market, and with lower volatility, too. Swensen's massive success led many investors to attempt to adopt the "endowment style" of investing, or more specifically, the "Yale model."

University endowments have a few advantages over normal investors. First, they don't pay taxes. Second, their time horizon extends past our lifetimes. Alternatives (Alts) have historically played a huge role in these portfolios, and the most recent Yale endowment target allocation included a whopping 60% allocation across absolute return funds (hedge funds), leveraged buyouts (private equity), and venture capital. The lines have blurred over the years between definitions of active/passive and public/private and what is or isn't an alt, but it is clear the endowment is not indexing their portfolio.

The most recent Yale allocation included Absolute Return (21.6%), Domestic Equity (2.3%), Foreign Equity (11.4%), leveraged Buyouts (15.8%), Natural Resources (3.9%), Real Estate (8.6%), Venture Capital (22.6%) and Cash/Fixed Income (13.7%).

Some readers may jump out of their chair and exclaim, "They only have 2.3% in US stocks?!" However, the broad categories of private equity and venture capital give similar exposure to the US stock market, just in a different way.  If you exclude absolute return and group the Private Equity and Venture Capital allocations into the equity bucket, then normalize the allocations, the ballpark allocation becomes  rounded to 50% stocks, 15% fixed income, and 35% real assets.

Many endowments famously struggled in the 2008-2009 bear market. Liquidity seized up, and these aggressive allocations resulted in the worst year ever for these strategies. As a reminder, these endowments and many other institutional pools of capital report returns on a fiscal year ending June 30th and only once a year. Now to be fair to Yale, if we examined 25 years from 1985 – 2009, Yale looks exceptional once again and the average endowment, well, pretty average.

The Yale endowment has done an excellent job investing over the past 40 years. Does Yale have the magical formula, or is it possible for the public market investor to achieve anything near Swensen's returns? Could we buy some ETFs and achieve anything like this historical track record? Most investors don't have access to the velvet rope alternative funds that Yale and others do, so where to even begin?

A good starting point would be Swensen himself. We can use Swensen's recommended allocation for individuals as our guide: 20% US stocks, 20% foreign stocks, 10% emerging market stocks, 20% REITs, 15% US bonds, and 15% TIPS. This portfolio performed in line with other benchmarks like the 60/40 and the average endowment. We found that most buy and hold global asset allocation portfolios performed similarly.

Don't forget the Yale endowment allocation hasn't been static like our portfolios but rather morphed and changed over the decades. It would likewise have been impossible to implement many of these strategies decades ago.

One of the potential benefits of using active management and getting exposure to certain asset classes like private equity is that you get some leverage, explicitly or implicitly. So, what if we decided to leverage the overall portfolio? Peter Mladina found that leverage was part of the key to replicating much of Yale's active equity management returns. Might we have similar success applying leverage across the entire allocation?

Dialing up the leverage increases overall returns in line with Yale. Now, to be fair, you see a pickup in volatility and a subsequent loss in Sharpe ratio (a measure of an investment's risk adjusted return), so this portfolio would not be for the faint of heart. However, most endowments have an unlimited time horizon, so for those looking to try to "be like Yale." it could be a potential solution.

Observers will also note you could probably leverage the 60/40 portfolio and end up in a similar place, and they'd be right. We get quite nervous making this analogy at this point in time with US stock valuations at near or record levels. But as mentioned previously, we would have said that last year too!

Some investors will read this paper and conclude the best way to invest is to just buy US stocks and call it a day. Others see the historically strong returns of a US 60/40 portfolio and stop there. Some adventurous investors will follow the path of Swensen and diversify globally and add real assets. Some may index the public portfolio and then go on an alpha search in private markets. We are reminded of the quote from William Feather, "One of the funny things about the stock market is that every time one person buys, another sells, and both think they are astute." We feel the same could be said for asset allocation portfolios, too.

The question remains, "Can any of us invest like Yale"? As we have seen in real-time, across many benchmarks as well as the average endowment, the answer is “no.” Even Swensen’s own recommended allocation, while solid, did not match the lofty returns of the Yale endowment.

Perhaps David Swensen was a N of 1 individual, and something really is just different in the water in New Haven. Only time will tell.9

## Footnotes and Sources

1. The Wall Street Journal, March 7, 2025
2. Investing.com, March 7, 2025
3. The Wall Street Journal, March 3, 2025
4. CNBC.com, March 4, 2025
5. CNBC.com, March 5, 2025
6. CNBC.com, March 6, 2025
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