

# Bank Regulators Will Help The Treasury

Per an article in the Financial Times titled [US Poised To Dial Back Rules Imposed In Wake of 2008 Crisis](#), US bank regulators are preparing to reduce bank capital requirements. Of particular interest to the bond market is the supplementary leverage ratio, better known as SLR. Unlike other risk-based capital rules that banks adhere to, SLR applies a minimum capital requirement to all bank balance sheet assets. The rule was put in place in 2014 to limit excessive leverage. For more information, click this [LINK](#) from the Office of Financial Research.

Banks have long argued that the SLR handcuffs their ability to make loans. Furthermore, and of importance to the administration, banks claim that SLR limits their ability to buy Treasury securities. The article states that intense lobbying from Wall Street argues that SLR hinders competition and impedes lending. Bear in mind that the eight largest US banks are subject to enhanced SLR. These are the biggest buyers of US Treasury securities.

Many analysts suspect that the SLR will change by this summer. However, the pressure to change them sooner could arise if Treasury yields continue to rise. With Treasury yields approaching 5%, we suspect banks will be licking their chops to buy Treasuries once the SLR restrictions are eased. We end with the quote below from Chairman Powell at a Congressional Committee hearing in February:

*Yes, I believe we will. I have, for a long time, like others, been somewhat concerned about the levels of liquidity in the Treasury market. **The amount of Treasuries has grown much faster than the intermediation capacity has grown, and one obvious thing to do is to lower, is to reduce the effective [supplementary] leverage ratio, the bindingness of it.** So that's something I do expect we will return to and work on with our new colleagues at the other agencies, and get done.*

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## What To Watch Today

### Earnings

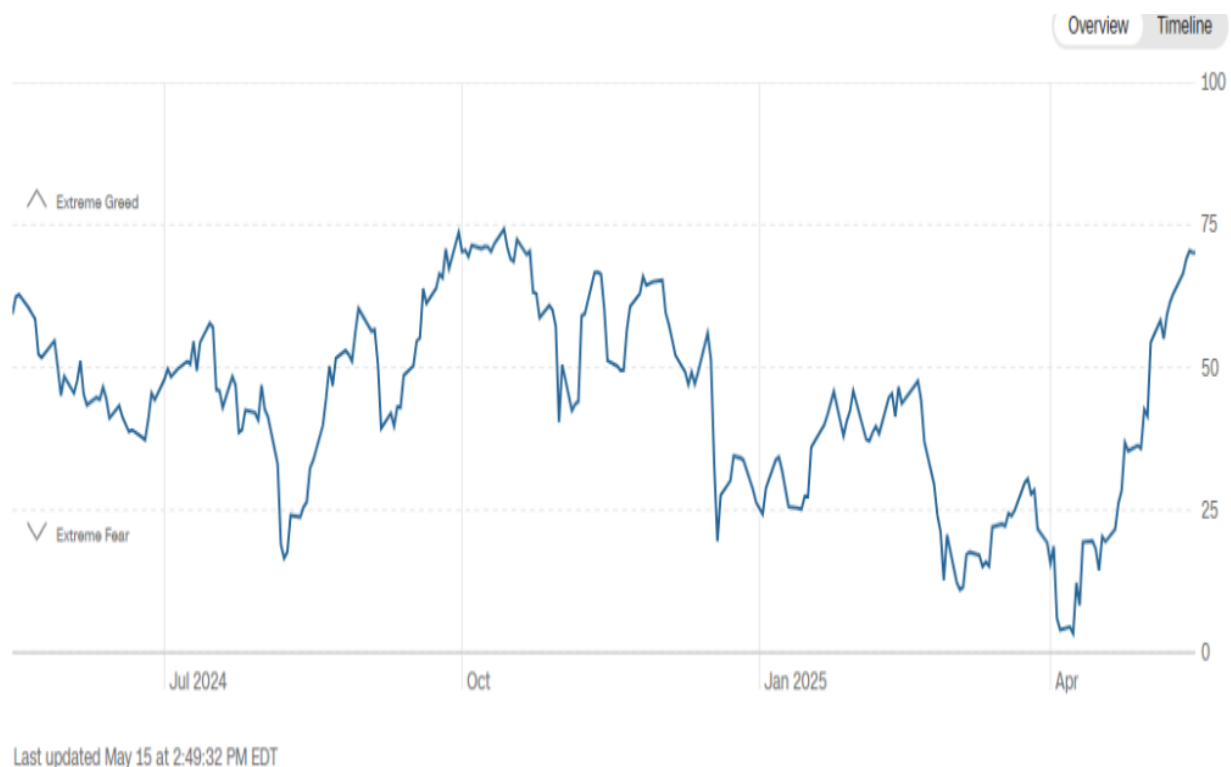
- No earnings reports today

### Economy

| Friday May 16 2025 |                                                                                      |                                                                | Actual | Previous | Consensus | Forecast |                                                                                     |                                                                                     |
|--------------------|--------------------------------------------------------------------------------------|----------------------------------------------------------------|--------|----------|-----------|----------|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|
| 07:30 AM           |  US | Building Permits Prel <small>APR</small>                       |        | 1.467M   | 1.450M    | 1.45M    |  |  |
| 07:30 AM           |  US | Housing Starts <small>APR</small>                              |        | 1.324M   | 1.37M     | 1.31M    |  |  |
| 07:30 AM           |  US | Building Permits MoM Prel <small>APR</small>                   |        | 0.5%     |           | -1.2%    |  |  |
| 07:30 AM           |  US | Export Prices MoM <small>APR</small>                           |        | 0%       | -0.5%     | -0.2%    |  |  |
| 07:30 AM           |  US | Housing Starts MoM <small>APR</small>                          |        | -11.4%   |           | -1%      |  |  |
| 07:30 AM           |  US | Import Prices MoM <small>APR</small>                           |        | -0.1%    | -0.4%     | -0.3%    |  |  |
| 07:30 AM           |  US | Export Prices YoY <small>APR</small>                           |        | 2.4%     |           | 2%       |  |  |
| 07:30 AM           |  US | Import Prices YoY <small>APR</small>                           |        | 0.9%     |           | 1%       |  |  |
| 09:00 AM           |  US | Michigan Consumer Sentiment Prel <small>MAY</small>            |        | 52.2     | 53.4      | 52       |  |  |
| 09:00 AM           |  US | Michigan 5 Year Inflation Expectations Prel <small>MAY</small> |        | 4.4%     |           | 4.5%     |  |  |
| 09:00 AM           |  US | Michigan Consumer Expectations Prel <small>MAY</small>         |        | 47.3     | 48        | 47       |  |  |
| 09:00 AM           |  US | Michigan Current Conditions Prel <small>MAY</small>            |        | 59.8     | 59.6      | 59.5     |  |  |
| 09:00 AM           |  US | Michigan Inflation Expectations Prel <small>MAY</small>        |        | 6.5%     |           | 6.6%     |  |  |

## Market Trading Update

Yesterday, we discussed three scenarios for a much-needed pullback to retest support. That discussion generated several comments as to WHY we expect a short-term correction. As is always the case, things can only move so far in one direction before they reverse. For example, just a few weeks ago, the market registered extreme levels of fear? and has now reversed to extreme greed?



While that sentiment reversal does not mean the market needs to crash, a *pause* in the rally should be expected. However, amid what seems to be an *unstoppable rally*, it is hard to take chips off the table, particularly with hedge funds still underweight equity exposure.

## Hedge Funds Still Look Short Stocks

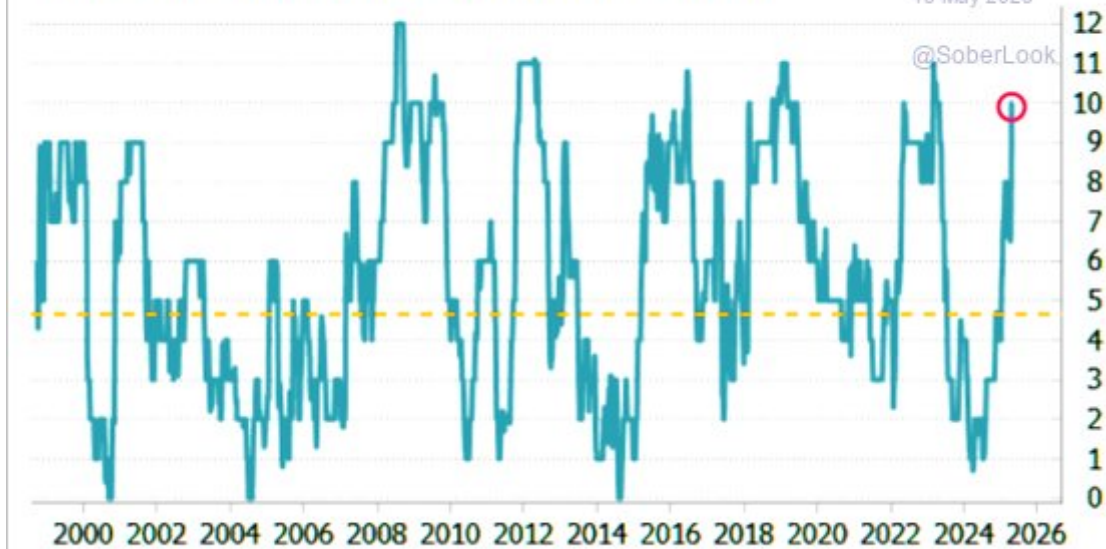
Number of HFR Hedge Fund Strategies  
With -ve 1yr Sensitivity to S&P (Daily Changes; 10d MA)

Posted on

The Daily Shot

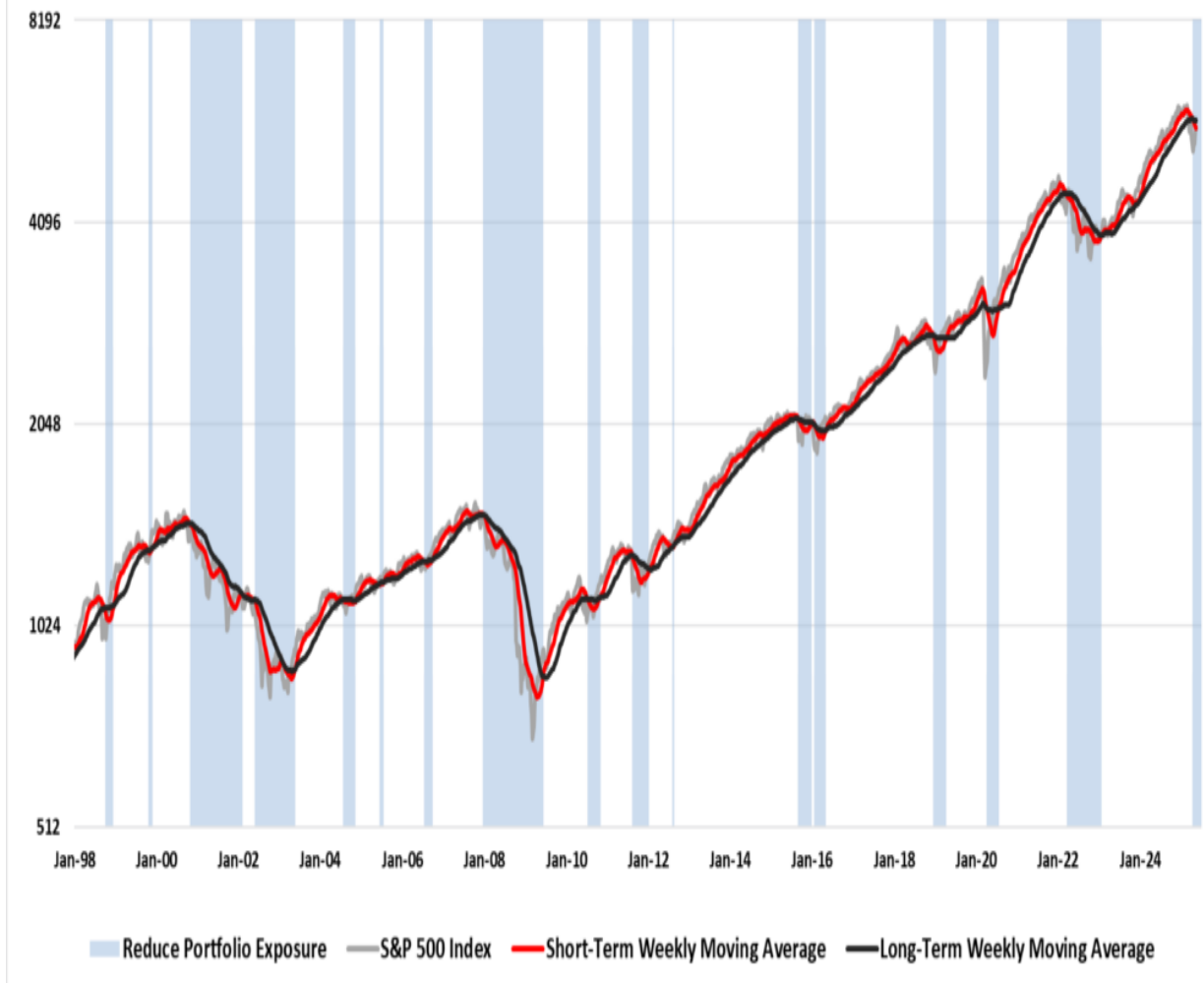
15-May-2025

@SoberLook

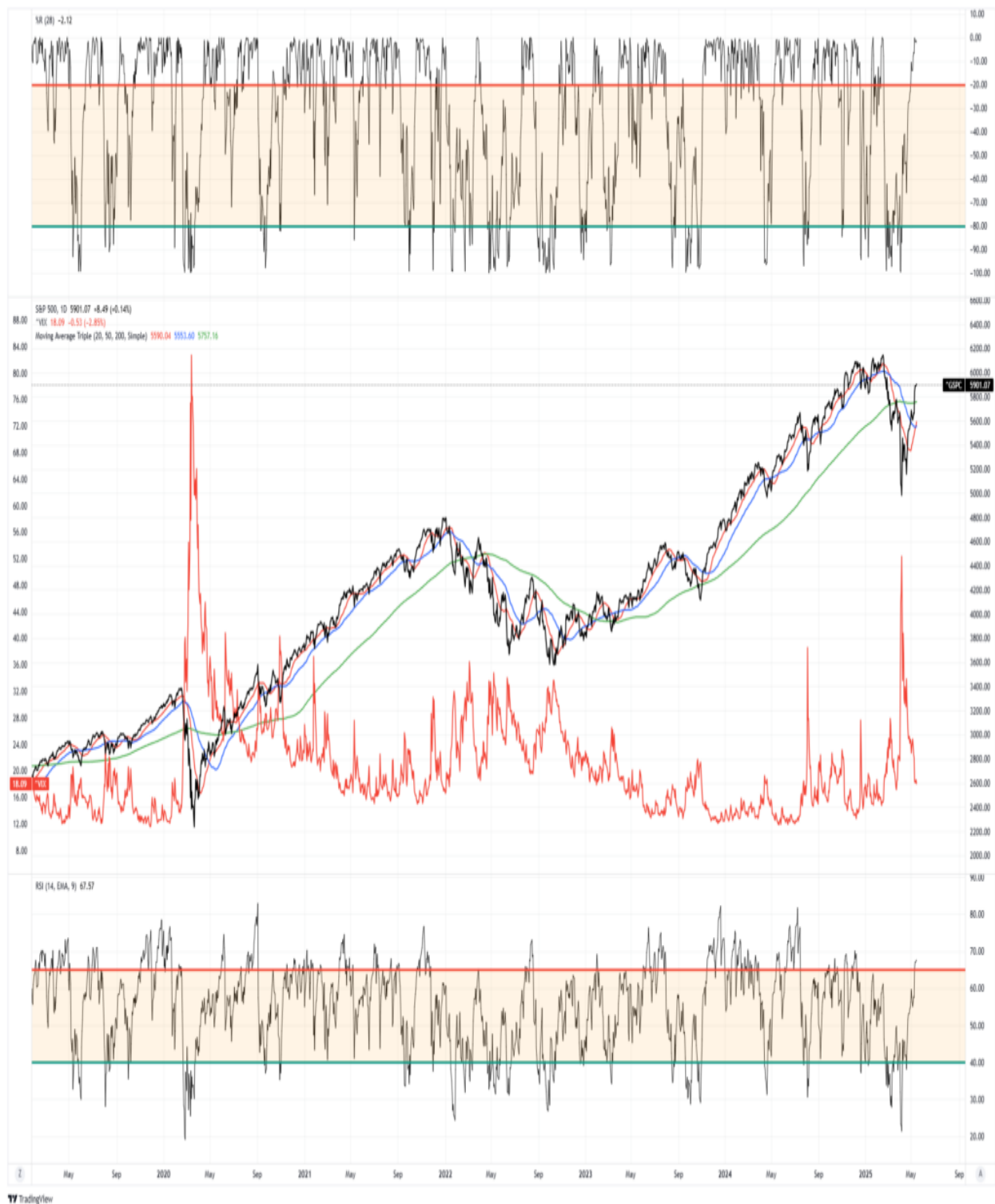


However, patience will likely pay off here. As we have noted previously, we are still on a weekly sell signal, which historically has led to short-term market underperformance. As shown, previous periods of historical weekly moving average crossovers typically involve a more extended period of consolidation or corrective price actions. The main exception to that rule was 2020, when the Federal Reserve intervened with massive monetary support. With yields rising and the Fed on hold, there is no excess support coming into the market other than a surge in corporate buybacks. However, those are due to decline starting next month.

## A Simple Crossover Can Identify Periods To Reduce/Increase Portfolio Risk



However, with that said, there is an increasing *panic* among institutional players to *get long* this market, which could provide a continued bid under stocks for a while longer. However, the *easy money* has likely been made with volatility quickly crashing back to pre-panic levels. As noted, the market is overbought, sentiment is becoming more bullish, and offside positioning has reversed; as such, it will not take much to get the market to pull back to the support levels we identified yesterday.



Follow your risk management protocols and rebalance risk until a better entry opportunity exists. It may take a few weeks, but patience will likely be rewarded.

Trade accordingly.

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## PPI And Retail Sales

Investors feared that PPI would increase due to tariffs. PPI measures the prices of products used in the production process; thus, investors suspected that tariff-related inflation would show up in PPI before CPI, which represents finished goods. Therefore, based on the data, companies are paying the tariffs and not passing them on, which would pressure profit margins. PPI was -0.5% versus forecasts of +0.2%. Core PPI fell by 0.4%, with expectations of +0.3%. The BLS did revise the prior month higher by 0.4%. Accordingly, year over year, PPI is 2.4%, with the new data and revisions.

Anna Wong, an economist at Bloomberg, opines:

*Normally on PPI release we just focus on the categories that's important for calculating core PCE deflator. But April's release is interesting in its own right, as it broadly reinforce the story we saw in the CPI release earlier today:*

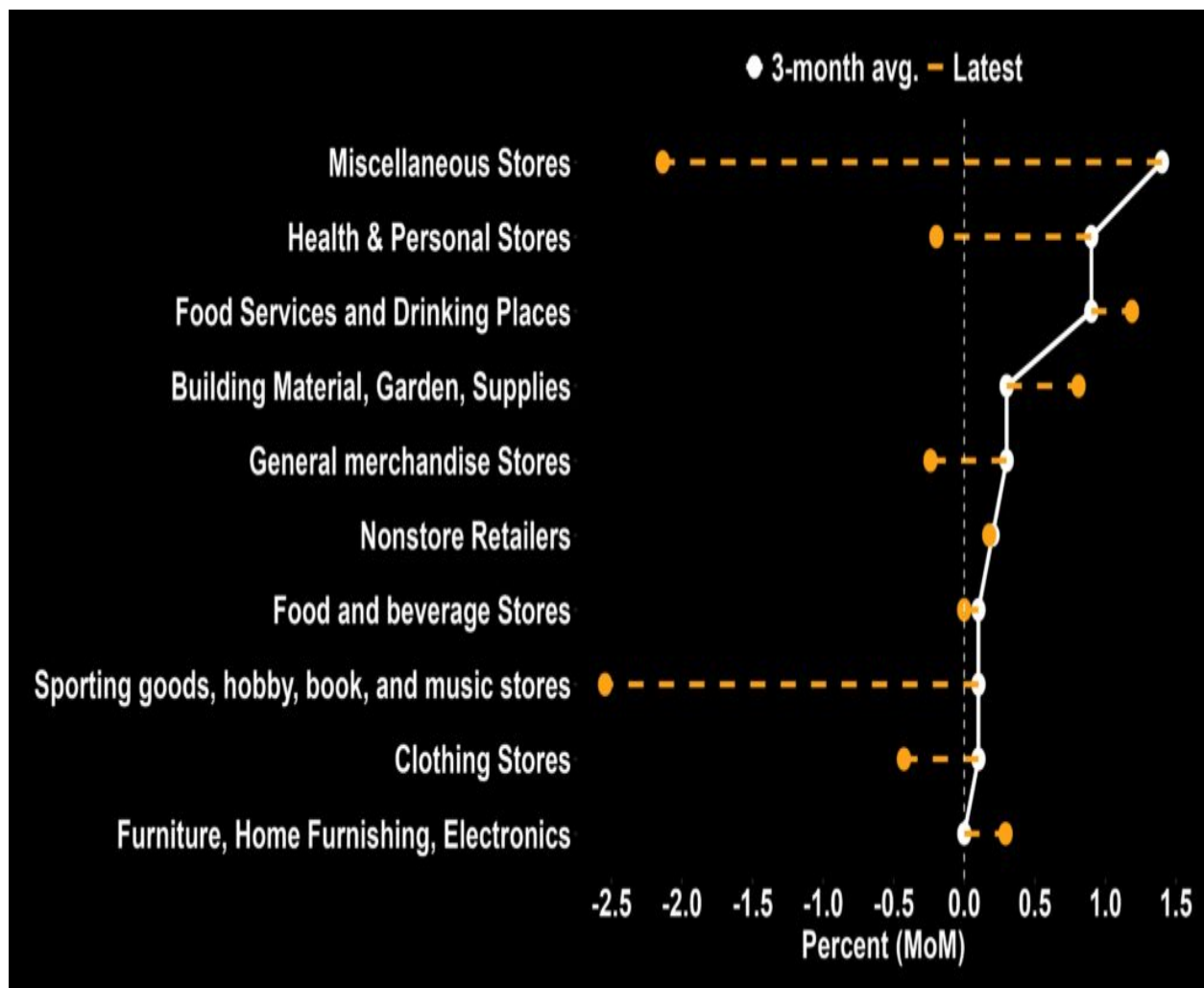
*-There is increased pass-through of tariffs in goods prices*

*-Deflation in services is offsetting those tariffs increase*

*-The net impact is disinflation.*

*On services, final demand prices for transportation and warehousing, and construction are very soft.*

Retail Sales only rose by 0.1% following a 1.7% surge last month. Such a weak number was expected as it is believed consumers front-ran purchases to avoid tariffs, leaving lesser needs going forward. The retail sales control group, which feeds GDP, fell by 0.2%, after rising by 0.5% last month. Interestingly, sporting goods, which are experiencing one of the most significant tariff increases, saw sales fall significantly, as shown below. Accordingly, as we wrote with PPI, companies may have to eat the tariffs to keep sales up.



## The Best Investment Strategies For A High-Inflation Environment

Rising inflation can chip away at the value of your money and investments, making it one of the most persistent threats to long-term wealth. Thus, as prices increase and purchasing power declines, investors must be proactive in adjusting their strategies to protect their portfolios.

If you're looking to safeguard your wealth in a high-inflation environment, now is the time to [consider investments](#) that are positioned to outpace inflation and preserve your future financial security.

[READ MORE?](#)

## Tweet of the Day



**Greg Ip** @greg\_ip · 26m



**PPI** & Walmart comments are more reason to dial back expected tariff impact. Walmart said it would try to absorb some tariffs in margins, and **PPI** retailer margin data suggest that did happen in April. All else equal, this points to reduced pass-through. [wsj.com/business/retai...](https://www.wsj.com/business/retail/)

?Want to achieve better long-term success in managing your portfolio? Here are our [15-trading rules for managing market risks.](#)

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