THE WALL STREET JOURNAL.

Business

Mastercard's Revenue Boosted by Increased Consumer Spending; Quarterly revenue jumped 31% to $3.58 billion

By AnnaMaria Andriotis and Imani Moise
745 words
2 May 2018
01:20 PM
The Wall Street Journal Online
WSJO
English

Mastercard Inc. reported higher-than-expected profit and revenue for the first quarter due to increased consumer spending and confidence.

The company, which is the second-largest U.S. card network, increased guidance for its 2018 revenue, a sign that it believes the healthy economic environment will continue. It also increased a key expense growth projection as the company accelerates investments in several areas, including security.

Mastercard reported a profit of $1.49 billion, or $1.41 a share, up from $1.08 billion, or $1 a share, a year earlier. On an adjusted basis, earnings rose 49% to $1.50 a share from a year earlier. Analysts surveyed by Thomson Reuters had expected $1.25.

Shares climbed 3.5% to $186.80 in morning trading, higher than the record closing price of $183.24 set in March. The stock has gained 22.5% so far this year while the **S&P 500** has inched 0.8% lower.

Gross dollar volume, or the total value of all transactions on credit, debit and prepaid cards processed by the company, rose 14% to $1.4 trillion.

The payment giant said revenue jumped 31% to $3.58 billion, topping the $3.25 billion forecast by analysts. The company's top-line was helped by acquisitions and an increase in cardholders using their cards outside of the country they are issued in. Cross-border volume fee revenue increased 26% from a year prior. The company also increased its organic net revenue growth guidance to mid-teens percent growth for the year, up slightly from the previous guidance.

The company is benefiting from a strong credit-card market as consumers shift more of their spending to cards. Most large U.S. banks that issue credit cards reported increases in credit-card purchase volume in the first quarter.

Mastercard's finance chief, Martina Hund-Mejean, said on the earnings call that cross-border volumes in April, through April 28, grew 19% globally. That was down from the 21% cross-border volume growth in the first quarter, in part due to the drop-off of issuers allowing cryptocurrency wallet funding. Large U.S. issuers, including Citigroup Inc, Bank of America Corp., and Capital One Financial Corp., said during the first quarter that they would no longer allow consumers to buy bitcoin with their credit cards.

Mastercard's operating expenses totaled $1.64 billion, up 35% from a year prior, excluding special items relating to litigation provisions. General and administrative expenses, which make up the majority of the company's expenses, increased 36%. Advertising and marketing expenses rose 32% to $224 million. Mastercard also increased its organic expense growth guidance to high-single digit percent growth from mid-single digits previously.

Following the earnings call, Mastercard said in a regulatory filing that it took a $19 million charge in the first quarter relating to settlements with U.K. merchants and a $70 million charge resulting from settlements with more than 70 European claimants.

Merchants "have filed or threatened litigation with respect to interchange rates in Europe for purported damages exceeding $1 billion," the company said. Interchange fees are set by card networks, including Mastercard, and paid by merchants to the banks that issue cards when consumers shop with them. Merchants in the U.S. and abroad have long argued that these fees, in particular with credit cards, are too high.

Regarding its efforts to expand in China, Mastercard CEO Ajay Banga said the company applied for a domestic license with a joint venture and that it is waiting for clarity from the Chinese government. The Wall Street Journal reported in April that Mastercard had formed a partnership with three Chinese entities, had applied with the central bank to conduct card-clearing and settlement transactions in the country, and that its joint-venture application hadn't yet been accepted by the People's Bank of China.

Separately, Mr. Banga discussed his support for a move to a single-pay button at online checkout. Visa and Mastercard said in April they are planning a move toward a shared pay button on which consumers can save their payment credentials. This would replace the individual pay buttons that card networks have rolled out in recent years.

Write to AnnaMaria Andriotis at annamaria.andriotis@wsj.com and Imani Moise at imani.moise@wsj.com

Document WSJO000020180502ee52001xj

The New York Times

Business Day; DealBook
Telsa Reports Another Loss but Beats Expectations: DealBook Briefing

2,707 words
2 May 2018
07:55 AM
NYTimes.com Feed
NYTFEED
English

Good Wednesday. Here's what we're watching:

• Why Apple's share repurchases have been good for investors.

• Will the Fed offer clues about future rate increases?

• How activist investors shook Xerox.

• On the earnings calendar: Tesla, where Elon Musk will face plenty of questions.

Get this in your inbox each morning. Sign up here.

Telsa by the numbers

Tesla lost nearly $800 million in the first three months of the year, the sixth quarter in a row it has lost money.

But Tesla's chief executive, Elon Musk, said the company was on the verge of a decisive upturn and could make money in the second half of the year. That, of course, came with a major caveat: Tesla achieving its latest goals for Model 3 production, which is well behind schedule.

Here's a look at the numbers:

• Tesla's net loss increased to $784.6 million from a loss of $397.2 million a year ago.

• Tesla's adjusted loss per share came in at $3.35. Analysts polled by Thomson Reuters expected a loss per share of $3.58.

• Revenue climbed to $3.41 billion, topping analyst expectations of $3.28 billion.

• Tesla's negative free cash flow increased to about $1 billion in the first quarter, up from $277 million during the fourth quarter of last year.

• The company had $2.67 billion in cash at the end of the first quarter, compared with $3.37 billion at the end of December.

White House considers further restrictions of Chinese telecoms

The Trump administration is considering executive action to further restrict the sale of Chinese telecommunications equipment in the United States,

What is in the executive order, which could be released within days:

• It is expected to raise the barrier for government agencies to buy products from foreign telecom equipment providers like Huawei and ZTE, two of China's most prominent technology firms.

• Private government contractors may also be restricted from buying foreign telecom products, which the United States believes may be vulnerable to Chinese espionage or disruption.

The order would follow a series of intensifying actions by the Trump administration to block Chinese technology.

• In March, the Federal Communications Commissiontook action to block broadband companies that receive federal subsidies from buying equipment from suppliers that are deemed a risk to national security.

• In April, the Commerce Department barred ZTE from purchases of American technology for seven years, saying that the company failed to punish employees who violated sanctions.

• On Wednesday, a spokesman for the Department of Defense said it was stopping the sale of phones made by Huawei and ZTE in stores on American military bases around the world because of security concerns.

Investors focus on Fed's use of 'symmetric'

As expected, the Federal Reserve held interest rates steady at the conclusion of its two-day policy meeting on Wednesday.

The central bank acknowledged rising inflation but provided little indication that officials are worried about a sudden, rapid escalation in prices or an abrupt slowdown in economic growth that could alter its gradual pace of rate increases.

Perhaps the biggest change to the Fed policy statement was the use of the word "symmetric" to describe its inflation target.

The Fed uses the word "symmetric" to emphasize that its goal is to prevent inflation running persistently above or below 2 percent. Put another way, investors should not see a 2 percent inflation rate as a level never to be breached. Indeed, on Wednesday, investors appeared to view the Fed's use of "symmetric" as a signal that the Fed was willing to allow inflation run above the 2 percent level for a period. Ward McCarthy, the chief financial economist at Jeffries, wrote:

Why Apple's share repurchases have been good for investors

Apple's stock buyback program isn't just bigger than those of other companies, it's also better at doing what investors want share repurchases to do.

Apple on Tuesday said it was going to buy back another $100 billion of its own stock. The company announced the plan as it is about to complete a $210 billion stock repurchase program. As large as those numbers seem, they don't reveal the degree to which the repurchases have benefited shareholders. What matters to them is whether Apple has significantly fewer shares outstanding at the end of the program. If that is achieved, Apple's earnings per share will be higher, which could lead investors to view the stock more positively.

Apple's diluted shares outstanding have fallen nearly 24 percent over the past five years. Here's how that compares with some companies that are known for their large stock buybacks. Over the past five years, IBM's shares outstanding have declined by some 18 percent, Cisco's have decreased just over 8 percent, and Microsoft's have fallen by 7.5 percent.

Apple's cash flow statements show it has spent nearly $200 billion on stock repurchases over the past five years, which works out at 57 percent of its cash flow from operations for the period. That percentage is also above that of other companies. The cash Cisco spent on stock repurchases over the past five years amounted to 46 percent of its cash flow from operations. At IBM, that number was 44 percent.

— Peter Eavis

Apple's big tax cut plan: stock buybacks

Repurchasing $100 billion worth of shares should use a lot of Apple's famous $252 billion cash hoard. But it isn't an investment in R.&D. or hiring, and it disproportionately affects wealthier stockholders rather than most people.

The buybacks aren't coming at the expense of U.S. investment or job-creation, Apple says. (Its C.F.O., Luca Maestri, said Apple was indeed investing, but that didn't mean it should keep extra cash on its balance sheet.) But there's a pattern of American companies using their tax windfalls to reward investors rather than to expand.

Peter Eavis's take: The amount sounds like a lot, but Apple has a huge **stock market** value, and investors are now used to buybacks.

How Apple's business looks: Pretty good. Higher iPhone prices helped. And services revenue is growing strongly.

Will the Fed offer clues about future rate increases?

Most everyone expects the Federal Reserve to hold interest rates steady at the conclusion of its two-day policy meeting on Wednesday.

But investors and policymakers will comb over the Fed's policy statement for clues about whether the central bank plans to raise rates more quickly than previously telegraphed.

Here's what to watch:

• Any new signs of officials expressing concern about an acceleration in prices. Investors would likely interpret any new worries about inflation to mean the pace of rate hikes could quicken.

• Are risks to the economy increasing? Fed officials are broadly optimistic about the strength of the economy, but a few have noted that there are some risks on the horizon for growth — most notably a potential drag from a trade dispute with other nations. Growing concerns about these risks would likely to be taken by the markets as evidence that the Fed will not deviate from its plan to raise rates gradually.

Amazon reportedly to bid for Flipkart

Amazonhas reportedly made an offer to buy a 60 percent stake in India's leading online retailer Flipkart, according to CNBC affiliate CNBC TV-18. Amazon's offer would set up a potential bidding war with Walmart, which the NYT reported late last month was nearing a deal to acquire a 60 percent stake in Flipkart. The deal would value Flipkart at about $20 billion, the NYT reported.

Snap is trading at its all-time low.

The stock is down more than 18 percent after Snap's revenue, profit and daily average users all fell short of analysts' estimates. Snap said its recent redesign of its Snapchat app was dragging down the company's performance.

"A change this big to existing behavior comes with some disruption," said Evan Spiegel, Snap's chief executive.

Critics' corner

Ross Sandler, an analyst at Barclays, writes that there was little positive to point to in Snap's first-quarter results.

Brian Nowak, an analyst at Morgan Stanley, said:

Sam Kemp, an analyst at Piper Jaffray, said:

How activist investors shook Xerox

Carl Icahn and Darwin Deason can celebrate a major achievement: getting the onetime American icon to replace its C.E.O., Jeff Jacobson, and chairman, Robert Keegan, and to rethink its planned merger with Fujifilm. (They own 15 percent of the company between them.)

More from David Benoit of the WSJ:

The fight may not be over: Fujifilm said today that it's appealing the injunction.

A must-read: What C.E.O.s get wrong about activists, by Frank Partnoy and DealBook friend Steven Davidoff Solomon. And unrelatedly, are they oversharing?

What regulators will ask about the T-Mobile deal

As the T-Mobile and Sprint C.E.O.s make the rounds in Washington this week to pitch their $26.5 billion deal, three regulators have a role:

• The Justice Department, which has been harder than expected on M.&A., will assess whether consumers face higher prices.

• The F.C.C. will consider whether it's in the national interest to let the national wireless market shrink from four providers to three.

• Cfius will rule on how the deal might affect national security.

The F.C.C. chairman has sounded warm about consolidation, and controlling shareholders of both companies have passed Cfius reviews before. But regulatory approval is still an open question, and Sprint and T-Mobile's share prices reflect that.

The political flyaround

• California sued the Trump administration over the E.P.A.'s efforts to weaken car emissions standards. (NYT)

• Robert Mueller reportedly warned President Trump's legal team that he may seek a subpoena. James Comey thinks the president should submit to an interview. But there are reasons it could prove tricky. Rod Rosenstein described receiving threats, and said that the Justice Department "is not going to be extorted."

• Scott Pruitt's trip to Morocco in December was partly planned by a lobbyist who then landed work from the Moroccan government. (NYT)

• Mr. Trump's former doctor, Harold Bornstein, said that said two Trump Organization executives had "raided" his office last February to seize the president's medical records. (NBC News)

The difficulties of a multifront trade fight

As President Trump continues to negotiate with the E.U., Canada and Mexico after extending tariff exemptions by 30 days, his administration is finding that fighting a trade battle on multiple fronts is tough, Peter Eavis writes.

Canada and Mexico's reprieve from aluminum and steel tariffs may advance Nafta negotiations, but the E.U. got its concession without apparently giving anything up, probably putting it in a stronger position. And the longer the U.S. and the E.U. are at an impasse, the less likely it is that they can push back against China together.

He said it: "There will be pain, but the idea there will be Armageddon and everything will be horrible simply is not true," Commerce Secretary Wilbur Ross said at the Milken Institute Global Conference yesterday.

Elsewhere in trade: The Treasury Department has given Rusal a potential way off a sanctions blacklist. T hat could prevent its delisting from the London Stock Exchange — and ease panic in the global aluminum markets.

Facebook resumes empire building

Yes, the social giant introduced a tool at its F8 developer conference to let people wipe their browsing history on the site. And Mr. Zuckerberg acknowledged the rough times he and the company have endured this year, wincingly joking about his congressional testimony. But the company's attitude toward growth hasn't changed. "The world would lose if Facebook went away," he told developers.

Facebook said it was working on a portable Oculus virtual reality device and — what got everyone's attention — a dating app that sent shares in the Match Group plunging. (The C.E.O. of IAC, which owns Match Group, responded: "Their product could be great for U.S./Russia relationships.")

Elsewhere in social media: Snapchat's users didn't like its redesign, and investors didn't like its parent company's results. The creators of Signal say Amazon has threatened to remove their messaging app from its CloudFront service unless they stop disguising web traffic's origins. Iran blocked Telegram.

Elsewhere in tech: Netflix wasn't at the Milken Institute Global Conference, but everyone was talking about it. Amazon is still choosing a second home city, but it's building in Boston and Vancouver. Can Google's collegelike culture survive? U.S. regulators are examining whether Ether's creation broke securities laws.

Lantern Capital won The Weinstein Company

That's despite an 11th-hour bid from Inclusion Media, whose $315 million offer — Lantern's was $310 million — included a settlement fund for Harvey Weinstein's victims and was backed by several of them. The board of the bankrupt movie studio said it didn't consider Inclusion's bid credible.

Next stop: The judge in The Weinstein Company's will decide whether to approve Lantern's deal.

Elwhere in misconduct news: Wendell Jamieson, who resigned as the NYT's metro editor, had been accused of inappropriate behavior by at least three female employees. Time's Up has backed #MuteRKelly.

The deals flyaround

• J Sainsbury's C.E.O. probably shouldn't have sung "We're in the money" as he waited for a television interview about his bid for the Asda supermarket chain — at least, not with the camera rolling. (NYT)

• Vista Outdoor is selling its gun-making business. (NYT)

• Birchbox reportedly sold a majority stake to an existing investor, Viking Global, leaving other shareholders with nothing. (Recode)

• Ciscosold its video business back to Permira for $1 billion, a fifth of what it paid in 2012. Cisco also bought Accompany, an A.I.-based relationship analysis start-up, for $270 million.

Revolving door

• Dan Loeb is stepping down as chairman of Success Academy Charter Schools after five years. (NYT)

• The medical advice start-up HealthTap fired its C.E.O., Ron Gutman, over accusations he intimidated employees. (Recode)

• MetLife's C.F.O., John Hele, will leave after the company reported "material weakness" in its financial statements. (FT)

• Jess Verrilli, who went from Twitter to GV to Twitter, is back at GV. (Recode)

• Morgan Stanley named Clare Woodman as its first female head of Europe, the Middle East and Africa. (FT)

The speed read

• Goldman Sachs has just two women on its 11-member board, lagging other banks. (The Street)

• A common job-interview question helps maintain the gender pay gap. (NYT)

• Some rust belt cities have kept their sheen, but it may just be good luck. (NYT)

• AllianceBernstein is reportedly moving to Nashville to cut costs. (WSJ)

• How a crackdown on aggressive borrowing in China is hurting Hollywood. (The Information)

• BP's C.F.O., Brian Gilvary, dismissed a claim that its C.E.O., Bob Dudley, had been poisoned in Moscow as "a complete urban myth." (CNBC)

• Britain is to order its overseas territories, including the Cayman Islands and Bermuda, to publicly identify company owners. (FT)

• Switzerland is prosecuting two PetroSaudi International officials over alleged dealings with the Malaysian state investment fund. (WSJ)

Know someone who would enjoy this newsletter? Tell them to sign up here.

You can find live updates throughout the day at nytimes.com/dealbook.

We'd love your feedback. Please email thoughts and suggestions to bizday@nytimes.com.

Roman Pilipey/EPA, via Shutterstock | Brendan Smialowski/Agence France-Presse — Getty Images | Officials including Jerome H. Powell, the Federal Reserve's chairman, have noted some potential risks to growth, and it is possible, though unlikely, that the Fed will reflect more of those concerns in its statement after Wednesday's meeting. | Erin Schaff for The New York Times | Carl Icahn | Neilson Barnard/Getty Images for The New York Times | Markus Schreiber/Associated Press | Marcio Jose Sanchez/Associated Press | Chris Pizzello/Invision, via Chris Pizzello/Invision/Ap | ITV News | Michael Nagle for The New York Times

Document NYTFEED020180502ee52002p9

The New York Times

U.S.; Politics
Fed Holds Rates Steady and Stays on Track for June Increase

By Jim Tankersley
1,153 words
2 May 2018
05:00 AM
NYTimes.com Feed
NYTFEED
English

WASHINGTON — The Federal Reserve held interest rates steady at the conclusion of its two-day policy meeting on Wednesday, acknowledging rising inflation but providing little indication that officials are worried about a sudden, rapid escalation in prices or an abrupt slowdown in economic growth that could alter its gradual pace of rate increases.

The decision not to raise rates was widely expected, after the Fed raised rates in March, and it was made unanimously by the members of the Federal Open Market Committee. The official statement from the committee gave no indication that Fed officials plan to raise rates more quickly than previously telegraphed.

Officials made only a few changes from the language they used to describe inflation and growth after the March meeting. Most notably, they acknowledged that “on a 12-month basis, both overall inflation and inflation for items other than food and energy have moved close to 2 percent,” which is the central bank’s stated target for inflation.

The Fed is midway through what is meant to be a long and gradual march toward historically normal rates. It raised its benchmark interest rate in March, to a range of 1.5 to 1.75 percent. Economic projections released at that meeting indicated that officials were split on whether they expected to raise rates a total of three or four times this year, with a narrow majority leaning toward three overall.

Economists overwhelmingly predict that the Fed will next raise rates in June, but after that, the consensus begins to break down. Some analysts say to expect four total rate increases this year given the strength of the economy, including a historically low unemployment rate.

Inflation has finally reached the Fed’s target

Data released on Monday showed that wages and prices are now growing at 2 percent a year, according to the Fed’s preferred inflation measure, the personal consumption expenditures price index. Excluding **volatile** food and energy prices, the rate is 1.9 percent. Those levels are important because they indicate inflation is finally reaching the 2 percent level that the Fed has explicitly targeted, after six years of failing to meet that goal.

Officials acknowledged that increase on Wednesday, in a change from the March meeting statement, which declared inflation and core inflation rates “have continued to run below 2 percent” and that annual inflation is “expected to move up in coming months” and stabilize around 2 percent.

But the statement released on Wednesday showed no signs of alarm, as of yet, over rising inflation. Officials said that annual inflation “is expected to run near the Committee’s symmetric 2 percent objective over the medium term.” They eliminated a line from the March statement that declared “the Committee is monitoring inflation developments closely.”

Several Fed officials have raised concerns in recent weeks about the economy “overheating” and pondered whether the Fed may need to pour some cold water on the economy with higher interest rates. The concern is that if the Fed does not raise interest rates quickly enough, wages and prices could begin to spiral up, forcing a sharp rate increase that could push the economy into recession.

If such a situation arises, “it’s very hard to navigate that without having an economic downturn,” Eric Rosengren, the president of the Federal Reserve Bank of Boston, said in an interview last month. “My concern is that’s much worse than just having slightly slower growth” from a slightly faster pace of rate increases.

Diane Swonk, chief economist at Grant Thornton, said in a research note this week that “the recent firming in inflation validates the Fed’s assumption that the slowdown in inflation last year was transitory.”

“The Employment Cost Index picked up during the first quarter,” she said, “another sign that the economy is delivering the warming trend in wages and inflation” that the Fed has been watching for.

No sign of economic growth concerns

The chairman of the Fed, Jerome H. Powell, and other officials are broadly optimistic about the strength of the economy but have noted some risks on the horizon for growth — most notably a potential drag from a trade dispute with other nations. Some economists have also raised early concerns about slowing growth in Europe, which could affect the United States, and about other market metrics that could portend a slowdown, such as the rise in Treasury bond yields.

There were few hints of those concerns in this meeting’s statement.

The statement declared that “business fixed investment continued to grow strongly” since the last Fed meeting, which was more **bullish** language than the March statement. It noted, as it did in March, that household spending growth had moderated since the end of last year. It eliminated a line from the March statement that declared “the economic outlook has strengthened in recent months,” but did not add any new language about risks to growth.

Officials said “risks to the economic outlook appear roughly balanced,” a slight change from March, when they declared “near-term risks” appeared roughly balanced.

In a research note this week, Krishna Guha of Evercore ISI said the statement would most likely lend “no support” to the idea that growth concerns could lead officials to slow the pace of rate increases in the months to come.

“We think the F.O.M.C. will retain the basic assessment that the economic outlook has strengthened in recent months, though this could be rephrased, for instance, to say the outlook remains solid,” Mr. Guha wrote. “And we think it will repeat the mantra that ‘further gradual adjustments in the stance of monetary policy’ will be warranted.”

A ‘stay the course’ statement

The language in the statement, and the decision on rates, validated Fed watchers who had predicted few changes this month. In part, that’s because there haven’t been significant surprises in economic data since the last meeting — everything is more or less continuing to unfold as officials envisioned.

“We do not expect any major changes to the policy statement other than to mark the language to the incoming data,” analysts at Bank of America Merrill Lynch wrote this week. “We expect the committee to reaffirm their outlook for the economy and the path of policy from the previous statement, setting up the committee for a rate hike at the June meeting.”

* Fed Officials Worry the Economy Is Too Good. Workers Still Feel Left Behind.

* Fed Officials Have Concerns About Trade, March Meeting Minutes Show

* Powell Touts Economy’s Strength in First Speech as Fed Chief

Officials including Jerome H. Powell, the Federal Reserve’s chairman, have noted some potential risks to growth, and it is possible, though unlikely, that the Fed will reflect more of those concerns in its statement after Wednesday’s meeting. | Erin Schaff for The New York Times

Document NYTFEED020180502ee52001xv

THE WALL STREET JOURNAL.

Heard on the Street
Markets

What the Rising Dollar Says About Global Growth; Investors were happily betting on a synchronized global upswing, but that trade risks unwinding as economies appear to diverge

By Richard Barley
531 words
2 May 2018
11:28 AM
The Wall Street Journal Online
WSJO
English

Was it just a mirage? The stronger, more synchronized growth in the world economy that powered markets in 2017 has faltered at the start of 2018. As that has become ever clearer in recent weeks, the U.S. dollar has rebounded suddenly and surprisingly. The uncomfortable reality is that economic, financial and monetary-policy cycles are in very different places around the world.

On the growth side, Wednesday's first-quarter eurozone gross domestic product data confirmed a slowdown, with annualized expansion falling to 1.7% from 2.7% in the fourth quarter, well below the 2.3% pace recorded by the U.S. Emerging-market growth appears to have softened too, early in 2018.

The expectation last year that global central banks were all moving toward ending their extraordinary monetary policy may be proven premature. With U.S. inflation perking up, the Federal Reserve appears to be the only central bank pursuing that path, although it isn't expected to move on Wednesday.

Others are looking more hesitant. The Bank of Japan has abandoned its attempt to predict when inflation will reach 2%. In the U.K., weak data has led analysts to abandon the belief that the Bank of England will raise rates next week. And the European Central Bank is still waiting for signs of sustained inflation; some analysts are starting to wonder if the exit from bond purchases might not come in 2018 after all.

Global interest rates are diverging further, rather than converging. Remarkably, the two-year **U**.**S**. **Treasuryyield** is well above that on 30-year bonds in Germany, the U.K. and Japan. The gap between 10-year U.S. and German yields has reached its widest in 29 years.

As long as there was a belief in the accelerating global growth story, investors confidently made trades like betting on a rise in the euro against the dollar. That trade got crowded, leading to the rapid, painful rebound in the dollar in the past month. The future of global growth has got harder to read as well. Bad weather may have caused the slowdown in Europe, for example.

What has become clear is that growth and inflation will remain on track in the U.S. That will force investors to focus on continued tightening by the Fed. The concern is that monetary policy will be tightened too much, ending a long-running U.S. expansion, even before other central banks have really got off the launchpad.

The more worrying scenario is if last year's synchronization was more a matter of the economic stars aligning briefly, with faster growth masking the differences between regions of the world. If U.S. growth continues to diverge from elsewhere, then U.S. bond yields might rise further, and the dollar could gain more ground. The global growth consensus—and popular trades based on it, such as emerging-market stocks and bonds—would face a challenge.

Write to Richard Barley at richard.barley@wsj.com

Document WSJO000020180502ee5200335

THE WALL STREET JOURNAL.
U.S. EDITION

Regulators Weigh Treating Virtual Currencies as Securities

By Dave Michaels and Paul Vigna
754 words
2 May 2018
The Wall Street Journal
J
B13
English

Bitcoin has largely escaped government oversight, but regulators are examining whether other widely traded cryptocurrencies should be regulated as securities, according to people familiar with the matter.

The inquiry includes a focus on ether, representing a significant threat to virtual currencies, which haven't been drawn into a regulatory crackdown on potential fraud in the market for the assets. Until now, regulators hadn't questioned whether rules designed for stocks should apply to virtual currencies such as ether, the world's second most valuable cryptocurrency after bitcoin, with a market value of about $66 billion.

The analysis, by federal securities and commodities regulators, turns on whether the creators of virtual currencies other than bitcoin exert significant influence over their value, in the same way a company's **stock price** depends on its managers and their strategy, performance and investments, the people said. The Commodity Futures Trading Commission has deemed bitcoin to be a commodity, meaning it isn't subject to investor-protection laws enforced by the Securities and Exchange Commission.

Some regulators think ether is in a "gray zone," but believe its creation in 2014 was probably an illegal securities sale, the people said. Silicon Valley backers such as venture-capital firm Andreessen Horowitz disagree, saying no particular person or entity stands behind ether or is responsible for driving its value.

Under U.S. law, companies that issue stocks or bonds must either register the deal with the SEC -- and give investors extensive disclosures -- or limit the sale to sophisticated institutions and the rich. Ether's founders didn't register the 2014 sale and sold the coins to anyone willing to buy.

Any determination from regulators that ether is a security could spark a wave of selling and rattle major trading venues such as Coinbase that allow investors to buy and sell it. Coinbase has discussed applying for an SEC license to operate as a brokerage firm, a process that could bring the fight over ether to the surface because brokers can't deal in unregistered securities.

Gary Gensler, a former CFTC chairman, said in a speech last week that "there is a strong case that one or both of ETH and [Ripple's] XRP are noncompliant securities," using the shorthand for the virtual currencies.

Ether's backers say it serves a purpose beyond trading. The virtual currency is paid to people who run the Ethereum program on their computer, a necessary function for a decentralized project. Supporters of ether, including Andreessen Horowitz, also note that ether is mined -- or created -- by that broad community of users, not any single person or entity.

Ether "has become so decentralized it should not be deemed a security," a group of venture capitalists including Andreessen and Union Square Ventures wrote in a proposal seeking a broad regulatory exemption, which was submitted to the SEC in late March.

Coinbase declined to comment on regulators' questions about ether.

Cryptocurrency developers and some of the lawyers representing the industry are frustrated that the SEC continues to apply an arcane legal test to determine whether a new generation of assets, such as ether, fall into the basket of assets that it regulates.

The "Howey Test," named for a 1946 Supreme Court case involving interests in an orange grove, requires regulators to assert whether the investment was made in a "common enterprise" and whether anticipated profits depend on the efforts of others.

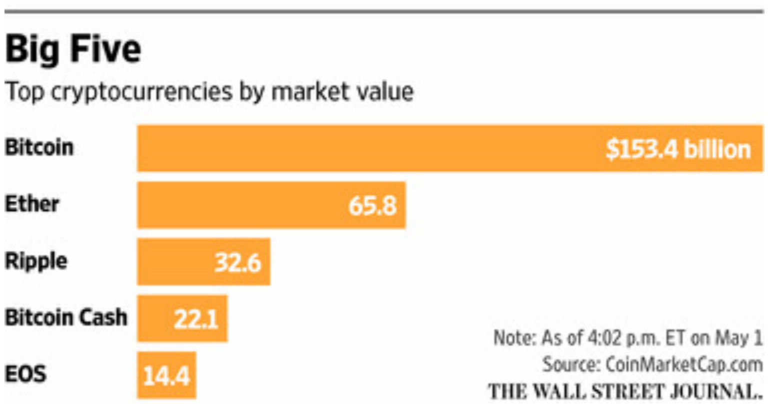
Regulators have studied the role of central actors, such as the Ethereum Foundation, which developed ether and oversees improvements to its software network, in driving the asset's value. The foundation pays "bug bounties," which reward programmers who fix vulnerabilities in ether's code, showing the nonprofit influences improvements that can boost the virtual currency's value, one of the people familiar with the matter said.

Regulators are studying what other factors account for fluctuations in ether's price, some of which temper the case for calling it a security. For instance, the government is looking at how much of its demand stems from people who use ether to run applications on the software platform.

A working group of regulators including senior SEC and CFTC officials are scheduled to discuss the matter on Monday, one of the people said.

The foundation says it doesn't control the supply or demand of ether and owns less than 1% of the amount in circulation.

Gabriel T. Rubin contributed to this article.



License this article from Dow Jones Reprint Service

Document J000000020180502ee5200029

The New York Times

Business/Financial Desk; SECTB
Led by Tech, Markets Rebound After an Early Slump

By THE ASSOCIATED PRESS
1,016 words
2 May 2018
The New York Times
NYTF
Late Edition - Final
5
English

U.S. stocks clawed back early losses Tuesday as Apple led a rally in technology companies. Smaller, more domestically-focused companies also climbed. The late push offset a slump in household goods makers and industrial companies.

Stocks fell in the early going as investors focused on trade tensions, a drop in construction, and weaker growth in manufacturing. Steel makers lost ground after the White House said it will delay its decision to impose tariffs on imports of steel and aluminum from the European Union, Canada and Mexico for 30 days. The **Dow Jonesindustrial average** fell as much as 354 points, then recovered much of that loss and closed down 64.

Amazon and other retailers rose, while banks and health care companies wiped out early losses to finish slightly higher.

Randy Frederick, vice president of trading and derivatives at Charles Schwab, said the that even though companies are reporting great first-quarter results, the market isn't reacting very much. He thinks some people don't want to invest because the market has gone through such huge swings over the last three months.

"It's been the best earnings season we've had in 10 years," he said. "People are starting to sit out. And part of the reason they're sitting out is we're having such high **volatility**."

The **S&P 500 index** rose 6.75 points, or 0.3 percent, to 2,654.80. The Dow slipped 64.10 points, or 0.3 percent, to 24,099.05 as Boeing (NYSE:BA) fell along with other industrial companies and McDonald's gave back some of the previous day's gain.

Technology companies surged, sending the **Nasdaq composite** up 64.44 points, or 0.9 percent, to 7,130.55. The Russell 2000 index of smaller-company stocks added 8.44 points, or 0.5 percent, to 1,550.33.

Apple climbed 2.3 percent to $169.10 in regular trading. Its stock rose 4 percent in aftermarket trading after the company's fiscal second quarter profit surpassed Wall Street's expectations, as did its sales forecast for the current quarter. The company also raised its dividend and said it will buy back $100 billion in stock.

Apple, the most valuable publicly traded U.S. company, has lagged behind peers like Microsoft (**NASDAQ**:MSFT) and Intel (**NASDAQ**:INTC) as investors worried about the possibility of slowing iPhone sales.

Intel added 3.3 percent to $53.33 and video game maker Electronic Arts rose 1.6 percent to $119.83.

Electronic storage company Seagate Technology (**NASDAQ**:STX) plunged 6.4 percent to $54.21 after its fiscal third-quarter report. The stock is still up almost 30 percent this year.

The administration's delay in imposing tariffs sidesteps a potential trade battle with Europe for now, but European Union leaders want a permanent exemption and say the uncertainty caused by delays is bad for business. The announcement comes ahead of the trade talks between U.S. and China later this week.

Industrial companies struggled. Boeing fell 1.2 percent to $329.54 and engine maker Cummins tumbled 4.1 percent to $153.28 after its first-quarter report. Lockheed Martin (NYSE:LMT) sagged 3.9 percent to $308.46 as defense contractors continued to struggle.

U.S. manufacturing kept growing in April, but it did so at a slower pace, according to the Institute for Supply Management, a trade group of purchasing managers. Many factories said shortages of workers and skills affected their productivity. Meanwhile the Commerce Department said construction spending fell in March as home building dropped sharply.

Frederick, of Charles Schwab, said investors haven't had to deal with a lot of weak economic data in the last year.

"That's something the market is kind of not used to," he said.

After Mark Zuckerberg said Facebook is developing its own dating feature, shares of Match Group tumbled. The operator of dating apps including Match, OKCupid and Tinder plunged 22.1 percent to $36.71 and its biggest investor and former parent company, IAC/InteractiveCorp (**NASDAQ**:IACI) , lost 17.8 percent to $133.33.

Pfizer (NYSE:PFE) slumped as its first-quarter sales fell short of estimates. The maker of pain medicine Lyrica and the blockbuster Prevnar 13 vaccine against pneumococcal infections said sales of older medicines slipped and its stock lost 3.3 percent to $35.40.

Tapestry, Coach's parent company, lost 11.7 percent to $47.46 as its Kate Spade and Stuart Weitzman brands had a weak first quarter.

Commodities prices fell as the dollar grew stronger. **Oil prices** gave up some of their recent gains. Benchmark U.S. crude fell 1.9 percent to $67.25 a barrel in New York. Brent crude, the international standard, declined 2.1 percent to $73.13 a barrel in London.

Wholesale gasoline lost 2 percent to $2.09 a gallon and heating oil fell 2.3 percent to $2.10 a gallon. Natural gas rose 1.4 percent to $2.80 per 1,000 cubic feet.

Gold fell 0.9 percent to $1,306.80 an ounce and silver lost 1.7 percent to $16.13 an ounce. Copper dipped 1.2 percent to $3.04 a pound.

Bond prices edged lower. The yield on the **10**-**year Treasury** note rose to 2.97 percent from 2.96 percent. The 10-year yield hit a four-year high last week.

The dollar rose to 109.81 yen from 109.29 yen. The euro fell to $1.1993 from 1.2082.

Britain's FTSE 100 rose 0.1 percent and the Japanese Nikkei 225 rose 0.2 percent. Markets in France and Germany, Hong Kong, Shanghai, Seoul and most cities in Southeast Asia were closed for public holidays.

This is a more complete version of the story than the one that appeared in print.

CHART: The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Tuesday. (Source: Reuters)

Document NYTF000020180502ee520004z

The New York Times

Business/Financial Desk; SECTB
Apple, Awash in Cash, Buys Back More Stock

By JACK NICAS
916 words
2 May 2018
The New York Times
NYTF
Late Edition - Final
4
English

SAN FRANCISCO -- Since Apple said in January that it would bring back most of the $252 billion it held abroad under the new tax law, investors have wondered what the company would do with the enormous cash pile. On Tuesday, those investors learned that they are in line for a big chunk of the money.

Apple said it would buy back an additional $100 billion in stock, by far the largest increase in its already historic record of returning capital to investors. The company didn't provide a timeline for the repurchases. Apple also increased its dividend by 16 percent to 73 cents a share, pushing past Exxon Mobil to become the largest dividend payer, according to S&P Dow Jones Indices.

Apple's stock buyback fits into a broader trend of companies using the financial windfall from President Trump's tax cut to reward shareholders. Share buybacks, which are reaching record levels, are great for investors, including executives and employees, because they reliably lift stock prices by limiting the supply of shares for sale.

But critics say the actions can take money away from potential investments in hiring or research and development, and can increase economic inequality because they typically benefit wealthier people.

Investors should want companies to reinvest in themselves and their employees versus repurchasing their own stock to increase the share price, said William Lazonick, an economics professor at the University of Massachusetts, Lowell, who studies stock buybacks. ''It's nothing but a manipulation of the **stock market**.''

Luca Maestri, Apple's chief financial officer, said in an interview that Apple was making significant investments in hiring, research and development, and manufacturing, ''but we also have a very, very profitable business.''

He said that ''because we're making all the right investments all around the company, it makes perfect sense for us not to keep the cash on our balance sheet but return it to investors.''

No company has ever done stock buybacks like Apple. In the most recent quarter, Apple repurchased $23.5 billion in stock -- the largest single stock buyback ever and more than the market value of 275 of the companies in the **Standard & Poor's 500**-**stockindex**, said Howard Silverblatt, a senior index analyst with S&P Dow Jones Indices.

Apple said Tuesday that it had now returned $275 billion to shareholders since 2012 and that it planned to finish its previous stock-buyback program in the current quarter, about nine months early.

In March, Senator Tammy Baldwin, Wisconsin Democrat, introduced legislation that would restrict companies' ability to buy back stock, though the bill has little chance of passing.

Other academics and investors cheered Apple's continued returns to shareholders.

''People like to believe the stories that C.E.O.s do things to boost the short-term **stock price** and line their own pockets,'' said Alex Edmans, a finance professor at the London Business School. ''But if you look at hundreds of examples, you find that stock buybacks do increase long-term value.''

He said that companies typically bought back stock only when they had extra cash that they would not reinvest otherwise, and that investors would spend that money elsewhere.

Apple said its profit increased 25 percent to $13.8 billion in the most recent quarter on the back of strong revenue growth for iPhones, the Apple Watch and its services business. Apple earned $2.73 a share, it said, beating Wall Street estimates by 6 cents. Revenue rose 16 percent to $61.1 billion.

The three months ending with March were Apple's first full quarter selling its new flagship phone, the iPhone X. Analysts had pointed to signs, including the financial results of Apple's suppliers, that the device and its sister iPhone 8 and 8 Plus had not revitalized Apple's iPhone business as the company had hoped. Many analysts lowered their estimates for Apple in recent weeks as a result.

Apple said it sold 52.2 million iPhones in the quarter, or 3 percent more than a year earlier. But an 11 percent increase in their average price -- driven by the $1,000 iPhone X -- helped raise iPhone revenue by 14 percent.

Timothy D. Cook, Apple's chief executive, hit back at the notion that the iPhone business, which accounts for 62 percent of the company's overall revenue, had little room to grow. ''I don't buy the view that the market is saturated,'' he said.

Investors have also worried that Apple's influence in China, the company's No. 2 market, is waning amid stronger competition from Chinese rivals. But Apple's results suggest that Chinese consumers are willing to pay for the pricier iPhones. Apple said revenue in mainland China, Taiwan and Hong Kong had risen 21 percent to $13 billion, the largest increase in 10 quarters.

And Apple's services revenue, which includes iCloud and Apple Music subscriptions and its share of app sales, rose 31 percent to $9.2 billion. Apple said consumers had paid for more than 270 million subscriptions for its services or ones sold via its App Store, up from roughly 170 million a year earlier.

Follow Jack Nicas on Twitter: @jacknicas

An Apple store in Beijing. Despite fears about stronger competition from Chinese rivals, Apple said its revenue in mainland China, Taiwan and Hong Kong had risen 21 percent, to $13 billion. (PHOTOGRAPH BY MARK SCHIEFELBEIN/ASSOCIATED PRESS)

Document NYTF000020180502ee5200034

THE WALL STREET JOURNAL.

Politics

Trump's Aggressive Trade Agenda Brings Heightened Tensions; Number of self-imposed deadlines for agreements make May a crucial month

By William Mauldin and Ben Eisen
1,334 words
1 May 2018
The Wall Street Journal Online
WSJO
English

Corrections & Amplifications

The U.S. is considering tariffs on $50 billion in Chinese imports. An earlier version of this article incorrectly stated that the U.S. was considering $50 billion in tariffs. (May 4, 2018)

The Trump administration has set the stage for weeks of heightened tension between the U.S. and its trading partners as administration officials race to meet self-imposed deadlines to complete a series of high-stakes negotiations with China, Mexico, Canada and Europe.

A U.S. trade delegation left Tuesday for China hoping to glean trade concessions from Beijing, while earlier in the day U.S. Trade Representative Robert Lighthizer confirmed, after months of wrangling with Mexico and Canada, a mid-May deadline for the renegotiation of the North American Free Trade Agreement. And the administration set a new June 1 deadline to come to an agreement with European officials on steel and aluminum tariffs.

The developments position May as a crucial month for President Donald Trump to fulfill a campaign promise to rewrite the rules of trade, with the aim of reducing U.S. deficits and protecting American workers. The combative approach to trade has been popular with Mr. Trump's base—and many Democrats—but has heightened economic uncertainties that are likely to spark more **volatility** in the stock and commodities markets.

Mr. Trump has delegated the details of these trade initiatives to Mr. Lighthizer and other senior administration officials, from Commerce Secretary Wilbur Ross to Treasury Secretary Steven Mnuchin. But he also has made clear that the key to success rests with the president alone, an unpredictable negotiator who rarely shows his hand.

"The discussions will take place in Beijing," said senior White House adviser Peter Navarro, before jumping on a flight to Beijing, but "the decisions will take place in Washington."

Mr. Lighthizer confirmed on Tuesday that, from his perspective, the window to renegotiate Nafta will close in mid-May if it is to be approved by the current session of the U.S. Congress.

Separately, the White House granted the European Union and other allies a new, extended deadline of June 1 to come up with concessions to address the U.S. trade deficit, or face tariffs on steel and aluminum. That came as a relief to some foreign capitals, but the move also extended uncertainties until month's end.

Meanwhile, the senior U.S. delegation to China comes as part of a monthslong effort by the U.S. to turn up the pressure on Beijing. Mr. Lighthizer said his office will accept public comments on the first round of levies—tariffs on $50 billion in Chinese imports—until May 22. After that, Mr. Lighthizer said the U.S. can legally impose the tariffs and would be free to begin work on a second set of tariffs, threatened last month, on $100 billion in Chinese imports to the U.S.

Also in the weeks ahead are a public hearing on May 15 over the proposed tariffs on Chinese goods, and a Treasury Department deadline of May 21 for proposals for new restrictions on Chinese investments in critical industries and technologies.

Mr. Trump weighed in on the developments on Tuesday, comparing his administration's trade policies with its efforts to negotiate nuclear disarmament with North Korea. "Delegation heading to China to begin talks on the Massive Trade Deficit that has been created with our Country," Mr. Trump said in a tweet Tuesday.

"Very much like North Korea, this should have been fixed years ago, not now," Mr. Trump said. "Same with other countries and NAFTA...but it will all get done."

Thus, the month of May promises more **volatility** in everything from commodities prices to stock valuations as the business community grapples with the uncertainty.

Washington's threats to impose tariffs already have been rattling Wall Street. Investors dumped stocks earlier this year when they feared the chances of a trade war with China were escalating, only to buy back in when those worries subsided.

Since the steel and aluminum tariffs were announced in early March, the **S&P 500** has fallen 2.2%; it has had moves of 1% or more on 17 of 43 trading days through Tuesday. Some major stock indexes were down again on Tuesday after the delay announcement, with tariff-sensitive industrial stocks continuing to underperform.

"At the end of the day, the market absolutely hates uncertainty," said Dave Lutz, head of exchange-traded fund trading at JonesTrading in Annapolis, Md. "It can handle bad news but it cannot handle uncertainty."

The brinkmanship on trade comes as the U.S. economy has showed renewed signs of life in recent weeks, with the dollar rallying and yields on the **10**-**year Treasury** note crossing above 3% for the first time since 2014. Growth in the first quarter, although slower compared with last year, exceeded analysts' expectations.

Now, some worry the ambiguity surrounding trade talks is leading some companies to delay hiring or spending plans until they have a clearer sense of what the administration will do. "We're somewhat worried about what this type of uncertainty means for the economy going forward," said Torsten Slok, an economist at Deutsche Bank.

Trade concerns may be a factor slowing job growth in the U.S. regions most affected by the tariffs. The U.S. labor market has been adding a smaller share of jobs in states with high production of steel, aluminum, airplanes, cars and soybeans, according to Deutsche Bank.

In March, a weak month for job growth, about three-fifths of new jobs came from those states, versus nearly three-quarters in the final three months of 2017, a sign that a recent slowdown in job creation links back to trade-sensitive industries.

Inflation has remained low for much of the post-financial-crisis period, a key reason the Fed has been slow to lift rates. But tariffs could change the equation by pushing up prices.

Companies including Harley-Davidson Inc. and Polaris Industries Inc. have said in recent earnings calls that tariffs are driving up commodity prices that had already been climbing. Some companies say they will pass on costs to the consumer.

"We expect steel and other commodity costs to be a headwind all year," said Bradley Halverson, chief financial officer at Caterpillar Inc., on an earnings call.

Heating, ventilation, and cooling company Lennox International Inc. said at the start of the year it expected a $40 million impact on pretax earnings from rising commodity prices. After the tariff announcement, the company lifted that projection to $50 million.

Steve Harrison, Lennox vice president of investor relations, said the company is passing the costs on to customers. It raised prices 4% to 6% at the beginning of the year, then on Friday announced another increase of 5% to 8%. His competitors are lifting prices as well, Mr. Harrison said.

While many factors influence employment data in any given month, such as March's bad weather, it is clear the threat of tariffs is unnerving some employers.

In a survey released Tuesday by the Institute for Supply Management, an executive at a manufacturing firm said that the tariff considerations, "are very concerning. Business planning is at a standstill until they are resolved."

Still, some companies expect minimal disruptions, and others say it is too early to know the impact.

"It depends on what day it is as to whether or not this is viewed as a good thing or a bad thing," said James Foote, chief executive officer at railroad company CSX Corp., in a response to a question on an earnings call last month.

Josh Zumbrun contributed to this article.

Write to William Mauldin at william.mauldin@wsj.com and Ben Eisen at ben.eisen@wsj.com

Related Reading

* Why Xi's Hands Are Tied in Trade Talks

* Trump Trade Chief Wants Nafta Deal by Mid-May

* Steel Tariff Decision for EU, Other U.S. Allies Postponed

* Trump Weighs Tariffs on $100 Billion More of Chinese Goods

* What to Know About the EU-U.S. Trade Spat

Document WSJO000020180502ee5200001

THE WALL STREET JOURNAL.

Markets

Carlyle Profit Tops Expectations as Its Portfolio Value Climbs; Earnings fell versus the prior year, however, on a drop in performance revenues

By Miriam Gottfried
579 words
1 May 2018
10:00 AM
The Wall Street Journal Online
WSJO
English

Carlyle Group LP reported a first-quarter profit that exceeded Wall Street's expectations as the value of its portfolio climbed in the face of market **volatility**. Still, a drop in performance revenues meant earnings sagged versus the prior year.

Economic net income, a closely watched performance measure that reflects changes in the value of the firm's holdings, fell to $161 million on a posttax basis, or 47 cents a share, from $364.6 million, or $1.09 a share, a year earlier. Analysts polled by FactSet had expected 29 cents.

For the three months ended March 31, the Washington, D.C., asset manager reported net income of $33.8 million, or 30 cents a share. That compares with a profit of $83 million, or 90 cents a share, in the year-earlier quarter.

Slower growth in the value of the assets in its portfolio was the primary reason for Carlyle's earnings decline versus the year-ago period. The firm told investors to expect portfolio appreciation to moderate as it transitions to investing a new generation of funds.

The value of Carlyle's private-equity portfolio climbed 4% in the first quarter, down from 9% in the first quarter of 2017. By comparison, rival Blackstone Group LP said April 19 that its private-equity portfolio climbed 6.4% in the first quarter of 2018. Both outpaced the **S&P 500**, which fell 1.2% over the period amid a spike in **volatility**.

"The beauty of our business is we don't buy indexes," said Carlyle co-Chief Executive Kewsong Lee on a conference call with analysts Tuesday. "I feel pretty good about our chances to continue to outperform on a relative basis."

Fee-related earnings also dropped in the quarter, coming in at $28.2 million, down from $37.1 million in the first quarter of 2017. Carlyle, which has set a long-term goal of raising $100 billion total in new capital by 2019, said it brought in $7.7 billion in the first quarter alone. Fundraising expenses were $19 million, compared with $7 million a year earlier, Carlyle said.

The firm said it was on track to meet its target of $75 million in fee-related earnings by the fourth quarter of this year as $27 billion of the new capital it has raised gradually becomes eligible for management fees.

Carlyle's distributable income, the slice of profit available for payout to shareholders, came in at 36 cents a share, up from 13 cents a share a year earlier. Carlyle said it would pay a 27-cent dividend, up from 10 cents in the first quarter of 2017.

In March, Carlyle said it would buy the specialty-chemical business of Dutch paint giantAkzo Nobel NV for about $12.6 billion, including debt, in one of the largest private-deals of the year so far.

The firm sold $5.6 billion worth of investments in the first quarter. Among its divestitures was the $1.75 billion sale of valuation and corporate-finance adviser Duff & Phelps to private-equity firm Permira.

Carlyle's assets under management climbed to $201.5 billion, a 29% increase over the previous year.

The private-equity firm's shares were flat in early trading Tuesday

Write to Miriam Gottfried at Miriam.Gottfried@wsj.com

Document WSJO000020180501ee51001up

THE WALL STREET JOURNAL.

U.S. Markets
Markets

Dow Industrials Down but Pare Earlier Losses; The blue-chip index declined for a third straight session but the S&P and Nasdaq gain

By Georgi Kantchev and Allison Prang
633 words
1 May 2018
04:49 PM
The Wall Street Journal Online
WSJO
English

The **Dow Jones Industrial Average** slumped Tuesday but pared most of its losses as investors weighed global trade negotiations, central bank moves and the latest round of corporate earnings and manufacturing data.

The blue-chip index, which declined for a third straight session, tumbled as much as 355 points in midday trading, pressured by falling shares of Pfizer and Merck. But it bounced back to end the day down 64 points, or 0.3%, to 24099.

The **S&P 500** added 0.3%, and the technology-heavy **Nasdaq Composite** rose 0.9%.

The major indexes eked out small gains in April on the back of strong corporate earnings after being rocked by a bout of **volatility** earlier in the year. First-quarter earnings have largely topped expectations, but investors haven't rewarded beats at the same pace as in recent quarters.

Shares of Pfizer fell 3.3% after the pharmaceutical giant reported revenue that fell short of estimates. McDonald's dropped 2.4%, giving back some of the prior session's gains, after reporting on Monday global sales and profit growth in the first quarter that were overshadowed by a decline in U.S. customer visits.

Tapestry, known for the designer brand Coach, was another big mover, declining 12% after reporting weakness at its Stuart Weitzman shoe brand.

Elsewhere, the Institute for Supply Management released its manufacturing data for April, which showed growth had slowed slightly compared with March.

Erik Davidson, chief investment officer for Wells Fargo Private Bank, said the data—which he described as "a little on the weak side"--adds to investors' worries that earnings and the economy have already hit their best marks.

Jeff Mills, co-chief investment strategist for PNC Financial Services Group, said stocks were following Monday's losses and that the manufacturing data didn't help boost shares. But expectations for the ISM data were high and the data wasn't too bad, he said.

"There was no real obvious downside catalyst today," Mr. Mills said.

Outside of earnings and economic data, President Donald Trump late Monday gave the European Union and some nations outside the bloc an additional month to negotiate deals that would exempt them from U.S. steel and aluminum tariffs. The White House said broad tariffs of 25% on steel and 10% on aluminum—already in effect against China, Russia, Japan and others—won't take effect for the EU on Tuesday as previously planned.

"Trade issues and protectionist rhetoric aren't constructive for markets as they could impact growth. But for now it doesn't seem like it will boil over," said Eric Stein, co-director of global income at Boston-based Eaton Vance.

Data released Monday showed that year-over-year inflation hit the Fed's 2% target in March for the first time in over a year, a sign of strengthening U.S. inflation pressures that could encourage the central bank to continue lifting interest rates this year.

Traders were also looking ahead to a Federal Reserve meeting, which concludes Wednesday, where the U.S. central bank isn't expected to announce any major policy moves.

"Markets will be looking for fresh clues about the pace of monetary policy tightening," analysts at Rabobank wrote in a note to clients.

The dollar extended its gains after registering in April its largest one-month advance since late 2016. The WSJ Dollar Index, which tracks the dollar against a basket of 16 currencies, was up 0.6%.

Suryatapa Bhattacharya contributed to this article.

Write to Georgi Kantchev at georgi.kantchev@wsj.com and Allison Prang at allison.prang@wsj.com

Document WSJO000020180501ee51000gp

THE WALL STREET JOURNAL.

Business
BP Shares, Boosted by Higher Oil Prices, Hit Eight-Year High; Oil major reports best quarterly profit since 2014

By Sarah Kent
692 words
1 May 2018
06:45 AM
The Wall Street Journal Online
WSJO
English

LONDON—BP PLC shares rose to levels not seen since shortly after the Deepwater Horizon disaster in 2010, as rebounding **oil prices** led to solid first-quarter results.

Like other big oil firms that have reported recently, London-based BP benefited from recently lofty **oil prices**, but it also showed rising production. The outcome was its strongest quarterly earnings since mid-2014—which could go some way toward convincing investors that BP's ambitious plan to regain its position among the world's top energy companies is gaining steam.

BP's shares rose 1.8% to £5.48, or about $7.50, in London trading on Tuesday.

The stock hit a two-year high of £6.58 on April 21, 2010, the day after the Deepwater Horizon explosion, which killed 11 and sent oil spewing into the Gulf of Mexico, resulting in the worst offshore oil spill in U.S. history. Once investors realized the scale of the disaster, BP shares hurtled lower, hitting a low of £2.96 in June 2010.

Then-Chief Executive Tony Hayward resigned the following month, and BP started what would turn out to be a multiyear, multibillion-dollar effort to recover. To pay for cleanup costs and legal fees, BP was forced to sell off billions of dollars in assets, dramatically shrinking the size of the company. To date, the spill has cost BP more than $65 billion.

The company agreed to a landmark $20 billion deal to settle all federal and state claims for the accident in 2015. Since then, executives, including current chief Bob Dudley, have tried to turn the page on the disaster. Part of that effort has been a plan to return its oil-and-gas production to four million barrels a day, while boosting profits and cash flow.

The company said Tuesday its replacement cost profit—a number analogous to the net income that U.S. oil companies report—was $2.4 billion in the first quarter, compared with $1.4 billion in the same period a year earlier. The last time it reported profit of that size was in the third quarter of 2014, when **oil prices** were hovering near $100 a barrel.

In addition to its Deepwater Horizon woes, BP suffered with the rest of the industry through years of low **oil prices**. **Oil prices** fell to about $25 a barrel in 2016, before rebounding. International crude is now trading near $75 a barrel.

The company's first-quarter production rose 6% from a year earlier. BP started a record number of projects around the world last year and intends to initiate six more in 2018, part of a plan to add 900,000 barrels a day of new production by 2021. That would return output to near its pre-Deepwater Horizon levels of roughly four million barrels a day. On Tuesday, it said it pumped 3.7 million barrels a day in the first quarter.

BP finance chief Brian Gilvary raised the prospect that the company would consider raising its dividend in the second half of the year as it expects debt levels to subside. It kept its payout unchanged for the first quarter.

But BP still hasn't escaped the financial liabilities of the Deepwater Horizon disaster. The company said it paid out $1.6 billion in the first quarter, including the final installment from a settlement with the U.S. Justice Department to resolve all criminal claims. For the full year, payments are expected to total just over $3 billion. The company faces charges of about $2 billion next year, and then more than $1 billion a year out past 2030.

BP caps a mixed earnings season for the world's biggest oil companies. Exxon Mobil Corp., Chevron Corp. and Royal Dutch Shell PLC posted their best first-quarter profits in years, but investors remained skeptical of companies that failed to meet expectations when **oil prices** were at their highest level since 2014.

Write to Sarah Kent at sarah.kent@wsj.com

Document WSJO000020180501ee510018h

THE WALL STREET JOURNAL.

Opinion

Worry About the Trade Deficit—a Bit; The danger is that the U.S. borrows too much money from foreigners. Balancing the budget would help.

By Jason Furman
1,053 words
1 May 2018
06:51 PM
The Wall Street Journal Online
WSJO
English

There is a case for being concerned—though only modestly—about the U.S. trade deficit. The principal villain in this story is not China, Europe or Mexico, but the U.S. itself. Getting that narrative wrong, however, is leading Washington toward policies to reduce the trade deficit that will be somewhere between irrelevant and counterproductive. Simultaneously, the U.S. is pursuing domestic policies that will boost the trade deficit even further.

The U.S. trade deficit has been stable for nearly a decade at about 3% of gross domestic product. That's partly offset by net income that Americans earn on their investments abroad, leading to a current-account deficit of about 2.5% of GDP.

There are sound arguments that a deficit of this magnitude is nothing to worry about. Adam Smith taught that what's really valuable to a country is imports. Exports are merely the unpleasant effort undertaken to get them. Moreover, as long as the Federal Reserve has room to cut interest rates if needed, the trade deficit doesn't cost jobs. Any additional demand that came from reducing the trade deficit would be offset by the Fed as it raises rates. Do a quick global survey: It isn't as if the unemployment rate is lower in countries like Italy that have trade surpluses than in countries like the United Kingdom that have large trade deficits.

Nevertheless, the flip side of the current-account deficit is the large amount of foreign borrowing the U.S. needs to undertake every year. America has been borrowing from abroad since the 1970s, and its net obligations to the rest of the world now stand at 40% of GDP. Having the U.S. dollar as the world's reserve currency—what economists sometimes call America's "exorbitant privilege"—allows the U.S. to borrow relatively cheaply, while Americans invest some of the proceeds in higher-return projects overseas. So far the U.S. is still making money, on net, from its international position. But no one knows how long that will last—and regardless, America would be making even more money if it didn't owe foreigners so much debt.

Future rates of return are unpredictable, but aging is guaranteed. Today there are 4.2 working-age Americans for each one 65 or older. By 2040 that will fall to 2.9. Partly as a result of these demographic trends, most forecasts now expect the economy to grow only about 2% a year. Given all this, borrowing substantial sums from abroad to fund spending today may be unwise, since it will require—all else equal—cutting back on spending in the future.

This is why the International Monetary Fund has recommended that the U.S. cut its current-account deficit roughly in half. That would mean reducing the annual trade deficit by about 1% of GDP, or $200 billion. This may be more aggressive than warranted, but at a minimum the U.S. should endeavor to make sure the current-account deficit does not rise much above about 3% of GDP.

But how? Even the best-executed trade policy will have little effect on the trade deficit. Tariffs? Empirical evidence shows no relationship with trade balances. Argentina has a large trade deficit despite its high tariffs, while Germany has a large trade surplus despite its low tariffs.

What about curbing unfair trade practices by China and other countries? That would boost U.S. exports in some specific industries—but it would also drive up the dollar, hurting other exports and increasing imports. The net effect on the overall trade deficit would be imperceptible, though it might change some of the bilateral balances. How about a trade war? That would do even less to reduce the trade deficit. Higher U.S. and foreign tariffs would cancel each other out, shrinking the volume of trade without altering the net balance.

The reality is that a basic accounting identity holds: The current-account deficit is the gap between total investment and total savings. If a country saves less money than it puts toward things like factories and equipment, it has to finance the difference with foreign borrowing. Ultimately, current-account flows and financial flows must match. America's net imports of cars, oil, clothing and other goods are matched by net exports of government debt, corporate debt and so forth.

For now U.S. investment as a share of the economy seems likely to rise. It's bouncing back from the postcrisis overhang. Higher **oil prices** are driving momentum in the oil-and-gas industry. And the 2017 tax law modestly increases incentives to invest. All told, it would be reasonable to expect investment to rise by about 1% of GDP over the next few years.

At the same time, the federal budget deficit, a form of negative savings, is expected to increase by about 2% of GDP over the next year, with about half of that due to the tax cuts. All else equal, this would increase the current-account deficit by 3% of GDP, which translates to an additional $600 billion in the annual trade deficit. (In reality, increased private savings will likely offset some of the effect.)

What would be a better course? First, pursuing trade enforcement and liberalization in a multilateral fashion. That would not affect the trade balance, but it would expand the volume of both exports (helping support more higher-paid jobs) and imports (benefiting consumers). Then to prevent the trade deficit from growing, the U.S. should increase national savings. One way to boost private savings would be to expand retirement-savings options for workers who do not have them, a policy that would have the added benefit of helping American families prepare better for old age. Cutting the federal budget deficit would directly boost national savings even more. If the U.S. is serious about making progress toward a more sustainable international position, the solution is to stop blaming others and start examining ourselves.

Mr. Furman, a professor of practice at the Harvard Kennedy School, was chairman of the White House Council of Economic Advisers, 2013-17.

Document WSJO000020180501ee510073l

THE WALL STREET JOURNAL.

Markets

Delayed or Not, Tariffs Are Already Squeezing U.S. Companies; Ambiguity surrounding trade talks threatens to put the brakes on corporate spending

By Ben Eisen
973 words
1 May 2018
05:49 PM
The Wall Street Journal Online
WSJO
English

The Trump administration's decision to continue trade negotiations with allies averted new tariffs but threatens to slow corporate spending and drive up costs, developments that could inject new uncertainty into **financial markets**.

The questions about tariffs—and when they would take effect—already have been rattling Wall Street. Investors dumped stocks when they feared the chances of a trade war were escalating, only to buy back in when those worries subsided. Since the tariffs were announced in early March, the **S&P 500** has fallen just 2.2%, but it has had moves of 1% or more on 17 of 43 trading days through Tuesday.

Tariff-sensitive **S&P 500** industrial stocks continued to underperform on Tuesday, falling 0.5%. The broad index fell as much as 0.9% after the delay announcement, but recovered to close 0.3% higher.

"At the end of the day, the market absolutely hates uncertainty," said Dave Lutz, head of exchange-traded fund trading at JonesTrading in Annapolis, Md. "It can handle bad news but it cannot handle uncertainty."

President Donald Trump said Monday he was giving the European Union, Canada and Mexico until June 1 to negotiate deals that would exempt them from U.S. steel and aluminum tariffs. The White House said it has made agreements in principle with Argentina and Brazil to avoid the tariffs. Australia confirmed Tuesday it had been granted a permanent exemption.

The administration already has imposed tariffs on China's steel and aluminum exports, and China retaliated with tariffs on U.S. agricultural products.

The moves come as the U.S. economy has showed renewed signs of life in recent weeks, with the dollar rallying and yields on the **10**-**year Treasury** note crossing above 3% for the first time since 2014. Growth in the first quarter, although slower compared with last year, exceeded analysts' expectations.

Now, some worry that the ambiguity surrounding trade talks is leading some companies to delay hiring or spending plans until they have a clearer sense of what the administration will do.

"We're somewhat worried about what this type of uncertainty means for the economy going forward," said Torsten Slok, an economist at Deutsche Bank.

In a survey released Tuesday by the Institute for Supply Management, an executive at a manufacturing firm said that the tariff considerations, "are very concerning. Business planning is at a standstill until they are resolved."

Trade concerns may be a factor slowing job growth in the U.S. regions most affected by the tariffs. The U.S. labor market has been adding a smaller share of jobs in states with high production of steel, aluminum, aircraft, cars, and soybeans, according to Deutsche Bank.

In March, a weak month for job growth, about three-fifths of new jobs came from those states, versus nearly three quarters in the final three months of 2017, a sign that a recent slowdown in job creation links back to trade-sensitive industries.

Inflation has remained low for much of the postcrisis period, a key reason the Fed has been slow to lift rates. But tariffs could change the equation by pushing up prices.

Heating, ventilation, and cooling company Lennox International Inc. said at the start of the year it expected a $40 million impact on pretax earnings from rising commodity prices. After the tariff announcement, the company lifted that projection to $50 million.

Steve Harrison, Lennox vice president of investor relations, said the company is passing the costs on to customers. The firm raised prices 4% to 6% at the beginning of the year, then on Friday announced another increase of 5% to 8%. His competitors are lifting prices as well, Mr. Harrison said.

"We expect steel and other commodity costs to be a headwind all year," said Bradley Halverson, chief financial officer at Caterpillar Inc., on an earnings call. Companies including Harley-Davidson Inc. and Polaris Industries Inc. have said in recent earnings calls that tariffs are driving up commodity prices that had already been climbing. Some companies say they will pass on costs to the end consumer.

While many factors influence employment data in any given month, such as March's bad weather, it is clear the threat of tariffs is unnerving some employers. The Federal Reserve's Beige Book, which tracks economic anecdotes from the central bank's 12 districts, said in April that some manufacturers are concerned about tariffs.

One employer in the Fed's Boston district said that, "punitive tariffs on Chinese aluminum had already had a big effect: 'Thin gauge foil' is produced only in China and tariffs raised the price three-fold," according to the Beige Book. "The contact argued that 'these tariffs are now killing high-paying American manufacturing jobs and businesses.'"

Still, some companies expect minimal disruptions, and others say it is too early to know the impact.

"It depends on what day it is as to whether or not this is viewed as a good thing or a bad thing," said James Foote, chief executive officer at railroad company CSX Corp., in a response to a question on an earnings call last month.

But others, especially smaller businesses, are already taking action as they brace for further fallout from the tariffs.

Ravin Gandhi, chief executive officer of GMM Nonstick Coatings, said his U.S.-based firm does its production of nonstick material for cookware abroad. After the tariffs involving China were announced, he paused hiring in China and ramped up hiring in India.

"It affects pretty much every one of my clients," Mr. Gandhi said. "Everyone has been up in arms with uncertainty about what will happen."

Write to Ben Eisen at ben.eisen@wsj.com

Document WSJO000020180501ee51004h6

THE WALL STREET JOURNAL.
U.S. EDITION

Red States Are Tickled Pink Over The Economy

By Jason DeSena Trennert
665 words
1 May 2018
The Wall Street Journal
J
A15
English

'If it bleeds, it leads" -- the old journalistic saying is true among the financial media. The most recent source of media-inspired economic anxiety is the idea that earnings growth is too good and American companies are reaching "peak" earnings. The assumption is that the tax cut's impact on the economy and markets will be ephemeral, a small dose of adrenaline before a return to the "new normal" of subpar growth.

True, the tax cut created some one-time earnings benefits. But it is unreasonable to expect the stimulative effects of a major tax reform to realize themselves fully within a few months.

It has been intriguing to my colleagues and me, at a firm that provides research to institutional investors around the world, that a disproportionate share of pessimism about the tax cut is coming from blue states. Meanwhile, some investors in red states are positively giddy about the country's economic potential.

Some of this no doubt reflects feelings toward President Trump. But there are three additional reasons for such divergent attitudes among professional investors whose job is to get it right regardless of politics:

-- Blue-state investors benefit less. Many highly compensated financial professionals, and their clients, live in high-tax states like New York, Massachusetts and California. Because of the new limit on deductibility of state and local taxes, their overall tax cut is smaller.

-- Geographic bias. "Wall Street is the only place that people ride to in a Rolls Royce to get advice from those who take the subway," Warren Buffett famously observed. At least part of Mr. Buffett's success as an investor is because he still lives in Omaha, Neb., far from the madding crowd and its groupthink. If you personally don't know someone who makes his living in the industrial economy, it is harder to appreciate fully the inducements for capital expenditures embedded in the newly passed tax plan.

-- The investment industry's own headwinds. Although the major stock indexes have registered gains for the past nine years, these have been tough times for the money-management business and the firms like ours that service them. A surfeit of easy money has contributed to higher correlations among stocks and lower dispersion of stock returns, making active managers vulnerable to low-priced passive-investment vehicles like exchange-traded funds. The profitability of an industry that has seen nearly 35 years of uninterrupted growth has come under pressure. Our own difficulties can sometimes make it difficult to appreciate the good fortune of others.

The most contrarian investment view today is that the tax cut has the potential to extend the business cycle. After nine years, it is natural to believe that the economy is late in its current expansion. Still, this was a very unusual business cycle. Until recently, a combination of perpetually low interest rates and an uncertain regulatory environment prompted many companies to seek opportunities to boost earnings through financial engineering -- issuing bonds and buying back stock -- rather than genuine long-term capital investment.

The ability of corporations to fully deduct capital expenditures for the next five years, along with a move to a territorial tax system that frees up trillions of dollars in unrepatriated corporate profits, provides enormous incentives for companies to invest in their own businesses. That, in turn, could boost productivity (conspicuously absent in the expansion), support profit margins, and keep unit labor costs low enough so that the Fed has little need to choke off an expansion at a time when wages are finally starting to rise.

One casualty of the financial crisis and its aftermath appears to be the ability for many of us to enjoy good fortune. Investors, and the media who cover the **financial markets**, should consider the possibility that the best for the economy may be yet to come.

Mr. Trennert is chairman and CEO of Strategas.

Document J000000020180501ee510000d

WSJ PRO VENTURE CAPITAL

Markets

Peter Thiel-Backed Venture to Help Big Investors Bet on Bitcoin; Tagomi expects to be the equivalent of a broker-dealer, executing orders to buy or sell cryptocurrencies

By Alexander Osipovich
761 words
1 May 2018
08:02 AM
WSJ Pro Venture Capital
RSTPROVC
English

Billionaire Peter Thiel's venture-capital firm is backing a startup that aims to bring Wall Street electronic-trading expertise to the bitcoin market—a bet that cryptocurrencies will continue to gain mainstream popularity.

Mr. Thiel's firm, Founders Fund, is among the investors in the early-stage startup, called Tagomi Systems Inc., people familiar with the situation said.

Tagomi expects to be the bitcoin version of a broker-dealer, executing orders to buy or sell cryptocurrencies on behalf of wealthy individuals and family offices, according to people with knowledge of the firm's plans. Its co-founders include Greg Tusar, the former head of electronic trading at Goldman Sachs Group Inc., these people said.

Mr. Thiel, an outspoken libertarian, has said bitcoin could become the digital equivalent of gold and is a potentially useful hedge against global chaos. The Tagomi investment is the latest foray into digital currencies by San Francisco-based Founders Fund.

Mr. Tusar, a former Goldman partner, is a respected figure in the electronic-trading business. He worked at the bank from 2000 to 2013, then left to join high-speed trader KCG Holdings Inc., where he spent the next four years. He left KCG in July after it was acquired by rival Virtu Financial Inc.

There is no guarantee that Tagomi will succeed, despite Founders' involvement in the venture. Bitcoin has lost around 50% of its value since December, cooling investor enthusiasm for digital currencies. Tagomi will need to differentiate itself from hundreds of other crypto startups.

Cryptocurrencies, which generally aren't backed by a central bank, have also been held back by their uncertain regulatory status.

Currently, buying or selling large quantities of digital currencies is tricky because the market is fragmented across more than 100 crypto exchanges around the world. Connecting to all of them requires setting up a separate account with each one, and crypto exchanges generally impose limits on daily flows in and out.

That makes it cumbersome and time-consuming to pull off a big trade, and the price of a digital currency can move dramatically before the investor finishes buying or selling.

Tagomi hopes to make it easier to make such bulk trades by borrowing a page from the **stock market**. In U.S. equities, broker-dealers use systems called smart order routers that dispatch their clients' buy and sell orders to various venues, including a dozen exchanges and more than 30 off-exchange "dark pools."

These routers make rapid-fire decisions about which market is the best place to execute a trade at any given time. Tagomi is looking to develop a similar tool for the crypto markets, according to people with knowledge of its plans.

Mr. Tusar and Napoleon Ta—a partner at Founders Fund who leads the venture-capital firm's crypto strategy—are listed on a March 15 Securities and Exchange Commission filing as being among Tagomi's directors.

Tagomi has raised $15.5 million to date, said one of the people with knowledge of the firm's plans. The startup is still refining its strategy and could change its name before launch, this person added.

It isn't clear how much Founders Fund invested in the startup. Founders Fund has more than $3 billion under management and has taken stakes in more than 100 companies, including Facebook and Airbnb Inc. A Founders Fund spokeswoman said Mr. Ta wasn't available for an interview.

Founders Fund has invested in the crypto-focused hedge funds Metastable Capital and Polychain Capital, as well as Harbor, a startup building a platform for digital tokens that represent real-world assets like real estate and art.

In January, The Wall Street Journal reported that Founders Fundhad amassed hundreds of millions of dollars worth of bitcoin, characterizing it in communications with investors as a high-risk, high-reward wager. The firm has acknowledged the investment but not publicly discussed details.

Mr. Thiel, a co-founder of digital payments service PayPal Holdings Inc., shared his thinking on cryptocurrencies during an onstage interview at the Economic Club of New York in March. Bitcoin "may well be a bubble," but it could also help investors hedge against "the world...falling apart," he said.

"My view is that there's going to be one cryptocurrency that will be the equivalent of gold," Mr. Thiel said.

Write to Alexander Osipovich at alexander.osipovich@dowjones.com

Document RSTPROVC20180501ee51000b5

WSJ PRO CENTRAL BANKING

Economy

Inflation Hit Federal Reserve's Target | Foreign Investors Lose Some Hunger for U.S. Debt | Fresh Doubt Cast on BOE Rate Rise | RBA Leaves Rate Unchanged | Derby's Take: Involuntary Part-Time Workers May Be Long-Running Issue; he Wall Street Journal's central banking newsletter for Tuesday, May 1, 2018

1,357 words
1 May 2018
06:05 AM
WSJ Pro Central Banking
RSTPROCB
English

Derby's Take: Involuntary Part-Time Workers May Be Long-Running Issue

U.S. Inflation Hit Federal Reserve's 2% Target in March

Growing Concern: Foreign Investors Lose Some Hunger for U.S. Debt

Data on Borrowing, Manufacturing Casts Fresh Doubt on BOE Rate Rise

Australia's RBA Leaves Interest Rate Unchanged

Involuntary Part-Time Workers May Be Long-Running Issue

One of the labor market's more enduring problems in recent years has been that many people who want full-time work have been stuck in part-time jobs because they couldn't get find anything better.

That problem may be with us for some time to come, warns a new research note from the San Francisco Fed.

The bank says so-called involuntary part-time work remains elevated because an increasing number of firms treat workers like on-call freelancers rather than employing them as permanent staff.

San Francisco Fed economist Rob Valletta wrote, "the shift toward service industries with uneven work schedules and the rising importance of the gig economy appear to be long-term trends that are unlikely to reverse in the near future."

"In the absence of public policies aimed directly at altering work schedules, it looks like higher rates of involuntary part-time work are here to stay," he said.

According to the paper, involuntary part-time work levels are generally lower than the broader unemployment rate. As the labor market has improved, involuntary part time work has also declined.

Still, Mr. Valletta notes involuntary part-time work this year is a percentage point higher than when the jobless rate hit 4.1% in August 2000. With some 1.4 million additional workers now in these types of jobs, he writes, involuntary part-time work is 40% higher than would normally be expected of the economy at this point in the business cycle.

That may have notable implications for the future of the job market. Economists and central bankers alike have puzzled over why a very low unemployment rate, now at 4.1%, has failed to spur big wage gains, and in turn, higher levels of inflation.

Workers who can't break out of part-time hours may have a harder time fighting for higher wages. And to the extent these workers become a bigger part of the nation's employment landscape, it can create headwinds for wage growth and, in turn, inflation.

There isn't much the Fed can do about this situation because its tools can't affect underlying job market trends. But it could make some officials more reluctant to raise rates.

Key Developments Around the World

U.S. Inflation Hit Federal Reserve's 2% Target in March

Inflation hit an important milestone for Federal Reserve officials as they prepare for a policy meeting in Washington, fresh evidence that the long economic expansion is rousing dormant consumer prices. The Commerce Department's price index for personal-consumption expenditures, the Fed's preferred inflation gauge, was up 2% from a year earlier in March, the first time in more than a year it was on target. Inflation is now above the median of Fed officials' projections from their March meeting, which put it at 1.9% by the end of this year.

WSJ Pro FedSpeak Cheat Sheet: What Fed officials said ahead of the FOMC meeting

Growing Concern: Foreign Investors Lose Some Hunger for U.S. Debt

Foreign investors' appetite this year for U.S. debt hasn't grown at the same pace as the government's borrowing needs, which some analysts worry could push bond yields higher and eventually threaten to slow economic growth. Investors in a broad category known as "indirect bidders," which includes both mutual funds and foreign investors, have been winning the smallest percentage of the bonds they've bid for since 2011, according to bidding data for recent Treasury bond auctions. The average percentage of the auctions won by this group fell for the first time since 2012, a decline some analysts attribute to both lower demand from investors outside the U.S. and their recent tendency to post less-aggressive bids.

Data on Borrowing, Manufacturing Casts Fresh Doubt on BOE Rate Rise

Britons cut back sharply on new borrowing in March, while activity in the manufacturing sector slowed in April, fresh signs of economic weakness that makes it less likely the Bank of England will raise its key interest rate later in May.

Australia's RBA Leaves Interest Rate Unchanged

Australia's central bank on Tuesday kept interest rate unchanged as expected, but concerns are growing that recent soft housing data could keep the bank sidelined until the end of the decade. The Reserve Bank of Australia left its cash rate target at 1.5%, where it has stood since mid-2016. "The low level of interest rates is continuing to support the Australian economy. Further progress in reducing unemployment and having inflation return to target is expected, although this progress is likely to be gradual," RBA Gov. Philip Lowe said.

Turkey Central Bank Lifts Inflation View, Continues Policy Simplification

Turkey's central bank Monday raised its inflation forecast for 2018 while keeping its 2019 inflation forecast steady, and said that its monetary policy simplification plan is on track. The central bank lifted its 2018 inflation projection to 8.4% from 7.9%, and held its 6.5% forecast for 2019, citing upward revisions in the assumptions for **oil prices** and currency depreciation. Under a tight monetary policy stance, inflation will stabilize at 5% in the medium term, central bank Gov. Murat Cetinkaya said.

Tuesday

Time N/A

U.S. Federal Reserve begins two-day policy meeting in Washington

2:45 p.m. EDT

Bank of Canada's Poloz speaks

Wednesday

5 a.m. EDT

Eurostat releases its first estimate of eurozone GDP growth in the first quarter

2 p.m. EDT

U.S. Federal Reserve releases policy statement

Why Has Economic Growth Slowed When Innovation Appears to Be Accelerating?

Robert J. Gordon in a National Bureau of Economic Research paper explores how different demographic characteristics such as fertility, mortality and life expectancy have contributed to slower gross domestic product growth from 2006 to 2016 compared with 1970 to 2006. Mr. Gordon's findings suggest less than half of the declining GDP growth was due to the productivity slowdown. "Particular emphasis is placed on the interaction between rising inequality and the slower secular rise of life expectancy in the U.S. compared to other developed countries, both in the form of a large gap in life expectancy between rich and poor, and the stagnation of life expectancy for the lowest income quintile," the paper states.

A Flatter Yield Curve Is No Reason to Freak

An inverted yield curve is a worry. A flattening yield curve, not so much, according to Barry Ritholtz in Bloomberg View. "The bottom line is that inversions have been a fairly reliable predictor of recessions, although with a lag. But they are not the cause of recessions, and for that traders need to watch corporate profits," Mr. Ritholtz says.

Americans' spending regained momentum in March while their incomes continued to grow, a sign consumers could drive better economic growth this year.

Manufacturing production expanded significantly in Texas in April while manufacturers reported a steep increase in raw materials prices.

Mexican economic activity accelerated in the first quarter, growing at its fastest rate in six quarters as industrial production recovered and services picked up pace.

Send us your tips, suggestions and feedback. Write to:

Jon Hilsenrath; Katy Burne; Michael Derby; Nell Henderson; Jason Douglas; Paul Hannon; Harriet Torry; Kate Davidson; David Harrison; Kim Mackrael; Tom Fairless; Michael Maloney.

Follow us on Twitter:

@WSJCentralBanks, @NHendersonWSJ, @KatyBurne, @PaulHannon29, @michaelsderby, @wsj_douglasj, @HarrietTorry, @KateDavidson, @d_harrison, @kimmackrael, @TomFairless, @mikemaloneyny

Document RSTPROCB20180501ee510008d

THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Inflation Rises, Hits Fed's 2% Target Level

By Harriet Torry and Andrew Tangel
695 words
1 May 2018
The Wall Street Journal
J
A2
English

WASHINGTON -- Inflation hit an important milestone for Federal Reserve officials as they prepare for a policy meeting in Washington, fresh evidence that the long economic expansion is rousing dormant consumer prices.

The Commerce Department said Monday that its price index for personal-consumption expenditures, the Fed's preferred inflation gauge, was up 2% in March from a year earlier, the first time in more than a year it was on target. Inflation is now above the median of Fed officials' projections from their March meeting, which put it at 1.9% by the end of this year.

Makers of everything from sticky notes, household paint and washing machines are signaling they plan to raise prices to offset rising bills for steel, oil and other inputs amid pressure from higher labor and transportation costs.

3M Co., the St. Paul, Minn., maker of myriad products, including office supplies like Post-it Notes as well as industrial adhesives and films, highlighted the cost of crude oil as a major driver of inflation. 3M said higher prices world-wide contributed 0.7 percentage point of its global sales increase of 7.7% in the first quarter.

"For the year, we expect price growth to remain strong and that it will more than offset raw-material inflation," 3M Chief Financial Officer Nick Gangestad said in a call with analysts in April.

The PCE index was flat on the month from February, thanks in part to a decline in energy prices. But prices show some signs of rising outside that **volatile** sector. Excluding food and energy costs, prices rose 0.2% in March from February and were up 1.9% from a year earlier.

Six months earlier, core year-over-year inflation stood at 1.4%. The gains have been driven in part by higher services inflation as firms compete to hire scarcer workers. Services inflation rose 2.8% in March from a year earlier, while prices for long-lasting durable goods were down 2.4% from a year earlier.

Anemic inflation has been a key factor behind the Fed's policy of raising rates only gradually in recent years.

Several factors are pointing toward a sustained pickup in inflation in the months ahead. A weak dollar and trade tariffs could push up prices on imported goods. Meantime, low unemployment could put modest upward pressure on wages. Consumer spending also could pick up as households feel the impact of the $1.5 trillion tax-cut package signed into law in December.

Inflation softened last year, in part because mobile-phone-service providers slashed prices. That has now washed through the system and Steven Blitz, chief U.S. economist at TS Lombard, said "the great disinflation scare of 2017 appears to have ended," in a recent note to clients.

Some American manufacturers say they plan to pass along mounting raw-material costs to their customers in the months ahead.

"It's a scramble," said Nicholas Heymann, an industrials analyst at William Blair. "They're raising prices big time."

New U.S. tariffs on steel and aluminum have boosted costs for the metals as global economic growth has been fueling increasing demand for oil and other commodities. The cost run-up has been faster than some firms expected.

Appliance maker Whirlpool Corp. said in April it began raising prices on washers and dryers in the U.S., as it expects to pay more for steel, resin and other raw materials this year.

"U.S. steel is right now significantly elevated versus the rest of the world, and that's just the reality," Chief Executive Marc Bitzer told analysts in a call last month.

United Technologies Corp. said a price increase of as much as 6% for its Carrier Corp. and other heating and air-conditioning systems would start in July as the company grapples with increased input costs.

"Copper has gone up, aluminum has gone up, steel has gone up, second-tier supply has gone up," Chief Executive Gregory Hayes said in a call with analysts in April.

Document J000000020180501ee5100024

Search Summary

Text	S&P 500 index or Dow Jones index or Bond yield or oil price or stock index or stock market or DJIA or SPX or equity market or Dow Jones Industrial Average or S&P 500 or Standard & Poor's 500-stock index or U.S. treasury rates or U.S. treasury yield or stock price or earnings suprise or earnings surprises or oil prices or Nasdaq Composite or standard & poor's 500 index or 30-year Treasury bond or 10-year Treasury bond or 30-year Treasury or 10-year Treasury or Bond prices or bull market or bear market or bull market or bear market or bullish or bearish or financial markets or financial market or volatile or volatility or Nasdaq
Date	05/01/2018 to 05/31/2018
Source	The New York Times - All sources Or The Wall Street Journal - All sources
Author	All Authors
Company	All Companies
Subject	Commodity/Financial Market News Or Economic News
Industry	All Industries
Region	United States
Language	All Languages
Results Found	580
Timestamp	25 November 2018 3:39 PM