THE WALL STREET JOURNAL.
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World Watch
World Watch

396 words
31 January 2017
The Wall Street Journal
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A7
English

JAPAN

Central Bank Takes

Cautious Stance

The Bank of Japan stuck to its ultra-easy monetary policy Tuesday and held back from raising its inflation forecast for the coming year, underlining its nervousness about the uncertain path of U.S. President Donald Trump's policy. At its latest meeting, the BOJ board voted to keep interest rate targets unchanged at very low levels and leave its closely watched inflation forecast for the next fiscal year starting April at 1.5%.

-- Takashi Nakamichi

U.K.

Prime Minister Says

Trump Offer Stands

Prime Minister Theresa May said an invitation to President Donald Trump to make a state visit to Britain was still good, despite a petition signed by 1.3 million people calling for its cancellation in the wake of his restrictions on immigration to the U.S. Hundreds of people later protested Mr. Trump's clampdown outside Mrs. May's official Downing Street residence.

-- Nicholas Winning

BALTIC STATES

U.S. to Place Tanks

Close to Russia

The U.S. Army will send tanks this week to countries on Russia's frontiers in the largest such deployment since the Cold War, a step aimed at reassuring America's European allies that Washington remains committed to their defense. Some of the M1A2 Abrams main battle tanks used in drills in northern Poland will be transported to the Baltic states of Latvia, Estonia and Lithuania, where they will remain until a new North Atlantic Treaty Organization deterrent force is operational in the spring.

-- Julian E. Barnes

GERMANY

Rising **Oil Prices**

Push Up Inflation

Germany's inflation rate hit its highest level since mid-2013 in January. Rising **oil prices** propelled Germany's annual inflation rate to 1.9% from 1.7% in December, the country's statistics body said Monday. It is the highest rate since July 2013, bringing German inflation in line with the European Central Bank's medium-term objective of anchoring blocwide inflation at just below 2%.

-- Nina Adam

PHILIPPINES

Duterte Suspends

Antidrug Campaign

Philippine President Rodrigo Duterte ordered police to suspend the war on drugs after rogue officers kidnapped and killed a South Korean businessman, adding to widespread criticism of the operation.

Jee Ick-joo was abducted on Oct. 18 and strangled to death hours later in a police compound in Manila.

-- James Hookway

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Heard on the Street
Beware the Coming Squeeze on Corporate Profit Margins

By Justin Lahart
443 words
31 January 2017
The Wall Street Journal
J
B12
English

[Financial Analysis and Commentary]

Companies' costs are rising, but whether they will be able to pass them on to consumers is an open question. The answer will be a crucial factor in whether the market rises or falls from here.

Even before President Donald Trump moved into the White House, companies' ability to keep costs low was beginning to fray as wage growth picked up and the import-price declines that have characterized the past two years came to a close.

Now, it looks as if those cost pressures will intensify. Mr. Trump's plans to cut taxes and boost infrastructure spending, coming at a time when the unemployment rate is already low, means companies might have to pay up to attract workers. Potential trade actions including raising tariffs, instituting quotas and taxing imports could raise the prices companies pay for goods as well.

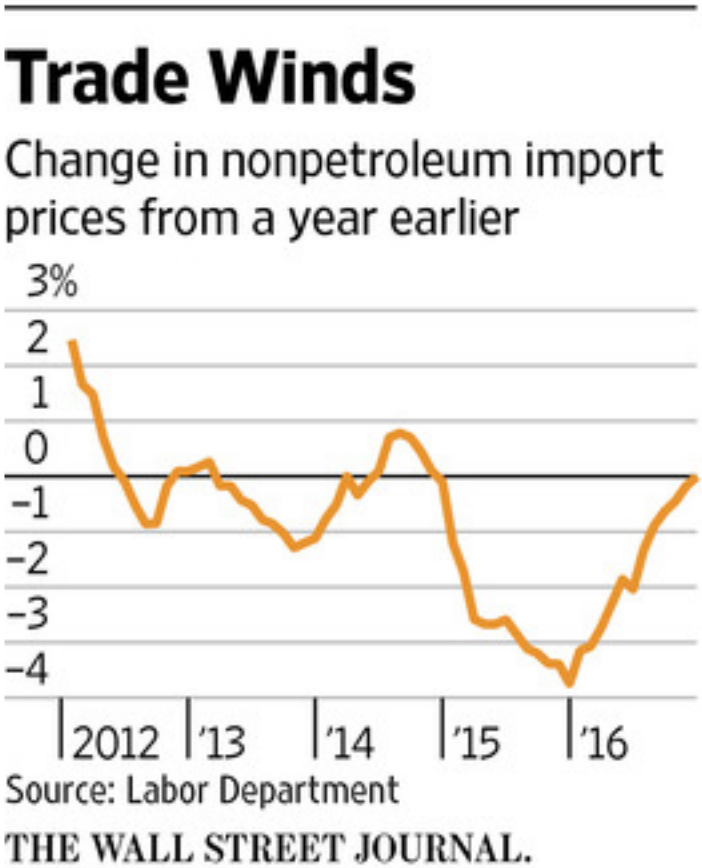
It seems like a recipe for higher inflation, and indeed inflation forecasts from both the market and from economists have risen smartly since the election. Rising prices would count as a good outcome for companies, because they would be able to maintain their profit margins. And it would count as a good outcome for the **stock market**, because earnings growth would stay strong.

But that doesn't mean that higher prices are around the corner, says Jon Faust, a former Federal Reserve adviser who is now director of the Center for Financial Economics at Johns Hopkins University. Indeed, his work has shown that standard measures economists use to forecast inflation, such as the unemployment rate, can be overwhelmed by less predictable factors.

One is whether companies are able to get their customers to pay more. This has rarely been an easy task, and in recent years it has been extremely difficult. On Monday, the Commerce Department reported core consumer prices, which exclude food and energy prices, were up just 1.7% in December from a year earlier.

Indeed, the Fed noted earlier this month that "increases in input costs were more widespread than increases in final goods prices" -- an indication that businesses are struggling to charge more. That suggests the care with which consumers have been tending to their finances since the financial crisis hasn't gone away, say the economists at Cornerstone Macro.

High profit margins have driven the market to records. Rising costs, rather than translate into higher inflation, could cut profit margins and slow growth. That isn't the outcome investors are hoping for, but it is one they should at least consider.



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THE WALL STREET JOURNAL.
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Equities: NYSE to Win Snap Listing --- Prize of getting IPO of Snapchat's parent is the latest victory for Big Board over Nasdaq

By Maureen Farrell
568 words
31 January 2017
The Wall Street Journal
J
B11
English

Snap Inc. plans to list its highly anticipated initial public offering on the New York Stock Exchange, in a big competitive victory for the Big Board, according to people familiar with the decision.

The NYSE is expected to prevail over the **Nasdaq Stock Market** in a battle to woo the Snapchat parent, which is planning to go public as early as March, they said.

Snap, which filed its IPO papers confidentially with the Securities and Exchange Commission last fall, is expected to disclose them publicly later this week. The so-called S-1 filing will include the listing plan, the people said.

The decision marks the latest important win for the Big Board as it seeks to be the listing venue of choice for high-profile technology companies.

It is also Snap's latest major step toward an IPO that is expected to value the company at between $20 billion and $25 billion.

That would make it the largest initial offering on a U.S. exchange since the 2014 debut of Chinese e-commerce company Alibaba Group Holding Ltd., which was valued at roughly $168 billion when it went public.

Both the NYSE, owned by Intercontinental Exchange Inc., and rival **Nasdaq** Inc. have been aggressively courting the listing for more than a year. Officials have been wooing the messaging company's chief executive, Evan Spiegel, as well as its chief strategy officer, Imran Khan, who is leading the IPO process, the people said.

For the exchanges, the fight to win the Snap listing was particularly fierce as it follows one of the slowest years for new U.S.-listed issues in more than a decade. It isn't clear when there will be another one this big or high-profile.

Nasdaq had historically been a key destination for nascent technology companies, but since the glitch-filled IPO of Facebook Inc. on the exchange in 2012, NYSE has landed the majority of the dollar volume raised in tech IPOs valued at $1 billion or more, according to Dealogic.

Recent big tech wins for the NYSE include the IPOs of Twitter Inc. and Alibaba. Between 2006 and 2012, **Nasdaq** had landed the majority of the dollar volume of tech issuance valued at $1 billion or more.

While the exchanges are in fierce competition for every listing, IPOs such as Snap's are seen as franchise-defining opportunities that can help land subsequent business and become a key marketing tool.

Among other incentives, the exchanges both offered to make promotional efforts to increase the visibility of the Venice, Calif.-based company's listing, people familiar with the matter said.

The big listings are sought mainly because they boost trading revenues over time. During the open and close of the markets, exchanges exclusively control trading for companies listed on their platforms. Shares of bigger companies tend to trade more, so landing them can be more lucrative.

Patrick Healy, chief executive of Issuer Advisory Group LLC, which advises companies on where to list, said that when there is a big, highly coveted listing, the winning U.S. exchange typically loses money for several years because it spends millions on marketing. Yet over time, the extra trading fees become lucrative.

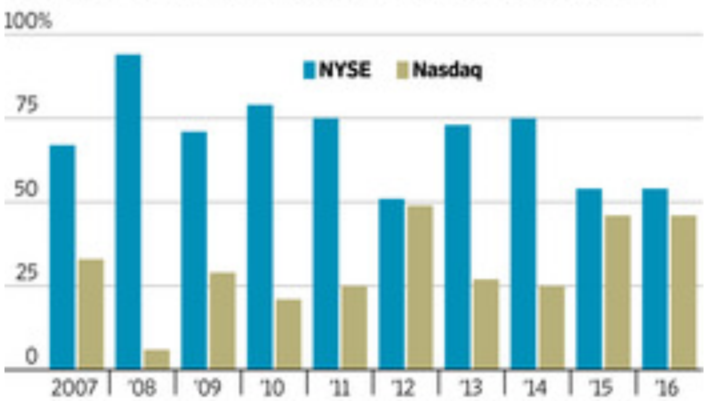
Public Enemies

The New York Stock Exchange and Nasdaq have been locked in a fierce battle for big technology listings for more than a decade.

Where the largest tech companies have listed since Google's IPO

Rank	Issuer	Pricing date	Exchange	Amount raised in IPO
1	Alibaba	Sept. 2014	NYSE	$25.0 billion
2	Facebook	May 2012	Nasdaq	16.0
3	First Data	Oct. 2015	NYSE	2.8
4	Twitter	Nov. 2013	NYSE	2.1
5	JD.com	May 2014	Nasdaq	2.0
6	Google	Aug. 2004	Nasdaq	1.9
7	IMS Health	April 2014	NYSE	1.5
8	Markit	June 2014	Nasdaq	1.5
9	Yandex	May 2011	Nasdaq	1.4
10	Line	July 2016	NYSE, Tokyo	1.3

Percentage of all IPOs won by total value of shares sold overall



Source: Dealogic

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THE WALL STREET JOURNAL.
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Nasdaq's Rebound Runs Into a Setback --- Tech-heavy index logs biggest drop in 2017 as travel ban's effect has investors spooked

By Akane Otani
685 words
31 January 2017
The Wall Street Journal
J
B12
English

Investors' retreat from U.S. technology, financial and drug companies hit the **Nasdaq Composite** on Monday, sending the index to its largest decline of the year.

It is a setback for an index that has outperformed its peers in 2017 after trailing in 2016.

The index, which includes big tech firms such as Alphabet Inc., Facebook Inc. and Microsoft Corp., fell 0.8% Monday, a bigger drop than the 0.6% decline in the **S&P 500** and the **Dow Jones Industrial Average** each posted.

Outsize moves for the **Nasdaq Composite** aren't unusual. On days when the **Nasdaq** and the **S&P 500** move in the same direction, the **Nasdaq**'s percentage change is greater than the **S&P 500**'s roughly two-thirds of the time, according to the WSJ Market Data Group.

Some analysts and investors attributed Monday's declines to President Donald Trump's move to restrict immigration from Muslim-majority countries late last week, which triggered dissent in Washington and criticism from the tech community. The pushback bodes poorly for Mr. Trump's ability to quickly enact some of his other business-friendly policies like tax cuts and fiscal stimulus, some investors said.

"This roughshod policy surprised Wall Street, and that's never good," said Michael Farr, president of money-management firm Farr, Miller & Washington, who added that many investors over the weekend tried to figure out the impact of the move. "It doesn't matter if you agree with the policy or not -- the delivery came as a surprise, and that's the problem."

Several tech companies said that restrictions on immigration could affect their ability to recruit from abroad, and could hinder employees' travel. Executives of firms including Google parent Alphabet, Microsoft, Facebook, Apple Inc. and Uber Technologies Inc. spoke out against Mr. Trump's order.

Alphabet, which said at least 187 of its employees were affected by Mr. Trump's order, fell $21.20, or 2.5%, to 823.83 -- the worst day for the Class A shares since Nov. 10. Shares of Microsoft fell 65 cents, or 1%, to 65.13; Facebook lost 1.2, or 0.9%, to 130.98; Amazon.com Inc. slid 5.39, or 0.6%, to 830.38; and Apple declined 32 cents, or 0.3%, to 121.63.

Together, those five companies accounted for about 40% of the **Nasdaq Composite**'s gains in 2017 through Friday, according to **stock-market** research firm Birinyi Associates.

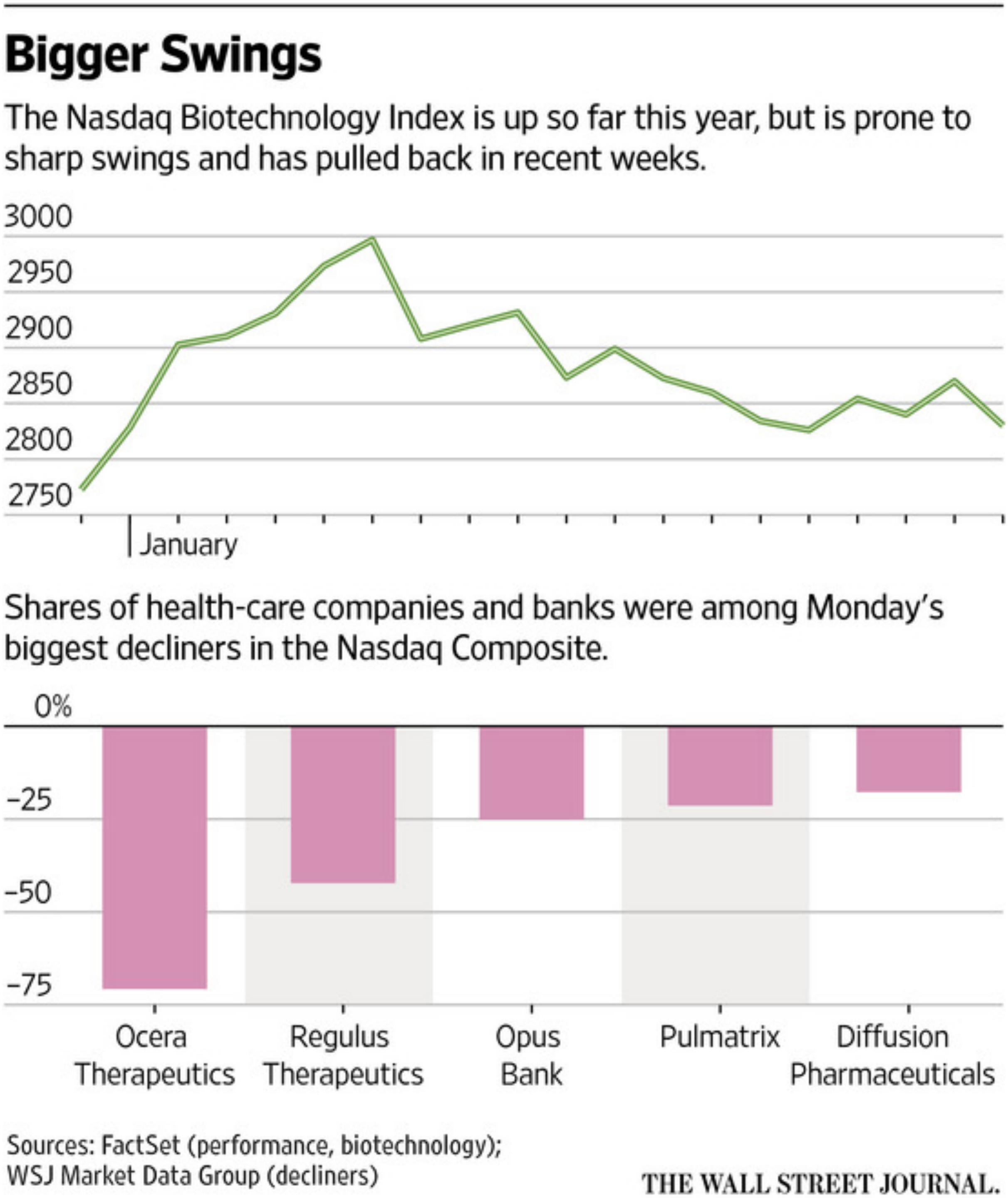
Some bank executives also said the travel order would undercut their global workforces. The KBW **Nasdaq** Bank Index of large U.S. commercial lenders fell 0.9%.

"When you call into question the free movement of labor around the world, you're disrupting businesses," said Peter Tuz, president of Chase Investment Counsel Corp., an investment advisory firm, who added that he was "very cautious" about stocks' trajectory for the rest of the year.

The **Nasdaq Composite** is still up 4.3% for the year, while the **S&P 500** has risen 1.9% in 2017 and the Dow industrials are up 1.1%.

Tech stocks rebounded early this year after they had largely lagged behind the postelection rally that sent investors piling into shares of financial and industrial companies. The **Nasdaq Composite** ended 2016 up 7.5%, behind the Dow industrials, rose 13% in the year, and the **S&P 500**, which finished 2016 up 9.5%. Before 2016, the **Nasdaq** had outperformed the Dow industrials and **S&P 500** for four years in a row, helped by surging biotech stocks.

Biotech held back the **Nasdaq** last year, with the **Nasdaq** Biotechnology Index falling 22% in its worst year since 2002, largely as drug pricing drew political scrutiny. The index rallied at the start of 2017 but has pared gains, including Monday's 1.4% fall, and is now up 2.1% for the year.



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Streetwise: Markets Ultimately Lack Belief In Trump

By James Mackintosh
748 words
31 January 2017
The Wall Street Journal
J
B1
English

Investing is about two things: deciding what is likely to happen and comparing it to what's priced in to markets. The discussion about what's likely to happen under President Donald Trump has dominated media since his election, and every investor has a view. What's important, then, is to compare it to what's priced in.

One chart cuts through all the chatter. The yield curve in the Treasury market tells a story of Trumpflation, a boost to both growth and inflation lasting a few years, with little long-term impact on the real economy.

"People have pushed up their expectations about growth, but it's more of a cyclical view than a structural view," said Jan Hatzius, chief economist at Goldman Sachs Group Inc.

The yield curve compares bond yields at different dates and has steepened sharply as **10**-**year Treasury** yields rose much more than those on two-year bonds since the election. This happens when investors expect faster growth and higher inflation, and has a positive feedback loop to investment, as investments further in the future carry a higher expected reward.

Longer-dated bonds tell a different story, though, with the curve flatter the further in the future it goes. The 10-year yield has risen much more than 30-year yields, which suggests little change in long-run expectations for productivity or inflation.

The hope of a cyclical boom is reflected across stock markets, although the details of the new administration's policies create more noise at a stock level. Cyclical companies such as car makers and airlines have easily beaten the **S&P 500** since the election, while defensive companies -- those better able to ride out a recession -- have lagged behind and, in the case of utilities, lost money.

The yield curve may be one of the most important measures in finance, but even the question of what the market expects is open to interpretation.

The most obvious drawback is the starting point. The curve has steepened a lot, but the starting point was deeply depressed.

Michael Gapen, chief U.S. economist at Barclays PLC, said the curve isn't steeper because any Trump stimulus -- assuming it comes -- is arriving when the economy is close to full employment.

"It might just hasten the end of the cycle because it comes so late in the cycle it doesn't really change the long-term outlook," he said.

If Mr. Trump's stimulus plans are implemented by Congress -- a big if -- they might end up boosting inflation more than real growth. That is reflected in the rise in the bond market's implied inflation expectations, known as break-even inflation. It is back above 2% for the next 10 years for the first time since 2014.

A proxy for expected real growth, the after-inflation yield on **10**-**year Treasury** inflation-protected securities, rose fast after the election before giving back some of its gains following the Federal Reserve's December rate increase. Yet even at its December peak of 0.74% plus inflation, it wasn't quite back to where it stood a year earlier and was nowhere near the pre-2008 norms.

One interpretation: Investors think the downward pressures on growth and inflation from the aging population are greater than any likely productivity gains from cutting red tape or improving infrastructure. The most Mr. Trump can do is make America a little bit greater than it otherwise would be.

Some critics argue that the **30-year Treasury** is a flawed measure of hopes for growth. It isn't heavily traded, and government decisions on issuance, plus price-insensitive demand linked to pension obligations, can be as important as beliefs about long-run growth. This may be true, but it's also obvious that if investors truly believed Mr. Trump would deliver a big and permanent boost to growth or inflation, few would want 30-year bonds at a yield of just over 3%.

Knowing what the market as a whole is pricing in creates opportunities for investors who have a strong view of what Mr. Trump will achieve. The problem is for those who have little idea what the man in the White House represents; the usual diversification between shares and bonds offers little protection against the risk of a trade war, when both could suffer as inflation rises and profits fall.

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U.S. News: Inflation, Consumer Spending Rise

By Eric Morath
580 words
31 January 2017
The Wall Street Journal
J
A2
English

WASHINGTON -- The Federal Reserve's preferred measure of inflation rose last month to the strongest reading in more than two years, providing fresh evidence of firming prices a day before policy makers were meeting to discuss the path of interest rates this year.

The personal-consumption-expenditures price index advanced 0.2% in December from the prior month, the Commerce Department said Monday. The measure of consumer inflation rose 1.6% from a year earlier, a 12-month increase last seen in September 2014. The reading was last higher in July of that year.

The report also showed consumer spending increased solidly last month, with strong year-end car sales and higher utility spending with the return of seasonably cool temperatures. Meanwhile, incomes grew more modestly than spending, cutting the share of earnings Americans saved.

The annual inflation reading remains below the Fed's 2% target, but the PCE index has accelerated from nearly flat just more than a year ago. And there are signs that may continue.

"Inflation will gradually accelerate over the next couple of years due to higher energy prices and stronger wage growth that leads firms to raise prices," PNC Bank economist Gus Faucher said.

Rising gasoline prices are pushing the overall gain to line up with inflation recorded for the past year outside of the **volatile** food and energy categories. The so-called core inflation index increased 0.1% in December and rose 1.7% from a year earlier. The inflation figure excluding food and energy has held near that level since the start of 2016.

The steady but slow climb in consumer prices isn't likely to spur the Fed to act on its benchmark interest rate this week. A two-day policy meeting starts Tuesday. But rising prices do give the central bank more leeway to bump up interest rates later this year, with the unemployment rate at historically low levels.

The central bank has raised its key rate once in each of the past two years but indicated in December that three increases could be in order this year.

"This rise in inflation was anticipated and largely represents a fading of the effects of earlier declines in energy prices and the prices of nonenergy imports," Fed Chairwoman Janet Yellen said in a speech this month. "In addition, slack in labor and product markets is no longer placing downward pressure on inflation, in contrast to the situation only a few years ago."

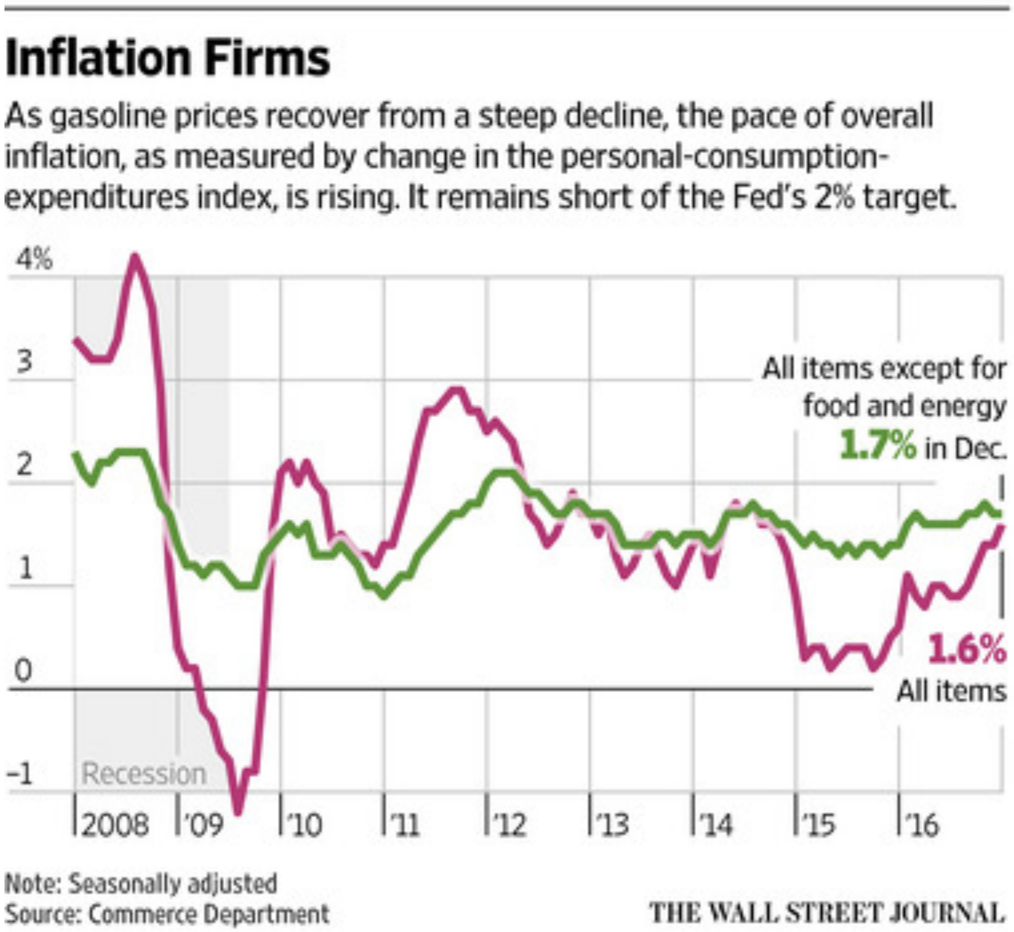
The pace of price increases is expected to remain modest. A forecast of inflation over the next year from the Federal Reserve Bank of Dallas, updated after the Commerce report, projected a 1.8% increase.

The Commerce Department report showed consumer spending rose 0.5% in December from November. Incomes advanced 0.3% during the month. When adjusting for inflation, spending rose 0.3% last month.

To support better spending, Americans saved a smaller share of their incomes last month. The personal saving rate fell to 5.4% from 5.6% in the prior month. December's saving rate was the lowest since March 2015.

"The gradual downward trend in the household savings rate confirms that households were on a solid footing by the end of the fourth quarter and precautionary savings are not a concern," Barclays economist Blerina Uruci said.

Inflation-adjusted disposable personal income -- income after taxes -- was up 0.1%.



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The New York Times

Business/Financial Desk; SECTB
Postelection Winners Fall Back, Dragging Down Wall Street

By THE ASSOCIATED PRESS
738 words
31 January 2017
The New York Times
NYTF
Late Edition - Final
2
English

Stocks on Wall Street fell on Monday, with investors growing nervous after President Trump imposed a travel ban on seven Muslim-majority countries. Energy companies, which had surged over the last year, took the biggest losses.

Airline stocks slipped after Mr. Trump's executive order led to protests and disruption at airports and to concerns about travel. Major technology companies sagged on concerns that future moves by his administration would make it harder for them to hire workers.

The **Dow Jonesindustrial average** fell 122.65 points, or 0.6 percent, to close at 19,971.13. It dropped by 223 points in the morning.

The **Standard & Poor's 500**-**stockindex** lost 13.79 points, or 0.6 percent, to close at 2,280.90. The **Nasdaq composite** dropped 47.07 points, or 0.8 percent, to 5,613.71, after closing at a record high on Friday. Small-company stocks were hit harder. The Russell 2000 index shed 18.37 points, or 1.3 percent, to 1,352.33.

Investors profited as they sold shares of basic materials and industrial companies, which had rallied after the November election. The VIX, a measure of Wall Street **volatility**, jumped, although it remained relatively low over all. Stocks in Europe lost ground as well.

Some airports became sites for protests after Mr. Trump signed the executive order on Friday, and investors wondered if American tourism would be affected. American Airlines fell $2.05, or 4.4 percent, to close at $44.90, and United Continental lost $2.70, or 3.6 percent, to $71.72.

Domestic airlines also struggled, as did companies that do not necessarily have much at stake in disputes over immigration policy or global trade. Over all, the stocks that did the worst on Monday were largely the ones that had done the best since the election, including energy companies, banks and smaller companies.

The construction and mining company Caterpillar fell $2.20, or 2.2 percent, to close at $96.79, and the construction and technical services company Jacobs Engineering dipped 93 cents, or 1.5 percent, to $59.38.

Among oil companies, Chevron retreated $1.97, or 1.7 percent, to close at $111.82, and ConocoPhillips fell $1.95, or 3.9 percent, to $47.48.

United States benchmark crude oil slid 54 cents, or 1 percent, to settle at $52.63 a barrel in New York. Brent crude, the benchmark for international **oil prices**, fell 29 cents to $55.23 a barrel in London.

Rite Aid plunged -- losing $1.21, or 17.5 percent, to close at $5.72 -- after Walgreens said it would cut the price it was paying to buy Rite Aid to no more than $7 per share, from $9. That came after the companies said they would sell more of Rite Aid's stores to get antitrust regulators to approve the deal. Walgreens edged down 2 cents, or 0.02 percent, to $81.48.

The mattress maker Tempur Sealy hit a three-year low after it said the retailer Mattress Firm was moving to terminate its supply contracts with Tempur Sealy. Tempur Sealy said that Mattress Firm wanted to make big changes to supply agreements and that the two sides were not able to reach a compromise. Tempur Sealy's stock fell $17.68, or 28 percent, to close at $45.49.

Bond prices slipped. The yield on the 10-year Treasury note remained unchanged at 2.49 percent.

The dollar fell to 113.7 yen, from 115.11 yen. The euro ticked up slightly to $1.0695, from $1.0694.

The price of gold rose $4.80 to settle at $1,193.20 an ounce. Silver added 2 cents to $17.15 an ounce. Copper lost 3 cents, or 1.3 percent, to $2.66 a pound.

The DAX of Germany fell 1.1 percent, and the CAC-40 of France also shed 1.1 percent. The FTSE 100 of Britain was 0.9 percent lower. The Nikkei 225 of Japan fell 0.5 percent. Other major indexes in Asia were closed for the Chinese New Year.

CHARTS: 3-Month Treasury Bills: High rate at weekly auction. (Source: The Bond Buyer); The Dow Minute by Minute: Position of the Dow Jones industrial average at 1-minute intervals on Monday. (Source: Reuters)

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VIX Increases 12%, Ending 4-Day Slide

By Inyoung Hwang
266 words
31 January 2017
The Wall Street Journal
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B12
English

The CBOE**Volatility** Index, known as the VIX or the market's fear gauge, ended a four-day losing streak Monday to jump 12%, its steepest one-day increase since Nov. 3.

U.S. stocks slid Monday amid nervousness surrounding President Donald Trump's order to tighten immigration rules. The retreat comes just days after markets rose on optimism that the new administration's policies would accelerate U.S. growth. The **S&P 500** hit an all-time high last week, while the VIX fell to near its lowest level since 2007.

"Markets seem to be discounting the risk of a trade war, while fully pricing in positives such as corporate tax cuts," Mandy Xu, a New York-based equity-derivatives strategist at Credit Suisse Group AG, wrote in a report. "As we get more policy clarity in the next 100 days, there is risk of disappointment on issues such as tax reform, infrastructure spending, immigration, and trade."

That has left traders betting the **S&P 500** will climb further, while also protecting themselves by scooping up options that pay out when the VIX jumps.

The **S&P 500** and VIX typically move in opposite directions.

Bullish call options on the **S&P 500** are the most expensive relative to **bearish** puts in a year, according to Ms. Xu. At the same time, prices for calls on the VIX are the most costly versus puts in the past 12 months, Credit Suisse data show.

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America Needs a Steady, Strategic Fed

By Kevin Warsh
1,066 words
31 January 2017
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A15
English

On Wednesday the Federal Open Market Committee will conclude its first policy meeting of the year. The Fed is expected to issue two documents. The first is a jargon-filled policy statement that market pros and pundits will scrutinize intently for clues about when the next interest-rate increase will come. The second document -- purporting to state the Fed's strategy and long-term goals -- is likely to receive far less attention. In past years, it recited vacuous truisms and provided neither constructive guidance nor any meaningful constraint on the Fed's discretionary impulses.

Let's hope the Fed takes the opportunity this year to announce a practicable long-term strategy and stick to it. I am afraid, however, this won't happen. The central bank has offered plenty of plans over the years. But too often these prove to be as fleeting as the seasons.

A year ago around this time, the U.S. **stock market** fell about 10%. The Fed reacted precipitously, reversing its announced plan for 2016 of four quarter-point rate increases. But when prices rallied near the end of the year, the Fed decided it wouldn't look good to let the moment pass without raising rates. It raised its key interest rate by a quarter point in December.

In late October, Fed Chair Janet Yellen expressed willingness to run a "high-pressure economy" to push the unemployment rate lower and inflation higher. Yet in a speech two weeks ago, she said that allowing the economy to run "persistently 'hot' would be risky and unwise."

Changes in judgment should be encouraged, but they ought to indicate something other than day trading or academic fashion. They must be rooted in strategy. Otherwise, the real economy winds up worse off. Short-term thinking and ad hoc measures by the Fed beget short-term reactions by financial firms, businesses and households. And eight years into the economic recovery, the long run is at hand.

In recent years, the rationale for the Fed's choice to loosen or tighten policy has been as nebulous as Justice Potter Stewart's famed definition of pornography: You know it when you see it.

The Fed's technocratic expertise is no substitute for a durable strategy. This make-it-up-as-you-go-along approach causes many Fed members to race to their ideological corners, covering themselves as hawks and doves. It causes economists to litigate a false choice between fixed policy rules and unfettered discretion.

The absence of an observable Fed strategy is also causing congressional leaders, understandably, to seek legislative changes in the central bank's mandate. Congress cannot properly oversee what cannot be understood and evaluated. Rigorous Fed oversight is of a piece with an independent central bank. Reforms are coming, one way or another.

What would a well-conceived, rigorously implemented Fed strategy look like? It would be clearly delineated and broadly measurable. Its goals would be within the scope of the Fed's policy tools, attainable over time and circumstance. Critically, the strategy would be squarely focused on the medium term, that is, the next several years. Here is what reform of Fed strategy might look like in practice:

First, the Fed should establish an inflation objective of around 1% to 2%, with a band of acceptable outcomes. The current 2.0% inflation target offers false precision. According to the Fed's preferred measure, inflation is running at 1.7%, only a few tenths below target. The difference to the right of the decimal point is too thin a reed alone to justify the current policy stance. It also undermines credibility to claim more knowledge than the data support.

Second, the Fed should adjust monetary policy only when deviations from its employment and inflation objectives are readily observable and significant. The Fed should stop indulging in a policy of trying to fine-tune the economy. When the central bank acts in response to a monthly payroll report, it confuses the immediate with the important. Seeking in the short run to exploit a Phillips curve trade-off between inflation and employment is bound to end badly.

Third, the Fed should elevate the importance of nonwage prices, including commodity prices, as a forward-looking measure of inflation. It should stop treating labor-market data as the ultimate arbiter of price stability. The cost-push wage inflation of the 1970s is fundamentally different from the later-cycle wage increases that we're starting to see now. A material catch-up in wages after a long period of stagnation need not trigger a panicky response.

Fourth, the Fed should assess monetary policy by examining the business cycle and the financial cycle. Continued quantitative easing -- which Fed leaders praise unabashedly -- increases the value of financial assets like stocks, while doing little to bolster the real economy. Finance, money and credit curiously are at the fringe of the Fed's dominant models and deliberations. That must change, because booms and busts take the central bank farthest afield from its objectives.

Fifth, the Fed should institutionalize its new strategy and boldly pursue it with a keen eye toward the medium-term. Central bankers who vow allegiance to "data dependence" find themselves lurching to and fro according to undistilled, short-term noise. Instead, the Fed should adhere to a concept I would term "trend dependence." When the broader trends begin to turn -- for example, in labor markets or output -- the Fed should take account of the new prevailing signal.

A new Fed strategy would have the central bank acting as a responsible, forward-looking grown-up. Markedly better tax and regulatory policy is likely with the new administration. The Fed should recognize that American productivity, and potential economic growth, could improve significantly. Conversely, if economic trends turn south, the Fed needs a more credible, practicable strategy to respond.

In 1979, another consequential moment for the U.S. economy, Milton Friedman wrote to newly appointed Fed Chairman Paul Volcker that he was skeptical the Fed could "rise to the challenge without major changes in its method of operation." A change in the central bank's strategy and practice is no less essential today.

Mr. Warsh, a former member of the Federal Reserve Board, is a distinguished visiting fellow in economics at Stanford University's Hoover Institution.

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The New York Times

Business Day
Skip the G.M.O.s: Park Slope Food Co-op Fights Over Its Pension Fund

By MARY WILLIAMS WALSH
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30 January 2017
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English

The Park Slope Food Co-op, bastion of high ideals and low prices, conscientiously screens the food it sells to help members avoid genetically modified ingredients.

So it came as a shock last November when the co-op's 17,100 members learned that its pension fund was stuffed with speculative microcap stocks — like Intrexon, a company hoping to fight the Zika virus by unleashing genetically modified mosquitoes in the Florida Keys.

The pensions are not for co-op members; members must, in fact, work at no pay in exchange for access to the co-op's much-publicized low prices. The pension plan is for the co-op's roughly 90 paid employees, including about 20 retirees. It appears to have gone into hedge fund mode years ago, when one co-op member, also a hedge fund investor, made stock-picking his unpaid job.

The other members were unaware of this until last summer, when an auditor let fly a bolt from the blue: The fund had racked up two straight years of losses, and the co-op had to pour in more than $1 million to keep it flush.

Laid-back co-op members reacted to this news like shareholders stung by an unexplained dividend cut. Some feared a wag-the-dog effect, in which the pension fund would keep losing money and sucking more and more cash away from the co-op as more people retired. Labor costs would rise, and that would be the end of the benefit that drew them all to the co-op in the first place: food prices 20 to 40 percent below those in supermarkets.

"Does the co-op wish to continue on this rather hair-raising course?" asked Mark Kuzmack, a member who aired his views in the co-op's newspaper, The Linewaiters Gazette, so named because members read it while waiting in line at the registers.

The members will vote on a reform proposal on Tuesday evening, at what is expected to be a stormy meeting. The proposal calls for oversight of the co-op's two pension trustees, who have until now operated on their own. Some of the 90 paid employees suspect "oversight" is just a code word for the real agenda: getting rid of their pensions.

The co-op's founding member and general coordinator, Joseph L. Holtz, who is also a trustee, said in an interview that a new layer of oversight was unnecessary. The stocks were recovering nicely from their swoon, he said, and in any case they were all being liquidated and replaced with safer investments.

"The members have clearly spoken, either through their letters or their statements at general meetings, that they're not interested in investing in that much **volatility**," he said.

In addition, he said, the pension trustees will stop wearing two hats, serving both as fiduciaries and stock pickers. The trustee responsible for the biotech stocks will step down, once he finishes liquidating the portfolio, a process that will take months.

"You don't just sell $7 million of stocks overnight," Mr. Holtz said.

The other trustee is George W. Haywood, a professional investor who worked in the past as a hedge fund manager and Lehman Brothers bond trader. He is also a Brooklyn native and a member of the co-op, though now he lives in Washington. Mr. Haywood did not respond to messages requesting comment.

“George Haywood is a high-profile Beltway insider,” said Avi Fisher, another of the many co-op members who aired their views in The Linewaiters Gazette. “I am curious why and how we have a relationship with him. It certainly isn’t because there’s a dearth of financial acumen in New York City.”

Mr. Haywood is the biggest holder of a stock in the pension fund, that of Neptune Technologies and Bioressources. Neptune makes edible oil from krill, a small, shrimplike crustacean, and promotes it as a nutrition supplement superior to fish oil.

Some co-op members see a conflict of interest in Mr. Haywood’s roles as a pension trustee, a pension stock picker and the biggest holder of one of those stocks.

In December, with controversy swirling around the pension fund, Mr. Haywood told The Linewaiters Gazette that no conflict of interest existed.

“Owning stock,” he said at the time, “doesn’t make you an insider. We’re not trading on any insider information.”

He said he had traded the shares on a public exchange and did not charge any fee for his services.

The problem some co-op members see is one of suitability. Hedge funds cater to wealthy and sophisticated people who can afford to place big bets and to bear any resulting losses. That is very different from a food co-op on a tight budget, with retirees free to take their benefit as a single big check if they want. That option, though popular, has sometimes caused liquidity crises at other pension funds.

Mr. Holtz recalled that when the pension plan was established, in 1993, there had also been worries about the risks it might pose to the co-op. He said an actuary had set up a schedule of funding and benefit accruals that would make it safe and sustainable, as long as the co-op put in 1 percent of its sales every year. Projected annual growth, of both the co-op’s sales and the pension fund’s investments, would take care of the rest.

Since then, a substantial body of academic work has appeared showing that such actuarial models are inherently biased in favor of risk: They call for investment portfolios to produce, say, 7 percent average annual gains over the long term, without adjusting for the fact that any such average will include both bear and bull markets. Such averages are deceptive, making it look as if valuable pensions can be provided by setting aside surprisingly small sums of money, then investing it aggressively — something that has brought pension funds to grief not just in Park Slope, but all across the United States.

The academic papers have won respect from specialists, but not much understanding by the public at large.

In Park Slope, however, gentrification turns out to have brought not only craft beers, man buns and deluxe baby buggies, but also a cohort of sophisticated finance professionals who still join the co-op for its cheap food.

One of them, Jonathan Hessney, went to a recent general meeting armed with his own analysis of the pension investments. He showed that the investments had zigzagged up and down since the crash of 2008 — but that in the end, the fund would have been better off just holding cash.

Mr. Hessney also showed that the co-op had not put in the actuary’s recommended 1 percent of sales every year, presumably because the trustees thought aggressive investments would make the whole plan cheaper. Many people still do.

Members at the meeting did not seem to know whom to believe, Mr. Hessney or Mr. Holtz, who is widely revered at Park Slope for devising its free-work-for-cheap-food business model.

Mr. Holtz said he predicted that his confidence in the old investment strategy would be borne out on Tuesday, when he plans to reveal the fund’s average annual return from 1993 to the present, a period that includes the biggest **bull market** in American history.

“It’s going to be over 9 percent,” he said.

Members shopping at the Park Slope Food Co-op in Brooklyn. Unrest over the co-op’s pension fund has resulted in a vote on a reform proposal scheduled for Tuesday. | Jake Naughton for The New York Times | The Park Slope Food Co-op has roughly 90 paid employees. Its members must work at no pay in exchange for access to the co-op’s much-publicized low prices. | Jake Naughton for The New York Times | Joseph L. Holtz, founding member and general coordinator of the Park Slope Food Co-op, said a new layer of oversight of its pension fund was unnecessary. | Jake Naughton for The New York Times | The co-op has 17,100 members. Its food prices are 20 to 40 percent below those in supermarkets. | Jake Naughton for The New York Times

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Finance Watch

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30 January 2017
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B10
English

CURRENCIES

Peso Gains as Trump,

Pena Nieto Talk

The Mexican peso surged Friday, capping a **volatile** week as investors continue to assess the outlook for trade negotiations between the U.S. and. Mexico.

The peso rose about 1.5% against the dollar, closing at its highest level since Jan. 2.

The peso swung between gains and losses this past week as investors weighed U.S. President Donald Trump's pledges to build a border wall and renegotiate the North American Free Trade Agreement against comments that appeared more conciliatory. The peso ended the week with a 3.3% gain against the greenback.

The Mexican currency's latest rise came after Mr. Trump said at a news conference Friday he had spoken with Mexican President Enrique Pena Nieto about renegotiating trade deals and "working on a fair relationship."

-- Chelsey Dulaney

HEDGE FUNDS

Shift at Citadel

Kevin Turner, chief executive officer of hedge-fund Citadel LLC's electronic market-making unit, has stepped down after joining the firm less than a year ago from Microsoft Corp.

Peng Zhao, vice chairman of Citadel, has been named the new head of the Citadel Securities unit. A spokesman for Citadel confirmed the changes in an email. Mr. Turner was previously Microsoft's chief operating officer before he left to head Citadel Securities in 2016.

-- Alexander Osipovich

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THE WALL STREET JOURNAL.
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U.S. News --- THE OUTLOOK: Fed Grapples With When to Shrink Assets

By Michael S. Derby
845 words
30 January 2017
The Wall Street Journal
J
A2
English

While Federal Reserve officials ponder when to raise short-term interest rates again, they are beginning to wrestle with another big policy decision -- whether this is the year to start shrinking their immense portfolio of mortgage and Treasury securities.

The Fed has boosted its portfolio of long-term bonds and other assets to $4.45 trillion from less than $1 trillion in 2007, just ahead of the financial crisis. Officials believe the large portfolio has helped spur economic growth by holding down long-term interest rates.

With the economy closer to healed from the financial crisis and recession, the central bank has already begun raising short-term rates. Fed Chairwoman Janet Yellen has said the Fed would reduce the bondholdings once rate increases were "well under way." Many officials hope to get the portfolio back to some state of precrisis normalcy.

A great deal is at stake with the bond decision. Shrinking the portfolio could jolt **financial markets**, pushing up interest costs on government debt and mortgage bonds and reverberating through the broader economy.

Officials don't know how markets will react when they shrink the holdings because they have never done it before. But they know plenty about the skittishness of investors. When they signaled they would end bond purchases in 2013, they sparked a market "taper tantrum" that sent interest rates higher and hurt emerging markets.

Fed officials hold their next policy meeting Tuesday and Wednesday. They are expected to keep interest rates and their portfolio steady.

The balance sheet debate is still in its early stages, but it is on Ms. Yellen's mind. In a speech Jan. 19 at Stanford University, she noted the stimulative effects of the Fed's bondholdings are diminishing over time as the moment nears for the Fed to shrink them. Sheer anticipation of a drawdown of the bonds could push long-term rates higher, she said in a footnote to her comments. That's a reason to proceed cautiously.

Bond dealers surveyed by the New York Fed in December said they expected the central bank to keep its portfolio steady for another 18 months.

But several Fed officials have said recently the time to start shrinking the balance sheet could come in 2017. This year "might be a good time to play that card," St. Louis Fed President James Bullard said in a December interview with The Wall Street Journal.

The Fed should raise its benchmark federal-funds rate above 1% "sometime this year," Philadelphia Fed President Patrick Harker said Jan. 20. Once that happens, "the next step" is to do something to allow the balance sheet to start shrinking, he said. Boston Fed President Eric Rosengren has also expressed sympathy for the idea.

"We've not yet made any precise decisions about when that will occur," Ms. Yellen said in December.

Fed officials have said for a while they want to raise the fed-funds rate first because they're most familiar with this tool. They also want it high enough so they have room to cut it later if needed to provide stimulus in response to another economic downturn.

Officials are starting to discuss the balance sheet plans now for several reasons.

First, they don't see political support for letting it get bigger. And like the argument about short-term rates, reducing it would give them some room to expand it later if they need to spur the economy.

Some also worry that raising short-term rates is boosting the dollar, which curbs exports and weighs on inflation, which is already below their 2% target. Shrinking the balance sheet instead of raising short-term rates could be a way to tighten financial conditions without bearing the costs of a stronger currency.

Many questions about mechanics loom. Officials have long said they won't sell their securities, fearful it could jolt to markets. Instead, to shrink the portfolio they will alter their current practice of using the proceeds from maturing bonds to buy new ones, a process called reinvestment.

There are a few ways they could do this. They could halt all reinvestment. They could reduce the amount reinvested gradually. Or they could start by reinvesting proceeds from long-dated maturities into shorter ones.

They also haven't decided how big the balance sheet should be when they finish.

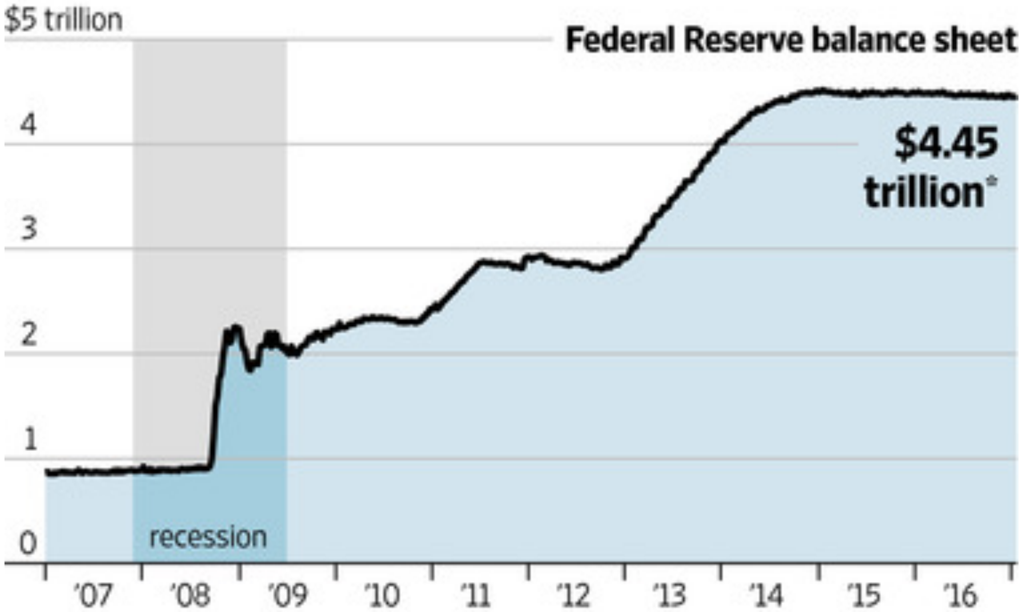
Former Fed Chairman Ben Bernanke has argued in favor of keeping the securities portfolio large, or reducing it only moderately.

Given changes in the way the Fed manages interest rates and other shifts in markets and the economy, he wrote in a blog post Thursday, "the optimal size" of the holdings could be more than $2.5 trillion currently and could reach $4 trillion or more over the next decade.

"In a sense, the U.S. economy is 'growing into' the Fed's $4.5 trillion balance sheet," he said, "reducing the need for rapid shrinkage over the next few years."

Peak Value

Fed officials are trying to decide when to reduce the value of the central bank's holdings



Note: Weekly data, not seasonally adjusted

*As of Jan. 25, 2017 Source: St. Louis Federal Reserve THE WALL STREET JOURNAL.

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THE WALL STREET JOURNAL.
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U.S. News: Revenue Shortfalls Fuel State Budget Woes

By Jon Kamp
735 words
30 January 2017
The Wall Street Journal
J
A6
English

Faced with weak revenue, sluggish growth and possible federal funding cuts, many governors and state lawmakers face a tough budget season.

On the revenue front, states are dealing broadly with a mix of challenges, including low energy prices and tax collections that are forecast to continue to grow slowly into the next fiscal year. Meanwhile, states also face an uncertain menu of big changes, including Republicans' potential repeal of the Affordable Care Act and cuts to federal payrolls.

"Many cities and many states still are in a fragile position," Virginia Gov. Terry McAuliffe, a Democrat, said during a National Governors Association meeting in Washington last week. "We have to be very, very concerned about what is going to happen next with our economy."

The federal spending cuts known as the sequester badly hurt Virginia by cutting jobs in the Washington neighbor, Mr. McAuliffe said last week. Virginia would be further hurt by President Donald Trump's federal hiring freeze, Mr. McAuliffe said, because the government is a major employer in his state.

States' finances vary widely, but revenue challenges remain common. In fiscal 2016, revenue came in below forecasts in 25 states, which is the highest level since the latest recession, according to the National Association of State Budget Officers. At least 24 states face the same challenge in the current fiscal year, which runs through June in most states, the association, known as Nasbo, said in a December report.

Low **oil prices** are amplifying the strain by weakening tax collections in energy-producing states like Alaska and North Dakota. But the effect is much broader, with states ranging from Hawaii to Indiana and Mississippi also lagging, despite a long period of national economic recovery.

"It's been a trend since the end of the recession," said Nick Samuels, vice president and senior credit officer at Moody's Investors Service. Revenue hasn't rebounded like it normally does after downturns, he said.

The reasons are manifold, including the tilt toward job growth in lower-paying industries, he said. Moody's in December forecast 2% to 3% in state tax revenue growth over the next 12 to 18 months, below the 4% five-year average.

"That is certainly a challenge for states at the same time they confront higher pension costs," Mr. Samuels said.

Some states face significant fiscal challenges, including Illinois, which has a budget crisis and unfunded pension liabilities, and Kansas, where past tax cuts opened budget holes. Louisiana's Democratic governor last week called for a special session of the legislature for mid-February to fix that state's budget hole.

The revenue shortfalls are modest in most cases, said John Hicks, Nasbo's executive director. The group credited many states for beefing up rainy-day funds despite the budget challenges. General-fund collections for fiscal 2017 were on target in 16 states, while four states -- Arkansas, Maine, New Hampshire and North Carolina -- were running ahead of forecasts, Nasbo said in December.

Still, the revenue pressure is forcing states to cover shortfalls and make tough choices. Mr. Samuels said new budget proposals show slowing state aid for higher education. Massachusetts Gov. Charlie Baker, a Republican, vetoed a legislative pay-raise measure on Friday, calling it "fiscally irresponsible."

Governors in New Mexico, Vermont and South Dakota addressed revenue challenges in recent addresses, citing issues including weakness in oil and gas, a shrinking workforce and lower sales-tax receipts.

Nebraska Gov. Pete Ricketts said his state missed revenue forecasts by $95 million in the latest fiscal year and are forecasting a $172 million miss for the current year, hurt by sharp declines in farm income.

States are also dealing with uncertainty in Washington and federal funds account for nearly one-third of state revenues, according to Pew Charitable Trusts. Medicaid, paid for by both the federal and state governments, is the second-biggest expense in most states after education, according to Pew.

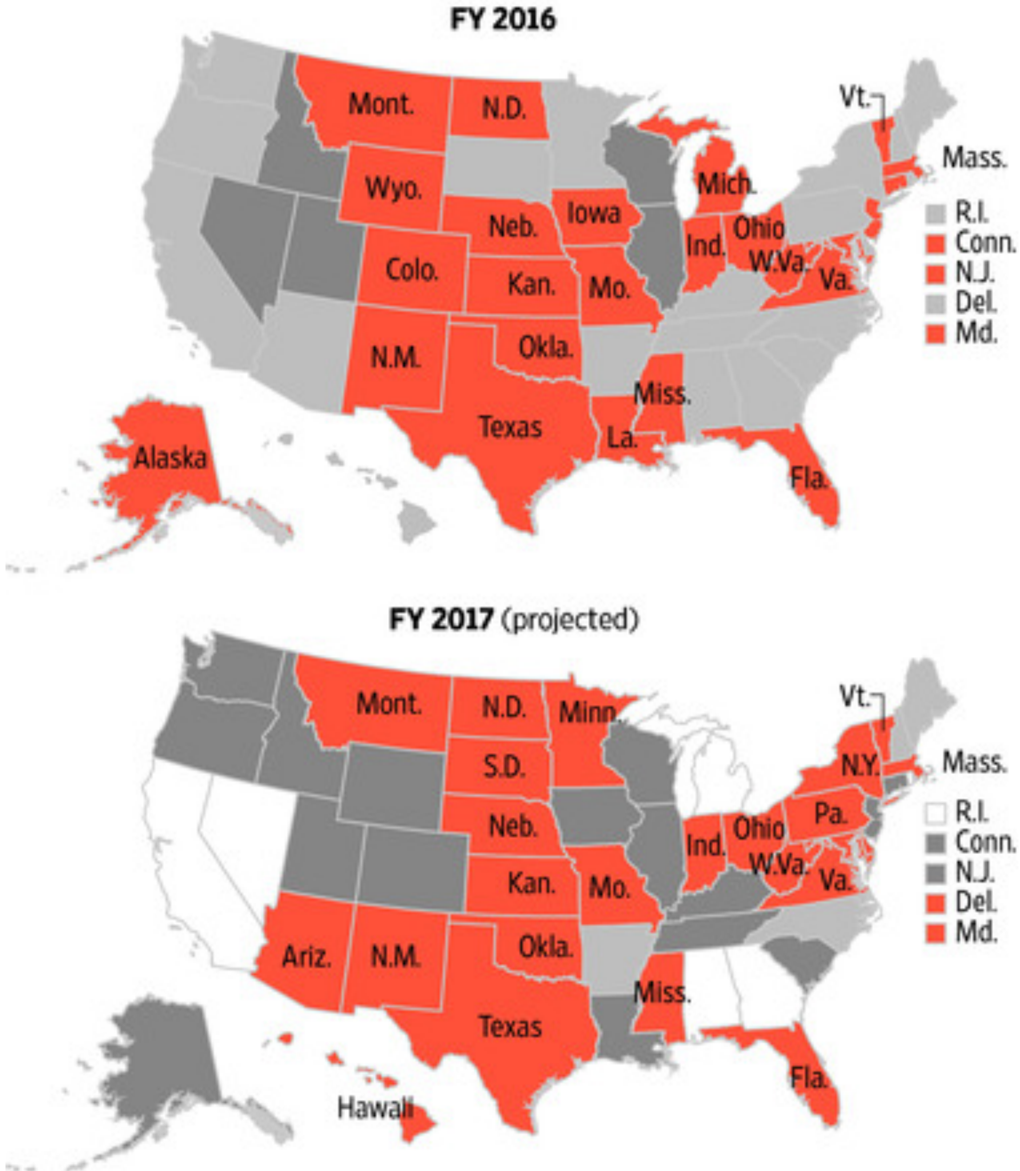
With a new administration and GOP lawmakers promising to repeal the Affordable Care Act, and with uncertainty about what might replace it, states are watching closely for Medicaid-funding changes. Some Republican governors -- many of states that expanded Medicaid under the health law -- have warned against repealing the law until a new law is in its place.

Jennifer Levitz contributed to this article.

Taxed Budgets

Projected general fund revenue collections:

Lower | Higher | On target | Unable to report projections



Note: Fiscal years end in June, except for New York, in March; Texas, in August; and Alabama and Michigan, in September.

Source: National Association of State Budget Officers THE WALL STREET JOURNAL.

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THE WALL STREET JOURNAL.
U.S. EDITION

Banks Plan to Stay the Course in Mexico --- Citigroup, European lenders say trade uncertainty with U.S. isn't reason to pull back

By Christina Rexrode in New York and Jeannette Neumann in Madrid
888 words
30 January 2017
The Wall Street Journal
J
B1
English

Big American and European banks with substantial interests in Mexico are standing fast with plans for further investment in that country even as trade-war talk heats up with the U.S.

Citigroup Inc. and Spain's Banco Santander SA and Banco Bilbao Vizcaya Argentaria SA said they remain confident in their businesses in Mexico, where they control the country's top three banks. Executives have also said in recent days that while a trade war could hurt Mexico's economy, further peso weakness could make the country even more competitive globally.

"Mexico does have a lot of advantages, and those advantages as an economy would continue no matter what would happen between trade with the U.S.," Citigroup finance chief John Gerspach said Thursday during a call with debt investors. "A weakening peso would again give them even more of a competitive edge."

Citigroup owns one of Mexico's biggest banks, known as Citibanamex, and a month before the U.S. election said it planned to invest $1 billion in the country over four years to improve and refurbish operations. "We're on pace to keep that going," Mr. Gerspach said of Citibanamex, which generated about 15% of Citigroup's consumer revenue in the fourth quarter.

Speaking after Santander reported fourth-quarter results Wednesday, Executive Chairman Ana Botin said the bank still plans to move ahead with a 15 billion peso ($718 million) investment announced in December to modernize bank branches, automated teller machines and information-technology systems during the next three years. Santander owns another of Mexico's largest banks and generates about one-tenth of its net profit in that country.

"We expect to continue to do well in Mexico despite a more challenging environment," Ms. Botin said.

BBVA, which owns Mexico's largest bank, BBVA Bancomer SA, has more at stake, generating about half its net income in the country.

"In the short term, Mexico will have to cope with great challenges, but Mexico will overcome the current situation," BBVA Chairman Francisco Gonzalez told The Wall Street Journal in a statement. "Gradually policies should evolve in the right direction" between Mexico and the U.S., he added.

For their part, investors are showing some concern but aren't selling indiscriminately. Citigroup shares have outperformed the **S&P 500** since the U.S. election but have trailed the KBW **Nasdaq** Bank index by about 10 percentage points.

BBVA shares have lost nearly 2% since the election versus a nearly 18% gain for the Euro Stoxx Banks index. Meanwhile, Santander stock has actually outpaced the index, rising about 21% since Nov. 8.

The war of words between President Donald Trump and Mexico has taken a toll on the peso -- it has lost about 14% of its value against the dollar since Nov. 8 -- and raises the prospect of an economic slowdown or even recession in that country.

Given that all three foreign banks' operations are focused primarily on retail and commercial banking, the lenders' profits in Mexico are closely tied to domestic demand for mortgages and consumer and business loans.

And while a weaker peso could increase competitiveness for exporters, it poses a short-term headwind for the banks.

Fourth-quarter net profit at Santander's Mexico business rose 14% from a year earlier measured in pesos. But for purposes of the bank as a whole, it fell 2.3% when translated back into euros. BBVA reports fourth-quarter results Wednesday.

Santander and BBVA executives say confidence in their ability to juggle the uncertainty in Mexico derives in part from experience managing businesses in other emerging markets. Santander has a major bank in Brazil and BBVA in Turkey.

Citigroup also has a long history in emerging markets. Speaking on his bank's earnings call earlier this month, Chief Executive Michael Corbat noted Citigroup has served customers around the world "through wars, through trade wars, through depressions, through recessions."

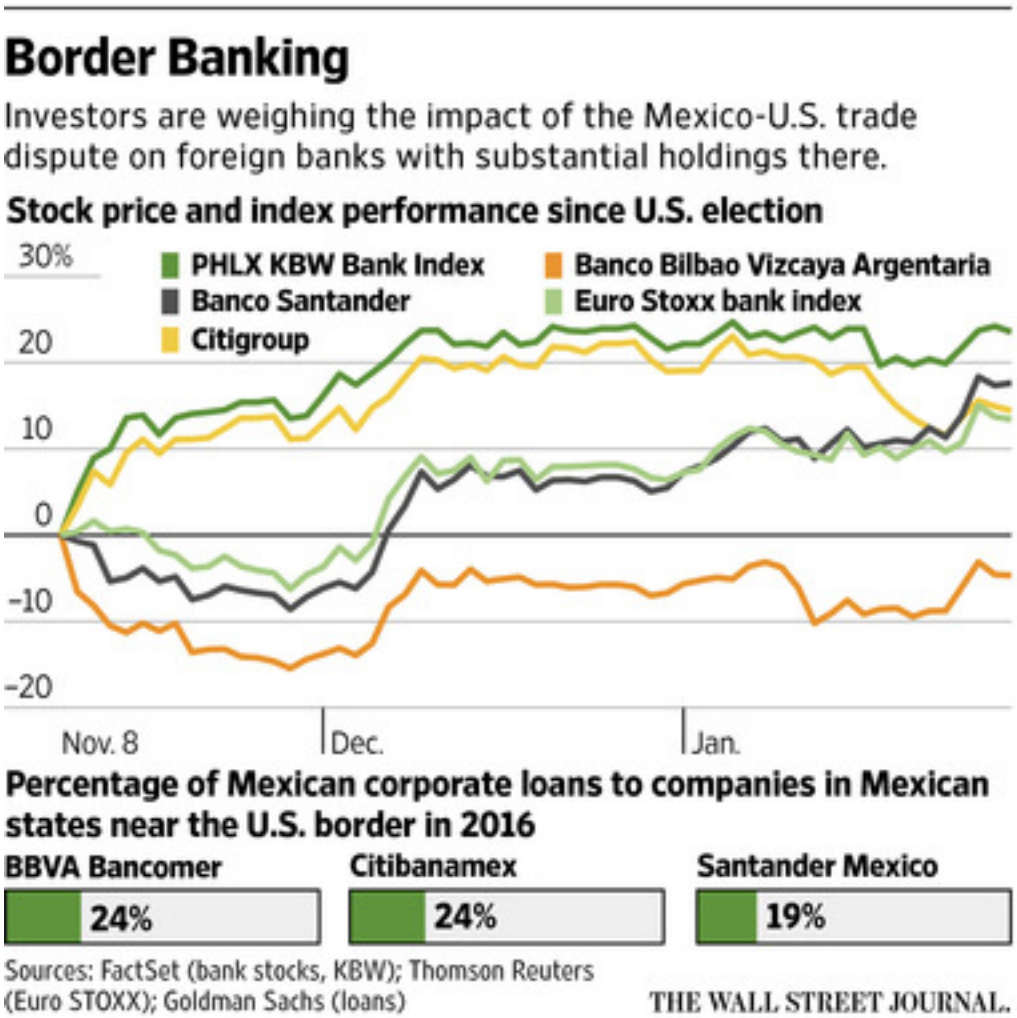
Still, Mexico could prove disruptive for Citigroup if, say, President Trump opts to abandon the North American Free Trade Agreement. Some investors and analysts have in the past called on the bank to sell the Mexico operations, which were rocked by a loan-loss scandal in 2014. Scrapping Nafta or a severe recession in Mexico could rekindle debate.

For now, the bank isn't changing course. Asked on Citigroup's earnings call if the bank would consider selling the Mexico business, Mr. Gerspach replied: "No. That's not even on the table." And Citigroup directors spent only a few minutes discussing Mexico at a board meeting in recent days, said people familiar with the matter.

How the Mexico-U.S. trade dispute plays out, especially as it relates to the country's economy and remittances to people living there, will prove important to Citigroup and its growth prospects.

About 24% of Citibanamex's corporate loans are to companies in Mexican states along the U.S. border, which presumably would be most hurt by a more restrictive trade policy, Goldman Sachs analysts estimate based on data from Mexico bank regulators.

Telis Demos contributed to this article.



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Earnings Torrent, Fed, Jobs To Test Stock Market Rally

By Corrie Driebusch and Theo Francis
1,032 words
30 January 2017
The Wall Street Journal
J
A1
English

Earnings reports this week from more than 100 of America's biggest companies -- combined with signals about the health of the broader economy from the Fed and monthly jobs data -- will help determine whether U.S. stock markets can sustain recent gains that pushed them into record territory.

Some of the most prominent names in the **S&P 500**, including tech giants Facebook Inc. and Apple Inc., are scheduled to report quarterly results. Forecasts put the Silicon Valley heavyweights at opposite ends of the earnings spectrum: Facebook is expected to be the largest contributor to earnings growth in the technology sector, and Apple is forecast to provide the largest drag, according to FactSet data.

Meanwhile, the Federal Reserve is expected to keep short-term interest rates steady after its meeting midweek, but investors will be watching for signs about the timing and pace of rate increases -- signals that have rattled stock, bond and currency markets in the past. Friday's jobs report will provide an update on the health of the labor market, which has been a bright spot in the U.S. economy.

Corporate earnings already reported for the just-finished fourth quarter have proved a balm for markets, alongside economic data that have been improving since late last year and optimism about what President Donald Trump and Republicans in Washington can deliver for business. They helped propel the **Dow Jones Industrial Average** past the 20000 mark last week and built on third-quarter profit reports that were the first to show earnings growth for **S&P 500** companies after five quarters of contraction, according to FactSet.

Boeing Co. was responsible for about a fifth of the Dow's point rise last week, after the world's largest aerospace company beat earnings forecasts, and shares of industrial and materials companies rallied on expectations of infrastructure spending under the new presidential administration. Shares of Microsoft Inc., another Dow component, gained nearly 5% during the week as the software giant posted gains in its online business.

With roughly a third of **S&P 500** companies having reported so far, fourth-quarter earnings are on track to rise 4.2% from a year earlier, according to FactSet. That is better than the 3.2% growth rate analysts expected at the end of the year and puts U.S. companies on track to eke out earnings growth for 2016.

But stocks are doing much more than eking out gains. They are making records and, eventually, many investors say, it will be necessary for the earnings to support the prices.

"In order for shares to advance, we need to see earnings growth," said Eric Wiegand, senior portfolio manager at U.S. Bank's Private Client Reserve, adding that the reporting season was off to a good start. "Valuations are still the big concern," he said.

The **S&P 500** trades at roughly 21 times the past 12 months of earnings, above its 10-year average of around 16 times earnings, according to FactSet.

"The recent run in equities was very hard and very fast in the U.S.," said Stephen Wood, chief market strategist at Russell Investments. "The earnings recession is behind us. But that may not be enough to justify these valuations."

To a certain extent, investors say, earnings results from last year may be less important right now than the guidance executives offer investors, if changes in business conditions are in the offing. Indeed, many executives last week emphasized their optimistic outlooks.

At the same time, investors will eventually demand results. "We're going to continue to plan for a slow-growth global economy, but it still feels more positive than it has in a while coming off the worst recession since the Great Depression," said David Cote, chief executive of Honeywell International Inc. The conglomerate reported lower profit and organic revenue for the fourth quarter but pointed to a rebound in its business tied to the oil-and-gas industries. Honeywell's stock rose 0.4% Friday after the company reported earnings before the market opened.

International Business Machines Corp. posted its 19th straight quarter of revenue declines, as the technology giant continues to struggle with the shift to cloud computing and sheds slower-growth businesses. Executives, nonetheless, sounded optimistic. "We feel pretty good about how we're entering 2017 stronger than we entered 2016," said Chief Financial Officer Martin Schroeter.

AT&T Inc. chief Randall Stephenson said his company was banking on the possibility of stronger growth, rather than bracing for the risk of a weaker economy.

"If we get tax reform, I would suggest there may be upside to this guidance that we're giving you," Mr. Stephenson said on a conference call, noting that eased regulation could prompt more investment. "But it's wait and see."

Still, many consumer-facing businesses have warned of slack demand and pricing pressures, from retailers like Target Corp. and Macy's Inc. to household goods makers like Colgate-Palmolive Co. and Kimberly Clark Corp.

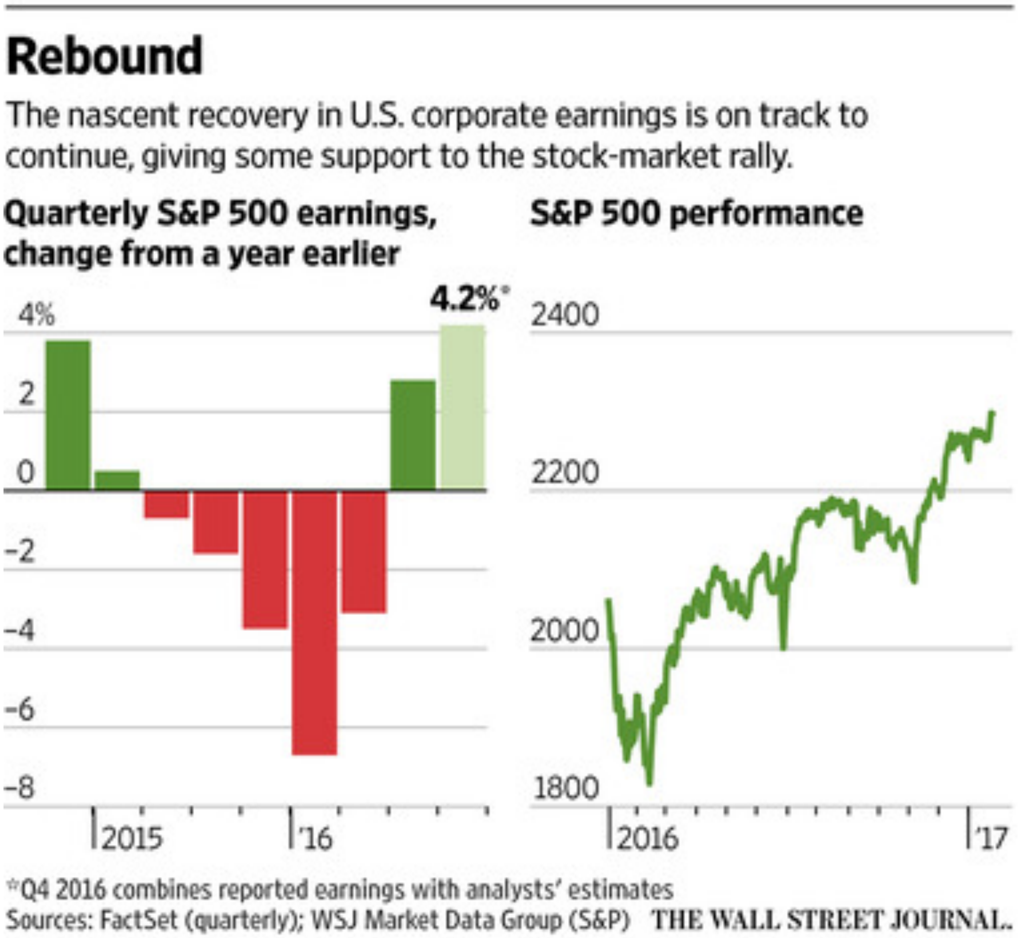
"As we move into 2017, I think it's safe to say that the uncertainty continues," said Ian M. Cook, chief executive at Colgate-Palmolive.

Bernard Arnault, CEO and founder of luxury-goods maker LVMH Moet Hennessy Louis Vuitton, warned that geopolitical uncertainty and the threat of rising interest rates have left the business environment rocky.

"For every 10 years, we have eight good years and two not-good years," Mr. Arnault said, noting that eight years have passed since the financial crisis. "We really have to be prudent."

Data released Friday highlighted that the U.S. recovery remains fragile. Growth in gross domestic product, a broad measure of the goods and services produced across the economy, decelerated in the final three months of the year from the prior quarter, data from the Commerce Department showed. The 1.9% growth rate from a year earlier shows the task Mr. Trump faces in jump-starting a U.S. economy that has remained sluggish since the financial crisis.

Aaron Kuriloff contributed to this article.



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World News: Bank of Japan Grows Warier Of an Unpredictable Trump

By Takashi Nakamichi
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The Wall Street Journal
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English

TOKYO -- At the Bank of Japan, cautious optimism toward U.S. President Donald Trump is giving way to plain caution.

Mr. Trump's election victory initially gave policy makers in Tokyo hope of more-favorable economic conditions after a stimulus pledge sparked a sharp rise in the dollar and a **stock-market** rally amid expectations of faster American and global growth.

But ahead of a two-day BOJ policy meeting starting on Monday, Mr. Trump's recent comments questioning the dollar's strength, Japan's alleged nontariff barriers on American cars and the country's trade surplus with the U.S. are evoking Japanese memories of fierce trade friction with Washington in the 1980s and 1990s.

Officials from Japan's central bank are increasingly unsure whether Mr. Trump's protectionist measures will outweigh the benefits of his pledged efforts to stimulate the U.S. economy, say people close to the bank. "We now realize that we know very little about him," one said.

Officials have suggested there will be no rate changes at the meeting, which will likely instead focus on whether the BOJ changes its price forecast for the year ending March 2018, the people said. Investors will scrutinize the meeting for signs of whether the bank will raise rates this year, a move that risks stunting Japan's fragile recovery.

At the meeting, Japanese central bank officials are likely to discuss Mr. Trump's oft-contradictory policy statements and tweets, the people said. Nervous about his unpredictably, many officials are wary of raising inflation projections. The BOJ currently tips inflation at 1.5% in the year through March 2018, nearly double private economists' average. The bank's goal is 2% inflation. Inflation has consistently undershot the BOJ's forecasts since Gov. Haruhiko Kuroda took office in spring 2013.

"If the BOJ revises up the forecast this time, that would likely stoke talk in the markets that Japan may move toward raising interest rates despite these very uncertain, unpredictable times," one of the people said.

That kind of speculation could drive up the yen, making the BOJ move self-defeating, this person said. Adding to anxiety among bank officials is investors' tendency to seek refuge in the yen at times of strong uncertainty.

Data released on Friday showed consumer prices fell 0.2% in December, a smaller decline than the previous month. Some economists said they expect the reading to turn positive in January. That would be the first positive reading since December 2015.

The hand-wringing over whether to raise the price forecast underlines the far-reaching effects of Mr. Trump's words and deeds on Japan's policy debate.

In the wake of Mr. Trump's attack on Japan's trade openness and its military dependency on the U.S., Prime Minister Shinzo Abe pledged efforts on Wednesday to strengthen the nation's military capability and boost Japanese investment in the U.S.

Mr. Abe also said he was willing to consider bilateral trade negotiations with the U.S. following Mr. Trump's decision to pull out of a trade pact among 12 Pacific Rim nations, including Japan.

Despite the uncertainty over how the global economy might be affected by the Trump administration, some on the BOJ's nine-member board think an upward revision of the price forecasts is warranted, considering the yen's drop and Japan's economic pickup since Nov. 1, when the previous outlook was released, the people said.

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Pension Fund Strategy Rocks Brooklyn Food Co-op

By Corinne Ramey and Aaron Kuriloff
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The Park Slope Food Coop is expected to vote on the oversight of its pension fund Tuesday, capping a fierce six-month debate among its thousands of members over the fund's unusual investing strategy.

Without the knowledge of most members, two then-trustees of the Brooklyn organic grocer had invested the majority of its pension fund in just eight stocks, most of them biotechnology firms. Now, an option up for discussion is the creation of a five-member committee to monitor the fund's performance and keep members informed.

"It was counter to the co-op's values of cooperation and openness and transparency," 53-year-old Eric McClure, one of the 17,000 members, said of the fund's management. "And that kind of **volatility** is not what you want in a pension fund."

Biotech stocks are typically more **volatile** because those companies often don't have income-generating products and biotech drugs in development don't have a guarantee of government approval. Pension funds frequently hold a large amount of bonds and other safe assets to ensure they have money to pay retirees even if stocks fall.

The co-op's general coordinator, Joseph Holtz, said the companies were carefully researched. "We didn't just take a dart and throw it at a board," he said. The co-op has started replacing its holdings of individual stocks with low-fee exchange-traded and mutual funds.

The pension debate began in late June, when members learned the $4.8 million fund had lost more than $1 million, or nearly 20%, in a year. It was underfunded by $3.1 million.

In August, member and business consultant Jonathan Hessney and others gave a presentation about the fund, saying it was highly **volatile**.

The fund's last annual financial statement was about a year ago, when it had about $3.2 million in stocks,according to a handout prepared by the then-trustees Mr. Holtz and George Haywood, a former managing director at Lehman Brothers. Stocks accounted for66%, down from 71% the previous year. Cash made up 31%.

The fund's assets bounced back to $7.8 million in October, after one biotech stock, Sarepta Therapeutics Inc., soared in value.

Among the concerns about the strategy: Members felt the trustees had acted secretively and the biotech companies didn't align with the grocer's values.

Mr. Haywood, the former co-trustee, is the largest individual shareholder of Neptune Technologies & Bioressources Inc., which the fund invested in, according to Securities and Exchange Commission filings; some members viewed it as a conflict of interest that Mr. Haywood was putting co-op funds into a company in which he was so heavily invested.

Mr. Haywood didn't respond to requests for comment. He told the co-op's newspaper he hadn't been paid since he had managed the fund as his work shift, a requirement to be a member, instead of stocking shelves or helping carry groceries. "We're not trading on any insider information," he added.

Some members are mobilizing for the vote on an oversight committee; others want the grocer out of the investing business altogether.

"We're not a pension fund, that's not what we do," said member Tim Thomas. "We provide vegetables."

FDA Approval Had

Role in Stock Picks

The Park Slope Food Coop said it invested in most of the biotechnology companies because it believed one of their pharmaceuticals would be approved by the U.S. Food and Drug Administration.

The plan bought shares of Fennec Pharmaceuticals Inc. and Sarepta Therapeutics Inc., for example, in 2007.

Other stocks, as of last October, included a 2013 investment in Neptune Technologies & Bioressources Inc., which makes omega-3 oil products from small crustaceans called Antarctic krill. In 2016, the fund bought shares in Intrexon Corp. because it thought its genetically engineered mosquitoes "will be adopted by public health agencies around the world" because of the Zika virus.

Sarepta, which in September received FDA approval for a muscular-dystrophy drug, has gained roughly 160% in the past year.

Five of the other stocks have fallen at least 10% in that time.

-- Corinne Ramey and Aaron Kuriloff

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Heard on the Street
A Historic, Eerie Calm In Markets

By Spencer Jakab
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B11
English

[Financial Analysis and Commentary]

Stop me if you have heard this before: We may be experiencing the calm before the storm for markets.

By one measure, investors are remarkably complacent. Despite political upheaval in Washington, the CBOE**Volatility** Index, or VIX, is at its lowest level since 2014 and below all but 1% of readings in its history. From the Friday before the presidential election through Friday's close, the fear gauge has had its sharpest 12-week drop ever, according to Charlie Bilello, director of research at Pension Partners.

The problem with the VIX, which is derived from the prices paid for options expiring in a month, is that it is backward looking and tends to fall during periods of rising stock prices such as the recent Trump rally.

But this belies heightened regulatory, geopolitical and economic uncertainty one week into a new administration. Common sense dictates that insurance for a stock portfolio should at the very least be a bit pricier right now.

Over its history, stocks have done poorly in the year following very low VIX levels. The S&P's annual gain has been 2.7% after the 100 lowest readings and nearly 29% after the 100 highest readings. The overall average was 8.8%.

A low VIX isn't in and of itself worrisome, but the "calm before the storm" idea has some basis in history. Some of the lowest historical VIX readings preceded sharp, unexpected stock selloffs such as the 2008 financial crisis and the 1994 interest rate scare.

Sometimes a healthy dose of anxiety is a good thing.

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Americas
President Trump's Mexican Standoff

By Mary Anastasia O'Grady
842 words
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A13
English

The author of "The Art of the Deal" has badly botched his first big one on the world stage, and not because he failed to stake out a tough position. In his effort to extract concessions from Mexico on the North American Free Trade Agreement, President Trump has failed to understand his opponent.

It isn't quite right to say that negotiations were scheduled to begin this week, with Mr. Trump hosting Mexico's President Enrique Pena Nieto in Washington. Mr. Trump has been negotiating since last year's campaign. His strategy has been to soften up the opponent with verbal abuse and extreme threats, including the possibility of tearing up Nafta altogether.

"The president-elect has done a wonderful job of preconditioning other countries [with] whom we will be negotiating that change is coming," Commerce Secretary-designate Wilbur Ross gloated during his Senate confirmation hearing. "The peso didn't go down 35% by accident. Even the Canadian dollar has gotten somewhat weaker -- also not an accident. He has done some of the work that we need to do in order to get better trade deals."

Having witnessed his nation and its currency pummeled in the public square, the Mexican president was supposed to crawl to Washington and agree to whatever terms his U.S. counterpart put on the table. Maybe Mr. Trump should have Googled the Treaty of Guadalupe Hidalgo. Mexicans are still smarting over that one.

After Mr. Trump told Mexico that a promise to pay for a border wall was a prerequisite for the scheduled meeting, Mr. Pena Nieto canceled. The White House responded by saying it would extract the money for the wall with a 20% tariff on Mexican exports to the U.S. Of course American consumers would be the ones paying. But in any case it would be the end of Nafta.

Americans have to hope their new president is not that reckless. Even the Soviets recognized that mutually assured destruction was a bad idea. A phone call between the two heads of state on Friday ended with both sides agreeing to future discussions.

North American free trade cannot be dissolved without inflicting great harm on the country that Mr. Trump has sworn to protect. Mexico is the U.S.'s third-largest trading partner, and some six million American jobs rely on trade with the southern neighbor. According to the Agriculture Department, "sales of food and farm products to Mexico totaled a record $19.5 billion in fiscal year 2014." That was 13% of U.S. agricultural exports.

Mr. Trump says that the U.S. has been outfoxed in manufacturing because American companies now make things in Mexico. But imports from Mexico contain significant American content, and production-sharing across the continent has given U.S. companies an edge in the global market. New tariffs on Mexican imports would damage that competitiveness and may result in retaliatory Mexican tariffs on U.S. exports.

Legal experts say it isn't clear how much unilateral power Mr. Trump has to maneuver. Article 2205 of Nafta allows the president to withdraw from the agreement. But it is being debated whether that would repeal the congressional legislation that put it into effect. If so, tariffs would revert to pre-Nafta levels, which implies using the World Trade Organization tariff schedule. American exporters to Mexico would face greater tariff hikes than Mexican exporters to the U.S., because Mexico accepted much greater tariff reductions under Nafta than the U.S. did.

A Jan. 10 paper from the international law firm White & Case says that its reading of the agreement and U.S. law "implies that substantive modifications of the Nafta outside of tariffs and rules of origin would require congressional authorization." The rules of origin -- the share of a product that must be Nafta-sourced -- have changed several times already, and Mexico might agree to alter them again. But it has said that it won't budge on tariffs.

Mr. Trump might try to invoke the International Economic Emergency Powers Act of 1977 to slap his oft-promised punitive tariff on Mexican imports. But it is hard to argue that national security is being threatened.

The 45th president has said he wants to craft new bilateral trade agreements. Mexico says it is not interested. It has learned a hard lesson about relying on an unreliable partner, and its aim now is to diversify its trade portfolio. Policy makers are said to be exploring new agreements in the region with countries eager to replace U.S. agricultural suppliers.

Mr. Trump's demagoguery has offended Mexican pride. But it has also destabilized an economy that was already buffeted by low **oil prices**. As the rector of ITAM, one of the most prestigious universities in Latin America, said earlier this month, "It would be, perhaps, preferable to leave Nafta aside rather than a long process of negotiation and tension." Mexicans can bargain too.

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Growth Sputters Through Year-End --- Economy expanded 1.9% last quarter, a rate the administration is seeking to double

By Ben Leubsdorf
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28 January 2017
The Wall Street Journal
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A1
English

The U.S. ended 2016 on a familiar trajectory of roughly 2% economic growth, the lackluster trend that has prevailed through most of the current expansion and which President Donald Trump is seeking to double in the face of stubborn long-term headwinds.

Gross domestic product, a broad measure of the goods and services produced across the economy, expanded at an inflation and seasonally adjusted annual rate of 1.9% in the fourth quarter from the previous three months, the Commerce Department said Friday. That exceeded the pace of growth in a weak first half of 2016, but marked a slowdown from a fleeting third-quarter 3.5% growth spurt.

The economy similarly grew 1.9% in the fourth quarter compared with a year earlier, matching 2015's annual growth and in line with the 2.1% average since the recession ended in mid-2009. That has made this the slowest expansion since World War II, though also one of the longest.

The final three months of 2016 saw solid consumer spending, a pickup in business investment, a rebound for home construction and stronger spending by state and local governments. A widening in the foreign-trade deficit weighed on growth, offset in part by a buildup in business inventories.

"With a business-friendly administration and Congress, are we witnessing a return to animal spirits as we head into the new year?" asked Beth Ann Bovino, U.S. chief economist at S&P Global Ratings. "That remains to be seen, but it does suggest some promise."

The latest data underscored the obstacles to stronger growth facing Mr. Trump, who has said he will raise the pace of expansion to 4% a year. Friday's report also provided fodder for Republicans arguing that stronger growth is needed and possible. "Americans spoke loudly and clearly in November telling the world that President [Barack] Obama's 'new normal' was unacceptable," said Rep. Pat Tiberi (R., Ohio), chairman of Congress's Joint Economic Committee. "That's why Republicans are ready to unleash America's economic potential."

Mr. Trump has argued the U.S. can achieve stronger growth by overhauling the tax code, boosting infrastructure spending, rolling back federal regulations and cutting new trade deals that narrow the foreign-trade deficit.

Economic forecasters are predicting slightly stronger growth in the next few years compared with pre-election estimates. But many remain skeptical of the potential for a significant shift in the long-term growth picture.

Federal Reserve Chairwoman Janet Yellen last week pointed to "a variety of forces depressing both supply and demand," including slow growth in the size of the labor force and sluggish worker productivity. She said she expected they would continue to restrain growth for years to come. The nonpartisan Congressional Budget Office this week reiterated that it thinks U.S. economic growth will remain modest over the coming decade due to long-term forces, namely the slower workforce growth produced by baby-boomer retirements.

"A combination of across-the-board tariffs, corporate tax reform and lower tax rates, and infrastructure spending -- the whole package could boost growth," said Michael Gapen, chief U.S. economist at Barclays. "The real question is, does that turn out to be a short-term boost, or does it improve productivity growth and rates of potential growth at the same time?"

He said the economy's underlying growth rate is likely in the range of 1.5% to 2%, and it's "not totally impossible" to raise that trend.

"Certainly the details matter," Mr. Gapen said, and "the timing matters" too.

For now, many businesses seem hopeful about the possibility of stronger economic growth, but aren't counting on an imminent boom.

"I don't think there's any secret that the overall mood seems to be modestly better" early in 2017, Illinois Tool Works Inc. Chief Executive Scott Santi told analysts this week. "Whether that translates into anything meaningful in terms of demand, that remains to be seen."

One unknown is how long the Fed would let the economy run hot if the growth rate does pick up. Fast growth rates in the 1980s came as the Fed was cutting interest rates after bringing inflation under control; now, the Fed is gradually raising interest rates with unemployment low and inflation showing signs of rising. The 1990s economic boom rested on soaring growth in worker productivity which held inflation down; the U.S. and other advanced economies now face a puzzling productivity slowdown.

The 1980s and 1990s also benefited from rising labor-force participation among women, a trend that has since plateaued, and broader labor-force participation has been declining because of retiring baby boomers and a decadeslong decline in the share of men who work.

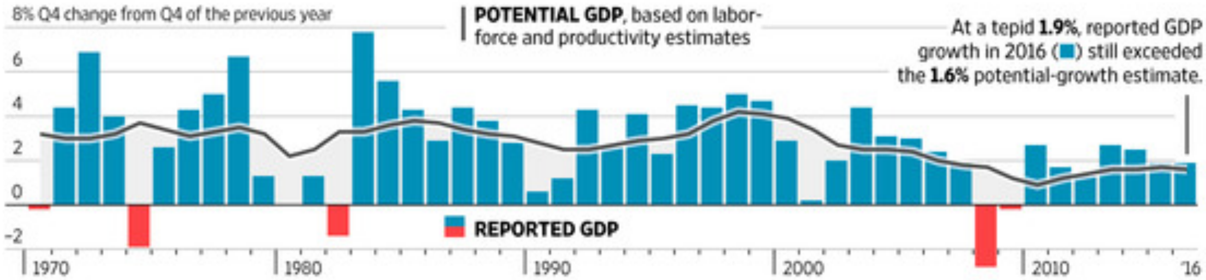
Friday's report gave the first comprehensive look at the U.S. economy's year-end performance. Household spending, which accounts for the majority of total activity, rose at a healthy 2.5% annual rate in the final three months of the year, led by robust spending on durable goods like motor vehicles.

A broad measure of businesses' capital expenditures, fixed nonresident investment, rose for the third consecutive quarter, lifted by rising spending on equipment and research-and-development projects.

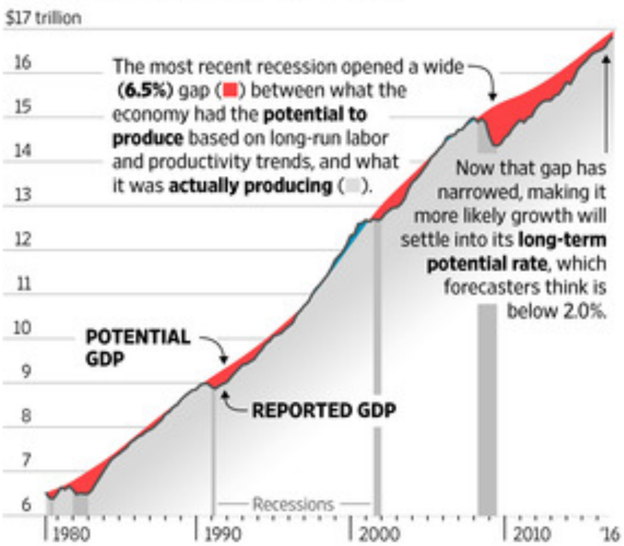
Net exports subtracted 1.7 percentage points from the fourth quarter's GDP growth rate, reflecting a drop in exports and a large rise in imports. It was the largest trade-related drag on overall growth since the second quarter of 2010, but it may be temporary. It came after a surge in soybean exports had helped narrow the overall trade gap in the third quarter. Another **volatile** category, private inventories, added a full percentage point to last quarter's growth rate.

Clearing a Low Bar

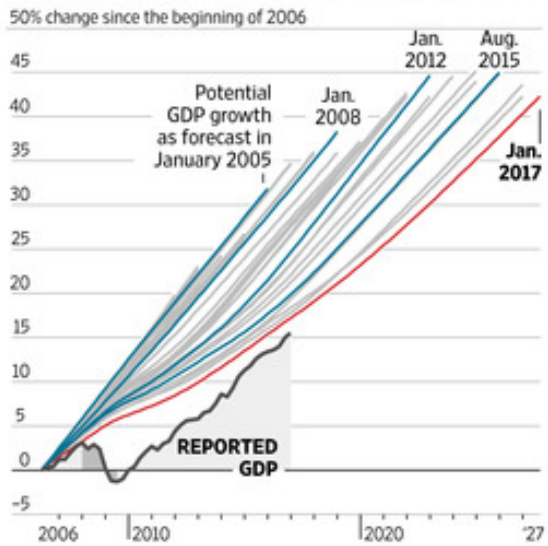
In 2016, U.S. GDP topped what some economists consider its long-term potential growth rate, but a return to rates of 4% or higher would defy both recent history and current forecasts. For most of this expansion, the economy has exceeded its potential, yet it has remained mired between 1.3% and 2.7% growth.



Growth got a boost as factories, workers and other resources idled by the recession went back to work. That slack looks to have largely been taken up.



And the gap may already be smaller than it appears, as the Congressional Budget Office has long been revising down estimates of the economy's potential.



Note: All figures are adjusted for inflation and, where applicable, seasonality. GDP totals are shown in constant 2009 dollars.
Source: Commerce Department (actual figures); Congressional Budget Office (forecasts, potential GDP) via the Federal Reserve Bank of St. Louis

Andrew Van Dam and Ben Leubsdorf/
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The New York Times

Business/Financial Desk; SECTB
Markets Mixed at Close of Record-Breaking Week

By THE ASSOCIATED PRESS
595 words
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English

Wall Street capped a week of milestones Friday with a day of listless trading that left stock indexes mostly lower.

Energy companies declined the most as the price of crude oil fell. Health care stocks posted the biggest gain.

The Dow fell 7.13 points, or 0.04 percent, to 20,093.78. The **Standard & Poor's 500-stockindex** slid 1.99 points, or 0.1 percent, to 2,294.69. The **Nasdaq composite** index rose 5.61 points, or 0.1 percent, to 5,660.78. The tiny gain was enough to set another record high for the **Nasdaq**.

Small-company stocks did worse than the rest of the market. The Russell 2000 lost 4.89 points, or 0.4 percent, to 1,370.70.

Quarterly results from Microsoft, Starbucks and other big companies continued to be in focus. Bond yields fell after the government reported that the economy lost momentum in the last three months of 2016.

More stocks fell than rose on the New York Stock Exchange. This week all three major indexes set record highs, including the **Dow Jonesindustrial average**, which held above the 20,000 mark after crossing that threshold for the first time on Wednesday.

The Commerce Department said the United States economy grew at an annual rate of just 1.9 percent in the last three months of 2016, a slowdown from 3.5 percent in the previous quarter. For 2016, the economy grew 1.6 percent, the worst showing since 2011 and down from 2.6 percent in 2015.

A separate government report showed that businesses spent more on industrial machinery, semiconductors and other big-ticket items last month.

The economic snapshots sent **bond prices** higher. The **10-year Treasury** yield fell to 2.48 percent from 2.51 percent late Thursday.

Companies that posted disappointing quarterly results or outlooks for 2017 helped steer the market lower. Starbucks slid $2.34, or 4 percent, to $56.12 a day after the coffee chain reported weak sales growth and cut its sales forecast for the year.

Chevron also turned in unexpectedly weaker results. The oil company's stock declined the most in the Dow, losing $2.76, or 2.4 percent, to $113.79.

Colgate-Palmolive tumbled 5.2 percent after its fourth-quarter sales missed analysts' estimates. The company's 2017 forecast also disappointed investors. The stock fell $3.56 to $64.68.

Microsoft rose 2.4 percent, making it the biggest gainer in the Dow. The software giant reported stronger-than-expected quarterly results, largely because of its focus on online services and business software. The stock gained $1.51 to $65.78.

Benchmark United States crude oil fell 61 cents, or 1.1 percent, to close at $53.17 a barrel in New York. Brent crude, used to price international oils, slid 72 cents, or 1.3 percent, to close at $55.52 a barrel in London.

Major stock indexes in Europe and Asia were mixed.

The DAX in Germany fell 0.3 percent, while the CAC 40 in France slid 0.6 percent. The FTSE 100 in Britain gained 0.3 percent. In Asia, Japan's benchmark Nikkei 225 index climbed 0.3 percent, helped by the dollar's surge against the Japanese yen, while the Hang Seng in Hong Kong slipped 0.1 percent.

CHART: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Friday. (Source: Reuters)

Document NYTF000020170128ed1s0004e

The New York Times

Business/Financial Desk; SECTB
Exuberant Hopes Meet Reality

By NELSON D. SCHWARTZ
1,267 words
28 January 2017
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1
English

President Trump's target for economic growth just got a little more distant.

The government reported Friday that the economy grew by only 1.6 percent last year, shy of what experts had estimated and well below the 4 percent rate that Mr. Trump has vowed to deliver -- a pledge now cited on the White House website.

There are plenty of signs of life in the economy. Consumer spending is healthy, and an index of consumer sentiment just hit a 12-year high. Stocks have been surging, and the jobless rate is near what the Federal Reserve considers full employment.

But however solid, the recovery under President Barack Obama never reached exuberance. It is the second longest recovery in American history but the first in the postwar era in which growth for a full year did not hit 3 percent.

Mr. Trump made that data point a focus of his campaign, citing factories that closed during the recession but never reopened and workers who gave up looking for jobs and dropped out of the labor force. And economists, even if they disagree with his policy prescriptions, acknowledge that many areas have been left behind.

While Friday's report will provide more support for Mr. Trump's argument, the lackluster pace of economic growth may also complicate the new administration's plans. Indeed, some of the headwinds in 2016 -- like a widening trade deficit and cautious spending by businesses -- could persist into 2017 and beyond.

In particular, lower exports and higher imports also hurt growth in the fourth quarter, which fell to an annual rate of 1.9 percent from 3.5 percent in the prior quarter, the Commerce Department said Friday.

In 2016, personal consumption -- which accounts for a majority of economic activity -- slowed from 2014 and 2015. In addition, the sharp plunge in **oil prices** over the same period prompted steep cuts in energy production and exploration, contributing to a drop in business investment.

All of this underscores why analysts say that Mr. Trump's growth rate target of 4 percent is audacious at best and fanciful at worst, especially given broader factors like an aging population and the growth rate of 2 percent or so that has prevailed since the recovery began in 2009.

''It would defy gravity,'' Diane Swonk, a veteran independent economist in Chicago, said. Four percent growth would require big gains in the size of the work force and productivity, but neither is in the offing, Ms. Swonk said, adding, ''It's simple math.''

At the same time, the Federal Reserve has signaled that it is ready to raise interest rates a few times this year, and a faster expansion would only accelerate the Fed's plan to tighten monetary policy to head off inflation.

Whatever the growth trajectory is in 2017, Fed officials will have a tricky time navigating the political and economic currents under Mr. Trump. Not only did he criticize the Fed chairwoman, Janet L. Yellen, during the campaign, but his assessment of the current economy is more downbeat than the Fed's.

One week into the Trump administration, there are many other economic wild cards for policy makers and private forecasters to contemplate, including the impact of congressional efforts to reshape the corporate tax code, trade tensions with Mexico and China, and the proposed repeal and replacement of the Affordable Care Act.

Tax cuts could open the way for new spending and investment. But more expensive imports from Mexico could be painful for many consumers, for example, while a trade war with China would hurt American companies like Apple, General Electric and Caterpillar.

What is more, although the Commerce Department report focused on the last three full months of Mr. Obama's second term, anemic economic activity could add to the revenue shortfall the federal government will most likely face from the personal and corporate tax cuts Mr. Trump has discussed.

''It's difficult to see how we would get to 4 percent growth given the current structure of the economy, especially demographics and productivity growth,'' said Gus Faucher, deputy chief economist at PNC Financial Services in Pittsburgh. ''That would be true no matter who is the president.''

The retirement of the baby boomers will limit the size of the labor force, he said, while productivity gains from technology are not expected to accelerate from the current level, as they did with the adoption of the internet or mobile phones in the 1990s.

Weak growth does strengthen arguments for a federal program to fortify the nation's infrastructure -- an approach Mr. Trump has advocated that could provide an economic stimulus.

Since Mr. Trump's victory in November, many economists have been raising their projected growth rates for the latter half of 2017 and for 2018.

That is not necessarily because they feel Mr. Trump's policies will prove beneficial in the long run. Instead, it is because the tax cuts and infrastructure investments he has called for could bolster the economy in the short term.

Mr. Faucher lifted his growth forecast to 2.4 percent in 2017 and 2.7 percent in 2018. Previously, he expected output to expand by 2.25 percent in each year.

''Tax cuts and infrastructure spending represent a much more expansionary fiscal policy than we've had in some time,'' he said.

But Mr. Faucher cautioned that increasing the federal deficit, which stood at $587 billion in 2016, by hundreds of billions more in the coming years could increase interest rates, which were already moving higher.

Rates, including mortgage rates for home buyers, are already up more than half a percentage point since the election, on expectations of more borrowing and faster growth.

But in economics, as in life, everything cuts both ways. The rise in interest rates has also strengthened the dollar relative to other currencies.

While that has been good news for American tourists, a stronger currency is bad news for American exporters, with imports becoming cheaper while the price of American-made products abroad rises.

The prospect of a stronger dollar also makes it more difficult to achieve another of Mr. Trump's economic goals: a revival of the American manufacturing sector. Manufacturers are more dependent on foreign sales than many other businesses, but a rising dollar makes their products less competitive overseas.

On Friday, the White House announced a manufacturing jobs initiative, naming chief executives like Andrew N. Liveris of Dow Chemical and Elon Musk of Tesla to the as part of the effort, along with labor leaders from the A.F.L.-C.I.O.

The dollar is rising on expectations of faster growth in the United States and because of the jump in domestic interest rates, which make American financial assets like bonds more appealing to global investors than lower-yielding debt in Europe and Asia.

''Mr. Trump can't control the dollar, and that will be a big factor this year,'' Mr. Faucher said. ''Trade is likely to be a drag on growth.''

The Second Avenue subway line in Manhattan, under construction in 2015. President Trump wants more infrastructure spending. (PHOTOGRAPH BY JOSH HANER/THE NEW YORK TIMES) (B1); The port in Oakland, Calif., in August. A stronger currency is bad news for American exporters, with imports becoming cheaper while the price of American-made products abroad rises. (PHOTOGRAPH BY JIM WILSON/THE NEW YORK TIMES) (B2) CHART: Economic Growth: The annual growth of the gross domestic product was 1.6 percent in 2016, the lowest level in five years. (Source: Commerce Dept.) (B2)

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Markets & Finance: Puerto Rico Deal Could Be Altered --- Governor weighs asking creditors for more concessions in bond agreement

By Matt Wirz and Andrew Scurria
868 words
28 January 2017
The Wall Street Journal
J
B9
English

Many bond investors have viewed Puerto Rico's new governor, Ricardo Rossello, as a likely ally in their fight to get repaid. Now that hope is starting to dwindle.

Gov. Rossello wrested control Friday of negotiations over the only bond restructuring agreement Puerto Rico has reached thus far, a $9 billion deal struck in 2015 covering a public electricity utility known as Prepa, and is preparing to change terms of the deal, people familiar with the matter said.

Prepa's board was on the verge of completing the settlement when representatives of the governor informed board members and their advisers on a phone call Friday morning that they were relieved of their negotiating duties and that the island's Fiscal Agency and Financial Advisory Authority, known as AAFAF, would take over, the people said. The governor made the move to consolidate the negotiation process under an entity that is fully empowered to approve a deal, a person involved in the process said.

The utility's bonds were unchanged Friday, but the decision rattled bondholders who had hoped the governor would quickly approve the Prepa agreement. That pact had been lauded as a road map for consensual restructurings of the island's other bonds. Campaign promises by Gov. Rossello to mend fences with bondholders raised hopes among investors that they could avoid lengthy court fights to determine how much Puerto Rico will repay its various creditors.

But Gov. Rosello is evaluating potential changes to the settlement, a person familiar with the matter said. Getting more concessions from creditors could allow Prepa to moderate rate increases on customers, potentially offsetting politically unpopular fiscal tightening in other areas.

The governor also struck a populist tone in a recent public spat with the federal oversight board managing Puerto Rico's financial rehabilitation. Investors increasingly fear there will be a bankruptcy, which could mean deep losses for many holders of the commonwealth's approximately $70 billion of debt.

"We're legitimately concerned that the Commonwealth's administration and the oversight board may choose to let it fall apart on the 1-yard line," said Stephen Spencer, a banker advising bondholders of the Puerto Rico Electric Power Authority.

The governor hasn't decided whether to renegotiate the Prepa agreement and is waiting for more clarity on the fiscal plan for the island before making a decision, said Elias Sanchez, the governor's representative to the oversight board. The governor is committed to reaching consensual deals with creditors, he said.

Puerto Rico has time to reach a negotiated settlement. The U.S. Congress passed a debt-relief law in June granting the island a standstill on creditor litigation until Feb. 15, and the federal oversight board says it supports extending the stay until at least May 1.

Gov. Rossello is trying to balance the demands of bondholders and his electorate while placating the oversight board, which is pushing for creditors and Puerto Rico's budget to share significant reductions, a bid to stabilize the economy.

"He seemed more creditor friendly in the campaign, but now that he's the chief officer of the island, he faces harsh realities and different pressures," says Joe Rosenblum, director of municipal research at investment firm AllianceBernstein, who has been **bearish** on Puerto Rico bonds for several years.

An index of Puerto Rican municipal bonds rose 14% in the six months leading up to Gov. Rossello's election Nov. 8, reflecting in part enthusiasm over his candidacy. The index compiled by S&P Dow Jones Indices has declined 2% since then.

The debt-relief law passed by Congress last year allows the commonwealth to restructure all its debts through consensual negotiations, while allowing for a switch to a bankruptcy-like process known as Title III that can bind all creditors should talks fail. Nevertheless, it remains unclear whether the new administration can reach a settlement with bondholders that voters and the oversight board would also accept.

"The numbers are so huge, it's hard to see how they're going to be able to negotiate a deal," Mr. Rosenblum said.

Friction also is growing between the new administration and Prepa and its bondholders, including mutual-fund companies OppenheimerFunds Inc. and Franklin Templeton Investments and hedge funds BlueMountain Capital Management LLC, Knighthead Capital Management LLC and Marathon Asset Management.

Bondholders had been working with Lisa Donahue, the utility's chief restructuring officer, to complete terms and have been asking the Rossello team since December to confirm his support for the agreement but have received no response, people familiar with the matter said.

"We believe this is the best deal for Prepa and the island," said Ms. Donahue, before her removal from negotiations. "We will continue providing the governor and his advisers information to that effect."

To be sure, the new administration could still renegotiate Prepa's debts outside of bankruptcy court and may propose only modest changes to avoid alienating bondholders, especially Franklin and Oppenheimer, which own billions of dollars of the island's other municipal bonds.

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THE WALL STREET JOURNAL.
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REVIEW & OUTLOOK (Editorial)
About That Obama 'Boom'

582 words
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A10
English

So much for that economic "boom" that President Obama was supposed to have left his successor. That has been the spin among Democrats and progressive economists, but Friday's GDP report for the fourth quarter provided another in eight years of reality checks on the Obama economic record.

The Commerce Department said growth clocked in at 1.9% for the last quarter of 2016, which was a major deceleration from 3.5% in the third quarter after three previous quarters of about 1.1%. The spin had been that a strong end of the year would leave President Trump with economic momentum, which after eight years of slow growth is like a runner who takes six hours to finish a marathon but sprints the last 25 yards.

Yet even this supposed last Obama sprint was oversold, as consumer spending slowed and net exports were a drag after two quarters of contributing to higher GDP. One good sign was a modest increase in business investment after several dreadful quarters and historically weak capital investment throughout the Obama expansion.

Speaking of weak, growth for all of 2016 clocked in at 1.6%, the slowest since 2011 and down from 2.6% in 2015. That marks the 11th consecutive year that GDP growth failed to reach 3%, the longest period since the Bureau of Economic Analysis began reporting the figure. The fourth quarter also rings out the Obama era with an average annual growth rate of 1.8%, which is right down there with George W. Bush for the lowest among modern Presidents.

Mr. Obama inherited a deep recession, but that makes the 2.1% growth average since the recession ended all the more dismaying. You have to work hard to suppress growth after a deep downturn, and Mr. Obama did that by putting income redistribution ahead of growth as a policy priority. He achieved the remarkable feat of slower growth and more inequality.

Mr. Trump now has the chance to improve on this record, and the key this long (seven and a half years) into an expansion is business investment. Consumers can't do much more than they have and the labor market is tight in much of the country.

This means faster growth will have to come from liberating the trillions of dollars in capital that have been waiting for the political and regulatory climate to change. The promise of the GOP-Trump proposals on tax reform and deregulation have already stirred the **stock market**, and if they are implemented they could unlock a burst of capital spending and risk-taking.

A closing word to Trumpians who will point to the fourth-quarter decline in net exports that subtracted 1.7% from GDP. Part of the explanation is that a bumper crop of soybean exports boosted growth in the third quarter and then dropped off at the end of the year. This is not an argument for starting a trade war with China or Mexico, which could harm U.S. exports.

Imports are subtracted from GDP calculations to avoid overstating domestic production, but that doesn't mean the U.S. should ban imports or run a trade surplus. Imports are vital to American prosperity, both as components for exports and affordable goods for consumers. They enhance the U.S. standard of living. Mr. Trump should keep his policy focus on growth, not on the meaningless trade balance.

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U.S. News: U.S. Durable-Goods Orders Decline --- Manufacturing appears to stabilize after lackluster year

By Eric Morath
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28 January 2017
The Wall Street Journal
J
A2
English

WASHINGTON -- A steep drop in defense-related orders caused demand for long-lasting goods to decline in December, but underlying figures suggest the manufacturing sector is stabilizing.

Orders for durable goods -- products designed to last longer than three years, such as machinery or minivans -- fell 0.4% from a month earlier to a seasonally adjusted $227.02 billion, the Commerce Department said Friday.

The decline was unexpected. But orders for defense capital goods, a highly **volatile** category, fell 33.4% last month, the largest one-month drop since May 2014. Excluding defense, orders rose a healthier 1.7% in December from November.

For all of 2016, overall durable-goods orders fell 0.3% from the prior year.

The latest data show manufacturers in the U.S. had a lackluster 2016, but December figures indicate demand stabilized somewhat later in the year.

An important proxy for business investment, orders for nondefense capital goods excluding aircraft, rose 0.8% last month, the third straight monthly increase. Orders in the category still fell for the year.

"Prospects for future activity look better than they have in some time," said Mickey Levy, economist at Berenberg Capital Markets. Unfilled orders for the same capital goods category are also on an upward trend, "pointing to the need for companies to increase activity for what seems to be better demand."

Growth in business investment lagged behind broader economic growth for most of last year, suggesting firms remained cautious.

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The New York Times

Health
Trump's Pick for Health Secretary Under Scrutiny for Investments

By KATIE THOMAS
1,325 words
27 January 2017
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NYTFEED
English

Representative Tom Price of Georgia, President Trump's choice for Secretary of Health and Human Services, has been assailed by Democrats in recent weeks over his investment in health care companies at the same time that he pushed legislation that could have benefited those businesses.

Democrats have called for investigations by the Securities and Exchange Commission, as well as the House's Office of Congressional Ethics, into whether Mr. Price violated insider trading laws or conflict of interest rules. He has said he did nothing wrong.

As Mr. Price awaits a confirmation vote, which could come next week, here is what we know about his investments, and whether his activities could have broken any laws or ethics rules.

Which of Mr. Price's stock holdings have come under scrutiny?

Mr. Price, an orthopedic surgeon by training, has invested more than $300,000 in health care stocks — as varied as big drug companies like Pfizer and Eli Lilly and health insurers like Aetna — in recent years. During that time, he has been active in shaping health care legislation as a member of the House Ways and Means Committee's subcommittee on health.

In one example, Mr. Price bought stock in Zimmer Biomet , a company that makes orthopedic implants, shortly before he introduced legislation that could have protected the company from financial losses because of new federal regulation.

His investment in a tiny Australian company, Innate Immunotherapeutics, was singled out for scrutiny, especially his participation in an offering of discounted stock that was limited to "sophisticated U.S. investors." Mr. Price has said he learned of the company from Representative Chris Collins, Republican of New York, and Mr. Trump's congressional liaison during the presidential transition. Mr. Collins serves on the company's board of directors and is its top shareholder.

While Mr. Price has said nearly all of his trades were made by a broker and that he did not tell her what to invest, he said he personally chose to invest in Innate. Representatives for Mr. Price have said that he set up a separate account to invest in the company, since his existing accounts did not permit the trading of penny stocks, which the company was at the time he invested.

Why are senators calling for an investigation?

Democrats have called for an investigation into whether Mr. Price violated what is known as the Stock Act, which bans members of Congress from insider trading.

They are also asking for an inquiry into the involvement of Mr. Price and Mr. Collins in Innate , which has said that it plans to pursue approval with the Food and Drug Administration for a drug it is developing to treat multiple sclerosis . Democrats say they want to know whether Mr. Collins shared with Mr. Price any nonpublic, material information that led him to invest.

Senators have also raised questions about the special stock offering, known as a private placement. Many of the participants were in Mr. Collins's social and professional circles.

What are the chances that Mr. Price violated insider trading laws?

Experts in insider trading and legal ethics said that they had not seen evidence that any laws were broken but more information was needed before they could make a final judgment.

The S.E.C. typically focuses on the timing of trades and the communication between the parties.

Insider traders often take advantage of a sharp spike in a **stock price**, followed by at least one of the parties selling their investment to profit. There is no evidence that this occurred here, said Donald C. Langevoort , a professor at Georgetown University Law Center. In the case of Innate Immunotherapeutics, the stock has risen steadily since Mr. Price last invested over the summer, and shares jumped in the past month in the wake of media reports about his involvement.

The recent stock rise prompted the Australian stock exchange this week to ask Innate to explain why its share price had risen so sharply, to $1.83 on Jan. 25, from 83 Australian cents in late December. The company responded that the recent media reports caused the price to rise.

Others said the act of merely introducing legislation — which is far from a guarantee that it will pass — is unlikely to move a company's stock significantly.

"I don't think you're going to get rich trading on the market impact of an announcement that you introduced legislation," said Jill E. Fisch , a professor of law at the University of Pennsylvania Law School.

Still, some said the questions about Mr. Price's trades show why members of Congress should not invest in stocks in the first place. As Republicans have noted, some Democrats on the committees that are vetting Mr. Price, including Sheldon Whitehouse of Rhode Island, also trade in health care stocks.

"How can the public have confidence in the integrity of legislation if the person introducing it has invested in a company that would benefit?" said Stephen Gillers , a professor of legal ethics at the New York University School of Law.

What is the deal with that "private placement"?

Experts said private placements, such as the one Mr. Price took part in, are commonplace. The companies offer the stock at a discount to entice investors to participate, and can be targeted to small groups of people — even to a single investor, as was the case in 2008, when Goldman Sachs arranged a private placement with Warren Buffett.

Participation in a private placement may raise questions about exclusive access, but it is unlikely for such an offering to lead to insider trading. That is because in private placements, it is the company that is selling the stock. A person with insider knowledge, therefore, would not be able to defraud the company, which presumably has access to the same nonpublic information.

But Mr. Langevoort said private placements can raise questions if the placement is offered at a steep discount to a public official about whether the offering was intended to influence that person. "It doesn't mean that they don't have issues, it's just that the issues are different," he said, while noting there is no evidence that is what was happening in the case of Innate.

What about Representative Collins and his ties to Innate Immunotherapeutics?

Mr. Collins's involvement with a small, speculative company is indeed odd, some of the experts said.

Innate is a tiny biotechnology company that is traded on the Australian stock exchange and has no approved drugs. The company has run out of money more than once and nearly closed its doors.

But Mr. Collins has remained one of its biggest boosters. He has been an investor in the company since 2005. Several of Mr. Collins's friends and associates are also investors, including two of his adult children, his chief of staff, and several donors.

In an interview this week with Wolf Blitzer of CNN, Mr. Collins said he frequently mentioned the company because he was proud of it. "I talk about it all the time, just as you would talk about your children," he said .

Some ethics experts have said this boosterism, coming from an elected official, is problematic, because people who seek to influence him could buy stock in the company as a way of currying favor.

“The focus on this company is beyond curious,” Mr. Gillers said, while noting there was still no way to tell whether wrongdoing occurred. “Right now it’s weird, but we don’t know why it’s weird.”

* Australian Drug Maker Has Low Profile but Powerful Backers in Washington

* Trump Health Secretary Pick’s Longtime Foes: Big Government and Insurance Companies

* Tom Price’s Heated Hearing Is Unlikely to Derail His Nomination

* Key Moments From Today’s Confirmation Hearings

Representative Tom Price of Georgia during his confirmation hearing on Tuesday. | Al Drago/The New York Times

Document NYTFEED020170127ed1r0099e

THE WALL STREET JOURNAL.
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U.S. News: New-Home Sales Fell Sharply in December

By Laura Kusisto and Ben Leubsdorf
375 words
27 January 2017
The Wall Street Journal
J
A2
English

New-home sales posted a steep decline in December, an indication that affordability challenges are beginning to cut into demand.

Purchases of newly built, single-family houses, which account for a small share of overall U.S. home sales, decreased 10.4% from November to a seasonally adjusted annual rate of 536,000 last month, the Commerce Department said Thursday.

That was the slowest monthly sales pace since February and the steepest one-month drop since March 2015.

The drop "was a shocker," said David Berson, chief economist at Nationwide Insurance. He said home sales were often **volatile** in the winter months because of weather, however, and he still expects new-home sales to rise in 2017. Data on new-home sales generally can be imprecise from month to month. December's 10.4% sales decrease came with a margin of error of 12.2 percentage points.

In all, an estimated 563,000 new homes were sold in 2016, up 12.2% from a year earlier and the fifth straight year of sales growth. The annual figure indicates broad improvement in the market, even if sales of new homes remain well below where they were during the housing boom of the 2000s, when they topped one million a year for four years running.

New-home sales represented about 10% of all home sales last year, which is well below the prerecession average of 16%, according to Ralph McLaughlin, chief economist at housing-tracker Trulia.

"Home buyers are facing headwinds from higher mortgage rates and uncertainty about tax policy, but low existing inventory, near full employment, and rising wages are tailwinds that will continue to push new-home sales higher in the year ahead," Mr. McLaughlin said.

One factor holding back demand is that land, construction and regulatory costs have driven up prices for finished single-family homes beyond what many families can afford. The median sales price of a newly built home was $322,500 in 2016, up from $288,900 a year earlier.

Rising mortgage rates are expected to make the cost of buying a home this year even higher.

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THE WALL STREET JOURNAL.
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Pressure on the U.K. Pound Ebbs --- Many investors are betting on a drop in sterling, but the level of negativity has eased

By Christopher Whittall
894 words
27 January 2017
The Wall Street Journal
J
B12
English

The British pound hit its highest level against the dollar since mid-December in early trading, the latest twist in what has been a particularly **volatile** period for the currency.

That choppiness was again on display Thursday. After its rise early in the day, sterling fell back during the European afternoon amid broad dollar strength. By late afternoon in New York, the pound was at $1.2596, down from $1.2633 late Wednesday.

Those moves came as U.K. Prime Minister Theresa May arrived in the U.S. ahead of a meeting with President Donald Trump on Friday to lay the groundwork for a trade deal between the two countries.

Many investors remain **bearish** on sterling, which has climbed roughly 5% since a recent low earlier this month but is still down about 15% since June's U.K. vote to leave the European Union.

Still, the avalanche of negative bets that has built up in recent months appears to have eased somewhat lately, some gauges show. That suggests sterling's choppiness may subside in the short term, though that could change once formal Brexit negotiations begin. The U.K. Supreme Court ruled Tuesday that Parliament must approve Brexit before the government can trigger the process.

Markets tend to be particularly vulnerable to sharp moves when investors' positioning is lopsided, analysts said. Moves higher in the currency can encourage those "shorting" the pound -- or betting on declines -- to buy it back to limit losses. Similarly, moves lower can quickly turn into a free fall if the sentiment on a currency is overwhelmingly negative, as seen during the pound's "flash crash" last October.

But hard information on currency markets is sparse. Here is some of what is available on who has been selling sterling and what that might tell us about its direction.

What public data are available?

Not much. Sterling accounts for 13% of the $5.1 trillion that changes hands every day in foreign-exchange markets, according to the Bank for International Settlements. But most of that is traded through large investment banks in the opaque over-the-counter market. The best-known public data come from the Commodity Futures Trading Commission. The U.S. regulator releases weekly positioning from various investors on sterling futures contracts.

What does that information say?

Speculative investors are betting on further declines in the pound. Speculators, or noncommercial investors as the CFTC calls them, hold 66,242 more short sterling contracts -- options that bet sterling will fall -- than long sterling. Still, that is some way down from the record of 97,572 more short positions in October after the U.K.'s Mrs. May said she planned to start formal talks to leave the EU by the end of March.

Are CFTC data any good?

To an extent. Traders pore over the data for clues on how the market is set up. But there are various flaws. The numbers reflect positioning on a Tuesday but aren't released until Friday -- a considerable time lag for a market that trades on day-to-day news. Some analysts take issue with the broad-brush categories for different types of investors. And the information captures only a small subsection of the foreign-exchange market. It accounts for only $115 billion of foreign-exchange trades a day in exchange-traded instruments such as futures and options, according to the BIS, a tiny amount of overall volumes.

So what else is there to look at?

Some banks have developed their own proprietary models to estimate currency positioning. Strategists at HSBC Holdings PLC have developed an index that aims to replicate how "momentum," or trend following, hedge funds are positioned on a currency. When a currency falls, trend followers will generally go short. If the pound rises consistently, they will flip to going long.

The statistics derived from these models are significant because a lot of big funds trade on momentum, said Mark McDonald, head of FX quantitative strategy at HSBC. But they are also important because a lot of active managers inadvertently hold momentum positions, he argues, as price action influences investment decisions. "It's human nature," Mr. McDonald said.

The HSBC index suggests short positioning on sterling has eased lately from extreme levels earlier this month.

Then what do the different data tell us?

The pound shouldn't be quite so **volatile**, at least for now. Less extreme positioning should mean moves in either direction are more muted. But expect things to change as the U.K. gets closer to triggering formal exit negotiations with the EU.

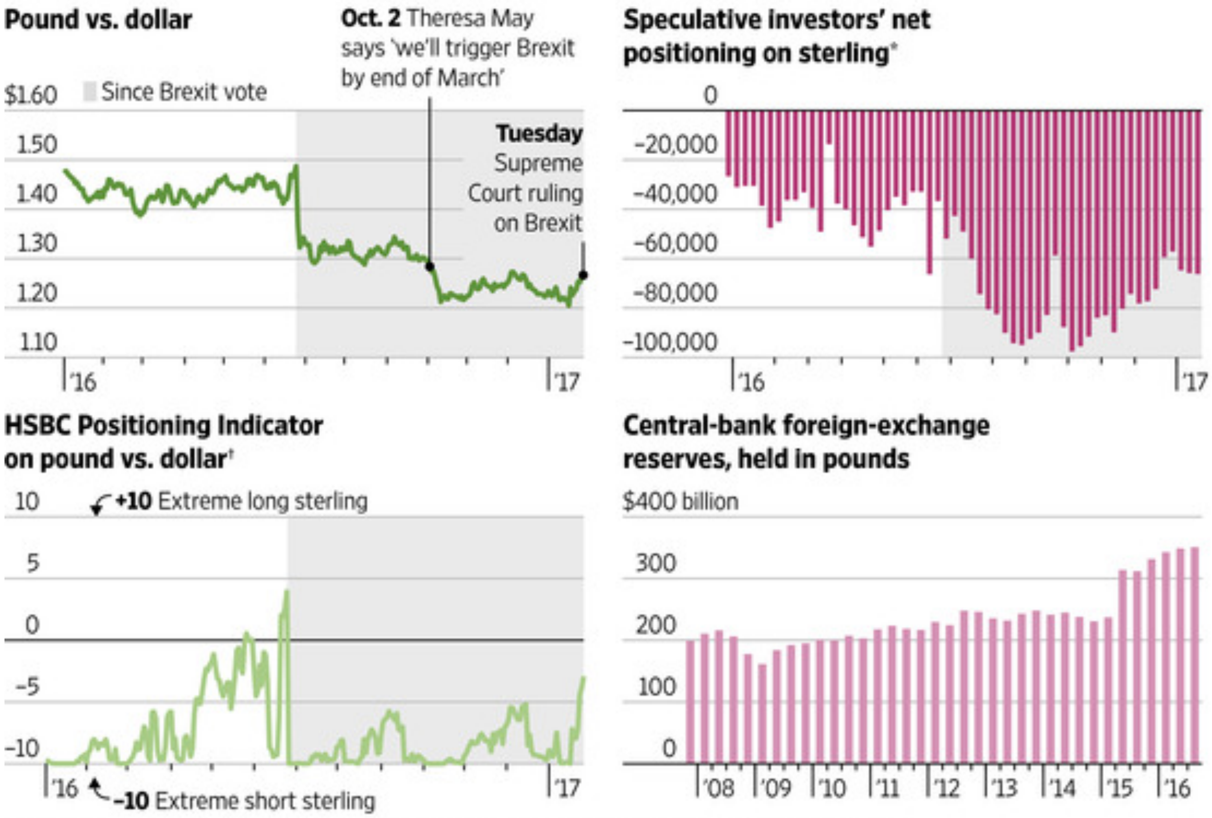
Are there buyers of the pound?

Yes. By definition, every seller of a currency needs a buyer. And there are data to suggest the buyers include some of the world's biggest investors: central banks. Sterling claims in central-bank foreign-exchange reserves rose by roughly $2 billion in the third quarter of 2016, to $350.83 billion, according to the latest available data from the International Monetary Fund. That is up from $311.92 billion in the third quarter of 2015, despite a small decline in total foreign reserves over that period.

Mike Bird contributed to this article.

The Short and Long of It

The pound, around $1.49 before Brexit, has traded below $1.30 since early October, even as the number of short positions on sterling have fallen since then. And while traders still mostly bet on the pound falling further, central banks have been buyers, increasing their sterling reserves.



*Amount of contracts outstanding when long and short positions are netted out. 'Speculators' in this case are noncommercial investors. A minus figure denotes a short position, a plus figure a long position on sterling.
†The HSBC Positioning Indicator replicates hedge-fund momentum strategies to gauge how these trend-following investors are positioned on a currency. Data through Wednesday.

Sources: WSJ Market Data Group (currency); Commodity Futures Trading Commission (bets); HSBC (positioning); International Monetary Fund (reserves)

THE WALL STREET JOURNAL.

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THE WALL STREET JOURNAL.
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Streetwise: Straight Talk About Inflation, Markets

By James Mackintosh
902 words
27 January 2017
The Wall Street Journal
J
B1
English

Inflation is on the up, and shareholders are delighted. The postelection reflation rally was predicated on the new president's promise to reflate the U.S. economy with big fiscal spending, putting a booster under expectations for inflation that were already moving skyward.

So far the "Trumpflation" trade has run exactly as would be expected: Shares have risen, **bond prices** have tumbled (as yields have increased) and the values of the longest-dated bonds have been eviscerated. Investors have waved goodbye to deflation fears and embraced higher inflation.

For the moment, that looks like a rational response to the assumption that President Donald Trump's policies herald higher inflation. But shareholders should be keeping a watchful eye on consumer prices, as they often rise much faster than anticipated. Like alcoholic drinks (prices of which are up just 1.4% in the U.S. in the year to December,) too much of a good thing can have nasty aftereffects.

The basic effects of inflation are well-established: Higher inflation means weaker real, or inflation-adjusted, returns from shares. Put another way, as inflation accelerates, share price gains don't keep pace. The ideal for investors is steady, reasonably low inflation; just enough to keep deflation worries away, but not so rapidly that the central banks will have to jack up interest rates quickly.

Richard Turnill, chief investment strategist at BlackRock Investment Institute, says higher inflation is supportive of corporate earnings despite higher wages, because those wages are spent. But he says it can push down the valuation of those earnings, and since share prices are the result of the earnings times the valuation multiple, that can offset the higher profits."This tips from good reflation to bad reflation when the central banks really have to tighten and you start to worry about how far away the next recession is," he said.

Every cycle is different, but in the past there often has been a break in markets when inflation hits 4%.

"If inflation gets to 4% the Fed's really behind the curve," says Jason Trennert, chief investment strategist at Strategas Research Partners. "The good news is that we probably have some time before we get to 4%."

It would be misleading to say 4% inflation is guaranteed to be the point where the market going gets rough.

Yet, that level has often been a decent warning signal. In 1987, for example, inflation hit 4% in August and the market crashed in October. In 2000, the dot-com bubble burst with inflation at 3.75%, while stocks hit their precrisis peak in October 2007, the month before inflation broke through 4%.

It is easy to forget inflation can be that high. Consumer-price inflation in the U.S. is just above 2% at the moment and hasn't been above 4% since 2008, while the Federal Reserve's preferred personal consumption expenditure measure is a little below its 2% target. Friday will bring figures for the fourth-quarter PCE which aren't expected to rise much, and investors are pricing in U.S. inflation being broadly on target in the long run.

The inflation rate implied by Treasury bonds for the five years starting in five years'time -- a gauge designed to strip out near-term fluctuations -- is up from a postrecession low of 1.4% in July to 2.2%. That would equate to PCE inflation almost exactly on target, suggesting few concerns about an overshoot.

Yet, in the past, inflation has rarely paused at 2%. Since Paul Volcker's Fed tamed the monster inflation of the 1970s, it has risen back through 2% a dozen times, including in December. A year after each of the previous 11 instances it had jumped to 4% twice, and above 3% four times.

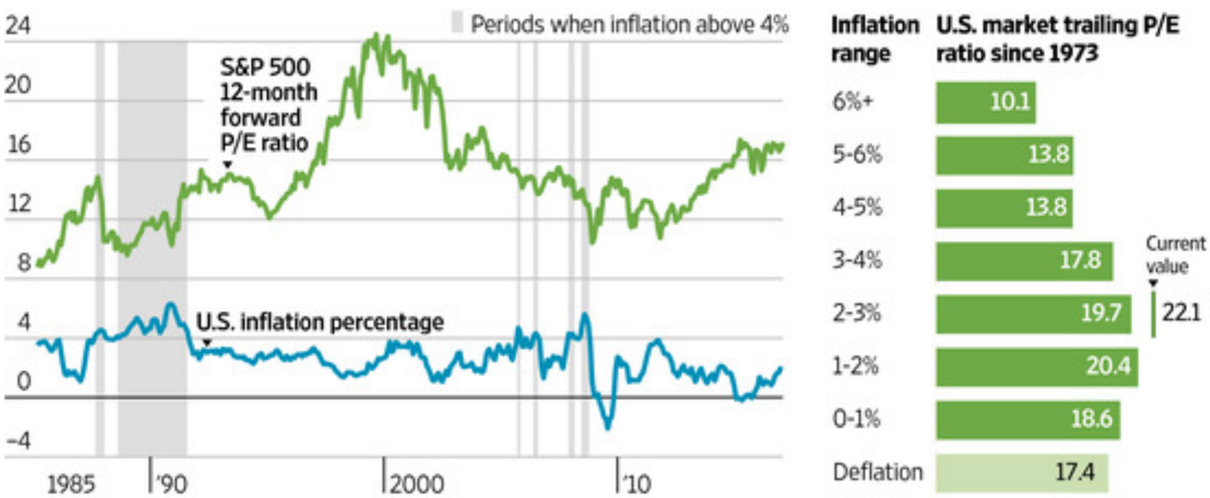
Maybe this year will be like October 2002, the only time inflation was still at 2%. But there has to be at least a decent chance that inflation overshoots.

If inflation does carry on up, history suggests that the price/earnings ratio will suffer, as the sweet spot for valuations has been with inflation in the range of 1% to 3%, and they have on average fallen sharply with inflation above 4%. Given that the market starts out already very highly valued compared with the past, the danger is that a sharp drop in valuation will more than offset the rise in earnings from a stronger economy.

This time might be different if Mr. Trump's plans for corporate tax cuts and a bonfire of red tape give a big enough boost to earnings then any drop in valuation doesn't matter. After a seven-year **bull market** and with valuations high, many fear the end can't be far away, but the rosy scenario is that Mr. Trump can take us back to 2005. A year after the Fed started raising rates, inflation broke 4% and the valuation of the **S&P 500** began to drop. But earnings rose quickly enough to allow shares to carry on up for months before a brief pullback in 2006 -- and then, as inflation dropped, to have a final run that took them up another 25% before the credit crunch hit in 2007. Just hope that we have learned enough to avoid a repeat of what followed.

Inflation Hurts Valuations

There's a sweet spot of inflation when stock valuations tend to be high, and we're in it today. Valuations have typically been lower when inflation is above 4%.



Source: Thomson Reuters

THE WALL STREET JOURNAL.

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The New York Times

Business/Financial Desk; SECTB
Dow Creeps Up as Broader Indexes Slip

By THE ASSOCIATED PRESS
681 words
27 January 2017
The New York Times
NYTF
Late Edition - Final
2
English

The **Dow Jonesindustrial average** inched further into record territory Thursday, eking out a gain while the broader Wall Street indexes drifted lower.

The Dow's gain came a day after it closed above 20,000 for the first time. The **Standard & Poor's 500-stockindex** and **Nasdaq composite** posted small losses, snapping two days of consecutive record highs.

The **S.&P. 500 index** fell 1.69 points, or 0.1 percent, to 2,296.68. The **Nasdaq** slid 1.16 points, or 0.02 percent, to 5,655.18. The Dow rose 32.40 points, or 0.2 percent, to 20,100.91.

Small-company stocks did worse than the rest of the market. The Russell 2000 lost 6.84 points, or 0.5 percent, to 1,375.60.

More stocks fell than rose on the New York Stock Exchange. Financial stocks led the gainers, while health care companies lagged the most.

It's been a record-making week on Wall Street. The **S.&P. 500 index** and **Nasdaq composite** reached high marks on Tuesday and Wednesday. The Dow, which tracks 30 major industrial companies, hit its own milestone on Wednesday.

Several companies got a lift on Thursday after they reported results that exceeded Wall Street's expectations, including Sherwin-Williams, the paint and coatings company. It said it expected to complete its $11.3 billion purchase of Valspar within 90 days after making a relatively small divestiture. The stock gained $21.58, or 7.6 percent, to $305.

Traders welcomed an optimistic 2017 forecast and good bookings from Royal Caribbean Cruises, raising the cruise operator's stock $7.97, or 9.1 percent, to $95.64.

New Commerce Department data indicating sales of new American homes fell 10.4 percent in December did not weigh on PulteGroup, a homebuilder. The company's quarterly earnings and sales beat analysts' estimates, lifting its shares 74 cents, or 3.6 percent, to $21.18.

A slump in toy sales over the holidays dampened Mattel's latest results. The toymaker was the biggest decliner in the **S.&P. 500**, sliding $5.57, or 17.7 percent, to $25.99.

Whirlpool tumbled 8.5 percent after the appliance maker said Britain's impending departure from the European Union hurt its profits after drops in demand and the value of the pound. The stock fell $16.26 to $173.94.

Beyond the wave of company earnings reports, investors will be looking Friday to a key gauge of the economy's health when the Commerce Department delivers its estimate of what the nation's gross domestic product was in the final quarter of 2016.

Major stock indexes overseas were mixed Thursday.

In Germany, DAX rose 0.4 percent, while the CAC-40 in France slipped 0.2 percent. The FTSE 100 index of leading British shares was flat. In Asia, the Nikkei 225 in Japan surged 1.8 percent and Kospi in South Korea gained 0.8 percent. The Hang Seng index in Hong Kong rose 1.4 percent. Markets in China, Hong Kong, South

Korea and other Asian countries are about to begin holidays of varying lengths to mark the lunar new year, curtailing trading across much of the region.

Bond prices rose. The **10**-**year Treasury** yield slid to 2.51 percent from 2.52 percent late Wednesday.

The dollar increased to 114.46 yen from 113.20 on Wednesday. The euro fell to $1.0674 from $1.0752.

Energy prices moved broadly higher.

Benchmark crude oil rose $1.03, or 2 percent, to close at $53.78 a barrel in New York. Brent crude, used to price international oils, gained $1.16, or 2.1 percent, to close at $56.24 a barrel in London.

In other commodity trading, the price of gold fell $7.80, or 0.7 percent, to $1,189.50 an ounce.

CHART: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Thursday. (Source: Reuters)

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THE WALL STREET JOURNAL.
U.S. EDITION

To Speed Job Growth, Cut Taxes Now

By Larry Kudlow and Stephen Moore
942 words
27 January 2017
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J
A15
English

Congressional Republicans say they plan to wait to take up tax cuts until later in the year, after they've dealt with ObamaCare, passed a 2017 budget resolution, confirmed President Trump's first Supreme Court nominee and tackled other initiatives.

This would be a big mistake. When Mr. Trump addresses Congress in a joint session Feb.28, he should urge lawmakers to pass a jobs bill, including a tax cut, during his first 100 days in office. The centerpiece of the plan should be a reduction in the tax rates on corporations and, importantly, on America's 26 million small businesses. Broader reforms, including tax-rate cuts for families, should come in a second round of legislation later this year.

The tax plan Mr. Trump campaigned on -- which the two of us helped write last year -- is indispensable to economic revival. Our archaic and uncompetitive business tax system may be the single biggest obstacle to restoring economic growth and living standards. From 1950 to 2000, total business fixed investment averaged 5.3% annual growth. Since 2000, that figure has been only 1.7%. If new business incentives are put in place, long-run investment growth will be restored; real economic growth, languishing below 2% in the new millennium, will break through 3%; and wages will grow. Most of that benefit would come from lowering America's 35% corporate rate, the highest in the industrial world.

Time is Mr. Trump's enemy. Any delay in passing the tax bill risks putting a damper on investment decisions and slowing the path to real economic recovery. The longer the delay, the lower the odds of getting a tax cut passed at all this year.

Two historical parallels are instructive. During Ronald Reagan's first year in office, he took on tax cuts first, and only after signing them into law moved to address the budget. If he had done the reverse, he never would have won the big tax-rate reductions so vital to boom of the 1980s and '90s. Moreover, the delay in the full tax-rate reductions until 1983 worsened the recession and postponed the recovery

Similarly, though in the wrong direction, Barack Obama signed his enormous $787 billion "stimulus" bill four weeks after taking office.

Mr. Trump needs to act with comparable urgency. A properly constructed tax plan can pass the House and Senate with bipartisan majorities. It should include three initiatives, all of which Mr. Trump has already endorsed:

-- A reduction in the tax rate, retroactive to Jan. 1, 2017, for all businesses to between 15% and 20%, with immediate expensing for capital spending. Overnight, America would go from having the highest corporate tax in the industrial world to among the lowest -- and that would be a magnet for jobs. It is critical that the tax relief include small businesses, which are a major locomotive for hiring and growth.

-- A 10% tax on the repatriation of foreign profits brought back to the U.S. This could attract up to $2 trillion to these shores, raising $200 billion for the federal Treasury while creating new jobs.

-- An infrastructure fund through which all money raised from repatriation could be dedicated to rebuilding America's roads, highways, airports, pipelines, modernizing the electric grid, etc. This should include reforms in labor rules and environmental policies to reduce the cost of these capital projects. We're skeptical that more spending on public works will create many jobs, and "shovel-ready projects" didn't work out for Mr. Obama. But efficiently modernizing the nation's public and private infrastructure can enhance growth.

As the president sells this plan, he should aim not for 51 Senate votes but 60 or 70. It would be hard for either party to oppose a jobs bill that combines business tax cuts, a priority for Republicans, with infrastructure spending, beloved by Democrats and unions. This could be the biggest bipartisan economic bill since Madonna was rolling out hits.

Budget hawks will doubtless complain that the plan inflates the deficit. Not necessarily. We believe, and the Tax Foundation agrees, that the business tax cut would generate so much capital investment that it would largely pay for itself over time. The new infrastructure spending would be paid for with the revenues from repatriation.

Some congressional Republicans oppose this strategy because it leaves cutting personal income taxes for another day. They worry that if the business tax cuts come first, the individual tax cuts will be forgotten.

That's a risk. But we have worked on tax reform since the early Reagan years, and overhauling the income tax will be a heavy lift. There are great benefits to be had from cutting income taxes and limiting deductions and loopholes -- draining the swamp. But the lobbying from K Street special interests will be fierce. So will be opposition from the class-warfare Democrats. Unlike when Reagan was president, Democrats today want to raise top marginal tax rates, to 50% or more, not cut them.

Trying to rewrite the entire tax code without any Democratic support is a fool's errand. The smart play is for Mr. Trump to save that fight for another day and deliver a big jobs plan to voters quickly. A victory soon would help workers and the **stock market**, boost the president's job approval, and set the stage for broader tax reform down the road.

Mr. Kudlow is a CNBC senior commentator. Mr. Moore is an economic consultant with FreedomWorks. They both served as economic advisers to the Trump campaign.

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The New York Times

Business Day
Alphabet's Profits Stay Predictably Good in a Volatile Industry

By DAISUKE WAKABAYASHI
929 words
26 January 2017
08:06 PM
NYTimes.com Feed
NYTFEED
English

SAN FRANCISCO — It is almost boring how predictably good Alphabet's earnings are these days — a trait not always shared by the company's tech conglomerate peers.

Apple is wildly profitable, but its results hinge on the fickle preferences of smartphone buyers who may or may not be moved by the iPhone's latest design. Amazon seems prepared to abandon quarterly profits to invest even more in faster delivery times or in another huge data center. Facebook is still young enough that a little **volatility** is not out of character.

But fourth-quarter results announced on Thursday from Alphabet, Google's parent company, proved once again that the company is the model of moneymaking consistency.

Alphabet's revenue in the quarter rose 22 percent to $26.06 billion, beating analysts' expectations. Net income was $5.33 billion, up from $4.92 billion a year earlier.

The heart of Alphabet's consistent earnings remains the company's search engine. While a consumer can delay an iPhone purchase or shop somewhere other than Amazon, Google's search engine is an indispensable tool for anyone using the internet. The shift to mobile devices, once considered a threat to Google's search business, has only strengthened it.

Google's market share on desktop search is around 78 percent, but it is above 90 percent on mobile devices, according to research from NetMarketShare.com. What is more, on smaller mobile displays, Google's ads occupy a large portion of the screen — making it more likely a user will click on them.

Clicks on Google ads increased 36 percent in the quarter, but what advertisers paid for each click decreased 15 percent.

Google is also sitting on many of the internet's most valuable properties — the places where people go to stay in touch on email, find driving directions or seek out entertainment.

While clicks on Google's ads across the internet are rising, they are growing faster on its own websites like YouTube. Alphabet does not break out results for YouTube, but the site continues to amass a huge audience. Google said more than a billion people watched YouTube every month, viewing hundreds of millions of hours of its videos every day.

Sundar Pichai, Google's chief executive, said company assets like search, YouTube, Maps and Google Play, constituted "prime time in the mobile era."

Even Alphabet's unexpected hiccups are a little dull. The company's earnings per share were $7.56, or 11 cents below analysts' estimates. It said the reason for the shortfall was that it paid more in taxes. The company's effective tax rate for the quarter was 22 percent, compared with 5 percent in the same quarter a year earlier. Alphabet said it paid more in United States taxes but did not explain why.

Alphabet shares were down 2 percent in after-hours trading. The stock reached a record high on Wednesday.

While the dominance of the Google search engine seems unassailable today, Alphabet is investing heavily in new technologies that may threaten its stronghold. Devices like the Amazon Echo, a voice-activated smart speaker, portend a future where artificially intelligent digital assistants fetch information without needing to access a search engine directly.

During the quarter, Google introduced a smartphone called Pixel and Google Home, an Echo competitor. Both devices are vessels for the Google Assistant, the company's artificial intelligence system. To promote those devices, Alphabet said it spent more on marketing during the quarter. Alphabet said its cost of revenue — an indicator of its spending which also included other costs like operating data centers — rose 30 percent during the quarter from a year earlier.

Google did not provide figures for how those products sold, but the "other revenue" category, which included hardware sales along with revenue from Google Play, rose 62 percent to $3.4 billion.

Part of the company's financial stability came from Google's creation of Alphabet in 2015. The reorganization into a holding company split the company's core search business from a growing list of fledgling operations, like the newly minted Waymo — what used to be Google's self-driving car project until it was spun off as an independent Alphabet company in 2016.

This move raised the pressure on the company's so-called other bets, including its life sciences unit, Verily, and its home electronics unit, Nest, to prove that they could be profitable without the support of mother Google. In a sign of the independence of Alphabet companies, Verily announced on Thursday that Singapore's sovereign fund, Temasek, will acquire a minority stake in Verily for $800 million.

Under the watch of Ruth Porat, Alphabet's chief financial officer, the company has scaled back costs and — in some cases — the ambition of its speculative investments into new technologies. During the quarter, Alphabet said quarterly revenue from "other bets" rose 75 percent to $262 million, while operating losses narrowed to $1.09 billion from $1.21 billion a year earlier.

* Uber Hires Google's Former Head of Search, Stoking a Rivalry

* Tech Giants Seem Invincible. That Worries Lawmakers.

Attendees of the Google I/O 2016 developers conference in Mountain View, California, last year. | Stephen Lam/Reuters | Google's chief executive, Sundar Pichai during an event this month. The company's parent, Alphabet, saw revenue in the quarter rise 22 percent to $26.06 billion while net income climbed to $5.33 billion from $4.92 billion a year earlier. | Rajat Gupta/European Pressphoto Agency

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U.S. News: Trump Shakes U.S.-Mexico Relations

By Jose de Cordoba, Brian Baskin and Jacob M. Schlesinger
653 words
26 January 2017
The Wall Street Journal
J
A3
English

President Donald Trump's moves to erect new physical and economic barriers between the U.S. and Mexico are shaking up longstanding commercial and diplomatic ties between the two countries that could affect everything from manufacturing supply chains to efforts to combat the flow of illegal drugs.

In pivoting from candidate to president, Mr. Trump tried to recast his campaign promises as intended to bolster the alliance rather than just protect Americans and U.S. jobs.

"I want to emphasize that we will be working in partnership with our friends in Mexico to improve safety and economic opportunity on both sides of the border," Mr. Trump said after announcing plans to build a border wall and crack down on immigration -- pledges that have provoked widespread anger in Mexico.

Yet his actions are starting to reverse a quarter-century of bipartisan policies aimed at fostering greater integration between the two neighbors. Mr. Trump is expected soon to demand a renegotiation of the North American Free Trade Agreement, which links the two economies together with each other and with Canada. And the new president has endorsed a "big border tax" on goods coming into the U.S.

The new policies are prompting a backlash in Mexico, where officials are threatening retaliation and where the new U.S. stance is stoking a **volatility** in Mexican politics that could fuel a counter-Trump populist movement of its own.

The Mexican government Wednesday sent to Washington two top officials -- Foreign Minister Luis Videgaray and Economy Minister Ildefonso Guajardo -- to meet with members of Mr. Trump's inner circle, including Mr. Trump's senior adviser and son-in-law Jared Kushner.

Both sides were expected to try to hammer out a broad framework to discuss bilateral security, migration and Nafta, preparing the groundwork for a summit between Mr. Trump and Mexican President Enrique Pena Nieto scheduled for next Tuesday in Washington.

Mr. Videgaray, who is leading the Mexican delegation, told Mr. Kushner that it would be impossible for Mr. Pena Nieto to go to the U.S. if Mr. Trump said during the signing of the executive order that Mexico would pay for the wall, according to a person familiar with the matter.

Mr. Trump during his presentation didn't say Mexico would pay for the wall, although he did during an ABC News interview that aired before the meeting between the two delegations.

One senior executive at a prominent Mexican company said Mr. Trump's speech appeared to indicate he was more open to working with Mexico than many had expected. "I thought Trump's presentation today was more conciliatory," the executive said.

In a short videotaped message Wednesday night, Mr. Pena Nieto said he lamented the actions taken by Mr. Trump to build a wall and increase deportations: "I've said it once and again: Mexico won't pay for any wall."

Mr. Pena Nieto is under enormous political pressure to cancel his trip to Washington. In an apparent reference to the trip, Mr. Pena Nieto said he would take a decision "on the next steps to follow," after consulting the Senate and the nation's governors, and after evaluating a report from the Mexican officials who met Wednesday with U.S. officials.

A pillar of Mr. Trump's campaign was an attack on the whole package of policies wrapped around Nafta -- launched in 1991 by Republican President George H.W. Bush, and completed three years later by his Democratic successor, Bill Clinton -- as detrimental to the American economy.Mr. Trump has called the pact the worst free-trade deal in U.S. history and said it creates unfair incentives for U.S. companies to move jobs south of the border.

Juan Montes and Santiago Perez contributed to this article.

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Dow 20000: Global Stocks Can't Match U.S.

By Julie Wernau
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26 January 2017
The Wall Street Journal
J
A10
English

Donald Trump never promised to make the rest of the world great again.

U.S. stock markets have rallied since the president's victory more than two months ago, rising on improved economic data and hopes Mr. Trump can stimulate the economy with tax cuts and infrastructure spending while rolling back regulations.

But most major stock markets around the globe haven't enjoyed the same postelection bump, and many remain far below record levels.

"You don't have a comparable event right now in Japan or Europe," said Joe Gubler, portfolio manager at Causeway Emerging Markets Fund, with $3 billion in assets under management.

While the pan-European Stoxx Europe 600 has gained 1.4% this year, with the U.K. offering a more detailed road map for exiting the European Union than many expected, the benchmark is still 11% below its record of 414.06 reached in April 2015.

The index dropped 1.2% last year and wavered over concerns about how the profitability of European banks would be affected by the European Central Bank's policy of negative interest rates and disruptions from Britain's vote to leave the EU.

London's FTSE 100 Index hit an all-time high on Jan. 13 in local currency, bouncing back after the worst Brexit fears weren't realized. But it is still well below its high in dollar terms, thanks to the pound's plunge.

In Japan, the Nikkei Stock Average is 51% below its all-time high of 38915.87 reached Dec. 29, 1989. At the time, the price/earnings ratio of Japanese stocks was four times that of the U.S. average, a bubble that would soon burst.

In the fourth quarter, the yen fell 13% against the dollar, helping to boost the competitiveness of Japanese exports. But the currency strengthened as a haven play over much of last year, undermining central-bank efforts to stoke higher growth and inflation and has climbed 3% this year. The Nikkei Stock Average, after gaining 0.4% in 2016, is down 0.3% year to date.

U.S. stock indexes, meanwhile, have posted record closes several times since Mr. Trump's election. The **Dow Jones Industrial Average**, which gained 13% last year, reached the 20000 mark for the first time on Wednesday.

Still, some foreign markets reached highs recently. In Pakistan, stocks soared ahead of it joining the MSCI Emerging Markets Index this year, a move that is expected to bring a new group of investors to the South Asian market. Investors seeking high-dividend stocks and relatively stable economic growth boosted New Zealand's market, pushing it to highs.

Stocks in Venezuela also reached record levels, though for less fortunate reasons. Its currency plunged about 75% against the dollar during the last two months of 2016 in black market trading, according to DolarToday, a firm that tracks off-market activity. Now, domestic investors are using the **stock market** as a place to store cash as a hedge against further currency devaluation, analysts said.

Many emerging-market stocks bounced back over the past several months, with big rallies in Brazil, Peru and Argentina. Bullish traders seized on early signs of economic recovery after years of poor growth, but those markets remain well off all-time highs.

Russia's stock index reached a peak in local currency terms on Jan. 4, boostedby the country's deal with other major oil-producing countries to cut output. Russia produces more crude than any other country. But in dollar terms Russian stocks are off about 53% from a peak hit in May 2008 when crude prices were $127 a barrel and a dollar could be bought for 23 rubles versus 59 rubles as of Wednesday.

More broadly, the MSCI Emerging Market Index is 32% behind its peak in dollar terms of 1338.30 reached in 2007. The index is up 6% this year.

Many analysts remain skeptical that a Trump presidency will spark stock rallies abroad this year. His threat of protectionism or a U.S. trade war with China or Mexico would be negative for developing nations, which rely heavily on global trade.

"It just takes a couple of comments out of Trump to make people wary," said Jerry Lucas, a strategist at UBS Wealth Management.

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U.S. EDITION

Dow 20000 -- Heard on the Street -- A Milestone's Meaning: Markets Are Expensive

By Justin Lahart
402 words
26 January 2017
The Wall Street Journal
J
A11
English

[Financial Analysis and Commentary]

The thing that matters most for valuing stocks is price. With the **Dow Jones Industrial Average** pushing through the 20000 mark, their price has gotten higher.

Say what you will about the ultimate importance of the Dow reaching this big round number, but it certainly got there in a hurry. The 9% the Dow has added since Election Day is the sort of move that is usually reserved for market rebounds after big tumbles as opposed to when it was already in reach of its record high.

With the broader **S&P 500** rallying alongside the Dow, no matter how you look at it, the market has gotten more expensive.

The **S&P 500** now trades at 17.13 times expected earnings over the next year, according to FactSet, versus 16.5 on Election Day, putting the forward price-earnings multiple near its priciest in over a decade. The **S&P 500**'s trailing PE -- it fetches 19.2 times the past year's pro forma earnings (that is, earnings excluding exceptional items like restructuring charges) -- is similarly high. The cyclically adjusted PE ratio popularized by Robert Shiller, which is based on the past 10 years' average earnings under generally accepted accounting principles, is at its highest since the early 2000s, and is in territory never seen outside of the dot-com era and the late 1920s.

None of these ways of looking at valuation are perfect -- nothing is -- but it should give investors some pause that they all point to an expensive **stock market**. Moreover, while interest rates are low, making stocks more attractive relative to bonds, they aren't nearly as low as they were. The **10**-**year Treasury** yield, at 2.5%, is near its highest in over two years.

The benchmark has fallen at a major political juncture, but the **stock-market** valuations President Donald Trump has inherited in his first week in office aren't anything like the extremely low valuations that greeted Ronald Reagan in the early 1980s or Barack Obama during thefinancial crisis. That doesn't mean stocks can't go any higher, but investors considering pouring more money into the market will want to consider whether they are getting what they pay for.

Dow's Thousand-Point Milestones

CLOSE	DATE	TRADING DAYS	% CHANGE FROM PREVIOUS MILESTONE
20068.51	Jan. 25, 2017	42	5.5%
19023.87	Nov. 22, 2016	483	5.5
18024.17	Dec. 23, 2014	120	5.6
17068.26	July 3, 2014	153	6.6
16009.99	Nov. 21, 2013	139	6.3
15056.20	May 7, 2013	1,460	7.5
14000.41	July 19, 2007	59	7.0
13089.89	April 25, 2007	127	9.0
12011.73	Oct. 19, 2006	1,879	9.1
11014.69	May 3, 1999	24	10.1
10006.78	March 29, 1999	246	10.8
9033.23	April 6, 1998	182	12.4
8038.88	July 16, 1997	105	14.5
7022.44	Feb. 13, 1997	85	16.9
6010.00	Oct. 14, 1996	226	19.6
5023.55	Nov. 21, 1995	189	25.5
4003.33	Feb. 23, 1995	975	33.3
3004.46	April 17, 1991	1,080	50.0
2002.25	Jan. 8, 1987	3,573	99.6
1003.16	Nov. 14, 1972	21,652	

Source: WSJ Market Data Group

THE WALL STREET JOURNAL.

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THE WALL STREET JOURNAL.
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Equities: Goldman Set Pace for Dow Climb --- Industrial giants gave a final shove to 20000 after a long stock rally led by bank's advance

By John Carney
607 words
26 January 2017
The Wall Street Journal
J
B11
English

When it came to Dow 20000, Goldman Sachs Group Inc. drove the index to the five-yard line. But International Business Machines Corp. and Boeing Co. got it over the goal line.

In the immediate aftermath of the presidential election, Goldman Sachs powered the **Dow Jones Industrial Average** higher. It was the biggest contributor to its historic drive to the 20000 level, contributing 21.9% of the gain the index notched since Nov. 8.

Of the Dow's 1735.77-point rise since the election, Goldman accounted for 378.91 points.

Goldman's rally -- the shares are up 30.4% since the election -- came as financial stocks overall rose sharply on hopes Donald Trump's administration would loosen regulatory shackles on banks, cut taxes and pursue pro-growth policies. And, importantly, all this would hopefully lead to higher interest rates, which help improve bank profitability.

Indeed, gains for the KBW **Nasdaq** Bank index since Election Day are more than double those of the Dow.

Mirroring investors' optimistic view, Bank of America Corp. Chief Executive Brian Moynihan said Wednesdaythat the U.S. economy was "on very sound footing," and that consumer and business confidence had jumped since the election.

"In less than a week you're seeing things happen," Mr. Moynihan said, referring to initiatives by Mr. Trump. That could bolster consumer and business confidence, although "now we will have to see how that will play out," Mr. Moynihan added in remarks to the Council on Foreign Relations in New York.

Mr. Moynihan has good reason to be cheery. Bank of America has gained even more ground than Goldman. Its 35% rise since the election is the best of any big-bank stock.

But Bank of America isn't in the Dow. And as Bank of America's rally gained further ground in mid-January on the back of its fourth-quarter results, Goldman lost steam. While the bank reported fourth-quarter earnings that beat analyst expectations, investors seemed to have already priced into financial stocks many of the benefits they expect to see in 2017.

At that point, IBM and Boeing stepped in to keep the Dow's momentum going. Those stocks were the second- and third-biggest contributors, respectively, to the Dow's rise since Election Day.

Much of their gains came this month, though. They contributed more than 80 points to the Dow's nearly 300-point rise so far in 2017.

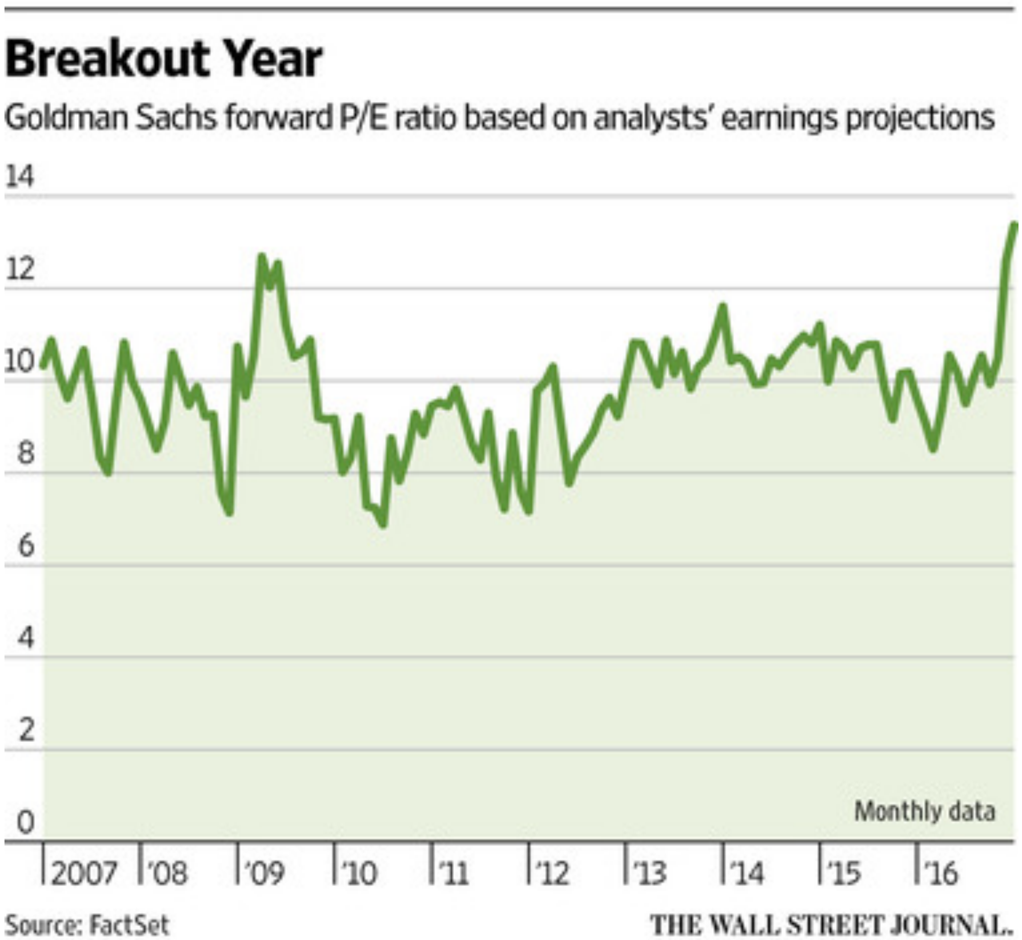
Boeing gained 4.2% on Wednesday alone after the aerospace giant reported earnings that topped analyst forecasts. IBM is up more than 7% since the start of the year as the company attempts a transformation of its cloud-computing and artificial-intelligence businesses.

Although it flagged into the finish, Goldman remained the only Dow component to account for more than 10% of its increase since the election.

The ascent of Goldman's shares has helped lift the value of its executives' stock-based compensation plans. It has left the stock within striking distance of its all-time closing high of$247.92. That was hit in October 2007.

But Goldman isn't likely to dwell on its Dow victory. Speaking on the bank's earnings call earlier this month, finance chief Harvey Schwartz said he is "always rooting for the share price." But that, he added, isn't going to lead to Goldman "thinking about changing how we run the company."

Liz Hoffman contributed to this article.



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THE WALL STREET JOURNAL.
U.S. EDITION

Dow Tops 20000 --- Milestone reached amid hopes for federal spending; Last 1,000 points come in just 42 days

By Aaron Kuriloff, Corrie Driebusch and Akane Otani
1,045 words
26 January 2017
The Wall Street Journal
J
A1
English

The **Dow Jones Industrial Average** closed above 20000 for the first time Wednesday, fueled by a remarkable rally that began in 2009 as a bounce from the depths of the financial crisis, grew into a steady ascent and was then turbocharged by November's presidential election.

President Donald Trump's moves during his first week in office to promote infrastructure projects and cut regulation helped propel the 120-year-old index of 30 stocks over its latest milestone, as investors bet that he would follow through with business-friendly plans like cutting taxes and increasing government spending.

The Dow industrials raced past 20000 when the market opened Wednesday and held on to the gains throughout the session, closing up 155.80 points, or 0.8%, at 20068.51. The **S&P 500** and **Nasdaq Composite** also reached records Wednesday.

Applause, whoops and cheers erupted on the floor of the New York Stock Exchange as the market closed. "It's been a long time coming," said Peter Tuchman, a veteran floor broker at the NYSE, who wore a cap with "Dow 20,000" emblazoned on it for the occasion. "We're all excited, but exhausted."

The Dow took almost 103 years to reach 10000 in March 1999. Reaching 20000 required nearly 18 years more.

And the last part of that climb was swift: It took the blue-chip index just 42 trading days to jump from its first close above 19000 to 20000 -- the second-fastest thousand-point gain in the index's history, after its 24-day climb from 10000 to 11000 during the dot.com boom in 1999.

The Dow industrials notched their first close above 19000 on Nov. 22. amid the postelection rally that has sent the index up 9.5% since Nov. 8.

The Dow has come a long way to get to 20000. Investors watched the U.S. **stock market** lose trillions of dollars in value twice -- when the tech bubble burst in 2000 and during the financial crisis in 2008.

Even as indexes now soar, many investors urged caution. Interest rates are still relatively low, reflecting sluggishness in the global economy. **Volatility** has waned, and stocks are expensive compared with their historical levels -- three signs that some investors say could herald a pullback.

It hasn't been a straight path upward for the Dow. The index rose 7% from the close on Election Day through Dec. 8, but then gains slowed as investors questioned the likelihood and timing of Mr. Trump's policies. A postelection climb in the dollar and Treasury yields also stalled in recent weeks.

The Dow made several attempts at 20000, including when it touched 19999.63 on Jan. 6 but fell short each time -- until Wednesday.

Investors piled into manufacturing stocks this week, providing some of the momentum that carried the index over the top, after Mr. Trump's moves to revive oil-pipeline projects and ease regulations signaled the first steps toward clearing the way for a surge in infrastructure spending.

Recent data showing an acceleration in U.S. economic growth and an improvement in corporate earnings have also bolstered investors' outlook. Earnings for **S&P 500** companies are expected to grow in the fourth quarter from a year earlier, according to analysts polled by FactSet. That would mark the second straight quarter of earnings growth after five quarters of contraction, according to FactSet.

"The gains are every bit as much that the economy is doing better and earnings are improving as it is a boost from hope for fiscal policies under Mr. Trump," said Bob Doll, senior portfolio manager with Nuveen Asset Management LLC, an investment firm based in Chicago.

Soaring shares of Boeing Co. led Wednesday's gains in the Dow industrials, with the aerospace company rising $6.81, or 4.2%, to $167.36 after beating expectations for earnings in the final quarter of the year.

Boeing's gain alone contributed more than 901 points of the Dow's last 10,000-point gain, surpassed only by 3M Co. whose gains added more than 1156 points. International Business Machines Corp. added 813 and Caterpillar Inc. 740.

But bank shares are responsible for much of the Dow's rise since Election Day. Many consider the health of the sector to be intertwined with that of the economy because of the fundamental role banks play in facilitating the flow of money and say the recent gains indicate that the nearly eight-year **bull market** can keep going.

The KBW **Nasdaq** Bank Index of large U.S. commercial lenders has soared 24% since Election Day, reflecting the prospect of higher interest rates and less-stringent regulation, which could ease some of the pressure lenders have faced since the financial crisis. The yield on the benchmark **10**-**year Treasury** note is back above 2.5% after it fell to 1.366% on July 8, the lowest level on record, though rates are still low by historical standards. Yields fall as **bond prices** rise.

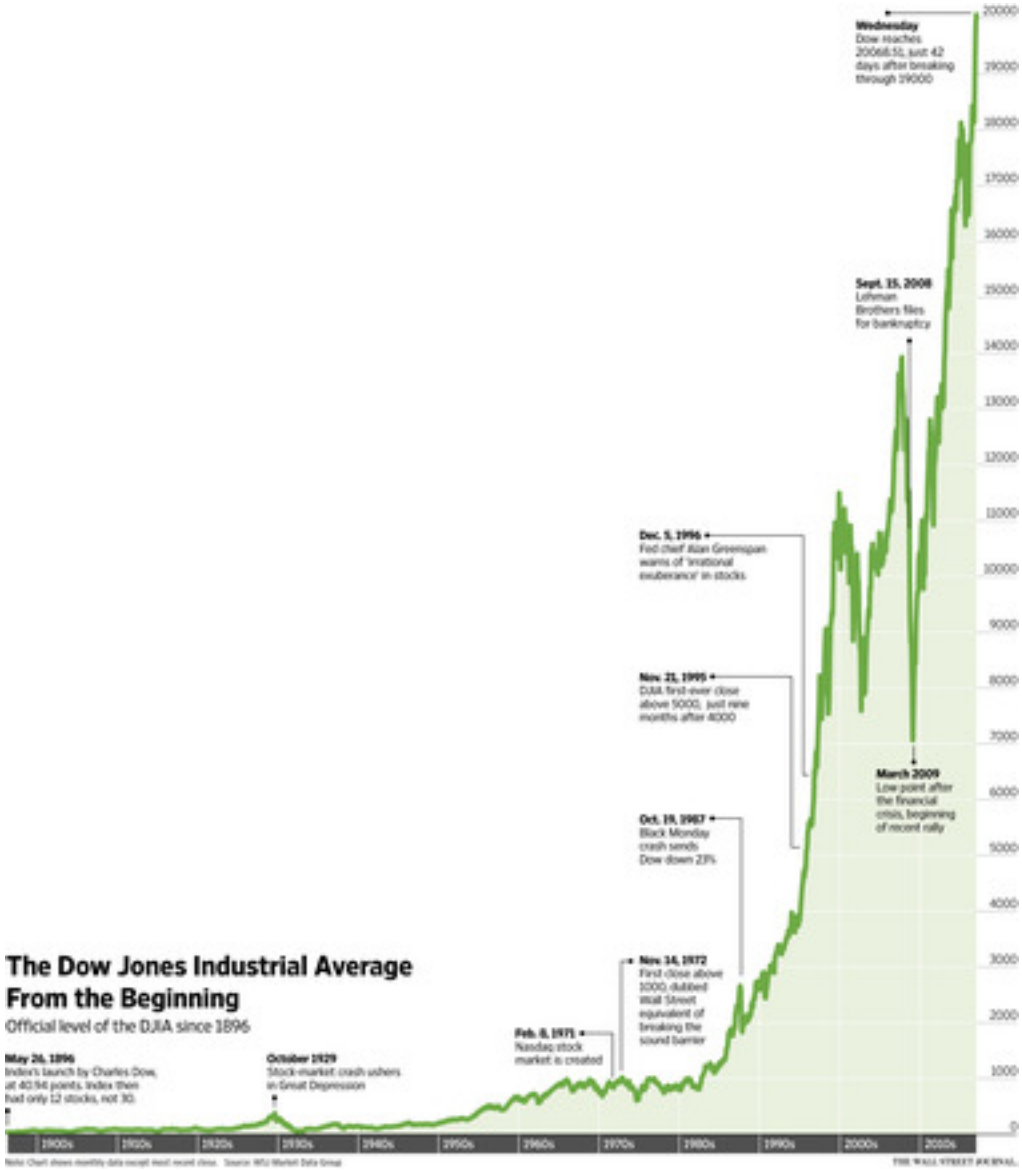
Gains in Goldman Sachs Group Inc. and J.P. Morgan Chase & Co. together accounted for more than a quarter of the postelection point gain made by the Dow, a price-weighted measure that means the bigger the **stock price**, the larger the sway for a component.

Goldman joined the index in 2013, making it a relatively new entrant to the average that made its debut in 1896 with 12 "smokestack" companies, including Tennessee Coal & Iron, U.S. Leather and General Electric Co. (which was removed and restored along the way but is the only original component in the current index). Technology companies including Microsoft Corp. and Intel Corp. were added in the 1990s, while companies such as Bethlehem Steel and Woolworth dropped out.

Wall Street Journal editors participate in selecting the stocks in the Dow, as they always have, though the index itself is now part of S&P Global Inc.

Sarah Krouse contributed to this article.

(See related article: "Analysis: Resurgent Appetite for Risk Has Fragile Economic Foundation" -- WSJ Jan. 26, 2017)



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Emerging Markets Hustle to Sell Debt --- Countries uneasy over outlook of higher U.S. rates and the fallout of Trump policies

By Julie Wernau and Taos Turner
812 words
26 January 2017
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English

Emerging-market governments are selling debt at close to a record pace this month, concerned about the prospect of rising U.S. interest rates and that President Donald Trump's policies could bring uncertainty to the developing world.

Governments in emerging markets have sold $26.4 billion in debt in January, threatening to surpass the high of $28.6 billion issued during the first month of 2014, when low U.S. interest rates encouraged buying of riskier assets in the developing world, according to data from Dealogic and Nomura.

The majority of this debt was sold in dollars, widening the investor base by offering more liquid bonds than those sold in local currencies. But dollar-denominated debt poses risks, too, if the U.S. currency keeps rallying. That makes it more expensive for governments to pay back obligations.

Argentina has been the biggest issuer this year, selling $7 billion in bonds the day before Mr. Trump's inauguration Friday. Finance officials said that sale and a $6 billion bank-loan deal the previous week helped the country obtain two-thirds of the fresh debt it needs for all of this year's financing.

"Nobody knows what's going to happen" to U.S. interest rates with Mr. Trump president, said Luis Caputo, Argentina's finance minister. "We have to reduce the level of uncertainty that there is now. The right decision is to minimize financing risks."

Israel, Slovenia, South Korea, Ecuador, Turkey, Colombia and Honduras also sold bonds in January. In the two days before Mr. Trump's inauguration, five countries each issued bonds of more than $1 billion, according to Dealogic.

Countries have been rushing to sell debt out of fear Mr. Trump could enact protectionist trade policies that would drive up U.S. inflation and cause the Federal Reserve to raise interest rates faster than expected, said Kathryn Rooney Vera, head of research and strategy at financial firm Bulltick in Miami.

Wall Street may have helped with a push. "My recommendation was to come sooner rather than later," said Katia Bouazza, head of global banking for Latin America at HSBC. She advised clients, including Argentina's government and Brazil's main energy company, that headlines and executive orders following the inauguration could lead to market **volatility**.

Most governments were in such a hurry they sold bonds without the traditional roadshow, which can entail several days of meetings with money managers to explain why the bonds are a good investment.

Instead, these governments turned to investors who were already familiar with their countries to make a fast sale, said Gulen Tuncer, director of corporate- and emerging-market bond investment research at Conning.

Some investors called them "drive-by roadshows."

With so many large bond deals hitting the market nearly at once, buyers have been able to command yields that pay a premium to a country's existing debt, investors said.

Brett Diment, head of emerging-market and sovereign debt at Aberdeen Asset Management, said he bought debt from Argentina. He was attracted to its five-year bonds with a 5.625% yield, compared with the 5.3% yield of the country's current benchmark five-year bond.

Investor interest in emerging-market debt this month -- which has had three straight weeks of inflows to emerging-market debt funds, according to fund-tracker EPFR Global -- represents a break from late last year. Until October, global investors were net buyers of emerging-market debt, attracted to the higher yields when interest rates were near record lows in the developed world.

But these flows reversed in the final quarter, ending the year with $33.8 million in outflows, as investors began to anticipate higher U.S. interest rates. The dollar's year-end rally also made it more expensive for developing countries to pay back dollar-denominated debt.

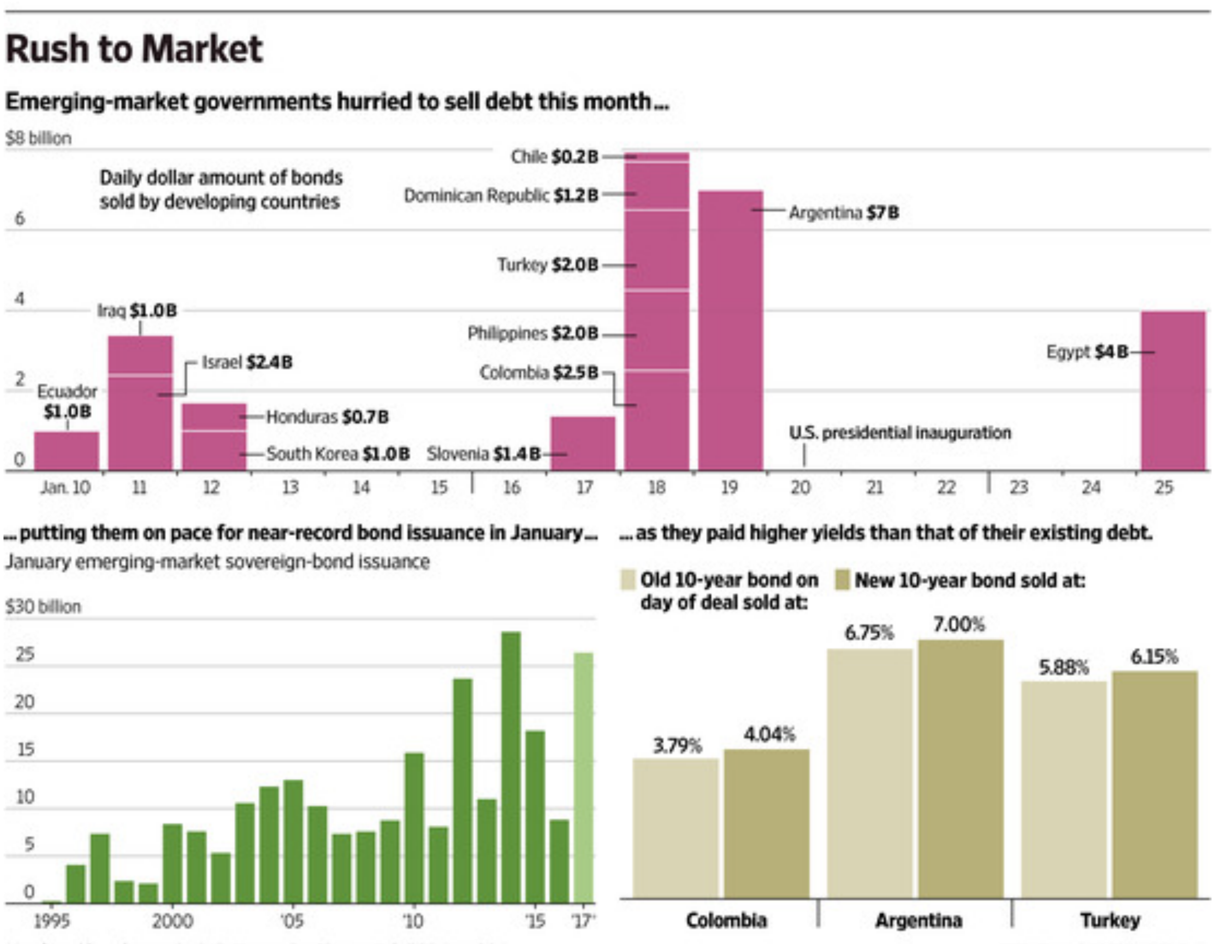
Some emerging-market corporate issuers also tapped the market, including Petroleo Brazileiro SA, or Petrobras, which sold $4 billion in bonds Jan. 9. Chief Executive Pedro Parente told reporters that with "big uncertainty in the market with the new U.S. president" he wanted to get the bonds sold before the inauguration.

Sean Newman, a senior portfolio manager at Invesco, said his team tried to focus on analyzing a number of deals during a busy two days before the inauguration.

"One day we had Colombia, the Dominican Republic, Turkey -- and we were getting prepared for the Argentina trade," he said. "It was hectic."

Not all countries looking to sell debt managed to do so before Mr. Trump took office. Egypt sold $4 billion in government bonds Wednesday that it began marketing shortly after the inauguration.

Paul Kiernan contributed to this article.



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Dow 20000 -- Streetwise: We're Already at 30000 but Don't Know It

By James Mackintosh
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26 January 2017
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English

It is time to ditch the Dow. After 120 years, the venerable **Dow Jones Industrial Average** is an embarrassing anachronism, abandoned by professionals and beloved only by media that mostly don't know any better. It needs to be updated or, better, replaced.

The Dow was invented by a founder of this newspaper. My direct boss and his direct boss both sit on the committee that decides on the 30 companies that make up the average. And television news has long since picked the Dow as its gauge of Wall Street activity.

But a columnist's job isn't to flatter. It is to present facts. And the fact is that the Dow is deeply flawed. It isn't a good measure of the broad market -- indeed it isn't even designed to be. It isn't a good guide to investing. It isn't calculated in a sensible way. And it isn't even right.

Start with the last point. Correct for mistakes dating from the days of paper and slide rule, and the Dow in fact passed 30000 for the first time last month, according to Birinyi Associates calculations.

The biggest mistake came from the simplistic recalculation of the average when it was expanded from 12 to 20 stocks. The official Dow record shows a drop of 24% -- its worst day ever -- when the market reopened in 1914 after a four-month break because of the start of World War I. In fact, the market and the Dow rose that day, but the record was recalculated without any adjustment when the measure expanded from 12 to 20 stocks two years later. Because some of the new stocks added had lower prices, the new version of the average was pulled down. So, no, there really isn't any reason to get worked up about the average passing 20000.

More important than the level is the method of calculation. The Dow is a share-price average, which was quick and easy to work out each day back when mechanical adding machines were state of the art for statistics. But share prices are arbitrary, as they depend on how many shares are issued; some companies have very high prices, which give them more influence on the Dow, even though they may be less valuable overall. Modern indexes are weighted by market value, often adjusted for the free float available, giving a better representation of the overall market or of the stocks which can be bought.

The result is that the Dow can behave very differently from the wider market, as it has in the past three months. Since the start of November, the Dow has gained 10%, compared with 7% for the broader **S&P 500**.

One big reason: Goldman Sachs Group Inc. The Dow's strange focus on share price gives far more weight to Goldman than the bank's market value deserves. At $237.25 a share, it is the most expensive stock in the average, meaning it has twice as much of an effect on the average as Apple Inc., which has a market capitalization more than six times that of Goldman.

The Dow also has been helped recently by its exclusion of dull utilities or real-estate companies. Utilities, along with transport companies, are excluded on the basis that the Dow is an industrial average. Yet the measure stopped being exclusively industrial when retailer Sears Roebuck was added in 1924.

The same reasons explain why the Dow has lagged behind the market in the bull run since March 2009. It is true that the Dow and **S&P 500** have tended to move broadly together, and over the past 20 years their returns have been remarkably similar.

But in other periods, the two have diverged significantly. For example, the Dow lags more than 30 percentage points behind the **S&P 500**'s 234% gain since the post-Lehman low.

The other big justification for any market index -- or even average -- is to put money to work. Here the Dow is an also-ran, as Wall Street recognizes its drawbacks. Howard Silverblatt at S&P Dow Jones Indices said only $35.9 billion of funds follow the Dow, compared with a whopping $2.1 trillion indexed to the **S&P 500**.

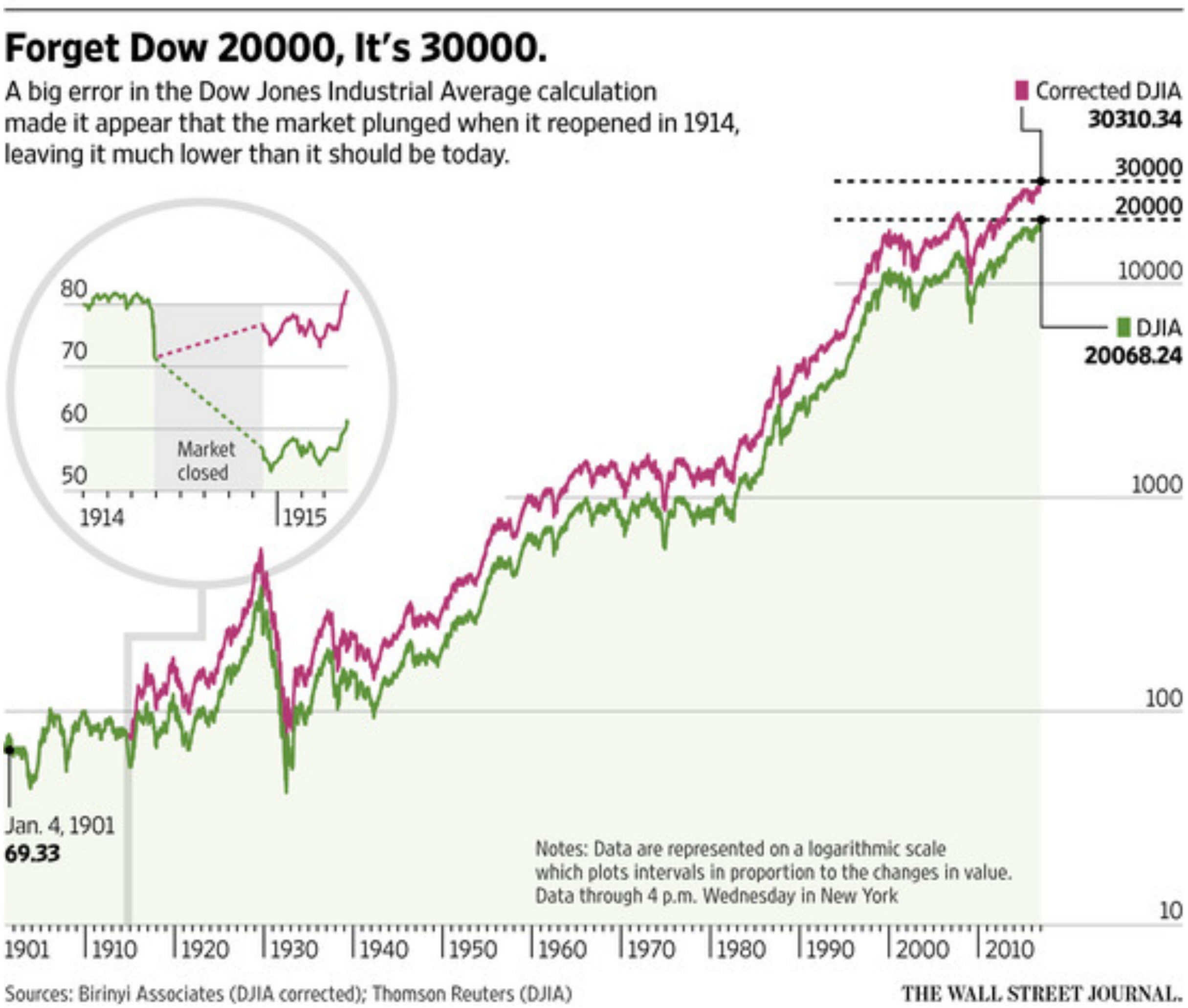
The only saving grace for the Dow is that its long history means people know what it is, helped by the choice of big-name companies as constituents. It is indisputably an icon.

Even here, though, the Dow's familiarity has become a drawback. As the Dow has risen over the years, 100-point moves -- a media fixation -- have dropped from being worth 2% of the index 20 years ago to just 0.5% today.

The Dow is in fact no longer owned by Dow Jones, as it was sold to a joint venture of S&P Global and CME Group Inc. in 2012. But it is too good a brand to kill. Instead, it could become a proper measure of the market, if its name was applied to something unwieldy sounding such as the Dow Jones U.S. Total **Stock Market** Index.

This is an excellent but widely ignored measure of what is actually happening in the market and would widen the Dow from following 30 stocks to following 3,850.

After more than a century of service, the Dow deserves an upgrade.



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Dow 20000: What to Do as Stocks Pass Marker

By Anne Tergesen
665 words
26 January 2017
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English

With the **Dow Jones Industrial Average** crossing 20000, many investors are asking: Should I take money off the table? Is it too late to get in? How much further can stocks rise?

The simple answer that many experts give is that most investors should do little to nothing in light of 20000 or any market milestone.

Provided an investor has well-diversified, low-cost investments, the best move "is basically to do nothing," said Burton Malkiel, emeritus professor of economics at Princeton University and author of the classic book favoring index funds, "A Random Walk Down Wall Street."

Still, the moment is a reminder to engage in some basic but often-neglected moves that typically enhance returns over time. For example, it is a good idea to periodically shift money from asset classes that have appreciated into laggards to restore a portfolio's target mix.

Moreover, some investors, including those relatively close to retirement, may want to take some profits while the market is at relatively high valuations.

Here are a few things to think about:

1) I've missed much of the rise to 20000 -- should I invest now?

Short answer: Yes, provided the goal you are saving for is at least a few years away.

"Over five years, it would be logical for most people to be invested in some way," said Greg Davies, founder of Centapse Ltd., a London-based consulting firm.

To figure out how much money to allocate to stocks, investors should ideally have a financial plan that takes into account considerations including their age, goals, investment horizon and emotional capacity to ride out the market's ups and downs.

To gauge risk tolerance, an investor should weigh three factors. The first is his or her ease with taking the chance of losing money for "greater potential returns," said Tyler Nunnally, U.S. strategist at FinaMetrica Ltd., a firm that sells a risk-tolerance measurement tool for $45.

The second and third factors to consider are your investment horizon and the return you will need to reach your savings goal. As a rule of thumb, the closer you are to your goal -- say, college or retirement -- the less risk you can afford to take.

2) Should I use this milestone moment as an opportunity to sell stocks?

Short answer: It depends on how close you are to retirement or your goal.

By some metrics, stock valuations are relatively high today. The 10-year price-to-earnings ratio for the **S&P 500 index** is now 28.45 -- which means that stocks sell for an average of 28 times the companies' average earnings over the past 10 years, adjusted for inflation.

Generally speaking, investors with a financial plan should ignore stock valuations and simply stick with their plan. But if you are within five or so years of retirement, recent research indicates that you should consider reducing your allocation to stocks before you retire -- and then gradually raising it over time.

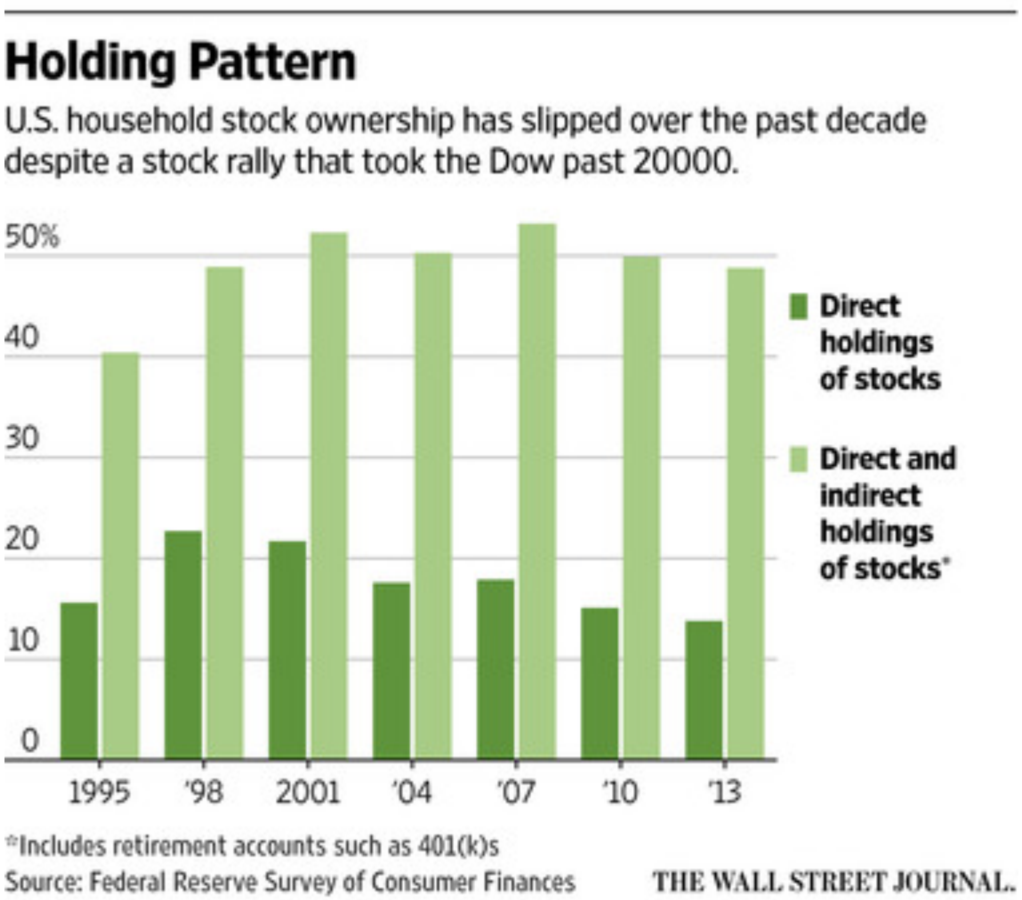
3) Is there anything else I should do with the Dow moving past 20000?

Short answer: Rebalancing or tax-loss harvesting often makes sense after a rally.

If your financial plan calls for holding 60% of your money in stocks but the rising market has pushed the percentage to 70%, sell some of those holdings and plow the proceeds into bonds.

Michael Finke, chief academic officer at the American College of Financial Services in Bryn Mawr, Pa., recommends rebalancing annually in taxable accounts and quarterly in tax-deferred retirement accounts including 401(k)s and individual retirement accounts.

To reduce or erase your tax bill, sell underwater holdings in taxable accounts. After short-term and long-term losses and gains are factored against each other, up to $3,000 of remaining losses can offset "ordinary" income such as wages. Losses above that carry forward for use in future years.



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Dow 20000 -- The Intelligent Investor: For Investors, Time for Caution, Not Euphoria

By Jason Zweig
831 words
26 January 2017
The Wall Street Journal
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A9
English

I wonder what happened to my "Dow 10000" hat.

A broker on the floor of the New York Stock Exchange gave me one of those commemorative baseball caps back in March 1999, as the **Dow Jones Industrial Average** closed above 10000 for the first time.

I used to wear that hat while I worked in my garden. But it got muddy, and I haven't seen it for years. I must have lost it.

As the Dow finished above 20000 for the first time on Wednesday, that vanished hat is a reminder of an important message. In order to move forward, investors need to look back.

After the Dow hit 10000 back in early 1999, it seesawed above and below that milestone 33 times until it finally clambered back above 10000 for good on Aug. 27, 2010, says Howard Silverblatt, senior analyst at S&P Dow Jones Indices.

Yes, investors earned dividends along the way. And, yes, the Dow peaked at more than 14000 in July 2007.

But to get from 10000 in 1999 back to the same level in 2010, you had to survive the fall to 6547.05 in March 2009. In a little over a year and a half, the Dow fell by more than half.

And that was after it fell 38% from January 2000 through October 2002.

Looking further back, the Dow didn't surpass its closing highs of 1929 until late 1954, just over a quarter of a century later.

That doesn't count dividends, but most investors didn't reinvest them in those days. Even if they had, that barely would have lessened the ghastly losses that followed the Crash of 1929.

So you may have to wait an exasperatingly long time for the risks of owning stocks to pay off. Another lesson is more subtle: Financial history looks more predictable than it is -- or was.

The market often moves in long, sweeping cycles, sailing higher for years, even decades, and then stagnating or falling for years on end.

Think of 1966-82, when stocks went nowhere. Then came 1982 to early 2000, one of the greatest bull markets on record. Or think of the wrenching years from 2000 through 2009, with two epic crashes, followed by 2009 to this year, when stocks have tripled.

Those major cycles seem almost absurdly obvious when you look back at any chart of historical performance. It feels as if a child should be able to see such moves coming.

But the market has always mapped its future trajectory in invisible ink. The clarity of past cycles is an illusion, a luxury of hindsight.

No wonder, then, that academics, analysts and investors have long sought forecasting tools that could identify when the **stock market** will have high or low returns for years on end.

If you had such tools and knew they would work, you could ride the **stock market**'s gains and dodge its losses.

In a new study on the history of financial markets from the CFA Institute Research Foundation, Antti Ilmanen, a principal at AQR Capital Management in Greenwich, Conn., summarizes the extensive research in that field.

The findings show that when dividend yields are below their long-term average, future stock returns also tend to be below average.

Likewise, when stocks trade at high prices relative to their long-term earnings, adjusted for inflation, future performance tends to be low.

With dividend yields about 2.5% for the Dow and 2% for the S&P, not far from historic lows, and stocks trading at almost 29 times inflation-adjusted multiyear profits, or well above their long-term average of about 16, it seems prudent to expect tepid -- maybe even putrid -- returns for years to come.

Unfortunately, no one seems to be able to make precise, or even practical, forecasts using dividend yields or multiples of long-term earnings.

Those indicators, writes Mr. Ilmanen, "give relatively coarse signals and too often recommend buying or selling too early in a cycle."

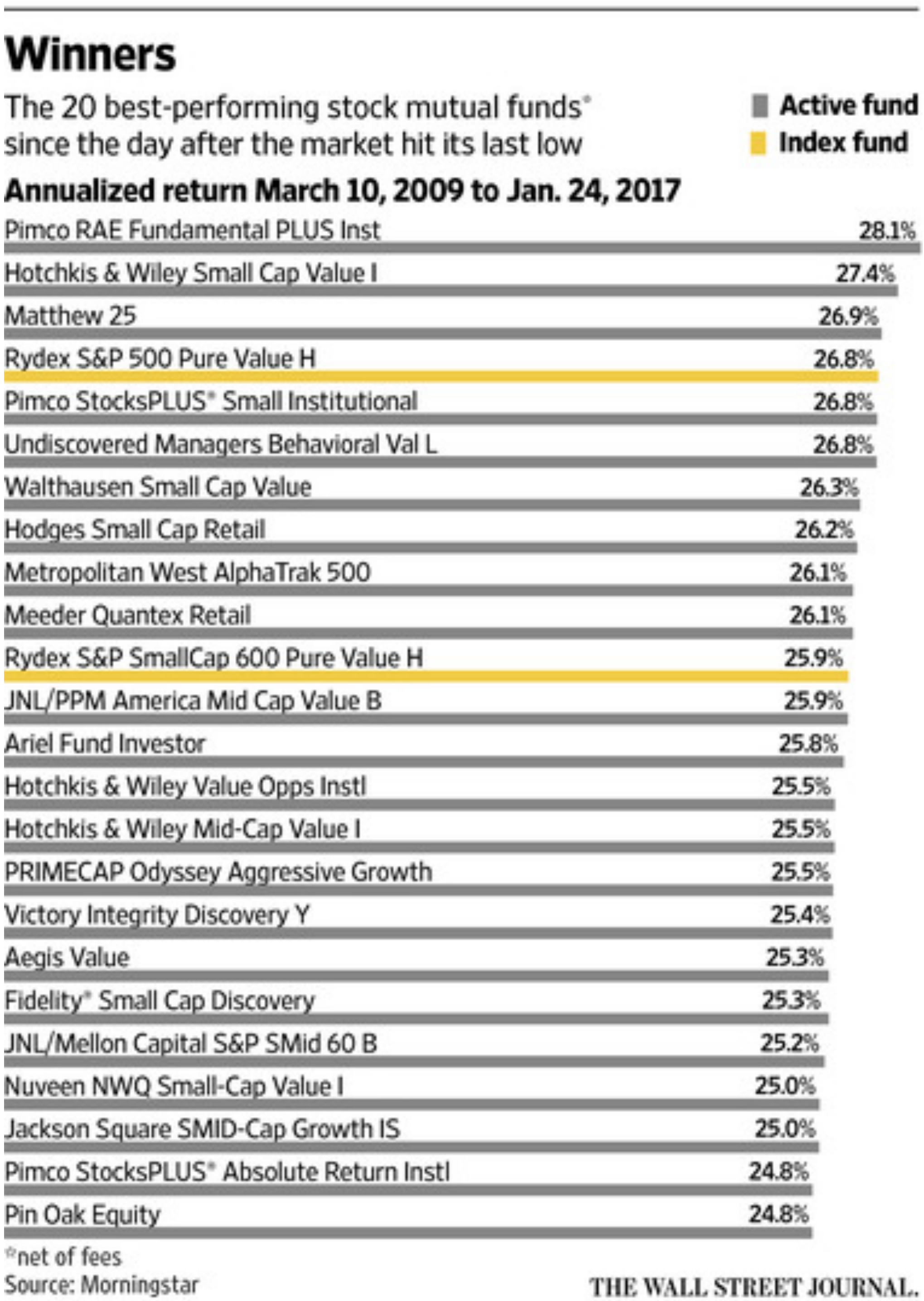
Stocks began to seem overvalued by such measures about 1992, at the latest. With the exception of a few months in 2008 and 2009, they've been at least as expensive for almost the entire quarter-century since.

Exploiting such signals, according to Mr. Ilmanen, is "so difficult that most investors are better off resisting the temptation to try."

Reaching a notional milestone like 20000 isn't some magical sell signal or an indication that the Dow is doomed to drift or go down from here.

But the index's own history should remind us all that the good times don't roll forever. So, Dow 20000 should make you cautious, not euphoric.

Owning stocks is a long-term undertaking that doesn't just require patience. It also requires higher tolerance for pain and uncertainty than many investors may realize.



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The New York Times

Business/Financial Desk; SECTB
Major Indexes Follow in Dow's Footsteps

By THE ASSOCIATED PRESS
432 words
26 January 2017
The New York Times
NYTF
Late Edition - Final
2
English

The **Dow Jonesindustrial average** was not the only major Wall Street index to have a good day on Wednesday. Strong earnings from Boeing and other big companies helped lift the **Standard & Poor**'**s500 stockindex** and **Nasdaq composite** to record highs of their own for the second day in a row.

Banks and other financial companies led the gainers, which included technology and industrial firms. Real estate, phone companies and other high-dividend stocks lagged the broader market as bond yields rose.

The Dow gained 155.80 points, or 0.8 percent, to 20,068.51. The **S**.**&P**. **500 index** rose 18.30 points, or 0.8 percent, to 2,298.37. The **Nasdaq** added 55.38 points, or 1 percent, to 5,656.34.

Small-company stocks also rose. The Russell 2000 picked up 13.23 points, or 1 percent, to 1,382.44.

This is expected to be a busy week for corporate earnings news, with about 30 percent of the companies in the **S**.**&P**. **500** reporting quarterly results.

Boeing was the biggest gainer in the Dow. The aircraft manufacturer climbed $6.81, or 4.2 percent, to $167.36.

Textron slumped 5.4 percent after the defense contractor's fourth-quarter revenue missed financial analysts' estimates. The company also announced it was buying snowmobile maker Arctic Cat in a deal valued at about $247 million. Textron gave up $2.65 to $46.73.

Major stock indexes in Europe moved higher. Germany's DAX rose 1.8 percent, while the CAC-40 in France gained 1 percent. The FTSE 100 index of leading British shares rose 0.2 percent.

Earlier in Asia, Tokyo's Nikkei 225 surged 1.4 percent after Japan's government said that the nation had a trade surplus in 2016, its first in six years. Hong Kong's Hang Seng rose 0.4 percent. South Korea's Kospi rose 0.1 percent.

Energy prices mostly declined. Benchmark crude fell 43 cents to $52.75 a barrel in New York. Brent crude, used to price international oils, slid 36 cents at $55.08 a barrel in London.

Bond prices fell. The **10**-**year Treasury** yield rose to 2.52 percent from 2.47 percent late Tuesday.

In currency trading, the dollar fell to 113.2 yen from 113.75 on Tuesday. The euro rose to $1.0752 from $1.073.

Among metals, the price of gold slid $13, or 1.1 percent, to $1,197.30 an ounce.

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The New York Times

Business/Financial Desk; SECTB
Dow Tops 20,000, and Even Skeptics Smile

By LANDON THOMAS Jr.
1,001 words
26 January 2017
The New York Times
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Late Edition - Final
1
English

Yes, it is just another number.

But in an industry that lives and dies by the power (seen and unseen) of sums in all their varieties, that the **Dow Jonesindustrial average** closed above 20,000 on Wednesday was enough to give even the most hardened **stock market** watchers reason to smile. The Dow finished the day at 20,068.51.

''It blows me away,'' said Jim Paulsen, chief market strategist at Wells Fargo Asset Management. ''I can remember when people wondered if we would ever get through Dow 1,000. It's amazing -- we are up 20-fold in my career.''

And that is a big deal, Mr. Paulsen explained, because it means that for all the worry and doubts that have sprung from the market collapses in 1987, 2000 and 2008, if investors just held to a core portfolio of large American stocks they would have done pretty well.

Of course, the usual caveats apply.

In percentage terms, the Dow going from 10,000 (which it hit in March 1999) to 20,000 is less meaningful than the journey from 1,000, which it reached in 1972.

It is also true that the Dow represents just 30 companies -- including stalwarts like Goldman Sachs, Apple and Walmart -- compared with the 500 that make up the Standard & Poor's index or the 2,000 of the Russell market tracker.

And in today's E.T.F.-driven marketplace, where indexes of every stripe are used to entice investors looking for cheap and predictable returns, the Dow as an index for exchange-traded funds has been more or less ignored, compared withfunds that follow the **S**.**&P**. **500** and Russell 2000.

After all, from the perspective of a financial adviser seeking maximum diversification for a client, an E.T.F. that tracks just 30 stocks is not as compelling as the alternatives that represent a broader swath of the American economy.

The E.T.F.s that follow the **S**.**& P**. **500** and the Russell 2000 turn over 92 million and 32 million shares, respectively.

Still, even if the power of 20,000 is more psychological than quantifiable, that should not necessarily weaken its punch, especially today when there are so many different forms of media that can advertise the accomplishment.

''I think it is meaningful,'' said Ed Yardeni, an independent and longstanding market strategist. ''No matter what your politics are or what fears you may have -- this index is one of the more reliable indicators we have in terms of where the economy is heading.''

As did Mr. Paulsen, Mr. Yardeni underscores the durability factor in describing why 20,000 should be recognized.

His analysts track what he calls panic attacks, or headline-driven falls in the market that could last months or days. There have been 55 of these selling fits since the start of this **bull market** in early 2009, every one of which has been followed by a relief rally.

It is this very point, however, that worries some market seers.

"It has taken over 17 years to get here," said David Kelly, head of global strategy at JP Morgan Asset Management. "We hit 10,000 on a wave of enthusiasm but we have had to climb a wall of worry all the way up to 20,000."

Mr. Kelly makes some cautionary points in terms of urging investors not to get carried away with the number.

The recent postelection surge toward 20,000 has been driven by what investors are calling a reflation trade, or a bet that the economy under President Trump will benefit from proposed tax cuts and a move toward more aggressive government spending. Earlier Wednesday, responding to an Associated Press report on Twitter that the index had traded above 20,000 for the first time, Mr. Trump sent a tweet from the president's official Twitter account that said, "Great!"

People should also be aware, Mr. Kelly said, that expected cuts in capital gains taxes has kept many investors from taking profits during the rally. The thought being, that if they were to wait several months, they could dump their stocks and face a lighter tax bill in the process.

"The exit door is jammed," he said.

Mr. Kelly also warns that this rally has been unusually focused on the United States. This will be the fourth consecutive year that domestic stocks have outperformed their counterparts in overseas markets -- developed and emerging.

Such a streak is rare indeed, and it highlights the extent to which the dollar's strong run of late has bolstered the market's performance.

To Mr. Kelly's point, some economists have begun to point out that a dollar that consistently outpaces all other world currencies should be seen as a warning signal. That is because companies and countries that have borrowed a lot in dollars will have trouble repaying those debts as their own currencies weaken.

Then there are the "perma-bears" who see Dow 20,000 as just the latest sign that the end is nigh.

"The number is meaningless -- this is the greatest sucker's rally in history," said David A. Stockman, the former budget chief for President Ronald Reagan who gained renown for publicly rejecting the notion of Reaganomics in the early 1980s. "The Dow has no business being anywhere close to these levels."

Mr. Stockman disputes the notion, embraced today by **stock market** bulls, that Mr. Trump can cut taxes and increase government spending while leaving Medicare and Social Security alone without creating a debt and deficit crisis.

And he is putting his money where his mouth is. Since the election, he has made bets that the market will fall sharply from these levels.

"This is the greatest short of all time," Mr. Stockman said.

CHART: The Dow Breaks a Record: The **Dow Jones industrial average** closed over 20,000 on Wednesday for the first time. (Source: Reuters)

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Equities: NYSE Plans 'Speed Bump' for One Market

By Alexander Osipovich
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26 January 2017
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The New York Stock Exchange is borrowing a page from rival IEX Group Inc. and introducing a "speed bump" on one of its marketplaces in an effort to target the same customers as the upstart exchange.

The changes will apply to NYSE MKT, the smallest of three equities exchanges run by the NYSE, which will be rebranded as "NYSE American," a name that evokes its historical roots as the American Stock Exchange before it was acquired by NYSE's parent in 2008.

Intercontinental Exchange Inc., which owns the NYSE, announced the planned changes Wednesday. They require approval by the Securities and Exchange Commission.

NYSE's move comes despite its earlier opposition to IEX's speed-bump plan, which came during a lengthy lobbying battle in which IEX sought regulatory approval to become a full-fledged exchange. In a November 2015 letter to the SEC, the NYSE suggested that IEX's plans could "create a calamity" and called them a "detriment to the mechanism of a fair and orderly market and national market system." The NYSE later softened its opposition after IEX adjusted its proposals.

IEX, which was made famous by Michael Lewis's 2014 book "Flash Boys," crafted its sales pitch to target investors unhappy about high-speed electronic trading. Its best-known feature is the speed bump, which imposes a 350-microsecond delay on all incoming and outgoing orders. A microsecond is a millionth of a second. IEX says the delay is needed to thwart predatory strategies by ultrafast traders.

The proposed speed bump on NYSE American would also be 350 microseconds. Assuming it wins SEC approval, the NYSE aims to implement the changes in the second quarter of this year, a spokeswoman for the exchange operator said.

The NYSE says the changes will benefit investors. "We're introducing this feature because it's useful for some institutional investors, and we've heard that some of them have had success with it for a small portion of their business," NYSE chief operating officer Stacey Cunningham told reporters on a call Wednesday.

In response, an IEX spokesman said, "While we're flattered by the imitation, investor protection is a philosophy, not a single product or order type." The spokesman criticized other aspects of NYSE's market structure, including the rebates it pays for certain trades and what it called the excessive fees the NYSE charges for market data and for high-speed connections to its servers.

IEX overcame the opposition of NYSE, **Nasdaq** Inc. and a number of major electronic-trading firms to win approval to become an exchange in June.

The SEC's green light for IEX opened the door to incumbent stock exchanges to start offering similar features. In August, the tiny Chicago Stock Exchange proposed its own version of a 350-microsecond speed bump, and in November, **Nasdaq** proposed a new way for retail investors to submit stock orders that has also been compared with a speed bump.

With Wednesday's announcement, the 224-year-old New York Stock Exchange has emerged as the latest IEX copycat, although there are differences between the NYSE's plans and IEX's current structure. One difference is that companies listed on the future NYSE American will have "designated market makers," specialist firms that commit to overseeing orderly trading in the stocks of certain companies. These DMMs are unique to NYSE's exchanges.

NYSE MKT specializes in listings of small- and midcap companies. The former American Stock Exchange was acquired by NYSE Euronext in 2008, then renamed NYSE Amex, before being renamed NYSE MKT in 2012.

The other two equities exchanges run by the NYSE are its flagship exchange, called NYSE, and NYSE Arca, which specializes in listings of exchange-traded funds. In December, the NYSE agreed to acquire the National Stock Exchange, or NSX, but that deal has yet to be approved by the SEC.

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Dow 20000: How It All Adds Up To 20000

By William Power
505 words
26 January 2017
The Wall Street Journal
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A10
English

The **Dow Jones Industrial Average** used to be calculated by hand on a ledger, when it was started by Charles Dow in 1896.

The process isn't quite as quaint now, but it is still simple: The average is based entirely on the prices of 30 blue-chip stocks, plus one mathematical adjustment.

So here is how to do the math that resulted in the first close above 20000:

First, add up the New York Stock Exchange and **Nasdaq Stock Market** 4 p.m. closing prices (not the composite prices) for the 30 Dow stocks. On Wednesday, the price of the 30 stocks finished at a cumulative $2,930.43.

Here is where the process gets a bit nerdy, but it's not rocket science. The sum of the prices doesn't become the Dow's close. Instead, it has to be divided by what is known as the Dow's "divisor," which is a figure that adjusts for the effect of stock splits and other changes over time, keeping the index representative of where the stocks stand. The divisor, according to the statisticians who track the Dow, is 0.14602128057775.

Because the divisor is less than one, it actually acts as a multiplier. Dividing by that has the effect of multiplying the sum of the prices by about 6.8. Now, we get the magic number: The sum of the prices, $2,930.43, divided by the divisor, results in 20068.51, the Dow's close for the history books.

The divisor can also be used to tell how much an individual Dow stock has moved the average. Knowing that each $1 move in a Dow stock has an impact of 6.8 points on the Dow, investors can know that, for example, Apple Inc.'s $5-a-share gain on a given day had moved the Dow by about 34 points.

Some critics have long said the index is too simple compared with others. But over time, the Dow has managed to stay in sync with rival metrics remarkably well over the decades.

Wall Street Journal editors participate in selecting the stocks in the Dow, as they always have, though the index itself is now part of S&P Global Inc.

As for why the Journal doesn't use a comma in 20000, the same question came up when the Dow hit 10000. The reason is that the Journal's traditional style is to express index values without commas separating every three digits, just as is done with years (2017, not 2,017). That approach looks cleaner in tabular material, and the Journal's articles have matched the look. (For individual points, yes on a comma -- a 1,000-point milestone.)

However, were the Dow ever to get to six figures, editors would relent and add the comma for the index value, under the stylebook rules. Check back at Dow 100,000.

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Bookshelf
Wanted: Swing Producer

By R. Tyler Priest
1,113 words
26 January 2017
The Wall Street Journal
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English

Crude **Volatility**

By Robert McNally

(Columbia, 315 pages, $35)

'The problem of oil, it might be tersely said, is that there is always too much or too little." This 1937 observation by American economist Myron Watkins remains equally valid in today's topsy-turvy hydrocarbon world. Too little oil means rising prices and frantic new production, which leads to too much oil, falling prices and idled drilling rigs. This leads, again, to too little oil and restarts the cycle.

Yet what is most striking in looking back at the history of **oil prices** is their relative stability during most of the 20th century. From 1880 to 1973, as Robert McNally explains in his splendid study "Crude **Volatility**: The History and the Future of Boom-Bust **Oil Prices**," large and powerful entities played the role of "swing producer," adjusting oil supply in response to changing market forces in order to stabilize prices.

The salient feature of the global oil market over the past 40 years is that there has been no such producer, no one able and willing to reconcile supply and demand except for a brief moment in 1982-85 when Saudi Arabia assumed this responsibility. As a result, we have seen dramatic **oil-price** fluctuations, especially during the past 15 years. **Volatility** in the price of the world's most essential commodity is perilous. It whipsaws revenues for the more than 90 countries that rely heavily on petroleum taxes. It causes household budgets and employment rolls to swell and shrink unpredictably. It spreads uncertainty to every sector of the global economy that relies on affordable transportation.

An energy consultant and former adviser to President George W. Bush, Mr. McNally is both a skillful historian and an astute analyst. He has compiled two novel data sets, one a continuous price series for U.S. crude going back to 1859 and another that tracks global spare production capacity since 1955. Reconstructing the relationship between the two, he compellingly shows that control over the bulk of low-cost production at the wellhead level has been the key to price stability. For readers who do not have the time to tackle Daniel Yergin's 900-page standard-bearer, "The Prize" (1990), "Crude **Volatility**" is a concise alternative for understanding the grand narrative of oil.

Mr. McNally divides oil's history into five eras. The first lasted from 1859 to 1880 and witnessed severe price gyrations and vicious booms and busts. Notwithstanding the tremendous demand for cheap kerosene made from oil, too many drillers and refiners made it a precarious business.

John D. Rockefeller and Standard Oil brought order out of chaos in the 1880s by creating a monopoly in refining and then integrating backward into oil production and transportation. Although Standard Oil's ability to dictate crude prices has been overstated, it did possess the power to move them. But Rockefeller, Mr. McNally emphasizes, was more interested in stable prices than high ones. "Consumers paid a higher price for oil than they would have under pure competition -- but since **oil prices** fell on trend during the Rockefeller era, the public did not notice what it was missing."

The government's dissolution of Standard Oil in 1911 broke up a business behemoth that many Americans viewed as corrupt and dangerous, but it also eliminated the stabilizing force in the oil market. Price **volatility** returned in the late 1920s after a surge of new production from huge fields in Texas, Oklahoma, California, Mexico and Venezuela proved more than ample to supply the growing fleets of ships and automobiles. The Great Depression amplified the new cycle of boom and bust by driving down the per barrel price of crude from $1 to 10 cents.

Price stabilization returned in the mid-1930s thanks to an unlikely source -- the state of Texas. "Of all the things Texans are famous for, limiting government and producing oil might be paramount," writes Mr. McNally. "Therefore, it is all the more remarkable that some eighty years ago Texan officials and oil drillers devised and imposed the most heavy-handed . . . quota regime the world has ever seen." Enforced by the Texas Railroad Commission (TRC), "prorationing" restricted production below demand, propped up prices and conserved "spare capacity," which could be called upon during emergencies, like the 1956 Suez Crisis and the Six-Day War in 1967.

The "Texas Era of Price Stability," coordinated at home by the TRC and abroad by the interlocking concessions of the "Seven Sisters" -- a group of the large oil companies that eventually became BP, Gulf, Chevron, Texaco, Royal Dutch Shell, Exxon and Mobil -- lasted until March 1972, when the TRC allowed unrestricted production to meet rising demand and signaled the exhaustion of U.S. spare capacity. OPEC, founded in 1960 to emulate the TRC, supplanted it as the only entity capable of swinging the market. OPEC's 1973 production cuts and price increases affirmed the transfer of power.

Despite its spare capacity, OPEC has never been able to act as a consistent price stabilizer. The expansion of production in places like Alaska, the North Sea and Mexico in the 1970s diminished its market dominance. The displacement of long-term contracts by spot and futures trading in the 1980s meant that prices were increasingly determined by the market rather than administered as they had been in the Texas Era. And the divisions within OPEC -- particularly the cheating on production quotas by members -- weakened the organization's ability to act in concert.

The chapters in "Crude **Volatility**" covering the past 35 years are a foundation on which future oil historians will build. Mr. McNally narrates the price effects of wars in the Mideast, financial crises, speculative trading, the explosion of Chinese demand and the shale revolution and deftly brings us into today's new boom-and-bust era. "For the first time in over eighty years," he writes, "we appear to have what many have craved and clamored for: a genuinely free, unmanaged market for crude oil, the world's most strategic commodity."

Far from something to celebrate, he sees this as guaranteeing that **oil prices** will oscillate between $30 and $100 per barrel for the foreseeable future. **Volatility** may be reduced by collecting better data on oil production, by coordinating strategic reserves to guard against disruptions, and by encouraging the traders and speculators who help to mute excessive price swings. But these will only partially quell the vigorous ups and downs of an open market. For now, we should all buckle up for the ride.

Mr. Priest is associate professor of history at the University of Iowa.

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Analysis: Dow Tops 20000 --- Resurgent Appetite for Risk Has Fragile Economic Foundation

By Greg Ip
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English

Britain is leaving the European Union, a protectionist is in the White House, the front-runner in France's presidential election wants out of the euro. Yet paradoxically, investors have concluded the world is getting less risky, not more. The result: a hunger for shares that carried the **Dow Jones Industrial Average** over the 20000 mark Wednesday for the first time.

It is hard to explain this with economic fundamentals. They have improved since Donald Trump's improbable election victory in November, but not by much. After the election, economists surveyed by The Wall Street Journal added 0.3 percentage point to expected growth over the next two years. At their December meeting, Federal Reserve officials barely touched their growth forecast. Analysts' profit estimates haven't changed much either.

What has changed is how investors assess the balance between upside and downside risks. Their worries about Mr. Trump's protectionism or European populists' growing threat to the euro are outweighed by the pro-business tilt of Mr. Trump's cabinet picks; the prospect of more infrastructure spending and lower taxes, especially on profits; better bank profits from rising bond yields and lower odds of more negative central-bank rates; and the boost to U.S. oil producers since the Organization of the Petroleum Exporting Countries and several other countries agreed to trim production to prop up prices.

One solid bit of evidence of rising risk appetites is the divergence between stocks and bonds. After Britons voted to leave the EU in June, Treasury **bond prices** soared and yields, which move in the opposite direction, plunged below 1.4%, a historic low. That wasn't justified by any plausible path for inflation. Rather, it reflected a desperate pursuit for protection from threats ranging from a euro breakup to more deeply negative central-bank rates.

By the eve of the election, yields had returned to around 1.9% and since then have shot to 2.52%. Only some of this is because investors expect a quicker pace of Fed tightening. Most of it is simply because in a less risky world, investors aren't as hungry for supersafe assets. That same shift in risk appetites is why stocks have gone in the opposite direction to bonds.

In November, investors were expecting to earn 6.3 percentage points more by owning risky stocks instead of safe bonds, according to Aswath Damodaran, a finance professor at New York University. By Wednesday that premium had shrunk to 5.7 percentage points.

That is still historically high, and it provides some cushion at a time when the market looks expensive by conventional valuations. Stocks are now trading at 21 times the past 12 months' earnings, compared with 15 when the Dow crossed the 15000 mark in 2013, though far less than the 24 times when it topped 10000 during the dot-com bubble in 1999.

Are investors getting carried away? Perhaps. Congress and Mr. Trump both want to cut taxes but haven't agreed how and will be hemmed in by the deficit. Nor does Congress have much appetite for Mr. Trump's infrastructure push. Many of Mr. Obama's financial and health-care laws may survive.

Direction matters, though. Even if regulations and taxes don't ease much, that is a notable contrast to the toughening that existed under Barack Obama, which a president Hillary Clinton would likely have continued. Similarly, while recent upgrades to the economic outlook have been minor, they are a cathartic change from the serial downgrades that dogged the expansion from 2009.

This also explains why the market was only briefly set back after the Federal Reserve raised rates last month and penciled in three increases this year, up from two in September. Bianco Research, an investment advisory, notes that this was the first time in two years that officials' median rate projection for 2017 had risen. This simply shows that the Fed has reached the same conclusion the market has: Risks to the economy no longer point down.

And while there is little sign yet the economy has broken out of the low-growth rut of the past seven years, that too could change. If companies' animal spirits mirror those of the market, capital spending and risk-taking could revive, dragging productivity higher.

Nonetheless, the market needs a reality check. The U.S. expansion is more than seven years old and retains little momentum from using up spare capacity from the recession. At 4.7%, the unemployment rate is at levels the Fed considers a fully employed workforce. Indeed, recessions usually happen with unemployment around or below 5%.

Eight years of ultra-easy monetary policy have left a worrisome legacy of inflated asset prices and financial engineering. Gail Fosler, a New York-based economic consultant, says corporate profit growth has slowed, companies' cash flow barely covers capital investment and dividends, and the bond market is signaling that the Fed has to raise interest rates more quickly. Ms. Fosler says these are the ingredients of a financial squeeze that will trigger a recession in 2018.

If she is right, the Dow might spend quite a few years revisiting 20000 from above and below, as happened after it broke 10000 in 1999.

And investors shouldn't forget that Mr. Trump's fondness for meddling in business and punishing foreign trading partners could undo much of the goodwill a business-friendly tax reform will generate.

It isn't that rising trade barriers will cause a recession. There is little historical precedent for that, notes Peter Berezin of the Bank Credit Analyst, an investment research service, in a recent report. (Economic historians largely agree the Smoot-Hawley tariff of 1930 was only a minor contribution to the Depression.) If companies repatriate production from abroad, that could temporarily boost investment and jobs.

The real problem, he says, is that protectionism means foreign products aren't as readily available to satisfy strong spending at home, which leads to inflation pressure and higher interest rates. It also corrodes international cooperation and destabilizes geopolitical relations.

This suggests the next decade for blue-chip company profits are going to be tougher than the last. Investors should adjust expectations accordingly.

(See related article: "Milestone reached amid hopes for federal spending; Last 1,000 points come in just 42 days" -- WSJ January 26, 2017)

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REVIEW & OUTLOOK (Editorial)
The Promise of Dow 20000

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After weeks of flirtation, the **Dow Jones Industrial Average** finally broke through the 20000 barrier Wednesday, continuing this week's burst of investor confidence. The milestone is one more sign of animal spirits returning since Election Day, but Republicans will have to deliver on their pro-growth policy promises to keep the rally going.

The Dow, bless its heart, climbed 0.78% on the day to close at 20068.51. More notable is that it took only 42 trading days for the Dow to climb the next 1000 points from 19000 -- a 5.26% rise. Less inspiring is to recall that the Dow reached 10000 way back in the ebullient days of 1999. It took some 17 years for the Dow to double, which underscores how lousy the 21st century has been for economic growth and prosperity. That's what a financial panic, a deep recession and 2% expansion gets you, with all of their disappointments for 401(k)s, pension funds and the general sense of national well-being.

Stock prices are at bottom a bet on future earnings, so investors are clearly anticipating that the U.S. economy will break free of its Obama 2% growth blues. Investors seem encouraged this week by President Trump's early moves, perhaps as much about his determination to move fast as about any specific policies. The withdrawal from Pacific trade was baked into prices, but the breakthroughs on pipelines and deregulation are perhaps coming faster than expected. Dow 20000 is a promise of growth to come, not a guarantee.

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The New York Times

Times Insider
The Dow's Record Rise Sends a Former Wall Street Stock Broker Back in Time

By GRETCHEN MORGENSON
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Times Insider shares historic insights from The New York Times.

Dow 20,000 is just a number, it's true. But for me, a 35-year veteran of the financial world, the **Dow Jonesindustrial average**'s recent climb to a new five-digit peak sent me back in time.

I returned to January 4, 1982, the day I began my short but illuminating career as a Wall Street stockbroker.

On that day, the Dow Jones, an average of 30 blue-chip stocks that are industry leaders, closed at 882.52. Not 8,000. Eight hundred.

Yes, before I became a financial reporter, I was what they used to call a customer's man. That's Wall Street parlance — from the early 20th century anyway — for people who bought and sold securities for investors.

A glance at the nearby photograph of my graduating class of fellow stockbrokers in late 1981 shows that "customer's man" was still a fairly accurate term even when I entered the industry. Fact is, most brokers were male.

Taken on Dec. 18, 1981 at the World Trade Center headquarters of Dean Witter Reynolds, the photograph shows 59 people who had just passed their regulatory exams and training programs and were ready to become brokers. (I am seated on the floor in the front row, fifth from left.)

Ten were women, or roughly 17 percent of the class. Only one was African-American.

My classmates came from all over the country, but I worked in Midtown Manhattan at a big branch of Dean Witter, a 1920s-era brokerage firm whose name disappeared after being swallowed up by Morgan Stanley in 1997.

I spent only two years as a customer's man, but in that short span I learned an immense amount about how the financial world works and doesn't. I witnessed both the wonders and the woes of capitalism. I saw firsthand how the **stock market** can create wealth and take it away.

When I took my seat at Dean Witter I didn't know that United States stocks were about to take off on their longest bull run in history. It didn't happen right away, of course — by August 1982, the **DJIA** had fallen about 100 points from its January level. But after that, it was off to the races, churning its way to over 2,700 by 1987. My timing was pretty good.

On October 19, 1987, came the scary 500-point drop. But that turned out to be a hiccup, and soon the Dow was back in positive territory. It hit the 10,000 milestone in 1999.

By then, I was no longer on Wall Street. Instead, I was on the outside looking in and writing about what I saw for The New York Times. Thanks to my years as a broker, though, I understood what was going on behind the scenes and could explain it to readers. It didn't matter that my experience had come decades earlier because very little on Wall Street ever changes.

Soon after Dow 10,000, the average began to stumble. In 2000, the internet bubble burst, hammering investors' portfolios; then came 9/11 and the devastating accounting scandals at Enron, WorldCom, Tyco and Adelphia. That was a chastening period.

So was 2008 and 2009, when the mortgage meltdown drove the economy into the ditch and markets to steep declines. Once again, the markets rebounded.

Now, with the Dow topping 20,000, it seems a worthwhile moment to compare what's happening in the economy and on Wall Street today versus when I first inhabited that planet. There are some similarities but many differences.

Back in 1982, America had a pro-business president, Ronald Reagan. But the economy was mired in gloom, interest rates were cripplingly high, oil was in the stratosphere and nobody wanted to hear about buying stocks. As Paul Volcker, the chairman of the Federal Reserve Board, labored to kill inflation, rates inched downward. Stocks started rising well before Mr. Volcker prevailed, though, because investors saw that a different era lay ahead.

Today, we have a president who is also pro-business. But this time interest rates are in the cellar and rising, the economy is robust and investors are tripping over themselves to buy stocks. The upside from here, therefore, seems more limited.

What about the Wall Street culture? Are things different today for women than they were in the 1980s? Yes and no.

As my class photo indicates, customers' women were in the minority at investment firms back then. Across the nation, Bureau of Labor Statistics show, women made up approximately 24 percent of sales representatives in the securities and financial services industry in 1983. Blacks made up 3 percent.

By 1995, women accounted for one-third of securities and financial services sales representatives, BLS statistics show. Progress was harder for African-Americans, who made up just under 6 percent.

What about today? Comparable figures aren't available because the bureau changed its classification of financial workers in 2000. But according to 2015 statistics from the Equal Employment Opportunity Commission, women made up 48 percent of those employed as first- or midlevel managers and officials in finance and insurance. Among senior-level managers, women made up only 30 percent, the commission said.

Those figures would seem to indicate that women have made strides at infiltrating Wall Street. But whether they are truly welcomed on trading desks and in brokerage firm offices is another question entirely. I wonder, for example, if more women on Wall Street means none of them has to endure, as I did, performances by female strippers brought into the office to honor a colleague on his birthday.

Ah, the good old days.

The bottom line about my experience on Wall Street: I got a lot more out of it than it got out of me.

Wall Street learned that I was O.K. at bringing in customers. But I wasn't much good at generating commissions. My name was usually at the bottom of my branch's monthly revenue runs.

Far more valuable was what I learned. For example, be suspicious of brokerage firm research. Because analysts often try to serve several masters, their research can be unfailingly upbeat, and therefore wrong.

Be wary of initial public offerings of stock, often propelled by investor exuberance whipped up by sales representatives wearing rose-colored glasses.

And what if a top company executive comes across as a dope or dishonest? Trust your judgment and sell the stock.

Finally, listen to and appreciate skeptics. They are right more often than those spouting conventional wisdom.

These are lessons that remain useful as we look forward to Dow 30,000.

* The Dow Hit 20,000. Now What?

This photograph of my graduating class of fellow stockbrokers, taken on Dec. 18, 1981, at the World Trade Center headquarters of Dean Witter Reynolds, shows that "customer's man" was still a fairly accurate term even when I entered the industry. (I am seated on the floor in the front row, fifth from left.)

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Fannie Broadens Role to House Rentals --- Firm to guarantee up to $1 billion in debt of Blackstone-backed home investments

By Ryan Dezember and Nick Timiraos
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English

Fannie Mae is backing debt from Blackstone Group LP's investment in single-family homes, offering an important endorsement to Wall Street's expanding business of owning and renting houses.

The government-controlled mortgage-finance company said it would guarantee up to $1 billion in debt from Blackstone's Invitation Homes Inc., which owns the country's largest pool of rental homes.

The deal was disclosed as Invitation began pitching investors on its shares this week with an initial public offering expected as soon as next week. Invitation's **stock-market** debut could be the largest U.S. IPO since October 2015, if the shares price in the middle of their expected range, raising about $1.5 billion for the company.

Fannie Mae's involvement signals a belief that homeownership will remain out of reach for many Americans. Homeownership has declined since the housing crisis amid stricter lending standards, mounting student debt, and potential buyers whose savings and credit diminished during the recession. Last year, the homeownership rate reached its lowest level in at least 50 years, according to U.S. Census Bureau data.

Fannie's guarantee also suggests a view that Wall Street's housing wager is a long-term business, not just an opportunistic trade made after the foreclosure crisis.

For Fannie and its smaller government-controlled peer, Freddie Mac, the expansion into the nascent single-family rental market shows both the potential for the companies to expand their role in a changing housing market and, in the process, to institutionalize new investment classes. Both companies have long provided funding to the apartment sector, including luxury rental buildings owned by publicly traded real-estate investment trusts and other institutional owners.

For years, policy makers in Washington talked of overhauling the firms, but the expansion into a new asset class illustrates how the companies have broadened their utility to the market as efforts to replace the companies has stalled.

Fannie's latest move represents a shift from about four years ago, when regulators blocked Freddie from backing bulk buyers of foreclosed homes, concerned banks wouldn't be able to compete with its cheap debt.

Fannie's support will likely make it cheaper for buyers like Blackstone to add homes in the future as its guarantee of payment makes the debt less risky for investors than the rental-backed bonds that Invitation and its rivals sold amid a dearth of financing for home purchases after the housing meltdown.

"The question is, to what extent does the cheaper financing that accompanies Fannie's guarantee result in greater competition for single-family homes?" said Heidi Learner, chief economist at real-estate brokerage Savills Studley. She said the agreement "is essentially a sign that individual homeownership is no longer a government priority."

A Blackstone spokeswoman declined to comment. Invitation representatives didn't respond to requests for comment.

"This transaction helps us gather data and test the market to ensure we are delivering the right solutions that meet the increasing demand for single-family rental housing across all demographics," Fannie Mae told The Wall Street Journal.

Big investors' bet on single-family homes comes with risks. Competition from individual buyers could drive up home prices, which are already rising. Many of Wall Street's new purchases are being made on the open market now that foreclosure rates have returned to normal levels. Wider availability of credit and a boom in home building could also hurt the business of Invitation and its rivals.

Invitation said in an IPO filing that it secured commitments from Wells Fargo & Co. and Fannie on a 10-year loan secured by some of its 48,431 homes. Invitation, which owns properties in 13 metropolitan markets, said it would use the loan proceeds to repay older debt.

That debt was raised by selling short-term bonds backed by rental revenue from bundles of specific homes. Invitation was the first to sell such bonds in 2013 and has been a major issuer since. In all, big investors have sold about $18.3 billion of rental-backed bonds, with about $16.8 billion of such debt outstanding, according to Kroll Bond Rating Agency Inc.

Fannie and Freddie don't issue mortgages. Rather, they buy mortgages issued by banks, bundle them and sell the debt, which they guarantee against default, to investors.

In 2012, the entities' regulator, the Federal Housing Finance Agency, blocked Freddie from financing investors who were buying foreclosed homes in bulk amid concerns that Freddie's cheap debt would make it difficult for banks to compete on loans.

Much has changed since then. Beside the advent of the rental-backed bond market, two Invitation rivals -- American Homes 4 Rent and Colony Starwood Homes, the country's second- and third-largest single-family homeowners, respectively -- have gone public. Also, home prices have rebounded.

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Traders Brace for Stock Reversal --- Fear of drastic moves by shares increases, even as the overall market appears calm

By Gunjan Banerji and Chris Dieterich
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B18
English

While equity markets regained their vigor Tuesday, sending the **Dow Jones Industrial Average** once again within 100 points of the 20000 level, some investors are wagering on a sharp reversal.

A measure that tracks investors expectations of "tail risks" -- events with a small probability of happening -- has climbed 15% this year through Jan. 20, when it reached its third-highest level on record. The gauge, called the CBOE SKEW Index, is based on out-of-the-money options prices on the **S&P 500** and considered by some traders to reflect the probability of "black swan" events -- drastic moves in the **stock market**.

Investors "are pricing in more **volatility** than normal on the downside" for stocks than the upside, said Joe Tigay, a managing director at Equity Armor Investments.

The gains in the CBOE SKEW gauge this month came alongside renewed interest in exchange-traded products that wager on bigger price swings. Investors last week pumped $204 million of fresh money, the most since October, into the largest product that wagers on **volatility** -- the iPath **S&P 500** VIX Short-Term Futures exchange-traded note, according to FactSet.

The ratio of puts, or **bearish** options, to **bullish** calls on the CBOE**Volatility** Index itself is at its lowest in the past year, FactSet data show, an indication that investors are wary that violent swings will emerge after the rally in U.S. markets following President Donald Trump's election victory.

Investors have wagered on a rebound in **volatility** even though the bets have been a losing proposition recently. For example, the CBOE**Volatility** index, or the VIX, hasn't broken out of last year's depressed levels, and the "fear gauge" is languishing well below statistical thresholds going back two decades, FactSet data show.

Also, the iPath **S&P 500** VIX Short-Term Futures ETN has fallen more than 23% so far this year. But that calm among investors can be deceiving.

Volatility "usually doesn't happen when people are expecting it," Mr. Tigay said.

"There's too much complacency" in U.S. markets, said Vincent Chailley, chief investment officer at London-based H2O Asset Management, which manages $12 billion in assets. "Any bad surprise from Mr. Trump means there's a little to make but a lot to lose."

Another sign that the time is ripe for a reversal is the crowded trade of betting on falling **volatility** -- or in other words, betting that calm will continue to reign in the **stock market**. Hedge funds and other large speculators last week boosted net short positions on VIX futures to the largest level since Sept. 6, three days before the equity **volatility** gauge surged 40%, data from the Commodity Futures Trading Commission show.

"When you have such short net positions in the market, it's considered a red flag for the **volatility** market," said Ramon Verastegui, managing director at Societe Generale. The accumulation of short positions can lead to a short squeeze, Mr. Verastegui said. "If you have a small spike in **volatility**, [**volatility**] can potentially move up really, really quickly."

Still, others are reluctant to bet a market jolt is imminent. Michael Purves, head of equity derivatives research at brokerage Weeden & Co., said the market doesn't look vulnerable to an immediate pullback even though he is watching the unusually low VIX levels closely. Clarity on pro-business policies from the Trump administration in the weeks ahead, robust fourth-quarter earnings and a continuation of strong U.S. economic data could keep a lid on **volatility**, he said.

Laurence Fletcher contributed to this article.

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The New York Times

Business/Financial Desk; SECTB
Nasdaq and S.&P. 500 Reach Record Highs

By THE ASSOCIATED PRESS
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25 January 2017
The New York Times
NYTF
Late Edition - Final
2
English

Stocks on Wall Street posted solid gains on Tuesday, propelling the **Standard & Poor's 500-stockindex** and **Nasdaq composite** to record highs.

Mining and other materials sector companies rose more than the rest of the market. The sector could benefit from initiatives by the White House to streamline the permitting process for manufacturing and clear the way for pipeline construction.

Financial stocks also rose sharply. Energy companies climbed as crude **oil prices** closed higher. The rally also lifted stocks in United States homebuilders.

The **Dow Jonesindustrial average** climbed 112.86 points, or 0.6 percent, to 19,912.71. The **S.&P. 500 index** gained 14.87 points, or 0.7 percent, to 2,280.07, the highest close for the index since Jan. 6.

The **Nasdaq** added 48.01 points, or 0.9 percent, to 5,600.96, the highest close for the tech-heavy index since Jan. 13.

Small-company stocks outpaced the rest of the market. The Russell 2000 jumped 21.37 points, or 1.6 percent, to 1,369.21.

Health care, phone companies and other high-dividend stocks were among the biggest laggards as bond yields rose.

Investors bid up shares in several companies that reported better-than-expected earnings, including Kimberly-Clark, which makes Kleenex and other paper products. The company rose $4.80, or 4.1 percent, to $121.79.

The homebuilder D. R. Horton also rose, climbing $1.90, or 6.6 percent to $30.64. DuPont jumped $3.26, or 4.5 percent, to $76.05 after reporting earnings that easily beat analysts' estimates.

But the action in Washington also held the market's interest.

President Trump held a breakfast meeting with the heads of General Motors, Ford Motor Co. and Fiat Chrysler Automobiles. Before the meeting, Mr. Trump posted on Twitter that he wants ''new plants to be built here for cars sold here.''

Automakers expressed optimism after the meeting, and shares in their companies rose.

G.M. gained 35 cents, or 1 percent, to $37, while Ford added 30 cents, or 2.4 percent, to $12.61. Fiat Chrysler rose 60 cents, or 5.8 percent, to $10.88.

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

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Business World
Corporate America Taken Hostage

By Holman W. Jenkins, Jr.
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English

Donald Trump made a lot of sweeping promises in his inaugural that no president could deliver, and he can't deliver. Yet he's the can-do businessman.

Mr. Trump calls his election a landslide. He uses a lot of other superlatives he knows don't apply. As a detailed account by Politico reveals, he understands exactly what a close-run thing his race was. Hillary botched her campaign. He eked out an Electoral College victory by the barest of margins while losing the popular vote.

He knows his legitimacy is under attack by the media, street protesters and Democrats who boycotted his inauguration. He needs victories to fill out the mandate the electorate so patchily gave him. And, Corporate America, in case you haven't figured it out by now, this is where you come in.

If you have a hammer, everything looks like a nail. Mr. Trump's experience is negotiating with other businesses, and using his public persona and brand to advance his interest in those negotiations. That's what he brings to the presidency. He can't end the social "carnage" of America's postindustrial countryside, but he can take credit for creating jobs -- especially factory jobs -- of the sort his "forgotten men and women" regard as the path to middle-class security.

Never mind the PR fudge, the auto industry has cottoned on. Ford, GM, Chrysler and Toyota rolled out big new job-creation announcements. They showed up willingly to White House dog-and-pony meetings. Only the media quibble that these plans were already in place and are fluffed up so the new president can take credit.

In several cases, CEOs also underlined an expected quid pro quo. The president will enact tax reform and deregulation to make the American economy a more profitable economy in which to invest.

In the happy scenario, Mr. Trump and a GOP Congress deliver. Finally, good-enough growth starts providing wage gains to go along with the modest but steady employment rises of recent years. Mr. Trump's presidency becomes a four-year, bombastic exercise in credit-taking.

Mr. Trump, though, won't strike many as a leader to eschew foreign scapegoating if and when things start going badly at home.

If the Trump economy hits a wall, Mr. Trump's wall with Mexico will become a showy priority. The man himself will be on the scene directing the bulldozers, strutting in a hardhat, poring over plans.

He has an ever-ready supply of actionable complaints against America's trade partners. They are currency manipulators, job stealers, hackers, trade-secret perps.

The dark side of his inaugural persona will become apparent: "We must protect our borders from the ravages of other countries making our products, stealing our companies and destroying our jobs."

Contrary to what you hear in some quarters, it isn't racist to be in favor of trying to prop up the wages of low-skilled workers by reducing competition provided by imports and immigrants.

It is, however, unavailing economics. Low-skilled workers are the biggest beneficiaries of low-wage production, which keeps down the prices of the goods and commodities they disproportionately consume.

Trying to boost wages of low-skilled workers by reducing competition for their jobs has other perverse effects. It increases their incentive to remain low-skilled. It increases the incentive, meanwhile, of businesses to replace them with automation.

Worse, behind tariff barriers and cut off from international competition, the domestic manufacturing industry evolves slowly. In a decade or two, U.S. companies are technologically obsolete and inefficient compared with companies that operate in competitive world markets.

One irony is that, as technology allows more factory output to be produced with fewer workers, the political incentive to treat certain privileged factory workers as a protected class, like farmers, becomes irresistible. This is not exclusively a U.S. phenomenon: It lies at the bottom of the VW scandal in Germany.

While we might guess that today's mostly open international trading order is sturdier than many think, the Trumpian threat should not be ignored.

If Europeans are paying attention, they should remember the inordinate fuss Mr. Trump made in claiming credit for a recent NATO decision to expand its terrorism-fighting efforts. More such decisions would be wise. China would be smart to order Boeing jets and prosecute a few highly-placed domestic business leaders for intellectual-property theft.

If other nations value the trading order from which they've so much benefited, they will need to take a hand in maintaining it.

As for Mr. Trump, there are many ways to be president. He has a good cabinet. The bright but brittle animal spirits reflected in the **stock market** are not without weight. But whether Mr. Trump is any kind of a solution, or just a new kind of disaster, is still a big question mark.

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The Property Report
REIT Investors See Postelection Boost Despite Rate Rise

By Esther Fung
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Shares of real-estate investment trusts typically get hammered as interest rates rise -- but not this time.

So far, many REITs have bucked the trend, with investors expecting a looser regulatory environment and fiscal stimulus under the administration of President Donald Trump.

Since interest rates started increasing after Election Day, REIT shares have risen 5.8%.

Real estate has been a beneficiary of easy monetary policy for the past five years, and some believe the commercial real-estate market has already peaked, with property values in certain locations looking frothy.

The market was heading into the later innings of the real-estate cycle, but the new administration has extended the rally, said Jon Cheigh, portfolio manager at Cohen & Steers. The real-estate sector is benefiting from economic growth, job growth and prospects for higher corporate profits, he said.

"It's easy for people to get the idea that following quantitative easing and low interest rates, that's going to end bad. The facts do not align with that view," Mr. Cheigh said.

Lodging and office REITs have benefited in particular, as investors expect a more accommodative business environment to boost business travel and spur job creation in the financial and legal sectors. That would spark demand for office space in New York and Washington, in particular, benefiting REITs such as SL Green Realty Corp. and Vornado Realty Trust.

Net-lease REITs, which own free-standing buildings occupied by single tenants such as pharmacies or discount stores, typically are hurt most by rising interest rates. But they have rebounded after a short-lived dip when the **10-year Treasury** yield jumped to 2.60% in December. It now hovers around 2.45%.

With net-lease REITs, the landlords own the buildings while tenants manage them and pay all of the operating expenses. Similar to bonds, these REITs generate a steady yield and their shares tend to rise in a low-interest-rate environment. But they tend to suffer when rates rise as investors look elsewhere for higher yields.

Shares of Realty Income Inc., the largest net-lease REIT by market capitalization, have risen 3% since Election Day.

Publicly traded REITs have reduced their debt levels from a postfinancial-crisis peak of almost 58% of total book assets in the first quarter of 2009 to 49% as of Sept. 30, according to the National Association of Real Estate Investment Trusts. These landlords also have been able to refinance and extend their debt maturities.

"These measures leave the industry well positioned for the interest-rate environment ahead," said Calvin Schnure, senior economist at NAREIT.

To be sure, some camps think the run-up in share prices in expectation of government tax and spending programs aimed at boosting growth is overdone. Nevertheless, shares of REITs have been lagging behind the broader market, with the **Dow Jones Industrial Average** up about 8.4% since Election Day. These-dividend-paying stocks also underperformed financial stocks since their debut as a stand-alone classification from the **S&P 500**'s financial stock group in September.

"Our approach has been to buy on the election and take profits by the inauguration as some stocks are nearly fully valued," said Marc Halle, head of global real-estate securities at PGIM Real Estate, an arm of Prudential Financial Inc. Mr. Halle said he needs more concrete data on policy and interest rates before he makes further investment moves.

The anticipated fiscal stimulus could be phased in over a longer period and the boost to companies might not kick in until 2018, analysts said.

Investors should also have the stomach for **volatility** as the dramatic nature of some of the proposed new policies in health care, tax and trade could upend industries and fuel uncertainties, analysts said."We think overall it's going to be a choppy year for REITs," said James Sullivan, managing director at BTIG Research.

A more aggressive policy regarding border controls could entail tougher visa policies and affect travel to the U.S., and the proposed changes in tax and trade policies threaten the health of the retail industry, said analysts at BTIG Equity Research.

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Windfall for Federal Home Loan Banks --- Last year's overhaul of money-market funds drives more demand for FHLB-issued debt

By Katy Burne
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English

The Federal Home Loan Banks are emerging as one of the unexpected beneficiaries of last year's money-market fund overhaul, lending fresh support to a U.S. mortgage market in flux as interest rates creep higher.

Money funds that invest in government debt are fueling a rise in debt issuance by the FHLBs, independently chartered financial institutions created by Congress 80 years ago to bolster U.S. housing finance. The increase is a boon to FHLB member banks like J.P. Morgan Chase & Co. and Wells Fargo & Co., which borrow from the FHLBs for a range of needs including to fund mortgage lending, and is the latest ripple from a series of regulatory changes at the heart of **financial markets**.

The home loan banks' outstanding debt rose nearly 10% from a year earlier in 2016, finishing the year at $989.3 billion, its highest level since 2009. About 30% of their debt is now floating-rate debt, the most since at least 2002, and a nod to growing money-market fund appetite for short-term government debt.

Each of the 11 regional home loan banks lends to local members such as banks and other financial institutions, secured by the mortgage loans or bonds posted by the borrowers. Because the FHLBs were created by Congress, money funds often consider their debt to be the next best thing to government debt.

The lending surge isn't the first turn in the spotlight for the FHLBs. In the 2008 crisis, the Federal Reserve called FHLBs the "lender of next-to-last resort" after the Fed's discount window, citing the home loan banks' role in helping lenders survive the financial meltdown.

It is the latest sign of how far-reaching the 2016 money-market overhaul has been. That effort, overseen by the Securities and Exchange Commission, aimed to prevent a repeat of the 2008 run on a large money-market fund that lost money on debt holdings issued by Lehman Brothers Holdings Inc.

The new regulations required prime money-market funds holding mostly corporate securities to report daily share prices that fluctuate with changes in their portfolios, rather than fixed share values.

Over the past year, this prompted many investors to shift about $1 trillion from prime funds into government-debt funds that aren't subject to the same restrictions. Funds flowed out of prime funds that once were the leading purchasers of bank commercial paper and certificates of deposit and into government-only funds.

Now the FHLBs, helped by the appetite from government funds, are lending money to banks that have seen their access to prime-fund cash curtailed.

"FHLBs have always been a source of attractive financing," said Mark Cabana, interest-rate strategist at Bank of America Merrill Lynch. With the money fund overhaul having limited a source of short-term funding, "having the FHLBs step up is increasingly convenient."

The FHLBs are the second-largest issuer of debt held by U.S.-taxable money-market funds, after the Treasury, according to iMoneyNet.

Government money funds like to buy the FHLB's floating-rate securities because while they have maturities ranging from six to 18 months, their interest rates reset monthly or quarterly with the London interbank offered rate, and are attractive to investors anticipating a rising-rate environment.

Last year, the FHLBs' regulator -- the Federal Housing Finance Agency that also regulates government-backed mortgage giants Fannie Mae and Freddie Mac -- warned the FHLBs were exposing themselves to the risk that they could be unable to refund maturing short-term debt called "discount notes" if the market dries up.

"We want them to always take advantage of opportunistic times," said Andre Galeano, associate director of examinations in the division of FHLB regulation at the FHFA. "We don't want them to have to issue when market conditions are not apt."

David Messerly, investor relations director at the FHLB Office of Finance, said the FHLBs were in dialogue with their regulator about those concerns but declined to specify further. Since the warning, discount notes have fallen to 41.5% of outstanding FHLB debt, down from a peak of 54% in December 2015.

The increased lending by FHLBs also is timely because demand for their secured loans is growing, on account of new federal rules requiring banks to have predetermined levels of cash on hand.

With banks now subject to new liquidity rules and constrained from too much short-term borrowing, the FHLBs havestepped in and are able to provide low-cost loans to big U.S. banks.

The largest borrower from FHLBs is J.P. Morgan, which had $79.5 billion in loans outstanding in the third quarter, up 8% from the year before, according to Guy Cecala, chief executive of lending-trade publication Inside Mortgage Finance. A spokesman for J.P. Morgan declined to comment.

Wells Fargo is the second-largest borrower. Its borrowings hit $68.7 billion as of the third quarter, up 158% from the year-earlier period. A Wells Fargo spokesman said the terms of FHLB loans make them attractive.

"Demand for our debt is strong, and that's a good thing. It keeps liquidity flowing to member banks so they can keep lending," Mr. Messerly said.

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Bankers Cash In on Post-Election Stock Rally

By Liz Hoffman and Tom McGinty
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Executives at some of the biggest Wall Street banks have sold nearly $100 million worth of stock since the presidential election, more than in that same period in any year over the past decade, according to a Wall Street Journal review of securities filings.

The share sales occurred as financial stocks soared since Nov. 9 on expectations of lighter regulation, lower taxes and pro-growth economic policies. The KBW **Nasdaq** Bank index is up nearly 20% since Donald Trump's victory, about triple the gains notched by the broader market.

In addition to the share sales, bank executives have sold another $350 million worth of stock to cover the cost of exercising options, filings show. That is twice the amount sold for that purpose at big banks in the year leading up to the election.

An added bonus: The postelection run-up in share prices gave value to some options that were likely to expire worthless. At Goldman Sachs Group Inc., for instance, the postelection bounce turned half a billion dollars worth of stock options into winners -- some just days before they were set to expire.

At Morgan Stanley, Chief Executive James Gorman sold shares three days after the presidential election, the first time he has done so in six years.

Mr. Gorman exercised options on 200,000 Morgan Stanley shares and sold them all at an average price of $37.70 each, filings show. He sold another 100,000 shares later the same month as the stock surged on the back of Mr. Trump's victory, and disposed of a further 285,000 late last week. Altogether, the Morgan Stanley boss realized a profit of at least $8.4 million after taking into account the cost of exercising underlying options.

Further selling may be in store, and not all big banks have filed reports on selling by all their top executives.

What's more, bank employees typically can't sell shares or exercise options in the run-up to earnings reports. The big banks finished posting their latest round of earnings last week.

Those sales won't be as apparent, though. Banks only have to disclose trades for a handful of top executives, although some rank-and-file employees are paid largely in stock and options.

Share sales by corporate executives are often viewed by investors as a sign that insiders could be growing wary of valuations or be less confident in an increase in share prices. While that may be the case among some bank executives, the sales also follow a multiyear period in which they largely held on to moribund stock.

Some executives even doubled down during the depths of the postcrisis trough. Chief Executive James Dimon bought 500,000 J.P. Morgan Chase shares in 2012 in the wake of the so-called London Whale trading blowup. Mr. Dimon bought another 500,000 shares in early 2016 as bank stocks were sliding. Mr. Gorman bought $2 million in Morgan Stanley shares in 2011, when the stock was at less than half its current price.

Now, with share prices and valuations rising, executives are acting. At Morgan Stanley, whose shares have risen 23% since the election, executives who have to report transactions sold more than $50 million of stock between Nov. 9 and Nov. 30, filings show. Many were the fruit of options granted to executives years ago when shares were trading at half their current value.

Those options allowed their holders to buy shares at big discounts to current prices. Last week, Mr. Gorman exercised options, granted in 2013, on 285,000 shares that allowed him to buy them at $23 apiece, according to filings. He sold the shares for $42.30 each, the filings show.

For options to be worth exercising, the stock must be trading above the so-called strike price, the level at which an option-holder has the right to buy it.

Before the election, Mr. Gorman had only sold shares to cover the cost of exercising his options, holding on to much of his stock in the process. After the latest sales, Mr. Gorman still owns 1.3 million shares, worth about $56 million. He is required by the bank to continue holding 75% of all share awards as long as he is CEO.

When he bought 100,000 shares in 2011 at about $20.62 apiece, Mr. Gorman planned to sell them if and when the share price doubled from that price, which it did just after the election, according to a person familiar with his thinking.

Morgan Stanley shares ended Monday's trading at $41.96, slightly below their postelection peak.

J.P. Morgan executives who have to report the transactions collectively sold $20.5 million worth of shares since the election, filings show. At Goldman Sachs, executives of a similar level let go of nearly $25 million worth of stock.

Some of the selling at these banks hasbeen from executives who have announced their retirements, including Morgan Stanley Chief Operating Officer Jim Rosenthal and Goldman Europe head Michael Sherwood. Other trades are pursuant to prearranged plans that schedule trades for certain times or price triggers. And some have occurred as once-worthless options gained value. In late 2006, Goldman CEO Lloyd Blankfein and other top executives were granted options with a strike price of $199.84 that would expire 10 years later.

By November 2016, with the expiration date approaching, Goldman shares were nowhere near $199.84. The week after the election, though, Goldman shares jumped above $210. The bank's shares ended Monday's trading at $232.67.

Six current Goldman Sachs executives, as well as board member and ex-finance chief David Viniar, exercised 983,000 options, filings show. That represented about $200 million worth of shares.

Without the Trump boost, those options likely would have expired worthless.

All told, since the election, Goldman executives became eligible to buy at least $500 million worth of stock at below-market prices after a 33% rise in the share price.

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The New York Times

Business/Financial Desk; SECTB

Crude Oil Prices Drop, Weighing Down Wall Street

By THE ASSOCIATED PRESS
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English

Energy companies led Wall Street stock indexes slightly lower Monday, as the price of crude oil fell.

Real estate, phone companies and other high-dividend stocks did better than the rest of the market as bond yields headed lower, making those sectors more appealing to investors seeking income.

The **Dow Jonesindustrial average** fell 27.40 points, or 0.1 percent, to close at 19,799.85. The **Standard & Poor's 500-stockindex** slipped 6.11 points, or 0.3 percent, to 2,265.20. The **Nasdaq composite** index lost 2.39 points, or 0.04 percent, to 5,552.94. The Russell 2000, which tracks smaller companies, gave up 4.01 points, or 0.3 percent, to 1,347.84.

Investors also watched the latest batch of company earnings and deal news. They had their eye on Washington, where President Trump reaffirmed plans to loosen regulations on businesses and tax foreign goods entering the country.

Companies that issued results or outlooks that fell short of Wall Street's predictions put traders in a selling mood. McDonald's, the world's largest hamburger chain, fell 0.7 percent after it reported a fourth-quarter drop in sales at established United States locations. The decline ended a streak of five quarters of increases. Shares shed 88 cents to close at $121.38.

Halliburton slid 2.9 percent after the provider of oil and gas drilling services warned of weaker demand in markets outside North America. Shares were also weighed down because the company's revenue missed forecasts. The stock shed $1.65 to close at $54.80.

Corporate deal-related news also moved some stocks.

Kate Spade & Company climbed 3.6 percent after Bloomberg News reported that the handbag maker had drawn interest from potential buyers like Coach and Michael Kors. Kate Spade rose 64 cents to finish up at $18.40.

Sprint gained 2.8 percent after news that the mobile phone carrier would buy a 33 percent stake in Tidal, the music streaming service owned by artists including Jay Z. The stock added 25 cents to close at $9.18. Aetna fell 2.7 percent after a federal judge rejected the health insurer's plan to buy rival Humana for about $34 billion. Aetna said it was reviewing the opinion and would consider an appeal. Aetna's stock dropped $3.33 to end regular trading at $119.20.

Qualcomm fell 12.7 percent on news that Apple was suing it for $1 billion in a patent fight. Qualcomm, one of Apple's major suppliers, was the biggest decliner among companies in the S. &P., sliding $8 to close at $54.88.

The fall in crude prices dragged on the energy sector, which fell 1.1 percent. The oil and gas rig operator Transocean declined 55 cents, or 3.6 percent, to close at $14.76. Benchmark United States crude fell 47 cents, or 0.9 percent, to settle at $52.75 per barrel in New York. Brent crude, used to price international oils, slid 26 cents, or 0.5 percent, to settle at $55.23 per barrel in London.

Major global stock markets mostly fell because of concerns that the Trump administration would pursue trade protectionism policies. The DAX in Germany slid 0.7 percent, and the CAC-40 in France fell 0.6 percent. The FTSE 100 in London gave up 0.7 percent.

In Asia, a report showed that China's economic growth edged up in the final quarter of 2016, but its full-year expansion was the weakest in three decades. The Hang Seng in Hong Kong was unchanged. The Nikkei 225 in Tokyo fell 1.3 percent.

The **10**-**year Treasury** yield slid to 2.40 percent from 2.47 percent late Friday. Yields had generally been climbing since Election Day on expectations that a Trump administration would spur more inflation and economic growth.

In currency markets, the dollar declined to 113.1 yen from 114.47 yen on Friday. The euro rose to $1.0741 from $1.0693. Among metals, the price of gold gained $10.70, or 0.9 percent, to settle at $1,215.00 an ounce.

CHART: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Monday. (Source: Reuters)

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Streetwise: Alternative Facts For the Stock Market And New President

By James Mackintosh
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Relations between the president and the White House press corps haven't been this bad at least since Richard Nixon railed against the media, if ever. A similar gap opened up after the election between the media and the **stock market**, and it should concern investors.

It is a cliche that markets hate uncertainty, to such an extent that an academic measure of economic uncertaintyderived from articles in major U.S. newspapers (including this one) has become a Wall Street proxy for policy risks. But as uncertainty soared after the election to the highest since the summer of 2011, when a congressional standoff threatened a default on Treasurys, the market also jumped and **volatility** declined.

Many are concerned that the gap between uncertainty and the markets shows investors are ignoring the dangers President Donald Trump poses to global trade and security.

"It genuinely feels like policy uncertainty is very high," said Nicholas Bloom, a Stanford University professor and co-developer of the uncertainty index. "Why on earth is the VIX not picking it up?"

The VIX is a gauge of **S&P 500** implied **volatility** over the next month. In the past, jumps in uncertainty also meant jumps in **volatility** and declines in share prices.

Investors should consider three possible explanations for the divergence of stocks and uncertainty.

The first is the most worrying: Markets are ignoring major uncertainties because they cannot properly assess them. It is nearly impossible to put a probability on such risks as the reshuffling of the global order or the chance of a trade war. Mr. Trump's rhetoric on the North Atlantic Treaty Organization and tariffs suggests both are more likely than before, but there is no sensible way to price them.

"The danger is that reality hits home," said Ian Harnett, co-founder of London's Absolute Strategy Research. "It's one of the reasons that I'm feeling slightly nervous."

A second explanation of the divergence between markets and uncertainty is that it is "good" uncertainty, because previous spikes in the measure have come from worries about bad outcomes. It remains unclear how far corporate taxes will be cut, how big a fiscal stimulus congressional Republicans will approve or which regulations will be scrapped. But this is the sort of uncertainty investors can happily live with.

"It's clear that the markets are treating Trump in particular as a good news event," Prof. Bloom said.

A detailed breakdown of relevant news reports backs up this view. In the past, big rises in uncertainty were dominated by a huge jump in one of the 10 categories of news tracked by Prof. Bloom and his colleagues -- sovereign debt led in 1998, national security after 9/11 -- but this time, it is spread across all categories. "This is more like a change of regime that's affecting everything," he said.

A third explanation goes by the hashtag #fakenews: Journalists are worked up about Mr. Trump's relationship with the truth, his approach to women and minorities, his conflicts of interest and friendly approach to Russia. But money has no morals, and shares don't need a squeaky-clean leader to go up. If Mr. Trump were to threaten the rule of law or separation of powers, it surely would hurt shares.Investors have enough confidence in the U.S. Constitution to bypass comparisons to the 1930s.

All three explanations matter. The markets are probably right to think that Mr. Trump heralds a friendlier approach to business, in the form of lower taxes and less regulation, and that inflation is more likely to be pushed up by fiscal stimulus. This was priced in by the postelection rise in stocks and bond yields.

It is true that unlike in previous bouts of uncertainty, there is nothing specific for investors to panic about. It is also true there are deeper uncertainties worth watching carefully, and as the chances of a trade war or U.S. retreat from the world increase, stocks should be worth lessto compensate for the higher risks.

The more Mr. Trump emphasizes protectionism and conflict, the more investors will be forced to treat these uncertainties as risks. For those who believe his words are mere bluster designed to set out a negotiating position, every selloff should be a buying opportunity.

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Equities: Eurozone Sells Off Global Bonds

By Mike Bird
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Investors in the eurozone were net sellers of foreign bonds for the first time in four years, a shift in trade that could affect the euro and even U.S. fixed-income markets.

Between September and November, European investors sold 15.99 billion euros ($17.1 billion) more in foreign bonds than they bought, according to the most recent data from the European Central Bank. The last time the eurozone was a net seller of global debt was August 2012.

The ECB's bond-buying program and negative interest rates have helped push yields in the eurozone to record lows, sending local investors looking elsewhere for returns.

But in the past six months, investors have been selling fixed income as part of the global reflation trade.

That selling has pushed up yields across the eurozone. So even as investors dump eurozone bonds, the extra yield makes it more attractive for some local buyers to keep money at home, analysts say.

If eurozone investors continue to sell foreign bonds, that could hit what has been a big source of demand for U.S. debt. It could also boost the euro, because investors aren't selling this currency to buy bonds denominatedin others.

"The eurozone has been a global liquidity pump," said Claus Vistesen, economist at Pantheon Economics. "In the second half of last year the story changed, inflation expectations went up, interest-rate expectations went up. I suspect it's partly a reaction to that."

In July of last year, yields on 10-year German government debt fell to as low as minus-0.19%. Last week they rose as high as 0.38%. That extra yield is keeping some investors at home, even as there is a general rotation out of fixed-income markets.

The latest spike in European bond yields, in the middle of 2015, also coincided with a slowdown in international bond purchases by eurozone investors.

Eurozone investors' buying and selling of bonds is far bigger than that of equities, meaning that moves in the fixed-income market are more important when it comes to the bloc's financial inflows and outflows.

In equity markets, eurozone investors bought 12.03 billion euros more in international shares than they sold in the three months to November.

Capital flows to buy and sell debt are a major driver of foreign-exchange movements. When European investors want more debt from abroad, they are effectively selling the euro to get hold of foreign assets.

"If the money suddenly stops flowing out, the euro can go up quite strongly," added Mr. Vistesen.

While the euro fell hard against the dollar at the end of last year, most currencies declined against the greenback. The euro has actually held up against other currencies during the period.

"Fixed-income portfolio flows have been the key driver of the euro in the short term," said Dhaval Joshi, chief European strategist at BCA Research. "Forget the dollar, if you think about the yen, the pound, the yuan, the euro has actually done pretty well," he added.

Europeans were big buyers of U.S. debt in particular. The region's investors were big spenders abroad, buying 3.762 trillion euros more in international bonds than they sold during the recent 50-month buying streak.

Although U.S. yields had also fallen sharply in recent years, they still offered higher returns than those in the eurozone. Even at its lowest point last year, 10-year U.S. Treasurys still yielded 1.36%.

The eurozone is the third-largest holder of government debt, second only to Japan and China, according to U.S. Treasury department data.

Those holdings shot up after the ECB introduced negative interest rates in 2014, according to the central bank's data.

Since 2014, eurozone investors have added more than578 billion euros worth of U.S. bonds to their portfolios, taking their total holdings to over 1.5 trillion euros. Such buying has helped push borrowing costs lower in the U.S.

A 2016 survey of primary dealers conducted by the Federal Reserve Bank of New York cited international demand, a spillover from low yields abroad, as the biggest single factor in the decline in U.S. yields.

"Ten-year Treasury yields are around 55 basis points lower than you'd expect them to be, based on market expectations for the Fed and other macro factors," said Anton Heese, a strategist at Morgan Stanley. A basis point equals one-hundredth of a percentage point.

Data on portfolio flows overseas can be **volatile**, and investors in the eurozone could start buying abroad again.

With the Federal Reserve set to raise U.S. interest rates as many as three times this year and the ECB set to keep rates well into negative territory, someanalysts believe European investors will continue to be attracted to U.S. bonds. "We expect the ECB to maintain very dovish monetary policy," said Sam Lynton-Brown, foreign-exchange strategist at BNP Paribas. "That's while the Fed hikes rates twice or maybe more in 2017."

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Trump's Pacific Trade Retreat

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President Trump fulfilled a campaign promise Monday with an executive order formally withdrawing from the 12-nation Pacific trade pact, and that was the easy part. Now he'll have to deal with the fallout, which includes new doubts about U.S. economic commitments and strategic gains for China.

The Trans-Pacific Partnership (TPP), negotiated and signed by President Obama, was already on life support as Mr. Trump and Hillary Clinton campaigned against it. Mr. Obama hoped to push it through in the lame-duck Congress, but after ignoring trade for so many years as President his persuasive powers were nil.

Mr. Obama stressed the deal's strategic importance as a counter to Chinese soft power in the Pacific, and he's right. But he never made a consistent case for the deal's economic benefits, and Mr. Trump was able to use TPP as a political whipping boy. The agreement has flaws, with many special carve-outs for this or that country, but on the margin the trade experts at the Cato Institute consider it a net economic plus for the U.S.

What now? Mr. Trump isn't interested in new multilateral pacts, but China is. Beijing is pitching a rival to TPP, the Regional Comprehensive Economic Partnership, and many countries in Asia will sign up as they observe the U.S. walking away. Malaysia, the Philippines and Thailand are already moving by degrees from the U.S. toward China, and others will begin to wonder about the U.S. commitment to the Western Pacific region.

The U.S. trade trend has already led to the water-into-wine miracle of Chinese President Xi Jinping preaching the benefits of free trade at the annual global gabfest in Davos last week. The problem is that China preaches free trade for its exports but too often practices something else at home.

The Chinese impose multiple regulatory barriers to imports. They subsidize overproduction in commodity goods like steel that hurts foreign producers and workers. They use political measures to restrict foreign competition so they can build "national champions" in industries like computer chips. In short, the Chinese continue to practice a mix of free trade and mercantilism, and the Asian trade pact will no doubt seek to continue that pattern.

TPP would have spread the better Western model of a rules-based trading system. Mr. Trump and his advisers are targeting China for a U.S. trade-policy renegotiation, albeit with few details about their strategy or their ultimate goal -- beyond reducing the U.S. trade deficit in goods with China.

The irony is Mr. Trump would have more negotiating leverage with TPP in his pocket. If China resisted trade-opening concessions at home and a trade war results, the U.S. could rely on TPP countries for alternative component suppliers and consumer goods. Now China can use the Asian trade pact as leverage with these U.S. trading partners.

Mr. Trump will need a reassurance strategy with Japan in particular. Prime Minister Shinzo Abe has staked his government on faster growth from economic reform. TPP is supposed to be his battering ram to overcome domestic political opposition to breaking up Japan's economic cartels. Now he'll need a Plan B.

Mr. Trump would be wise to consider taking the bones of TPP and building it into a U.S.-Japan bilateral trade deal. In any event, Rex Tillerson will have to make Tokyo one of his first overseas visits as Secretary of State.

The larger shock in TPP's failure is the symbolism of the U.S. withdrawing from global trade leadership. For nearly 90 years since the Smoot-Hawley Tariff, and especially since the end of World War II, the U.S. has championed a world of freer markets and liberal trade. No doubt all Americans haven't benefitted equally, but the free-trade consensus held through the high-growth 1980s and 1990s. It fell apart in the slow-growth Obama era.

The question is what will fill the trade vacuum if the U.S. resorts to its own form of mercantilism. TPP's failure was baked into **financial markets** so it's no great economic shock, and perhaps the Trump Administration will step back from some of its worst trade rhetoric.

The economic damage will come in the months ahead if trade becomes a game of beggar-thy-neighbor self-interest in which national success is measured by a simple trade surplus. Then we'll look back on TPP's demise as a watershed to regret.

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THE WALL STREET JOURNAL.
U.S. EDITION

Will Trump Deliver a Growth Miracle? Don't Count on It

By Alan S. Blinder
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The **stock market** has been turning cartwheels since Donald Trump's election. They say it's the prospect of faster economic growth that got stock traders so excited. Really?

Mr. Trump has promised a huge jump in the growth rate of real gross domestic product, to perhaps 3.5%, 4% or more. As he said in his Las Vegas debate with Hillary Clinton, "I actually think we can go higher than 4%. I think you can go to 5% or 6%." Good luck with that.

Here's an interesting historical fact. Since Harry Truman, the growth rate has fallen every time a Republican president replaced a Democrat and has risen every time a Democrat replaced a Republican. President Obama's second term will finish with an average GDP growth rate right around 2.2%. Merely beating that mark would be a remarkable departure from history.

How could the Trump administration possibly achieve, say, 4% growth? Mainly by fiscal stimulus, markets seem to think. So let's start on the demand side.

You may recall that in 2009 Republicans claimed that fiscal stimulus doesn't boost growth at all. But that was then and this is now. Today, many of those same Republicans will tell you that fiscal stimulus is very powerful, especially if it's income-tax cuts. Oh?

We know that fiscal policy packs more punch when the economy has more slack and when the spending or tax cuts are well targeted to produce demand. Both conditions held, at least partly, in 2009. Neither will hold in 2017, with the economy approximately at full employment and Mr. Trump's proposed tax cuts heavily skewed to the rich.

Besides, the Federal Reserve will be making sure the economy doesn't overheat. Fed officials must be shaking their heads in disbelief. For years they practically begged Congress to help lift the economy out of the muck by stimulating demand; but Congress did the opposite. Now, with stimulus no longer needed, Congress is poised to deliver it. The predictable result will be higher interest rates.

OK, but couldn't the Trumpian growth miracle emanate from the supply side instead? Been there, done that, and it doesn't work. A 2016 comprehensive review of the voluminous scholarly research on the supply-side effects of tax cuts by economists William Gale (a Democrat) and Andrew Samwick (a Republican), concluded that "U.S. historical data show huge shifts in taxes with virtually no observable shift in growth rates." But cutting top bracket rates does redistribute income from the have-nots to the haves. And that, I suspect, is why stock traders cannot contain their glee.

Someone will point out that there is more to Mr. Trump's supply-side program than tax cuts. That's true. The idea of building more infrastructure is a good one, though near-term stimulative effects would be small. Furthermore, as

Alan Krueger and I wrote in these pages last month, Mr. Trump's plan to leverage private equity would not finance the sorts of infrastructure projects we need. Fortunately, incoming Commerce Secretary Wilbur Ross testified in his confirmation hearing that the Trump infrastructure plan would include more than private equity.

Much the same can be said of erasing regulations. Some of them deserve to go, but only magical thinking will produce large growth effects from doing so. More important, the effects of deregulation depend on which regulations get killed. As one prominent example, Mr. Trump has pledged to "dismantle" Dodd-Frank. Yes, the 2010 financial-reform law is maddeningly complex and might even depress the growth rate a tad. But it offers strong protections against the kind of calamity that befell the world in 2008. Some environmental regulations may exact a small price in GDP growth, but they also help ensure that we don't get sick from the water we drink and the air we breathe.

Mr. Trump's best hope for a supply-side miracle is sheer luck. Here's why: Long-run growth is fueled mainly by technical progress. But the upward march of technology -- or, more precisely, its effect on GDP -- slowed abruptly during the George W. Bush administration and did not revive under President Obama. Specifically, what economists call "multifactor productivity growth" -- think of it as getting more output from the same inputs -- averaged a robust 1.6% per annum between 1995 and 2005 but then plummeted to 0.4% per annum between 2005 and 2015. Economists have some hunches about what caused this, but no one really knows.

Since no one knows why productivity growth collapsed, no one knows when it might snap back. If President Trump is as lucky as candidate Trump, the multifactor productivity growth rate might mysteriously bounce back to, say, its 1948-2005 average -- which was 1.3%. Should that happen, 2.2% growth would turn into 3.1% growth without the Trump administration lifting a finger -- and without any help from Vladimir Putin.

No sensible person would bet on such an outcome. But then again, no sensible person bet on Donald Trump becoming president.

Mr. Blinder is a professor of economics and public affairs at Princeton University and a former vice chairman of the Federal Reserve.

(See related letters: "Letters to the Editor: Good Economic Policy Makes Its Own Luck" -- WSJ Feb. 6, 2017)

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THE WALL STREET JOURNAL.
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Investors Curb Their Enthusiasm --- Market sentiment shifts from just after U.S. election; bets against equities grow

By Gunjan Banerji, Ben Eisen and Akane Otani
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B1
English

Investors are turning more cautious as President Donald Trump takes office, a shift from the early days after his victory when stocks surged on the hopes that his policies would accelerate growth.

The **S&P 500** is still up 6.2% since Election Day, and it hasn't fallen by 1% or more in 69 trading sessions. But investors also are positioning themselves more defensively by increasing cash or hedging against a potential resurgence in **volatility**.

Global fund managers increased their cash holdings to 5.1% of their portfolios this month from 4.8% in December, according to a Bank of America Merrill Lynch survey released Jan. 17, well above the 10-year average of 4.5%. A U.S. trade war and devaluation of China's currency were cited as among the biggest fears, the survey showed.

Other investors are even more wary, ramping up bets against equities in the week ahead of Mr. Trump's inauguration.

Short interest, or **bearish** bets, on the SPDR **S&P 500** exchange-traded fund, the largest ETF tracking the benchmark, rose to $32.9 billion on Jan. 19 from $30.8 billion a week earlier -- a reversal from the trend in the two months after the election, according to S3 Partners, a financial-analytics firm.

Last week, financial shares, which burst ahead after Mr. Trump's election, led the market's retreat -- evidence that investors are losing conviction in some postelection trades. The KBW **Nasdaq** Bank Index slid 2.8% in the five days through Friday. Investors pulled $749 million from the global financial sector for the week through Wednesday, the first outflows in 17 weeks, EPFR Global data show.

The recalibration, investors and analysts say, doesn't reflect a broad-based retreat from the initial enthusiasm for the U.S.'s economic prospects.

Rather, investors are moderating their conviction, they say, as they wait to see what unfolds with Mr. Trump in office and with business more broadly. They also are factoring in general anxiety about how politics will play out this year in the U.S. and world-wide.

On Inauguration Day Friday, the **Dow Jones Industrial Average** rose in early trade, pared its gains during Mr. Trump's speech and rallied to end up nearly 100 points, putting its year-to-date gains at 0.3%.

Mr. Trump "has not been a career politician and is a lot more unpredictable in his policies and in his views," said Sebastien Page, head of asset allocation at T. Rowe Price Group Inc. "For example, his tweets," he said. "All of this increases the political risk."

Mr. Trump's election, along with the market shock of Brexit last year and coming European elections, suggest **financial markets** are transitioning into a period in which political risks appear to supersede other perils, investors say.

It is a switch, they say, from the years following the 2008 financial crisis when central-bank actions dominated the course of markets.

"The influence of the Federal Reserve on markets is probably less significant than it was over the past several years," said Michael Fredericks, portfolio manager of BlackRock Inc.'s multiasset income fund. "We can expect that Trump will implement very different policies than under Obama. That policy is probably a big driver of **volatility** and uncertainty in the equity markets."

Among the political risks are more protectionist trade policies under Mr. Trump. Investors also expect fiscal stimulus and tax cuts, which could take time to implement.

Following Britain's decision to exit from the European Union, questions remain about elections in France and Germany and the extent to which populist forces are sweeping through Europe.

Asset managers such as BlackRock and T. Rowe Price are using options strategies such as covered calls, which involve selling a call option while buying the underlying security or index.

Some investors say it is a strategy that can generate extra income in a flat to mildly **bullish** market.

Anxiety over outsize swings in the **stock market** also has crept up. The CBOE**Volatility** Index, or VIX, remains near multiyear lows, but a measure that tracks expectations for wild swings in the fear gauge -- the CBOE VVIX Index -- has climbed to near its highest since 2006 relative to the VIX, data from Bank of America Merrill Lynch show. The VIX has posted a steeper decline than the VVIX in 2017.

History suggests caution when a new president takes office.

In the month after a president is sworn in, the median change in the **S&P 500** has been a decline of 0.7%, according to Bespoke Investment Group data going back to 1928. When a Republican president succeeded an outgoing Democrat, the decline was more pronounced, with a median drop of 2.6%.

All this uncertainty prompted Robert Pavlik, chief market strategist at Boston Private Wealth, to cut equity exposure and add cash near the end of 2016.

"The market's getting ahead of itself," said Mr. Pavlik, who manages the firm's large-cap growth strategy fund. If Mr. Trump's administration is able to push through key agenda items and stocks rally, "folks like me will have to be drawn back in. But I think the risks of having a bit of extra cash right now are relatively low."

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THE WALL STREET JOURNAL.
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Stock Pickers' Day Yet to Dawn --- Price swings remain muted, shares move in lockstep, frustrating volatility-driven traders

By Aaron Kuriloff
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English

Maybe it isn't a stock picker's market, after all.

The U.K. vote last year to leave the European Union and Donald Trump's subsequent election as U.S. president were widely viewed on Wall Street as heralding the onset of a newly volatile age in markets.

The possibility of increased action has been tantalizing for hedge-fund managers and stock pickers at mutual funds. Some have contended that distinguishing themselves -- and beating indexes -- has been difficult partly because stocks have moved in lockstep.

Yet except for the frenetic trading in the weeks immediately following those significant political events of 2016, stock-price swings remain remarkably muted, and many shares continue to trade broadly in line with one another. It adds up to continued frustrations for traders who seek to exploit rising volatility and dispersion, measuring the trading gap between different assets, without necessarily making large wagers that prices will rise or fall.

Analysts at Citigroup Inc. found the weekly gap between the top one-quarter of performers in the Russell 2000 and the rest of the index had fallen to five-year lows by the end of 2016, after spiking following the U.S. presidential election.

The findings coincide with low volatility in the overall market. As stocks have risen to records, the CBOEVolatility Index touched its lowest level since 2014 on Jan. 13. The index is known as Wall Street's fear gauge because it is based on prices of S&P 500 options that investors tend to buy when they are worried about stock declines.

The S&P 500 hasn't moved by more than 1% in a day since Dec. 7.

That isn't to say large moves have become extinct. Shares of CSX Corp. rose 23% Thursday -- its biggest jump in data going back to 1979 -- after a rival's chief executive teamed up with an activist investor to shake up management.

Kohl's shares tumbled 19% earlier this month after the retailer warned of weak holiday sales, the stock's worst day on record. Macy's fell 14% the same day in its biggest drop in seven months.

But bigger moves have been the exception rather than the rule. They have tended to be driven by specific events such as earnings surprises or corporate shake-ups, which traders said was likely the sign of a market on solid footing.

An examination of share moves for the 3,000 largest U.S. companies over the past two decades showed that stock moves the size of Kohl's are less frequent now than the 20-year average, according to an analysis for The Wall Street Journal by AJO, an investing firm in Philadelphia that manages about $29 billion.

The number of stocks moving 19% in a given day, as measured by a roughly three-month moving average, peaked in December 2008 at roughly 61 and hit a bottom of 1 in July 2014. On Jan. 19, the number was 2.2.

"You're always going to see blowups and it's human nature to then overestimate the rate of their occurrence," said Michael Dowd, a researcher at AJO, which relies heavily on quantitative methods to weigh investment decisions for clients including pension funds, corporations and endowments. "If you actually stop and pause and look at the record, you'll see how calm it's been."

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THE WALL STREET JOURNAL.
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Heard on the Street
One Stat That Shows a Trump Bull Market Is Unlikely

By Justin Lahart
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B10
English

[Financial Analysis and Commentary]

After the stunning Obama **bull market**, it is no surprise that it will be tougher for stocks to register more big gains during the Trump years. The main reason is Barack Obama took office after the market had tanked and was cheap, but another important reason is what happened to corporate profits versus the overall economy.

Through his last full day as president Thursday, Mr. Obama oversaw a 166% gain in the **S&P 500**. Shares went from being dirt cheap to richly valued. The S&P traded at 11 times expected earnings when Mr. Obama took office. Now its forward price/earnings ratio is 17 -- less dear than the 28 registered during the dot-com bubble but still pricey.

To better gauge the market's future returns, investors should look at another measure of valuation: At the end of last year, the total value of U.S. stocks was an estimated 169% of gross domestic product. That compares with 85% at the end of 2008 and is approaching the 177% valuation the market hit at the end of 1999.

Comparing the market to the economy is important because it reflects how more of the gains in GDP over the past eight years have flowed to companies than other areas of the economy, in particular workers.

During the Obama years, companies kept a tight lid on costs, offering only incremental wage gains and only reluctantly investing in new capital projects. Only lately has that trend shifted as falling unemployment has begun reducing the pool of available workers, with wages beginning to pick up as a result.

Higher wages mean a bigger portion of U.S. output goes to workers and less to profits. As wages rise, companies have moved to control them by shifting production overseas or putting more foreign content in what they manufacture here. Under President Donald Trump, that might be tough to do.

So it seems unlikely that companies will be capturing a bigger piece of the economic pie; if anything, they may be getting a smaller slice. It is, of course, possible for stock prices to keep going up relative to GDP, but that would require valuations to go beyond levels hit in the dot-com bubble.

The only path for the market to produce big gains for Mr. Trump is a big jump in economic growth, which would boost earnings even though profits as a share of the total economy stay steady or decline. Mr. Trump says he will make that happen, but now comes the hard part.

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THE WALL STREET JOURNAL.
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Dow's Trump Rally Is Good, but Not Best --- Index's 8.2% rise is strongest in 20 years, but history shows it isn't a trusty gauge

By Akane Otani
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B10
English

Donald Trump's victory sparked a rally that sent the **Dow Jones Industrial Average** to its most impressive run from election to inauguration in 20 years.

The blue-chip index has climbed 8.2% from the close on Election Day, its biggest rise from election through Inauguration Day since Bill Clinton's second term in 1997, when the index climbed 13%, according to data going back to 1896 examined by the WSJ Market Data Group.

The index's best-ever run over that period? The days leading to Herbert Hoover's 1929 inauguration, when the Dow industrials climbed 22% from the day before the election (markets were closed on Election Day before 1984). And its worst: the period leading to Barack Obama's first term, when the index fell 17%.

The **stock market**'s performance in that span isn't a reliable indicator of how stocks will fare thereafter. Nearly eight months into Mr. Hoover's presidency, the **stock market** crashed and the Great Depression followed, leaving the Dow industrials down 13% in the year after Inauguration Day, which was in March.

Some of the biggest moves since Mr. Trump's election have already waned. Financial stocks in the **S&P 500**, which surged 17% between Election Day and the end of 2016, have fallen 0.6% in 2017.

"The markets reacted very quickly after the election, but now I think people are realizing even if Trump's policies do happen, it won't be overnight," said Nathan Thooft, senior portfolio manager at Manulife Asset Management.

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The New York Times

INVISIBLE HAND
Business/Financial Desk; SECTB
When an Invisible Hand Overpowers a President's

By NEIL IRWIN
1,931 words
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1
English

Presidential reputations rise or fall with gross domestic product. The state of the economy can determine if presidents are re-elected, and it shapes historical memory of their success or failure.

In the news media, we often use the handover of power as the time for assessing the economic record of the departing president. (I've done it myself recently.) Some economists have predicted that the Trump administration could create the next recession or financial crisis. And scholars have studied the relative economic conditions generated by Republicans and Democrats for predictive meaning (Democrats have done better since World War II, they found).

But the reality is that presidents have far less control over the economy than you might imagine. Presidential economic records are highly dependent on the dumb luck of where the nation is in the economic cycle. And the White House has no control over the demographic and technological forces that influence the economy.

Even in areas where the president really does have power to shape the economy -- appointing Federal Reserve governors, steering fiscal and regulatory policy, responding to crises and external shocks -- the relationship between presidential action and economic outcome is often uncertain and hard to prove.

It's this quirk in how we think that unfairly enhances the reputation of Ronald Reagan and Bill Clinton while unfairly diminishing the presidencies of Jimmy Carter and both George Bushes.

And if you think of the **financial markets** as the hyperactive cousin of the economy itself, this mental framework can cost you money.

We all have a tendency to think that a president whose policies we disagree with will be bad for the economy and the **stock market**. But looking at markets in such starkly political terms can lead to bad decisions. Ask a conservative who refused to invest in stocks while they notched a 182 percent gain during the Obama presidency -- or a liberal who shorted stocks after Donald J. Trump won in November.

So what tools does a president actually have to shape economic outcomes? Fewer than you might think. Let's walk through the factors that determine economic results -- from those that are more purely luck to those that do reflect a president's skill at overseeing the economy.

Timing the business cycle

When George H.W. Bush took office in January 1989, the unemployment rate was 5.4 percent and the roaring 1980s expansion was near its peak. When Bill Clinton succeeded him in January 1993, the unemployment rate was 7.3 percent and falling, as the United States was finally shaking off the damage of a recession.

That bit of timing alone -- taking office at the trough of the business cycle versus the peak -- can help explain much of how we perceive a president. Mr. Bush, of course, was a one-term president, while Mr. Clinton was handily re-elected.

President Obama's luck on this front was somewhere between those extremes; he took office in the middle of a steep downturn. But some simple math shows just how much the timing of the 2008-9 recession relative to

Inauguration Day mattered. Mr. Obama is set to leave office with cumulative job growth of 8.4 percent over his eight years in office.

But if he had taken office 13 months earlier in December 2007, he would have presided over a putrid 3.4 percent growth. If he had taken office in February 2010, when employment hit rock bottom, he would be on track to see blockbuster 14 percent job growth in eight years (assuming 2017 job creation turns out to be equivalent to 2016).

Put simply, when you take office at the bottom of a recession and with unemployment high, you can "achieve" a lot of growth just from the natural healing of the economy. When you take office at the top, there is nowhere to go but down. This may presage bad news for Mr. Trump, given that the jobless rate was a relatively low 4.7 percent in December.

Demographic and economic destiny

Consider one of the big economic forces of the post-World War II economy: women entering the labor force on a mass scale. In 1948, only 33 percent of American women between 25 and 54 worked or sought work. By the time George W. Bush took office in January 2001, that had risen to about 77 percent.

That means that throughout the second half of the 20th century, the economy had a huge tailwind, as millions of women joined the work force and stated contributing to G.D.P. Richard Nixon, Ronald Reagan and Bill Clinton didn't create that trend; broader social forces did. But the fact that it happened made their economic records look better.

Expand the idea to other elements of demographics: the baby boom generation entering the labor force from the 1960s through the 1980s and now retiring; the large millennial generation coming into the work force. You see that a big part of the economic growth that might take place during a given presidency is determined by forces not under any politician's control.

It's worth noting that these forces are part of the story behind slow growth during the Obama administration and will -- unless something surprising changes -- continue in the Trump administration. The labor force has grown an average of 0.4 percent a year during the last eight years, and the Congressional Budget Office projects an average of 0.5 percent a year during the coming four.

By contrast, the labor force grew by an average of 1.2 percent a year during the 1990s, the last period of blockbuster growth.

The president doesn't set monetary policy

Now we're getting to areas where the president really does have some control over the economic cycle. Too bad it's so indirect.

The Federal Reserve raises and lowers interest rates in an effort to prevent recessions and maintain low inflation. The president appoints its seven-member board of governors, including the chair.

The president can select appointees who align in terms of philosophy and instincts, and may select Fed governors who are more competent -- or less. But the Fed system is designed to maintain independence from the administration once the appointments are made.

Beyond that, terms are staggered such that a president won't necessarily get to appoint a majority of Fed leaders, especially right off the bat (Fed governors' terms are 14 years, though lately few have served that long; the Fed chair has a four-year term).

So when a president appoints Fed officials who are effective stewards of monetary policy, achieving their goals of maximum employment, stable prices and financial stability, it helps a president's odds of having an impressive economic record. It just isn't a very direct exertion of power.

For fiscal policy, talk to Congress

This is often what we think of when we talk about a president's economic policy. The occupants of the Oval Office can steer policy around taxing and spending priorities. But they can't do it alone.

It's certainly true that tax and spending policy carries a president's imprint. President Obama's election victories enabled him to enact a major fiscal stimulus in 2009 and increase taxes on the wealthy starting in 2013. President

Reagan's election brought a sharp cut in tax rates. Different election results would have made for different fiscal policy.

But Congress has, if anything, greater power than the president over how the government taxes and spends. It's almost a punch line that when a president issues a proposed budget each winter, congressional opponents call it ''dead on arrival.''

And while Mr. Obama had fiscal policy wins, he also met stiff resistance. The spending cuts known as ''sequestration'' happened because Republicans took control of Congress in 2010.

So to the degree that taxes and spending shape the course of the economy -- and there's no doubt they do -- presidents can set direction, but not steer the ship themselves. It is a lesson Mr. Trump will soon learn.

Everything else affects the economy -- slowly

There's a broad range of other areas in which presidential action affects the economic future. Name a field, and the president exerts power over it: health care, energy, technology innovation, financial regulation, labor policies, trade, transportation infrastructure, agricultural policy. The list is endless. Even foreign policy matters; stable geopolitics is generally good for business.

The problem is that all of these big policy areas affect the nation's economic prospects over the long run. The downsides of regulating banks poorly might show up as a crisis a decade down the road. The benefits of better infrastructure will tend to show up over many years. The payoffs of well-designed education policies come to fruition as young people enter the labor market with better skills years later.

Likewise, from a more conservative vantage point, the cost of environmental restrictions limiting energy production may not show up in the price of fuel for years. Burdensome, outdated regulations tend to show up as a modest drag on business year after year, not as an acute, clear crisis.

For example, the Congressional Budget Office estimated that the Affordable Care Act would reduce the labor supply by 2.3 million because more people would choose not to work. (The thinking being that they were working mainly so they could have employee-sponsored health insurance.) It said this would happen not immediately, but by 2021, a full 11 years after the law was passed and four years after the president who signed it would be out of office.

And that's a case where independent economists manage to create an estimate of economic consequences. Often these economic impacts are so slow-building, diffuse and subject to partisan interpretation that it's hard to estimate them with any precision. We all want to assume that it is our preferred policies that make the economy rev more strongly, even if it's hard to prove definitively.

None of this means that presidents can't do a lot to make the United States economy more dynamic and productive. It's just that doing so could take a great while. It's hard to prove that this or that policy was the source of the good times.

In the short run, all those other factors have a more direct, measurable effect in shaping whether a moment in political history produces an economy we remember fondly.

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DONALD J. TRUMP: U.S. UNEMPLOYMENT RATE IN DECEMBER: 4.7 percent (PHOTOGRAPH BY DOUG MILLS/THE NEW YORK TIMES); BARACK OBAMA: U.S. UNEMPLOYMENT RATE IN JANUARY 2009: 7.8 percent (PHOTOGRAPH BY JAMES ESTRIN/THE NEW YORK TIMES); GEORGE W. BUSH: U.S. UNEMPLOYMENT RATE IN JANUARY 2001: 4.2 percent (PHOTOGRAPH BY MARK WILSON/NEWSMAKERS); BILL CLINTON: U.S. UNEMPLOYMENT RATE IN JANUARY 1993: 7.3 percent (PHOTOGRAPH BY ED REINKE/ASSOCIATED PRESS); GEORGE BUSH: U.S. UNEMPLOYMENT RATE IN JANUARY 1989: 5.4 percent (PHOTOGRAPH BY CONSOLIDATED NEWS /ASSOCIATED PRESS); RONALD REAGAN: U.S. UNEMPLOYMENT RATE IN JANUARY 1981: 7.5 percent (PHOTOGRAPH BY ASSOCIATED PRESS) (B1); On Inauguration Day in 1989, President-elect George Bush met with President Ronald Reagan and Vice President Dan Quayle, right, at the White House. (PHOTOGRAPH BY JOSE R. LOPEZ/THE NEW YORK TIMES) (B4)

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The New York Times

Business/Financial Desk; SECTB
Markets Climb to End Week and a Losing Streak

By THE ASSOCIATED PRESS
716 words
21 January 2017
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2
English

Wall Street stocks moved modestly higher on Friday, recouping much of the market's loss from a day earlier and snapping a five-day losing streak for the **Dow Jonesindustrial average**.

Another crop of encouraging company earnings news helped lift the market, but investors were mostly focused on events in Washington as Donald J. Trump was sworn in as the 45th president of the United States.

The Dow rose 94.85 points, or 0.5 percent, to 19,827.25. The **Standard & Poor's 500-stockindex** gained 7.62 points, or 0.3 percent, to 2,271.31. The **Nasdaq composite** index added 15.25 points, or 0.3 percent, to 5,555.33.

The major stock indexes pulled back slightly as Mr. Trump delivered remarks after taking the oath of office. Among topics of particular interest to Wall Street, the speech touched on trade and the Trump administration's intention to protect the United States from ''the ravages of other countries making our products, stealing our companies, and destroying our jobs.''

''The market is still embracing the Trump agenda, based on the market's reaction to the speech,'' said Quincy Krosby, a market strategist at Prudential Financial. ''Now the question the market has is, specifically, what does all of that mean in terms of trade?''

Despite the gains on Friday, the three major stock indexes ended the week lower.

Stocks have slowed in 2017 after surging for several weeks following Election Day on investor optimism that a Trump administration and a Republican-controlled Congress would usher in business-friendly policies. But the possibility of increased tariffs or trade restrictions has also loomed as a potential drag in profits for big companies.

''Historically, the market has performed best in the November-April time frame,'' said Sam Stovall, the chief investment strategist at CFRA Research. ''The Trump victory added a tailwind to this traditional seasonal factor.''

Beyond the presidential transition in Washington, investors pored over the latest batch of corporate earnings on Friday, bidding up shares in companies that reported results that beat Wall Street's expectations.

Skyworks Solutions jumped 13 percent, the biggest gainer in the **S.&P. 500**. The stock climbed $10.21 to $88.67. Citizens Financial Group gained $1.09, or 3.1 percent, to $35.82.

Traders also drove up shares in Procter & Gamble after the consumer goods maker released a strong growth forecast. The stock added $2.75, or 3.2 percent, to $87.45.

Strong subscriber numbers helped lift AT&T, providing a lift to phone company stocks over all. AT&T added 45 cents, or 1.1 percent, to $41.45.

Some companies' earnings failed to impress the market.

General Electric slid 2.2 percent after the conglomerate reported fourth-quarter revenue that fell short of analysts' forecasts. The stock gave up 68 cents to $30.53.

Major stock indexes overseas were mixed Friday.

Germany's DAX rose 0.3 percent, while Britain's FTSE 100 fell 0.1 percent. France's CAC 40 added 0.2 percent. In Asia, Hong Kong's Hang Seng shed 0.7 percent after the Chinese government said the economy grew at a 6.8 percent annual rate in the last quarter, even as full-year growth increased 6.7 percent, the weakest in three decades. Tokyo's Nikkei 225 index rose 0.3 percent.

Benchmark crude rose $1.05, or 2 percent, to close at $52.42 a barrel in New York. Brent crude, used to price international oils, added $1.33, or 2.5 percent, to close at $55.49 a barrel in London.

Bond prices were little changed. The yield on the **10**-**year Treasury** note held steady at 2.47 percent. Yields have been rising as investors expect inflation to increase.

In currency trading, the dollar fell to 114.31 yen from Thursday's 114.80 yen. The euro rose to $1.0707 from $1.0659. The British pound edged up to $1.2378 from $1.2337.

Gold dropped $3.40 to settle at $1,204.30 an ounce.

CHART: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Friday. (Source: Reuters)

Document NYTF000020170121ed1l0004t

The New York Times

National Desk; SECTA
Grim View of the Economy Is at Odds With Reality

By BINYAMIN APPELBAUM
836 words
21 January 2017
The New York Times
NYTF
Late Edition - Final
21
English

WASHINGTON -- The dismal picture of the American economy President Donald J. Trump painted in his Inaugural Address on Friday is at odds with the economic reality of most Americans.

Mr. Trump described a nation depleted, despairing and in decline. ''We've made other countries rich while the wealth, strength and confidence of our country has dissipated over the horizon,'' he said, returning to that theme several times during his 16-minute address.

He spoke of ''rusted-out factories scattered like tombstones,'' and of a middle class whose wealth ''has been ripped from their homes and then redistributed all across the world.''

In fact, the United States is in the midst of one of the longest sustained economic expansions in the nation's history. The **stock market** has climbed to record heights; middle-class incomes are increasing after years of stagnation; and corporations are recording enormous profits.

Some measures of consumer confidence show that optimism about the economic outlook, and job and income prospects have climbed to the highest levels in more than a decade.

The striking contrast between his speeches and reality partly reflected Mr. Trump's focus on the decline of a particular part of the American economy: The Rust Belt cities that were once the beating heart of American industry, and whose residents in Pennsylvania, Ohio, Michigan and Wisconsin propelled Mr. Trump into the presidency.

Mr. Trump, both before and after his election, has often described the entirety of America as if it were Youngstown, Ohio, with its factories gone and its residents embittered. And on Friday, as so often in the past, he blamed foreign trade for that decline.

''One by one, the factories shuttered and left our shores, with not even a thought about the millions and millions of American workers that we left behind,'' the new president said.

While at odds with most economic assessments, Mr. Trump's words find an audience in places that have been left behind.

''President Trump made it clear that he understands that, despite a declining federal unemployment rate and a rising **stock market**, there are certain industries and communities that are still struggling,'' said M. Robert Weidner III, chief executive of the Metals Service Center Institute, a trade group for producers and distributors of industrial metals.

''I'm more hopeful today than I have been in a long time,'' Mr. Weidner added.

But it is a misleading diagnosis of the reasons for the decline of factory work.

There were more than 17 million factory workers in the United States two decades ago; now there are slightly more than 12 million. Some kinds of manufacturing, like textiles and furniture, have largely disappeared. And increased foreign trade did play a role in the decline.

But most economists agree that technological progress is the primary cause. The value of America's industrial output is at the highest level in history, but those goods are produced by fewer workers, a trend that cannot be reversed by changes in trade policy.

Moreover, the broader economy is showing new signs of vitality. Economic growth since the recession has been modest at best, and during most of President Obama's tenure, the gains accrued mostly to the wealthy. Corporations posted record profits while wages stagnated. But those trends began to shift during the second half of Mr. Obama's second term.

The private sector added jobs in each of the last 74 months, a record that lowered the unemployment rate to 4.7 percent in December. Crucially, those gains are finally starting to lift middle-class incomes. The median household income increased by 5.2 percent in 2015, the largest single-year increase since record-keeping began in 1967. Economists estimate that median household income rose again in 2016. Official data will be released later this year.

Mr. Trump offered few details about his plans to improve the economy. The new administration quickly posted on its website an overview that said the president plans "to create 25 million new American jobs in the next decade and return to 4 percent annual economic growth."

Mr. Trump and his advisers have promised legislation to cut taxes, a rollback of regulations and changes in trade policy aimed at reducing imports of foreign goods and services.

But his administration started with a smaller step. On Friday, it suspended a plan to reduce the fees that borrowers pay on some federally backed mortgage loans.

The Obama administration announced the cut last week to make homeownership more accessible to lower-income borrowers. A family that borrowed $200,000 would have saved $500 in annual fees. Republicans had decried the change as risky. The fees cover the cost of defaults, so the change would have reduced the money available to cover such losses.

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THE WALL STREET JOURNAL.
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Business News: GE Says Revenue Felt Oil's Pressure

By Ted Mann and Joshua Jamerson
600 words
21 January 2017
The Wall Street Journal
J
B3
English

General Electric Co.'s revenue declined 2% in the fourth quarter, as the company dealt with a depressed oil industry and shipped fewer jet engines and power turbines than it had planned.

Although revenue was below investors' expectations, Chief Executive Jeff Immelt said Friday that GE performed well, given its exposure to a world economy that is growing slowly, and **volatility** in the markets in which it operates. GE shares fell 2.2% on the New York Stock Exchange.

Once again, GE's biggest problem is oil. The company's oil-and-gas unit, which makes equipment for petroleum exploration and production, has been hammered by the more-than-two-year slump in the price of crude, which prompted customers to rein in their spending.

Oil-and-gas revenue in the fourth quarter fell 22% from a year earlier, and segment profit fell 43%. GE recorded $12.9 billion in sales in the oil-and-gas business last year, off from $16.5 billion in 2015.

GE remains committed to the oil business, and says it will be poised to profit from an eventual rebound; but, meanwhile, the company is restructuring. In late October, GE announced a deal to combine its oil-and-gas business with Baker Hughes Inc., a move seen as a cost-effective way for GE to reap the benefits of any recovery in the sector. Executives said on Friday's earnings call that they expect that deal to close in midyear.

There were bright spots elsewhere, such as a 29% increase in sales in GE's renewable-energy business, driven by a surge of investment in onshore wind turbines. Revenue from GE's power business, which makes gas turbines for power plants, rose 20%, helped by the acquisition of Alstom's power business.

GE's industrial operating cash flow of $8.2 billion in the fourth quarter made it "the biggest cash quarter in our history," Mr. Immelt said. Orders for GE equipment fell, for the quarter and for the year, but orders for services rose by 20% in the fourth quarter and 13% for the year.

Strong service orders bode well for the predictable industrial earnings of the sort Mr. Immelt has been seeking in his transformation of GE back into a more traditional industrial company, after years of being powered by its lending arm, GE Capital.

Mr. Immelt shrugged off a question about whether the incoming Trump administration could play havoc with some of those business lines.

A campaign adviser to Mr. Trump, Continental Resources Inc. CEO Harold Hamm, has called for the elimination of renewable-energy subsidies -- a critical factor in sales of GE's wind turbines. Also, Mr. Trump and the Republican Congress have pledged to undo the Affordable Care Act, generating uncertainty in the health-care industry that could slow sales of GE's medical equipment, such as MRI and X-ray machines.

"You could see some caution around the Affordable Care Act as you go forward," Mr. Immelt said, but the industry hasn't shown much disruption yet. Tax benefits for renewable energy are "pretty much locked in place," he said.

Overall for the latest quarter, GE's profit fell to $3.67 billion, or 39 cents a share, from a year-earlier $6.28 billion, or 64 cents a share, reflecting in part the paring back of GE Capital.

Revenue fell to $33.1 billion from $33.89 billion, missing analysts' projections for $33.63 billion.

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THE WALL STREET JOURNAL.
U.S. EDITION

Markets & Finance: Filing for Listing A Bitcoin ETF On NYSE Is Made

By Paul Vigna
599 words
21 January 2017
The Wall Street Journal
J
B9
English

The race to get a bitcoin exchange-traded fund in front of retail investors heated up Friday, when a firm run by technology entrepreneur Barry Silbert filed with the Securities and Exchange Commission to list its Bitcoin Investment Trust on the New York Stock Exchange.

The move by Grayscale Investments LLC a unit of Mr. Silbert's Digital Currency Group Inc., could expand the audience for the fledgling virtual currency if the fund is approved by the SEC. It also could prove an early test for how an SEC run by a Donald Trump appointee will greet innovations that may raise investor-protection or other market-structure issues.

Bitcoin Investment Trust, first launched in 2013, already trades on OTC Markets Group Inc.'s over-the-counter exchange, OTCQX. With the new filing, the trust would operate as a traditional ETF, meaning that specialized traders would create and retire shares based on demand. These traders, called authorized participants, are pivotal players in the ETF market and keep ETF prices aligned with the value of the assets they track.

Two Wall Street firms, KCG Holdings Inc. and Wedbush Securities Inc., are in discussions to serve as authorized participants, according to the filing. Additionally, the fund's trustee will be Delaware Trust Co., and the transfer agent will be Bank of New York Mellon Corp., based on the filing.

Grayscale Investments declined to comment.

The benefits of being first on a major exchange could be big, assuming that bitcoin does manage to establish itself as a viable asset class. The SPDR Gold Shares ETF launched Nov. 18, 2004, has $31 billion in assets. The iShares Gold Trust ETF launched Jan. 21, 2005, has $7.7 billion in assets. Gold, a commodity not backed by any particular government, appeals to investors for some of the same reasons as bitcoin.

In addition to Grayscale, two other groups are seeking SEC approval for their bitcoin ETFs. Winklevoss Capital Management LLC, operated by twins Cameron and Tyler Winklevoss, has been trying since 2013 to get approval for their bitcoin ETF, Winklevoss Investment Trust. The SEC is expected to make a decision on it by March. Another group, SolidX Partners Inc., is seeking SEC approval for its bitcoin ETF, which also would be listed on the NYSE.

In recent weeks, trading in bitcoin has been **volatile**, with prices helped by uncertainty following the 2016 votes in the U.K. and U.S. This month, concern about Chinese demand hurt bitcoin, with the price sliding to nearly $900 from more than $1,100.

Some have taken to using bitcoin -- a virtual currency backed by algorithms rather than pledges from national governments -- as a hedge against dollars, euros, yen or yuan. But it largely has remained a niche product popular with technology hobbyists and coders, partly because of cybersecurity concerns among firms that deal in bitcoin.

The goal of a bitcoin-based ETF is to offer an product that would be easier for investors to access and would mute at least some of bitcoin's **volatility** -- though not all, meaning it is still a riskier investment than other ETFs.

Initially, the trust will seek to launch with $500 million, the filing said, though the target is subject to change. At Dec. 31, it had about 1.8 million shares outstanding. Based on a net asset value of $89.39 a share, its assets under management totaled $164.2 million.

Chris Dieterich contributed to this article.

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THE WALL STREET JOURNAL.
U.S. EDITION

Markets & Finance: Crude Prices Rise on Signs Of Tight Supply

By Sarah McFarlane
246 words
21 January 2017
The Wall Street Journal
J
B9
English

Crude prices rose, driven by signs of the market tightening after major oil producers agreed to cut output and by weakness in the U.S. dollar.

U.S. crude prices gained $1.05, or 2%, to settle at $52.42 a barrel on the New York Mercantile Exchange. Brent, the global benchmark, rose $1.33, or 2.5%, to $55.49 a barrel on ICE Futures Europe.

Major oil producers have taken great pains in recent weeks to emphasize that they are complying with an agreement struck Nov. 30 to cut production. That has helped keep U.S. crude prices trading above $50 a barrel, but hasn't propelled them out of a range that has been capped at around $55.

"The indications are at that OPEC guys are basically starting their cuts. As we really begin to get verification, the market could be further strengthened," said Gene McGillian, research manager for Tradition Energy. "It might play out over a couple of months, but I do think we'll have higher prices."

Analysts said market participants may be closing out short positions, or bets that **oil prices** will fall, ahead of a meeting between the Organization of the Petroleum Exporting Countries and other major producers this weekend to discuss compliance with the deal.

The International Energy Agency said Thursday that OPEC production has slowed.

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THE WALL STREET JOURNAL.
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Heard on the Street
Overheard

160 words
21 January 2017
The Wall Street Journal
J
B10
English

[Financial Analysis and Commentary]

At least one corner of the **stock market** was happy with President Donald Trump's inaugural address.

The **Nasdaq** Biotechnology Index dipped most of Friday morning ahead of President Trump's inauguration. Anxiety about what the president would say was likely the cause. Earlier this month, the Index sold off by over 3% when the then-president-elect said during a press conference that the drug industry was "getting away with murder." That barb was the latest in a long line of scrutiny from politicians that has taken a toll on shareholders.

But the new president included no such digs at the industry during his inaugural address. The index rallied sharply in the moments after the speech concluded. No news, after all, is good news.

But that may not last for the industry: The next pricing firestorm is likely just a tweet away.

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International New York Times

us
Trump's Grim View of the Economy Ignores Most Americans' Reality

By BINYAMIN APPELBAUM
835 words
20 January 2017
International New York Times
INHT
English

WASHINGTON — The dismal picture of the American economy President Donald J. Trump painted in his Inaugural Address on Friday is at odds with the economic reality of most Americans.

Mr. Trump described a nation depleted, despairing and in decline. "We've made other countries rich while the wealth, strength and confidence of our country has dissipated over the horizon," he said, returning to that theme several times during his 16-minute address.

He spoke of "rusted-out factories scattered like tombstones," and of a middle class whose wealth "has been ripped from their homes and then redistributed all across the world."

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Mr. Trump, both before and after his election, has often described the entirety of America as if it were Youngstown, Ohio, with its factories gone and its residents embittered. And on Friday, as so often in the past, he blamed foreign trade for that decline.

"One by one, the factories shuttered and left our shores, with not even a thought about the millions and millions of American workers that we left behind," the new president said.

While at odds with most economic assessments, Mr. Trump's words find an audience in places that have been left behind.

"President Trump made it clear that he understands that, despite a declining federal unemployment rate and a rising **stock market**, there are certain industries and communities that are still struggling," said M. Robert Weidner III, chief executive of the Metals Service Center Institute, a trade group for producers and distributors of industrial metals.

"I'm more hopeful today than I have been in a long time," Mr. Weidner added.

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But most economists agree that technological progress is the primary cause. The value of America's industrial output is at the highest level in history, but those goods are produced by fewer workers, a trend that cannot be reversed by changes in trade policy.

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THE WALL STREET JOURNAL.
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Streetwise: Obama's Run Will Be Tough to Beat

By James Mackintosh
876 words
20 January 2017
The Wall Street Journal
J
B1
English

After eight years in office, Barack Obama has a market record any red-blooded American capitalist could be proud of. U.S. shares have soared, **oil prices** have come down, borrowing is cheap and profits are up along with the dollar.

Even those who bet against President Obama made good money, with returns from gold and bonds better than those delivered by shares under his predecessor, George W. Bush.

These aren't achievements likely to cut much ice with the Democratic Party, and the perception that the rich got richer at the expense of American workers surely helped Donald Trump, who has promised to dismantle Mr. Obama's flagship policies after he is inaugurated as presidenton Friday.

Historians, economists and politicians will clash for years over the Obama legacy. But for investors, it has been a great time to bet on America. U.S. stocks delivered far better returns under Mr. Obama than almost any previous president; performance was also well ahead of the rest of the world.

"Despite the fact that the economy's been punk, corporate profits became the largest percentage of GDP ever in this cycle," said Richard Bernstein, chief executive of fund manager Richard Bernstein Advisors. "You can talk about whether that's social justice or not, but that's not my day job."

With one day of his presidency to go, the **S&P 500** was up 182% from Mr. Obama's inauguration in January 2009, delivering an annualized return including dividends of 16%. In data since 1928, only Bill Clinton produced higher returns. And if lower inflation under Mr. Obama is taken into account, the real gap is tiny.

John Bilton, global head of multiasset strategy at J.P. Morgan Asset Management, said the main cause of this stock boom was the geyser of money sprayed at the markets by the Federal Reserve.

"It's more I would say the Federal Reserve's legacy that's given us this period of performance," he said. "It's been a phenomenal time to be an investor."

Others give Mr. Obama more credit, particularly for the tax cuts and spending of the Recovery Act in 2009, but also for resisting pressure to tighten fiscal policy more quickly and leaving the Fed alone.

"The important economic intervention he did was right at the beginning," said Eric Lonergan, a fund manager at M&G Investments. "And after that he did nothing to disrupt loose monetary and fiscal policy. He could have done a lot of stupid things that he didn't do."

The stunning investment returns under Mr. Obama owe a lot to the luck of his timing. He came to office in the midst of the worst recession in generations, when shares were cheap. While prices can always fall further, the 56% peak-to-trough plunge he inherited set a solid base for gains once the recovery began.

While Mr. Obama might not get much credit for the boom, investors who listened to him would have done particularly well. In March 2009, just a week before stocks hit bottom, the new president gave the most contrarian investment advice possible: Buy shares.

"Profit and earning ratios are starting to get to the point where buying stocks is a potentially good deal if you've got a long-term perspective on it," he said. He was right. Anyone who bought and held the **S&P 500** based on his comments rode one of the biggest bull markets in history, more than tripling their money even before dividends.

Mr. Obama's record is slightly less stellar when taken from the 2008 election, because the market's post-Lehman's crash was under way. From his election to Wednesday's close, the S&P rose 10% a year, a gain beaten by Presidents Dwight Eisenhower, Bill Clinton and George H.W. Bush (although again after inflation, Mr. Obama would look better).

Markets are forward-looking, so it makes sense to think the effect of the president would be priced in before he takes office. The big rally since Mr. Trump was elected in November has been predicated on investor hope that he will deliver big tax cuts and fiscal stimulus.

Even if Mr. Trump sticks to investor-friendly policies, though, it is highly unlikely he will beat the market record of Mr. Obama's time in office, purely because of the starting point.

U.S. stocks are far from cheap, and on many valuation measures are already very expensive, while profits are high by historical standards.

Faster economic growth would surely help shares, but it is hard to see how either profits or valuations could rise enough to deliver annual returns of 16% a year for the next presidential term without either a leap in inflation or a gigantic share-price bubble, both best avoided.

Investors might not like that news, but Mr. Trump should be unconcerned. His legacy will only be judged by the value of the **stock market** if it crashes.

(See related letter: "Letters to the Editor: Obama Had Little to Do With the Great **Bull Market**" -- WSJ Feb. 13, 2017)

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THE WALL STREET JOURNAL.
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The 45th President: Challenges Lurk in the Economy

By Nick Timiraos
886 words
20 January 2017
The Wall Street Journal
J
A7
English

President-elect Donald Trump inherits an economy in much stronger shape than at either of the past two inaugurations, but major questions loom over how he can boost productivity and deliver on his growth promises.

Mr. Trump says he wants to see 4% growth for an economy that hasn't enjoyed even 3% growth in more than a decade. From the outset, he faces many challenges that dogged past administrations, including an aging workforce, as well as some new ones, like a stronger dollar that could undercut his push to boost U.S. manufacturing by making American exports more costly abroad.

The recovery since the 2007-09 recession has been unusually slow but is also the fourth longest on record, and recent data point to rising incomes for U.S. households. Median householdincomes rose 5.2% in 2015 after adjusting for inflation, leaving them 2.4% below the record reached in 1999, according to the Census Bureau. The unemploymentrate has fallen to 4.7%, a nine-year low.

"If you look across the broad spectrum -- capital expenditures, business confidence, consumer confidence, household building, household formation, wage income, wages going up, unemployment going down, auto sales going up, retail sales going up -- [the economy] looks like it's getting stronger, not weaker," said James Dimon, chief executive of J.P. Morgan Chase & Co., last week.

Still, there are broader concerns over declining opportunity for large swaths of the country, particularly Americans without college degrees and in more rural areas. The U.S. homeownership rate is near a 50-year low, and the average debt load for college students is rising.

Among the many questions markets face is how far Mr. Trump will go to implement threats made during the campaign and after to slap companies with a tariff if they sell more foreign-made goods in the U.S., and how other countries might respond.

"Markets have given up on a free-trade agenda," said Greg Valliere, chief global strategist at Horizon Investments.

Global trade volumes are feebler than at any time since the 2008 financial crisis, and international eruptions continue to pose a risk to U.S. growth. In China, easy credit is chasing fewer investment opportunities, and authorities have cracked down on capital flight, all while defending a weakening currency.

Bad debts in Europe's banking system, particularly Italy, remain elevated, posing another risk should those economies slow. And concern about Mr. Trump's policies toward Mexico have sent the peso to record lows, threatening to reverse that nation's economic gains in the past two decades.

Mr. Trump's economic plan pairs his aggressive trade stance with promises to slash regulations and tax rates. But shepherding complex legislation through Congress to do the latter has never been easy.

Lawmakers are already struggling with how to devise a new health-insurance system without boosting deficits or stripping millions of Americans of coverage they got through the Affordable Care Act. And on taxes, Mr. Trump has signaled unease with a cornerstone of the House GOP corporate-tax plan -- a "border adjustment" that would tax imports and exempt exports -- which lawmakers pitched as an alternative to his proposed import tariffs.

Republicans also have split in recent years over whether to tolerate higher military spending or to hold deficits in check. Mr. Trump has signaled a desire for the former, with more money not only for defense but also for infrastructure, veterans' health care and border security.

Mr. Trump's unusually public jawboning of executives to keep jobs in the U.S. marks another potential flashpoint. The president-elect's pro-business instincts clash with free-market economists who have fought to curb government intervention in industry.

Since his election, Mr. Trump has used his Twitter account to fire barbs at specific companies, challenging their investment decisions and claiming credit for their job-hiring announcements.

Ford Motor Co. on Jan. 3 said it would scrap plans for a $1.6 billion plant in Mexico after needling from Mr. Trump. General Motors Co., Toyota Motor Corp. and Fiat Chrysler Automobiles NV have signaled they plan to increase U.S. investment, though executives have said the moves weren't the result of pressure from the president-elect.

Mr. Trump has said that provoking a few companies via Twitter has proved an effective way to get his message out to other CEOs. "I'm setting a tone for hundreds of companies," he said in an interview with The Wall Street Journal last week.

Some economists say such intervention may be savvy politics but make markets less efficient. "We would expect such behavior from a dictator of a banana republic, not from the president-elect of the oldest democracy in the world," said Luigi Zingales, a finance professor at the University of Chicago Booth School of Business.

Mr. Trump's plans for the Federal Reserve mark a final area of uncertainty. During the campaign, he sharply criticized the Fed for keeping interest rates low while he warned of a **stock-market** bubble. Markets expect stronger economic growth, which could prod the Fed, which raised rates just twice in the past eight years, to raise rates at least as many times this year.

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THE WALL STREET JOURNAL.
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Treasury Yields Resume Ascent --- Trump trade ramps up after Yellen reaffirms the Fed's stance on raising interest rates

By Min Zeng and Rachel Rosenthal
676 words
20 January 2017
The Wall Street Journal
J
B12
English

Government-bond yields surged to their highest level since Jan. 3, as the inflation trade that took off in the days after Donald Trump's election regained intensity.

The yield on the **10**-**year Treasury** note settled at 2.461% on Thursday after rising as high as 2.494%, up from 2.327% earlier this week. The rise came after Federal Reserve Chairwoman Janet Yellen reaffirmed that the central bank expects to raise short-term interest rates several times this year. Bond yields rise when prices fall.

The selloff came on a day in which many of the trends characteristic of postelection U.S. markets, such as rising oil futures and falling gold prices, reasserted themselves. But the **Dow Jones Industrial Average** retreated for the fifth straight day, down 0.4%.

The latest selloff in U.S. debt highlights the market's sensitivity to modest shifts in sentiment, following a late 2016 bond selloff driven by expectations that the new administration's policies would increase U.S. growth and inflation. Over time, inflation hits the value of bond investments by reducing the purchasing power of fixed principal and interest payments.

In a speech late Wednesday, Ms. Yellen signaled interest rates could be raised "a few times a year" through 2019.

While that is in line with the Fed's projection in December of three rate increases this year, traders said it highlights the risk that rates could rise more quickly, likely fueling further bond sales.

"We are in for a **volatile** ride in the bond market," said Kevin Giddis, head of fixed-income capital markets at Raymond James.

In a speech Thursday at Stanford University, Ms. Yellen said she doesn't see the U.S. economy at risk of overheating and doesn't expect growth to pick up much soon, comments suggesting the central bank is sticking to its plan of raising interest rates cautiously and gradually in the months ahead.

Many investors remain skeptical that bond yields can rise much further, thanks to slowing population and productivity growth and heavy global debt loads.

Reflecting the cross currents, hedge funds have been betting the yield rise that started this summer will continue, while many investment-management firms are betting bond yields will fall in a reflection of tepid underlying economics.

When many investors pile into or pare back positions at the same time, it tends to drive sharp moves in the bond market. This has rattled markets ranging from stocks, bonds and currencies to commodities over the past few years.

Jason Evans, co-founder of hedge fund NineAlpha Capital LP, said this tends to create short-term noises, and it has been challenging to draw a conclusion on signals from the bond market toward the macroeconomic outlook.

One popular trade has been to sell Treasurys and to buy Treasury inflation-protected securities. A $13 billion sale of 10-year TIPS drew strong demand on Thursday, the latest sign investors are flocking to assets that offer a shield against higher inflation. Indirect bidding, a proxy of foreign demand, soared to a record 77.1%.

But Treasury bonds offer higher yields for the developed world, especially as other major central banks remain in easing mode.

There are signs foreign investors have been buyers of Treasury bonds over the past few weeks. The yield premium investors demanded to hold the **10-year Treasury** note relative to the 10-year German bund was 2.148 percentage points Thursday, down from 2.368 percentage points in late December.

Still, some big foreign central banks such as in China may continue to sell Treasurys to counter a weakening currency. China's ownership of U.S. government debt dropped by $66 billion during November's bond rout, the sharpest monthly fall in five years and the sixth straight month of declines, according to data from the U.S. Treasury Department.

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The New York Times

Business/Financial Desk; SECTB
Dow's Gains Are Wiped Out for the Year

By THE ASSOCIATED PRESS
716 words
20 January 2017
The New York Times
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3
English

The **Dow Jonesindustrial average** erased its gains for 2017 on Thursday as it fell for the fifth day in a row, part of a downturn for stock indexes as Treasury yields continued their upward march.

Losses were widespread -- for every stock that rose on the New York Stock Exchange, three stocks fell. Utilities, real estate investment trusts and others that pay big dividends were among the hardest hit because their payouts look less attractive when bond yields are rising. Small-company stocks took outsize losses.

The Dow fell 72.32 points, or 0.4 percent, to close at 19,732.40, slightly lower than where it finished 2016. Still, it is not far from its record closing high of 19,974.62, set one month ago.

The **Standard & Poor's 500**-**stockindex** slid 8.20 points, or 0.4 percent, to 2,263.69. The **Nasdaq composite** gave up 15.57 points, or 0.3 percent, to 5,540.08.

The Russell 2000, which tracks smaller companies, lost 12.81 points, or 0.9 percent, to 1,345.74. The Russell, which surged after the presidential election and finished last year with a gain of almost 20 percent, also turned lower for the year.

Stocks have slowed in January after an electrifying jump since Election Day as investors waited to see what a Donald J. Trump presidency would really mean for stocks. They have already seen the optimistic case: The **S&P 500**, propelled by expectations for lower taxes and less regulation on businesses, increased 6 percent after Mr. Trump's victory.

But on the possible downside, increased tariffs or trade restrictions could mean drops in profits for big United States companies.

Bond yields continued their march higher after more economic reports joined the recently growing pile of encouraging data. The **10**-**year Treasury** yield rose to 2.47 percent from 2.43 percent late Wednesday.

The 10-year yield is still below its recent high of just over 2.60 percent reached in mid-December, but it is also well above the 2.09 percent level it was at a year ago. Last July, it was as low as 1.36 percent.

One of Thursday's reports showed that the number of workers seeking unemployment claims fell last week to its lowest level in more than 43 years, a sign that corporate layoffs are subsiding. Another report showed that homebuilders broke ground on more new homes in December than in November, capping a solid 2016 for the industry.

Industrial stocks were among the few stocks that did well as railroad operators surged. CSX led the way with a jump of $8.63, or 23.4 percent, to close at $45.51. That was its best day since 1980. An activist investor is reportedly teaming up with the executive who turned around Canadian Pacific Railway to target CSX.

Netflix jumped $5.15, or 3.9 percent, to $138.41 after the video-streaming service reported higher fourth-quarter earnings than analysts expected and strong subscriber growth.

The dollar was mixed against its major rivals. It rose to 114.78 Japanese yen from 114.28 on Wednesday, and the euro rose to $1.066 from $1.0637 on Wednesday. The British pound rose to $1.2329 from $1.2264.

Benchmark crude oil rose 29 cents to settle at $51.37 a barrel. Brent crude, the international standard, rose 24 cents to $54.16.

Gold dropped $10.40 to settle at $1,200.90 an ounce, silver fell 27 cents to $17 an ounce and copper was virtually flat at $2.61 a pound.

The DAX in Germany was virtually flat, the CAC 40 in France fell 0.3 percent and the FTSE 100 in London lost 0.5 percent. The Nikkei 225 index in Japan rose 0.9 percent, the Kospi in South Korea rose 0.1 percent and the Hang Seng in Hong Kong fell 0.2 percent.

CHARTS: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Thursday. (Source: Reuters); Freddie Mac Yields: Average for some Federal Home Loan Mortgage Corp. securities. (Source: F.H.L.M.C.)

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THE WALL STREET JOURNAL.
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OPEC Says Oil Output Is Falling --- Production dropped in December, but bigger cuts may be needed to hit its targets

By Benoit Faucon
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OPEC's total oil output began declining in December after its members agreed to reduce output, the organization said, but the group appears to need deeper cuts than expected to achieve its goals.

The Organization of the Petroleum Exporting Countries -- the 13-nation group that controls over a third of global crude production -- promised to throttle back its output by 1.2 million barrels a day, or almost 4%, on Nov. 30. The bid to raise **oil prices** by making crude more scarce has worked to an extent, with prices up almost 20% since the deal was announced.

The group made some progress on that goal in December, with OPEC production falling by 221,000 barrels a day compared with November, the group said in a monthly market report. Overall, the group produced almost 33.1 million barrels a day in December and still has to cut to about 31.8 million barrels a day to reach the levels it promised in its agreement.

The report demonstrated the challenges facing OPEC in reaching its goal of draining a flood of oil production that pressured **oil prices** over the past three years.

Iraqi production rose to a record, to more than 4.6 million barrels a day, stoking concerns about that country's commitment to cut down to 4.351 million barrels a day. Those figures are according to sources like shipping trackers and **oil-price** agencies; Iraq's own official production figures soared to over 4.8 million barrels a day in December.

Almost half of last month's cut came from Nigeria because of supply disruptions, and that country is allowed to ramp up production in coming months. In Libya, another OPEC member exempted from the obligation to cut, production rose to a monthly high for 2016 at 608,000 barrels a day. Libyan oil officials said January production is higher.

Further, the increase in prices spurred by OPEC's deal appears to be spurring new output in the U.S., where shale-oil producers who had pulled back when prices fell are now taking advantage of the hot market. OPEC revised its projections higher for U.S. output by 230,000 barrels a day in 2017, bringing it into agreement with other forecasters who see American production canceling out some of the effect of OPEC's cut.

Oil prices fell after OPEC's report and were down overall on Wednesday after news from the U.S. about greater productivity among U.S. shale drillers.

Brent crude, the international benchmark, fell 2.8%, to settle at $53.92, while U.S. prices dropped 2.7%, to $51.08.

To be sure, OPEC is just beginning its effort to cut production. The group promised to begin cutting output in January, so its compliance will become clearer in the next few weeks.

The largest production cut in December came from Saudi Arabia, which exports more crude than any other country and is OPEC's most powerful member.

The kingdom reduced output by 149,000 barrels a day, to 10.47 million barrels a day, drawing it closer to its agreed level of about 10 million barrels a day.

Saudi Arabia's energy minister, Khalid al-Falih, has said the country has actually cut much further this month, going below 10 million barrels a day for the first time. Saudi Arabian officials have suggested they would cut even further. On Tuesday, Mr. Falih told the World Economic Forum in Davos, Switzerland, that American oil production would take time to regain lost ground this year.

In another positive sign for OPEC, Iran's output rose by 10,000 barrels a day, suggesting the country has hit a wall after aggressively ramping up production after world powers lifted sanctions last year in exchange for curbs on its nuclear program.

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The New York Times

Business/Financial Desk; SECTB
Shares Stay at a Standstill as Investors Await Trump

By THE ASSOCIATED PRESS
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5
English

The **stock market** has not been this boring in years.

The **Standard & Poor's 500**-**stockindex** stayed at a near standstill Wednesday, the ninth day in a row it has moved less than 0.4 percent -- its longest such listlessness since summer 2013. Other indexes were mixed.

The **S**.**&P**. **500** rose 4 points, or 0.2 percent, to 2,271.89. The **Dow Jonesindustrial average** slipped 22.05 points, or 0.1 percent, to 19,804.72. The **Nasdaq composite** index added 16.93, or 0.3 percent, to 5,555.65. Slightly more stocks rose on the New York Stock Exchange than fell.

Stocks have recently been in a wait-and-see period after their torrid run since Election Day. The **S**.**&P**. **500** is up 6.2 percent since Donald J. Trump's surprise victory in the presidential race, driven higher by expectations of lower corporate taxes and less regulation. Mr. Trump will take the oath of office on Friday, and investors are waiting to see how much of his campaign-trail talk will become government policy.

One notable area of weakness in the **stock market** was retail. The holiday shopping season was weaker than many traditional retailers were expecting, and Target became the latest to cut its forecast for fourth-quarter sales and profits as a result. The discounter said that traffic levels at its stores were disappointing in November and December, and its stock fell $4.09, or 5.8 percent, to $66.85 after its announcement.

The biggest loss in the **S**.**&P**. **500** came from the specialty biopharmaceutical company Mallinckrodt, which fell $2.89, or 5.8 percent, to $46.53 after it agreed to pay $100 million to end a government investigation. Antitrust regulators and five states said Questcor, a company Mallinckrodt bought in 2014, had illegally bought the rights to a drug that would have competed with its Acthar gel. The agencies said that deal gave Questcor a monopoly. Questcor raised the price of Acthar from $40 a vial in 2001 to $34,000.

Treasury yields rose sharply. The yield on the **10**-**year Treasury** note climbed to 2.43 percent from 2.33 percent late Tuesday. It more than made up its loss from the previous day, and continues the steady march higher that bond yields have been on since Election Day.

Consumer prices last month were 2.1 percent higher than the same time a year earlier, according to a Labor Department report released Wednesday. Economists say the inflation rate is still modest, but it is a clear acceleration compared with the last four years.

The dollar rose against some rivals, a day after it sank sharply against the British pound and other currencies. The dollar rose to 114.28 Japanese yen from 112.64 late Tuesday. The British pound fell to $1.2264 from $1.2395, and the euro fell to $1.0637 from $1.0704.

In Asian trading, Japan's Nikkei 225 index rose 0.4 percent, and South Korea's Kospi index dipped 0.1 percent. In Europe, Germany's DAX rose 0.5 percent, and the U.K. FTSE 100 rose 0.4 percent, while France's CAC 40 fell 0.1 percent.

Benchmark crude oil fell $1.40 to settle at $51.08 a barrel. Brent crude, the international standard, fell $1.55 to close at $53.92.

Gold slipped 70 cents to $1,211.30 an ounce, and silver rose 13 cents to $17.27 an ounce.

CHART: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Wednesday. (Source: Reuters)

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The New York Times

National Desk; SECTA
China's Top Economic Adviser Braces for a Trade War With the U.S.

By CHRIS BUCKLEY and KEITH BRADSHER
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19 January 2017
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BEIJING -- Over the last year, Liu He, a soft-spoken, American-educated technocrat, has consolidated his status as President Xi Jinping's top economic adviser, amassing influence that some believe rivals that of the prime minister.

But as his star has climbed, Mr. Liu has struggled to overcome resistance to a program of measured economic liberalization and more open markets that he argues is critical to China's long-term economic health -- and that is generally favored by Washington.

Now, as President-elect Donald J. Trump prepares to enter the White House renewing warnings of China's economic menace, it will be even more difficult for Mr. Liu to achieve his agenda, which could be overwhelmed by fears of fallout from a trade war.

There is little in his public record to suggest precisely how he would advise Mr. Xi to handle Mr. Trump's threats to raise tariffs on Chinese products.

But in a study he oversaw that was published as a book more than three years ago, he argued that China ''cannot shoulder excessive responsibility'' for reducing its trade deficits with other economies.

''Populist policies adopted by the governments of developed countries are often the instigators of crisis,'' he wrote.

In the pre-Trump era, Mr. Liu was seen as the kind of Chinese official whom Americans could work with. He advocated China's adjusting its saving and spending to help the United States recover from the 2008 financial crisis.

When President Obama's treasury secretary, Jacob J. Lew, needed to cut through the fog of Chinese economic policy last winter, he called Mr. Liu.

''Liu He was always kind of a must-stop for Treasury because he had a macro view of the Chinese economy and the global economy,'' said David P. Loevinger, the senior coordinator for China affairs at the Treasury in President Obama's first term.

Mr. Liu was regarded as an insider with a direct line to the top.

Now he is widely expected to become the director of the National Development and Reform Commission, a powerful agency where he is currently a deputy director. That promotion would increase his visibility as well as his prospects of becoming a deputy prime minister in 2018, when a new government is formed for Mr. Xi's second term.

Mr. Liu cannot dictate policy unilaterally, but his proximity to Mr. Xi gives him more sway than his bureaucratic-sounding titles would suggest.

''There's no doubt in my mind that Liu He is extraordinarily powerful,'' said Christopher K. Johnson, a senior China analyst at the Center for Strategic and International Studies in Washington. ''He has shifted from a stance earlier on when he was very careful not to demonstrate the level of influence he had.''

Beside pressing for a dose of economic liberalization and more room for markets, he has advocated trimming bloated state-owned industry and sought to curtail China's ever-rising debt.

But even as he has gained influence, his ability to push through changes in these areas has been limited. Mr. Xi still calls the shots, and his pledge to revamp the economy jostles alongside his fiercely conservative agenda to restore party control and protect state companies. Mr. Xi's promises of shaking up industry and reducing debt clash with vows to keep growth ticking.

Mr. Liu "is committed to reform, I have no doubt," said Eswar Prasad, a Cornell University economist who used to be the China section chief at the International Monetary Fund. "Despite his commitment to the reforms, he doesn't have the power to make it happen," at least not without the backing of powerful allies.

The election of Mr. Trump and his selection of a trade team that seems ready to restrict China's exports to the United States have only complicated the task ahead for Mr. Liu. The risk of layoffs in export industries, and even just the uncertainty about what lies ahead, will make it even harder to push through changes and may strengthen the hand of bureaucrats who want banks to keep lending heavily to keep businesses humming, regardless of losses.

Chinese trade experts with government ties have already hinted that if the Trump administration imposes barriers to Chinese goods, they are ready to retaliate through steps like switching aircraft contracts from Boeing to Airbus, diverting food import contracts to rival countries like Brazil and possibly making it more difficult for Apple to sell iPhones in China.

While Mr. Liu and other market-oriented economists may see an argument in principle for lowering some of China's steep trade barriers, doing so amid the nationalistic backlash that could be provoked by American trade restrictions would be political poison.

But Mr. Liu is a savvy player. His response to his agenda's being sidelined in 2015 offers an intriguing window into his political style and the art of waging policy battles at the top levels of the Xi administration.

A set of economic challenges that year -- the **stock market** tumble in June, a currency devaluation two months later and a significant and unexpected slowing of economic growth -- dampened the appetite for economic liberalization. Policy tensions opened up over the right balance between shoring up growth and imposing overhauls.

Mr. Liu began a canny lobbying effort aimed squarely at Mr. Xi.

In an apparent bid to win favor, Mr. Liu submitted a long memo in late 2015 praising Mr. Xi's record in office and arguing that he had a historic mission to transform China, including by making bold economic changes, according to four people who have been told about the document by senior officials. All spoke on the condition of anonymity.

While the memo was not made public, Mr. Xi endorsed it by ordering it circulated among the party's upper echelons.

Last May, an article by an anonymous official appeared in People's Daily, the Communist Party's main newspaper, warning of the risks of an overleveraged economy. The official, cited only as an "authoritative person," accused laggard officials of undercutting reforms by trying to spend their way out of economic malaise, implicitly exempting Mr. Xi from any blame.

If rising debt is not restrained, "it will trigger a systemic financial crisis and lead to negative growth and even the evaporation of ordinary people's savings," the article said. "That would be fatal."

Officials, economists and even reports in the Chinese news media have said the article came from Mr. Liu's office, and the article echoes phrases and ideas Mr. Liu has used.

Still, the results of his campaign have been limited. Beijing disclosed on Thursday that bank loans and other credit rose again last month by more than Western economists had expected, a trend that has continued largely unabated in the eight months since the anonymous article appeared.

In nearly any room of senior Chinese officials, Mr. Liu stands out. While most other bureaucrats in their 50s and 60s dye their hair black, Mr. Liu, 64, has gray hair.

He also stands out for his American education, a rare qualification among senior Chinese officials. He received a master's degree in public administration from the John F. Kennedy School of Government at Harvard University, and before that he studied business at Seton Hall University in New Jersey.

Returning to Beijing, he rose quickly from writing studies of industrial policy as a government researcher to leading the party group that steers economic policy. In 2013, he became a deputy director of the National Development and Reform Commission, which steers industrial policy.

"He was seen as influential under the previous presidency, and his influence has increased further under Xi Jinping," Charles Collyns, a former assistant Treasury secretary, said. "He had a well-informed, shrewd, balanced assessment of China's structure and priorities. He didn't come across as a firebrand."

While his response to American trade restrictions is unknown, there is little doubt that a trade war with the United States would amplify the voices of economic nationalism.

As Global Times, a nationalistic Chinese newspaper controlled by the Communist Party, put it in an editorial this month: "There are flowers in front of the China Commerce Ministry gate, but sticks as well, hidden behind the door. Both are waiting for the Americans."

Follow Chris Buckley @ChuBailiang and Keith Bradsher @KeithBradsher on Twitter.

Liu He, the top economic adviser to China's president, Xi Jinping, has sought to make China's economy less reliant on debt. (PHOTOGRAPH BY NELSON CHING/BLOOMBERG)

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THE WALL STREET JOURNAL.
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Heard on the Street
Shale Surge Will Cramp OPEC's Style

By Spencer Jakab
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19 January 2017
The Wall Street Journal
J
B12
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[Financial Analysis and Commentary]

The U.S. Energy Department gave oil bulls a sobering reminder Tuesday: Shale-oil production is rising strongly, particularly from the Permian Basin in western Texas and New Mexico. Putting an exclamation point on that resurgence, energy giant Exxon Mobil hours earlier announced a multibillion-dollar acquisition that doubled its exposure to that prolific oil patch.

Is this making petrostates nervous less than a month into a coordinated push to revive **oil prices** by restricting supply?

Speaking the same day at the World Economic Forum in Davos, Switzerland, Saudi Arabia's oil minister, Khalid al-Falih, was skeptical. His most valuable observation was that oil-field-service providers are starting to regain some pricing power, raising the price at which shale production can break even.

The Energy Department forecasts that prices for West Texas Intermediate will average $52.50 a barrel this year, just a dollar higher than the current price. Yet it sees output marching higher.

U.S. petroleum-liquids production peaked in April 2015 and appears to have hit a trough last September. In just three months, it bounced by some 350,000 barrels a day -- slightly more than the output cut promised by Russia in the first half of 2017 as part of its deal with the Organization of the Petroleum Exporting Countries. The Energy Department says that at $52.50, U.S. liquids output will rise by another 775,000 barrels a day by the end of 2017.

U.S. drillers can be forgiven if they are too busy to send OPEC a "thank you" card.

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Ask The Times
Times Insider
‘Why Does the Stock Market Have Pre-Market and After-Hours Trading?’

By NEIL IRWIN
465 words
18 January 2017
09:02 AM
NYTimes.com Feed
NYTFEED
English

Ask The Times, a Times Insider feature, draws on New York Times expertise to answer questions about current events, science, sports, culture and whatever else is making headlines.

A reader asks: “Why does the **stock market** have pre-market and after-hours trading? If trades can occur outside the 9:30 a.m. to 4 p.m. market hours, then why not extend the trading hours altogether, or allow for 24/7 trading?”

Neil Irwin, a senior economics correspondent, considers the question.

Suppose you grow vegetables and want to sell your produce at a local farmers’ market. Would you just show up any old day and time and hope for the best? Nah, you’d look at the designated hours that the farmers’ market is open, and only go then, when you know that customers will be around. The reason any marketplace sets hours is so that buyers and sellers know when to show up. And the same is true for **financial markets**.

In the old days, showing up at the same time was more obviously necessary — the traders at the New York Stock Exchange needed to be physically in the same place to buy and sell shares. But even now that most trades happen electronically, it benefits everyone if the exchange sets certain hours as the business day, so that buyers and sellers know exactly when everyone else will be ready to buy and sell. (For the New York Stock Exchange, those hours are 9:30 a.m. to 4 p.m., Monday through Friday.)

The **stock market** does have extended hours that allow you to trade shares as early as 4 a.m. and as late as 6:30 p.m., but there are fewer buyers and sellers at those times. Most traders are busy having dinner with their spouses or asleep or whatever. So even small orders can distort the price; trying to sell just a few thousand shares of a stock might make its price plummet in after-hours trading, whereas, during the trading day, a similar order might find a buyer without affecting the price much at all.

In other words, there’s nothing to stop you now from trading late at night or early in the morning — except that you may find it’s as lonely as an off-hours farmers’ market.

Have a question for Ask The Times? Submit it using the form below.

* ‘What’s the Difference Between the National Debt and the Federal Deficit?’

* Why Doesn’t the United States (Finally) Get Rid of the Penny?

* Why Are Eggs Sold by the Dozen? Why Not by 10s or 8s?

The New York Stock Exchange in Manhattan. | Andrew Kelly/Reuters

Document NYTFEED020170118ed1i00461

THE WALL STREET JOURNAL.
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Dollar Sinks As Trump Talks It Down

By Chelsey Dulaney, Ian Talley and Ira Iosebashvili
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18 January 2017
The Wall Street Journal
J
A1
English

The dollar tumbled to its lowest level in a month after Donald Trump suggested to The Wall Street Journal he favored a weaker dollar, breaking with decades of tradition and intensifying investor concern over the incoming administration's capacity to surprise.

The president-elect in an interview published Monday described the dollar as "too strong. " He dismissed a major tax proposal that would favor U.S. exports over imports -- known as a border adjustment -- that was expected to further boost the dollar, as "too complicated."

Mr. Trump's remarks represent a departure from a bipartisan tradition where presidents generally leave commentary about the U.S. currency to the Treasury Department, which typically says little more than that a stronger dollar is in the country's best interests.

The dollar fell 1.3% Tuesday against a basket of major peers to its lowest level since Dec. 7. The index has now given back nearly half of its postelection rally, which drove the currency to its highest level in more than 14 years. Government bonds strengthened and the **S&P 500** financials sector slid 2.3%, its worst day in nearly seven months despite Morgan Stanley posting its best fourth-quarter results since the financial crisis. Gold was up 1.4%, underscoring rising investor anxiety.

In another factor in Tuesday's dollar decline, the British pound surged 3.1% after a speech by Prime Minister Theresa May on Britain's exit from the European Union appeared to reduce some investors' worries.

A market heavily skewed toward a stronger dollar also is exacerbating the selloff. Speculative investors were holding about $26 billion in bets on a rising dollar as of Jan. 10, according to Commodity Futures Trading Commission data, near the highest level in a year.

Tuesday's market moves were the latest sign of growing investor skepticism about the "Trump trade," in which expectations of rising fiscal spending, lower taxes and looser regulation drove a postelection surge in U.S. stock indexes, bond yields and the dollar.

The Trump comments have "raised the level of confusion on what policies we're going to get," said Brad Bechtel, a foreign-exchange strategist at Jefferies Group.

Traders said the retreat reflects several factors, including subdued global growth, challenges in accomplishing policy changes and concerns that large gains from crowded trades are vulnerable to sudden reversals.

"If this is random or haphazard behavior, without a grand plan, we are headed for some shocks," said David Kotok, chief investment officer at Cumberland Advisors, a Sarasota, Fla., money manager with $2.4 billion in assets.

Mr. Trump said in the Journal interview that the U.S. dollar was already "too strong" when asked about the U.S. trade relationship with China, because China holds down its currency, the yuan. "Our companies can't compete with [China] now because our currency is too strong. And it's killing us," he said.

He had alluded to the dollar throughout the campaign, threatening to label China a currency manipulator for what he has described as an unfair devaluation of the yuan. But Mr. Trump's comments to the Journal were the clearest indication yet that the new administration would prefer a weaker dollar.

He also said the U.S. might need to "get the dollar down" if a change in tax policy drives it higher. "Having a strong dollar has certain advantages, but it has a lot of disadvantages," Mr. Trump added.

Mr. Trump's options for pushing the dollar down are limited. The major drivers of the exchange rate are differences in economic growth and investment prospects, which are largely out of his control.

Central-bank policy is also a driver, and the Federal Reserve has been raising interest rates of late, which tends to push the value of a currency up.

The president, through the U.S. Treasury, has the power to buy and sell foreign currency -- called foreign-exchange intervention -- to change the dollar's value and can call on the Fed to use its own resources in that effort. Such intervention is particularly powerful when used in concert with other nations.

By talking down the value of the dollar, Mr. Trump could be veering from more than two decades of strong-dollar precedent.

Previous administrations have maintained a steady policy of backing a strong U.S. currency as a way to keep interest rates low, inflation under control and U.S. buying power strong.

Presidents have tended to refrain from commenting on the currency altogether. When Treasury leaders have talked about it, they have tended to speak in carefully calibrated terms for fear of upsetting **financial markets**.

The occasional slip has led to heightened **volatility**. In 2001, Treasury Secretary Paul O'Neill told a German newspaper that Washington wasn't pursuing a strong dollar, but rather the currency's strength resulted from a strong economy. That sent the greenback falling. In the following days, Mr. O'Neill denied that President George W. Bush's administration was veering away from its policy of supporting a strong dollar.

On Tuesday, a financier associated with the incoming Trump administration doubled down on his comments regarding the dollar's value.

Anthony Scaramucci, who has been named an adviser to the president, said at a Journal-hosted panel in Davos, Switzerland, that the administration needed to be "careful about a rising dollar."

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The New York Times

Business/Financial Desk; SECTB
Run-Up Since Vote Slows as Investors Ponder Risks

By LANDON THOMAS Jr.
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1
English

With just days to go before the inauguration of Donald J. Trump as president, once ebullient markets have eased a bit as investors have begun to ponder more seriously the risks of a Trump administration.

After a run-up in the weeks after Mr. Trump's election victory, stock markets in the United States have been little changed in the last month -- with investors on several occasions stepping back, as opposed to elevating the **Dow Jonesindustrial average** past a 20,000 milestone.

The concerns include a dollar that has gained too much in value, worries about trade wars with China and Mexico and, most broadly, a fear that Mr. Trump will not be able to deliver on his promises to cut taxes, increase government spending and reduce regulation.

The market declines in recent weeks have been very modest, and investors, for now, seem to be prepared to give Mr. Trump the benefit of the doubt on his plans for the economy.

Nevertheless, in the wake of his unpredictable Twitter posts, last week's news conference and Mr. Trump's tough talk about China, a mood of caution has tempered earlier bouts of euphoria.

Mr. Trump's comments over the weekend about the dollar being too strong, about the possibility that more countries will follow Britain out of the European Union and his intention to tax German carmakers for not building factories in the United States all heightened these concerns.

''People are concerned about an appreciating dollar, how much higher rates will go and antagonizing China,'' Laurence D. Fink, the chief executive of the asset management giant BlackRock, said in an interview last week. ''There has been too much conversation about the glories of the U.S. **stock market**.''

On Tuesday, the dollar's main index, which is measured against the world's top currencies, dropped by more 1 percent. Even beaten-down currencies like the Turkish lira and the Mexican peso -- among the world's weakest performers in the last month -- gained ground against the dollar.

Economists have warned that an overly strong dollar can hurt the United States economy in several ways. America's trade deficit would widen as exports stagnate and cheaper goods from Mexico and China flood the market. A long period of a strong dollar also increases the chances of an emerging market crisis, when crucial investment funds flee currencies that are plummeting against the dollar.

The price of gold, a traditionally safe investment, was up by nearly 1.5 percent on the day. The price of the **10**-**year Treasury** note rose, driving its yield -- an important benchmark for interest rates -- down to 2.33 percent from the previous close, 2.4 percent, a sign that investors are searching for safety instead of returns by loading up on government bonds.

And stocks in the United States continued to search for direction in the absence of tangible developments on Mr. Trump's plans for the economy.

The **Standard & Poor**'**s 500**-**stockindex** closed at 2,267.89 on Tuesday, down 0.3 percent. The **Dow Jonesindustrial average** ended down by the same percentage, at 19,826.77. The **Nasdaq composite** index fell 0.63 percent to 5,538.73.

Mr. Fink's view, which is shared by many investors with a global outlook, is that while the president-elect has made bold promises about the need to energize what has been a tepid recovery for the nation's economy, such transformations do not occur quickly.

"These things take months and years to do," Mr. Fink said.

While **stock market** specialists are in broad agreement that the Trump rally has more room to run, some are beginning to question whether the marked increase in stocks has gone as far as it can without tangible policy results in the form of lower taxes and government spending initiatives.

"I wonder if the euphoria has exceeded the fundamentals," said David Lafferty, chief market strategist for Natixis Global Asset Management. "The **stock market** is pricing in a Reagan-type scenario."

Like many, he worries that such a bout of fiscal expansionism so late in the economic cycle will lead to a sharp increase in prices and a sudden move by the Federal Reserve to play catch-up by raising interest rates faster than the market expects.

Economists and investment strategists are also warning of possible global shocks that could unnerve the markets in the next year.

While some of these upsets may be driven by the growth of populist political movements, across Europe in particular, this higher **volatility** would kick in as central banks cease intervening so aggressively in markets.

Jens Nordvig, a currency specialist at Exante Data, highlighted three such concerns in a recent letter to clients. He cautioned that it had been 15 years since the last full-fledged emerging market crisis and pointed to Turkey's plunging currency and capital outflows in China as two areas of concern.

He also listed a potential breakup of the European Union and any move by Mr. Trump to impose tariffs or other penalties on imports as events that could destabilize markets.

"It is a complex world, with messy answers to questions that seemed simple fairly recently," Mr. Nordvig wrote in his note. "And in this world, significant macro shocks will be more prevalent."

CHARTS: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Tuesday. (Source: Reuters); 3-Month Treasury Bills: High rate at weekly auction. (Source: The Bond Buyer) (B2)

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The New York Times

Op-Ed Columnist
Opinion
The Obama Legacy

By ROSS DOUTHAT
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If you had set out to assess Barack Obama's legacy four years ago, when he won re-election convincingly over Mitt Romney, the assessment might have gone like this. On foreign policy, reasonably high marks: Osama bin Laden dead, disengagement from Iraq without disaster, no major wars or catastrophic blunders.

In electoral politics, likewise: a successful re-election that seemed to betoken a sustained realignment for the Democrats. On the economy, lower grades: a depression averted, but record deficits, stagnant growth and stubborn elevated unemployment. On Obamacare, his signature achievement, a grade of incomplete, awaiting its implementation.

What's interesting is that four years later, as the president leaves the White House, several of those assessments could be essentially reversed. His economic stewardship looks more impressive than it did in 2012: The United States hasn't escaped the stagnation trap entirely, but unemployment has fallen well below the levels that even Romney promised to deliver. His foreign policy record, on the other hand, looks worse: The Iraq withdrawal paved a path for the Islamic State, Vladimir Putin repeatedly seemed to outmaneuver the Obamanauts, and globally the Pax Americana is at its wobbliest since the Cold War.

And in electoral politics, instead of the great Obama realignment, we have a Democratic Party reduced to rubble and the staggering ascent of Donald Trump.

The swift shifts should make us cautious about assuming that the landscape of early 2017 can tell us anything too dispositive about how the departing president will be remembered — especially given how much of Obama's policy legacy now depends upon the still-unknowable intentions and capacities of President Trump.

But with that proviso, here are a few guesses as to how that legacy will ultimately be judged.

First, the core domestic agenda that Obama actually enacted, from the stimulus to the health care law to the auto bailouts and lesser maneuvers, may be remembered more favorably than most conservatives assume. Its flaws were manifold (I may have written about some of them here and there), and one can spin a happier counterfactual — for the Democratic Party's political fortunes, especially — involving a more modest health care bill, a sharper focus on the middle class and jobs, and some sort of clear outreach to the center right instead of the pushes on cap and trade and gun control and immigration.

But at the same time the American economy did recover, slowly but more robustly than in much of the developed world, and again and again the dooms predicted by Obama's Republican adversaries failed to materialize. The **stock market** rebounded and then surged, there was no hyperinflation in response to the Obama deficits and the various monetary easings (quite the reverse), and the much-prophesied debt crisis, in which the United States was supposed to go the way of Greece, never actually arrived.

Meanwhile Obamacare, while a mess in certain ways, is messier on a smaller scale than its critics (myself included) feared: Health cost inflation isn't spiraling and employers aren't dumping people on to the exchanges in huge numbers; there are many losers but the insurance expansion is large enough to matter. And that expansion, and with it the promise of near universal health insurance, will be extremely difficult (morally as well as politically) for Republicans to unwind. The system may look different after the G.O.P. is done with it, but I suspect its coverage guarantee will basically survive. And if so it may well be Obama who gets the long-term credit, not an opposition party that too often answered his flawed proposals with boilerplate and cynicism.

My guess is that less retrospective credit will be extended to Obama's foreign policy, however. Hawks and doves will bicker about whether he intervened too much or too little, but the reality is that he was simply halfhearted and ineffective in far too many cases, pursuing pre-existing ambitions (Iran, climate change, a settlement-obsessed approach to Israel-Palestine) when the crises of the day required more resolute attention.

He was just hawkish enough to intervene in Libya, to poor effects, and irresolutely dovish in Syria, where the United States ended up as just one more party dripping fuel on this era's Spanish Civil War. He drew unwise red lines and then emboldened adversaries by abandoning them, kind-of-sort-of tried to keep American troops in Iraq but didn't make it a priority, and then had his secretary of state chasing an always-implausible Israel-Palestine deal while the Islamic State was on the rise and Putin was seizing opportunities.

Nothing in all this was as disastrous as the previous administration's Iraq invasion, and his "don't do stupid [stuff]" motto was not as wimpy as its critics charged. (Trump essentially made the same promise en route to winning the supposedly more hawkish party's primary.) But a lot of small failures, no less than one major one, can leave the world less safe — and there were enough failures that Obama very clearly did.

Not that this will prevent him from being a liberal icon, years or generations hence. If John F. Kennedy's blundering imperilment of world peace was buried under hagiography, there will be a similar forgetting spread over Obama's foreign policy setbacks. As the first black president, the politician who passed health care reform and the man who personally embodied upper-class liberalism's cosmopolitan self-image, he will almost certainly regain, in what is sure to be an active post-presidency, some of the cult that surrounded him during his ascent.

This will be true regardless of whether Donald Trump's reign pushes America decisively toward a grim post-liberal war of Bannonites against Bernie Bros or ends in some kind of glorious cosmopoliberal restoration. If the former, Obama will be remembered by liberals as the last good king, the man who for eight years did battle with the dark heart of white America. If the latter, he will be hailed as the man who saw the liberal future clearly even amid a temporary backlash.

But it is precisely this once-and-future cult that's crucial to understanding Obama's greatest failure, and the part he played in delivering us to Trumpism. Sometimes unintentionally but too often by political design, he took the presidency's already overlarge role in American life and magnified it further — raising, through his own transformational-bordering-on-messianic political style and reluctant-but-substantial embrace of the imperial presidency, both perfervid fears and unsupportable expectations.

The fears helped give us both the zeal of the Tea Party and the alienation of the Trumpistas. The expectations gave us a late-Obama left prone to fits of despair whenever they were losing and cultural authoritarianism wherever they could claim the upper hand (the bureaucracy, the universities, the media). They also fed into a persistent sense that liberalism should no longer even engage with its deplorable dead-ender dustbin-of-history adversaries.

All of these tendencies came together to give us Donald Trump. I would blame a lot of people — Republican leaders and conservative media personalities and the liberal cultural establishment and Hillary Clinton's campaign team and Angela Merkel and more — for Trump's rise more than I would blame Obama. But I still suspect that the Trumpening might have been prevented had Obama promised less grandly, eschewed imperial temptations when stymied in his ambitions, and dressed his technocratic liberalism in less arc-of-history nonsense.

But then again such an Obama, a man of more modest promises and somewhat more Bill Clintonian flexibility, might not have been elected in the first place.

As is often the case with political lives, in his beginning was his end.

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Doug Mills/The New York Times

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THE WALL STREET JOURNAL.
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U.S. News: Presidents Pushed Strong Currency

By Ian Talley
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18 January 2017
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English

WASHINGTON -- By talking down the value of the U.S. dollar, President-elect Donald Trump is potentially veering away from more than two decades of strong-dollar precedent.

Since the mid-1990s, administrations from both sides of the aisle have maintained a policy of backing a strong U.S. currency as a way to keep interest rates low, inflation under control and U.S. buying power strong.

Presidents have tended to refrain from commenting on the currency altogether, deferring to the Treasury secretary on these matters. When Treasury leaders have talked about it, they have tended to speak in neutral and carefully calibrated terms, for fear of upsetting **financial markets**.

The old mantra of a steady hand and a strong currency was championed by President Bill Clinton's Treasury Secretary Robert Rubin. "Our policy has been constant. A strong dollar is in our interest," he said in 1998. His successors largely stuck to that line.

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For Free Traders, Trump's Corporate Tax Cut Is the Better Way

By Donald L. Luskin
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English

Donald Trump is fighting with House Speaker Paul Ryan again. And -- who knew? -- this time Mr. Trump is the one acting like a free trader, while Mr. Ryan is playing protectionist.

Their spat is about how to reform the corporate tax code. During his campaign, Mr. Trump offered a simple and elegant plan: Slash the top rate for all businesses to 15%. That would offer significant relief from today's top corporate rate of 35%, which is the highest in the developed world and makes American businesses globally uncompetitive.

But this summer House Republicans, led by Mr. Ryan, began advocating an agenda that they grandly call "A Better Way." It proposes cutting the top corporate rate to 20%, but also making the tax "border adjustable." On goods and services that they export, corporations would pay no tax at all. But anything they import from overseas would not be deductible as a business expense.

On its face, the tax exemption for exports might seem to make sense: Businesses could cut prices for foreign buyers, making American goods and services more attractive overseas. But Mr. Trump's proposal to cut the tax rate to 15% would already do that. Further, how does it help the U.S. overall to have American goods sold for lower prices in Paris, France, than in Paris, Texas?

Which brings us to imports. Border adjustability means that companies would no longer be allowed to count inputs from overseas as deductible business expenses. At the 20% tax rate proposed by "A Better Way," that has the same effect as a 25% tariff, pure and simple. The costs would be passed on to Americans in some form: either to consumers through higher prices or to stockholders through lower profits.

Consider American oil refiners, who import about 7.6 million barrels of foreign crude every day, worth about $150 billion a year at current prices. Under the "Better Way" plan the industry would not be able to count that as a business expense -- a deduction worth $30 billion against taxable income, assuming a 20% tax rate. By my firm's calculations, a typical refiner would end up paying more in taxes at the 20% rate than it does today at the 35% rate.

Businesses may have limited ability to respond to the protectionist incentives embedded in this border adjustment plan. Refiners, for example, would demand more petroleum produced in the U.S. But replacing all of their imports would mean almost doubling domestic oil production. That's a worthy goal, but it's many years away in even the best of circumstances.

The same is true for other industries. Countless American firms use goods and services that the U.S. simply does not produce, cannot produce enough of, or does not produce efficiently. The border adjustment would punish them nevertheless.

Supporters of the idea have an answer for all this: the rising dollar. They claim that higher demand around the world for American exports, along with a smaller market in the U.S. for imports, would cause the dollar to appreciate against other currencies, perhaps by up to 25%.

A stronger dollar, the argument goes, would offset the implicit tariff on imports, protecting American consumers. But from the perspective of foreign buyers, it would also offset the lower prices of tax-free U.S. exports. That's the looniest aspect of this argument: If a strong dollar will offset all the effects of border adjustment, then why implement the policy in the first place?

No one can say with any certainty what the dollar will do on the **volatile** foreign-exchange markets. Even if the supporters of border adjustment are right, they are ignoring that such a massive move in the world's reserve currency could send unpredictable shocks through global supply chains and debt markets.

And even if the dollar does strengthen, it's hard to see how that would help American industries like the oil refiners, whose imports are already priced in dollars. The currency can strengthen or weaken, but the border adjustment will remain effectively a tariff on imported crude.

Mr. Trump is pushing back against the House plan. The president-elect called border adjustment "too complicated" in a Friday interview with this newspaper. "I don't love it," Mr. Trump said. "Because usually it means we're going to get adjusted into a bad deal."

At any moment, Mr. Trump might be one tweet away from endorsing outright tariffs. But he told this newspaper that he would defer acting on his campaign promise to immediately declare China a "currency manipulator," saying "I would talk to them first." That's good news for those who remember the Smoot-Hawley Tariff Act and the Great Depression that it caused. For the moment at least, Mr. Trump is standing up for free trade -- whether he intends to or not.

Mr. Luskin is chief investment officer at Trend Macrolytics LLC.

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The New York Times

Breakingviews
Business Day; DealBook
Morgan Stanley Nearly Doubled Profit From Year Earlier Fourth Quarter

By ANTONY CURRIE
416 words
17 January 2017
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Morgan Stanley roared in the fourth quarter, but it also exposed the limits of animal spirits. The bank led by James Gorman almost doubled its profit in the period from a year earlier to $1.7 billion. As at rivals, though, return on equity remains subpar.

Some banking businesses do not fare well when too much hangs in the balance, as occurred with an OPEC meeting, an Italian constitutional referendum and the American election late last year. Fees from new stock sales, for example, fell 5 percent from the third quarter at Morgan Stanley, 19 percent at JPMorgan Chase and 34 percent at Bank of America.

Trading desks ought to have been reaping the benefit from market mood swings. They certainly performed better in last year's final quarter than during the same span in 2015. Morgan Stanley's fixed-income, currency and commodities dealers raked in, at $1.5 billion, nearly three times as much revenue.

The results even dipped a bit from the usually slower summer months, though the bank did better than JPMorgan. Equity trading revenue improved for Morgan Stanley, the market leader, but fell at its two big investment banking rivals, even though the **S**.**&P**. **500 Index** rose more than 7 percent between the election and the end of the year.

Profitability also remains subdued. With annualized return on equity of 8.7 percent in the fourth quarter, Mr. Gorman is inching toward his 2017 goal of 9 percent to 11 percent. For now, Morgan Stanley keeps failing to cover its cost of capital, generally assumed to be 10 percent for large banks.

Business may pick up in time, but that story has been told for years. What could power earnings is largely beyond Wall Street's control: more and faster interest-rate increases from the Federal Reserve and financial rule changes from Washington.

Morgan Stanley is well placed to benefit from both. It is growing its lending business and its mostly domestic wealth-management unit accounts for an increasing share of the company's profit. With a capital ratio of 16.8 percent, the bank holds more excess than rivals and thus has plenty to return to shareholders if regulators allow.

The prospect of such benefits, rather than increased revenue, has helped lift Morgan Stanley's share price by almost 30 percent since Donald J. Trump was elected president. Investors may need to hold their horses.

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Equities -- MoneyBeat: U.S. Stocks Hold Steady

By Chris Dieterich
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B10
English

65: Trading days since **S&P 500** fell 1%

The **S&P 500** hasn't experienced a one-day decline of 1% or more since Oct. 11, or 65 trading sessions. If the index avoids such a decline Tuesday, the current streak would equal the longest since the **bull market** began in March 2009. The postelection enthusiasm for U.S. stocks might be fading, but so far investors are reluctant to sell.

The **S&P 500** inched 0.2% higher Friday. That marked the 65th consecutive trading day that the benchmark closed without a decline of more than 1%, just a day shy of tying the longest run of the **bull market**, according to WSJ's Market Data Group. And should the U.S. **stock market** stave off a slide Tuesday, the 67 days in a row would be the longest streak since 2006.

Despite the dearth of downdrafts, the **S&P 500** hasn't risen much recent weeks either. The **S&P 500** rushed 6.2% higher in the four weeks after Election Day on expectations that tax cuts, infrastructure spending and a relaxed regulatory environment under a Trump administration would lift the economy. Yet since first crossing above 2270 on Dec. 13, the index has traded sideways, closing Friday at 2274.64.

In fact, the **S&P 500** hasn't gained 1% or more since Dec. 7, 25 trading sessions.

The lack of direction reflects growing concerns about high valuations and the uncertainty surrounding the odds that Congress will swiftly push through measures that will support the economy. The forward price/earnings ratio of the **S&P 500** sits at 16.9, a hair below the **bull-market** high of 17.1, according to Bank of America Merrill Lynch.

Stretched valuations along with earnings reports could leave market susceptible to profit taking. Overall, companies in the **S&P 500** are expected to report earnings grew by 3.2% in the fourth quarter.

"Investors are looking for companies to confirm the expected pick-up in growth during this earnings season," wrote Dubravko Lakos-Bujas, head of U.S. equity and quantitative strategy at J.P. Morgan. "If management's tone is more cautious than pro-growth, it could be a catalyst for profit taking."

For Frank Cappelleri, a technical analyst at Instinet, a single 1% drop for the **S&P 500** likely wouldn't doom the current rally. But he said that it might not take much to flush out the market's weakest hands: "The risk is that bears finally become encouraged enough to press the issue, seize the momentum and ultimately rattle dip buyers."

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THE WALL STREET JOURNAL.
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Oil Rebound Brings Rising Costs --- As shale companies ramp up drilling, middlemen like oil-field-services firms are boosting prices

By Lynn Cook, Erin Ailworth and Christopher M. Matthews
933 words
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English

U.S. shale drillers that proved resilient during the oil downturn face a new test in 2017: Can they earn money producing more now that prices have stabilized?

The price of crude is hovering just below $55 a barrel -- the level many energy companies said they needed to make a profit -- and that is setting off a race to drill again. Producers boosted U.S. oil output to nearly nine million barrels a day, pumping an extra 500,000 barrels a day in the past three months. The additional American production is more than the volume that Saudi Arabia committed to stop producing to help shore up global crude prices.

But the cost middlemen charge companies to help them tap new wells is rising along with the new activity. That is threatening to wipe out some of the savings the industry gained by belt-tightening during the bust.

Shale companies have put more than 90 additional rigs back into the field in recent weeks, after a November agreement by Russia and the Organization of the Petroleum Exporting Countries to curb global output boosted **oil prices**.

However, the cost to hire an experienced drilling crew and source critical oil-field supplies, including the sand used in hydraulic fracturing, has surged between 10% and 20% this winter, experts say. Shale companies could face even higher prices if crude keeps climbing to $60 a barrel, they add.

Much of the cost savings that U.S. producers realized during the downturn came at the expense of oil-field-services companies, which have made it clear they intend to raise prices when demand for their help rises.

Halliburton Co. has likened negotiations with its customers to a "barroom brawl." Hundreds of small to midsize rivals that run rigs, truck water and pipe in and out of the field and provide the labor to frack wells are also trying to charge more in the new year.

"What we're seeing at the moment is a massive industry renegotiation," said Colin Davies, a senior analyst at AB Bernstein and former vice president of corporate strategy with Hess Corp.

Though a recovery remains tenuous, the U.S. shale sector hit an important inflection point in the fall, after two years in which companies hemorrhaged cash, as **oil prices** plunged from over $100 a barrel in the summer of 2014 to less than $30 a year ago.

Sixteen shale producers, including Apache Corp., Continental Resources Co. and Marathon Oil Corp., managed to slash costs enough to generate free cash flow during the third quarter of 2016, according to a Wall Street Journal analysis of data compiled by S&P Global Market Intelligence on the 40 largest U.S. oil and gas producers by market capitalization.

That means more shale producers are living within their means than at any point in the past five years. But whether more can prosper this year, when oil is expected to stay between $50 and $60 a barrel, remains to be seen.

Shale companies such as Carrizo Oil & Gas Inc., a driller active in Texas, Colorado and Pennsylvania, have tried to entice service providers to maintain current pricing under long-term contracts. They have met some resistance, said Chip Johnson, Carrizo's chief executive.

"Service companies don't really want to lock in today's prices for any longer than they have to," he told an industry conference audience in Houston in November.

Kenneth Shore, vice president of Tec WellService, Inc. in Longview, Texas, said that at the peak of the oil boom, Tec Well charged $325 an hour to drill wells, but dropped that to around $200 as crude prices slumped.

Mr. Shore recently quoted an oil-producer customer a rate of $220 per hour to operate a rig in the Permian Basin because there was no experienced crew and he knew he would be unable to lure workers back without boosting their salaries.

The client agreed, and Tec Well announced an 11% wage increase.

Producers have had "service companies working for them below their cash cost," said Mr. Shore, adding that "all of our competitors went bankrupt, every single one of them."

Sand mines are pushing up prices, hoping to get 20% or more for the fracking ingredient used to help prop open underground fissures and allow oil to flow to the surface.

Until recently sand mined in Wisconsin hovered around $20 a ton, but a company recently reported a purchase at $30 a ton, according to Simmons & Co. International. The Houston energy investment bank is forecasting demand for frack sand could jump 60% to 60 million tons in 2017 as shale producers try to coax more from every well by using more sand and fracking wells more often.

Those kinds of advances in production techniques are what helped many U.S. shale companies make drilling wells economic at around $55 a barrel, down from $90 just two years ago. So rising prices for sand and other services could increase the price they need to break even, analysts say.

In Oklahoma's Scoop formation, one of the hottest current drilling areas in the country, a typical well can now earn money at $51 oil, according to Simmons. But factoring in a 15% to 30% escalation in service costs, those same wells would need between $57 and $63 a barrel to break even, the bank estimates.

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The New York Times

Invisible Hand
The Upshot
Presidents Have Less Power Over the Economy Than You Might Think

By NEIL IRWIN
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Presidential reputations rise or fall with gross domestic product. The state of the economy can determine if presidents are re-elected, and it shapes historical memory of their success or failure.

In the news media, we often use the handover of power as thetimeforassessing the economic record of the departing president. (I've done it myselfrecently.) Some economists have predicted that the Trump administration could create the next recession or financial crisis. And scholars have studied the relative economic conditions generated by Republicans and Democrats for predictive meaning (Democrats have done better since World War II, they found).

But the reality is that presidents have far less control over the economy than you might imagine. Presidential economic records are highly dependent on the dumb luck of where the nation is in the economic cycle. And the White House has no control over the demographic and technological forces that influence the economy.

Even in areas where the president really does have power to shape the economy — appointing Federal Reserve governors, steering fiscal and regulatory policy, responding to crises and external shocks — the relationship between presidential action and economic outcome is often uncertain and hard to prove.

It's this quirk in how we think that unfairly enhances the reputation of Ronald Reagan and Bill Clinton while unfairly diminishing the presidencies of Jimmy Carter and both George Bushes.

And if you think of the **financial markets** as the hyperactive cousin of the economy itself, this mental framework can cost you money.

We all have a tendency to think that a president whose policies we disagree with will be bad for the economy and the **stock market**. But looking at markets in such starkly political terms can lead to bad decisions. Ask a conservative who refused to invest in stocks while they notched a 182 percent gain during the Obama presidency — or a liberal who shorted stocks after Donald J. Trump won in November.

So what tools does a president actually have to shape economic outcomes? Fewer than you might think. Let's walk through the factors that determine economic results — from those that are more purely luck to those that do reflect a president's skill at overseeing the economy.

Timing the business cycle

When George H.W. Bush took office in January 1989, the unemployment rate was 5.4 percent and the roaring 1980s expansion was near its peak. When Bill Clinton succeeded him in January 1993, the unemployment rate was 7.3 percent and falling, as the United States was finally shaking off the damage of a recession.

That bit of timing alone — taking office at the trough of the business cycle versus the peak — can help explain much of how we perceive a president. Mr. Bush, of course, was a one-term president, while Mr. Clinton was handily re-elected.

President Obama's luck on this front was somewhere between those extremes; he took office in the middle of a steep downturn. But some simple math shows just how much the timing of the 2008-9 recession relative to Inauguration Day mattered. Mr. Obama is set to leave office with cumulative job growth of 8.4 percent over his eight years in office.

But if he had taken office 13 months earlier in December 2007, he would have presided over a putrid 3.4 percent growth. If he had taken office in February 2010, when employment hit rock bottom, he would be on track to see blockbuster 14 percent job growth in eight years (assuming 2017 job creation turns out to be equivalent to 2016).

Put simply, when you take office at the bottom of a recession and with unemployment high, you can “achieve” a lot of growth just from the natural healing of the economy. When you take office at the top, there is nowhere to go but down. This may presage bad news for Mr. Trump, given that the jobless rate was a relatively low 4.7 percent in December.

Demographic and economic destiny

Consider one of the big economic forces of the post-World War II economy: women entering the labor force on a mass scale. In 1948, only 33 percent of American women between 25 and 54 worked or sought work. By the time George W. Bush took office in January 2001, that had risen to about 77 percent.

That means that throughout the second half of the 20th century, the economy had a huge tailwind, as millions of women joined the work force and stated contributing to G.D.P. Richard Nixon, Ronald Reagan and Bill Clinton didn’t create that trend; broader social forces did. But the fact that it happened made their economic records look better.

Expand the idea to other elements of demographics: the baby boom generation entering the labor force from the 1960s through the 1980s and now retiring; the large millennial generation coming into the work force. You see that a big part of the economic growth that might take place during a given presidency is determined by forces not under any politician’s control.

It’s worth noting that these forces are part of the story behind slow growth during the Obama administration and will — unless something surprising changes — continue in the Trump administration. The labor force has grown an average of 0.4 percent a year during the last eight years, and the Congressional Budget Office projects an average of 0.5 percent a year during the coming four.

By contrast, the labor force grew by an average of 1.2 percent a year during the 1990s, the last period of blockbuster growth.

The president doesn’t set monetary policy

Now we’re getting to areas where the president really does have some control over the economic cycle. Too bad it’s so indirect.

The Federal Reserve raises and lowers interest rates in an effort to prevent recessions and maintain low inflation. The president appoints its seven-member board of governors, including the chair.

The president can select appointees who align in terms of philosophy and instincts, and may select Fed governors who are more competent — or less. But the Fed system is designed to maintain independence from the administration once the appointments are made.

Beyond that, terms are staggered such that a president won’t necessarily get to appoint a majority of Fed leaders, especially right off the bat (Fed governors’ terms are 14 years, though lately few have served that long; the Fed chair has a four-year term).

So when a president appoints Fed officials who are effective stewards of monetary policy, achieving their goals of maximum employment, stable prices and financial stability, it helps a president’s odds of having an impressive economic record. It just isn’t a very direct exertion of power.

For fiscal policy, talk to Congress

This is often what we think of when we talk about a president’s economic policy. The occupants of the Oval Office can steer policy around taxing and spending priorities. But they can’t do it alone.

It’s certainly true that tax and spending policy carries a president’s imprint. President Obama’s election victories enabled him to enact a major fiscal stimulus in 2009 and increase taxes on the wealthy starting in 2013. President Reagan’s election brought a sharp cut in tax rates. Different election results would have made for different fiscal policy.

But Congress has, if anything, greater power than the president over how the government taxes and spends. It's almost a punch line that when a president issues a proposed budget each winter, congressional opponents call it "dead on arrival."

And while Mr. Obama had fiscal policy wins, he also met stiff resistance. The spending cuts known as "sequestration" happened because Republicans took control of Congress in 2010.

So to the degree that taxes and spending shape the course of the economy — and there's no doubt they do — presidents can set direction, but not steer the ship themselves. It is a lesson Mr. Trump will soon learn.

Everything else affects the economy — slowly

There's a broad range of other areas in which presidential action affects the economic future. Name a field, and the president exerts power over it: health care, energy, technology innovation, financial regulation, labor policies, trade, transportation infrastructure, agricultural policy. The list is endless. Even foreign policy matters; stable geopolitics is generally good for business.

The problem is that all of these big policy areas affect the nation's economic prospects over the long run. The downsides of regulating banks poorly might show up as a crisis a decade down the road. The benefits of better infrastructure will tend to show up over many years. The payoffs of well-designed education policies come to fruition as young people enter the labor market with better skills years later.

Likewise, from a more conservative vantage point, the cost of environmental restrictions limiting energy production may not show up in the price of fuel for years. Burdensome, outdated regulations tend to show up as a modest drag on business year after year, not as an acute, clear crisis.

For example, the Congressional Budget Office estimated that the Affordable Care Act would reduce the labor supply by 2.3 million because more people would choose not to work. (The thinking being that they were working mainly so they could have employee-sponsored health insurance.) It said this would happen not immediately, but by 2021, a full 11 years after the law was passed and four years after the president who signed it would be out of office.

And that's a case where independent economists manage to create an estimate of economic consequences. Often these economic impacts are so slow-building, diffuse and subject to partisan interpretation that it's hard to estimate them with any precision. We all want to assume that it is our preferred policies that make the economy rev more strongly, even if it's hard to prove definitively.

None of this means that presidents can't do a lot to make the United States economy more dynamic and productive. It's just that doing so could take a great while. It's hard to prove that this or that policy was the source of the good times.

In the short run, all those other factors have a more direct, measurable effect in shaping whether a moment in political history produces an economy we remember fondly.

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* The Major Potential Impact of a Corporate Tax Overhaul

* Why Most Economists Are So Worried About Trump

* Making America Great Again Isn't Just About Money and Power

* Obamacare Repeal Is Moving Forward. When Will Changes Affect Consumers?

President-elect Donald J. Trump at a Carrier plant in Indianapolis last month. Presidents can certainly influence the economy, but they can't control it. | A J Mast for The New York Times

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THE WALL STREET JOURNAL.
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REVIEW & OUTLOOK (Editorial)
Trump's Antitrade Warriors

904 words
17 January 2017
The Wall Street Journal
J
A18
English

Financial markets since Donald Trump's election have been floating on the promise of tax reform and deregulation, but a major question lingers over his economic agenda. To wit, the President-elect has assembled the most antitrade team of presidential policy advisers since the 1920s.

We wish we could say this is an exaggeration. But markets may be underestimating the fervor of Mr. Trump's antitrade warriors and his determination to use tariffs and other import barriers against China in particular but even against friendly trading partners like Japan and Mexico.

Most modern Presidents, Democrat or Republican, have had a mix of free-traders and trade enforcers in their senior ranks. Mr. Trump's economic team is striking for not having a single clear-throated free-trader anywhere in the senior economic team -- even in the slots where trade promotion has long been part of the job description.

The Commerce Department is usually the destination for business lobbies that want relief from competition, and Mr. Trump's choice as secretary, Wilbur Ross, fits that protectionist billet. He's spent his business career investing in such industries as steel and textiles that have been hurt by foreign competition.

He seems to believe that trade is a zero-sum game, not an exchange of mutual benefit, and that running a trade surplus is by definition a sign of economic success. Never mind that the U.S. ran trade deficits throughout the high-growth years of the 1980s and 1990s.

Commerce is offset in most administrations by the U.S. Trade Representative, typically a free-trade voice. But Mr. Trump has nominated Robert Lighthizer, a lawyer for the steel and other industries seeking government protection behind high tariff walls. At USTR in the Reagan years, he argued for government-led industrial policy to defeat what he saw as Japan's inevitable economic dominance. We know what happened to Japan, but Mr. Lighthizer is back with a new target: China.

Then there's Peter Navarro, whom Mr. Trump has selected to run a new National Trade Council inside the White House. Trade is typically one of the issues handled in the White House by the National Economic Council, but Mr. Navarro's separate brief suggests a diminished role on trade by the NEC that will be run by Goldman Sachs veteran Gary Cohn.

Mr. Navarro, an economics professor at the University of California Irvine, is the author of "Death by China" and "The Coming China Wars." He and Mr. Ross wrote a white paper in September for the Trump campaign that called China "the biggest trade cheater in the world." China deserves to be challenged on its intellectual-property theft and nontariff barriers, but Mr. Navarro appears to want the U.S. to fight China's mercantilist policies by imitating them.

One problem is that there aren't any obvious free-trade voices to counter this protectionist triumvirate. Mr. Cohn's views aren't apparent and he isn't as close to Mr. Trump as the trade warriors are. Treasury and State would typically make the case for open trade relations, but Rex Tillerson will have Russia and the Mideast to worry about. Even if he's confirmed, Steve Mnuchin may not have much clout as Treasury Secretary.

The trade warriors haven't said how they plan to proceed, and perhaps the White House intends mostly bluster and brinksmanship. But Mr. Trump's public comments suggest that renegotiating trade deals around the world will be an early priority. And he has many tools available to do it without going to Congress. He can declare that China is a currency manipulator, for example, even though China has spent $1 trillion in reserves in two years trying to prop up the yuan amid capital flight.

We hear the White House may also press Congress to start moving a trade bill to give Mr. Trump new tariff powers while he negotiates. The threat of legislation would be used as leverage in the talks. The danger is that trade bills can easily become a stampede. Most Democrats are already protectionist, especially in the House, and Republican free-traders could break under presidential pressure.

House Republicans are also pushing a tax reform with a "border adjustability" provision that would exempt U.S. exports from corporate tax while taxing imports. They hoped this might satisfy Mr. Trump's protectionist urges, but the Trump White House may oppose that provision because it prefers outright tariffs. The border fee would raise more than $1 trillion over 10 years to pay for lower tax rates, so the Trump tax reform could also turn out to be less pro-growth than advertised.

All of this suggests that investors and businesses with an interest in open trade need to start paying attention. The same goes for Senators and Congressmen from trading states like Louisiana, California and the Farm Belt.

Mr. Trump has a pro-growth agenda on taxes, regulation, energy and much else. But the potential Achilles' heel is trade policy. Too many Republican administrations with otherwise sensible policies have been undermined by one or two bad economic blunders: Bush 43 (monetary and housing policy), Bush 41 (taxes), Nixon (monetary policy and regulation), and Hoover (trade, etc.). Republicans in Congress need to be alert lest bad trade policy destroy their entire reform agenda.

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THE WALL STREET JOURNAL.
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World Economic Forum: Outlook 2017 (A Special Report): Policy & Markets --- Central Banks Drop Their Bazookas: Policy makers have largely signaled their exhaustion with low- and negative-rate policies; Fed leads the pack higher

By Jon Hilsenrath
778 words
17 January 2017
The Wall Street Journal
J
R10
English

An epoch of exceptional monetary stimulus is drawing to a close.

Central banks have exhausted themselves in their efforts to spur economic growth with low -- even negative -- short-term interest rates and bond-purchase programs meant to drive financial-asset prices higher.

Now, a range of forces -- including political blowback, whiffs of inflation, stirrings of fiscal stimulus, receding unemployment and worries that the policies themselves may backfire -- are pressing them to push short-term interest rates no lower.

The Federal Reserve is the first mover in this shift. It has nudged up short-term interest rates in two quarter-percentage-point increments in a little more than a year and penciled in three more moves in 2017. If all goes according to plan, its benchmark interest rate will rest at 1.375% by year-end, a level not seen in the U.S. since before Lehman Brothers collapsed in September 2008.

Anticipating the shift, investors have already pushed long-term interest rates higher. Yields on 10-year U.S. Treasury notes have jumped from 1.37% in July to near 2.5%.

The election of Donald Trump is a potential turning point for the Fed. Mr. Trump's attacks on elites included the U.S. central bank. His promises of tax cuts and infrastructure spending could charge up the U.S. economy, leaving it less dependent on low rates to spur growth.

Fed officials are watching cautiously to see how he proceeds. "It is far too early to know how these policies will unfold," Fed Chairwoman Janet Yellen said in December.

But she has seen enough progress in the real economy to get started moving rates up. The jobless rate, at 4.7% in December, is low enough to suggest slack in the job market is receding. Wages have started rising and inflation is not far from the Fed's 2% target.

For Ms. Yellen herself, this could be her last year in office. Mr. Trump during the election said he would probably replace her when her term ends early next year.

Elsewhere in the world, central banks have signaled exhaustion with low rate policies.

"I'm not a fan of negative interest rates," Mark Carney, governor of the Bank of England, said in August. "We see the negative consequences of them through the financial system; we've seen that in other jurisdictions; we see the issues with savers."

The U.K. economy was expected to slow after the public decided in the summer to leave the European Union. The slowdown didn't materialize and by November policy makers ditched plans to cut rates further. The U.K. central bank now needs to mind a sharp fall in the pound, which is expected to propel inflation above the BOE's 2% annual target by the middle of the year.

European Central Bank officials have prolonged an asset-purchase program, also known as quantitative easing, by nine months, through the end of 2017. However, they will reduce the monthly volume of purchases to 60 billion euros ($63 billion) from 80 billion euros after March.

They, too, have grown squeamish about pushing short-term rates, already negative, any lower. Eurozone inflation, at 1.1%, rose at its fastest pace in three years in December, a sign that monetary stimulus in continental Europe may becoming less urgently needed.

In Asia, additional easing by the Bank of Japan is off the table for now, while the People's Bank of China is trying to balance its need for growth against a credit-induced property boom that makes officials wary of pushing rates much lower. Everywhere outside the U.S. -- including Japan and China -- downward pressure on currencies is an added form of stimulus that makes lower interest rates less compelling.

The low-rate epoch didn't deliver fast economic growth. In the advanced economies that championed the policies, economic output has expanded at a rate at or below 2% for six straight years and will do so again in 2017, estimates the International Monetary Fund.

Critics say the policies distorted **financial markets** while punishing savers and banks. Central bankers said they had no choice in the wake of the 2007-09 financial crisis, given the deflationary forces it unleashed.

Now policy makers dive into a new era -- led by the Fed and a new Trump administration -- when they test whether there is an alternate path to prosperity.

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THE WALL STREET JOURNAL.
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World Economic Forum: Outlook 2017 (A Special Report): Policy & Markets --- Investors See Big Gains Outside U.S.: Monetary policy is looser and valuations lower in many global stock markets; strong dollar could cap American equities

By Christopher Whittall and Riva Gold
855 words
17 January 2017
The Wall Street Journal
J
R11
English

U.S. equity markets are racing higher, but some investors are betting the rest of the world is about to catch up.

Investors have piled into U.S. stocks since the election of Donald Trump, pushing up share prices in so-called cyclical sectors such as banks and industrials, which tend to benefit from a pickup in economic growth.

Some now believe the next spur in global stock markets will come from outside the U.S., where monetary policy is looser, valuations are lower and shares have more room to rise.

There are reasons for caution on international stocks, from Europe's fractious politics to frailties in emerging economies and lackluster growth in Japan. That helps explain why stocks in these regions look relatively cheap.

Still, international markets may now advance as investors look for cheaper stocks and move out of U.S. shares that now look expensive, some analysts and investors say.

"We would expect areas outside of the U.S. to outperform," said Supriya Menon, senior multiasset strategist at Pictet Asset Management.

Global economic growth should continue to improve and further fuel the so-called reflation trade "that will see Japan and Europe benefiting and catching up with the U.S.," Ms. Menon said.

In recent months, the reflation trade has seen investors sell bonds and buy more stocks across the developed world on expectations that Mr. Trump will boost U.S. growth by cutting taxes and regulation and increasing fiscal spending. International stocks have risen, too, as investors look for a rebound in global growth.

Economists at HSBC recently raised their two-year global growth forecast for the first time since early 2012, projecting 2.5% for 2017, up from a September forecast of 2.3%.

Investors have sold safer defensive companies in sectors such as health care -- which provide steady streams of income when growth is low -- in favor of cyclical stocks such as banks, which should benefit from a pickup in growth and inflation. The **S&P 500** Financials subindex is up about 22% over the past three months, while the Health Care has gained about 1.5%.

Since Mr. Trump's election on Nov. 8, the **Dow Jones Industrial Average** has gained about 8.5% and the **S&P 500** is up more than 6%. For dollar investors, the Stoxx Europe 600 has risen more than 4%, and the Nikkei Stock Average has gained about 2.5%.

One reason for U.S. outperformance is that for dollar investors, the value of European and Japanese shares have fallen as local currencies have declined. In local currency terms, the Stoxx Europe 600 is up more than 9% while the Nikkei has gained more than 12%. But the **S&P 500** has gained even more sharply for overseas investors -- about 10.3% in euro terms and about 16.4% in yen.

Despite the recent surge, U.S. stocks are facing potential headwinds, analysts say.

That includes the dollar, which in early January hit its highest level since 2002. In the past, a strong dollar has eaten into earnings of U.S. companies that sell overseas.

U.S. stocks have also been gaining as investors bet on a continued improvement in corporate earnings, analysts say. So any earnings undershoot could dent share prices, especially given the prospect of higher U.S. interest rates.

Recent gains in U.S. equities mean the market looks expensive compared with the rest of the world. Pictet's Ms. Menon said the U.S. is close to the most expensive it has ever been, compared with Europe and Japan across a range of valuation gauges. On one metric, stocks listed on the Stoxx Europe 600 index have a price-to-book value of 1.9, making them far cheaper than the 3.2 value of the Dow.

"The U.S. will do OK, but I think it's running out of headroom," said Guy Miller, chief market strategist at Zurich Insurance Group Ltd.

The recent outperformance of U.S. equities is unusual -- international markets have tended to do better when cyclical stocks are favored over so-called defensive shares, according to analysis from Absolute Strategy Research.

David Bowers, head of research at ASR, said investors tend to hold U.S. companies when the global economic is weak because many consider them to be safer and better-run investments, and then shift into cheaper non-U.S. companies when growth picks up.

Mr. Bowers attributes the recent outperformance of U.S. markets to big gains in bank shares on investor hopes of deregulation of that sector.

There are, though, reasons for investors to be cautious about shifting into international markets. Chief among those are European elections, from the Netherlands to France, whose outcomes could challenge eurozone unity and spark political and economic turmoil across the continent.

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THE WALL STREET JOURNAL.
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World Economic Forum: Outlook 2017 (A Special Report) --- Heard on the Street: Pricking the Bubble on China Rising

By Alex Frangos
310 words
17 January 2017
The Wall Street Journal
J
R12
English

[Financial Analysis and Commentary]

A year ago, China came to Davos with one highly important task: calm the world down about its tottering **financial markets**. A year hence, many of those problems have been swept under the rug.

Xi Jinping is expected to be the first Chinese president to attend the conclave and will easily be the most powerful person in the room. Much will be made of the optics. An inward-looking U.S. clears the path for an ascendant China. That is the dominant narrative, anyway.

In reality, Mr. Xi comes to Davos with much the same baggage as his underlings did in 2016 when they were forced to use their appearances to reassure markets that the yuan wasn't slipping out of Beijing's grip.

While China's stock markets have calmed, that is mostly because they have become irrelevant. Massive government intervention has encouraged investors to move on to other bubbles. A bond-market mania is the most imminent threat, given how integral such financing has become to China's banks and shadow banks.

Meanwhile, capital outflows continue to dog the economy as China struggles to prevent the yuan from sliding too quickly. Judging by the measures to stop capital outflows, the pressure for money to leave China remains intense. True, economic growth has steadied somewhat over the past six months, but the cost was a massive slug of additional debt for an economy already choking on the stuff.

Mr. Xi may want to use Davos to show the Chinese system of autocratic governance is the best for promoting stable growth. Mostly what it has been good at of late is storing up problems for another day.

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THE WALL STREET JOURNAL.
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World Economic Forum: Outlook 2017 (A Special Report) --- Heard on the Street: Central Banks In the Crosshairs

By Richard Barley
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R12
English

[Financial Analysis and Commentary]

With central bankers veering into uncharted policy waters since the financial crisis, vacuuming up trillions of dollars in securities and pushing interest rates to zero and beyond, it is perhaps no surprise to see them drawing political attention.

But investors should watch for any further deterioration in relations between politicians and central bankers; monetary policy is at a critical juncture.

The biggest political events of 2016 -- Donald Trump's U.S. election victory and the U.K.'s vote to leave the European Union -- both raised questions around central-bank policy and independence. Mr. Trump said in May he would likely replace Federal Reserve Chairwoman Janet Yellen, and Republican lawmakers are reviving an effort to subject the Fed's decisions to greater scrutiny.

In the U.K., the Bank of England has come under attack for its analysis and actions both before and after the Brexit vote, including its decision to restart quantitative easing. In Europe, meanwhile, there are rumbles of discontent about European Central Bank policy from Germany.

Central bankers, of course, have been swift to defend their independence. Indeed, the ECB and others have made consistent calls for politicians to do more on the fiscal front so as to prevent monetary policy being the only game in town.

So far, investors don't seem too concerned about threats to developed markets' central-bank independence. Typically, increased political pressure on policy makers might show up in sharply rising inflation expectations, higher economic and market **volatility** or diminishing confidence in a currency. Look, for instance, at Turkey, where investors doubt the central bank will tighten policy in the face of criticism of high interest rates by President Recep Tayyip Erdogan. The lira fell more than 17% against the dollar last year and has hit a record low in 2017.

Still, investors should be sensitive to further political criticism of central banks. For a start, they have been the beneficiaries of easy monetary policy, one of the factors that is fueling the debate. The sense that central bankers' actions have only made the rich richer. And the exit from ultraloose monetary policy could be much trickier than its introduction.

For global markets, the acid test will be the actions of the Fed as it seeks to raise rates. Ms. Yellen's term expiring in January 2018 -- and her possible successor with someone closer to Mr. Trump's way of thinking -- will further put Fed policy making at the center of the political stage.

Uncertainty around the interaction of fiscal and monetary policy is already high. Any confusion around the central bank's motives could unsettle markets.

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THE WALL STREET JOURNAL.
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World Economic Forum: Outlook 2017 (A Special Report) --- Heard on the Street: A Time for Worrywarts

By Spencer Jakab
616 words
17 January 2017
The Wall Street Journal
J
R12
English

[Financial Analysis and Commentary]

Davos Man may sport an expensive manicure and the perfect apres ski tan, but that belies the hours spent biting his nails in front of a monitor.

The world, after all, is a dangerous place and there is always something to frighten professional worrywarts. Since the 1973 Yom Kippur War and ensuing Arab Oil Embargo threw the Western world into what was then its worst postwar recession, the World Economic Forum has invited politicians to opine on geopolitical risks. Every recent meeting has been accompanied by papers citing armed conflict as a key factor to watch.

Yet Davos is an economic forum and, while the world certainly hasn't been peaceful, several years have gone by since a conflict or act of terror had a meaningful global economic impact. Add up the gross domestic products of current conflict zones Syria, Iraq, Ukraine, Afghanistan, Yemen, South Sudan and Libya and they don't even equal that of Belgium.

This year, though, economic ripples from latent conflicts are a realistic threat. East Asia is the source of three potentially destabilizing conflicts. One comes from the long-dormant but unresolved issue of Taiwan. Donald Trump's unprecedented phone conversation with Taiwan's president and his subsequent suggestion that Taiwan's status could be a bargaining chip, may embolden China to stoke tensions during a leadership transition year.

China's territorial claims and fortress building in the South China Sea and its increasingly assertive projection of naval power also hold the potential for an accidental run-in with the U.S. or regional allies.

These threats pale in comparison, though, to the one posed by unpredictable North Korea, where nuclear saber rattling is getting louder. Major regional economic power South Korea and global power Japan are both exposed.

Meanwhile, Mr. Trump's ambivalence toward the North Atlantic Treaty Organization and friendliness with Vladimir Putin could embolden the Russian leader to test American willingness to defend Western Europe's periphery. The rise of populist leaders who draw encouragement from Mr. Putin could weaken the alliance from within.

In the already burning Middle East, proxy wars in Yemen and Syria between Shiite Iran and Sunni Saudi Arabia threaten to erupt into open conflict between the two regional powers and major petroleum exporters.

Regional power and NATO member Turkey appears to be drifting from the U.S. orbit and toward authoritarian rule, especially since a failed coup in July. In the worst case, this could embolden Turkey's "neo-Ottoman" territorial claims to parts of Iraq and Syria, possibly using the Kurdish conflict as a pretext.

The economic fallout of any of the aforementioned conflicts would be big, but the market reaction could be even bigger. Traders have been conditioned to fade scary headlines and buy ensuing dips. After years of crying geopolitical wolf at forums such as Davos, a realization that the days of Pax Americana are over would be taken badly. U.S. power is no longer a guarantee that once inviolable red lines won't be crossed.

Research firm Birinyi Associates looked at two decades of U.S. **stock-market** reactions to U.S. military engagements since the early 1990s. In four of five cases, the **S&P 500** sold off as tensions rose but regained the losses within a month. Market reaction has been even milder for recent events such as Russia's invasion of Crimea, the Paris attacks and Turkey's coup.

It is time to pay more attention to the geopolitical party poopers at Davos.

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THE WALL STREET JOURNAL.
U.S. EDITION

World Economic Forum: Outlook 2017 (A Special Report): The Global Economy --- Banks, Energy Firms Stand to Benefit From Regulatory Change

By Theo Francis
484 words
17 January 2017
The Wall Street Journal
J
R8
English

A nearly 6.3% rally in the **S&P 500 index** in the 10 weeks since Donald Trump's election masks the fact that much of the gain has been driven by a few sectors -- including financial and energy stocks -- buoyed by expectations that they will benefit from shifts in tax and regulatory policies.

Other sectors, including technology and health care, are lagging the market, held back, analysts say, as much by uncertainty as specific concerns.

"We're in for potentially big changes under the new administration," said Kathy Bostjancic, chief **financial-market** economist for research firm Oxford Economics USA. "There are big expectations, but also big unknowns about what's going to be put forth and what can actually be enacted."

Financial-services companies have jumped nearly 18% from Election Day through Jan. 11. Analysts say investors are optimistic the Trump administration, with a Republican-dominated Congress, will roll back rules adopted in the wake of the financial crisis.

Rising interest rates -- driven by both the Federal Reserve's expected rate increases this year and the prospect of increased inflation from new federal spending -- also offer banks opportunities to make money through lending and increased trading revenue.

Similarly, shares in the energy sector have risen about 10% since the election, stoked by hopes for a cutback in environmental regulations and key nominees seen as friendly to the industry, including former Texas Gov. Rick Perry for energy secretary.

That optimism is tempered, however, by concern that a proposal for a "border tax adjustment" -- a levy on imports -- could harm companies that import fuel or other commodities, notes Alex Cynamon, deputy director of research for Height Securities LLC.

In the technology sector, up just two-thirds of the overall index's gain, proposals giving companies a tax break for bringing overseas profits back to the U.S. are appealing to investors. But Mr. Trump's rhetoric favoring tighter immigration controls are more ominous. "They rely on a lot of foreign talent in the tech sector," Ms. Bostjancic said.

Tax issues loom large for the health-care sector, which has also lagged since the election. Health insurers could prove among the biggest beneficiaries of a cut in the general corporate tax rate, simply because their business is almost entirely domestic.

But other components of the Republican health-care agenda remain murky. Despite a determination to dismantle the Affordable Care Act, "we don't really know what the replacement will be," Mr. Cynamon said. And of course, Mr. Trump's postelection promise to "bring down drug prices" has rattled the pharmaceutical industry.

"There's reason for concern, and there's reason for optimism -- and all of those are still dueling it out," Mr. Cynamon said.

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The New York Times

The Week Ahead
Business Day
Davos to Commence as Investment Bank Earnings Are Released

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15 January 2017
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NYTimes.com Feed
NYTFEED
English

Here's a look at what's coming up this week.

WORLD ECONOMIC FORUM

Davos Gathering to Convene, With Trump on the Agenda

Heads of state, business leaders and entrepreneurs will meet in the Swiss resort town of Davos on Tuesday for the world's most elite networking event, the annual World Economic Forum. Among the most anticipated guests this year will be President Xi Jinping of China, marking the first time that a Chinese head of state has attended the gathering. Participants will discuss topics like climate change, social inclusion and responsible leadership, against a backdrop of rising populism in Europe and the United States. President-elect Donald J. Trump is likely to be a major topic of discussion in the many sessions this week. Alexandra Stevenson

EARNINGS

Bellwether Reports From Banks Are on the Way

Details of banks' performance in the fourth quarter will continue to emerge this week, starting on Tuesday with a report from Morgan Stanley. During a period when industry trading results appear to have been strong, investors will see whether Morgan Stanley, which has gravitated toward more stable businesses like wealth management in recent years, has benefited. On Wednesday, investors will hear from Goldman Sachs, considered by many to be an industry bellwether. Goldman, which has historically made outsize profits from helping hedge funds and corporations trade and transact, recently introduced an online-lending apparatus, Marcus, to serve typical consumers. The report this quarter may offer a window into its promise. Kate Kelly

CANADIAN ECONOMY

Bank of Canada to Announce Benchmark Lending Rate

When the Bank of Canada announces its benchmark lending rate on Wednesday, few observers anticipate that it will follow the lead of its American counterpart and post an increase. Stephen S. Poloz, the Bank of Canada governor, said last month that compared with the United States, Canada's economy was further from reaching its full capacity, leading to the widespread assumption that the bank's overnight rate will stay at 0.5 percent. It will be the first rate announcement by Canada's central bank since the election of Mr. Trump. Some of Mr. Trump's election promises, notably a conditional vow to approve the Keystone XL pipeline, could help Canada's economy. But if he imposes a border tax on manufactured goods from Canada, the effect would be a significant drag on its export-dependent economy. Any such tax would be particularly problematic for the auto industry. Canada's car manufacturing and car parts businesses have been closely integrated with the United States since 1965, when the two countries agreed to free trade in the sector. Ian Austen

U.S. ECONOMY

Gas Prices Expected to Boost Consumer Price Index

On Wednesday morning, the Labor Department will release its latest reading on the Consumer Price Index. After a 0.2 percent increase in November's index, analysts are expecting a 0.3 percent rise for December, primarily because of rising gasoline prices. The core C.P.I., which strips out the more **volatile** food and energy prices, is expected to rise 0.2 percent, the same gain as the previous month. While the overall index inched up for a total 1.7 percent over the previous 12 months, the year-over-year rate for the core measure ticked down to 2.1 percent. Consumer confidence has continued to surge since the election. Patricia Cohen

EUROPEAN ECONOMY

E.C.B. Body to Debate Continuing Stimulus Measures

The European Central Bank's Governing Council will meet on Thursday and is likely to debate whether to begin weaning the eurozone from stimulus measures. No big moves in monetary policy are expected, but minutes from the last Governing Council meeting indicate that some members have begun arguing that the bank should begin easing off on its large purchases of government and corporate bonds. Those arguments gained traction in December, when inflation in the eurozone rose above 1 percent for the first time since 2013, bringing the rate closer to the official target of 2 percent. Jack Ewing

OIL INDUSTRY

Oil-Producing Countries to Discuss Price Controls

Ministers from OPEC countries are scheduled to join their counterparts from Russia and Oman in Vienna over the weekend to discuss whether oil producers are complying with the agreement reached last year to cut production to prop up prices, now $56 per barrel for Brent crude. The meeting of the ministerial monitoring committee is part of an effort to convince skeptical markets that the oil exporters are serious about cuts. Saudi Arabia, which is expected to attend the meeting along with fellow OPEC members Algeria, Kuwait and Venezuela, has already said it has cut production below 10 million barrels per day for the first time in nearly two years. Stanley Reed

Document NYTFEED020170115ed1f00439

The New York Times

Money and Business/Financial Desk; SECTBU
Money Market Mutual Funds and C.D.s Get a Lift

By CARLA FRIED
1,122 words
15 January 2017
The New York Times
NYTF
Late Edition - Final
17
English

Benign neglect has been a rational approach to managing cash since the financial crisis. It made little sense to apply any elbow grease searching for yields when options ranged from earning nothing to earning next to nothing.

But with last month's rise in the Federal Reserve's target interest rate and the expectation that there could be three rate increases this year, money market mutual funds are showing signs of life. ''We are heading to 1 percent yields, and the bleeding edge of cash could touch 2 percent in 2017,'' said Peter G. Crane, the publisher of Money Fund Intelligence.

Modest, you say? Well, modest gains may be especially appealing given recent bond losses. In the fourth quarter, core bond funds, the go-to diversification tool for most investors, fell 3 percent, as rising yields pushed down **bond prices**.

If you're inclined to seek out even more stability in a money market mutual fund now that yields are resuscitating, make sure you understand recent changes in the rules that govern how some funds operate.

For decades, the value proposition of a money market mutual fund has been a steady price, or net asset value, that stays glued at $1. That stable price makes money markets highly liquid, because shares can be bought or sold for $1.

But in the September 2008 financial meltdown, an institutional money market fund could no longer maintain its $1 share price when Lehman Brothers declared bankruptcy and the fund was caught holding a large slug of Lehman's short-term debt. That ''breaking the buck'' event set off worries of a possible run on other money market funds. The federal government stepped in with a guarantee that calmed the markets. And the Securities and Exchange Commission pushed through reforms that took effect in October that could make certain types of money market funds less appealing and less liquid.

Under the new rules, retail money market mutual funds sold to individuals will continue to offer a steady $1 net asset value, but the value of institutional money market funds will now float, based on current market prices. One potential problem is that during a period of extreme market anxiety, shareholders of some retail funds could find it more expensive to withdraw money or be temporarily barred from selling shares.

Some of the rules are quite technical: Retail money market mutual funds that invest in corporate debt (known as prime money market funds) and municipal money market funds are required to keep at least 30 percent of their money in securities that can be easily sold within five business days. That should make it possible for a fund to absorb even an outsize run of redemption requests.

Even so, the S.E.C. has also handed two new tools to the boards of prime and municipal money market funds: If that 30 percent liquidity floor is breached, redemption fees of up to 2 percent can be levied, and a fund may impose a ''redemption gate'' that restricts redemptions for up to 10 business days in any 90-day period.

Shareholders may find these fees and gates quite unappealing; the fund industry certainly does. It is afraid that the changes will scare off investors. That's why most fund companies and brokerages have switched their default money market fund for retail clients from a prime fund to a government fund. Government funds invest in extremely liquid government debt, adding safety and liquidity, and these funds don't have redemption fees or gates.

But government money market funds have a downside: lower yields. The largest retail money market fund, now called Fidelity Government Cash Reserves (it was a prime money market fund known as Fidelity Cash Reserves until the company changed the fund's mandate), yielded just 0.13 percent in early January.

While a money market fund still makes sense as a convenient parking lot when you sell an investment and aren't ready to reinvest, online bank deals from the likes of Synchrony, Ally Bank, and Capital One that currently yield at least 1 percent may be better options for your permanent cash needs, such as an emergency fund.

And if you hold more cash than needed for emergencies, Ken Tumin of the account comparison site DepositAccounts.com recommends five-year certificates of deposit (C.D.s) with lenient early withdrawal penalties. For example, if you deposit at least $25,000, the five-year C.D. offered by Ally Bank will pay you 1.75 percent annual interest. If you want to cash out early, your maximum penalty is five months' worth of interest. Mr. Tumin said it was ''a bit irrational'' to avoid long-term C.D.s for fear of losing out if rates move higher. ''It is unlikely they are going to skyrocket,'' he said. ''People worried about rising rates since 2008 have missed out on plenty.''

Short-term bond funds are another option for money you may need access to in the next few years, said Thomas H. Atteberry, co-manager of the FPA New Income bond fund. In the fourth quarter, short-term bond funds, which have an average duration of two years, lost half a percentage point compared with a 3 percent loss for longer-term core bond funds, which have an average duration of five years. (Duration measures a portfolio's sensitivity to rising rates: The longer the duration, the bigger the price losses when rates rise.)

''For money you might need in a few years, short-term gives you better yield than a money market with not as much price **volatility** as longer-term bonds, '' Mr. Atteberry said. FPA New Income posted a small positive return in the fourth quarter, and it gained 2.5 percent for the full year.

Shorter-term bonds have become a better relative value. Warren D. Pierson, co-manager of the Baird Short-Term Bond fund, noted that in 2013, a **10**-**year Treasury bond** yielded 2.65 percentage points more than a two-year Treasury. Today the gap is just 1.22 percentage points. ''You aren't giving up much yield to be more defensive now,'' Mr. Pierson said.

Mary Ellen Stanek, also a manager of the Baird fund, said its shorter duration let the managers be comfortable with a bit more credit risk, enabling them to hold more of the better-yielding corporate bonds. ''We see it as our all-weather bond fund,'' she said. In the stormy fourth quarter, it lost 0.4 percent, compared with a 3 percent drop for intermediate-term core bond funds.

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