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business

Two Words From Fed Chairman Jerome Powell Sent Markets Soaring

By BINYAMIN APPELBAUM
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With just two words on Wednesday, the Federal Reserve's chairman sent stocks surging by raising hopes that the central bank might be closer to ending its push to drive up interest rates.

The chairman, Jerome H. Powell, said the Fed's benchmark interest rate was "just below" the neutral level, meaning the central bank was close to the point where it would not be tapping on the brakes or pressing on the gas. Only last month, Mr. Powell had said it was "a long way" from neutral, leaving investors worried that the rate increases would crimp growth.

The small change sent stocks soaring 2.3 percent, erasing the losses from a rocky November. To investors, the new wording meant that the Fed might leave rates closer to their current level, keeping in place the steady fuel that low rates have provided to a 10-year-long **bull market**.

[Before stocks surged after Mr. Powell's comments, the bond market was signaling the case for raising rates had weakened.]

Analysts quickly warned that investors were overreacting. There was little evidence in the rest of Mr. Powell's speech that he intended to signal a change in plans.

But the market's euphoria underscored the chairman's struggles to strike the right pitch in an increasingly challenging economic and political environment, as President Trump attacks the Fed and the country's growth comes under pressure. The market has been jittery over concerns that further rate increases could undermine the economy at a time when the prospects for companies and consumers may be softening.

The economy has been a picture of health, expanding at a 3.5 percent annualized pace during the third quarter. The unemployment rate has fallen to 3.7 percent, its lowest level in almost half a century. Inflation has picked up this year, and Mr. Powell on Wednesday highlighted signs of increased risk-taking in some **financial markets**, including lending to corporations.

But Mr. Trump has relentlessly criticized the central bank, and Mr. Powell in particular, for raising interest rates, arguing that the Fed is choking growth. Emerging signs of weakness in some parts of the economy, including auto manufacturing, agriculture and housing, are also raising concerns that the best part of the long recovery might now be in the rearview mirror.

"We're in the 10th year of the expansion, and there are some soft points," said Ellen Hughes-Cromwick, a former chief economist at the Ford Motor Company and the Commerce Department who is now the associate director of the University of Michigan's Energy Institute. "The auto sales cycle has peaked, and the housing cycle also has peaked."

Ms. Hughes-Cromwick said that she did not foresee an imminent end to growth, but that higher interest rates, combined with rising inflation and faltering corporate confidence, could set the stage for a recession. If those things happen, "I don't really see how the economy can keep powering ahead," she said.

Most economic forecasters, including at various government agencies and big Wall Street banks, expect the American economy to continue growing in 2019. But there is a broad consensus that the pace will slow as the sugar high provided by the Trump administration's $1.5 trillion tax cut and spending increases begins to wear off. Some forecasters see a small, but growing, chance of a recession.

"This is a geriatric expansion," said David Kelly, chief global strategist at J. P. Morgan Asset Management.

He noted that if growth continued through next summer, this would become the longest expansion of the American economy since at least the Civil War. Economists have long argued that expansions do not die of old age. But the end of Mr. Trump's stimulus is likely to drop growth back toward a 2 percent annual rate, leaving little margin for error.

"It wouldn't take much to go wrong to put us into a recession," Mr. Kelly said.

Mr. Trump's chief economic adviser, Larry Kudlow, tried to play down such concerns on Tuesday.

"There's a certain amount of pessimism I'm reading about. Maybe it has to do with a mild **stock market** correction," Mr. Kudlow said, before saying such fears were misplaced. He rattled off recent economic data — including the latest jobs report, which he described as "very spiffy" — before concluding, "We're in very good shape."

Mr. Powell also reiterated Wednesday that the economy was doing well, that inflation was under control and that no glaring risks were on the horizon. Against that backdrop, the Fed is still expected to raise its benchmark rate in December. Mr. Powell emphasized that the Fed would make decisions about future increases by keeping a close eye on the economy.

"We know that moving too fast would risk shortening the expansion," he said Wednesday, in remarks before the Economic Club of New York. "We also know that moving too slowly — keeping interest rates too low for too long — could risk other distortions in the form of higher inflation or destabilizing financial imbalances."

The Fed's benchmark rate currently sits in a range of 2 percent to 2.25 percent. In September, Fed officials estimated that the neutral rate is between 2.5 percent and 3.5 percent. Most officials predicted the central bank would raise rates three times in 2019.

In the view of many analysts, Mr. Trump and Mr. Powell themselves pose the greatest threats to continued growth.

Mr. Trump's trade war with China is inflicting pain on some parts of the economy, notably in the Midwestern farm belt, where growers of soybeans and other crops have lost access to their largest export market.

The Fed's interest rate increases are also weighing on some parts of the economy, including home building. Sales of new and existing homes have fallen in recent months as interest rates on mortgage loans have risen.

The automobile industry is being battered by the tariffs and rate increases. Mr. Trump's tariffs on aluminum and steel have raised costs, while higher rates have discouraged some potential buyers. Auto sales have been in decline since 2016, and General Motors said this week that it would cut 14,000 jobs and shut down five North American factories.

Mr. Trump has insisted loudly and repeatedly that the Fed should be held responsible for any economic weakness. In an interview with The Washington Post on Tuesday, the president said the Fed was a "much bigger problem than China."

"I'm not being accommodated by the Fed," Mr. Trump told The Post. "I'm not happy with the Fed. They're making a mistake because I have a gut, and my gut tells me more sometimes than anybody else's brain can ever tell me."

In publicly berating the Fed, Mr. Trump is breaking sharply with the practice of recent administrations, which maintained a studied silence about monetary policy.

One reason is that urging the Fed to move can be counterproductive. The Fed likes to present itself as a technocratic institution that floats above the political fray. While some policymakers and economic analysts argue that the Fed should suspend rate increases, such a pause would now expose the Fed to criticism that it is acceding to Mr. Trump.

Mr. Powell has insisted that the Fed will act without regard to Mr. Trump's statements. In a recent speech, he emphasized that the central bank is overseen by Congress, not the president.

But Mr. Powell added to his own challenges in October, in an unscripted answer to a question about how high the Fed might need to raise rates.

"We may go past neutral," Mr. Powell said during an interview at the Atlantic Festival, "but we're a long way from neutral at this point, probably."

Mr. Powell's subsequent remarks on the subject strongly suggest that he would have liked to have chosen his words more carefully. Mr. Powell and other Fed officials also have emphasized that the exact level of the neutral rate is not important to the central bank's plans.

Some Fed officials, however, have said they want to pause at that point to consider whether further increases are warranted. Others have said they want to raise rates more, judging that the economy will need a little restraint.

Richard H. Clarida, the Fed's vice chairman, said on Tuesday that deciding how high to go would require "judgment and humility."

Follow Binyamin Appelbaum on Twitter @bcappelbaum.

Matt Phillips contributed reporting.

PHOTO: Jerome Powell, the Federal Reserve chairman, said Wednesday that the benchmark interest rate was "just below" the neutral level. (PHOTOGRAPH BY JUSTIN LANE/EPA, VIA SHUTTERSTOCK) (A13)

* Bond Market Signals Weakening Case for Interest Rate Increases

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THE WALL STREET JOURNAL.

Journal Reports: Leadership
Business

Explore the Management Top 250; How does your company rank in this annual analysis of well-run companies for customers, employees and investors?

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Corrections & Amplifications

Dow Chemical Co. and E.I. DuPont de Nemours & Co. merged on Aug. 31, 2017, to form DowDuPont Inc. An earlier version of this table incorrectly referred to the company as Dow Chemical Co. (Dec. 3, 2018)

Ranking Overview:

The Management Top 250 ranking, developed by the Drucker Institute, measures corporate effectiveness by examining performance in five areas: customer satisfaction, employee engagement and development, innovation, social responsibility and financial strength. The ranking is based on an analysis of 37 data inputs provided by 15 third-party sources.

Journal Report

* Read more at WSJ.com/ManagementTop250

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* How the Best-Run Companies Got That Way

* The Principles Behind the Rankings

* All-Stars Get High Marks Across the Board

The five areas are weighted nearly equally in calculating a score that is the basis of the ranking. Not all data inputs are available for all companies in the ranking; companies are excluded from the ranking if fewer than two data inputs are available for any of the five areas.

The Management Top 250 includes the top U.S. companies from a universe of 752 publicly traded companies that were included in a Drucker Institute study. To be included in the study universe, companies met these criteria: they were a part of the Dow Jones U.S. Total **Stock Market** Index or the S&P Composite 1500 Index (or both) and also had stock that was a component of the **S&P 500 index**, had a **stock-market** capitalization of $10 billion when snapshots were taken for the Drucker study in June 2018 or had at least $3 billion in revenue as of March 2018. All data collected by the Drucker Institute was the most current available as of June 30, 2018.

A detailed explanation of the methodology can be found here.

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WSJ PRO CENTRAL BANKING

Economy
Looking for Brexit Guidance? Investors Pass Over Bank of England's Carney; Dire warnings from the Bank of England governor are received with ambivalence by some in markets

By Avantika Chilkoti
804 words
30 November 2018
08:26 AM
WSJ Pro Central Banking
RSTPROCB
English

Investors are frantically trying to predict the economic fallout from the U.K.'s exit from the European Union. One person they don't seem to be listening to: Bank of England Gov. Mark Carney.

The Canadian former Goldman Sachs Group Inc. executive has been a prominent voice in a chorus of warnings about the economic and financial dislocation that could result from Brexit. The Bank of England in a report this week suggested a disorderly break with the EU could leave the economy a 10th smaller in five years, potentially triggering the deepest recession since the Great Depression.

"The direction of the effects of a reduction in openness is clear: lower supply capacity, weaker demand, a lower exchange rate and higher inflation," Mr. Carney said.

The U.K. Parliament is set to vote on a draft separation agreement on Dec. 11. If it is rejected, a deal could be approved via follow-up votes. But there remains a possibility that no deal is struck and the U.K.'s financial and trading ties with the EU would be abruptly severed on the March 29 deadline.

Investors, and the market, seem ambivalent about Mr. Carney's warnings, including his suggestion that such an exit could push inflation higher and force the bank to raise rates.

"There is a widespread view that talk from this governor is cheap," said Samuel Tombs, chief U.K. economist at Pantheon Macroeconomics, a research firm.

Part of the skepticism stems from calls he made ahead of the June 2016 referendum that a vote to leave the EU could push the U.K. into recession. Ultimately, the economy continued to grow and a weak currency propped up the **stock market**. The FTSE 100 equities benchmark is up almost 15% since the vote.

"I don't think he has handled the whole situation very well," said Neil Dwane, global strategist at Allianz Global Investors.

Bond markets don't seem to be responding to Mr. Carney's warnings. Yields, which reflect the government's cost of borrowing, have dropped sharply even on days when the risks of a no-deal Brexit have risen, and when the governor repeated warnings that he might have to raise interest rates to address a plunging pound.

The National Institute of Economic and Social Research, a nonpartisan think tank, noted that the yield on 10-year government debt dropped to 1.39% from 1.52% on Nov. 15, when six members of the government resigned in protest of Prime Minister Theresa May's Brexit deal. The researchers found concerns around rising risk were outweighed by expectations of looser monetary policy.

A graduate of Harvard and Oxford universities, Mr. Carney spent 13 years as an investment banker at Goldman Sachs in London, Tokyo, New York and Toronto. He was head of the Bank of Canada before taking the helm at the Bank of England in 2013.

Mr. Carney soon drew criticism for inconsistent communications with markets. One member of Parliament described him as an "unreliable boyfriend," an epithet that has stuck with his critics.

Some agree with Mr. Carney's estimates of the potential fallout from a messy withdrawal. It could be a difficult struggle to control inflation and prop up growth if the pound falls and trade comes to a halt.

"Central banks generally have to always make the case for stability and so they are really caught between a rock and a hard place," said Gregory Perdon, co-chief investment officer at Arbuthnot Latham, a private bank.

Inflation is higher now than it was at the time of the referendum, at 2.4% last month, above the bank's 2% target. Fresh data have triggered concerns that the economy is now stretched, with wages rising 3.2% in the last quarter, the fastest rise since the end of 2008.

"What Mark Carney and the Monetary Policy Committee don't want the markets to do is simply assume they'll just redo what they did in 2016," said David Owen, chief European financial economist at Jeffries.

The Bank of England declined to comment Friday.

At a press conference on Wednesday, Mr. Carney pointed out that the U.K.'s withdrawal from the bloc could hit the economy's supply side, something the central bank isn't equipped to tackle.

"Lowering interest rates isn't going to open a port," he said.

Write to Avantika Chilkoti at Avantika.Chilkoti@wsj.com

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THE WALL STREET JOURNAL.

Economic Data
Economy
Italian Workers Feel the Pain as the Eurozone Economy Sputters; Italy has lost a total of 139,000 jobs over the past two months as a standoff with the EU over the country's budget hits business confidence

By Paul Hannon
721 words
30 November 2018
08:46 AM
The Wall Street Journal Online
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English

Jobs markets in some of the eurozone's largest members are taking different paths as the currency area's economy slows, with Italy's unemployment rate surging while Germany's fell to a post-unification low.

The divergence comes as the core rate of inflation in the currency area—which excludes **volatile** energy prices—remains anchored around a level that is just half the European Central Bank's target.

Before August, the eurozone's jobless rate had been falling steadily since its economy returned to growth in mid-2013, giving the ECB confidence that it was on track to meet its inflation target over the coming years as wages pick up.

But a jump in unemployment in Italy has stalled that trend, with the country losing a total of 139,000 jobs over the past two months as a standoff between the government and the European Union over the Rome's budget plans has taken its toll on business confidence.

The country's statistics office on Friday released revised figures that showed the economy contracted in the three months through September, the first time this has happened since the second quarter of 2014. The decline in economic activity was driven by a sharp fall in investment spending.

The EU's statistics office on Friday said jobless numbers across the eurozone as a whole fell by just 12,000 in October, as the number of people without work dropped in Germany, France and Spain.

While Italy's jobless rate has jumped to 10.6% from 10.1% over the course of two months, Germany's has edged down to 3.3% in October, the lowest level since the country was reunified in 1990. France's jobless rate fell to 8.9% from 9%, and Spain's eased to 14.8% from 14.9%. The eurozone's jobless rate stayed at 8.1%.

For as long as job losses are concentrated in Italy and are offset by job gains elsewhere, the ECB may not be too concerned about the recent stall in the unemployment rate. But there are other signs that its long-struggle to lift inflation is coming up against some powerful headwinds.

In a separate release, the EU said consumer prices were 2% higher in November than in the same month of 2017, a drop in the annual rate of inflation from 2.2% in October.

Economists had expected to see a more modest decline to 2.1% as an initial response to falling **oil prices**. But the rise in services prices, which are determined by domestic demand, also eased, a development that may worry policy makers.

The ECB has indicated it will end a program of bond purchases designed to stimulate economic growth in December and has also said it won't raise its key interest rate until the end of summer 2019.

However, there are mounting signs that the economic slowdown that began at the start of the year is set to continue into next year, and the central bank's economists may have to cut their growth forecasts again when they publish its next set of projections in December.

"We are facing a slowdown and the risks to the economic outlook are very much to the downside and very large," said Björn Döhring, head of forecasting at the European Commission, during a conference Wednesday. "Are we ready for that?"

Adding to the uncertainties facing rate setters, there are few signs that the core rate of inflation is undergoing the sustained pickup the ECB hopes for. That measure fell in October to 1% from 1.1%, further below the central bank's inflation target of just under 2%. Indeed, it was only marginally higher than the 0.9% recorded a year ago.

"The ECB has been looking for a 'convincing upward trend in underlying inflation' for some time to normalize its monetary policy, but today's print reaffirms, once again, that we are far from that," wrote Fabio Balboni, an economist at HSBC, in a note to clients.

Write to Paul Hannon at paul.hannon@wsj.com

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THE WALL STREET JOURNAL.

World News
World

Saudis Struggle to Share Pain of Pumping Less Oil; Iran and other producers want Riyadh to bear much of the burden, which could undermine efforts to reverse an oil-price slide

By Benoit Faucon in London and Summer Said in Dubai
1,035 words
30 November 2018
05:30 AM
The Wall Street Journal Online
WSJO
English

Iran and other oil producers will press Saudi Arabia to bear the brunt of production cuts when OPEC meets next week, officials with cartel member governments say, potentially undermining efforts to reverse the current **oil-price** slide.

Saudi Arabia should absorb much of the impact of output curbs because it flooded markets under U.S. pressure, the officials say. The Saudis "made this mess. They need to clean it up," said a Middle Eastern oil official who will attend the meeting.

The Organization of the Petroleum Exporting Countries and its Russia-led allies are meeting next Thursday and Friday in Vienna to debate cutting as much as 1.4 million barrels a day from its collective output, after **oil prices** have lost a third of their value in less than two months. Saudi Arabia, which since the summer had been ramping up output to cool markets, would be in a position to carry the bulk of these cuts since it increased output by 1 million barrels a day in just a few months.

Saudi oil minister Khalid al-Falih is lobbying others in OPEC, as well as Russia, to join the production cuts. He is warning privately that oil markets will tank further in early 2019 if no action is taken, according to people familiar with his efforts. But Mr. Falih also insists the kingdom won't move on its own.

Earlier this month, Saudi Arabia said it would reduce its production by 500,000 barrels a day in December. Riyadh "could cut a couple of hundreds more" than it has already pledged, a Saudi official said. "But everyone has to chip in."

After reports Thursday that Russian officials are signaling a production cut in tandem with the Saudis, West Texas Intermediate futures climbed 1.4% to $51.01 a barrel, after falling below $50 a barrel for the first time in almost 14 months earlier in the session. Brent, the global benchmark, was up 0.9% at $59.63 a barrel, moving off its lowest level since late October 2017.

The kingdom, which is the world's largest oil exporter, had initially ramped up its oil output in anticipation of tough U.S. sanctions on Iranian oil. But once the sanctions kicked in earlier this month, Washington granted about a million barrels a day worth of exemptions to Tehran's oil buyers. That surprised traders, suddenly confronted with more oil in the market than expected.

At the same time, U.S. inventories started ballooning, pushing **oil prices** into **bear-market** territory.

Despite turmoil in the oil market, Saudi Arabia has continued to pump around 11 million barrels a day in November—over one million daily barrels over its OPEC quota. That raised questions about whether the promised Saudi cuts for next month will have an impact, as they will come from record high levels.

OPEC officials say the Saudis' decision to keep pumping at full tilt is the result of pressure from the U.S., which has threatened to retaliate over the killing of dissident Jamal Khashoggi by Saudi operatives.

While President Trump said this week he wanted to keep a strategic alliance with the kingdom, the U.S. government and Congress have been looking at possible sanctions against Saudi Arabia, including legislation that would make membership of OPEC an antitrust violation.

An African OPEC delegate said the Saudis' role as the cartel's kingpin is problematic "because they follow instructions from the U.S." An Iranian oil official said "whether they cut or not, the decision should be made in OPEC, not in the White House."

Saudi Arabia's Mr. Falih faces a difficult battle to convince producers in the group's most vulnerable nations to join a production cut. During meetings this month with Libya's oil chief Mustafa Sanalla and Nigeria's oil minister Emmanuel Ibe Kachikwu, he asked the two countries—currently exempted from quotas because of political instability—to consider production caps, according to people familiar with the meetings.

But Libya's production has more than doubled in the past five months to 1.3 million barrels a day, and Nigeria, where production has hovered around 1.7 million barrels a day for two years, has refused to commit to limits, these people said.

Iraq, which restarted exports from a disputed region last month, and Ecuador, which produces small quantities of oil, are also reluctant to keep their current allocation, according to officials in these countries. Meanwhile, Iran and Venezuela, where production is falling, wouldn't want to accept lower production caps "because it would be a humiliation," said Helima Croft, the chief commodities' strategist at Canadian broker RBC.

Russia, OPEC's biggest external partner, has so far sent mixed signals on whether it will sign up to new cuts. The country is debating whether to reduce production and, if it does, would cut less than the 300,000 barrels a day it agreed to in 2016, said a person familiar with Mr. Falih's talks with Moscow. A spokeswoman for Russia's energy ministry didn't respond to a request for comment.

Russian President Vladimir Putin said Wednesday he was satisfied with **oil prices** at around $60 a barrel.

Mr. Falih will likely try to iron out differences when he meets his Russian counterpart Alexander Novak at a Group of 20 summit in Argentina this weekend, according to Saudi and Russian officials.

Ultimately, all sides will have no choice but to try to find a compromise, OPEC officials said. "If we shout at [the Saudis] and we don't get an agreement, we will get $30 a barrel," said the Middle Eastern oil official.

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Write to Benoit Faucon at benoit.faucon@wsj.com and Summer Said at summer.said@wsj.com

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THE WALL STREET JOURNAL.

Heard on the Street
Markets

The Danger of Too Much Optimism; Wall Street predicts strong long-term earnings growth, but with targets nearly impossible to meet

By Justin Lahart
794 words
30 November 2018
05:30 AM
The Wall Street Journal Online
WSJO
English

Optimism is a healthy trait for investors. But believing in the impossible is a sure route to losing money.

This was clear in October when tech stocks that were expected to grow to the sky failed to soar. Even after the sobering selloff, one indicator of unhealthy optimism has persisted in the market.

Wall Street analysts, who make buy and sell calls and estimate earnings, also try to predict a company's long-term earnings growth. Predicting anything is tough and going out three to five years relies heavily on guesswork. Perhaps the best use of these forecasts are as an indicator of Wall Street optimism. When hopes run too high, merely less-than-stellar news can be terribly disappointing.

Right now, even after the recent selloff, analysts are more optimistic than at almost anytime in history. The all-time record for predicted earnings growth was set at the height of the tech bubble, and the second peak number was in July, both of which were followed by big market declines.

Analysts polled by S&P Global Market Intelligence now believe earnings for stocks in the **S&P 500** will grow 13.3% a year for the next three to five years. By any realistic calculation, it is nearly impossible for that prediction to come true.

Belief in future earnings growth is a major factor in the **stock market**'s high valuation and it is even more important for the priciest, most speculative stocks. Netflix is expected to increase earnings by 40% a year and Under Armour by 28%, for example. Facebook's expected annual earnings growth of about 20% seems muted in comparison—though if even that came true the social-media company's earnings would be nearly 150% higher in five years than they are now.

For context, earnings for companies in the index have grown an average of about 7% a year for the past two decades while revenue has gone up 4%. Either of those numbers could rise, and profit growth was much stronger this year following the big corporate tax cut.

But even if revenue grew much faster than usual, and companies kept buying back stock (which raises earnings per share) at their recent, heady pace, the only way for earnings growth to rise 13.3% annually would be for profit margins to go up by a lot. And with profit margins at records even after adjusting for the tax cut, that seems extremely unlikely—especially as companies grapple with rising costs for workers and for imports affected by tariffs. A recession would likely shrink margins.

What really matters is how the **stock market** is affected by high expectations. Trilogy Global Advisors Chief Investment Officer William Sterling says that over the past decade, there has been an inverse relationship: The higher expectations rise, the lower actual earnings growth tends to go. Stocks, of course, follow earnings. Earnings optimism peaked at 19% in 2000, which was a fine time to sell, and bottomed at around 10% in January 2010, a very good time to buy.

One reason may be that long-term earnings expectations function as a sort of sentiment indicator. For a lot of companies, they are a sort of gut-check -- analysts haven't come up with actual earnings estimates going so far into the future, so the number they pencil in is a measure of their optimism. The more optimistic they are, the more good news is baked into stock prices, and the easier it is for even marginally bad news to send stocks tumbling.

Long-term earnings may also function as a measure of how risky the market is. For more speculative companies, whose valuation is based on a belief that profits will grow rapidly for years, **bullish** analysts need to have a high long-term estimate to justify their lofty price targets.

Back in early 2001, when the dot-com bubble was coming apart, the Heard on the Street wrote about the lofty long-term earnings expectations many tech companies still carried. Among them was internet-service provider Inktomi, which then fetched $17.25 a share and which analysts thought would generate long-term earnings growth of 59%. Inktomi was bought by Yahoo for $1.63 a share in 2003. Another was internet consulting firm Scient, which analysts saw earning 53% annually over the long haul, and which went bankrupt the following year.

Today's **stock-market** exuberance is nowhere near as high-pitched as it was then, but analysts' enthusiasm for the future still looks like a pipe dream.

Write to Justin Lahart at justin.lahart@wsj.com

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THE WALL STREET JOURNAL.

Markets Main
Markets

In Jakarta and Manila, Investors Cheer Oil's Slide; Decline in crude prices eases worries about current-account deficits

By Kevin Kingsbury
422 words
30 November 2018
01:53 AM
The Wall Street Journal Online
WSJO
English

The selloff in crude has helped revitalize stock markets in Indonesia and the Philippines.

ASIA MARKETS SNAPSHOT

* Asian stocks were broadly higher, extending gains made earlier in the week

* Australian equities lagged behind, with the S&P/ASX 200 down 1.6%

* South Korea's won weakened after a 0.25 percentage point increase in interest rates

What's Happening

Like many emerging markets, Indonesia and the Philippines have struggled with rising U.S. interest rates, a strong dollar and investors' increasing aversion to risk. Their currencies hit 20- and 13-year lows versus the dollar respectively this year, and their stock markets have been among Asia's bigger decliners.

Both Indonesia, Southeast Asia's largest economy, and its northern neighbor are crude importers. So a one-third fall in **oil prices** in two months has eased worries about current-account deficits and the ability of the two countries to finance those gaps. That has made the duo's assets appear a bit less risky to foreign investors. Indian markets have enjoyed a similar boost.

Since hitting a recent closing trough on Nov. 13, the Philippine Stock Exchange Index has jumped nearly 8%. The Jakarta Composite Index has advanced nearly 5% from its lowest close this month, registered a day earlier.

Both the Indonesian rupiah and the Philippine peso have regained ground in recent weeks, too, after a series of interest-rate increases—in Jakarta's case, primarily to bolster the rupiah, and in Manila's case, to fight nine-year-high inflation.

What It Means

Cheaper oil should mean lower current-account deficits—reducing the risk of more rate increases choking off economic growth. But even the central banks' previous actions could create problems.

JPMorgan analysts worry higher borrowing costs will slow the Philippine economy next year. In Indonesia, though, they say the hit from tighter monetary policy will be offset by higher consumer spending as inflation cools.

Politics could also play a role, with an April presidential election in Indonesia and midterm races in May in the Philippines. The ruling party's shock defeat this year in nearby Malaysia sent Kuala Lumpur's stock benchmark down 10% in five weeks.

"Investors like continuity," said Chetan Seth, a strategist covering the region for Nomura. He said Indonesian stocks could initially sell off if President Joko Widodo is defeated.

Write to Kevin Kingsbury at kevin.kingsbury@wsj.com

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THE WALL STREET JOURNAL.

Today's Markets
Markets

Investors on Edge After Rocky Month for Markets; Stocks remain well below highs from earlier this year, and crude oil takes hit from slowing global growth

By Akane Otani
989 words
30 November 2018
04:50 PM
The Wall Street Journal Online
WSJO
English

Investors are heading into the final month of 2018 apprehensively, as shaky trading in everything from stocks to bonds to oil to bitcoin has tempered expectations for gains in the months to come.

U.S. stocks stabilized in November after a punishing autumn rout but remain well below the highs they hit earlier in the year. Crude oil briefly slid below $50 a barrel for the first time in more than a year, hurt by worries about a potential supply glut as well as slowing global growth. And the **10-year Treasury** yield—a barometer for global finance—is on the verge of falling below 3% again after comments from the Federal Reserve's chairman triggered bets on the central bank raising rates more gradually than expected.

To many, the twists and turns across markets reflect the increasingly cloudy outlook facing investors.

Much remains up in the air. The U.S. and China, set to meet at the Group of 20 leaders summit in Buenos Aires this weekend, are still mired in a trade fight. The Fed is expected to raise interest rates in December but looks more uncertain about its pace of rate increases next year. And the outlook for global growth appears uneven after a synchronized expansion around the world helped lift stocks from New York to Japan and Hong Kong to multiyear highs in 2017.

"It's been certainly a roller-coaster year," said Andrew Braun, portfolio manager for large cap funds at investment firm Pax World Funds. "Investors are starting to focus on just how difficult the next quarter, and then the following three or four quarters, will be relative to how good we've had it."

Major indexes initially drifted between small gains and losses Friday before rallying into the close. The **S&P 500** rose 22.40 points, or 0.8%, to 2760.16, the **Dow Jones Industrial Average** added 199.62 points, or 0.8%, to 25538.46 and the **Nasdaq Composite** climbed 57.45 points, or 0.8%, to 7330.54.

For the month, the **S&P 500** rose 1.8%, the Dow industrials added 1.7% and the **Nasdaq** climbed 0.3%.

One factor driving the rebound was a rally in so-called defensive sectors, whose relatively hefty dividend payouts tend to draw investors during **volatile** trading stretches. Shares of real-estate companies in the **S&P 500** finished up 5.3% on the month, nearly tripling the broader index's gains. That is despite a fresh streak of data in November showing new-home sales posting their steepest decline since 2017 and the pace of home-price gains slowing.

Few predict a recession is on the horizon. The Commerce Department said this week that it estimated the U.S. economy grew at a 3.5% seasonally adjusted annual rate in the third quarter, moderating from the second quarter but extending what has been the second-longest economic expansion in U.S. history.

Yet increasingly tepid reports on the housing sector—alongside data showing domestic auto sales sputtering—are adding to many investors' sense that, beneath a strong U.S. economy, fault lines are growing.

Another worry for investors: the extended slump in technology shares, which found little reprieve in November while many other sectors rallied.

Apple Inc. shed 18%, posting its worst month in more than a decade, as investors grew skittish about signs of softening demand for the firm's iPhone. The declines helped Microsoft on Friday unseat Apple as the largest U.S. company by market capitalization, according to Dow Jones Market Data.

The slide in technology shares, which analysts say has been fueled by nervousness about slowing sales, as well as valuations, is troubling investors; some question how much further stocks can climb in the absence of the sector's leadership. It also removes a major source of support for U.S. stocks, which have managed to hang onto their gains for the year despite fading enthusiasm for risk-taking among investors across a variety of markets.

Bitcoin has tumbled below $5,000 after surging at the start of the year. Emerging markets from Turkey to Argentina to China remain in a slump, hurt by the strengthening dollar, as well as signs of slowing growth.

Investors spot at least one silver lining. After Mr. Powell's November remarks, many believe the Fed will raise rates more gradually than they had earlier expected, potentially easing pressure on markets that have struggled as monetary policy has tightened. Bets on a more dovish Fed helped send the Dow up more than 600 points Wednesday, wiping out the blue-chip index's losses for the month.

Yet the momentum behind that rally proved to be short-lived, with stocks drifting between gains and losses by the end of the week. And many caution that the Fed's rate path remains up for debate.

Some Fed officials have indicated they would want to see evidence that the labor market is stalling before deciding to pause rate increases. Investors may get more clarity on the central bank's rate plans in the coming weeks, when Mr. Powell testifies before the U.S. Senate and the Federal Open Market Committee holds its final policy meeting of the year.

"We have a higher level of uncertainty" when it comes to trade, the path of interest rates and global growth, said Ken Monaghan, co-head of high yield at Amundi Pioneer. Tumbling **oil prices** and fractious politics, like Brexit negotiations between the U.K. and European Union, add to the murky outlook for global markets, he said.

"When uncertainty goes up, investors require a higher return," Mr. Monaghan said.

Christopher Whittall contributed to this article.

Write to Akane Otani at akane.otani@wsj.com

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THE WALL STREET JOURNAL.

Oil Markets
Markets

Banks Reverse Course to Lower Oil-Price Projections; A month since raising crude forecasts, banks reduce expectations for both the global and U.S. oil benchmarks

By Christopher Alessi
672 words
30 November 2018
03:00 AM
The Wall Street Journal Online
WSJO
English

LONDON—Banks in November lowered their forecasts for **oil prices** in 2019 amid signs of rising global supply and a price rout in which crude has lost more than 30% since the start of October.

Brent crude, the global oil benchmark, is now expected to average $76.98 a barrel next year, down from prior forecasts of $77.58, according to a poll of 11 investment banks by The Wall Street Journal. Expected prices for West Texas Intermediate, the U.S. standard, experienced a bigger drop, to $69.98 a barrel in 2019 from earlier forecasts of $70.81.

The latest poll results come just a month after banks had raised forecasts for crude prices on expectations that reimposed U.S. sanctions on Iran's oil industry starting in November would significantly reduce global supplies, tightening the market.

But supply outages from Iran have so far proved less consequential than feared, in part because the Trump administration decided to grant temporary waivers to the world's main buyers of Iranian crude.

At the same time, crude output has risen to record levels from the world's largest producers—the U.S., Russia and Saudi Arabia—triggering a massive selloff that has plunged both crude benchmarks into bear territory and brought them to their lowest levels in over a year.

Brent and WTI have each lost more than 30% since climbing to four-year highs at the start of October. On Thursday, Brent was trading at $59.90 a barrel, while WTI was trading at $51.53 a barrel.

Related

* Falling Crude Prices Test Big Oil's New Financial Discipline (Nov. 29, 2018)

* Burned by Selloff, Investors Keep Oil at Arm's Length (Nov. 28, 2018)

* Why **Oil Prices** Took Such a Tumble—and What Comes Next (Nov. 27, 2018)

"The negative price reaction is as severe as the 2008 financial crisis and the aftermath of the November 2015 OPEC meeting, when the group decided not to act in the face of a very oversupplied market," said Jason Gammel, oil analyst at Jefferies. But he added that the "**oil price** rout has been driven by accelerating oversupply, which should moderate over the coming months as Iranian exports drop and Saudi production moderates."

The Organization of the Petroleum Exporting Countries, de facto led by Saudi Arabia, and its allies outside the cartel, led by Russia, are facing growing pressure to engineer a new agreement to curb output to rebalance the market and bolster prices. The group is set to convene in Vienna next week.

Saudi Arabia said earlier this month it would cut exports by 500,000 barrels a day in December. But it is uncertain whether Saudi Arabia will significantly reduce production in coordination with its partners while the Trump administration pressures the kingdom to keep output high and prices low.

There is also a lack of clarity from Russia—currently the world's largest producer of crude—which has alternately signaled willingness to cut output while indicating it is content with crude price around $60 a barrel.

Still, Martijn Rats, an oil analyst at Morgan Stanley, predicts OPEC will likely reach an agreement to cut production and "manage the market in 2019." In that case, "Brent prices are likely to recover into the $70s," he said.

OPEC and 10 producers outside the cartel, including Russia, agreed in late June to begin gradually ramping up production after more than a year of holding back output. The group had agreed in late 2016 to implement coordinated cuts to rein in a supply glut that had weighed on prices since the **oil price** crash of 2014.

The initial deal had helped to bolster crude prices by more than 50% since the start of last year, until the recent selloff wiped away many of those gains.

Write to Christopher Alessi at christopher.alessi@wsj.com

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THE WALL STREET JOURNAL.

Markets Main
Markets

Trade Thaw Might Not Lift Yuan; Pressures on the Chinese currency existed before the U.S.-China rift and are likely to continue

By Julie Wernau
509 words
30 November 2018
08:00 AM
The Wall Street Journal Online
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English

Investors are eager to see signs of a trade truce between President Trump and President Xi Jinping of China at this weekend's Group of 20 leaders summit in Buenos Aires. Yet even that may not boost the yuan for long.

Any easing of tensions would likely provide only a short-term bounce to the Chinese currency in offshore markets, analysts said. But regardless of the outcome of trade talks between the U.S. and China, the divergence in interest-rate policy between the U.S. Federal Reserve and the People's Bank of China is narrowing the extra yield investors can expect from holding assets in yuan.

If the trend continues, as the Fed raises rates, short-term yields for dollar bonds will surpass yields of similar maturity for yuan debt next year, the first time in about a decade, according to UBS Global Wealth Management. Higher rates tend to attract yield-seeking investors to a currency.

The trade feud has damped **bullish** investor sentiment in China, both domestically and abroad. Investors pulled a net $10.5 billion out of Chinese assets in October, according to the Institute of International Finance.

But the pressures facing the renminbi began before any threat of a trade war and are likely to continue, according to UBS Global Wealth Management. While the U.S. has been raising interest rates, China has been on a path of monetary easing as it prioritizes growth for a rising consumer-led, rather than export-driven, economy.

"The renminbi had been under pressure even before this trade war," said Jorge Mariscal, emerging-markets chief investment officer at UBS Global Wealth Management. "They had been experiencing outflows as the Chinese economy opens. Chinese savers are looking to diversify their exposure to financial assets; they want other currency exposure, and that means dollars and euros and real estate and private direct holdings in companies."

If a U.S.-China trade fight escalates, that could give China even more reason to worry about growth, says Moody's Investors Service. The firm expects China to use policy buffers to support solid-but-slowing growth in gross domestic product: falling toward 6% in 2019 from a 6.6% forecast for 2018. The country's declining current account balance could turn negative over the next three years.

Until recently, financial deleveraging was a key economic policy in China as officials sought to tamp down and regulate a widespread shadow-banking sector. But an economic slowdown in recent months has Beijing refocusing on growth and encouraging bank lending. They are betting on the Chinese consumer to maintain growth.

While a trade deal is likely to give the yuan a short-term bounce, analysts said investors should know China's long-term plans haven't changed.

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Write to Julie Wernau at Julie.Wernau@wsj.com

Document WSJO000020181130eebu00209

THE WALL STREET JOURNAL.

The Intelligent Investor
Markets

Here Come Some Big Tax Bills for Fund Investors; The move to passive investing is proving costly... for those who are sticking with active funds

By Jason Zweig
846 words
30 November 2018
12:00 PM
The Wall Street Journal Online
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English

PHOTO: Alex Nabaum

Mutual-fund investors got to express their gratitude on Thanksgiving. Many of them won't feel so appreciative between now and year end.

This tax year is shaping up as one of the worst on record for investors with mutual funds outside of retirement accounts. That's despite muted returns for many funds and stocks generally—the **S&P 500** is up 4.2% through Nov. 29, including dividends.

The issue: Mutual funds effectively must distribute all their realized capital gains, or profits on securities they have sold during the year. And, so far, through Nov. 29, 517 funds have announced they will pay out at least 10% of net assets as taxable gains, says Mark Wilson of Mile Wealth Management in Irvine, Calif., who runs a website tracking these payouts, CapGainsValet.com. He estimates that by year end, 531 funds will pay such large taxable distributions.

Why are so many funds adding the insult of a tax bill to the injury of mediocre returns? They often have no choice.

Investors are ditching actively managed funds run by stock pickers and rushing into index funds run on autopilot. To raise enough cash to give departing clients their money back, active funds often have to sell off much of the portfolio.

More than $160 billion left active U.S. funds through Oct. 31, according to Morningstar; $48 billion fled in October alone.

In this long **bull market**, most funds are running out of holdings they can sell at a loss to offset gains for tax purposes. So any liquidation of a holding to cash out departing shareholders can create a taxable gain—which gets divided primarily among the dwindling number of investors who stick around.

Say you have $10,000 invested in a fund that pays out 10% of assets as capital gains. Assuming that's all taxable at long-term rates of 15% or 20%, upper-income investors could owe at least $150 in federal taxes even though they didn't sell any shares of the fund.

What's more, you might not notice that these taxable gains are looming or get a precise sense of how big they will be.

In a projection subject to "significant adjustments" between now and late December, Transamerica estimates its Mid Cap Growth fund will pay out somewhere between 25% and 38% of assets. Such wide ranges on funds with bigger payouts "may better approximate actual distributions," says a Transamerica spokeswoman.

At Wells Fargo, the Disciplined Small Cap Fund is distributing 47% of its assets as taxable gains in December, largely because new managers taking over in June sold much of its previous holdings.

The Wells Fargo Index Fund, a buy-and-hold investment that tracks the **S&P 500**, will pay out 20% in gains. Investors have withdrawn about $370 million in 2018 through Oct. 31, according to Morningstar, leaving the fund with $1.5 billion.

The managers used all available techniques to minimize the tax hit, says Andrew Owen, president of funds at Wells Fargo Asset Management. But with that much money going out, eventually they had to sell longtime holdings at significant gains, he adds.

If you own the fund, should you sell, knowing that others may keep dumping their positions and sticking you with more tax bills? "Shareholders need to make the decision that best meets their personal circumstances," Mr. Owen says. "We have to manage the fund on behalf of all shareholders, given the net flows that occur. We take that very seriously."

At Vanguard, the Mid-Cap Growth Fund will pay out an estimated 12.7% in gains at year end. Several others, including Capital Opportunity, Explorer, Morgan Growth and Windsor, will distribute at least 8%.

Payouts are high because of "the exceptional run in U.S. equities over the past decade or so," says Rich Powers, head of ETF product management at Vanguard. The firm doesn't order most of its managers to invest "with a tax-efficient lens," but rather to earn the highest returns consistent with a fund's risk profile.

What should you do about all this? Generally, don't sell a fund that hits you with a big payout unless you bought within the last six months, likely enabling you to book a tax loss. Instead, says Paul Samuelson, chief investment officer at LifeYield LLC, a Boston firm that provides software to financial advisers, you may want to sell years from now when you ought to be in a lower tax bracket.

Also, be mindful of funds that invest in medium-sized stocks or cheap "value" stocks. They can be forced to sell their most profitable holdings when those winners become large or no longer cheap, generating a tax bill.

In taxable accounts, don't buy any fund between now and year end without checking for a pending payout; avoid those that are shrinking, including index funds.

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THE WALL STREET JOURNAL.

Oil Markets
Markets

OPEC Economic Panel Recommends Output Cut From October Levels; 1.3 million barrel a day cut seen as efficient to balance the market; oil prices have lost a third of their value in less than two months

By Summer Said
322 words
30 November 2018
01:41 PM
The Wall Street Journal Online
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English

An Organization of the Petroleum Exporting Countries panel reviewing scenarios for the cartel's meeting next week recommended cutting total output by 1.3 million barrels a day from October levels, officials familiar with the matter said Friday.

"According to the data we have, 1.3 million barrel a day cut would be efficient to balance the market," said one OPEC official who attended the meeting of the Economic Commission Board, which does not set policy for the cartel.

"The question is how to implement this and who is on board," he said.

OPEC and its Russia-led allies are meeting Dec. 6 and Dec. 7 in Vienna to debate cutting as much as 1.4 million barrels a day from their collective output, after**oil prices** have lost a third of their valuein less than two months.

Saudi Arabia, which since the summer had been ramping up output to cool markets, would be in a position to carry the bulk of these cuts since it increased output by 1 million barrels a day in just a few months.

Saudi oil minister Khalid al-Falih is lobbying others in OPEC, as well as Russia, to join the production cuts. He is warning privately that **oil prices** will fall further in early 2019 if no action is taken, according to people familiar with his efforts.

Mr. Falih also insists the kingdom won't move to reduce output on its own.

Earlier in November, OPEC said in its monthly report that demand for its crude is seen at 31.5 million barrels, or 1.36 million barrels a day lower than its October output.

Write to Summer Said at summer.said@wsj.com

Document WSJO000020181130eebu005eh

WSJ PRO CENTRAL BANKING

India News
World
India's Growth Slowed to 7.1% in Latest Quarter; The South Asian nation maintains, however, its place as the world's fastest-growing major economy

By Anant Vijay Kala
744 words
30 November 2018
09:33 AM
WSJ Pro Central Banking
RSTPROCB
English

NEW DELHI—India's economic growth slowed in the latest quarter amid higher **oil prices** and weaker lending, but the country maintained its place as the world's fastest-growing major economy as China grapples with trade tensions.

The South Asian nation's gross domestic product expanded 7.1% in the three months ended Sept. 30 from a year earlier, government data showed Friday.

The figure was lower than the 8.2% for the April-to-June quarter and the 7.4% expansion forecast by economists.

India has held its position as the fastest-growing major economy for four quarters in a row. It is outpacing China, which posted growth of 6.5% in the latest quarter, its lowest reading since the global financial crisis.

"While the number is below expectations, given the current global backdrop, it still looks robust," said Sujan Hajra, chief economist at Anand Rathi Securities. "It shows the resilience of the economy."

India's latest data showed broad-based strength, although there were a couple of weak spots. Output of utilities grew 9.2%, public services rose 10.9% and manufacturing was up 7.4%. However, mining activity shrunk 2.4%. Growth in farm production also slowed.

Despite the slowing growth, India is still expected to grow for the full year at a much stronger pace than last year. Most economists expect GDP growth to hit close to 7.5% this financial year, versus an expansion of 6.7% for the financial year that ended March 31.

Prime Minister Narendra Modi has faced criticism that his two biggest policy moves—to declare invalid almost 90% of the country's currency in circulation and implement a new sales tax—hurt consumer spending and business. His government is eager to show robust growth as Mr. Modi seeks a second term in elections that are due by May next year.

While **oil prices** were higher last quarter, India is expected to benefit from a recent fall in crude prices. The country imports most of its energy needs.

Government finances have weakened after Mr. Modi increased infrastructure and social-welfare spending, but the drop in **oil prices** is expected to lower its import bill, cool inflation and improve its trade balance.

The country is less vulnerable to global headwinds such as the escalating U.S.-China trade tensions because of its dependence on domestic demand.

Such conditions could help it maintain its growth lead over China, said Siddhartha Sanyal, an economist at Barclays. "I don't think that status is changing anytime soon," he said. "The fall in commodity prices is coming as a tailwind for India."

Still, there are questions over the credibility of India's GDP data in the wake of numerous revisions, the latest of which was announced Wednesday.

The new data trimmed India's GDP growth between 2006 and 2012, when the opposition Congress party was leading a coalition government. In comparison, growth figures during Mr. Modi's tenure, which were earlier looking much weaker, now seem similar.

The latest figures show average growth of under 7% between 2006 and 2012 but other indicators at the time presented a much more upbeat picture, said Sujit Kumar, an economist at Union Bank of India.

"There's no doubt the latest measurement methodology is an improvement, but there are still a lot of questions that need a bit of explaining," he said.

Lending for infrastructure and small businesses is tepid amid concerns about bad debt at Indian banks, a further challenge for India's economy. The Indian government recently took over a struggling shadow lender, Infrastructure Leasing & Financial Services Ltd., to keep its debt problems from potentially destabilizing the country's financial system.

Anil Bhardwaj, secretary-general of the Federation of Indian Micro and Small & Medium Enterprises, said loan applications that used to take a month to process now take four times the amount of time.

"Bankers are asking many more questions. The scrutiny has increased and it is causing difficulties," he said.

Write to Anant Vijay Kala at anant.kala@wsj.com

Related

* India Goes Back to the Future—Again—With Economic Growth Revisions (Nov. 29)

* India Can Thank Crude's Slump for a Soaring **Stock Market**(Nov. 27)

* India's Government Loses Patience With Central Bank (Oct. 31)

Document RSTPROCB20181130eebu0008d

THE WALL STREET JOURNAL.

Commodities
Markets
Oil Pulls Back on Doubts Over Producers' Willingness to Cut Output; Light, sweet crude traded as low as $49.65 before recouping some losses

By Christopher Alessi
423 words
30 November 2018
12:44 PM
The Wall Street Journal Online
WSJO
English

* **Oil prices** edged down Friday amid fresh doubts about Russia's commitment to cut crude production in order to rebalance the market.

* Light, sweet crude traded as low as $49.65 before recouping some losses.

* Brent, the global benchmark, declined 1.2% to $58.78.

HIGHLIGHTS

Russia: The Russian energy ministry reportedly said that the Organization of the Petroleum Exporting Countries and its partner producers outside the cartel—led by Russia—were comfortable with current **oil price** levels, according to Russia's Tass news agency. The news has been the main catalyst pushing prices lower Friday morning, as it signaled that Russia could oppose a production cut when OPEC and its allies gather in Vienna next week, said Harry Tchilingurian, global head of commodity markets strategy at BNP Paribas.

The report is a reversal from a Reuters story Thursday that suggested Russian officials were likely to cut output in tandem with OPEC next week, news that had buoyed prices. The back-and-forth is a "strategy Russia has employed" to keep markets guessing, Mr. Tchilingurian added. "There will be no clarity until the OPEC meeting."

INSIGHT

OPEC+ Meeting: Oil market observers continue to look ahead to OPEC-led meetings in Vienna next week. Pressure is mounting on Saudi Arabia, the-de-facto head of OPEC, and allies like Russia to implement a new production cut in order to rebalance an oversupplied market and bolster crude prices. "We expect OPEC+ to announce a production cut of at least one million barrels a day…this should enable **oil prices** to stabilize and recover firmly in 2019," according Giovanni Staunovo, commodities analyst at UBS Wealth Management.

However, "if OPEC+ opts against cutting, we think Brent oil could fall temporarily to the low $40s range per barrel," Mr. Staunovo wrote in a note Friday.

Oil prices have fallen by 30% since reaching four-year highs at the start of October, weighed down by burgeoning supply from the world's largest producers—Russia, the U.S. and Saudi Arabia—and signs of waning global oil demand.

AHEAD

* The G-20 meets in Buenos Aires today.

* Baker Hughes releases weekly data on the number of rigs drilling for oil in the U.S.

* OPEC and its allies hold official meetings in Vienna on Dec. 6 and Dec. 7.

Write to Christopher Alessi at christopher.alessi@wsj.com

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THE WALL STREET JOURNAL.
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Streetwise: Ignore the Obvious About Rates

By James Mackintosh
763 words
30 November 2018
The Wall Street Journal
J
B1
English

Investors sometimes get the strangest notions, and the obsession that comments by Federal Reserve Chairman Jerome Powell caused last month's **stock-market** meltdown is definitely an odd one.

Yet stocks on Wednesday had their best day since March, when Mr. Powell appeared to recant, while bond yields and the dollar fell. There are good reasons to think the market might be over-interpreting two words of his that investors latched onto: that interest rates are now "just below" where they should settle in the long run.

Back on Oct. 3, Mr. Powell made a brief aside about the so-called neutral interest rate, the theoretical rate that would keep an economy at full employment ticking over with steady inflation. He scared Fed watchers when he said that "we're a long way from neutral, probably."

In principle, if the Fed thinks the neutral rate is a long way above current interest rates, there might be many more rises to come.

At the time, Mr. Powell's words had only a small immediate impact on the markets, with already rising two-year bond yields adding an extra 0.02 percentage point afterward, while stock futures fell slightly.

But with the benefit of hindsight, his comment appears more important because of what might be a coincidence: The next day stocks began a 10% correction. Either way, investors have become highly sensitive to comments about the neutral rate.

The simplest interpretation of Mr. Powell's words is that on Oct. 3 he was saying rates would rise a lot more, scaring investors. On Wednesday, he reassured by saying rates are "just below the broad range" of estimates of neutral, so rates won't rise much more. Stocks soared.

The informed interpretation is that, both times, Mr. Powell was stating the obvious, not contradicting himself. Fed policy makers estimate the neutral rate at 2.5% to 3.5%, with a median of 3%. Thus, it was true in October that current federal-funds rates of 2% to 2.25% are a "long way" -- three or four more increases -- from the median of 3%. It was also true on Wednesday that 2% to 2.25% is "just below" -- one or two increases -- the bottom of the range.

That ignores that Mr. Powell knew full well that markets were closely watching what he said. The expert interpretation, then, is that this week Mr. Powell's "just below" was a two-word effort to talk up stocks.

The stock fall has reminded investors that equities are risky, which should deter wild exuberance for a little while, at least. The Fed doesn't want the fall to gather downward momentum because a really big fall in stocks would hit confidence and the economy; a couple of well-timed words might help to avoid that.

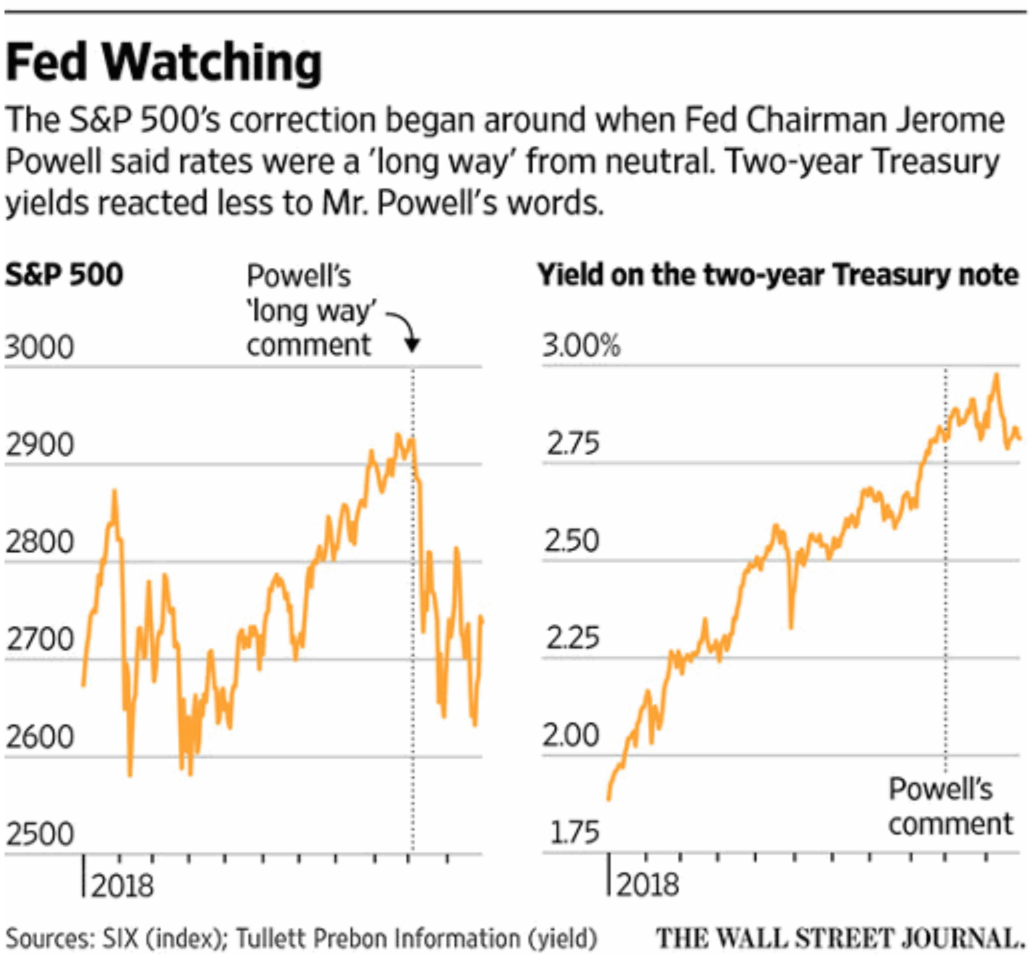
Mr. Powell has plausible deniability that he's talking up the market, because he merely stated the obvious. This matters, because if investors believe the Fed will intervene if markets fall -- a "Powell put" -- they may take on too much risk. The Fed isn't too worried about stock prices or mainstream lending at the moment, but it doesn't want to encourage instability.

Importantly, Mr. Powell also has plausible deniability when it comes to political influence. President Trump voiced his lack of confidence in his choice of Fed chairman this week in an interview with the Washington Post, saying he's "not even a little bit happy" with Mr. Powell and that interest rates shouldn't be going up.

If Mr. Powell bowed to White House pressure, it would imperil Fed independence and weaken investor confidence that inflation will be kept under control. But if all he did was state what should be obvious, that doesn't make him Mr. Trump's lackey, right?

Ultimately what will matter for interest rates is what happens to the economy. If the feeble third quarter in Europe and Asia signals trouble ahead, rates will rise by less, and might even be put on hold. If the U.S. housing-market weakness is the start of serious difficulties, ditto. But if this is just a temporary soft patch and employment and wages stay strong, expect the Fed to stick to its course and keep raising rates.

The only way the Fed can assess whether the economy is close to neutral is whether it seems to be slowed by interest-rate rises. Watch the data, not Mr. Powell's statements of the obvious.



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THE WALL STREET JOURNAL.

Journal Reports: Leadership
Business

Methodology for the Management Top 250 Company Rankings; How the Drucker Institute identified the most effectively managed U.S. companies

2,023 words
30 November 2018
08:04 AM
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English

The Management Top 250 ranking is based on a holistic measure of corporate "effectiveness" that was developed by the Drucker Institute, a part of Claremont Graduate University in Claremont, Calif. "Effectiveness" is defined as "doing the right things well."

The ranking includes U.S. companies whose shares are traded on the New York Stock Exchange or **Nasdaq Stock Market**, and which meet criteria, described below, related to their value and prominence.

The measure seeks to assess how well a company follows a core set of principles advanced by the late Peter Drucker, a professor, consultant, author and longtime Wall Street Journal columnist. Mr. Drucker died in 2005.

Explore the Management Top 250

These principles serve as touchstones for five dimensions of corporate performance: Customer Satisfaction, Employee Engagement and Development, Innovation, Social Responsibility and Financial Strength. For a list of the specific Drucker principles underlying the measures, please visit www.drucker.institute/rankings-principles/.

How to Read the Rankings

All scores are expressed as T-scores. They are standardized so that the range is 0 to 100, the mean is 50 and the standard deviation is 10.

If a company is one standard deviation above the mean (with a score of 60), its results are in the top 15% to 20% of a larger universe of 752 companies that have been ranked by the Drucker Institute. (For the full list, please go to www.drucker.institute/rankings-2018/.) If a company is one standard deviation below the mean (with a score of 40), its results fall in the bottom 15% to 20% of that larger universe.

Journal Report

* Read more at WSJ.com/ManagementTop250

More on the Management Top 250

* Explore the Rankings

* How the Best-Run Companies Got That Way

* The Principles Behind the Rankings

* All-Stars Get High Marks Across the Board

If a company is two standard deviations above the mean (with a 70) or two standard deviations below the mean (with a 30), its results are in the top or bottom 2.5% of the larger universe. And if a company is three standard deviations above the mean (with an 80) or three standard deviations below the mean (with a 20), its results are in the top or bottom 1% of the larger universe.

The fact that a firm is ranked toward the bottom of the Management Top 250 does not mean that it is not managed effectively. The lowest-ranked firm on the list is still in the top 33% or so of a much larger group of companies that was analyzed.

Care should also be taken when comparing this year's results with those from 2017, when the Management Top 250 was first published. Because this year's universe has grown substantially—to 752 firms from 693 that were analyzed last year—a change in a company's ranking may not be as revealing as a change in its T-score.

How "Effectiveness" Is Measured

Much like human health, intelligence or athleticism, corporate effectiveness is a "latent variable," meaning that it cannot be directly observed. But it can be inferred from other variables that can be observed (known as "indicators").

In the case of the Drucker Institute's model, there are 37 indicators that fall under the five dimensions of corporate performance.

In building the model, no one dimension of corporate performance (or any of the 37 indicators) was judged to be more important than any other. That said, because the scoring system is compensatory, a company with average or low scores in one dimension (such as Employee Engagement and Development) but exceptionally high scores in another (like Innovation) can end up highly ranked overall.

In calculating scores, a slightly different weight was computed for each dimension based on the degree to which it was found to contribute to overall corporate effectiveness. Those weights were as follows: Customer Satisfaction = 17%; Employee Engagement and Development = 19%; Innovation = 22%; Social Responsibility = 23%; and Financial Strength = 20%.

Fundamentally, the model rests on the belief that all five dimensions are interrelated and influence each other over time—what social scientists call "reciprocal causation."

While it might be possible to untangle those influences with longitudinal data—and the Drucker Institute is actively conducting research to better understand how different parts of the model relate to one another—that is not the immediate goal of this measure. Rather, the main purpose is to provide a "snapshot" of overall corporate effectiveness at a point in time.

Development of the Model

Development of the model began in 2014, and included several prototype phases, with increasingly larger samples of companies included. Lawrence Crosby, chief data scientist at the Drucker Institute's KH Moon Center for a Functioning Society, designed the model and, with the Drucker Institute's Rick Wartzman and Zach First, oversaw its development.

More than 100 indicators were analyzed before settling on 37 that ultimately went into the model.

Several new indicators were introduced for this year's rankings, and a few that were used in 2017 were replaced by similar measures from new data providers. In addition, in order to eliminate the possible overweighting of certain indicators, the Drucker Institute removed industry relative scores in the Customer Satisfaction category that were used in 2017. (It has continued to use only industry relative scores in the Innovation category, as well as both absolute and relative scores in the Social Responsibility category.)

All potential indicators were judged against the following criteria:

• They needed to be rigorously developed based on sound statistical methods.

• They needed to capture the essence of a specific Drucker principle.

• They needed to have a sufficiently high correlation with the other indicators of the same dimension—providing assurance that each one was actually measuring the same aspect of corporate effectiveness. For example, each indicator in the area of Customer Satisfaction had to correlate highly with other indicators in that category.

The 37 Indicators

The indicators used in the model are based on data obtained from a variety of third-party providers. Alice Korngold, an expert on sustainability, board governance and measurement, who is chief executive officer of Korngold Consulting in New York, developed the methodology for a portion of the Social Responsibility category.

See a list of the 37 indicators, which includes a notation of those that are new in 2018.

Population of Ranked Firms

Each company listed in the Management Top 250 represents one of the highest scorers among a larger universe of 752 U.S. companies that are part of the Dow Jones U.S. Total **Stock Market** Index or the S&P Composite 1500 Index (or both); have at least two valid indicators for each of the five dimensions of performance; and also met at least one of the following criteria:

• Its shares were a component of the **Standard & Poor**'**s500 stockindex** as of June 30, 2018.

• Its market capitalization was $10 billion or greater as of June 30, 2018.

• Its revenue was $3 billion or greater as of March 31, 2018.

Data Collection

All data collected by the Drucker Institute was the most current available as of June 30, 2018.

Where available, data has also been obtained going back to 2012 on a year-by-year basis. This historical information provides a baseline for measuring change within each of the company's five dimensions of performance and in terms of its overall effectiveness, as well as for spotting longer-term trends.

Scoring of Firms

Companies were scored by:

1. Standardizing the raw scores on the 37 indicators to have a mean of 0 and a standard deviation of 1.

2. For each dimension, averaging the company's two or more valid indicators.

3. Restandardizing the average scores.

4. Transforming the standard scores to T-Scores having a mean of 50, a standard deviation of 10 and a range of 0 to 100 (except in unusual circumstances).

5. Through factor analysis of those five sub-scores, computing a factor score on overall effectiveness for each firm, which, in turn, was also transformed into a T-Score.

Missing Data

The underlying data used to compute the 37 indicators was not available in every instance for every firm being ranked. Where there was a missing field, a score was derived by computing the average of that dimension's indicators for which the firm had a valid score. For example, the Employee Engagement and Development category has seven indicators. If a firm had a valid score for five of those indicators, the firm's Employee Engagement and Development score became the average of the five.

The Drucker Institute compared this way of handling missing data against another method called "multiple imputation," in which a computer analysis uses all of the known variables across the entire model to fill in any blanks. Both methods produced very similar results.

Testing and Validating the Model

To build the model, the Drucker Institute utilized structural equation modeling, a technique that uses a combination of factor analysis and multiple regression analysis to examine the relationship between measured variables and latent constructs.

This approach allowed for the analysis of the entire model simultaneously, including all proposed indicators, as well as all five dimensions of corporate performance and overall corporate effectiveness.

A series of tests was run to ensure:

• Construct validity (the degree to which the indicators actually measured what they claimed to measure)

• Reliability (freedom from random error)

• Goodness of fit (between the approach being taken and the data being examined). The goodness-of-fit statistics are: Goodness of Fit Index = 0.92, Adjusted Goodness of Fit Index = 0.91 and Normed Fit Index = 0.90.

Safeguards were also built into the model so that if a single source was used in various places (such as wRatings data going into both the Customer Satisfaction category and the Innovation category), it wouldn't be overweighted.

In the end, the model confirmed that:

• Taken together, the five dimensions reflect a single higher-level construct (corporate "effectiveness") and that each has a substantial factor loading on that construct. The following are the range of loadings observed for each dimension from 2012 through 2018 using a variety of statistical estimation methods: Customer Satisfaction is 0.56 to 0.68, Employee Engagement and Development 0.51 to 0.66, Innovation 0.58 to 0.83, Social Responsibility 0.68 to 0.81 and Financial Strength 0.56 to 0.63.

• The selected third-party metrics serve as valid and reliable indicators of those five dimensions. The average factor loading within each dimension for 2018 is 0.70.

A diagram of the structural model as specified in SPSS AMOS is available from the Drucker Institute upon request.

In addition, during the prototype phase of the model's development in 2015, the Drucker Institute worked with PayScale to field a series of survey questions to the employees of 41 companies. These questions aimed to gauge how well these employees exhibited behaviors and mind-sets that were in line with the various Drucker principles. An analysis of the results showed that companies where employees self-reported that they were adhering to the Drucker principles scored relatively high on the corresponding indicators used in the model. This convergence gave further support to the model's validity.

Future of the Model

The Drucker Institute is committed to a process of continuous improvement. So while the principles that underlie the model are considered sacrosanct and are unlikely to change, new indicators may be introduced if they are determined to serve as better proxies for those principles.

The Drucker Institute will also continue to analyze its computational methods to ensure that they deliver fair and equitable ratings and rankings.

If you have any questions or comments, please email rankings@drucker.institute.

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WSJ PRO CENTRAL BANKING

Politics
President Trump Bashes the Fed. This Is How the Fed Chief Responds. Jerome Powell's playbook includes making allies outside the Oval Office, never talking politics and sticking to the economy.

By Nick Timiraos
2,216 words
30 November 2018
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WSJ Pro Central Banking
RSTPROCB
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Federal Reserve leaders for the past quarter-century have made decisions about interest rates without being pressured by the president.

President Trump has broken that streak, calling the central bank "crazy" for raising rates and more than once saying the Fed is damaging the economy. That has prompted Fed Chairman Jerome Powell to update playbook rules for dealing with a president annoyed by America's central bank.

Rule 1: Speak not of Mr. Trump.

Rule 2: When provoked, don't engage.

Rule 3: Make allies outside the Oval Office.

Rule 4: Talk about the economy, not politics.

The first rule has led to awkward silences, blank stares and uneasy laughter. At an October lunch with economists in Boston, Mr. Powell spoke enthusiastically about the team he assembled at the Fed, said a person who was there. When the subject turned to Mr. Trump's criticisms, Mr. Powell sat expressionless, saying nothing.

The rules are simple but not easy, given the relentless criticism. Mr. Trump blamed the Fed for October's **stock-market** selloff, calling the central bank "out of control." The president told The Wall Street Journal Oct. 23 that Mr. Powell seemed to enjoy raising rates.

Not since the 1990s has a president leaned so hard on the Fed chief and never so publicly. On Monday, Mr. Trump told the Journal: "I think the Fed right now is a much bigger problem than China."

During an appearance with Mr. Powell this month, Dallas Fed President Robert Kaplan hinted at Mr. Trump's litany of harsh words without naming the president.

"One of the questions from the audience is, ‘Gee, I read in the newspaper that you have been mentioned by political leaders over the last several months,' " Mr. Kaplan said, triggering awkward audience laughter.

"That was very delicate, Rob," Mr. Powell interjected, returning to Rule 1.

Then Mr. Powell pivoted to Rule 4—stick to the economy. Low unemployment and stable inflation were his sole focus, he said: "We don't try to control things we don't control. We try to control the controllable. We're just trying to do our jobs. And, you know, we're doing fine."

The Fed's benchmark interest rate is now in a range between 2% and 2.25%, well below long-run averages. The central bank is expected to raise rates by a quarter-percentage-point at its Dec. 18-19 meeting.

Mr. Powell says he is raising rates to return them to a more normal setting and avoid the type of boom-and-bust economy that ended in past recessions.

The president hasn't complained directly to Mr. Powell. The two men haven't had a substantive conversation since Mr. Trump introduced Mr. Powell as his pick to be Fed chairman last November.

Mr. Trump has said he doesn't plan on firing Mr. Powell, and it isn't clear he could. The Federal Reserve Act states a Fed governor can be removed only for cause, a high bar that courts and legal scholars have interpreted to mean malfeasance or neglect.

The Fed's policy moves reverberate around the world, influencing the decisions of businesses and consumers by shaping the cost of credit and the values of stocks, currencies and real estate.

The stakes are higher than a few individual interest rate increases. The Fed's credibility could suffer if investors believe its commitment to guard against inflation has been compromised by politics, or if Mr. Trump's attacks sour the public's view of the central bank.

"At some point, it becomes very damaging to the institution to be perceived as not acting in the best interest of America," former Fed Chairwoman Janet Yellen said in an interview.

Mr. Trump's pressure is making it harder for Mr. Powell to conduct policy without markets inferring that politics have entered the equation.

When Mr. Powell made comments Wednesday that sounded to some investors like the Fed might not have many more rate increases to go, markets rallied—and some wondered, with no evidence, if Mr. Trump's attacks were starting to sway the Fed leader. Mr. Powell's conduct so far suggests that is unfounded, and people close to him strongly dispute that notion.

This article is based on dozens of interviews with lawmakers, current and former officials from the Trump administration and the Fed, as well as business leaders. Mr. Powell—who joined the Fed board in 2012, nominated by President Obama—declined an interview request.

Mr. Powell has told others that he knows the president's criticism could make his life unpleasant, but that he wouldn't respond to political pressure. People close to Mr. Powell said he understood that history would judge him on policy decisions made over his four-year term.

His political headaches may swell faster than the economy next year as Mr. Trump prepares to run for re-election. The central bank anticipates growth in the economy to slow, while rates are expected to continue rising.

Business as usual

Mr. Trump has said he supports central bank independence but is entitled to making his opinions known. Managing presidential opinions has long been part of the Fed leader's job, but one conducted mostly in private.

President Lyndon B. Johnson once summoned Fed Chairman William McChesney Martin to his Texas ranch to berate him for raising interest rates, saying it was despicable, according to Mr. Martin's account.

One low point for the central bank came when President Richard Nixon privately pressured Fed Chairman Arthur Burns to keep rates low before the 1972 election, according to Oval Office recordings. Mr. Burns kept rates low and inflation accelerated.

Shortly after President Ronald Reagan's inauguration, a White House staffer asked Fed Chairman Paul Volcker if he wanted to host the new president at the Fed. Mr. Volcker declined, but replied he would be happy to meet the president anywhere else. They settled on the Treasury Department as a neutral ground.

Top Reagan administration officials frequently criticized Mr. Volcker, who presided over rate increases that triggered recessions in 1980 and 1981. But President Reagan refrained. "He just never did it," Mr. Volcker said in an interview last year.

President George H.W. Bush's Treasury Secretary Nicholas Brady cut off regular breakfasts with Fed Chairman Alan Greenspan to show his disapproval of tight-money policies in 1992. Mr. Brady stopped inviting Mr. Greenspan to dinner parties and golf dates at Augusta National.

One of Mr. Brady's deputies at the time was Mr. Powell, who served as an appointee in the Treasury's domestic policy office. Mr. Powell, 65, graduated from Princeton and Georgetown University law school.

In 1994, President Bill Clinton was upset that Mr. Greenspan's rate increases threatened a delicate deficit-reduction plan that Mr. Clinton had guided through Congress.

Mr. Clinton's unhappiness "never was communicated to me," said Mr. Greenspan, who added he heard about it much later. Economic adviser Robert Rubin convinced the president it was best to lay off the central bank to show investors that the Fed was apolitical.

That practice held through two administrations, until Mr. Trump decided this year to raise a ruckus about the Fed.

While Mr. Trump complains loudly, his top economic advisers conduct business as usual with Mr. Powell; that includes Treasury Secretary Steven Mnuchin, National Economic Council director Lawrence Kudlow and Council of Economic Advisers chairman Kevin Hassett.

Mr. Kudlow and Mr. Powell have bonded over their back troubles. Mr. Powell shared the name of his doctor, "who's been a terrific help to me," Mr. Kudlow said in an interview. "I'm not kidding."

Before he became chairman, Mr. Powell was the Fed's point person on bank regulation, just as the Trump administration took shape. That put Mr. Powell in regular contact with Mr. Mnuchin, a newcomer to Washington. Mr. Mnuchin later backed Mr. Powell for the chairman job.

Mr. Trump has since taken out his frustration on Mr. Mnuchin, according to a person familiar with the matter, saying recently, "I thought you told me he was going to be good."

Messrs. Powell and Mnuchin meet for breakfast or lunch roughly every other week, alternating between Mr. Mnuchin's offices at the Treasury and a fourth-floor wood-paneled suite in the Fed's main building.

After Mr. Trump publicly complained about Mr. Powell this summer, Mr. Mnuchin said in a TV interview that he was "a phenomenal leader at the Fed."

Mr. Powell and other Fed governors continue a longtime practice of meeting once a month with top economists at the Council of Economic Advisers. Participants say conversations focus on the economy and how the U.S. might respond to economic crises abroad. Mr. Powell avoids discussing the president's criticism, according to people familiar with the matter.

Mr. Trump's advisers don't see the president's attacks as helpful, according to people who have spoken to them.

In fact, Mr. Powell is the kind of Fed leader the White House wants, Mr. Kudlow said, because he is skeptical of traditional economic models that say inflation rates rise when unemployment falls.

With an unemployment rate of 3.7%, near a half-century low, traditional models suggest the Fed engage in aggressive interest-rate increases. Mr. Powell, who isn't a trained economist, views the models with greater skepticism than some macroeconomists.

He has moved interest rates up slowly, waiting to see how inflation responds before deciding if rates should go higher.

"Jay is questioning a lot of the traditional Fed dogma with the board staff and their models," said Mr. Kudlow.

Mr. Trump's economic advisers have helped Mr. Powell cement control of the central bank, securing a cast of Fed deputies and governors who appear to be allies. All three rate increases this year have passed by unanimous vote of the Fed's rate-setting committee.

The president, on the other hand, sees no reason to continue with rate increases because inflation is modest, he has said. He wants rates low to foster fast growth.

Inflation in the U.S. has returned to the Fed's 2% target after running below it for several years. Tax cuts and federal spending increases are stimulating economic growth at a time of very low unemployment, creating an economic experiment unparalleled during a peacetime expansion in the postwar period. Fed officials are watching closely because the combination can push inflation to undesirable levels.

Several people who know Mr. Trump say his long career in real estate informs his view of rising interest rates, which have put a damper on his businesses. Mr. Trump's firms sought bankruptcy protection after borrowing costs rose in the early 1990s and in the mid-2000s.

Mr. Trump told the Journal in October the Fed chief has surprised him, because he thought Mr. Powell was a "low interest-rate guy."

Making friends

Mr. Powell, a Republican and Washington native with a 40-year career spanning government, finance and law, recognizes that Fed authority depends more on Congress than the White House.

"Our decisions can't be reversed by the administration," Mr. Powell said earlier this month in Dallas. "Of course, Congress can do whatever it wants."

The financial crisis badly damaged the central bank's aura of technocratic acumen, and unpopular bank bailouts prompted Congress to limit the Fed's emergency lending authority.

Many Republicans opposed former Fed chief Ben Bernanke's unconventional Fed policies to stimulate growth. Lawmakers proposed legislation that would give Congress the authority to audit the central bank's policy decisions, which Fed officials strongly opposed.

After becoming the Fed chairman in February, Mr. Powell turned his attention to Capitol Hill. In his first eight months, he met with 56 lawmakers—32 Republicans and 24 Democrats. During her first eight months as Fed chairwoman, by comparison, Ms. Yellen met with 13 lawmakers.

Sen. Chris Coons (D., Del.) came away impressed from a private meeting with Mr. Powell in October. He said the Fed chief wasn't interested in talking about tension with the White House. Mr. Coons and Sen. Jeff Flake (R., Ariz.) later decided to send Mr. Trump a letter telling him to lay off the Fed.

"You appear to be telling the Fed what to do with interest rates, which we believe is unconstructive and dangerous," the senators wrote the president.

In his new memoir, Mr. Volcker described how White House chief of staff James A. Baker III, with President Reagan watching silently, ordered the Fed chairman not to raise interest rates before the 1984 election.

Mr. Volcker, who wasn't planning to lift rates anyway, didn't tell colleagues or lawmakers about the episode. Mr. Baker has said he didn't recall that.

After watching Mr. Powell's most recent public appearances, Mr. Volcker sent him a congratulatory note, "which I never do," he told the Journal.

"He handled himself very well," Mr. Volcker said. "I told him so."

Jacob M. Schlesinger, Peter Nicholas and Daniel Kruger contributed to this article.

Write to Nick Timiraos at nick.timiraos@wsj.com

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THE WALL STREET JOURNAL.
U.S. EDITION

Oil Rises on Potential Russia Cuts

By David Hodari and Georgi Kantchev
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30 November 2018
The Wall Street Journal
J
B11
English

Oil prices jumped Thursday after reports that Russian officials are signaling the likelihood of a production cut in tandem with Organization of the Petroleum Exporting Countries.

Light, sweet crude for January delivery rose 2.3% to $51.45 a barrel on the New York Mercantile Exchange, reversing losses after falling below $50 a barrel for the first time in almost 14 months. Brent, the global benchmark, settled up 1.3% at $59.51, moving off its lowest level since late October 2017.

Oil rebounded on reports that Russia is negotiating with Saudi Arabia, the de facto leader of OPEC, on how much Russian oil output needs to be curtailed and when. Reuters reported that Russian energy ministers had held a meeting with domestic oil chiefs on Tuesday in advance of the meeting of OPEC nations and their allies on Dec. 6 to discuss potential cuts.

The news came ahead of a planned meeting between Russian President Vladimir Putin and the Saudi Crown Prince Mohammad Bin Salman at the Group of 20 nations summit in Buenos Aires this weekend. Oil investors are watching for signs of collaboration between the two countries to pull back on production.

"It's about regional influence and I expect Russia will participate in any deal," said Giovanni Staunovo, director and commodity analyst at UBS Wealth Management. "If there's any announcement which is credible and shows a united front, we'd expect prices to recover."

Russia's reported acceptance of the need for a production cut came despite remarks from Mr. Putin on Wednesday that his country would be able to live with Brent prices at $60 a barrel.

Mr. Putin's remarks displaying an apparent lack of concern about lower **oil prices** followed tweeted remarks last week from President Trump that welcomed lower **oil prices**, comparing them to "a big tax cut for America and the world."

Saudi officials have in recent days expressed their reluctance to unilaterally cut production, although recent conversations between Energy Minister Khalid Al-Falih and oil officials from Libya, Iraq and Nigeria -- all countries that have expressed unwillingness to cut production -- suggest Saudi Arabia has been rallying support for a cut, said UBS's Mr. Staunovo.

The news of a potential cut by OPEC and Russia came as a continuing stream of figures showed rising global oil inventories. U.S. Energy Information Administration figures released Wednesday signaled a larger rise in U.S. oil stocks than many market participants had expected.

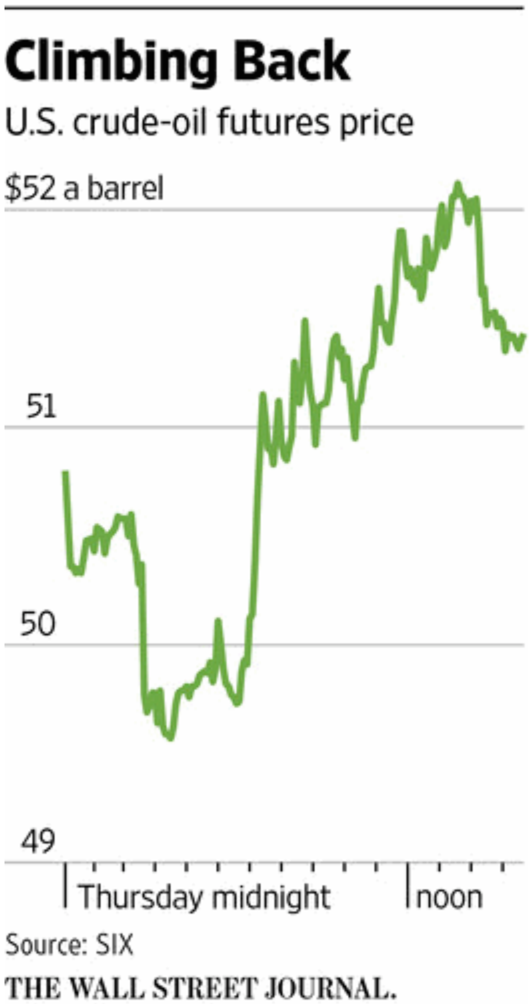
The increase of 3.58 million barrels over the past week marked the 10th consecutive week of rising inventories and was similar to the 3.45 million barrel rise flagged by the American Petroleum Institute the previous day.

"The U.S. report is another factor in a **bearish** picture for prices," said Caroline Bain, chief commodities economist at Capital Economics.

Concerns over rising oil inventories and anxieties over the health of the global economy have combined to send both Brent and U.S. oil down more than 20% over the past month.

Investors will also be watching the G-20 for the meeting between Mr. Trump and his Chinese counterpart Xi Jinping.

Stephanie Yang contributed to this article.



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THE WALL STREET JOURNAL.
U.S. EDITION

Business News: Oil Prices Test Producer Restraint --- Major players claim they have trimmed their sails enough to ride out recent slump

By Sarah Kent
639 words
30 November 2018
The Wall Street Journal
J
B5
English

Big oil companies maintain they are better positioned for price declines than they were years ago -- a claim that will be tested if crude's recent slump continues.

Oil giants like Exxon Mobil Corp., Chevron Corp. and Royal Dutch Shell PLC have slashed costs and cut spending in recent years in an effort to convince investors they can be resilient -- and profitable -- even when **oil prices** are **volatile**.

Those efforts have paid off. The industry's biggest players are churning out cash this year and improving returns to shareholders. The average Brent **oil price** that the biggest Western oil companies need to break even has fallen from more than $100 a barrel before the price crash in 2014 to less than $50 this year, according to Edinburgh-based consulting firm Wood Mackenzie.

On Thursday, West Texas Intermediate futures climbed 2.3% to $51.45, after earlier in the session falling below $50 for the first time in almost 14 months. Brent, the global benchmark, was up 1.3% at $59.51 a barrel, moving off its lowest level since late October 2017, on London's Intercontinental Exchange.

As prices have tumbled, executives feel vindicated for their prudent approach -- and prepared for any further pain from slumping prices.

"We're very confident in the outlook for the company, not so much in the outlook for the oil market," Brian Gilvary, BP PLC's chief financial officer, said in an interview last month.

BP has said it would be able to cover its capital budget and shareholder payouts with cash from operations with oil at $50 this year. It also aims to lower that number to between $35 and $40 a barrel by 2021.

While the recent fall in **oil prices** is likely to reinforce the industry's financial discipline, a harsher test could be ahead should prices decline further. The price of international benchmark Brent crude has plunged around 30% since its October peak, when it reached a four-year high of more than $85. American benchmark West Texas Intermediate has also plummeted, falling below $50 this week.

Big international companies generally use the Brent crude price as a marker for strategic planning. At around $60 a barrel, it remains at levels where the companies have shown they can book healthy profits, making major changes in strategy unlikely.

But if the slide from $60 continues, the broader industry could struggle to generate enough cash to fully cover financial commitments. Tom Ellacott, Wood Mackenzie's senior vice president for corporate research, said that at $55 a barrel many companies will start going cash-flow negative. "Clearly if we go back down to $30 a barrel, it's a very challenging environment," he said.

An index of **S&P 500** oil and gas stocks has fallen 6% in the last month.

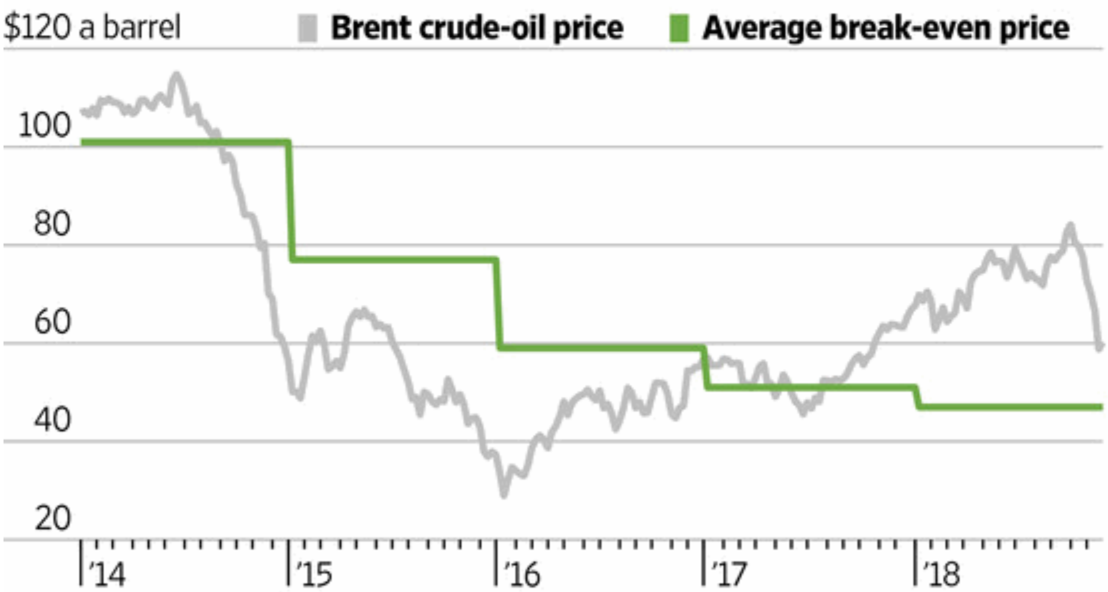
Historically, producers have taken advantage of a healthier investment environment to spend more as **oil prices** rebound from a slump -- but not in the recent cycle. Even when prices were rising this year, oil executives held to their mantra of disciplined spending.

"I think people -- they're thinking the history is going to color our future, and that's really not the case," Chevron finance chief Patricia Yarrington told analysts earlier this month. "We have growth potential, but it's going to be at a much lower capital rate."

Chevron is spending about half what it was in 2014 on finding and developing new projects. Both Shell and BP have set clear limits to their spending through the end of the decade. Exxon stands out as an exception with plans to substantially increase capital expenditures in the coming years.

Slicker

Since the oil crash of 2014, the world's largest producers have cut costs and spending, slashing their average break-even price by more than half.



Note: 2014 break-even price is for mid-2014. Weekly data through Nov. 25

Sources: SIX (Brent); Wood Mackenzie (breakeven)

THE WALL STREET JOURNAL.

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WSJ Pro

Eurozone Employment, Consumer-Price Figures Point to Lingering Slowdown; A recent jump in unemployment in Italy stalled a steady decline in the jobless rate across the bloc

By Paul Hannon
473 words
30 November 2018
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English

The eurozone's unemployment rate was unchanged again in October, staying where it has been since July, while the rise in consumer prices slowed more sharply than expected during November, both signs of an economic slowdown that seems set to continue into 2019.

Before August, the jobless rate had been falling steadily since the eurozone returned to growth in mid-2013, giving the European Central Bank confidence that it is on track to meet its inflation target over the coming years as wages pick up.

But a jump in unemployment in Italy has stalled that trend, with the country losing a total of 139,000 jobs over the past two months as a standoff between the government and the European Union over the former's budget plans has taken its toll on business confidence.

The EU's statistics office Friday said jobless numbers across the eurozone as a whole fell by just 12,000 in October, as the number of people without work dropped in Germany, France and Italy. The eurozone's jobless rate stayed at 8.1%.

For as long as job losses are concentrated in Italy and are offset by job gains elsewhere, the ECB may not be too concerned about the recent stall in the unemployment rate. But there are other signs that its long struggle to lift inflation is coming up against some powerful headwinds.

In a separate release, the EU said consumer prices were 2% higher in November than in the same month of 2017, a drop in the annual rate of inflation from 2.2% in October.

Economists had expected to see a more modest decline to 2.1% as an initial response to falling **oil prices**. But the rise in services prices, which are determined by domestic demand, also eased, a development that may worry policy makers.

The ECB has indicated it will end a program of bond purchases designed to stimulate economic growth in December, and has also said it won't raise its key interest rate until the end of summer 2019.

However, there are mounting signs that the economic slowdown that began at the start of the year is set to continue into next year, although it may become less steep.

And there are few signs that the core rate of inflation--which excludes **volatile** energy prices--is undergoing the sustained pickup the ECB hopes for. That measure fell in October to 1% from 1.1%, further below the central bank's inflation target of just under 2%. It was only marginally higher than the 0.9% recorded a year ago.

Write to Paul Hannon at paul.hannon@wsj.com

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The New York Times

Business/Financial Desk; SECTB
Markets Retreat After Wednesday's Rally

By THE ASSOCIATED PRESS
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30 November 2018
The New York Times
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Late Edition - Final
2
English

Stocks in the United States finished lower Thursday after an afternoon rally faded away. Banks and technology companies fell after the market pulled off a huge rally the day before.

Deutsche Bank dropped after German authorities raided its offices on suspicion some of its employees helped clients launder money. Financial stocks fell as interest rates again edged lower. Crude **oil prices** climbed after they briefly dipped under $50 a barrel overnight. The rebound helped energy stocks trade higher. Health care companies, which have climbed over the last month, continued to do better than the rest of the market.

The Federal Reserve released minutes from its meeting in early November. Officials expressed concerns about a variety of threats to the economy, including the impact of tariffs, a slowing global economy and tightening financial conditions amid falling stock prices. The assessment was in line with comments Wednesday from Federal Reserve Chairman Jerome Powell.

"That's what the Fed is trying to put out there, is they haven't gotten carried away with rate increases," said Thomas Martin, portfolio manager at Globalt Investments in Atlanta. "The market wants to see ... that they are going to be gradual."

The **S&P 500 index** shed 5.99 points, or 0.2 percent, to 2,737.76. The **Dow Jonesindustrial average** recovered from a loss of 163 points and ended down just 27.59 points, or 0.1 percent, to 25,338.84.

The **Nasdaq composite** slid 18.51 points, or 0.3 percent, to 7,273.08 as tech stocks dipped.

The **S&P 500 index** was coming off its largest rally in eight months and has climbed 4 percent this week. It finished at a six-month low on Friday.

Benchmark United States crude rose 2.3 percent to finish at $51.45 a barrel in New York.

EOG Resources rose 1.6 percent to $105.47 and Anadarko Petroleum gained 2.2 percent to $53.70. The **S&P 500 index** of energy companies has dropped 12 percent over the last three months, worse than any of the other major market sectors. The **S&P 500** itself has fallen 6 percent over that time.

Health care stocks, meanwhile, have jumped 7 percent in the last month, about double the gains in the broader market. On Thursday drugmaker Pfizer picked up 1.4 percent to $45.51 and medical device maker Medtronic added 1.3 percent to $96.60.

Stocks rallied Wednesday after Mr. Powell suggested that the Fed might be almost done raising interest rates. Investors have been nervous about climbing interest rates, and that fear is one of the reasons behind the slide in stocks this autumn.

"In September, the feeling (in the markets) was more confident," Mr. Martin said. "Third quarter earnings reports, I think, really started to change that, and the continuing weakness of data overseas, in Europe and the rest of the world, has changed that."

Bond prices edged higher. The yield on the **10**-**year Treasury** note fell to 3.03 percent from 3.06 percent. Banks fell as investors expected slower increases in interest rates, which reduce the profits banks make from mortgages and other types of loans. Bank of America shed 1.4 percent to $28.04 and Bank of New York Mellon slid 1.8 percent to $50.68.

Deutsche Bank stock lost 4.8 percent to $9.42. German authorities suspect that Deutsche Bank employees helped clients set up offshore companies in tax havens to launder hundreds of millions of euros.

Qualcomm stock gained 2.6 percent to $58.11 after the chief executive, Steve Mollenkopf, said that the company is close to resolving its long and costly dispute with Apple.

But other technology companies fell. Intel lost 2.4 percent to $47.70. Apple slipped 0.8 percent to $179.55, and Microsoft dipped 0.8 percent to $110.19.

Gold rose 50 cents to $1,224.10 an ounce.

The dollar slid to 113.43 yen from 113.53 yen. The euro edged up to $1.1389 from $1.1376.

CHARTS: The **S&P 500 Index**: Position of the **S&P 500 index** at 1-minute intervals on Thursday. (Source: Refinitiv); Jobless Claims: Weekly number of people who have filed for unemployment benefits for the first time. (Source: Labor Department, via Reuters)

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The New York Times

Business/Financial Desk; SECTB
Not Everyone Is Cheered By Decline in Oil Prices

By CLIFFORD KRAUSS
1,167 words
30 November 2018
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Late Edition - Final
1
English

HOUSTON -- Oil prices have plunged by about 25 percent in the last month while the cost of gasoline has tumbled to as little as $2 a gallon in several states. President Trump is pushing for even lower prices, calling it ''a big Tax Cut for America and the World.''

But Mr. Trump is playing a tricky game. The United States became the world's largest oil producer this year, and a collapse in prices could hurt scores of businesses and hundreds of thousands of workers in the energy and manufacturing industries. The damage would be particularly severe in states like Texas, Oklahoma and North Dakota that voted for the president.

Oil, which is trading at around $50 a barrel, is close to an economic sweet spot. Prices are not so high that they are a burdensome tax on consumers and businesses, and not so low as to bankrupt energy companies and strain the finances of major oil exporters like Saudi Arabia and Russia.

''Trump tweets as if he has a joystick and he has everything under his command like he is playing one of these video games,'' said Tom Kloza, global head of energy analysis at the Oil Price Information Service.

Mr. Trump is expected to discuss oil prices with the crown prince of Saudi Arabia at the Group of 20 summit meeting at the end of the week. That conversation will come days before the Organization of the Petroleum Exporting Countries is expected to set production targets.

If he persuades major oil-producing nations to maintain their current output, ''oil prices could go down to the low 40s,'' Mr. Kloza said.

That kind of drop would have been an unalloyed economic boon for the United States just a dozen years ago, when domestic oil production was declining and the country was becoming increasingly dependent on unstable or unfriendly countries like Venezuela and Nigeria.

But lower prices will have a more ambiguous impact now. After the boom in drilling in shale fields, oil production in the United States has more than doubled since 2008, to upward of 11 million barrels a day now, and the country has become a major exporter. Exxon Mobil, Chevron and other oil companies have made huge investments and employ tens of thousands of workers across the country.

After prices began to slide in late 2014, more than 160,000 oil workers lost their jobs. Hundreds of smaller drillers went bankrupt, putting pressure on banks and investors. Manufacturers and other businesses that supply the energy industry also took a hit.

At the time, OPEC decided not to cut production in order to retain market share and undercut American shale producers. That decision set off a three-year slump in prices.

''Of course I'm concerned because the price of oil is dropping like crazy right now,'' said Darlene S. Wallace, president of Columbus Oil, a small Oklahoma producer. ''I was making a profit this year for the first time in four years, and now it doesn't look like it will end up that way toward the end of the year.''

But the drop in prices has clearly been a boon to people and businesses that use oil.

Americans consume roughly 400 million gallons of gasoline a day, so every time prices fall by a penny they save about $4 million. The average retail price for regular gasoline is about $2.50 a gallon, according to AAA, about the same as a year ago. But that is $1.60 a gallon less than it was a decade earlier, when the shale-oil boom was just starting.

In addition to the benefits of lower prices for consumers, Mr. Trump appears to want a well-supplied oil market so he can press countries to cut their imports from Iran without worrying about running out of fuel. Lower energy costs should also tamp down inflation, which in turn would help keep interest rates low at a time when some analysts fear an economic slowdown.

The president might have some success in getting Saudi Arabia not to cut oil production because of how he has handled the killing of the journalist Jamal Khashoggi in the Saudi Consulate in Istanbul. Thankful for Mr. Trump's public support, the Saudi crown prince, Mohammed bin Salman, might be more willing to tolerate low **oil prices** than he would have been otherwise.

Russia also appears to be in no hurry to cut production, which is at the record level of roughly 11 million barrels a day. Igor Sechin, chief executive of the Russian oil company Rosneft and an influential ally of President Vladimir V. Putin, has aggressively promoted drilling at home and abroad. Mr. Putin recently said he was satisfied with the current price of oil.

Given all those political calculations, Mr. Kloza and other energy analysts say that Saudi Arabia is likely to cut production modestly, and lobby other producers to do the same. At current prices, Saudi Arabia, which is heavily dependent on petroleum exports, can pay its bills and most oil companies can make a profit. (The global price of oil is about $60 a barrel.)

''I think everybody is keen on stability,'' said Sadad Ibrahim Al Husseini, a former executive vice president of Saudi Aramco. He expects OPEC will cut production by at least a million barrels a day, roughly 1 percent of global supply.

The energy minister of Ecuador, Carlos Pérez, said in a recent interview that he thought prices would end up in a Goldilocks range.

''Some talk of $60 oil. Other crazy people talk of $100 oil,'' said Mr. Pérez, who will represent his country at the OPEC meeting next week. ''But I personally think we are going to a range of between $65 and $75.''

But **oil prices** rarely settle at such temperate levels for long.

Any OPEC cut that raises prices would encourage more drilling in the United States and other non-OPEC countries like Brazil, potentially forcing prices back down again. And if trade tensions between the United States and China depress global growth, **oil prices** could slide anew.

Bernard L. Weinstein, associate director of the Maguire Energy Institute at Southern Methodist University in Dallas, said it was virtually impossible to predict **oil prices** more than a month in advance. That is even more the case when the president is trying to jawbone energy markets and intervene in the global economy.

''We do know that after some of Trump's tweets we have seen big drops,'' Mr. Weinstein said. ''Trump is the unpredictable factor, not just in terms of his tweets but what he is going to do in terms of his steel and aluminum tariffs, his hiking of tariffs on another $200 billion worth of Chinese goods. He is the disrupter in chief.''

The Lake Charles refinery, Citgo's largest in the United States. (PHOTOGRAPH BY TODD SPOTH FOR THE NEW YORK TIMES) (B4)

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Business/Financial Desk; SECTB
Rate Rise May Continue, Minutes From Fed Show

By BINYAMIN APPELBAUM
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30 November 2018
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4
English

WASHINGTON -- The Federal Reserve is poised to raise interest rates at its next policymaking meeting in mid-December and to continue raising rates next year, according to the minutes of the central bank's last meeting published on Thursday.

The minutes said most Fed officials were confident about the economy when they met in early November.

Some Fed officials at the meeting said they were less certain about the economic outlook and about the Fed's policy plans. But the account of the meeting provided no indication that the central bank is preparing to pause, notwithstanding the hopes of investors and frequent public attacks by President Trump.

''Almost all participants expressed the view that another increase in the target range for the federal funds rate was likely to be warranted fairly soon,'' barring unpleasant developments, the minutes said.

The Fed's policy arm, the Federal Open Market Committee, last raised its benchmark rate in September, to a range of 2 percent to 2.25 percent, then left the rate unchanged at the November meeting. The central bank is widely expected to increase the rate by a quarter of a percentage point in December.

The **stock market** surged on Wednesday after investors interpreted a speech by the Fed's chairman, Jerome H. Powell, as an indication that the central bank may leave rates closer to the current level. The minutes, however, contained no hint of any such shift in plans at the time of the meeting. Analysts said they were skeptical that the Fed meant to signal a change on Wednesday.

Paul Ashworth, chief United States economist at Capital Economics, said that the market had overreacted, and that the minutes ''do not suggest that Fed officials anticipated an imminent pause in the tightening cycle.'' He said he expected a rate increase in December and two more during the first half of 2019.

The market's reaction on Thursday was much more subdued, with the **S&P 500 index** closing down 0.2 percent.

The Fed is seeking to wean markets from the expectation that it would continue to raise its benchmark rate every quarter. A rate increase in December would be the fifth straight quarterly increase.

The account emphasized that the central bank's policy ''was not on a preset course,'' a phrase Mr. Powell also has used in recent remarks. The minutes said the Fed might remove language that predicts ''further gradual increases'' from its next policy statement to underscore the point that officials will make decisions based on the latest data. But the central bank also said most officials expect ''further gradual increases.''

Mr. Trump has loudly complained that the Fed is throttling growth by raising rates. He renewed his attacks earlier this week, insisting in a pair of interviews that the Fed's march toward higher rates posed a significant threat to the economy.

Some economists agree with Mr. Trump that the Fed should take a break from raising rates, noting that there is little sign that the economy is in danger of overheating. The Commerce Department reported on Thursday that a key measure of inflation rose by 1.78 percent over the 12 months ending in October, below the 2 percent annual pace that the central bank regards as optimal.

"The Fed's mandate is price stability, and price growth has actually slowed," Jason Furman, a Harvard economist who was chairman of President Barack Obama's Council of Economic Advisers, wrote on Twitter on Wednesday. "I don't understand why wages and prices are moving in different directions, it is very plausible that price growth will pick up again. But I don't see much cost to a pause while we figure it out."

Lawrence Summers, who served as Mr. Obama's chief economic adviser, also has urged caution. In an interview with Fox Business Network scheduled to air on Friday, Mr. Summers said he disapproved of the way Mr. Trump was expressing his concerns, but he agreed with the substance. "I do think that there are more risks of overtightening than there are of under-tightening right now," he said.

Mr. Powell has said that the central bank is moving forward with rate increases because the economy is in good health, and that the Fed is trying to strike a balance between allowing the current expansion to continue and ensuring that inflation remains under control.

The economy grew at a 3.5 percent annualized pace in the third quarter, job growth is strong and wages are rising, buttressing the intentions of Fed officials to continue raising rates.

But the minutes noted "some signs of slowing in interest-sensitive sectors" like housing and car sales and said that "conditions remain depressed" in the agricultural sector because of trade tensions.

Fed officials at the November meeting also reviewed a change in the mechanics of monetary policy that the central bank adopted after the 2008 financial crisis.

Before the crisis, the Fed raised interest rates by draining reserves from the banking system. During the crisis, the Fed purchased trillions of dollars in Treasuries and mortgage bonds, which it paid for by pumping reserves into the banking system. The Fed could have reversed the process before raising rates. Instead, it chose to raise rates in a new way, by paying banks to leave reserves untouched.

The Fed is slowly reducing its bond holdings, and officials are debating whether to slash them to a level that would allow a return to the pre-crisis system. The account of the November meeting said officials were pleased with the new system, which has increased the Fed's control over financial and economic conditions, but made no final decision.

Officials did approve a small tweak. Under the new approach, the Fed aims to keep its benchmark rate near the midpoint of a quarter-point range. Initially, the interest rate the Fed paid banks on reserves was set at the top of the range.

But earlier this year, the Fed set the interest rate on reserves 0.05 percentage point below the top of the range, to help keep the benchmark rate closer to the middle of the range. That has been insufficient, and Fed officials approved a further reduction, if necessary before the December meeting, according to the minutes.

Follow Binyamin Appelbaum on Twitter @bcappelbaum.

Jerome H. Powell, the Federal Reserve chairman. The central bank is poised to raise interest rates at its next meeting in mid-December. (PHOTOGRAPH BY JIM LO SCALZO/EPA, VIA SHUTTERSTOCK)

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THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Robust Consumer Spending Lifts Economy

By Harriet Torry and Eric Morath
599 words
30 November 2018
The Wall Street Journal
J
A2
English

U.S. consumers, powered by strong income gains, spent more in October, driving economic growth as other sectors such as home building and exports show signs of softness.

At the same time, inflation was subdued, which could take pressure off the Federal Reserve to keep raising short-term interest rates next year.

The Commerce Department said consumer spending registered its largest gain in October in seven months, rising 0.6% from September, and incomes were up 0.5%, the largest monthly increase since January.

An inflation measure watched closely by the Fed, the personal consumption expenditure price index excluding food and energy, was up 1.8% in October from a year earlier, below the central bank's 2% target and down from 1.9% the month before. Overall inflation, including food and energy, was 2%, but could be heading lower as **volatile** gasoline prices fall.

The most recent inflation readings are below the rates Fed policy makers expected at the end of this year. In September, they projected overall inflation to increase 2.1% in the fourth quarter from a year earlier. They projected core inflation to rise 2%.

The report was notable for two reasons. First, a range of other indicators in recent weeks have suggested the U.S. economy is slowing, in part because global growth has lost momentum. U.S. merchandise exports, for example, have dropped four times in five months. The latest data showed that American consumers, who power about two-thirds of U.S. output with their spending, are still an important source of momentum behind growth.

Second, the Fed is debating how far to push interest-rate increases. Fed officials are broadly expected to raise short-term interest rates when they meet next month. If inflation undershoots the Fed's target, that could cause the central bank to halt its campaign of interest-rate increases next year.

Taken together, strong household spending and low inflation represent potentially good news about the outlook.

"The consumer is in good shape and will continue to be the primary driver of U.S. economic growth," Mickey Levy, an economist at Berenberg Capital Markets, said in a note to clients. He added that household spending is likely to moderate next year as the boost from tax cuts put into place this year fades.

For Chris Sarno, who works in IT at a manufacturing company, higher pay means a new car. He is thinking about trading his 2015 Honda for a new Toyota Prius, a gift to himself this year. On Black Friday, he went in search of deals online and bought a set of tires on TireRack.com for the car he wants to sell, as well as a pair of running shoes from Amazon.

"I was opening the floodgates," said the 53-year-old Sarasota, Fla., resident.

Forecasting firm Macroeconomic Advisers revised up its fourth-quarter growth rate projection to 2.6% after the spending data, and the Atlanta Fed's GDPNow model also estimates a 2.6% rate. That pace of growth would be slower than earlier in the year. U.S. gross domestic product expanded at a 3.5% seasonally adjusted annual rate in the third quarter after a 4.2% annualized growth rate in the second.

The latest data suggest the economy remains in somewhat of a sweet spot, running neither so hot that is causes inflation nor so low that it causes unemployment to rise.

Khadeeja Safdar contributed to this article.

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THE WALL STREET JOURNAL.
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Banking & Finance: China's Banks Dodge Big Selloff --- Lenders have become defensive plays this year amid Beijing's easier-money shift

By Shen Hong
538 words
30 November 2018
The Wall Street Journal
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B10
English

Banks have emerged as the least wounded sector in China's brutal **stock-market** selloff this year, benefiting from their resilient financial performance and Beijing's shift toward easier monetary policy.

The CSI300 banking subindex is down 9.3% this year, according to data provider Wind, compared with a 21% fall for the broader CSI300, which tracks the largest firms listed in both Shanghai and Shenzhen.

That makes banking the sector that has declined the least, followed by pharmaceutical and biotech firms with an 11.7% fall and real estate with a 13.4% drop, according to the Wind data, which reflects price performance and is of Wednesday's close of trading.

Meanwhile, media is the worst performer, tumbling 40.2%. Shares in Focus Media Information Technology, a $12 billion advertising giant, have been cut in half this year.

Behind the move: surprisingly healthy earnings growth helped persuade investors to seek shelter in the banking sector, amid uncertainties about trade relations with the U.S. and China's own economic outlook.

All but one of the 28 banks listed in Shanghai and Shenzhen reported a rise in third-quarter net profit. The six biggest lenders, from Industrial and Commercial Bank of China Ltd. to Agricultural Bank of China Ltd., delivered earnings increases between 5.6% and 8.6% in the same period. All are partly state-owned.

Midsize banks such as Bank of Shanghai Co. and Bank of Ningbo Co. enjoyed net profit gains as high as 27%.

Net interest income, a key profitability metric that measures the difference between a bank's income from lending and its funding costs, stayed positive for most lenders and grew between 5.5% and 9.6% on year in the third quarter for the top six banks.

Beijing has scaled back its deleveraging campaign, a push to rein in runaway corporate debt.

As it has loosened credit conditions, that has lowered funding costs for lenders -- especially smaller ones that rely more on interbank lending, rather than deposits.

The cost of benchmark seven-day loans between Chinese banks has dropped to 2.64% from 3.09% at the end of last year.

China's growth is slowing, but the economy is still expanding at a reasonably solid 6.5% clip. That means commercial banks, whose fortunes are closely tied to the macroeconomic climate, have continued to enjoy one of the highest profitability growth rates in the world, said Nicholas Zhu, Beijing-based senior analyst at Moody's Investors Service.

"Strong regulatory requirements on banks' capital adequacy and a remarkably fat spread between deposit and lending rates are also reasons behind their strong financial performance," Mr. Zhu said.

China's official one-year deposit rate stands at 1.5%. By comparison, borrowers are paying 4.75% for one-year loans.

"In a **bear market**, investors tend to flock to companies like banks that have unspectacular but steady profit growth for safety. When things are good, they go for tech stocks," said Zhang Yanbing, Shanghai-based senior analyst at Zheshang Securities Co.

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WSJ PRO CENTRAL BANKING

WSJ Pro
Bank of Korea Raises Base Rate by a Quarter Point to 1.75%; Policy makers have argued for higher rates to tame the nation's overheating property market

By Kwanwoo Jun
580 words
29 November 2018
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WSJ Pro Central Banking
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SEOUL—South Korea's central bank raised interest rates for the first time in a year, as widely expected, with the policy tightening largely to target the country's record household credit.

The Bank of Korea has long signaled willingness to tighten policy and address financial imbalances caused by ballooning household debt despite its need to support economic growth. **Financial markets** had already priced in the rate rise.

On Friday, the bank lifted its base rate by a quarter percentage point to 1.75%.

Bank of Korea Governor Lee Ju-yeol said the decision wasn't unanimous at the seven-member policy board, with two dissenters voting to keep the rate unchanged.

Mr. Lee played down worries about having reduced support for economic growth. "Despite the rate increase, policy still remains accommodative," he told a press conference. The economy was still on track to hit its growth potential, he said.

Of 20 analysts surveyed by The Wall Street Journal, 17 said they expected a rate increase.

Policy makers have argued for higher rates to tame the nation's overheating property market, driven by sharp mortgage growth on cheap borrowing costs.

South Korea's household credit hit a record high to top $1.3 trillion at the end of the third quarter this year, outpacing the country's income growth. Growing credit and increasing debt-servicing costs could weigh on consumer spending.

Policy makers have also been more uneasy with widening rate differences between South Korea and the U.S. The Federal Reserve in September raised its benchmark short-term rate to a range of between 2% and 2.25% and penciled in four more rate increases through the end of 2019.

Though South Korea is less vulnerable to external shocks than other emerging markets, financial authorities in Seoul are on guard against capital flight. Offshore investors have been net sellers of the country's debt since September.

"The potential capital-flight risk is not that high, but we're keeping that in mind," Mr. Lee said.

Mr. Lee said he expects exports will continue to be a main driver of economic growth next year.

South Korea's economy was lackluster in the previous quarter that ended in September, as solid gains in exports were offset by shrinking business investment and slowing construction.

The central bank last month cut its 2018 growth forecast to 2.7%, down from 2.9%. The South Korean economy expanded 3.1% last year.

The bank maintained its inflation outlook at 1.6% this year—below the annual target of 2%. Inflation averaged 1.9% last year.

Recent economic data showed modest improvement in employment and consumer prices, but the overall economy is losing steam; both consumption and investment are still weak. Exports are facing headwinds from global protectionism.

Some economists said South Korea's macroeconomic picture may not support for more rate increases in the coming year.

"Despite the government's push for an expansionary fiscal policy to support domestic demand, exports will likely face challenges next year due to the rise in trade protectionism and the slowdown in the world's major economies," said DBS economist Tieying Ma said. She sees inflation as still benign and the labor market as weak.

Write to Kwanwoo Jun at kwanwoo.jun@wsj.com

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International New York Times

us

Trump Could Seek a China Trade Truce at G-20, Despite Tough Talk

By MARK LANDLER, GLENN THRUSH and KEITH BRADSHER
1,760 words
29 November 2018
International New York Times
INHT
English

WASHINGTON — President Trump is projecting a steely facade as he prepares for a critical meeting on trade this weekend with President Xi Jinping of China. But behind his tough talk and threats of higher tariffs is a creeping anxiety about the costs of a prolonged trade war on the **financial markets** and the broader economy.

That could set the stage for a truce between the United States and China, several American officials said, in the form of an agreement that would delay new tariffs for several months while the world's two largest economies try to work out the issues dividing them.

Such an outcome is not certain. Administration officials have expressed deep disappointment with China's response to Mr. Trump's pressure so far, characterizing it as a list of proposals, transmitted in Chinese, which they say would do little to curb China's theft of American technology or address its other predatory trade practices.

But Mr. Trump has signaled a new willingness to make a deal with Mr. Xi, a leader he has treated solicitously and will meet over dinner on Saturday in Buenos Aires, after a summit meeting of leaders of the Group of 20 industrialized nations.

The gyrations in the **stock market**, the rise in interest rates and thousands of layoffs announced by General Motors this week have all rattled Mr. Trump, officials said, fueling his desire to emerge from his meal with Mr. Xi with something he can claim as a victory.

"There's a good possibility that we can make a deal, and he is open to it," Mr. Trump's chief economic adviser, Larry Kudlow, said Tuesday. But if the meeting failed to produce a breakthrough, he said, Mr. Trump was "perfectly happy to stand on his tariff policies."

At the moment, the administration plans to raise existing tariffs on $250 billion worth of Chinese goods, to 25 percent from 10 percent, on Jan. 1. Mr. Trump has also threatened to impose tariffs on an additional $267 billion of Chinese goods — a step many fear would plunge the two giants into a full-fledged economic Cold War.

If the two leaders agree to talks, however, officials said Mr. Trump would most likely postpone the increase to 25 percent and hold off on any new tariffs. That would be similar to a deal he struck last July with the European Union, in which he agreed to delay auto tariffs in return for a pledge by Europe to buy American soybeans and natural gas.

The divisions inside the West Wing over trade remain fierce, as they have since the beginning of Mr. Trump's presidency, and the contest for Mr. Trump's ear will most likely continue until the moment he sits down with Mr. Xi in Argentina.

More mainstream advisers like Mr. Kudlow and the Treasury secretary, Steven Mnuchin, are urging him to compromise, while hard-liners like Peter Navarro, the director of the White House trade office, argue that he should keep ramping up the pressure on China until it folds.

Mr. Navarro, a favorite of Mr. Trump's, had initially been excluded from the trip to Argentina, which led some to conclude that the hard-liners had lost ground. Mr. Trump also sided against Mr. Navarro after Mr. Kudlow took a shot at him on television. But the United States trade representative, Robert Lighthizer, has since authorized Mr. Navarro's travel, raising the prospect that he will be on hand to encourage Mr. Trump to play hardball.

For Mr. Lighthizer, a veteran trade lawyer who has sued China for flooding the American market with cheap steel, the negotiations present an opportunity to drive a hard bargain.

But he also sees the meeting between Mr. Trump and Mr. Xi as a potential danger, especially if Mr. Trump opts for a quick handshake deal that would delay or scrap the new tariffs in hopes of buoying jittery markets, according to people familiar with his thinking.

Mr. Lighthizer also faces a challenge from Mr. Mnuchin, who has made it clear that he views himself as the nation's chief negotiator, according to administration officials. Mr. Navarro, people who know him say, regards Mr. Mnuchin as one of the circle of "globalists" pressuring Mr. Trump to abandon his promise to crack down on China.

Another American official said the major internal debate now was over the scope of a compromise Mr. Trump could offer Mr. Xi: postponing the increase in tariffs to 25 percent, plus the $267 billion in new tariffs — or only the new tariffs.

That underscores how much Mr. Trump's position has changed from a few months ago, when he announced sweeping tariffs on China, asserted the Chinese were not yet ready to negotiate an agreement and declared that trade wars were "easy to win." Only two weeks ago, disagreements between China and the United States over trade scuttled attempts to produce a joint communiqué after an Asian economic meeting.

Mr. Trump is acutely aware of the threat an economic downturn poses to the foundation of his presidency. That has made him receptive to the counsel of moderates like Mr. Mnuchin and Mr. Kudlow, as well as outsiders like the Wall Street financier Stephen A. Schwarzman who have been warning him he will be blamed for job losses, market losses and other economic damage from a prolonged trade war with China.

On Tuesday, Mr. Kudlow deflected questions about the depressing effect of trade tensions on the markets. He argued that the tariffs affected only a fraction of the American economy, which is still showing robust growth in jobs and incomes. And he said the negative effect had been much greater in China.

"I'm not suggesting that there aren't winners and losers in that game," Mr. Kudlow said. "But on the other hand, I think we are in far better shape to weather this than the Chinese are."

In China, where growth is slowing and the **stock market** has swooned, the government is mulling a broad cut in import tariffs that would lower trade barriers for companies around the world, including those in the United States, people briefed on Beijing's thinking said.

But the American demands could be a major sticking point. Chinese leaders are reluctant to accept any permanent American tariffs on Chinese goods, fearing that such a compromise would be seen at home as a sign of weakness.

Until now, the two sides have been mostly talking past each other. Chinese officials have expressed puzzlement to visiting Americans about why the administration has not responded to the 142-point list of proposals they sent to the United States. Mr. Kudlow said that once his colleagues translated it into English, they discovered there was little new there.

"We can't find much change in their approach," he said. "What's the timetable? What's the enforcement mechanism?"

For all the turbulence, Mr. Lighthizer is resolved to make the best of the situation, according to people who have spoken to him in recent days. That is in part because Mr. Trump is still pleased he was able to secure a new North American Free Trade Agreement deal before the summit meeting.

But even that deal has hit a pothole. Prime Minister Justin Trudeau of Canada remains in a standoff with Mr. Trump over Canada's demand that the United States remove steel and aluminum tariffs as part of the new treaty.

Mr. Trudeau has yet to confirm to American officials that he will attend the ceremonial signing of the agreement in Buenos Aires with Mr. Trump and Enrique Peña Nieto, the outgoing president of Mexico. Mr. Trudeau could end up delegating that task to a subordinate, according to two people with knowledge of the situation, a snub that could aggravate tensions with Mr. Trump.

Mr. Trump will also have to mollify another bruised ally, Britain, after he told reporters on Monday that the departure agreement Prime Minister Theresa May negotiated with the European Union might bar Britain from trading with the United States. Mr. Kudlow said Mr. Trump was referring to a provision in the deal that he said could prohibit Britain from negotiating a separate free-trade agreement with the United States.

British officials said there was nothing in the agreement that prohibits Britain from negotiating a bilateral trade deal with the United States — or anybody else. They expressed bafflement that Mr. Trump, an avowed supporter of Brexit, would seek to sabotage the most realistic path of negotiating Britain's departure.

Mr. Trump's outburst on Brexit underscored his unpredictability — the same quality he will take into his meeting with Mr. Xi. Chinese and American officials both recognize the value he places on grand bargains, reached after direct leader-to-leader negotiations.

Aside from the dinner, Mr. Kudlow said there were no plans for any other meetings between Chinese and American officials. But Mr. Trump's aides have tried, in different ways, to prepare the ground for the meeting with Mr. Xi.

Mr. Mnuchin, who has generally been loath to challenge Mr. Trump directly, views the negotiations with China as critical and sees the fallout from the trade war as a threat to his legacy, according to a person familiar with his thinking.

At times, several officials said, the Chinese have sought to avoid Mr. Lighthizer in favor of Mr. Mnuchin, who communicates regularly with Mr. Xi's top trade official, Liu He. While Mr. Mnuchin shares Mr. Lighthizer's view that the tariffs are driving China to the bargaining table, he has told Mr. Trump that he thinks the time has come to reduce exposure to the "**volatility**" of markets reacting to the tensions, according to several officials.

Mark Landler and Glenn Thrush reported from Washington, and Keith Bradsher from Beijing.

PHOTOS: President Trump will meet with President Xi Jinping, a leader he has treated solicitously, over dinner after a G-20 summit meeting. (PHOTOGRAPH BY DOUG MILLS/THE NEW YORK TIMES) (A1); President Trump will meet with President Xi Jinping, a leader he has treated solicitously, over dinner after a G-20 summit meeting. (PHOTOGRAPH BY DOUG MILLS/THE NEW YORK TIMES) (A7)

* G-20 Finance Ministers, Failing to Halt Trump's Trade War, Warn of Its Global Risks

* Trump Hits China With Tariffs on $200 Billion in Goods, Escalating Trade War

* U.S. and China Square Off on Trade, and APEC Nations Duck for Cover

Document INHT000020181128eebt0000q

International New York Times

business

Why Trump's Support for the Saudis May Not Help Them, or Him; DealBook

By ANDREW ROSS SORKIN
1,255 words
29 November 2018
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INHT
English

For more than a month, business leaders across the country have been waiting to get a definitive answer from Washington about what turn the relationship between the United States and Saudi Arabia may take in the wake of the murder of Jamal Khashoggi — and how it might impact their business relationships with the kingdom.

Despite offering public condemnations over Mr. Khashoggi's death and distancing themselves from the kingdom by pulling out of a major investment conference, many executives appeared to expect that business would quickly, if not quietly, return to normal.

"Keep in mind, it is a big country," Larry Fink, the BlackRock chief executive, said early this month. "There are many fine people in country, like there are many fine people in every country. These things are not black and white, and they're very complex."

But things have changed drastically since then. President Trump has offered a vociferous defense of the kingdom and, by extension, its de facto leader, Crown Prince Mohammed bin Salman, and dismissed a report from his own intelligence officers that concluded the prince had ordered the murder.

Mr. Trump's continued public support of the man known as M.B.S. has pointed to the role that Saudi Arabia plays as a Middle East ally against Iran and the kingdom's agreement to buy weapons from American suppliers. And then there's oil: "They have worked closely with us and have been very responsive to my requests to keeping **oil prices** at reasonable levels," Mr. Trump said last week in a statement rife with exclamation points.

But the president's strong support for the crown prince, whom he will almost certainly see this week when he flies to Buenos Aires for the Group of 20 meeting, may have the opposite effect to the one intended. Rather than end the conversation, it has invited a new one that could go on for months, if not years.

Congress is now making noises about doing what the president would not: a public investigation that could lead to real sanctions. (If this sounds familiar, it's because it is a replay of what happened a year ago after Mr. Trump refused to punish Russia for meddling in our elections.)

Diplomacy is never simple, and it's not a given that a forceful rebuke would have been enough to keep Congress — particularly the Democrats who have captured control of the House — from opening their own investigation. Presidents have chided partners before, sometimes lightly and sometimes harshly, and business has gone on as usual.

But Mr. Trump has sought to cast blame anywhere but the crown prince: "Maybe the world should be held accountable, because the world is a vicious place," he said last week. And politicians from both parties made it clear that they would push for a more direct approach — one that could complicate matters for businesses far more than an admonishment from the president would have.

Senator Lindsey Graham, Republican of South Carolina and a staunch Trump backer, said the crown prince wouldn't get "a pass" if he was making the world a more dangerous place. And Senator Susan Collins, Republican of Maine, said it was a "grave mistake" for Mr. Trump to ignore the C.I.A.'s assessment.

"If the President does not reconsider what actions our government should take toward the Saudi Government & MbS, Congress must act instead," she wrote on Twitter.

Mr. Graham and Ms. Collins are among three Republicans who have co-sponsored the Saudi Arabia Accountability and Yemen Act, which was introduced the week before Thanksgiving.

And House Democrats, fresh off their midterm triumphs, are also rattling their sabers.

Representative Adam B. Schiff of California, the ranking Democrat on the House Intelligence Committee, said he had been briefed by the C.I.A. and believed the president was being dishonest.

“I think, in part, he feels that by saying that we don’t know or that the world is a dangerous place or everybody does it, he thinks it makes him look strong,” Mr. Schiff said Sunday on CNN’s “State of the Union.” “It actually makes him look weak.”

Not only has Mr. Trump increased the chances that Congress will enact restrictions on the Saudi royal family or make it harder to do business with the kingdom, he has prompted Democrats to question his financial ties to Saudi Arabia. Mr. Schiff, who is expected to take over as chairman of the Intelligence Committee when Democrats take control of the House in January, has promised to investigate those, too.

“Is his personal financial interest driving U.S. policy in the gulf?” Mr. Schiff said on CNN.

An investigation that examines not only the activities of the crown prince but any financial links that Mr. Trump may have with the kingdom would almost certainly be a ponderous affair, and cast a lingering cloud that would chill business leaders’ enthusiasm for investment in, and from, the Saudis.

Mr. Trump may think he has gained the loyalty of the crown prince by standing by him, but if Congress moves to enact sanctions, the economic fallout could be serious for the kingdom, which the president has been encouraging to hold down **oil prices**.

Between the economic pressures that Saudi Arabia is increasingly facing — the price of oil is hovering around $50 a barrel when the kingdom needs it to sell for $70 to maintain its budget — and the executives who are rightly skittish about investing there, Mr. Trump may have pushed Congress toward taking actions that create more problems.

In more normal times, the president of the United States would publicly condemn the crown prince and the kingdom, and extract some kind of concession that was meant to reflect American values.

One such measure, for example, could have been “the release of all political prisoners and journalists and the lifting of restrictions on the media and civic debate,” Nicole Bibbins Sedaca, a professor in the practice of international relations at Georgetown University, wrote in an essay for Foreign Policy. “This would help spur significant change that would serve both the Saudi people and the country’s economy.”

Such a response could have mollified critics of the kingdom and made possible a return to business as usual in six months.

There’s an argument to be made that by throwing his support behind the kingdom without any half-measures or virtue signaling, Mr. Trump is in a way being straight with the American people and the world.

“He was just candidly acknowledging the core tenets of U.S. foreign policy for decades,” Glenn Greenwald wrote for The Intercept.

Even if there is something honest about his overtly candid approach in this case, diplomacy is in many ways about outcomes rather than honesty.

And Mr. Trump has done more than just leave him and the United States open to criticism that we embrace despots as long as there is a buck to be made. He has inadvertently created more economic uncertainty for the business community that he says is so important to him.

PHOTOS: President Trump’s defense of the crown prince points to the role Saudi Arabia plays as a Middle East ally and as an oil supplier. Senator Susan Collins and Representative Adam B. Schiff have criticized Mr. Trump’s stance. (PHOTOGRAPHS BY AHMED JADALLAH/REUTERS; DAVID SHARP/ASSOCIATED PRESS; BEN GABBE/GETTY IMAGES FOR THE NEW YORKER) (B3)

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THE WALL STREET JOURNAL.

Weekend Investor
Markets
Bogle Sounds a Warning on Index Funds; The father of the index fund says it's probably only a matter of time before they own half of all U.S. stocks; 'I do not believe that such concentration would serve the national interest'

By John C. Bogle
1,455 words
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Jack Bogle after speaking at the 2018 Bogleheads Conference. The creator of the index fund says their increasing dominance may create some of the 'major issues of the coming era.' PHOTO: RYAN COLLERD for The Wall Street Journal

There no longer can be any doubt that the creation of the first index mutual fund was the most successful innovation—especially for investors—in modern financial history. The question we need to ask ourselves now is: What happens if it becomes too successful for its own good?

The First Index Investment Trust, which tracks the returns of the **S&P 500** and is now known as the Vanguard 500 Index Fund, was founded on December 31, 1975. It was the first "product," as it were, of a new mutual fund manager, The Vanguard Group, the company I had founded only one year earlier.

The fund's August 1976 initial public offering may have been the worst underwriting in Wall Street history. Despite the leadership of the Street's four largest retail brokers, the IPO fell far short of its original $250 million target. The initial assets of 500 Index Fund totaled but $11.3 million—falling a mere 95% short of its goal.

The fund's struggle for the attention (and dollars) of investors was epic. Known as "Bogle's folly," the fund's novel strategy of simply tracking a broad market index was almost totally rejected by Wall Street. The head of Fidelity, then by far the fund industry's largest firm, put the kiss of death on his tiny rival: "I can't believe that the great mass of investors are [sic] going to be satisfied with just receiving average returns. The name of the game is to be the best."

Almost a decade passed before a second **S&P 500 index** fund was formed, by Wells Fargo in 1984. During that period, Vanguard's index fund attracted cash inflow averaging only $16 million per year.

Now let's advance the clock to 2018. What a difference 42 years makes! Equity index fund assets now total some $4.6 trillion, while total index fund assets have surpassed $6 trillion. Of this total, about 70% is invested in broad market index funds modeled on the original Vanguard fund.

Yes, U.S. index mutual funds have grown to huge size, with their holdings doubling from 4.5% of total U.S. **stock-market** value in 2002 to 9% in 2009, and then almost doubling again to more than 17% in 2018. Even that penetration understates the role of mutual fund managers, as they also offer actively managed funds, and their combined assets amount to more than 35% of the shares of U.S. corporations.

If historical trends continue, a handful of giant institutional investors will one day hold voting control of virtually every large U.S. corporation. Public policy cannot ignore this growing dominance, and consider its impact on the **financial markets**, corporate governance, and regulation. These will be major issues in the coming era.

Three index fund managers dominate the field with a collective 81% share of index fund assets: Vanguard has a 51% share; BlackRock, 21%; and State Street Global, 9%. Such domination exists primarily because the indexing field attracts few new major entrants.

Why? Partly because of two high barriers to entry: the huge scale enjoyed by the big indexers would be difficult to replicate by new entrants; and index fund prices (their expense ratios, or fees) have been driven to commodity-like levels, even to zero. If Fidelity's 2018 offering of two zero-cost index funds has established a new "price point" for index funds, the enthusiasm of additional firms to create new index funds will diminish even further. So we can't rely on new competitors to reduce today's concentration.

Most observers expect that the share of corporate ownership by index funds will continue to grow over the next decade. It seems only a matter of time until index mutual funds cross the 50% mark. If that were to happen, the "Big Three" might own 30% or more of the U.S. **stock market**—effective control. I do not believe that such concentration would serve the national interest.

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* Are Index Funds Eating the World?

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My concerns are shared by many academic observers. In a draft paper released in September, Prof. John C. Coates of Harvard Law School wrote that indexing is reshaping corporate governance, and warned that we are tipping toward a point where the voting power will be "controlled by a small number of individuals" who can exercise "practical power over the majority of U.S. public companies." Professor Coates does not like what he sees, and offers tentative policy options—some necessary, often painful to contemplate. His conclusion—"The issue is not likely to go away"—is unarguable.

Solutions to resolve the issues connected with the concentration of corporate ownership are not self-evident, but a number of tentative possibilities have already been advanced:

• More competition from new entrants to the index field. For the reasons noted above, this eventuality seems highly unlikely.

• Force giant index funds to spin off their assets into a number of separate entities, each independently managed. Such a drastic step would—and should—face near-insurmountable obstacles, for it would create havoc for index investors and managers alike.

• Require index funds to hold just one company in any industry. Leaving aside the dubious ability of either academia or federal bureaucrats to define precisely what constitutes a given industry, such a drastic change would lead to the destruction of today's **S&P 500 index** fund, by common agreement, the most beneficial innovation for investors of the modern age.

• Timely and full public disclosure by index funds of their voting policies and public documentation of each engagement with corporate managers. This would take today's transparent and constructive governance practices several steps further.

• Require index funds to retain an independent supervisory board with full responsibility for all decisions regarding corporate governance. The problem with this idea is that it is not clear how such a board could add to the present scrutiny of the fund's independent directors.

• Limit the voting power of corporate shares held by index managers. But such a step would, in substance, transfer voting rights from corporate stock owners, who care about the long-term, to corporate stock renters, who do not... an absurd outcome.

• Enact federal legislation making it clear that directors of index funds and other large money managers have a fiduciary duty to vote solely in the interest of the funds' shareholders. While I believe that such a fiduciary duty is implicit today, making it explicit, with appropriate penalties for violations, would be a constructive step.

It is time for public officials to consider the pros and cons of these issues with indexers, the financial community, academia, and active managers alike—and develop national policies that support high standards of corporate governance. It will require their working together constructively and cooperatively.

But one thing seems crystal clear. Even if present trends continue (sometimes they don't), the enormous value of index funds should not be ignored. First, index funds provide investors with the most effective **stock-market** strategy of all time: buy American business and hold it forever, and do so at rock-bottom cost. Second, index funds are among the few truly long-term owners of stocks—for all practical purposes, permanent owners of capital—an enormously valuable asset to society. The long-term focus of index funds is a much needed counterweight to the short-termism favored by so many market participants.

Prof. Coates agrees that nothing should jeopardize the existence of today's index funds.

"Indexing has created real and large social benefits in the form of lower expenses and greater long-term returns for millions of individuals investing directly or indirectly for retirement," he writes. "A ban on indexing would clearly not be a good idea." I can only say, "Amen" to those words.

Mr. Bogle is founder of The Vanguard Group and creator of the first index mutual fund. This article is adapted from his new book, "Stay the Course: The Story of Vanguard and the Index Revolution," to be published by Wiley on Dec. 6.

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THE WALL STREET JOURNAL.

Heard on the Street
Markets

For Oil, $50 Isn't Quite the New $70; A new equilibrium in oil prices leaves some major exporters off balance and creates surprising winners and losers

By Spencer Jakab
375 words
29 November 2018
01:27 PM
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English

Haven't you heard that 50 is the new 70?

Rather than a twist on the line friends tell newly minted septuagenarians, this is the reality for parts of the oil industry. America's shale patch isn't happy about benchmark crude prices dipping below $50 a barrel Thursday morning, but it can cope.

The same can't be said for many others. A new equilibrium in oil prices leaves some major exporters off balance and creates surprising winners and losers.

Oddly, this is a particular threat to the world's lowest-cost producers and not for some high cost ones. Gulf monarchies have massive reserves and very low production costs. Yet, while they can generate cash flow at even lower prices, they can't support their oil-dependent economies at anything close to today's $50 WTI or $60 Brent crude. The International Monetary Fund estimates that Saudi Arabia can only balance its books at Brent prices of $85 to $87 a barrel.

On the other hand, the highest-cost producers mining Canada's oil sands can't make profits at $50 but, since they have big sunk costs and little need to reinvest, they will keep pumping to generate cash.

Then there is Russia which, while not a very low-cost producer, appears to be undercutting Saudi attempts to stabilize prices. President Vladimir Putin said Wednesday that $60 Brent is "absolutely fine." Its budget now balances around $40. Because Russia has a large domestic oil-field services industry with expenses in rubles, it has become more competitive.

While shale producers have become far more productive since the 2014 bust, it is unlikely that they can tolerate much lower priceswhile continuing to invest so aggressively. Michael Stevens, Whiting Petroleum's chief financial officer, said at a recent conference that "$50 is an important floor for us." Lloyd Helms,EOG's chief operating officer, said his company would scale back below $50 a barrel.

Like age, oil prices are more than just a number.

Write to Spencer Jakab at spencer.jakab@wsj.com

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THE WALL STREET JOURNAL.

Homes
Real Estate
New York's Wealthiest Cut Losses as Manhattan Real Estate Falters; Luxury homeowners struggle to accept the new reality of home prices falling after a decadelong property boom

By Candace Taylor and Katherine Clarke
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When actor Brian Kerwin decided to sell his longtime Manhattan home—an 1880s Romanesque townhouse he and his late wife had carefully restored—he was hoping it would go for about $12 million, based on similar sales in the neighborhood. When he and his agent, Kim Mogul Wright of Douglas Elliman Real Estate, agreed on a price tag of $8.5 million, he thought there would be "five takers within a week," said Mr. Kerwin, 69, who has appeared in movies such as "The Help" and "27 Dresses."

So he was shocked when the Upper West Side listing got "absolutely zero interest." Finally, after a year on the market and several price cuts, the redbrick house is now in contract for about $5.5 million.

Accepting that the home would sell for far less than he had imagined was a gradual—and emotional—process, said Mr. Kerwin, who bought the house for less than $1 million in the early 1990s and raised his children there. "It's like hitchhiking; after standing there for 10 hours you'll take anything," he said.

Mr. Kerwin is one of many Manhattan homeowners struggling to accept the new reality of the New York City real-estate market, as prices slide after a decadelong boom.

This year has brought into sharp focus all the pressures on the market. The slowdown began at the time of a **stock market** rally and record-low New York City unemployment—factors that typically accompany strong real-estate sales in the city. For that reason, many owners are reluctant to accept lower prices, even as buyers determinedly seek bargains.

New York is facing the convergence of several large economic forces: an oversupply of new condos, a drop in international buyers as some countries impose capital controls, changes to the tax law that cap state and local deductions, and rising interest rates. There is also a shift in taste from uptown to downtown.

As Lee J. Stahl of the design/build firm the Renovated Home put it: "It's a crazy Bermuda Triangle of forces that have lined up against people trying to sell and buy these properties." The Upper East Side luxury co-op market in particular is "a train wreck," said Mr. Stahl, who often works with agents listing properties in need of renovation.

In August, for example, financier Ramesh Singh sold his sprawling Park Avenue duplex for $13.75 million—far less than the $20.365 million he paid in 2008, according to public records.

That's a far different scenario from 2016, when New York City real-estate prices climbed to new heights as moneyed buyers from all over the world stashed cash in ultraluxury megatowers.

Just two years ago, "the units sold themselves," said agent Ann Cutbill Lenane of Douglas Elliman Real Estate. "We were like Vanna White pointing at the letters and they magically turned over."

In the third quarter of this year, the overall number of Manhattan home sales dropped 11%, according to a report from Douglas Elliman. Some sellers of Manhattan apartments have taken losses of up to 30% or more from what they originally paid for them at various points in time, according to a data analysis for The Wall Street Journal by the real-estate listings website StreetEasy.

Other boldface names who lost money on recent deals include U.S. Commerce Secretary Wilbur Ross, who last year sold his four-bedroom Midtown Manhattan penthouse—with a dining room that comfortably seats 30—for $15.95 million, down from the $18 million he paid for it in 2007, according to public records.

Rolling Stones guitarist Keith Richards sold his Greenwich Village penthouse this fall for $9 million, four years after buying it for $10.5 million.

One factor is the dramatic oversupply of high-price, new construction condos. Some 1,775 new Manhattan condos are forecast to hit the market by the end of 2018, according to Corcoran Sunshine; in 2011, there were 277. Of the active condo listings on the market, nearly 800 are listed for $5 million or more, up 61% from 462 in 2013.

Manhattan condo builders paid record prices for land and built increasingly tall towers, leaving the city with a huge pool of expensive supply. "People started doing these developments with pricing expectations that were insane," said New York developer Ian Bruce Eichner.

Now many of those developers are cutting prices and offering incentives such as paying buyers' transfer taxes, says Stephen Kliegerman, president of Halstead Development Marketing.

Real-estate agent Tal Alexander of Douglas Elliman said he also sees agents promise sellers unrealistic prices to secure listing exclusives, so properties linger on the market for years and undergo price cuts. "It leads buyers to believe that the market is weaker than it actually is," he said.

John Iacono, co-president of New Jersey-based car dealership Bram Auto Group, said that when he and his wife listed the Financial District condo they bought in 2009, they encountered stiff competition from new developments.

New buildings "are now very negotiable," Mr. Iacono said, and buyers are "not afraid of asking for a reduction in price."

The couple switched real-estate agents and cut the price, and finally, in October, they sold the apartment for $2.32 million, compared with the $2.97 million they paid in 2009. Mr. Iacono said he preferred to cut his losses and move on rather than wait for the market to rebound.

"If it comes back, how many years is it going to take?" he said. "Am I willing to gamble? It's not worth it."

But agents said the slowdown extends beyond new condos, hitting every segment of the market. While the cooling is more significant at the high-end, smaller units also are affected. In the third quarter, the median price for a one-bedroom Manhattan home was $815,000, down 4% from the same period in 2017. The volume of sales fell 12.7%.

"What's most significant about 2018 is that even the sub-$1 million market is slowing because of rising mortgage rates," said appraiser Jonathan Miller. Rates for a 30-year mortgage averaged 4.81% in late November, up nearly a full percentage point from the beginning of the year, according to Fannie Mae and Freddie Mac.

Takk Yamaguchi, an agent at Compass, said he has been sitting for hours at Sunday open houses at his sub-$1 million listings across the city, waiting for buyers who never show up. "Last year, there would have been a bus load of people waiting for me to arrive," he said. "Now, it's just me and a bunch of brokers standing around."

Some agents predicted there would be an oversupply of luxury condos after the building boom. Many new towers were built for the ultrawealthy, with few options for middle-class New Yorkers or first-time home buyers.

The drop in international buyers shopping for Manhattan homes is another reason the market has slowed. Kelly Kennedy Mack, president of Corcoran Sunshine, said the number of international buyers has fallen roughly 10% in buildings the company represents. She attributed the decline in part to tighter capital controls overseas, which have made it hard for some to buy in the U.S. The Chinese government, for example, has been cracking down on individuals making overseas investments—tightening restrictions that curb capital outflows and making it harder for its citizens to move large sums of money to the U.S. for real-estate purchases.

"When the market was really robust and there were all these deals above $20 million, everybody jumped into that pond," said Pam Liebman, CEO of the Corcoran Group, about developers' rush to build expensive units. "They forget that absorption of these units, even though it was at its highest levels in history, is still not hundreds of units a year."

Digital-media entrepreneur Javier Saralegui and his wife, Angela Bedoya, recently slashed the price of their Upper East Side townhouse to $11.995 million, the latest in a long series of price cuts since they first listed it for $19.995 million in October 2017.

"We know that it's a gorgeous townhouse, but there's a certain point where you have to just leave your ego at the door and accept that the market has changed," she said.

In all, there are now more than 100 Manhattan homes actively listed at more than $20 million, and those are selling at a rate of only about four a month, Ms. Liebman said.

Industry insiders also blame the 2017 tax-reform package that limits deductions on federal returns for state and local taxes. In high-tax states like New York, the result is significantly higher tax bills for some residents.

"That change in the tax law really infected the real-estate bloodstream in New York," said Manhattan real-estate agent Donna Olshan. Many of her clients pay six or seven figures in city and state tax bills each year and can no longer deduct the lion's share, she said. That has pushed some buyers to move to lower-tax states, she said, or to reduce their purchase budget.

Other buyers are simply unsure what their tax bills will be.

"At the moment, it's like this fear," said Hall Willkie, president of Brown Harris Stevens. "And it's another reason to delay a decision if you can."

When the tax changes were announced, Allegra and Morgan Eifler were in the midst of looking for a larger apartment near their prewar one-bedroom co-op in Yorkville on the Upper East Side. Ms. Eifler, a 33-year-old interior designer, said the young couple was "really worried" about how the changes would affect them. For that and other reasons, they took their time with their home search. When a two-bedroom unit in their building came on the market, they made an offer well below the $1.975 million asking price.

"We went in with what we truly believed it was worth," said Mr. Eifler, 31, who works in finance, noting that the unit needed work.

When they didn't get a counteroffer, they continued with their search and were surprised when, four months later, the listing agent called to say their offer had been accepted. They closed, paying $1.55 million, and plan to start renovating soon. Meanwhile, they have listed their one-bedroom for $739,000.

Mr. Eifler said the experience of buying in this climate was far different from when he purchased his first apartment in 2013. Back then, "everybody was like 'You have to make an offer that day or you'll lose it,' " he recalled. "Whereas now you don't feel the pressure to pull the trigger."

Real-estate advice is increasingly in demand. When agent Jason Haber of Warburg Realty mentioned his profession at a recent Columbus Circle cocktail party, he was "accosted" by fellow guests demanding to know whether they should buy now and lamenting that they hadn't sold a year ago. "I felt like I was in the White House briefing room," Mr. Haber said, who said he spent so much time fielding questions, he hardly got to touch his pan-roasted chicken and broccoli rabe, and had to grab a slice of pizza on the way home. "Next time I'll tell them I'm a juggler, maybe they'll leave me alone," he said.

Manhattan homeowner Laurence Strubing, 73, a retired executive, has been trying to sell his Upper East Side co-op for a year. Initially listed at $2.65 million, it is now priced at $1.8 million—less than he paid for it. "You never think about real estate as depreciating," Mr. Strubing said. "The thought is that it always appreciates in value, especially in New York."

Mr. Strubing and his wife, Kathryn, live primarily in Connecticut but bought the two-bedroom, Upper East Side pied-à-terre for $1.9 million in 2014. The couple liked its location close to museums.

They enjoyed the apartment, staying overnight after trips to the Metropolitan Museum of Art or evenings at the theater. But recently they bought a beach house in the Hamptons and decided to sell the Manhattan apartment.

They and their agent, Ellen Devens of Brown Harris Stevens, were surprised when it sat and sat on the market despite multiple price drops. Buyers seem deterred by things that were never an issue in the past, like the fact that the laundry is located in the basement rather than in the apartment itself.

Still, experts don't expect this downturn to be as severe as the one in 2008, because banks have continued lending and buyers still want to purchase homes in New York City—as long as they feel they're getting a good deal.

"Pretty much everything sells" eventually, said Mr. Eichner, adding that he has been negotiable on prices at his building on Madison Square Park. "The question is how long does it take and how much discount do you have to give."

Other parts of New York City, such as Queens, might see a boost from the announcement that Amazon is opening a new headquarters in Long Island City. However, insiders say the move is unlikely to be a major factor for the Manhattan luxury market, especially because the average wage of the jobs created from the move will be $150,000.

Hedge-fund billionaire and Milwaukee Bucks co-owner Marc Lasry recently sold his Beaux-Arts townhouse on the Upper East Side for $31.95 million, after putting it on the market last year for $39 million. He said he didn't mind the reduced price. He bought the house for $11 million in 2001. He and his wife had moved into a new apartment and simply wanted this property off their hands.

"It is what it is," Mr. Lasry said. "If the market was $50 million for it, great. If it was $30 million, that's fine too."

Uptown vs. downtown: Changing Tastes

The real-estate slowdown affects all areas of Manhattan, but high-end homes on the Upper East Side and Upper West Side have been particularly hard hit, agents said.

"Uptown is not considered hip right now," said Manhattan real-estate agent Royce Pinkwater.

Over the past five years, she said, wealthy buyers have increasingly gravitated away from the famed prewar co-ops of Park Avenue and Central Park West—New York's traditional bastions of the moneyed classes—and moved to Lower Manhattan neighborhoods, such as Tribeca and Chelsea, closer to nightlife.

"They think it's cooler to live downtown," said Ms. Pinkwater.

Many Uptown buildings also have strict co-op boards, which complicates matters in a soft market.

"Park Avenue has definitely suffered," said Corcoran CEO Pamela Liebman. "There are a lot of other choices out there."

A case in point: After buying a $33.6 million penthouse at the new West Chelsea condo tower 551 West 21st Street, Goldman Sachs partner Armen Avanessians and his wife, Janette, listed their apartment at the El Dorado, the twin-spired prewar apartment overlooking Central Park. They had bought it from the actor Bruce Willis in 2015 for $12.75 million, but ended up selling it for $9.9 million.

The lucky buyer who scooped up the discounted apartment? Mary Solomon, the wife of new Goldman Sachs CEO David Solomon, according to public records.

The Avanessianses also took a loss on another El Dorado unit they owned, selling it for $3.85 million in May of 2017, two years after buying it for $6.5 million.

Candace Taylor

Luxury Supply Is Still Growing as Sales Cool

• So far this year, more than 50 Manhattan owners have sold their properties for less than they paid, according to StreetEasy. The biggest loss recorded was $6.61 million.

• There were more than 100 Manhattan homes listed for $20 million or higher at the end of the third quarter, according to the Corcoran Group. On average, these homes sell at a rate of fewer than four a month.

• Some 1,775 new Manhattan condos are forecast to hit the market by the year end, said Corcoran Sunshine; in 2011, there were 277. Of the active condo listings already on the market, nearly 800 are listed for $5 million or more, up 61% from 462 in 2013.

• By the end of the third quarter, Manhattan apartment inventory rose 15% year-to-year, to 12,186, according to Corcoran Sunshine.

• By the third-quarter end, there were 992 Manhattan condo and co-op listings above $5 million, up 48% from the 2013 quarter, according to Corcoran Sunshine.

• The median sales price for a Manhattan home was $1.117 million in the third quarter, down 4.5% from the 2017 period. The median price of a new condo unit fell 9% to $2.55 million, according to Miller Samuel.

Write to Candace Taylor at Candace.Taylor@wsj.com and Katherine Clarke at katherine.clarke@wsj.com

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WSJ PRO CENTRAL BANKING

Economy

U.S. Consumers Step Up Spending to Start Fourth Quarter; Inflation was subdued, which could take pressure off the Fed to keep raising rates next year

By Harriet Torry and Eric Morath
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U.S. consumers, powered by strong income gains, spent more in October, driving economic growth as other sectors such as home building and exports show signs of softness.

At the same time, inflation was subdued, which could take pressure off the Federal Reserve to keep raising short-term interest rates next year.

The Commerce Department said consumer spending registered its largest gain in October in seven months, rising 0.6% from September, and incomes were up 0.5%, the largest monthly increase since January.

In addition, an inflation measure watched closely by the Fed, the personal consumption expenditure price index excluding food and energy, was up 1.8% in October from a year earlier, below the central bank's 2% target and down from 1.9% the month before. Overall inflation, including food and energy, was 2%, but could be heading lower as **volatile** gasoline prices fall.

The most recent inflation readings are below the rates Fed policy makers expected at the end of this year. In September, they projected overall inflation to increase 2.1% in the fourth quarter from a year earlier. They projected core inflation to rise 2%.

The report was notable for two reasons. First, a range of other indicators in recent weeks have suggested the U.S. economy is slowing, in part because global growth has lost momentum, spooking investors. U.S. merchandise exports, for example, have dropped four times in five months. The latest data showed that American consumers, who power about two-thirds of U.S. output with their spending, are still an important source of momentum behind growth.

Second, the Fed is debating how far to push interest-rate increases. Fed officials are broadly expected to raise short-term interest rates when they meet next month. If inflation undershoots the Fed's target, that could cause the central bank to halt its campaign of interest-rate increases next year.

Taken together, strong household spending and low inflation represent potentially good news about the outlook, though investors didn't initially respond to it.

The **Dow Jones Industrial Average** was lower at midday after moving sharply higher Wednesday on comments by Fed Chairman Jerome Powell that investors read as a signal a pause in rate increases could be nearing in 2019.

"The consumer is in good shape and will continue to be the primary driver of U.S. economic growth," Mickey Levy, an economist at Berenberg Capital Markets, said in a note to clients. He added that household spending is likely to moderate next year as the boost from tax cuts put into place this year fades.

For Chris Sarno, who works in IT at a manufacturing company, higher pay means a new car. He is thinking about trading his 2015 Honda for a new Toyota Prius, a gift to himself this year. He can afford to splurge, he said, because he has extra disposable income and feels more secure in his job.

On Black Friday, he went in search of deals online and bought a set of tires on TireRack.com for the car he wants to sell, as well as a pair of running shoes from Amazon.

"I was opening the floodgates," said the 53-year-old Sarasota, Fla. resident. "I'm extremely optimistic this year."

Forecasting firm Macroeconomic Advisers revised up its fourth-quarter growth rate projection to 2.6% after the spending data, and the Atlanta Fed's GDPNow model also estimates a 2.6% rate.

That pace of growth would be cooler than rates seen earlier in the year. U.S. gross domestic product expanded at a 3.5% seasonally adjusted annual rate in the third quarter after a 4.2% annualized growth rate in the second.

Though slower than earlier in the year, the data suggest the economy remains in somewhat of a sweet spot, running neither so hot that is causes inflation nor so low that it causes unemployment to rise.

Thursday's report showed higher outlays across a range of categories, including recreational vehicles, clothing and dining out, though car and furniture purchases were soft.

"Consumer confidence continues to hover at high levels as consumers remain upbeat about their employment and income prospects, suggestions that we will continue to see solid gains in consumer spending," Marvin Ellison, chief executive of home-improvement retailer Lowe's Cos., told investors on a call last week.

Other data suggested holiday shopping is off to a strong start. Internet sales for the Wednesday before Thanksgiving through the Friday after—the unofficial kickoff of the gift-buying season—surged 26.4% from a year earlier, according to Adobe Systems Inc., which tracks activity on thousands of websites. That gain helped offset a continued decrease in mall and store traffic.

Khadeeja Safdar contributed to this article.

Write to Harriet Torry at harriet.torry@wsj.com and Eric Morath at eric.morath@wsj.com

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Economy

Fed Minutes Signal December Rate Increase Likely, But Less Certain Path Next Year; A few officials on the monetary-policy panel expressed uncertainty about timing of further tightening

By Nick Timiraos
900 words
29 November 2018
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WSJ Pro Central Banking
RSTPROCB
English

WASHINGTON—Federal Reserve officials signaled plans to raise interest rates next month, but they appeared more uncertain about maintaining a pace of quarterly increases after that, minutes of the central bank's recent policy meeting show.

Almost all participants at the Nov. 7-8 meeting believed another rate increase "was likely to be warranted fairly soon if incoming information on the labor market and inflation was in line with or stronger than their current expectations," said the minutes, released Thursday. The next Fed meeting is Dec. 18-19.

Officials, however, discussed changing their postmeeting policy statement to emphasize their flexibility to respond to fresh economic developments as they weigh their rate moves next year. Officials voted at the meeting to hold steady their benchmark federal-funds rate in a range between 2% and 2.25%.

Since January, the statement has said officials expected that "further gradual increases" in short-term rates would be necessary, and the central bank has raised rates by a quarter-percentage point every three months over the past year.

At their recent meeting, officials debated whether they should change that key phrase to stress their next few moves would depend more on the most recent data, a subtle but important shifting of the Fed's policy-planning gears.

"Such a change would help to convey the committee's flexible approach in responding to changing economic circumstances," said the minutes.

Less precise language about the Fed's policy plans is one sign officials are less sure about what they will do. Such a shift could be an attempt to avoid a miscommunication that roils markets, but also might create more uncertainty for investors.

Fed Chairman Jerome Powell has worked to trim the statement this year, either because some wording has grown stale or might send a misleading signal about the Fed's intentions.

"It is less of a foregone conclusion that they're going to be hiking at every other meeting," said Michael Feroli, chief U.S. economist at JPMorgan Chase. At the same time, "being data dependent doesn't necessarily mean you stop" raising rates, he said.

Projections released in September showed most officials expected then they would raise rates once again this year. They were more divided over what to do next year, with officials roughly equally split over whether to raise rates between two, three or four times.

Meeting discussions earlier in the year focused greater attention on concerns that the economy might overheat. Tax cuts and increased federal spending boosted growth, unemployment fell and inflation returned this year to the Fed's 2% target.

The minutes suggest the debate has since shifted. Officials placed new attention on developments that might lead the economy to slow more than forecast, a sign of budding caution.

They flagged concerns about rising uncertainty related to trade and fiscal policy as well as the lagged effects of their own policy tightening moves over the past, the minutes said. They also cited a possible slowdown in global growth. A couple of officials pointed to softening inflation data.

Some worried over rising levels of corporate debt, which could make the economy more prone to a sharp pullback if slowing growth triggers more defaults and bankruptcies.

Fed officials appeared less concerned about a market selloff that led to a rotten October for stocks. Several participants at this month's meeting "judged that financial conditions remained accommodative relative to historical norms," the minutes said.

Economic and financial data since the meeting has underscored questions over the Fed's policy path next year. While job growth remained solid in October, signs of softer demand have emerged. Housing markets are cooling, **oil prices** have plunged, and corporate **bond prices** have fallen modestly.

The Fed's preferred inflation gauge, released Thursday, showed slowing in October. Excluding **volatile** food and energy prices, the gauge—the personal-consumption-expenditures price index—rose 1.8% last month from a year earlier, versus gains of 1.9% in August and September.

The broader index rose 2% in the year to October, and it has been at or above the Fed's 2% target every month since February. The central bank targets 2% inflation as a sign of healthy demand in the economy. The headline gauge had been propped up this year by rising energy costs, but that should change with the decline in **oil prices**.

The big question is how much higher officials think rates need to go. Most agree they should at least raise rates to a level considered neutral, or one that neither speeds nor slows growth.

One challenge for the Fed is that officials aren't sure where that point lies. Mr. Powell ignited a market rally Wednesday by saying interest rates are "just below" broad estimates of a level considered neutral.

Investors welcomed his remarks because they appeared to retreat from a comment he made in early October describing the Fed's benchmark rate as a "long way" from a neutral level. His emphasis on Wednesday suggested greater flexibility.

"There is no preset policy," he said. "We will be paying very close attention to what incoming economic and financial data are telling us."

Write to Nick Timiraos at nick.timiraos@wsj.com

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THE WALL STREET JOURNAL.

Heard on the Street
Markets
Weibo Continues to Show Twitter the Way; The Chinese social media company has managed both to grow fast and be profitable. China's slowing economy and its stricter government are becoming bigger problems, however

By Jacky Wong
485 words
29 November 2018
04:04 AM
The Wall Street Journal Online
WSJO
English

Like many other Chinese technology companies, the biggest headaches right now for Weibo, China's answer to Twitter, are the government and the economy.

Unlike its U.S. counterpart, which only started to report a profit this year, Weibo has been able to combine breakneck growth with consistent profitability. Perhaps because it isn't filled with the interminable political debates that have filled Twitter timelines, Weibo has become more of a platform for straight news, entertainment and even shopping. That makes it a more appealing channel for advertisers: Weibo's revenue has almost quadrupled from three years ago, which in turn drove a quintupling of its **stock price** through 2016 and 2017, beating bigger Chinese tech companies like Alibaba and Tencent.

But like those giants, Weibo has started feeling the chill from China's slowing economy and policy uncertainties. Its revenue grew 44% last quarter, the company reported Wednesday. That is still decent, but a marked slowdown from the 75% growth rate last year and 68% in the previous quarter. The slower growth was largely expected as analysts have been revising down their earnings estimates in the past six months.

More than 40% of Weibo's revenue comes from advertising from small and medium-size enterprises, which have been suffering most amid the current slowdown. Marketing spending from merchants of big-ticket items such as auto services and wedding services has dropped, the company said, as consumers have scaled back their spending. Auto sales, for example, have already fallen off a cliff.

Regulation is another big headwind for Weibo. It has been directly affected by the Chinese government's recent ramp-up of internet censorship, but also indirectly because of troubles at some of its largest advertising clients: Gaming companies. Beijing has frozen approvals of new games with no timeline on when they will be resumed. Mobile games account for 10% to 15% of Weibo's ads from SMEs, brokerage Jefferies estimates.

Weibo expects its revenue growth to decelerate further this quarter to around 37%: It plans to address its challenges by doubling down on live streaming and short videos, which are flourishing in China, but where there is already strong competition.

Fortunately for investors, much of the gloom has already been priced into Weibo's shares, which have more than halved from their February peak. The stock currently trades at 19 times next year's expected earnings—close to its cheapest level in the past five years and lower than other Chinese technology stocks. That will likely limit its downside, but for Weibo to scale fresh heights, it will need some of its headwinds to subside.

Write to Jacky Wong at JACKY.WONG@wsj.com

Document WSJO000020181129eebt001rx

THE WALL STREET JOURNAL.

Today's Markets
Markets
Stocks Slip as Fed Signals Less Certain Policy Path; The Dow industrials and the S&P 500 are on course to finish November with gains of nearly 1%, while the Nasdaq is down about 0.5%

By Jessica Menton and Avantika Chilkoti
905 words
29 November 2018
05:42 PM
The Wall Street Journal Online
WSJO
English

U.S. stocks ran out of steam Thursday and snapped a three-day winning streak, though investors expressed relief that Federal Reserve officials appeared more tentative about their path in raising interest rates.

Major indexes opened modestly lower after a big rally Wednesday, before flipping higher when the minutes of the Federal Reserve's latest meeting were released. But they couldn't hold on and slipped again in the final 15 minutes of the session.

The **Dow Jones Industrial Average** lost 27.59 points, or 0.1%, to 25338.84. The **S&P 500** fell 6.03 points, or 0.2%, to 2737.76 and the tech-heavy **Nasdaq Composite** slipped 18.51 points, or 0.3%, to 7273.08.

Heading into Friday's final trading session of the month, the Dow industrials and the **S&P 500** are on course to finish November with gains of nearly 1%, while the **Nasdaq** is down about 0.5%. All three indexes suffered their worst month in years in October when investors pulled back from the technology and other growth stocks that have powered much of the nearly 10-year **bull-market** run.

Minutes from the Fed's November meeting revealed that officials intend to raise interest rates next month, but they appeared less certain about maintaining a pace of quarterly increases after that. The bankers debated how trade tensions and corporate debt could affect economic growth.

Related

* Fed Minutes Signal December Rate Increase Likely

* Crude Oil Recovers After Dipping Below $50

* Bayer to Cut 12,000 Jobs, Shed Coppertone and Dr. Scholl's Brands

* U.S., China Exploring Deal to Ease Trade Tensions

* Unilever Names New CEO

Investors have been waiting for the central bank to acknowledge that the U.S. economy is slowing, said Kevin Daly, senior investment manager at Aberdeen Standard Investments.

"As soon as we get some signaling from the Fed that they're backing away from the four rate hikes next year, that will be a very positive signal indeed," he said.

The release of the minutes follows Fed Chairman Jerome Powell's comment Wednesday that said there is "no preset policy path" concerning future rate increases, and that new economic data will guide the bank's decisions.

President Trump has spoken out against the Fed recently, voicing concerns that a move to tighten monetary policy will weigh on growth as he stands for re-election in 2020.

"I think the Fed right now is a much bigger problem than China," Mr. Trump said in a recent interview with The Wall Street Journal. "I think it's—I think it's incorrect what they're doing. I don't like what they're doing."

The 10-year U.S. Treasuryyield slipped to 3.033%, compared with 3.044% on Wednesday. Yields move inversely to prices.

Investors are also positioning ahead of a meeting between U.S. and Chinese leaders in Argentina later this week. Many expect an easing of tensions rather than any express agreement involving major concessions from either side on the trade dispute.

"A lot of the pressure the U.S. is trying to put on China on trade has more to do with pushing the U.S. further ahead in terms of global power," Mr. Daly said.

Technology and financial shares led Thursday's declines in the **S&P 500**, with the groups losing 1% and 0.8%, respectively.

Apple shares slipped $1.39, or 0.8%, to $179.55 after Canaccord Genuity lowered its 12-month price target for the tech giant to $225 from $250. Apple shares, up 6.1% in 2018, have tumbled 18% in November.

Technology stocks, which have come under pressure during the past two months, remain a crowded trade, said Thomas Martin, senior portfolio manager at Globalt Investments.

"People are reassessing the amount of risk they want to take with regard to exposure to growth, so you're getting a turnover within the tech sector as investors reposition their portfolios," Mr. Martin said.

Investment bank Goldman Sachs and financial-services company American Express both fell 1.4% a piece. Banks are facing a number of headwinds, Mr. Martin added, referring to a lower rate environment and slowing loan growth.

Shares of Dick's Sporting Goods slid 1.74, or 4.7%, to 35.52 after the retailer's sales at existing stores and websites fell 3.9% in the latest quarter, driven by weakness in the company's hunting and electronics departments.

Meanwhile, the **S&P 500**'s energy sector climbed 0.6% as oil recovered from earlier losses to move above $50 a barrel.

U.S. crude oil climbed 2.3% to settle at $51.45 a barrel on reports that Russian officials are signaling a likely production cut in tandem with the Organization of the Petroleum Exporting Countries.

Elsewhere, the Stoxx Europe 600 gained 0.2%. Stocks in Asia were mostly higher, though Chinese benchmarks bucked the upbeat trend with losses. Japan's Nikkei Stock Average rose 0.4%, while Hong Kong's Hang Seng Index dropped 0.9%.

Write to Jessica Menton at Jessica.Menton@wsj.com and Avantika Chilkoti at Avantika.Chilkoti@wsj.com

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THE WALL STREET JOURNAL.

Markets Main
Markets

Bank of Mexico Minutes Suggest Interest Rates Could Go Higher; 'Hawkish' board members dwell on uncertainty over incoming government's economic policies

By Anthony Harrup
577 words
29 November 2018
05:42 PM
The Wall Street Journal Online
WSJO
English

MEXICO CITY—Mexican central bankers stressed the possibility of following November's interest-rate movewith further increases, citing a deteriorating inflation outlook and market uncertainty over the economic policiesof President-elect Andrés Manuel López Obrador.

The Mexican central bank's five-member board voted 4-1 on Nov. 15 to lift the overnight interest rate to 8% from 7.75%.

Deputy governor Irene Espinosa, whose appointment in January made her the first woman ever on the Mexican central bank's board, voted in favor of a half-point increase, according to the meeting minutes.

Ms. Espinosa said the selloff in Mexican assets was in large part due to investor concerns over the direction of the economy under the incoming administration of President-elect Andrés Manuel López Obrador, the sustainability of public finances, and future conditions for private investment.

Mr. López Obrador, who takes office Saturday for a six-year term, in late October said he's canceling the $13.3 billion new Mexico City airport under construction, prompting a selloff in local stocks and bonds and weakening the peso.

Markets have been further rattled by legislative proposals that would affect the financial sector, and doubts about the next administration's ability to finance its public-spending plans through budget austerity.

Deputy governor Manuel Ramos Francia, whose term ends in December, voted with the majority for a quarter-point increase, but said in a dissenting opinion that the bank should include longer-term guidance and that interest rates may have to stay higher than foreseen for a prolonged period.

"The fact that two of the five directors are now on record with very hawkish rate views, increases the probability of a follow-up rate hike at the next meeting," said Alberto Ramos, chief Latin America economist at Goldman Sachs.

A majority of board members considered that risks for inflation had increased since the previous meeting, and all agreed that interest rates needed to go higher to avoid delaying even further the bank's goal of getting inflation—currently at 4.6%—back to its 3% target.

Some members said domestic issues, including the airport decision, were hurting local **financial markets** the most.

"They are being quite bold for openly criticizing a number of very specific policies and initiatives that are part of López Obrador's policy platform," said Mr. Ramos. "Whether that could invite some type of friction is to been seen in the future, but they are true to their constitutional mandate, which is to deliver low and stable inflation, so kudos to the central bank."

Mr. López Obrador's designated Finance Minister Carlos Urzúa said Monday that the 2019 budget proposal, to be submitted to Congress in mid-December, will include a primary surplus of around 1% of GDP.

Mr. Urzúa said the incoming government is against proposals by some legislators to swap private-pension funds for a state financial institution and to use central-bank reserves to finance public investment projects. But a bill aimed at reducing the fees that commercial banks charge their customers has some merit, and legislators, officials and the banking industry are discussing possibilities, he added.

The peso has recovered some ground, and stocks have rebounded from a nearly five-year low in the days following his comments.

Write to Anthony Harrup at anthony.harrup@wsj.com

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Business; DealBook
Oil's Rout Is Making Junk Bond Investors (More) Nervous

By Stephen Grocer
303 words
29 November 2018
05:04 PM
NYTimes.com Feed
NYTFEED
English

Get the DealBook newsletter to make sense of major business and policy headlines — and the power-brokers who shape them.__________

Investors are growing nervous about corporate debt. Falling **oil prices** deserve some of the blame.

The average yield on risky company bonds — measured by the BofA Merrill Lynch U.S. High Yield index — has climbed to 7.3 percent. Yields rise when **bond prices** fall.

Notably, junk bond yields have moved higher as the rate on Treasuries has retreated. That has pushed the difference between them to its highest level in about two years. The wider spread is an indication that investors are demanding greater compensation against the risk of default.

What does the price of crude oil — which has dropped more than 30 percent in the past two months — have to do with this?

American energy companies have been the biggest issuers of high-yield bonds since 2015, according to Dealogic, and their bonds account for about 15 percent of the market. As the price of crude falls, investors' concerns about the health of these companies and their ability to pay off the bonds grows.

It's not for nothing. In 2014, when **oil prices** began to slide, hundreds of smaller drillers went bankrupt, and manufacturers and other businesses that supply the energy industry also took a hit.

[Read more about that risk here.]

But energy companies or high-risk companies aren't the only reasons for the growing caution. As concerns about the global economy and the strength of earnings mount, investors are demanding more to buy the debt of highly rated companies as well.

Such moves, if they persist, suggest the favorable borrowing conditions that companies have enjoyed for years won't be as agreeable.

Document NYTFEED020181129eebt00avp

WSJ PRO CENTRAL BANKING

Economy

U.S. Core Inflation Ticked Down in October; The personal-consumption-expenditures price index had been propped up this year by rising energy costs, but oil prices have plunged

By Harriet Torry
507 words
29 November 2018
09:03 AM
WSJ Pro Central Banking
RSTPROCB
English

A closely watched price index ticked further below the Federal Reserve's target in October, a fresh sign of weakening inflationary pressures that could give the Fed room to slow or pause its pace of rate increases next year.

The personal-consumption-expenditures price index, excluding **volatile** food and energy prices, rose 1.8% in October from a year earlier, the Commerce Department said Thursday. That represented a slight softening from September and August, when the year-over-year measure rose 1.9%. It also undershot economists' expectations for a 1.9% increase.

The personal-consumption-expenditures price index serves as the Fed's preferred inflation yardstick. The broader index rose 2% in the year to October, and it has been at or above the Fed's 2% target every month since February.

The headline gauge had been propped up this year by rising energy costs, but **oil prices** have plunged this month and are likely to put downward pressure on what consumers pay at the gasoline pump.

Still, the latest reading suggests inflationary pressures remain subdued despite very low unemployment, strong economic growth and rising wages. The jobless rate held at 3.7% in October, a 49-year low. One factor behind muted inflation could be the stronger U.S. dollar, which makes imports cheaper.

From the prior month, the PCE index rose a seasonally adjusted 0.2% in October, a slight firming from 0.1% advance in September. Still, when stripped of food and energy costs the index softened: to a 0.1% increase in October from 0.2% in September. That was also below economists' expectations.

Most Fed officials in September penciled in one more increase in their benchmark federal-funds rate this year, which is expected when they meet Dec. 18-19. But their outlook for next year is wide open. They were roughly evenly split between whether to raise rates two, three or four times.

"There is a great deal to like about this outlook," Fed Chairman Jerome Powell said in New York on Wednesday, noting near-target inflation and low unemployment.

The Fed targets 2% inflation as a sign of healthy demand in the economy, and PCE inflation has hovered around that goal in recent months, while so-called core inflation has been slightly below it. October's 1.8% advance was the weakest 12-month core-inflation reading since February.

At some point, price increases could accelerate if pressure from labor shortages and tariffs intensify or **oil prices** pick up after a recent slump. A pickup in inflation would likely prompt the Fed to raise interest rates more quickly to prevent the economy from overheating.

For now, that doesn't appear to be happening—even with unemployment at the lowest point in decades, and economic growth strong.

Write to Harriet Torry at harriet.torry@wsj.com

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The New York Times

Asia and Australia Edition
Briefing
G-20, Yemen, South Korea: Your Friday Briefing

By Alisha Haridasani Gupta
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English

(Want to get this briefing by email? Here's the sign-up.)

Good morning. A look ahead at the G-20 meeting, Michael Cohen's surprise revelation and the rise of "dark tourism." Here's the latest:

• High stakes at the G-20 meeting

President Trump is set to have dinner with President Xi Jinping in Buenos Aires this weekend at the summit meeting of the Group of 20 industrialized nations. Above, Mr. Trump heading to Argentina.

Hanging over the closely watched encounter is the escalating trade war between the world's two largest economies. Both Beijing and Washington have lobbed tit-for-tat tariffs at each other, on everything from American soybeans to Chinese-made Christmas lights.

One core American grievance is Chinese cyberespionage against the U.S., which has accelerated sharply over the past year.

At the last minute, Mr. Trump canceled a planned meeting with President Vladimir Putin, citing an unresolved naval standoff between Russia and Ukraine.

• But Australia sees opportunity in the U.S.-China trade war

As China's retaliatory taxes make American goods more expensive there, some Australian producers see an opening.

"Australia is one of the best-placed countries in the world to reap the gains of the trade war," said one analyst. Above, a farm in Australia hoping to capitalize on the trade spat.

But there's a big caveat: If the trade war ends up slowing China's economy, Beijing could reduce its purchases of Australian natural resources.

→ Speaking of natural resources: The Indian mining giant Adani announced it would proceed with a scaled-back version of a coal mine project in Australia that has been criticized for its environmental impact.

• A South Korean train heads North

The train is scheduled to roll into North Korea today for the first time in a decade, kicking off a joint study on connecting the two railway systems.

South Korea's President Moon Jae-in has presented the joint railway system as an incentive to nudge the North toward abandoning its nuclear weapons.

The U.S. has resisted the plans because of concerns that they might violate U.N. sanctions against the North. And Washington doesn't want South Korea to give too much, too quickly, without concrete progress toward denuclearization.

But last week, the U.N. gave the joint study a go-ahead.

The latest development comes as talks between the U.S. and North Korea have stalled and concerns about the regime's human rights record continue to mount.

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• In Yemen, our reporter reckons with his role

In the capital city of Sana, a reporter can eat a lavish restaurant meal of slow-cooked lamb with mounds of rice, then visit a hospital filled with malnourished children just a few hundred yards away.

The jarring juxtapositions carry with them a dilemma, writes one of our foreign bureau chiefs who covers the Middle East. Above, the conditions that war victims are living in.

"Journalists travel with bundles of hard currency, usually dollars, to pay for hotels, transport and translation," he writes. "A small fraction of that cash might go a long way for a starving family. Should I pause, put down my notebook and offer to help?"

→ Go deeper: U.S. senators from both parties voted to consider ending military support for the Saudi-led conflict in Yemen, a rebuke to the Trump administration and its response to the killing of Jamal Khashoggi in Turkey.

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Business

• Deutsche Bank's headquarters in Frankfurt, pictured above, were raided as part of a money-laundering investigation involving more than $350 million, prosecutors said. The company said the probe was related to the Panama Papers.

• Indian authorities raided 16 fake tech-support centers this week that they said had fleeced thousands of computer users, mostly in America and Canada, by sending scam pop-up warnings of a virus and urging the victims to call an operator, who offered to "fix" the problem for a fee.

• **Oil prices** have plunged by 25 percent in the last month, and President Trump is pushing for even lower prices. But that could hurt the American economy.

• U.S. stocks were up. Here's a snapshot of global markets.

In the News

• Michael Cohen, President Trump's former lawyer and fixer, above, admitted that he had engaged in negotiations to build a Trump Tower in Moscow well into the 2016 presidential campaign, far later than previously known. The revelation came as Mr. Cohen pleaded guilty to lying to Congress. [The New York Times]

• South Korea's Supreme Court ordered the Japanese company Mitsubishi to compensate South Koreans forced to work at its factories during World War II, the second such ruling in a month that has hurt relations between the two countries. [The New York Times]

• Wildfires continued to burn across the eastern Australian state of Queensland, prompting mass evacuations amid a sweltering heat wave that is expected to continue for days. [The New York Times]

• Chinese authorities suspended the work of He Jiankui, the scientist who claimed to have created the world's first genetically edited babies, calling his conduct "unacceptable." [The New York Times]

• Indian authorities say they have no plans to recover the body of the American missionary killed by an isolated tribe on a remote island, to avoid further provoking the tribe. [The Guardian]

• An award-winning Chinese photojournalist has disappeared in Xinjiang province, according to his wife, and is feared detained by the authorities for unknown reasons. [CNN]

• A Philippine court convicted three police officers for the murder of a 17-year-old boy and sentenced them to up to 40 years in prison, the first such ruling in President Rodrigo Duterte's brutal war on drugs. [The New York Times]

• Analysis: Here's how early voting in Australia, which spiked in last week's Victorian state election, is changing the country's political landscape. [Crikey, article is paywall free for Times readers]

Smarter Living

Tips for a more fulfilling life.

• Recipe of the day: Make chocolate caramel pretzel bars with the kids as a weekend project.

• Diet like a champion, or at least read how pro athletes tend to eat.

• Up that spontaneity quotient for your next trip.

Noteworthy

• Want to spend your vacation sleeping in a bunker, listening to gunfire and explosions? The War Hostel Sarajevo in the Bosnian capital, pictured above, offers just that experience, feeding into a global niche market that the industry calls "dark tourism."

• Australia has been late to the space party: It only officially created a space agency this year. And Megan Clark, its first chief executive, is in charge of steering the country into the galaxy.

• Here are the 10 best books of the year, both fiction and nonfiction, picked by our Book Review editors.

Back Story

Details of the last minutes of a doomed Lion Air flight emerged this week, thanks to data from the Boeing jet's so-called black boxes.

Planes did not always have these data recorders. During the first half of aviation's history, crashes went mostly unsolved.

Enter David Warren, an Australian who lost his father in an air crash. In the mid-1950s, after helping investigate a plane wreck, he came up with a way to capture information from any plane's last minutes.

His idea: embed recording devices that, in case of impact, would cease overwriting old data with new. He prototyped his Flight Memory Unit in 1957.

Flight-data recorders and cockpit voice recorders are now standard, and have helped explain crashes and improve airline safety.

Why are these bright orange units, pictured above, called "black boxes?"

Some think the first one was black, but others point to the term's meaning in science: a complex entity whose result is known, even if its inner workings are not.

Vicky Xiuzhong Xu, in our Australia bureau, wrote today's Back Story.

Your Morning Briefing is published weekday mornings and updated online. Sign up here to get it by email in the Australian, Asian, European or American morning. You can also receive an Evening Briefing on U.S. weeknights.

And our Australia bureau chief offers a weekly letter adding analysis and conversations with readers.

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WSJ PRO CENTRAL BANKING

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ECB Warns of Growing Risks to Eurozone Financial Sector; The central bank says business and financial cycles are maturing, while market indicators suggest global asset prices could fall

By Tom Fairless
313 words
29 November 2018
06:58 AM
WSJ Pro Central Banking
RSTPROCB
English

FRANKFURT—The European Central Bank warned Thursday of mounting risks to the eurozone's financial sector, ranging from investor concerns around Italy to a possible slump in global asset prices or a cliff-edge Brexit.

"The euro area financial stability environment has become more challenging since May," the ECB wrote Thursday in its semiannual review of financial-sector risks in the 19-nation currency union.

At a global level, business and financial cycles are maturing, and a number of market indicators suggest global asset prices could fall, the ECB warned. As the Federal Reserve continues to nudge up short-term borrowing costs, higher interest rates could spark further stress in emerging-market economies, as could tensions over international trade, it said.

Political uncertainty in the eurozone has increased, the ECB said, in particular due to rising concerns among investors about Italy's public spending plans, which have led to a confrontation with the European Union's executive in Brussels. The possibility of a Brexit without any trade agreement with the EU could also pose a risk to financial stability, according to the report.

While eurozone banks have grown more resilient and reduced their stock of sour loans, their profitability is still low, the ECB said. That is due to high operating costs and too many banks in certain countries.

Outside the banking sector, concerns are mounting around investment funds, whose total assets more than doubled over the past decade to €13.8 trillion ($15.6 trillion). "Growing exposures to illiquid and risky assets make the funds vulnerable to potential shocks in global **financial markets**," the ECB said in its report.

Write to Tom Fairless at tom.fairless@wsj.com

Document RSTPROCB20181129eebt0002t

THE WALL STREET JOURNAL.

Heard on the Street
Markets

Underwhelming Underwriters, Italian Style; It took three investment banks to sell a single Italian bond issue to a single buyer

By Paul J. Davies
184 words
29 November 2018
02:00 PM
The Wall Street Journal Online
WSJO
English

Italy is having a rocky time in **financial markets** as its government struggles to fit its generous public-spending plansinto the restrictions of European Union budget rules.

Italian government bonds have dropped in value and yields have risen sharply, hurting the country's banks. Investor worries have left banks' access to markets patchy at best.

UniCredit, Italy's second-largest lender, found an unusual way to get around this problem: It got one very large investor (reported to be Pimco, which has declined to comment) to buy an entire issue of a $3 billion senior bond. The bank had to pay a high yield, but showed it could access markets.

So, one issuer, one buyer, and yet it took three investment banks to run the deal. UniCredit itself was one of those. Citigroup and Morgan Stanley both got roles as well. Nice work if you can get it.

Write to Paul J. Davies at paul.davies@wsj.com

Document WSJO000020181129eebt006mz

THE WALL STREET JOURNAL.

Heard on the Street
Markets

The Odd Case of the Do-It-All Tour Operators; A fresh round of profit warnings casts doubt on the European model of tour operators that run their own airlines and hotels

By Jon Sindreu
515 words
29 November 2018
08:04 AM
The Wall Street Journal Online
WSJO
English

For lovers of corporate curiosities, Europe offers an unlikely sight: Tour operators that run everything from strip-mall travel agencies to airlines, cruise ships and hotels. Don't wait around, as they may not last forever.

This week, London-based Thomas Cook issued the second profit warning in two months, blaming a hot U.K. summer. Shares are now down a whopping 71% on the year.

The survival of Thomas Cook and its more successful rival TUI Group—companies that once thrived on ferrying Northern Europeans south to the sun—is remarkable in the internet age. Comparison engines such as Expedia and Booking Holdings have torpedoed traditional travel agencies, while budget airlines with online booking portals have driven down airfares. The business model of doing it all has never thrived elsewhere.

Thomas Cook and TUI claim the integrated model is all about resource efficiency, with travel agencies feeding airlines' and hotels' exact needs. But the gains don't seem massive: Planes at Thomas Cook and TUI fly 90% and 93% full, respectively, while low-cost airlines easyJet and Ryanair are at 89% and 96% each. TUI's average occupancy rate is 79%, not much higher than at hotel chains like Hilton, Hyatt and Marriott.

And the strategy cuts both ways. Thomas Cook's decision to expand its airline to fill the void left by the bankruptcy of European carriers Air Berlin and Monarch partly explains its woes this year. The airline made more money, but the need to fill more planes early forced the company to sell too many cheap hotel rooms.

TUI is doing much better. Slowly but surely, Chief Executive Friedrich Joussen is turning the company into a hotel and cruise powerhouse. These segments could soon generate half the group's profits.

Shares in cruising companies such as Carnival and Royal Caribbean have beaten the wider **stock market** over the past decade. The number of ocean cruise passengers has risen 57% since 2009, the Cruise Lines International Association estimates, and profit margins are often above 15%. Bottlenecks in the German and Italian shipyards that build most cruise ships may explain the strong returns: It is much easier to buy or lease a plane than a floating hotel.

TUI has also focused on luxury hotels and does a good job filling them. Thomas Cook franchises most of its hotels, which may make it harder to create an exclusive experience for guests, and doesn't offer cruises.

TUI has made some good calls, but this doesn't really justify the model of doing everything. Beyond luxury hotels and cruising, these companies operate in sectors with very low barriers to entry. Competition in European airlines is particularly cutthroat.

The European tour operators may be unusual beasts for a reason. Investors should want even the best of them to do less.

Write to Jon Sindreu at jon.sindreu@wsj.com

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THE WALL STREET JOURNAL.
U.S. EDITION

Banking & Finance: Volatility Jolts Stocks, Leads to Big Wall Street Paychecks

By Telis Demos and Gunjan Banerji
947 words
29 November 2018
The Wall Street Journal
J
B10
English

As markets get wilder, some Wall Street traders are getting richer.

The return of volatility might be making many rank-and-file investors queasy, but it is proving to be a boon to some trading desks at the biggest banks.

Many desks focused on derivatives tied to stocks are set to generate billions of dollars more in revenue this year, as choppy markets give traders more opportunities to make lucrative, against-the-grain bets on these financial instruments. It is a contrast to recent years, when these desks slumped amid calm markets.

As a result, the top traders on banks' equity derivatives desks are expected to take home some of Wall Street's biggest paychecks. Pay for the highest ranks could top $3 million this year, a few hundred thousand dollars more than a year ago, according to a survey by headhunting firm Options Group.

The big payouts reflect Wall Street's continued shift toward trading based on math savvy and deep dives into data, rather than guts or Rolodexes.

They also highlight how financial firms are wary of losing traders with quantitative chops to the technology and cryptocurrency companies that are competing with the banking business both for consumers and employees. That is particularly true of younger "quants" who make up Wall Street's talent bench for its most complex businesses.

Michael Karp, chief executive of Options Group, said that as banks decide pay over the next few weeks, they are likely keeping one eye on the arrival of Amazon.com Inc. and expansion of Alphabet Inc. in New York that is making the city a tech hiring hub to rival Silicon Valley, increasing competition for key skill sets.

"Quant strategies, artificial intelligence, data science -- there's going to be a lot of pressure not to lose people in these areas," Mr. Karp said.

Equity derivatives desks deal in notes, options, margin loans and other instruments whose values are derived from stock prices. Investors use them to bet not just on whether prices are going to rise or fall, but how much or how rapidly they will change. Clients -- often hedge funds and other active investors -- use the complicated trades to hedge against or bet on that volatility.

Volatility was historically low in recent years, killing off demand for equity derivatives desks' sophisticated services. The S&P 500 index marched steadily higher, which gave traders fewer opportunities to bet on single stocks or indexes. Low interest rates made traders optimistic about the U.S. economy. And investors broadly shifted from the active investing the desks offered to passive investing, such as buying stakes in index funds.

The calm spell in U.S. markets broke this year, with stocks falling and interest rates rising. A popular measure of volatility, the Cboe Volatility Index, or VIX, recorded its biggest jump in history in February. The move was so severe that it triggered the demise of some exchange-traded products tracking the gauge, leaving losses across Main Street and Wall Street.

Volatility has slipped since then, but traders say business is still good. Some bigger banks are arranging an unusually large number of multibillion-dollar custom equity derivatives trades for traditional investors such as insurers and pension funds that want to hedge against volatility, according to people familiar with the trades. Retail investors are buying so-called structured notes, which offer protection from extreme losses in stocks in exchange for upfront fees. And there have been more big deals providing financing to individuals and companies based on their stockholdings.

Still, the choppiness hasn't been good for everyone. "If you're in the options business, changing **volatility** is a good thing. If you're a pension fund, maybe not," said David Hait, founder of data firm OptionMetrics.

Mr. Hait counts among his clients banks and hedge funds, which have welcomed the change. To celebrate, he has been distributing hats labeled "I Love **Volatility**."

Equity Derivatives

Give Banks a Boost

The much bigger paydays for equity derivatives traders expected this year are a contrast to other parts of Wall Street, where activity has been slow.

Compensation in equity derivatives units should rise 9.5% globally in 2018, according to Options Group. Investment bankers, meanwhile, are expected to get a 0.3% raise, and pay for fixed-income traders is expected to drop 2.6%.

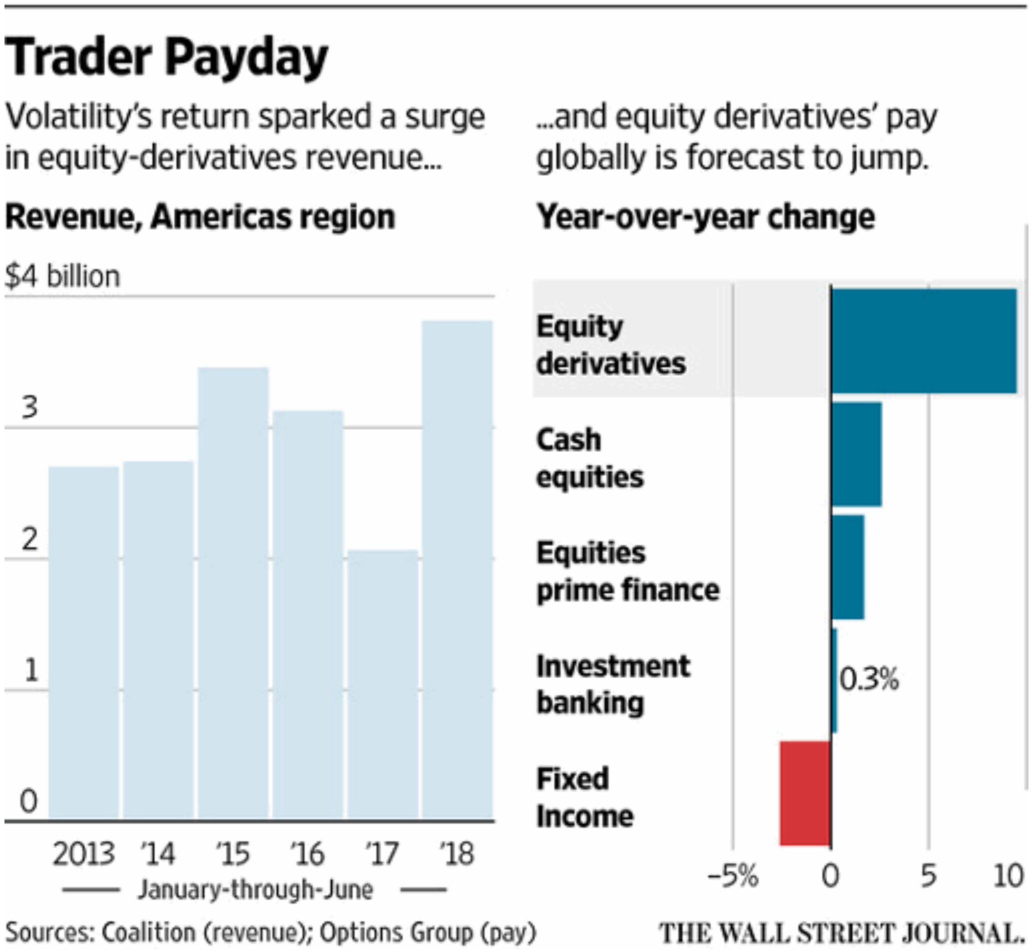
For the dozen largest investment banks globally, equity derivatives revenue in the Americas soared 84% in the first half of 2018 from the same period a year earlier, to $3.8 billion, according to industry tracker Coalition.

Banks such as Bank of America Corp., BNP Paribas SA, Citigroup Inc., Goldman Sachs Group Inc., JPMorgan Chase & Co., Morgan Stanley, Societe Generale SA and UBS Group AG, which have big options operations, have benefited from the market gyrations.

Goldman's options desk earned more than $100 million over a few days that month, because its traders anticipated the big demand for new positions, people familiar with the firm said.

Last year's bank results were also hit by a loss involving Steinhoff International Holdings NV. Several banks shared a $1 billion loss for a stock-based loan to the South African furniture retailer, whose shares collapsed in value amid an accounting investigation.

The increased activity at derivatives desks is sparking poaching across Wall Street. Bank of America, for example, hired a string of top traders in the U.S., including William Hillegass from Barclays PLC last year and Henri-Emmanuel Lewinger from BNP Paribas this year, according to people familiar with the moves.



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The New York Times

Business/Financial Desk; SECTB
Fed Hint on Interest Rates Cheers Markets

By THE ASSOCIATED PRESS
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29 November 2018
The New York Times
NYTF
Late Edition - Final
2
English

Stocks in the United States rocketed to their biggest gain in eight months Wednesday after the Federal Reserve chairman, Jerome Powell, hinted that the Fed might not raise interest rates much further.

In a speech to the Economic Club of New York, Powell said that rates are close to ''neutral,'' the level at which they neither hold back growth nor aid it. That might mean the Fed isn't planning to raise interest rates far above their current levels. Powell also appeared to suggest that the Fed might pause its cycle of interest rate increases next year so the central bank can assess the effects of its actions.

That relieved investors who feel the nine-year-old **bull market** could come to an end if rates rise too fast. Those worries have contributed to the market's big slump in October and November.

Stocks rose in morning trading and nearly tripled their gains as Powell spoke. The dollar weakened as investors adjusted their expectations for how quickly interest rates might rise in the future.

After slashing interest rates to near zero before the 2008-09 financial crisis, the Fed has been steadily raising them since the end of 2015 and is expected to announce another increase in December. But higher rates tend to slow economic growth, and since growth in the United States and other regions is already likely to slow down next year, investors are concerned the increases will hinder the economy.

''He's acknowledging that if you make an interest rate move today, you're not really going to feel the effects of it for 12 to 18 months,'' said Jack Ablin, chief investment officer of Cresset Wealth Advisors. ''Global central bank tightening (of rates) was probably the biggest risk that equity investors faced over the next four quarters, so having the Fed chairman come out and suggest they're almost done is welcome news.''

The **S&P 500 index** surged 61.61 points, or 2.3 percent, to 2,743.79, its biggest gain since March 26. The **S&P 500** has gained 4.2 percent this week, but would still need to rise another 6.8 percent to return to its record high from late September.

The **Dow Jonesindustrial average** jumped 617.70 points, or 2.5 percent, to 25,366.43. The **Nasdaq composite** rose 208.89 points, or 2.9 percent, to 7,291.59.

The yield on the **10**-**year Treasury** note heald steady at 3.06 percent. The yield on the 2-year note steadied at 2.81 percent.

The dollar weakened, which sent metals prices higher.

Technology companies trended higher. Salesforce surged 10.3 percent to $140.64. Adobe rose 7.3 percent to $249.21. Apple jumped 3.8 percent to $180.94, and Microsoft rose 3.7 percent to $111.12.

Tiffany skidded 11.8 percent to $92.54 after it said foreign tourists, especially from China, did not spend as much at its stores in its latest quarter. That contributed to disappointing sales for the company. Chinese economic growth has slowed since the government clamped down on bank lending last year.

Boeing recovered a sliver of its recent losses as investigators in Indonesia discussed their probe into the crash of a Boeing 737 MAX 8. Indonesian authorities said they are still struggling to understand why the plane crashed, but added that faulty equipment had pilots fighting for control of the plane as it fell into the Java Sea on Oct. 28, killing all 189 people aboard.

The MAX is Boeing's newest plane, and questions about the crash have pulled Boeing's stock lower. The stock rose 4.9 percent to $333.50 Wednesday, but it is still down 10 percent since Nov. 8, when federal regulators gave an emergency directive telling pilots how to handle incorrect data from a sensor that may have malfunctioned during the flight.

The dollar fell to 113.53 yen from 113.79 yen. The euro rose to $1.1376 from $1.1296.

Benchmark United States crude slipped 2.5 percent to $50.29 a barrel in New York.

Gold rose $1.00 to $1,212.20 an ounce.

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

CHARTS: The **S&P 500 Index**: Position of the **S&P 500 index** at 1-minute intervals on Wednesday. (Source: Refinitiv); New-Home Sales: Annual pace of new private homes sold during the month, seasonally adjusted. (Source: Commerce Department)

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The New York Times

Washington; SECT
For the American Economy, Storm Clouds on the Horizon

By BINYAMIN APPELBAUM
1,526 words
29 November 2018
The New York Times
NYTF
The New York Times on the Web
English

WASHINGTON -- Emerging signs of weakness in major economic sectors, including auto manufacturing, agriculture and home building, are prompting some forecasters to warn that one of the longest periods of economic growth in American history may be approaching the end of its run.

The economy has been a picture of health, expanding at a 3.5 percent annual pace during the third quarter and driving the unemployment rate to 3.7 percent, the lowest level in almost half a century. But General Motors' plan to cut 14,000 jobs and shutter five factories reinforces other recent indications that the better part of the expansion is now in the rearview mirror.

''We're in the 10th year of the expansion and there are some soft points,'' said Ellen Hughes-Cromwick, a former chief economist at Ford Motor Co. and the Commerce Department who is now on the faculty at the University of Michigan. ''The auto sales cycle has peaked and the housing cycle also has peaked.''

Ms. Hughes-Cromwick said higher interest rates, combined with rising inflation and faltering corporate confidence, could set the stage for a recession. In that scenario, she said, ''I don't really see how the economy can keep powering ahead.''

The vast majority of prominent economic forecasters, including various arms of the federal government and all of the major Wall Street banks, still regard continued growth as the most likely outcome for the American economy in 2019. But there is a broad consensus that the pace of growth will slow as the sugar high provided by the Trump administration's $1.5 trillion tax cut and spending increases begins to wear off. And some forecasters see a small, but growing, chance of a recession.

President Trump's chief economic adviser, Larry Kudlow, tried to play down such concerns on Tuesday, insisting that the overall health of the economy remained robust.

''There's a certain amount of pessimism I'm reading about, maybe it has to do with a mild **stock market** correction,'' Mr. Kudlow said, before describing such pessimism as misplaced. He rattled off recent economic data -- including the most recent jobs report, which he described as ''very spiffy'' -- to highlight the strength of the American economy, before his conclusion: ''We're in very good shape.''

Jerome H. Powell, the Federal Reserve's chairman, has also taken an optimistic line, declaring in Texas recently that he was ''very happy about the state of the economy.''

The basic cause for concern is a widening gap between the evident strength of the economy this year and weakness in economic indicators that look ahead to coming years. That gap was highlighted Tuesday in the latest data on consumer confidence, which showed Americans remained pleased with their present circumstances, but were less confident that growth would continue.

Investors are showing signs of concern about the ability of the corporate sector to maintain sky-high levels of profitability. Major stock indexes are roughly flat for the year.

Some businesses are starting to worry, too. Farmers are facing large losses because they cannot sell crops to China during a trade war between Washington and Beijing. Sales of new and existing homes have declined in recent months as interest rates rise. Auto sales, also vulnerable to higher rates, have been falling since 2016.

''This is a geriatric expansion,'' said David Kelly, chief global strategist at JPMorgan Funds.

Mr. Kelly noted that if economic growth continued through next summer, this would become the longest-running expansion of the American economy since at least the Civil War.

It is proverbial among economists that expansions do not die of old age. But the end of Mr. Trump's fiscal stimulus will most likely drop economic growth back toward an annual rate around 2 percent, leaving little margin for error. ''It wouldn't take much to go wrong to put us into a recession,'' Mr. Kelly said.

Many analysts regard Mr. Trump and Mr. Powell as the greatest threats to the economic expansion.

Mr. Trump's trade war with China has yet to make a discernible dent in domestic growth, but if the conflict continues, or escalates, the impact on the economy could increase.

Another concern is that the Fed's current path of interest rate increases will choke growth.

Both forces already are battering the automobile industry. Mr. Trump's tariffs on aluminum and steel have raised costs for carmakers, the nation's largest consumer of those materials. The Fed's rate increases, meanwhile, have raised the cost of car loans, discouraging potential buyers.

Mr. Trump told The Washington Post on Tuesday that the Fed was undermining economic growth and blamed it for the woes of General Motors.

''I'm doing deals, and I'm not being accommodated by the Fed,'' he said. ''They're making a mistake because I have a gut, and my gut tells me more sometimes than anybody else's brain can ever tell me.''

The Fed is widely expected to raise its benchmark interest rate for a fourth time this year at its next meeting, in mid-December. But Fed officials, well aware of the danger, have emphasized in recent weeks that their plans for next year will depend on the evolution of the economic data.

Mr. Powell said on Wednesday that the Fed's rate hikes are approaching an important threshold -- the ''neutral'' level at which rates neither stimulate nor discourage borrowing. Mr. Powell said the current level of the Fed's benchmark rate, which sits in a range between 2 percent and 2.25 percent, is ''just below'' most estimates of the neutral level.

The remarks contrasted with Mr. Powell's statement in October that the benchmark rate was still ''a long way'' from neutral.

Some Fed officials have said that they want to pause at the neutral level to consider whether further rates hikes are warranted. Others have said they want to raise rates past neutral, judging that the economy will need a little restraint.

Richard Clarida, the Fed's vice chairman, said Tuesday the economy remained ''robust,'' and that the Fed planned to keep raising rates. Deciding how high to go, he said, would require ''judgment and humility.''

Mr. Powell said earlier this month that the Fed would proceed like a man in a dark room. ''What do you do?'' he said. ''You slow down. You stop, probably, and feel your way. It's not different with policy.''

G.M.'s cuts reflect the particular challenges facing the auto industry, including the nascent shift toward electric and self-driving vehicles. Mary T. Barra, the company's chief executive, said G.M. was eliminating some mechanical engineers to make room for more software engineers. And she said the company was not acting in anticipation of a recession. ''We are taking these actions now while the company and the economy are strong to stay in front of a fast-changing market,'' she said.

But the company's retrenchment underscored the broader fragility of the economic expansion. G.M. must fund its investment plans by cutting back in other parts of its business because its costs are rising while its sales are declining in both of its major markets: the United States and China.

The Trump administration said its economic policies would deliver a lasting boost to growth, and Mr. Trump specifically highlighted the auto industry, and G.M., as beneficiaries of those policies. So far, however, those policies have delivered a short-term increase in spending.

The tax cuts passed in 2017 were designed to encourage investment: New factories, new equipment, new products. Tariffs on foreign steel and aluminum, and on Chinese goods, were supposed to serve the same purpose. But G.M. has said the cost of the tariffs exceeds the benefits from the tax cuts -- and instead of building new factories, G.M. is moving to shutter domestic plants.

Mr. Kudlow defended the administration's policies on Tuesday, and said that revisions to the North American Free Trade Agreement would help the auto industry. "There's a lot of disappointment, even anger," about the company's decision, he said. The administration also said it was considering ways of punishing G.M. by ending other federal subsidies, which seemed unlikely to help the economy.

Some analysts say the focus on what might go wrong is obscuring the reality that the economy remains strong. The primary engine of growth is consumer spending, which accounts for about two-thirds of economic activity. The pace of wage gains has increased, consumer confidence remains close to the post-recession high set earlier this year, and retailers are anticipating a strong holiday season.

"Consumers haven't run out of money and confidence yet, which means economic growth remains on track," said Chris Rupkey, chief financial economist at MUFG. Mr. Rupkey noted that 46.6 percent of consumers said in the November survey of consumer confidence that good jobs were plentiful, the best figure during the current recovery. "Why is confidence so high?" he asked. "It's jobs, jobs, jobs."

Follow Binyamin Appelbaum on Twitter @bcappelbaum.

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The New York Times

National Desk; SECTA
Markets Soar on Two Words From Fed Chairman

By BINYAMIN APPELBAUM; Matt Phillips contributed reporting.
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English

With just two words on Wednesday, the Federal Reserve's chairman sent stocks surging by raising hopes that the central bank might be closer to ending its push to drive up interest rates.

The chairman, Jerome H. Powell, said the Fed's benchmark interest rate was ''just below'' the neutral level, meaning the central bank was close to the point where it would not be tapping on the brakes or pressing on the gas. Only last month, Mr. Powell had said it was ''a long way'' from neutral, leaving investors worried that the rate increases would crimp growth.

The small change sent stocks soaring 2.3 percent, erasing the losses from a rocky November. To investors, the new wording meant that the Fed might leave rates closer to their current level, keeping in place the steady fuel that low rates have provided to a 10-year-long **bull market**.

[Before stocks surged after Mr. Powell's comments, the bond market was signaling the case for raising rates had weakened.]

Analysts quickly warned that investors were overreacting. There was little evidence in the rest of Mr. Powell's speech that he intended to signal a change in plans.

But the market's euphoria underscored the chairman's struggles to strike the right pitch in an increasingly challenging economic and political environment, as President Trump attacks the Fed and the country's growth comes under pressure. The market has been jittery over concerns that further rate increases could undermine the economy at a time when the prospects for companies and consumers may be softening.

The economy has been a picture of health, expanding at a 3.5 percent annualized pace during the third quarter. The unemployment rate has fallen to 3.7 percent, its lowest level in almost half a century. Inflation has picked up this year, and Mr. Powell on Wednesday highlighted signs of increased risk-taking in some **financial markets**, including lending to corporations.

But Mr. Trump has relentlessly criticized the central bank, and Mr. Powell in particular, for raising interest rates, arguing that the Fed is choking growth. Emerging signs of weakness in some parts of the economy, including auto manufacturing, agriculture and housing, are also raising concerns that the best part of the long recovery might now be in the rearview mirror.

''We're in the 10th year of the expansion, and there are some soft points,'' said Ellen Hughes-Cromwick, a former chief economist at the Ford Motor Company and the Commerce Department who is now the associate director of the University of Michigan's Energy Institute. ''The auto sales cycle has peaked, and the housing cycle also has peaked.''

Ms. Hughes-Cromwick said that she did not foresee an imminent end to growth, but that higher interest rates, combined with rising inflation and faltering corporate confidence, could set the stage for a recession. If those things happen, ''I don't really see how the economy can keep powering ahead,'' she said.

Most economic forecasters, including at various government agencies and big Wall Street banks, expect the American economy to continue growing in 2019. But there is a broad consensus that the pace will slow as the sugar high provided by the Trump administration's $1.5 trillion tax cut and spending increases begins to wear off. Some forecasters see a small, but growing, chance of a recession.

"This is a geriatric expansion," said David Kelly, chief global strategist at J. P. Morgan Asset Management.

He noted that if growth continued through next summer, this would become the longest expansion of the American economy since at least the Civil War. Economists have long argued that expansions do not die of old age. But the end of Mr. Trump's stimulus is likely to drop growth back toward a 2 percent annual rate, leaving little margin for error.

"It wouldn't take much to go wrong to put us into a recession," Mr. Kelly said.

Mr. Trump's chief economic adviser, Larry Kudlow, tried to play down such concerns on Tuesday.

"There's a certain amount of pessimism I'm reading about. Maybe it has to do with a mild **stock market** correction," Mr. Kudlow said, before saying such fears were misplaced. He rattled off recent economic data -- including the latest jobs report, which he described as "very spiffy" -- before concluding, "We're in very good shape."

Mr. Powell also reiterated Wednesday that the economy was doing well, that inflation was under control and that no glaring risks were on the horizon. Against that backdrop, the Fed is still expected to raise its benchmark rate in December. Mr. Powell emphasized that the Fed would make decisions about future increases by keeping a close eye on the economy.

"We know that moving too fast would risk shortening the expansion," he said Wednesday, in remarks before the Economic Club of New York. "We also know that moving too slowly -- keeping interest rates too low for too long -- could risk other distortions in the form of higher inflation or destabilizing financial imbalances."

The Fed's benchmark rate currently sits in a range of 2 percent to 2.25 percent. In September, Fed officials estimated that the neutral rate is between 2.5 percent and 3.5 percent. Most officials predicted the central bank would raise rates three times in 2019.

In the view of many analysts, Mr. Trump and Mr. Powell themselves pose the greatest threats to continued growth.

Mr. Trump's trade war with China is inflicting pain on some parts of the economy, notably in the Midwestern farm belt, where growers of soybeans and other crops have lost access to their largest export market.

The Fed's interest rate increases are also weighing on some parts of the economy, including home building. Sales of new and existing homes have fallen in recent months as interest rates on mortgage loans have risen.

The automobile industry is being battered by the tariffs and rate increases. Mr. Trump's tariffs on aluminum and steel have raised costs, while higher rates have discouraged some potential buyers. Auto sales have been in decline since 2016, and General Motors said this week that it would cut 14,000 jobs and shut down five North American factories.

Mr. Trump has insisted loudly and repeatedly that the Fed should be held responsible for any economic weakness. In an interview with The Washington Post on Tuesday, the president said the Fed was a "much bigger problem than China."

"I'm not being accommodated by the Fed," Mr. Trump told The Post. "I'm not happy with the Fed. They're making a mistake because I have a gut, and my gut tells me more sometimes than anybody else's brain can ever tell me."

In publicly berating the Fed, Mr. Trump is breaking sharply with the practice of recent administrations, which maintained a studied silence about monetary policy.

One reason is that urging the Fed to move can be counterproductive. The Fed likes to present itself as a technocratic institution that floats above the political fray. While some policymakers and economic analysts argue that the Fed should suspend rate increases, such a pause would now expose the Fed to criticism that it is acceding to Mr. Trump.

Mr. Powell has insisted that the Fed will act without regard to Mr. Trump's statements. In a recent speech, he emphasized that the central bank is overseen by Congress, not the president.

But Mr. Powell added to his own challenges in October, in an unscripted answer to a question about how high the Fed might need to raise rates.

"We may go past neutral," Mr. Powell said during an interview at the Atlantic Festival, "but we're a long way from neutral at this point, probably."

Mr. Powell's subsequent remarks on the subject strongly suggest that he would have liked to have chosen his words more carefully. Mr. Powell and other Fed officials also have emphasized that the exact level of the neutral rate is not important to the central bank's plans.

Some Fed officials, however, have said they want to pause at that point to consider whether further increases are warranted. Others have said they want to raise rates more, judging that the economy will need a little restraint.

Richard H. Clarida, the Fed's vice chairman, said on Tuesday that deciding how high to go would require "judgment and humility."

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Jerome Powell, the Federal Reserve chairman, said Wednesday that the benchmark interest rate was "just below" the neutral level. (PHOTOGRAPH BY JUSTIN LANE/EPA, VIA SHUTTERSTOCK) (A13)

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The New York Times

Business/Financial Desk; SECTB
Bond Market Signals a Weakening Case for Interest Rate Increases

By STEPHEN GROCER
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29 November 2018
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NYTF
Late Edition - Final
5
English

Get the DealBook newsletter to make sense of major business and policy headlines -- and the power-brokers who shape them.

Before stock investors decided that the Federal Reserve chairman was flagging the end of interest rate increases, the bond market was signaling the case for raising rates had weakened.

A measure of investors' expectation for inflation over the next five years has fallen in recent weeks. The difference between the yields on five-year Treasury inflation-protected securities, or TIPS, and the corresponding Treasuries hit 1.74 percentage points Wednesday, its lowest level of the year, according to Tradeweb. That spread is effectively the market's forecast of where inflation is heading, and it's down from 2.04 points at the start of October.

Inflation is core to the Fed's mission. The central bank has a dual mandate of spurring full employment and keeping prices stable. This market's forecast for inflation is below the Fed's target for inflation of 2 percent.

Critics of measures like the one above say it's too sensitive to short-term moves in markets such as oil (and, indeed, the most recent pullback in inflation expectations has corresponded with the tumble in **oil prices** over the past nine weeks).

Still, the recent slide in the expectations is an indication that investors have grown more concerned about global growth and less worried that the United States' economy will overheat and cause a jump in inflation.

The Fed has pressed ahead with rate increases this year as the economy has strengthened. Already, the central bank has raised its main policy rate three times and is expected to do so again next month.

But in recent weeks, Fed officials also have appeared to soften their tone about future rate increases. On Wednesday, stocks surged after remarks by the central bank's chairman, Jerome H. Powell, were interpreted by investors to suggest the Fed could be nearing the end of its push to lift interest rates.

Mr. Powell said interest rate increases were approaching a ''neutral'' level at which it would no longer provide a stimulus to economic activity. The description contrasted with his statement in October, following the last change in the benchmark rate, that the rate was still ''a long way'' from neutral.

The personal consumption expenditures price index, the Fed's preferred measure of inflation, has ticked up this year and was at 2 percent in September.

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

CHART: Real Economic Growth: Annual rate of change in the gross domestic product, based on quarterly figures adjusted for inflation and seasonal fluctuations. (Source: Commerce Department)

Document NYTF000020181129eebt0004e

THE WALL STREET JOURNAL.

Markets Main
Markets

Fed Chairman's Remarks Spark Market Rally; Dow climbs over 600 points after Jerome Powell's remarks on monetary policy

By Amrith Ramkumar and Nick Timiraos
1,265 words
28 November 2018
07:01 PM
The Wall Street Journal Online
WSJO
English

The **Dow Jones Industrial Average** surged more than 600 points Wednesday, erasing its November tumble, after Federal Reserve Chairman Jerome Powell eased investor worries about an aggressive increase in interest rates.

In remarks Wednesday before the Economic Club of New York, Mr. Powell said interest rates are "just below" broad estimates of a neutral level— a setting designed to neither speed nor slow economic growth.

Investors read his comments to suggest that the Fed's rate increases might stop sooner or happen more slowly, though he didn't say so directly. The Fed chairman didn't provide any more guidance on the likely path for rates, and noted they remain low by historical standards.

Stocks climbed immediately after Mr. Powell's midday remarks, led by shares of internet and health-care companies. The advance morphed into a broad-based rally with all but one of the **S&P 500**'s 11 sectors climbing.

The Dow industrials added 617.70 points, or 2.5%, to 25366.43, extending this week's rebound. The **S&P 500** climbed 61.62 points, or 2.3%, to 2743.79, joining the blue chips in the green for the month as both indexes logged their best day since March 26. Meantime, the tech-heavy **Nasdaq Composite** rose 208.89 points, or 2.9%, to 7291.59.

All three indexes are up more than 4.2% for the week. It was the first time since Nov. 1 that the benchmarks climbed in three consecutive sessions.

Mr. Powell appeared to retreat from a comment he made in early October that described the Fed's benchmark interest rate as a "long way" from neutral. That remark helped send stocks sliding, raising concern about tighter financial conditions that could slow economic and profit growth.

Still, most analysts expect the central bank to raise rates next month and continue to boost them next year.

About 32% of investors expect at least three more increases by December 2019, down from 37.3% a day earlier, CME Group Data show.

While the speech had "cleaned up after Powell's sloppy language last month," markets may have reacted too strongly to the comments, said Ed Al-Hussainy, senior rates analyst at Columbia Threadneedle Investments. "We now run a larger risk" that communications at the Fed's December meeting will be more hawkish than markets expect, he said.

On Wednesday, Mr. Powell, who became Fed chairman in February, pointed to the range of neutral-rate projections submitted by 15 Fed officials at their policy meeting in September, varying from 2.5% to 3.5%. The Fed's benchmark federal-funds rate since then has been between 2% and 2.25%—or just below the lowest estimate.

If the Fed, as expected, raises the fed-funds rate next month to a band between 2.25% and 2.5%, that would leave it touching the bottom of the range of neutral estimates but four more quarter-percentage-point increases from the top.

The Fed's pattern of raising rates gradually—roughly once a quarter over the past two years—aims to balance two risks.

"We know that moving too fast would risk shortening the expansion," Mr. Powell said. "We also know that moving too slowly—keeping interest rates too low for too long—could risk other distortions in the form of higher inflation or destabilizing financial imbalances."

While Wednesday's comments alleviated concerns for some investors, others are still hesitant about buying stocks as trade tensions with China swirl, said Adam Phillips, director of portfolio strategy at EP Wealth Advisors in Torrance, Calif. "Now our focus is on the tariff issue," he said.

Bruce Bittles, chief investment strategist at RW Baird & Co, is recommending investors favor defensive stocks with steady earnings and higher dividends, such as consumer staples, utilities and health-care shares.

"The Fed is sending a mixed signal here," Mr. Bittles said. "I still think the markets are going to be troubled by slowing economic conditions and a deceleration of corporate earnings."

U.S. stocks in recent weeks joined major indexes around the world and assets sensitive to global growth in a synchronized retreat. President Trump has criticized Mr. Powell and the Fedfor raising rates, asserting that the central bank was threatening U.S. growth as stocks tumbled.

Despite this week's rise, the Dow industrials remain 5.4% below their Oct. 3 highs, while the **S&P 500** and **Nasdaq** are off 6.4% and 10%, respectively, from their records earlier this year.

The retreat has been led by fast-growing technology companies that some investors fear won't be able to continue boosting sales at the same pace in a rising-rate environment. Many of those stocks led Wednesday's rally, with Apple Inc., Amazon.com Inc., Google parent Alphabet Inc. and Netflix Inc. all up more than 3.7%.

Higher rates have also made some analysts anxious that the global economy will weaken as companies lower business investments in the face of rising borrowing costs. Mr. Powell's comments eased some of those concerns, investors said.

Mike Mullaney, director of global market research for Boston Partners, said the firm has bought beaten-down stocks in the industrial, financial and energy industries after the recent market turbulence.

"Today gives us confidence that making those decisions [was correct]," he said. "As long as borrowing rates and uncertainty remain low, then you should see additional business activity."

Fears about slowing global growth have hurt other risk assets, from commodities to emerging markets. Mr. Powell's comments also lifted those markets, with front-month copper futures surging 3.2%, their best day in more than two months. Many investors use the metal to gauge growth sentiment because it is heavily used in construction and manufacturing.

Ahead of an end-of-week Group of 20 summit in Buenos Aires and an expected update on trade, investors have been weighing whether recent declines in the technology sector are a temporary blip or a broader change in market leadership.

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* Analysis:The Fed Is Still Banks' Best Friend

Despite the recent turbulence, some analysts expect further clarity on trade and rates to lift tech and other growth stocks, citing their consistent profit gains and lower valuations after the recent declines.

"The evidence still points to those companies leading for a while," said Thomas Martin, senior portfolio manager at Atlanta-based Globalt Investments. "These are the companies that when you get a slowdown, their growth tends to stand out."

The yield on the benchmark 10-year **U**.**S**. **Treasuryyield** fell to 3.044% Wednesday from 3.057%. Yields fall as **bond prices** rise. The WSJ Dollar Index, which measures the U.S. currency against a basket of 16 others, slumped 0.5%, and has edged lower since hitting its highest level since March 2017 earlier this month.

The moves came as investors also parsed figures showing a second reading of U.S. third-quarter economic growth stayed at 3.5% and new home sales slumped last month. Weakness in the rate-sensitive housing and auto sectors continues to worry some analysts anxious about tighter financial conditions.

Write to Amrith Ramkumar at amrith.ramkumar@wsj.com and Nick Timiraos at nick.timiraos@wsj.com

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THE WALL STREET JOURNAL.

Review & Outlook (U.S.)
Opinion
The Fed's Welcome Rethink; And Donald Trump did not make Powell and Clarida say it.

By The Editorial Board
586 words
28 November 2018
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The Wall Street Journal Online
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English

The Federal Reserve's top two officials rolled out their latest thinking on monetary policy this week, and **financial markets** cheered as stocks rallied some 2.5% Wednesday. Investors aren't always right in their initial impressions of Fed rhetoric. But in this case they seem to have judged correctly that the Fed is reconsidering its plans for higher interest rates, and for the right reasons.

Jerome Powell, the Fed Chairman, fed the stock rally almost in real time when he said in a New York speech Wednesday that the current fed-funds rate is "just below the broad range of estimates of the level that would be neutral for the economy."

In other words, the Fed may follow through on another widely expected 0.25% rate increase in December, but the three or four rate increases anticipated for 2019 won't be made in hell-bent pursuit of some arbitrary "neutral" rate. The definition of what is neutral may change based on data and events, and that is welcome modesty from the often dogmatic central bank.

More telling was the speech a day earlier by Richard Clarida, the Fed's Vice Chairman, who offered a detailed explanation for this apparent rethinking. Mr. Clarida explained that the Fed is close to meeting its twin targets of full employment and 2% inflation.

But, crucially, he added that even in the current tight labor market "there may still be some further room for participation" by nonworkers to increase. Women of prime working age have been streaming back into the labor market, but their participation rate still isn't back to what it was at its peak in 2000. The participation rate for men age 25-54 is also still two percentage points below what it was a decade ago. Higher wages and better prospects in a faster-growing economy could get more of them back to work as well.

This suggests the Powell-Clarida Fed won't be a slave to Phillips Curve calculations that suggest rates must rise in a ratchet when the jobless rate hits a certain level.

Mr. Clarida also noted that productivity growth is averaging 2% this year, which is above the 0.7% average from 2011-2017. That's good news because it means more running room for wage gains before the Fed worries about inflation. This is also a welcome supply-side perspective on the current economy, implicitly giving credit for policy changes like tax reform that improve the economy's growth potential.

This being Donald Trump's Washington, many want to interpret all this as a sign that Mr. Powell is capitulating to the President's loud criticism of higher rates. Mr. Trump was especially pointed in an interview with the Washington Post on Tuesday in which he said he's "not even a little bit happy" with his choice of Mr. Powell as Fed Chairman. As always, everything is personal with Mr. Trump.

But as the speeches this week make clear, there are good reasons to be cautious about rate increases regardless of Mr. Trump's hectoring, which is best ignored. Global growth is slowing, bad trade policy is deterring investment, and the Fed is also gradually reducing its bond portfolio with effects on asset prices that no one can predict. Modesty for the Fed is always the best policy, but especially as it unwinds a decade of unprecedented monetary machinations.

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THE WALL STREET JOURNAL.
U.S. EDITION

Fed Says High Debt Poses Risk To System

By Nick Timiraos and Andrew Ackerman
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29 November 2018
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WASHINGTON -- The Federal Reserve identified elevated asset prices, historically high debt owed by U.S. businesses and rising issuance of risky debt as top vulnerabilities facing the U.S. financial system, according to an inaugural financial-stability report released Wednesday.

Officials cited potential risks tied to nonfinancial corporate borrowing, including low premiums demanded by investors in certain business debt, such as leveraged loans and high-yield corporate debt. It also flagged possible concerns in commercial real estate, in which property prices have rapidly outpaced growth in rents.

Asset valuations are "generally elevated, with investors appearing to exhibit a high tolerance for risk-taking, particularly with respect to assets linked to business debt," the report said.

Wednesday's report said credit standards for certain classes of business debt appeared to have deteriorated during the past six months. For example, the share of newly issued large loans to corporations with high leverage, defined as those with ratios of debt to their earnings before interest, taxes, depreciation and amortization above six, have risen above the prior peaks seen in 2007 and 2014, "when underwriting quality was notably poor."

Following years of more intense in-house research, the report is the latest evolution in the Fed's efforts to spotlight monitoring of financial stability. It comes as **financial markets** are grappling with signs that growth is slowing as rising interest rates ripple through the economy. Though U.S. unemployment has fallen this year to its lowest level since 1969, some investors worry that recent troubles in stocks and bonds could portend economic weakness in the U.S. and abroad.

The stability report also identified potential economic shocks that could test the stability of the U.S. financial system, including potential spillover effects to the U.S. from a messy exit of Britain from the European Union, slowing economic growth in China and other emerging markets, and trade tensions.

While Fed officials had flagged potential risks in the housing sector before the 2007-09 recession, they largely missed how the mortgage bubble had infected the broader financial system. After the crisis, then Fed Chairman Ben Bernanke established an office of financial stability to monitor weak links in the financial system.

Financial stability has remained a central focus at the Fed because of the easy-money policies employed to nurse the economy back to health in the years following the crisis. Critics have warned that the Fed's large bond-buying campaigns and years of near-zero interest rates risked new bubbles.

The economics profession, and the Fed in particular, hasn't forged a consensus on when, if ever, monetary policy should be used to address potential financial bubbles. The question could become more salient in the coming months if the economy doesn't exhibit signs of inflation, but officials worry nevertheless about overheating.

Several Fed officials, including Fed Chairman Jerome Powell, have referenced the fact that the past two recessions were triggered not by inflation, which the Fed seeks to avoid by raising interest rates, but by asset bubbles, which can be harder to prevent even if officials can identify them.

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THE WALL STREET JOURNAL.

Markets Main
Markets

Why Charities Have Been Such Bad Investors; Nonprofits returned an average of 6.7% annually in 2009-16, underperforming even Treasurys

By Jason Zweig
877 words
28 November 2018
The Wall Street Journal Online
WSJO
English

Corrections & Amplifications

An earlier version of this article cited data in the second paragraph that was based on a simple average of annual returns, not a steady growth rate over time as is often used by investors. Measures of simple average annual returns cited for U.S. stocks, long-term U.S. Treasury bonds and a 60/40 mix of the two were compiled by the paper's authors. The earlier version of this article didn't specify this information. (Nov. 30)

Charitable giving is on a lot of people's minds this time of year. It's worth noting that while many nonprofits promote great causes, few are great at managing money.

A new research paper looks at the investment returns of a huge sample of nonprofits and finds they've been abysmal. From 2009 through 2016, these endowment funds returned an arithmetic average of 6.7% annually, compared with arithmetic averages of 12.2% for U.S. stocks, 10.5% for a 60/40 mix of stocks and bonds, and 8% for U.S. Treasurys, as calculated by the paper's authors.

Finance professors Sandeep Dahiya of Georgetown University and David Yermack of New York University combed public data from the Internal Revenue Service to estimate returns on the investment funds of nearly 29,000 nonprofits. These endowments—including those at colleges and universities, hospitals, museums, and scientific and religious institutions—had total assets of $662 billion as of the end of 2016.

That gives a much broader measure of investment returns than earlier studies by academic and industry researchers. Those used more-selective samples that might not have been representative of typical performance among all nonprofits, large and small.

Large endowments, defined by Profs. Dahiya and Yermack as having assets of at least $100 million, are only 5% of the sample by number, but account for 80% of total assets. They have access to the world's best minds and biggest managers across the stock and bond markets, real estate, hedge funds, private equity, infrastructure, timber and every other asset imaginable.

Does all that help?

The typical small endowment, with assets between $1 million and $10 million, earned an average of 4.4% annually from 2009 through 2016. The median large endowment earned 6.1%—a little better, but not much.

Worse, 70% of the large funds failed to outperform the U.S. **stock market**, adjusted for basic risk factors; 59% of the small endowments fell behind on the same measure.

"You could have done better just by investing in Treasurys," Prof. Yermack said in an interview, "and that's pretty sorry."

The paper even finds that the risk-adjusted return of the 20 largest university endowments—the purportedly smartest of the smart money—exceeded that of the U.S. **stock market** by a microscopic 0.001% annually. Among those elite schools, 40% underperformed after adjusting for risk.

"These portfolios aren't designed to beat the market, but to be resilient over long periods of time," said Cathleen Rittereiser, executive director of Commonfund Institute, which conducts research on how endowments invest.

The new academic study "comes to quite different conclusions than other organizations have found, including our own annual studies," said Matthew Hamill, a spokesman for the National Association of College and University Business Officers, which has been analyzing educational endowments' investment returns annually since the 1970s. "We will take a hard look at it as we assess our data and findings," he adds.

For the smallest nonprofits, according to the new study, returns improve with proximity to the financial centers of Boston, Chicago, New York and San Francisco, presumably because some advice from nearby professionals is better than none at all.

For the biggest endowments, however, "investment performance deteriorates if the fund is located closer to Wall Street or to another major financial center," the researchers write. The closer the smart money is to the heart of the financial industry, the more susceptible it may be to "professional money managers' sales pitches that lead to over-investment in exotic products with high fee structures," they add.

No wonder Warren Buffett savors the detachment of being based in Omaha. Likewise, the late investor Sir John Templeton contemplated global stock markets with sunny calm from his home office in the Bahamas.

You could argue that some aspects of this research are skewed in such a way as to put endowments in a bad light.

The measurement period starts in the depths of the global financial crisis when stocks and other risky assets were poised to rebound the most. So, the more-conservative approach of many endowments will make their performance look pale by comparison.

The researchers also use long-term U.S. Treasurys, rather than a broader debt index, as their benchmark for bond returns. In hindsight, that sets a high hurdle for the endowments to clear.

Finally, the researchers aren't able, from their data, to measure investment returns for the endowments directly, instead relying on reports to the IRS of "net investment earnings, gains, and losses." That might not precisely match performance as professional asset managers calculate it. Prof. Yermack believes the estimates aren't likely to be significantly understated.

Even with those limitations, the study is a reminder of just how rare the smart money is.

In the words of Peter Lynch, former manager of the Fidelity Magellan Fund: "The smart money isn't so smart, and the dumb money isn't really as dumb as it thinks. Dumb money is only dumb when it listens to the smart money."

Write to Jason Zweig at intelligentinvestor@wsj.com

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THE WALL STREET JOURNAL.

Europe News
World
British Banks Are Healthy Enough to Handle a Chaotic Brexit; The Bank of England says the country's seven major banks passed its annual stress test

By Philip Georgiadis and Margot Patrick
570 words
28 November 2018
02:02 PM
The Wall Street Journal Online
WSJO
English

The U.K.'s banking system is strong enough to ride out the shock of a disruptive Brexit, the Bank of England said Wednesday, clearing the way for bigger payouts to shareholders in the coming months.

None of the seven major banks tested need to strengthen their capital levels as a result of a central bank stress test, which modeled the sort of severe economic shock associated with the most chaotic "no deal" departurefrom the European Union.

Separately, the central bank on Wednesday published projectionsof the effects of a "no deal" Brexit with no transition period, and said that even under this worst-case scenario the country's banks would be able to continue lending to households and businesses.

This year's health check of banks' balance sheets is particularly significant for investors given that the U.K. is slated to leave the EU in March, an uncharted path. The two sides have agreed divorce terms and a transitional period which should allow financial services firms to operate largely as normal. But there are lingering doubts, including whether the deal will be ratifiedby the British Parliament in December.

U.K. banks are some of the strongest and most profitable in Europe, but uncertainty around Brexit has weighed on their stock prices and put pressure on bank boards to increase shareholder payouts. Wednesday's results "provide a positive bias for increased capital returns and distribution," said Fernando de la Mora, a managing director at Alvarez & Marsal, a consulting firm. Banks must have the blessing of regulators to pay dividends and launch share buybacks.

Under certain scenarios under new accounting rules, capital ratios at Barclays PLC and Lloyds Banking Group PLC were low enough to trigger a form of contingent capital that bridges debt and equity, but neither bank needs to raise any additional capital, the Bank of England said.

The two banks had been under scrutiny going into the tests, after they unexpectedly fared poorly in an EU-wide stress exercise earlier this month. Unlike the EU, the Bank of England can force them to raise more capital or reduce dividends. They and are keenly watched by investors since the results signal whether banks will get regulatory signoff for dividends.

The British stress scenario included deep recessions in the U.K. and global economy, British residential property prices falling by a third, and unemployment hitting nearly 10%. The central bank said the scenario was more severe than the 2008 global financial crisis and encompasses "worst case" assumptions.

The central bank said it would expect market **volatility** in the case of a disorderly Brexit, but that Britain's financial system could withstand months of severe market disruption and that banks have enough liquidity to redeem bonds and deposits without having to access wholesale funding or foreign exchange markets.

A Treasury report earlier Wednesday that found the U.K. will be worse off economically under any form of Brexit. Its analysis said the U.K. economy could shrink up to 3.9% under Prime Minister Theresa May's Brexit plan and that leaving without a deal could mean a 9% hit to the economy.

Write to Philip Georgiadis at philip.georgiadis@wsj.com and Margot Patrick at margot.patrick@wsj.com

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THE WALL STREET JOURNAL.

Economic Data
Economy

Slowing Global Economy Weighs on U.S. Profits and Trade; Data showed moderately stronger business spending than originally reported, but weaker consumer spending

By Sarah Chaney and Theo Francis
787 words
28 November 2018
04:40 PM
The Wall Street Journal Online
WSJO
English

Overseas profit growth at American firms is slowing, a new sign of how the faltering global economy is reverberating back to the U.S.

U.S. profits earned overseas rose 7% in the third quarter from a year earlier, a slowdown from profit growth of 13.7% in the second quarter and 15.6% in the first, the Commerce Department reported Wednesday.

The corporate profit figures came alongside the agency's second estimate for third-quarter gross domestic product, which was unrevised at a 3.5% seasonally adjusted annual rate.

Many large overseas economies showed signs of weakening in the third quarter. Growth in China slowed, and output in Germany and Japan contracted. A stronger dollar may also have been a factor, because it translates into less income earned in other currencies.

The third-quarter picture looks different for U.S. domestic profits, which climbed 10.8% in the third quarter from a year earlier, the strongest pace since 2012. Domestic profits benefited from strong consumer spending associated with low unemployment and individual income tax cuts enacted last year.

Headwinds to U.S. profit growth could be building. Companies are grappling with rising material and labor costs, as well as an uncertain trade environment.

"Sales, orders, even leads look solid," Olivier Filliol, chief executive of laboratory-instrument maker Mettler-Toledo International Inc., told analysts in early November. "But there are many reasons to be cautious about the global economy, including higher interest rates, a strong dollar and uncertainty and costs arising from tariff disputes. I would characterize it as a sunny weather but clouds on the horizon."

Christine Short, senior vice president at Estimize, said the forecasting firm is projecting profits at **S&P 500** firms to slow to an annual growth rate of 9% in 2019, down from 20% in 2018.

"On top of increased input costs for some of the materials a lot of these companies use, it's also increased labor costs that they're unable to potentially handle going forward," Ms. Short said.

The Commerce Department's revised data on third-quarter GDP showed moderately stronger business spending and private-inventory investment in the quarter than originally reported. Weaker consumer spending and state and local investment offset those increases.

Forecasting firm Macroeconomic Advisers predicted a growth rate of 2.5% in the fourth quarter, according to estimates released Wednesday.

TJX Cos., the parent company of T.J. Maxx, will likely notch down its earnings forecast for next year because of headwinds and uncertainty circulating in the broader economy, said Ernie Herrman, chief executive of the retailer.

"Foreign currency, tariffs, Brexit—all those things are weighing in" on the earnings outlook, Mr. Herrman told analysts in a conference call on Nov. 20.

Farm-equipment maker Deere & Co. projects industry sales in its agriculture segment to be flat to up 5% in the U.S., Canada and South America next year, while sales in Europe and the Middle East are expected to be flat, and Asia could fall slightly.

"In the U.S., overall, both farmer and dealer sentiment remains cautiously optimistic," said John Lagemann, senior vice president of sales and marketing for the Americas in Deere's Ag and Turf division, in a Nov. 21 conference call. "Despite this optimism, it is also important to acknowledge the ongoing uncertainty the industry faces regarding unresolved global trade issues."

A separate report released Wednesday showed additional signs that overseas economic weakness is weighing on the U.S., in the form of falling exports and a widening trade deficit.

U.S. merchandise exports dropped in October for the fourth time in five months, according to preliminary Commerce Department data on the trade balance, which covers goods but not services. The overall trade deficit in goods widened to a record $77.2 billion in October, the fifth consecutive monthly increase.

Imports, especially of consumer goods, climbed in October. Going in the other direction, U.S. exports of food, capital goods and automobiles all declined last month.

The widening trade deficit is a sharp reversal from earlier in the year. The second quarter's 4.2% annualized growth rate was boosted because the trade deficit shrunk earlier in the year. But that decline proved temporary, driven by exporters who were rushing to beat the imposition of tariffs. Now that the trade deficit is rising again, it has again started to drag on GDP estimates.

Josh Zumbrun contributed to this article.

Write to Sarah Chaney at sarah.chaney@wsj.com and Theo Francis at theo.francis@wsj.com

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THE WALL STREET JOURNAL.

Heard on the Street
Markets

Less Than Zero: Natural Gas Anomaly Digs Up More Trouble for Oil; Natural gas trades go into the negative in West Texas as oil production booms

By Spencer Jakab
305 words
28 November 2018
01:39 PM
The Wall Street Journal Online
WSJO
English

Location, location, location—it isn't just a mantra for the real-estate industry any more.

As the geography of oil and gas shifts, the infrastructure that underpins it has been slower to adapt. The result has been unbelievable bargains for valuable commodities, if only one can get the product to market. These include crude oil in western Canada selling for barely above $10 a barrel and natural gas falling below the once-unimaginable zero barrier this week in Texas' prolific Permian Basin.

According to Natural Gas Intelligence, some trades at the Waha delivery point for natural gas in Pecos County, Texas were negative this week, meaning that producers had to pay customers to take away the same gas that is selling at close to a four-year high on the New York Mercantile Exchange. The 700 or so miles between Pecos County and Erath, Louisiana, the Henry Hub delivery point for futures, might as well be a million until more pipeline links are completed next year.

The reason for the negative prices is that, in the hot shale patches like the Permian and Bakken, gas bubbles up with the crude and much of it is flared. Local environmental regulators put limits on that practice, though, forcing drillers to sell it or pay someone to take it.

The surfeit of "associated gas" is another **bearish** sign for crude oil, because it shows how much North American crude is ready to flow onto the market once crucial pipelines are built. Oil exporters meeting next week in Vienna to stabilize the market are racing against the clock.

Write to Spencer Jakab at spencer.jakab@wsj.com

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THE WALL STREET JOURNAL.

Commodities
Markets
Burned by Selloff, Investors Keep Oil at Arm's Length; Bearish sentiment holds sway; investors still wary of buying oil without a clearer catalyst for higher prices

By Stephanie Yang
706 words
28 November 2018
04:14 PM
The Wall Street Journal Online
WSJO
English

Analysts are calling crude-**oil prices** a bargain after the commodity's recent selloff. But few are stepping in to buy just yet.

A dramatic fall in crude prices wiped out **bullish** speculators after an unexpected influx of supply and signs of weakening economic growth. But even potentially **bullish** developments on the horizon haven't coaxed some investors off the sidelines.

"When you get to the last four weeks of the year, there are so many managers sitting on their hands," said Tariq Zahir, managing member of Tyche Capital Advisors. "Not many people are going to put money at risk with all these headlines and real market-moving things that are going to happen."

Part of the uncertainty comes from a trading environment that fundamental investors struggle to parse, according to Goldman Sachs analysts. The bank wrote this week that the drop in crude is unsustainable, and should eventually draw investors back in.

"Combine an indeterminate trade war, vague Iranian sanctions and suggestions from the U.S. administration for **oil prices** below $54 [a barrel] against a U.S. costs basis of $55 [a barrel], [and] it becomes difficult to take fundamentally driven trading positions," the bank said.

Light, sweet crude for January delivery closed at a fresh one-year low Wednesday, down 2.5% at $50.29 a barrel on the New York Mercantile Exchange. Brent, the global benchmark, settled down 2.4% to $58.76.

Some analysts say the recent fears are overblown and the selloff was exacerbated by financial players getting out of an overcrowded trade. Net long positions in U.S. oil futures fell to the lowest level in over a year last week, according to data from the Commodity Futures Trading Commission. **Bullish** bets by speculative investors are less than half what they were at the end of January.

However, with **bearish** sentiment running the market, most are wary of buying oil without a clear catalyst for higher **oil prices**.

"There's nothing bright out here. Nobody's really excited yet; nobody's finding a bull," said Donald Morton, senior vice president at Herbert J. Sims & Co., who oversees an energy trading desk. "The market continues to feed on itself. Another round of negative thought process, and you just see more selling pressure."

One such trigger could be the G-20 summit in Buenos Aires this weekend, with leaders from Saudi Arabia, Russia and the U.S. in attendance and the recent oil rout in focus. Trade talks between the U.S. and China could also have implications for economic growth and the outlook for oil demand.

Another potential source of more **volatility** will be the meeting between the Organization of the Petroleum Exporting Countries and its allies outside the cartel, set to begin Dec. 6 in Vienna. Saudi Arabia is considering a plan to maintain production targets set in 2016 but rein in overproduction amounting to about 1 million barrels a day, effectively cutting supply.

Still, analysts doubt Russia's willingness to participate in another cut, as the country's production has climbed to record highs. U.S. shale production has also surged past expectations, putting more pressure on the global market. According to the U.S. Energy Information Administration, U.S. output held steady at a record 11.7 million barrels per day last week.

That's led to the tenth consecutive week of building inventories, further indicating that the world has ample supplies of crude right now. Meanwhile, OPEC's monthly forecasts for 2019 oil demand growth have weakened over the past few months, from 1.45 million barrels a day in July, to 1.29 million barrels a day in November.

With expectations set for Saudi Arabia to pull back about 1 million barrels a day of production, OPEC and its allies may have to announce an even larger overall cut, analysts at TD Securities wrote Tuesday, or they "face a lackluster market reaction."

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Write to Stephanie Yang at stephanie.yang@wsj.com

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THE WALL STREET JOURNAL.

Heard on the Street
Markets

The Dangerous Rise of Sponsored Stock Research; Equity research paid for by the companies being analyzed is a big beneficiary of new European regulations

By Jon Sindreu
538 words
28 November 2018
05:15 AM
The Wall Street Journal Online
WSJO
English

New securities-trading rules are having one pernicious side effect on European stock markets: Research is increasingly paid for by those being researched.

So-called sponsored research has long been common in the bond market, where ratings firms are paid by firms to grade their credit risk. The European Union's catchily-named second Market in Financial Instruments Directive, or Mifid II, is helping extend the problem to equities.

The new rules try to improve market transparency by forcing brokers to charge specifically for equity research—a departure from the age-old model of covering its cost with commissions on trades. After Mifid II came into force in January, however, many asset managers opted to use less external research or source it from cheaper, specialized houses.

The result is now clear: The average number of analysts covering larger companies in the eurozone and the U.K. has dropped, according to FactSet data. The impact isn't noticeable for companies in the U.S., where the rules don't apply, nor to small-capitalization firms, which never had much scrutiny to begin with.

Medium-size listed companies—those with a market capitalization around $1 billion—are likely to suffer most. They are small enough to be easily shed by brokers, but large enough that their shares are widely owned by all kinds of investors. The U.K.'s midcap FTSE 250 index now has an average of 7.1 analysts per company, from 8.5 at the end of 2017.

This development may end up rewarding active investors who do legwork on companies themselves. But it could also generate a lot of misinformation, because a growing share of the research available will be paid for by companies that want to appear more actively traded. A provision in Mifid II allows this kind of research to be distributed free with the proper disclaimers, but these are often written in very fine print.

Sponsored research firms include Edison Investment Research, Hardman & Co, and AlphaValue. Some banks—like Oslo-based DNB ASA—have recently started doing it as well. It is still a small industry, but many of these companies say their sponsored businesses are growing.

To be fair, many of them do set standards: Often, sponsors can veto analyses, but not alter them. And the traditional way in which brokers paid for research is far from problem-free, due to the conflicts of interest posed by their own underwriting and market-making operations. Yet the cut in banks' research budgets is making analysts more dependent on other income streams—hence more conflicted, not less.

Overall, the move toward sponsored research is a worrying one for the **equity market**, because less negative coverage of companies will filter into the public arena. The role played by ratings firms' skewed incentives in the 2008 debt crisis is an ominous precedent.

European midcap companies are already less covered by analysts than their U.S. peers. Now investors need to take even more care when shopping in Europe.

Write to Jon Sindreu at jon.sindreu@wsj.com

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THE WALL STREET JOURNAL.

Markets Main
Markets
Real-Estate Lending Change Boosts Banks More Than Economy; The change hasn't spurred lending, but it has lifted banks' capital ratios and returns

By Michael Rapoport
968 words
28 November 2018
08:00 AM
The Wall Street Journal Online
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English

Banks say a rule change on commercial real-estate lending will help the economy. So far, it is mostly helping the banks.

Enacted in May, the complex change narrows the definition of which construction and development loans should be deemed as "high-**volatility** commercial real-estate" loans, or HVCRE. The change, little noted outside the banking and real-estate industries, makes it harder for regulators to classify such loans as particularly risky.

That is important to banks because they must hold extra capital against those loans. Congress revised the standards for HVCRE loans as part of a new law easing bank regulations, and banks pushed for the change, arguing it would spur more lending.

Yet the change hasn't increased lending broadly thus far. Still, banks already are reaping the benefits: easier compliance, a boost to capital ratios, better returns on existing loans. Wells Fargo & Co., for example, has cut its HVCRE exposure by two-thirds, lifting a key capital ratio.

Banks say the old rules were so onerous they curtailed legitimate lending. The change "will help out a lot of the small underserved communities, because they'll be able to go to the local bank and get financing where they couldn't before," said James Kendrick, an executive for the Independent Community Bankers of America.

Advocates of stricter financial regulation fear relaxing the standards could encourage banks to return to riskier lending practices of the financial-crisis era. The HVCRE rules are "a very basic risk control on an area of commercial lending that everybody agrees was deeply involved with the crisis," said Marcus Stanley, policy director of Americans for Financial Reform, a nonprofit group.

Commercial real-estate loans have been problematic for banks in the past. In October, Arkansas-based Bank OZK charged off $45.5 million on two real-estate loans, hurting the bank's earnings and sending its stock tumbling. A spokeswoman said the asset quality of the bank's large real-estate loans has historically been "excellent." Regulators have long been concerned about banks' exposure: Concentrations of risky commercial real-estate loans contributed to many of the hundreds of crisis-era bank failures, and a Government Accountability Office report in March found risks in banks' lending in that area had increased in recent years.

Such concerns led to the previous rules on high-**volatility** loans, enacted after the crisis. All real-estate loans for acquisitions, development or construction were considered high **volatility**, or especially risky, with certain exceptions. Banks had to hold an additional 50% in capital against those loans to maintain the same capital ratios.

The old rules were confusing and had a chilling effect, banks say. "Many banks have had to turn away good loans, " said Mr. Kendrick.

The new rules make it more likely lenders can avoid high-**volatility** treatment. For instance, loans to borrowers who haven't contributed at least 15% of a project's completed cost are regarded as high **volatility**. Before the change, increases in the value of a project's land, which can be significant over the years it takes to build, couldn't count toward the 15%. Now they can.

"I think it significantly opened the doors," said Roger Shumway, chief credit officer of the Bank of Utah. He said his bank has made more construction loans since the change.

More on Financial Regulation

* Small Banks to Get Relief From Postcrisis Financial Rules

* Fed to Further Overhaul Stress-Testing Regime, Making it Easier for Banks to Pass

* Banks Push for Regulators to Ease Up on Them

In addition, many smaller banks may soon be exempt from the rules entirely. Under a separate part of the May law, smaller banks with a sufficiently high leverage ratio—tangible equity as a percentage of average assets—will be deemed to have satisfied all capital requirements, including HVCRE. Regulators proposed last week that the threshold be set at 9%.

The HVCRE change has enabled some banks to slash their exposure. Wells Fargo, which had a risk-weighted $24.9 billion of the loans before the new law, has reduced that to $7.9 billion, according to regulatory disclosures. That boosted Wells' third-quarter Tier 1 common equity ratio by about 10 basis points, the bank said last month. A spokeswoman for the bank declined to comment.

BB&T Corp. reduced its risk-weighted $3.8 billion in HVCRE loans before the changes to $3.2 billion, according to regulatory disclosures. A BB&T spokesman said the changes "enable us to more competitively serve the needs of our builder and developer clients as they contribute to growing the economy through their construction activities."

But a lending increase hasn't shown up. Banks' commercial real-estate lending increased by an annualized 5.1% in the second quarter, when the change was enacted, according to Federal Reserve data. But that was little better than the first quarter's 4.8%.

Some banks said economic uncertainty is working against more lending, which they think will ultimately rise. An American Bankers Association survey indicated 79% of banks anticipated increasing their capital concentration in commercial real estate this year.

Mr. Stanley thinks banks are more interested in boosting returns than lending more. "When they cut back on those capital requirements, it is money in their pocket."

Banks say they wanted the changes both to lend more and to make compliance easier. If regulators' supervision remains strong, they say, banks won't have a risk problem.

HVCRE loans are riskier, "but that doesn't mean they're all high-risk," said Bob Davis, an ABA executive vice president.

Write to Michael Rapoport at Michael.Rapoport@wsj.com

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THE WALL STREET JOURNAL.

Markets Main
Markets

Chinese Drug Researcher Kicks Off $1 Billion Hong Kong Listing; WuXi AppTec had a Shanghai IPO earlier this year—its mainland stock price has nearly quadrupled since then

By Joanne Chiu
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28 November 2018
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English

China's WuXi AppTec Co., Asia's biggest player in the growing market for helping global drugmakers research, develop and manufacture new products, began taking orders for a roughly $1 billion listing in Hong Kong.

WuXi AppTec shares already trade in Shanghai, with a near-$12 billion market capitalization. It wants the new funds to boost its research and production capabilities, both in China and the U.S., and is also eyeing takeovers of rival contract research organizations, as companies in this business are known.

The company is one of two publicly traded successors to a previously U.S.-listed outfit, WuXi PharmaTech (Cayman) Inc.

Co-founder Ge Li and investors including Ally Bridge Group, Chinese fund manager Hillhouse Capital, and Singaporean state-investment company Temasek Holdings Pte. took WuXi PharmaTech private for $3.3 billion in 2015. That was one of a string of U.S. buyouts by Chinese entrepreneurs seeking to relist their companies at home at higher valuations.

Sister company Wuxi Biologics (Cayman) Inc. raised $587 million last year in a Hong Kong initial public offering. And earlier this year, WuXi AppTec raised more than $300 million in a Shanghai IPO. Its mainland **stock price** has nearly quadrupled since then.

WuXi AppTec competes with foreign peers including U.S. rivals IQVIA Holdings Inc. and Charles River Laboratories International Inc., as well as Chinese counterparts such as Shenzhen-listed Asymchem Laboratories (Tian Jin) Co.

It operates the largest platform for drug research and development in Asia by revenue, according to Frost & Sullivan research cited in its listing prospectus, and serves all of the world's 20 largest pharmaceutical companies.

WuXi AppTec plans to sell 116.5 million new shares, with an indicative price range of HK$64.10 to HK$71.50 per share ($8.19 to $9.14), according to a deal term sheet. The shares are due to start trading Dec. 13.

Units of Goldman Sachs Group Inc., Morgan Stanley and China's Huatai Securities Co. are joint sponsors.

Several unprofitable Chinese biotechnology startups, including Ascletis Pharma Inc. and BeiGene Ltd., have listed in Hong Kong this year after the city's bourse revamped its rules. Unlike them, WuXi AppTec is profitable: it reported a 67% rise in first-half net profit to 1.3 billion yuan ($186.9 million).

Write to Joanne Chiu at joanne.chiu@wsj.com

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THE WALL STREET JOURNAL.

Economy
Economy
Fed Chairman Says Interest Rates Are Just Below Estimates of Neutral; 'There is no preset policy,' says Jerome Powell, noting central bank will pay close attention to economic data

By Nick Timiraos
1,032 words
28 November 2018
05:24 PM
The Wall Street Journal Online
WSJO
English

Federal Reserve Chairman Jerome Powell ignited a market rally Wednesday by saying interest rates are "just below" broad estimates of a level considered neutral, a setting designed to neither speed nor slow economic growth.

Investors welcomed his remarks because they appeared to retreat from a comment he made in early October describing the Fed's benchmark rate as a "long way" from a neutral level—which implied to some listeners that Mr. Powell planned to keep raising rates for a while. His remarks Wednesday appeared to suggest to this audience that he might stop sooner or move more slowly.

Mr. Powell didn't provide any more guidance on

the likely path for rates, and he noted they remain low by historical standards.

He offered nothing to dispel market expectations of another rate increase at the Fed's policy meeting on Dec. 18-19.

"There is no preset policy," he said. "We will be paying very close attention to what incoming economic and financial data are telling us."

Mr. Powell's October remark came during an unscripted moment at a moderated discussion in Washington. He tried to dismiss as premature questions over whether the Fed would need to raise rates above neutral to a level aimed at slowing growth. Some listeners thought his tone conveyed greater conviction about continuing rate increases.

On Wednesday, Mr. Powell pointed to the range of neutral-rate projections submitted by 15 Fed officials at their policy meeting in September, varying from 2.5% to 3.5%. The Fed's benchmark federal-funds rate since then has been between 2% and 2.25%—or just below the lowest estimate.

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* Fed Identifies Top Vulnerabilities Facing U.S. Financial System

* Fed Shifts to a Less Predictable Approach to Policy Making (Nov. 27)

His clarification Wednesday didn't otherwise indicate any substantive change in the Fed's policy plans.

For example, he didn't discuss how recent changes to the economic outlook—including weaker housing sales, rising market **volatility** and a plunge in **oil prices**—might influence the Fed's policy path. He will have an opportunity to do that next week in testimony on Capitol Hill.

Many Fed officials still believe more rate increases will be needed to prevent the economy from overheating. Some want to see evidence that job growth is slowing, holding the unemployment rate at its current low levels, before they pause rate increases.

If the Fed, as expected, raises the fed-funds rate next month to a band between 2.25% and 2.5%, that would leave it touching the bottom of the range of neutral estimates but four more quarter-percentage-point increases from the top.

"Powell said nothing to suggest that he or the majority of the FOMC think they'll be able to stop at the bottom of the range, after just one more hike," said Ian Shepherdson, chief economist at Pantheon Macroeconomics.

Still, Mr. Powell's observation appeared to soothe anxious investors. It followed several weeks of market **volatility** that some investors had blamed on uncertainty over the Fed's intentions, among other things.

Market Talk

Fed Fund Futures Slip on Powell's Rate Remarks

Traders are betting on a gentler course of interest-rate increases following Fed Chairman Jerome Powell's latest remarks. Federal-funds futures recently showed the market pricing in a 7.2% chance of the Fed raising rates at least three times next year, down from 11.5% earlier Wednesday and 17.6% one month ago, according to CME Group.

"It removes concerns of a Fed dead set on tightening up to a point where rates would intentionally slow down the economy," said Roberto Perli, an analyst at Cornerstone Macro, in a report Wednesday.

While the speech had "cleaned up after Powell's sloppy language last month," markets may have reacted too strongly to the comments, said Ed Al-Hussainy, senior rates analyst at Columbia Threadneedle Investments. "We now run a larger risk" that communications at the Fed's December meeting will be more hawkish than markets expect, he said.

One irony of the market reaction to Mr. Powell's word choices is that he has spent considerable energy during his tenure as Fed chairman trying to emphasize the uncertainty of these estimates and to fashion a more plain-spoken approach to central-bank communications.

Mr. Powell repeated a relatively upbeat view of the economic outlook, including low unemployment and stable inflation.

"There is a great deal to like about this outlook," Mr. Powell said. But turning to financial stability, the main topic of his speech, he added, "We know that things often turn out to be quite different from even the most careful forecasts."

The Fed's current pattern of raising rates gradually—roughly once a quarter over the past two years—is an effort to balance two risks.

"We know that moving too fast would risk shortening the expansion," Mr. Powell said. "We also know that moving too slowly—keeping interest rates too low for too long—could risk other distortions in the form of higher inflation or destabilizing financial imbalances."

Mr. Powell flagged rising indebtedness and deteriorating loan quality among some U.S. businesses as top vulnerabilities within the U.S. financial system, but otherwise described such risks as moderate.

"Over the past year, firms with high leverage and interest burdens have been increasing their debt loads the most," Mr. Powell said. "In addition, other measures of underwriting quality have deteriorated, and leverage multiples have moved up."

It isn't clear that these conditions could trigger a recession on their own, he said, noting that the ratio of corporate debt to economic output didn't seem unusual. But he warned that any corporate debt buildup now could make the next recession more severe.

Compared with his recent predecessors, Mr. Powell, who became Fed chairman in February, has more regularly noted that the past few expansions ended with bursting financial bubbles rather than surging inflation.

Write to Nick Timiraos at nick.timiraos@wsj.com

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WSJ PRO CENTRAL BANKING

WSJ Pro

Transcript: Q&A With Fed Chairman Jerome Powell in New York; Policy maker discusses whether monetary policy should be used to address financial stability and international financial regulation

1,750 words
28 November 2018
03:28 PM
WSJ Pro Central Banking
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English

Federal Reserve Chairman Jerome Powell took questions after delivering a speech Wednesday, Nov. 28, 2018, at an Economic Club of New York event in Manhattan. He discussed international financial regulation, whether monetary policy should be used to address financial stability and the uncertainties the Fed must grapple with in setting monetary policy. Here is a transcript of the exchange, lightly edited for length and clarity.

Q: Thank you, Chair Powell, for your remarks. You talked about the interplay between financial stability and macro stability, and my question hearkens back to the macro side. During the speech you gave in Jackson Hole, Wyoming, in August, you spoke about the challenges, given the Fed's dual mandate, of navigating the stars – U-star, the neutral unemployment rate; and R-star, the neutral interest rate.

On the one hand, the wage growth figures reported since then suggest that both U-star and R-star are below their neutral rates. On the other hand, asset prices, which you mentioned, have fallen significantly since August, leading a number of observers – some louder than others – to argue that **financial markets** are signaling a weakening economy ahead. In light of the new data since August, have you changed your views about either the true level of R-star or the speed with which you and your colleagues should navigate towards it?

JEROME POWELL: ... So the point I was getting across – trying to get across at Jackson Hole is that we do make monetary policy to some extent by way of these stars. And these starred variables – like the natural rate of unemployment, the neutral rate of interest – give us a benchmark against which to measure policy or to measure unemployment. How do we know whether employment – unemployment is low or high? We have to think that there's a natural rate. And so we need these estimates.

But we understand that they're highly uncertain. So we have to have them, but we have to also take onboard that they're uncertain, the actual locations of them. And so, also, we need to constantly update our thinking based on incoming data and – from the **financial markets** and from the real economy.

So we do constantly update them. And in fact, if you look back, each [Federal Open Market Committee] participant publishes his or her estimate of these variables four times a year in what we call the Summary of Economic Projections, and we'll be doing that again in December. And over the last four years, you've seen estimates of the natural rate of unemployment decline very substantially for just the reason you point to, and the same for the neutral rate of interest. So we're learning all the time that after the crisis these variables are at different levels. And it does complicate policy, but it's – that's the world we live in.

So in that world, you know, what do you do when you're uncertain about the variable? And I liken it to, you know, walking into a room full of furniture like this and suddenly the lights go out. So what do you do? You slow down and you maybe go a little bit less quickly, and you feel your way more. That's just the thought, is that you feel your way more. So under uncertainty of this kind, you be careful. And I think that's what we've been doing with monetary policy for some time. We've been moving gradually, in a way. It's a way of keeping those – keeping those risks at bay and learning as you go.

So you asked – so we're always updating those. You made a connection to recent **financial market** events. You know, I think we're always looking for signals. I think it's too soon to say – to say, you know – these are – these are variables that move slowly over a long period of time. They don't move quickly. These are thought to be underlying – you know, underlying aspects of the economy that are slow-moving. So I don't know that you would change them based on **financial market volatility**. But at the end of the day, you'll take into account lots of different information.

Q: Well, thank you very much for your remarks. I'm very pleased that you focused your speech on the subject of financial stability. Although the Federal Reserve under Janet Yellen was concerned about the capital of banks and their liquidity, she said that monetary policy should focus on inflation and unemployment, and that financial stability was not a responsibility of monetary policy. Do you think that monetary policy – interest rate policy – should take financial stability into account, as well as unemployment and inflation?

MR. POWELL: ... So the question of whether monetary policy should be used to address financial stability is one in which there are really two schools of thought in – among monetary policy thinkers and policy makers. And I think the majority view is what Marty just articulated, is that monetary policy has already got two goals – stable prices and maximum employment – best to use regulatory and macroprudential regulatory policies to address financial instability.

And so I would certainly agree that monetary policy is not – is not a great tool to address that third concern, and that it's far preferable to use supervision and regulatory tools to address financial stability to the extent that we can. It's not ideal to add a third objective, and it's not a tool that fits particularly tightly with the objective of financial stability.

On the other hand, you have to – I think it's hard not to keep in mind as a policy maker that the last several business cycles in the United States have not ended because of high inflation; they've ended because of financial imbalances, if you will: the savings and loan crisis, the dot-com bubble popping, and then the mortgage bubble popping and, you know, the global financial crisis. So these were not the traditional way business cycles generally ended, which was high inflation and that sort of thing. So it's hard not to have that in the back of you mind, and there is – there is a theoretical and to some extent an empirical connection between low rates and credit growth and asset prices. It's not clear. It's not decisive. But ultimately, I am in the camp of thinking that monetary policy is not at all the ideal tool to address these questions.

Q: You presented very convincing data that the U.S. financial system is on more stable and sounder footing than it was pre-financial crisis. My second question is, to what extent do you share that relatively sanguine view about the financial systems of our major trading partners, and particularly the [European Union]? And in a time where we're seeing certainly less cooperation on global trade and international issues more generally, what's your outlook for our ability to continue to have a productive dialogue in terms of international financial regulation?

MR. POWELL: So I think, you know, we're responsible for the United States' policy, and that's what we look after. We don't look for opportunities to criticize our fellow regulators. (Laughter.) But I would say generally there's been a lot of progress around the world on these matters. International financial regulation is critical, because markets are global, many of these companies are global, financial activities generally are global. And so you need some form of – you need a place to meet and agree on common standards so that we can trust each other's regulation and supervision.

And that's what we have in the form of the Basel Committee and other forums – the Financial Stability Board, where, for example, we agree on, you know, sort of broad parts of the regulatory and supervisory framework, and then we go back to our home countries and we implement in the context of that country. And I think that works. I also think – you know, I think we – the United States remains strongly committed to being a – you know, an active and constructive participant in these international regulatory forums. I would point out that my colleague and Vice Chair Randy Quarles was just named head of the Financial Stability Board, which is probably the senior post in this area in the world.

And so that's great. And I think it shows the United States is still committed and engaged strongly in these forums, because they're essential. You know, it's not – we can't just look at domestic regulation anymore. We have to have a level playing field. We've got to be able to trust each other's, different countries' regulatory and supervisory schemes. So that's I think something we're still strongly committed to.

Q: For my second question, I want to come back to the issue of instability. Do you think that when the next downturn comes it will be caused by the effects of instability in the financial sector? Particularly a downturn in equity prices as long-term interest rates rise substantially from where they are today.

MR. POWELL: ... As I mentioned, I don't see vulnerabilities as elevated overall today in **financial markets**, or in the financial system. In terms of what – you know, business cycles don't last forever, unless – as I said, unless you're Australia, where they're in year 27 of their expansion. (Laughter.) Which sounds like forever. So I don't know. I don't know what it will be. Often there's some exogenous event that nobody sees coming. You know, when I was in the government before the Iraq war happened, and I think that was a big part of the recession that happened in the early '90s. And then 9/11, you know, was probably part of the trigger the next time. So I don't know what it will be. I don't. You know, I think our job is to try to conduct monetary policy, supervisory and regulatory policy to keep the economy close to our objectives and sustain the expansion.

Related Article

* Fed Chairman Says Interest Rates Are Just Below Estimates of Neutral

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THE WALL STREET JOURNAL.

Business

Royal Bank of Canada Earnings Jump on Higher Rates, Fees; Increased mortgage and commercial lending helped boost results

By Vipal Monga
526 words
28 November 2018
03:19 PM
The Wall Street Journal Online
WSJO
English

Royal Bank of Canada reported record earnings for its latest fiscal year as higher interest rates and fees, along with increased mortgage and commercial lending, boosted profits.

Canada's largest bank by market capitalization benefited from a growing economy, said RBC Chief Executive David McKay. "While increased protectionism and geopolitical risk created market uncertainty throughout the year, our results did benefit from rising interest rates, GDP growth, a benign credit environment and U.S. tax reform," he said during an earnings call Wednesday morning.

The bank reported net income of 12.4 billion Canadian dollars ($9.34 billion) for its fiscal year ended Oct. 31, topping C$12 billion for the first time. Earnings per share totaled C$8.36, an 11% increase from fiscal 2017.

For the fourth quarter, profits rose 15%. Net income for the period was C$3.25 billion, or C$2.20 a share, up from C$2.84 billion, or C$1.88 a share, in the year-ago period. Analysts polled by Refinitiv expected earnings of C$2.10 a share.

Fourth-quarter revenue rose 1% to C$10.67 billion, in line with analysts' expectations.

Investors pushed the bank's stock up 3.1% to $74.03 in afternoon trading on the New York Stock Exchange.

In RBC's personal- and commercial-banking division, net income rose 10%, driven by higher interest rates, growth in loans and deposits at Canadian banks and a lower provision for credit losses.

Though the growth in loans helped this year, the bank is increasingly exposed to a Canadian consumer who is burdened with mounting housing debt, said Jim Shanahan, a banking analyst with Edward Jones.

"We are concerned about credit," he said. Residential mortgage-related credit made up roughly half of the $576.8 billion of loans on the bank's balance sheet, leaving it vulnerable to losses if Canada's housing market weakens, he added.

Canadians have a debt-to-disposable-income ratio near 170%, according to an estimate by the Bank of Canada, far higher than the 124% recorded in the U.S. at the end of 2007. Many economists worry that Canada is poised for a housing correction, which could hurt the economy.

Still, Canada's low unemployment rate of 5.8% suggests that any risk at this point is only hypothetical, said Rod Bolger, RBC's finance chief, in an interview. "There are no stresses on the horizon right now," he said.

Mr. McKay said the bank is projecting 2% growth in Canadian gross domestic product for the medium term, below the 2.9% recorded in the second quarter, but above the 1.8% growth projected by the Bank of Canada for the fourth quarter. Tumbling **oil prices**, which have hurt Canada's large oil-and-gas industry, present some risk to the outlook, but loans to the sector comprise only 1% of the bank's total loan book, said Graeme Hepworth, RBC's chief risk officer.

Kimberly Chin in New York contributed to this article.

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THE WALL STREET JOURNAL.

Heard on the Street
Markets
Insurance Investors Need to Get Over Their Deal Shock; French insurer Axa's takeover of U.S.-listed XL Group is finally starting to make sense

By Paul J. Davies
362 words
28 November 2018
12:51 PM
The Wall Street Journal Online
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English

French insurer Axa has finally given a better explanation for how its radical shift from life insurance to property and casualty cover will improve returns.

The $15 billion takeover of U.S.-listed XL Group, announced in March, brought Axamore exposure to hurricanes and more debt. Investors were stunned by the deal, a big departure from the stated strategy. The company fought back Wednesday by lifting its targets for returns, cash generation and payouts at an investor day.

The new targets are possible because Axa's move away from life insurance should generate more cash and free up capital. Natural disasters may make earnings more **volatile**, but the life business is more exposed to **financial market** and credit risks. These cause a bigger hit when things go wrong and so require a bigger capital buffer. After Axa unloads the rest of its shares in Axa Equitable, the U.S. life company it listed this year, it will have a much less **volatile** capital ratio under European regulations, known as Solvency II.

On top of this, Axa said its business units will be able to pay 10% more cash up to the parent company every year. That, in turn, means it expects to pay 50% to 60% of earnings as dividends, up from 45% to 55%.

The extra cash flow, lower capital target and U.S. disposal combined will give Axa surplus cash of about €14 billion ($15.8 billion) by 2020 to use for share buybacks, deals or extra debt repayments, even after planned debt repayments designed to reduce its unusually high leverage ratio.

Axa management still has to deliver on this plan, and in insurance things can always go wrong. But these are just the kind of targets investors have been waiting for, and the company looks well set to meet them. The stock still trades at its deal-shock discount to peers. The gap shouldn't last.

Write to Paul J. Davies at paul.davies@wsj.com

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The New York Times

Briefing

Mississippi, Paul Manafort, Indonesia: Your (New) Wednesday Briefing

By Chris Stanford
1,406 words
28 November 2018
05:35 AM
NYTimes.com Feed
NYTFEED
English

Despite trade war, Trump to meet Chinese leader

President Trump is scheduled to have dinner with President Xi Jinping of China on Saturday, after a gathering in Argentina of leaders from the Group of 20 industrialized nations.

Their meeting could open the door to a truce between the world's two largest economies, which have been in an escalating trade dispute.

Why now? Administration officials said that recent gyrations in the **stock market**, the interest rate increase and the layoffs announced by General Motors this week have added to a desire for something Mr. Trump can claim as a victory.

If you missed it: The president, irate over the G.M. cutbacks, threatened to punish the automaker by ending federal tax credits that have helped its electric-vehicle efforts.

Republicans increase their Senate majority

Senator Cindy Hyde-Smith of Mississippi, who apologized for making a cavalier reference to a public hanging, won a special runoff election on Tuesday. She defeated the Democratic candidate, Mike Espy, who hoped to become the state's first black senator since Reconstruction.

Why it matters: With Ms. Hyde-Smith's victory, Republicans have 53 seats in the Senate, a net increase of two. Democrats have 47.

Results: Here are county-by-county returns from Mississippi.

The House: Democrats are expected to elect Representative Nancy Pelosi as their leader today. She met with incoming Democrats on Tuesday, acknowledging their "idealism, integrity and imagination" but warning against intransigence. Learn more about the new lawmakers in Congress here.

Manafort's lawyer briefed the president's team

A lawyer for Paul Manafortrepeatedly talked with President Trump's legal team about his client's discussions with federal investigators, even after a plea agreement with the special counsel, Robert Mueller.

Some legal experts speculated that Mr. Manafort, a former campaign chairman for Mr. Trump, agreed to the unusual arrangement in a bid for a pardon.

"The Daily": Recent twists in Mr. Manafort's case raise new questions for the special counsel investigation.

Reaction: Mr. Trump again criticized Mr. Mueller's investigation of Russian election interference on Tuesday, a day after prosecutors said Mr. Manafort had repeatedly lied to investigators in breach of the plea deal.

Another angle: An associate of the former Trump adviser Roger Stone released documents on Tuesday showing that Mr. Stone tried in 2016 to find out what information WikiLeaks had that could hurt Hillary Clinton's campaign.

Asylum seekers in limbo

Two days after the American authorities fired tear gas at migrants who tried to storm a fence at the Mexico border, Times journalists visited a makeshift shelter in San Diego to talk with people waiting to apply for asylum in the U.S.

“I tried to ask for asylum at the border. They didn’t let me,” said one man from El Salvador. “I am still waiting to ask.”

Closer look: The wait times are partly the product of new limits on the number of people who can be processed through ports of entry each day. At current rates, it could be five weeks before the first arrivals from a caravan of Central American migrants are interviewed.

Notable: The number of undocumented immigrants in the U.S. dropped to 10.7 million in 2016, down from a peak of 12.2 million in 2007, according to a study published on Tuesday.

China, the superpower

A few decades ago, Western economists agreed: Centrally planned economies bred waste and corruption. Big government ambitions crippled future generations with debt. Price controls led to hunger and want. Free markets solved it all.

Then the People’s Republic changed the game.

We’ve been examining China’s rise. This article looks at the country’s economy, a dominating force that Western experts once denied could exist.

U.S. troop deaths: Three American soldiers were killed in Afghanistan in a roadside bombing on Tuesday, the worst loss of life for U.S. forces in the country this year.

Air crash investigation: Black box data from the Lion Air jet that crashed in Indonesia last month showed that its pilots fought to save the plane almost from the moment it took off.

U.S. Senate vote on Yemen: Lawmakers could decide as soon as today whether to end American support for the Saudi-led war in Yemen.

Russia-Ukraine dispute: PresidentPetro Poroshenko of Ukraine has declared martial law after what he called new Russian military threats over the weekend. We answered some questions about the latest confrontation.

Snapshot: Above, a port worker carrying a tuna in General Santos City, the Philippines. The country is hosting the East Asian Seas Congress, which is focused on mediating environmental damage and encouraging economic growth.

In memoriam: Stephen Hillenburg, a former marine biology teacher, created “SpongeBob SquarePants,” the children’s TV show that ballooned into an unlikely cultural phenomenon. He was 57.

N.F.L. celebrations: The loosening of rules on players celebrating a score has ushered in an era of intricately choreographed routines. Watch 15 of this season’s best.

Late-night comedy: Trevor Noah reacted to the news that the authorities in Alabama had fatally shot a black man after wrongly assuming he was the gunman in a mall shooting: “You start to realize that really, the Second Amendment is not intended for black people. It’s an uncomfortable thing to say, but it’s the truth.”

What we’re watching: An ad for a department store chain, John Lewis & Partners. John Schwartz, a reporter usually focused on climate change, recommends it as “Elton John through the ages. A life, told in 2 minutes and 20 seconds. Commercial, yes, but raucous, fun, sweet and inspiring.”

Cook: Buffalo chicken dip is just better.

Listen: The upbeat, psychedelic surf-rock foundation of ASAP Rocky’s “Sundress” comes from Tame Impala’s 2010 song “Why Won’t You Make Up Your Mind.”

Watch: “The Favourite,” starring Rachel Weisz and Olivia Colman, which A. O. Scott calls a wildly entertaining, bracingly cynical comedy of royal manners.

Read: Allison P. Davis's profile of Lena Dunham for The Cut is impressively balanced, even if you already feel you know all about the actress's life.

Smarter Living: Disposable cleaning products are convenient but wasteful. If that bothers you, replace disinfecting wipes with an all-purpose cleaner, or use a lightweight cordless vacuum instead of your Swiffer. Those changes, and three other alternatives we recommend, may even be more effective. And you can ask us questions about climate change.

We also have five easy steps to record your family history, and an illustrated guide to green burials.

Famous Christmas trees

Today's tale is by our new New York Today columnist, Azi Paybarah. Sign up for his newsletter for more news of the city each morning.

Larry Smith, a Christmas tree farmer in rural North Carolina, worked his whole life to send a tree to the White House.

Shirley Figueroa, a retired public servant from New York City, grew up with "no trees on my block."

But when Ms. Figueroa's 72-foot Norway spruce is lit at Rockefeller Center in Manhattan tonight, it will join Mr. Smith's 19-foot Fraser fir, now adorning the Blue Room in the White House, among the nation's celebrated evergreens.

Mr. Smith, speaking over the roar of his tractor, said the tree that White House scouts chose from his farm was one he hadn't bothered to trim in the last couple of years. (They liked the natural look.)

Last year, Ms. Figueroa and her wife, Lissette Gutierrez, bought a home north of New York City. It came with a tree that the Rockefeller Center scouts already had an eye on.

"I can't take any credit," she said of the tree's success.

Senator Cindy Hyde-Smith, who was appointed to the Mississippi seat in April when Thad Cochran retired, will now fill the remaining two years of his term. | Rogelio V. Solis/Associated Press | For many migrants at a border crossing in Tijuana, Mexico, the wait for the opportunity to apply for asylum has become intolerable. | Mauricio Lima for The New York Times | Lam Yik Fei for The New York Times | Ricardo Tongo/EPA, via Shutterstock | John Kernick for The New York Times | Shirley Figueroa, left, and her wife, Lissette Gutierrez, donated the tree that will adorn Rockefeller Center this Christmas season. | Diane Bondareff/Associated Press

Document NYTFEED020181128eebs003h1

THE WALL STREET JOURNAL.

Heard on the Street
Markets

Unilever Beds Down in India; Despite the weak rupee, the consumer group is in talks to buy India's favorite powdered drink

By Carol Ryan
375 words
28 November 2018
09:18 AM
The Wall Street Journal Online
WSJO
English

The battle for one of India's best-known brands shows how global consumer groups are still paying up for exposure to emerging markets.

Anglo-Dutch giant Unilever, which already makes 58% of its sales in developing countries, is in talks to buy Horlicks. The malted-milk drink has been put on the block by GlaxoSmithKline as part of the U.K. pharma group's nutrition division sale. A possible $3 billion purchase price would make the acquisition Unilever's biggest in eight years.

The unit also drew interest from Nestlé and Coca-Cola. The attraction is Horlicks' dominant share of India's powdered-drinks market, where sales are growing despite stiffening competition from rival brands Bournvita and Complan, owned by Mondelez International and Kraft Heinz, respectively.

A $3 billion price tag would amount to 22 times the unit's 2017 earnings before interest, taxes, depreciation and amortization, based on Bernstein estimates. That is well above the 16 times average multiple in food-and-beverage deals so far this year.

Unilever, famous for Dove soap and Ben & Jerry's ice cream, has been looking for ways to build its exposure to India. It already has a majority stake in Hindustan Unilever. But upping that would be expensive, with shares in the Mumbai-listed subsidiary currently trading at 53 times prospective earnings. The sky-high valuation reflects the promise of India's swelling middle class. Hindustan Unilever's domestic consumer sales grew 12% in 2017—around three times the rate of its parent.

The catch is higher exposure to **volatile** emerging-markets currencies. The Indian rupee has depreciated 10% so far this year against the dollar, in which many commodities Unilever buys are priced. With the U.S. Federal Reserve showing no sign of deviating from its policy of raising interest rates, the pressure may continue. A related risk is that consumer spending could stall if central banks in emerging markets have to keep raising interest rates to support their currencies.

With growth slowing in their more mature home markets, though, consumer companies are happy to stomach emerging-market risk.

Document WSJO000020181128eebs002ut

THE WALL STREET JOURNAL.
U.S. EDITION

Business News: A Glut of Steel in China Has Walloped Iron-Ore Prices

By Rhiannon Hoyle
568 words
28 November 2018
The Wall Street Journal
J
B5
English

Prices of iron ore, the main ingredient in steel, have hit four-month lows as Chinese steel mills try to cut costs in a saturated market.

Even as economic growth slowed to a post-financial-crisis low, they have continued pumping out record amounts of steel, helping send steel prices in China down by roughly one-fifth since midyear. And supply seems likely to remain robust: It is becoming clearer that winter steel-plant shutdowns to curb smog will be less severe than earlier anticipated.

For a typical Chinese mill, BMO Capital Markets analysts estimate, margins are the narrowest in roughly 18 months. "Steel companies aren't making much money," said Helen Lau, an analyst at Argonaut Securities.

So they are negotiating harder -- demanding cheaper ore or delaying purchases.

Ore's spot price -- the price of ore for immediate delivery -- has tumbled to about $64.75 a metric ton, according to S&P Global Platts. That is off roughly 14% from the start of last week and down from as high as $77 a ton earlier this month. The price is now nearing its 2018 nadir of around $63, recorded in July. Major iron ore producers include big miners such as Vale SA, Rio Tinto PLC and BHP Group Ltd.

Iron ore initially held up even as steel prices slid: Mills were buying more ore, demand traders figured would prove sustainable, say analysts. But with the arrival of winter in China -- typically a season of lower demand for iron ore -- and steel prices still falling, "the market has all of a sudden had to price in the outlook," said Ms. Lau.

China makes more than half of the world's crude steel, the raw form of the industrial alloy. Its output in October was up by more than 9% from a year earlier, industry data show, outpacing the global increase of less 6%.

Chinese oversupply has been a source of tension with the U.S., and China was the key target of the 25% tariffs on steel imports the Trump administration levied in March.

To some extent, iron ore is catching up with other industrial commodities hit by concerns about slowing global growth. The price of copper, a metal also used widely in construction and manufacturing, has fallen 16% from a four-year high in June. **Oil prices** have tumbled too.

Shares in ArcelorMittal, the world's largest steel producer, hit a 17-month low this week.

Iron-ore prices remain some way above the sub-$40 lows registered in late 2015, when concerns that China's economy was heading for a hard landing coincided with a flood of new supplies on the market.

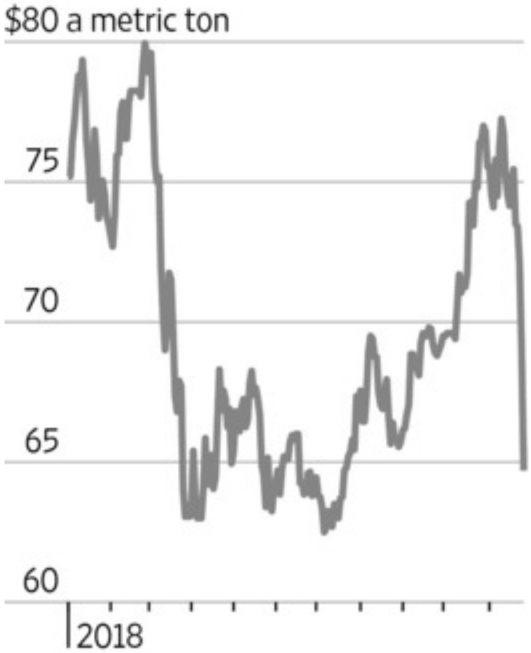
But they could fall further unless Chinese steel prices rise and lift steelmakers' profits, say analysts including Ms. Lau at Argonaut and Vivek Dhar at Commonwealth Bank of Australia.

The meeting between President Trump and President Xi Jinping of China, planned for the coming Group of 20 summit in Buenos Aires, could also affect the market. China's economy would benefit if the U.S. relents on current or planned tariffs.

Or Beijing could try to offset the effect of those tariffs by cutting taxes, stepping up infrastructure investment or loosening monetary policy -- which could all help support iron ore.

Retreat

Prices for iron ore, the key ingredient in steel, have plunged as steel mills' profits have shrunk.



Source: S&P Global Platts

THE WALL STREET JOURNAL.

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THE WALL STREET JOURNAL.
U.S. EDITION

World News: Price Fall Weighs On OPEC

By Summer Said and Benoit Faucon
532 words
28 November 2018
The Wall Street Journal
J
A8
English

With crude prices down nearly a third in less than two months, officials in many OPEC countries say the need for collective action to halt the **oil price** rout outweighs the risk of riling a U.S. president who has publicly accused them of plotting to keep prices high.

"It is in their economic self-interest to cut production," said Helima Croft, chief commodities strategist at Canada's RBC.

Before the global benchmark **oil price** tumbled to nearly $60 a barrel, President Trump had bent OPEC and its allies into inaction over what to do about falling prices. But the strategy has hit a breaking point: For many OPEC countries, the price of oil is now far lower than what officials need to balance national budgets.

These concerns will weigh on delegates to the Organization of the Petroleum Exporting Countries as they determine the global alliance's course for 2019 at a meeting in Vienna next week.

Oil producers need to look at "how to mitigate pressure from Trump," said one Persian Gulf OPEC official. "We also need to look at our economy and we do need to make sure prices won't collapse," he said.

The Saudis in particular want to avoid offending Mr. Trump because Riyadh fears U.S. sanctions over the killing of journalist Jamal Khashoggi by the kingdom's operatives.

As a compromise, Saudi Arabia and OPEC have been inching toward a production cutting plan that would retain official output targets, first set in 2016, but would imply a production pullback because Saudi Arabia is overproducing by nearly one million barrels a day, The Wall Street Journal reported Friday.

But OPEC officials said that while no decision had been made about how any reductions would be carried out, Friday's price crash is turning them into a necessity.

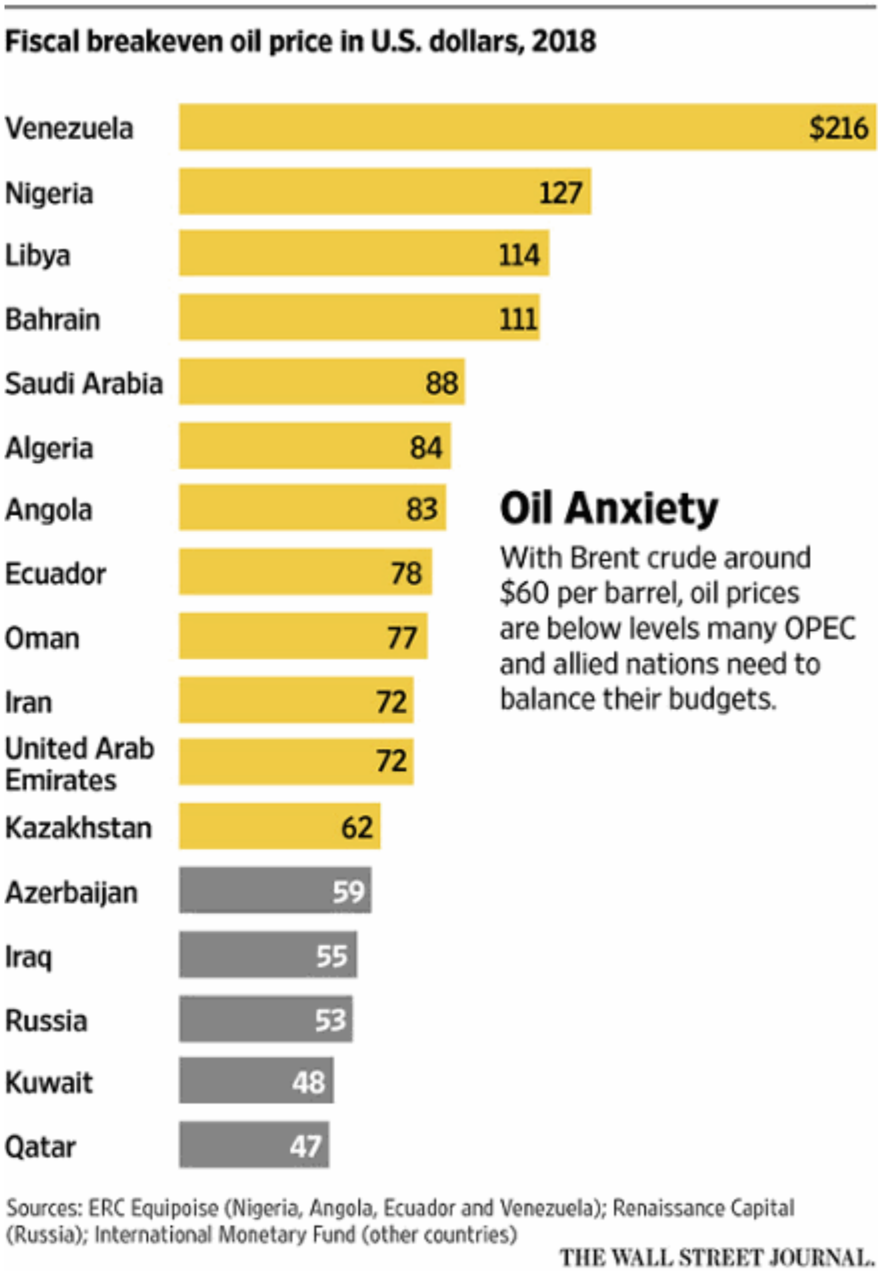
Oil producers have been coy about plans to reduce their production amid Mr. Trump's public chiding on Twitter and private threats made to Saudi Arabia that he would back legislation aimed at making OPEC an illegal cartel. They also have been concerned that any price increase might benefit rival U.S. producers.

Lofty social spending plans throughout the Gulf region hang in the balance. Brent crude **oil prices** fell by 7% a barrel on Friday to as low as $58 a barrel. Saudi Arabia, with a young population and an aim to wean its economy off oil, needs $88-a-barrel oil to balance its budget.

The United Arab Emirates, its Persian Gulf ally, requires a $71 price tag, according to the International Monetary Fund. At current prices, Iraq, Kuwait and Qatar would be the only key producers in the cartel balancing their budgets.

The 15-nation cartel, along with 10 Russia-led allies, is set to decide at meetings on Dec. 6 and 7 how much oil it should produce next year.

The Saudis have been pumping one million barrels a day above their target after Mr. Trump pressured the country into ramping up oil production to record levels ahead of the sanctions on Iran's petroleum industry.



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THE WALL STREET JOURNAL.
U.S. EDITION

Investors Prepare for Another Brexit Surprise as Vote Approaches

By Philip Georgiadis and Paul Hannon
581 words
28 November 2018
The Wall Street Journal
J
B13
English

When it comes to Brexit, markets now have a new date to obsess over: Dec. 11.

That is when the U.K. Parliament is set to vote on Prime Minister Theresa May's divorce agreement to leave the European Union. If the vote passes, then the U.K. is well on the road to an orderly departure from the bloc.

If the vote fails, a range of outcomes can come next, including a second parliamentary vote, a disruptive, unmanaged exit, or even a second national referendum that could end with the U.K. keeping its EU membership. There is also the possibility of a general election.

Markets got the original Brexit referendum vote spectacularly wrong in June 2016, with the pound falling 13% in the days surrounding the vote. It was a surprise that reverberated across global markets, as investors fled to Treasurys and the dollar rallied.

This time around, investors seem to be more on the side of expecting the parliamentary vote to fail -- at least in the first round. The pound, seen as a barometer on the orderliness of Brexit talks, hasn't rallied with any gusto in recent weeks despite a succession of announcements that a draft deal was imminent. It remains at historically weak levels.

"The chance of it passing has got to be less than 50%," said Rupert Harrison, a portfolio manager at BlackRock and former senior U.K. Treasury official.

Mrs. May needs a simple majority for the deal to pass, but parliamentary math suggests she has her work cut out. Dozens from her own Conservative Party have indicated they could vote against the deal. She governs with a slim 13-vote working majority, helped along because of a political deal with a small Northern Irish party that has also voiced skepticism surrounding the agreement.

Some Conservative politicians have floated the notion that a "no" vote on Dec. 11 will spark enough of a market move to spook politicians into changing their votes on a second try, which could happen within 21 days of the first vote.

But it isn't clear that British markets, even if they do become **volatile**, will move in a way that pressures politicians. The pound's sharp fall after the 2016 vote did little to alter the political landscape.

One reason is that falling sterling actually makes the benchmark U.K. **stock market** go up. The FTSE 100 is packed with multinational firms that earn revenue in dollars and benefit from a weaker pound.

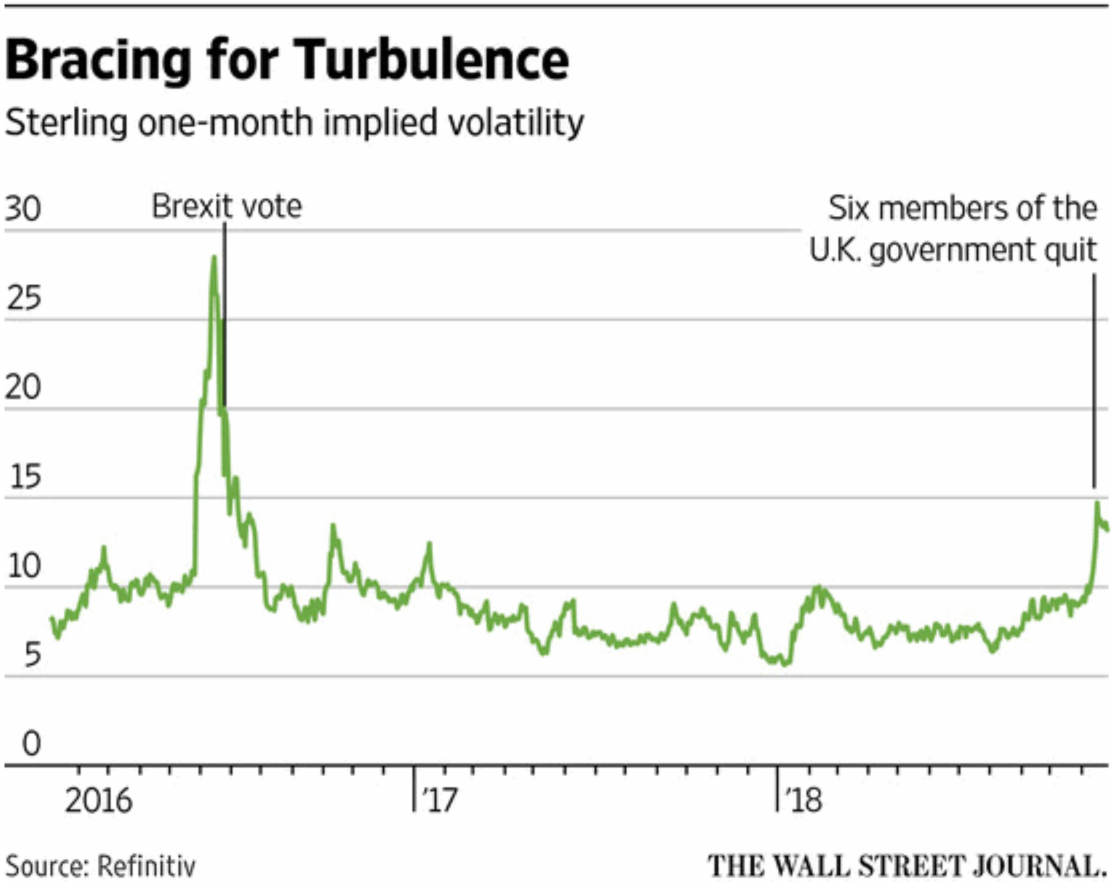
The bond market, arguably more important given its direct influence on government finances, has proved resilient throughout the Brexit process. Yields on U.K. sovereign debt, known as gilts, fell on the night of the Brexit vote, even as sterling and global stocks swooned.

"The more uncertainty we face the more we have seen there will be downward pressure exerted on gilts yields," said Ann-Katrin Petersen, investment strategist at Allianz Global Investors.

Some are also worried that the "no" vote margin in Parliament will be so overwhelming that a second vote won't even be considered.

That leaves a "yes" vote as possibly the biggest surprise for markets. A "yes" vote could trigger **volatility** of its own as investors look to cover **bearish** hedges.

Whatever the result of the vote, its passage through the typically quiet festive season could exacerbate moves.



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WSJ PRO CENTRAL BANKING

Economy

Derby's Take: Clarida Reflects on What He Thought About Fed Before Joining It; Vice chairman says that 'there are a lot more moving parts than I think I appreciated as an academic'

By Michael S. Derby
431 words
28 November 2018
05:30 AM
WSJ Pro Central Banking
RSTPROCB
English

For new central-bank Vice Chairman Richard Clarida, the Federal Reserve has turned out to be a bit like an iceberg: There's the small part you see above the water, and the even bigger part that lurks beneath the waves.

For Mr. Clarida, the most visible part, and his main focus, was what the Fed did with interest rates. But now he knows from personal experience there's a lot more going on.

"The luxury I had as an academic, or a Fed watcher, was just to sort of to focus on just one aspect of what the Fed does, which is setting the policy rate and the path of the policy rate," Mr. Clarida said Tuesday at banking conference in New York.

"Now that I'm inside the building, I now realize the range of other important policy decisions the Fed has to make, in particular, as they involve regulation, liquidity and **financial markets**, the transmission of policy. So there are a lot more moving parts than I think I appreciated as an academic."

Mr. Clarida joined the Fed as its second-in-command in September after a long career in academia, the financial industry and government. He came to the Fed from Columbia University and spent many years at investment firm Pimco.

It's not surprising that those outside the Fed tend to think of the central bank mostly in terms of its most visible role, which is the setting of short-term interest rates. Influencing the economy's momentum via changes in short-term borrowing costs is the Fed's main mission, and a natural focus for anyone interested in its activities.

But since the Great Recession, there has been a greater awareness in the economics community about the role the financial sector plays in the economy, and the Fed itself has taken that to heart in its policy deliberations. Also, Fed leadership roles come with more administrative responsibilities than many outsiders are aware of.

Mr. Clarida said that, even as he knows he will have to work on a variety of issues, his main focus still will be on making and communicating monetary policy. He added that he already is working regularly with Randal Quarles, the Fed's vice chairman for supervision who concentrates on regulatory issues.

Write to Michael S. Derby at michael.derby@wsj.com

Document RSTPROCB20181128eebs00001

The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
Markets Teeter, but Add to Previous Gains

By THE ASSOCIATED PRESS
1,042 words
28 November 2018
The New York Times
NYTF
Late Edition - Final
2
English

Stocks wobbled Tuesday as large high-dividend stocks rose and smaller companies sank. Major indexes were coming off big gains the day before.

Big health care companies including Johnson & Johnson rallied, as did telecommunications and household goods makers. Steel and other materials makers skidded, and a steep loss for United Technologies pulled defense contractors lower.

Technology companies rose even though President Donald Trump said he expects more tariffs on goods imported from China, some of which would hit products like computers and smartphones. Trump is scheduled to meet with Chinese President Xi Jinping during the Group of 20 summit in Argentina later this week.

"It is not unexpected that the administration would ramp up their threats moving into that meeting," said Tracie McMillion, head of global asset allocation for the Wells Fargo Investment Institute. She said trading will probably be **volatile** for the rest of the week, but stocks are likely to rise if the two sides are able to strike even a very general agreement.

The **S&P 500 index** rose 8.72 points, or 0.3 percent, to 2,682.17. The index jumped 1.6 percent Monday. The **Dow Jones Industrial Average** added 108.49 points, or 0.4 percent, to 24,748.73. The **Nasdaq composite** inched up 0.85 points to 7,082.80 after surging 2.1 percent a day earlier.

With two months of **volatility** on investors' minds and more likely to come, Wall Street gravitated toward safer, high-dividend communications, utility and consumer goods companies. Verizon gained 2.5 percent to $60.65, Public Service Enterprise Group climbed 1.5 percent to $54.29 and cigarette maker Altria Group rose 1.1 percent to $53.79 as tobacco companies recovered some of their recent losses.

Smaller companies, especially in heavy industry and retail, took steeper losses. The Russell 2000 index of smaller-company stocks slid 13.10 points, or 0.9 percent, to 1,492.86.

Those companies made big gains at the end of 2017, when Republicans passed a corporate tax cut. The Russell 2000 set a record high in late August but is now down 2.8 percent for the year.

"Later in the (economic) cycle, the cost of borrowing impacts small businesses," said McMillion. "Not being able to hire the labor that they need to continue to grow could be a factor in that as well."

United Technologies said it will split into three companies now that it has finished its purchase of aviation electronics maker Rockwell Collins. The company's aerospace and defense industry business will keep the United Technologies name, while its Otis elevator business and Carrier air conditioner and building systems unit will become separate companies.

Investors weren't impressed with the company's forecasts for Rockwell Collins. United Technologies also said it doesn't expect to buy back any more of its stock during the breakup, which could take up to two years. The stock fell 4.1 percent to $122.68.

Other defense companies also dipped. Northrop Grumman fell 2.1 percent to $260.34 and Raytheon gave up 1.7 percent to $171.67.

Spirit Airlines surged 15.3 percent to $58.76 after it forecast a big jump in revenue in the fourth quarter. Investors were hopeful that other airlines might see similar gains. Delta climbed 2.8 percent to $58.31 and United Continental picked up 1.8 percent to $93.38.

Trump told the Wall Street Journal late Monday that he expects to raise tariffs on $200 billion in Chinese imports on Jan. 1. His administration recently imposed a 10 percent tax on those imports, and at the start of the year that's scheduled to rise to 25 percent. Trump also threatened again to place tariffs on all remaining U.S. imports from China.

The administration's tariffs have driven up costs for many businesses, but consumers haven't felt as much of a sting. Another round of tariffs on products like laptops and computers would change that.

Apple slipped 0.2 percent to $174.24. Its stock has fallen 25 percent since early October, wiping out about $270 billion in value and leaving Apple and Microsoft essentially tied as the most valuable publicly traded companies in the world. Microsoft edged ahead a few times during the day, but at the close of trading investors valued Apple at about $827 billion and Microsoft at $822 billion.

Microsoft rose 0.6 percent to $107.14. The company hasn't done any worse than the rest of the **stock market** in October and November, and for technology companies, that's been an unusually good result.

Benchmark U.S. crude fell 0.1 percent to $51.56 a barrel in New York. Brent crude, the international standard, lost 0.4 percent to $60.21 a barrel in London.

Wholesale gasoline lost 1.5 percent to $1.42 a gallon and heating oil slipped 0.4 percent to $1.89 a gallon. Natural gas edged up 0.4 percent to $4.26 per 1,000 cubic feet.

Bond prices edged higher. The yield on the **10**-**year Treasury** note fell to 3.06 percent from 3.07 percent.

Gold fell 0.7 percent to $1,213.40 an ounce. Silver declined 0.9 percent to $14.08 an ounce. Copper sank 1.7 percent to $2.71 a pound.

The dollar edged up to 113.79 yen from 113.64 yen. The euro felt to $1.1296 from $1.1328.

Germany's DAX fell 0.4 percent and the British FTSE 100 slid 0.3 percent. In France, the CAC 40 lost 0.2 percent.

Japan's benchmark Nikkei 225 added 0.6 percent and South Korea's Kospi rose 0.8 percent. Hong Kong's Hang Seng gave up 0.3 percent.

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

The New York Stock Exchange, which saw a shift to high-dividend stocks. (PHOTOGRAPH BY JUSTIN LANE/EPA, VIA SHUTTERSTOCK) CHART: The **S&P 500 Index**: Position of the **S&P 500 index** at 1-minute intervals on Tuesday. (Source: Refinitiv)

Document NYTF000020181128eebs0005g

The New York Times

Foreign Desk; SECTA
Trump Signaling New Willingness For China Truce

By MARK LANDLER, GLENN THRUSH and KEITH BRADSHER; Mark Landler and Glenn Thrush reported from Washington, and Keith Bradsher from Beijing.
1,712 words
28 November 2018
The New York Times
NYTF
Late Edition - Final
1
English

WASHINGTON -- President Trump is projecting a steely facade as he prepares for a critical meeting on trade this weekend with President Xi Jinping of China. But behind his tough talk and threats of higher tariffs is a creeping anxiety about the costs of a prolonged trade war on the **financial markets** and the broader economy.

That could set the stage for a truce between the United States and China, several American officials said, in the form of an agreement that would delay new tariffs for several months while the world's two largest economies try to work out the issues dividing them.

Such an outcome is not certain. Administration officials have expressed deep disappointment with China's response to Mr. Trump's pressure so far, characterizing it as a list of proposals, transmitted in Chinese, which they say would do little to curb China's theft of American technology or address its other predatory trade practices.

But Mr. Trump has signaled a new willingness to make a deal with Mr. Xi, a leader he has treated solicitously and will meet over dinner on Saturday in Buenos Aires, after a summit meeting of leaders of the Group of 20 industrialized nations.

The gyrations in the **stock market**, the rise in interest rates and thousands of layoffs announced by General Motors this week have all rattled Mr. Trump, officials said, fueling his desire to emerge from his meal with Mr. Xi with something he can claim as a victory.

''There's a good possibility that we can make a deal, and he is open to it,'' Mr. Trump's chief economic adviser, Larry Kudlow, said Tuesday. But if the meeting failed to produce a breakthrough, he said, Mr. Trump was ''perfectly happy to stand on his tariff policies.''

At the moment, the administration plans to raise existing tariffs on $250 billion worth of Chinese goods, to 25 percent from 10 percent, on Jan. 1. Mr. Trump has also threatened to impose tariffs on an additional $267 billion of Chinese goods -- a step many fear would plunge the two giants into a full-fledged economic Cold War.

If the two leaders agree to talks, however, officials said Mr. Trump would most likely postpone the increase to 25 percent and hold off on any new tariffs. That would be similar to a deal he struck last July with the European Union, in which he agreed to delay auto tariffs in return for a pledge by Europe to buy American soybeans and natural gas.

The divisions inside the West Wing over trade remain fierce, as they have since the beginning of Mr. Trump's presidency, and the contest for Mr. Trump's ear will most likely continue until the moment he sits down with Mr. Xi in Argentina.

More mainstream advisers like Mr. Kudlow and the Treasury secretary, Steven Mnuchin, are urging him to compromise, while hard-liners like Peter Navarro, the director of the White House trade office, argue that he should keep ramping up the pressure on China until it folds.

Mr. Navarro, a favorite of Mr. Trump's, had initially been excluded from the trip to Argentina, which led some to conclude that the hard-liners had lost ground. Mr. Trump also sided against Mr. Navarro after Mr. Kudlow took a shot at him on television. But the United States trade representative, Robert Lighthizer, has since authorized Mr. Navarro's travel, raising the prospect that he will be on hand to encourage Mr. Trump to play hardball.

For Mr. Lighthizer, a veteran trade lawyer who has sued China for flooding the American market with cheap steel, the negotiations present an opportunity to drive a hard bargain.

But he also sees the meeting between Mr. Trump and Mr. Xi as a potential danger, especially if Mr. Trump opts for a quick handshake deal that would delay or scrap the new tariffs in hopes of buoying jittery markets, according to people familiar with his thinking.

Mr. Lighthizer also faces a challenge from Mr. Mnuchin, who has made it clear that he views himself as the nation's chief negotiator, according to administration officials. Mr. Navarro, people who know him say, regards Mr. Mnuchin as one of the circle of "globalists" pressuring Mr. Trump to abandon his promise to crack down on China.

Another American official said the major internal debate now was over the scope of a compromise Mr. Trump could offer Mr. Xi: postponing the increase in tariffs to 25 percent, plus the $267 billion in new tariffs -- or only the new tariffs.

That underscores how much Mr. Trump's position has changed from a few months ago, when he announced sweeping tariffs on China, asserted the Chinese were not yet ready to negotiate an agreement and declared that trade wars were "easy to win." Only two weeks ago, disagreements between China and the United States over trade scuttled attempts to produce a joint communiqué after an Asian economic meeting.

Mr. Trump is acutely aware of the threat an economic downturn poses to the foundation of his presidency. That has made him receptive to the counsel of moderates like Mr. Mnuchin and Mr. Kudlow, as well as outsiders like the Wall Street financier Stephen A. Schwarzman who have been warning him he will be blamed for job losses, market losses and other economic damage from a prolonged trade war with China.

On Tuesday, Mr. Kudlow deflected questions about the depressing effect of trade tensions on the markets. He argued that the tariffs affected only a fraction of the American economy, which is still showing robust growth in jobs and incomes. And he said the negative effect had been much greater in China.

"I'm not suggesting that there aren't winners and losers in that game," Mr. Kudlow said. "But on the other hand, I think we are in far better shape to weather this than the Chinese are."

In China, where growth is slowing and the **stock market** has swooned, the government is mulling a broad cut in import tariffs that would lower trade barriers for companies around the world, including those in the United States, people briefed on Beijing's thinking said.

But the American demands could be a major sticking point. Chinese leaders are reluctant to accept any permanent American tariffs on Chinese goods, fearing that such a compromise would be seen at home as a sign of weakness.

Until now, the two sides have been mostly talking past each other. Chinese officials have expressed puzzlement to visiting Americans about why the administration has not responded to the 142-point list of proposals they sent to the United States. Mr. Kudlow said that once his colleagues translated it into English, they discovered there was little new there.

"We can't find much change in their approach," he said. "What's the timetable? What's the enforcement mechanism?"

For all the turbulence, Mr. Lighthizer is resolved to make the best of the situation, according to people who have spoken to him in recent days. That is in part because Mr. Trump is still pleased he was able to secure a new North American Free Trade Agreement deal before the summit meeting.

But even that deal has hit a pothole. Prime Minister Justin Trudeau of Canada remains in a standoff with Mr. Trump over Canada's demand that the United States remove steel and aluminum tariffs as part of the new treaty.

Mr. Trudeau has yet to confirm to American officials that he will attend the ceremonial signing of the agreement in Buenos Aires with Mr. Trump and Enrique Peña Nieto, the outgoing president of Mexico. Mr. Trudeau could end up delegating that task to a subordinate, according to two people with knowledge of the situation, a snub that could aggravate tensions with Mr. Trump.

Mr. Trump will also have to mollify another bruised ally, Britain, after he told reporters on Monday that the departure agreement Prime Minister Theresa May negotiated with the European Union might bar Britain from trading with the United States. Mr. Kudlow said Mr. Trump was referring to a provision in the deal that he said could prohibit Britain from negotiating a separate free-trade agreement with the United States.

British officials said there was nothing in the agreement that prohibits Britain from negotiating a bilateral trade deal with the United States -- or anybody else. They expressed bafflement that Mr. Trump, an avowed supporter of Brexit, would seek to sabotage the most realistic path of negotiating Britain's departure.

Mr. Trump's outburst on Brexit underscored his unpredictability -- the same quality he will take into his meeting with Mr. Xi. Chinese and American officials both recognize the value he places on grand bargains, reached after direct leader-to-leader negotiations.

Aside from the dinner, Mr. Kudlow said there were no plans for any other meetings between Chinese and American officials. But Mr. Trump's aides have tried, in different ways, to prepare the ground for the meeting with Mr. Xi.

Mr. Mnuchin, who has generally been loath to challenge Mr. Trump directly, views the negotiations with China as critical and sees the fallout from the trade war as a threat to his legacy, according to a person familiar with his thinking.

At times, several officials said, the Chinese have sought to avoid Mr. Lighthizer in favor of Mr. Mnuchin, who communicates regularly with Mr. Xi's top trade official, Liu He. While Mr. Mnuchin shares Mr. Lighthizer's view that the tariffs are driving China to the bargaining table, he has told Mr. Trump that he thinks the time has come to reduce exposure to the "**volatility**" of markets reacting to the tensions, according to several officials.

President Trump will meet with President Xi Jinping, a leader he has treated solicitously, over dinner after a G-20 summit meeting. (PHOTOGRAPH BY DOUG MILLS/THE NEW YORK TIMES) (A1); President Trump will meet with President Xi Jinping, a leader he has treated solicitously, over dinner after a G-20 summit meeting. (PHOTOGRAPH BY DOUG MILLS/THE NEW YORK TIMES) (A7)

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THE WALL STREET JOURNAL.
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Fed Gets Harder to Predict On Rates --- Officials are likely to tie moves to short-term data in 2019, posing new risks for investors

By Nick Timiraos
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English

Federal Reserve officials are moving into a more unpredictable phase of policy-making after two years of removing economic stimulus in regular, quarterly intervals.

They will be deciding whether and when to raise interest rates more on the basis of the latest signs of economic vigor -- such as in inflation, unemployment and growth -- and less on forecasts of how the economy is expected to perform in the months and years to come, they have indicated in interviews and public comments.

This approach could mean increased uncertainty for markets about the likely path of interest rates more than a few months or even weeks ahead.

Most Fed officials in September penciled in one more rate increase this year, which is expected when they meet Dec. 18-19. But their outlook for next year is wide open: They were about evenly split between whether to raise rates two, three or four times.

This phase follows many years in which the policy path was more straightforward. The Fed held its benchmark federal-funds rate near zero for seven years after the financial crisis, an extraordinary period of easy money aimed at supporting the wobbly recovery. Policy makers lifted the rate once in 2015 and once in 2016, as the expansion firmed.

As the economy strengthened, they continued tightening policy, hitting a quarterly stride in 2017. They have raised the rate three times this year, most recently in September to a range between 2% and 2.25%.

This has moved the rate closer to a level most officials expect is appropriate for a healthy economy, a so-called neutral setting designed neither to spur nor slow growth. Many Fed officials see this at around 2.75% or 3%.

But because they aren't sure where neutral lies, they are looking for clues in markets and economic data that might suggest whether this point might be higher or lower.

Fed Chairman Jerome Powell recently compared the task to walking through a room full of furniture when the lights go out. "What do you do? You slow down. You stop, probably, and feel your way," he said earlier this month. "It's not different with policy."

The Fed has been raising rates to prevent the growing economy from fueling excessive inflation or dangerous asset bubbles.

"Raising rates too quickly could unnecessarily shorten the economic expansion, while moving too slowly could result in rising inflation and inflation expectations down the road that could be costly to reverse, as well as potentially pose financial-stability risks," said Fed Vice Chairman Richard Clarida in a speech Tuesday.

Fresh economic data should determine not only how the Fed's rate-setting committee plots individual rate moves at each meeting, but it should also produce regular reappraisals of two key policy signposts, he said. The first is the neutral rate of interest, and the second is the unemployment rate consistent with stable inflation.

The Fed's policy of gradually raising interest rates "will allow the Fed to accumulate more information from the data about the ultimate destination for the policy rate," Mr. Clarida said.

Mr. Powell also noted the risk of relying too much on data that are revised frequently and that can be slow to flag shifts in the broader economy. He said he also likes to consider anecdotal reports from businesses that convey a sense of the economy's strength.

"You pick things up sooner talking to business people because they start to feel it, and then it shows up in the data," Mr. Powell said.

The new phase carries some risks for investors seeking to understand the Fed's intentions. Last month, for example, Mr. Powell rattled markets when he played down the debate over whether the Fed would raise rates above neutral, saying the concern was premature. Rates are "a long way from neutral at this point, probably," he said at an event in Washington.

Even though the substance of Mr. Powell's comment largely reflected many Fed officials' public projections, some analysts said his tone reflected greater conviction to raise rates. That contributed to a bond-market selloff that was already fueled by strong U.S. economic data boosting expectations of Fed rate increases. Rising bond yields, in turn, helped send the **stock market** on a wild ride.

Officials have ample opportunities in the coming days to clarify how recent market turmoil has affected their economic outlook. Mr. Powell is scheduled to speak in New York on Wednesday and testify on Capitol Hill next week. New York Fed President John Williams is to speak on Friday.

Another factor making the Fed's policy-setting less predictable in 2019 is its increased flexibility to adjust rates eight times a year, instead of four, because Mr. Powell will convene a news conference after every meeting. In recent years, the Fed made major policy changes only at meetings followed by news conferences, which occurred quarterly.

"All meetings are live now. There's no question about it now," Mr. Powell said earlier this month.

The biggest source of policy uncertainty is the U.S. economy itself. Although most Fed officials expect it to slow next year, they don't know how smooth or bumpy the process will be, and how the economy will react to the continued withdrawal of monetary stimulus.

Already, rising interest rates have slowed the housing sector.

The pace of global growth is projected to slow next year, and trade tariffs could pose bigger headwinds for U.S. exporters.

Meanwhile, in the U.S., one key tailwind is set to fade because recently enacted federal spending increases expire in less than one year.

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Banking & Finance: Silicon Valley's Stock Exchange Stalls --- SEC official says plan for startups could entrench power of early investors

By Dave Michaels and Alexander Osipovich
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The Wall Street Journal
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B12
English

Silicon Valley's plan to build a better stock exchange for the nation's hottest startups hit a snag earlier this year when a member of the Securities and Exchange Commission opposed it, people familiar with the matter said.

The Long-Term Stock Exchange -- a proposed new market backed by venture capitalist Marc Andreessen, LinkedIn co-founder Reid Hoffman and other tech luminaries -- was criticized by SEC commissioner Robert Jackson Jr. He questioned whether the exchange's model could entrench the power of founders and early investors in startup companies while hurting other shareholders, the people said.

The agency's approval is needed for major changes to how exchanges work, and any member can slow the process by calling for a full commission vote. Mr. Jackson's move overrode a decision by SEC staff to approve LTSE's rules for listing companies, the people said.

The exchange that joined with LTSE to advance its listing rules, IEX Group Inc., withdrew its proposal in August, after Mr. Jackson voiced his concerns but before the full commission could vote on it. LTSE had struck a partnership with IEX so it could launch its business more quickly and because it doesn't yet have a license to run a stock exchange.

An IEX spokesman said the firm withdrew the plan to give institutional investors more time to study LTSE's tailored rules. "While we have decided to end our work together, IEX continues to support LTSE's mission and focus on long-termism in the market," spokesman Gerald Lam said.

LTSE aims to be the only stock exchange to require "long-term voting," where shareholders accrue more voting power the longer they own stock. Backers say the model will allow companies to focus on strategic goals, limit pressure from investors demanding short-term results and encourage more startups to raise capital in public markets.

The plan has run into opposition from at least one regulator and investor group that think the structure looks too similar to dual-class stock arrangements, which allow founders to keep control of a company while diluting the power of regular shareholders.

LTSE founder and Chief Executive Eric Ries, author and startup guru, declined to comment on Mr. Jackson's criticism. He said LTSE's application to launch its exchange will be filed with the SEC before the end of the year. After that, the SEC would have a maximum of 240 days to approve or deny the plan. It isn't cear how the five commissioners, including Mr. Jackson, would vote on LTSE's exchange application, which would include many elements in addition to rules for listed companies. LTSE's backers say its proposal is different from dual-class stock structures, which the New York Stock Exchange and **Nasdaq** Inc. allow for newly public companies.

Mr. Jackson, a former law professor whose research examined corporate governance, in an interview last month declined to talk about LTSE's listing standards. But he expressed concern about "any voting structure that, over time, entrenches corporate insiders at the expense of ordinary investors." "Research has made clear that loyalty share structures often make it virtually impossible for investors to hold executives accountable," he said.

LTSE is funded by a range of Silicon Valley venture-capital firms, including Peter Thiel's Founders Fund, Andreessen Horowitz, SV Angel and Greylock Partners. It could benefit from a renewed interest in Washington to nurture public markets. President Trump in August asked the SEC to consider allowing public companies to report earnings every six months, instead of quarterly. Mr. Trump said the change would promote growth. "We are not thinking far enough out," he said.

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U.S. News: Consumers Show More Worry Over Economy

By Sarah Chaney
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English

A measure of confidence among American households fell in November from an 18-year high, driven by weaker expectations for the economy.

The Conference Board said Tuesday that its index of U.S. consumer confidence dropped to 135.7 in November from 137.9 in October, the highest level since 2000.

Even though confidence remains historically strong, the details of the report were mixed. A gauge of household assessments of the present economic situation nudged up in November, while an index tracking expectations for the future fell, possibly tied to recent **stock-market volatility**.

Economists say that favorable perceptions of the current situation, underpinned by upbeat views of the booming job market, bodes well for consumer spending this holiday season. But consumers' optimism and robust spending might not last, as the economy is flashing signs of a slowdown.

"Overall, consumers are still quite confident that economic growth will continue at a solid pace into early 2019. However, if expectations soften further in the coming months, the pace of growth is likely to begin moderating," said Lynn Franco, the Conference Board's director of economic indicators.

Some 22.5% of survey respondents in November said they expected business conditions to improve over the next six months, down from 26.3% in October. Meanwhile, a higher percentage of households expected business conditions to deteriorate.

Such a perspective is likely warranted, given forecasts that economic growth is set to slow, said Jim Baird, partner and chief investment officer for Plante Moran Financial Advisors, in a note to clients.

"With little evidence that a breakthrough is near on a trade deal with China, there is a growing likelihood of the implementation of additional tariffs and further ratcheting up of tensions in the near term, which would negatively impact business conditions," Mr. Baird said.

Rising interest rates also appear to be weighing on optimism. In the housing market, where prospective buyers face climbing mortgage rates, plans to buy a home in the next six months may be stagnating.

By some other measures, consumers appeared more upbeat. Americans expressed buoyant optimism about the job market and its plethora of employment openings, while their buying plans for major appliances continued to pick up after faltering earlier this year.

Still, some evidence points to growing concerns among American consumers. The University of Michigan's index of consumer sentiment fell in November, dragged down by consumers' negative perception of the **stock market**.

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World News: Macron Defends Energy Policy

By Noemie Bisserbe
349 words
28 November 2018
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A9
English

PARIS -- French President Emmanuel Macron rejected calls to abandon a new fuel tax that has drawn the ire of rural protesters, as he unveiled an energy policy that seeks to straddle demands from the environmentalist wing of his party and increasingly restive demonstrators.

Faced with two weeks of violent demonstrations across the country by protesters clad in yellow reflective safety vests, orgilets jaunes, Mr. Macron refused to back down on Tuesday, saying the government "shouldn't change course, because [the energy policy is] justified and necessary."

Mr. Macron struck a conciliatory tone in an attempt to blunt criticism from opponents who accuse him of an imperious style of governance. He extended an olive branch to the gilets jaunes by offering to reduce fuel taxes when global **oil prices** rise again.

Mr. Macron's speech highlights the challenges faced by the French president, caught between the gilets jaunes' growing anger against high carbon taxes and the push by the environmental wing of his party for cleaner energies.

With his approval ratings having fallen to as low as 26% recently, the strain on his coalition -- which includes free-market centrists, environmental activists and former Socialists -- is rising. That could jeopardize plans to roll out a pro-business agenda next year.

Many of the protesters are commuters residing in less-affluent suburban and rural areas, where housing tends to be more affordable and where many drive to work.

"To those who say: The president, the government, they talk about the end of the world, and we're talking about the end of the month, I hear you," said Mr. Macron.

The government won't backtrack on its plans for sizable increases in taxes on fuel; the tax on diesel will rise more than six euro cents a liter (about 26 U.S. cents a gallon) starting Jan. 1. But a new mechanism will reduce taxes when **oil prices** rise.

"I believe very profoundly that we can transform this anger into a solution," Mr. Macron said.

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Crude's Slump Spurs Jump in India Shares

By Saumya Vaishampayan
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English

Indian equities have emerged as some of the world's best performers over the past month. The rally has left the Nifty 50 index up slightly for the year.

This index has surged 6.5% in the past 30 days. Only Hong Kong's Hang Seng Index and Argentina's Merval have given the index a run for its money, with gains of 6.5% and 6%, respectively.

In dollar terms, the rally has been even stronger, as the previously struggling Indian rupee has rebounded.

The Nifty 50, which has a market value of nearly $1.1 trillion, according to Refinitiv, is a popular benchmark for India, as is the smaller S&P BSE Sensex. The Nifty 50 surged as much as 12% for the year in late August to records, before sliding nearly 15% in the subsequent two months.

The slump in crude prices has fueled the recent rebound in India's market, according to Suresh Tantia, an investment strategist at Credit Suisse in Singapore.

Companies that sell oil directly to consumers, such as Bharat Petroleum Corp., have benefited from stronger demand because of cheaper **oil prices**. That stock is up 22% in the past 30 days, making it one of the best performers in the Nifty, while Hindustan Petroleum Corp. shares are up 9% in the same period.

The swings have sent three-month realized **volatility**, a measure of recent swings in the market, to the highest in more than two years, according to Refinitiv data.

Politics should keep Indian shares active. Coming state elections could set the tone for next year's national election, according to DBS.

As trade tensions between the U.S. and China heat up, analysts have touted India as a place to hide because it doesn't rely on exports. Still, the connection between cheaper oil and higher stocks shows that India isn't completely isolated from global events.

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The Case for Pausing the Interest-Rate Climb

By Jason Furman
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A17
English

The Federal Reserve has done an outstanding job fulfilling its dual mandate of maximum employment and price stability. To keep the economy in this happy Goldilocks position, the Fed should hold off on raising rates at its December meeting and consider incoming data before deciding when -- or even whether -- to resume tightening.

For much of the postcrisis period, the Fed relied on forward guidance -- publicly committing not to raise the federal-funds rate without signaling a shift long in advance. This assured markets that short-term rates would stay near zero until there were clear, persistent signs that the economy had fully recovered. Yet even then the Fed was a poor predictor of its own behavior, frequently releasing "dot plot" forecasts that overestimated how early the rate increases would begin and how steep they would be.

The Fed's poor predictions of its own actions were actually a sign of the soundness of its decision making. Instead of sticking to a rigid plan, it changed course based on new developments, including unexpected headwinds from the global economy.

With interest rates in positive territory, forward guidance is no longer needed. Accordingly, Fed Chairman Jerome Powell has de-emphasized dot-plot forecasts, saying "We don't have the ability to see that far into the future, so I really wouldn't put a lot in that."

Certain strong economic indicators may encourage the Fed to stay the course of normalizing rates. The state of the labor market looks a lot like full employment, with the jobless rate near the lowest level on record, and employment for prime-age workers back to its prerecession rate. Workers are showing their confidence by quitting their jobs at high rates, and employers are posting record numbers of openings.

Wage growth has picked up but is still below the rates seen in the late 1990s. This slower growth is not necessarily evidence of a slack labor market. Productivity growth is running around 1%, compared with about 3% in the late 1990s, which explains lower wage growth. Recent wage gains have been fastest for workers in the bottom quintile. Overall, this is what a hot labor market looks like in an economy that still suffers from low productivity growth.

These factors underscore the importance of staying ahead of possible inflation, which is harder to counteract after it starts to accelerate. But that goal needs to be weighed against the possibility of accidentally preventing an extended period of high employment by raising rates too soon. Allowing lower-interest borrowing to continue could keep the economy steady, bringing more people back to the labor market and potentially raising real wages even higher.

The Fed's interest-rate increases earlier this year balanced this uncertainty in a reasonable way, keeping monetary conditions stimulative while taking care not to overheat. The Fed's plan to raise rates in December also looked reasonable three months ago -- but it looks much less reasonable now.

Since late August financial conditions have tightened substantially: The **S&P 500** is down 8%, long-term interest rates are up about 0.2 percentage point, and the trade-weighted dollar has strengthened by 2%. Collectively these changes are equivalent to about two federal-funds rate hikes. The Fed's governors might have thought in September that another increase would be needed by year's end, but they should acknowledge that the market beat them to it.

At the same time, the global economy is weakening. Germany and Japan posted negative growth rates in the third quarter; growth in China slowed to its lowest pace, on a year-over-year basis, since the global financial crisis; and last month the International Monetary Fund reduced its forecast for global growth in 2018 compared with its projection this summer. The Fed wisely slowed its normalization plan to accord with similar global economic tremors in 2015-16, and it should do so again at the coming meeting.

The biggest reason for caution is surprisingly low inflation. The core consumer-price index, which excludes the **volatile** food and energy components, has increased at a mere 1.6% annual rate since July. That's below the 2.3% it grew over the previous 12 months, and lower than most analysts expected when the Fed set out on its current course. This inflation slowdown is puzzling given the tightening labor market and rising wage growth, and it may prove transitory. **Financial markets**, forecasters and the public haven't revised down their predictions for inflation. But there would be little downside to the Fed waiting a few months to find out.

Looking forward, fiscal stimulus will be much smaller in 2019 than this year, and the trade war could take an increasing toll on growth. These facts aren't new, but information about how the economy responds to them will be, and it will be important to monitor this new data going forward.

John Maynard Keynes is reported, perhaps apocryphally, to have said that he was willing to change his mind when the facts changed. One reason the economy is so strong now is that the Fed has been willing to change its mind as the facts develop. That adaptability makes policy more predictable, not less, because it enables monetary policy to act as a hedge against economic developments.

It's time for the Fed's governors to remind us that they are not on a preset course dictated by hawks or by doves, but instead are acting like owls -- peering through the dark and updating their movements based on the latest scurryings of the mice.

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

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WSJ PRO CENTRAL BANKING

WSJ Pro

Reserve Bank of New Zealand Eases Mortgage Restrictions; The move signals rising confidence in stability of the country's banking sector

By James Glynn
275 words
27 November 2018
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English

SYDNEY, Australia—The Reserve Bank of New Zealand said Wednesday it would ease restrictions around access to mortgage credit. The move signals rising confidence about stability in the banking sector and about the debt burden being carried by consumers.

The changes to mortgage credit access will take effect January 1, 2019.

In a report on the stability of the country's banks, the RBNZ said both mortgage credit growth and house-price inflation have eased to more sustainable rates, reducing the riskiness of banks' new housing lending.

The RBNZ, which has responsibility for prudential regulation, said it would lower loan-to-value ratio restrictions on banks' new mortgage loans. The change effectively means borrowers can now access housing loans with smaller deposits.

"Risks to New Zealand's financial system have eased over the past six months, but vulnerabilities persist. In particular, households remain exposed to financial shocks due to their large mortgage debt burden," the RBNZ said.

While domestic risks have diminished, global financial vulnerability has risen, the central bank said.

"Significant buildups in debt and asset prices, and ongoing geopolitical tensions, overhang **financial markets**," the RBNZ said, adding that higher capital requirements are likely necessary for the country's banks.

"Our preliminary view is that higher capital requirements are necessary, so that the banking system can be sufficiently resilient whilst remaining efficient," it said. The RBNZ said it expects to reach a decision on the matter in December.

Write to James Glynn at james.glynn@wsj.com

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Global View
How American Fracking Changes the World

By Walter Russell Mead
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A15
English

The most important news in world politics this month isn't about diplomacy. Bigger than Brexit, more consequential than presidential tweetstorms, the American shale revolution is rapidly reshaping the global balance of power as energy prices plummet.

Until recently, observers expected American energy production to reach a plateau. A lack of pipeline capacity was expected to constrain output in the Permian Basin through 2020. Instead, shippers found ways to use existing pipelines more efficiently, and new pipelines were constructed faster than expected. U.S. crude-oil production is expected to average 12.1 million barrels a day in 2019, 28% higher than in 2017. Surging production has roiled world energy markets.

The biggest loser is Iran. Shale has been pummeling Tehran for some time. The economic benefits Iran hoped to gain from President Obama's nuclear deal were largely offset by the sharp 2016 fall in the price of oil. Now the pesky Permian is blighting Iranian hopes again. Rising American output made it easier for the U.S. to slap tough sanctions on Iran without risking a sharp rise in world energy prices. Low prices also reduce Iran's income from the oil it still manages to sell.

The next biggest loser is Russia. Oil is a key revenue source for the Kremlin. But the shale boom doesn't only pick Vladimir Putin's pocket; it also attacks his foreign-policy strategy.

Russia wants to control the world **oil price** and use that power to boost its diplomatic weight. Mr. Putin has two ways to influence the price of oil. The first is to increase geopolitical tensions. If threatening Ukraine or bombing Syria spooks traders and jacks up energy prices, Russia has a better hand in negotiations with Europe and the U.S.

Mr. Putin's second option is to cooperate with the Organization of the Petroleum Exporting Countries on price fixing. Building a closer relationship with Saudi Arabia over their common interest in inflated **oil prices** might loosen the kingdom's U.S. ties and generate lucrative commercial and arms deals for the Kremlin.

Shale disrupts both approaches. With supplies relatively abundant, energy markets can shrug off geopolitical shocks. The surge of American oil and gas also reduces the benefits of OPEC-Russia cooperation for both sides. Russia and OPEC can raise prices by reducing output, but that makes new drilling projects more profitable for American frackers. Cutting prices to starve the competition also doesn't work. Thanks to past pressure from OPEC and the innovation it forced on the industry, many wells in West Texas now break even at an **oil price** of $30 a barrel. That's not a price Russia can accept.

America's latest shale success is also bad news for the Gulf sheikhdoms. As their incomes fall, their control over the world's **oil price** diminishes, as does their ability to fund global Islamic movements. Meanwhile, their importance to the U.S. gradually declines while their military dependence on the U.S. and even Israel grows.

Closer to home, falling energy prices from the shale surge also strengthen America's hand. The pressure on Venezuela, a major oil producer, increases. The troubled Central American countries sending migrants to the U.S., energy consumers all, get an economic reprieve. Mexico may be pressured to pursue more business-friendly economic policies. More than a sixth of the Mexican government's revenue comes from energy; falling prices will force the incoming government to find ways to attract more foreign capital.

Europe, too, benefits from low energy prices. They are a relief in particular to French President Emmanuel Macron, whose government faced violent protests over the weekend over fuel taxes. Falling prices also offer relief to Italy. They might help Rome and Brussels reach a fiscal compromise.

Shale power is not, however, an unalloyed good for the U.S. China's energy-intensive manufacturing economy benefits substantially when energy prices fall. In a world with low prices, Beijing is in a better position to ride out a trade war. Recep Tayyip Erdogan's Turkey also benefits both from low prices and the weakness of its Middle Eastern neighbors.

Ever since the shale boom began, diplomats and politicians have underestimated its importance. The U.S. has regained the position it lost in 1973 as the world's largest oil producer, which it will likely hold through at least the 2040s. The consequences for energy markets and world politics will be far-reaching. Roughnecks in the American Southwest are doing more than most foreign ministries to change the world.

But the shale revolution isn't only an energy revolution; it's a technology revolution, enabled by advanced methods for oil prospecting and extraction. From the transistor to satellites, to the personal computer to the internet and now shale, it is America's innovation -- as much as its hard power and diplomacy -- that shapes world politics.

(See related letters: "Letters to the Editor: Fracking's Major Contribution to Cleaner Air" -- WSJ December 5, 2018)

Document J000000020181127eebr00017

THE WALL STREET JOURNAL.

Markets Main
Markets

OPEC Open to Risking Trump's Ire, Prompted by Budgets and Shale; Most of the cartel's nations risk steep deficits after oil-price crash

By Summer Said and Benoit Faucon
923 words
27 November 2018
10:47 AM
The Wall Street Journal Online
WSJO
English

With crude prices down nearly a third in less than two months, officials in many OPEC countries say the need for collective action to halt the **oil price** rout outweighs the risk of riling a U.S. president who has publicly accused them of plotting to keep prices high.

"It is in their economic self-interest to cut production," said Helima Croft, chief commodities strategist at Canada's RBC.

Before the global benchmark **oil price** tumbled to nearly $60 a barrel, President Trump had bent OPEC and its allies into inaction over what to do about falling prices. But the strategy has hit a breaking point: For many OPEC countries, the price of oil is now far lower than what officials need to balance national budgets.

Those concerns will weigh on delegates to the Organization of the Petroleum Exporting Countries as they determine the global alliance's course for 2019 at a meeting in Vienna next week.

Oil producers need to look at "how to mitigate pressure from Trump," said one Persian Gulf OPEC official. "We also need to look at our economy and we do need to make sure prices won't collapse," he said.

Oil producers have been coy about plans to reduce their production amid Mr. Trump's public chiding on Twitter and private threats made to Saudi Arabia that he would back legislation aimed at making OPEC an illegal cartel. They also have been concerned that any price increase might benefit rival U.S. producers.

Lofty social spending plans throughout the Gulf region hang in the balance. Brent crude fell by 7% a barrel on Friday to as low as $58 a barrel. Saudi Arabia, with a young population and an aim to wean its economy off oil, needs $88-a-barrel oil to balance its budget.

The United Arab Emirates, its Persian Gulf ally, requires a $71 price tag, according to the International Monetary Fund. At current prices, Iraq, Kuwait and Qatar would be the only key producers in the cartel balancing their budgets.

The 15-nation cartel, along with 10 Russia-led allies, is set to decide at meetings on Dec. 6 and 7 how much oil it should produce next year. The Saudis have been pumping 1 million barrels a day above their target after Mr. Trump pressured the country into ramping up oil production to record levels ahead of the sanctions on Iran's petroleum industry.

The Saudis need to avoid offending Mr. Trump in particular because Riyadh fears U.S. sanctions over the killing of journalist Jamal Khashoggi by the kingdom's operatives.

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As a compromise, Saudi Arabia and OPEC have been inching toward a production cutting plan that would retain official output targets, first set in 2016, but would imply a production pullback because Saudi Arabia is overproducing by nearly 1 million barrels a day, The Wall Street Journal reported Friday. But OPEC officials said that while no decision had been made about how any reductions would be carried out, Friday's price crash is turning them into a necessity.

Even, Russia, the top outside ally of the cartel, is showing increased flexibility in joining any new cuts. Moscow needs prices at only $53 a barrel to cover its spending but has said it favors them above $60 a barrel. Russian energy minister Alexander Novak said Monday that he plans to discuss a potential output cut in 2019 with domestic oil companies before the December meeting, the Prime news agency reported.

"Undoubtedly, we have discussed it, and we will discuss it," Mr. Novak said, about talks with the state-run producers that have generally opposed any new reductions.

Crucially, OPEC officials say a production cut would be unlikely to benefit rival U.S. producers. That is because the American benchmark, the West Texas Intermediate, is now below the average $55-a-barrel level needed by many producers to cover their costs.

On Friday, WTI traded for less than $51 a barrel at some points for the first time in more than a year and remained below $52 Monday, fueled by a homegrown growth in inventories.

Now, falling prices could force shale drillers—who fracture underground rock formations to release the oil and gas trapped inside—to moderate their growth in booming areas such as the Permian Basin in Texas and New Mexico, and the Bakken region of North Dakota.

That could provide a powerful reason for the U.S. president to keep quiet, say cartel officials. "Trump wants the price to go down. But what about the break-even of shale," said a Middle-Eastern OPEC official.

Middle Eastern cartel officials say, however, that the two-pronged threats posed by Mr. Trump and shale oil mean they won't push **oil prices** much above $70 a barrel. A Saudi oil official said while the kingdom will never officially admit it, "we want prices above $70 for sure." "We need at least $80 to be honest but that would evoke more pressure from Trump," he said.

Write to Summer Said at summer.said@wsj.com and Benoit Faucon at benoit.faucon@wsj.com

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THE WALL STREET JOURNAL.

Oil Markets
Markets

Why Oil Prices Took Such a Tumble—and What Comes Next; Investors and oil traders had a sudden rethink about how much oil would be pumped onto world markets. Rising inventories could weigh on prices.

By Sarah McFarlane and Pat Minczeski
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27 November 2018
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It was only at the start of October that analysts were wondering if oil would soon cost $100 a barrel. Then a trap door opened and **oil prices** have been in a rapid descent since, losing nearly a third of their value in about eight weeks, a wild slide that is reminding investors of the great **oil-price** collapse between 2014 and 2016.

Too Much Oil

What sparked the reversal? Investors and oil traders had a sudden rethink about how much oil would be pumped onto world markets in coming months. The main factors: booming U.S. output, more

Iranian oil supply being available than had been expected because of U.S. sanctions waivers, plus major producers Russia and Saudi Arabia ramping up production since the summer.

Inventories Rising

The surge in supply has reversed a key trend that underpinned the oil bull camp: inventories, or the amount of oil stored in tanks and on ships, looks to be rising again.

The International Energy Agency now predicts oil inventories will exceed their five-year average in Organization for Economic Cooperation and Development countries imminently. If they keep rising, that could put even more pressure on prices to fall the way they did in 2014, when inventories swelled.

High inventories are a headache for the Organization of the Petroleum Exporting Countries, which began cutting output in January 2016 to drain the last supply glut and stabilize prices. It worked for two years. But OPEC's efforts are now clearly starting to falter. This has fueled expectations that the cartel will agree to further cut output at its meeting on Dec. 6.

"There is a determination from Saudi and OPEC to target inventories to avoid a big build like it happened back then (2014-2016)," said Giovanni Serio, head of research at Vitol Group, the world's largest independent oil trader. "If OPEC continues to respond to fundamental conditions, we should be fairly confident that stocks are not going to explode."

America Pumping

The most recent glut has been centered in the U.S., where crude inventories have built up for nine consecutive weeks as output hit record levels. The U.S. is heading toward becoming a net energy exporter by 2023, according to the International Energy Agency. Weekly crude exports peaked at 3 million barrels a day in June this year, their highest level since a ban on exports was lifted in 2015, according to data published by the Energy Information Administration.

Supply Bottlenecks

America's rise to become one of the world's top crude producers has outpaced the infrastructure needed to export the oil. That has led to a divergence in the price of oil in the U.S., measured by West Texas Intermediate, the U.S.

benchmark **oil price**, which has suffered more than the global Brent benchmark, as stronger than expected U.S. supply weighed on prices.

More

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The two benchmark prices could converge late next year, however, after additional export infrastructure comes on line, especially in the Permian basin straddling Texas and New Mexico, enabling more of the country's barrels to hit the global market. Three major new pipelines are set to open, adding a combined capacity of about 1.8 million barrels a day that will be aimed at Corpus Christi, Texas, on the Gulf Coast, the largest export location for U.S. crude.

"Once the U.S. connects the Permian to the Gulf, that oil could move to the international market in regular larger volumes," said Harry Tchilinguirian, head of commodity market strategy at BNP Paribas.

Oil Price Drama

The recent collapse in the **oil price** has sparked higher **volatility** in the markets. Generally, there is an inverse relationship between **oil-price** direction and **volatility**—as prices fall, **volatility** rises. And prices are expected to remain **volatile** in the lead-up to the OPEC meeting in early December, when it will become clear whether the cartel is prepared to remove more oil from the global market.

OPEC members are "staring at what oil producers fear the most, huge inventory builds and price collapse," said Bob McNally, president of Rapidan Energy Group.

The fall in **oil prices** should follow through to gasoline, a welcome development for U.S. drivers. It could also give a boost to consumer spending and other parts of the economy.

Write to Sarah McFarlane at sarah.mcfarlane@wsj.com

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THE WALL STREET JOURNAL.

Heard on the Street
Markets
The Downside of a United Technologies Breakup; Splitting up gives the company more strategic flexibility but leaves its businesses more vulnerable to economic cycles

By Charley Grant
559 words
27 November 2018
11:18 AM
The Wall Street Journal Online
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English

In breaking itself up, United Technologies is trading one set of investment risks for another.

The company, fresh off the $23 billion acquisition of Rockwell Collins, said it plans to split itself into three businesses: Jet engines and flight-control systems, Carrier air-conditioning and heating business, and Otis elevators.

Chief Executive Greg Hayes had publicly weighed the potential benefits and drawbacks of a breakup for most of this year. Equity investors had pegged the odds of a breakup above 70%, analysts at Melius Research said in a note last month.

UTC shares sold off as much as 6% Tuesday. One explanation is investors had anticipated the breakup and were selling on the news. Another is that management made an unconvincing case why the businesses will be better off on their own rather than under the umbrella of a well-run conglomerate.

Splitting the company has a strategic merit to it: the three component businesses differ significantly in their profitability, capital needs and investment horizons and long-term growth opportunities. In theory each business will have more focused management and a more dedicated shareholder base.

A breakup is also fashionable at the moment, largely because of the disaster at General Electric, which has long been compared with UTC. Other sprawling businesses are doing the same thing: DowDuPont is planning to split itself into three companies, while Honeywell has announced several spinoffs since 2016.

Still, UTC strained a bit to explain the benefits for investors beyond the usual rhetoric about strategic and financial flexibility. Mr. Hayes offered an example on a conference call with analysts: the Otis elevator business would have chosen to preserve its market share in recent years by lowering prices, instead of opting to preserve its profit margins to benefit the larger UTC. That raises the question of future growth at Otis.

UTC also said that all three companies will have investment-grade balance sheets, and the aggregate dividend payment shareholders receive will remain at least constant. Otis, with about $12 billion in annual sales, could one day be a buyout target, which should help boost valuations, though Carrier could run into antitrust issues with any big deal.

The decision to break up does come with some drawbacks for investors, however. Under UTC, the dependence of the Carrier and Otis businesses on the cyclical real-estate markets has been cushioned by the less **volatile** aerospace operations. For instance, UTC shares sold off sharply, but recovered fairly quickly from China-related weakness in the Otis division back in 2015.

Carrier is also vulnerable to trade disruptions. Carrier has raised prices several times this year to offset the impact of tariffs on steel and aluminum, Mr. Hayes said in a CNBC interview.

Mr. Hayes and UTC have earned the trust of investors to pursue such a bold move, and it is likely that the breakup will succeed in the long term. But the deal will increase the focus on the individual businesses, not always in the most flattering way. The breakup, which will cost as much as $3 billion, shouldn't leave investors pining for the good old days of UTC.

Write to Charley Grant at charles.grant@wsj.com

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THE WALL STREET JOURNAL.

Markets

India Can Thank Crude's Slump for a Soaring Stock Market; The Nifty 50 has surged 6.5% in the past 30 days

By Saumya Vaishampayan
603 words
27 November 2018
05:26 AM
The Wall Street Journal Online
WSJO
English

Indian equities have emerged as some of the world's best performers over the past month. The rally has left the Nifty 50 index up slightly for the year.

What's Happening

India's Nifty 50 has surged 6.5% in the past 30 days. Only Hong Kong's Hang Seng and Argentina's Merval have given the index a run for its money, with gains of 6.5% and 6%, respectively, in the same period through Monday's close. In dollar terms, the rally has been even stronger, as the previously struggling Indian rupee has rebounded.

In contrast, major gauges in the U.S. have dropped. The Nifty 50, which has a market value of nearly $1.1 trillion according to Refinitiv, is a popular benchmark for India, as is the smaller S&P BSE Sensex.

It is the latest swing in an exciting year for Indian stocks. The Nifty 50 surged as much as 11.5% for the year in late August to hit record highs, before sliding nearly 15% in the subsequent two months.

The slump in crude prices has fueled the recent rebound in India's market, according to Suresh Tantia, an investment strategist at Credit Suisse in Singapore. Companies that sell oil directly to consumers, such as Bharat Petroleum Corp., have benefited from stronger demand due to cheaper **oil prices**. That stock is up 22% in the past 30 days, making it one of the best performers in the Nifty, while Hindustan Petroleum Corp. shares are up 9% in the same period.

Airlines, which count oil as one of their biggest costs, are also benefiting. Outside of the Nifty, Jet Airways (India) Ltd. shares have soared 35% and SpiceJet Ltd is up nearly 17% in the past month.

The swings have sent three-month realized **volatility**, a measure of recent swings in the market, to the highest in more than two years, according to Refinitiv data.

What It Means

Politics should keep Indian shares active. Coming state elections include contests in three states that have typically backed Prime Minister Narendra Modi's ruling party. Results here could set the tone for next year's national election, according to DBS.

As trade tensions between the U.S. and China heat up, analysts have touted India as a place to hide because it isn't reliant on exports. Still, the connection between cheaper oil and higher stocks shows that India isn't completely isolated from global events.

Meanwhile, Indian stocks look pricey on a price-to-earnings basis and overseas investors have pulled money out this year, leaving domestic funds to drive the market. "From a foreign perspective, there's not much value in India," said Mr. Tantia from Credit Suisse, pointing to cheaper markets elsewhere, including mainland China and Singapore. As of Friday's close, the Nifty 50 was trading on 16.1 times expected earnings, Refinitiv data showed, a roughly 15% premium to its 10-year average.

T. Rowe Price portfolio manager Anh Lu says India's central bank has done well to force banks to recognize nonperforming loans. That should free up financial institutions to lend more next year. In turn, that should encourage more capital spending by corporate borrowers, which should feed into higher profits.

Write to Saumya Vaishampayan at saumya.vaishampayan@wsj.com

Asia Markets Snapshot

* Japan's Nikkei 225 rose 0.6%.

* Crude oil futures slipped 0.6%.

* China's Shanghai Composite Index ended little changed.

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U.S. Markets
Markets

U.S. Stocks Up After White House Official Leaves Open Possibility of Trade Breakthrough; Shares of industrial and material companies notched some of biggest declines

By Michael Wursthorn and David Hodari
640 words
27 November 2018
05:27 PM
The Wall Street Journal Online
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English

The **Dow Jones Industrial Average** rose more than 100 points after a White House official left open the possibility of a trade breakthrough between the U.S. and China later this week.

Shares of companies that pay hefty dividends and tend to generate stable profits in challenging economic conditions, such as consumer staples like Walgreens Boots Alliance and health-care companies like Johnson & Johnson, rose throughout the session, helping the blue-chip index overcome a roughly 224-point pullback earlier in the day.

The turnaround took shape soon after Larry Kudlow, director of the National Economic Council, told reporters that Saturday's Group of 20 meeting in Buenos Aires is an "opportunity to turn a new page" on trade.

The comments eased fears that trade tensions could carry over into 2019 after President Trump said it was "highly unlikely" that he would suspend an increase on tariffs on Chinese goods now scheduled for Jan. 1, while also threatening additional levies on the remainder of the country's imports.

The **Dow Jones Industrial Average** added 108.49 points, or 0.4%, to 24748.73, building on the gain of more than 350 points that the blue-chip index registered Monday. The **S&P 500** added 8.75 points, or 0.3%, to 2682.20, while the **Nasdaq Composite** rose 0.85 points, or less than 0.1%, to 7082.70.

Mr. Trump's comments had pushed investors away from trade-sensitive stocks, such as shares of industrial and materials firms that have already showed some signs of stress during the spat between the U.S. and China.

"Investors didn't need that sort of wake-up call from the president headed into a major meeting for trade negotiations," said Robert Pavlik, chief investment strategist and a senior portfolio manager at SlateStone Wealth. "Investors were looking to the G-20 meeting as a lifesaving line, but Trump threw cold water on it by talking too tough on trade."

PG&E climbed $1.85, or 7.4%, to $26.97 to lead the **S&P 500** higher as the California utility continued to recoup heavy losses that had stemmed from the state's latest wildfire. Drugstore chain Walgreens Boots Alliance added 1.82, or 2.2%, to 83.52, rising alongside most other consumer-staple stocks. Health-care company Johnson & Johnson also rose, gaining 1.85, or 1.3%, to 143.22.

"People are adding relative safety to their portfolio," said Mr. Pavlik, noting the renewed interest in utilities and consumer-staple stocks.

Analysts and investors said a solid bounceback in stocks hinges on how trade negotiations proceed. Concern is brewing among investors that trade tensions between the U.S. and China could spill into 2019, several added. That's on top of fears of how markets will react to central banks' tightening of monetary policy, which had been a longtime pillar of support for the nearly decadelong **stock-market** rally.

"A further round of trade retaliation could undermine market faith in political support for the global economy," Mark Haefele, UBS Global Wealth Management's chief investment officer, wrote in an investor note.

Although the bank still recommends global investors increase their exposure to stocks, it said it remains "alert to the risk that worsening trade tensions could harm market sentiment."

Write to Michael Wursthorn at Michael.Wursthorn@wsj.com and David Hodari at David.Hodari@dowjones.com

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Investors Confront Growth Fears Ahead of G-20 Summit; Amid signs of weakening growth, trade fight between China and U.S. adds new wild card for already unsettled markets

By Amrith Ramkumar
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27 November 2018
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The Wall Street Journal Online
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English

Softening economic data are adding to investor anxiety ahead of the Group of 20 summit that starts Friday in Buenos Aires.

The Citigroup Economic Surprise Index for developed markets, a measure that tracks whether economic reports are meeting projections, has fallen to its lowest level in almost six months. The gauge is in negative territory, meaning data are broadly starting to come in below economists' expectations. A similar index for emerging markets has been in mostly negative territory since June.

At the G-20 summit, President Trump and Chinese President Xi Jinping are expected to discuss the U.S.-China tariff fight that has dragged on for much of this year. The negotiations represent a wild card for the markets, analysts say, because a resolution to the trade dispute could brighten the outlook for the global economy. If Messrs. Trump and Xi fail to reach a deal, that could continue to add pressure to equity and commodity markets.

Mr. Trump told The Wall Street Journal on Monday that he expects to move ahead with boosting tariff levels on $200 billion of Chinese goods to 25%, calling it "highly unlikely" that he would accept Beijing's request to hold off on the increase.

The G-20 meeting is "a sizable macro event," said Michael Hans, chief investment officer of Clarfeld Financial Advisors. "It's important from a confidence perspective."

Worries about the global economy have sent U.S. stocks and oil lower in recent weeks, reversing gains made during the first nine months of the year. Analysts now expect weaker growth world-wide to lower demand for a range of commodities and products.

Even though many stocks and commodities rose on Monday, the **S&P 500** is 8.5% below its September all-time high. Meanwhile, oil and several industrial metals are in bear markets, down more than 20% from recent peaks, a sign that sentiment has declined sharply.

IHS Markit last week said its composite Eurozone Purchasing Managers Index—a measure of activity in the manufacturing and services sectors—fell to its lowest level in almost four years.

Data earlier this month also showed economic output in Japan and Germany contracted in the third quarter, while in October consumer spending in China hit its slowest pace in five months and bank lending fell.

The U.S. has been a rare bright spot for the global economy this year, but some analysts expect its growth to slow as a boost from recent tax changes fades.

Economists expect the second reading of third-quarter U.S. growth to come in at 3.5% Wednesday, in line with preliminary figures from last month. That is down from 4.2% in the second quarter, and some expect the pace to cool even more in the near future.

That could only add to anxiety for investors nervously awaiting news on trade.

"People have been paying attention to the global slowdown for foreign markets all year," Mr. Hans said. "It's coming to the forefront now simply because the U.S. had been carrying the ball."

Write to Amrith Ramkumar at amrith.ramkumar@wsj.com

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* U.S. Stocks Fall After Trump Warns on China Tariffs

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THE WALL STREET JOURNAL.

Markets

Silicon Valley's Stock-Exchange Plan Snagged by Opposition at SEC; Tech stars want a long-term exchange, but some regulators worry it's too founder-friendly

By Dave Michaels and Alexander Osipovich
945 words
27 November 2018
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The Wall Street Journal Online
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English

Silicon Valley's plan to build a better stock exchange for the nation's hottest startups hit a snag earlier this year when a member of the Securities and Exchange Commission opposed it, people familiar with the matter said.

The Long-Term Stock Exchange—a proposed new market backed by venture capitalist Marc Andreessen, LinkedIn co-founder Reid Hoffman and other tech luminaries—was criticized by SEC Commissioner Robert Jackson Jr. He questioned whether the exchange's model could entrench the power of founders and early investors in startup companies while hurting other shareholders, the people said.

The agency's approval is needed to approve major changes to how exchanges work, and any member of the SEC can slow the process by calling for a full commission vote. Mr. Jackson's move, which hasn't been previously reported, overrode a decision by SEC staff to approve LTSE's rules for listing companies, the people said.

The exchange that joined with LTSE to advance its listing rules, IEX Group Inc., withdrew its proposal in August, after Mr. Jackson voiced his concerns but before the full commission could vote on it. LTSE had struck a partnership with IEX so it could launch its business more quickly and because it doesn't yet have a license to run a stock exchange.

An IEX spokesman said the firm withdrew the plan to give institutional investors more time to study LTSE's tailored rules. "While we have decided to end our work together, IEX continues to support LTSE's mission and focus on long-termism in the market," spokesman Gerald Lam said.

LTSE aims to be the only stock exchange to require "long-term voting," a system in which shareholders accrue more voting power the longer they own stock. Its backers say the model will allow companies to focus on strategic goals, limit pressure from investors demanding short-term results and encourage more startups to raise capital in public markets.

The plan has run into opposition from at least one regulator and investor group who think the structure looks too similar to dual-class stock arrangements, which allow founders to keep control of a company while diluting the power of regular shareholders.

LTSE founder and chief executive Eric Ries, an author and startup guru, declined to comment on Mr. Jackson's criticism. He said LTSE's application to launch its own exchange will be filed with the SEC before the end of the year, despite the demise of the partnership with IEX. After that, the SEC would have a maximum of 240 days to approve or deny the plan.

It's not clear how the five commissioners, including Mr. Jackson, would vote on LTSE's exchange application, which would include many elements in addition to rules for listed companies.

LTSE's backers say its proposal is different from dual-class stock structures, which the New York Stock Exchange and Nasdaq Inc. allow for newly public companies.

Mr. Jackson, a former law professor whose research examined corporate governance, in an interview last month declined to talk about LTSE's listing standards. But he expressed concern about "any voting structure that, over time, entrenches corporate insiders at the expense of ordinary investors."

"Research has made clear that loyalty share structures often make it virtually impossible for investors to hold executives accountable," he added.

A 2018 research paper by professors at Vanderbilt and Columbia universities found long-term voting could shield founders and managers against shareholder pressure when they retain at least 20% of all shares. It also said investors such as pension funds and endowments could benefit from the arrangement as they tend to hold shares for longer periods.

LTSE is funded by a range of Silicon Valley's best-known venture-capital firms, including Peter Thiel's Founders Fund, Andreessen Horowitz, SV Angel and Greylock Partners.

It could benefit from a renewed interest in Washington to nurture public markets. President Trump in August asked the SEC to consider allowing public companies to report earnings every six months, instead of quarterly. Mr. Trump said the change would promote growth. "We are not thinking far enough out," he said.

LTSE's unique strategy presents other challenges regulators would have to examine. For instance, companies that go public on the exchange would need to accurately track names and stakes of all of their shareholders. Today, most public companies don't keep a list of stockholders; those records are maintained by brokers who deal directly with investors.

The Council of Institutional Investors, a group representing public and corporate pension funds, has told LTSE it fears that giving long-term shareholders more voting power could give too much control to managers and founders, a person familiar with the matter said. Separately, the council has asked the NYSE and **Nasdaq** Inc.—the primary exchanges where companies list their shares today—to curb the spread of dual-class shares.

Other institutional investors, including BlackRock Inc. and State Street Global Advisors, have pushed back against the spread of voting structures that hand certain investors more influence than others. The listing rules LTSE previously filed would have given shareholders additional voting power for every month they own stock.

Mr. Ries said every large asset manager LTSE has met with considers time-based voting an improvement over dual-class stock. "We would not do it otherwise," he said.

Write to Dave Michaels at dave.michaels@wsj.com and Alexander Osipovich at alexander.osipovich@dowjones.com

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THE WALL STREET JOURNAL.

Markets

Papa John's Loses a Potential Bidder; Trian Fund Management will no longer pursue Papa John's; struggling pizza chain's remaining suitors only interested in partial stake

By Julie Jargon and Cara Lombardo
518 words
27 November 2018
02:21 PM
The Wall Street Journal Online
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English

A major potential bidder for Papa John's International Inc. has taken itself out of the running, putting pressure on the pizza maker to figure out its future.

Trian Fund Management LP, which was evaluating a bid, has decided not to pursue it, according to people familiar with the matter.

Papa John's is in the midst of a sale process that began in August. While some bidders remain interested in potentially taking a stake, none is currently considering buying the whole company, these people said. Binding offers are due next week, they said.

Trian, an activist hedge fund that owns a stake in Wendy's Co., had initially expressed interest in Papa John's in late June and invited company founder John Schnatter to meet with leaders of the burger chain. A month later Mr. Schnatter stepped down as chairman after reports leaked that he had used a racial slur during a company marketing call.

In August Papa John's hired investment banks to conduct a strategic review of its business, which could include a sale. After The Wall Street Journal in October reported that Trian resumed interest in a possible deal and that other buyers were also interested, Papa John's stock shot up nearly 9% and has been rising ever since on the expectation that a deal is forthcoming. The higher **stock price**, however, could discourage some bidders.

The company continues to face challenges, having reported four consecutive quarters of declining same-store sales.

The chain's problems began more than a year ago when Mr. Schnatter made comments during an earnings call that many customers construed as racist. Last November he defied the board and publicly blamed slowing sales growth on the National Football League's handling of its players' national anthem protests. The chain lost numerous customers as a result and Mr. Schnatter agreed to step down as CEO last December and step away from public appearances for a while.

During a May conference call that was intended to prepare him for a return to marketing events, he said the N-word. After news of that leaked in July, he stepped down as chairman and the company began to distance itself from him by barring him from appearing in marketing and adopting a poison pill to prevent him from gaining control of the company. Mr. Schnatter remains on the board and owns nearly 31% of the stock.

Papa John's has been trying to help struggling franchisees by reducing royalty fees and contributing to store remodeling. Activist shareholder Legion Partners Asset Management LLC, which is working with the California State Teachers' Retirement System and disclosed a combined 5.5% stake in Papa John's last month, has spoken with the company about adding board members with restaurant experience, restoring the morale of franchisees and employees and cutting costs.

Write to Julie Jargon at julie.jargon@wsj.com and Cara Lombardo at cara.lombardo@wsj.com

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WSJ PRO VENTURE CAPITAL

WSJ Pro

Geron's Take: Startups Prepare for Crypto Winter; Startups and funds could be threatened in prolonged down market, some say

By Tomio Geron
551 words
27 November 2018
06:59 PM
WSJ Pro Venture Capital
RSTPROVC
English

The crypto market has entered what some are calling a "crypto winter." With the price of bitcoin down more than 81% from its all-time high after a steady down market this year, industry players are left hoping there's a spring yet to come.

The recent tumble is being compared to the collapse of the crypto market in late 2013 to 2014, when the price of bitcoin spiked above $1,100 in November 2013, only to drop below $400 in April 2014.

The most recent downturn shows that cryptocurrencies are like any other asset class. They may be newfangled digital assets not backed by any government, but they can still drop as fast—or faster—than any other.

After the earlier crash, venture investment in the sector largely dried up, fewer projects were started, and some even shut down, according to Muneeb Ali, chief executive of crypto startup Blockstack. Mr. Ali was in the summer 2014 class of Y Combinator working on his startup while the market was crashing.

"We might see a cycle similar" to the 2014-2016 **bear market**, Mr. Ali said, when many VCs and entrepreneurs left the sector to find the next hot thing. "I wouldn't be surprised if VC funding for crypto startups is cut back significantly, [and] token offering rounds become smaller."

David Pakman, a partner at Venrock, which has invested in equity deals in crypto startups Dapper Labs and YouNow, said one crypto expert told him to prepare for a multiyear **bear market**, though no one knows where the market is going next.

That kind of downturn could hurt startup funding, shrinking round sizes, valuations and the number of deals, but it also could hit some crypto funds. Because investors in crypto hedge funds can typically redeem funds quarterly, unlike venture funds, a prolonged downturn—coupled with a downturn in the equities market—could force some funds to shut down.

Regardless of crypto prices, startups that are building software still need to show strong fundamentals that are critical in any market, Mr. Pakman said.

"They need to build and show positive metrics and create things that show positive momentum," he said. "That's our focus, to do that irrespective of crypto prices. We think of them as software companies and application companies."

Startups that are careful with their spending and provide real value to customers will have a competitive advantage in this environment, Mr. Ali said.

For some true believers in new crypto and blockchain technology, the downturn is a good thing because it should shake out momentum investors and entrepreneurs. But that assumes the market comes back at all.

Union Square Ventures' Fred Wilsonwrote recently that some crypto assets that are getting crushed today could end up becoming massive successes like Amazon.com. That company's stock dropped to $6 a share in 2001 before the company took years to become the behemoth it is today.

Of course, there's no guarantee that today's crypto market will produce an Amazon. But for the true believers, it's a North Star to give them hope.

Write to Tomio Geron at tomio.geron@wsj.com

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The New York Times

Business; DealBook
Apple's Bad Month Is Getting Worse, Jeopardizing Its Status as Most Valuable Company

By Stephen Grocer
356 words
27 November 2018
02:29 PM
NYTimes.com Feed
NYTFEED
English

Get the DealBook newsletter to make sense of major business and policy headlines — and the power-brokers who shape them.__________

Stocks have had a bad month. Apple has had a worse one.

Shares of the iPhone maker were trading lower on Tuesday afternoon after comments Monday from President Trump suggesting that tariffs could be placed on the company's devices imported from China.

Over the last month, Apple's stock has fallen 20 percent, putting it on pace for its worst month since the financial crisis.

The tumble has shaved roughly $230 billion off Apple's market value, placing it close to losing its position as the most valuable publicly traded company to Microsoft.

The two companies have competed since the mid-1970s, when both were founded. Microsoft dominated its rival in the 1990s, riding the popularity of its Windows operating system to become the largest publicly traded company by the end of the decade. During that time, Apple flirted with going broke.

But that dynamic reversed. Microsoft's shares and its market value stagnated for more than a decade after the dot-com bust. Powered by the release of products like the iPod and later the iPhone, Apple's shares marched higher.

By 2010, Apple's market value had passed Microsoft's, and the gap between the two continued to grow, reaching as much as $400 billion in 2015. As recently as a month ago, Apple was worth around $250 billion more than Microsoft.

In recent weeks, investors have grown increasingly concerned about iPhone sales. A number of Apple suppliers cut their financial outlooks for this quarter, suggesting there may be weaker demand for the latest models of the phone than expected. Last quarter, sales of iPhones accounted for nearly 60 percent of Apple's revenue.

Microsoft has fared much better during November's **stock market** rout. Late last month, Microsoft reported better-than-expected earnings driven by continued fast growth in its commercial cloud computing business. Its shares are up about 1 percent this month.

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THE WALL STREET JOURNAL.

World

Incoming Mexican Leader to Name Close Aide to Central Bank; López Obrador plans to nominate a Harvard-trained economist and aide as deputy governor of the Bank of Mexico

By Anthony Harrup and Juan Montes
790 words
27 November 2018
02:14 PM
The Wall Street Journal Online
WSJO
English

MEXICO CITY—Mexican President-elect Andrés Manuel López Obrador plans to nominate Gerardo Esquivel, a Harvard-trained economist and close aide, as deputy governor of the Bank of Mexico.

The leftist administration, which takes power on Dec. 1, announced the decision at a press conference Monday called to allay market fears over planned economic policies that have weakened the peso and sent Mexico's benchmark index to its lowest level since March 2014. Mexican stocks and the currency rose modestly on Tuesday.

But the appointment of someone close to Mr. López Obrador raised the specter that the incoming leader, while appointing qualified officials to sensitive economic posts, could gain influence at the Bank of Mexico. The president-elect has repeatedly pledged to respect the bank's autonomy.

Mr. Esquivel, in a message posted on his Twitter account, said he's "convinced of the importance of central bank independence" and that he would work to help the bank achieve its goals.

Mr. Esquivel, one of two central bank board members that Mr. López Obrador will appoint in his first month in office, will succeed Roberto del Cueto when he retires on Nov. 30. Bank of Mexico Gov. Alejandro Díaz de León's term ends in 2021, halfway through the López Obrador administration.

The other deputy appointment, previously announced, is Jonathan Heath, an independent economist who will succeed Manuel Ramos Francia when his term ends at the end of 2018. Both nominees must be approved by the Senate, where Mr. López Obrador's Morena party and allies have a clear majority.

Mr. Esquivel had initially been tapped to be a deputy finance minister, one of a roster of high-ranking economic officials that also includes Carlos Urzúa, an economics professor with a doctorate from the University of Wisconsin-Madison, as finance minister.

The deputy finance minister post will instead be filled by Victoria Rodríguez Ceja, a former senior finance official in the Mexico City government, said a person with knowledge of the appointment.

Mr. Esquivel's appointment won't necessarily make the central bank more dovish, said Edward Glossop, the Latin America economist at research firm Capital Economics, who sees the possibility the board could even become more hawkish in the near term to dispel any fears of it being pressured by Mr. López Obrador.

"Further out, after the next few meetings, there's probably a case to be made for interest-rate cuts anyway," Mr. Glossop added.

Mexican finance ministers or deputy finance ministers have attended Bank of Mexico policy meetings since 2011. They have no vote, however, and their comments aren't recorded in central bank minutes.

The Bank of Mexico has been raising interest rates since late 2015 in response to higher U.S. interest rates, a weaker peso, and rising inflation in Mexico. The bank lifted the overnight rate by a quarter percentage point on Nov. 15 to 8%, its highest level in almost a decade. The bank noted market **volatility** after Mr. López Obrador canceled a $13.3 billion partially built airport project, and concerns over the incoming government's policies such as a series of public referendums to let voters make key public-policy decisions.

Ms. Rodríguez, who will be in charge of expenditures at the Finance Ministry, worked in the Mexico City Finance Ministry when Mr. López Obrador was mayor. She is also close to Mario Delgado, the city's former finance secretary and current leader of Mr. López Obrador's party in the lower house of Congress. The lower house is responsible for passing the spending side of the budget.

Next year's federal budget, which advisors to Mr. Urzúa say it will be presented on Dec. 13, is another concern of investors given Mr. López Obrador's plans to increase public investment and social spending.

Mr. Urzúa said at Monday's press conference that the budget proposal will include a primary surplus, which excludes debt payments, equivalent to about 1% of gross domestic product.

He also said the incoming government has no intention of making sweeping changes to the retirement savings system to swap private pension fund managers for a state-run institution, as proposed by a lawmaker of the small leftist Labor Party. Nor will it seek to use the country's international reserves, currently at $173.9 billion, to finance public projects, he added.

"A country needs reserves to protect its economy and protect its currency," he said.

Write to Anthony Harrup at anthony.harrup@wsj.com and Juan Montes at juan.montes@wsj.com

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Dallas Sounds Alarm For Housing Market

By Laura Kusisto
1,417 words
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A1
English

PLANO, Texas -- A half-hour drive straight north from downtown Dallas sits one of the fastest-growing counties in the country. Cotton fields have been replaced with Toyota's new North American headquarters, a Dallas Cowboys training facility and a sand-colored shopping strip with a Tesla dealership and a three-story food hall.

Yet even with the booming growth, Dallas's once vibrant housing market is sputtering. In the high-end subdivisions in the suburb of Frisco, builders are cutting prices on new homes by up to $150,000. On one street alone, $4 million of new homes sat empty earlier this month.

Some home builders are so desperate to attract interest they are offering agents the chance to win Louis Vuitton handbags or Super Bowl tickets with round-trip airfare, if their clients buy a home. Fresh-baked cookies sit uneaten at sparsely attended open houses.

The U.S. economy just had one of its best six-month stretches in a decade, as the unemployment rate hovers around its lowest level in half a century. Still, along with a recent swoon in the **stock market**, the housing market -- which makes up a sixth of the U.S. economy -- has been a troubling weak spot.

U.S. existing home sales have declined on an annual basis for eight straight months, the longest slump in more than four years, according to the National Association of Realtors. The slowdown has been driven by places that had earlier seen some of the strongest price growth during this recovery, including Seattle, Denver, New York, Boston and the Bay Area.

Dallas, which had the second-strongest annual increase in employment of any metropolitan area in the country in September, helps explain why. Even though the economy in the sprawling metro area has boomed, home prices have grown much faster than wages, and buyers have been straining to afford homes.

Those price challenges have been masked in part by cheap credit, but that era is coming to an end. Since the beginning of the year, mortgage rates have risen about a percentage point, to the highest level since 2011.

"We have this huge affordability crisis," said Ted Wilson, principal at Residential Strategies, a Dallas consulting firm. "With mortgage rates going higher, we're hitting a ceiling."

New and existing home sales in the Dallas-Fort Worth metropolitan area fell 3.6% in October compared with a year earlier, according to the Real Estate Center at Texas A&M University, while median home price growth slowed to less than half the pace of a year ago.

Dallas has been the "canary in the mine shaft" this housing cycle, said Paige Shipp, regional director for Metrostudy, a consultant to home builders. Homes are taking longer to sell, bidding wars are rarer and price cuts are more common as buyers absorb the impact of higher rates.

Cleave Treanor, a 29-year-old project manager, and his wife, Rebecca, decided at the beginning of the year it was time to move out of their 1,500-square-foot house. Their home had appreciated about 40% since they bought it four years ago, and they were tired of stepping on their two children's toys from a lack of space.

They toured several dozen houses priced in the low $300,000s, but they once got a call that a house they had looked at sold that night for more than the asking price. Mr. Treanor recalled the housing market "felt extremely hot."

The couple decided in early March to buy a 2,800-square-foot newly built home. By the time they had made some repairs on their old house and put it up for sale in May, average 30-year mortgage rates had already risen to about 4.6% from 3.95% at the beginning of the year, according to Freddie Mac. "The market had died down," Mr. Treanor said.

The house sat for months before they dropped the price by $16,000. "It was a mess," Ms. Treanor said. The home finally sold in mid-October.

Mortgage rates are closely tied to yields on **10**-**year Treasury** notes, which have been going up this year because of growing inflation fears.

"Some [buyers] are adjusting their budget. They're shopping more for different mortgage companies," said Amy Downs, an agent at Keller Williams Realty. "They still think they can find a lender that can get them a better rate, but it doesn't really exist."

Dallas is one of the markets where affordability has gotten furthest out of whack with historic norms. The metro area largely avoided the last housing boom, with home values from 1997 through 2006 rising a moderate 2.5% a year on average, according to Zillow. Builders would joke that they were "building for practice" in Dallas because margins were so thin, Ms. Shipp said. Since they were less inflated, home values in the Dallas area fell less than 10% during the last housing crash, compared with 26% for the U.S. as a whole.

But prices have shot up in the past five years, to $235,500 for the median home, more than 50% above their 2007 peak and in line with increases in places like San Francisco and Seattle, according to Zillow.

A shortage of land and labor, along with the loss of many smaller, regional builders during the downturn led to more constricted supply. At the same time, the local economy boomed, and the Dallas metro saw a wave of companies relocating from California and other more expensive states. The metropolitan area has added roughly 100,000 jobs a year over the past five years.

The Dallas market is more sensitive to fluctuations in mortgage rates than other hot locations around the country. While cash buyers and large down payments have been king in the booming West Coast markets, the average household in Dallas finances 83% of its home purchase, slightly higher than the national average of 81%, according to Black Knight Inc., a mortgage data company. In San Francisco and Seattle, buyers on average finance 74% and 79% respectively.

As mortgage rates rise, buyers increasingly look for less-expensive homes. That is pushing builders further out to the fringes in search of lower-cost land where they can try to build more homes priced at $300,000 or less. The median price for a new home in Dallas has dropped by some $3,000 this year compared with last year, according to Metrostudy, which suggests builders are building at lower price points.

That can be a risky strategy after the heat has already started to come out of the market. During the last downturn, it was precisely those exurban neighborhoods that got hit the earliest and the hardest as buyers migrated back to more desirable neighborhoods when prices fell.

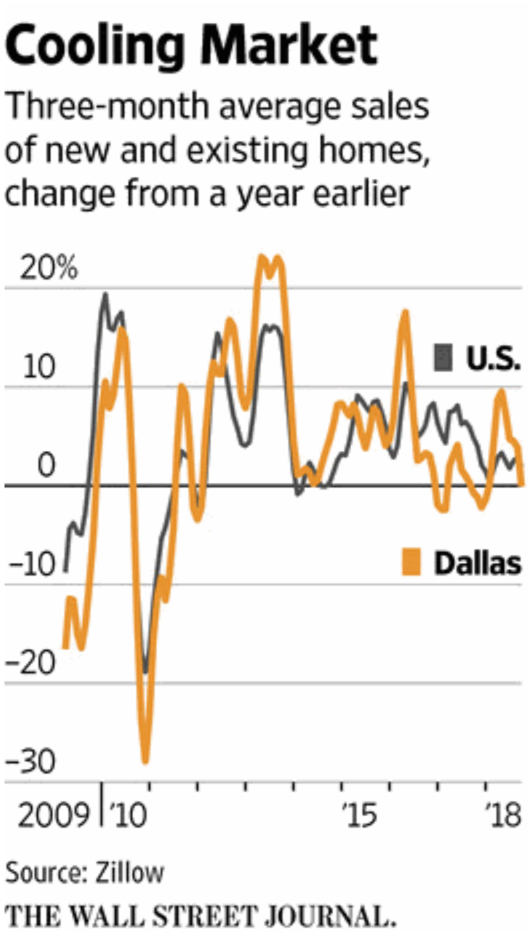
Altura Homes' new Eagle Ridge development sits half-an-hour east of downtown Dallas, where strip malls give way to grassy fields and rusting farm equipment. The cheapest home, a 1,700-square-foot three-bedroom, starts around $240,000.

The model home features few frills: no pool, no bathroom for each bedroom, no flashy off-site design studio to see decorating options, just some swatches and flooring samples in the garage of a model home.

Sales have been slow here, too, in recent months. Altura is offering to put money in at closing to help buyers lower their monthly payments. The rise in mortgage rates "has scared some people away," said Kelly Hoodwin, vice president of sales and marketing at Altura Homes.

Donnie Evans, the company's division president, said he wants to try to build even less-expensive homes. He believes there is demand for homes priced less than $250,000 but said rising land, labor and material costs make that difficult. Buyers, accustomed to living in amenity-rich apartment buildings, also seem less willing to accept a no-frills option than they once were. "If we could get [prices] lower we could sell more houses," he said.

Real-estate agents say it is becoming tougher to persuade buyers to move and give up their sub-4% mortgage rates -- which they fear they won't see again. That combined with how much they would have to spend to trade up because of how much prices have risen in recent years has persuaded more people to simply stay put and renovate.


Cooling Market
Three-month average sales of new and existing homes, change from a year earlier
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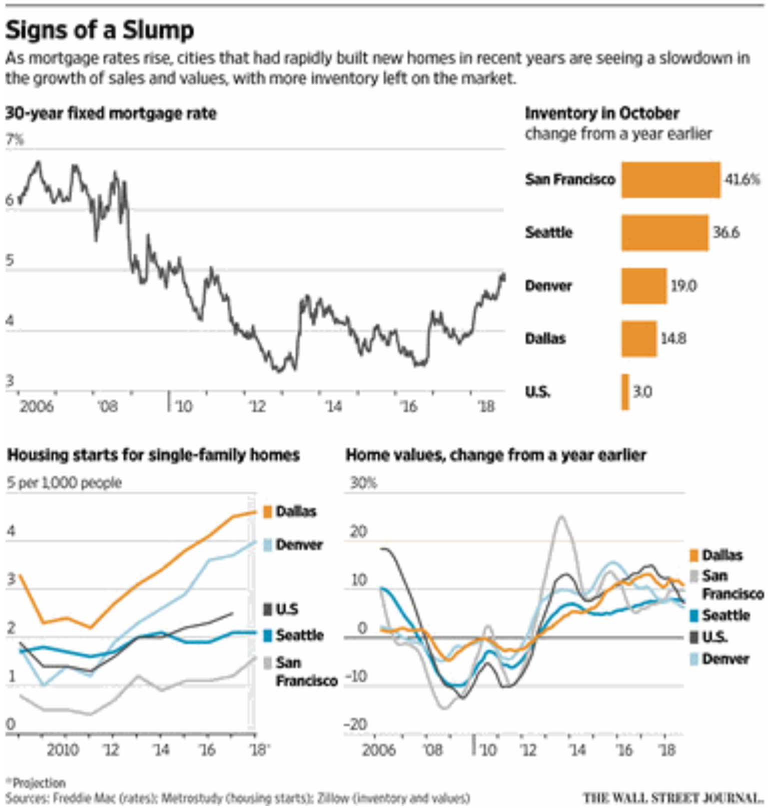
Source: Zillow
THE WALL STREET JOURNAL.



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THE WALL STREET JOURNAL.

Heard on the Street
Markets
Big Food's Scraps: a New Battleground for Contrarians; As food-and-drinks giants like Nestlé and Diageo sell off struggling brands, smaller rivals with a knack for turnarounds can benefit

By Carol Ryan
550 words
27 November 2018
05:14 AM
The Wall Street Journal Online
WSJO
English

One company's junk can be another's treasure. Manufacturers of some of the world's best-known household brands are cleaning out their cupboards. Their castoffs may fare better with smaller owners.

Listed consumer groups are grappling with a sales slowdown: Shoppers are rejecting processed food in favor of fresher products, while social media is helping nimble startups win outsize market share with small marketing budgets. Activist investors Dan Loeb and Nelson Peltz are pushing the likes of Nestlé and Procter & Gamble for faster action.

That is driving a wave of deals and many assets have fetched high prices. Reckitt Benckiser last year sold its food division, including French's mustard and Frank's RedHot sauces, to McCormick for roughly 20 times earnings before interest, taxes, depreciation and amortization. Such businesses are often still growing, but not fast enough for public companies that have ambitious top-line targets to meet. According to Dealogic, the average multiple for food-and-drink deals is 16.4 times so far this year, the highest since 2007.

But there are also bargains, like the batch of 19 Diageo liquor brands that sold for just 5.5 times Ebitda to privately owned U.S. distiller Sazerac this month. Such brands need fixing. Small labels can flounder in a large organization because they compete with star brands for management attention and research-and-development spending. A packaging overhaul, rethink of distribution and push into new markets can boost demand.

Sazerac has grown sales of Paddy Irish Whiskey by one-fifth since buying the brand from Pernod Ricard in 2016, where it had to vie with the big Jameson brand for resources. It is hoping to do the same with the likes of Myers's Rum, included in the Diageo grab bag.

Some smaller listed players have spotted the opportunity. Frozen veg specialist Nomad Foods paid around 10 times Ebitda for careworn brands like frozen roast potato maker Aunt Bessie's and Goodfella's Pizzas. It is betting that new ingredients can make frozen dinners more appealing to millennials. Nestlé's frozen-food business, which Nomad is eyeing should the Swiss giant decide to sell, could be next. Since going public in 2014, the company's shares have outperformed the **S&P 500**.

Certain castoffs are riskier. Brands can be difficult to salvage when an entire category is in decline. To make a success of its $8 billion bet on Unilever's margarine business—including brands such as Flora and I Can't Believe It's Not Butter—private-equity group KKR will have to revive the unfashionable spread or dramatically cut costs to pull off a profitable exit in a few years' time. Climbing obesity rates mean that candy and soda brands run the risk of being hit by sugar taxes and tougher regulations.

Sifting fixer uppers from no-hopers is the challenge for contrarian stock pickers. The same goes for companies looking to feed off the scraps of today's embattled food-and-drinks giants. The lesson of recent deals is that this may be easier lower down the food chain.

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The New York Times

Business/Financial Desk; SECTB
Tech, Retail and Banks Spearhead a Rally

By THE ASSOCIATED PRESS
641 words
27 November 2018
The New York Times
NYTF
Late Edition - Final
2
English

Global stocks rose Monday after taking big losses last week. Major technology companies recovered some of their recent losses and retailers and travel companies climbed on the first full trading day of the holiday shopping season.

Major indexes in the United States, Europe and Asia all climbed. London's main **stock index** jumped after the British government and the European Union agreed to terms governing Britain's departure from the bloc in March. It is not clear whether Parliament will approve the deal.

Stocks have been in a steep downturn since early October, but that slump has included some substantial rallies. Banks rose Monday as interest rates turned higher after a two-week slide. The first full trading day of the holiday shopping period was a strong one for companies that sell goods and services to consumers. General Motors surged after saying it will lay off 14,000 workers and will focus more on autonomous and electric vehicles.

On Friday the benchmark **S&P 500 index** closed 10.2 percent beneath the record high it had set in late September. That is the second time this year the index has dropped 10 percent from a recent peak -- a ''correction.'' The tech-heavy **Nasdaq composite** has suffered even worse downturns dating to late August.

Stocks have skidded recently as investors have grown doubtful that the U.S. and China will resolve their differences over technology policy and other issues. Their fears could be confirmed or upended in a few days, as President Trump and Chinese President Xi Jinping are scheduled to discuss their trade dispute at the Group of 20 summit meeting in Buenos Aires at the end of this week.

''A fair amount of trade escalation between the U.S. and China is being priced in by the market,'' said Justin Waring, a strategist at UBS Global Wealth Management's Chief Investment Office. ''Any kind of statement that there will be a formal trade negotiation round following that meeting would be viewed as positive.''

The **S&P 500** climbed 40.89 points, or 1.6 percent, to 2,673.45. The **Dow Jonesindustrial average** gained 354.29 points, or 1.5 percent, to 24,640.24. The **Nasdaq** rose 142.87 points, or 2.1 percent, to 7,081.85.

Among retailers, Amazon rallied 5.3 percent to $1,581.33 and Nike rose 1.7 percent to $72.71.

Technology companies and retailers have been hit hard during the market's recent slide, and they made some of the largest gains Monday. Microsoft added 3.3 percent to $106.47 and Cisco Systems gained 2.3 percent to $45.57.

General Motors rocketed 4.8 percent to $37.65 after announcing that it will lay off 14,000 factory and white-collar workers in North America and could close five plants.

Benchmark United States crude added 2.4 percent to $51.63 a barrel in New York.

The dollar rose to 113.64 yen from 112.88 yen late Friday. The euro edged down to $1.1328 from $1.1330.

Bond prices fell. The yield on the **10**-**year Treasury** note rose to 3.06 percent from 3.04 percent. That sent interest rates higher, which helped banks. JPMorgan Chase jumped 2.4 percent to $109.26 and Citigroup climbed 3.2 percent to $63.73.

Gold dipped 80 cents to $1,220.20 an ounce.

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

Retailers' stocks have been down lately, but many made large gains Monday. (PHOTOGRAPH BY DON EMMERT/AGENCE FRANCE-PRESSE -- GETTY IMAGES) CHART: The **S&P 500 Index**: Position of the **S&P 500 index** at 1-minute intervals on Monday. (Source: Refinitiv)

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THE WALL STREET JOURNAL.

Opinion

Raise Rates Today to Fight a Recession Tomorrow; A downturn is inevitable as asset prices fall. The Fed can prepare by continuing to raise rates now.

By Martin Feldstein
869 words
26 November 2018
07:00 PM
The Wall Street Journal Online
WSJO
English

Federal Reserve Chairman Jerome Powell will lay out a vision Wednesday for the course the Fed will steer through coming economic turbulence. So far, the Fed's governors have appeared committed to their plan to continue raising interest rates, which they began in late 2015 after nearly a decade of holding them near zero. The federal-funds rate has jumped from 0.3% in January 2016 to 2.2% today, and the median forecast of the Federal Open Market Committee is that it will reach 3.4% by the end of 2021.

Some observers worry that higher short-term rates will push the economy into recession and wonder why the Fed is continuing to raise rates despite already having achieved its explicit monetary-policy goals. Yet that view overlooks the role that higher interest rates today must play in enabling the recovery from an inevitable future downturn. It is in the interest of the next recovery, I believe, that the Fed will continue its steady rate increases.

To be sure, the Fed has currently achieved its two explicit goals: price stability and full employment. In recent years, it has set an inflation rate of 2% and a low unemployment rate that amounts to full employment as markers of success in these areas. And behold, the inflation rate has now reached 2%, as calculated by the Fed's preferred measure of inflation, the rate of increase of the price index for personal-consumption expenditures. The unemployment rate has dropped to a remarkably low 3.7%—lower than the Fed and most economists previously thought possible.

Most watchers of U.S. monetary policy assume that the Fed is increasing the short-term rate to prevent or limit a rise in inflation. History does suggest that the current very low unemployment rate will cause inflation to rise. But during the recent unemployment dip, inflation has crept up surprisingly little. The core consumer-price index, which excludes the prices of food and energy, has accelerated from a 1.8% rate of increase five years ago to 2.1% today. The PCE inflation rate, the Fed's preferred measure, increased to only 2.2% from 1.1% over the same period. And even the FOMC's own forecast is that inflation will hardly rise above the current rate in the next three years.

As I have argued in these pages since 2013, the Fed should have begun raising the fed-funds rate several years earlier. Doing so would have prevented the recent sharp increases in the prices of equities and other assets, which will collapse when long-term interest rates rise. Declining asset prices could destroy a substantial amount of household wealth and push the economy into recession. Unfortunately it is not possible to turn back the clock and prevent the overvaluation of assets and the resulting risk of recession. But I believe that the Fed is raising rates today so that it will be in a better position to offset a future economic decline.

The U.S. has experienced 11 recessions since 1945. Unlike the recession that began in 2007, most have been relatively short and shallow. The average time from the beginning of a downturn to the start of the recovery is just 11 months. That's because the Federal Reserve historically has responded to downturns by sharply reducing the fed-funds rate. Lower rates stimulate spending by households and businesses and weaken the dollar, spurring foreigners and Americans alike to buy more U.S. goods and services.

Looking ahead, there is a significant risk that the U.S. economy will slide into recession in the next few years. Though gross domestic product has grown robustly of late, bloated asset prices will likely collapse, dragging industry down with them. The price-earnings ratio of the **S&P 500** is nearly 40% above its historic average. As long-term interest rates return to normal levels, demand for equities and other assets will decline rapidly. A return of share prices today to their historic price-earnings ratios would wipe out nearly $8 trillion of household wealth.

The resulting decline in consumer spending and the related fall in business activity would be enough to push the economy into recession.

If that scenario plays out in the next few years, the Fed won't be able to achieve a large rate reduction. Even if the Fed raises the fed-funds rate to 3.4% by the end of 2021, as it currently plans to do, that will not be high enough to allow a substantial rate reduction. And the consequence would be a deeper and longer recession than usual.

Though it would have been better for the Fed to start raising rates earlier, the Fed is right to increase the short-term rate now so that it will have as much ammunition as possible when the next downturn comes.

Mr. Feldstein, chairman of the Council of Economic Advisers under President Reagan, is a professor at Harvard and a member of the Journal's board of contributors.

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World News: Draghi Rejects Criticism of ECB Plan to Tighten Policy

By Tom Fairless
410 words
27 November 2018
The Wall Street Journal
J
A7
English

European Central Bank President Mario Draghi defended the bank's move to start phasing out its easy-money policies against criticism from European lawmakers that it is moving too soon as eurozone economic growth slows.

The central bank has been treading a cautious path in recent months, seeking to start winding down its 2.6 trillion euro ($3.27 trillion) bond-buying program, known as quantitative easing or QE, without spooking international investors. The program is widely credited with bolstering growth in the 19-nation eurozone economy, which outpaced the U.S. over the past two years.

So far, Mr. Draghi and his top officials have avoided causing any "taper tantrum" in **financial markets**, similar to that unleashed when the Federal Reserve wound down its own bond-buying programs four years ago. But the ECB is phasing out its giant stimulus program at an awkward time -- just as the currency union posts its slowest growth rate in about four years, and as borrowing costs jump in Italy, the bloc's No. 3 economy, which is clashing with the European Union over its budget.

Speaking at the European Parliament in Brussels on Monday, Mr. Draghi confirmed that the ECB would likely phase out QE after next month. The decision is likely to be formalized at the ECB's next policy meeting on Dec. 13.

Mr. Draghi conceded that recent economic data had been weaker than expected. He argued that this reflected temporary headwinds, such as bottlenecks in Germany's auto sector, as well as a natural slowdown from very brisk growth rates.

Some lawmakers questioned the ECB's decisions. Marisa Matias, a European lawmaker from Portugal, asked whether the recent slowdown in the eurozone might not be linked to the decision to phase out QE.

Mr. Draghi emphasized that the slowdown came after a period of very strong growth and job creation. "Part of this lower momentum is due simply to a normalization of the growth process coming from pretty exceptional years" since 2014, he said. Even after the bond purchases are phased out, policies will remain very loose, he added.

For some European politicians, the end of QE can't come fast enough. Officials in Germany and the Netherlands have complained for years about the ECB's ultralow interest rates, which they worry hurt savers, pensioners and banks.

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THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News --- CAPITAL JOURNAL: U.S.-China Trade Spat Echoes 1990s Dispute

By Gerald F. Seib
805 words
27 November 2018
The Wall Street Journal
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A4
English

The Republican White House, responding to business complaints of Chinese theft of intellectual property and trade secrets, launches the process for imposing tariffs on China's imports.

That threat sparks a flurry of high-level negotiations with the Chinese government, which in turn agrees to take a series of corrective steps, including a new patent law and copyright-protection regulations. The Chinese promises are enshrined in a memorandum of understanding with the U.S., and the White House backs away from the tariffs.

No, this is not a prediction of how the current trade confrontation between the Trump administration and China will be resolved happily. Rather, it's a description of what happened 26 years ago, when China and the first Bush administration were engaged in a trade dispute remarkably similar to today's.

The 1992 precedent is relevant today because what happened following that episode helps explain why administration officials remain pessimistic about any fast oreasy resolution of the current trade disputes when President Trump and Chinese President Xi Jinping meet later this week in Argentina.

The optimism created by that 1992 agreement soon turned to disillusionment. Within three years, American businesses were having "serious and unabating" intellectual-property problems, the U.S. government's General Accounting Office reported. Tariffs again were threatened, this time by the Clinton White House.

A quarter-century later, the same issues are still on the table. Alleged Chinese theft of intellectual property and forced transfer of American technology helped prompt the Trump administration in September to impose 10% tariffs on about $200 billion in Chinese imports. Those tariffs are set to rise to 25% on Jan. 1, barring some agreement heading off the escalation.

Thus is the stage set for the Trump-Xi meeting on the sidelines of a G-20 summit in Buenos Aires. Publicly, for now, both sides are putting a semipositive spin on things.

President Trump said in a tweet early this month that conversations with China were "moving along nicely." Larry Kudlow, head of the White House's National Economic Council, said two weeks ago that trade conversations with China had resumed, describing the restarting of talks as "very, very, very positive."

On the Chinese side, Cui Tiankai, China's influential ambassador to the U.S., told The Wall Street Journal recently that he hoped the two presidents will produce "clear strategic guidance on where the relationship is going and how the two sides should conduct this important and complicated relationship together." Other Chinese statements in recent days have suggested buying more American goods, setting up partnerships with American companies and investing in American infrastructure.

The key, immediate question is whether the two presidents will launch a new, formal negotiation that prompts Mr. Trump to put on hold the otherwise automatic escalation of current tariffs to that 25% level. It's safe to assume that Mr. Xi's first goal in the summit will be exactly that: to avoid higher and broader levies. That would represent "a victory for China, even though it's a minimalist victory," says Michael Pillsbury, a China expert who often advises the Trump administration.

Yet, privately, administration aides aren't sanguine about significant change. "The view in the administration is, 'Don't ease up in the remedies until you see actual progress, not promises,' " says one senior official. In some quarters, there is a feeling that the economic and political reform era launched by Deng Xiaoping four decades ago is over, replaced by Mr. Xi's new, more-authoritarian model.

In this view, tensions are more or less inevitable. But at the moment, U.S. officials think they have leverage, generated fromthree forces. First, unlike in trade fights Mr. Trump launched with allies in Europe and North America, officials believe they have broad international and business-community support for a tough stance with China. Second, China's own economy is showing some signs of faltering, which, presumably, raises worries in Beijing about the costs of a prolonged fight. And third, there are signs of grumbling among Chinese elites that Mr. Xi has mishandled the U.S. relationship.

Mr. Trump feels pressure, too. Trade tensions with China are wearing on the U.S. economy as well, and they helped fuel a frightening **stock-market** slide in recent weeks. Republican setbacks in the industrial Midwest in the midterm elections suggest a tough trade stance isn't necessarily a political winner, and both businesses and overseas allies have strong misgivings about using tariffs as a tool.

So, both sides may have reason to make happy sounds when the presidents meet. But a real resolution of trade disputes will require -- to borrow a Chinese phrase -- a long march.

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THE WALL STREET JOURNAL.

Business
GM's Plan to Cut Jobs and Plants Draws Fire From Trump, Others; President presses GM CEO to stop producing in China and quickly replace Ohio factory tagged for closure

By Mike Colias
1,466 words
26 November 2018
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The Wall Street Journal Online
WSJO
English

General Motors Co. plans to cut up to 14,800 jobs in the U.S. and Canada and end production at several North American factories, marking the auto maker's first significant downsizing since its bankruptcy last decade as the company tries to adjust to weak sedan sales.

The moves—affecting plants in Michigan, Ohio and Canada—would reduce GM's annual costs by $4.5 billion by the end of 2020, freeing up money to invest in electric and self-driving vehicles. The decision, though, was called "callous" by the main auto workers union and prompted President Trump and Canadian Prime Minister Justin Trudeau to each call GM Chief Executive Mary Barra to express their disappointment.

Ms. Barra said she wants to act now, despite a strong economy and the company's healthy earnings, to help GM sustain profits through an expected downturn in the U.S. car market and keep investing in burgeoning technologies.

"This is what we're doing to transform the company. The industry is changing very rapidly," Ms. Barra said Monday. "We think it's appropriate to get in front of it while the business and the economy are strong."

President Trump has continued to press U.S. companies to create jobs at home rather than abroad. Early last year, he took aim at GM for building a version of the Chevrolet Cruze in Mexico.

On Monday, Mr. Trump said he told Ms. Barra that she should stop making cars in China and open a new plant in Ohio to replace the one that is ending production.

"They better damn well open a new plant there very quickly," Mr. Trump said in an interview with The Wall Street Journal on Monday, noting that he talked to Ms. Barra Sunday night.

"I love Ohio," Mr. Trump said. 'I told them, 'You're playing around with the wrong person.'"

A GM spokesman confirmed the conversation took place but declined to respond directly to Mr. Trump's comments. The Detroit auto maker, in a statement, defended its record of U.S. investment, saying it has spent $6.6 billion on its U.S. plants over the past four years, creating or preserving 17,600 jobs.

GM said Monday that it would cut 15% of its salaried workforce in North America, or more than 8,000 employees. The cuts will likely hit hard among engineers, designers and others in the auto maker's large product-development operations, which faces an overhaul in line with the stronger focus on electric and hybrid vehicles.

The reduction target includes some employees who accepted a buyout GM offered last month, though the company wouldn't say how many opted for the packages.

The company also said it would end production next year at three North American assembly plants and two smaller transmission factories, which combined employ more than 6,700 workers. Those include a factory in Lordstown, Ohio, where GM makes the Chevrolet Cruze; the Detroit-Hamtramck plant in the company's hometown, where it makes the Chevrolet Volt plug-in hybrid and several large sedans; and a factory in Oshawa, Ontario, a source of such models as the Chevrolet Impala and the Cadillac XTS.

A GM spokesman said the fates of the plants in Michigan and Ohio will be discussed next year during the company's negotiation for a new four-year contract with the United Auto Workers union. Production at the Oshawa plant will end in the fourth quarter of next year. GM hasn't said whether it plans to officially close the plant. Several people familiar with the company's plans say it is expected to be shut down for good.

Shares of GM rose 4.8% Monday to $37.65. The company's **stock price** has been stuck in the mid-$30s for most of this year, not much higher than the $33 price in its post-bankruptcy initial public offering eight years ago.

Despite shrinking dramatically a decade ago under a federally funded bailout and bankruptcy restructuring, many analysts say GM still has too many plants in North America to serve current demand for cars and trucks in the region.

Sales of sedans and other passenger cars have been sliding industrywide for several years as low gasoline prices have prompted more consumers to opt for roomier sport-utility vehicles and trucks.

GM plans to drop several passenger-car models from its U.S. lineup, including the Cruze compact car, the Volt and large sedans like the Impala, Buick LaCrosse and Cadillac CT6.

Fiat Chrysler Automobiles NV already phased out most small-car and sedan lines for the U.S., and Ford Motor Co. intends to follow suit, ending production of several car models within the next few years, including the Fusion and Taurus sedans.

Ford also is restructuring its operations in the U.S. and overseas, including making deep cuts to its salaried workforce. The actions are aimed at improving profitability and helping it invest in new technologies that it believes are core to its long-term survival.

GM's announcement Monday drew rebukes from the United Auto Workers and elected officials, including those who represent factory towns affected by the production cuts.

On his official Twitter account, Mr. Trudeau said his government would do everything possible to help families affected by the production cuts at GM's factory in Oshawa. He wrote that he spoke with Ms. Barra "to express my deep disappointment in the closure."

The UAW, which represents hourly workers at GM's U.S. factories, said in an emailed statement that it will challenge the auto maker's decision through legal and contractual means, as well as collective bargaining. The group said GM was being "callous" in putting profit above using American labor.

Just two years ago, GM's Lordstown factory was busy working round-the-clock on three production shifts, before a big layoff in early 2017 and another this year.

Industrywide U.S. vehicle sales have been on a historically strong run, having surpassed 17 million for three straight years. Analysts say sales could eclipse that mark again this year.

Tommy Wolikow, who was among those laid off last year from Lordstown after working at the factory in northern Ohio for nearly a decade, said he was hopeful of getting his job back some time.

"Today is a very sad day," said the 36-year-old Mr. Wolikow. "I've been holding out hope for so long. My dad retired from GM with 43 years, and I was proud of his legacy."

The auto maker had about 180,000 employees world-wide at the end of 2017, including approximately 103,000 in the U.S., according to a regulatory filing.

Ms. Barra said the company wants to be more efficient in its core business of engineering and building cars, while plowing more money into potential game-changing innovations.

"This is about making sure GM is lean and agile to get in front and lead in autonomous and electric vehicles," Ms. Barra said.

Traditional auto makers are scrambling to respond to new Silicon Valley rivals with far deeper pockets that are changing the way people think about personal transportation.

GM, for example, is spending more than $1 billion a year on its autonomous-vehicle development program and has hired around 1,000 workers in San Francisco to work on the project in an effort to challenge Alphabet Inc.'s driverless-car unit Waymo LLC.

At the same time, GM is trying to rein in spending on its core business of engineering and building cars. The company said the cuts announced Monday would reduce its overall annualized spending on capital investments by about $1.5 billion, to a level about 18% below the amount spent in 2017.

Analysts praised the latest moves, partly because sedans and smaller cars are generally money losers, while pickup trucks and SUVs fuel the bottom lines of GM, Ford and Fiat Chrysler.

Citigroup analyst Itay Michaeli said GM's planned downsizing points to "signs of a healthier and disciplined auto industry," noting that investors have been wary of embracing the sector because it has stumbled in past downturns.

Bob Davis and Adrienne Roberts contributed to this article.

Write to Mike Colias at Mike.Colias@wsj.com

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THE WALL STREET JOURNAL.

Economy
GM Closings a Fresh Sign of Worry for Economy; Recession seen as unlikely, but boom period looks 'long in the tooth'

By Eric Morath
676 words
26 November 2018
05:24 PM
The Wall Street Journal Online
WSJO
English

General Motors Co.'s plan to cut up to 14,800 North American jobs is a fresh sign the U.S. economy may be slowing after strong growth in the middle of the year.

Few economists see a recession, but the large layoff announcement comes as other economic indicators flash yellow, signaling slowdown.

The housing sector has slowed in the face of higher interest rates and the domestic energy sector faces a big drop in **oil prices** that could

damp hiring and investment in places like Texas and North Dakota.

The global economy also seems to have lost momentum. Economic output in Germany and Japan contracted in the third quarter, while growth in China is slowing.

Financial indicators also suggest investors are growing skittish about the outlook. Stock prices have declined and yields on risky corporate debt have risen relative to yields on safe Treasury debt, a warning sign of slowdown in the past.

Consumer spending is still strong and will be helped by lower gasoline prices, but some economists see a loss of momentum.

"There's a sense that this economic cycle is long in the tooth," said Robert Dye, chief economist at Comerica Bank, which has a large presence in Michigan.

Mr. Dye doesn't forecast a near-term recession, but projects economic growth to ease next year and in 2020.

Economists surveyed by The Wall Street Journal estimate economic output will expand at a 2.6% annual rate in the current quarter, down from an average 3.8% growth rate recorded in the spring and summer.

Still, it is too early to see the GM announcement as a prelude to a wave of corporate layoff announcements.

GM Chief Executive Mary Barra played down the broader significance of the announcement, saying the company wants to be more efficient and wasn't responding to "anything specific on the horizon."

John Silvia, an economist at Dynamic Economic Strategy, said the layoffs announced Monday have more to with GM's desire to exit the less profitable sedan segment than the broader economy.

"They realized sedans don't sell," he said. "People are spending more on SUVs and luxury cars because their incomes are rising, unemployment is low and confidence is strong. The car companies are responding to that."

Those who do lose their jobs at GM are entering a historically strong labor market.

The unemployment rate last month was 3.7%, matching the lowest level since 1969. Employers have added jobs for a record 97 straight months.

"There's never a good time to lose your job, but the silver lining for GM workers is the economy overall is pretty strong in Michigan," where much of the company's white-collar workforce in based, said University of Michigan economist Gabriel Ehrlich.

He said engineers and other white-collar workers should be able to find other employment without too much difficulty. Unemployment in Michigan fell below 4% last month for the first time since 2000. When GM filed for bankruptcy in June 2009, the rate was 14.6%.

But some factory workers could find it challenging to find jobs with comparable pay, Mr. Ehrlich said.

Nonsupervisory workers at auto manufacturers in the U.S. earned $29.64 an hour in October, the Labor Department said. That's well more than the pay earned by similar workers in transportation and in warehousing and retail, two other sectors that frequently employ Americans without college degrees.

In Lordstown, Ohio, where GM is idling production, there's a low concentration of automotive jobs outside those tied to the plant.

Mike Colias contributed to this article.

Write to Eric Morath at eric.morath@wsj.com

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ECB's Draghi: QE Program to End in December, Despite Weak Data; The central bank chief says a recent slowdown is normal and reflected temporary headwinds

By Tom Fairless
659 words
26 November 2018
02:03 PM
WSJ Pro Central Banking
RSTPROCB
English

European Central Bank President Mario Draghi defended the bank's move to start phasing out its easy-money policies against criticism from European lawmakers that it is moving too soon as eurozone economic growth slows.

The central bank has been treading a cautious path in recent months, seeking to start winding down its €2.6 trillion bond-buying program, known as quantitative easing or QE, without spooking international investors. The program is widely credited with bolstering growth in the 19-nation eurozone economy, which outpaced the U.S. over the past two years.

So far, Mr. Draghi and his top officials have avoided causing any "taper tantrum" in **financial markets**, similar to that unleashed when the Federal Reserve wound down its own bond-buying programs four years ago. But the ECB is phasing out its giant stimulus program at an awkward time -- just as the currency union posts its slowest growth rate in about four years, and as borrowing costs jump in Italy, the bloc's number-three economy, which is clashing with the European Union over its budget.

Speaking at the European Parliament in Brussels, Mr. Draghi confirmed that the ECB would likely phase out QE after next month. The decision is likely to be formalized at the ECB's next policy meeting on Dec. 13.

Mr. Draghi conceded that recent economic data had been weaker than expected. But he argued that this reflected temporary headwinds, such as bottlenecks in Germany's auto sector, as well as a natural slowdown from very brisk growth rates.

Some lawmakers questioned the ECB's decisions. Marisa Matias, a European lawmaker from Portugal, asked whether the recent slowdown in the eurozone might not be linked to the decision to phase out QE.

Mr. Draghi emphasized that the slowdown wasn't serious, and came after a period of very strong growth and job creation.

"Part of this lower momentum is due simply to a normalization of the growth process coming from pretty exceptional years" since 2014, he said. Even after the bond purchases are phased out, the ECB's policies will remain very loose, he added.

Two other top ECB officials struck a similar note on Monday, underscoring the ECB's resolve. Peter Praet, the bank's Belgian chief economist, blamed the eurozone slowdown in part on one-off factors, though he conceded that the bloc was being buffeted by a rise in trade protectionism, **financial-market volatility** and weaknesses in emerging markets.

Sabine Lautenschlaeger, a German member of the ECB's executive board, said she sees nothing on the horizon that could alter the decision to phase out QE, according to an interview published Monday on the ECB's website. She said she was confident that the ECB would start raising short-term interest rates, currently set at minus 0.4%, next year.

At the Parliament, Ludek Niedermeyer, a Czech lawmaker, questioned whether the ECB would have enough ammunition to support the economy in the event of a serious slowdown, after years of easy money.

Mr. Draghi said he considered such a scenario unlikely, and that the economy was still strong by historic standards.

For some European politicians, the end of QE can't come fast enough. Officials in Germany and the Netherlands have complained for years about the ECB's ultralow interest rates, which they worry hurt savers, pensioners and banks.

Gerolf Annemans, a right-wing politician from Belgium, accused the ECB of artificially supporting certain business sectors, hurting banks and creating asset-price bubbles.

"For me, this is a policy which has had disastrous consequences," Mr. Annemans said of QE.

"Our policy had disastrous consequences? Yes, it created 9.5 million jobs in a few years," Mr. Draghi said.

Write to Tom Fairless at tom.fairless@wsj.com

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THE WALL STREET JOURNAL.

Markets

Natural Gas Is Up, but Drillers Are Down; With shares of U.S. gas producers lower than last year, investors say a surge in the fuel prices will fade

By Ryan Dezember
675 words
26 November 2018
04:52 PM
The Wall Street Journal Online
WSJO
English

Natural-gas prices have risen 51% over the last year, yet the companies that produce the fuel have been left behind.

Shares of U.S. natural-gas producers are almost uniformly lower than they were a year ago, an indication that many investors believe the recent surge in gas prices will be short-lived.

Natural gas has lately been a bright spot for commodity bulls. Prices have jumped 30% this month to $4.248 per million British thermal units as unseasonably cold weather bites into stockpiles that began the heating season at their lowest levels since 2005.

Meanwhile, export volumes continue to increase with the opening this month of a liquefied natural-gas export terminal in Corpus Christi, Texas. The amount of gas burned at power plants to generate electricity also is on pace to set an annual record.

The added demand is good news for gas-focused producers, which continue to set new output records. But it hasn't translated to gains in their share prices. Over the last year, Appalachian gas producers Range Resources, Cabot Oil & Gas and Antero Resources have lost 12%, 15% and 26%, respectively. Southwestern Energy is off 18%. Ultra Petroleum, which drills in Wyoming, far away from big gas markets, is down 84%.

Jay Rhame, portfolio manager at Reaves Asset Management, said he has been eyeing Cabot and EQT, watching the Appalachian rivals for signs that they will be able to fund operations through their drilling activities in the long term and make shareholder-friendly moves like repurchasing shares or paying dividends. Higher gas prices have drawn Mr. Rhame's attention but failed to inspire him to buy the stocks.

"Even though the extra income will be nice this month, it doesn't change the 2020 value proposition," he said.

Bank of America Merrill Lynch analysts recently boosted their gas-price forecast for winter to $4, from $3.40, but held intact their prediction that prices will average $2.55 in 2020. "Past this winter, we expect production to overwhelm demand growth and lead to above-normal inventories," they wrote in a note to clients.

Trading in the futures market shows that is a widely held view. Though futures contracts for gas to be delivered this winter trade above or close to $4, the price drops sharply, to about $2.86, for gas to be delivered in April, according to FactSet.

Sanford C. Bernstein & Co. analysts said their clients have generally told them they will wait until gas prices in April and beyond rise above $3 before shifting money to gas-producer stocks from those of companies focused on oil.

Something that might help that happen, the analysts said, is a plunge in **oil prices** steep enough to curtail activity in the Permian Basin in West Texas. Huge volumes of gas have been unearthed there as a byproduct of oil drilling, flooding the market. So far, though, prospectors have reacted to sliding U.S. **oil prices** by dispatching more rigs to the Texas desert. As of Friday there were 493 drilling in the Permian, the most since early 2015, according to oil-field services firm Baker Hughes.

Gas producers might help themselves by locking in prices for their future output, said Michael Bradley, managing director of equity sales at Tudor, Pickering, Holt & Co.

"Anything above $3, you should be hedging as much as you possibly can, because I don't think the market is giving any credit to gas being above $3 for the next two to three years," he said.

Has the rise in natural gas prices prompted you to buy gas-producer stocks? Let the writer know your thoughts at ryan.dezember@wsj.com. Emailed comments may be edited before publication in future newsletters; please make sure to include your name and location.

Write to Ryan Dezember at ryan.dezember@wsj.com

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THE WALL STREET JOURNAL.

Markets

GE Bonds Rebound as Bargain Hunters Swoop In; Bargain hunting, short covering drive trading but prices remain depressed

By Matt Wirz
371 words
26 November 2018
05:47 PM
The Wall Street Journal Online
WSJO
English

General Electric Co. bonds rebounded sharply in recent days, easing some of the losses debt investors have taken as doubts about the conglomerate's financial stability spread through **financial markets**.

GE Capital's frequently traded bonds due 2035 have rallied 6% since Nov. 21 to 82 cents on the dollar but are still well below the 90.57 cents they traded at in late October, according to MarketAxess.

The cost of protecting against a default on GE bonds for five years through credit-default swaps, which falls as investor confidence rises, has declined about 24% in recent days to $202,500 annually, according to IHS Markit.

Bond prices have recovered, in part, because selling abated from large institutions and funds with restrictions on holding junk-rated debt, which unloaded billions of dollars of securities in mid-November, investors said.

Credit-rating firms rate GE three notches above junk, but unexpected losses at its power unit and the prospect of charges from its insurance business have fanned fears of further downgrades.

As the selling slowed, fund managers who think GE will remain investment grade for at least several years started buying the debt at what they consider to be bargain levels, the investors said.

"We believe another three notches of downgrades has a low probability of occurring and would require an inability to stabilize the power business," Barclays PLC wrote in a research report published last week.

Buying also came from short sellers who moved to take profits as prices began to rise. Short sellers borrow securities and sell them with plans to repurchase the instruments at lower prices in the future to close out the trade, pocketing the difference.

GE's 5% preferred shares, a debtlike instrument shorted by many hedge funds, jumped about 11% over the past week to 81.5 cents on the dollar, according to MarketAxess.

The company could shore up its debt prices further by prepaying $2 billion to $4 billion of bonds that fall due in 2019 and 2020, Barclays said in its report.

Write to Matt Wirz at matthieu.wirz@wsj.com

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