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Big Sell-Off in Technology Sector Pushes Indexes Lower for a Second Day

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Technology companies led a slide in stocks on Friday, adding to the market's losses from another tech-driven sell-off a day earlier.

Twitter plunged more than 20 percent, its second-biggest loss since going public in 2013, after the social media network said its monthly users declined in the second quarter.

While technology stocks made up much of the market's drop, smaller-company stocks fell more than the rest of the market. The losses outweighed gains in banks and phone companies.

Even so, the **Standard & Poor**'**s 500**-**stockindex** had its fourth weekly gain in a row.

The week ended largely as it began, with investors focused on a cavalcade of company earnings reports, most of which have topped Wall Street's forecasts.

''There were clearly high expectations coming into second-quarter earnings and we've seen where companies have performed well relative to those expectations, they've typically been rewarded, and where they have fallen short of those expectations, either in current quarter or future guidance, is where you're seeing (selling) occur,'' said Bill Northey, senior vice president at U.S. Bank Wealth Management.

The **S**.**&P**. **500 index** fell 18.62 points, or 0.7 percent, to 2,818.82. The **Dow Jonesindustrial average** slid 76.01 points, or 0.3 percent, to 25,451.06. The **Nasdaq composite**, which is heavily weighted with technology companies, lost 114.77 points, or 1.5 percent, to 7,737.42. The Russell 2000 index of smaller-company stocks gave up 32.02 points, or 1.9 percent, to 1,663.34.

This was the busiest stretch of the second-quarter earnings season, with roughly a third of companies in the **S**.**&P**. **500** reporting results. While some companies posted results that fell short of analysts' forecasts, most delivered better-than-expected results and favorable outlooks.

Of the 49 percent of the companies in the **S**.**&P**. **500** that had issued quarterly results as of Friday, some 65 percent reported earnings and revenue that beat analysts' forecasts, according to S&P Global Market Intelligence.

That has reinforced the underlying perception in the **financial markets** that the United States economy is performing strongly and that the Federal Reserve will raise interest rates again next week.

The government said on Friday that the economy surged in the April-June quarter to an annual growth rate of 4.1 percent. That is the fastest pace since 2014, driven by consumers who began spending their tax cuts and exporters who rushed to get their products delivered ahead of retaliatory tariffs.

The economic snapshot had been widely expected, so it did not have a noticeable impact on the market or the sell-off in technology stocks.

For the second straight day a social media company led a steep decline in the technology sector. Twitter plummeted 20.5 percent to $34.12 after the company disclosed user totals and a forecast that disappointed investors.

Snap, the company behind the Snapchat messaging app, slid 4 percent to $12.83. Facebook shares gave up 0.8 percent to $174.89. Facebook's steep drop the day before, which erased nearly $120 billion of the company's market value, was brought on by its warning to investors that it sees slower revenue growth ahead. With Friday's losses, Facebook shares came within a hair's length of finishing in a **bear market**, which is defined as a drop of 20 percent from a recent peak.

Benchmark U.S. crude lost 92 cents, or 1.3 percent, to settle at $68.69 per barrel in New York. Brent crude, used to price international oils, fell 25 cents to $74.29.

Bond prices rose, sending yields lower. The yield on the **10**-**year Treasury** fell to 2.96 percent from 2.97 percent late Thursday.

The dollar slipped to 111 yen from 111.23 yen on Thursday. The euro strengthened to $1.1656 from $1.1645.

Gold lost $2.70 to $1,223 an ounce.

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

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Strong Earnings by Tech and Banks Fail to Energize Anemic Session

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Stock indexes capped a day of listless trading with a mixed finish on Monday, as gains by banks and technology companies were offset by losses in other sectors.

Bond yields rose, pointing to a pickup in interest rates on consumer loans, which helped drive bank shares higher. Technology stocks also posted solid gains, adding to the sector's market-leading showing this year. Alphabet, Google's parent company, surged in after-hours trading on strong quarterly results.

Those gains were overshadowed by losses in industrial stocks, consumer goods companies and energy, among other sectors. More stocks fell than rose on the New York Stock Exchange.

Stocks mostly drifted in a narrow range for much of the day as investors sized up the latest batch of corporate quarterly results at the start of the busiest week in the reporting season.

''Earnings are coming in better than expected, but you're not getting much of a reaction from the marketplace,'' said Tom Martin, senior portfolio manager of Globalt Investments. ''People are biding their time.''

The **Standard & Poor's 500-stockindex** rose 5.15 points, or 0.2 percent, to 2,806.98. The **Dow Jonesindustrial average** fell 13.83 points, or 0.1 percent, to 25,044.29. The **Nasdaq composite** index gained 21.68 points, or 0.3 percent, to 7,841.87. The Russell 2000 index of smaller-company stocks picked up 1.61 points, or 0.1 percent, to 1,698.41.

The indexes are on pace to finish the month with gains. The **S.&P. 500**, the market's benchmark index, is on a three-week winning streak.

Bond prices fell. The yield on the **10-year Treasury** rose to 2.96 percent from 2.90 percent late Friday. The increase in bond yields helped lift bank shares. Wells Fargo added 2.8 percent to close at $58 a share.

A third of the companies in the **S.&P. 500** are set to report second-quarter earnings this week. So far, corporate earnings have been generally better than expected, reinforcing the underlying perception in **financial markets** that the United States economy is performing strongly and that the Federal Reserve will raise interest rates next month.

''The thing that's been actually driving the earnings beats right now is just the fundamental performance of the companies,'' said Jason Pride, chief investment officer of Glenmede's private wealth business. ''It's a good business environment.''

Out of the roughly 20 percent of companies in the **S.&P. 500** that have reported quarterly results so far, 83 percent have posted earnings that beat Wall Street's expectations, Mr. Pride said, noting that company earnings growth so far is running 21 percent higher than in the same quarter last year.

Even so, investors have been expecting companies to outdo analysts' expectations, which is one reason not all stocks are seeing a big bump from earnings growth.

''Companies that are coming in a penny or two ahead of expectations, they're basically not getting much of a reward in their stock,'' Mr. Pride said. ''That indicates the market is expecting these sorts of beats against earnings.''

Among the companies due to report results this week: Amazon.com, Boeing, Facebook, and McDonald's.

Investors bid up shares in the toy maker Hasbro on Monday after its latest quarterly earnings topped Wall Street's forecasts. The company was the biggest gainer in the **S**.**&P**. **500**, vaulting 12.9 percent to $106.04. Its rival Mattel also got a lift, climbing 3.9 percent to $16.59.

Traders hammered Illinois Tool Works, a manufacturer of industrial products and equipment, after it forecast earnings that were well below what analysts were expecting. The company led a sell-off in industrial sector stocks, tumbling 7.2 percent to $136.26.

Fiat Chrysler Automobiles slid 1.8 percent to $18.98 on news that its chief executive, Sergio Marchionne, had been replaced unexpectedly because of complications from shoulder surgery last month. The Fiat Chrysler board on Saturday named the longtime Jeep executive Mike Manley as chief, accelerating a transition that was planned for early next year.

Oil prices fell, erasing gains from earlier in the day. Benchmark United States crude dropped 37 cents to settle at $67.89 a barrel in New York. Brent crude, used to price international oils, slipped a penny to close at $73.06 in London.

Halliburton was the biggest decliner in the **S**.**&P**. **500**, sliding 8.1 percent to $41.54 after its management said that some customers were pulling back on production because of bottlenecks in getting to market the oil and gas they are producing.

The dollar fell to 111.40 yen from 111.49 yen on Friday. The euro weakened to $1.1692 from $1.1723.

Gold declined $7.50 to $1,222 an ounce, and silver lost 12 cents to $15.43 an ounce. Copper dipped a penny to $2.75 a pound.

In other energy futures trading, heating oil rose 1 cent to $2.12 a gallon. Wholesale gasoline added 2 cents to $2.09 a gallon. Natural gas fell 4 cents, or 2.8 percent, to $2.72 per 1,000 cubic feet.

In Europe, the German DAX fell 0.1 percent while the CAC 40 in France slid 0.4 percent. The FTSE 100 index of leading British shares declined 0.3 percent.

In Japan, the Nikkei 225 tumbled 1.3 percent and the South Korean Kospi dropped 0.9 percent.

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

CHARTS: 3-Month Treasury Bills: High rate at weekly auction. (Source: The Bond Buyer); The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Monday. (Source: Reuters)

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Talk of Truce in Trade Skirmish With Europe Lifts the Markets

By THE ASSOCIATED PRESS
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Technology companies led a broad rally on Wednesday that gave the **stock market** its third consecutive daily gain and nudged the **Nasdaq composite** to a nominal high.

The major stock indexes jumped in the last half-hour of trading after reports that a meeting between President Trump and a European Union trade delegation had yielded an agreement to work on tariffs.

Health care and industrial stocks also posted solid gains. Phone companies and other high-dividend, safe-play stocks lagged the broader market. Shares of homebuilders slumped after government data showed that sales of new homes fell in June.

Throughout the trading day, stocks held modest gains as the latest batch of quarterly earnings reports gave encouraging signs to investors.

''Tariffs haven't had an enormous impact on earnings, particularly in the manufacturing sector,'' said Jeramey Lynch, global investment specialist at J.P. Morgan Private Bank. ''We haven't seen that so far. Earnings have still been strong because the potential impacts so far of tariffs are being more than offset by what we see as a very favorable macroeconomic backdrop.''

The **Standard & Poor's 500**-**stockindex** notched its best day in more than a month, climbing 25.67 points, or 0.9 percent, to 2,846.07. The **Dow Jonesindustrial average** rose 172.16 points, or 0.7 percent, to 25,414.10. The **Nasdaq** added 91.47 points, or 1.2 percent, to 7,932.24.

The **S**.**&P**. **500**, the market's benchmark index, is on track for its fourth straight weekly gain.

Investors have been focused this week on company earnings, which have mostly topped Wall Street's expectations. At the same time, traders remain wary of global trade tensions, which have flared in recent weeks as the United States and some trading partners have imposed tariffs on certain products and threatened more.

And so, news that the United States and European Union were working to mend their frayed trade relationship injected a wave of hopeful buying into the market.

The latest wave of corporate report cards also had traders in a buying mood Wednesday, with the technology sector accounting for most of the market's gains. Corning shares vaulted 11.3 percent to $33.21.

The gains on Wednesday were not universal.

General Motors shares slumped 4.6 percent to $37.65 after the automaker cut its outlook for the year, mostly owing to tariffs on imported steel and aluminum. The diminished expectations overshadowed G.M.'s strong second-quarter results.

Roughly one-quarter of the companies in the **S**.**&P**. **500** had issued quarterly results as of early Wednesday, and among them, over 70 percent have topped analysts' forecasts for profits and revenue, according to S&P Global Market Intelligence.

Benchmark United States crude added 78 cents, or 1.1 percent, to settle at $69.30 a barrel in New York.

Bond prices fell. The yield on the **10**-**year Treasury** rose to 2.97 percent from 2.95 percent late Tuesday. Gold gained $7.50 to $1,231.40 an ounce.

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

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Strong Data Prompts Buying, Though Tariffs Loom

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6
English

Technology and health care companies led stocks broadly higher on Thursday, setting the United States market on track to break a two-week losing streak.

Some encouraging economic data helped put investors in a buying mood, though trading volume was relatively subdued as markets reopened following the Independence Day holiday in the United States.

Wall Street could be in for a bumpier ride on Friday, when tariffs on billions of Chinese goods are set to kick in. Investors will also be watching out for the Labor Department's latest monthly report on jobs and wages.

''It feels like the market is responding to the stronger economic data and some easing of the trade tensions overnight and focusing a bit more on fundamentals and a bit less on the ongoing concerns about trade,'' said Christine Scalley, United States equity strategist at J.P. Morgan Private Bank.

The **Standard & Poor's 500-stockindex** rose 23.39 points, or 0.9 percent, to 2,736.61. The **Dow Jonesindustrial average** gained 181.92 points, or 0.8 percent, to 24,356.74. The **Nasdaq composite** added 83.75 points, or 1.1 percent, to 7,586.43.

While uncertainty over American trade policy has hung over the market for months, tensions intensified in recent weeks. The **S.&P. 500** posted two consecutive weekly declines heading into this week.

On Friday, the United States is set to impose a 25 percent tariff on $34 billion worth of Chinese imports. And China is expected to strike back with tariffs on a similar amount of American exports.

The Trump administration has said it will not target an additional $16 billion worth of Chinese goods until it gathers further public comments. It is also identifying an additional $200 billion in Chinese goods for 10 percent tariffs, which could take effect if Beijing retaliates.

On Thursday in China, Commerce Ministry spokesman Gao Feng hit back at ''threats and blackmail'' ahead of the United States' planned tariff hike. He added that China would be forced to fight back to protect its own interests.

The big question remains: How far will the two countries go in their dispute.

''The market tomorrow morning will be very focused on did the U.S. proceed -- which at this point it feels like they're going to -- and was there any reaction overseas from China,'' Ms. Scalley said.

Meanwhile, a German newspaper report suggested on Thursday that the United States may propose reducing impending tariffs on auto imports from the European Union to zero.

Major European indexes surged on the report, which helped prime indexes in the United States for their solid start early Thursday.

Some encouraging economic data in the United States also gave traders something to cheer about. The Institute for Supply Management issued data indicating that American service firms expanded at a strong pace in June. Separately, payroll processor ADP said private employers in the United States added 177,000 jobs in June.

Technology stocks, which lead all other sectors in the S.&P. 500 with an 11.3 percent gain this year, led the rally. Qorvo climbed 5.7 percent to $81.82.

Benchmark United States crude dropped $1.20, or 1.6 percent, to settle at $72.94 per barrel in New York. The decline in oil prices weighed on some energy stocks. Marathon Oil fell 2.7 percent to $20.70.

Bond prices were little changed. The yield on the 10-year Treasury held at 2.83 percent.

The dollar strengthened to 110.68 yen from 110.49 yen on Wednesday. The euro rose to $1.1691 from $1.1660.

Gold added $5.70 to $1,257.30 an ounce.

In Asia, markets ended the day mostly lower after China reaffirmed its determination to protect its interests in its rancorous trade dispute with Washington. Japan's Nikkei 225 index fell 0.8 percent, while Hong Kong's Hang Seng index closed 0.2 percent lower.

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

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COMMON SENSE
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Debunking the Myth Of Hedge Fund Invincibility

By JAMES B. STEWART
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Highly paid hedge fund managers have complained for years that it's unfair to compare their performance with the broad **stock market** during prolonged **bullish** periods. Hedge funds are designed to mitigate risk, the argument goes, and so investors in them might sacrifice some gains as markets rise while waiting for hedge funds to prove themselves in more challenging times.

Those times would seem to have arrived.

So far this year, stock markets have delivered weak returns, bond markets have turned in negative performances, and everything is much more **volatile** -- just the environment that many hedge funds say they've been waiting for.

That's because most stock-investing hedge funds can bet against particular shares, rather than just making **bullish** bets like mutual funds, and thus can profit even in flat or down markets. And hedge funds that wager on things like bonds, currencies and the likelihood of corporate mergers boast that their performances are unconnected to the stock markets and can rise in bull and bear markets alike.

The results for the first six months are now in -- and they shatter the myth of hedge funds thriving in turbulent markets.

Hedge funds, on average, underperformed the **Standard & Poor's 500-stockindex** yet again. An index of hedge fund performance, calculated by the research firm HFR, gained just 0.81 percent in the first half of 2018. That is less than half of the **S. & P. 500**'s 1.67 percent gain.

"Hedge funds simply do not do what they claim from a risk or return perspective," said Yogesh Dewan, chief executive of Hassium Asset Management in London, which invests for wealthy families. Mr. Dewan said he's been investing in hedge funds for more than 20 years. "They really have not lived up to expectations."

How could hedge funds underperform even in a lackluster year like 2018?

Two kinds of hedge funds, in particular, dragged down the average performance: quantitative funds, which use complex trading algorithms, and long-short funds, which take both **bullish** and **bearish** positions in stocks.

Computer-driven quantitative funds, which were all the rage just two years ago, have lost more than 4 percent so far this year and were "the worst-performing category," according to Ken Heinz, HFR's president. Many computer-driven strategies rely on correctly reading market and economic trends, and the strong **bull-market** trend ended abruptly in February, sending many surprised quant-fund managers scrambling to rewrite their algorithms.

Other so-called macro strategy hedge funds, including those focused on commodities and currencies markets, were also weak.

Long-short funds, sometimes known as market-neutral funds, eked out gains of just 0.25 percent this year, well behind the **S. & P. 500**, suggesting that these fund managers were worse stock pickers than most people, even in a market with many declining stocks.

Sebastian Mallaby, author of "More Money Than God: Hedge Funds and the Making of a New Elite," told me this week that he now questions one of the basic premises of his book, which was published in 2010. Then, he felt that hedge fund managers' compensation -- typically 2 percent of their assets under management and 20 percent of any gains -- provided a strong financial incentive to "hustle more and work harder," which should have led hedge fund managers to do better than traditional mutual fund managers. "It hasn't," Mr. Mallaby said.

One reason, he suggested, is that the 20 percent incentive fee has declined in importance as assets have grown so large. "Once you have so much money under management, that 2 percent fee alone makes you rich. You can make so much money just sitting on the assets that the incentive to find great returns is weakened. I know many people in hedge funds, and that's their attitude."

He pointed out that in the early days of hedge funds, there were no management fees -- just a percentage of whatever money their funds earned. He said institutional investors should now insist that hedge funds reduce their management fees.

Despite what now amounts to nearly a decade of underperformance, money keeps pouring into hedge funds. Hedge fund assets stood at $3.2 trillion at the end of 2017 and hit a record at the end of March, according to Mr. Heinz of HFR.

That seems a paradox, but the longer the **bull market** continues -- it's the second-longest ever, and is closing in on the record -- the more institutional investors worry that another **bear market** is imminent and that hedge funds might provide protection.

"No one is forecasting a **bear market**," Mr. Heinz said, "but things can change quickly. Given all the trade and tariff issues, we're in uncharted territory."

Hedge fund marketers have shrewdly exploited those fears and the still-vivid memories of 2008's market rout, which left many pension funds and endowments reeling. "It is fair to say the hedge-fund guys are very smart in the way they market the asset class," Mr. Dewan said.

Hedge funds didn't protect investors from losses in the last **bear market**, but they did fare better than the **S**. **& P**. **500**. Hedge funds on average lost 18.3 percent in 2008. The **S**. **& P**. **500** dropped 38.5 percent.

Given the weak returns, hedge-fund marketers have largely abandoned their strategy of pitching themselves as "absolute return" investments that perform well in both strong and weak stock markets. Now, at a time of low and rising interest rates, they're describing themselves as more attractive than fixed-income assets like bonds, which have traditionally provided a haven when investors thought stocks were overvalued. Bonds and bond funds also tend to have much lower fees.

Hedge funds this year have outperformed the S. & P.'s United States bond index, which has lost 1.17 percent. But virtually risk-free two-year Treasury notes are currently yielding 2.55 percent -- more than what hedge funds, which are far from risk-free, are on track to generate this year.

In any event, comparing hedge funds with low-yielding bonds after years of promising much higher returns is just "moving the goal posts," said Simon Lack, author of "The Hedge Fund Mirage."

Of course, the weak average returns mask the fact that some hedge funds have done comparatively well. So far this year, so-called activist funds, whose managers take positions and call for board and management change, have gained 2.78 percent. Merger arbitrage funds, which bet on whether corporate deals will come to fruition, gained 2.63 percent. But nothing comes close to last year's 21.14 percent gain in the **S**. **& P**. **500** (including reinvested dividends).

Mr. Heinz conceded that the average hedge fund's return of 0.81 percent "isn't exactly hitting it out of the park," but it is still better than most European and Asian stock indexes as well as the **Dow Jonesindustrial average**, which has declined 1.81 percent.

Mr. Lack said he isn't surprised that hedge funds keep attracting new money. Inertia is powerful, and the industry of hedge-fund boosters is loud. "I've yet to meet a public pension plan interested in paying a consulting fee for a critical analysis of their hedge-fund allocation," he said.

Hedge funds have usually been considered a good investment when markets are **volatile**. (PHOTOGRAPH BY JEENAH MOON FOR THE NEW YORK TIMES)

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Bump in Bank Shares Keeps the Market on a Roll

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Never mind the trade war. Here comes earnings season.

Stocks climbed with other markets on Monday as concerns about trade tensions between the United States and the rest of the world took a back seat. The calendar ahead is full of corporate earnings reports, and the expectation is for another quarter of gangbusters growth.

With Friday's report showing hiring remains strong, the prevailing mood has helped to support markets despite China and the United States imposing dueling tariffs on each other at the end of last week.

The **Standard & Poor's 500**-**stockindex** rose 24.35 points, or 0.9 percent, to 2,784.17. The **Dow Jonesindustrial average** jumped 320.11, or 1.3 percent, to 24,776.59, and the **Nasdaq composite** gained 67.81, or 0.9 percent, to 7,756.20.

It was the third straight day that the **S**.**&P**. **500** had climbed at least 0.8 percent.

''The market in the second quarter tried to price in this whole thing, and it was probably a little too fast for that,'' said Matthew Miskin, a market strategist with John Hancock Investments.

Across the **S**.**&P**. **500**, analysts are calling for 19 percent growth in earnings per share from a year earlier, according to S&P Global Market Intelligence. Lower tax rates and stronger revenues are helping to drive the gains.

Citigroup, JPMorgan Chase and Wells Fargo are among this week's headliners, and all three are reporting their results on Friday. Accordingly, bank stocks were among the market's biggest winners on Monday. Financial stocks in the **S**.**&P**. **500** jumped 2.3 percent for the largest gain among the 11 sectors that make up the index.

They rose with Treasury yields, which can translate into bigger profits for banks by enabling them to charge higher rates for mortgages and other loans. The yield on the **10**-**year Treasury** note climbed to 2.86 percent from 2.82 percent late Friday.

On the flip side, higher interest rates can lure buyers away from high-dividend stocks because they become more interested in bonds. That led to losses for telecoms and real-estate investment trusts. Utilities were the worst-performing area of the **S&P 500** and dropped 3.1 percent.

In overseas markets, the FTSE 100 climbed 0.9 percent, and the Hang Seng in Hong Kong climbed 1.3 percent. Stocks from emerging markets, which have been on a wild ride up and down this year, jumped 1.5 percent.

The dollar edged up to 110.82 Japanese yen from 110.45 yen late Friday. The euro inched up to $1.1749 from $1.1745, and the British pound slipped to $1.325 from $1.3266.

Benchmark U.S. crude rose 5 cents to $73.85 per barrel. Brent crude, the international standard, rose 96 cents to $78.07 a barrel.

In other energy trading, heating oil rose 3 cents to $2.20 a gallon and wholesale gasoline rose 4 cents to $2.15 a gallon. Natural gas fell 3 cents to $2.83 per 1,000 cubic feet.

Gold rose $3.80 to settle at $1,259.60, silver added 7 cents to $16.14 per ounce and copper gained 3 cents to $2.85 per pound.

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

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

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A Small Drop for Markets Amid Trump's Comments

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United States markets inched lower on Friday as bond yields jumped, a shift that helped banks but hurt companies that pay big dividends. The dollar fell after President Trump said China was manipulating its currency.

Shares of companies including Microsoft and Honeywell rose as investors were pleased with their quarterly reports, but General Electric shares stumbled. Stocks wobbled all week as investors reacted to solid company results as well as heightened trade tensions. The **Standard & Poor's 500-stockindex** was virtually flat for the week while the Russell 2000 index, which is made up of smaller companies that do more business inside the United States, rose 0.6 percent.

In the last two days Mr. Trump criticized the Federal Reserve for raising interest rates, said he was willing to put tariffs on all imports from China, and said China, the European Union and others were harming the United States by weakening their currencies and reducing interest rates. Stocks weren't affected, but the dollar declined and short-term bond yields slipped, suggesting investors wondered if the Federal Reserve might raise interest rates more slowly.

''If there's a tossup between raising and not raising, you wonder what role these types of comments might possibly play,'' said Sameer Samana, a strategist for the Wells Fargo Investment Institute.

The **S.&P. 500 index** dipped 2.66 points, or 0.1 percent, to 2,801.83. The **Dow Jonesindustrial average** lost 6.38 points to 25,058.12. The **Nasdaq composite** gave up 5.10 points, or 0.1 percent, to 7,820.20.

Short-term bond yields inched higher. The yield on the 2-year Treasury note rose to 2.60 percent from 2.59 percent.

Long-term **bond prices** dropped. The yield on the **10-year Treasury** note rose to 2.90 percent from 2.84 percent. That helped banks: shares of JPMorgan Chase gained 1.3 percent to $111.28 and Bank of America stock picked up 1.6 percent to $30.13.

The dollar dropped sharply, to 111.49 yen from 112.49 yen. The euro rose to $1.1723 from $1.1635.

Microsoft continued to set records after its fiscal fourth-quarter results topped Wall Street forecasts and its cloud computing division continued to grow. The stock climbed 1.8 percent to $106.27.

The People's Bank of China weakened the country's currency against the dollar on Friday. If the renminbi continues to depreciate, goods exported to China will become more expensive to consumers there and Chinese exports would also be relatively cheaper. That could balance out suggested increases in tariffs by the Trump administration.

Benchmark United States crude rose to $68.26 a barrel in New York and Brent crude, used to price international oils, gained 0.7 percent to $73.07 a barrel in London.

Wholesale gasoline rose 1.2 percent to $2.07 a gallon. Heating oil edged up 0.7 percent to $2.10 a gallon. Natural gas lost 0.4 percent to $2.76 per 1,000 cubic feet.

Gold was stable at $1,222.40 an ounce. Silver gained 1 percent to $15.55 an ounce. Copper jumped 2.2 percent to $2.76 a pound.

In Germany, the DAX lost 1 percent and in France, the CAC 40 slid 0.3 percent. The FTSE in Britain 100 gave up 0.1 percent. The Kospi in South Korea added 0.3 percent and in Hong Kong, the Hang Seng gained 0.8 percent. The Nikkei 225 in Japan fell 0.3 percent.

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

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Belly-Flop by Facebook Puts Investors on Edge

By MATT PHILLIPS
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English

It had become an article of investor faith on Wall Street and in Silicon Valley: Quarter after quarter, year after year, the world's biggest technology companies would keep raking in new users and ever-higher revenue. And with that, their share prices would continue to march upward, sloughing off any stumbles.

This week, that myth was shattered. And investors responded Thursday by hammering the stock of Facebook, one of the world's most valuable companies. Shares of the social media giant fell 19 percent, wiping out roughly $120 billion of shareholder wealth, among the largest one-day destruction of market value that a company has ever suffered.

Investors dumped Facebook shares after the company reported disappointing second-quarter earnings, in which the company warned of a sharp slowdown in sales growth in coming quarters along with rising spending on security and privacy enhancements.

The sudden drop also amounted to a test of the giant, technology-focused stocks that have carried the market for much of the year.

Before Facebook's tumble, more than half the returns in the **Standard & Poor's 500-stockindex** this year had been provided by just a handful of technology-related stocks, said Savita Subramanian, an equity strategist at Bank of America Merrill Lynch.

In recent years, investors -- from individual traders to the world's largest hedge funds -- have snapped up shares in these companies, which include Facebook, Amazon, Apple and Google's parent company, Alphabet. These tech giants were viewed as having nearly unassailable revenue streams that could deliver profit growth regardless of economic conditions.

As a result, their share prices soared. This year alone Apple is up some 15 percent; Alphabet has gained more than 20 percent; Amazon has surged more than 50 percent; and Netflix is up nearly 90 percent.

Facebook's stumble suggests that some of these stocks -- as well as the broader market -- could be particularly vulnerable if their financial results don't live up to investor expectations.

Until Thursday, Facebook was enjoying enormous gains. The stock was up more than 23 percent for the year, before it reported earnings after Wednesday's close. By Thursday afternoon, all of its gains for the year had vanished.

It was the details of Facebook's report that seemed to spook investors. The company's quarterly revenue fell slightly short of meeting the expectations of Wall Street analysts. And executives warned that the company would invest heavily in privacy and security, and that revenue growth would most likely slow in coming quarters.

[Read more about the accumulation of issues Facebook said is starting to hurt its multibillion-dollar business.]

Still, Facebook's sharp drop seems to have had a limited effect on the broader market, which has shown signs of gaining traction in recent weeks as companies largely reported strong second-quarter earnings.

On Thursday, the **S**.**&P**. **500** was down only slightly, despite Facebook's tumble. Other large tech firms didn't take any cues from Facebook: Alphabet shares rose 0.8 percent and Apple slipped only 0.3 percent. Amazon fell 3 percent, but recovered those losses after hours on Thursday after issuing a strong quarterly earnings report.

The **S**. **& P**. **500** fell just 0.3 percent Thursday, to 2,837.44, while the **Dow Jonesindustrial average** rose 0.4 percent to 25,527.07. The tech-heavy **Nasdaq Composite** index was the hardest hit by Facebook's tumble, dropping 1 percent to 7,852.18.

The **S**. **& P**. **500** is up more than 6 percent this year despite trade tensions surrounding the United States and its largest trading partners and the Federal Reserve's increases in interest rates. The index ended Thursday only about 1 percent below its high hit on Jan. 26.

''The market is looking ahead,'' said Jeffrey Rubin, director of research at **stock market** information firm Birinyi Associates. ''There are always going to be these one-day disasters.''

It's quite possible that Facebook's shares could recover and continue to climb. In March, the company's handling of user data in the Cambridge Analytica scandal contributed to a backlash against the size and reach of the biggest tech businesses and raised concerns that regulators may soon crack down on these firms. Shares of Facebook fell 17 percent in the days after news broke. By May, the company had erased those losses.

Still, the sheer size of Facebook's fall on Thursday became a focus for investors. The decline in Facebook's market value was roughly equivalent to the entire value of some of the country's best-known companies, including McDonald's, Nike and the industrial conglomerate 3M.

There are few examples of single-day losses so large. In September 2000, as the tech stock boom turned to bust, the chip maker Intel warned that its sales could slow, sending its **stock price** down by more than 20 percent. The rout knocked $91 billion off its market value in a day. Adjusted for inflation, that loss would be more than $130 billion in 2018 dollars, greater than the value Facebook lost on Thursday.

But given the vast market value of today's tech giants, and the fact that 20 percent declines in share prices are not unheard-of, the size of the losses shouldn't be surprising.

Apple is now worth more than than $950 billion. Amazon, Alphabet and Microsoft are not far behind, with market values of more than $800 billion. Even after the drop Thursday, Facebook is the fifth-largest publicly traded company, by market value, at more than $500 billion.

CHARTS: Facebook **stock price** (Source: Thomson Reuters) (B1); The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Thursday. (Source: Reuters); 7-Year Treasury Notes: High yield at auction. (Source: Treasury Department) (B3)

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The New York Times

Business/Financial Desk; SECTB
Despite Trade Tensions, Markets Rally on Jobs

By THE ASSOCIATED PRESS
495 words
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2
English

The trade dispute between the United States and China escalated on Friday, but Wall Street focused on a solid jobs report instead.

After a wobbly start, stocks mounted a broad rally, shaking off two consecutive weekly losses.

Growing jitters in recent weeks over a stepped-up trading dispute between the world's two largest economies had weighed on the markets well ahead of Friday, when Beijing and Washington launched dueling tariffs on billions in goods.

''The markets had already sold off the prior two weeks,'' said Dan Heckman, national investment consultant at U.S. Bank Wealth Management. ''The market probably had built that expectation in already and today we're seeing a nice rebound.''

A solid pickup in hiring last month also helped keep investors in a buying mood.

The **Standard & Poor's 500**-**stockindex** rose 23.21 points, or 0.8 percent, to 2,759.82. The **Dow Jonesindustrial average** gained 99.74 points, or 0.4 percent, to 24,456.48. The **Nasdaq composite** added 101.96 points, or 1.3 percent, to 7,688.39. The Russell 2000 index of smaller-company stocks picked up 14.57 points, or 0.9 percent, to 1,694.05.

Investors welcomed new data Friday from the government showing that employers kept up a brisk pace of hiring last month, adding 213,000 jobs, without having to raise wages much. Markets have been watching to see if tight labor market conditions would force wages higher, a sign of inflation.

Health care stocks posted the biggest gains, led by the drugmaker Biogen. Its stock soared 19.6 percent to $357.48 on encouraging results from an Alzheimer's therapy.

Technology companies also notched solid gains. Advanced Micro Devices shares rose 5.6 percent to $16.36.

United States crude **oil prices** reversed an early slide. Benchmark United States crude gained 86 cents, or 1.2 percent, to settle at $73.80 a barrel in New York. Brent crude, used to price international oils, fell 28 cents to close at $77.11 a barrel in London.

Bond prices rose. The yield on the **10**-**year Treasury** fell to 2.82 percent from 2.83 percent late Thursday.

The dollar fell to 110.41 yen from 110.62 yen on Thursday. The euro strengthened to $1.1741 from $1.1691.

Gold dropped $2.90 to $1,254.40 an ounce. Silver slipped 3 cents to $16.07 an ounce. Copper was little changed at $2.82 a pound.

In other energy futures trading, heating oil slipped 1 cent to $2.17 a gallon. Natural gas rose 2 cents to $2.86 per 1,000 cubic feet.

Major indexes in Europe finished higher. Asian markets erased earlier losses to finish mostly higher.

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

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The New York Times

Business/Financial Desk; SECTB
Technology Shares Lead Late Rally That Lifts U.S. Markets Out of Red

By THE ASSOCIATED PRESS
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2
English

Stocks closed higher on Monday after a last-minute market rally erased the losses from a daylong slump.

Technology companies led the rebound. Banks and health care stocks also made gains. Energy took the biggest losses as crude **oil prices** declined. Big department store chains and consumer goods companies also declined.

The **stock market**, which was coming off two weekly losses in a row, was in the red for most of the day after disappointing economic data out of Asia that left global indexes sharply lower.

Trading volume was lighter than usual ahead of Tuesday, when markets in the United States are scheduled to close early, at 1 p.m. Eastern time, for the Independence Day holiday the following day.

"We opened very low and then, during the course of the day, the market started to basically gain some momentum," said Quincy Krosby, chief market strategist at Prudential Financial. "The volume in the market typically comes down markedly in a holiday week, and moves can be exaggerated to the upside as well as to the downside by events, headlines or data."

The **Standard & Poor**'**s 500**-**stockindex** rose 8.34 points, or 0.3 percent, to 2,726.71. The **Dow Jonesindustrial average** gained 35.77 points, or 0.2 percent, to 24,307.18. The **Nasdaq composite** jumped 57.38 points, or 0.8 percent, to 7,567.69. The Russell 2000 index of smaller-company stocks picked up 12.02 points, or 0.7 percent, to 1,655.09.

A slump in global markets weighed on stocks in the United States from the start on Monday, after new economic reports out of China and Japan disappointed traders. A German government crisis also weighed on markets in Europe, which closed lower.

"You saw some of the more tariff-sensitive stocks a little bit weaker on the opening," said J. J. Kinahan, chief market strategist for TD Ameritrade. "It's all headline news trading."

Stocks gradually pared their losses as the day went on, led by gains in technology stocks.

Investors continued to focus on global trade tensions. The European Union warned the Trump administration on Monday that it might impose tariffs on $300 billion of American exports in retaliation for Trump's threatened tariffs on European cars. On Sunday, Canada started imposing tariffs on billions of dollars of U.S. goods in response to the Trump administration's duties on Canadian steel and aluminum.

The U.S. is set to impose a 25 percent tariff on up to $50 billion of Chinese products starting this Friday.

In response, China has said it will raise import duties on $34 billion worth of American goods.

"We're just not sure what's going to happen with that," said Rob Haworth, senior investment strategist with U.S. Bank Wealth Management. "We don't think a lot of the July 6 tariffs have yet to be fully priced into the market."

Technology companies led the market rebound. Micron Technology led the sector, gaining 3.9 percent to $54.48.

"You're getting a reaction to last week, when technology did so poorly, and now they're getting a bounce here," Haworth said.

Tracking shares in Dell vaulted 9 percent to $92.20 after it announced it would go public again after five years as a private company.

At the same time, shares in the business software company VMware jumped 10.2 percent to $162.02 on speculation that Dell may buy the rest of the company, which will also issue a special dividend to shareholders.

The casino operator Wynn Resorts sank 7.9 percent to $154.14 after June revenue growth at its resorts in Macau fell well short of Wall Street's expectations.

Shares in several department store chains declined. Nordstrom fell 2.1 percent to $50.71, while Macy's lost 2.4 percent to $36.54. Kohl's gave up 2.2 percent to $71.33.

Bond prices fell. The yield on the **10**-**year Treasury** rose to 2.87 percent from 2.86 percent late Friday.

The increase in bond yields helped lift bank shares. Interest rates on mortgages and other consumer loans tend to move along with bond yields. Rising rates translate into bigger profits for banks from credit cards, mortgages and other consumer loans. Capital One Financial gained 2.1 percent to $93.78.

Benchmark crude fell 21 cents to settle at $73.94 a barrel in New York. Brent crude, used to price international oils, lost $1.93, or 2.4 percent, to close at $77.30 in London. The decline in **oil prices** weighed on energy stocks. Cimarex Energy lost 4 percent to $97.66.

The dollar fell to 110.90 yen, and the euro weakened to $1.1617.

Gold fell $11.50 to $1,239.80 an ounce.

Markets in Asia were overshadowed by weaker than expected Chinese manufacturing data and a softening in Japan's economic outlook.

China's manufacturing activity slowed in June, adding to concerns that the economy is cooling because of tighter government controls on lending. Meanwhile, the Bank of Japan's ''tankan'' survey measuring confidence among large-scale manufacturers declined for the first time in two years.

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

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

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The New York Times

Business/Financial Desk; SECTB
Markets Bounce Back, With Nasdaq at New High

By THE ASSOCIATED PRESS
536 words
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4
English

Technology companies soared Thursday as major stock indexes in the United States recovered the ground they lost a day earlier. The **Nasdaq composite** closed at another all-time high.

Big names like Apple and Microsoft and chipmakers like Intel made big gains as investors remain optimistic about the technology sector even though much of the market has been shaken by escalating trade tensions.

Industrial companies also regained much of the ground they lost Wednesday, but energy companies and basic materials makers failed to rally. Defense contractors climbed after President Trump advocated for more defense spending in the United States and Europe.

The **Standard & Poor's 500**-**stockindex** rose 24.27 points, or 0.9 percent, to 2,798.29. The **Dow Jonesindustrial average** rose 224.44 points, or 0.9 percent, to 24,924.89. The **Nasdaq** jumped 107.31 points, or 1.4 percent, to 7,823.92. Its last record came on June 20.

Software maker CA made the biggest gain in the tech sector after it accepted an offer from Broadcom worth $18.9 billion, or $44.50 per share. Its stock rocketed 18.7 percent to $44.15.

Broadcom's market value fell by $14.4 billion.

President Trump continued to criticize other NATO members at the group's summit in Brussels. He said European countries, as well as America, should raise their defense spending.

Lockheed Martin gained 2.2 percent to $313.31, and Raytheon rose 1.8 percent to $197.52.

The merry-go-round of media deals continued as Comcast offered to buy European pay-TV company Sky for $34 billion a day after Twenty-First Century Fox increased its own offer for Sky.

Fox already owns 39 percent of Sky, and while it tangles with Comcast, Comcast and Disney are also trying to buy Fox itself. Fox recently accepted Disney's $71 billion offer from Disney. The New York Times reported Thursday that Comcast will focus on Sky and end its pursuit of Fox.

Sky's stock rose 3.4 percent in London. In the United States, Comcast rose 2.3 percent to $34.55 and Fox fell 0.9 percent to $47.38. Disney rose 0.2 percent to $108.25.

Stocks around the world slumped Wednesday after the Trump administration released a list of $200 billion in imports from China that it could hit with a 10 percent tax. China said it would retaliate if the tariffs take effect.

Benchmark United states crude rose $0.49 to $69.35 a barrel in New York. Investors expect oil supplies to increase after Libya announced that it will start exporting oil again.

Bond prices ticked higher. The yield on the **10**-**year Treasury** note rose to 2.85 percent from 2.84 percent.

Gold rose $2.20 to $1,245.00 an ounce.

The dollar rose to 112.46 yen after it jumped to 112.04 yen a day ago. The euro edged up to $1.1672 from $1.1669.

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

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The New York Times

Business/Financial Desk; SECTB
Banks Rally, but Falling Oil Prices Drag Down Indexes

By THE ASSOCIATED PRESS
677 words
17 July 2018
The New York Times
NYTF
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3
English

Major indexes closed mostly lower on Monday as investors bought bank shares but sold most other types of stocks, including health care and technology companies. Energy stocks sank along with **oil prices**.

Oil prices fell more than 4 percent after American officials suggested that the United States would take a softer stance on countries that import oil from Iran after sanctions on Iran's energy sector go back into effect in November.

Amazon jumped in midday trading as investors expected strong sales during the company's annual Prime Day promotion, one of its largest sales days of the year, but the stock gave up much of that gain after problems with the company's website. Most other groups of stocks lost ground, and about two-thirds of the companies on the New York Stock Exchange finished lower.

Stocks finished at five-month highs on Friday as investors remained optimistic about the economy, even as they worried about the trade war between the United States and China.

''We're coming off of a very strong week last week where the market finally started to focus on the expectation of a very strong earnings season,'' said Sunitha Thomas, a portfolio adviser for Northern Trust Wealth Management. She said companies were likely to report big increases in profit and revenue, and while investors are looking for hints that the trade war is affecting company forecasts and supply chains, there were no signs of that on Monday.

The **Standard & Poor's 500-stockindex** lost 2.88 points, or 0.1 percent, to 2,798.43. The **Dow Jonesindustrial average** rose 44.95 points, or 0.2 percent, to 25,064.36 as Goldman Sachs, JPMorgan Chase and Boeing climbed. The **Nasdaq composite** fell 20.26 points, or 0.3 percent, to 7,805.72.

The Russell 2000 index of smaller-company stocks declined 8.54 points, or 0.5 percent, to 1,678.54.

Bank of America's second-quarter profits climbed, after big banks got a big boost from the corporate tax cut at the end of 2017 and from higher interest rates. Unlike Wells Fargo and Citigroup, which disclosed their results on Friday, Bank of America did better than Wall Street expected. Its stock rose 4.3 percent to $29.78.

Deutsche Bank soared 8 percent to $12.14, its biggest gain in more than a year, after it said its earnings would be considerably higher than analysts expected. Its stock has tumbled as the company has taken three years of losses based on high costs and big fines and penalties linked to past misconduct.

Benchmark U.S. crude fell 4.2 percent to $68.06 in New York. Brent crude, used to price international oils, fell 4.6 percent to $71.84 a barrel in London.

Tribune Media and Sinclair Broadcast Group both nosedived after the Federal Communications Commission said it had concerns about Sinclair's plan to buy Tribune. Tribune Media plunged 16.7 percent to $32.12, and Sinclair skidded 11.7 percent to $29.10.

Online retail giant Amazon increased as much as 1.6 percent at the start of its Prime Day promotion, but finished with a gain of 0.5 percent at $1,822.49.

Bond prices fell. The yield on the **10-year Treasury** note rose to 2.85 percent from 2.83 percent. High-dividend companies like real estate investment trusts fell as investors who wanted income bought bonds instead.

Gold fell 0.1 percent to $1,239.70 an ounce. Silver was unchanged at $15.81 an ounce. Copper lost 0.4 percent to $2.76 a pound.

The dollar stayed at 112.30 yen. The euro climbed to $1.1714 from $1.1677.

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

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

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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB

Gains by Google's Parent Lift Wall Street

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

The major U.S. stock indexes finished mostly higher Tuesday as investors welcomed strong corporate earnings reports from Google parent Alphabet and other companies.

Gains by technology companies and health care stocks outweighed losses in consumer goods manufacturers, retailers and other sectors.

Smaller-company stocks, which have been beating the rest of the market this year, turned sharply lower as investors weighed the implications of the Trump administration's decision to send billions in emergency aid to farmers hurting from tariffs stemming from the U.S. trade dispute with China.

Tariffs also weighed on Whirlpool's latest quarterly results, giving the appliance maker its worst day in more than 30 years.

"Investors are focused on the good news on earnings and the economy, but they're still a bit cautious when it comes to the market moving higher, and that's because of all the news flow on geopolitical events and tariffs," said Jeff Kravetz, regional investment strategist at U.S. Bank Private Wealth Management.

The **S&P 500 index** rose 13.42 points, or 0.5 percent, to 2,820.40. The **Dow Jones Industrial Average** gained 197.65 points, or 0.8 percent, to 25,241.94. The **Nasdaq composite** lost 1.11 points to 7,840.77. The Russell 2000 index of smaller-company stocks had its worst day in a month, sliding 18.22 points, or 1.1 percent, to 1,680.20.

More stocks fell than rose on the New York Stock Exchange. The **S&P 500**, the market's benchmark index, is on a three-week winning streak.

Alphabet gained 3.9 percent to $1,258.15 after the company reported second-quarter earnings late Monday that topped Wall Street's expectations, even as it booked a $5.1 billion charge to cover a fine levied by European regulators.

Harley-Davidson vaulted 7.7 percent to $44.63 after the motorcycle manufacturer's latest quarterly earnings came in well ahead of what analysts were expecting. The company also said it's planning strategic changes as tariffs affect its business.

Health care sector stocks got a lift from a couple of companies that reported strong quarterly results.

Biogen added 4.1 percent to $372.84. The drugmaker also raised its forecast for the year. Shares in Eli Lilly & Co., which in addition to reporting solid earnings said it will spin off its animal health business, gained 5 percent to $93.35.

This is the busiest week for the second-quarter earnings season, with roughly a third of companies in the **S&P 500** scheduled to report, including Amazon, Facebook, Boeing and Ford. Of the 17.4 percent of the companies in the **S&P 500** that had issued quarterly results as of Monday, some 71 percent reported earnings and revenue that beat analysts' forecasts, according to S&P Global Market Intelligence. That's reinforced the underlying perception in the **financial markets** that the U.S. economy is performing strongly and that the Federal Reserve will raise interest rates again next month.

Even so, traders remain wary of global trade tensions, which have ratcheted up in recent weeks as the Trump administration has sought to renegotiate trade pacts with China, Canada and European nations, resorting to imposing tariffs on imports of aluminum, steel and other goods. The strategy has prompted U.S. trading partners to retaliate, creating risks for the economy.

On Tuesday, the Trump administration announced a $12 billion plan to assist farmers who have been hurt by President Donald Trump's trade disputes with China and other trading partners. The plan, which focuses on Midwest soybean producers and others targeted by retaliatory measures, would include direct assistance for farmers, purchases of excess crops and trade promotion activities aimed at building new export markets.

The move sent shares in several agriculture sector companies higher. Farming equipment manufacturer Deere & Co. rose 3.2 percent to $139.84. Fertilizer maker Mosaic added 2.3 percent to $29.02.

The aid plan also prompted the sell-off in small-company stocks, which tend to be more domestically focused and had climbed in recent months as the dollar got stronger and investors worried about trade. Those conditions changed after the White House proposed its aid package, said Quincy Krosby, chief market strategist at Prudential Financial.

"Seeing the government offer aid to the farmers perhaps has given the market a bit of a belief that if any other sector or subsector that gets hurt temporarily by these ongoing trade issues, perhaps they too will receive aid," she said.

Whirlpool isn't expecting much relief from the impact of U.S. tariffs on steel and aluminum imports.

In a filing, the company blamed higher raw materials costs on the tariffs, and said it expects more of the same in the second half of 2018. That could require Whirlpool to modify its business practices and could have "a material adverse effect on our financial statements in any particular reporting period," the company said.

Investors hammered Whirlpool's shares Tuesday. The stock tumbled 14.5 percent to $128.82.

Bond prices rose. The yield on the **10**-**year Treasury** fell to 2.95 percent from 2.96 percent.

Benchmark U.S. crude climbed 63 cents, or 0.9 percent, to settle at $68.52 per barrel in New York. Brent crude, used to price international oils, gained 38 cents to $73.44 per barrel in London.

The pickup in **oil prices** helped lift energy sector stocks. Pioneer Natural Resources added 3.2 percent to $187.08.

The dollar fell to 111.22 yen from 111.48 yen on Monday. The euro weakened to $1.1683 from $1.1689.

Gold slipped 10 cents to $1,225.50 an ounce. Silver added 10 cents to $15.52 an ounce. Copper gained 6 cents to $2.81 a pound.

In other energy futures trading, heating oil rose 1 cent to $2.13 a gallon. Wholesale gasoline was little changed at $2.09 a gallon. Natural gas added a penny to $2.73 per 1,000 cubic feet.

Markets in Europe finished solidly higher despite a survey that indicated economic growth across the 19-country eurozone moderated at the start of the third quarter. Germany's DAX rose 1.1 percent and the CAC 40 in France added 1 percent. The FTSE 100 index of leading British shares gained 0.7 percent.

Major indexes in Asia also finished higher. Japan's Nikkei 225 gained 0.5 percent, while South Korea's Kospi added 0.5 percent. Hong Kong's Hang Seng jumped 1.4 percent. Australia's S&P-ASX 200 rose 0.6 percent.

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

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

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The New York Times

Business/Financial Desk; SECTB
Markets Fall in Late Sell-Off; Investors Wary of Jobs Report and Tariffs

By THE ASSOCIATED PRESS
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4
English

U.S. stocks closed lower Tuesday as a swift sell-off in the final minutes of trading wiped out earlier gains and snapped a three-day winning streak for the market.

Technology companies and banks led the market slide, outweighing gains in health care and energy stocks. The **Dow Jonesindustrial average** and **S**.**&P**. **500** each fell 0.5 percent. The **Nasdaq composite** fell nearly 1 percent, while smaller companies bucked the trend with modest gains.

The trading session was shortened ahead of the Independence Day holiday. Once investors return Thursday, they'll have no shortage of reasons to snap out of the holiday lull by the end of the week.

On Friday the United States is set to impose a 25 percent tariff on $34 billion worth of Chinese imports. China is expected to strike back with tariffs on a similar amount of U.S. exports. The big question is how far the two countries will go in their dispute over trade.

''The market might get worked up about a tit-for-tat retaliation, which we'll probably see,'' said Scott Wren, senior global equity strategist for the Wells Fargo Investment Institute. ''There's a relatively low probability of an all-out trade war.''

The Trump administration has said it won't target an additional $16 billion worth of Chinese goods until it gathers further public comments. It's also identifying an additional $200 billion in Chinese goods for 10 percent tariffs, which could take effect if Beijing retaliates.

Uncertainty over U.S. trade policy has hung over the market since late February. The **S**.**&P**. **500** posted two consecutive weekly declines heading into this week.

Investors will also have their eye Friday on the Labor Department's latest monthly jobs and wage report.

Analysts expect the report will show that hourly wages rose 2.8 percent last month. If it comes in above 3 percent, that could be a bad day for the market, Mr. Wren said.

''The market is paying very close attention to wage pressure, very close attention to anything that's going to hurt corporate margins, anything that's going to make the Fed want to quicken the pace and magnitude of interest rate hikes,'' Mr. Wren said.

On Tuesday, gainers slightly outnumbered decliners on the New York Stock Exchange, with small-company stocks faring better than the overall market. Trading volume was lighter than usual going into the holiday.

The **S**.**&P**. **500 index** fell 13.49 points, or 0.5 percent, to 2,713.22. The **Dow Jonesindustrial average** slid 132.36 points, or 0.5 percent, to 24,174.82. The **Nasdaq** lost 65.01 points, or 0.9 percent, to 7,502.67. Smaller-company stocks bucked the broader market decline. The Russell 2000 index picked up 5.33 points, or 0.3 percent, to 1,660.42.

Bond prices rose. The yield on the **10**-**year Treasury** fell to 2.83 percent from 2.87 percent late Monday.

Technology and bank stocks took some of the heaviest losses. The chip maker Micron Technology slumped 5.5 percent to $51.48, while Charles Schwab dropped 2.1 percent to $50.24.

Traders sent shares in Campbell Soup higher after the New York Post reported an activist investor is in talks with shareholders about potentially selling the company. The stock gained 1.8 percent to $41.03.

Crude oil futures pared some of their early gains. Benchmark U.S. crude added 20 cents to $74.14 a barrel in New York. The contract reached more than $75 a barrel in early trading. Brent crude, used to price international oils, rose 46 cents to $77.76 a barrel in London.

The dollar fell to 110.62 yen from 110.86 yen on Monday. The euro strengthened to $1.1652 from $1.1610.

Gold rose $11.80, or 1 percent, to $1,253.50 an ounce. Silver gained 21 cents to $16.04 an ounce. Copper slipped 3 cents to $2.92 a pound.

In other energy futures trading, heating oil gained 1 cent to $2.16 a gallon. Wholesale gasoline added a penny to $2.12 a gallon. Natural gas rose a penny to $2.87 per 1,000 cubic feet.

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

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The New York Times

Business/Financial Desk; SECTB
Market's Solid Week Helped by Energy and Consumer Shares

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6
English

Stocks wrapped up another solid week on Friday as shares of industrial and energy companies ticked higher, but corporate earnings got off to a sluggish start as reports from several major American banks failed to excite investors.

Indexes wobbled in morning trading, but rising **oil prices** helped energy companies, and shares of defense contractors and machinery makers also rose. Shares of consumer-focused companies like Amazon set record highs.

Wells Fargo stock skidded after the bank a drop in earnings as fallout continued from its phony accounts scandal. Citigroup stock also fell after its revenue growth was weak. AT&T shares skidded after the Justice Department asked a court to overturn the company's purchase of Time Warner.

Investors expect another round of great profit growth this quarter, but they are not sure about what will come next: the United States and China are in a trade war without any signs of resolution, midterm Congressional elections are getting closer, and interest rates keep rising. Paul Christopher, head of global market strategy for the Wells Fargo Investment Institute, said investors will focus on corporate forecasts covering the rest of the year.

''We think there will be a lot of attention paid to the outlook,'' he said. ''We still think the economy is really what investors should be watching here, and we think it's going to be solid this year and again good next year.''

The **Standard & Poor's 500**-**stockindex** edged up 3.02 points, or 0.1 percent, to 2,801.31. The **Dow Jonesindustrial average** added 94.52 points, or 0.4 percent, to 25,019.41. The **Nasdaq composite** set another record, just barely, as it rose 2.06 points to 7,825.98.

Major indexes rose for the second consecutive week after modest losses over the previous two weeks. Investors continued to waver between optimism about the growing economy, and the strong company earnings that come with it, and worries that the trade war and other commercial disputes could set back global economic growth.

Wells Fargo, the largest American mortgage lender, posted a smaller profit than analysts expected. Its stock gave up 1.2 percent to $55.36. Citi shares fell 2.2 percent to $67 and JPMorgan Chase stock dipped 0.5 percent to $106.36.

While bank profits are surging this year, their stocks are not. Much of the profit growth has come from last year's corporate tax cuts rather than a big improvement in the banks' businesses. Investors have also worried about the shrinking gap between short-term interest rates and longer-term ones because banks make a lot of their money by borrowing money at short-term rates and lending it out over the long term.

While investors are taking money out of financials, they are more optimistic about technology companies and retailers, which are expected to post even stronger earnings growth later this summer. Shares of Amazon rose 0.9 percent on Friday, to $1,813.03, and Microsoft stock added 1.2 percent to $105.43.

AT&T stock dropped 1.7 percent to $31.67 after the Justice Department moved to challenge its recent purchase of Time Warner. The $85 billion deal closed last month after a federal judge ruled that it did not violate antitrust law, but the government is asking a higher court to reconsider that ruling.

Benchmark United States crude rose to $69.95 a barrel in New York while Brent crude, used to price international oils, rose 1.4 percent to $75.33 a barrel in London.

Shares of Devon Energy advanced 1.8 percent to $44.72 and Exxon Mobil stock rose 0.7 percent to $83.31.

Johnson & Johnson shares lost 1.4 percent to $125.93 after a St. Louis jury awarded almost $4.7 billion in damages to 22 women and their families after they claimed asbestos in Johnson & Johnson talcum powder contributed to their ovarian cancer. The company said it would appeal, as it has in previous cases that found for women who sued the company. This is the first case that focused on asbestos in the talcum powder.

Bond prices moved higher. The yield on the **10**-**year Treasury** note fell to 2.83 percent from 2.85 percent.

Gold fell to $1,239.60 an ounce. Silver fell 1 percent to $15.82 an ounce. Copper lost 0.1 percent to $2.78 a pound.

While the stronger dollar has sent gold and silver prices lower, the losses for copper have been especially steep. Copper futures have fallen for five straight weeks, down 16 percent over that time, a sign that investors are worried the trade war will hurt construction, manufacturing and power generation.

Wholesale gasoline rose 1.7 percent to $2.11 a gallon. Heating oil added 0.5 percent to $2.13 a gallon. Natural gas sank 1.6 percent to $2.75 per 1,000 cubic feet.

The dollar rose to 112.32 yen from 112.48 yen. The euro edged up to $1.1679 from $1.1672.

The CAC-40 in France advanced 0.4 percent and in Germany, the DAX rose 0.4 percent. The FTSE 100 in Britain gained 0.1 percent.

Asian markets finished mostly higher, led by Japan, where the Nikkei 225 jumped 1.9 percent as the yen weakened against the dollar, which helps exporters. In South Korea, the Kospi advanced 1.1 percent and the Hang Seng index in Hong Kong added 0.2 percent.

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

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The New York Times

Business/Financial Desk; SECTB
Tech Companies Tumble, Pulling Markets Lower

By THE ASSOCIATED PRESS
332 words
31 July 2018
The New York Times
NYTF
Late Edition - Final
4
English

Technology stocks tumbled for the third day in a row on Monday as a sharp reversal for some of Wall Street's recent favorites worsened. Major indexes in the United States skidded.

Technology companies have done far better than the rest of the market in recent years, but they've fallen after Facebook and Twitter both reported weak user growth in the second quarter. Microsoft and Alphabet slumped, and Facebook, Twitter and Netflix have all fallen at least 20 percent from their record highs earlier this month.

''Is the stock 20 percent less valuable, or was it misvalued to begin with?'' said Mark Hackett, chief of investment research at Nationwide, a financial services company.

Still, Hackett says the drop for high-flying technology companies could become a good thing for the market if investors focus on companies with steadier revenue and more cash, including software makers, banks and industrial firms.

''It would be nice to see a broadening of the strength,'' he said.

Elsewhere, energy companies climbed along with the price of crude oil, but industrial companies like Caterpillar continued to lose ground.

The meat producer Tyson became the latest company to cut its profit projections and point to tariffs.

The **Standard & Poor's 500**-**stockindex** lost 16.22 points, or 0.6 percent, at 2,802.60, and the **Dow Jonesindustrial average** fell 144.23 points, or 0.6 percent, to 25,306.83.

The **Nasdaq composite** has more technology stocks among its ranks, and it fell 107.41 points, or 1.4 percent, to 7,630. The **Nasdaq** has fallen at least 1 percent for three days in a row, which hadn't happened in three years.

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

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

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The New York Times

Business/Financial Desk; SECTB
Banks Falter, but Small Companies Shore Up Market

By THE ASSOCIATED PRESS
926 words
20 July 2018
The New York Times
NYTF
Late Edition - Final
5
English

Banks and other large stocks fell in the United States on Thursday, but smaller companies climbed, making for a mixed finish on Wall Street. Trade issues again weighed on the market as representatives of the auto industry told Congress they opposed tariffs on imported cars and car parts being proposed by the Trump administration.

Major banks fell as interest rates decreased. Weak second-quarter results also weighed on American Express and Bank of New York Mellon. President Trump told CNBC he is ''not happy'' the Federal Reserve has been raising interest rates, which had little effect on markets but did send the dollar slightly lower.

Companies that make and distribute drugs fell after the Trump administration proposed changes to government rules on drug price rebates. Aluminum producers sank after Alcoa said the American tariffs on imported aluminum are costing it at least $12 million a month.

Representatives of car manufacturers, suppliers and dealers appeared before Congress along with foreign diplomats. They were seeking to head off the Trump administration's proposed tariffs on imported cars and car parts.

The United States imported $335 billion in autos and parts in 2017, so those tariffs could dwarf the taxes the administration has placed on imported steel, aluminum, and goods from China. General Motors and Daimler have both warned that tariffs could have major effects on their businesses.

Lindsey Bell, investment strategist with CFRA, said most consumers have not noticed the effects of the tariffs yet, but that will change if cars are taxed.

''It will significantly increase the price of a car, and the consumer will definitely pull back'' on spending, she said, adding that foreign automakers with factories in the United States might move those jobs overseas.

''There's a lot of jobs that could be lost if these tariffs go through,'' she said.

The **Standard & Poor's 500**-**stockindex** slid 11.13 points, or 0.4 percent, to 2,804.49. The **Dow Jones Industrial Average** fell 134.79 points, or 0.5 percent, to 25,064.50. The **Nasdaq composite** gave up 29.15 points, or 0.4 percent, to 7,825.30.

The Russell 2000 index of smaller-company stocks recovered from an early slide and rose 9.44 points, or 0.6 percent, to 1,701.31. Smaller retailers did especially well. Smaller companies tend to do better than larger ones when trade tensions flare up because they do a greater proportion of their sales in the United States.

More stocks rose than fell on the New York Stock Exchange.

General Motors said last month that tariffs on imported cars might cause it to cut jobs in the United States. Its stock slid 1.4 percent to $39.31 and Tesla dipped 1.1 percent to $320.23. Auto parts retailer BorgWarner lost 2.1 percent to $45.03.

Second-quarter results and forecasts from American companies continued to dominate trading. American Express fell 2.7 percent to $100.17 after it set aside more money to cover potential bad loans. Bank of New York Mellon lost 5.2 percent to $52.73.

EBay slumped 10.1 percent to $34.53 after it reported lower sales than analysts had forecast.

The president's criticism of the Federal Reserve was unusual, and investors wondered if it could slow the pace of interest rate increases, even though the Fed is independent and Mr. Trump said he did not plan to get involved in its decision-making. For the day, the dollar fell to 112.46 yen from 112.84 yen. The euro fell to $1.1635 from $1.1641.

The yield on the **10**-**year Treasury** note fell to 2.84 percent from 2.88 percent.

Real estate investment trusts and utilities, which pay big dividends, did far better than the rest of the market. Many investors consider those stocks alternatives to bonds, so they tend to do well when bond yields fall.

Cable and internet provider Comcast said it will not make another bid for Twenty-First Century Fox's entertainment business and will instead focus on trying to buy European pay-TV operator Sky. Fox shareholders are scheduled to vote on Disney's $71 billion offer next week.

Comcast gained 2.6 percent to $34.91 while Fox fell 0.1 percent to $46.65. Disney gained 1.3 percent to $112.13, and in London, shares of Sky fell 1.5 percent.

Aluminum producer Alcoa sank 13.3 percent to $41.56 after it forecast a smaller pre-tax profit. It said the tax on imported aluminum is costing it $12 million to $14 million a month. Century Aluminum skidded 12.1 percent to $13.09.

Companies that make and distribute drugs fell after the Trump administration proposed changes to government rules on drug price rebates. AbbVie fell 4.7 percent to $89.95, and drugstore and pharmacy benefits manager CVS Health shed 2.6 percent to $66.14.

Benchmark United States crude rose 1 percent to $69.64 per barrel in New York. Brent crude, used to price international oils, fell 0.4 percent to $72.58 per barrel in London.

Gold fell 0.3 percent to $1,222.40 an ounce.

CHARTS: The **S**.**&P**. **500 Index**: Position of the **S**.**& P**. **500 index** at 1-minute intervals on Thursday. (Source: Reuters); 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 WALL STREET JOURNAL.
U.S. EDITION

Passive Funds Ruffle Stock Prices --- Fears, however, of wide disruptions from ETFs are overblown, S&P report concludes

By Asjylyn Loder
808 words
19 July 2018
The Wall Street Journal
J
B1
English

The deluge of money flooding into and out of passive investments can have a very active effect on stock prices, new research says.

The report, from the data and research arm of S&P Global Inc., a major provider of **financial-market** indexes, is the latest salvo in a long-running debate about the pressure index funds exert on the stocks and bonds they are meant to track. The resurgence of market turbulence this year intensified concerns that an exodus from index funds could trigger an avalanche of forced selling.

Assets in passive funds that try to match the market rather than beat it have quintupled in the past decade to $6.9 trillion, according to research firm Morningstar. Exchange-traded funds, perhaps the most visible manifestation of the index-investing trend, have been linked in recent years to unusual price swings in oil, Japanese equities and high-yield debt.

While the S&P report found that the money sloshing into and out of passive strategies does move asset prices, S&P researchers concluded that fears of widespread market disruptions because of ETFs are overblown.

"Any strategy in the **financial markets** is fine when there's a small number of people doing it, but when a large number of people do it, it can cause distortions," said Jared Dillian, an investment strategist with research firm Mauldin Economics.

Size is especially important in an industry where the cheapest funds garner the most assets. The bigger the strategies grow, the more money fund companies make.

Investors yanking cash out of index-tracking strategies exacerbated sharp declines in early February, when stocks plunged and **volatility** surged, according to the report published this week by S&P Global Market Intelligence. S&P Global builds and licenses index products, such as the **S&P 500**, to mutual funds and ETF companies.

Strategies that mimic the **S&P 500**, including mutual funds, ETFs and other index-tracking investments, may have accounted for as much as one-third of the benchmark's almost 3.8% decline on Feb. 8, wrote Daniel Sandberg, a director at S&P Global Market Intelligence, in the report.

"There is an impact and that impact can be significant," Mr. Sandberg said in an interview.

The $3.6 trillion U.S. ETF industry has faced particular scrutiny. Like mutual funds, ETFs package stocks, bonds or other assets into a single share. But unlike mutual funds, ETFs can be bought and sold on an exchange just like shares of Amazon.com Inc.

In February, ETFs that bet against the Cboe **Volatility** Index were blamed for a price spike in **volatility** futures contracts. Last year, a flood of cash into funds that invest in small mining companies was linked to price gyrations in gold stocks from Sydney to Toronto.

"They attract investors that want to trade fast," said Francesco Franzoni, professor of finance at USI Lugano and the Swiss Finance Institute, who co-wrote research showing that stocks included in ETFs become, on average, more **volatile**.

Mr. Sandberg and his colleagues tried to measure the impact of money pouring into and out of passive strategies, and focused particular attention on ETFs. The research was prompted by S&P clients, mostly large institutional investors, who are increasingly concerned that the rapid growth of index-tracking funds may be distorting stock prices.

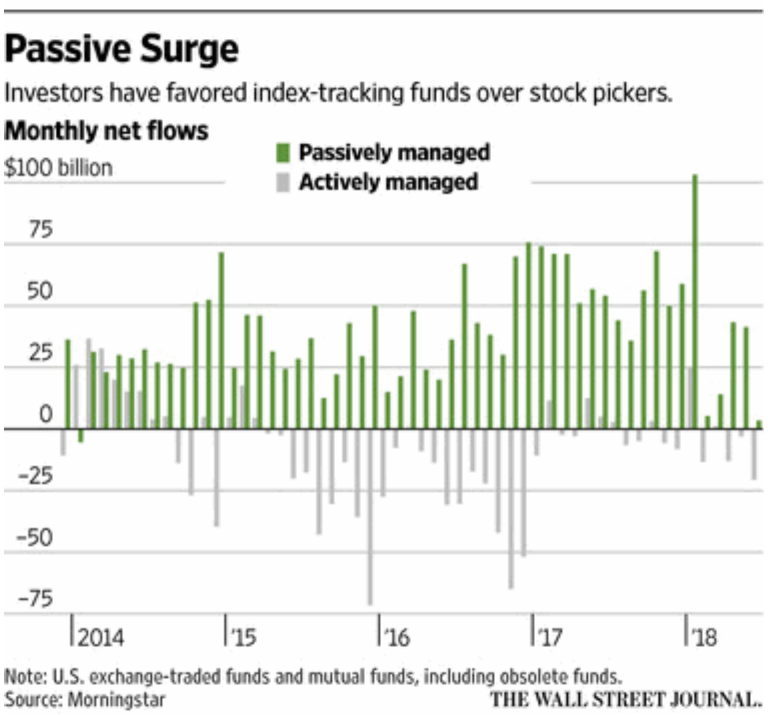
"Clients are asking, 'How big do ETFs have to get before we get concerned?" said David Pope, a managing director at S&P Global Market Intelligence. "It's everyone's underlying fear, that one fund gets so powerful that it starts to move prices in a disruptive manner."

They found that some stocks are more vulnerable to price moves driven by surges of investor cash. Like many traditional indexes, the **S&P 500** is divvied up based on the **stock-market** value of the underlying companies. But market value has little to do with the availability of the stock, according to the S&P report.

For example, Walmart Inc. accounts for 0.5% of the assets in an **S&P 500 index** fund, but only 0.1% of the average daily trading volume of **S&P 500** stocks in June, according to S&P. By contrast, Netflix Inc. is 0.7% of the benchmark's assets, but 3.3% of trading.

ETFs may buy more of a stock than is readily available, forcing prices higher to find more willing sellers. Or they may sell more than the market has an appetite for, pushing prices lower to attract buyers.

"There's not much cause for concern for systemic risk," Mr. Sandberg said. "But we have been able to quantify that there's some minimal impact."



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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
Market Slips as Tariff Threats Deepen U.S.-China Tensions

By THE ASSOCIATED PRESS
979 words
12 July 2018
The New York Times
NYTF
Late Edition - Final
2
English

Global stock indexes sank Wednesday after the Trump administration released a list of $200 billion in goods that could be hit with tariffs and China said it would retaliate. The dollar spiked and big exporters plunged.

Companies that sell computer chips, oil, basic materials and heavy machinery dropped after the Trump administration proposed a 10 percent tax on a wide list of imports. It is scheduled to make a decision on the potential tariffs after Aug. 31.

China's government said it will take "firm and forceful measures" if the new tariffs are enacted. That response would likely include measures other than tariffs. Trump has threatened to put new taxes almost everything the U.S. imports from China.

Jack Ablin, chief investment officer for Cresset Wealth Advisors, said the tariffs can have big effects: a tariff on an import from one country can lead to broad price increases for similar items, and rising taxes and costs might can companies to change their supply lines in less efficient ways.

"When you start adding all of that together, you end up with typically higher inflation and low productivity," he said. "Higher inflation tends to rob consumers of their income and lower productivity tends to rob companies of their profits."

A four-day winning streak for the **S&P 500** ended as the benchmark index lost 19.82 points, or 0.7 percent, to 2,774.02. The **Dow Jones Industrial Average** dropped 219.21 points, or 0.9 percent, to 24,700.75. The **Nasdaq composite** fell 42.59 points, or 0.5 percent, to 7,716.61. The Russell 2000, an index of smaller and more U.S.-focused companies, gave up 11.96 points, or 0.7 percent, to 1,683.66.

The **S&P 500** had closed at a five-month high Tuesday.

The new list of tariff targets from the U.S. Trade Representative includes vacuum cleaners, furniture and car and bicycle parts, but U.S.-branded smartphones and laptops were excluded. Still, chipmakers, which make large portions of their sales in China, slumped. Nvidia fell 2.3 percent to $247.53 and Micron Technology lost 2.8 percent to $54.18.

Construction equipment maker Caterpillar lost 3.2 percent to $136.76 and farm equipment maker Deere lost 2.2 percent to $141.42.

The ICE U.S. dollar index jumped 0.6 percent, a large move. The dollar rose sharply against the Japanese currency, increasing to 112.04 yen from 111.28 yen. The euro fell to $1.1674 from $1.1745.

The stronger dollar hurts exporters because it makes U.S. goods and commodities more expensive in other markets. Crude **oil prices** tumbled partly because of the rising dollar and partly because Libya said it will start exporting oil again, a move that will increase supplies.

Benchmark U.S. crude fell 5 percent to $70.38 a barrel in New York. Brent crude, used to price international oils, plunged 6.9 percent to $73.40 a barrel in London.

On Friday the U.S. and China put 25 percent taxes on $34 billion in imports. China imported only $130 billion in goods from the U.S. last year, but it could retaliate against the U.S. through other means including regulatory moves and investigations of U.S. companies.

The trade dispute stems from Washington's complaint that Beijing steals or pressures companies to hand over technology and its concerns that plans for state-led development of Chinese companies in robotics and other fields might erode American industrial leadership.

Indexes in Europe and Asia took steeper losses as investors worried the worsening trade dispute will hamper the growth of the global economy. France's CAC 40 and the DAX in Germany both lost 1.5 percent. Britain's FTSE 100 index dropped 1.3 percent.

Japan's benchmark Nikkei 225 fell 1.2 percent and the South Korean Kospi lost 0.6 percent while Hong Kong's Hang Seng shed 1.3 percent.

Airlines took sharp losses after American said it expects slower fare growth in the U.S. American Airlines slumped 8.1 percent to $35.96 and United Continental slid 3.4 percent to $68.88.

Twenty-First Century Fox raised its offer for European pay TV service Sky. Fox already owns 39 percent of Sky and wants to buy the rest, but rival Comcast has stepped in with its own bid. Fox says the new offer values Sky at $32.5 billion.

Fox lost 4 percent to $47.79. In the U.K., Sky stock fell 0.5 percent.

Bond prices moved higher. The yield on the **10**-**year Treasury** note fell to 2.84 percent from 2.87 percent.

The dip in bond yields helped utility companies make small gains. Utility companies tend to pay large dividends, so investors who want income often buy them when bond yields fall.

In other commodities trading, gold lost 0.9 percent to $1,244.40 an ounce. Earlier this month gold hit its lowest price since early 2017. Silver fell 1.7 percent to $15.82 an ounce. Copper skidded 3.4 percent to $2.74 a pound.

Wholesale gasoline fell 4.6 percent to $2.06 a gallon. Heating oil sank 5.4 percent to $2.10 a gallon. Natural gas rose 1.5 percent to $2.83 per 1,000 cubic feet.

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AP Markets Writer Marley Jay can be reached at http://twitter.com/MarleyJayAP His work can be found at https://apnews.com/search/marley%20jay

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

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

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The New York Times

Business/Financial Desk; SECTB
The Market Slips, Then Rebounds, as Netflix Slumps

By THE ASSOCIATED PRESS
1,037 words
18 July 2018
The New York Times
NYTF
Late Edition - Final
2
English

U.S. stocks rallied Tuesday as retailers, technology and household goods companies all made solid gains and helped the market shake off a weak start. Netflix slumped after investors were disappointed with the streaming video company's subscriber growth.

Stocks skidded at the start of trading as Netflix plunged early on, and investors sold some of their other recent favorites including Facebook and Apple. But those stocks later recovered and Netflix narrowed its losses. Technology companies also turned higher and strong results from Johnson & Johnson pulled health care stocks upward.

Federal Reserve Chairman Jerome Powell delivered a positive view of the economy as he told Congress that he expects the Fed to keep gradually raising interest rates. Powell said the Fed believes the economy will stay strong and inflation will remain at around 2 percent for the next few years. Stocks have fallen previous times that Powell gave major addresses, but they didn't do so on Tuesday.

Investors focused on company earnings, which aside from Netflix were mostly good. Financial services company Charles Schwab and regional bank Comerica both rose.

"Double-digit earnings growth for this quarter and this full calendar year remains on track, and a 10 percent gain in earnings next year is also still doable," said Sam Stovall, chief investment strategist for CFRA.

While investors have been buying U.S. stocks and selling foreign indexes this year, Stovall said earnings growth for companies in overseas markets will probably improve in 2019 while U.S. profit growth slows down. That could make non-U.S. markets more appealing.

The **S&P 500 index** rose 11.12 points, or 0.4 percent, to 2,809.55 after it dropped 9 points at the start of trading. The **Dow Jones Industrial Average** gained 55.53 points, or 0.2 percent, to 25,119.89. The **Nasdaq composite** jumped 49.40 points, or 0.6 percent, to 7,855.12 and surpassed the record high it set last week. The Russell 2000 index of smaller-company stocks rose 8.72 points, or 0.5 percent, to 1,687.26.

Companies that sell clothing, food and household goods made solid gains. Ralph Lauren advanced 2.6 percent to $133.30 and PepsiCo climbed 1.7 percent to $114.88. Amazon as it said sales in the first hours of its annual Prime Day promotion improved compared to last year in spite of website problems. The company said it's resolving those issues. The stock rose 1.2 percent to $1,843.93.

Netflix's weak subscriber totals sent the stock down 5.2 percent to $379.48. The company has regularly beaten its own subscriber forecasts but failed to do so in the second quarter and its third-quarter estimate was lower than analysts expected. Things looked far worse for Netflix in early trading as the stock plunged 14.1 percent before recovering most of that drop. Even with Tuesday's loss, the stock is up 98 percent this year.

Johnson & Johnson's second-quarter profit grew thanks to better results from its prescription drug business, and it posted higher sales than analysts expected. The stock gained 3.5 percent to $129.11.

Financial services company Charles Schwab climbed 3.6 percent to $52.88 after it surpassed Wall Street forecasts in the latest quarter.

UnitedHealth, the largest U.S. health insurance company, once again beat expectations in the latest quarter and raised its annual profit forecast. But the company's spending on medical costs was higher than analysts expected, and the stock lost 2.6 percent to $250.29. Investors worried that other health insurers would have similar problems, and competitors Anthem and Humana also slipped.

Advertising companies sank after Omnicom said its business in North America decreased in the second quarter and its U.K. business also shrank. The advertising conglomerate lost 9.5 percent to $70.69 and Interpublic Group shed 6.1 percent to $22.26.

The European Union and Japan signed a broad trade deal Tuesday that will eliminate nearly all tariffs across a third of the global economy. Japanese consumers will pay lower prices for European wine and pork, while Japanese machinery parts, tea and fish will get cheaper for Europe. The deal has been in the works for years and contrasts with the more protectionist approach of U.S. President Donald Trump.

Bond prices were little changed. The yield on the **10**-**year Treasury** note remained at 2.86 percent.

Benchmark U.S. crude erased an early loss and finished little changed at $68.08 a barrel in New York. Brent crude, used to price international oils, picked up 0.4 percent to $72.16 a barrel in London.

Wholesale gasoline gained 1.2 percent to $2.03 a gallon. Heating oil added 0.8 percent to $2.07 a gallon. Natural gas fell 0.7 percent to $2.74 per 1,000 cubic feet.

Metals prices continued to fall. Gold dripped 1 percent to $1,227.30 an ounce. Silver sank 1.2 percent to $15.62 an ounce. Copper fell 0.6 percent to $2.75 a pound. All three are near their lowest prices in a year.

The dollar rose to 112.83 yen from 112.30 yen. The euro fell to $1.1664 from $1.1714.

Germany's DAX jumped 0.8 percent and the CAC 40 in France added 0.2 percent. The British FTSE 100 index rose 0.3 percent.

Japan's benchmark Nikkei 225 gained 0.4 percent after reopening from a public holiday. South Korea's Kospi lost 0.2 percent and Hong Kong's Hang Seng shed 1.3 percent.

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AP Markets Writer Marley Jay can be reached at http://twitter.com/MarleyJayAP His work can be found at https://apnews.com/search/marley%20jay

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 Tuesday. (Source: Reuters); Industrial Production: Index of total industrial production, 2012 = 100, seasonally adjusted. (Source: Federal Reserve)

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The New York Times

Business Day; DealBook
Earnings Are Booming. Stocks Not So Much.

By Stephen Grocer
582 words
20 July 2018
06:23 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 not rewarding American corporations for the best profits they've reported in years.

The second-quarter earnings season is underway, and the first reports look strong. So far, 87 percent of companies that have reported earnings have exceeded Wall Street's estimates, well above the 70 percent average over the past five years, and FactSet is now forecasting that second-quarter profits for companies in the **Standard & Poor's 500**-**stockindex** will be up 20.8 percent from a year earlier.

This follows a first quarter in which profits ballooned by 24.6 percent and 78 percent of companies announced profits that exceeded analysts' expectations.

Heading into 2018, many market watchers pointed to corporate earnings to explain their rosy outlook for stocks. Yet despite this performance, the **stock market** has been lackluster. The **S**. **& P**. **500** has gained 4.9 percent this year and is off 2.4 percent from its high, on Jan. 26.

So why aren't stocks higher?

Rising trade tensions are perhaps the most obvious answer. While stocks haven't tumbled as the bellicose talk has turned to action, the trade fights have created an unease that has weighed on the market. Laurence D. Fink, the chief executive of BlackRock, told The New York Times this month that concerns about a trade war were causing investors to withdraw money from the markets or choose not to increase their positions substantially.

The lack of excitement about the earnings surge shows up in stock movements. So far this earnings season, shares of **S**. **& P**. **500** companies that reported profits above expectations rose just 0.9 percent in the days surrounding the release of their results. During the first-quarter earnings season, shares of companies whose results topped estimates rose 0.2 percent, and those stocks even declined during the fourth-quarter reporting period.

So why aren't investors rewarding companies? Expectations and valuation. Investors have already priced in big earnings from corporate America. The forward price-to-earnings ratio of the **S**. **& P**. **500** stands at 16.5, slightly above the 10-year average of 14.4. That valuation takes into account profits rising nearly 20.6 percent this year, the best annual growth rate since 2010.

With expectations already so high, there is little room for error. If the growth rate comes in lower than currently expected, the **stock market** will suddenly look overvalued in a **bull market** that is entering its 10th year.

The first-quarter earnings growth rate may have marked a high, in part because of the benefits of tax cuts. Although the tax legislation passed in December is certainly bolstering profits — profit margins are at a record high this year, according to FactSet — the positive impact on the earnings growth rate is expected to fade next year.

But the relationship between earnings and **stock market** performance is sometimes not cut and dried. Bank of America Merrill Lynch looked at 90 years of **stock market** data and found that the **S**. **& P**. **500** was slightly more likely to finish a year lower when earnings growth topped 10 percent than when it failed to reach double digits.

Traders at the New York Stock Exchange, where the market’s performance has been lackluster despite this strong earnings growth. | Drew Angerer/Getty Images

Document NYTFEED020180720ee7k007k9

THE WALL STREET JOURNAL.

Markets

Investors Seek Protection From Market's Biggest Winners; Traders are turning to options to help shield them in the event of a market downturn for tech and small-cap companies, some of the best performers so far this year

By Gunjan Banerji
852 words
2 July 2018
09:00 AM
The Wall Street Journal Online
WSJO
English

After becoming accustomed to extraordinary calm in markets last year, investors are showing greater caution in two of the best-performing groups of 2018: technology and small-cap companies.

The U.S. **equity market** eked out gains in the second quarter, but bouts of **volatility** have become a common fixture this year. As share prices lose some of their upward momentum, investors are turning to options to help shield them in a market downturn.

Investors often offset risks in their stock positions with options—contracts that give them the right to buy or sell shares at a later date. Traders say that while hedging using options is still relatively low as a nine-year **bull market** chugs along, activity has picked up. That is a shift from 2017 when record stock prices led investors to largely see buying these contracts as a waste of money.

What has changed is an escalation of geopolitical stresses. Last year, tensions with North Korea rattled some investors, but the threat of a trade war between the U.S. and China—the world's two biggest economies—has caught their attention in 2018, waking them out of a slumber. Signs of slowing growth in countries outside the U.S. have added to anxieties.

The outsize gains in the technology sector and smaller-company shares this year has made them more at risk during market pullbacks, some market participants say, incentivizing investors to seek insurance for them.

After being mostly impervious this year to jitters over a trade war, technology stocks have recently also been hit. On Wednesday, as equity prices tumbled, the **S&P 500**'s technology sector bore the brunt of the selloff, falling 1.5%. Some investors are gearing up for more tumults, even after the tech-heavy **Nasdaq Composite** Index just logged its eighth straight quarter of gains.

In the options market, a measure known as skew tracks the cost of **bearish** options versus **bullish** ones. It is a widely followed gauge because during times of nervousness, investors tend to pay up for the **bearish** options that allow them to sell shares later.

Skew recently hit the highest level in two months for a big technology exchange-traded fund, the Technology Select Sector SPDR fund, according to data provider Trade Alert.

"The tech outperformance has really been so large that it behooves people to pay up for insurance," said Eric Metz, Chicago-based chief investment officer at SpiderRock Advisors, who oversees options strategies.

This is a shift from the trend of buying of **bullish** options for tech in the past, said Tom Holm, vice president of equity derivatives trading at Credit Suisse Group AG.

Investors are turning to insurance even in groups that are considered less exposed to the ramifications of a global trade war. Because they tend to get less revenue from abroad, small companies have been darlings of the **stock market** this year. The Russell 2000 index climbed 7.4% in the second quarter, while the **S&P 500** added 2.9%.

Meanwhile, a measure that tracks expected **volatility** one month from now for a popular small-cap ETF, the iShares Russell 2000 fund, has crept higher, Trade Alert data show. It's currently close to the highest level it's been in the past year, meaning investors see the possibility of greater swings ahead.

Expected **volatility** in one of the biggest ETFs tracking China—the iShares China Large-Cap fund—has risen too, according to New York-based brokerage Macro Risk Advisors.

Some traders are wagering that turbulence in the market will rise across the board. There has been a tick higher in call option buying on the Cboe **Volatility** Index, or VIX, according to Credit Suisse in a June 25 note. A **bullish** bet on the **volatility** gauge is akin to a **bearish** bet on stocks. The VIX is based on options prices on the **S&P 500** and tends to rise when stocks fall.

Call options give the right but not the obligation to buy shares, while puts confer the right to sell.

The majority of the biggest options positions in the Cboe index are calls, Trade Alert data show. Some of these positions will pay out only if the VIX rockets past 25, 55% above 16.09—the level where it closed Friday.

The VIX's average over the past three months has been about 15, slightly below where it was in the prior quarter. While these figures are below its long-term average of roughly 18, it's a jump from the historic calm of last year, when the VIX closed below 10 a record number of times.

"**Volatility** markets are clearly reacting to the escalating trade war rhetoric," Amy Wu Silverman, equity derivatives strategist at RBC Capital Markets, wrote in a recent note.

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THE WALL STREET JOURNAL.
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Investing In Funds & ETFs: A Quarterly Analysis --- Fundamentals of Investing: 'Value' Stocks Aren't a Bear-Market Cure --- Perceptions aside, there is no consistency in the performance of value vs. growth

By Mark Hulbert
1,058 words
9 July 2018
The Wall Street Journal
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R7
English

It's the conventional wisdom that growth stocks and value stocks go in and out of favor along with the market cycle: Growth shines in bull markets, especially in its latter stages, while value takes the lead in bear markets.

As plausible as this pattern appears to be, however, it has held up less than half the time over the past 90 years. This is especially important to keep in mind now, given widespread concern that the **bull market** may be coming to an end -- if it hasn't already. Investors should think twice before betting that value stocks will help protect them from the full brunt of a **bear market**.

Value stocks are those that are trading for the lowest prices relative to their underlying net worth. The metric most often used to determine where a stock falls on the value-growth spectrum is its ratio of price to per-share book value. Value stocks are those with the lowest such ratios, while growth stocks have the highest.

Current examples of value stocks within the **S&P 500** include several in the energy sector, such as Baker Hughes, Loews Corp. and Mosaic Co., which produces phosphates and potash. The price-to-book ratios for these companies range from 0.87 to 0.94, according to FactSet, in contrast to a 3.16 price-to-book ratio for the **S&P 500**. Two stocks near the growth end of the spectrum, meanwhile, are Amazon.com and Netflix, both of which sport price-to-book ratios above 20.

Since the 1920s, there has been no consistency in the relative performance of value and growth in either bull or bear markets.

In bear markets before 1970, for example, the 50% of stocks nearest the growth end of the spectrum outperformed the 50% at the value end by an annualized average of 3.8 percentage points. In the bear markets of the subsequent four decades, however, it was just the opposite, with value beating growth by an annualized average of 10.7 percentage points. The current decade appears to be reverting to the pre-1970 pattern, with value lagging behind growth in both the 2011 and 2015-16 bear markets. (These results are calculated using data from two professors, Eugene Fama at the University of Chicago Booth School of Business, and Kenneth French at the Tuck School of Business at Dartmouth College.)

As you can see from the accompanying chart, a similar picture of value and growth's relative performance emerges in bull markets as well. (See accompanying illustration -- WSJ July 9, 2018) Value came out ahead of growth in bull markets up through the 1980s, but has been inconsistent since then. It is well behind growth in the **bull market** that began in March 2009, for example.

Why do so many persist in nevertheless believing that growth leads in bull markets and value in bear markets?

One reason is that memories of the internet-stock bubble are still fresh in many investors' minds. The internet stocks that soared in the late 1990s, during the inflation phase of that bubble, couldn't have been further away from the value end of the spectrum. From the beginning of 1997 through March 2000, the growth-stock category beat the value category by an annualized average of 7.7 percentage points. It was just the reverse during the **bear market** that was precipitated by the bursting of that bubble, with value stocks beating growth by an annualized average of 22.8 percentage points.

But, to repeat, value and growth's experience in the late 1990s and early 2000s is more the exception rather than the rule. So we're on shaky ground extrapolating its experience into the future.

Another reason why many continue to believe that value leads in bear markets is because theories as to why this should be true are so plausible. A stock that is trading for a lower price relative to its intrinsic worth presumably is less likely to fall as far in a **bear market** than one that is trading for a high price. In a **bull market**, in contrast, growth stocks should come out ahead since investors are less worried about downside risk.

This belief has a long and distinguished history, tracing at least as far back as Benjamin Graham, author of the classic "The Intelligent Investor" and erstwhile mentor to Berkshire Hathaway Chief Executive Officer Warren Buffett. Graham famously argued that stocks trading for low enough prices relative to their net worth provide a "margin of safety" against a downturn.

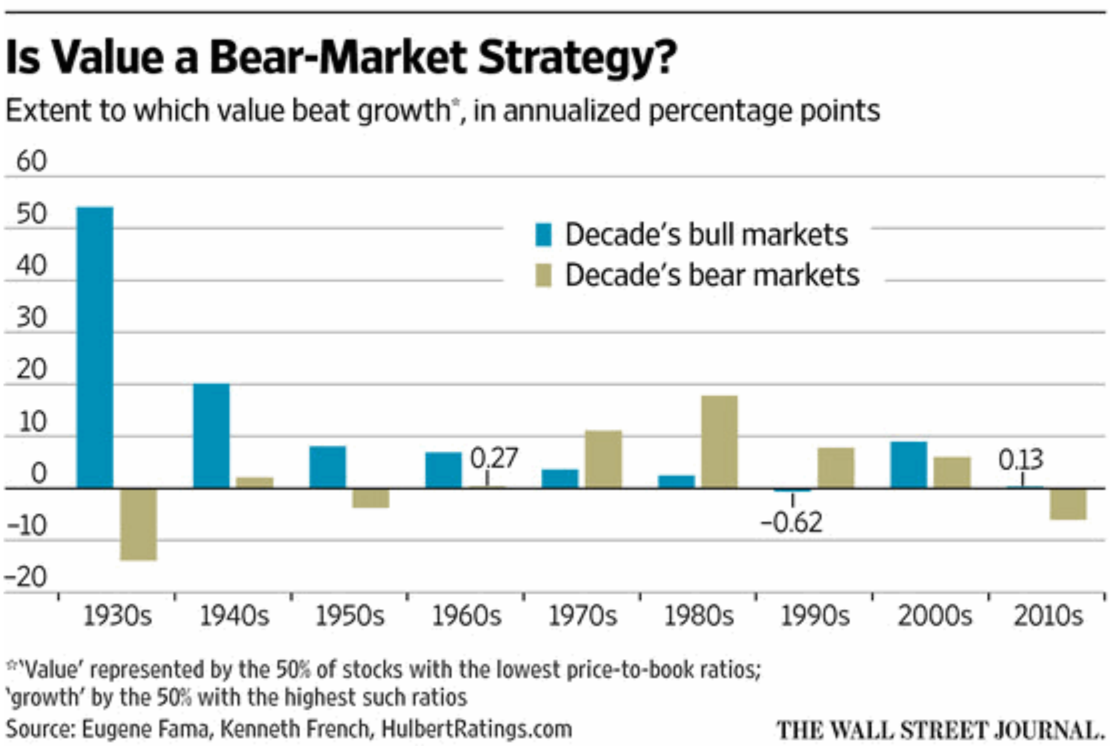
It is true that, before the 1970s, the average value stock had a much lower beta than the average growth stock. It therefore wasn't a particular surprise that value stocks fell by less in bear markets. But, since then, there have been significant periods in which value stocks had higher betas and, sure enough, that is when they fell by more than growth stocks during bear markets.

Right now, according to FactSet, there is hardly any difference in the average betas of growth and value stocks, as judged by the 50% of stocks within the **S&P 500** with the highest price-to-book ratios and the 50% with the lowest. This suggests that both groups could easily fall by more or less the same amount in the next **bear market**.

The investment implication: If your current equity exposure level is higher than you can tolerate during a **bear market**, then you should reduce that exposure level now rather than hope that a shift to value stocks will lessen your losses.

I hasten to add that this discussion doesn't mean that you should avoid value stocks. There no doubt are many good reasons why such stocks might be compelling investments. The point of this discussion is more limited: Don't invest in value stocks in the hope they will be a good defensive strategy in a **bear market**.

Mr. Hulbert is the founder of the Hulbert Financial Digest and a senior columnist for MarketWatch. He can be reached at reports@wsj.com.



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U.S. Markets
Markets
Stocks Rise on Strength in Financial Sector; Tariffs could overshadow earnings season, with more than one-third of the companies in the S&P 500 reporting results this week

By Gunjan Banerji
775 words
23 July 2018
04:20 PM
The Wall Street Journal Online
WSJO
English

* Tariffs loom over strong earnings

* **Oil prices** climb following Trump's tweet

* U.S. stocks set for flat opening

The **S&P 500** rose Monday, driven by shares of financial companies as investors dumped government bonds, pushing Treasury yields higher.

Stock investors have been cautiously optimistic in recent days amid strong earnings results and economic data. More than one-third of the companies in the **S&P 500** are scheduled to report results this week, and investors will be watching for signs that tariffs are affecting corporate decision making.

Analysts will also scrutinize economic data releases, as the gross domestic product report for the second quarter and other barometers of the U.S. economy are unveiled this week.

Corporate earnings so far have come in above expectations, with 87% of companies posting stronger-than-expected profits and more than two thirds beating revenue expectations, according to FactSet. Earnings are up 21% from the year-earlier period, which would mark the second-highest growth rate since the third quarter of 2010, according to the data provider's research.

The **S&P 500** added 0.2%, led higher by shares of financial and technology companies. The **Nasdaq Composite** climbed 0.3%. The **Dow Jones Industrial Average** shed than 0.1%.

Treasury prices remained under pressure Monday amid concerns that international appetite for U.S. debt could wane, after White House comments on monetary policy sent the dollar and government **bond prices** sliding last week.

Yields on 10-year U.S. Treasurys jumped to 2.963% from 2.895% Friday afternoon, marking the biggest one-day yield gain in more than a month. Bond yields rise when prices fall.

That gave ammunition to the financials sector in the **S&P 500**, which was the biggest gainer, advancing 1.3%. Shares of banks like Wells Fargo, JPMorgan Chase, Northern Trust and Bank of America led the way. Bank stocks tend to benefit when Treasury yields rise because higher interest rates lift banks' net interest margins, a key measure of their lending profitability.

Erik Ristuben, chief investment strategist at Russell Investments, said that he expects the market to continue its "grind higher" for the rest of the year.

"The market is trying to balance incredible earnings with high valuations," said Mr. Ristuben. "The pattern we've seen is two steps forward, one step back" for the U.S. **stock market**.

Though the U.S. continues to spar with other countries on trade, the back-and-forth hasn't weighed broadly on domestic stock indexes. The **S&P 500** is up about 5% this year.

Three big U.S. auto makers—Ford, General Motors and Fiat Chrysler—and tech giants Facebook and Amazon.com are set to report results this week. Google parent Alphabet reports earnings after the market closes on Monday. Tech stocks have led the market higher and investors will be tracking whether they can maintain impressive growth rates and continue to glide higher.

Equities have seesawed in recent months, as investors react to heightened trade rhetoric and the imposition of U.S. tariffs and retaliatory measures from China and Europe.

Over the weekend, finance ministers and central bankers of the G-20 countries ended their meeting with little progress on resolving global trade tensions. U.S. Treasury Secretary Steven Mnuchin said "it's definitely a realistic possibility" that Mr. Trump would follow through with his threat to impose tariffs on $500 billion of Chinese goods.

Last week, President Donald Trumpreiterated his threat to impose tariffs on European autos despite opposition from U.S. lawmakers and domestic and foreign auto makers. Trade is expected to be prominent on the agenda when European Commission President Jean-Claude Juncker visits the White House on Wednesday.

The Stoxx Europe 600 was down 0.2% Monday.

"It's a tug of war right now…between what had been pretty stellar fundamentals and then the concerns over the trade situation" said Darrell Cronk, president of Wells Fargo Investment Institute.

Mr. Cronk said that he's expecting lighter trading volumes to spur more **volatility** this summer, as sparse activity can accentuate slight market moves.

Asian markets were mixed.

Japan's Nikkei fell 1.3%, as a jump in the yen helped push currency-sensitive shares lower.

Meanwhile, the Shanghai Composite Index rose 1.1% and Hong Kong's Hang Seng edged up 0.1%.

Ben St. Clair contributed to this article.

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Yield Curve Throws Investors a Curveball

By Akane Otani
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A decades-old recession predictor is flashing warning signs, but a flattening yield curve doesn't necessarily portend falling stock prices.

The yield curve, the gap between short- and long-term government bond yields, has narrowed to near 11-year lows in recent months, raising fears the U.S. economy may be headed for a slowdown. Over the last 50 years, a recession has followed every time the yield on two-year Treasurys has exceeded that of 10-year Treasurys -- a scenario known as an inverted yield curve.

Yet new Credit Suisse data offer evidence that stocks often continue churning out gains several months after the yield curve inverts.

The **S&P 500** has risen around 16% in the 18 months following an inversion of the curve, going back to 1978, according to a Credit Suisse analysis released this month. Stocks have also managed to push higher over longer time periods, rising an average of 14% in the 24 months following an inversion of the curve and 9.5% in the 30 months afterward.

That pattern suggests the current nine-year bull run is likely to show resilience.

The conventional wisdom surrounding an inverted yield curve stems from two different paths coming together. Investors see longer-term bond yields climbing during strong growth and shorter-term ones rising when monetary policy tightens. When the gap narrow, questions are raised about whether the expansion has run its course.

Several analysts say the recent flattening of the yield curve has mostly been driven by monetary policy and continued growth -- and not by fears of an imminent slowdown in expansion.

"The bond market isn't flashing yellow or red yet," said Brian Nick, chief investment strategist at Nuveen. "The prevailing story here is still that the U.S. is growing pretty nicely."

The Federal Reserve has raised short-term interest rates twice to a range between 1.75% and 2% -- and signaled it could do so twice more before the year ends -- citing a robust labor market, steady U.S. growth and signs of long-dormant inflation nudging higher.

Two-year Treasurys, which tend to be sensitive to monetary-policy expectations, saw their yields climb along with the Fed interest-rate increase and the anticipated ones.

At the same time, ultralow interest rates outside the U.S., as well as fears that a global trade rift could roil markets, have helped stoke demand and higher prices for longer-term Treasurys. That pushed those yields lower because yields move inversely to **bond prices**.

Analysts also note that cracks in the economy that have traditionally accompanied an inverted yield curve haven't yet surfaced.

Credit Suisse's analysis found recessions have historically followed not just an inversion of the yield curve, but also a marked deterioration in job creation and corporate earnings, among other factors.

So far, there have been few signs of such weakness. Jobs data from the start of the month showed the U.S. labor market continuing to add jobs rapidly and the unemployment rate hovering around its lowest level in nearly two decades. Corporate earnings have also continued to impress, with **S&P 500** firms on track to report year-over-year growth of 20% for the second quarter, according to FactSet.

"For me, the principal driver of U.S. equities is U.S. growth, and I'd say that [second-quarter] data showed a meaningful acceleration," said Keith Parker, chief U.S. equity strategist at UBS.

On Friday, data showed the U.S. economy grew by 4.1% in the second quarter -- the fastest pace in nearly four years. "That backdrop has held firm."

Even if the yield curve's flattening was driven by a sharp dropoff in economic growth, history suggests it would take several months before the nine-year **bull market** faltered, if it did at all.

For instance, it took 24 months after the yield curve inverted on Dec. 30, 2005, for the U.S. to slip into a recession, according to Credit Suisse.

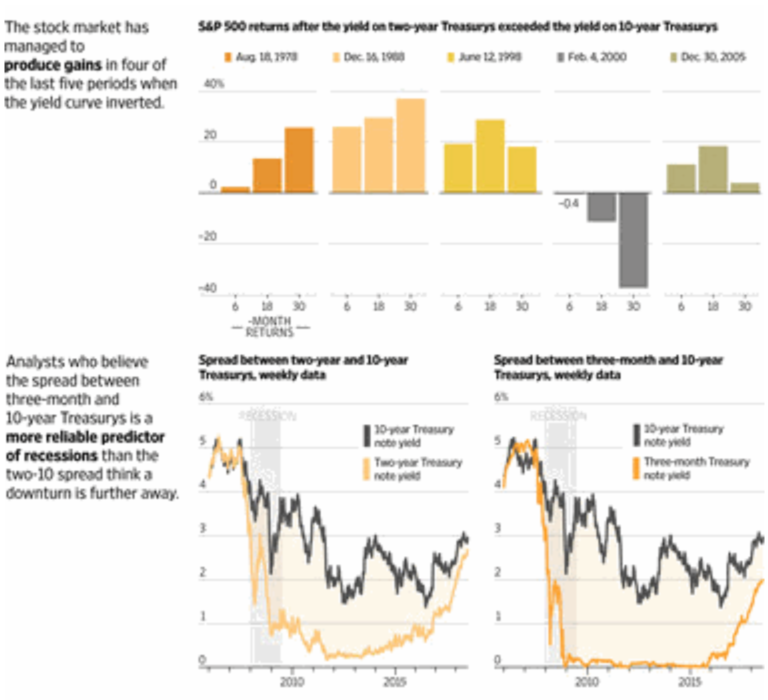
The **stock market** continued to nudge higher for much of that period, only entering a protracted downturn when the global financial crisis reached a head around the fall of 2008.

The difference in yields between three-month and 10-year Treasurys has been a more reliable predictor in the past of recessions, Credit Suisse says, with the U.S. falling into recession on average 16 months after the former overtook the latter -- six months earlier than when the two-year Treasury yield has overtaken the **10-year Treasury** yield.

Yet even in those cases, the **S&P 500** fell an average of just 2.5% in the 18 months following a yield-curve inversion.

The current gap between three-month and 10-year Treasurys has remained larger than that of two- and 10-year Treasurys -- so that light has yet to start flashing.

"The longer end [of the curve] isn't reflecting concerns about growth or inflation," Nuveen's Mr. Nick said.



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THE WALL STREET JOURNAL.

U.S. Markets
Markets
U.S. Stocks Rise as Investors Shrug Off Looming Tariffs; Investors focus on economic data and the potential easing of some trade tensions

By Georgi Kantchev and Danielle Chemtob
904 words
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WSJO
English

U.S. stocks climbed Thursday ahead of a looming tariff deadline as investors weighed economic data and a potential de-escalation of some trade tensions with Europe.

Worries about trade have roiled **financial markets** for months as the U.S. and China, the world's two biggest economies, remain locked in a trade dispute. The U.S. is scheduled to impose a first round of tariffs on $34 billion of Chinese imports Friday, and China is expected to counter with corresponding tariffs on U.S. imports.

"I think probably the further we get into this, the more we'll gauge whether or not people are willing to sit down and negotiate or whether it's going to deteriorate into something that turns much uglier," said Bruce McCain, chief investment strategist at Key Private Bank.

The **Dow Jones Industrial Average** gained 181.92 points, or 0.8%, to 24356.74. The **S&P 500** rose 23.39 points, or 0.9%, to 2736.61. The tech-heavy **Nasdaq Composite** added 83.75 points, or 1.1%, to 7586.43. All three indexes have risen in four of the past five sessions and booked their largest one-day point and percentage gains since early June.

Stocks took solace that trade tensions may be easing in Europe. Shares of car makers rose after a German press report said the U.S. proposed to stop its threats to impose tariffs on cars imported from the European Union if the EU lifts duties on U.S. car imports. Shares of General Motors gained 50 cents, or 1.3%, to $39.47 and Ford Motor rose 6 cents, or 0.6%, to 11.05.

German Chancellor Angela Merkel said Thursday that Berlin was willing to cut import tariffs on cars as a way to end the Europe-U.S. trade standoff. She said any offer to reduce tariffs would have to be made to other auto exporters—not just the U.S.—to abide by international trade rules.

In economic data released Thursday, private U.S. employers hired fewer-than-expected workers in June, according to payroll processor ADP. Companies across the country added 177,000 workers last month, below the 185,000 forecast by economists surveyed by The Wall Street Journal.

Investors also were looking to the Labor Department's monthly employment report Friday. The market may prefer a jobs number that is below expectations, said Doug Cohen, managing director and portfolio manager at Athena Capital.

"I think if we see a modest slowdown in job growth and even a slight tick up in unemployment, the **equity market** would probably like that because it increases the odds of the Fed maybe only going one more time this year [in raising rates] rather than two times," he said.

The average hourly earnings figure in Friday's jobs report is another key indicator for Federal Reserve officials as they gauge inflationary pressures.

If wage growth reaches 3%, the "fourth [rate] hike for 2018 will become more baked in the cake," said Mike Mullaney, director of global markets research at Boston Partners. Economists expect wages to grow 2.8% year over year, according to FactSet.

Meanwhile, minutes from the Federal Reserve's latest meeting revealed growing unease with how trade policy could hold back business investment. The Fed said some businesses contacts have scaled back or shelved plans for new investments amid uncertain trade-policy changes.

However, the Fed indicated it could raise rates over the next year to a level that no longer seeks to stimulate growth in response to inflationary pressures. "It underscores the fact that even the Fed itself is seeing conflicting evidence," said Mr. Cohen.

Shares of technology firms in the **S&P 500** rebounded, gaining 1.5% after turning markets lower late Tuesday. Chip maker Micron Technology added 1.36, or 2.6%, to 52.84 after its shares suffered Tuesday as a Chinese court barred it from selling a range of products in China.

Some investors are beginning to worry that the trade conflict coupled with a firming dollar could hit technology companies with significant revenue abroad. "In the short run, export-oriented firms, which many of the tech firms are, tend to be disadvantaged by that trend," Mr. McCain said.

The WSJ Dollar Index, which tracks the dollar against a basket of 16 currencies, was down 0.1% but has climbed in recent months as economic growth in the U.S. has continued to accelerate.

The 10-year **U**.**S**. **Treasuryyield** rose slightly to 2.840%, from 2.833% on Tuesday. Yields move inversely to prices.

Elsewhere, the Stoxx Europe 600 closed up 0.4%. Japan's Nikkei Stock Average finished down 0.8%, while Hong Kong's Hang Seng Index shed 0.2%.

U.S. crude oil slumped after data showed U.S. inventories increased unexpectedly last week and President Donald Trump, in a tweet late Wednesday, repeated his call to the Organization of the Petroleum Exporting Countries to help reduce prices.

Write to Georgi Kantchev at georgi.kantchev@wsj.com

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The New York Times

Business/Financial Desk; SECTB

4 Themes Bear Watching As Earnings Are Reported

By MATT PHILLIPS
1,040 words
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Earnings season is upon us once again, and analysts expect the strong economy and the Trump administration's tax cuts to lead to another batch of knockout quarterly profits.

Per-share earnings at companies in the **Standard & Poor's 500**-**stockindex** are forecast to have risen 20.8 percent in the second quarter compared with a year earlier. That would be the second straight quarter of 20-percent-plus jumps, something that hasn't happened since late 2010.

Tax cuts aren't responsible for all of that growth. Measures of sales, which are closely tied to the health of the economy, are also expected to rise at a robust 9 percent in the second quarter, compared with a year earlier, according to analyst estimates compiled by the data provider FactSet through Friday.

Despite those leaps in sales and profit, the **S**. **& P**. **500** remains below the highs it hit in late January. Earnings reports look backward, and what really matters to investors is what lies ahead. These days that means companies have to consider a growing trade conflict and rising interest rates, wages, commodity prices and other costs that are clouding the economic outlook.

Just which of these worries is front of mind is something that investors will try to divine from executives' assessments of earnings. Here are some key themes that could emerge.

The Trade War

So far the Trump administration's trade war hasn't sunk the **stock market**, as many had predicted it would. Sure, there are pockets of trouble. Shares of the construction equipment company Caterpillar have struggled in part because the firm is considered doubly vulnerable to trade tensions; more than 50 percent of Caterpillar's sales last year came from outside North America. The company is also a large consumer of steel, which has risen in price thanks, in part, to Trump administration tariffs on imports.

And some businesses are doing O.K. Shares of small companies, which tend to sell most of their products domestically, have performed well.

But analysts and investors will pay attention for other indications that the expanding trade war is starting to delay plans for corporate spending. It hasn't materialized yet, executives say.

''It is not at this point causing them to change the strategic actions and decisions that they're making,'' Marianne Lake, chief financial officer for JPMorgan Chase, the country's largest bank by assets, said on the bank's post-earnings call this month.

Investment

With the economic expansion in its ninth year -- the second-longest stretch of growth on record -- a burst of corporate investment will be a key to keeping the streak alive. Key provisions of the Trump administration's tax overhaul were designed to provoke such a spending boom on new factories and equipment.

In the first quarter, there was a solid uptick in business investment. Whether it's because of the tax bill or unrelated developments -- such as the rebound in oil and gas prices -- is a matter of some debate.

These long-term, big-ticket investments -- known as capital expenditures, or ''capex'' -- don't just mean executives are feeling flush. Because they might take years to yield profits, they also require significant confidence in the economy over the long term, so they're a good clue to where executives think things are heading. It's not clear that companies are rushing to make these kind of investments in plants and equipment.

''We are not yet seeing what I would call a lot of traditional capex spending occurring,'' Curtis Farmer, president of the midsize lender Comerica, told analysts on a conference call last Tuesday.

Buybacks

When companies have cash to spend but are not willing to commit to big investments, they often buy up their own stock instead. A surge of buybacks, another byproduct of the tax-bill windfall, helped shore up the **stock market** earlier this year. When companies buy back shares, they cut the number of shares outstanding, raising earnings per share.

The case for a buyback is that this can help push a **stock price** higher, and investors tend to applaud. Shares of Warren E. Buffett's Berkshire Hathaway jumped about 5 percent on Wednesday, after the company said it had removed a limit on share repurchases.

Buybacks have their critics, too, who deride them as financial engineering that benefits only shareholders in the short run. Spending that money on new equipment or a factory might create jobs for the workers who will build a factory, say, and those who will be employed in it, and add to profits over the long term.

In earnings updates, investors can often gauge the pace of corporate repurchases. If a company's shares have performed only modestly despite a binge of buybacks, that could mean investors' view of the stock is more pessimistic than the price might reflect.

Wages

Wage growth is a key factor in the United States economy, as consumer spending accounts for roughly two-thirds of gross domestic product. At the same time, for investors, wage growth isn't always positive. Rising labor costs can cut into profits, muting the impact of a robust economy. In some sectors, that seems to be happening.

The trucking firm J. B. Hunt Transport Services reported better-than-expected profits last week. But its shares slid after the company cited ''driver pay and retention costs'' and ''driver recruiting costs'' as some of the outlays that nibbled away at the benefits of higher prices and booming volumes.

Caterpillar, whose shares have suffered over trade tension, fills a troubled pocket of the market. (PHOTOGRAPH BY JOSIE NORRIS/THE SAN ANTONIO EXPRESS-NEWS, VIA ASSOCIATED PRESS) (B5) CHARTS: Growing Profits: Earnings at **S**.**&P**. **500** companies are growing thanks to a strong economy and the Trump tax cuts. Below is percent change in reported earnings over the prior year. (Source: FactSet | Forecast for the second quarter of 2018) (B1); Industrial Shares Lag, While Expenditures And Buybacks Increase: Exposed to trade concerns, shares of industrial companies have lagged this year, while the Russell 2000 index of small, mostly domestically focused stocks has outperformed. (Source: FactSet; Bureau of Economic Analysis) (B5)

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The New York Times

Money and Business/Financial Desk; SECTBU
Wall Street's Calm May Reflect a Blind Eye

By CONRAD DE AENLLE
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Wall Street has been in a remarkably relaxed mood lately, especially when you consider that only a few months ago, Federal Reserve rate increases and Trump administration trade policies helped to set off a steep decline in stock prices.

But investors seem to be focusing on a more benign development: an increase in profits resulting mainly from the reduction in corporate income tax rates late last year.

That helped the benchmark **Standard & Poor's 500-stockindex** rise 2.9 percent in the three months that ended on June 30. The average domestic stock fund did even better, rising 3.8 percent in the second quarter, led by portfolios that focus on real estate, health care, technology and consumer cyclical issues. By contrast, the average international stock fund fell 2.3 percent.

The strong performance by domestic funds -- the average return beat the **S**. **& P**. **500** by nearly a full percentage point -- provided a rare opportunity for active mutual fund managers to look good next to exchange-traded vehicles that focus on the index.

But it may be too early for investors in the United States **stock market** to sound the all-clear. The Fed is still raising interest rates, and a trade war simmers.

The worries may be receding, but many of the underlying reasons for them remain. And they have been joined by other unsettling developments, many of them far from home, that investors will have to factor into their thinking as the second half moves along.

''I think you have the calm before the storm right now,'' said Komal Sri-Kumar, president of Sri-Kumar Global Strategies. ''U.S. corporate earnings have been very good.''

As of June 30, FactSet Research estimated that companies in the **S**. **& P**. **500** together earned 20 percent more in the second quarter than in the same period in 2017.

''The expectation is that the economy is going to pick up in the second half,'' Mr. Sri-Kumar continued. ''But I think the calm is going to be disrupted, mainly on the trade front.''

Allies in Western Europe have stepped up their own tough talk on trade lately, and there is a reasonable chance that the North American Free Trade Agreement will not be renewed. ''None of that is in the market,'' Mr. Sri-Kumar said.

Share prices have tended to ignore announcements of new tariffs or other events that signal worsening trade relations, or else they have experienced declines that were almost immediately erased. But that could change if the outlook worsens.

A report last month by Bank of America rated the odds of a prolonged trade war low, but estimated that one could knock 1.2 percentage points off economic growth over three years and add half a percentage point to the unemployment rate.

It could also intensify the impact of any other ''confidence shock,'' a large, unforeseen negative event that raises doubts about economic growth.

"A major global trade confrontation would likely push the U.S. and the rest of the world to the brink of recession," the report warned.

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"Rising above the noise is what the market has decided to do," said Satyam Panday, chief United States economist for S&P Global. "On the trade channel, we don't know what's going to happen. There really has to be a big global supply chain disruption for the market to believe it's going to be bad for corporate earnings."

As for tighter monetary policy -- the other development that hit stocks several months ago and was on display in mid-June when the Fed raised rates again -- investors may not like it, but they can't say there's much uncertainty about it.

"The Fed has been pretty clear on policy," Mr. Panday said. It has signaled that it will raise interest rates "at a slow and gradual pace, and the market has come to believe in it."

"At the end of the day," he added, "the fundamental driver of the market is growth, the labor market, consumer spending, and that's been holding up rather well."

Mr. Sri-Kumar is not as optimistic. If the economy is humming along -- as of July 11, the Federal Reserve Bank of Atlanta's GDPNow model was estimating a 3.9 percent annual growth rate for economic output in the second quarter -- then why, he wonders, aren't wages picking up appreciably?

As for the sharp rise in earnings, he attributed it mainly to the sudden impact of the tax cut last year and not to a significant improvement in business conditions. By early next year, after earnings fully reflect the lower tax rates, earnings growth may start to decline, he said.

Investors may be pleased enough with the economy and earnings to excuse a harsh backdrop on trade and a miserly Fed, at least for now, but disquieting developments overseas have arisen or worsened lately.

For example, Italian elections in March led to the formation of a populist government that some fear will try to make Italy great again by leaving the European Union. That could create a debt crisis dwarfing the one centered on Greece a few years ago.

More important, a departure from the union by Italy so soon after Britain voted to leave could threaten the union's viability. Yields on some European bonds have been rising in an apparent response to these problems.

In addition, rising yields on Treasury bonds and a sharp rise in the dollar during the last few months are straining finances in emerging economies, many of which use dollar-denominated debt to stimulate economic growth.

A rising dollar increases the value of dollar debt in local currencies, making repayment more difficult and depressing currencies further in a vicious cycle.

Borrowers in the developing world are having an especially hard time acquiring dollars because so many are being used to buy the additional Treasury instruments coming on the market. The Fed is selling them to unwind years of purchases in its quantitative easing program, and the Treasury is raising money to cover the shortfall in revenues arising from the December tax bill.

The Congressional Budget Office in June forecast a fiscal deficit this year of $793 billion, compared with $665 billion in 2017.

"Resources are being taken away for second- and third-tier borrowers," said Tad Rivelle, chief investment officer for fixed income at TCW. "Central banks have been running a buffet, putting out more food for years" through quantitative easing.

"In an era of quantitative tightening, they're taking away plates," he added. "People recognize some of these folks are not going to be able to get a full meal out of what's left."

Just who will suffer and how much remain to be seen.

"There's greater awareness" of the dilemma, Mr. Rivelle said. "Are Argentina, Turkey, Brazil, Indonesia and South Africa isolated events, or are they systemic? The emerging perception is there's something systemic."

Investing in emerging markets in the second quarter was painful for bond and stock investors alike.

Emerging market bond funds were down 4.8 percent, according to Morningstar, with ones that focus on debt denominated in local currencies falling 11.3 percent. Emerging market stock funds lost 8.9 percent.

While it may be scant consolation, at least that was better return than the 10.3 percent drop of iShares MSCI Emerging Markets, a popular exchange-traded fund that specializes in the niche.

Bond funds of all kinds lost 0.4 percent over all. Specialists in long-term government issues were up 0.4 percent, and high-yield funds rose 0.6 percent.

Ten-year Treasury yields started the quarter at 2.74 percent, breached 3 percent for the first time since 2013, then fell back to 2.84 percent. The late decline provides another hint that economic growth may be more subdued.

The combination of higher short-term rates and flat long-term rates helped create what is known as a ''flattening yield curve.'' If short-term rates actually rise higher than longer-term rates, that could presage a recession.

High-yield funds benefited from persistently tight yield spreads over Treasury debt, a condition that worries Mr. Rivelle.

Spreads ''are within spitting distance of where they were in 2006 and 2007,'' just before the financial crisis, he said. ''The superficial explanation is default rates are quite low, but the skeptical investor is supposed to recognize a few things.'' They include loan terms that have become exceedingly lax and high indebtedness generally among corporate borrowers, Mr. Rivelle added.

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Workers at an ArcelorMittal Dofasco steel plant in Hamilton, Ontario. (PHOTOGRAPH BY MARK BLINCH/REUTERS) (BU1); Italy's new prime minister, Giuseppe Conte, arriving at Palazzo Chigi to open his first cabinet meeting last month in Rome. (PHOTOGRAPH BY ELISABETTA VILLA/GETTY IMAGES) (BU18); Lobster traps in Vinalhaven, Me. New American tariffs on Chinese imported goods haven't hurt the **stock market** much, but the Maine lobster industry now faces 25 percent Chinese tariffs. (PHOTOGRAPH BY GRETA RYBUS FOR THE NEW YORK TIMES) (BU19)

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The New York Times

Business Day
Wall Street's Summer Calm May Depend on Selective Vision

By Conrad De Aenlle
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NYTFEED
English

Wall Street has been in a remarkably relaxed mood lately, especially when you consider that only a few months ago, Federal Reserve rate increases and Trump administration trade policies helped to set off a steep decline in stock prices.

But investors seem to be focusing on a more benign development: an increase in profits resulting mainly from the reduction in corporate income tax rates late last year.

That helped the benchmark **Standard & Poor's 500-stockindex** rise 2.9 percent in the three months that ended on June 30. The average domestic stock fund did even better, rising 3.8 percent in the second quarter, led by portfolios that focus on real estate, health care, technology and consumer cyclical issues. By contrast, the average international stock fund fell 2.3 percent.

The strong performance by domestic funds — the average return beat the **S**. **& P**. **500** by nearly a full percentage point — provided a rare opportunity for active mutual fund managers to look good next to exchange-traded vehicles that focus on the index.

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American tariffs on Canadian steel, like this roll at the ArcelorMittal Dofasco plant in Hamilton, Canada, have not disrupted the **stock market** much lately. But some strategists say a widening trade war could change the placid mood. | Mark Blinch/Reuters | After the United States imposed tariffs on Chinese imported goods, China retaliated with 25 percent tariffs on American lobsters, hurting the Maine lobster industry. Here, Earl Hamilton tends to lobster traps in Vinalhaven. | Greta Rybus for The New York Times | Italy’s new prime minister, Giuseppe Conte, arrives at Palazzo Chigi in Rome to open his first cabinet meeting last month. | Elisabetta Villa/Getty Images

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THE WALL STREET JOURNAL.
U.S. EDITION

Streetwise: Stocks Are Up Despite Troubles

By James Mackintosh
915 words
3 July 2018
The Wall Street Journal
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English

Almost everything on the list of investor concerns at the start of the year has come true -- yet U.S. stocks are up, even as many of the world's markets suffer. Investors shouldn't expect this American exceptionalism to continue.

The main worries in January were rising Treasury yields, a too-good-to-be-true world economy, Donald Trump's policies, the return of **volatility** and European politics. All have taken a turn for the worse, hammering assets in each area but leaving the U.S. equity markets miraculously unharmed.

The first-half gain of 1.67% in 2018 was truly unusual: The **S&P 500** has swung up or down by less only five times in the first half of a year since 1963. Those smaller moves weren't propitious for investors, led by the calm of the six months to June 2015, just before China's devaluation sparked widespread concerns about its economy and a 10% correction in the S&P.

The other calm periods look like a roster of times to sell: June 2000, shortly before the dot-com crash spread into the wider markets; June 1990, the last month before a recession; June 1978, two months after the inflation that would ravage real portfolio valuations began to accelerate; and June 1965, which was followed by a brief boom before the 1966 **bear market** (a decade later the S&P was still at the same level as in June 1965).

There is nothing in a six-month change that would matter to statisticians, so this may well be nothing more than luck. But there are reasons to be concerned, and they are mainly the same reasons that held at the start of the year.

The first is the Federal Reserve. Investors think it has become more hawkish, with the probability priced into federal-funds futures of a total of four rate rises this year up from 9% in January to 41% on Monday, according to CME Group. Treasury yields have risen, too, and even worse is that the link between stocks and bonds seems to be breaking down.

In the past two decades higher yields have typically been strongly tied to rises in stocks, as a stronger economy pushes up both. This year so far the six-month correlation of daily changes in the S&P and the **10**-**year Treasury** yield, a formal measure of the link, is just 27%, half the level of a year ago. If it breaks down further, higher bond yields could be bad for stocks, as happened briefly in February.

The second is the global economy. At the start of the year, hopes for global growth were high, and investors became overconfident. Hope ran far ahead of reality, and European, Japanese, Chinese and other emerging-market data came in well below expectations while economists upgraded their forecasts for U.S. growth. The rise in the dollar should help narrow the economic divergence, by hurting U.S. exports and foreign profits of U.S. multinationals, and there has been some disappointment in the U.S. data already, if minor so far.

The third risk is from Mr. Trump's trade war. At the start of the year the political focus was on the beneficial effects for investors of Mr. Trump's corporate-tax cuts, but his trade policies are detested by markets. New tariffs contributed to China's **bear market**, and U.S. companies are just beginning to warn of profit hits from retaliatory tariffs and supply-chain problems.

"As investors, we have been long global trade for three decades," said Pascal Blanque, chief investment officer at France's Amundi Asset Management. "We are moving into an era of dominance of politics over economics."

The fourth risk is the return of market **volatility**. Last year was extraordinarily calm for equities, bonds and currencies, with the Cboe **Volatility** Index, or VIX, reaching new lows. But **volatility** has risen, and the Cboe's

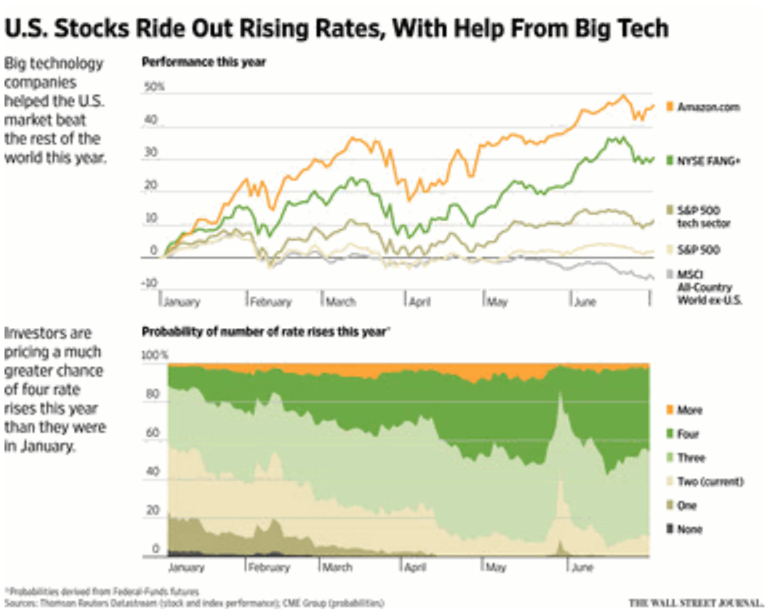
VVIX index, a measure of swings in the VIX itself, had its highest average over six months in more than a decade. If the VVIX moves indicate a broader rise in **volatility** ahead, that will hurt stocks.

Finally, there is European politics. Italy's general election always threatened to deliver a win for populists, but the eventual coalition between populists on the left and right spooked markets. European stress over immigration is spreading, with the leader of Germany's junior coalition partner offering to resign this weekend and political opportunists taking advantage. Investors in the U.S. are reasonably insulated from day-to-day politics in Europe, but 2012 demonstrated that if troubles become serious in Europe, Wall Street will suffer too.

Why are U.S. markets taking it so well? Part of the answer is that investors aren't pricing in much of a drag from the rest of the world, wrongly in my view. But another part is the enthusiasm for big technology stocks, almost all of which are listed in the U.S.

The big gains in Amazon, Apple, Microsoft, Netflix, Facebook, Nvidia and Alphabet in the first half accounted for the entire gain in the **S&P 500**, according to S&P senior index analyst Howard Silverblatt. Their momentum may keep them going for a while yet.

But if Big Tech stumbles, the U.S. **stock market** may not prove so exceptional after all.



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THE WALL STREET JOURNAL.

U.S. Markets
Markets

U.S. Stocks Slide as Tech Shares Weigh on Indexes; The Dow industrials, S&P 500 and the Nasdaq Composite fell slightly as earnings season continues

By Ben St. Clair and Allison Prang
874 words
30 July 2018
05:06 PM
The Wall Street Journal Online
WSJO
English

U.S. stocks fell Monday as shares of technology companies tumbled, and investors braced for a busy week of corporate earnings and central-bank meetings.

The **Dow Jones Industrial Average** declined 144.23 points, or 0.6%, to 25306.83. The **S&P 500** slipped 16.22 points, or 0.6%, to 2802.60 and the tech-heavy **Nasdaq Composite** dropped 107.41 points, or 1.4%, to 7630.00.

Tech stocks in the **S&P 500** slid 1.8%, with shares of Facebook off $3.83, or 2.2%, to $171.06 and Twitter down 2.74, or 8%, to 31.38 as last week's disappointing earnings reports weighed on sentiment. Netflix, meanwhile, dropped 20.25, or 5.7%, to 334.96 bringing its losses for the month to date to 14%.

Despite those companies' high-profile stumbles, the earnings season is shaping up to be strong. As of Friday, 83% of the companies in the **S&P 500** that had reported results posted stronger-than-expected earnings and 73% beat estimates on revenue, according to FactSet. Earnings as a whole are on track to rise 21%.

Those results, along with positive U.S. economic data, have supported U.S. stocks, with the **S&P 500** and Dow industrials both posting gains for four consecutive weeks.

Richard Golinski, chief investment officer of BOS, which manages $4.5 billion, said investors are "rethinking tech to some degree" because of Netflix's and Facebook's recent troubles.

"I don't think it's going to be the start of a big selloff," he said, adding that for it "to tip the balance," another big name like Apple or Amazon.com would have to run into problems.

The tech sector, which has powered much of the gains in U.S. stocks this year, will face its next big test after Tuesday's closing bell when Apple is slated to report its results.

Mr. Golinski said his firm has moved money into value stocks, which he considers areas such as consumer staples, energy and financials.

"We see it as an opportunity to rotate into cheaper stocks and that's really based on our belief that you can't get the timing right," he said.

Michael Farr, chief executive of Farr, Miller & Washington, said his firm has cut down on its tech positions in recent weeks because the "valuation's very full." But like Mr. Golinski, he didn't think tech's recent issues were necessarily a sign of a bigger problem and cautioned, "Don't start planning the funeral yet."

"The economy remains solid—tech has provided the leadership—I think it's too early to call an end to that particular trend," Mr. Farr said.

The energy sector was one of the biggest gainers in the **S&P 500** Monday, adding 0.8%, as the price of U.S. crude settled up 2.1% at $70.13 a barrel.

Financial stocks in the index also ended slightly higher, as the yield on the 10-year U.S. Treasury note settled at 2.975% versus 2.962% on Friday. Higher interest rates tend to boost banks' net interest margins, a key measure of lending profitability.

In other earnings-related news, shares of Caterpillargave up their earlier gains and fell 2.81, or 2%, to 139.75 despite the heavy-equipment maker raising its earnings guidance for the year. Meanwhile, shares of Tyson Foods dropped 4.84, or 7.6%, to 58.72 after the meatpacker lowered its earnings guidance for the year because of tariffs and **volatility** in commodities.

Separately, shares of the majority owner of MoviePass, Helios & Matheson Analytics, dragged down the **Nasdaq**, with shares tumbling 1.20, or 60%, to 80 cents a share after the company last week took out a $5 million loan to pay vendors to restore the app's operations.

Elsewhere, investors will also be turning their attention this week to monetary policy, with the Federal Reserve, Bank of Japan and Bank of England holding meetings. Of the three central banks, only the BOE is expected to raise interest rates, in what would be only its second increase in a decade.

"Inflation pressures are now emerging, and these are inflation pressures that central banks have to deal with, with tighter monetary policies," said Peter Elston, chief investment officer at Seneca Investment Managers. Traditional economic models suggest falling unemployment will spur inflation. But this relationship, known as the Phillips curve, has been weak in recent decades.

The Fed's strategy has been to raise rates gradually, signaling two additional rate rises before the end of the year. The central bank, which begins its two-day policy meeting Tuesday, isn't expected to raise rates again until September.

Central banks have been confronted with disparate global growth, with annualized growth in eurozone gross domestic product expected to be around 1.6% during the three months through June, well below the 4.1% recorded by the U.S.

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U.S. Markets
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Earnings Boost U.S. Stocks; Energy sector is biggest gainer in the S&P 500 as the price of U.S. crude rises

By Allison Prang and Ben St. Clair
803 words
24 July 2018
The Wall Street Journal Online
WSJO
English

Corrections & Amplifications

The number of shares that changed hands Tuesday on exchanges operated by the New York Stock Exchange and Nasdaq was above the July average. An earlier version of this article incorrectly characterized the session as the lowest full day for stock trading volume this year. (July 25, 2018)

* Dow, S&P 500 rise

* Energy, materials sectors lead gains

* Investors continue to weigh earnings

U.S. stocks rose Tuesday as investors cheered what is shaping up to be a strong corporate-earnings season.

With results in from about 20% of the companies in the S&P 500, the vast majority of companies in the index have posted stronger-than-expected earnings and revenue, according to FactSet. Strong results from Google parent Alphabet helped set the upbeat tone in markets Tuesday.

The Dow Jones Industrial Average rose 197.65 points, or 0.8%, to 25241.94. The S&P 500 rose 13.42 points, 0.5%, to 2820.40, and the tech-heavy Nasdaq Composite edged down 1.11 points, or less than 0.1%, to 7840.77, giving up its earlier gains.

Earnings from U.S. companies have been "unparalleled" elsewhere, said Michael Scanlon, portfolio manager at Manulife Asset Management. He added that although some money managers have said investors should put more money in places such as emerging markets, he thinks investors should zero in even more on the U.S.

Mr. Scanlon also noted "stocks have been responding more favorably" to good results this earnings season compared with last. Although there are worries with trade and tariffs, "thus far it hasn't hit results," he said.

Among Tuesday's big movers, shares of Alphabet jumped $47.15, or 3.9%, to $1258.15 after the search giant reported revenue and adjusted earnings that beat analysts' estimates. Harley-Davidson climbed 3.18, or 7.7%, to 44.63 as earnings topped projections and the motorcycle maker backed its guidance for the year, even though it said the tariffs would dent its profit.

Shares of Eli Lilly rose 4.47, or 5%, to 93.35 after the company reported strong results and said it would take a minority stake in its animal health business public. Shares of Biogen rose 14.71, or 4.1%, to 372.84 after the company raised its financial guidance for 2018.

Shares of JetBlue Airways, however, declined 2.02, or 10%, to 17.79 after the company missed earnings estimates and lowered the top end of its capacity guidance for the year. Shares of Quest Diagnostics declined 9.47, or 8.2%, to 105.42 after the medical-testing firm lowered the high end of some of its annual guidance.

Coca-Cola and General Motors are on tap to report earnings results before the market opens Wednesday, along with Boeing and United Parcel Service. Facebook and Visa are among the companies that will report after the market closes Wednesday.

Trading volumes, which have slumped in recent weeks, picked up in Tuesday's session, with 6.52 billion shares changing hands on exchanges operated by the New York Stock Exchange and **Nasdaq**, according to WSJ's Market Data Group.

The energy sector was one of the biggest gainers in the **S&P 500** on Tuesday, rising 1.3% as the price of U.S. crude settled up 0.9% to $68.52 a barrel. The materials sector was also strong, rising 1.3%, along with the small telecom sector, which rose 1.8%.

Of the **S&P 500**'s 11 sectors, only shares of real-estate and consumer-discretionary companies declined.

Shares of agriculture and industrials firms rose as the White House said it would provide farmers with $12 billion to counter any fallout from tariffs. Shares of Deere rose 4.31, or 3.2%, to 139.84.

"If you look at people outside of the market, people are more fearful" when it comes to trade, said Darren Pollock, portfolio manager for Cheviot Value Management LLC. "The market is so optimistic looking at Trump's negotiating style."

President Donald Trump is set to meet Wednesday with European Commission President Jean-Claude Juncker about trade policies between the U.S. and EU. Ahead of that meeting, Mr. Trump tweeted about tariffs Tuesday, calling them "the greatest."

Government bonds strengthened Tuesday, with the yield on the benchmark **10**-**year Treasury** note settling at 2.949%, down from 2.963% Monday. Yields fall as prices rise.

In overseas markets, the Stoxx Europe 600 added 0.9%. Asian stocks rose after China's cabinet, the State Council, unveiled measures to boost domestic consumption amid economic pressure from the trade spat with the U.S.

In response, Hong Kong's Hang Seng Index rose 1.4% and the Shanghai Composite Index added 1.6%. Elsewhere in the region, Japan's Nikkei Stock Average and South Korea's Kospi each rose 0.5%.

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THE WALL STREET JOURNAL.

U.S. Markets
Markets

U.S. Stocks Regain Ground After Losses; Nasdaq sets new record as technology shares lead the market higher

By Michael Wursthorn and Ben St. Clair
856 words
12 July 2018
04:43 PM
The Wall Street Journal Online
WSJO
English

* Stocks rebound from Wednesday's fall

* China guides its currency lower

Surging shares of technology companies sent the **Nasdaq Composite** to a new record, as major indexes rebounded from a trade-fueled midweek stock selloff.

Tech firms led the **stock market** higher, as investors returned to the pro-growth investment strategy that has worked throughout much of the long-running rally. A major software-deal announcement appeared to underscore the buying spree, sending the **S&P 500** technology sector up 1.8%, the most of the broad index's 11 major sectors.

Meanwhile, investors momentarily put aside their brewing trade concerns a day after the Trump administration threatened tariffs on an additional $200 billion of products from China, including bicycles, refrigerators and pocketbooks. Beijing is currently reviewing plans to hit back beyond levies on imports, although no new policies have been announced.

"We don't know how it's going to pan out," said Tom Martin, a senior portfolio manager at Globalt Investments. "But the market is understanding more and more that President [Donald] Trump isn't bluffing."

The tech-heavy **Nasdaq Composite** rose 107.30 points, or 1.4%, to 7823.92, surpassing its previous record set in June. The index notched its biggest percentage gain since June 1. The **Dow Jones Industrial Average** rose 224.44 points, or 0.9%, to 24924.89, while the **S&P 500** gained 24.27 points, or 0.9%, to 2798.29.

CA led tech firms and the broader **S&P 500** higher after Broadcom agreed late Wednesday to buy the software company for $18.9 billion. Shares of CA surged $6.94, or 19%, to $44.15 and appeared to boost the stocks of other software companies that trade in the **S&P 500**, including Activision Blizzard, which gained 2.76, or 3.5%, to 81.37, and Salesforce.com, up 2.91, or 2%, to 148.16.

Broadcom investors weren't as enthusiastic about the deal, sending shares down 33.46, or 14%, to 209.98.

Industrial companies, including aerospace firms, also contributed to Thursday's better performance, recovering some of the losses those firms suffered during Wednesday's selloff. Shares of Boeing, for example, added 5.43, or 1.6%, to 346.03.

Several airlines, another industrial cohort, were also trading in positive territory after Delta Air Lines reported profits that beat analyst expectations, even though the company said higher fuel costs will weigh on profits for the rest of the year. Shares of Delta added 89 cents, or 1.8%, to 50.73.

Investors expect second-quarter earnings, which kick off in earnest Friday with reports from several major banks, to offer clues on how the continuing trade tensions are affecting companies and how businesses are faring with higher commodity prices.

If either of those factors eat into second-quarter profits or appear poised to drag down future earnings, investors will likely recoil from those affected stocks, analysts said, even though **S&P 500** companies are projected to notch another double-digit earnings gain from a year earlier.

"We're at a situation where the markets have to react to the uncertainty," said Jim Smigiel, chief investment officer of absolute-return strategies for SEI Investments.

Barring any major hiccups, investors hope the earnings growth will help stabilize stock prices and push major indexes firmly higher. Analysts are projecting a 13% price increase in the **S&P 500** over the next 12 months, mostly driven by companies' profit gains, FactSet said.

The **stock market** also got a fresh sign that inflation is moving higher. The consumer-price index, which gauges the prices Americans pay on most goods, rose 2.9% in June from a year earlier, the highest level since February 2012, the Labor Department said.

Investors have been warming to the idea of rising inflation all year, especially after the January jobs report helped send major indexes into correction territory in early February. The latest data put inflation closer to where the Federal Reserve wants it, analysts said.

"Inflation doesn't look like it's getting out of control and to a place where people need to react," Globalt's Mr. Martin said.

Elsewhere, the Stoxx Europe 600 rose 0.8% and is up seven of the past eight trading days. In Asia, Hong Kong's Hang Seng was up 0.6%, while the Shanghai Composite Index rose 2.2%. Japan's Nikkei rose 1.2%.

Stocks in Asia rose after China's central bank guided the yuan to its largest one-day drop against the U.S. dollar in a year-and-a-half. A weaker yuan makes Chinese exports more competitive and its goods more valuable abroad.

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THE WALL STREET JOURNAL.

U.S. Markets
Markets

U.S. Stocks Slightly Lower, Weighed Down by Energy Shares; Investors look ahead to a busy week of corporate earnings results

By Ben St. Clair and Allison Prang
817 words
16 July 2018
05:05 PM
The Wall Street Journal Online
WSJO
English

* U.S. stocks mixed

* **Oil prices** fall on supply concerns

* Banks report strong earnings

The **S&P 500** inched slightly lower Monday as shares of energy companies fell alongside a decline in **oil prices** and as investors looked ahead to a busy week of corporate earnings results.

The broad **stock-market** index fell 2.88 points, or 0.1%, to 2798.43, while the technology-heavy **Nasdaq Composite** dropped 20.26 points, or 0.3%, to 7805.72. Both indexes snapped two-day winning streaks. The **Dow Jones Industrial Average** ticked up 44.95 points, or 0.2%, to 25064.36.

Energy stocks were by far the weakest of the **S&P 500**'s 11 sectors, falling 1.2%, on lower **oil prices**. U.S. crude settled down 4.2% at $68.06 amid concerns that Russia would increase output beyond what it agreed to last month.

Investors appear so far to have largely shrugged off trade concerns, and U.S. stocks have been lifted by strong U.S. economic data and positive earnings expectations in recent sessions. In the **S&P 500**, 60 companies are on tap to report quarterly results this week.

Before the market opened, Bank of America—the second-largest U.S. bank by assets—posted second-quarter earnings that beat expectations, sending shares up $1.23, or 4.3%, to $29.78.

The results helped buoy financial stocks, which were the best performers in the **S&P 500** on Monday, up 1.8%. The KBW Bank index climbed 2.1%.

BlackRock also reported higher-than-expected earnings, but its shares fell 3.13, or 0.6%, to 503.96 as the money manager pulled in significantly less investor cash than a year earlier. Goldman Sachs and Morgan Stanley are slated to report Tuesday and Wednesday mornings, respectively.

Shares of Netflix, which reported its latest results after the market closed, fell 13% in after-hours trading after the company missed its new subscriber estimates by more than one million, which the company attributed to faulty internal guidance.

Aaron Clark, portfolio manager for GW&K Investment Management, said earnings growth is either peaking or has already peaked and that strong results are largely priced into stocks. The latest reports alone won't push the market to new highs, he said.

Although he tends to look at specific stocks as opposed to sectors, Mr. Clark said he is looking at utilities, which are appealing because they have underperformed this year. That sector, along with real estate, is a more defensive play for investors because of its steady dividend payments.

Phil Orlando, chief equity strategist for Federated Investors, said the more prominent story around earnings will likely be "soft" guidance from companies as a result of issues like trade and the yield curve narrowing, among other things.

"Managements by and large have no reason to go out on a limb here," he said. Mr. Orlando said his firm slightly reduced its exposure to stocks a couple of weeks ago because it wanted to collect its profits before a potentially bumpy summer.

Still, expectations for strong earnings have largely helped overshadow trade tensions. The Dow industrials have gone up all but one day since the U.S. and China began imposing tariffs on $34 billion of each other's goods on July 6.

"It is hard to pin something truly tangible to" recent **stock market** gains since many explanations have been true for months, said Simon Derrick, chief currency strategist at BNY Mellon. "You can try to create a narrative around it, but it hasn't always worked out."

Meanwhile, Asian stocks have been hit harder by the trade disputes, with major indexes down so far this year. Shanghai stocks have shed nearly 15%, and economists estimate trade conflicts could cut 0.2 to 0.5 percentage point off China's gross-domestic-product growth in the coming year.

On Monday, GDP data revealed a slowing Chinese economy in the second quarter, weighed down by government initiatives to rein in risky borrowing and lending. The 6.7% remains above the government's 6.5% target, but key statistics pointed to a slowing economy.

The Shanghai Composite Index fell 0.6% Monday, following its largest one-week percentage gain since June 2016.

In Europe, the Stoxx Europe 600 fell 0.3%. Banks outperformed in Europe as shares in Deutsche Bank added 7.3% after the bank's preliminary second-quarter results beat expectations.

Write to Allison Prang at allison.prang@wsj.com

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The New York Times

Business Day

How It Got Riskier to Own High-Quality Corporate Bonds

By Carla Fried
1,330 words
13 July 2018
04:00 PM
NYTimes.com Feed
NYTFEED
English

Bonds issued by United States companies with strong balance sheets have been delivering the weakest returns of all major American bond categories this year, adding to the headaches of fixed-income investors.

There have been plenty of problems affecting all bonds. Rising interest rates pushed yields higher and **bond prices** lower.

So far, higher yields have not offset the declines in **bond prices**. (Total return in a bond fund is the combination of a portfolio's yield and the changes to the price of its bonds.)

But the returns of high-quality bonds have been eye-opening. For example, the $20 billion Vanguard Intermediate Term Corporate Bond Index fund lost 3 percent in the first half of the year, and the $33 billion iShares iBoxx $ Investment Grade Corporate Bond E.T.F. lost 4.4 percent. Both funds focus on corporate bonds with strong credit ratings: investment grade, in fixed-income parlance.

By comparison, the iShares Core U.S. Aggregate Bond E.T.F., which tracks the most widely used bond benchmark — and includes just 25 percent in investment grade corporate bonds, with the rest in government issues — lost only 1.6 percent.

Even junk funds, which invest in bonds issued by companies on shakier financial footing, managed to lose less than 0.2 percent on average in the first half of the year.

"The way we are framing this for clients right now is that if you are investing in investment-grade corporate bonds, you are likely taking on more credit and interest rate risk than you think," said Collin Martin, fixed income strategist at the Schwab Center for Financial Research.

That interest rate risk results from the decision by many companies to exploit the low interest rates created by the Federal Reserve after the financial crisis by borrowing heavily, locking in those rates for a long time.

The $6 trillion in investment-grade bonds issued in the last five calendar years is 55 percent higher than the borrowing in the five years before the financial crisis. The average maturity of investment-grade bonds issued last year was 15.3 years, down from the high of 17 years in 2015, but still higher than the 13.6 years average of a decade ago.

The longer a bond's maturity, the greater its price drop when interest rates rise, as has happened in 2018. This relationship can be understood through a bond statistic called duration: an estimate of how a fund's price will change for every 1 percentage point change in interest rates. For instance, a fund with a five-year duration would experience a 5 percent price drop when rates rise one percentage point.

The duration of the benchmark Bloomberg Barclays U.S. Aggregate Bond Index is now stretched to 5.9 years. The Bloomberg Barclays index of high-grade corporate bonds is even more rate sensitive, with a duration of 7.3 years.

While longer bonds are at the heart of recent underperformance, rates are not expected to climb much more this year, which could give a second-half boost to total returns.

And the corporate bond market is not yet pricing in a possible recession. “We are later in the game, but the innings are longer,” said Mary Ellen Stanek, chief investment officer of Baird Advisors, and co-manager of Baird’s suite of bond funds. “We are now in the second-longest post-World War II economic cycle, with no end in sight.”

Dana Emery, chief executive at Dodge and Cox, and a co-manager of its $56 billion Dodge & Cox Income bond fund, sees a positive side to the issuance of longer-term bonds. “The biggest thing that would cause a company distress in the next downturn is rollover risk,” Ms. Emery said, referring to the risk that a company will need to replace maturing bonds with fresh ones at an inopportune moment. Longer bonds might allow a company to ride through a recession without needing to refinance.

Companies may have learned from their experience in the last financial crisis. “One of the things that came out of the crisis was treasurers realizing they had too much exposure to short-term debt,” said Warren Pierson, a co-manager of the Baird bond funds. The $1.1 trillion that exists in short-term commercial paper today is half the amount in 2007.

“It’s actually pretty smart that they have issued a lot of long-term debt at very low interest rates,” Mr. Pierson said. “I am not saying they are completely insulated from rising interest rates, but it has been good financial management.”

The other noteworthy shift in investment-grade corporate bonds is a deterioration in overall quality. In 2007, 27 percent of the total value of bonds issued by companies in the **Standard & Poor**’**s 500**-**stockindex** were rated BBB, the lowest rung of investment grade. Today, 50 percent of the market value of **S**.**&P**. **500** bonds have that rating.

Mariarosa Verde, senior credit officer at the bond-rating firm Moody’s Investors Services, said the ratings slide is, for the most part, a result of corporate intent. Companies that once had sterling ratings are “strategically deciding to take on more leverage,” she said, perhaps to finance a merger or acquisition.

Bayer, CVS, General Mills and AT&T are among the deal makers whose investment-grade bond ratings have fallen as they have borrowed more.

When bonds are downgraded because of purposeful corporate borrowing, it “can be a good time to invest,” Ms. Emery said, assuming a company has the will and the cash flow to repay that debt and crawl back up the rating ladder. That value-seeking approach helped Dodge & Cox Income to earn a 4.9 percent annualized return over the last 10 years. That was one percentage point ahead of the benchmark aggregate index.

Nonetheless, the bulge of BBB bonds could be a recipe for more **volatility** at the next downturn. According to Moody’s, in a recession year, 10 percent of investment-grade bonds at that lowest investment-grade tier become fallen angels, the industry term for bonds downgraded to junk status. “In the next recession, there will be more investment-grade companies at risk of becoming fallen angels than at any other time in the past,” Ms. Verde said.

That could hit index funds hardest. Once a bond is booted from investment grade down to high yield, high-grade indexes — and the funds that track them — are typically required to dispose of the bond promptly, forcing funds to sell when prices have fallen. Actively managed funds are not typically bound by such a strict sell rule.

A paper published in 2011 in the “Financial Analysts Journal” concluded that the “automatic selling of bonds downgraded to high yield” cost investment-grade corporate bonds much of their profit advantage over less risky government bonds.

Jared Kizer, chief investment officer at Buckingham Strategic Wealth, found a similar slim edge for

corporate bonds in a research paper. In an interview, he said he thinks “the negative effects of the index having to mechanically sell bonds when they are downgraded” is a major reason corporate bonds do not outperform government bonds by a larger margin. Buckingham Strategic Wealth avoids such bonds. “The high-grade corporate bond market doesn’t seem to be a necessary part of a diversified portfolio,” Mr. Kizer said.

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A CVS store in Los Angeles. As the company's borrowing has increased, its investment-grade bond ratings have fallen. | Christopher Lee/Bloomberg | General Mills, the maker of Cheerios, is another company whose blue-chip bond rating has fallen amid heavy borrowing. | Luke Sharrett/Bloomberg

Document NYTFEED020180713ee7d0070u

THE WALL STREET JOURNAL.

Markets

Stock Market Fights Off Big Tech Stumbles; S&P 500 ekes out a gain for the week as earnings disappointments are seen as isolated

By Akane Otani
998 words
29 July 2018
04:32 PM
The Wall Street Journal Online
WSJO
English

The broad U.S. **stock market** is within 2% of a new high despite big drops by some of the technology giants that have powered recent gains, reassuring investors that the nine-year rally remains on firm footing to continue its run.

For months, analysts and investors have been debating whether a **stock market** whose gains have largely been driven by a handful of technology companies may be subject to a sudden reversal. They have already witnessed several big selloffs in recent days: Facebook Inc. wiped out more than $100 billion in market capitalization Thursday after warning its growth was slowing, while Netflix Inc. tumbled earlier this month after missing its own forecasts for user growth by more than a million subscribers. Twitter Inc. and Intel Corp. slid Friday after posting disappointing earnings.

Yet through much of those shock waves, the broader **stock market** has remained resilient. As Facebook suffered its biggest slide as a public company, dragging other technology stocks down with it, the **S&P 500** slipped just 0.3%. The broad index lost some ground Friday but eked out a gain for the week and hovered 1.9% away from its all-time high.

One reason why: While corporate-earnings results have been uneven for some technology firms, others have continued posting robust results, with both Alphabet Inc. and Amazon.com Inc. defying analysts' expectations for yet another quarter. Earnings across the rest of the **stock market** have been strong, buoyed by corporate tax cuts, consumer spending and an economy growing at its fastest pace in years.

The next big test for the tech sector comes Tuesday, when Apple Inc. is projected to report double-digit growth in quarterly earnings and revenue.

Even after adding hundreds of billions of dollars to their market capitalizations, the five biggest companies in the **S&P 500**)—Apple, Amazon, Alphabet, Microsoft Corp. and Facebook—remain a smaller share of the index than the five biggest during the lead-up to the 1980s oil glut, the 2000 dot-com bust and the 2008 financial crisis, according to Ned Davis Research.

Taken together, many investors are betting that the **stock market**'s dependence on a small number of technology giants isn't as precarious as it seems and that the **bull market**has the breadth to continue.

"I would never not want to own some of these names because I can't imagine what an Amazon or Google are going to come up with next," said Tom Stringfellow, chief investment officer at Frost Investment Advisors, which owns a number of the so-called FAANG stocks: Facebook, Amazon, Apple, Netflix and Google-parent Alphabet.

To be sure, there are plenty of naysayers who would disagree with Mr. Stringfellow.

Brendan Erne, director of portfolio implementation at Personal Capital, has been advising clients to pare back their technology holdings and raise their exposure to areas of the market that he considers neglected.

"The fact that investors continue to double down on this crowded trade is a sign of greed," Mr. Erne said, adding that many seem to have bought into the idea that "these companies are infallible."

History has also shown the **stock market** dropping precipitously in periods when the weight of the top five stocks in the **S&P 500** significantly diverged from the weight of the bottom half of the index. Before the peak of the dot-com era in March 2000, the top five **S&P 500** stocks made up 18% of the index, more than double the weight of the bottom half of the index, according to Ned Davis Research.

Yet the **stock market** is far less lopsided today, with the top five **S&P 500** stocks making up 14% of the market—about the same as the bottom half of the index.

Stock indexes that either exclude or de-emphasize the FAANG names have also managed to perform well, evidence that areas of the market that haven't been dominated by technology have still managed to draw in investors. The Russell 2000 index of small-capitalization stocks has outpaced the **S&P 500**'s 2018 advance, while the **S&P 500** equal-weighted index, which gives the smallest companies in the index the same weight as the largest ones, has trailed the **S&P 500** by less than 2%.

"There is broader strength outside of just tech," said Jim Paulsen, chief investment strategist at Leuthold Group.

Much of that has to do with the strength of the economy. Data on Friday showed the U.S. economy grew in the second quarter at the fastest pace in nearly four years. The labor market has added jobs for a record 93 months, while corporate earnings have also shined, showing companies ranging from industrial conglomerates to oil producers to department-store owners growing profits with the help of a potent mix of tax cuts and economic growth.

All that has helped lift stocks across the market and even revive trades that many investors had left for dead as technology giants such as Amazon waded further into industries ranging from health care to retail.

Rising consumer spending, cost-cutting and rewards from shifting more toward e-commerce have helped stocks such as Macy's Inc. soar 57% this year, outpacing Amazon's 55% gain, while Under Armour Inc. has jumped 43%, Advance Auto Parts Inc. has added 40% and Kohl's Corp. has risen 34%. Ten of the 11 sectors in the **S&P 500** are posting gains over the past three months.

"We're in a period of historically low interest rates, a strong labor market and favorable tech backdrop," said Mr. Erne. Despite his misgivings about the lofty expectations around large tech firms, he said those factors are helping him remain cautiously optimistic.

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THE WALL STREET JOURNAL.

Markets

With Stock Market in Lull, Investors Pin Hopes on Earnings Boom; Forecasts suggest U.S. corporations remained on strong footing heading into the second half of the year

By Akane Otani and Michael Wursthorn
1,091 words
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English

Corporate earnings are poised to extend a run of double-digit growth in the second quarter, providing a balm for a stock market that has languished as investors have grappled with threats ranging from fractious trade relations to tightening monetary policy.

Analysts expect earnings from S&P 500 companies to grow 20% in the second quarter from the year-earlier period, according to FactSet. Despite fears that earnings peaked in the first quarter, they are still on pace for the second-fastest rate of growth in nearly eight years. Revenue is also expected to impress, with projected growth of 8.7% from the year prior—the fastest rate since the third quarter of 2011.

The buoyant outlook for earnings highlights the vigor of U.S. corporations nine years into a domestic economic expansion.

Gains from corporate tax cuts, a robust U.S. economy and confidence among small businesses and consumers have given corporate earnings a fresh boost this year, helping offset headwinds like fractious trade policies and rising interest rates. On Tuesday, for instance, PepsiCo Inc. reported a bigger-than-expected jump in core profits thanks in part to its domestic snacks business, sending shares jumping 4%.

The results show the growth streak that has supported the long stock rally isn't over yet, something that should reassure investors heading into the busiest period of the reporting season, which gets going in earnest Friday as the biggest banks, including JPMorgan Chase & Co., post results. Strong earnings forecasts also have some investors and analysts hopeful the numbers will help the market break out of a months-long rut that has left the S&P 500 up just 4.1% for the year.

"Earnings season should refocus investors' minds on stuff that's important," said John Thomas, chief investment officer of money-management firm Global Wealth Management. "We're still optimistic strong earnings can help the year end on a positive note."

Rallying oil prices, strong U.S. economic data and buoyant consumer confidence have pushed analysts' earnings estimates higher since the start of the second quarter. This is a departure from previous quarters, when analysts typically lowered their expectations as they got closer to the start of the earnings season.

Much of the boost has come from the S&P 500's energy sector, which has rallied as dwindling oil production in Venezuela and fears of a supply disruption in Iran have sent U.S. crude oil pricessoaring above $70 a barrel again.

Energy companies in the S&P 500 are expected to post year-over-year earnings growth of 144% in the second quarter, up from 115% on March 31, according to FactSet. The upbeat outlook for profits has helped lift shares of oil companies; Exxon Mobil Corp. gained 11% over the past three months and Chevron Corp. is up 8.6% over the same time.

The S&P 500's technology sector—the best-performing group in the broad index this year—is also expected to impress. Strong sales momentum has analysts forecasting double-digit earnings growth for firms in the semiconductor, internet software & services, technology hardware, storage & peripherals and IT services industries.

Those broadly positive sector forecasts have helped offset cuts in earnings estimates for consumer staples. Shares in that sector have slid in recent months as investors have worried that tariffs from Canada, Mexico and the European Union on goods ranging from orange juice to pork chops could dent profitability.

Analysts have lowered earnings estimates for about three-quarters of firms in the consumer-staples sector since March 31, including Campbell Soup Co., Kraft Heinz Co. and Coca-Cola Co, according to FactSet. Shares of consumer-staples companies in the **S&P 500** are down 9.1% for the year, placing them among the worst-performing sectors in the broad index.

Analysts warn any signs of trade tensions spilling over more broadly into the economy could weigh on stocks. Harley-Davidson Inc. said in June that it was planning to move more of its production outside the U.S. to avoid EU tariffs on motorcycles.

CSX Corp. said trade tariffs over a long period would tamp down economic activity, especially among domestic freight transportation companies. "A trade war is not a good thing," said Frank Lonegro, chief financial officer of the railroad company, while speaking at an industry conference hosted by UBS Group AG.

Bank of America Merrill Lynch analysts said in a report that they would be closely watching corporate management's guidance and commentary on earnings calls to gauge "any deterioration in outlooks driven by uncertainty around growth or trade, which could halt the [capital-expenditure] recovery and stall confidence."

Analysts have already noted the **stock market** is rewarding companies less for beating earnings estimates. Companies that reported stronger-than-expected profits for the first three months of the year saw an average price increase of 0.2% two days before the earnings release through two days after, well below the five-year average of 1.1%, FactSet said.

That was the fifth consecutive quarter when **S&P 500** companies that reported earnings beats saw average prices moves below the five-year average, FactSet added. Analysts attributed the lackluster rewards to high expectations heading into the reporting period and outside factors like a jump in interest rates and global trade tensions.

Firms are expected to post double-digit earnings growth through the rest of the year, but the disconnect between big profit gains and positive **stock-price** movements could widen, as investors come to grips with the likelihood that 2019's earnings will be much more modest, analysts say.

"Sooner rather than later, the market is going to be thinking about earnings in 2019," said Scott Wren, a senior global equity strategist with Wells Fargo Investment Institute. "The growth rate next year won't be anywhere near where it will be this year."

Write to Akane Otani at akane.otani@wsj.com and Michael Wursthorn at Michael.Wursthorn@wsj.com

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THE WALL STREET JOURNAL.

U.S. Markets
Markets

Facebook Leads Tech-Share Decline; S&P 500 and Nasdaq fall after European markets post gains

By Michael Wursthorn and Ben St. Clair
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26 July 2018
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English

* Facebook stock leads **S&P 500** lower

* European autos gain ground

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Tumbling shares of Facebook pulled the **S&P 500** lower Thursday after disappointing earnings results rocked investor confidence in one of Wall Street's most popular trades.

Shares of Facebook suffered their steepest decline since the social-networking giant's **stock-market** debut six years earlier. The losses erased about $100 billion in value from Facebook, as the firm suffered the biggest single-day decline in market cap ever.

The selloff started after Facebook said late Wednesday that revenue grew slower than expected in the second quarter and warned that it expected growth to decline over the rest of the year. Shares closed Thursday down $41.24, or 19%, to $176.26.

Investors say the lackluster results have renewed concerns that the massive growth in revenue and profits among some of tech's stalwarts may not be sustainable—posing another hurdle for a **stock market** already grappling with trade tensions and concerns over a possible policy misstep by the Federal Reserve.

The frantic rise in growth stocks like Facebook in recent years has "been a concern for a while," said Matthew Forester, chief investment officer of BNY Mellon's Lockwood Advisors, who added that Facebook's misstep could be another sign that the **stock market** is nearing the end of its rally. "In a late cycle, you would typically see concerns about momentum stocks, and I'd put a lot of the technology names in that category."

Facebook is one of the more popular holdings among investors and fund managers, so much so that traders have given the firm and others the moniker, FANG, which represents Facebook, Amazon.com, Netflix and Google parent Alphabet. And the price drop is expected to be felt widely among the investment community, said Mr. Forester.

Still, Facebook's plight was mostly contained within the tech and consumer discretionary sectors, while the broader market appeared to weather the selloff, thanks in part to a 1% gain among **S&P 500** energy companies.

The **S&P 500** fell 8.63 points, or 0.3%, to 2837.44 to snap a three-day winning streak, while the tech-heavy **Nasdaq Composite** shed 80.05 points, or 1%, to 7852.18. The **Dow Jones Industrial Average**, however, added 112.97 points, or 0.4%, to 25527.07.

Shares of Amazon.com fell 55.61, or 3%, to 1,808 during Thursday's session, but shares rose 2.3% in after-hours trading as the e-commerce giant reported stronger-than-expected earnings results. Netflix added 22 cents, or less than 0.1%, to 363.09, but the streaming service remains down 7.2% so far this month after posting slower-than-expected subscriber growth last week.

"We have continually expressed concern about such narrow large-cap leadership, especially in the names where valuation is not a consideration," said Mike O'Rourke, chief market strategist with JonesTrading, in a research note. "This appears to be the beginning of the end of the FANG era," he added of the commonly known Wall Street acronym representing Facebook, Amazon.com, Netflix and Google parent Alphabet.

Elsewhere, the Stoxx Europe 600 added 0.9% as investors cheered an agreement between the U.S. and the European Union to hold off on new tariffs. Asian stocks fell, dragged lower by declines in tech companies.

However, analysts at Citigroup called the truce "more optics than substance" in a note to investors Thursday, noting the tentative nature of the agreement and the limited discussion of autos.

In Asia, losses in the tech sector contributed to declines in the Shanghai Composite Index and Hong Kong's Hang Seng, which were down 0.7% and 0.5%, respectively. Japan's Nikkei Stock Average was off 0.1%.

While trade tensions eased on the European front, worsening U.S.-China trade relations hit another snag Wednesday, when Qualcomm said it would abandon its $44 billion purchase of Dutch chip maker NXP Semiconductors NV after failing to secure approval in China.

Shares of Qualcomm rose 4.16, or 7%, to 63.58 Thursday.

Write to Michael Wursthorn at Michael.Wursthorn@wsj.com

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THE WALL STREET JOURNAL.
U.S. EDITION

U.S. Investors Defy Trade Fears

By Akane Otani and Ben Eisen
865 words
16 July 2018
The Wall Street Journal
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English

Trade fears have slammed markets around the world, but U.S. stocks are rising as strong profits and spending lead investors to overlook the risks of a downturn.

The **S&P 500** and **Dow Jones Industrial Average** have gone up all but one day since the U.S. and China imposed tariffs on $34 billion of each other's goods on July 6. The **S&P 500** is now up 4.8% for the year.

However, international markets have taken a hit: the Shanghai Composite has dropped 14% for the year, South Korea's Kospi Composite Index has shed 6.3%, Germany's DAX has lost 2.9% and Japan's Nikkei Stock Average has declined 0.7%

Some analysts said U.S. markets aren't reflecting possible repercussions from more trade barriers. Tariffs on steel and aluminum have already hurt shares of U.S. manufacturers and producers, even as most stocks have largely been spared.

With the trade tariffs, the U.S. is "shooting itself in the economic foot," said Richard Bernstein, chief investment officer of investment adviser firm Richard Bernstein Advisors.

Should global trade slow broadly or the prices of goods jump, that could in turn cut into spending by consumers and businesses. A 10% rise in import costs could hurt foreign sales and chip away 3% to 4% from per-share earnings growth, Bank of America Merrill Lynch analysts found in a report.

But the U.S. **stock market**'s resilience amid tense trade talks suggests investors are viewing trade-related market ructions as buying opportunities instead of warning signs. The **S&P 500**, which fell 0.7% on Wednesday after the Trump administration unveiled plans to place tariffs on an additional $200 billion of Chinese goods, rebounded 1% over the following two days.

"The markets are kind of treating the trade dispute as cheap talk. That's a bit of a miscalculation from the political risk point of view," said Mark Rosenberg, chief executive of GeoQuant, which uses artificial intelligence to project geopolitical developments and their impact on markets. "There is going to be some more concrete damage."

The U.S. is in a better position to withstand economic downturns, some analysts said, making the U.S. market a relative haven. Even after a nine-year stock rally, U.S. corporate earnings are strong and consumer confidence is robust.

Goldman Sachs estimates exports to China make up 1% of U.S. gross domestic product. That makes it unlikely tariffs will have a material impact on the earnings growth of U.S. multinational companies, according to the firm.

"If somebody's going to get hurt if we engage in some kind of trade war, it's far more likely to be China than the U.S.," said Mark Grant, chief global strategist and managing director at B. Riley FBR Inc.

To some, the market's calm also reflects the outlook that tariffs won't substantially threaten corporate profits. Analysts remain optimistic about future earnings: Bank of America Merrill Lynch raised last week its 2018 and 2019 earnings-growth estimates for the **S&P 500**, citing strong U.S. economic data and better-than-expected earnings in the first half of the year.

"It's pretty difficult to get a really dire economic scenario just from the tariffs," said Ed Campbell, a senior portfolio manager at QMA. He said his firm, which is more optimistic about growth in the U.S. than in the rest of the world, has been skewing the equities in its multiasset portfolio toward U.S. stocks.

Morgan Stanley researchers found about a fifth of the volatility in the U.S. stock market since the beginning of March can be explained by trade risk.

"Trade risk is not systemic across equities," said Brian Hayes, a quantitative analyst at the bank. "There were idiosyncratic risks, but it was not affecting the overall market."

Still, some parts of the market are reflecting burgeoning unease, investors said.

Investors are pouring more funds into the S&P 500 utilities sector -- considered a safer bet because of its relatively big dividend payouts. The sector has risen 8.1% over the past four weeks, soaring past the broader index's 0.9% advance across the same period. Shares of smaller, more domestically focused U.S. firms, which are seen as more insulated from global issues, have also outperformed, with the Russell 2000 more than doubling the S&P 500's gain for the year.

Some fear a dire scenario if the trade strife heightens. The S&P 500 could fall as much as 21% to around 2200 if the U.S. and China slap 30% tariffs on each other's goods and global auto tariffs are levied, UBS analysts found in a report.

So far, the markets are "ascribing a very low probability" of a worst-case scenario panning out, said Keith Parker, chief U.S. equity strategist at UBS.

"There's too much at stake on both sides to let relationships deteriorate to that point," Mr. Parker said.

Peter Levin contributed to this article.

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THE WALL STREET JOURNAL.

Markets
Dow Industrial Average Manages Scant 2nd-Quarter Gain, Vexed By Trade Woes; The broad index of 30 stocks shed more than 1,000 points, or 4.1%, over the past three weeks

By Michael Wursthorn
884 words
1 July 2018
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The Wall Street Journal Online
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English

The **Dow Jones Industrial Average** eked out a meager gain in the second quarter, but escalating trade tensions have punished the blue-chip index more than its peers and left it vulnerable to further **volatility**.

The broad index of 30 stocks shed more than 1,000 points, or 4.1%, over the past three weeks. That pushed the Dow back into negative territory for the year, as tit-for-tat responses between Washington and Beijing accentuated the global trade conflict.

The Dow is more prone to trade-related swings than the **S&P 500** and other indexes because its multinational constituents, such as Boeing Co. and Caterpillar Inc., receive a significant amount of their revenue from overseas.

Renewed threats from President Donald Trump to impose further tariffs and restrictions on China, which was followed by promises of retaliation from Chinese President Xi Jinping, sent the Dow tumbling 0.6% in June, trimming its gains for the second quarter to 0.7%. The **S&P 500** and **Nasdaq Composite** rose 2.9% and 6.3%, respectively, in the quarter.

The blue-chip index, which had been attempting to mount a recovery since falling into correction territory in early February, is trading back near those lows, off 8.8% from its Jan. 26 all-time high and down 1.8% for the year. The **stock-market** selloff pushed Wall Street's fear gauge, the Cboe **Volatility** Index, or VIX, in late June to its highest level since April.

"A potential trade war would derail" economic activity in the U.S. and elsewhere, Krishna Memani, chief investment officer of Oppenheimer Funds, recently wrote to investors. "It is in the U.S.'s best interest to find a solution even if it is after a lot of political posturing," he added.

More than half of the 30 Dow components get 50% or more of their revenue from outside the U.S., while the index as a whole, on average, attributes roughly 44% of all sales to overseas activities, according to FactSet. In the **S&P 500**, by comparison, that mark sits at 30%.

Multinational conglomerate 3M Co., for example, pulled the Dow down 157 points in the quarter after falling 10% and was among the biggest drags on the index in the period. The maker of Scotch tape and industrial adhesives earns 61% of its revenue from outside the U.S. And heavy machinery manufacturer Caterpillar's 8% decline shaved about 81 points from the index; it gets roughly 54% of its revenue from international sales.

But a recent change to the Dow helped to reduce its overall foreign exposure. In June, the indexing committee, which includes representatives from The Wall Street Journal, replaced General Electric Co., which gets 62% of its sales from overseas, with Walgreens Boots Alliance Inc., a retailer that gets nearly three-quarters of its revenue from U.S. sales, according to FactSet.

For now, global trade tensions are at a standstill. Negotiations are on hold between the U.S. and China, and while Mr. Trump has backed off one of his more controversial threats—tough new restrictions on Chinese investments in the U.S.—a July 6 deadline for tariffs is approaching. Investors also are closely monitoring ongoing talks between the U.S., Canada and Mexico on the North American Free Trade Agreement.

Investors are hoping the U.S. will avoid placing further trade barriers on Canada and Mexico, even if that leads to bilateral agreements with those countries instead of a broader pact. Still, analysts say emerging-market currencies, commodity prices, Mexican and Canadian assets as well as U.S. companies with significant exposure to those two countries could all slide if talks to extend Nafta break down altogether.

Globalization has played a major role in driving up corporate earnings. But analysts say protectionist policies and the imposition of tariffs would further impede global growth, which is already showing signs of slowing this year. Measures of business activity globally have decelerated from multiyear highs, with Europe exhibiting some of the steepest declines in growth.

Expectations of a global growth slowdown have contributed to lethargic bond yields, further pressuring the Dow. The yield on the 10-year U.S. Treasury note has hovered below 3% in recent weeks, even after the Federal Reserve proceeded with another interest-rate increase in June.

That has led to a flattening yield curve--the spread between two-year and 10-year U.S. Treasury notes is at its narrowest level in years. The flatter the curve, the less profitable bank lending can be. Shares of Goldman Sachs Group Inc. dropped 12% in the second quarter and were the biggest drag on the Dow, shaving 215 points off the index.

"The global economy is weakening," said Bruce Bittles, chief investment strategist at RW Baird & Co. "All of that news of economies growing together since 2017 appears to be ending, and the **stock market** doesn't have the same kind of breadth at all," Mr. Bittles added, saying the market is vulnerable to a significant pullback in the second half of the year.

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THE WALL STREET JOURNAL.

Markets

The $5 Trillion Question: How Did the Firm That Pioneered ETFs Lose Its Lead? State Street developed a hit investment product 25 years ago. Then more-focused rivals came along with better marketing and lower costs. Now the trust bank is No. 3 in the market it started.

By Asjylyn Loder
1,419 words
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For State Street Corp., the company that pioneered the $5 trillion exchange-traded fund industry, it's been a long way down.

Earlier this month, the Boston firm's asset-management division reported that investors took out as much cash as they put into its $639 billion ETF business this spring. It was the worst showing among the three largest issuers and sent State Street Global Advisors' share of the U.S. ETF industry to an all-time low.

State Street launched the first ETF 25 years ago and dominated the market for a decade. Today, its slice of U.S. ETF assets is just 17.3%—down from 49% 15 years ago. More worrying for its future, State Street captured just 5.9% of the $343 billion that poured into ETFs in the past year. By contrast, Vanguard Group and BlackRock Inc.'s iShares took in a combined 67%. Even Charles Schwab Corp., a relative newcomer with just 22 ETFs, had a fatter haul.

How State Street squandered its first-mover advantage for one of the most popular financial products ever created shows that being first can sometimes be as much of a hindrance as a head start.

It's easy to point out State Street's missteps in hindsight, but no one knew then how big the ETF industry was going to be, said Jim Ross, chairman of State Street's global SPDR business. "If you go back 25 years, you can think of some things you might do differently," he said.

To be sure, State Street is still the third-largest ETF issuer, but it has been hamstrung by a product suite that's vulnerable to market whims. It has struggled to connect with mom-and-pop investors. Some of its most popular funds are burdened by decades-old agreements that make State Street's funds more expensive than the competition's, a disadvantage in an industry where the cheapest funds win the most assets.

State Street doesn't even own the brand name of its ETF franchise, and instead pays hefty fees to rent it from index provider S&P Global Inc.

Nowhere are State Street's problems more apparent than in its flagship fund. The SPDR **S&P 500** ETF Trust, best known by its ticker SPY, has swelled into a $269 billion behemoth and is one of the most-traded securities on the planet. But it has seen $4.2 billion in investor withdrawals in the past year while nearly identical products from BlackRock and Vanguard—which cost half as much—gained a combined $26.3 billion.

Named after Standard & Poor's Depositary Receipts, shortened to SPDR (pronounced "spider"), SPY was the first to package every company in the **S&P 500 index** into a single share that, unlike a mutual fund, could be bought and sold on the stock exchange. The now-defunct American Stock Exchange celebrated SPY's January 1993 debut by hanging a 9-foot inflatable spider over the trading floor and giving out hundreds of plastic spider rings.

SPY was a far bigger hit than its inventors had predicted, and State Street followed with new ETFs pegged to other stock indexes, including the popular sector ETFs that invested in industries like energy and technology.

But there were early signs of trouble. The staid Boston institution has long treated its ETF business as an afterthought compared with its far larger businesses in trust banking and asset management for major institutional investors.

Earlier in July, State Street's share price plummeted after the firm announced it was buying a financial-data firm and canceling planned share buybacks. In the earnings call that followed, ETFs were barely mentioned.

"The ETFs were a small part of a big bank that didn't get this business," said John Jacobs, a former **Nasdaq** executive who launched the popular **Nasdaq** 100 ETF in 1999. "They were really, really conflicted about how much to put into the business and how much to go after it."

When a quirky San Francisco offshoot of Barclays PLC rolled out dozens of new iShares ETFs in mid-2000, State Street was slow to perceive the threat. In the years that followed, the upstart hired a massive sales force, sponsored a Tour de France team (later dropped amid doping allegations) and backed a catamaran racing series that traveled the world, iShares emblazoned on the sails.

IShares unseated State Street as the world's largest ETF issuer in early 2004 and widened its lead in the years that followed. Vanguard, too, pushed into the market, and its low-cost funds quickly began gobbling up market share.

State Street was caught flat-footed. Its ETFs were sold under multiple brand names. The ideas for its biggest successes, notably SPY and the sector ETFs, had come from outside the firm. In fact, State Street nearly declined the World Gold Council's idea for a bullion-backed ETF. The fund, better known by its ticker GLD, is now one of State Street's most lucrative.

To amp up its brand recognition, State Street consolidated all of its ETFs under the SPDR name in 2007, but there was a downside: The SPDR trademark belongs to S&P. When it expanded its use of the name, State Street also extended until 2031 a contract under which S&P gets one-third of the fees paid by SPY's investors. S&P's cut alone—$3 a year for every $10,000 invested—is almost as much as the entire fee BlackRock and Vanguard charge for their comparable funds.

Between SPY and other fee-sharing arrangements, State Street paid almost $143 million to S&P last year, more than triple the licensing, data and other fees paid by Vanguard and almost double those of BlackRock, which bought iShares from Barclays in 2009.

Those legacy contracts make it difficult for State Street to match aggressive price cuts from BlackRock and Vanguard, especially after BlackRock launched an ultra-low-cost ETF lineup in 2012.

Compounding the problems, the fallout from the financial crisis left State Street financially hobbled. In 2011, activist investors urged the firm to sell off the investment-management division. Market share kept falling, along with morale in its ETF business.

The firm hired a consultant to figure out where it had gone wrong. Some of the client feedback was scathing. Customers called State Street "amateurish" and "plain vanilla" compared to the "rocket scientists" at the competition, according to a copy of the 2013 report reviewed by The Wall Street Journal.

Executives summoned dozens of managers to a two-day meeting at Babson College in October 2013, a few miles from its Boston headquarters. The message: State Street needed a comeback. But some of State Street's ETF veterans grumbled that the firm had paid consultants to repeat what they'd been telling their bosses for years.

Following the report, State Street recruited several new executives, among them iShares alum Rory Tobin, who is now head of the SPDR ETF business.

Shortly after he arrived, Vanguard overtook State Street as the second-largest ETF issuer, and State Street's market share continued to fall as investors flocked to the cheaper ETFs offered by BlackRock and Vanguard.

"When I started here in December 2014, I was struck by the way it was organized—or maybe the degree to which it was not organized—the way iShares was," Mr. Tobin said.

State Street has since restructured its fragmented ETF business, an ongoing process that included an overhaul of its sales force last year, Mr. Tobin said.

One of the biggest changes was State Street's introduction of its own low-cost lineup last October, a move that industry analysts viewed as long overdue. The funds have since attracted more than $16 billion in new investor cash. But just as it took years for State Street to squander its lead, it will also take years to regain its former dominance, if it can.

"It's step by step," Mr. Tobin said. "I'm not going to say there's a silver-bullet answer that gets us back up to significant market share."

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THE WALL STREET JOURNAL.

Markets

Three Small-Stock Funds Investors Should Consider; Some powerful economic trends are helping small companies more than big ones

By Dan Weil
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Small-capitalization stocks are standing tall.

For fund investors who are seeking exposure to the sector, the question now is which mutual fund or exchange-traded fund might make the most sense.

First, some background: The Russell 2000 index of small-cap stocks has climbed 10.3% since the start of this year, compared with 3.2% for the **S&P 500 index** of large-cap stocks (excluding dividends), as small stocks have benefited disproportionately from the tax cut passed last year, stronger growth in the U.S. than overseas, a rising dollar since mid-April and global-trade disputes.

And some experts say the trend will continue. "With economic data still solid, small-cap stocks probably have more runway in the months ahead," says Michael Sheldon, chief investment officer at RDM Financial Group-HighTower Advisors in Westport, Conn.

Tax play

Lower taxes tend to help small companies more than bigger ones, because effective tax rates generally are higher for small companies, given the wealth of tools that large companies have to reduce their tax burden.

Domestic economic growth, meanwhile, can boost small-cap stocks more than large-caps, because bigger companies are more dependent on foreign markets. Companies in the **S&P 500** receive about 30% of their revenue from abroad on average, compared with 21% for Russell 2000 companies, according to Bank of America Merrill Lynch .

On the currency front, a rising dollar hurts U.S. companies that export by making their goods more expensive in foreign currencies, and it hurts the profitability of U.S. companies with sales overseas by making that revenue worth less when translated into dollars. So again, small-cap companies benefit from having a smaller exposure overseas than their large-cap brethren.

"The dollar trend is likely to continue, and if so, small-caps should continue to benefit," says Jack Ablin, chief investment officer at Cresset Wealth Advisors in Chicago. The Federal Reserve 's continuing interest-rate increases combined with the reluctance of foreign central banks to raise rates should boost the dollar, he and others say.

Worsening trade disputes, too, would hurt large-cap stocks more than small-caps, because large-caps are more dependent on trade than small-caps, experts say. "Investors are now showing more interest in small-caps to hedge exposure to trade skirmishes," says Karim Ahamed , an investment adviser at HPM Partners in Chicago.

Inflation factor

Even the recent acceleration of inflation has helped small-cap stocks, says James Paulsen, chief investment strategist of Leuthold Group in Minneapolis. Inflation tends to benefit small companies more than large, because small companies generally have narrower profit margins than large companies. So, higher prices for their products represent a larger portion of small-company profit margins and thus boost earnings more for small companies than for large ones.

In addition, valuations of small-cap stocks are attractive, some analysts say. By one measure of value—the ratio of enterprise value (which takes into account a company's market capitalization and debt, among other factors) to earnings before interest, taxes, depreciation and amortization, or Ebitda—the Russell 2000 was at a 12% premium to the Russell 1000 index of large-cap stocks as of May 31, Mr. Sheldon says, citing data from Barclays . That compares with a median premium of 14.1% for the period from Dec. 31, 2003 through May 31, 2018.

"For a while it looked like small-caps were overvalued, but that has narrowed dramatically," Mr. Ahamed says. "On a relative valuation basis, now is a better time to invest in small-caps."

If you're thinking of taking the plunge into small-cap stocks, what mutual funds might you consider? Russel Kinnel, director of manager research at investment information firm Morningstar , lists three possibilities: a small-cap value fund, a small-cap growth fund and a small-cap blended (growth and value) fund.

VALUE: DFA US Small Cap Value Portfolio (DFSVX)

"Because their expertise is small-cap and value, this seems like a good expression of what DFA does well," Mr. Kinnel says, referring to Dimensional Fund Advisors , the fund's sponsor. This fund finds inexpensive stocks based on price-to-book valuations, and it holds more than 1,000 names.

"Because holdings are cheap and small, you get more **volatility** than you'd expect from a diversified portfolio, but it's a consistent performer," Mr. Kinnel says. The fund had a five-year annualized return of 10.8% through the end of June.

GROWTH: T. Rowe Price QM U.S. Small-Cap Growth Equity Fund (PRDSX)

The fund is managed based on so-called quantitative analysis, which relies on mathematical equations to analyze various data for a company and its shares. The fund managers look at valuation, profitability, capital allocation, earnings quality and **stock-price** momentum. "It seems to be a good process," Mr. Kinnel says. "It's very diversified with 300 stocks."

The fund produced a five-year annualized return of 14.6% through the end of June.

BLENDED: Harbor Small Cap Value Fund (HISVX)

Despite the name, Morningstar classifies this fund as blended. "They have growth-like qualities to their portfolio construction," Mr. Kinnel says. It's an unusual strategy based on pattern recognition, looking for characteristics to identify stocks that are likely to outperform.

With about 60 holdings, this portfolio is more concentrated than the average small-cap fund. "But it's not like you will live and die on two names," Mr. Kinnel says.

The fund generated a five-year annualized return of 13% through the end of June.

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Experts also suggest a small-cap exchange-traded fund: iShares Russell 2000 ETF (IWM). "At the moment, active managers have been struggling to beat their benchmarks, so for a lot of our clients we've been using index funds and ETFs," Mr. Ahamed says. The fund returned an annualized 12.6% for the five years through the end of June.

Mr. Weil is a writer in West Palm Beach, Fla. He can be reached at reports@wsj.com .

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THE WALL STREET JOURNAL.

Markets
U.S. Stocks Resilient in Trade Spat, Sparking Complacency Fears; Gains in U.S. stocks raise questions about whether investors are underestimating the risks of a deeper downturn

By Akane Otani and Ben Eisen
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Trade fears have slammed markets around the world, but U.S. stocks are rising as strong profits and spending lead investors to overlook the risks of a downturn.

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Going back to the beginning of March, when trade feuds flared up, the **S&P 500** has erased daily declines of at least 1% in an average of 12 trading days, according to the WSJ Market Data Group, and trading volumes have been relatively muted. By contrast, it took an average of almost 17 days to rebound in the three years through February.

The U.S. is in a better position to withstand economic downturns, some analysts said, even if other countries are hit, making the U.S. market a relative haven. Even after a nine-year stock rally, U.S. corporate earnings are strong and consumer confidence is robust. That stands in contrast to the global growth outlook, which has cooled as business activity has slowed and a strengthening dollar has roiled emerging-market debt and currencies.

Goldman Sachs estimates exports to China make up 1% of U.S. gross domestic product. That makes it unlikely tariffs will have a material impact on the earnings growth of U.S. multinational companies, according to the firm.

"If somebody's going to get hurt if we engage in some kind of trade war, it's far more likely to be China than the U.S.," said Mark Grant, chief global strategist and managing director at B. Riley FBR Inc.

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The gap between yields on short- and longer-term Treasurys has narrowed to nearly 11-year lows, something some analysts worry points to an increasingly murky outlook among investors about economic growth.

Short-term rates have exceeded longer-term ones before every recession going back to at least 1975. Analysts are divided over what the recent flattening of the yield curve signals, with some arguing it has largely stemmed from short-term interest rates rising with the Federal Reserve's rate increases and others saying it reflects the risk that restrictive trade policies will cut into global growth.

Given the uncertainty, some are projecting a dire scenario if the trade strife heightens. The **S&P 500** could fall as much as 21% to around 2200 if the U.S. and China slap 30% tariffs on each other's goods and global auto tariffs are levied, UBS analysts found in a report.

But so far, the markets are "ascribing a very low probability" of a worst-case scenario panning out, said Keith Parker, chief U.S. equity strategist at UBS.

"There's too much at stake on both sides to let relationships deteriorate to that point," Mr. Parker said.

Peter Levin contributed to this article.

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THE WALL STREET JOURNAL.
U.S. EDITION

BlackRock Squeezed As Investors Pivot

By Asjylyn Loder
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17 July 2018
The Wall Street Journal
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English

Investors radically slowed the torrent of cash flowing into investment giant BlackRock Inc. this spring, a sign that a changing global economy and trade rifts may be unsettling a decadelong embrace of passive stock investing.

BlackRock said Monday it received $20 billion in net inflows in the second quarter. While the sum is enormous, it was down from more than $100 billion a year ago. BlackRock is the world's largest asset manager and a bellwether of low-cost index-based investing.

BlackRock isn't alone: For the first six months of 2018 the amount of money going into all U.S. passive mutual funds and exchange-traded funds was down 44% from the same period a year earlier, according to research firm Morningstar.

Just as the simplicity of index ETFs made it easy and cheap for investors to load up on a broad exposure to the stock markets, it allows them to move money quickly at a time when many are questioning the longevity of the **bull market**.

ETFs package stocks, bonds or other assets into a single share that, unlike mutual funds, can be bought and sold on an exchange just like shares of Apple or Amazon.

To be sure, money is still coming in to BlackRock and its peers. Yet if anxiety deepens and markets begin to decline, the slowdown shows these companies could suffer outflows.

For now, there have been only small signs of investor unease in U.S. markets. The **S&P 500** is up 4.7% this year while the tech-heavy **Nasdaq Composite** has gained 13.1%.

"If it turns into a big, bad **bear market**, then I think we could see outflows from ETFs," said Craig Siegenthaler, an analyst at Credit Suisse Group AG. "There's been a lot of hot money that's gone into equity ETFs in the past five years."

In an interview Monday, BlackRock Chief Executive Larry Fink said the slowdown reflected growing investor uncertainty amid political upheaval in Europe and worsening skirmishes over tariffs.

"One of the foundational components of international investing is that globalization is good for the world and for world global markets," Mr. Fink said.

The slowdown at BlackRock, one of the landmark winners of the post-financial-crisis world, comes as many analysts and investors are on the lookout for signs of an end to the unprecedented rise of low-cost, passively managed funds.

Such a move would reshape markets and the global economy given that for much of the past decade, investor cash has surged into BlackRock and fellow passive investing giant Vanguard Group. The two companies hold more than $11 trillion in assets combined, collecting it from institutional investors like banks, pensions and hedge funds, as well as from individuals.

The slowdown in the $3.6 trillion ETF industry has been particularly noticeable after last year's record gains. Investors poured $123 billion of new cash into U.S. ETFs in the first six months of 2018 -- down by about half from the same period last year, according to data from Morningstar Inc. Inflows into Vanguard ETFs also slowed, while State Street Corp.'s ETF business has seen net outflows, according to Morningstar.

Risk aversion was apparent across BlackRock's businesses. Investors bailed out of equities and sought the relative safety of bonds, especially as rising returns on short-term debt investments sweetened the appeal.

Mr. Siegenthaler noted that pension funds and sovereign-wealth funds were both cutting back on stocks in favor of less risky assets. Institutional investors yanked $21 billion in the second quarter from BlackRock**stock-index** products that seek to match market benchmarks rather than beat them, and instead invested $7.2 billion in products that track bond indexes, BlackRock reported.

Retail investors acted similarly, pulling $1.6 billion from BlackRock equity strategies while buying $6.2 billion in bond investments.

Speaking generally, Jeffrey Costa, a trust and investment officer at First County Advisors in Stamford, Conn., said his mostly retail clients have been rattled by the escalating tariffs.

"The biggest anxiety I'm seeing is new cash," said Mr. Costa, referring to clients with money to invest who are afraid that they are too late in the current economic cycle to enjoy gains from the **stock market**.

In all, investors pulled $22.4 billion out of BlackRock stock products in the second quarter while buying $26.4 billion in fixed income, the company said.

Mr. Fink said he remains optimistic about the future of ETFs, which he predicted could reach $10 trillion to $12 trillion in assets world-wide by the end of 2023. Flows were also slowed by investors taking advantage of higher returns on money market accounts, and some institutional clients sold **stock-index** investments to finance share repurchases and mergers and acquisitions, Mr. Fink said.

BlackRock's earnings rose 26% from the 2017 period, while revenue grew 11%. Its shares fell 0.6% Monday to close at $503.96.

Sarah Krouse contributed to this article.

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THE WALL STREET JOURNAL.

Markets
Sharp Oil Moves Diverge From Stock Market, Worrying Some Investors; Recent volatility shows oil's typical relationship with global growth might not be holding up

By Amrith Ramkumar
890 words
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English

Oil has diverged from stocks, other commodities and emerging markets since the imposition of U.S. tariffs on steel and aluminum at the end of May—a sign that recent volatility could continue challenging big buyers of fuel.

Concerns about output from several major producers have recently dictated moves in the oil market, traders said, even though prices are usually linked to economic growth because fuel consumption normally rises with more robust trade and economic activity.

At the same time, the threat of tariffs slowing the global economy has roiled other markets, sending copper down about 15% from a June 8 four-year high and briefly pushing Chinese stocks into a bear market.

Oil, meanwhile, has risen about 5.4% during the same period. The discrepancy is a sizable shift from last year, when stocks, commodities and other risky assets rose together, lifted by a synchronized global expansion.

This year, growth momentum outside the U.S. has waned, pressuring multinational companies as they contend with rising interest rates and a strong dollar.

Analysts say the reversal in correlations in recent weeks is a sign that oil's typical relationship with global growth might not be holding, potentially changing how everyone from drivers to airline companies gauge fuel costs.

The shift also means that investors trading multiple assets normally tied to global growth have had to adjust rapidly to changing market conditions.

"Investors are probably looking at a more volatile environment for the price of crude, which may also cause some impacts to hedgers," said Nathan Thooft, senior managing director of global asset allocation at Manulife Asset Management. "It's something companies have to think about."

Anxiety about global supply has swung oil prices in both directions. U.S. crude prices hit their highest level since 2014 in late June, but have fallen 6.5% this month after signs that production from Libya, Saudi Arabia and Russia could increase.

Still, oil is up about 45% in the past year and is the eighth-best-performing asset in the world in 2018 through Tuesday, according to a Wall Street Journal analysis of nearly 120 assets that include stock indexes, bond portfolios, currencies and commodities.

Oil prices have moved wildly in some recent sessions even as the stock market hits a summer lull marked by low trading volumes and muted moves.

The correlation between oil futures and the S&P 500, measured on a 20-day rolling basis, fell to its lowest level since May 2017 earlier this month, according to WSJ Market Data Group.

Correlations between oil and other assets, including the MSCI Emerging Markets Index and S&P GSCI Non-Energy Index of other commodities, also recently fell below -0.7, indicating an inverse relationship, though they have since moderated.

Correlation is measured on a sale of minus-1 to 1. A reading of minus-1 means two assets are moving in the opposite direction, while a correlation of 1 means they move in tandem.

"You've seen such independent factors that move the commodity," said Craig Hodges, a portfolio manager at Hodges Funds, which is overweight energy stocks. "It's trading on its own supply-demand equation and less of what's going on growth-wise and in the world."

The prospect of an economic slowdown in China is of particular interest to commodity investors because the country has consumed huge amounts of materials as its economy has grown. Last year, it dethroned the U.S. as the world's biggest importer of crude oil.

China's economic expansion slowed a notch in the second quarter, according to data released last week, weighed down by a government-debt cleanup. That is even before growth takes an expected hit from the trade fight with the U.S.

With investors anticipating that the U.S. will grow faster than other countries, the dollar has risen recently to its highest level in a year, making commodities more expensive to overseas buyers.

In recent weeks, prices of commodities from gold to soybeans have dived, yet **oil prices** have held on.

Traders are debating how quickly large producers like Saudi Arabia can ramp up supply in case a spat between the U.S. and Iran disrupts exports from the Islamic Republic.

Analysts have also raised the question of whether Russia might increase output at President Donald Trump's urging.

Mr. Trump has asked Saudi Arabia and other countries to increase supply and curb recent **oil-price** gains. And Libya has indicated in recent weeks it will resume exports at ports that were disrupted by recent rebel attacks.

Although prices have fallen recently, some investors think another supply shock could push them back up and reignite worries about higher inflation.

Specifically, some analysts worry that a continued oil rally would lead to a quicker-than-expected increase in consumer prices, which could give the Federal Reserve an even freer hand to push up interest rates.

"That could be a game-changer," said Doug Cohen, managing director of portfolio management at Athena Capital Advisors. "I don't think we're there yet, but it's certainly a risk."

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THE WALL STREET JOURNAL.

U.S. Markets
Markets
U.S. Stocks Slip Ahead of Holiday; Technology shares take a pause from recent gains in shortened trading session

By David Hodari and Allison Prang
690 words
3 July 2018
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The Wall Street Journal Online
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English

U.S. stocks fell in the final hour of trading in Tuesday's holiday-shortened session, dragged down by shares of technology and financial companies.

The **Dow Jones Industrial Average** and **S&P 500** had traded higher for most of the day but, for the second consecutive session, changed directions shortly ahead of the closing bell. Technology stocks, which have powered the market this year, took a breather after leading Monday's modest charge higher.

The Dow industrials fell 132.36 points, or 0.5%, to 24174.82, after earlier rising as much as 138 points. The **S&P 500** dropped 13.49 points, or 0.5%, to 2713.22, while the technology-heavy **Nasdaq Composite** declined 65.01 points, or 0.9%, to 7502.67.

The moves were exaggerated as trading volumes fell to their lowest level since the abbreviated session on Nov. 24, 2017. U.S. stock markets closed at 1 p.m. EDT ahead of the Independence Day holiday.

Five of 11 sectors in the broad **S&P 500** declined, with shares of tech companies falling the most at 1.4%. Financial stocks also fell with government bond yields. Energy shares were one of the bright spots in the index, climbing 0.7%, even after U.S. crude prices became **volatile** after topping $75 a barrel.

Trade tensions have been in focus in recent sessions amid fears of an all-out trade war between the U.S. and China. The countries are set to impose tariffs on goods from each other on Friday, though President Donald Trump said via Twitter on Tuesday that trade deals are "coming along very well."

Meanwhile, data from China's customs agency showed growth in exports to the U.S. slowing. But some analysts said they thought the data were part of China's narrative in the continuous trade battle with the U.S.

As the market continues to assess the trade landscape, many investors are hoping another solid round of earnings growth for the second quarter will help stabilize stocks. Earnings are expected to increase 20% year over year for companies in the **S&P 500**, according to FactSet.

"That's very much driven by the tax changes, but I think that the market seems to be trading up and down and sideways for a while here" until companies report stronger earnings, said Ryan Kelley, portfolio manager at Hennessy Funds.

Mr. Kelley compared the market's current predicament to a "rugby scrum," noting that factors such as good corporate results and economic data are posed against the Federal Reserve's hawkish stance and news from Washington.

"As long as I guess the administration continues to believe that there's a real issue out there and that tariffs are the way to fix world trade, we have some time to sort of work through all of this," he said.

Elsewhere, the Stoxx Europe 600 rose 0.8% after German Chancellor Angela Merkelclinched a deal late Monday with her conservative allies on immigration, an issue that had threatened to fracture her ruling coalition.

Some emerging-market stocks and currencies have also taken a battering in recent weeks.

In Asia, Hong Kong's Hang Seng dropped 1.4% as trading resumed following the territory's public holiday Monday. The Shanghai Composite Index rallied 0.4% after plunging 2.5% Monday to its lowest close since early 2016.

The yuan sharply dropped in early trading Tuesday but pared most of those losses after China's Central Bank Gov. Yi Gang said the bank is "closely monitoring" recent fluctuations in the foreign-exchange market and will keep the yuan largely steady.

Saumya Vaishampayan and Manju Dalal contributed to this article.

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THE WALL STREET JOURNAL.
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S&P Index Shuffle to Challenge Tech Sway

By Danielle Chemtob
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The Wall Street Journal
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English

The technology sector's dominance of the **stock market** is about to face a big test.

Facebook Inc. and Google parent Alphabet Inc. are expected to say goodbye in September to the highflying tech sector of the **S&P 500**. They will join a new communications-services group that also will house media giants such as Netflix Inc. and Comcast Corp. that now reside in the consumer-discretionary group.

This is far more than mere housekeeping on the part of an index provider. The revisions mean that funds tracking the current telecom, tech and consumer-discretionary sectors will be forced to trade billions of dollars of shares to realign their holdings before the moves become effective Sept. 28.

The new sector's weighting in the broad **S&P 500** will be more than 10%, up from less than 2% for the current telecom sector, according to a report from Credit Suisse. Some investors expect a pickup in **volatility** -- and price swings -- when the changes take effect as tech-focused funds drop Facebook and Alphabet.

"It's almost like a philosophical question," said Jonathan Golub, chief U.S. equity strategist at Credit Suisse. "If we group companies differently, does that change the behavior of investors?"

The answer: most likely. Mr. Golub said he expects there will be "arbitrage opportunities" for traders and investors who are able to take advantage of any **volatility**.

S&P Dow Jones Indices and MSCI Inc. are restructuring the current telecommunications sector in the **S&P 500**, which houses only three stocks: AT&T Inc., Verizon Communications Inc. and CenturyLink Inc. The sector's influence on the broader **S&P 500** has waned over the years because of consolidation in the industry. So the sector can swing wildly when the **stock price** of just one company in the group moves.

Those issues should be addressed by the index providers' plan to broaden the sector to include companies that focus on communication and offer content and information. They are scheduled Monday to unveil the full list of companies subject to the restructuring, having in January already named some of the big companies affected by the changes.

Already, some of the big fund companies are trying to limit the upheaval in the markets by setting up new funds that track the proposed communications sector ahead of its launch. So far, investors have been slow to take advantage.

State Street Corp.'s new Communication Services Select Sector SPDR began trading June 19, but just $135.8 million has flowed into it as of Friday, according to FactSet. That is less than the amount that flowed into State Street's technology sector fund on June 19 alone.

Vanguard's Communication Services Fund, a transition benchmark that began tracking the companies proposed for the new sector in March, has seen minimal fund flow since the announcement, according to FactSet.

"Because you're bringing in some names with much larger market caps for that index and names that are very top of mind. . .it wouldn't surprise us that investors would at least take a closer look," said Rich Powers, head of ETF product management at Vanguard.

The changes create big opportunities for growth investors who have long shied away from telecom companies, which are considered value plays for their steady dividend payments.

Chris Cook, president and CEO of investment adviser Beacon Capital Management, said he nearly pulled his clients' assets out of Vanguard's telecom exchange-traded fund earlier this year because the firm was facing liquidity issues when trying to trade large blocks of shares. Beacon manages $3 billion in assets, the vast majority in ETFs tracking the 11 **S&P 500** sectors.

"It wasn't a diversified sector, and that's why we buy ETFs and invest at the sector level," he said.

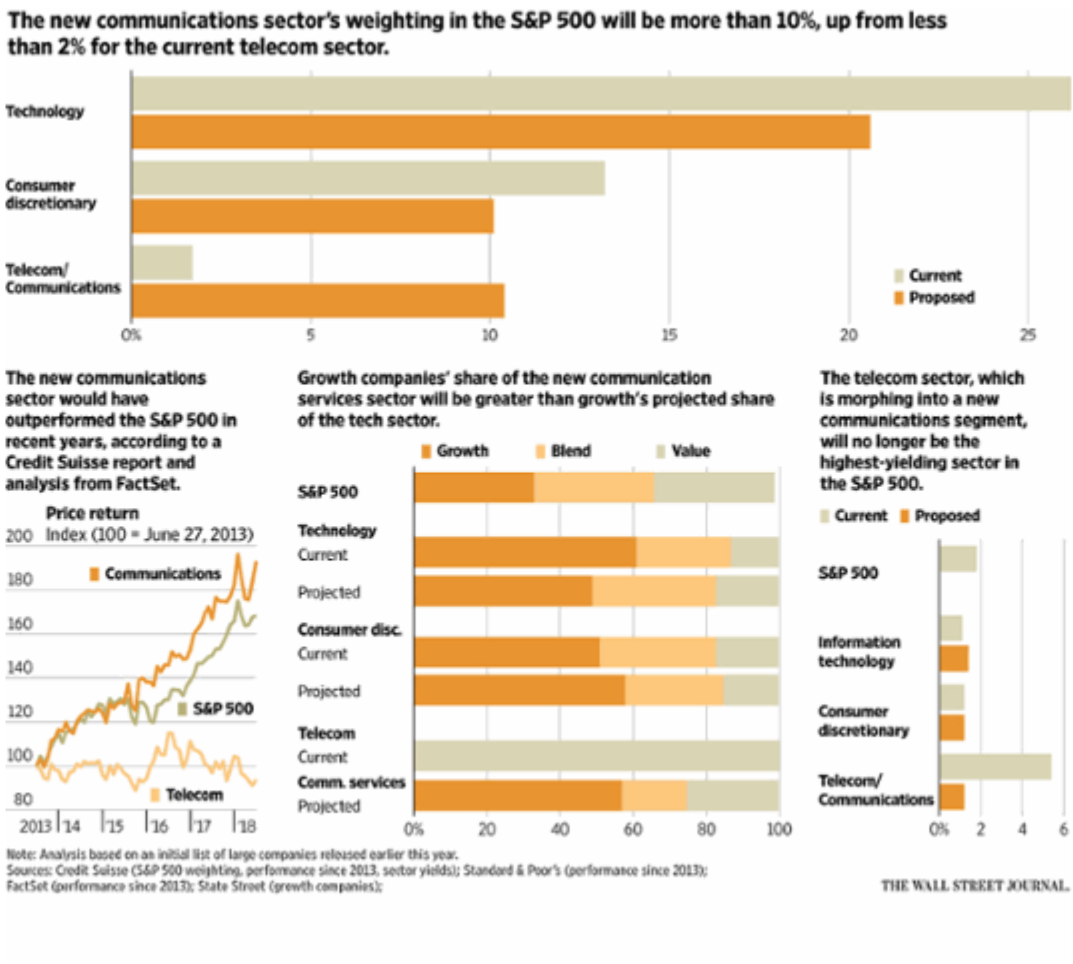
The proposed communication-services sector would have outperformed the **S&P 500** since 2013 and would have gained 6.9% this year through June 15, compared with the **S&P 500**'s 4% gain through that date, according to Credit Suisse.

The current telecommunications sector, meanwhile, has underperformed this year, suffering the biggest losses of all 11 sectors in the index with an 11% decline through Friday.

For those investors who want to make a blanket investment in growth companies, the technology sector may no longer be the best bet. The new consumer-discretionary sector will have the highest share of growth companies, followed by communication services, according to projections from State Street that were based on the initial list of companies affected. The makeup of the technology sector, considered the darling of growth investors, will fall to 49% growth from 61%.

Meanwhile, investors who favor telecom stocks for their dividends and use passive funds that track the sector as a way to hedge against risk will also need to make changes. The new sector is expected to yield just 1.2%, according to Credit Suisse, compared with the current 5.6% yield of the telecom sector, which is the highest of any of the 11 **S&P 500** sectors.

"The guy that may hold [a telecommunications fund] may be an individual who is risk averse and who likes yields," Mr. Golub of Credit Suisse said. "He may wake up and the weights of AT&T and Verizon in that mutual fund are going to be much smaller, and he's going to end up with a bunch of Netflix and Google and Facebook. And he may be saying, 'Wait a second this isn't what I thought I had.'"



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Strong Earnings to Rejuvenate Stocks

By Akane Otani and Michael Wursthorn
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English

Corporate earnings are poised to extend a run of double-digit growth for the second quarter, providing a balm for a **stock market** that has languished as investors grappled with threats ranging from fractious trade relations to tightening monetary policy.

Analysts expect second-quarter profit at **S&P 500** companies to log a rise of 20% from a year earlier, according to FactSet. Despite fears that earnings peaked in the first quarter, they remain on pace for the second-fastest growth rate in nearly eight years.

Revenue also is expected to impress, with estimated growth of 8.7% from the prior year -- the fastest rate since 2011's third quarter.

The buoyant outlook for earnings highlights the vigor of U.S. corporations nine years into a domestic economic expansion.

Gains from U.S. corporate tax cuts, a robust national economy and confidence among small businesses and consumers have given corporate earnings a fresh boost this year, helping offset headwinds such as the Trump administration's contentious trade policies and rising interest rates.

On Tuesday, for instance, PepsiCo Inc. reported a bigger-than-expected jump in core profit due in part to its domestic snacks business, sending its shares up 4.8%.

The results show that the growth streak that has supported the long stock rally isn't over, something that should reassure investors heading into the busiest period of the corporate reporting season, which gets going in earnest Friday as the largest banks, including JPMorgan Chase & Co., post results.

Strong earnings forecasts also have some investors and analysts hopeful that the **stock market** will break out of a monthslong rut that has left the **S&P 500** up just 4.5% for the year.

"Earnings season should refocus investors' minds on stuff that's important," said John Thomas, chief investment officer of money-management firm Global Wealth Management. "We're still optimistic strong earnings can help the year end on a positive note."

Rising **oil prices**, strong U.S. economic data and buoyant consumer confidence have pushed analysts' earnings estimates higher since the start of the second quarter. This is a departure from many previous quarters, when analysts typically lowered their expectations as they got closer to the start of the earnings season.

Much of the boost has come from the **S&P 500**'s energy sector, which has rallied as dwindling oil production in Venezuela and fears of a supply disruption in Iran have sent U.S. crude **oil prices** soaring above $70 a barrel again.

Energy companies in the **S&P 500** are expected to post year-over-year earnings growth of 144% in the second quarter, up from 115% on March 31, according to FactSet. The upbeat outlook helped lift shares of oil companies; Exxon Mobil Corp. gained 8.6% over the past three months, while Chevron Corp. rose 7.4% over the same period.

The **S&P 500**'s technology sector -- the best-performing group in the broad index this year -- is also expected to do well. Strong sales momentum has analysts forecasting double-digit earnings growth for companies in the semiconductor, internet software and services, technology hardware, storage and peripherals and IT services industries.

Those broadly positive forecasts have helped offset cuts in earnings estimates for consumer staples. Packaged-food companies, which already had been struggling to adapt to higher costs and shifting consumer tastes, have taken a fresh leg lower in recent months as executives have warned that tariffs by Canada, Mexico and the European Union on goods ranging from orange juice to pork chops could dent profitability.

Analysts have lowered earnings estimates for about three-quarters of companies in the consumer-staples sector since March 31, including Campbell Soup Co., Kraft Heinz Co. and Coca-Cola Co., according to FactSet. Shares of consumer-staples companies in the **S&P 500** are down 7.4% for the year, placing them among the worst-performing sectors in the broad index.

Analysts warn that any signs of trade tensions spilling over more broadly into the economy could weigh on stocks. Harley-Davidson Inc. said in June it planned to move more of its production outside the U.S. to avoid EU tariffs on motorcycles, while General Motors Co. warned that the Trump administration's proposed tariffs on vehicle imports would hurt its competitiveness.

CSX Corp. said trade tariffs over a long period would tamp down economic activity, especially among domestic freight transportation companies. "A trade war is not a good thing," said Frank Lonegro, chief financial officer of the railroad company, while speaking at an industry conference hosted by UBS Group AG.

Bank of America Merrill Lynch analysts said in a report that they would closely watch corporate management's guidance and commentary on earnings calls to gauge "any deterioration in outlooks driven by uncertainty around growth or trade, which could halt the [capital-expenditure] recovery and stall confidence."

Analysts already have noted the **stock market** is rewarding companies less for beating earnings estimates. Companies that reported stronger-than-expected profit for the first three months of the year saw an average price increase of 0.2% from two days before the earnings release through two days after, well below the five-year average of 1.1%, FactSet said.

That was the fifth consecutive quarter in which **S&P 500** companies that beat earnings forecasts saw their average price moves fall below the five-year average, FactSet added.

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THE WALL STREET JOURNAL.

U.S. Markets
Markets
U.S. Stocks Rise, Post Weekly Gains; Strong start to earnings season offsets trade tensions

By Ben St. Clair and Akane Otani
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The Wall Street Journal Online
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English

U.S. stocks climbed Friday and posted weekly gains, as a solid start to the corporate earnings season helped investors brush aside fears about a global trade rift.

Stocks have shown resilience in recent weeks, even as the U.S. and China have ramped up punitive trade measures on each other that some analysts fear could hurt global growth.

The **S&P 500** dipped midweek after the White House said it would assess 10% tariffs on an additional $200 billion of Chinese goods—although it then rebounded Thursday as technology shares rallied.

Investors say signs of strength in the U.S. economy are helping them remain cautiously optimistic about the nine-year stock rally. Corporate earnings results have continued to impress, with PepsiCo shares soaring Tuesday after the firm posted a slight gain in quarterly revenue and JPMorgan Chase and Citigroup posting double-digit profit increases for the latest quarter Friday.

"We have the tax cuts, an easier regulatory regime, fiscal spending—all those things are for the most part pretty positive for the markets," said Sameer Samana, global equity and technical strategist at Wells Fargo Investment Institute.

What will be key to watch, Mr. Samana said, is how much trade tariffs disrupt the global supply chain and potentially drive up inflation.

The **Dow Jones Industrial Average** rose 94.52 points, or 0.4%, to 25019.41 on Friday. The **S&P 500** added 3.02 points, or 0.1%, to 2801.31, closing at its highest level since Feb. 1, and the **Nasdaq Composite** advanced 2.06 points, or less than 0.1%, to a fresh closing high of 7825.98.

The gains came in a relatively quiet session: just 5.2 billion shares changed hands across the New York Stock Exchange and the **Nasdaq**, marking the lowest volume for a full trading day this year.

For the week, the Dow industrials were up 2.3%, while the **S&P 500** was up 1.5% and the **Nasdaq** was up 1.8%.

Corporate news drove swings in individual stocks throughout the week, propelling shares of industrial, technology and consumer discretionary firms up more than 2% apiece in the **S&P 500**.

Defense contractors rallied after President Donald Trump pressed allies at a North Atlantic Treaty Organization meeting to double their military spending targets. Lockheed Martin was up $19.18, or 6.4%, to $318.37 for the week.

Meanwhile, technology stocks continued to add to their gains for the year, with Microsoft's market capitalization rising above $800 billion for the first time Thursday and software firm CA Technologies jumping after Broadcomagreed to buy it for $18.9 billion. CA was up 7.33, or 20%, to $44.06 for the week, posting its biggest one-week percentage gain since 2008.

Elsewhere, the Stoxx Europe 600 added 0.2% Friday, led by advances among technology and real-estate companies.

Hong Kong's Hang Seng rose 0.2% and Japan's Nikkei Stock Average added 1.8%, notching its biggest one-day percentage gain since March.

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THE WALL STREET JOURNAL.

U.S. Markets
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U.S. Stocks Higher After Fed Chairman Jerome Powell's Testimony; Investors also focusing on companies' latest earnings results

By Jon Sindreu and Allison Prang
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The Wall Street Journal Online
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English

U.S. stocks rose Tuesday following Federal Reserve Chairman Jerome Powell's Senate testimony, while investors also continued dissecting the latest round of corporate earnings results.

The **Dow Jones Industrial Average** added 55.53 points, or 0.2%, to 25119.89. The **S&P 500** rose 11.12 points, or 0.4%, to 2809.55, and the technology-focused **Nasdaq Composite** climbed 49.40 points, or 0.6%, to 7855.12.

Mr. Powell told Congress that strong economic growth and stable inflation should keep the central bank on track to gradually raise short-term interest rates.

He added he wants inflation to stay around 2% and that the economy is "just shy" of hitting that point. He also touched on trade tensions, saying he thought countries that are open to trade have grown more quickly and commented on the new tax law, saying it was too early to see its impact.

Mr. Powell's remarks were made before the Senate Banking Committee as part of his semiannual monetary policy report. Derivatives markets were pricing in a 62% chance that rates will rise at least twice more this year, according to data by CME Group.

Quincy Krosby, chief market strategist for Prudential Financial, said Mr. Powell's comments demonstrated the Fed is following the trade situation and looking at whether the economy could be hurt by businesses acting more cautiously. There were concerns that, no matter where the economy stood, Mr. Powell wanted to do four rate increases in 2018, she said.

The chairman's reassuring remarks also took eyes off Netflix, said Dan Morgan, senior portfolio manager at Synovus Trust. After the market closed Monday, Netflix reported new subscriber growth for its recent quarter that fell short of estimates, prompting shares to fall sharply. The stock ultimately made up some of its earlier declines and fell $21, or 5.2%, to $379.48.

Bob Doll, senior portfolio manager and chief equity strategist for Nuveen Asset Management, said he was surprised tech stocks rallied Tuesday in light of Netflix's disappointing results and speculated some investors used the drop in Netflix shares as a buying opportunity.

Tech giants have been key in driving **stock-market** gains in 2018, and investors are looking for signs that their customer growth is in line with optimistic expectations.

"When you have had such a huge run…if one of them has a bump" it makes people wonder if they should take what they've made and get out, Mr. Doll said, noting Monday's after-hours slump in tech stocks was "more typical."

So far, the second-quarter earnings season is off to a broadly positive start, even though companies have a high bar to beat: Analysts expect earnings for **S&P 500** companies to grow 20% from a year earlier, according to data provider FactSet.

Among the companies whose shares rose after reporting quarterly results were Johnson & Johnson and Progressive. Strong sales of J&J's cancer drugs and other medicines helped boost its revenue and earnings, pushing shares up 4.42, or 3.5%, to 129.11, their highest percentage increase since January 2016. Progressive, meanwhile, posted a sharply higher profit as the insurer continued to see growth in active policies and net premiums written. Its shares climbed 98 cents, or 1.7%, to 59.40.

But shares of Goldman Sachs, the latest large U.S. bank to release second-quarter earnings, slipped 42 cents, or 0.2%, to 231.02. Despite reporting strong profits, Goldman's revenue fell below analysts' expectations. The firm also said David Solomon would succeed Lloyd Blankfein as chief executive starting Oct. 1.

"There's no reason to expect anything but impressive headline numbers," said Emiel van den Heiligenberg, head of asset allocation at Legal & General Investment Management. "While solid earnings growth will not come as a big surprise to most investors, it should provide a positive backdrop to markets in the coming weeks at a time where sentiment seems neutral to slightly **bearish**."

Oil prices steadied after steep losses Monday, with U.S. crude settling up less than 0.1% at $68.08 a barrel.

The oil market has been buffeted by expectations of supply increases from Libya, Russia and other producers, as well as worries that weaker global economic growth will lower demand for commodities.

The Stoxx Europe 600 added 0.2%. In Asia, Japan's Nikkei Stock Average closed up 0.4%, helped by a weak yen, but Hong Kong's Hang Seng and the Shanghai Composite slumped 1.3% and 0.6%, respectively.

Write to Jon Sindreu at jon.sindreu@wsj.com and Allison Prang at allison.prang@wsj.com

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THE WALL STREET JOURNAL.

U.S. Markets
Markets
U.S. Stocks Soar on Trade Concessions; Shares of industrial firms in the S&P 500 rally 1.2% following news of an agreement involving tariffs

By Danielle Chemtob and Ben St. Clair
712 words
25 July 2018
07:00 PM
The Wall Street Journal Online
WSJO
English

U.S. stocks surged in the final half-hour of trading Wednesday after President Trump secured some concessions from the European Union to avoid an escalation in trade tensions.

President Trump declared a "new phase" in the relationship between the U.S. and the European Union after the two parties agreed to lower industrial tariffs and increase liquefied natural gas and soybean exports to Europe. Mr. Trump also said the U.S. and the EU would "resolve" the steel and aluminum tariffs imposed earlier this year. He added they agreed to hold off on proposed auto tariffs, offering some relief for shares of car makers, which had recently been under pressure.

The **Dow Jones Industrial Average** climbed 172.16 points, or 0.7%, to 25414.10, after earlier declining as much as 128 points. The **S&P 500** added 25.67 points, or 0.9%, to 2846.07. The technology-heavy **Nasdaq Composite** rose 91.47 points, or 1.2%, to 7932.24, closing at another record.

But some investors are taking the trade deal with a grain of salt. "There's a lot of possibility here, but it's not concrete yet," said Jamie Cox, managing partner for the Harris Financial Group.

Shares of industrial companies in the **S&P 500** rallied 1.2% following the announcement. Boeing shares recovered some of their losses, despite results reported earlier in the day that weren't as strong as some analysts and investors expected. The aerospace giant's shares fell $2.35, or 0.7%, to $355.92.

The potential for a reprieve on trade tensions added to momentum from what is shaping up to be a strong corporate-earnings season. About 28% of companies in the **S&P 500** have reported results for the latest quarter, and earnings are up 21% on average for those companies.

Shares of General Motors declined 1.83, or 4.6%, to 37.65 after the company lowered its 2018 profit outlook based partly on unexpectedly high raw-materials costs in the wake of U.S. tariffs on steel and aluminum.

"I think what a lot of people are focused on today is the question mark of, have we seen peak earnings power because the first half of 2018 has been so strong?" said Martin Jarzebowski, vice president and portfolio manager with Federated Investors.

The technology sector rose 1.5% in anticipation of Facebook's latest results. After the closing bell, the social-media giant reported slower-than-expected revenue growth in the second quarter, indicating it felt some effects from a series of controversies over the past several months. Its shares slumped 21% in after-hours trading and pulled down other social-media stocks, including Twitter and Snap.

Many investors are still worried that regulation is a looming threat for technology companies.

"When profit margins are this high, the temptation for politicians one way or the other to skim a little bit off the top is going to grow," said David Kelly, chief global strategist at J.P. Morgan Asset Management.

The strengthening dollar is another growing headwind for technology companies, which derive a significant percentage of their revenue abroad. The WSJ Dollar Index, which measures the U.S. currency against a basket of 16 others, slipped 0.4% but is up 2.3% for the year.

"A stronger dollar is not a beneficial dynamic for a lot of companies," said Mr. Jarzebowski of Federated Investors.

Coca-Cola posted stronger-than-expected revenue growth, pushing its shares up 83 cents, or 1.8%, to 46.09. The company also said it would raise prices on its carbonated sodas in North America in response to rising costs from the tariffs and other factors.

Stephen Lee, principal and portfolio manager at Logan Capital Management, said his firm is closely analyzing which companies are able to pass tariffs and rising commodities prices onto consumers.

"Pricing power is going to be key, even without tariffs, even without the other issues," he said. "As we get closer to full employment, there will probably be some higher costs."

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THE WALL STREET JOURNAL.

U.S. Markets
Markets

Dow Posts Best Day in a Month; Stocks build on their recent rally after Friday's monthly jobs data

By Amrith Ramkumar and Ben St. Clair
925 words
9 July 2018
05:12 PM
The Wall Street Journal Online
WSJO
English

* U.S. stocks climb

* Commodity prices jump

* Investors looking ahead to earnings season

The **Dow Jones Industrial Average** had its best day in a month Monday as investors focused on a strong jobs report from late last week and the coming earnings season, despite heightened trade tensions.

Recent tariffs have kept investors on edge, with the U.S. and China slapping levies on $34 billion of each other's exports Friday. Some fear the protectionist trade policies will slow corporate activity and crimp global growth, hurting a range of assets from stocks to commodities.

Still, some analysts say they expect the countries to eventually reach a compromise on trade, instead focusing on the latest economic and corporate earnings figures. Investors said Friday's monthly jobs data was a positive for stocks, as it showed strong hiring and contained gains in wage growth, indicating inflation is still in check.

Now, many are looking ahead to second-quarter earnings season, which begins in earnest Friday with results from some of the nation's largest banks, to see how the trade threat is affecting companies.

"It hasn't filtered through yet into areas that would make it an actual hard data issue," said Steven Chiavarone, assistant vice president and portfolio manager at Federated Investors Inc. "I don't think we're going to see it in the earnings numbers, but where we could see it is in some of the guidance and some of the commentary."

The Dow industrials climbed 320.11 points, or 1.3%, to 24776.59—its largest one-day climb since June 6. The **S&P 500** rose 24.35 points, or 0.9%, to 2784.17, while the tech-heavy **Nasdaq Composite** added 67.81 points, or 0.9%, to 7756.20. All three indexes have posted gains in six of the past seven sessions.

Trading has been quiet lately, with Friday the lowest-volume day for a full session this year on exchanges owned by the New York Stock Exchange and **Nasdaq**, and Monday's activity also below the average for the year.

In the coming earnings season, analysts will also be looking for signs that corporate profits might be peaking. Earnings at companies in the **S&P 500** are expected to increase 21% from a year earlier, according to Thomson Reuters I/B/E/S. That would be the second-best quarterly gain in more than seven years.

Gains in commodity prices gave major indexes a boost Monday, with oil continuing to tick higher and metals prices rebounding following a recent slump.

A weaker dollar lifted materials in early trading by making them cheaper for overseas buyers. The WSJ Dollar Index, which tracks the dollar against a basket of 16 other currencies, was recently up 0.1% after erasing early declines. The yield on the benchmark 10-year U.S. Treasury note edged up to 2.860% from 2.831%. Yields move inversely to prices.

Shares of financial firms rose alongside bond yields, as higher yields tend to boost lending profitability. The **S&P 500** financials sector added 2.3%. Industrial stocks, which have fallen in recent weeks on trade tensions, were also among the index's best performers.

The utility and real-estate sectors, known as bond proxies because of their relatively hefty dividends, slid Monday. The utilities sector dropped 3.1%, its largest daily percentage decline since November 2016.

Attention is also expected to shift to this week's North Atlantic Treaty Organization summit, as relations between the U.S. and its European allies remain strained. President Donald Trump has taken aim at elements of the trans-Atlantic alliance he insists place unfair burdens on the U.S.

"I'd say there are very few companies that I'm aware of that benefit" from a trade war, said Chris Hillary, chief executive and portfolio manager for Denver-based Roubaix Capital. Still, trade tensions have "played a minor role to date in our decision making," Mr. Hillary said of his fund, which holds just over $110 million under management and invests in small and midcap U.S. stocks.

Investors have been piling into small-cap stocks with less foreign exposure recently. The S&P Small Cap 600 is up 13% on the year, while the **S&P 500** is up 4.1%.

Elsewhere, the Stoxx Europe 600 climbed 0.6%, led by shares of technology companies. The British pound fell against the dollar after Foreign Secretary Boris Johnson became the second prominent supporter of Britain's departure from the European Union to quit Prime Minister Theresa May's government.

Earlier, a rout in Asian stocks paused. China's Shanghai Composite Index rose 2.5% and Hong Kong's Hang Seng added 1.3%.

Shares of Chinese smartphone maker Xiaomi closed lower in its Hong Kong trading debut, as the broader Hang Seng Index rose 1.3%.

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Rubin's Take: How to Quit Libor

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Resignations Over May's Brexit Plan Throw U.K. Government Into Turmoil

Municipal Bonds Are Scarce. That's Good News for Borrowers

Analysis: A **Stock Market** Crash With Chinese Characteristics

How to Quit Libor

The disgraced and soon-to-be-defunct London interbank offered rate, known as Libor, is baked into the terms of everything from mortgages to credit cards. So how exactly is the financial industry supposed to transition away from such a ubiquitous benchmark?

The truth is that no one knows for sure, at least not yet. U.S. and U.K. financial regulators agree the transition should be a lengthy one—banks should continue submitting rates until the end of 2021, after which point they will transition to a new benchmark. But even after 2021, regulators expect Libor to continue to lurk in some corners of financial contracts.

A Federal Reserve committee last year recommended replacing Libor with a rate derived from short-term loans known as repurchase agreements, backed by Treasury securities as collateral.

The Financial Stability Board, a global standards setter, is working with groups including the International Swaps and Derivatives Association to define a fallback rate to use when Libor disappears. Regulators could then have to enforce rules that push financial groups to simultaneously amend vast numbers of contracts.

The highly technical work of sorting through Libor replacements will get an update this week, when the Commodity Futures Trading Commission's Market Risk Advisory Committee meets to discuss alternative rates. Thursday's public meeting will allow industry stakeholders to voice their concerns about how the transition is progressing, and will give regulators a chance to hone their own proposals.

"Given the magnitude of Libor's pervasiveness throughout our nation's economy, touching everything from home mortgages to student loans, the choice of any alternative entails significant work in re-configuring products, processes, and strategies," CFTC Commissioner Rostin Behnam said in a statement announcing the open meeting.

Meanwhile, as the CFTC and other regulators work to move beyond Libor, they're still busy litigating crisis-era benchmark manipulation cases. The CFTC has imposed around $6 billion in penalties against banks and brokers to address the rigging of benchmarks such as Libor and the U.S. Dollar International Swaps and Derivatives Association Fix, most recently against JPMorgan Chase & Co. for attempting to manipulate the latter benchmark.

Key Developments in Washington, on Wall Street, and Beyond

Former Goldman Banker in Plea Talks Over Malaysian 1MDB Scandal

A former Goldman Sachs Group Inc. banker is in talks with U.S. prosecutors to potentially plead guilty to criminal charges stemming from an alleged scheme to steal billions of dollars from a Malaysian state investment fund, people familiar with the matter said.

The talks bring the fast-moving investigation closer to Goldman, which raised billions for the Malaysian fund, 1Malaysia Development Bhd, and come after the arrest of Malaysia's former prime minister, who founded the fund and lost his reelection bid earlier this year.

The one-time Goldman partner and Southeast Asia chairman, Tim Leissner, who hasn't been charged, is seeking an agreement with prosecutors that would involve his cooperation with the government's criminal fraud probe into 1MDB and Goldman, the people said.

One potential charge Mr. Leissner could ultimately plead guilty to would be a violation of the U.S. Foreign Corrupt Practices Act, which bans the use of bribes to foreign officials to get or keep business, according to some of the people familiar with the matter.

Resignations Over May's Brexit Plan Throw U.K. Government Into Turmoil

The resignation of two cabinet ministers over Brexit inside 24 hours plunged U.K. Prime Minister Theresa May into a political crisis and increased the chances of a challenge to her leadership from inside her Conservative Party.

Foreign Secretary Boris Johnson became the second prominent supporter of Britain's departure from the European Union to quit her government since Friday, when her cabinet agreed on a plan to have the U.K. adhere to many EU rules after Brexit. His resignation followed that of David Davis, the minister in charge of Britain's negotiations to leave the EU.

The political turmoil comes days ahead of President Donald Trump's visit to the U.K. on Thursday and less than nine months before the country is set to leave the bloc.

Municipal Bonds Are Scarce. That's Good News for Borrowers

The prices for municipal bonds have recovered from their worst first-quarter slump of the last 15 years. The reason: U.S. states and cities continue to cut back on their borrowing.

Municipalities borrowed $156 billion in the first two quarters of this year, down 17% from last year. Citigroup researchers are projecting that year-over-year decline will reach 25% by the end of the year.

The low supply is pushing up the value of existing bonds and reducing borrowing costs for some governments, particularly on riskier bond deals. Twelve-year bonds backed by settlement payments from tobacco companies to the state of California sold with yields of 3.07% in June, compared with yields of 3.25% in March of last year.

"It's a seller's market," said Howard Cure, director of municipal-bond research at Evercore Wealth Management, which invests in public debt. "We're trying to be careful about that aspect of it and not go down that path of sacrificing for a little extra yield and having a big decline in credit quality."

Analysis: A **Stock Market** Crash With Chinese Characteristics

One might think that a "socialist market economy" would feature markets that are less prone to booms and busts than the U.S. Not exactly.

As longtime China watchers know, the country's still-immature markets are in many ways more bubble-prone than their Western counterparts, thanks to heavy involvement from retail investors who often take cues from government policy, rather than quaint notions like earnings. Tanking Chinese stocks—the Shanghai Composite is now down nearly 25% from its January peak—could therefore be taken as a meaningless signal. That would be a mistake: this year's selloff reflects real worries about Chinese growth and financial stability.

The slowdown is still at an early stage, but is poised to deepen in the second half—adding to headwinds for global stocks that are already under assault from rising trade tensions.

Hedge Funds Are Having A **Volatile** 2018

Hedge funds have long touted their ability to do better when things turn **volatile**. But they lagged behind the **S&P 500** for the first half of 2018 despite market swings tied to trade policy tensions and interest rate increases.

A widely followed hedge-fund index maintained by data research company HFR dropped .46% in June, pulling down the industry's gains for the first half of 2018. The index rose .81% in the first two quarters, which is lower than the 2.65% return on the **S&P 500**, including dividends, over the same period.

Investors Take a Spin in Convertibles

The return of **volatility** to **financial markets** this year has fueled a frenzy around bonds that can convert to equity.

U.S. companies have sold $28.4 billion of so-called convertible debt this year, more than in any comparable period since before the financial crisis. Technology firms, longtime sellers of convertibles, account for more than half of issuance.

Convertibles typically offer a lower coupon than traditional bonds, but that's because they come with the right to convert the debt to equity if shares rise enough. The safety of bonds and the potential gains of stocks can be a good combination in a time of market uncertainty.

Stock Buybacks Are Booming, but Share Prices Aren't Budging

U.S. companies are buying back record amounts of stock this year, but their shares aren't getting the boost they bargained for.

S&P 500 companies are on track to repurchase as much as $800 billion in stock this year, a record that would eclipse 2007's buyback bonanza. Among the biggest buyers are companies like Oracle Corp., Bank of America Corp. and JPMorgan Chase & Co.

But 57% of the more than 350 companies in the **S&P 500** that bought back shares so far this year are trailing the index's 3.2% increase. That is the highest percentage of companies to fall short of the benchmark's gain since the onset of the financial crisis in 2008, according to a Wall Street Journal analysis of share buyback and performance data from FactSet.

And the historic spending spree on share buybacks has some analysts worried companies are buying their shares at excessive valuations during the peak of the economic cycle and at a time when the market rally is nine years old. Others warn the billions of dollars spent to buy back shares could have gone toward capital improvements like new factories or technology that could lead to stronger long-term growth.

Wednesday, July 11

3:30 p.m.

Federal Deposit Insurance Corp. head Jelena McWilliams speaks at a community banking conference organized by the FDIC.

Thursday, July 12

10 a.m.

The Senate Banking Committee holds a hearing on credit bureaus and the Fair Credit Reporting Act.

10 a.m.

The Commodity Futures Trading Commission's Market Risk Advisory Committee meets to discuss Libor replacements.

Regulatory Divergence Hurts Growth

Fragmented financial regulation across different countries results in financial costs and undermines policy objectives, writes Fayezul Choudhury for International Banker. Mr. Choudhury, CEO of the International Federation of Accountants, says a recent survey by his group shows that regulatory fragmentation costs the global economy more than $780 billion a year, and the problem is expected to get worse. That means regulators should "place utmost priority on achieving effective international regulatory cooperation," he writes.

After a slow start to 2018, Foreign Corrupt Practices Act enforcement activity increased in the second quarter, raising the potential for a banner year in FCPA-related penalties collected, figures compiled by Stanford Law School's Foreign Corrupt Practices Act Clearinghouse show.

Uber Technologies has tapped Scott Schools, a former top official at the U.S. Justice Department, to be its first chief compliance officer, ahead of a highly anticipated initial public offering next year.

Asif Ali Zardari, a former Pakistani president, was hit with a ban on leaving the country after he was implicated in a money laundering case involving the former head of the country's stock exchange.

The **Dow Jones Industrial Average**had its best day in a month as investors focused on a strong jobs report from late last week and the coming earnings season, despite heightened trade tensions.

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The New York Times

Business Day; DealBook
How Companies Are Making Customers Pay for Trump's Trade War

By Peter Eavis
697 words
30 July 2018
07:08 PM
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Get the DealBook newsletter to make sense of major business and policy headlines — and the power-brokers who shape them.

President Trump's trade war is making life uncomfortable for some large American corporations, but they have found a way to reduce the pain: Pass it on to customers.

The Trump administration's tariffs have pushed up the prices of steel and aluminum and have raised costs for companies that make everything from cars and tractors to dishwashers. These companies face a choice. They can bear the higher costs themselves and report weaker profits, which might crater their stocks. Or they can charge more for their products, in effect making their customers bear much of the financial burden of the tariffs, at least for a while.

Many companies are opting for the latter.

As they report second-quarter earnings, they are going out of their way to let their shareholders know that it is customers who are paying.

Caterpillar, while reporting record profits on Monday, predicted that tariffs would add as much $200 million to its costs in the second half of this year. The company added, however, that it would try to partly offset the hit by increasing the prices of its products. Whirlpool, which uses steel and aluminum in its dishwashers and washing machines, said it had hoisted its prices this year. Coca-Cola said last week that it had increased prices in the United States in part because of tariff-related cost increases.

"It's been very hard for companies to pass costs through to prices for many years," said Ed Yardeni, chief investment strategist at Yardeni Research. "The thing about tariffs is that they make a very good excuse: Blame it on Trump."

The impact of the tariffs, and who bears their brunt, could have big implications for the wider economy. The tariffs are raising expenses at a time when companies are paying more for other materials and labor. If most of these costs are passed on to consumers, inflation, already rising after being dormant for years, could accelerate. What is more, since the metals tariffs have been in effect only since the start of June, their full impact has not been felt.

Some companies can't foist higher prices on their customers because of the risk to their sales. General Motors, for instance, slashed its profit forecast last week in part because of higher steel prices.

And telling investors that customers will pay up does not mean they will believe you.

Still, some economists say companies may be able to get away with charging more for a while longer. With the economy buoyant, there may be enough customers who can afford the increases. David Rosenberg, chief economist at Gluskin Sheff, noted that a deeper dig into wage data showed strong rates of growth, and, he added, a recent survey showed that consumers appeared to be stepping up purchases of big-ticket items in anticipation of price increases.

The Federal Reserve is raising interest rates to prevent the economy from overheating. But the tariffs, along with other pressures, could prompt the Fed to tap the brakes more firmly, which could spook the **stock market**.

“We are seeing tariffs adding to classic late-cycle inflation pressures,” Mr. Rosenberg said. “This may force the Fed to do more than the market has priced in.”

Much depends on whether President Trump follows through on his proposed trade policies. To some extent, the strength of corporate earnings has bolstered America’s position in its trade fights. Profit margins for companies in the **Standard & Poor**’**s 500**-**stockindex** are at their highest in many years, in part because of Mr. Trump’s tax cuts, Mr. Yardeni noted. But the longer the trade war drags on, the harder it will be for corporate America’s bottom line to hold up.

“Trump gave companies a record profit margin, and now he might take some of that away,” Mr. Yardeni said.

Caterpillar said tariffs could add as much $200 million to its costs in the second half of this year. | Mike Blake/Reuters

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THE WALL STREET JOURNAL.

U.S. Markets
Markets
U.S. Stocks Climb as Investors Focus on Earnings Season; For now, trade tensions don't appear to be denting investor sentiment, analysts say

By Ben St. Clair and Allison Prang
578 words
10 July 2018
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The Wall Street Journal Online
WSJO
English

U.S. stocks rose Tuesday, notching their seventh session of gains in the past eight trading days, as investors looked ahead to what is expected to be another strong corporate-earnings season.

The **Dow Jones Industrial Average** climbed 143.07 points, or 0.6%, to 24919.66. The **S&P 500** added 9.67 points, or 0.3%, to 2793.84 and the **Nasdaq Composite** rose 3 points, or less than 0.1%, to 7759.20. The blue-chip index on Monday had its best day in a month, and all three indexes have climbed in recent sessions despite uncertainty over trade threats with China.

Two sectors that have underperformed this year—consumer staples and utilities—were among the leaders in the **S&P 500**, rising 1.3% and 1%, respectively. Financials, the only sector in the red, fell 0.4%.

Many investors are looking ahead to the second-quarter earnings season, which unofficially kicks off Friday, when three of the biggest U.S. banks report results. Earnings for companies in the **S&P 500** are expected to be up 20% in the second quarter from a year earlier, according to FactSet.

PepsiCo reported stronger-than-expected core earnings on Tuesday, thanks in part to its domestic snacks business. Its shares rose $5.13, or 4.8%, to $112.89, their largest percentage increase since August 2009.

"It's still too early to see where this goes, but I'm still very optimistic…We are going to be 20-plus percent earnings growth," Tom Stringfellow, chief investment officer at Frost Investment Advisors, said.

But he also noted that tariffs are still more important than earnings right now with earnings season yet to ramp up. Even so, trade concerns "don't seem to be impacting investor enthusiasm," Mr. Stringfellow said.

While "the major fears are still trade," investors aren't feeling as bad about trade friction as before because it doesn't seem to be getting worse, said Erik Davidson, chief investment officer for Wells Fargo Private Bank.

The first round of tariffs between the U.S. and China went into effect Friday , but U.S. stocks have risen since then as there haven't been signs of escalating tensions.

After the market closed Tuesday, the White House announced additional tariffs on $200 billion of imports from China.

While trade disputes on their own may not prove fatal to the global economy, the addition of tightening monetary policy from the Federal Reserve and political uncertainty in Europe make a risky situation worse, said Ronald Temple, head of U.S. equities and co-head of multiasset investing at Lazard Asset Management.

"You put enough of these factors together, and I do think you chip away at the foundations of corporation confidence and consumer confidence," Mr. Temple said.

Elsewhere, the Stoxx Europe 600 gained 0.4%. In Asia, China's Shanghai Composite Index rose 0.4%, while Japan's Nikkei Stock Average increased 0.7% and South Korea's Kospi added 0.4%.

Write to Allison Prang at allison.prang@wsj.com

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International New York Times

business
U.S. Businesses Are Bullish Amid Worldwide Instability

By PATRICIA COHEN
1,222 words
25 July 2018
International New York Times
INHT
English

Potential perils are in plain sight: An intense and unpredictable tariff battle is alarming businesses across the country. The annual federal deficit is heading toward $1 trillion. Credit card debt is soaring. And the synchronous wave that lifted every world economy at the year's start has dissipated.

So what?

Such risks have done little to puncture the exuberant optimism that is encouraging American businesses to ramp up hiring and consider new investment.

The confidence is rooted only partly in hard-nosed data, like the rapid pace of growth expected for the second quarter and record low jobless rates. It is also a sign of harder-to-measure sentiment. "Animal spirits are high," said Tim Ryan, United States chairman of the global accounting and consulting firm PwC, referring to the gut feelings and impulses that can drive economies to elation or despair.

Business leaders who complained that they sometimes felt vilified as engineers of inequality — or greedy exploiters — now say they are pleased to be viewed as part of the solution, creating jobs and wealth. "They feel good about themselves, like they are the good guys," Mr. Ryan said, describing comments from hundreds of chief executives to his firm over the past quarter. "They are sitting up a little straighter in the chair."

The optimism index of the National Federation of Independent Business is in the 99th percentile, an "astounding" number, according to the group's president, Juanita Duggan. At the start of this week, nearly nine out of 10 companies in the **Standard & Poor**'**s 500**-**stockindex** reporting earnings so far had beat expectations.

"I'm **bullish**," Mike Ferretti, chief executive of Great Harvest Bread Company in Dillon, Mont., declared. At the beginning of 2016, sales were so slow that the company sharply discounted the initial franchise fee for its bakery cafes, from $35,000 to $20,000. This month, Mr. Ferretti restored the $35,000 price. "We're confident that the economy is strong enough to not need the discount."

Such exhilaration is not evenly spread throughout every sector or region. Soybean and pork farmers, automakers and some manufacturers are profoundly worried about rising raw material costs, sinking sales in export markets abroad, broken supply chains and shipment delays. A survey of metal stampers and fabricators, found that the share of companies looking forward to improved business conditions swooned to 31 percent in June from 97 percent in February. And uncertainty about the future is at heartburn levels.

Still, many business leaders are shrugging off otherwise troubling developments like a nasty trade war, labor shortages fueled by restrictive immigration policies, and cracks in the postwar order and America's touchstone alliances with remarkable ease.

Mr. Ferretti says he understands that an all-out trade war will hurt the economy, and that immigration restrictions are making it tougher to find workers.

But at the moment, what seem to be more distant risks are being far outrun by immediate enthusiasms. Steep tax cuts for corporations and other enterprises have heaped plump windfalls on many investors and chief executives. After-tax corporate profits account for 9.6 percent of the nation's total domestic output, roughly 50 percent above the historical average. Environmental, financial and safety regulations decried as cumbersome by businesses are being rolled back. And the stream of foreign investment in the United States is continuing.

“My entire career, we’ve all been screaming over the deficit,” said Mr. Ferretti, recalling lectures he heard in business school. “I’m pushing 40 years into my career, and the deficit fears just never happened. At some point it feels like worrying about the sky falling.”

While the anxieties are speculative, “the tax reform package truly does put more money in our pockets now,” Mr. Ferretti said, “so we have more money to grow the business.”

Mark Liston, president of Glass Doctor, a company in Waco, Tex., that replaces and repairs commercial, automotive and residential glass, says he hasn’t seen this much optimism in his 37 years in business. “Those of us who are outside the Beltway, we ask, ‘How is my checkbook, how are my investments, how’s my job security?’” Mr. Liston said. “And if all those are positive, I feel O.K. spending money.”

With Democrats and Republicans fiercely battling for control in Congress, it is unclear how much business and consumer sentiment — which has also been very high in surveys — will ultimately affect voters’ choices in the November elections.

Midterm elections have tended to result in a loss of seats for the party in the White House, with the president’s popularity working to amplify or blunt the impact. The economy generally plays a supporting role.

Among Republicans, Mr. Trump’s overall approval rating is near 90 percent, although across the public as a whole, it has lingered around the 40 percent mark. The question is whether a roaring economy can soothe voters unsettled by the president’s policies or temperament, and offset any inclination to check his power.

Mr. Trump has argued that the United States has long been taken advantage of by its trading partners and that punishing tariffs will force them to adjust their practices. Those comforted by the buoyant economy may be more likely to give Mr. Trump’s negotiating style the benefit of the doubt.

Although the second quarter’s heady growth pace — estimated at more than 4 percent — is expected to slow markedly in the second half of the year, a drop-off that showed up after the election would have less impact.

At the same time, for many smaller businesses, sensitive political topics can often seem removed from day-to-day business life. “They’re not worried about China tariffs and trade fights with Germany,” said Mark Hemmeter, the founder of Office Evolution in Broomfield, Colo., which franchises office space for small businesses to rent. “Our clients are focused on developing business in their communities.”

What does attract notice is the perception of a pro-business mind-set in Washington.

“I think, psychologically, it’s fantastic when you have a business cheerleader in the White House; small businesses feel more comfortable with the direction,” said Mr. Hemmeter, who said he expected to double the number of franchises to 60 by the end of the year, and then double again by the end of 2019.

Whatever the political winds, Bonnie Micheli and Tracy Roemer, founders of the boutique fitness studios Shred 415 in Chicago, are enjoying the open wallets. “We feel the economy is really strong right now, especially in health and wellness,” Ms. Micheli said. “Politics are just irrelevant to our business.”

Follow Patricia Cohen on Twitter: @PatcohenNYT

PHOTOS: Portraits of Office Evolution franchise owners are displayed at the firm’s headquarters in Broomfield, Colo. Rather than global or political issues, “our clients are focused on developing business in their communities,” said the founder, Mark Hemmeter, above. (PHOTOGRAPHS BY BENJAMIN RASMUSSEN FOR THE NEW YORK TIMES) (A14)

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THE WALL STREET JOURNAL.

U.S. Markets
Markets
Stocks Rise as Fed Chairman's Testimony Continues; Gains in financial and industrial companies help offset losses in the real-estate and utilities sectors

By Ben St. Clair and Danielle Chemtob
871 words
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WSJO
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U.S. stocks rose Wednesday as investors parsed another wave of U.S. earnings reports and the Federal Reserve signalled the economy is accelerating.

Corporate earnings season is off to a robust start, with about 8% of firms in the **S&P 500** having reported so far. Companies in the index have grown their earnings by 22% in the second quarter, surpassing analysts' estimates of about 19%, according to FactSet. Investors hope that earnings season will offer a spark for stocks, which were under pressure for much of June amid trade-related worries.

The **Dow Jones Industrial Average** added 79.40 points, or 0.3%, to 25199.29, rising for the fifth consecutive session—its longest winning streak since mid-May. The **S&P 500** edged up 6.07, or 0.2%, to 2815.62, its highest closing value since February. The technology-heavy **Nasdaq Composite** fell 0.67 points, or less than 0.1%, to 7854.44.

Gains in financial and industrial companies in the **S&P 500** helped offset losses in the real-estate and utilities sectors, which are considered bondlike due to their hefty dividend payments.

Financial stocks were led by gains in Morgan Stanley, which rose 2.8% after the bank said second-quarter earnings rose 39% from last year, beating analysts' expectations. The announcement caps off a strong second-quarter earnings season for the six largest U.S. banks.

Ryan Nauman, market strategist at Informa Financial Intelligence, said the strength in bank earnings bodes well for the sector, which has lagged behind this year despite rising interest rates, which typically boost lending profitability.

"For the time being in the second quarter, I'm very optimistic for financials, but moving forward it'll be interesting to see how they fare with a potential inverted yield curve," Mr. Nauman said.

The dispersion between shorter-term and longer-term rates, known as the yield curve, is a crucial indicator of sentiment about the prospects for economic growth. Investors monitor the curve closely because short-term rates have exceeded longer-term ones before each recession since at least 1975—a phenomenon known as an inverted yield curve.

"The merry-go-round isn't going to last forever, so we're kind of watching this," said Josh Markman, managing director at Bel Air Investment Advisors.

The yield on the 10-year U.S. Treasury note rose to 2.875% Wednesday after settling at 2.862% Tuesday. Yields move inversely to prices.

In his remarks to the U.S. House of Representatives on Wednesday, Fed Chairman Jerome Powell affirmed the Fed's plans to raise interest rates gradually "for now" during a second day of testimony on Capitol Hill.

The Fed chairman has mostly sidestepped recent questions on trade policy because he says it is outside the Fed's responsibilities. But he cautioned Tuesday that open economies have fared better than closed ones.

"Perhaps it's just too early to see anything on" the impact of trade disputes, said Keith Wade, chief economist at Schroders. Mr. Wade said he had hoped the testimony would reveal more of the Fed's thinking on trade, but added that interpreting economic indicators so far has been challenging.

And the Fed's Beige Book, a report published by the central bank on economic conditions in its 12 regional districts, showed that 11 of the districts were growing at a modest pace or faster, but that worker shortages and rising costs for raw materials were weighing on businesses. Manufacturers in many of the districts reported higher prices and supply chain disruptions in the wake of new trade policies.

Eric Aanes, founder of Titus Wealth Management, said his firm is overweight in small companies that are less sensitive to interest rates and tariffs. But he said that could change as the markets get more clarity on how the trade disputes will play out.

"We believe once the tariffs settle out that foreign markets will be a good place to put your money," said Mr. Aanes, whose firm manages about $610 million.

The dollar continued to strengthen, a potential headwind for corporate earnings, especially at multinational companies. The WSJ Dollar Index, which measures the U.S. currency against a group of 16 others, was up 0.1% Wednesday, its highest closing value in over a year.

Mr. Nauman said investors are looking to the commentary in earnings reports as an indication of how the rising dollar, wage growth and trade tensions are weighing on companies. Microsoft, Phillip Morris International and Union Pacific are among the companies on tap to report earnings Thursday.

"There was a little bit more emphasis on earnings this quarter because of that dark cloud of trade tensions," he said. "If we saw a lot of misses in earnings estimates, I think the trade tensions could be a bigger deal."

Elsewhere, the Stoxx Europe 600 rose 0.5%, boosted by gains in technology and auto stocks. In Asia, Hong Kong's Hang Seng slipped 0.2% and the Shanghai Composite Index fell 0.4%.

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The New York Times

Business Day; DealBook
Who Are the Trade War Losers? Just Look at the Earnings Rolling In

By Peter Eavis
888 words
26 July 2018
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NYTFEED
English

Corporate earnings are the strongest they have been in years. Headline numbers suggest the economy is doing pretty well under President Trump.

The **stock market**, however, is starting to signal that the good times might not last for many.

On the surface, stocks look to be performing well. The **Standard & Poor**'**s 500**-**stockindex** is up more than 6 percent this year, and it is close to getting back to the historic high it hit earlier this year.

A deeper look, however, suggests there is increasing concern among stock investors. A small group of the largest technology companies has driven much of the recent rally. The stocks of other types of companies have not performed nearly as well, in part because of worries that Mr. Trump's tariffs will harm corporate profits.

The **stock market** is not a perfect predictor of the future, but the lackluster performance of a large part of it may portend a difficult period for many companies in which they pull back on their businesses and perhaps shed jobs in the process.

The trade talks announced on Wednesday between the United States and the European Union could prevent an escalation of the fight between the two trading partners. Some investors have been betting that Mr. Trump's bellicose stance was a bargaining tactic. Stocks jumped after news of the talks was reported.

But a joint statement from the United States and the European Union merely laid out their intentions to talk and did not provide many details. Failure to make progress in negotiations with the European Union and continued tensions with China could dampen investors' spirits.

And investors and executives are finding plenty of reasons to remain nervous as companies report their second-quarter earnings. The trade war's impact on some companies is causing their stocks to crater. So far, the hit is largely coming from the tariffs on steel and aluminum, which have pushed up the prices many firms pay for the metals.

The higher costs have hurt a company like Whirlpool, which was meant to be the beneficiary of Mr. Trump's tariffs on imported washing machines. Its stock has fallen 18 percent since it announced disappointing results on Monday.

The metals tariffs also tripped up Alcoa. The company imports aluminum to the United States that it processed in its plants in Canada. Its stock has fallen more than 10 percent since the pain from the trade war was evident in its earnings last week.

It's possible that the economy is strong enough to make up for the drag caused by the trade confrontations. United Technologies, an industrial conglomerate, on Tuesday raised its profits forecast even as it reported higher costs because of the tariffs.

But executives on earnings calls are saying their companies have only just begun to feel the effect of the tariffs. Their second-quarter results, for instance, reflected steel and aluminum bought at lower prices than exist in the market today. And few of the other tariffs that Mr. Trump has proposed have gone into effect yet. That could change by the end of the year, including an additional $200 billion of tariffs on imports from China. Mr. Trump is also pushing for tariffs on autos, though these may not be imposed on European imports if progress is made in the talks announced on Wednesday.

General Motors, which reported earnings on Wednesday, showed the many ways in which President Trump's trade actions could damage the company's business. Higher steel costs were one of the reasons General Motors slashed its profits forecast for 2018, a move that helped send its stock down 4.6 percent on Wednesday.

The company's costs didn't rise because it is purchasing a large amount of foreign steel that is subject to tariffs. Over 90 percent of the steel used in General Motors' production comes from the United States, said Tom E. Henderson, a company spokesman. But the tariffs have pushed up prices for all steel, including American, and put a burden on even companies that rely on domestic suppliers. Higher prices for steel and aluminum could add as much as $700 million to General Motors' costs this year, Chuck Stevens, the company's chief financial officer, said on Wednesday.

General Motors sells a large number of vehicles in China, where it has significant operations. Mr. Trump's actions against China could end up provoking Chinese consumers to boycott G.M.'s cars — a real possibility, given that those same buyers recently shunned South Korean autos and other products. But Mr. Stevens said Wednesday that the company had not seen any sign of a boycott.

General Motors cannot rule out the possibility that Mr. Trump will impose tariffs on auto imports, and other countries will retaliate with their own measures. The company said last month that auto tariffs could lead to higher prices and job losses. When asked about the auto tariffs on Wednesday's call, G.M.'s chief executive, Mary T. Barra, said: "I would just, again, focus on the fact that I think it's in everyone's best interest to have a strong United States auto industry. It's a big provider of quality jobs."

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The New York Times

Business Day
Brexit and Trade Wars Are Quietly Undermining the Markets

By Peter Eavis
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Looking at the stock markets of the developed world, it is not immediately apparent that populists are busily hacking away at the postwar international economic order.

The United States has, in the past four months, pursued a series of trade actions against its largest trading partners, including the announcement on Tuesday of $200 billion in tariffs on Chinese goods. The American **stock market** is up over that period.

Since Britain voted in June 2016 to leave the European Union, its **stock market** has moved significantly higher. It did not even decline on Monday when two prominent ministers resigned from the British government, a protest of Prime Minister Theresa May's plan to retain a close trading relationship with the European Union after the country leaves the bloc next year. The resignations were a reminder that, should Mrs. May fail to gain lasting support for her plan, the uncertainty surrounding Britain's departure could escalate.

But the headline **stock market** numbers do not tell the whole story. A closer look suggests that the threats to the global trading system are dampening investors' enthusiasm, and the mood could darken quickly if the fights drag on and start to hurt companies' profits.

Brexit concerns are weighing on the pound.

Britain's two main **stock market** indexes, the FTSE 100 and FTSE 250, are both up over 20 percent since the June 2016 referendum in which voters chose to leave the European Union, a process known as Brexit. For comparison, Germany's **stock market** is up by only slightly more since then.

But stocks don't tell the whole story. Since the Brexit vote, the British pound has plunged 13 percent against the euro, and 11 percent against the dollar. The pound may continue to decline if negotiations between Britain and the European Union go badly in the coming months.

The falling pound helps British exporters, because a lower pound makes their goods and services cheaper to foreign buyers, spurring higher sales, at least for a while. But it can also stoke inflation in Britain, by making imports more expensive to British buyers.

Things could get worse if the pound goes into a panicky free fall, because that could stir up fear in other markets and in the wider economy. And that is a possibility, because there is much that could still go wrong in the Brexit negotiations.

Mrs. May's plan, outlined last week, is described as a "soft" Brexit because it envisions deep ties with the European Union, including the continued application of some of the bloc's economic rules. Her initiative may have made it easier to reach a deal with the union. Michel Barnier, the bloc's chief Brexit negotiator, speaking at the Council on Foreign Relations on Tuesday in New York, said: "If they change their red lines, this is their choice, we'll be immediately in the position to change our position." He made similar remarks last week.

The sticking point could be Northern Ireland, which is part of Britain. The European Union wants Northern Ireland to apply many of the bloc's rules, to prevent a situation in which a hard border forms between Ireland and Northern Ireland. But this approach may result in Northern Ireland having different rules from the rest of Britain in certain crucial areas, and that arrangement might not be acceptable to many British, who fear it could divide their country. Ireland's prime minister, Leo Varadkar, on Tuesday seemed receptive to Britain's proposal. But once it comes down to negotiating the details, Britain and the European Union could still find themselves far apart, and such a stalemate could weigh on the markets.

Trade war anxiety is a drag on U.S. stocks.

Britain and the European Union, at least, have clear objectives that they are both attempting to reconcile. The same cannot be said of the trade conflicts set off by the United States.

President Trump has imposed or proposed tariffs on imports from the United States' biggest trading partners, including China and the European Union, but it is not engaged in full-fledged negotiations to resolve grievances. Mr. Trump's strategy may be to wait until the economic pain of the American tariffs is felt by other countries, at which point they may be willing to make concessions. But such an approach could prolong the uncertainty in the markets for months.

Superficially, investors might not seem too concerned. The **Standard & Poor**'**s500 index** is up 2.5 percent since the end of February, when Mr. Trump announced tariffs on steel and aluminum, his first real shot in the latest trade skirmishes.

But there is reason to believe that stocks would be a lot higher if it were not for the uncertainty surrounding trade tensions.

The United States economy is growing relatively quickly, and Wall Street analysts are increasing their profits forecasts for companies. The bullishness about earnings might normally have caused the **stock market** to rally a lot more than it has this year. One of the reasons stocks are not galloping higher right now is that investors don't know which companies will get hurt by the tariffs, and how bad their financial pain will be. Harley-Davidsonlast month said it would it would take a hit from tariffs imposed by the European Union in response to the United States' measures.

This week, companies start to release their earnings for the latest quarter. The warnings related to tariffs may occur in unexpected places.

"This is no longer a skirmish, but a global trade war with uncertain consequences," David Rosenberg, chief economist at Gluskin Sheff, said in an email Wednesday, "but none that are **bullish** for growth or the investment landscape."

President Trump and the British prime minister, Theresa May, at the White House in January. Their governments' policies are weighing on the markets. | Kevin Lamarque/Reuters

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THE WALL STREET JOURNAL.

Markets
As Convertible-Bond Issuance Soars, Investors Should Be Cautious; Issuance is way up this year because it is a relatively inexpensive way for companies to raise money and investor appetite is high

By Jeff Brown
1,121 words
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The Wall Street Journal Online
WSJO
English

U.S. issuance of convertible bonds has soared this year along with a rise in interest rates, as companies look for cheaper ways to raise capital and income-oriented investors hunt for assets that can outperform humdrum holdings like Treasurys without a wild ride.

Some experts, however, say investors may be underestimating how tricky these securities can be to evaluate and how much risk is actually associated with them.

A cross between debt and equity, convertibles typically pay a lower yield than an ordinary corporate bond because investors can swap them for equity under terms set when the bonds are issued. Some experts say investors who need to keep their nest eggs intact for a long retirement may find them particularly appealing, drawn to their promise of steady income, as well as capital gains if stocks prosper.

The ideal convert investor wants a better return on fixed-income investments, has a three- to five-year investment horizon and is **bullish** on stocks, but also wants the loss protection provided by the return of principal if the investor doesn't convert to stock, says Arnaud Brillois, portfolio manager on the global convertibles team at Lazard Asset Management.

Companies have sold $46.1 billion of convertibles this year through April, versus $35.5 billion for all of 2017, according to UBS Group, the Swiss investment bank. At the current pace, issuance of convertibles will beat the $102.3 billion U.S. record of 2007.

"Issuance is up because interest rates are higher and rising," says Dave King, portfolio manager of Columbia Threadneedle's Columbia Convertible Securities Fund (PACIX). "Some companies that would have issued regular bonds two years ago are now being priced out of the straight bond market and into the convertible market."

Proceed with caution?

Advocates say investors may find convertibles especially attractive now because of their low default rates and the good results they've produced when interest rates rise.

SPDR Bloomberg Barclays Convertible Securities (CWB), an exchange-traded fund that tracks the convertible-debt market, yields just under 4% and has average annual returns of 10.2% for the five years through June, says Morningstar. By comparison Vanguard Long-Term Corporate Bond Index Fund (VCLT), one of many ETFs tracking ordinary corporate bonds, yields a slightly richer 4.43%, but has returned just 6.21% a year for the past five years, well under the CWB return.

That makes convertibles look good, but some financial pros say these securities can be tricky for investors accustomed to ordinary stocks, bonds and funds. Each convertible bond is essentially a customized contract, and terms can vary. Investors can face interest-rate risk, default risk, **stock-market** risk and call risk—when principal is returned early, likely at a bad time to reinvest.

"This is the perfect climate for companies to issue convertible bonds and likely the worst time for investors to buy them," says Robert R. Johnson, principal at the Fed Policy Investment Research Group and former president of the American College of Financial Services. He worries that convertible prices, like those of most bonds, will be damaged by rising interest rates.

The Federal Reserve has raised short-term rates twice this year, and the markets expect two more increases. That threatens many fixed-income investments, as investors favor new issues that pay more.

But convertibles often flourish in these conditions, says a study issued in March by Gabelli Funds. It found that in each of the past eight periods in which the 10-year U.S. Treasury note's yield rose at least 1 percentage point, convertibles outpaced Treasurys. They beat junk bonds in four of the eight periods and even outpaced the **S&P 500** in two.

"Rising interest rates frequently occur in strong economic times, when growing earnings can lead to higher stock prices," says Mr. King, whose fund has returned 9.3% annually over the past five years. "This is not to say that convertible managers root for higher interest rates, but the relatively strong performance of the asset class in past rising rate environments is a documented fact."

Not a bond substitute

Nicole Tanenbaum, chief investment strategist at Chequers Financial Management in San Francisco, says converts behave like bonds when they are new but more like stocks as they age. She and others say converts shouldn't be viewed as an alternative to ordinary bonds like Treasurys. "An investor looking for bonds to act as the steady ballast of a portfolio should not use converts for this purpose, since they carry more equity-like **volatility** along with credit risk," Ms. Tanenbaum says.

While converts aren't as safe as Treasurys, the gold standard in safety, they are nowhere near as risky as high-yield, or junk, bonds. Default rates average about 1%, versus 4% for junk bonds, according to Barclays Equity Research.

Still, investors shouldn't shrug off the risk of default, says John Hagensen, managing director of Keystone Wealth Partners in Scottsdale, Ariz. "Many companies issuing convertible bonds are low quality, so the default risk during bear markets is extremely high," Mr. Hagensen says.

Also, a falling share price can make the conversion feature worthless, leaving just the interest earnings, and driving down the bond price for the investor who must sell before getting principal back at maturity.

Shopping for a convert, therefore, takes evaluation that could be tricky for some individual investors, requiring study of both the bond and stock prospects. Among the devils in the details: What is the conversion **stock price**? Can the company "call" or repay principal early? Can it force a conversion under certain conditions?

Investors can leave the research work to professionals with a managed account. There also are a number of actively managed and passive funds focused on convertibles.

"Convertible bonds have complex legal clauses that can be triggered for a variety of reasons, which necessitates constant monitoring," Lazard's Mr. Brillois says. "For these reasons, I believe it is best for investors to rely on specialist convertible-bond managers, and to invest through funds."

Mr. Brown is a writer in Livingston, Mont. He can be reached at reports@wsj.com.

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The New York Times

Business Day
Trade Wars? Three Funds Made Solid Profits Anyway

By Tim Gray
1,251 words
13 July 2018
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English

With rumblings about trade wars, post-Brexit predictions of the demise of the European Union and worries over North Korean nuclear missiles, lately the world beyond the United States has hardly seemed a promising place to invest.

Yet some investors toted up solid returns in the second quarter — as well as over the last five years — by prospecting, at least partly, abroad. Here are three mutual funds that managed that feat.

Matthews China Small Companies Fund

The name of Tiffany Hsiao's fund — Matthews China Small Companies — makes plain where she puts her shareholders' money. China, of course, is one of the countries on which President Trump has focused much of his anti-trade ire. As a result, the United States and China have been tit-for-tatting each other with tariffs.

Ms. Hsiao, who has been lead manager of the fund since 2015, said the sorts of stocks she seeks are insulated from spats over international commerce. "Small-cap companies are more domestically focused," she said. "They're not typically exporters. In the United States, you see the same thing."

She prefers the stocks of outfits that are helping Chinese companies and consumers increase their productivity. "The root of economic sustainability is that you have to grow productivity," Ms. Hsiao said. "That's why we're interested in software, automation and health care."

Her fund's biggest recent holding, Silergy, is a bet on the development of China's semiconductor industry. Silergy designs analog semiconductors, which are used in a wide variety of electronics.

"Semiconductors are China's largest import, even more than oil," Ms. Hsiao said. "So we've been heavily invested in semiconductor makers and designers and toolmakers for those companies."

Ms. Hsiao also buys companies, like GenScript Biotech, offering Chinese patients the latest medical advances. GenScript performs gene synthesis and biotech research for drug makers as well as developing its own treatments, including one for multiple myeloma, a blood cancer.

"Cancer treatment is the biggest unmet need in Chinese health care," she said. "In the U.S., if you get cancer, you're likely to get an innovative biotech drug about 80 percent of time. In China, 65 percent of treatment is still chemotherapy."

A challenge for an investor in emerging-market small caps is a dearth of the corporate disclosures and market regulation that developed-world investors take for granted. Ms. Hsiao said she compensated by sleuthing.

"I'll interview ex-bosses and ex-co-workers," she said. "When I visit a factory, I always ask to see the defects. How do they define a defect? If a little scratch qualifies as a defect, then I don't think you're going to cheat me on the numbers."

Ms. Hsiao's fund, which has a net expense ratio of 1.5 percent, returned 2.37 percent in the second quarter, compared with 2.9 percent for the **Standard & Poor**'**s 500**-**stockindex**. For the five years that ended June 30, it returned an annualized average of 14.78 percent.

T. Rowe Price Global Stock Fund

David J. Eiswert, portfolio manager of T. Rowe Price Global Stock Fund, enjoys a broader remit than Ms. Hsiao: He's free to survey the world in search of promising bets. His fund has lately invested about two-thirds of its assets in the United States.

"We're usually overweight the U.S. because that's where the best intellectual property is," Mr. Eiswert said. "But after the Trump victory, we went underweight because stocks went up so much, and emerging markets were in crisis."

Mr. Eiswert called himself a "careful contrarian" about emerging markets and said he waited for crises to buy companies he liked.

The fund's largest emerging-market bet — the Alibaba Group, the Chinese e-commerce giant — is also its largest holding. (Alibaba is based in China but has American depositary receipts that trade in the United States.)

"Facebook, Amazon, Google — there are elements of natural monopoly in those businesses," Mr. Eiswert said. "In China, it's similar with Alibaba. And monopolies are good ways to make money." Amazon, Facebook and Google's holding company, Alphabet, are also top holdings.

The fund has a heavy slug of technology stocks — about a third of its assets, compared with only a fifth for the typical world stock fund tracked by Morningstar. That allocation may reflect Mr. Eiswert's background: He spent about a decade as a tech analyst and tech fund manager for T. Rowe Price before taking his current post in 2012.

One of the fund's broad themes is rooted in his thinking about a technology trend he calls "deflationary progress."

"It's one of the reasons we don't have a lot of inflation right now," despite steady economic growth and low unemployment in the United States, he said. With video and audio streaming, companies like Netflix and Spotify can offer far cheaper alternatives than the cable TV and purchased music they're replacing.

"The average American pays something like $125 month for cable," Mr. Eiswert said. "Netflix is $12 a month." That price difference has helped to spur the growth of Netflix, which is one of the fund's holdings.

Mr. Eiswert's fund, with a net expense ratio of 0.84 percent, returned 3.06 percent in the second quarter and an annualized average of 16.48 percent over the last five years.

DFA Global Real Estate Securities Portfolio

The DFA Global Real Estate Securities Portfolio also invests at home and abroad; its assets are allocated about two-thirds to the United States and one-third elsewhere, with Japan and Australia topping the foreign list.

It buys mainly real estate investment trusts but can also hold stakes in two of its sibling funds — DFA Real Estate Securities Portfolio and DFA International Real Estate Securities Portfolio.

"We're in 22 countries around the world, both developed and emerging," said Joseph H. Chi, a fund manager and one of the leaders of portfolio management for Dimensional Fund Advisors, the fund's parent.

The fund aims to give investors broad-based exposure to real estate. Dimensional doesn't make many real estate investments in its other stock mutual funds because many clients already have some exposure through vacation homes and rental properties, Mr. Chi said. Its separate real estate funds let them fine-tune their overall asset allocations.

Mr. Chi said this fund didn't make bets on individual securities, gathering up promising ones and avoiding potential laggards, but rather held a broadly diversified basket of real estate investment trusts — nearly 450 in all. The holdings are generally weighted by market capitalization — the larger a REIT's market cap, the larger its place in the fund.

Though the fund is actively managed, it focuses on minimizing costs and generally keeps turnover very low, recently about 2 percent.

"Turnover is expensive, so we're very cost sensitive about how we trade," Mr. Chi said.

The fund, with a net expense ratio of 0.24 percent, returned 5.36 percent in the second quarter and an annualized average of 7.43 percent over the last five years.

Despite trade tensions, some investors have prospered by focusing on international markets. Here is the business district in Hong Kong. | Lam Yik Fei for The New York Times | Tiffany Hsiao, manager of the Matthews China Small Companies Fund, in San Francisco. | Jason Henry for The New York Times

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THE WALL STREET JOURNAL.
U.S. EDITION

Investing In Funds & ETFs: A Quarterly Analysis --- In Translation: Bottom-Up vs. Top-Down

By Simon Constable
270 words
9 July 2018
The Wall Street Journal
J
R2
English

Sometimes you'll see investment research that discusses so-called top-down and bottom-up estimates of how much money the companies in the **S&P 500 index** will earn overall.

The differences can sometimes be meaningful.

With the bottom-up method, an analyst adds up the individual after-tax earnings estimates of each of the 500 companies in the index to generate an overall forecast. It is called a bottom-up approach because the figures are coming from the bottom level: each stock. Investment firms often use company earnings forecasts from their in-house analysts and then supplement those with average estimates from the investment community, says John Vail, chief investment strategist at Nikko Asset Management.

A top-down approach, by contrast, starts with the broader economy. "It is done via analysis of macroeconomic indicators, as well as what is happening with the corporate sector," Mr. Vail says. Such top-down calculations would look at forecasts for gross domestic product, as well as inflation, interest rates and corporate tax rates, and then use such figures to extrapolate overall corporate earnings.

The different approaches usually result in two sets of slightly different figures.

In a July report, Goldman Sachs said its top-down estimate of **S&P 500** earnings for 2018 and 2019 was $159 a share and $170 a share, respectively.

Consensus bottom-up estimates are currently $159 and $175 a share for the same two years, according to financial-research firm CFRA Research.

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THE WALL STREET JOURNAL.

Heard on the Street
Markets
Darts Are Beating the Ira Sohn Investing Pros

By Spencer Jakab
379 words
25 July 2018
06:03 AM
The Wall Street Journal Online
WSJO
English

"Nothing new ever occurs in the business of speculating. What's happened in the past will happen again and again and again."

Bond king Jeffrey Gundlach's comments three months ago at the Sohn Conference in New York, which raises money for charity by inviting investing legends to share their stock tips with the masses, were more accurate than he could have imagined. Once again, investors would have been better off picking companies by throwing darts at stock tables than listening to Wall Street's geniuses.

Mr. Gundlach's suggestion to short the shares of Facebook and to go long on an exchange-traded fund of oil and gas explorers, for example, would have lagged behind an **S&P 500 Index** fund by 24 percentage points through Monday's close.

At the time of the conference, Heard on the Street columnists took on the stock pickers by throwing darts to create a portfolio of 10 stocks to go up against the 12 stocks picked by the Sohn speakers. Three months later, the darts have prevailed. The Heard team's 10 picks, eight long and two short, have returned 7.23% on average. The combined performance of 12 picks by Sohn attendees has been slightly negative, lagging behind the **S&P 500** by more than 6 percentage points.

Burton Malkiel did perhaps more than anyone to popularize the notion that investing expertise is overrated in his classic book "A Random Walk Down Wall Street." Despite some overwhelming evidence before and after the book's publication and the rise of passive index funds, the Sohn Conference is closely followed and attended by thousands of paying investment professionals.

The top pick from the darts was railcar leasing company GATX, up 27% in the past three months. The leader from the experts was a recommendation from venture capitalist and former Facebook executive Chamath Palihapitiya to buy Box. Yet, while Box was up a solid 16%, it lagged behind three dart picks.

We will update this every three months until the next Sohn conference. Maybe the Heard on the Street team will be invited to throw its darts on stage next year.

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Document WSJO000020180725ee7p001uq

THE WALL STREET JOURNAL.

Tech

Facebook Suffers Worst-Ever Drop in Market Value; Company erased about $119.1 billion in market value, larger than 457 of the 500 companies in the S&P 500

By Akane Otani and Deepa Seetharaman
886 words
26 July 2018
05:42 PM
The Wall Street Journal Online
WSJO
English

Facebook Inc. suffered the biggest-ever one-day loss in market value for a U.S.-listed company, a punishing reversal for a company that has led a yearslong tech-stock surge.

Facebook shares fell 19% to $176.26, erasing about $119.1 billion in market value, after the Menlo Park, Calif., company warned late Wednesday about slowing growth. Facebook's loss in market value Thursday is larger than 457 of the 500 companies in the **S&P 500** and bigger than the aggregate valuation of the bottom 20 companies in the **S&P 500**.

Technology stocks have ripped higher, outpacing the broader market this year, as investors have wagered that companies like Amazon.com Inc., Alphabet Inc., Netflix Inc. and Facebook Inc. will dominate industries ranging from retail to entertainment for years to come.

The stock drop represented Facebook's biggest percentage drop ever, and the shares were the worst performer in the **Nasdaq** 100 and second-worst in the **S&P 500**.

Yet even with the technology stocks sliding Thursday, many of the market's behemoths hung onto sizable 2018 gains. Netflix is up 89%, Amazon 55% and Microsoft 28%. The **S&P 500** is up 6.1% in 2018, and Facebook is down 0.1%.

On Wednesday, Facebookreported slower-than-expected revenue growth for the second quarter—albeit logging in at more than 40%—and said it expected quarterly revenue growth to decline over the rest of the year. Until then, Facebook had shown few business effects from the negative headlines that have dogged it in recent months.

The broader market was largely unaffected by Facebook's news, with the Dow industrials rising 112.97 points, and Amazon.com's strong quarterly earnings after the bell Thursday easing concerns about a broader pullback in the tech sector.

In general, analysts remain overwhelmingly **bullish** on the big tech stocks. Of those who have issued a rating for the stock, 96% of analysts have recommended buying or being overweight Amazon, while 91% have issued equivalent ratings for Alphabet, according to FactSet.

To many, analysts' conviction in technology stocks reflects the sector's rapid climb to dominance across many industries, as well as its record of above-average earnings growth. Yet Facebook's slide, along with others, have made some investors increasingly worried that the technology sector could be due for a reversal.

Investors have ranked being long in big tech names and their Chinese equivalents—Baidu Inc., Alibaba Group Holding Ltd. and Tencent Holdings Ltd.—as the most crowded trade in the markets for six consecutive months, according to Bank of America Merrill Lynch's July survey of global fund managers.

When market bets look overwhelmingly one-sided, analysts worry they are prone to unraveling quickly. Such was the case when the big tech names tumbled in March, dragging the broader **stock market** lower, as investors worried that fallout over Facebook's handling of user data around the 2016 election could spur tighter regulations around the industry. More recently, Netflix slid 6.5%, notching its biggest one-day loss of the year, after missing its own forecasts by more than a million subscribers.

"What we'd been seeing would almost suggest that these companies are infallible," said Brendan Erne, director of portfolio implementation at Personal Capital, who had been advising clients against stacking up bets in popular technology stocks. "But these trades can end abruptly and with very little reason."

Institutional investors have hung onto large stakes in Facebook, with filing data for the quarter through March 31 showing Vanguard Group owning roughly 7.1% of shares outstanding, Fidelity Management & Research Co. having a 4.9% stake and BlackRock Fund Advisors with 4.4%, according to FactSet.

Fund managers have increasingly pulled back on bets against technology stocks. Short interest on the biggest tech stocks as a percentage of float—how many shares available to trade—has fallen to near record low levels over the past year, Bank of America Merrill Lynch said in a July report.

The plunge in Facebook shares caught options traders off guard. Investors were girding for a 5.6% move in the stock, in either direction, through Friday, Trade Alert data show, much smaller than the decline suffered so far. That is based on a trade called a straddle, which entails buying puts and calls—options to buy or sell a security—at the same price, called a strike.

There was also a surge in **bullish** call option activity on Wednesday ahead of the earnings release, including a mammoth trade targeting a 19% advance in the shares by December, according to Fred Ruffy, an analyst at Trade Alert.

"That thing just turned into a disaster after the move today," Mr. Ruffy said. "They're deep underwater on it."

Facebook options volume ramped up Thursday, and traders forecast more turbulence for the stock, Trade Alert data show. Expected swings in the stock are near a year high.

Gunjan Banerji and George Stahl contributed to this article.

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THE WALL STREET JOURNAL.

Economy
Investors Bet on Higher Rates as U.S. Inflation Firms; Trade spat between U.S. and China could add to inflation pressures

By Chelsey Dulaney and Ben Eisen
939 words
12 July 2018
05:46 PM
The Wall Street Journal Online
WSJO
English

Investors are bracing for a period of consistently higher inflation, raising bets that the Federal Reserve will deliver a fourth interest-rate increase this year as an intensifying trade spat between the U.S. and China threatens to add to mounting price pressures.

Federal-funds futures, which investors use to bet on central-bank policy, on Thursday showed a roughly 60% chance that the Fed will raise rates at least four times this year, according to CME Group data. While those bets retreated by the end of the day, it still marks one of the highest levels this year and compares to a 35% probability at the start of June.

Increasing confidence in the Fed's plans for tightening policy come as measures of price growth for both U.S. consumers and businesses rise at their fastest pace in years. A Labor Department report Thursday showed the consumer price index rose 2.9% from a year earlier in June, the strongest growth since February 2012, and 2.3% when excluding **volatile** categories like energy and food. A separate gauge of U.S. business prices rose at the strongest pace since 2011.

Mounting expectations are already rippling through global markets. The U.S. dollar has jumped 0.8% against a basket of major peers over the past two trading sessions, reviving pressure on the currencies, stocks and bonds of emerging markets. U.S. stocks were also rattled this week by White House plans announced Tuesday to impose tariffs on another $200 billion in Chinese goods, though the **S&P 500** rebounded 0.9% on Thursday.

"Trade wars are unambiguously going to lift inflation," said Torsten Slok, chief international economist at Deutsche Bank. "We already have inflation at the Fed's target. That is an incredible headache for the Fed."

Economists believe the latest round of tariff threats—which come less than a week after the U.S. and China imposed tariffs on $34 billion in each others' goods—will drive up costs for U.S. goods at a time when inflation is already accelerating. Signs of rising inflation have prompted **volatility** in stocks and bonds this year, including in February, when the **Dow Jones Industrial Average** posted its largest daily point decline on record.

The recent firming in inflation comes after a long period of tepid growth that had confounded investors and policy makers, who expected the strengthening economy and labor market to bolster prices.

The Fed is tasked with keeping inflation stable, and some investors believe a "price shock" sparked by tariffs could lead the central bank to ramp up policy-tightening after following a slow-and-steady approach since 2015.

Pantheon Macroeconomics estimates the tariffs could drive up core consumer prices, which excludes **volatile** categories like food and energy, by 0.6% from a current level just above 2%.

"The Fed can't stand back and ignore a hit of this size, given the tightness of the labor market," said Ian Shepherdson, the firm's chief economist.

Even some of the Fed's more cautious officials are coming around to a more aggressive policy stance as the inflation rebound appears here to stay. Chicago Fed President Charles Evanssaid in an interview this week that he thinks the economy can handle higher rates and expressed optimism about the inflation rebound.

"We'll see about the sustainability, but it looks quite good," he said.

Investors have been buying up bonds that protect them from higher inflation.

Inflation-adjusted Treasurys, whose value increases along with measures of consumer prices, have returned 0.3% this year, compared with a 0.9% loss for nominal Treasurys, according to Bloomberg Barclays bond indexes.

A measure of bond-market expectations for the pace of annual inflation over the next decade, as measured by the differential between inflation-adjusted and nominal Treasurys, has been above 2% every day this year. On Thursday, the 10-year break-even rate was at 2.12%, Tradeweb data show.

Investors say U.S. stocks could come under pressure as companies face higher costs for materials used to make goods, supply chain disruptions and higher borrowing costs.

Consumer-staples companies such as sellers of food and household products have already been hit by rising costs. The **S&P 500** consumer-staples sector is down 8.3% this year, placing it among the worst performers in the broader index, which is up 4.7%.

PepsiCo Inc., which is in that grouping, flagged rising costs in an earnings call this week.

"As we move through the year, our expectation is that we will continue to see some levels of gross margin compression from inflationary input costs," said Chief Financial Officer Hugh Johnston, on a call with analysts Tuesday.

Jim Tierney, chief investment officer for concentrated U.S. growth at money manager AB, has been holding a smaller amount of consumer-staples shares than the benchmark his fund tracks.

"If we're on an increasing inflationary curve, I think that will continue to garner a whole lot of attention from investors," he said.

Still, some economists warn that the Fed could be forced to take the opposite approach, slowing the pace of rate increases, if trade tensions begin to drag down economic growth.

"Higher inflation is going to burn itself out naturally," said Tim Duy, an economics professor at the University of Oregon. "To the extent that we're going to have an issue, it's going to be more on the growth side."

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THE WALL STREET JOURNAL.

U.S. Markets
Markets

U.S. Stocks Fall as Foreign-Investment Deal Heightens Trade Tensions; Mixed earnings reports also affect sentiment

By Orla McCaffrey
784 words
19 July 2018
05:32 PM
The Wall Street Journal Online
WSJO
English

U.S. stocks declined Thursday as a deal to toughen foreign-investment reviews stoked trade tensions and a round of lukewarm corporate-earnings reports weighed on sentiment.

The proposed policy changes, announced Thursday by Senate Majority Whip John Cornyn of Texas, would mark the first major shift in a decade to laws used to vet foreign investment. The deal strengthens the Committee on Foreign Investment in the U.S. and the export control system, ostensibly to hinder foreign investment from countries such as China that could threaten national security.

"Policies like this have such a long arc that you can't possibly think of all the repercussions instantly," said Michael Antonelli, equity sales trader at Robert W. Baird & Co. "Investors will look at it over next few months to see what the bill means."

The **Dow Jones Industrial Average** fell 134.79 points, or 0.5%, to 25064.50. The **S&P 500** shed 11.13 points, or 0.4%, to 2804.49, and the technology-heavy **Nasdaq Composite** dropped 29.15 points, or 0.4%, to 7825.30.

The **S&P 500**'s financial sector was the weakest of the 11 sectors in the broad index, falling 1.4%. Shares of big U.S. banks had risen over much of the past week after the firms posted results that generally beat market expectations. But reports from American Express, Bank of New York Mellon and Travelers weren't received as favorably.

American Express fell $2.81, or 2.7%, to $100.17, despite reporting strong card-member spending and loan growth. Bank of New York slumped 2.91, or 5.2%, to 52.73, after posting weaker-than-expected revenue, and Travelers fell 4.82, or 3.7%, to 125.18 as weather-related catastrophes dented its bottom line.

Shares of Wells Fargo, meanwhile, fell 24 cents, or 0.4%, to 56.33 after The Wall Street Journal reported the bank is in the process of refunding tens of millions of dollars in charges added to customers' accounts without their full understanding.

"Financials had a big move yesterday, and everyone piled into the sector," said Mike O'Rourke, chief market strategist at JonesTrading Institutional Services. Thursday's moves "are a reaction to earnings," he said, and aren't indicative of a fundamental weakness in financial stocks.

Major indexes briefly pared their losses after President Donald Trump questioned the Federal Reserve's interest-rate increases in an interview with CNBC, saying he hoped the central bank would stop raising rates.

The WSJ Dollar Index, which measures the currency against a basket of 16 others, pared its gains on the comments and ended up 0.2%. Yields on 10-year U.S. Treasurys settled at 2.845%, down from 2.875% Wednesday. Yields fall as prices rise.

The moves also came a day after President Trump reiterated his tariff threats against European autos. Mr. Trump said a failure to negotiate "something fair" with European and North American allies could lead to "tremendous retribution."

"Generally people are going to look at [trade tensions] through a negative lens," said Jeremy Bryan, a portfolio manager at Gradient Investments. "That's one of the things that can stifle global growth—if we have protectionism."

The issue of tariffs is expected to be high on the agenda next week when European Commission President Jean-Claude Juncker visits the White House.

The U.S. imported more than $350 billion in cars, trucks and auto components in 2017, according to Commerce Department data. With the Trump administration threatening tariffs of between 20% and 25%, the new measures, if enacted, would be the administration's largest to date. The European Union has compiled a list of U.S. imports, including pharmaceuticals and other chemical products, it would target for tariffs if next week's visit to Washington fails to dissuade the U.S. administration.

Shares of U.S. auto companies edged lower, with General Motors down 56 cents, or 1.2%, to 39.41 and Ford Motor off 5 cents, or 0.5%, to 10.82.

Broader earnings reports were mixed, with shares of eBay off 3.84, or 10%, to 34.11 after the company late Wednesday offered disappointing earnings guidance. Danaher, meanwhile, added 4.42, or 4.5%, to 103.20 after the medical-equipment company reported strong earnings.

In other corporate news, Comcast withdrew its offer for 21st Century Fox, ending a bidding war with Walt Disney. Shares of Comcast rose 87 cents, or 2.6%, to 34.91, while Disney gained 1.44, or 1.3%, to 112.13.

Document WSJO000020180719ee7j000p1

THE WALL STREET JOURNAL.
U.S. EDITION

Stronger Dollar Weighs On Profits

By Akane Otani
830 words
18 July 2018
The Wall Street Journal
J
B1
English

U.S. corporations are warning that currency fluctuations are pressuring their results, raising a red flag for investors heading into the thick of the second-quarter earnings season.

Roughly half of the first 23 **S&P 500** companies that posted results for the latest quarter as of Friday said currency swings either had a negative impact on earnings or revenue or were expected to become a problem in coming months, according to John Butters, senior earnings analyst at FactSet.

Among those issuing such warnings were cruise-ship company Carnival Corp., computer giant Oracle Corp. and aftermarket auto-parts retailer AutoZone Inc.

That makes currency swings by far the most mentioned headwind on earnings calls so far. In comparison, seven companies mentioned the rising cost of raw materials, while five mentioned oil and gas prices and just one cited tariffs. Meanwhile, 60 companies in the broad **stock-market** index are on tap to report results this week.

While it is still early in the earnings season, corporate executives' warnings about currency fluctuations -- and, in particular, the strengthening dollar -- suggest multinational companies could face an increasingly tough environment in the second half of the year. A string of upbeat U.S. economic data have sent the WSJ Dollar Index, which measures the dollar against a basket of 16 other currencies, up 3.1% this year, although the index remains down 1.6% since the Federal Reserve began its interest-rate-raising campaign in December 2015.

The currency's rebound is forcing executives at companies ranging from cruise operators to auto-parts retailers to walk back earnings estimates for future quarters and rethink their spending plans. U.S. multinational companies tend to suffer when the dollar strengthens, since it makes their exports more expensive to overseas buyers and makes their foreign profits look smaller when translated back into the U.S. currency.

Carnival said on its June earnings call that a combination of higher fuel prices and a stronger dollar will likely shave 19 cents off 2018 per-share earnings. Its shares have fallen 12% this year, while the **S&P 500** has risen 5.1%.

Meanwhile, Oracle, whose shares are up 3.4% in 2018, said exchange rates had moved from being a 3% boost to revenue for the next quarter to a 1% headwind. AutoZone, whose shares have lost 1.6% this year, said currency swings were forcing it to "be deliberate" with its pace of investment.

"As we head into the earnings season, the thing we're going to be concerned about is what might cause guidance to be conservative. One clear concept would be trade policy. But the second and more current would be the dollar," said Art Hogan, chief market strategist at B. Riley FBR, who added that he would be watching to see if corporations continue mentioning the dollar headwind on their coming earnings calls.

Despite corporate executives' warnings, analysts remain optimistic about the ongoing earnings season. Companies in the **S&P 500** are expected to grow their earnings in the second quarter by 20% from the year-earlier period, which would mark the second-fastest pace of growth since the third quarter of 2010, according to FactSet.

The gains are expected to span all 11 sectors of the **S&P 500**, with analysts forecasting that the energy, materials and technology sectors will report among the fastest paces of growth in the broad **stock index**.

Investors have also been encouraged by the fact that companies have largely been posting results that have surpassed analysts' estimates.

So far in the earnings season, 89% of companies have reported stronger-than-expected earnings, according to FactSet.

But at a time when multinational companies are already grappling with an uncertain trade environment, rising interest rates and signs that economic momentum outside the U.S. is slowing, the dollar's uptick presents yet another difficulty for companies to deal with.

The **S&P 500** hasn't hit a fresh high since January, when investors were still betting on a robust global economy. Now, investors are the least optimistic they have been about global growth since February 2016, Bank of America Merrill Lynch found in a survey of global fund managers polled between July 6 and July 12.

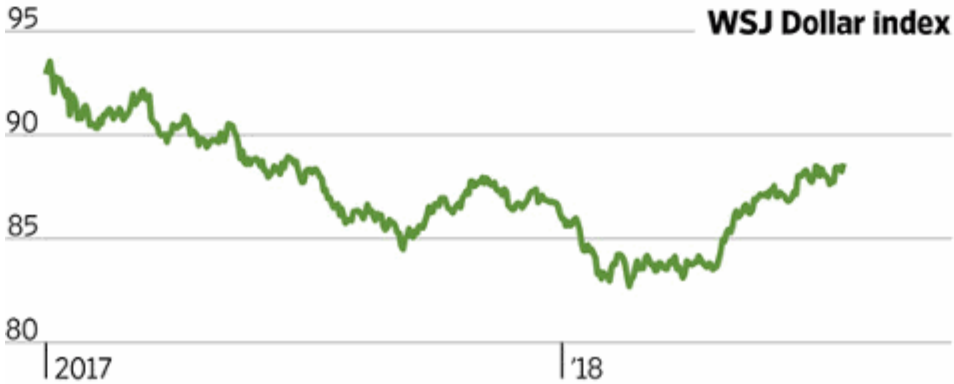
"Because of where we are in the cycle, the catalysts for a meaningful upside [in the **stock market**] don't number as many as the potential negative catalysts," said Sameer Samana, global equity and technical strategist at Wells Fargo Investment Institute.

That is especially true since earnings growth is already poised to slow in the second quarter from the first and generally taper off over coming quarters, analysts say.

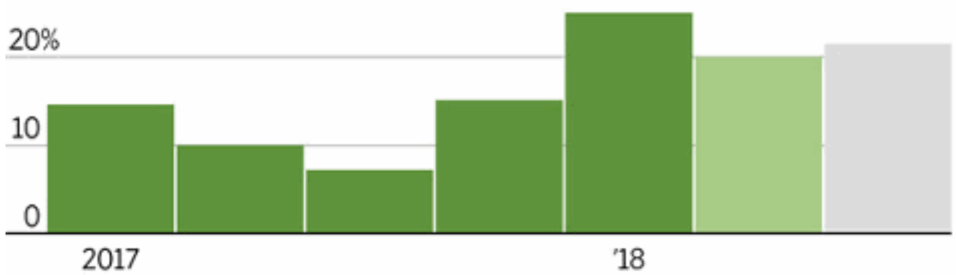
"A host of things are affecting firms' decision to give guidance for the second half of the year, and that's muting positive reaction to what would otherwise be a strong earnings season," Mr. Hogan of B. Riley FBR said.

Dollar Headwind

Companies are warning that a rising dollar could dent earnings and revenue growth. A stronger currency makes exports more expensive and hurts overseas earnings when converted back into the U.S. currency.



Year-over-year change in earnings for the S&P 500, quarterly*



*Figures for second quarter 2018 are based on a blend of reported results and estimates, third quarter is an estimate.
Sources: WSJ Market Data Group (dollar index); FactSet (change in earnings)

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THE WALL STREET JOURNAL.

Markets

Simon, Meet Luma: Banks Battle for Share in Structured Notes; Bank of America, Morgan Stanley to invest in Luma Financial, which sells complex investment products to retail investors

By Liz Hoffman
586 words
31 July 2018
10:47 AM
The Wall Street Journal Online
WSJO
English

Goldman Sachs Group Inc. has Simon, an online platform that sells complex investment products to mom-and-pop investors. Bank of America Corp. and Morgan Stanley are now throwing their weight behind Luma.

The two firms plan to announce Tuesday that they are backing a new company, Luma Financial Technologies, to connect retail brokers seeking market-linked CDs, structured notes and other products to the banks that issue them.

Bank of America and Morgan Stanley will invest in Luma and will sell their own products to its clients. Luma's software and its chief executive, Tim Bonacci, come from Navian Capital, a wholesaler of structured products since 2011.

Mr. Bonacci declined to comment on the financial terms, as did a spokesman for Morgan Stanley. A representative for Bank of America couldn't be immediately reached for comment.

Structured notes are custom-built by banks out of options and other derivatives. Investors pay an upfront sum—helping banks to fund their operations—and receive a future payout that is based on the performance of another asset, such as the **S&P 500 index** or **oil prices**.

The new venture will compete directly with Goldman's platform, which launched in 2015 and sells notes through broker networks such as Raymond James Financial Inc. and LPL Financial Holdings Inc. The goal of Luma, Simon and a handful of startups is to replace expensive human sales forces and lay cheaper, digital pipes to the retail investors who buy structured notes.

Mr. Bonacci compared these digital middlemen to clearing firms and stock exchanges, with the field winnowing over time.

"I don't think there will be 10. I don't think there will be one," Mr. Bonacci said in an interview. "We're one of those leaders today and I think the opportunity to grow the market and our share in it are significant."

Structured products have exploded in complexity and variety over the past few years after taking a beating during the financial crisis. About $55 billion worth of these products were sold in the U.S. last year, the vast majority linked to stock prices, according to mtn-i, a London-based data provider.

Regulators have cracked down, in some cases alleging that investments are being sold to clients who don't understand the risks.

Bank of America's Merrill Lynch unit in 2016 paid $10 million to the Securities and Exchange Commissionto settle allegations that it misled investors on notes that later plummeted in value. UBS Group AG in 2015 paid $19.5 million in a similar case.

Bank of America and Morgan Stanley are smaller issuers of structured notes, ranked fifth and eighth last year, according to mtn-i. They sell largely into their own wealth-management arms. Backing Luma could give them broader access to third-party distributors—if the new venture can ink deals with larger networks and win the loyalty of retail brokers.

Navian has historically sold to smaller distributors including Capital One Financial Corp. and MUFG Union Bank NA in California.

The Wall Street Journal reported last year that Goldman was looking to spin off Simon. It is talking to investors including JPMorgan Chase & Co. and Barclays PLC, two of the biggest issuers of structured notes in 2017, according to people familiar with the matter.

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THE WALL STREET JOURNAL.
U.S. EDITION

Stock Prices Defy Surge in Buybacks

By Michael Wursthorn
1,011 words
9 July 2018
The Wall Street Journal
J
A1
English

U.S. companies are buying back record amounts of stock this year, but their shares aren't getting the boost they bargained for.

S&P 500 companies are on track to repurchase as much as $800 billion in stock this year, a record that would eclipse 2007's buyback bonanza. Among the biggest buyers are companies like Oracle Corp., Bank of America Corp. and JPMorgan Chase & Co.

But 57% of the more than 350 companies in the **S&P 500** that bought back shares this year are trailing the index's 3.2% increase. That is the highest percentage of companies to fall short of the benchmark's gain since the onset of the financial crisis in 2008, according to a Wall Street Journal analysis of share buyback and performance data from FactSet.

The historic spending spree on share buybacks has some analysts worried companies are buying their shares at excessive valuations during the peak of the economic cycle and at a time the market rally is nine years old. Others warn the billions of dollars spent to buy back shares could have gone toward capital improvements like new factories or technology that could lead to stronger long-term growth.

"There has been less of a reward for companies engaging in new buybacks over the last 18 months," said Kate Moore, chief equity strategist and a managing director at asset-management firm BlackRock Inc. "It's fair for investors to ask whether companies are buying at the right point."

The **S&P 500** Buyback index, which tracks the share performance of the 100 biggest stock repurchasers, has gained just 1.3% this year, well underperforming the **S&P 500**.

Share buybacks have become corporate America's go-to strategy for boosting stock prices and earnings over the past 30 years. The point of buybacks is to try to make a company's stock more valuable. By mopping up shares, a company shrinks the stock pie, which boosts earnings per share. That, in turn, should push the share price higher.

The potential problem: Executives directing buybacks are essentially timing the market and often they end up buying high.

Buyback activity reached a frenzy in the early 2000s; the previous record for share repurchases was $589.1 billion in 2007. But that was just a year before the **stock market** tumbled into the worst financial crisis since the Great Depression. The result: Companies like Exxon Mobil Corp., Microsoft Corp. and International Business Machine Corp. each paid more than $18 billion to repurchase stock at a peak, only to see their share prices slump a year later.

Stock buybacks appear just as ill-timed now, some analysts and investors said, especially as companies ramp up spending after last year's $1.5 trillion tax overhaul put extra cash in their coffers.

Oracle has been one of the biggest buyers of its own stock in recent years and spent $11.8 billion on stock repurchases last year, when shares gained nearly 23%. But that gamble hasn't looked smart this year as the networking-device maker has struggled alongside the broader market, pulling its shares down 6%.

Still, Oracle's board approved a fresh round of share buybacks totaling $12 billion in February, and executives appear to have spent nearly half that sum already. A representative from Oracle declined to comment on its share-buyback program, but the company said in a recent Securities and Exchange Commission filing that it "cannot guarantee" its share repurchase "will enhance long-term stockholder value."

Others like McDonald's Corp., Bank of America and JPMorgan Chase have spent billions on share repurchases this year but haven't seen a short-term bounce in share prices. McDonald's bought back $1.6 billion of shares in the first quarter, but the fast-food chain's stock is down 7.4% this year. Bank of America and JPMorgan Chase have both spent more than $4.5 billion to buy back their shares, which are down 5% and 2.7%, respectively.

All three companies also spent multibillion-dollar sums on buybacks in 2017 as the **stock market** hit repeated highs.

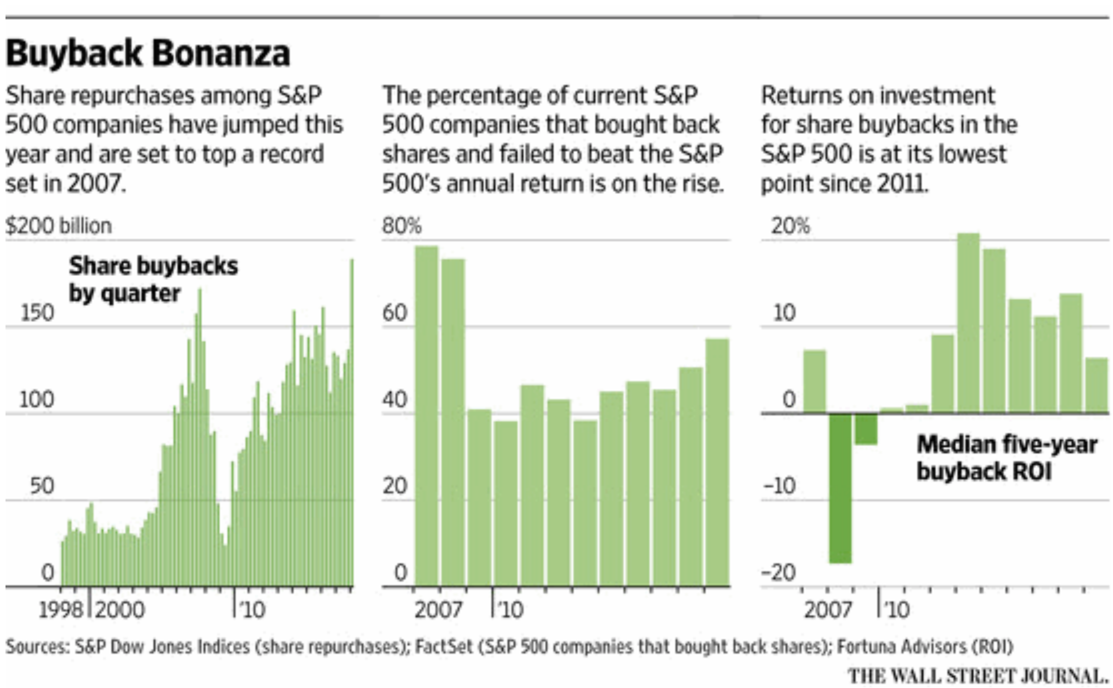
Companies in the **S&P 500** that have repurchased shares are expected to see a return on investment of about 6.4% this year, a percentage that falls below the past six rolling five-year periods as measured by Fortuna Advisors, a financial consulting firm that has examined buyback trends going back to 2007.

Returns on investment for buybacks peaked in 2013, according to Fortuna's analysis, as companies used share repurchases to boost earnings and dig themselves out of the depths of the financial crisis. With stock prices relatively low at the time and economic activity tepid, share buybacks were one of companies' key sources of earnings growth.

But even as the **stock market** steadied in the subsequent years and economic growth around the world picked up to help boost profits, corporate executives continued to spend wildly on share repurchases -- often at the expense of other types of spending, including dividends and capital improvements. Spending on capital expenditures rose to $166 billion in the first quarter, up 24% from a year earlier, according to Credit Suisse, but still well below the $189 billion spent on buybacks.

"The majority of capital deployed is going right back to shareholders and not reinvestment in businesses," said Gregory Milano, chief executive at Fortuna. "If that's the only thing you're relying on, it's going to end badly."

Some share buybacks do pay off, but that tends to be among companies that show a high level of sales and earnings growth on their own, analysts said. Apple Inc., for example, has bought back $22.8 billion worth of stock this year. Its shares have risen 11%, with much of the boost coming after it reported strong gains in second-fiscal-quarter revenue and profit -- as well as a record $100 billion plan to buy back more stock.



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THE WALL STREET JOURNAL.

Markets

Leon Cooperman Is Turning Omega Hedge Fund Into Family Office; Veteran fund manager writes 'I don't want to spend the rest of my life chasing the S&P 500'

By Rachael Levy
803 words
23 July 2018
03:14 PM
The Wall Street Journal Online
WSJO
English

Renowned hedge-fund manager Leon Cooperman on Monday told clients that he would be returning capital and turning his firm into a family office, a dramatic shift for one of the country's best-known stock pickers.

Mr. Cooperman said his New York hedge fund, Omega Advisors Inc., which was founded in 1991, will now manage only his personal wealth. Mr. Cooperman, who regularly appears on financial television, said the decision was driven "solely by how I want to spend my remaining years."

In an interview, Mr. Cooperman, 75 years old, said his decision wasn't based on performance. "I'm closing because of my age and because I want to reduce my stress level," he said.

One of Omega's funds, Omega Overseas Partners Ltd., has posted 12.6% annualized net returns for certain clients since January 1992, according to a fund document reviewed by The Wall Street Journal. That was better than the 9.6% rise in the S&P 500 during the same period. This year, that same fund has gained 4.5% after fees through Friday, lower than a 5.9% gain for the S&P 500, including dividends.

Omega, like all hedge funds, is under pressure. Stock pickers have faced headwinds, and clients have clamored for lower fees as hedge funds have struggled to make money. Well-established funds, such as Eton Park Capital Management LP, have shut.

A widely followed hedge-fund index maintained by data research company HFR dropped 0.45% in June, according to a report released last week. That pulled down the industry's gains for the first half of 2018. The index rose 0.79% in the first two quarters, which was lower than the 2.65% return on the S&P 500, including dividends, over the same period.

Investors also redeemed an estimated $3 billion from hedge funds during the second quarter, according to HFR, which was the highest outflow since the first quarter of 2017. The industry manages a total of $3.23 trillion.

Hedge funds typically bet on or against stocks, bonds or other securities, often using borrowed money and charging hefty fees. Many dropped less than the overall market during the last financial crisis and some even posted outsize gains by anticipating the collapse. But since 2008, the funds have struggled to do better than low-cost, passive investment products that track indexes such as the S&P 500.

Mr. Cooperman said he expected tough financial markets in coming years. He acknowledged that he didn't want to be caught in the fray.

In the letter to clients, Mr. Cooperman wrote: "I turned 75 last April. It is my understanding that if you make it past 65 and cancer doesn't get you, you can expect to live on average to 85. Hopefully, I can improve on that average, but in any event I don't want to spend the rest of my life chasing the S&P 500 and focused on generating returns on investor capital."

Omega managed $3.6 billion as of June 30, according to the firm's website.

Omega's vice chairman, Steve Einhorn, and Mr. Cooperman will advise each other on their respective family offices, Mr. Cooperman said in the letter. Omega employees Sam Martini and Eric Schneider, who run the firm's credit fund, will continue the fund under a new name, and portfolio manager Rebecca Pacholder will be launching a new fund. Mr. Cooperman said his family office will invest in both.

Mr. Cooperman's decision to shut Omega to outside investors comes just over a year after he and U.S. securities regulators ended a lengthy showdown over allegations of insider trading.

That settlement didn't bar the well-known investor from the industry.

The agreement with the Securities and Exchange Commission called for Omega to accept a compliance monitor for five years who can question any trade that Mr. Cooperman or his traders make. It also called for monthly certifications that insider information didn't figure into any trades.

Neither Mr. Cooperman nor the firm Omega Advisors admitted to wrongdoing as part of the pact.

Mr. Cooperman, the son of an immigrant plumber, grew up in a one-bedroom apartment in the Bronx. He joined Goldman Sachs Group Inc. the day after he graduated from Columbia Business School, and spent more than two decades there. He rose to general partner and chairman of its asset-management business before leaving to establish Omega.

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THE WALL STREET JOURNAL.

Heard on the Street
Markets

Facebook's Terrible Timing and Why a Trade Deal Matters for Tech Stocks; Many tech companies were seen as immune from trade tensions, but that benefit may now wane

By Justin Lahart and Dan Gallagher
620 words
26 July 2018
12:18 PM
The Wall Street Journal Online
WSJO
English

When trade tensions were simmering, Facebook was one of the **stock market**'s few shining spots. But just as worries about trade are easing, it has become anything but.

Up until Wednesday, Facebook was a standout stock in what has been a mediocre year, returning 23%. The **S&P 500**, in contrast, returned 7.6% — and would have returned 7.2% if it hadn't been for Facebook, and 3.8% without the other top four big tech stocks. But the company's disappointing results and worrisome conference call after the close Wednesday radically altered investor perceptions of how fast the social network could grow. Facebook shares fell 19% Thursday.

Part of Facebook's appeal this year, and indeed the appeal of other highflying stocks such as Microsoft, Netflix and Google parent Alphabet Inc., has been that it was insulated from the trade worries affecting other companies' shares. U.S. tariffs on imported steel and threatened tariffs on automobiles, retaliatory tariffs on motorcycles and bourbon — these aren't things that matter much for fast-growing companies that sell services.

Facebook's earnings came just hours after President Donald Trump and European Commission President Jean-Claude Juncker agreed to tone down the trade dispute between the U.S. and the European Union. Combined with the weak numbers, the tentative trade deal pushed investors to dump Facebook shares. The agreement dials down the fear, for now, that the White House will place a 25% tariff on cars and car parts — a move that could throw a wrench in global supply chains and had been weighing on stocks.

Tellingly, the **S&P 500** was flat on Thursday, despite Facebook's fall. And the Facebook-free **Dow Jones Industrial Average** added to the gains it made late Wednesday, after Mr. Trump and Mr. Juncker made their announcement.

Facebook's travails aren't divorced from the political climate. The company has been hauled before Congress to answer for its role in the 2016 elections and its impact on wider society. Facebook's warning of lower long-term profit margins that sparked Thursday's selloff was driven in part by its plan to boost spending on security and safety -- effectively a plan by Facebook to buy its way out of its problems.

Facebook's operating margins have been the highest even among its big tech peers, so the company may also have realized that earning nearly 50 cents on every dollar of revenue looks unseemly when under such scrutiny.

While Facebook is under the most pressure, Google too is facing tough regulators. Google's terrific numbers were weighed down by a $5 billion fine by the European Union, which said the company abused its dominance of its Android mobile operating system.

More generally, Facebook is also a reminder of what happens when tech companies priced for turbo-growth fail to live up to those targets. Netflix is still down 10% following last week's second-quarter results that contained disappointing subscriber numbers. Amazon.com, up more than 50% this year, was down 2% Thursday ahead of its own second quarter report. Wall Street is looking for the e-commerce giant to post sales growth of 41% year over year for the period. Amazon's sales grew by 25% in last year's second quarter.

These are politically uncertain times, and as Facebook shows, what seems like a safe bet can suddenly shift.

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Document WSJO000020180726ee7q005bp

THE WALL STREET JOURNAL.

Markets

Pick Your Portfolio's Story: Late-Cycle Sugar Rush or New Boom? There are three decent narratives to describe the U.S. market's trajectory, and investors have to pick one to position their portfolios

By James Mackintosh
955 words
30 July 2018
01:31 PM
The Wall Street Journal Online
WSJO
English

What should investors make of the super soar-away U.S. economy? There are three decent narratives to tell, and investors have to pick one to position their portfolios.

The first story is based on economics and politics. The growth figures are a classic sugar rush, an unsustainable short-term boost to growth resulting from Donald Trump's tax cuts and China's stocking up on American soybeans ahead of tariffs. Add in the lucky timing of high **oil prices** driving renewed investment in shale drilling and a rebound from weak household consumption in the first quarter, and the second-quarter growth of 4.1% can be dismissed as temporary.

The truly cynical might even point to the midterm elections: The growth figures were the strongest since just before the last midterms, when Barack Obama wanted people to feel good before voting.

More broadly, this is a story of the American economy approaching full capacity, the Federal Reserve raising rates and an economic cycle well into its final phase after nine years of growth. Investors should be loading up on cash and commodities as they prepare for inflation, and be more cautious on economically sensitive, or cyclical, stocks. The peak in long-dated bond yields is worth watching for, as the cycle approaches recession. This doesn't mean recession is imminent—recession indicators aren't very reliable but none suggests a serious downturn in the next 12 months—but it does mean a change from the pattern of the past few years.

There is a major caveat that even **bearish** investors need to pay attention to, however: Cycles often end in wild excess. The last cycle ended with an **oil-price** bubble and financial boom, while the previous cycle ended with the dot-com bubble. Manias are hard to predict, but now is a good time to be looking for them.

The second narrative is that Mr. Trump has had the nous or the luck to take over an economic cycle at the right time. Rather than being late in a cycle that began with the recovery of 2009, we are in the middle of a cycle that began after the European and Japanese recession of 2012 that the U.S. only just escaped.

Sure, the tax cuts have provided a boost at the wrong time, but the classic late-cycle signs are a shortage of labor leading to fat pay rises, heavy corporate investment to try to boost productivity and inflation resulting from the economy running well above capacity. None of these signs were present in the second quarter, with investment outside the oil industry not especially strong, real wages subdued and inflation on the Fed's favored measure, excluding **volatile** food and energy prices, in line with its 2% target.

Better still, there is less competition for resources from other countries, as the Chinese and European economies decelerate, again something that can extend the cycle.

If the U.S. is in the middle of its economic cycle, there is plenty more growth to come. Investors can look forward to better returns on cyclical stocks, rising bond yields will be good news for equities and cash will remain unattractive. Corporate revenue should finally take off, offset as the cycle moves toward the late stage by a hit to profit margins from faster wage growth, but so far that hasn't happened.

The third narrative relegates the economic data to their proper place as an unreliable and heavily revised set of guesstimates. Instead, focus on the markets: Stocks and bonds are telling a tale of a cycle that began only in 2016, a few months before Mr. Trump was elected.

The performance of bond yields and cyclical stocks from July 2016 was akin to the euphoria that follows the realization that recession is over. Benchmark **10-year Treasury** yields have more than doubled from 1.36% to 2.98%, and the MSCI Cyclical Sectors index beat its defensive counterpart by 44 percentage points from the low two years ago. That was slower but almost exactly the same size as the 46-point outperformance by cyclicals in the 2009 recovery, up to the 2010 realization that growth wouldn't quickly return to normal.

There may have been no recession this time, but the belief in deflation that set in two years ago wasn't much different. The good news is if the markets are right, there may be many more years before we need to worry about recession.

The bad news is that the markets already are suggesting a pause. Cyclicals and bond yields both have taken a breather over the past two months; one interpretation is that they anticipated a lot of growth and it has begun to arrive but it is already priced in. Another is that a switch to mid-cycle investing, more balanced between cyclicals and defensives, at least outside the energy sector, is under way.

Market prices, of course, are no more gospel truth than are the extrapolations of economists. Worse, the performance of cyclicals might have been distorted by the rise of Amazon.com, Google and other disruptive technology companies, which are counted in cyclical sectors but being bought by investors for their ability to grow and profit whatever the economy does.

It is hard to avoid choosing one of these narratives, even though all three are plausible. I'm inclined towards the sugar-rush story line, but anyone who is certain what is going on is almost certainly fooling themselves.

Document WSJO000020180730ee7u0035x

THE WALL STREET JOURNAL.

Markets
Outflows From U.S. Stocks Swell as Investors Seek Refuge in Bonds; An exodus from long-term mutual funds and exchange-traded funds coincides with tariffs between the U.S. and China

By Michael Wursthorn and Daniel Kruger
1,101 words
26 July 2018
04:38 PM
The Wall Street Journal Online
WSJO
English

Investors are fleeing U.S. stocks at a rapid clip as ongoing market **volatility** and trade tensions push them to seek safety among less risky assets such as U.S. Treasurys.

Nearly $20 billion was pulled from long-term mutual funds and exchange-traded funds focused on large-cap stocks in June, handing those funds their biggest month of outflows in at least a decade, according to data provider Morningstar LLC. Outflows across the **stock market** have continued into July, though the pace has somewhat slowed.

The exodus coincides with the implementation of the first round of tariffs between the U.S. and China, as well as President Donald Trump's consideration of additional levies on more than $200 billion of goods. But it also comes against a backdrop of robust corporate earnings and strong U.S. economic growth that has pushed the **S&P 500** up 6.1% this year.

Analysts have long been critical of the predictive power of fund flows in calling a broad market shift. The data reflect how money is moving across investment products but aren't necessarily a good gauge of investor sentiment. Plus, individual investors are often bad at timing the market, buying high and selling low.

Still, after a more than nine-year rally in U.S. stocks, several investors say this year's ongoing **volatility** and trade tensions are forcing them to pause to reconsider whether a stock-heavy portfolio can sustain a tit-for-tat trade conflict, not just with China but other major trading partners. Other investors appear to be waiting on the sidelines, with stock-trading volumes dropping to their lowest levels of the year in recent weeks.

PNC Financial Services Group Inc., for one, has been urging clients with heavy exposure to stocks to pare those positions and buy more government bonds. Resurgent **volatility** has forced investors to confront a period when "stock prices not only go up, they can go down," said Jeff Mills, co-chief investment strategist for PNC, which manages $149 billion in assets. "We're making sure investors have their house in order."

Russell Investments, meanwhile, reiterated its "underweight" preference for U.S. stocks last month, which suggests investors reduce equity allocations, and shifted its view of U.S. government bonds to neutral from underweight.

Those sentiments helped drive more than $130 billion into taxable- and municipal-bond funds in the first half of the year, with much of the flows into short-duration notes, according to Morningstar's data. Meanwhile, investors pulled about $55 billion over the same period from equity funds, pools that invest in specific stock sectors and strategies that blend stocks and bonds together, according to Morningstar's data.

At the same time, asset managers including investment giant BlackRock Inc. have recently reported a substantial slowdown in inflows. Money coming into passive funds that track the market dropped 44% through the first half of 2018, Morningstar said.

Investors say yields on short-term bonds have become more attractive this year. As the Federal Reserve has continued its campaign to raise interest rates, the yield on the two-year U.S. Treasury note recently rose to 2.686%, versus the **S&P 500**'s dividend yield of 1.9%—the widest disparity since the 2008 financial crisis, according to State Street Global Advisors.

"Risk-adjusted returns on stocks versus Treasurys are not as compelling as they have been," said Brian Nick, chief investment strategist at Nuveen.

Outflows from stock-focused funds likely would have been more severe if the U.S. market weren't on better footing than major indexes in Europe and Asia, analysts said. Stocks overseas have seen more **volatility** in recent months amid the tariffs talks and signs of slowing economic growth.

"The U.S. economy is experiencing robust earnings," said Erik Knutzen, multiasset-class chief investment officer at Neuberger Berman, which has been increasing its exposure to large-cap stocks, a major contributor to the **S&P 500**'s gains this year. "There's a strong short-term impulse in the U.S., and we want to make sure we have exposure to that." Mr. Knutzen added investors should remain cautious and consider reducing some of their biggest asset allocations to a more neutral stance as "we wait for more clarity on trade concerns" among other risks, such as a resurgent U.S. dollar and the midterm elections this fall.

Even though outflows across U.S. stocks have continued in July, according to weekly data from the Investment Company Institute, the pace appeared to ease through the most recent week ended July 18, as investors put about $1.3 billion into equities as the second-quarter earnings season ramped up.

Although analysts say companies are on their best financial footing in years, more investors fear stocks are going to languish in the second half of the year. The share of individual investors who expect stocks to fall over the next six months was 39% earlier this month, near its high of the year, according to an American Association of Individual Investors survey. Measures of consumer confidence and optimism among small-business owners also fell in the past month.

Demand for bonds, meanwhile, is expected to pick up as the Fed unwinds some of its massive bond portfolio. That has the potential to dramatically reshape investors' portfolios after years of easy-money policies made bonds relatively unattractive. Currently, stockholdings for nonbank investors are near their highest in the post-2008 period, while those for bonds are at new lows, according to JPMorgan Chase & Co.

The supply of debt is also rising. The U.S. government sold $1.1 trillion of notes and bonds in the first six months of the year, a 9.2% increase from the year before. That amount is expected to continue climbing as the Treasury raises cash to help fund the $1.5 trillion tax cut passed in December.

"You now have a risk-free asset that generates something of a real return—that explains a lot of the shift" to bonds from stocks, said Simona Mocuta, an economist with State Street Global Advisors. Investors no longer have to forgo investment income in order to preserve capital, she said. "The risk-reward calculation has changed."

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WSJ PRO PRIVATE EQUITY

Pro Private Markets

Vista Outdoor to Sell Eyewear Brands to Private Equity; Company looks to narrow focus on ammunition, shooting accessories, hydration and outdoor cooking

By Tomi Kilgore
434 words
10 July 2018
01:26 PM
WSJ Pro Private Equity
RSTPROPE
English

Vista Outdoor Inc. said Monday it has reached a deal to sell its Bolle, Serengeti and Cebe eyewear brands for expected proceeds of $158 million, to a "significant" European private-equity fund.

The move is part of the outdoor sports and recreation company's plan to narrow its focus on four product categories: Ammunition, shooting and hunting accessories, hydration bottles and packs and outdoor cooking.

"We are pleased to have successfully reached an agreement to sell our eyewear and safety business at an attractive price," said Chief Executive Chris Metz. "We are now turning our efforts to the rest of our divestiture plan as previously communicated in May," Metz added.

The sale of the eyewear brands is expected to be completed within 30 to 45 days.

Vista Outdoor's stock slipped 0.2% to $16.55 on Monday. It has rallied 27% since closing at a record low of $13.04 on May 7, while the **S&P 500 index** has gained 4.2% over the same time.

On May 1, as Vista reported a wider-than-expected quarterly loss, the company also announced a strategic transformation plan in response to unfavorable market conditions and some "self-inflicted" issues, after President Trump's election "turned the shooting sports industry upside down" and after the company grew "too fast and beyond its core," according to a transcript of a call with analysts provided by FactSet.

On that call, the company said the first step of the transformation was to begin the sale process of its Bolle, Cebe and Serengeti brands. Next, the company said it plans to explore options for its Savage and Stevens firearm brands, as well as for its Bell, Giro and Blackburn actions sports brands and its Jimmy Styks paddle board brands.

The plan was announced as gun makers and sellers faced a backlash after the mass shooting at the Marjory Stoneman Douglas in Parkland, Fla. which left 17 students and staff dead, prompting a number of companies to announce tighter firearm sales policies.

Vista had disclosed in its annual report for fiscal 2018 ended March 31 that shooting sports sales fell 16% from a year ago to $1.16 billion, citing unfavorable pricing and lower volume across all ammunition categories and lower firearms sales because of decreased demand. Outdoor products sales slipped 1.8% to $1.15 billion, with the decrease caused primarily by conditions affecting shooting-related categories.

-Tomi Kilgore; AskNewswires@dowjones.com

Document RSTPROPE20180710ee7a000p1

THE WALL STREET JOURNAL.

Markets

Hedge Funds Are Having a Volatile 2018; Hedge funds have lagged behind the S&P 500 for the first half of 2018 despite market swings

By Mengqi Sun
467 words
9 July 2018
09:25 PM
The Wall Street Journal Online
WSJO
English

Hedge funds have long touted their ability to do better when things turn **volatile**. But they lagged behind the **S&P 500** for the first half of 2018 despite market swings tied to trade policy tensions and interest rate increases.

A widely followed hedge-fund index maintained by data research company HFR dropped .46% in June, pulling down the industry's gains for the first half of 2018. The index rose .81% in the first two quarters, which is lower than the 2.65% return on the **S&P 500**, including dividends, over the same period.

The only large category of hedge funds that posted an increase in June were funds that seek to capitalize on mergers and acquisitions, according to the HFR figures. Those that specialized in stock picking and macroeconomic analysis posted declines.

Hedge funds typically bet on or against stocks, bonds or other securities, often using borrowed money and charging hefty fees—2% of assets under management and 20% of profits.

Many hedge funds dropped less than the overall market during the latest financial crisis and some even posted outsize gains by anticipating the collapse. But since 2008, the funds have struggled to do better than low-cost, passive investment products that track indexes like the **S&P 500**.

Last year, hedge funds turned in their best performance in a rising market since 2013, with returns of 8.5%, according to HFR. The industry also attracted new capital.

This year, hedge funds have struggled at times amid market uncertainty surrounding the Trump administration's recent round of tariffs and two interest rate increases. The industry was off to a good start at the beginning of the year, as the HFR index increased 2.31% in January, only to decline in both February and March.

The swings continued into the second quarter as the industry slowly climbed back its gain in April and May with a slight fall in June. The index rose .86% in the second quarter.

Those who struggled the most during the first half of 2018 were funds that tried to get ahead of political and other broad trends, or so-called macroeconomic funds. They dropped 1.81% through the first six months, including a .30% drop in June.

HFR President Kenneth Heinz said in a news release Monday that trade-centered macroeconomic events are likely to accelerate during the second half of 2018, "contributing to a fluid environment and increased opportunity" for certain funds.

"Funds which have demonstrated ability to navigate this environment are likely to drive performance and growth" during the second half of the year, he said in the release.

Document WSJO000020180710ee7a0008d

THE WALL STREET JOURNAL.

Markets
Wage Gains Threaten to Squeeze Retail, Industrial Profits; Higher labor costs pose risk to some U.S. companies already facing trade-related tensions, limited pricing power

By Danielle Chemtob
940 words
9 July 2018
10:48 PM
The Wall Street Journal Online
WSJO
English

Rising wages are beginning to eat into the profits of some U.S. companies.

Businesses from dollar stores to hotel operators to fast-food chains have warned in recent months that higher labor costs have been a drag on their profits—a potential headwind for the nine-year **stock-market** rally as it struggles for momentum ahead of the second-quarter earnings season.

Average hourly earnings increased 2.7% in June from a year earlier, according to the Labor Department's monthly jobs data released Friday. Although that is below the 2.8% economists expected, wages have risen at least 2.5% for 16 of the past 17 months, a faster pace than recorded earlier in the economic expansion.

That is good news for U.S. workers who have seen tepid wage increases over the past few years and may benefit some businesses as consumers become more willing to open their wallets for discretionary purchases.

But the higher costs pose a threat to some U.S. companies that are already facing trade-related tensions and a limited ability to raise prices to keep up with inflation. Fears about rising wages sparked concerns back in February and sent stocks tumbling as investors worried the tightening labor market may finally trigger higher inflation.

Economists at Goldman Sachs predict that every percentage-point increase in labor-cost inflation will drag down earnings of companies in the **S&P 500** by 0.8%. In total, the bank estimates labor costs equate to 13% of revenue for companies in the **S&P 500**.

"At the end of the day, I haven't heard this many CEOs talk about shortages in skilled labor and wage increases to attract talent in a long time—in at least a decade," said Will Muggia, president and chief executive at Westfield Capital Management in Boston.

According to a report from Bank of America Merrill Lynch Global Research, 10% of companies in the **S&P 500** mentioned higher labor costs as a factor that weighed on their first-quarter results, up from 8% in the fourth quarter and the highest level since the bank began tracking the data in late 2015.

The earnings of companies in the industrials sector, which has already been hit hard this year by trade tensions and rising expenses for things such as raw materials, are most susceptible to increasing labor costs, followed by the consumer-discretionary sector, Goldman says.

Labor costs equal 21% of revenue for companies in the industrials sector, and analysts expect that a percentage-point increase in labor-cost inflation would dent the sector's earnings by 1.5%.

Some industrial companies are already struggling to find workers, a sign that they may be forced to raise wages. In its first-quarter earnings call, railroad company Union Pacific Corp. said it was offering bonuses in more competitive labor markets. In addition, building-products companies Allegion PLC, Fortune Brands Home & Security Inc. and A.O. Smith Corp. all mentioned labor shortages as well.

In a traditional economic cycle, companies would attempt to pass along the increasing cost of labor to customers, but that doesn't appear to be happening this time.

A National Association for Business Economics survey for the first quarter showed 56% of respondents reported rising wage costs—the highest share since the survey's inception in 1982—but just over a quarter of respondents reported charging customers higher prices.

That discrepancy is partly because of the pricing power of Amazon.com Inc., which has disrupted industries from retail to entertainment to health care with its low prices and free shipping options.

"Some tech companies are threatening to get into every industry now," said Matt Miskin, market strategist for John Hancock Investments. "That's kind of a major headwind to the traditional wage growth dynamic that we've seen in past cycles."

Competition with online retail will make it particularly difficult for retail companies to offset wages that are rising much faster than in other industries. In the three months through June, Nonsupervisor retail wages were up 3.9% from a year earlier, based on a three-month average, their strongest growth since 2002, according to the Labor Department.

According to Goldman, a percentage-point increase in wage inflation would reduce earnings in the consumer-discretionary sector by 1.1%. And Bank of America notes that operating margins have begun to soften in the sector—which houses the most labor intensive companies in the market.

Discount-store operators Dollar General Corp. and Dollar Tree Corp. are among the retailers that pointed to higher labor costs in the first quarter when their earnings fell short of estimates.

"Increased competition, looking at retail, prevents certain brick-and-mortar retailers from boosting wages because that makes them even more uncompetitive to the Amazons of the world," said Mike Dowdall, investment strategist for BMO Global Asset Management.

Meanwhile, companies in the leisure industry, many of which sit in the **S&P 500**'s consumer-discretionary sector, are the most exposed to increases in the minimum wage, Goldman says. Hotel operator Marriott International Inc. cited a tightening labor market and rising wages in its first-quarter earnings call as it reported declining profit margins in North America.

"When we look at cities across the country, there aren't any places where wages, labor costs are growing at 2%," Marriott Chief Executive Arne Sorenson said at a Goldman conference in early June. "They're growing at faster rates."

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THE WALL STREET JOURNAL.
U.S. EDITION

U.S., China Set For Long Battle On Trade

By Bob Davis in Washington and Lingling Wei in Beijing
1,128 words
6 July 2018
The Wall Street Journal
J
A1
English

The U.S. slapped levies on $34 billion of China's exports at midnight Thursday, the first tangible shot in a trade battle both sides are preparing to keep fighting for months if not years.

In Beijing, a few minutes later, Chinas Commerce Ministry issued a statement, accusing the U.S. of launching the largest trade war in economic history to date. In response, it said, China is being forced to strike back as necessary. Though the statement didnt say outright Chinas retaliatory tariffs were taking effect, ministry officials earlier said plans called for doing so immediately following the U.S.

President Xi Jinping has instructed various levels of government to get ready for a full-bore trade war, according to Chinese officials. With his tariff threats, Trump is posing an unprecedented challenge to the leadership, said Zhu Feng, a professor of international relations at Nanjing University, referring to President Donald Trump.

Brookings Institution China scholar David Dollar, who was the U.S. Treasury's top official in Beijing during the Obama administration, figures the fight will stretch into next year, at least, because a strong economy will make it less likely that the U.S. will feel any immediate economic pressure from the trade fight.

Mr. Trump's threat to levy tariffs on another $200 billion also won't be ready to put into effect until the late fall because the U.S. has to clear a number of procedural requirements. And as the U.S. closes in on midterm congressional elections, the China fight might seem like "a political winner," Mr. Dollar said.

"It's an historic day," said former Trump White House chief strategist Steve Bannon, who still consults with administration officials. "China has been in a trade war with us for 20 years and now someone is standing up and fighting back."

U.S. markets seemed largely unmoved by the widely anticipated trade developments, though Chinese shares have been under more pressure of late. The **Dow Jones Industrial Average** gained 182 points, or 0.8%, to 24357 Thursday. The **S&P 500** rose 0.9% and the **Nasdaq Composite** added 1.1%. Meanwhile, the Shanghai Composite Index fell 0.9% Thursday as fears mount about the impact of trade tensions on the country's economy. The benchmark was down a further 0.3% at midday Friday in Asia.

The U.S. is already in its biggest trade battle since the Great Depression, with additional tariffs threatened and no end in sight to disputes with China and other nations.

Since the beginning of 2018, the U.S. and its trading partners have put tariffs -- or will shortly -- on a total of $165 billion worth of imports, calculated Chad Bown, a trade expert at the Peterson Institute for International Economics. In addition to the new China tariffs, that includes U.S. tariffs on foreign washing machines, solar panels, steel and aluminum, and retaliatory tariffs by the nations targeted by the U.S.

"It's the biggest application of tariffs by the U.S. and affecting U.S. trade since Smoot-Hawley," said Dartmouth trade historian Douglas Irwin, referring to the 1930 duties that many economists have said worsened the Great Depression.

A 1971 import surcharge by then-President Richard Nixon lasted four months. Reagan-era tariff fights against Japan and the George H.W. Bush battles against European agriculture involved tariffs on several hundred million dollars of goods and tended to be settled fairly promptly, Mr. Irwin said.

Under Messrs. Reagan and Bush, for instance, Japan agreed to limit sales of cars and textiles to the U.S., and bought more U.S. semiconductors. Tokyo never retaliated against U.S. tariffs, as Beijing has.

There have been some olive branches offered by the U.S. and China to each other.

Mr. Trump has gone to bat for China's telecommunications giant, ZTE Corp., which allegedly violated U.S. sanctions against Iran and North Korea. He helped overturn a Commerce Department decision to block U.S. companies from supplying ZTE with components -- effectively a corporate death sentence -- and has fought to prevent Congress from unraveling that deal. He also backed off from threats to impose harsh restrictions on Chinese investments in the U.S. and limits on U.S. tech exports to China.

On the Chinese side, the government has refrained from fanning nationalist sentiment and getting Chinese consumers to boycott U.S. products, as it has done with other nations. Communist Party censors have told state-media outlets not to play up trade-war stories or the impact of the fight in battering local equity markets, Chinese journalists said.

China experts said that the two sides are likely to start negotiating again when the impact of tariffs start to bite -- and markets begin to react.

Mr. Trump's administration has been careful in the first round of tariffs on $34 billion of goods -- and a second round of tariffs on an additional $16 billion, which will probably go into effect in August -- to largely exempt U.S. consumer goods. Initial U.S. tariffs on Chinese goods target auto parts, electronic components, jet engine parts, compressors and other machinery.

At the same time, Chinese retaliatory tariffs are aimed directly at U.S. farmers -- a big source of Trump support -- as are tariffs from the European Union and Canada over metals trade. So far, Farm Belt support for Mr. Trump remains strong.

"The trade war ends when things collapse on Trump and the U.S. has to reposition" its strategy toward China, said Rufus Yerxa, a trade negotiator in Republican and Democratic administrations who now heads the free-trade National Foreign Trade Council.

If that happens, from Beijing's perspective it is hard to tell what kind of trade package would appeal to an administration that is sharply divided over trade. One group, clustered around Treasury Secretary Steven Mnuchin, seeks a big increase in Chinese purchases, which would force Beijing to ease import restrictions on agricultural goods, U.S. movies and other items.

A second group, led by U.S. Trade Representative Robert Lighthizer, is skeptical of Chinese purchase promises. They want Beijing to scrap the industrial policy schemes it has used to build up its economy. Skeptical that China would actually make such changes, this group believes that tariffs should be kept in place for years to protect U.S. industry.

Chinese officials said they believe Mr. Trump hasn't fully appreciated the plan offered by Chinese envoy Liu He in February, which included tariff cuts, commercial deals, financial-sector liberalization and a plan for a bilateral free-trade deal.

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THE WALL STREET JOURNAL.

Markets

Chinese Shares Steadier After Stimulus Boost; New measures are offsetting rising trade tensions with the U.S.

By Steven Russolillo and Shen Hong
499 words
25 July 2018
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The Wall Street Journal Online
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English

Asian stock markets were mixed Wednesday, after forecast-beating results from Alphabet and Harley-Davidson helped lift the U.S. **S&P 500** by 0.5%. The Japanese yen was steady and the benchmark U.S. **10**-**year Treasury** yield held at 2.94%.

Wednesday's Big Theme

New stimulus measures in China are offsetting rising trade tensions with the U.S.

What's Happening

Chinese stocks flipped between small gains and losses on Wednesday after jumping 5% in the previous three trading sessions—the Shanghai Composite's biggest three-day rally since March 2016. The index fell into a **bear market** last month, meaning it declined more than 20% from a recent peak.

At a meeting led by Premier Li Keqiang on Monday, the State Council, China's cabinet, vowed to use more proactive fiscal policy to spur growth, highlighting Beijing's growing concerns about a weakening economy.

Bonds issued by some of China's local government financing vehicles, or LGFVs, have rallied. Average yields on three-year LGFV bonds with a domestic credit rating of AA—which in China signals a significant amount of credit risk—have dropped 0.2 percentage points in a week to 5.31%, the lowest since mid-May.

The State Council specifically asked local governments to ensure sufficient funding for continuing and new infrastructure projects. LGFVs have been a major driver of economic growth in the past decade, funding projects from roads to hospitals and smaller airports. But wasteful spending has left many close to default or even bankruptcy.

The spread on the Bloomberg Barclays Asia High Yield index, which measures the extra yield that the region's junk-rated dollar bonds offer over benchmark government debt, has narrowed 0.8 percentage points since Thursday, to 5 percentage points over Treasurys.

Market Reaction

"The [Chinese] government is sending a clear signal that it is preparing to defend growth," said Raymond Yeung, chief economist for greater China at ANZ in Hong Kong.

However, few investors are ready to say the worst is over for Chinese markets. Such 5% swings for stocks can be common during sharp downturns. During the crash from mid-2015 through early 2016, the Shanghai Composite staged 12 rebounds of at least 5% over three days. Overall, though, the market lost half its value during that stretch.

Elsewhere

Shares in South Korea's LG Chem leapt more than 9%, putting them on course for their best single-day performance since 2011, after the battery maker reported its largest-ever quarterly revenue.

Japanese drugmaker Eisai, which is working with Biogen on a treatment for Alzheimer's disease, extended its rally. The stock is up nearly 72% this year, Thomson Reuters data shows.

Manju Dalal contributed to this article.

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THE WALL STREET JOURNAL.
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Heard on the Street
Economic Improvement Set to Push Bond Yields Higher

By Richard Barley
425 words
31 July 2018
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[Financial Analysis and Commentary]

The bond-market tide may be on the turn. After weeks of inaction, 10-year U.S. Treasury yields are nearing 3% once more. Continued momentum in the global economy could lead yields higher still.

Since rising in January, U.S. bond yields have mostly tracked sideways. Until last week the **10**-**year Treasury** had spent 21 trading days meandering between 2.8% and 2.9%.

Yields in Europe have reversed, with both German and U.K. 10-year yields back where they started 2018. That in part reflected the tension between data showing solid global growth and fears that trade disputes and political risk might cause greater disruption.

Recent developments would tend to undermine bonds and support riskier assets. The detente between the U.S. and Europe on trade, strong corporate results and a recent improvement in the tone of global economic data are pointing in that direction.

U.S. growth is clearly strong, with second-quarter gross domestic product expanding at a 4.1% annualized clip. On a nominal basis, growth is running at 7.4%. The gap between long-maturity bond yields and nominal growth, which historically have tended to track each other, is getting wider. While unorthodox central-bank policy around the world has broken the link between yields and growth, it still makes sense as a pointer for which direction yields should be heading in.

And central banks are still, albeit gradually, on the path to tighter monetary policy. The Bank of England may raise rates this week, and European Central Bank President Mario Draghi sounded confident on both growth and inflation last week. Most significantly, there is speculation about a tweak in monetary policy from the Bank of Japan that could remove a key support for bonds: A small move higher in Japanese yields could lift yields around the globe.

True, the capacity for yields to vault higher is limited by fears such a move will generate about higher borrowing costs affecting growth.

There may well be more room for yields to move outside the U.S., particularly in Europe.

Other markets already have started to move. The **S&P 500** is up 5.4% in 2018. Even unloved European stocks are back in positive territory for 2018. Corporate bonds have rallied a little and emerging markets have seen a small bounce. Government bonds look like the laggard in reacting to the shifting mood.

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The New York Times

Business Day

Balanced Funds Don’t Inspire Fear or Greed. That’s Why They Are So Useful.

By Tim Gray
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The balanced fund is the vintage bicycle of investing.

It may be old fashioned — the first balanced fund, Vanguard Wellington, began in 1929, while a precursor of the modern bike was patented in 1866 — but it endures because of its sturdy simplicity and its sheer usefulness.

And the old balanced fund is lately finding new fans. Since 2013, investor money has sloshed in, with the total assets in balanced funds swelling about 70 percent, to $1.7 trillion, according to EPFR Global in Cambridge, Mass. In an age of ever-more-complicated mutual funds and exchange-traded funds, based on arcane strategies and obscure indexes, these folks are betting on the original set-it-and-forget-it investment.

A balanced fund invests in both stocks and bonds. It is balanced inasmuch as its traditional asset allocation is about 60 percent stocks and 40 percent bonds and cash, with the stocks providing return and the bonds reducing risk.

Russel J. Kinnel, director of manager research for Morningstar, said he once dismissed balanced funds as obsolete but has come to appreciate them.

“People do pretty well in balanced funds because balanced funds tend not to inspire fear or greed,” he said.

Balanced offerings can be actively managed, like Vanguard Wellington, T. Rowe Price Balanced, Mairs & Power Balanced or Oakmark Equity and Income, or indexed and passively managed, like the Vanguard Balanced Index Fund or iShares Core Growth Allocation E.T.F.

They can hew mostly to domestic securities, as does Vanguard Balanced, or they can bet bigger on international markets, as does T. Rowe Price Balanced. They’re widely available — many large fund families offer them, including American Funds, BlackRock and Fidelity.

Balanced funds’ virtue is that their stodgy construction discourages investors from defeating themselves, Mr. Kinnel said.

Morningstar analyzes how mutual funds’ returns compare with those of the investors in those funds. Even when funds post good numbers investors don’t necessarily reap the same returns, he said. That’s because many people tend to buy and sell willy-nilly, jumping in when the market soars and bailing out when it crashes, rather than buying and staying put.

But people in balanced funds tend to be patient, helped by the funds’ smoother performance. As a result, the investors’ actual returns are more likely to match those of their funds.

In the 10 years through March, for example, investors in balanced funds, on average, had an actual asset-weighted 5.93 percent annualized return, according to Morningstar. That was better than the 5.63 percent annualized total return of those same funds, indicating that balanced fund investors typically avoided maladroit timing.

For mutual funds over all, the situation was reversed. Actual investor returns were 5.53 percent annualized, compared with a 5.79 percent total return for the funds. That shows that, in most other funds, investors had smaller returns because they bought high and sold low.

Jennifer Lane, a financial planner at Compass Planning Associates in Boston, said she recommends balanced funds because they really do encourage patience and prudence.

“We want to make sure our clients meet their savings goals, which means they have to stay in the market,” she said. “People will say they’re risk tolerant, but that really means they like return.”

When the **stock market** drops, they often panic and sell. Those who exit can miss out on a big chunk of the market’s rebound. By recommending balanced funds over ones with greater percentages of stocks, Ms. Lane said, she’s nudging clients toward staying invested and sticking with their financial plans.

Target-date retirement funds have replaced balanced funds in some retirement plans. They don’t stick to a relatively stable asset allocation, as balanced funds do. Instead, investors pick them based on when they are likely to retire, 2020, 2025, 2030 and so on. The funds change their asset allocation, typically reducing the share of stocks and increasing the share of bonds, as their investors approach that year.

The trouble with that approach, said Todd L. Rosenbluth, director of E.T.F. and mutual fund research at CFRA, is that it assumes that everyone of the same age has the same risk tolerance and that people know in advance when they will retire. Balanced funds give flexibility to those who don’t fit comfortably into a target-date template, he said.

Another benefit of balanced funds is that their approximate 60/40 asset allocation, while not perfect, is good enough for many people, said Barry L. Ritholtz, chairman and chief investment officer of Ritholtz Wealth Management in New York and a columnist for Bloomberg. “The perfect portfolio isn’t necessarily the one that generates the highest return — it’s the one you can live with,” he said.

Witness what happened in 2008, when the **S**. **& P**. **500** dropped 37 percent. An investor in Vanguard Wellington would have ridden less of a roller coaster, as the fund fell just 22 percent that year.

One of the two managers of Wellington, Edward P. Bousa, expressed ambivalence about 2008. Mr. Bousa said he was pleased that he and John C. Keogh — Mr. Bousa oversees the stocks and Mr. Keogh the bonds — had outperformed the market. But he was disappointed that they had lost money for shareholders.

After all, Mr. Bousa said, they manage the fund defensively, with an aim of avoiding down years. That has been the fund’s goal for much of its existence. Wellington has lost money in only 18 of the 89 years since its birth. Over that time, it has returned an annualized average of 8.3 percent.

Mr. Bousa said he maintains a defensive position, on the equity side, in three ways. He seeks solid stocks with above-average dividend yields. He picks up growth companies that have fallen out of favor for reasons he judges to be temporary. And he hunts for opportunities in the capital-spending and demand-growth patterns of industries.

“The idea is, in an area where there’s a lot of spending, there’s likely too much supply,” he said.

“In 2002, oil was $22 a barrel,” he said. “Supply was being constrained. The companies weren’t spending much money. But China was starting to emerge.” That meant **oil prices** were likely to rise, he said, so he increased the fund’s holdings in energy, a bet that paid off.

The stock portfolio has greater allocations of financial and health care stocks than competing funds, according to Morningstar. The fund’s international stock stake, at 13.5 percent of its assets, is roughly in line with competitors’.

Mr. Keogh said he tries to do three things with the fund’s bonds — contribute to the fund’s total return, damp the stocks’ **volatility** and provide insurance against bear markets.

“You can go in lots of directions to enhance your total return, like high-yield bonds, but that wouldn’t protect you in a down **equity market**,” he said.

Vanguard’s Balanced Index Fund differs from Wellington not only because it’s passively managed but also because it has negligible international stock holdings — less than 1 percent of assets. It has returned an annualized average of 8.2 percent since its 1992 inception.

The T. Rowe Price Balanced Fund, in contrast, is more intrepid, lately investing about one-fifth of its assets in foreign stocks. It’s overseen by T. Rowe Price’s asset allocation committee, said Charles M. Shriver, who is a chairman of the committee and the fund’s portfolio manager.

The committee meets monthly to decide how to divide the fund's assets, typically among domestic and international stocks and bonds and cash. Mr. Shriver said the committee's "building blocks" are T. Rowe Price's "underlying actively managed strategies like high-yield bonds and U.S. growth and value stocks."

For example, Larry J. Puglia, who manages T. Rowe Price Blue Chip Growth, selects the balanced fund's large-cap growth stocks. The fund has returned an annualized average of 9.6 percent since its 1939 inception.

The Mairs & Power Balanced Fund adds a Midwestern twist. Mairs & Power is based in St. Paul, Minn., and it favors its home region as a hunting ground, said Ronald L. Kaliebe, a manager of the fund. It has returned an annualized average of 9.5 percent since its inception in 1961.

"We're blessed with a lot of great companies here, like 3M, where we're a long-term investor," he said.

Mr. Kaliebe said investing regionally lets him and his fellow managers cultivate a deeper knowledge of companies. They meet regularly with executives and often chat informally with lower-level employees.

"You can have a neighbor who's an engineer somewhere or go to church with someone who works there," he said. "That helps you build your investment mosaic."

The local focus also leads to idiosyncratic opportunities, like bonds issued by Land O' Lakes, which the fund owns. "That's a little bit of a one-off — it's a locally based co-op of milk producers," he said.

Hormel Foods, the meat-products company known for making Spam, is another holding based nearby, in Austin, Minn., just north of the Iowa state line. But not every investment comes from the Upper Midwest. "We can't build the portfolio 100 percent in our home region because we don't have that much energy and technology here," Mr. Kaliebe said.

Suggest to Mr. Kaliebe that a balanced fund exhibits the unpretentious common sense that Midwesterners are known for and he's quick to agree.

"It's nothing fancy," he said. "But people can get overwhelmed by complexity in investing. A balanced fund offers more understandability."

Leigh Guldig | Jennifer Lane, a financial planner at Compass Planning Associates in Boston, says balanced funds help to keep otherwise skittish people invested in the **stock market**. | Kayana Szymczak for The New York Times

Document NYTFEED020180713ee7d005xy

THE WALL STREET JOURNAL.

Markets

The Oil Market Is Getting More Dangerous; The 4.2% plunge in U.S. oil prices Monday was the latest sign that the dynamics shaping the biggest commodity market have changed since the crude rally began

By Amrith Ramkumar and Stephanie Yang
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English

The 4.2% plunge in U.S. oil prices Monday was the latest sign that the dynamics shaping the biggest commodity market have changed since the crude rally began.

Last year, two main forces propelled crude higher: an agreement by the Organization of the Petroleum Exporting Countries and its partners to trim production; and robust global growth that helped sop up excess supply from U.S. shale.

This year, investors are wrestling with an array of factors that can move the market: Trump administration sanctions that threaten to cut off Iranian oil from global supply; simmering U.S.-China trade tensions; OPEC's decision to raise crude output; and dwindling production from Venezuela.

Additionally, President Donald Trump has been vocal about oil, tweeting on some days that prices are too high and that he is pressuring Saudi Arabia to increase production. Last week, The Wall Street Journal reported that U.S. officials are considering dipping into the country's emergency oil reserves to prevent another sharp increase in prices.

Early Monday morning, oil prices declined in anticipation of Mr. Trump's meeting with Russian leader Vladimir Putin . Prices fell steadily throughout the day, with some traders citing the potential for Russia to increase production beyond what it agreed to do last month with OPEC. But others said that speculation didn't warrant such an extreme move. U.S. crude closed at $68.06 a barrel, its lowest price in more than three weeks.

"What you're faced with is a market dealing with a lot of uncertainty," said Michael Hans, chief investment officer of Clarfeld Financial Advisors. "It's very difficult to have a clear understanding of what major producers are ultimately going to do."

Crude remains one of this year's best-performing assets after trade threats have roiled other markets: U.S. crude is up 13%, while Brent, the global benchmark, has climbed more than 7%.

But severe one-day plunges have become a regular fixture—a sign that while fundamental forces are still propping up oil for the most part, investors have become more inclined to sell, even on days when headlines aren't necessarily bearish.

U.S. prices have struggled to surpass $75 a barrel and Brent can't seem to top $80.

Monday's tumble follows a 5% drop in U.S. benchmark oil last Wednesday, its biggest one-day loss in more than a year, which was largely triggered by investor jitters over higher supply from Libya. That day investors also ignored otherwise bullish news: The U.S. Energy Information Administration reported crude stockpiles dropped the most since September 2016 during the week ended July 6.

"I was struggling to see why the move was so extreme," said Eric Armitage, chief executive of East Alpha, a quant trading firm. "Was the Libya news worth $5 [a barrel]? I don't think so."

Meanwhile, commodities across the board also have been knocked down by escalating trade-war concerns, as some observers fear a global economic slowdown will lower demand for materials.

The violent swings are leading many analysts and traders to say the market has become more vulnerable to speculators and algorithmic trading accelerating downturns.

One day before last Wednesday's selloff, **bullish** bets by hedge funds and other speculative investors outnumbered **bearish** bets by about 24 to 1, near the highest the ratio has been all year, data from the Commodity Futures Trading Commission show.

"The market went way too far," said Mark Waggoner, president of Excel Futures. "Getting out and taking profits is definitely the right thing to do."

Selling accelerated on Monday as U.S. **oil prices** crashed through the 50-day moving average at about $69.50. Traders are now watching to see if prices test the 100-day moving average of roughly $67.

"You have technicals that are breaking down and you have fundamentals breaking down at the same time," Mr. Waggoner said, noting that demand typically eases between mid-July and September.

According to Peter Hahn, co-founder of research firm Bridgeton Research Group, fundamental traders initiated the downward move on Wednesday. But those opening declines prompted trend algorithmic strategies to start selling.

Energy traders said algorithms tend to be most active in the futures for the closest physical delivery, where the market is usually the most liquid and **volatile**. They said the extreme moves in the front-month contract on Wednesday were another sign of short-term fluctuations rather than a fundamental shift.

Still, **bullish** investors say recent declines could be a buying opportunity with U.S. sanctions against Iran and other disruptions potentially reigniting fears of a supply crunch. The U.S. has threatened to penalize countries that don't cut oil imports from Iran to "zero" by Nov. 4.

"The supply issues have so much variability associated with them," said Thomas Martin, senior portfolio manager at Atlanta-based Globalt Investments. "The oil market these days is acting on its own."

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THE WALL STREET JOURNAL.

Markets
The S&P 500 Gears Up for Another Run at a Record; July's jobs report, the Fed's policy meeting and another round of corporate earnings reports are likely to be the next catalysts for the stock market

By Lauren Pollock and Peter Santilli
548 words
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After a rocky six months dominated by concerns about a pickup in inflation, simmering trade tensions with China and the potential for increased regulatory oversight of giant technology companies, the **S&P 500** is back within 2% of its January record.

A number of potential catalysts that could push the index to new highs—or send it tumbling again—are on the calendar this week, including July's nonfarm payrolls report, due Friday; the Federal Reserve's latest policy meeting, which concludes Wednesday; and another busy week of corporate earnings reports.

Investors will be watching the monthly jobs report, which has been a big spark for stocks this year, for any signs of a run-up in wage growth or other indications the economy is overheating. Last month's report kept Federal Reserve officials on track to hold rates steady at this week's meeting and did little to change expectations that the central bank will next raise interest rates in September.

Meanwhile, a big burst of corporate earnings reports will hit the tape, including numbers from Caterpillar Inc. on Monday, Apple Inc. on Tuesday and Berkshire Hathaway Inc. on Friday.

To be sure, the broad **stock-market** index has made other runs at its record in recent months, only to be thwarted by issues including Facebook Inc.'s data-privacy scandal—which sparked a big selloff in tech stocks—or new tariff threats in the tit-for-tat trade dispute with China.

This week 140 companies in the **S&P 500** are scheduled to report quarterly results, the last big week of the corporate earnings season. With results in for 53% of the companies in the index, 83% have posted stronger-than-expected profits and 77% have beat revenue estimates, according to FactSet. Earnings as a whole are on track to rise 21%, which would mark the second-highest rate since the third quarter of 2010, according to the data provider.

Apple, the world's most valuable company, has reported sluggish growth in iPhone shipments in recent quarters as people hold on to smartphones longer and competition intensifies in China, once its fastest-growing market. But higher average prices for the new devices have helped drive iPhone revenue, which is expected to be in focus again Tuesday when the company reports its fiscal third-quarter results.

The Fed isn't expected to boost interest rates when it concludes its two-day policy meeting Wednesday, but it has signaled it could do so twice more before the end of the year. That has pushed up yields on two-year Treasurys, which tend to be sensitive to expectations around monetary policy, and helped narrow the gap with yields on longer-term Treasurys. The dispersion between shorter-term and longer-term rates, known as the yield curve, is a crucial indicator of sentiment. Investors monitor the curve closely because short-term rates have exceeded longer-term ones before each recession since at least 1975.

Write to Lauren Pollock at lauren.pollock@wsj.com

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An Inverted Yield Curve May Not Portend Doom

By Burton G. Malkiel
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31 July 2018
The Wall Street Journal
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English

How worried should investors and policy makers be about the possibility of an inverted yield curve -- a historical predictor of future recessions and bear markets in stocks?

The yield curve is the most widely used measurement of the relationship between interest rates of the U.S. government's debt obligations. Normally the curve is ascending, with more-**volatile** long-term bonds having higher yields than short-term obligations. But occasionally the curve inverts, with long-term bonds yielding less than Treasury bills. Recently, the curve has become noticeably flatter, with short-term rates rising and longer yields remaining stagnant. This has led many analysts to think that the curve will soon invert. But that does not mean a recession is imminent.

One strong influence on the shape of the yield curve is investor expectations regarding the course of future interest rates. Imagine that the yield curve were positively sloped, with long-term bond yields higher than T-bill yields. The positive slope would not necessarily prompt investors to prefer long-term bonds to T-bills despite their higher yields. That is because if yields were expected to rise in the future, **bond prices** would fall, and the longer the term to maturity of the bond, the more its price would decline.

Alternatively, suppose bonds yielded less than short-term obligations. Investors might still choose to invest in long-term bonds if they expect lower rates in the future since **bond prices** would eventually rise to reflect the lower yields. Thus, an inverted yield curve suggests that investors are expecting rates to fall.

The expectations analysis of the yield curve also explains why an inverted curve may forecast a coming recession. Consider the last time the yield curve inverted, in 2006-07. The Federal Reserve, moving aggressively to combat inflationary pressures in the overexuberant housing market, pushed short-term rates well above 5%, meaning real rates were over 3%. While long-term rates had also risen, they remained just below 5% and the curve inverted. Investors correctly anticipated that the Fed would be successful in its efforts to curb the inflationary pressures and that rates would fall in the future, as they ultimately did. Longer-term bonds were in fact an attractive investment.

But the air was not let gently out of the housing bubble. Home prices and economic activity collapsed. Again, the yield curve correctly forecast not only the course of future interest rates but a punishing recession and **stock-market** collapse as well. In general, inverted yield curves have always accompanied restrictive market conditions that were initiated to reduce inflationary excesses and to moderate economic activity.

How does the situation compare today? Both short-term and 10-year interest rates are below 3%. With inflation running at 2%, real interest rates are low (under 1%), and the yield curve has yet to invert. There appear to be few speculative excesses in the economy. Moreover, even if the Fed pushed short-term rates another percentage point higher, monetary policy would remain broadly accommodative. Restrictive monetary policy has often led to declines in economic activity. But today the Fed is trying only to normalize rates, not take the punch bowl away. Real interest rates remain at historically low levels.

It is always dangerous to say "this time is different." Even so, we need to consider how the increasingly globalized **financial markets** might make interpreting the yield curve difficult. The global environment today is highly unusual. Both the European Central Bank and the Bank of Japan have monetary policies opposite those of the U.S. Fed. Long-term interest rates in Europe and Japan have hovered near zero, or even below. These yields have made U.S. Treasury bonds extremely attractive, especially since the dollar has been increasing in value. Foreign investors have every reason to prefer U.S. bonds to their own, and undoubtedly the relative enticement of

U.S. Treasurys has influenced their yields. Low long-term rates in this environment may emit a different signal than has been the case in the past.

Inflation appears to be well contained today, and the effect of platform marketing companies such as Amazon, robotic manufacturing technology and global sourcing of goods and services should continue to control price increases. The typical inflation imbalances in markets that have generated credit crunches in the past seem far less likely today.

I do not mean to imply that we have nothing to worry about with respect to either the economy or the **stock market**. The prospect of a global trade war should make us very cautious. Once we start down the road of tariff increases and threats of more to come, the dangers of retaliatory miscalculations are very real and very scary. But a flat yield curve, or even an inverted one, should not be on top of our worry list under today's accommodative monetary conditions.

Mr. Malkiel is author of "A Random Walk Down Wall Street," whose 12th edition is forthcoming.

(See related letters: "Letters to the Editor: Will This Time Be Different for Yield Curve?" -- WSJ Aug. 7, 2018)

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THE WALL STREET JOURNAL.

Opinion

An Inverted Yield Curve May Not Portend Doom; Today's global financial environment is highly unusual. The old rules don't necessarily apply.

By Burton G. Malkiel
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English

How worried should investors and policy makers be about the possibility of an inverted yield curve—a historical predictor of future recessions and bear markets in stocks?

The yield curve is the most widely used measurement of the relationship between interest rates of the U.S. government's debt obligations. Normally the curve is ascending, with more-**volatile** long-term bonds having higher yields than short-term obligations. But occasionally the curve inverts, with long-term bonds yielding less than Treasury bills. Recently, the curve has become noticeably flatter, with short-term rates rising and longer yields remaining stagnant. This has led many analysts to think that the curve will soon invert. But that does not mean a recession is imminent.

One strong influence on the shape of the yield curve is investor expectations regarding the course of future interest rates. Imagine that the yield curve were positively sloped, with long-term bond yields higher than T-bill yields. The positive slope would not necessarily prompt investors to prefer long-term bonds to T-bills despite their higher yields. That is because if yields were expected to rise in the future, **bond prices** would fall, and the longer the term to maturity of the bond, the more its price would decline.

Alternatively, suppose bonds yielded less than short-term obligations. Investors might still choose to invest in long-term bonds if they expect lower rates in the future since **bond prices** would eventually rise to reflect the lower yields. Thus, an inverted yield curve suggests that investors are expecting rates to fall.

The expectations analysis of the yield curve also explains why an inverted curve may forecast a coming recession. Consider the last time the yield curve inverted, in 2006-07. The Federal Reserve, moving aggressively to combat inflationary pressures in the overexuberant housing market, pushed short-term rates well above 5%, meaning real rates were over 3%. While long-term rates had also risen, they remained just below 5% and the curve inverted. Investors correctly anticipated that the Fed would be successful in its efforts to curb the inflationary pressures and that rates would fall in the future, as they ultimately did. Longer-term bonds were in fact an attractive investment.

But the air was not let gently out of the housing bubble. Home prices and economic activity collapsed. Again, the yield curve correctly forecast not only the course of future interest rates but a punishing recession and **stock-market** collapse as well. In general, inverted yield curves have always accompanied restrictive market conditions that were initiated to reduce inflationary excesses and to moderate economic activity.

How does the situation compare today? Both short-term and 10-year interest rates are below 3%. With inflation running at 2%, real interest rates are low (under 1%), and the yield curve has yet to invert. There appear to be few speculative excesses in the economy. Moreover, even if the Fed pushed short-term rates another percentage point higher, monetary policy would remain broadly accommodative. Restrictive monetary policy has often led to declines in economic activity. But today the Fed is trying only to normalize rates, not take the punch bowl away. Real interest rates remain at historically low levels.

It is always dangerous to say "this time is different." Even so, we need to consider how the increasingly globalized **financial markets** might make interpreting the yield curve difficult. The global environment today is highly unusual. Both the European Central Bank and the Bank of Japan have monetary policies opposite those of the U.S. Fed. Long-term interest rates in Europe and Japan have hovered near zero, or even below. These yields have made U.S. Treasury bonds extremely attractive, especially since the dollar has been increasing in value.

Foreign investors have every reason to prefer U.S. bonds to their own, and undoubtedly the relative enticement of U.S. Treasurys has influenced their yields. Low long-term rates in this environment may emit a different signal than has been the case in the past.

Inflation appears to be well contained today, and the effect of platform marketing companies such as Amazon, robotic manufacturing technology and global sourcing of goods and services should continue to control price increases. The typical inflation imbalances in markets that have generated credit crunches in the past seem far less likely today.

I do not mean to imply that we have nothing to worry about with respect to either the economy or the **stock market**. The prospect of a global trade war should make us very cautious. Once we start down the road of tariff increases and threats of more to come, the dangers of retaliatory miscalculations are very real and very scary. But a flat yield curve, or even an inverted one, should not be on top of our worry list under today's accommodative monetary conditions.

Mr. Malkiel is author of "A Random Walk Down Wall Street," whose 12th edition is forthcoming.

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THE WALL STREET JOURNAL.

Markets

'This Is Unbelievable': A Hedge Fund Star Dims, and Investors Flee; After more than a decade of winning and unconventional behavior, David Einhorn's Greenlight Capital has shrunk by half. Frustrated clients are bolting

By Gregory Zuckerman
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Corrections & Amplifications

The Standard & Poor's 500 returned 1.38% in 2015, including dividends. An earlier version of this article incorrectly said the return was 1.5%. Also, an earlier version misspelled Assured Guaranty Ltd. as Assured Guarantee. (July 20, 2018)

For years, David Einhorn's investors didn't seem to mind his unusual ways—the aloofness toward clients, midday naps, unpopular stock picks, late nights on the town. Until the billionaire hedge-fund manager fell into a slump.

After more than a decade of winning on Wall Street, Mr. Einhorn's Greenlight Capital Inc. has shrunk to about $5.5 billion in assets under management, his investors estimate, from a reported $12 billion in 2014, and his investments are struggling.

"My patience is wearing thin," said Morten Kielland, chairman of investment-management firm Key Family Partners SARL and an early Greenlight investor, who said he has withdrawn much of his firm's money from the fund. "This is unbelievable."

Some frustrated clients have pulled out of Greenlight over the past three years, and some others say they will exit if results don't rebound.

Mr. Einhorn's story emerges from The Wall Street Journal's discussions with more than a dozen current and former investors and employees. Greenlight doesn't publicly report its results. Investors in the firm shared with the Journal the performance data in this article.

The value of an investment in Mr. Einhorn's main fund was down 11.3% at the end of 2017 from 2014's end. The **S&P 500** grew 38.3%, including dividends, in the same period. The average stock-focused hedge fund gained 18.3% in the period, according to HFR, a firm that tracks hedge funds.

The fund dropped 7.7% in June and is down 18.7% for the year, compared with a rise of 2.65% for the **S&P 500** and 1% for stock hedge funds. "We are obviously frustrated by our results," Greenlight said in a letter to investors when it revealed its June returns.

Mr. Einhorn, 49, hasn't clearly explained the losses, sometimes pointing to the market's shift away from the less expensive value stocks he favors— those considered inexpensive relative to earnings and other metrics.

"It is difficult to explain what caused the results," he said in an April investor letter. "To some extent, this quarter's result stems from the continued extreme outperformance of growth over value."

People familiar with the fund attribute Mr. Einhorn's troubles in part to his unconventional ways—sticking to value stocks, for example, and keeping clients at a distance—which he hasn't changed even as investors bolt.

"He's stubborn," said Peter Weiss, a Boston-area investor who said he withdrew hundreds of thousands of dollars this year. "He'll never admit he's made a big mistake…It just makes me crazy."

Mr. Einhorn said in a statement: "When we recognize a mistake we exit the position and own up to it in our quarterly letters."

A $900,000 debut

Mr. Einhorn started Greenlight in 1996 with a reported $900,000—the name came from the green light his wife gave him to open the fund—focusing on undervalued stocks. Early results were strong, and the fund attracted wealthy investors.

Greenlight could be difficult to deal with, some current and former investors said. While most hedge funds let clients withdraw money once a quarter, Greenlight in 2005 began requiring a three-year commitment with one chance a year to withdraw after that.

When clients asked Mr. Einhorn for his views on investments, he often chafed, several investors said. While he revealed the firm's five largest "disclosed long positions" monthly, he wouldn't say whether there were other large positions or significant **bearish** bets in the portfolio, nor would he give midmonth updates as many funds do, these investors said.

Once, Greenlight wouldn't tell an investor what shares it was buying, only for the investor to learn days later what it was doing in a media report, frustrating him. "You call them and try to have a substantive conversation," the investor said, "and they're almost obnoxiously closed-door."

Mr. Einhorn told some investors he couldn't share much information about his moves because he also manages the investments of publicly traded Greenlight Capital Re Ltd., which invests in the same holdings as his hedge fund, said people familiar with the policy. Disclosing such information, Mr. Einhorn told them, might violate securities laws.

With the media, Mr. Einhorn was soft-spoken and generous with his time. Behind closed doors, he sometimes showed a darker side. At "idea dinners," where he and other hedge-fund managers regularly met to debate stocks, he could be insulting to those who questioned him, some participants said.

Mr. Einhorn said in the statement: "I am always respectful of my peers during what can be passionate conversations."

In 2001, John Burbank, who was starting a research service and later became a hedge-fund manager, pitched Mr. Einhorn on refiner Valero Energy Corp., said a person familiar with the meeting. Mr. Einhorn dismissed the idea and spent half an hour lambasting him for not doing his homework.

"You really should go for better businesses," Mr. Einhorn said, according to this person, telling Mr. Burbank to steer clients to one of Greenlight's largest holdings at the time, WorldCom Inc., the person said. A year later, WorldCom declared bankruptcy. Valero's stock more than doubled over the next three years.

A Greenlight spokesman declined to comment on the episode.

'King David'

Investors tolerated the quirks because returns were sweet. Less than a decade into the fund, Greenlight had annual gains as high as 58%.

Investors developed a nickname for Mr. Einhorn: King David.

Some of his biggest hits came from public battles with companies whose stock he shorted, betting against them by selling borrowed shares. In 2002, he began a protracted spat with Allied Capital Corp., a lender he said was overvaluing its holdings. Allied called his claims unfounded, but its shares fell and it was acquired in 2009 at a fraction of its 2002 price, resulting in millions in profits for Greenlight.

In May 2008 at a conference, he criticized Lehman Brothers Holdings Inc.'s accounting practices, asking why it took only a $200 million write-down on $6.5 billion of collateralized debt obligations. Lehman filed for bankruptcy that year.

Mr. Einhorn was involved in almost every Greenlight investment decision and treated most employees with respect, forging loyalty, said former employees. But he was uncomfortable delegating authority and disliked opposing opinions, said one of them.

"We encourage and engage in rigorous debate about all investments," Mr. Einhorn said in his statement, adding: "however, as portfolio manager I am responsible for final decisions."

Most days, Mr. Einhorn napped at about 2 p.m. on a couch in his office, said a former employee familiar with his routine, and sometimes fell asleep in midday meetings. Mr. Einhorn said he had a sleep disorder and often woke at 3 a.m. to work, the person said.

Mr. Einhorn and his employees gained reputations among some investorsfor enjoying themselves after hours. His team gambled in Atlantic City, N.J., annually and sometimes hit New York nightclubs until early morning, spending thousands of dollars a person on food and drinks, said people who attended some such events. Greenlight hosted an annual Friday-night poker tournament for employees, friends and clients, where alcohol flowed and thousands of dollars changed hands.

Mr. Einhorn flew with staffers to Las Vegas each year, sometimes in a private jet, for the World Series of Poker, visiting nightclubs and spending as much as $20,000 each, said one of the people who attended such events. In 2012, Mr. Einhorn finished third in the tournament, taking in $4.35 million, and another time won nearly $660,000, all of which he donated to charity.

"We worked hard and played hard," said the person. "There was a celebratory feel."

Mr. Einhorn said: "I am lucky to have friends and colleagues willing to support and root for me on their own time and own dime while I compete on my vacation."

The Greenlight fund lost nearly 23% in 2008, hit by the financial crisis, before rebounding in 2009 with a 37% gain. Both years, it topped the **S&P 500**.

Through 2013, Greenlight seemed unstoppable, as it moved into investments such as gold, derivatives and debt, gaining 19.8% that year.

In 2014, for the first time in years, Mr. Einhorn opened Greenlight to more investors, some of his clients said, drawing $1 billion in new cash and increasing assets under management to $12 billion.

That year, he bought a small piece of the Milwaukee Bucks basketball team. In 2015, he became chairman of the board of the Robin Hood Foundation, the hedge-fund industry's unofficial charitable arm. He often coached baseball and softball teams for his three children, said former employees.

Some investors showed early signs of becoming wary of Mr. Einhorn's methods, including Gregory Horn, who runs Persimmon Capital Management LP. Mr. Horn said he worried that Mr. Einhorn's public appearances to promote his holdings could make him a possible target of rivals hoping to drive up stock prices.

"We like our managers investing, not promoting," said Mr. Horn, whose firm says it pulled its money from Greenlight in 2014. "We didn't like him going out to the press and were concerned about people picking off his trades."

Mid-decade downturn

Mr. Einhorn's downturn hit mid-decade. Greenlight dropped more than 20% in 2015, hurt in part by a 74% collapse in shares of solar and wind producer SunEdison Inc., one of Greenlight's largest holdings at the time; the **S&P 500** returned 1.38%. Investors hoped it was a blip, and Mr. Einhorn seemed to take it in stride.

At his annual investor dinner that winter, he featured a slide of the now-imprisoned pharmaceutical executive Martin Shkreli, who had once unsuccessfully pitched the firm on an investment. Mr. Einhorn's message: It could be worse—Greenlight could have invested with Mr. Shkreli. Many in the room laughed, said a person who was present.

Greenlight's tumble continued, and concern grew among investors about Mr. Einhorn's value-oriented approach, which avoided popular tech stocks that were part of what he called a "bubble basket" that he predicted would fall.

He told investors in an early 2018 presentation, one investor said, that he had been shorting stocks including Amazon.com Inc., Athenahealth Inc. and Netflix Inc., stocks that are up more between 19% and 103% this year—a short position loses value when the underlying stock rises. Brighthouse Financial Inc., Greenlight's second-largest holding as of March 31 according to its securities filings, is down 31% this year.

Some investors said they wished Mr. Einhorn had embraced high-growth stocks as did his friend Daniel Loeb, who runs the hedge fund Third Point LLC, which bought two million shares of Netflix last year.

Greenlight's restrictions on when clients can withdraw funds have become harder to swallow, said P. Justin Pearlstone, who is on the board of a charity that invests in Greenlight and has placed the fund on an internal watch list for possible withdrawal in January 2019.

"The liquidity terms are onerous and out of the norm today," Mr. Pearlstone said. "Investors would be more comfortable with those terms if the returns were better."

Adding to distress among some investors is Mr. Einhorn's pending divorce. "If someone goes through a divorce, I usually get out," said Mr. Kielland, Mr. Einhorn's early backer. "I made an exception with David, but I made a mistake…He has to be distracted: I'm convinced that's 30% to 40% of" why Greenlight has been underperforming.

Mr. Kielland said he has withdrawn three-fourths of his firm's money and may take out the rest. Several other investors said they withdrew, or are considering withdrawing, money in part because of the divorce.

Mr. Einhorn said: "This Europe-based investor has almost no contact with me and has no basis for his statement. Our investment team and I are solely focused on the portfolio."

Greenlight has said 18% of the money it manages—or about $1 billion—is from the reinsurance company it controls, while some of his investors say Mr. Einhorn personally has more than $1 billion in the fund. Those figures suggest that, of Greenlight's $5.5 billion in assets under management, less than $3.5 billion is outside investors'—a sign of how much it has shrunk.

Some rivals say Mr. Einhorn's avoidance of expensive stocks could prove prescient. General Motors Co. shares, among Greenlight's largest holdings, gained 10% last month on news of an investment from SoftBank Group Corp.'s SoftBank Vision Fund, though GM remains down 5% this year.

Supporters point to Greenlight's stellar annual returns since inception: 15% versus 8.7% for the **S&P 500** and 7.5% for the average stock-focused hedge fund, according to HFR.

Mr. Einhorn is showing few signs of changing his ways. At an April conference, he unveiled his latest **bearish** pick, Assured Guaranty Ltd., warning that its business was more challenged than investors realized.

An Assured spokesman directed inquiries to its earlier statement that Mr. Einhorn "demonstrates a fundamental lack of understanding of our business model and the municipal debt markets."

Mr. Einhorn's warning didn't move the stock much that day, but he remained hopeful. "Bubbles do pop, you know," he told the crowd. "Or at least they used to."

Last month, Mr. Einhorn was back in Las Vegas, playing poker in a high-stakes tournament.

Rob Copeland contributed to this article.

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The World the Crisis Created

* Einhorn Finds Victories More Elusive Since Winning Lehman Bet

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Stock Outflows Swell in Flight for Safety

By Michael Wursthorn and Daniel Kruger
693 words
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B11
English

Investors are fleeing U.S. stocks at a rapid clip as continuing market **volatility** and trade tensions push them to seek safety among less risky assets such as U.S. Treasurys.

Nearly $20 billion was pulled from long-term mutual funds and exchange-traded funds focused on large-cap stocks in June, handing those funds their biggest month of outflows in at least a decade, according to data provider Morningstar LLC. Outflows across the **stock market** have continued into July, though the pace has slowed.

The exodus coincides with the implementation of the first round of tariffs between the U.S. and China, as well as President Donald Trump's consideration of additional levies on more than $200 billion of goods. But it also comes against a backdrop of robust corporate earnings and strong U.S. economic growth that has pushed the **S&P 500** up 6.1% this year.

Analysts have been critical of the predictive power of fund flows in calling a broad market shift. The data reflect how money is moving across investment products but aren't necessarily a good gauge of investor sentiment. Plus, individual investors are often bad at timing the market, buying high and selling low.

Still, after a more than nine-year rally in U.S. stocks, several investors say this year's **volatility** and trade tensions are forcing them to pause to reconsider whether a stock-heavy portfolio can sustain a tit-for-tat trade conflict, not just with China but other major trading partners. Other investors appear to be waiting on the sidelines, with stock-trading volumes dropping to their lowest levels of the year in recent weeks.

PNC Financial Services Group Inc., for one, has been urging clients with heavy exposure to stocks to pare those positions and buy more government bonds. Resurgent **volatility** has forced investors to confront a period when "stock prices not only go up, they can go down," said Jeff Mills, co-chief investment strategist for PNC, which manages $149 billion in assets. "We're making sure investors have their house in order."

Russell Investments, meanwhile, reiterated its "underweight" preference for U.S. stocks last month, which suggests investors reduce equity allocations, and shifted its view of U.S. government bonds to neutral from underweight.

Those sentiments helped drive more than $130 billion into taxable- and municipal-bond funds in the first half of the year, with much of the flows into short-duration notes, according to Morningstar's data. Meanwhile, investors pulled about $55 billion over the same period from equity funds, pools that invest in specific stock sectors and strategies that blend stocks and bonds together, according to Morningstar's data.

At the same time, asset managers including investment giant BlackRock Inc. have recently reported a substantial slowdown in inflows. Money coming into passive funds that track the market dropped 44% through the first half of 2018, Morningstar said.

Investors say yields on short-term bonds have become more attractive this year. As the Federal Reserve has continued its campaign to raise interest rates, the yield on the two-year U.S. Treasury note recently rose to 2.686%, versus the **S&P 500**'s dividend yield of 1.9% -- the widest disparity since the 2008 financial crisis, according to State Street Global Advisors. "Risk-adjusted returns on stocks versus Treasurys are not as compelling as they have been," said Brian Nick, chief investment strategist at Nuveen.

Outflows from stock-focused funds likely would have been more severe if the U.S. market weren't on better footing than major indexes in Europe and Asia, analysts said. Stocks overseas have seen more **volatility** in recent months amid the tariffs talks and signs of slowing economic growth.

Even though outflows across U.S. stocks have continued in July, according to weekly data from the Investment Company Institute, the pace appeared to ease through the most recent week ended July 18, as investors put about $1.3 billion into equities as the second-quarter earnings season ramped up.

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THE WALL STREET JOURNAL.

Business
Investors Step Back From Social-Media Highfliers; Twitter's shares follow Facebook's sharply downward amid signs some users are souring on platforms

By Marc Vartabedian, Yoree Koh and Michael Wursthorn
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Shares of Twitter Inc. and Facebook Inc. endured a surprise rout this week, as investors were rattled by signs that users are souring on the social-media stalwarts.

Twitter said Friday that its number of monthly users dropped in the second quarter and could continue to fall as it purges fake accounts, results that echoed Facebook's bombshell guidance Wednesday that its growth is expected to slow through the end of the year.

Both companies suffered share-price declines of more than 20% after results. Facebook's drop of over 19% on Thursday lopped more than $119 billion from its market value—the biggest single-day drop in U.S. market history. Twitter lost almost $7 billion.

"We're two for two being down 20%," said Brent Thill, an analyst at Jefferies, adding, "It has not been a great week."

The **S&P 500** dropped 1% over the last two trading days of the week, its largest two-day point and percentage decline this month, as the disappointing earnings reports put pressure on the technology sector. The tech-heavy **Nasdaq Composite** suffered a bigger loss of 2.5% over the same period.

Facebook and Twitter have different business models but each is dependent on grabbing—and keeping—people's attention and then showing ads to them. That imperative on occasion has led them to embrace content that is viral or provocative, and now they are trying to find a better balance that will keep users engaged without driving them away. For instance, both are scrambling to clean up their platforms, which were the epicenter of Russian misinformation campaigns around the 2016 U.S. presidential election.

Advertisers have flocked to the platforms in recent years but may pursue other options if user engagement falls in a meaningful way or if the sites get overrun with ugly content. Privacy concerns are also affecting the way users think about social media, particularly Facebook.

This week's results show social media "hitting the pause button" after years of embracing a growth-at-all-costs mentality, said Colin Sebastian, an analyst at Robert W. Baird & Co. The combination of Europe's new privacy law, which went into effect in May, and the investments that Facebook and Twitter are making in security are a short-term drag on growth.

Still, he said, "this is more likely a speed bump than a structural shift in the way people are consuming media online."

Ahead of their earnings reports, Facebook and Twitter shares had risen 23% and 79%, respectively, since the beginning of the year, so the dramatic slumps were at least in part about valuation. But the epic wipeout in shareholder value is forcing investors to rethink the dominance of the so-called FAANG group, which includes Facebook, Amazon.com Inc., Apple Inc., Netflix Inc. and Google parent Alphabet Inc.

The stocks have been among the best performers in the **S&P 500** this year, and some investors think of them as a unit rather than individual businesses with unique challenges.

Alphabet and Amazon, for example, both produced strong earnings in the second quarter, in line with what **bullish** investors have come to count on. The social-media slump, though, will serve as a warning sign for anyone with broad exposure to big tech giants.

"These really high growth rates can't go on forever," said Scott Wren, managing director and senior global equity strategist at Wells Fargo Investment Institute. "So people have to readjust for these lower growth rates by taking some money off the table."

In the new environment, analysts said, the social-media sites will be under more pressure to find fresh sources of growth beyond their core platforms and the U.S. market. Facebook's user growth is more robust in regions such as Asia, compared with the U.S., and further expansion internationally will be closely watched, several investors said.

They will also be scrutinizing the social-networking giant's progress of further monetizing newer features such as Instagram "Stories," which have become increasingly popular among users, said Dan Morgan, a senior portfolio manager with Synovus Trust Co.

Twitter said the second quarter was the first in which revenue from international ads exceeded that from ads in the U.S., a trend it expects to continue in the near term.

But few expect either Facebook or Twitter to deviate from the ad-based business model that has been their foundation, an idea that "would be like saying a chocolate company should seriously think about getting into the salad business," said Brian Wieser, senior research analyst at Pivotal Research.

Twitter attributed its drop in monthly users largely to its efforts at "improving the health of the public conversation" on the platform. It also cited Europe's tough new privacy law, as well as a move away from contracts in some markets where people receive tweets through texts. Combined, the three factors erased more than 3 million monthly users in the quarter.

Chief Executive Jack Dorsey told analysts Twitter is moving faster than expected to clean up the quality of conversation on the platform, and that the efforts will have a positive impact on building engagement.

"We see health as a growth factor for us over the long term," he said. But he likened work cleaning up the platform to dealing with security. "We don't think this work will ever be done—it doesn't have an endpoint," he said.

Facebook likewise has been plowing money into hiring people to better police activity on the platform, efforts that will ding margins. Until this week's surprise guidance, Facebook had shown few business effects from the negative headlines that have dogged it in recent months. And many analysts touted Thursday's massive drop as a buying opportunity, but that wasn't the consensus: Facebook shares fell slightly on Friday.

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Yields Feel Demographics' Pull --- Aging population's demand for haven long-term Treasurys holds down those rates

By Daniel Kruger
469 words
26 July 2018
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Treasury-market watchers believe shifting demographics are a key factor set to keep long-term yields low, counteracting other forces that recently pushed the 10-year yield near 3%, such as a strengthening economy and increased government-debt sales.

BNP Paribas bond analyst Timothy High contends the aging population is the biggest factor influencing whether investors buy **30**-**year Treasury** bonds. Pension plans, which have seen their equity holdings rise in value as the **bull market** in stocks runs into its ninth year, will want to lock in their gains in supersafe long-term Treasurys, Mr. High said.

Demand for long-term debt is expected to be so persistent and strong that BNP Paribas is forecasting the yield on 30-year Treasurys will fall as much as 0.2 percentage point below their 10-year counterpart by year-end. (At a yield of 3.065%, 30-year bonds currently yield about 0.13 percentage point more.)

Stuart Sparks, a bond analyst at Deutsche Bank, agrees with the strong-demand premise, but questions the shelf-life of pension funds' appetite. He argues that a temporary tax benefit that was included in December's tax cuts -- which expires on Sept. 15 -- explains why demand for the debt has been so strong.

That benefit is an opportunity for companies with underfunded pension plans to catch up on their obligations, analysts say. Firms that contribute through mid-September of this year can receive deductions based on the old 35% corporate-tax rate, rather than the new 21% rate. A company that contributes $1 million to an underfunded pension plan could have $350,000 in tax savings before the deadline, but would have savings of just $210,000 after September.

Some companies, such as Verizon Communications, have been increasing the pace of their bond buying, moving forward purchases now that would ordinarily have taken place later in the year, after the tax deadline, Mr. Sparks said. While demographics play an important role in shaping the absolute amount of demand, the Sept. 15 deadline has accelerated purchases rather than adding to them, and demand should decline noticeably later in the year.

Deutsche Bank is forecasting 10- and 30-year yields will converge heading toward the tax milestone, but diverge afterward as demand for the longest-term debt eases.

While it remains to be seen what happens with pension contributions, companies will continue to lock in gains from stocks, rotating into more stable sources of income such as government debt, said Tom Kennedy, head of fixed-income strategy at J.P. Morgan Private Bank. He expects solid demand for long-term bonds to continue past the tax deadline.

Narrowing Gap

The yield premium of the U.S. 30-year Treasury bond over the 10-year note has been shrinking.

Source: Tullett Prebon Information

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EXCHANGE --- Zeal for Passive Funds Has Cooled in 2018

By Justin Baer and Mengqi Sun
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English

The flood of money into low-cost index funds is slowing in 2018, testing Americans' unprecedented embrace of passively managed investments during a nine-year-old **bull market** for stocks.

Net inflows into U.S. mutual funds and exchange-traded funds that mimic indexes dropped to $3.4 billion in June, according to data compiled by research firm Morningstar.

That was the lowest amount of new monthly money for these funds since early 2014. For the first six months of 2018 passive inflows were down 44%, compared with the same period a year earlier.

The pullback shows that even the darlings of the asset-management industry are vulnerable to **volatile** markets and investor anxiety over a potential downturn. The first half of the year was marked by swings tied to trade-policy tensions, interest-rate increases and talk of inflation.

"We've had essentially flat U.S. equities, a down emerging market, and a down U.S. fixed-income market," said Todd Rosenbluth, director of ETF and mutual-fund research at CFRA.

Indexing giant Vanguard Group is among the managers grappling with the client pullback. Through the first half of 2018 the company's net client flows of $112 billion were down 48% from the same period a year ago. That includes an influx of $10.3 billion in June.

The rise of passive investing has prompted sweeping changes throughout the financial world, from corporate governance to market structure, as well as concerns that the index funds could be vulnerable to unpredictable behavior in another downturn. They have attracted trillions in new client money since the 2008 financial crisis.

Active managers have long argued **volatility** and falling indexes would help them gain on their passive rivals while showcasing their stock- and bond-picking skills. Some have sought to merge, cut fees or overhaul their product lineups.

But there are no signs yet that most investors are turning in that direction. Actively managed funds have suffered net outflows of more than $500 billion since 2015, according to Morningstar. Roughly $29 billion in client money left those funds during the first half of this year.

The outflows through the first six months of 2018 marked the second six-month period in a row, and fifth of the last six, where active funds had net outflows, according to Morningstar.

"Paying more money to be flat or down makes little sense," Mr. Rosenbluth said.

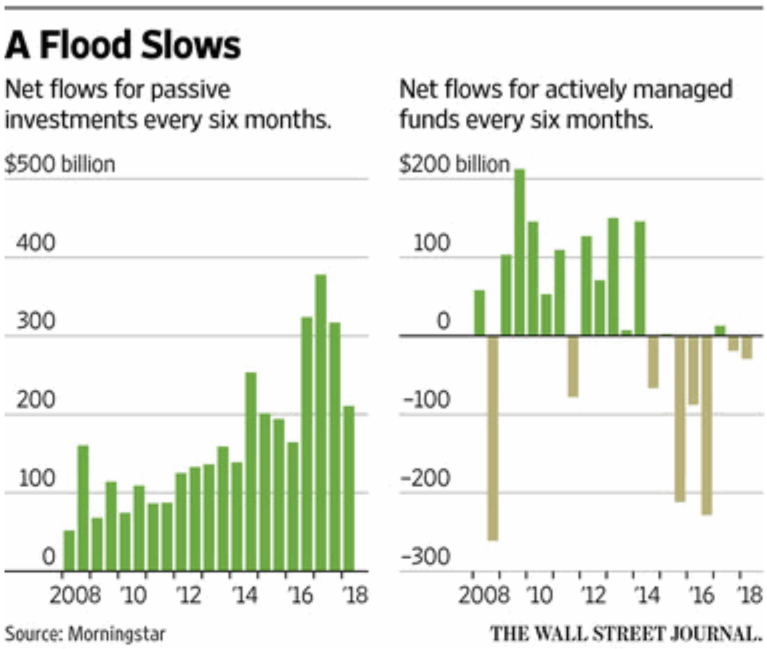
But outflows for active funds are less sizable than they were several years ago, and some companies are beginning to see inflows. One is American Funds, owned by Los Angeles-based Capital Group Cos. The mutual-fund unit, which manages solely active funds, brought in $997 million in the month of June and had net inflows of $17.95 billion in the first half of this year, according to Morningstar.

Not all active funds are in the same position, said Kevin McDevitt, a research analyst at Morningstar.

The most-expensive active funds "are losing capital," he said, while cheaper active funds "are doing better in terms of flows."

The drop-off in investor cash during 2018 is the result of political uncertainty and concerns that the **bull market** could eventually stop, said Emily Farrell, a Vanguard spokeswoman.

"People are aware of and are anticipating this slowdown coming," she said.



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Markets

Transcript: Media Q&A With St. Louis Fed President James Bullard; Official discusses the flattening of the yield curve and President Trump's criticism of the Fed

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Federal Reserve Bank of St. Louis President James Bullard answered reporters' questions Friday, July 20, 2018, following a speech he gave in Glasgow, Ky. He spoke about the possibility of an inversion of the yield curve, trade issues, **oil prices** and President Donald Trump's criticism of the Federal Reserve. Here is a transcript of the exchange, lightly edited for length and clarity.

JAMES B. BULLARD: I'll just make a few comments to start with. On monetary policy, my comments this morning were oriented toward yield curve inversion, which is an issue I started talking about last December. And we are and have been having a robust debate in policy making circles and in **financial markets** on this issue, and I think that's appropriate. I reiterated my previous position that I think we're on a path to invert the yield curve if the committee continues with its planned pace of rate increases. And if that happens, then I think it would be a **bearish** signal for the U.S. economy and we'd be taking more risk of recession than we would otherwise. And so I think that that assessment still stands that I made last December, and the yield curve is all the flatter today than it was at that time. And so a lot of the considerations have held up over the last seven-and-a-half months. So that's my main point on monetary policy for today.

Q: President Trump made some comments. Basically, he said he was opposed to the Fed's raising of interest rates, and I was interested in your reaction to his comments. Also, some people believe that the president making comments would be a threat to Fed independence. The last several presidents have specifically not commented on Fed policy, and I was interested in your view on that.

MR. BULLARD: Well, as [Fed Chairman Jerome] Powell has said in recent interviews and talks, the [rate-setting Federal Open Market Committee] has a mandate to keep inflation low and stable, and to attain maximum employment for the U.S. economy. So people can comment, including the president and other politicians, but it's up to the committee to try to take the best action we can to try to achieve those objectives.

So, I mean, I'll say this. I'm not surprised, given the president's style, that he would have opinions on this, as he does on many topics. And he does get some influence over monetary policy through his appointment process, and he has two appointees at the board today and three pending. He could actually make another one if I'm counting correctly. I think that's right. So I think through that process he's been able to influence monetary policy.

I think the general reaction to those appointees has been very good. He's appointed very strong leaders, people who know monetary policy well and will do a good job.

So, in my opinion, I'm used to debating monetary policy on a wide basis around the world, and this is just one element of that.

Q: So you don't necessarily view this as a threat to Fed independence?

MR. BULLARD: I think a threat to Fed independence would come more through legislation that would change the structure. The structure is already designed to put a big committee together and try to get a lot of analysis behind these decisions, and most importantly to give the Fed a mandate that we're expected to hit. And that mandate is keep inflation low and stable, and maximum employment.

So I think— you know, by the way, we're doing very well on those objectives. If you haven't noticed, inflation's right about at target and unemployment's quite low in the U.S. I think we have hit on a pretty good policy over the last several years. I think, as always in monetary policy, the issue is how to play this going forward, and that's the challenge that faces the committee and faces Chairman Powell.

Q: I was listening to [National Public Radio] on the way over this morning, because I can understand there might be a—(inaudible)…But they were talking about the yield curve, that when it starts to flatten out that within a year often there will be a recession because—(inaudible)—So they began to talk about the weight that you would put in the yield curve as far as predicting.

MR. BULLARD: It's a great point and it's one I've been emphasizing. The yield curve inversion has been a great signal for the U.S. economy of impending recession. So it could be that this time is different. It could be, you know, something special. But I've learned over the years to respect this signal.

And what it really is is bond traders having a different view of the prospects for the U.S. economy than what the Fed might have. The Fed is at the short end of the curve, but the bond traders—global bond traders are at the long end. And they're making an assessment about how much growth they think is out there, how much inflation they think is out there. And so, when the yield curve is inverted, you could interpret that as a clash between what global markets are thinking and what the committee is thinking.

I wouldn't mind telling a story that this time is different and that it's OK, but I don't think we have to do that. Inflation's low. Inflation's under control. Inflation expectations are low. So I just don't think we have to go test whether we can invert the yield curve and get away without having a recession. We don't need to do that in this situation.

Q: I have one more question. So you mentioned free trade, and what I struggle with is this: How do you have free trade where everybody just, you know, basically is trading with everybody else—no tariffs, no kind of anything—how do you prevent the race to the bottom, so where, you know, all of a sudden at one point you wind up with, you know, where it might undercut everybody with no environmental regulations, people are super poor with zero power?

MR. BULLARD: No, I think you can produce—you can produce great goods all around the world. French wine's pretty good. So—(laughs)—Kentucky bourbon is pretty good. And consumers around the world should get to drink Kentucky bourbon if they want and they should get to drink French wine if they want. And so I don't see it as a situation where it's impoverishing to French wine workers or to Kentucky bourbon makers to allow that.

You would—what you want is those that are the best producers of products, either luxury products or staples products, any kind of product, that you want the best producer to get the largest market share because that's what competition is supposed to do. And that forces the other producers to up their game, get better at producing their goods, and produces better outcomes for everybody.

So that's the economic intuition behind this. And it could be—it could be luxury goods. It could be simple goods. It could be very basic goods. But on all those dimensions we'd like to get the best producers to have the large—have the opportunity to have the largest market share.

Q: Do you think the new tariffs on automotive imports are going to cause car prices to rise? What are your thoughts on that?

MR. BULLARD: Well, short term they would have to be reflected in car prices, and I think that that's a downside of imposing tariffs. The upside of imposing tariffs is it may put pressure on other countries to reduce their trade barriers. So if we can get to a situation of temporarily putting on tariffs here but in the name of ultimately reducing tariff barriers globally, that would be a good outcome. And so if we can get to that, that would be good. I think what everyone's debating and wondering is whether that's the direction we're really headed here or if it's just going to be trade restrictions.

Q: OK, I have a question. What effect are the rising **oil prices** having overall in the national economy?

MR. BULLARD: **Oil prices** have gone—I actually didn't track them today. I'm not quite sure where they're trading today. But it—the big picture of **oil prices** is that they used to be trading at $100 a barrel and then they went way down, and now they've come somewhat up from that. But the global oil market has been importantly influenced by U.S. production, and it does look like the U.S. will be the lead producer starting next year. And I think that'll keep **oil prices** from rising further. These things always depend on global oil market developments. But the fact that the U.S. has really become a very important player globally bodes well for keeping **oil prices** low in the U.S.

Q: Just to sort of follow up on the tariff thing…Which way do you see it being approached?

MR. BULLARD: I think the president and his team, they have said—and I take them at their word—that they're ultimately free traders, and that they feel like the global trading arrangements have not been fair to the U.S., and that we have to press harder in order to get a more level playing field globally. You know, as to whether these are the right tactics or not, I mean, I'm not a trade negotiator and I have no idea what the right way to go about this is, so I'd leave that to those guys.

Q: And then (inaudible) mentioned the timeframe that she had heard, but let's just say hypothetically that—you know, that interest rates do continue to inch up a little bit, as has somewhat been expected in spite of what you're saying, and that everything else kind of continues as it is now. What kind of timeframe would you see, if there is the inversion, as to when the recession would kind of follow?

MR. BULLARD: Historically it's been a **bearish** signal and it takes—it would be a year, or more even, after the inversion that you would see a downturn.

So if you just look at current data on the U.S. economy, the economy looks very good. The year-over-year growth rate is good. A lot of numbers are very good on the U.S. economy. Labor market's very strong. One of my messages here in Glasgow was that if there's just one thing you want to do personally based on the current situation, it's to think about people in your extended family or your circle of friends or in groups that you know and think about people that have been marginally attached to the workforce because this is a great time for them to find a job and find a place where they can settle down in the labor market. And that will put them in a great position when a new recession does come, and they'll be—they'll be set up in a job that they can count on. So that's a very good thing that's going on in the U.S. economy, and a lot of the numbers are good for the U.S. economy right now.

This is just a story about trying to look ahead over the next two years as to how things will likely proceed. The FOMC predicts that the economy will slow down next year, in 2019, compared to what it is this year, in 2018. And, you know, how sharp would that slowdown be, and would there be increased recession risk at that point? So it's not a matter of today that things are bad today, because they aren't. They're very good today. It's a matter of trying to look out over the horizon and see what's going to happen.

Q: So, being in the media, a lot of people say, oh, the media, and they have, like, an evil image in their head. (Laughter.) (Inaudible)—you know what I'm saying? If you look up, you know, movies on—or, documentaries on Netflix, conspiracy theories on both groups. So how do you combat that? Because, I mean, the information a lot of times that you're presenting is not the most entertaining. You know, we're handing facts out a lot.

MR. BULLARD: Well, we try—I think there has been a roll toward transparency since—really since the Greenspan era, but picked up a lot more with [former Fed Chairman Ben] Bernanke. And I think it's continued right through till today. And so the Fed, instead of being a secret organization, which I think has fostered a lot of these kinds of conspiracy theories. I think the best thing to do is just get out there, be more open, just talk normally about the kinds of issues that we face, and get people interested in the economy. I think that's another—we've tried to work on economic education and financial literacy. We would like the—you know, the person on the street to, you know, know a little bit about the economy, how the economy operates. And I think we'll have a better economy if we can make progress on that. So hopefully we're working on demystifying. But it's a tough job. And it's—and it's a long slog because, as you say, these are—these are esoteric topics.

Q: Do you think it is appropriate for a [U.S.] president to weigh in on Fed policy? Because we're on the second consecutive day of this. The president this morning has tweeted that tightening now hurts all we have done. I am wondering what your thoughts are on that opinion. And the other question I have is today Trump has threatened tariffs on $500 billion of Chinese goods. He says that's now a possibility. What's your reaction to the idea of an escalating trade war between the two nations and the impact it could have on the U.S. economy?

MR. BULLARD: I would say the escalating trade war, if it goes badly, could be a risk for the U.S. economy. And so we'll have to—we'll have to watch this carefully going forward. I mean, I do understand that the objective of the policy is to get more trade liberalization globally, but it could be that all we end up with is a lot of tariffs globally and a lot of other types of protectionism globally. And if that happens, that would be a bad outcome, both for the U.S. and the rest of the world. So I think there is more risk because of the trade battles that are going on for the U.S. economy.

On the question of the—of the president talking about Fed policy, I mean lots of politicians talk about Fed policy. The chair goes up before Capitol Hill and gets all kinds of comments from senators and representatives. So the president does not have to stay out, I don't think. But the president also already has his imprint on monetary policy through the appointments process. And he appointed a very able chair who got bipartisan support. And I take the president at his word that he said, you know, he's going to let the committee do what it thinks is the right thing to do. But because the president has a certain style, he wants to get in on all these debates and debate things, and so I'm sure he's going to weigh in. He's weighing in today. He'll probably weigh in lots in the future. Different presidents have different styles. That's the way it is.

But that doesn't really change what the committee faces. The committee has a mandate we're supposed to keep inflation low and stable and we're supposed to get maximum employment. And that's in the law. And we have to make the best judgment that we can, taking all these things into account about how best to achieve those objectives. And there are lots of opinions out there all around the world, including from big financial firms, politicians, foreign politicians, foreign central banks. Everyone has an opinion about U.S. monetary policy. That's part of the global monetary debate that's going on 24 hours a day around the world. And so we're very used to it, let's put it that way. (Laughs.)

Q: But is Trump right that Fed rate rises are putting the U.S. at a competitive disadvantage against other countries?

MR. BULLARD: Yeah, that would be a dollar—an argument about the strength of the dollar. And it would be an argument that maybe the committee should pay more attention to the strength of the dollar, the weakness of the dollar, when we're making our decisions. There are certainly countries that do that. They target their exchange rates very tightly. China is an example of that, but there are many others around the world. The U.S. historically has not worried as much about the exchange rate because…the ability to impact the dollar is relatively weak.

Why is that? The exchange rate is determined not just by U.S. policy but also by foreign central banks' policy and the performance of foreign economies. And so when there's a movement in the dollar, it could be because of Fed policy, but it's Fed policy relative to, let's say, [the European Central Bank or Bank of Japan] policy or Chinese policy, and to the news coming out of those economies relative to the United States. So the exchange rate is a complicated object. And I think historically we have not put as much weight on that as other central banks. Nevertheless, it is a factor and is something we look at. We certainly take that into account when making our rate decisions.

Q: Are you saying the president is wrong, or that he is sort of misunderstanding the complexity of the debate over currency and currency movements and the Fed?

MR. BULLARD: The president feels very—the president feels very strongly on trade issues, has a lot of conviction on trade issues, and—related to that— I think probably has a lot of conviction about the dollar. But that's certainly not a new debate in monetary policy circles. Many people have argued in that direction in the past. And so I would just see this as sort of one more voice on that—on that topic.

Q: In the Beige Book and things, we're hearing that people are starting to raise prices, prices are going up on different things because of the tariffs. Is that something that the Fed's going to have to react to? Is that a game changer for the inflation front? I mean, you keep talking about how inflation is low and staying low. But this could change the equation, right?

MR. BULLARD: There are anecdotal reports of price changes, but I don't think so far we're really seeing it in the price indexes, especially the trimmed mean index, which is 1.8 percent year over year. It has run between 1 ½ percent and 2 percent for the last six or seven years. It's really hard to make a case based on Dallas Fed trimmed mean that we've got a lot of inflation pressure. Also, the fixed-based inflation measures, if you adjust them to translate them from CPI inflation to PCE inflation, those are continuing to run below our 2 percent inflation target. So I would say inflation expectations, at least measured by markets, are still somewhat low, just a tad below our target.

And the thing I like about looking at market-based inflation expectations is that markets have already taken into account everything that we're talking about. They've taken into account the fiscal policy package. They've taken into account anecdotal reports from the Beige Book. They've taken into account **oil prices**. They've taken into account everything under the sun because that's what they do in **financial markets**. And they still don't see very much inflation pressure, either over the next two years, the next five years, or the five years after that.

So I'm just not seeing it right now. I do, of course, respect these numbers. And if I thought I was seeing—and I am an inflation hawk. And so if I did think we were seeing more inflation pressure, I would want to act. But I think in the current situation we're not seeing that. I also think that the Fed has acted preemptively already, that we've already raised the policy rate when inflation was quite low. We've already started to reduce the size of the balance sheet when inflation was quite low, so that we come to a good position today already by acting preemptively, especially during 2017, the first part of 2018.

Q: A number of commentators, including [former Treasury Secretary Lawrence] Summers, have made the point that the president's comments may backfire because the Fed might see it as a threat to independence, and therefore when you had a close call it would appear that if you didn't raise rates that you'd be kind of kowtowing to the president and therefore put the committee into a position to go ahead and raise rates when there's a close call. That this could change the committee's view to a little bit more hawkish. You probably saw that.

MR. BULLARD: I actually didn't see it, but to me that comment from Professor Summers would be a restatement of the reason why presidents have stayed out of this in the last couple of administrations. I think that it—you know, the idea is that maybe it could be counterproductive because if the committee goes the way the president was talking, then it looks like you're kowtowing to the president. And if the president doesn't go the way, then it looks like you're in a battle with the president. And I don't think either one of those is really occurring, but it creates a perception issue.

And the president has a way to influence monetary policy anyway, because he's got most of the appointments on the Board of Governors, several of which are pending right now in Congress. So I think that was the thinking in these previous administrations, that they would just stay out of this debate, this global 24-hour-a-day debate. But different presidents have different styles. And I don't think you can expect every administration to be exactly the same. And also, I think the president has strong conviction on trade issues. He feels very strongly about trade issues. And it's not surprising he'd also feel very strongly about the dollar.

Q: Do you think it does kind of predispose the committee to be—in a close call—to be slightly more hawkish?

MR. BULLARD: No, I think the committee will make the best judgment that they—that we can. It's a very good group, excellent staff, lots of analysis going into these decisions. And plenty of different opinions. So one thing I really like about the committee is that you get—you know, you get people with strong views, and they bring those views to the table. And then the chair has to sift through these different views and come to a consensus decision. And that process works very well. And I would expect that to continue going forward. And I'd doubt that there'd be any influence one way or the other from particular comments.

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EXCHANGE --- Weekend Investor -- Tax Report: Winners and Losers In New 'Kiddie Tax' --- Children of the highest earners will often benefit, while those from families earning less could be hit

By Laura Saunders
894 words
21 July 2018
The Wall Street Journal
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Parents and grandparents, beware: The latest version of America's "Kiddie Tax" will sharply raise the cost of giving in some cases.

The Kiddie Tax is a special levy on a child's "unearned" income above $2,100. It typically falls on investment income such as dividends, interest and capital gains, and it doesn't apply to a youngster's earned income from mowing lawns or designing websites.

Congress passed the Kiddie Tax in 1986 to prevent wealthy or affluent taxpayers from taking advantage of their children's lower tax rates by shifting income-producing assets to them. Originally the provision was for children under age 14, but lawmakers expanded it over time.

Today, the Kiddie Tax applies to nearly all children under 18 and many who are under 24, if they are full-time students and aren't self-supporting.

For 2015, about 343,000 children paid a total of $1 billion in Kiddie Tax, according to the latest Internal Revenue Service data.

Last year's overhaul made an important change to the rates for this tax. Beginning this year and continuing through 2025, when the law sunsets, a child's unearned taxable income will be subject to trust tax rates. Under prior law, this income was usually taxed at the parents' rate.

This means Kiddie Tax will be far simpler. The prior version often required families to combine the unearned income of siblings, figure tax at the parents' rate, and spread the tax among the children. Now siblings' earnings are separate, and there's no need for awkward conversations in which parents must reveal their own income to children so the children can file returns.

But there will be surprises from this rate shift. For example, the threshold for the 20% capital-gains rate is now $12,700 under the trust tax rates, compared with more than $400,000 last year.

The effects of these changes will vary.

"The new Kiddie Tax will often be lower or the same for children of high-income parents, but it could rise for children of parents in lower brackets," says Tim Steffen, a tax specialist with Robert W. Baird & Co.

He offers an example. Say a full-time college student has a high-earning grandparent, and his parents have taxable income of about $150,000. To help with tuition, the grandparent gives the student stock to sell that has a long-term gain of $40,000.

Under last year's Kiddie Tax, the grandson would have owed tax of nearly $5,700 because his parents' capital-gains rate was 15%. Under the new law, his tax bill will rise to nearly $6,600, because a chunk of the gain is now taxed at the top rate of 20%.

Mr. Steffen says that to reduce taxes under the new law, the grandparent should give the stock to the parents instead of the student and let them sell it. Then the tax rate would be 15%.

At the same time, many children of top-bracket taxpayers will be winners under the new law, says Mr. Steffen. If such a child has $4,000 of interest or payout from an inherited individual retirement account, her Kiddie Tax bill would have been about $860 last year. This year it drops to about $300, due to lower rates for trusts.

The bottom line is that generous parents, grandparents and others need to take a new look at income-tax effects before making gifts to young people. Here's more to consider.

It's not just investment income. The Kiddie Tax also applies to unearned income from sources other than a child's investments, such as from an inherited traditional IRA or 401(k), a taxable legal settlement or, in a few cases, Social Security survivor benefits.

Thus, it's often better to leave a child a Roth IRA, which can make tax-free payouts, rather than a traditional IRA or 401(k), if the child would owe Kiddie Tax on the payouts.

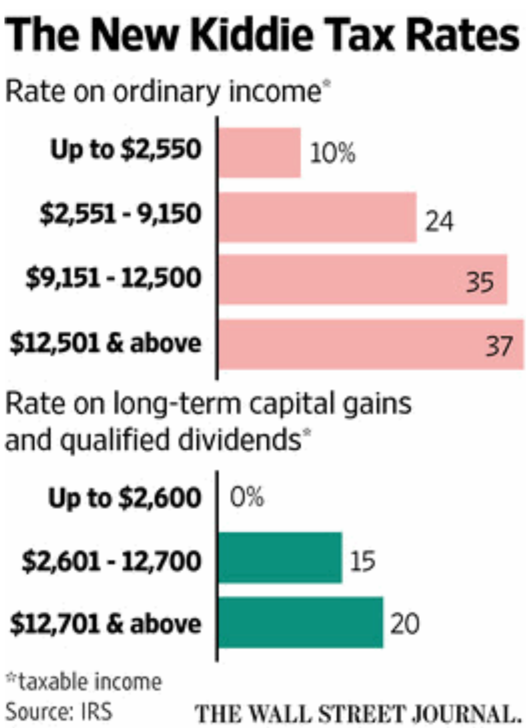
Choose investments carefully. The first $1,050 of a child's unearned income is typically tax-free because of a standard deduction. The next $1,050 is often taxed at a low rate -- although specialists say the new law is unclear as to whether it will be the child's own rate or the trust tax rate.

This $2,100 total can go a long way. It could largely shelter the current annual dividend from, say, $100,000 invested in an **S&P 500 index** fund.

The dividends from stock in a single company could also be less than $2,100 a year. But if the company undergoes a taxable merger and there's a large capital gain, that could trigger Kiddie Tax.

A day makes a difference. The Kiddie Tax doesn't apply to children who are 24 or older or who are married. Some part-time students also don't owe it, and there are other exceptions.

Suzanne Shier, chief tax strategist at Northern Trust Co., advises young people, "Don't sell a gift of stock immediately in a knee-jerk reaction. Check the taxes first."



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Highflying Small Caps Vulnerable to Tariffs

By Danielle Chemtob
745 words
24 July 2018
The Wall Street Journal
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Investors have pushed U.S. small-cap stocks to record highs while seeking a haven from tariff-related tensions, but the popular trade is beginning to appear vulnerable.

More than $4 billion poured into mutual funds and exchange-traded funds that track small caps in May and June alone, while U.S. stock-focused funds as a whole have suffered billions of dollars of outflows every month this year, according to data from Morningstar LLC.

That influx of cash has helped propel the Russell 2000, an index that tracks shares of smaller companies, up 11% this year, compared with the **S&P 500**'s 5% gain. The index is still trading near record levels, but some analysts warn that strong corporate earnings and economic data are masking the tariffs' potential negative impact on small businesses.

At least half a dozen small, domestically focused companies, including motor-home manufacturer Winnebago Industries Inc., lighting firm Acuity Brands Inc. and agricultural machinery maker Art's Way Manufacturing Co., have said the recent tariffs imposed on steel and aluminum and a host of other Chinese goods threaten to disrupt their businesses.

"Right now, all this is muted because the U.S. economy happens to be growing very strongly," said Mary Lovely of the Peterson Institute for International Economics. "Longer out, this is going to affect consumer spending and more importantly it's going to affect investment in the U.S."

Much of the **stock market**'s recent rally has been driven by momentum-based trading when investors pile into assets -- like small caps and technology stocks -- that already have made big gains. That type of investor demand can quickly evaporate, leaving the market vulnerable to a selloff, analysts say.

Small-cap stocks have become relatively expensive as a result of the rally. The Russell 2000 was trading at a forward price/earnings ratio of 22.4 as of Friday, compared with the **S&P 500**'s 16.6.

"You're overpaying for a company that's considered safe," said Jeff Holzmann, managing director at Iintoo, an international real-estate investment platform.

The Peterson Institute said its analysis of the most recently enacted tariffs found the vast majority apply to intermediate or capital goods, such as machinery and electrical equipment.

That means U.S. firms that import those goods will pay higher prices, even if they are manufacturing their products domestically.

"You have firms that don't look like they're exporting directly," Ms. Lovely said. "Right now the damage is containable in some sense because the dollar values aren't huge, but they're starting to get bigger."

Winnebago, which has a market value of about $1.3 billion, said on its earnings call last month that the inflationary pressures caused by the tariffs are the "biggest unknown for many companies today."

The Forest City, Iowa, company said it is particularly concerned that demand for its recreational vehicles could wane as consumers pay for the impact of tariffs.

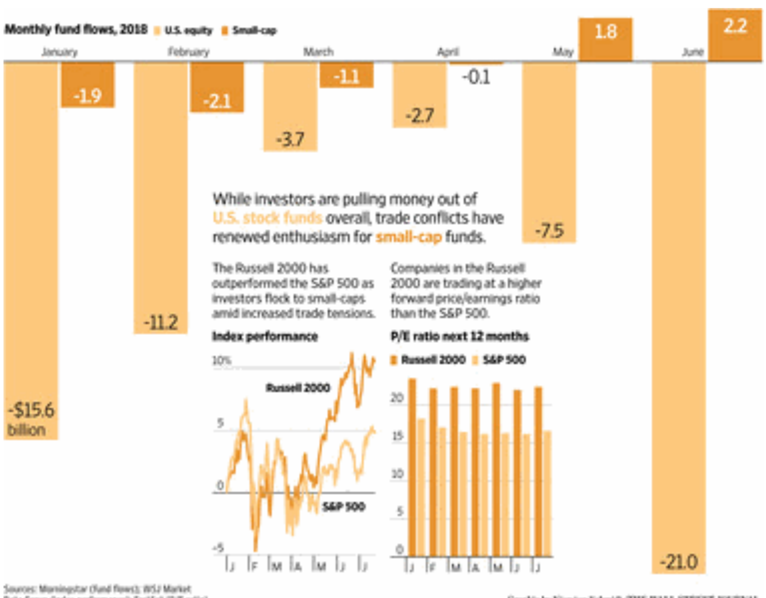
"It will force them to make choices on where to spend their discretionary savings and dollars," Chief Executive Michael Happe said. "We also take very seriously the price increases that we ask of the market because we're fully aware that they could have an impact in the future in terms of slowing demand."

Even though Winnebago purchases most of its steel and aluminum in the U.S., the company warned it expects cost pressures to continue in the current quarter. Those comments, though, were overshadowed by the company's stronger-than-expected earnings in the latest quarter, spurring a 15% surge in shares on June 20.

Meanwhile, Acuity Brands and Art's Way Manufacturing also said earlier this month that their input costs have risen with steel prices. Acuity said it hopes to mitigate the impact by increasing prices and reducing costs. Art's Way, which supplies several multinational agricultural-equipment companies, said it has already been forced to raise its prices as a result.

Other companies, including industrial-equipment supplier MSC Industrial Direct Co., furniture maker Herman Miller Inc. and consumer-products company Helen of Troy Ltd., also cited the tariffs as a concern on recent earnings calls.

Multinationals like Boeing Co. and Caterpillar Inc. would face the brunt of the impact from a trade war. Companies in the **S&P 500**, on average, get about a third of revenue from overseas.



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THE WALL STREET JOURNAL.
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Platinum Sinks on Auto-Tariff Threats --- Prices hit their lowest in nearly a decade as protectionist rhetoric fuels bearish bets

By Amrith Ramkumar
694 words
5 July 2018
The Wall Street Journal
J
B12
English

Platinum prices this week tumbled to their lowest level in almost a decade, the latest case of intensifying global trade tensions shaking up the metals market.

Most-actively traded futures contracts of the silvery-white metal slid 5.2% Monday, the steepest one-day drop in nearly seven years, and closed at their lowest level since December 2008. The threat of protectionist policies has fueled bets that slower trade activity will disrupt the global economy, reducing commodity consumption. Prices recovered 4% to $846.30 a troy ounce Tuesday.

Platinum -- a precious metal that also has industrial uses in car manufacturing -- has fallen 18% from its peak in January. Investors have broadly sold metals lately, with gold and copper also retreating.

Analysts say tariffs could hurt demand for platinum more than other metals because roughly 40% of demand is for catalytic converters that scrub emissions in diesel car engines. And with gasoline and hybrid vehicles expected to become more popular in the coming years, investors have soured on platinum.

Such worries have prompted speculators to wager prices will continue to sink. **Bearish** bets on platinum prices by hedge funds and other speculators exceed **bullish** ones by the biggest amount ever, according to Commodity Futures Trading Commission data going back to 2006. **Bearish** wagers outnumbered **bullish** ones by 26,168 contracts in the week ended June 26, the latest CFTC data show.

"There's been an absolute washout," said Jonathan Butler, a precious-metals strategist at Mitsubishi Corp . "**Bearish** bets are very much at the fore."

The latest rhetoric surrounding auto tariffs has particularly hurt platinum, analysts said. President Donald Trump said he sees his threat on auto tariffs as his biggest weapon to extract concessions from trading partners. But the prospect of 20% tariffs on imported European vehicles also could lower the amount of platinum needed in diesel engines, according to some analysts.

The anxiety over tariffs comes as demand for platinum in catalytic converters already was projected to decline for a second consecutive year, according to Johnson Matthey PLC , a London-based metals trader and one of the world's largest makers of catalytic converters. Supply, meanwhile, is projected to stay roughly flat. The platinum industry has already been suffering, with the biggest producers in South Africa cutting jobs, selling assets and raising capital to stay afloat.

Meanwhile, economic growth momentum has shifted to the U.S., limiting demand for metals broadly and sending the dollar to its highest level in a year. A stronger dollar makes commodities more expensive for overseas buyers.

"When you get a malaise like this, it just hits all the markets. There are really very few places to run," said Edward Meir, a strategist at broker-dealer INTL FCStone .

While it has industrial uses, platinum is seen by some investors and traders as a precious metal and it is commonly used in jewelry. It doesn't have the same prominence as gold as a store of value, but they have historically traded relatively closely together.

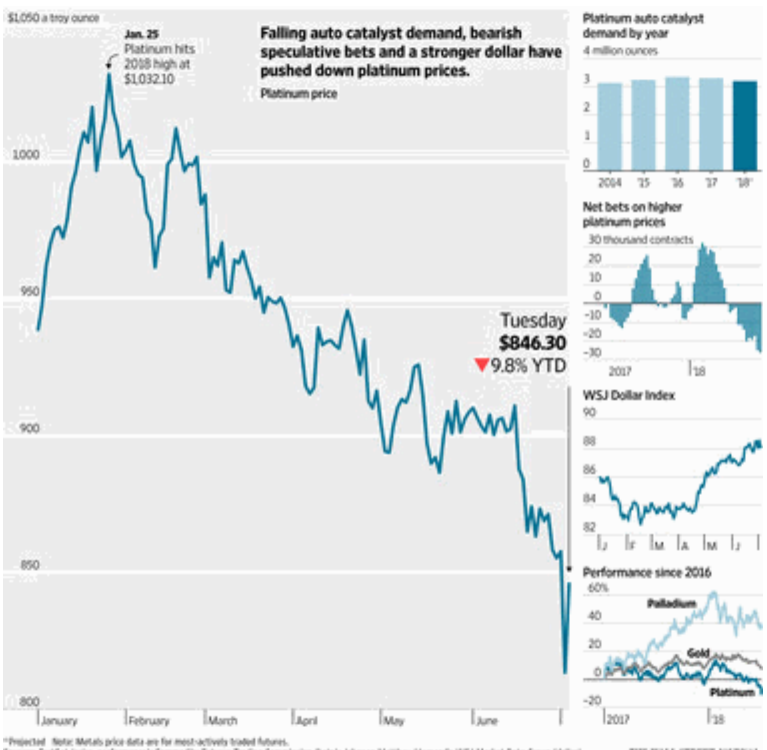
Now, higher interest rates are pushing up Treasury yields, making commodities less attractive to some investors and weighing on gold and platinum prices. Platinum has taken the bigger hit. The metal's prices are trading more than $400 a troy ounce below gold's -- nearly the largest gap ever -- according to WSJ Market Data Group.

Despite platinum's protracted slump, some analysts think it could bounce back if investor sentiment on trade shifts.

Mr. Butler noted that speculators might be forced to cover their short positions if platinum prices begin to rise again, potentially triggering a short squeeze and further gains. Some bulls also have said that auto makers might consider replacing palladium with platinum, with platinum trading at a discount to its precious-metal cousin for the first time since 2001.

But for now, continuing trade tensions between the world's largest economies signal more **volatility** ahead for platinum prices.

"The charts look ugly, the funds have started selling and the fundamentals look bad," said INTL FCStone 's Mr. Meir.



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THE WALL STREET JOURNAL.

Markets

Small-Stock Fund Managers Dominate the Battle for Highest Returns; These stock pickers dominated with gains of 40% and more for the past 12 months—but can the hot streak last?

By Suzanne McGee
1,479 words
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Corrections & Amplifications

Doug Foreman is chief investment officer of Los Angeles-based Kayne Anderson Rudnick, an affiliate of Virtus Investment Partners. An earlier version of this article incorrectly described him as chief investment officer of Virtus itself. (July 9, 2018)

Something unusual happened in the latest Wall Street Journal ranking of top-performing U.S. mutual funds: Small-cap money managers completely dominated the contest.

In every quarterly Winners' Circle contest, we seek to identify the actively managed U.S.-stock funds that had the best performance over the previous 12 months. (To qualify, funds must have at least $50 million in assets and a record of at least three years.)

Usually the top few funds every quarter have something in common—for example, they may all have big overweight positions in Apple Inc., or be heavily invested in biotechnology or oil plays in the Bakken Shield. Typically, however, the list becomes relatively diverse, after the first few names. (We disqualify sector funds and non-U.S. funds; we also exclude index funds, exchange-traded funds and leveraged funds, since the goal is to evaluate stock-picking prowess over a defined period.)

But things were different this quarter. All but one of the 10 best-performing funds for the 12 months through June 2018, according to data provided by Morningstar Inc., were managed by small-cap investment teams.

The most successful of all—capturing this quarter's Winners' Circle crown—was Kinetics Small Cap Opportunities Fund (KSCOX). Co-managed by James Davolos and Peter Doyle, the $300 million fund posted a gain of 44.1% in the past 12 months, narrowly edging out its nearest rival, Delaware Smid Cap Growth Fund (DFCIX), which recorded a return of 43.9% in the same period ("Smid" stands for small-cap and midcap).

Right on their heels were Virtus KAR Small Cap Growth Fund (PXSGX) and Lord Abbett Micro Cap Growth Fund (LMIYX), with 12-month returns of 43.2% and 42.8%, respectively.

"Small stocks represent—by far—the best-performing market this year," says Jack Ablin, chief investment officer of Cresset Wealth Advisors. Some of this, he says, may be the group playing "catch-up"—since June 30, 2010, annualized returns for small stocks have been only 13.9%, compared with 14.8% for those in the **S&P 500**. But small stocks have done better over a longer period: Since June 30, 2000, small stocks have gained 8.1% versus 5.6% for the **S&P 500**.

Investors are showing an overwhelming desire to avoid companies that are exposed to global turmoil, such as tariffs and trade disputes. "This feels like the way to shield themselves from the vagaries of the global market," says Mr. Ablin of the wholesale move toward small-caps. "People are investing as if we're building a wall around our entire country."

One risky strategy paid off even more than simply focusing on small stocks, however. The three top performers in our survey each built small, concentrated portfolios of what they believe to be the best of these smaller businesses—usually only 25 to 40 companies.

"You really need to do something different to earn real risk-adjusted returns in this market," says Mr. Davolos, whose Kinetics fund topped the chart. "We look for niche businesses that are very idiosyncratic."

The Kinetics team wants to invest in companies whose stocks are mispriced relative to their fundamentals, assuming share prices will rise as investors recognize the errors they have made in valuing those businesses. In the past year, one of the biggest contributors to its returns has been Texas Pacific Land Trust, a Dallas-based land trust with extensive holdings in the Delaware Basin region. As some of the biggest oil-and-gas exploration and development companies have pushed into the region, the company has earned higher royalty revenues, and profited from selling access to those wanting to build roads and pipelines or access water for fracking, Mr. Davolos says. On a split-adjusted price, Mr. Davolos calculates that the fund paid less than $6 a share to acquire its initial stake in the firm back in March of 2000; the stock now changes hands at $719.95 a share.

Hunting for a bargain

Initially, investors spurned Howard Hughes Corp., a real-estate development company spun off from General Growth Properties Inc., for failing to pay any kind of yield. But Mr. Davolos and his team found the bargain-basement spinoff valuation in 2010 compelling. "It was trading for less than book value," he recalls. "The South Street Seaport properties in Manhattan, which may be worth $5 billion, were on the books at $5 million." Trading at around $40 when the fund acquired the stake, the real-estate firm now changes hands for $138.50 a share.

Any of the long list of top-performing small-cap funds has an equally eclectic list of relatively unfamiliar companies responsible for its gains, though some of the ideas underpinning their businesses may be familiar. Alex Ely, manager of Delaware Smid Cap Fund, tries to build a portfolio of three dozen or so firms that fit into roughly a dozen themes, such as providing solutions to the opioid crisis. These include Pacira Pharmaceuticals, which has developed a long-lasting local anesthesia that dentists and surgeons can use as a non-opioid alternative to treating postsurgical pain. "By the time the surgical anesthesia wears off, most patients don't report having pain that needs to be treated with anything that strong," he explains. Then there is Collegium Pharmaceutical Inc., which has developed an extended-release painkiller with the same active ingredients as OxyContin, but with features that deter abuse.

Mobile services is another hot theme, Mr. Ely says. "We're clearly very early in terms of what our phones can do," he says. That led the fund to Weight Watchers: As health-conscious individuals have gravitated to apps to help them manage diet and fitness, so the company has shed its stodgy past in favor of online meetings and support. The fund first bought Weight Watchers stock in May 2017 at an average cost of $23.18; it now trades at $102.42.

Doug Foreman, the chief investment officer of Los Angeles-based Kayne Anderson Rudnick, says his team doesn't care that anxiety about trade disputes is reviving interest among fickle investors in small-cap holdings, whose fates are more closely linked to the domestic economy. For Virtus KAR Small Cap Growth Fund, the challenge remains the same: identifying strong companies that will outperform in any climate.

Those winners, says Todd Beiley, the fund's manager, include Ollie's Bargain Outlet Holdings Inc., which the team bought following an initial public offering. The company was bargain-priced because it wasn't a household name, and investors were fearful that growth would slump. Mr. Beiley, however, was willing to bet on Ollie's scale (277 stores), the chief executive's long history in the closeout business (he founded the company in 1982 and still owns a 16% stake) and its ability to strike savvy deals. The fund first bought the stock at $15.38 in 2015; it now trades at $74.25. Mr. Beiley also bucked the consensus in buying shares of Old Dominion Freight Line Inc., a "less than truckload" transportation firm whose stock was in the doldrums in 2016, thanks to an industrywide slump. But he again bet on an array of factors, from scale to the role of the founding family in running the business. The stock has soared to $147.39 today from $68.32 at the time of purchase in September 2016.

Research matters

Mr. Ablin reminds investors eager to emulate these managers that small-cap investing can be tricky. "Small-cap stocks aren't always buy-and-hold investments," he says. Some businesses collapse. Others stagnate and flounder. A handful may become tomorrow's giants. The challenge requires a lot of research—as this quarter's winning managers would be the first to acknowledge.

There is also the question of whether the small-cap rally will be a long-term phenomenon, or something fleeting.

"Nervous investors can leave just as rapidly as they arrived," Mr. Ablin cautions. "It depends on whether people are making this shift because of anxiety and nervousness about their alternatives—or because there is something in the world of small-caps that really engages them."

Ms. McGee is a writer in New England. She can be reached at reports@wsj.com.

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THE WALL STREET JOURNAL.
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Heard on the Street
The Trans-Atlantic Catch-Up Trade Has Lost Its Mojo

By Richard Barley
486 words
2 July 2018
The Wall Street Journal
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B10
English

[Financial Analysis and Commentary]

This was supposed to be the year global markets moved in sync, Europe following the U.S. with higher bond yields and stock prices. But at halftime, things don't look so simple.

For now, the bet on risky assets beating haven debt is still working in the U.S., although it has lost a lot of momentum. As of June 28, the ICE BofAML U.S. Treasury index was down 1.1% and the **S&P 500** was up 2.6% on a total-return basis. But in Europe, the opposite has happened: The total return on the Euro Stoxx is minus-1.2%, while German bunds have returned 1.5%.

Incredibly, yields on northern European government bonds are actually lower now than at the start of the year. The 10-year German yield is just 0.34%, versus 2.85% for the **10**-**year Treasury**. The persistent disappointment in European economic data that started in the first quarter has undermined the catch-up trade, even as some themes have played out as expected, notably the Federal Reserve and European Central Bank both gradually withdrawing from ultraloose monetary policy.

This means the valuation gaps that investors seized on at the start of the year have only grown more extreme. European stocks still look cheap versus U.S. stocks, while European bonds look even more expensive versus Treasurys. Meanwhile, the euro has gone into reverse against the dollar, summing up the way Europe and the U.S. have diverged rather than converged.

The underlying rationale for taking risk and shunning safety still has attractions. There seems to be little risk of a sharp downturn in growth in the near term. And there have been some tentative signs of stabilization in European data in recent weeks.

But there also are more concerns to deal with now, including the risk of a trade war and renewed political turmoil over migration. European Union leaders patched together a deal early Friday to help the countries facing the biggest problems, but tensions may persist. The troubles in emerging markets have spread, with investors now starting to focus again on China, particularly given the sharp decline in its currency.

That leaves markets vulnerable. While U.S. growth is strong now, there are worries about next year as the Fed tightens further and fiscal stimulus fades. If the bet on Europe catching up is to gain fresh life in the second half, it badly needs signs that growth outside the U.S. is solid. With the U.S. expansion already so extended, the clock is ticking.

The catch-up theme is logical, but events just keep getting in the way. It may prove as elusive in the second half as it has been in the first.

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WSJ PRO CENTRAL BANKING

Markets

Sizing Up the Bond Market's Signals; Longer-term yields stall, curve flattens ahead of corporate earnings reports

By Daniel Kruger
349 words
15 July 2018
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English

Investors will take a fresh look at U.S. government bond yields this week, after a tame inflation report and concerns about trade frictions helped push the yield on the benchmark **10**-**year Treasury** note to a fifth consecutive weekly decline.

Yet even as jittery global markets spur demand for the relative safety of government debt, investors see the potential for yields to reverse course yet again. Speculative bets against the 10-year note recently hit a record, highlighting the potential for a shift that many worry could spur a new wave of **volatility**.

While the 10-year yield has stalled, the yield on the two-year note, which typically moves in line with expectations for monetary policy, has climbed. That is a sign of a narrowing dispersion between shorter- and longer-term rates, known as a flattening yield curve.

Many view a flattening curve as a sign of economic slowdown, even though few see a recession on the horizon, leaving analysts debating the signal's meaning. Investors may get more clarity from the week's corporate earnings reports.

Steady economic growth has left some investors doubting that recent gains for longer-term bonds can hold. Speculators have piled into near-record bets against 10-year Treasurys in the futures market.

Bonds will also be key when Goldman Sachs Group Inc. and Morgan Stanley report earnings this week. After JPMorgan Chase & Co.'s results got a boost from a trading pickup in late June, investors will be looking to see if Goldman, most reliant on fixed-income trading among big U.S. banks, gets the same bump.

Another beneficiary of trade tensions has been large, fast-growing stocks like Netflix, which is expected to report another quarter of robust subscriber gains when it posts second-quarter results on Monday. Most of the company's growth has come from additions in international customers as its home market matures.

Write to Daniel Kruger at Daniel.Kruger@wsj.com

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The New York Times

Business Day
Long Dormant, Inflation Reawakens Investors' Fears

By Paul J. Lim
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NYTimes.com Feed
NYTFEED
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For years, the markets ignored inflation. Not anymore.

Inflation may not be a major preoccupation — at least not yet — but it's back as a real concern.

"It wasn't too long ago when all we were concerned about was deflation," said Henry B. Smith, co-chief investment officer at the Haverford Trust Company. "Right now, what we're seeing is a transition to a normalization of inflation."

For investors who've been worrying more about deflation — falling prices — for the last decade, even "normal" inflation may feel foreign, Mr. Smith said.

Recently, inflation has definitely ticked upward. The Consumer Price Index rose 2.9 percent over 12 months through June, its biggest increase in six years. That's still below the long-term average of 3 percent. Yet a year ago, consumer prices were growing at a 1.6 percent annual rate. And 12 months before that, inflation was just 1 percent.

The changes are striking even for producer prices, which reflect the wholesale cost of raw materials. The Labor Department reported that the Producer Price Index rose 3.4 percent in June, the largest increase in more than six years.

Mark R. Freeman, chief investment officer for Westwood Holdings, said he wasn't necessarily worried about inflation growing out of control in the near term, because wages aren't soaring. In June, average hourly wages for all employees in private-sector nonfarm jobs rose to $26.98, a 2.7 percent increase over the last year.

Still, he said it's more likely that inflation pressures will grow than shrink, "especially if you have things like tariffs come into the picture." A move away from free trade could reverse the disinflationary effects that globalization has had in recent decades, he said.

So as inflation becomes part of the normal environment again, he said, "investors should be normalizing their portfolios along with it."

That needn't entail big changes overnight.

Areas that were traditionally sensitive to inflation haven't been affected much, at least not yet. Mutual funds and exchange-traded funds that specialize in precious metals lost 5.6 percent, on average, over the last year, according to Morningstar. And funds that specialize in real estate — which tend to rise when inflation does — returned a mere 3.9 percent over the last 12 months.

But it may make sense for investors to assess their comfort with their overall mix of stocks and bonds.

"None of the numbers look particularly shocking, but inflation has been steadily inching higher month after month," said Ben Inker, head of asset allocation for the investment firm GMO. "I would think that the bond market should be a little more scared of this than it is," he said, as rising inflation and the corresponding rise in interest rates weigh on **bond prices**.

Mr. Smith of Haverford agreed. “If this is truly a normalization of inflation, then that would pressure fixed income more than equities,” he said. “Our view is that within whatever range for stocks that investors believe they can tolerate, they should have maximum exposure to equities.”

He said investors ought to tilt their stock portfolios slightly toward economically sensitive areas of the market to ride the tailwind of economic growth that is propelling inflation. Those sectors include industrials and technology.

“At the margins, we’re putting a little more into playing offense, with names like Honeywell and FedEx,” he said.

Though Honeywell is a giant industrial conglomerate, it has been growing four times as fast as its peers in terms of earnings over the last five years, according to Zacks.com. That has been helped by Honeywell’s push into industrial automation and internet connectivity.

FedEx is another beneficiary of the accelerating economy in the short run as well as long-term growth — in this case, from e-commerce. But the express delivery giant could benefit from rising inflation for another reason.

Historically, low inflation has usually coincided with higher valuations in the **stock market**, as price stability offers companies a greater margin of safety. Yet as inflation heats up, the price that investors are willing to pay for every $1 of corporate earnings has tended to fall.

Since 1958, the average price/earnings ratio for stocks when the inflation rate has been 2 to 3 percent has been 17.6, according to an analysis by Charles Schwab. But once inflation is between 3 and 4 percent, P/E ratios have historically fallen nearly 10 percent.

At FedEx’s current price/earnings ratio of 14.3, the company’s shares aren’t just trading below the market average, they are at a 47 percent discount to the company’s five-year average, according to Morningstar.

Another strategy is to look for stocks that aren’t just growing faster than inflation but that also have a track record of passing on that growth to shareholders in the form of dividends.

“What you want is to own companies that have the ability to grow their dividends in excess of the rate of inflation,” Mr. Freeman of Westwood Holdings said. These so-called dividend growers can be found, he said, among companies whose profits are rising faster than the market as a whole.

“Microsoft has been the poster child of that over the past decade, thanks to their steady, significant earnings growth,” Mr. Freeman said. And over the last eight years, the stock’s dividend payout has grown 15 percent annually.

James Paulsen, chief investment strategist for the Leuthold Group, said investors shouldn’t restrict themselves to giant companies. Mr. Paulsen said that historically, large stocks have actually thrived in periods when inflation has been slowing, not accelerating.

Smaller companies, on the other hand, can often thrive in an inflationary time. “Small companies are run more lean and mean, with narrow margins,” Mr. Paulsen said. As a result, if their revenues were to increase because of a modest rise in prices, that would have a bigger impact on their profits than it would for much larger businesses.

In the recently ended quarter, small stocks have outpaced larger ones by a wide margin. The Russell 2000 small-company index returned nearly 8 percent in the quarter, compared with 1 percent for the **Dow Jonesindustrial average**, which contains big companies.

The recent small-stock outperformance may derive from fears over the impact of a trade war with China on big, trade-oriented companies. Small stocks tend to be more resistant to tariffs because they are usually domestically oriented. But Mr. Paulsen said investors should not underestimate inflation’s effect on this recent trend.

“It’s no coincidence that the peak for small-stock outperformance was in 1983,” he said, when inflation was finally being brought under control after a huge increase in the 1970s.

More recently, Mr. Paulsen pointed out: “The best period for small stocks was in the early 2000s, when commodity prices were booming.”

FedEx, which has benefited from the accelerating economy, is among the companies that might prosper in an inflationary environment. | Christopher Lee/Bloomberg

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THE WALL STREET JOURNAL.
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EXCHANGE --- Banking & Finance News: Earnings Thrive for U.S. Exporters

By Chelsey Dulaney
363 words
28 July 2018
The Wall Street Journal
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English

U.S. exporters are still growing faster than companies that do most of their business at home, a sign that trade spats and rising costs for things such as labor and commodities aren't derailing the corporate profit expansion.

Firms with large overseas businesses have reported 12% growth in revenue so far for the second quarter, according to Credit Suisse. That is roughly double the rate of growth for domestic-focused firms.

Exporters' profit growth for the second quarter is also beating Wall Street expectations. Earnings have jumped 25% from a year earlier, above 19% growth for domestic firms.

Investors have worried in recent months that tariff fights between the U.S. and key trading partners like China and Europe would hurt multinational firms that rely on overseas sales. Companies are also struggling with labor shortages and higher costs for things including raw materials and transportation.

Those fears had encouraged investors to dump shares of exporters in favor of domestic-focused companies. That is a turnaround from last year, when investors poured money into multinational companies they felt were best positioned to benefit from a synchronized pickup in the global economy.

The Russell 2000 index -- composed of smaller firms with less foreign exposure -- is up 8.3% this year, compared with a 5.4% gain for the **S&P 500** and 3% for the **Dow Jones Industrial Average**.

Recent earnings reports from companies including Honeywell International Inc. and Boeing Co. indicate strong economic growth is offsetting those pressures for now.

During its earnings call this month, industrial conglomerate Honeywell described the impact of tariffs as "minimal" while raising its 2018 sales guidance. Boeing, the world's largest plane maker by sales, on Wednesday boosted its revenue outlook amid strong global demand. The company's shares have been hard-hit by tariff concerns this year.

"We're not necessarily hearing companies voice an overwhelming amount of concern about trade," said Patrick Palfrey, an equity strategist at Credit Suisse. "For all the concerns, demand is still there; consumers are still opening up their wallets."

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THE WALL STREET JOURNAL.

Markets

Copper's Plunge Could Be Signal of Broader Market Gloom; Analysts see further selling of the industrial metal, even as they remain bullish on the long-term picture for copper prices

By David Hodari and Ben St. Clair
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20 July 2018
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The Wall Street Journal Online
WSJO
English

Copper has plummeted as the industrial metal bears the brunt of investors' worst fears for an escalation in trade tensions between the U.S. and China. While shares, bonds and other assets have been buffeted by the prospect of a trade war, few markets have reacted as negatively as copper.

The metal, which is used to make pipes, wiring, and electronics, has fallen around 15% since hitting its multiyear peak in early June. On Thursday, it approached **bear market** territory. Although the metal was up around 0.65% at $6,002.50 a metric ton on Friday, most analysts see further selling, even as they remain **bullish** on the long-term picture for copper prices.

While copper hasn't been targeted or threatened with tariffs, over 50% of this metal is consumed by China, making it especially sensitive to any slowdown in the world's second-largest economy. That adds to other factors pulling the metal down, including the strong dollar and healthy supply.

Investors are concerned "this feud will escalate and spill over into real economies," said Daniel Briesemann, a commodities analyst at Commerzbank.

Trade tensions have sparked market **volatility** for some time, but in early April investors were spooked further after President Donald Trump's threatened tariffs on specific Chinese products, sparking retaliatory threats from Beijing. On Friday, President Trump said he is ready to impose tariffs on $500 billion in imports from China, an amount roughly equivalent to China's total exports to the U.S.

Developed world equities and bonds have mainly brushed off the rhetoric from Washington and Beijing, but emerging market equities, autos stocks, and soybean futures have been particularly hard hit by the trade tensions. But none have been hit as hard as copper.

Bets in New York futures markets that copper prices will fall even further are higher than at any time since September 2015, according to data from Marex Spectron. Those betting on rising prices have sharply cut their positions, over a similar period.

The threat of tariffs on Chinese exports adds to concerns about economic growth in the country. Recent Chinese data on fixed-asset investment, industrial production, and credit expansion disappointed investors. The slowdown in credit comes as Beijing tries to rein in risky borrowing and lending.

"Tariffs have effectively knocked sentiment on the strength of the Chinese economy," said Eleni Joannides, a copper analyst at commodities consultancy Wood Mackenzie.

Other factors haven't helped the metal.

The strength of the dollar makes the greenback priced commodity more expensive for most buyers. The WSJ Dollar Index, which measures the currency against a basket of 16 others—is up 5.3% in the last three months.

The Chinese yuan hit a 12-month low against the greenback on Thursday.

Chinese broker and copper buyer Gelin Dahua slashed its net-long position on the Shanghai Futures Exchange earlier this month, in a move that further sapped risk appetite across the market.

Projections for tighter supply over the coming years have prompted a raft of recent forecasts for sharp future rises in copper prices.

But for now, many analysts predict further price declines.

"Fundamentally speaking, there's little to stop copper from selling off even more," said Oliver Nugent, a commodities strategist at ING.

Mr. Nugent points to a lack of scrap copper sales as one sign that the supply of new metal is ahead of demand. Scrap sales tend to be a reliable indicator of short-term copper demand.

Write to David Hodari at David.Hodari@dowjones.com

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THE WALL STREET JOURNAL.

Markets

GAM Suspends a Top Fund Manager; Tim Haywood was suspended following a probe into his risk-management and record-keeping procedures

By Philip Georgiadis and Laurence Fletcher
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English

GAM Holding AG said it had suspended a top fund manager after an internal probe found flaws in his risk-management and record-keeping procedures. That sent shares of the Swiss money-management firm down 13% as it warned it could lead to investors pulling money out.

Hedge-fund manager Tim Haywood was suspended following the probe, GAM said Tuesday. Mr. Haywood is business unit head for GAM's unconstrained/absolute return bond strategy, which had total assets across its portfolios of 11 billion Swiss francs ($11.1 billion) at the end of June.

The firm said the investigation hadn't raised concerns regarding Mr. Haywood's honesty nor yet found material detrimental effects on clients, although this remains under review.

Mr. Haywood couldn't be reached for comment.

GAM Chief Executive Alexander Friedman said the issues raised in Tuesday's announcement related solely to Mr. Haywood. Mr. Friedman added that the disciplinary procedure could lead to some client redemptions.

He said the firm remained fully committed to the strategy, which first launched in 2004, with hires to bolster the team in the pipeline. Investment directors Jack Flaherty and Alex McKnight have assumed joint responsibility for the strategy.

"We take our responsibilities and controls very seriously. Having conducted the investigation with external counsel, we now intend to follow our usual internal processes and will take any further action that may be appropriate," Mr. Friedman.

The suspension has echoes of U.K. investment firm Gartmore's suspension of fund manager Guillaume Rambourg in 2010 in relation to breaches of internal procedure. Mr. Rambourg returned to work after Gartmore's probe, before resigning to focus on an investigation by then-U.K. regulator the Financial Services Authority. The regulator dropped its investigation the following year. After an outflow of client money and the departure of key managers, Gartmore was eventually sold to rival Henderson Group.

Overall, GAM had assets under management of 163.8 billion Swiss francs at the end of June. Its shares had tumbled as much as 21% during the day's trading. GAM shares are now off 36% for the year.

The firm on Tuesday reported a 62% decline in net profit for the first half of 2018, driven by an impairment charge related to its purchase of British hedge-fund firm Cantab Capital two years ago.

GAM has struggled with client outflows and poor returns from some funds in recent years, which led to an unsuccessful attempt last year by an activist investor to appoint three new directors, including replacing the chairman.

GAM bought Cantab in 2016 as part of a push into computer-driven funds, but the firm warned investors earlier this month to expect a 59 million franc impairment charge after assets under management and cash flows at Cantab had failed to live up to original forecasts.

GAM blamed the developments at Cantab on wider industry trends and said investors have turned more averse toward high-**volatility** hedge funds.

On Tuesday, it warned investors that market conditions for the wider firm have become more challenging.

"Some clients are choosing to rebalance their portfolios as we enter the later stages of this long-running **bull market**," Mr. Friedman said.

"The **volatile** and directionless market conditions are likely to continue in the second half of this year, which may affect clients' risk appetite and our flows," he said.

Write to Philip Georgiadis at philip.georgiadis@wsj.com and Laurence Fletcher at laurence.fletcher@wsj.com

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