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Business Day; DealBook
Movers: Clouds Over Wall Street Trading

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We're following major developments in the markets throughout the day. Check below for the latest updates.

Clouds Over Wall Street Trading

The trading of bonds, commodities and currencies drove strong performances by Wall Street banks (with one surprising exception) in the first three months of the year, but that business has apparently weakened since in more subdued markets.

At a Deutsche Bank conference on Wednesday, Marianne Lake, the chief financial officer of JPMorgan Chase, said that the bank's trading business for the second quarter was so far down about 15 percent from the quarter a year ago.

"I feel like the performance is quite good, but there is not a lot to trade around right now," she said. "And so there's not a lot of market things. There haven't been that many idiosyncratic events, and we need a few more of them."

At another industry conference, held by Sanford Bernstein, Brian T. Moynihan, the chief executive of Bank America, also told participants that revenue would be down in the second quarter from the quarter a year ago, noting that the 2016 period "was the strongest quarter of the year." Markets were **volatile** in late June of last year following Britain's vote to leave the European Union.

On Wednesday afternoon, shares of JPMorgan were down more than 2 percent, while Bank of America's **stock price** was down 2.7 percent. Shares of Goldman Sachs, considered by many to be Wall Street's premier trading shop, slumped about 3.7 percent. Morgan Stanley and Citigroup were both off more than 2 percent.

Barclays Sells Stake in African Business

Barclays said on Wednesday that it would sell a 22 percent stake in its African business in an offering to institutional investors as part of a long-anticipated move that would mean it would no longer have a controlling stake in the business.

The British bank said it would seek to sell 187 million shares in Barclays Africa Group after it received approval from South African regulators on Wednesday.

As part of his efforts to turn around the bank, James E. Staley, the Barclays chief executive, said last year that the bank wanted to reduce its ownership stake in the African business in order to reduce the regulatory and capital drag on its balance sheet.

Barclays sold a 12.2 percent stake in the African business last year.

Following the sale, Barclays would own about 28 percent of the business. It has a long-term target of reducing its ownership stake to about 15 percent.

Shares of Barclays closed up less than one percent in trading in London on Wednesday.

What to Watch For: Fed Speakers, the Beige Book and Exxon

• Fed speakers: The president of the Federal Reserve Bank of Dallas, Robert Kaplan, takes part in a question-and-answer session in New York City. Lael Brainard, a Fed governor, said on Tuesday that the central bank should raise its benchmark interest rate "soon."

• The Fed also releases its Beige Book, a summary of economic conditions, named for the color of its cover.

• Exxon Mobil, the energy giant, holds its annual meeting in Dallas. Investor pressure is building for the company to provide more information on its strategy for climate change.

• Don't forget to read the DealBook Morning Agenda.

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The New York Times

Business/Financial Desk; SECTB
Falling Yields Drag Down Banks and Indexes

By THE ASSOCIATED PRESS
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A seven-day winning streak for stocks came to a quiet end on Wall Street Tuesday as banks, especially smaller ones, dropped along with bond yields and interest rates. Energy companies also sank.

Investors snapped up government bonds and high-yield stocks including phone companies and utilities. As **bond prices** rose, yields and interest rates fell. That reduced the profits financial institutions can make from mortgages and other types of loans. Energy companies fell to their lowest prices in a year. Technology companies continued to soar while airlines slumped as investors worried that the government could expand a ban on laptops in passenger cabins during international flights, which could affect business travel.

The Standard & Poor's 500-share index lost 2.91 points, or 0.1 percent, to 2,412.91. The **Dow Jonesindustrial average** fell 50.81 points, or 0.2 percent, to 21,029.47. The **Nasdaq composite** dipped 7 points, or 0.1 percent, to 6,203.19.

The yield on the **10**-**year Treasury** note fell to 2.21 percent from 2.25 percent late Friday. With interest rates falling, JPMorgan Chase declined $1.46, or 1.7 percent, to $83.90. Smaller banks fell harder, as Hope Bancorp dropped 67 cents, or 3.7 percent, to $17.48 and First Financial Bancorp sank 75 cents, or 2.9 percent to $25.05.

Oil prices recovered from an early stumble and finished only slightly lower, but energy companies continued to fall. Hess dropped $1.47, or 3.1 percent, to $46.67 and Schlumberger shed 85 cents, or 1.2 percent, to $68.74. The **S**.**&P**. **500 index** of energy companies reached its lowest level in a year.

Benchmark crude lost 14 cents to $49.66 a barrel in New York. Brent crude, the international standard, fell 45 cents to $51.84 a barrel in London.

Technology companies continued to lead the way. Security software maker Symantec advanced 45 cents, or 1.5 percent, to $30.71. Chip maker Nvidia gained $3.03, or 2.1 percent, to $144.87 and Micron Technology rose 95 cents, or 3.2 percent, to $30.71.

International airlines slumped as the government considered expanding a ban on laptops from the passenger cabins of flights to the United States. In March the Trump administration said passengers flying from 10 Muslim-majority countries had to check all devices larger than a smartphone. On Sunday, John F. Kelly, the Homeland Security secretary, said that ban might be expanded to all international flights to and from the United States.

Delta Air Lines lost $1.74, or 3.4 percent, to $49.06 and United Continental slid $2, or 2.5 percent, to $79.25. American Airlines retreated 78 cents, or 1.6 percent, to $47.96.

Online retail giant Amazon.com traded above $1,000 a share for the first time, but did not stay there. The stock peaked at $1,001.20 shortly after the market opened and wound up with a gain of 92 cents to close at $996.70. The only other **S**.**&P**. **500** company valued at more than $1,000 a share is travel booking site Priceline, which slipped to $1,857.45 Tuesday. Investors value Amazon at about $476 billion and Priceline at $91 billion.

E-commerce and payment services company First Data said it will buy payment processing company CardConnect for $15 a share in cash, or about $468 million. CardConnect's stock climbed $1.40, or 10.3 percent, to $15.05 and First Data picked up 18 cents, or 1.1 percent, to $16.82.

The dollar declined to 110.74 yen from 111.24 yen. The euro rose to $1.1187 from $1.1168.

Gold lost $6.00 to $1,262.10 an ounce.

The FTSE 100 index in Britain fell 0.3 percent and the French CAC 40 sank 0.6 percent. In Germany, the DAX dipped 0.2 percent. In Japan, the Nikkei 225 finished nearly flat and South Korea's Kospi dropped 0.4 percent.

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

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U.S. News: Consumer Spending Signals Rebound

By Ben Leubsdorf
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WASHINGTON -- Americans ramped up their spending in April at the fastest pace in four months, offering fresh evidence the U.S. economy is rebounding this spring after a lackluster winter.

Personal-consumption expenditures, a measure of household spending on everything from groceries to medical care, increased a seasonally adjusted 0.4% in April from the prior month, the Commerce Department said Tuesday. That was the largest one-month rise since December.

"The fundamentals for consumer spending are still pretty good: income growth, inflation is low, low interest rates, rising household wealth," said Gus Faucher, chief economist at PNC Financial Services Group.

Incomes also grew last month. Personal income, a broad measure that includes wages and government assistance, rose 0.4% from March. The personal-saving rate was steady in April at 5.3%.

Consumer spending and broader economic growth slowed over the winter months. Multiple factors were at work, including mild winter weather that reduced the need for home heating and delayed income-tax refunds for many households.

Economists had predicted consumption would pick up in the second quarter with the support of low unemployment, continued job gains and rising incomes. Credit scores also have improved as the 2007-09 recession's damage has faded, bolstering household purchasing power.

That spending, now in progress, is set to boost the economy. The Federal Reserve Bank of Atlanta's GDPNow model on Tuesday predicted gross domestic product would expand at a 3.8% seasonally and inflation-adjusted annual rate in the second quarter, up from the first quarter's 1.2% growth rate. Forecasting firm Macroeconomic Advisers projected a second-quarter growth rate of 3.2%.

Also Tuesday, the Commerce Department said the Federal Reserve's preferred measure of inflation, the price index for personal-consumption expenditures, largely rebounded in April. It rose 0.2% from the prior month after falling 0.2% in March. Excluding the often-**volatile** categories of food and energy, so-called core prices were up 0.2% in April after dipping 0.1% in March.

Still, inflation continued to weaken on a year-over-year basis. Overall prices rose 1.7% in April from a year earlier, down from 1.9% in March. Core prices were up 1.5% on the year in April, their weakest annual gain since December 2015.

The Fed has set a target of 2% annual inflation.

Josh Mitchell contributed to this article.

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Bats to Roll Out Flat Fees on One Exchange

By Alexander Osipovich
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Bats Global Markets Inc. is simplifying fees for one of its stock exchanges, charging the same rate to traders who post orders and traders who remove them, part of a broader shake-up in the pricing models used by U.S. exchanges.

Bats said Tuesday it will introduce the new fee model to the smallest of its four equities exchanges, EDGA. The move by the second-largest U.S. stock-exchange operator is a step away from the widely used but controversial pricing model called maker-taker, in which exchanges pay rebates to traders who post orders.

Critics of the maker-taker model say it creates a conflict of interest for brokers by encouraging them to send client orders to the exchange where the broker collects the highest rebate, rather than to where the customer would get the best price and quality of execution. Big asset managers such as T. Rowe Price Group Inc. and Capital Group Cos. are among the firms that have attacked the system.

Of the 12 U.S. stock exchanges in operation, only IEX Group Inc. has a flat-fee model.

The New York Stock Exchange is also planning to roll out a flat-fee structure on its smaller sister exchange, NYSE MKT, which is being relaunched on July 24 under the new brand name NYSE American, a person familiar with the situation said.

Bats's move comes as the Securities and Exchange Commission is exploring a pilot program that would experiment with the effect of lowering rebates and fees for certain securities, which would dilute the impact of maker-taker for a portion of the U.S. **stock market**.

The exchange operator, which was acquired this year by Chicago-based CBOE Holdings Inc., said it wasn't coming out against maker-taker pricing, which is still used by Bats's two largest exchanges. Instead, it was responding to customer demand and wider discussions in the industry about a better model, said Bryan Harkins, head of U.S. equities and global foreign exchange at CBOE.

"There is a segment of the market that wants an alternative," Mr. Harkins said in an interview.

Under the new fee structure, which is set to be rolled out on EDGA on June 1, traders will be charged a flat fee of 3 cents per 100 shares regardless of whether they are adding new orders to EDGA or executing against orders already displayed on EDGA, although a different set of fees applies for nondisplayed orders, which aren't broadcast to the broader market. For such orders, it will cost nothing to add new orders and 5 cents per 100 shares to remove orders.

The maker-taker system originated with off-exchange electronic trading venues that sprung up in the late 1990s. Exchanges later adopted the pricing model as the number of trading venues proliferated and exchanges battled to attract orders from high-speed traders and brokers.

Several of Bats's and **Nasdaq** Inc.'s exchanges have flipped the model on its head and introduced "taker-maker" pricing. On such venues, the exchange pays rebates to traders for removing orders and charges traders for adding orders.

EDGA is one such exchange. It handles less than 2% of daily volume in U.S. stock markets, according to statistics available on Bats's website.

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MoneyBeat: Volatility Quiets Down

By Ben Eisen
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4.48: The number of points the **S&P 500** moved between its intraday low and high on Friday. On a percentage basis, that is the smallest in more than two decades.

The market has returned to a state of eerie calm.

Less than two weeks after the **S&P 500** took a sudden dive, falling 1.8% in its worst daily performance since before the U.S. presidential election, stocks are back up around record highs. And **volatility** has sunken back to a depressed state.

Case in point: The **S&P 500** moved 4.48 points between its low and high of the day on Friday. That amounts to a 0.19% intraday swing, the smallest since March 1996, according to WSJ Market Data Group.

The muted activity was partially a function of light trading ahead of the Memorial Day weekend.

But other measures of **volatility** are in the doldrums as well. The CBOE**Volatility** Index, an options-based measure of expected swings in the **S&P 500**, finished below 10 Friday, less than half of its long-term average. The VIX has only closed below 10 on 13 occasions since 1990; four of them have occurred this month, according to CBOE.

Placid markets can serve as an all-clear signal for investors. It can also indicate that investors have grown complacent as stocks chug higher. Given the many political and policy risks on the horizon, some market watchers worry that the current calm could quickly turn to fear, causing **volatility** to pop.

What is clear is that recent bouts of **volatility** have subsided very quickly, suggesting that buyers were prepared to pounce on any pullback.

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Op-Ed Contributor
Opinion
Why There Is No 'Trump Slump' on Wall Street

By RUCHIR SHARMA
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After a brief stumble, the **stock market** returned to its upward march last week and hit another high. This optimism has left many people confused, even infuriated. Why isn't Wall Street being affected by all the crazy news — including rumors of impeachment — coming out of Washington? Where is the Trump Slump?

So far, there isn't one, and that's good news for investors but also even for ideological opponents of the president. I've examined stock markets in countries around the world, looking at data over the past three decades. My research shows that a country's **stock market** often outperforms its peers when a new leader comes to power in emerging countries.

But there is no such positive effect in developed countries. Countries like the United States have structural guardrails in place, like strong independent courts, central banks and other checks on power, that make it more difficult for a single leader to change the nation's direction.

Compare political scandals, for example. In Brazil, the market is struggling to recover after falling nearly 15 percent in dollar value on May 18 perhaps in response to the blockbuster news of a cover-up that could cost the president his job.

In the United States, the **stock market** fell during the Watergate scandal but for reasons that had little to do with Richard Nixon and much to do with the stagnant economy and inflation. And stock prices rose steadily during the investigations and impeachment of Bill Clinton, until the 1998 collapse of the hedge fund Long-Term Capital Management threatened to trigger a global financial crisis. The same holds for other political scandals, like Teapot Dome and Iran-contra.

It is a mistake, then, to view the markets through an ideologically colored lens.

The data is decidedly more mixed on whether the United States market does better under a Republican or a Democratic administration. If anything, the market over time seems less and less inclined to care which party is in power.

I know plenty of right-wing ideologues who, convinced that President Barack Obama was leading America to ruin, missed out on the market's long bull run. Similarly many Democrats now think President Trump is taking the country down and assume that stock prices will follow.

The **stock market** is best understood not as a presidential poll but as a barometer of the nation's current economic mood, and it remains buoyant now for reasons unconnected to the White House.

For a few weeks after President Trump's victory, Wall Street was indeed buzzing over how his plans to cut taxes and red tape would stir "animal spirits" and promote American business, albeit at the expense of foreign rivals. Money was coming back to the United States, driving up the value of the dollar. Six months later, the main reason for the market's continued rise has more to do with global rather than local factors. The "Trump bump" is long gone.

Global growth has picked up over the past few months, and the worst fears that caused a short-term slump in Wall Street last year — like a possible breakup of the European Union after Brexit or a financial crisis in China — have not materialized. The American economy continues to grow at a steady clip of around 2 percent, while the economies of Europe and Japan are now stronger than at any time since the crisis of 2008.

The American **stock market** reflects those trends. Despite Mr. Trump's criticism of "globalists," the more internationally oriented companies have outperformed their domestic peers significantly since Inauguration Day. The global forces lifting the United States market have in the meantime been lifting foreign stock markets even faster this year.

Similarly, the American dollar has given up all the gains it recorded in the immediate aftermath of the November election, and the Mexican peso has clawed back most of the losses it incurred when the markets were taking President Trump's threats against the North American Free Trade Agreement more seriously.

On Wall Street today, the chatter about Trumponomics is fading, because many people no longer expect him to accomplish much, for better or worse, whether pushing tax reform or triggering trade wars. Some analysts still worry about how a tax-cut plan based on unrealistic growth assumptions could further bloat the budget deficit, or how limiting immigration could undermine the economy.

But those story lines are expected to play out at a glacial pace, well outside the market's forecast horizon, which is measurable in months, not years. Corporate profits have started to revive in recent months based on a recovering global economy. As long as that continues and the cost of money remains close to zero, courtesy of the Fed, the default path for the market is up.

None of this is to suggest that there are no risks to the **bull market**, now in its ninth year. Stocks in the United States have seldom risen for so long without a major setback and have never been more expensively valued, outside the tech boom of the late 1990s. History shows that bull runs tend to last until the next recession starts, so the question is where the next downturn comes from.

If emerging inflation pressures prompt the Fed to raise interest rates more quickly, the economy could stumble and take the market with it. More significantly, there are still threats to the world economy, including China's debt bubble. If it bursts, it could cause the next global recession, hitting the American market hard.

So there is much to worry about in the markets, but it is important to worry about the right things. The cloud of scandal around the White House is not high on the list. Mr. Trump's mercurial ways may be a source of great concern or indifference, depending on your ideological leanings. But Wall Street doesn't seem to care one way or other.

Ruchir Sharma, author of "The Rise and Fall of Nations: Forces of Change in the Post-Crisis World," is the chief global strategist at Morgan Stanley Investment Management and a contributing opinion writer.

A trader at the New York Stock Exchange on Friday. | Richard Drew/Associated Press

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The New York Times

Business Day
A Monday Holiday Around the World, and May Hiring Data Is Due

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Here's a look at what's coming up this week.

FINANCE

Britain, China and Taiwan join the U.S. with a day off.

Many global **financial markets** will be closed on Monday for national holidays. In the United States, it's Memorial Day, summer's unofficial kickoff. Britain will observe its Spring Bank Holiday. And China and Taiwan are celebrating the Dragon Boat Festival holidays; markets there will reopen on Wednesday. Zach Wichter

ECONOMY

Income and consumption data for April are on the way.

On Tuesday at 8:30 a.m., the Commerce Department is set to release data on personal income and consumption in April. Economists on Wall Street are looking for a 0.4 percent increase in both measures, which would be in line with a steadily growing economy. If the figures turn out to be weaker than expected, it may be a sign that the expected rebound in overall growth in the second quarter of 2017 is faltering. Nelson D. Schwartz

OIL INDUSTRY

ExxonMobil shareholders will weigh in on climate change.

The annual shareholders meeting for ExxonMobil is scheduled for Wednesday. Watch for the result of a vote on a shareholder resolution calling for the company to "stress test" its business in line with the two degrees Celsius warming target (3.6 degrees Fahrenheit) laid out in the Paris climate agreement. ExxonMobil supports the Paris deal. A similar measure gained 38 percent support last year. This year, institutional investors like BlackRock and Vanguard are considering throwing their support to the proposal, The Wall Street Journal has reported. The vote is not binding, but could put pressure on the company to take a harder look at climate issues. John Schwartz

AUTO INDUSTRY

Economists look for signs of erosion in new-car sales.

When automakers report new-car sales for May on Thursday, investors and economists will watch closely for signs of further erosion in the market. Sales had been on the rise since 2010, but declined in the first four months of this year. Edmunds.com is predicting a flat month, with sales of about 1.53 million cars and light trucks, but notes that manufacturers have been pumping sales with incentives. Other major indicators, like rising dealer inventories and declining prices for used cars, provide reasons to believe that a seven-year streak has run out of gas. Neal E. Boudette

TECHNOLOGY

Facebook's yearly stockholders meeting is set for Thursday.

Facebook will hold its annual stockholders meeting on Thursday in Redwood City, Calif. The company will ask attendees to vote on a series of measures, including re-electing the company's board of directors. As has always been the case, the meeting is generally pageantry, since Mark Zuckerberg, Facebook's chief executive, maintains majority control of his company. Mike Isaac

ECONOMY

Analysts expect an increase in construction spending for April.

On Thursday at 10 a.m., the Commerce Department is set to report on April data for construction spending, with analysts expecting a 0.5 percent increase. Construction is a good barometer for total economic growth, so as with other data this week, economists will look to see what the new figures say about the economy's larger trajectory in the second quarter. Nelson D. Schwartz

TECHNOLOGY

Coming soon: a review of how tech companies censor hate speech.

European officials on Friday plan to publish a review on how Facebook, Google and Twitter remove hate speech from their social networks. The report follows a study in late 2016, and comes as policy makers across Europe and the United States put pressure on Silicon Valley giants to do more in tackling extremist and hate speech online. The findings are likely to show that the companies are still removing a only minority of reported content. Mark Scott

ECONOMY

Analysts expect a continuation of job creation's steady pace.

On Friday at 8:30 a.m., the Labor Department is to release its report on the nation's hiring and unemployment for May. Wall Street analysts expect that payrolls will have grown by 176,000 workers and that the jobless rate will remain flat at 4.4 percent, its lowest level in more than a decade. That steady pace of job creation should be sufficient evidence of the kind of stronger economic growth that members of the Federal Reserve said they were searching for before raising the benchmark interest rate when they meet in mid-June. At this point, wage increases are a more important indicator of the labor market's health than the unemployment figure. Economists expect the average hourly wage to climb by 0.3 percent, nudging up the year-over-year increase to 2.7 percent. Patricia Cohen

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Business Day
Route to Air Travel Discomfort Starts on Wall Street

By NELSON D. SCHWARTZ
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When an unlucky passenger was violently dragged off a full United Airlines flight in Chicago in April, setting off a public-relations nightmare for the company, the blame naturally fell on the cabin crew, the police and eventually airline executives.

But ultimately, the episode was set in motion elsewhere — on Wall Street.

Relentless pressure on corporate America is creating an increasingly Dickensian experience for many consumers as companies focus on maximizing profit. And nowhere is the trend as stark as in the airline industry, whose service is delivered in an aluminum tube packed with up to four different classes, cheek by jowl, 35,000 feet in the air.

“There’s always been pressure from Wall Street,” said Robert L. Dilenschneider, a veteran public relations executive who advises companies and chief executives on strategic communications. “But I’ve been watching this for 30 years, and it’s never been as intense as it is today.”

Rich bonus packages for top executives are now largely tied to short-term income targets and fatter profit margins instead of customer service. Of course, bolstering profits — and in turn, stock prices — has always been a big part of management’s responsibility to shareholders, but making it virtually the only criterion for executive pay is new.

Five years ago, American Airlines factored in on-time arrivals, lost baggage and consumer complaints to help calculate annual incentive payments for top management. Today, these bonuses are based exclusively on the company’s pretax income and cost savings.

United has also scaled back bonuses linked to reliability and customer satisfaction for senior executives in recent years. But in the wake of what happened in April, bonuses “will be made more comprehensively subject to progress in 2017 on significant improvement in the customer experience,” the company said in a financial filing.

“Fifteen years ago, airlines competed with each other over who could buy the most planes or have the most routes,” said Jamie Baker, a top airline industry analyst at JPMorgan Chase. “Executives are just as competitive today, but it’s about who can achieve an investment-grade rating first, who can be a component in the **S**. **& P**. **500**, and who has better returns for investors.”

These new incentives also partly explain why airlines are packing seats more densely and squeezing more passengers into the back of the plane. “Densification is driven by the desire to sweat the assets and generate revenues without having to commit capital to building new planes,” Mr. Baker said.

Such a shift isn’t unique to the airline industry.

“As in other industries, like manufacturing or consumer goods, the focus is on more traditional financial metrics like pretax income, margins, return on capital and total shareholder return,” said Andrew Goldstein, head of the executive compensation practice in North America for Willis Towers Watson. “Airlines haven’t abandoned operational and customer-service metrics, but they are putting less emphasis on those factors.”

And with the economy growing at a rate of only 2 percent while the **stock market** rallies on promises of soaring earnings, something must give so profit margins can grow.

In the case of United or Spirit Airlines, whose repeated cancellations led to a melee among travelers this month at a terminal in Fort Lauderdale, Fla., it was customer service. At other companies, like Ford and Alcoa, it was the head of the chief executive that was served up when profits failed to meet expectations.

Mature industries — where double-digit annual profit growth is a reach in the best of times — are especially vulnerable to activist investors' demands for board seats, bigger stock repurchases and other short-term financial rewards.

The pressure is especially brutal in the airline industry because the key expense, fuel, is for the most part beyond management control. Yet airline executives have largely convinced Wall Street that the bad old days of bankruptcies and fare wars are over, replaced by the kind of predictable annual profits more common among industrial companies.

That's among the reasons fees have popped up in recent years for everything from checking bags to securing an assigned seat before boarding. Known on Wall Street as ancillary revenue, this stream of income is especially favored by investors because it doesn't swing sharply the way fares do.

And so far, despite occasional bouts of air rage and frequent consumer complaints, Wall Street has been getting what it wants.

United's stock has surged to more than $80 per share from $25 per share five years ago, with profit margins rising to 13.6 percent from 3.7 percent over the same period. Overall industry margins hit 16.3 percent, up from 5.2 percent in 2012.

Spirit's operating margins are among the highest in the industry, topping 20 percent in 2015 and 2016. But Paul Berry, a company spokesman, said Spirit had pivoted to focus more on customer service in the last year, even as some larger rivals keep cutting costs to compete.

Despite rewarding top executives strictly according to financial targets, American said it, too, was committed to improving the passenger experience.

"Every single person at American knows we succeed or fail based on how well we serve customers," said Joshua Freed, a company spokesman. "We will only meet those financial goals if we keep our customers happy."

Still, the promise of steady profit growth has prompted even Warren E. Buffett to take a fresh look at airline stocks. He once famously called the industry a money-losing "death trap," but reversed course late last year, with his company, Berkshire Hathaway, acquiring stakes in several airlines.

"In the past, airline stocks were seen as hazardous to one's wealth," said Mr. Baker, the JPMorgan analyst. "They were trading vehicles, and potential destroyers of capital."

The pressure on United, American and other giants is only going to increase with the rise of so-called ultra-low-cost carriers like Spirit, Frontier and Allegiant. In fact, American and United are rolling out a stripped-down new class called Basic Economy.

Here, in exchange for the cheapest tickets, fliers can't choose their seats before checking in and are more likely to be stuck in the middle of the row. They board last and are less likely to be able to sit with companions. No carry-on luggage is permitted, forcing anyone without elite frequent-flier status to check anything larger than a backpack — for a fee.

"That's the experience on a ultra-low-cost carrier," said Rajeev Lalwani, an airline industry analyst with Morgan Stanley. As the legacy airlines introduce similar no-frills offerings to hold off upstarts like Spirit, he said, "part of the idea is to get folks to upgrade to premium economy and collect fees."

It's also the wave of the future, at least for budget-conscious travelers.

"For the lowest price comes the most basic product," said Alan Wise, a senior partner with the Boston Consulting Group, who leads the firm's travel and tourism practice for North America. "Spirit has been a growth story in the space, and it's forced the legacy carriers to adapt and innovate."

To be sure, some industry veterans insist it is a mistake to simply blame investors or hedge-fund managers for fostering a race to the bottom in customer service.

“The response isn’t to Wall Street. It’s to customer behavior,” said Alex Dichter, a senior partner at McKinsey who works with major airlines. “About 35 percent of customers are choosing on price, and price alone, and another 35 percent choose mostly on price.”

Mr. Dichter noted that when American added two to four inches of legroom in coach in the early 2000s, “as far as I know, the airline didn’t see one bit of improvement in market share or pricing.”

“The great irony is that most C.E.O.s would love to compete on product and experience,” he added. “It’s much more fun. The problem is that customers aren’t paying attention to that.”

* In the Air, That Uneasy Feeling of Us vs. Them

* How Airline Workers Learn to Deal With You

* Airport Melee Follows Latest Dispute Between Airline and Its Pilots

* United Airlines Passenger Is Dragged From an Overbooked Flight

Spirit Airlines passengers in Fort Lauderdale, Fla., were held back by police officers after several flights were canceled. Spirit’s operating margins are among the highest in the industry. | Reuters | Crystal Dao Pepper at a news conference about the treatment her father, Dr. David Dao, who was dragged off a United Airlines flight in April. | Scott Olson/Getty Images

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THE WALL STREET JOURNAL.
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Markets & Finance: Japanese Vote for European Bonds

By Suryatapa Bhattacharya and Kosaku Narioka
679 words
27 May 2017
The Wall Street Journal
J
B11
English

TOKYO -- Japanese investment into foreign bonds has surged in the past few weeks, with some asset managers and analysts saying movement into European debt following the French election is likely one reason.

Until the first round of French voting, Japanese were large net sellers of foreign long-term debt, dumping more than $10 billion on a net basis in the final week before April 23. Once it became clear that centrist Emmanuel Macron was headed for an easy victory, they turned net buyers. In the two weeks through May 20, they bought more than $20 billion in foreign long-term debt on a net basis, according to Japanese Ministry of Finance data released Thursday.

A country-by-country breakdown hasn't been released, but investors and analysts say they believe renewed interest in European debt helps explain the movements.

"From the perspective of currency diversification and investment diversification, we want to consider the euro this fiscal year," said Hisato Kogawa, managing executive officer at Sumitomo Life Insurance Co. The proportion of euro-denominated assets in Sumitomo Life's foreign-currency portfolio fell to about 16% at March 31 from 18% a year earlier, but Mr. Kogawa said he is heartened by signs more recently that the eurozone is stabilizing politically.

As for the U.S., political uncertainty and the risks of wider fiscal deficits during the Trump administration have given some investors pause, although Treasurys remain at the core of Japanese institutional portfolios.

Yujiro Goto, a foreign-exchange strategist with Nomura Securities in London, said Japanese investors were cautious about putting their money into unhedged U.S. government bonds, for fear that Trump administration policies such as trade protectionismcould push down the dollar. The euro has been rising recently against the dollar.

"If the political situation were more stable they could be fine taking more foreign-exchange risk" on dollar investments, "but at the moment, U.S. political uncertainty is working negatively," said Mr. Goto.

In the past few years, Japanese institutional investors have increasingly turned overseas for yield because Bank of Japan policies have kept a tight lid on interest rates at home. Last year, the lion's share of new bond investment went to the U.S.

Japanese investors held 132 trillion yen ($1.2 trillion) in U.S. long-term debt at the end of 2016, up 14% from a year earlier, the Ministry of Finance said Friday. Holdings of European long-term debt rose only 3% to 93 trillion yen.

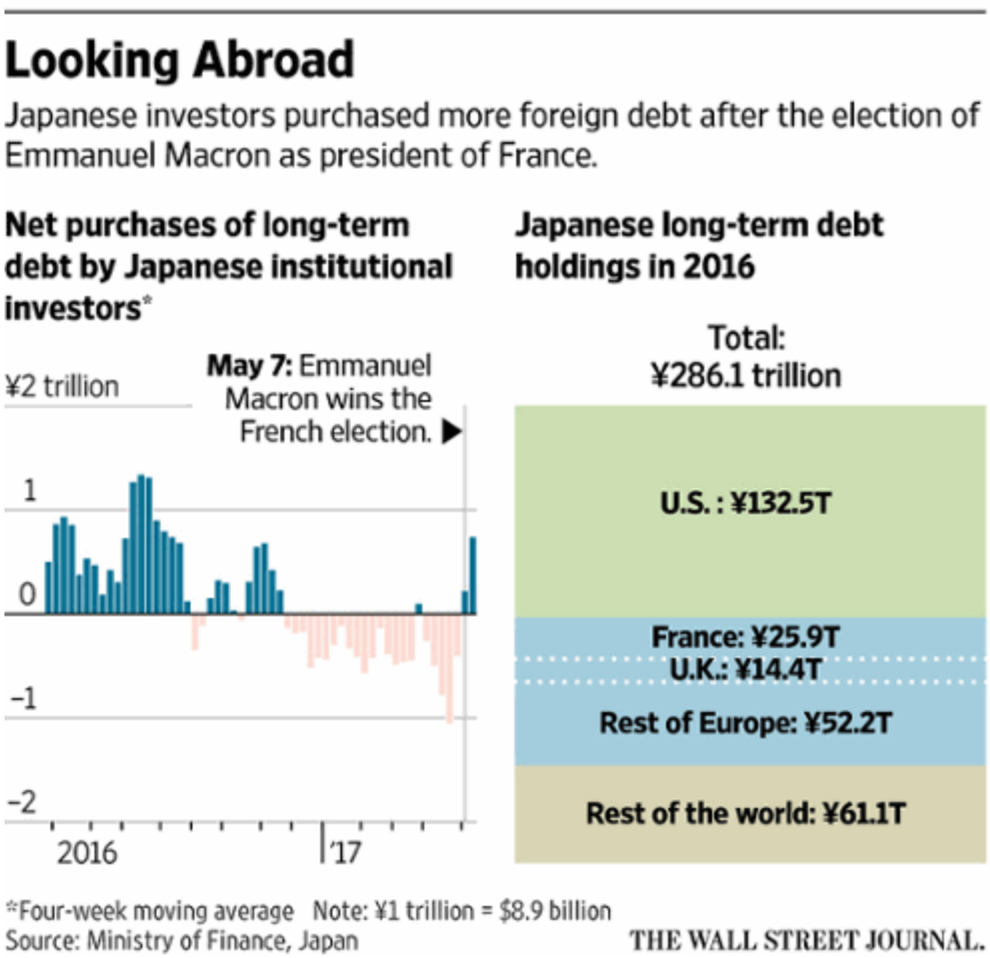
More recently, lower hedging costs are a key factor pushing Japanese investors toward Europe, analysts say.

The 10-year **U**.**S**. **Treasuryyield** was about 2.25% Friday, while the equivalent 10-year French government bond yields about 0.8%. That would make the U.S. bond look like a better deal. But after hedging costs, the Treasury yield falls below 1%, while the Japanese investors can actually make a slight profit in hedging against the euro and earn a yield of slightly more than 1% on the French bond, according to Nomura Securities.

The French bonds "look extremely attractive for Japanese investors on a rolling hedge basis," said Bank of America Merrill Lynch in an investor note.

Europe isn't without risk. If the European Central Bank starts to slow its bond buying, that could reduce the value of the bonds held by Japanese investors. Also, the yen is seen as a global haven currency, so it could rise if political turmoil in the U.S. increases. In that scenario, Japanese investors may regret not keeping more of their money at home.

Daido Life Insurance Co., a midsize insurer, said it planned to increase foreign bondholdings by 100 billion yen in the fiscal year that started April 1. It didn't offer a country-by-country breakdown, but Daido executive Yoshihiro Okita said the company had sold eurozone bonds before the French election and now planned to restore their role in its portfolio.



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THE WALL STREET JOURNAL.
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Heard on the Street
Americans Tap Brakes on Driving

By Justin Lahart
403 words
27 May 2017
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English

[Financial Analysis and Commentary]

This weekend marks the beginning of summer driving season, and Americans should be packing up and hitting the road.

Why aren't they?

Whether people are headed to Orange Beach, Ala., or Huntington Beach, Calif., they might not notice the roads are slightly less crowded than they could be. Americans are driving less than expected, and economists are struggling to explain why.

Earlier in May, the Federal Highway Administration reported the distance traveled on U.S. roads in the first quarter was slightly lower than in the fourth quarter, after adjusting for seasonal swings. That counted as the first decline since the first quarter of 2015.

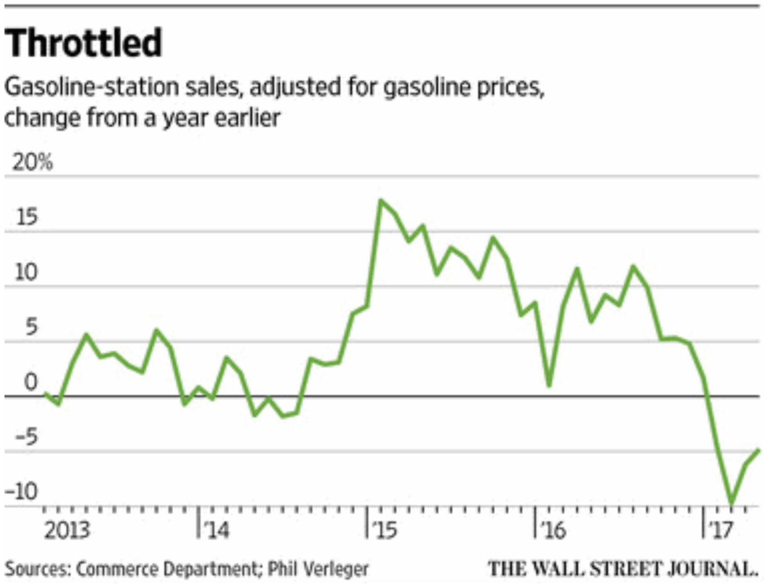
Adjusted for fuel costs, retail sales at gasoline stations, which include fuel, snacks and other items, were down 4.8% from a year ago in April, estimates energy economist Phil Verleger. And service stations surveyed by the **Oil Price** Information Service report the volume of gas sold over the past month is down from a year ago.

Some of the slowdown earlier this year could be because of gasoline prices. Usually they slip in the winter; this year, they rose. And if people were comparing prices with those in the first quarter last year, when gasoline hit its lowest point since the financial crisis, they were likely even more mindful of their driving.

What is hard to explain is that people should be driving more. Employment gains have been strong, which not only puts more gasoline money in people's pockets but creates more commuters. While cars are more fuel efficient, Americans have been buying sport-utility vehicles and pickups. And there doesn't seem to be an acceleration of the long-term trend of younger people driving less.

Mr. Verleger thinks tougher immigration enforcement may help explain what is happening, with illegal immigrants cutting back on driving for fear of getting pulled over, and to save money in case they get taken into custody. Maybe rising credit debt is beginning to weigh. Maybe it fits with the overall sluggishness of consumer spending.

Whatever the cause, the message from roads is the unexpectedly weak consumer spending figures in the first quarter might not have been temporary. Investors hoping the U.S. economy is about to shift into a higher gear could be in for a slow ride.



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THE WALL STREET JOURNAL.
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NYSE Pins Hopes on 'Spotify Rule' --- To woo 'unicorns,' the Big Board seeks tweak involving direct listings, an alternative to IPOs

By Alexander Osipovich and Maureen Farrell
973 words
27 May 2017
The Wall Street Journal
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B1
English

The New York Stock Exchange is seeking to change its listing standards as it vies for Spotify AB and other hot startups that are considering an unusual tactic called a direct listing.

Direct listings allow companies to have their shares trade publicly, without raising money as in a traditional initial public offering, and there aren't restrictions on when insiders can sell shares. The NYSE in March filed with the Securities and Exchange Commission to tweak its rule book on the process, a move the agency will rule on in coming weeks.

Approval by the SEC would remove an obstacle that prevents companies such as Spotify from using direct listings to list on the Big Board, lawyers say. Making it easier for closely held firms to use this approach could help the NYSE attract "unicorns," or startups valued at $1 billion or more.

"It's the Spotify rule," said Cromwell Coulson, president and chief executive of OTC Markets Group Inc., which operates trading platforms for securities that aren't listed on U.S. exchanges.

The NYSE, a unit of Intercontinental Exchange Inc., competes fiercely with **Nasdaq** Inc. for listings. It clinched a victory this year by winning the coveted IPO of Snap Inc., owner of the disappearing-message app. It will also get the debut of Spotify if the music-streaming service goes public as planned, according to people familiar with the company's plans. But **Nasdaq** has been the go-to exchange for direct listings by private companies for the past decade. So far, **Nasdaq** has completed about a half-dozen direct listings of private companies since 2006, while the NYSE has had none, according to representatives for the two exchange groups.

The NYSE told the SEC in a May 16 letter that the change would address a "significant competitive disadvantage" it faces against **Nasdaq**. The SEC has until June 29 to approve the proposal, reject it or launch deliberations that could delay a final decision for months.

In a direct listing, a company transfers its shares to an exchange and lets them trade publicly without being underwritten by a Wall Street bank, as is the usual case in an IPO. The approach is often used by companies that are traded in the lightly regulated over-the-counter markets but want to switch to the NYSE or **Nasdaq**. But it is a rare move for private firms, which typically use IPOs to go public.

Direct listings would allow unicorns to avoid hefty underwriting fees, which can amount to tens-of-millions of dollars. The listings also could make it easier for existing shareholders of these companies to cash out more quickly. That is because they don't necessarily involve lockup periods, which are rules designed to protect new investors from a deluge of selling by making insiders wait before they can unload shares. Executives can also discuss the company publicly. In a typical IPO, the SEC mandates a quiet period before the offering.

But there is a greater risk that the company's shares will flop on the first day of trading, since there are no underwriters to prop up the price. The botched IPO of Facebook Inc. in 2012 weighed on the company's shares for months after the debut.

"What the [NYSE] rule change does is it responds to the unicorns that have enough cash that they want to be publicly traded without going through an underwriting," said Douglas Ellenoff, a partner at Ellenoff Grossman & Schole LLP.

If Spotify lists in this manner and its stock performs well, other technology firms may consider the same route. Airbnb Inc. is among the companies said to be watching Spotify's debut to see whether it could do something similar if it goes public, said people familiar with the home-rental service company's plans.

The NYSE and **Nasdaq** have suffered from a sluggish IPO climate in recent years, losing out on listing fees as cash-rich tech firms such as Airbnb and Uber Technologies Inc. have chosen to stay private.

While the IPO volume in the U.S. has more than tripled to $23 billion raised via 69 listings for this year through Wednesday, according to Dealogic, bankers and lawyers expect such offerings to remain muted going forward.

Spotify, last valued at $8.5 billion, has been seeking input from bankers and NYSE personnel about how a direct listing could work. The Swedish company could go public as soon as late 2017, said people familiar with the process.

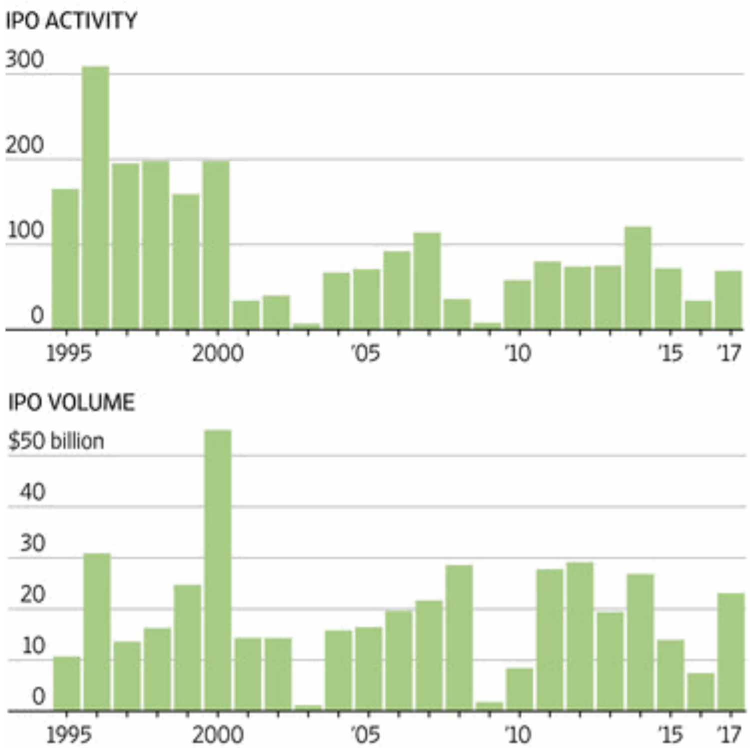
The NYSE's proposal would change the way it gives a private company permission to do a direct listing. Such companies must have at least $100 million of publicly held shares once they go live on the exchange. Under its current rule, the NYSE must check whether the company meets that standard by using two different methods -- getting a valuation from a third party, and from the last price of its shares in the private market -- and taking the lesser of the two.

While Spotify and other unicorns are big enough to meet the $100 million threshold, there is a technical issue that prevents them from passing the test. The NYSE's proposal would let the exchange rely solely on a third-party valuation, as long as the value of the company's publicly traded shares exceed $250 million.

The NYSE, the traditional home of blue-chip stocks, has eased its rules in recent years to attract companies that otherwise would go to **Nasdaq**. Last year, the Big Board moved to loosen rules for special-purpose acquisition companies, which are entities with no assets that are raising cash for acquisitions.

Sluggish IPOs

U.S. IPO deal activity has trended lower for more than a decade. The New York Stock Exchange is seeking approval for 'direct listings' from startups that want to go public without raising money.



Note: Data for each year are through May 24.

Source: Dealogic

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The New York Times

Business/Financial Desk; SECTB
Ahead of a Holiday, Markets Hold Steady

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

Stocks made the tiniest of gains on Wall Street Friday as media companies and sellers of beauty products and food ticked higher. Major indexes added to their winning streak and record highs.

Stocks spent the day flipping back and forth between small gains and losses. Beauty products maker Ulta rose after a strong first-quarter report and its competitor Coty climbed as well. Media companies including Comcast and Disney also advanced while video game and drug companies slipped.

The market has been steady in recent months, and with investors looking forward to the Memorial Day holiday on Monday, trading was light.

The **Standard & Poor's 500-stockindex** added 0.75 points to 2,145.82. The **Dow Jonesindustrial average** dipped 2.67 points to 21,080.28. The **Nasdaq composite** rose 4.94 points, or 0.1 percent, to 6,210.19.

It was the seventh gain in a row for the **S.&P. 500** and **Nasdaq composite** after their biggest loss this year.

''Investors have been conditioned over multiple years to buy the dip any time there's a market pullback,'' said Jason Draho, the head of American tactical asset allocation for UBS Wealth Management. He said that was one reason stocks had been so steady lately.

Some of the market's biggest moves were based on company earnings, and many of those came from consumer-focused companies. Ulta Beauty gained $9.36, or 3.1 percent, to $302.40. Costco Wholesale rose $3.13, or 1.8 percent, to $177.86 after the warehouse club had a strong quarter as sales and member payments both increased.

Uggs maker Deckers Outdoor turned in earnings that were stronger than expected, and its stock gained $10.64, or 18.8 percent, to $67.21.

GameStop's first-quarter results were stronger than analysts expected, but sales of new software and wireless devices were disappointing. The stock gave up $1.40, or 5.9 percent, to $22.22. Video game publishers also fell. Activision Blizzard lost 94 cents, or 1.6 percent, to $58.28 and Electronic Arts slid $1.70, or 1.5 percent, to $112.13.

The VIX, an index that is known as Wall Street's fear gauge because it measures how much **volatility** investors expect, fell for the seventh day in a row. After a huge spike last Wednesday, the 27-year-old index is trading near record lows. It sank to 9.81 Friday. The only time it was lower was late December 1993.

The Commerce Department said the United States economy grew 1.2 percent in the first quarter, which was still weak but better than it originally estimated.

Crude **oil prices** bounced back from a sharp drop the day before. Benchmark crude rose 90 cents, or 1.8 percent, to $49.80 a barrel in New York. Brent crude, the international standard, added 69 cents, or 1.3 percent, to $52.15 a barrel in London.

On Thursday a group of 24 nations including the OPEC countries agreed to a nine-month extension of a cut in oil production. But energy companies, which have lagged the market dramatically this year, hardly budged. The **S&P 500**'s energy company index is down 12 percent in 2017, while the broader **S&P 500** is up almost 8 percent.

The dollar sank to 111.24 yen from 111.75 yen. The euro fell to $1.1168 from $1.1209.

As the dollar weakened, gold rose $11.80 to $1,267.60 an ounce and silver gained 13 cents to $17.32 an ounce. Copper fell 3 cents to $2.57 a pound.

Bond prices were little changed. The yield on the **10**-**year Treasury** note held steady at 2.25 percent.

The DAX in Germany lost 0.2 percent and the FTSE 100 in Britain rose 0.4 percent. The French CAC 40 fell by a fraction of a percentage point. Japan's benchmark Nikkei 225 index shed 0.6 percent but the South Korean Kospi climbed 0.5 percent. The Hang Seng in Hong Kong was nearly unchanged.

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

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The New York Times

Business/Financial Desk; SECTB

Expecting Big Bump in the U.S. Economy This Year? Signs Suggest It's Less Likely

By NELSON D. SCHWARTZ
1,164 words
27 May 2017
The New York Times
NYTF
Late Edition - Final
1
English

The big economic bounce that some experts have confidently predicted for later in the year may turn out to be only a small bump.

It is not that the economy is weakening, or that a recession is in the offing. Rather it appears as if the pace of growth in 2017 will not be much faster than it was last year, or the year before that.

So even as the Commerce Department on Friday offered an upward revision of the first-quarter growth rate -- to 1.2 percent from the 0.7 percent cited last month -- other forecasters were lowering their sights for the current quarter.

The expectations have dipped amid fears of lackluster consumer spending and orders for durable goods, and new data on Thursday that showed a larger-than-anticipated trade deficit in April.

Instead of 4.1 percent growth in the second quarter, the Federal Reserve Bank of Atlanta's widely followed GDPNow model now calls for a 3.7 percent rate. And the New York Fed reduced its rival Nowcasting estimate slightly to 2.1 percent. In March, that forecast stood at 3 percent.

Despite the slight erosion in expectations recently, the job market has remained strong, pushing the unemployment rate down to 4.4 percent last month. As a result, the Federal Reserve Board is expected to raise interest rates twice more this year, with traders betting that the next increase will come in June.

In other words, the so-called new normal -- steady but not spectacular growth that never reaches escape velocity -- is beginning to resemble the old normal.

''We're still on track for a 2 percent growth economy, give or take a little, but not a 3 percent economy,'' said Diane Swonk, a veteran independent economist in Chicago. ''It may not sound like much, but the difference is important.''

In a $17 trillion economy, it is a difference of $170 billion per year, which has major implications for corporate profits, worker pay and even the federal government's bottom line.

The budget proposal released this week by the Trump administration assumes growth of about 3 percent annually, and President Trump has talked about annual growth of 4 percent or even more.

Neither figure is realistic, given the country's aging population, and low growth in productivity, Ms. Swonk said.

''Those two factors make for headwinds that are hard to overcome,'' she said. Although the kind of annual gains that Mr. Trump has targeted were achieved in the mid-2000s and the late 1990s, the economy's underlying potential is not as strong now than it was then.

''It's like trying to use old road maps in a GPS world,'' Ms. Swonk said. ''We need to acknowledge that.''

Scott Anderson, chief economist at Bank of the West in San Francisco, has not had to lower his expectations for the current quarter. That is because he has been considerably less optimistic than many of his peers, with a forecast of roughly 3 percent.

"I've been below consensus for a while," Mr. Anderson said, citing the likelihood of weaker spending by businesses. "There's not a lot of visible growth drivers outside of consumer spending and rebuilding inventories."

"Everyone is hanging their hat on stronger consumer spending, but there's a lot of uncertainty there," he added, noting that data expected next week on personal income and spending would be an important indicator of how consumption is shaping up.

Besides tempering expectations for the broader economy, traders appear to be discounting the likelihood of major tax cuts or a burst of infrastructure spending this year, judging by a recent drop in bond yields.

Yields on the benchmark **10**-**year Treasury bond**, which move inversely to price, were 2.25 percent on Friday, down from 2.6 percent in March. Investors tend to buy bonds when economic activity and the risk of inflation ease, and pare back as growth quickens.

The inquiries into possible dealings with the Russian government by associates of Mr. Trump, and conflicts among Republicans in Congress, may further stymie any big stimulus from Washington.

"We haven't built any stimulus into our projections for 2017, and the way I'm seeing things, possibly not in 2018 either," said Carl Tannenbaum, chief economist for Northern Trust in Chicago. "The dissonance in the Republican caucus is such that it will be hard for them to reach consensus."

Given at least a modest uptick this quarter after the year's weak start, Mr. Tannenbaum is looking for growth in the first half of 2017 to average about 2 percent.

While lower than many experts and consumers would like, that is still slightly higher than the growth rate in Germany, the largest economy in the eurozone.

Growth of around 2 percent is also what economists like Mike Gapen at Barclays expect for all of this year and next.

Typically, quarterly data is **volatile**, but in recent years, first-quarter growth estimates have been especially unpredictable. This year, as was true in 2014 and 2011, growth appears to have been very weak in the first quarter. Experts expect a rebound in subsequent quarters in 2017, as happened in those previous years.

Early this year, output was also reduced slightly by warm temperatures in many parts of the United States, slowing demand for energy from utilities.

One key indicator for the current quarter will come on Thursday, when the latest monthly data for auto sales is released. Slightly lower car sales reduced growth by about 0.4 percentage points in the first quarter, Mr. Gapen said.

On an annual basis, demand for cars has been running just over 17 million. If the number sinks below that threshold, expectations may have to be adjusted downward again for the second quarter, which ends on June 30.

On the other hand, Mr. Gapen noted that Asia, Europe and other markets are finally growing in sync with the United States, rather than there being rotating global weak spots.

"We don't have a problem child," he said. "In previous years, it was the fiscal cliff in the U.S., or debt fears in Europe or a hard landing in China. Global growth is more synchronized, without any individual pillars showing weakness."

A Wayfair distribution center in New Jersey. Fears of weak consumer spending have experts lowering expectations for growth. (PHOTOGRAPH BY JOHN TAGGART FOR THE NEW YORK TIMES) (B3) CHARTS: Predicted vs. Actual G.D.P. Growth: An analysis by the research firm Macroeconomic Advisers shows that at the start of six of the past seven years, experts overestimated just how much gross domestic product would grow in the year ahead. (Source: Macroeconomic Advisers); Real Economic Growth: Annual rate of change in the gross domestic product, based on quarterly figures adjusted for inflation and seasonal fluctuations. (Source: Commerce Department) (B3)

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Heard on the Street
Be Cautious As Asset Path Gets Trickier

By Richard Barley
275 words
27 May 2017
The Wall Street Journal
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B12
English

[Financial Analysis and Commentary]

That didn't take long. Stocks have got their mojo back, with the mid-May wobble sparked by U.S. political turmoil seemingly fading from investors' attention. Perhaps more puzzlingly, bond investors are enjoying gains, too.

Many of the risks that investors were worried about at the start of the year have failed to turn into real problems, helping stocks to perform well. While hopes of a rapid boost to U.S. growth from President Donald Trump's administration have faded, equally there has been little action on topics that might concern markets, such as greater barriers to trade. Europe's elections have offered no shocks. Bonds, meanwhile, have taken comfort from signals from central bankers that point to extremely gradual shifts in monetary policy.

But how long can this persist? The key perhaps lies more in the bond market than in the **stock market**, in which earnings have been strong, providing fundamental support. Bonds hardly look attractive, with long-dated yields still at remarkably low levels versus prospects for nominal growth.

The path of inflation may hold the key. The pickup in inflation in advanced economies this year has been amplified by the recovery in the price of oil. That effect will now diminish, and central bankers are still concerned that inflation hasn't become self-sustaining. As a result, both bonds and stocks can make a case for gains.

So far, this year has been good for both bond and stock investors. To rely on that benign picture lasting looks risky.

Document J000000020170527ed5r0001m

The New York Times

Economic View
The Upshot
The Question Isn't Why Wage Growth Is So Low. It's Why It's So High.

By NEIL IRWIN
1,235 words
26 May 2017
10:06 AM
NYTimes.com Feed
NYTFEED
English

One of the economy's biggest mysteries is this: The labor market is the strongest it has been in a decade, yet wages are rising barely faster than inflation.

For some reason, the booming job market and ultralow unemployment rate, which fell to 4.4 percent in April, haven't led employers to raise pay in a meaningful way. That flies in the face of a basic assumption of how the economy works: A tight labor market is expected to lead to pay increases that in turn fuel broader inflation.

But the mystery of the missing pay raises may have a surprisingly simple solution, and one that sheds light on the larger economic challenges of our age.

Consider a simple model for how much the average worker's pay ought to be rising: You could simply add together the productivity growth rate — how rapidly the output generated by each hour of labor is increasing — and the inflation rate, which tells us how quickly prices are rising.

Over the last 24 months through March, inflation has come in at 1.4 percent a year, and productivity growth at 0.6 percent. Those are very low numbers. And in our supersimple model, you may expect average worker wages to have risen only 2 percent.

In fact, the average hourly earnings for nonmanagerial private sector workers rose 2.4 percent a year in that period. You may not feel like cheering about that, but it's more than we might have expected, with inflation and productivity so weak. The real mystery, then, isn't why wages are rising so slowly, but why they're rising so fast.

If anything, the numbers show that workers are capturing more than their share of the spoils from a growing economy. And that, as it happens, is the reverse of a decades-long trend. For most of the last half-century — 84 percent of the time since 1966 — average wages have grown more slowly than would be predicted based on productivity and inflation growth. The rise in the share of employee compensation that takes the form of health benefits instead of wages is a factor, but doesn't explain the whole gap; for long stretches, that gap exceeded 2 percentage points a year.

That means the labor share of national income was shrinking, or, more plainly, that workers' slice of the economic pie got smaller while the part taken by shareholders and other owners of capital grew.

In the last few years, though, that trend has partly reversed: Workers' slice of the pie has increased a bit. More than at any time since 1970, wage gains in the two years through June 2016 outstripped the gains predicted by inflation and productivity in our simple model.

Why? Minimum wage increases in several states probably contributed. Obama administration efforts to shift the playing field toward workers may have helped, too. But we don't know whether this is a temporary blip or the beginning of a trend, in which employee paychecks will swell with a greater share of the fruits of economic growth.

Surely, the low unemployment rate is an important factor. Economic theory tells us that when workers are scarce, employers have to raise wages, though it hasn't always worked out that way: Wage growth underperformed productivity and inflation during some periods of low joblessness, including in the mid-1980s and mid-2000s.

Indeed, economists at Goldman Sachs recently studied which factors drive wage trends in 10 major economies, and identified low productivity growth as the main culprit behind the recent weakness in wage numbers around the world. (Low inflation, Jan Hatzius and Sven Jari Stehn found, has been “a negative but more temporary factor.”)

Recently, labor costs have begun to grow faster than revenue for some companies, which attribute that development to a mix of government policy and general good times.

“While food costs are pretty benign, you are seeing, certainly in some markets, some pretty good inflation rate in wages,” said Patrick Doyle, the chief executive of Domino’s Pizza, in a recent conference call with analysts. “Some of it is a result of the minimum wage, but some of it is simply because there are areas in the country where employment levels are strong.”

Even if we don’t have complete answers, that much is relatively straightforward. But the wage question quickly leads us into more difficult economic questions.

Everything in macroeconomics is linked, though not in ways that are fully understood. The relationship between joblessness and inflation is known as the Phillips curve, for example, and it points downward: The lower the unemployment rate, the higher the inflation rate should be.

Or at least that’s the theory, and one that is a starting assumption for a great deal of policy making. The Federal Reserve Board reckons it can’t let the unemployment rate get too low, or a burst of inflation will come. In reality, though, the relationship between unemployment and inflation is not straightforward and seems to be always moving.

Even less is known about the ties between wages and productivity. This is particularly important if, as our analysis of wage trends suggests, low productivity growth is the culprit behind Americans’ small inflation-adjusted pay increases during the last few years.

One way of thinking about productivity growth is that it is rooted in unpredictable innovations that have little to do with anything else in the economy. Say a genius inventor creates a robot that mows your lawn perfectly. Human landscapers might lose their jobs, but if they find something worthwhile to do, the productive capacity of the economy will grow.

The causation could go in other directions, however: Wage growth, or the lack of it, might affect innovation and productivity. Perhaps if businesses pay their employees as little as possible, for example, those companies will lose the incentive to train and develop more productive workers. Some employers, including the mega-retailer Walmart, have examined this problem and found that by paying somewhat more in wages, they get a more productive work force.

That suggests that the productivity slump could be a result of businesses that have failed to pass on the gains from a growing economy to their workers for decades. Some left-of-center economists are exploring whether a higher minimum wage or a stronger social welfare system might increase productivity growth and the supply of labor.

Unfortunately, the picture isn’t entirely clear. The process by which businesses and their workers become more productive is something of a black box, deeply important yet not really understood. But perhaps we can at least ask better questions: The real mystery isn’t why wage growth is so low, but why productivity is so low. And solving it could leave both workers and their bosses better off.

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* The **Stock Market** Is Weirdly Calm. Here’s a Theory of Why.

* The Economy May Be Stuck in a Near-Zero World

Workers at a New Jersey distribution center. The real mystery isn’t why wage growth is so low, but why productivity is so low. | John Taggart for The New York Times

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THE WALL STREET JOURNAL.
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Utilities Stocks Are Back in Favor --- Investors scoop up shares amid lowered expectations Trump can goose growth

By Liying Qian
660 words
26 May 2017
The Wall Street Journal
J
B12
English

Shares of utilities companies are leading gains in the **S&P 500** this week, the latest sign that hopes of stronger economic growth under President Donald Trump have moderated.

The **S&P 500**'s utilities sector posted its seventh consecutive session of gains on Thursday, its longest winning streak in more than a year. The sector has climbed 2.5% this week, making it the best performer of the index's 11 sectors and outpacing the **S&P 500**'s gain of 1.4%.

Investors tend to buy utilities stocks when they are concerned about other parts of the market or are seeking the sector's relatively hefty dividends in a low-rate environment. While U.S. economic data point to continued expansion, bond yields have declined, in part reflecting investors' tempered expectations for sharply higher growth and inflation.

The economic data are "showing that rates can come up, but at a slow, gradual pace," said Jay Rhame, portfolio manager at Reaves Asset Management, which specializes in utilities investments. "Nobody's getting worried about inflation rising out of control."

Investors sold utilities and U.S. government bonds after the election, but both have gained this year amid concerns about Mr. Trump's ability to enact tax cuts, deregulation and infrastructure spending. The yield on the **10**-**year Treasury** note was 2.254% Thursday, compared with 2.446% at the end of 2016, according to Tradeweb. Yields fall as **bond prices** rise.

The utilities sector is up 9.3% in 2017 versus the **S&P 500**'s 7.9% gain.

Meanwhile, investors are also scooping up technology shares, sending the sector up 20% this year. Tech stocks are prized for their growth potential and have generally offered better-than-average returns since the financial crisis.

"What's in favor is what I call the barbell," said Russ Koesterich, co-portfolio manager of BlackRock Inc.'s Global Allocation Fund. "At one end you have the safe yield plays, at the other you have the secular growth plays."

Early last year, worries about a global economic slowdown drove investors into utilities stocks, sending the sector up more than 20% in the first half of 2016 and pushing its 12-month trailing price/earnings ratio above the **S&P 500**'s.

The utilities sector got a boost last week as turmoil in Washington cast further doubt on Mr. Trump's ability to push for policy changes.

The relative performance between the Dow Jones Transportation Average and the Dow Jones Utility Average has fallen back near its pre-election level, according to data from Gluskin Sheff & Associates and Haver Analytics, as investors bet less on companies that carry the raw materials and goods powering the economy and more on utilities.

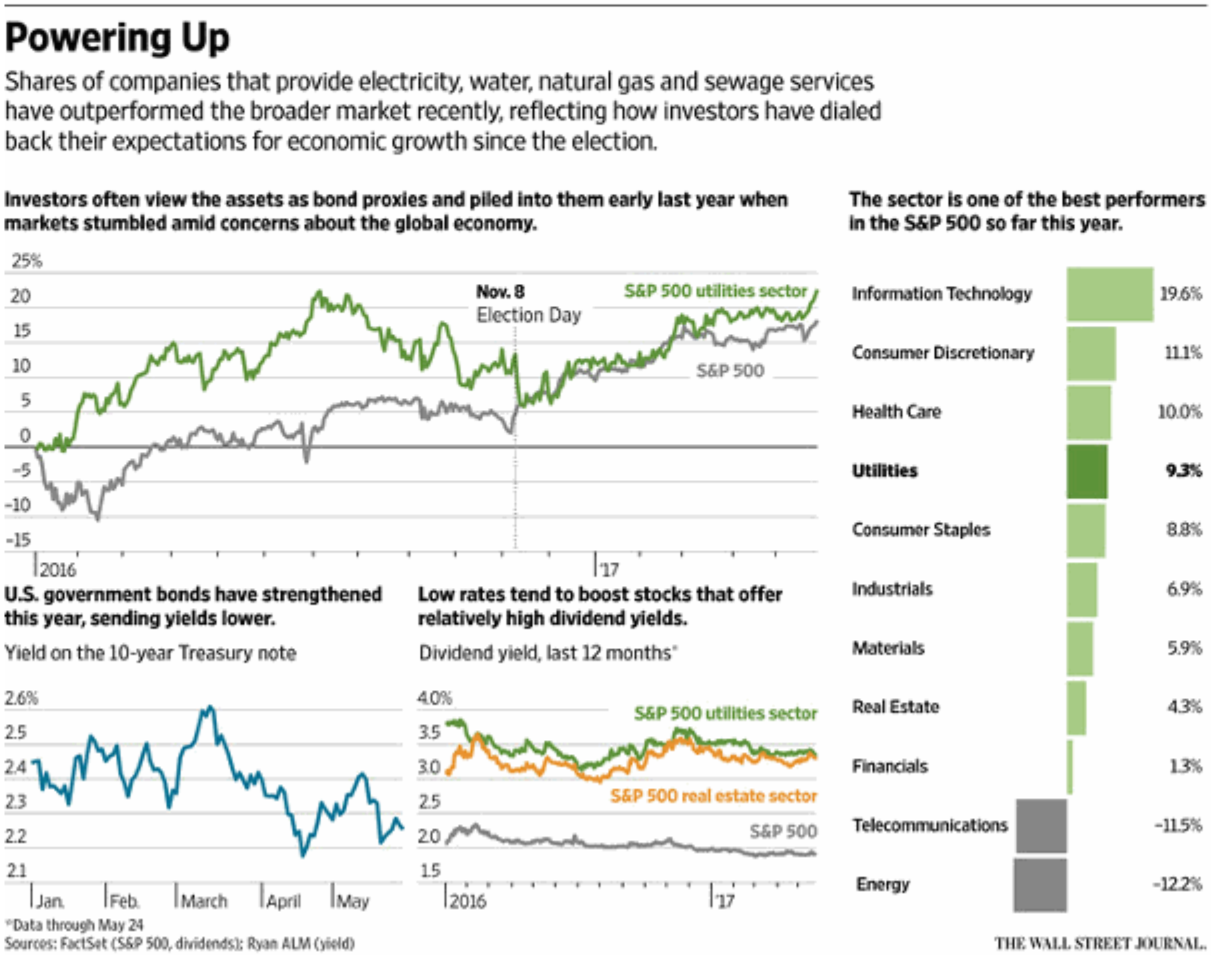
Investors and analysts say utilities are attractive during broader market turbulence because demand for electricity, water, natural gas and sewage services tends to be stable. The sector includes shares of companies like DTE Energy Co., a Detroit-based energy company, and Consolidated Edison Inc., which provides electric service to parts of metropolitan New York.

Both companies have gained roughly 11% this year. On Thursday, DTE Energy rose $1.06, or 1%, to $108.98, while Consolidated Edison added 59 cents, or 0.7%, to $82.04.

Some say the recent gains could be fleeting. According to minutes from the Federal Reserve's May meeting released Wednesday, some officials expressed concern about recent softness in inflation, but not enough for them to scrap plans to raise rates two more times this year.

"Overall, the economy's momentum is firm, and the hype around the latest Washington news will dissipate gradually," said Alan Gayle, director of asset allocation at RidgeWorth Investments.

In the long run, Mr. Gayle said he still expects rates to move higher and utilities to retreat.



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THE WALL STREET JOURNAL.
U.S. EDITION

China Buys Calm for Its Currency --- Central bank moves to stabilize yuan but risks sharp drop if it comes under pressure

By Lingling Wei in Beijing and Saumya Vaishampayan in Hong Kong
622 words
26 May 2017
The Wall Street Journal
J
B1
English

China's central bank is effectively anchoring the yuan to the dollar, a policy twist that has helped to stabilize the currency in a year of political transition and market jitters about Beijing's economic management.

The yuan weakened more than 6% against the dollar in 2016; this year, it is up roughly 1%, and the expectation that the currency will fluctuate -- measured by a gauge known as implied **volatility** -- is around its lowest in nearly two years.

The newfound tranquility might not last: The focus seen in recent weeks on stability against the dollar, whether it goes up or down, means pressure on the yuan to weaken could get dangerously bottled up, potentially bringing bouts of sharp devaluation.

On Wednesday, Moody's Investors Service cut China's sovereign-credit rating, citing the peril of rising debt as growth slows. The effort to keeping up with the dollar could add to the challenge by forcing the central bank to keep burning through its foreign-exchange reserves to support the yuan.

How China manages its currency is one of the most consequential decisions in global **financial markets**, and one that remains largely inscrutable to investors. As Beijing tackles a huge buildup of corporate debt, many investors worry the process could create more risk and even, if long-suppressed **volatility** erupts in ways that can't be controlled, set off a financial crisis.

The shift toward the dollar comes in a year of enormous political stakes. Beijing is preparing for a twice-a-decade leadership transition in the fall, and its emphasis in markets and the economy has been on stability.

While recent regulatory efforts aimed at curbing debt rattled Chinese markets for stocks and bonds, the country's currency market has been relatively calm.

The People's Bank of China's previous strategy was to let the yuan track the dollar when the U.S. currency weakened, part of a tactic to guide the currency steadily lower but keep it from falling too fast. When the dollar strengthened, the central bank shifted the yuan's "fix" instead to a basket of currencies.

With damping currency **volatility** against the dollar now a bigger priority, the yuan has been propped up even as the dollar rises. A case in point: Early Wednesday, the yuan's official value came in at 6.8758 a dollar, well firmer than the markets' expectation for 6.9 per dollar and only slightly weaker than the previous fixing. A day later, after the Moody's downgrade, the central bank again fixed the yuan stronger than expectations, and traders say some big Chinese banks sold dollars in early trading to bolster the yuan.

The close alignment with the dollar could ease the threat of a trade war with the U.S., after President Donald Trump claimed China has exploited weakness in the currency at the expense of its trading partners. Mr. Trump recently refrained from labeling China a currency manipulator.

Press officials at the central bank didn't respond to requests for comment. In a report issued Thursday, the Commerce Ministry said China is trying to strike a balance between improving the yuan's flexibility and keeping it stable. The steadier yuan, coupled with more restrictions on money leaving China and higher interest rates, has calmed investors and helped keep money onshore.

Some Chinese exporters are switching from hoarding their dollar earnings to selling them for yuan. That has helped reduce capital outflows and beef up the nation's currency reserves.

Self-Control

China's apparent currency peg to the dollar has helped drive expectations of volatility to the lowest level since before the central bank devalued the yuan in 2015.

Sources: Wind Info (exchange rate); Thomson Reuters THE WALL STREET JOURNAL.

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The New York Times

Business/Financial Desk; SECTB
OPEC, Battling Market Forces, Extends Production Cuts Into 2018

By STANLEY REED
1,124 words
26 May 2017
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3
English

VIENNA -- A sense of déjà vu pervaded the latest meeting of oil exporting countries. While production cuts have again bolstered **oil prices**, the optimism may fade, as shale producers in the United States jump back into the market and the rise of renewables dims prospects for demand.

The Organization of the Petroleum Exporting Countries extended oil production cuts through March 2018, after a meeting in Vienna on Thursday. The move follows a decision this month by Saudi Arabia and Russia to do so.

The earlier announcement helped lift prices from a low of $46. But on Thursday, prices slipped nearly 4 percent, to around $53.

The markets followed a similar path in September, when OPEC, with Russia and other nations, initially outlined plans for reductions. When the euphoria faded, prices slumped.

''OPEC is being caught in a pincer movement of technology and policy that will, over time, erode oil use,'' said Bill Farren-Price, chief executive of Petroleum Policy Intelligence, an advisory firm for hedge funds and other investors. ''This meeting is more about forestalling an **oil price** collapse than driving prices higher.''

Here are some factors muting the impact of the cuts to output.

The Shale Boom

Oil prices that topped $100 a barrel as recently as 2014 may have helped plant the seeds that are now weakening OPEC.

Back then, companies in the United States took advantage of the high prices, learning to produce huge quantities of oil from shale rock in a process called hydraulic fracturing, or fracking. The technique, which involves extracting energy by drilling long horizontal wells, then loosening oil from the rock, has transformed the United States into what is known as a swing producer, able to adjust production rapidly to match changes in the market.

But fracking has required substantial investment. When **oil prices** plummeted in 2015 and 2016, output from shale in the United States fell about 900,000 barrels a day, equivalent to almost 1 percent of the global supply.

The American shale industry today, however, is far more efficient. And unlike in previous years, it has an array of sources of capital to finance the drilling of new wells, including advance sales of oil, bank and private loans, and high-yield bonds.

When prices are down, that money dries up. But when prices tick up around $52 a barrel, activity ramps up quickly, according to Roger Diwan, a vice president at IHS Financial Services, which advises investors.

Khalid A. al-Falih, the Saudi energy minister, said on Thursday that he foresaw a healthy comeback for American shale production, but he played down its effect on OPEC's efforts.

Still, the bloc's biggest worry is such a revival, presenting it with a thorny problem as it considers its own market moves.

"The higher the price goes, the more shale operators accelerate production, and the more OPEC has to cut," said Mr. Diwan, who forecast that United States shale operators would increase their output by about 900,000 barrels a day this year, soaking up much of OPEC's production cuts.

The Electric Engine

A few years ago, high energy prices were sustained by a belief that the supply of oil was reaching a peak, but demand -- driven by fast-growing economies like China and India -- would keep rising.

The trends are shifting, and fast. Not only does there seem to be a major new source of oil from shale, but growth in demand is slowing.

In particular, the increasing number of electric vehicles is playing a role in limiting demand for oil. Their impact may grow with the development of cars run by computers.

"Everything is gradually going digital and everything digital is effectively electric," Dieter Helm, a professor of energy policy at the University of Oxford, wrote in a recent commentary. "Transport will not escape this trend."

Mr. Helm, the author of a new book, "Burn Out," on the decline of fossil fuels, argues that, given oil's uncertain future, $50 a barrel could turn out to be a "very high" price.

Even some big oil companies are accepting the view that demand for fossil fuels may soon decline.

In its Energy Outlook 2017, BP said that if the rise of alternative fuel vehicles, improved fuel efficiency and other trends accelerated more than expected, demand for oil might peak as early as 2035.

OPEC seems finally to be paying attention, too. Mr. Falih said on Thursday that the bloc needed to better understand the impact the 2015 Paris deal on climate change would have on oil demand.

An Erosion of Clout

In decades past, an OPEC decision to curb or increase production had wide consequences and would move markets.

That is no longer the case.

"OPEC has used Band-Aids to get through crises of the moment," said Bhushan Bahree, an OPEC analyst at the research firm IHS Energy. "It's not clear they are willing or able to address the larger issues of the global market."

With that in mind, Saudi Arabia, OPEC's de facto leader, brought in Russia and other producers outside the cartel to lend clout to the recent production cuts. Riyadh has also suggested changes to OPEC's internal management, pushing the organization to better cooperate with other producers. OPEC, Mr. Falih said, "needs to evolve" and needs to "be part of the debate, rather than simply reacting to what is going on."

On Thursday, the bloc announced that Equatorial Guinea, one of Africa's largest producers, had joined OPEC, becoming its 14th member.

But presenting a united front with such a variety of players has proved complex.

Disunity already has occurred within the bloc. Member countries like Iraq and Iran contend they are entitled to higher production because of years of revenue lost to conflict and sanctions, and will probably press for increases to their output allocations.

A disconnect exists between the announced level of the cuts and the actual reductions.

Knowing that cuts were on the horizon, OPEC members increased production before they were made, which meant they were starting from an artificially high base. Several members have also been selling from their stockpiles of crude, blunting the impact of the reductions.

IHS Markit, for instance, estimates that OPEC countries trimmed output by 1.1 million barrels a day in the first quarter of 2017, but exports fell by only 900,000 barrels a day.

Signs suggest that the oil glut is easing, but its persistence has undermined OPEC's ability to affect the markets.

An oil platform east of Aberdeen, Scotland, in the North Sea. **Oil prices** slipped Thursday nearly 4 percent to around $53. (PHOTOGRAPH BY ANDY BUCHANAN/REUTERS)

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The New York Times

Business/Financial Desk; SECTB
Retailers' Strong Reports Propel New Records

By THE ASSOCIATED PRESS
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Late Edition - Final
2
English

Stocks on Wall Street climbed for the sixth day in a row on Thursday as strong first-quarter results from retailers like Best Buy and PVH led indexes to record highs. That offset weakness in energy stocks caused by a plunge in **oil prices**.

Stocks are on their longest winning streak in three months as retailers, technology companies, household products companies and health care firms made large gains.

The **Nasdaq composite** joined the **Standard & Poor's 500**-**stockindex** in setting record highs. While retailers that run stores jumped, their online rival Amazon also made a sizable gain as its **stock price** approached $1,000 for the first time.

The **S**.**&P**. **500** rose 10.68 points, or 0.4 percent, to 2,415.07. The **Dow Jonesindustrial average** gained 70.53 points, or 0.3 percent, to 21,082.95. The **Nasdaq composite** jumped 42.23 points, or 0.7 percent, to 6,205.26, above the record it notched last week.

Small companies were mostly left out of the rally. And even though OPEC and a group of other oil-producing nations extended their cuts in production, the price of oil fell almost 5 percent and energy companies took steep losses.

Electronics retailer Best Buy soared after it issued a strong first-quarter report, including better sales of mobile devices and video-game products. Its stock gained $10.83, or 21.5 percent, to $61.25. PVH, the owner of brands including Calvin Klein and Tommy Hilfiger, climbed $4.94, or 4.8 percent, to $106.98 after it raised its annual forecasts in the wake of its own strong report.

Other retailers including Guess, Abercrombie & Fitch and Burlington Stores also made substantial gains. Amazon rose $13.03, or 1.3 percent, to $993.38. Its stock peaked at $999 during the day.

A group of 24 countries including OPEC members and Russia said they would extend production cuts for nine months in an effort to shore up **oil prices**. That was what most analysts expected, but investors appeared to have hoped for a longer extension.

Benchmark crude lost $2.46, or 4.8 percent, to $48.90 a barrel in New York.

Technology companies made significant gains. Microsoft rose 85 cents, or 1.2 percent, to $69.62 and Alphabet, Google's parent, gained $14.25, or 1.5 percent, to $991.86. Apple added 53 cents to $153.87.

Gold rose $3.40 to $1,255.80 an ounce.

Bond prices declined. The yield on the **10**-**year Treasury** note rose to 2.26 percent from 2.25 percent.

CHARTS: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Thursday (Source: Reuters); 7-Year Treasury Notes: High yield at auction. (Source: Treasury Department)

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THE WALL STREET JOURNAL.
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OPEC's Oil Cuts Disappoint Investors

By Summer Said, Stephanie Yang and Alison Sider
736 words
26 May 2017
The Wall Street Journal
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B1
English

Oil prices plunged nearly 5% after OPEC's announcement to extend production cuts disappointed traders who had hoped for a more aggressive plan to boost the price of crude.

The market's reaction, the biggest one-day decline in three weeks, took many investors by surprise because the cartel did what its leaders suggested it would do before their meeting Thursday in Vienna.

The Organization of the Petroleum Exporting Countries renewed a deal with 10 other major non-OPEC oil producers that will cap production through March 2018, deepening an alliance between the cartel -- led by its top exporter, Saudi Arabia -- and Russia, which produces more crude oil than any other country but isn't a cartel member.

By keeping production at about 1.8 million barrels a day lower than late 2016's levels, the group is suppressing about 2% of global supply and aiming to put a floor under the price of **oil.**

Prices had begun to climb last week after Russia and Saudi Arabia said they would support a nine-month extension, hitting a one-month high on Tuesday. But by signaling its willingness to commit to a longer cut, OPEC may have unintentionally raised expectations even higher, some investors said.

Some energy analysts over the past week suggested that OPEC could agree to reduce output further, bring in smaller producers such as Egypt that sat out the first round of cuts, or extend the cuts for a full year.

A longer period at the same level of production disappointed investors in part because of the widely held expectation that U.S. shale will continue to ramp up, keeping supply high and damping prices.

"What is needed is not time, what we need is volumes" cut by OPEC to offset rising U.S. shale production, said Jamie Webster, a senior director at Boston Consulting Group.

Oil prices settled at a one-week low after the Thursday meeting. Light, sweet crude for July delivery lost $2.46, or 4.8%, to $48.90 a barrel.

OPEC comments may also have bolstered expectations that major producers would strike a more dramatic deal, even though few cartel officials publicly predicted that any of those things were likely.

Iraq Oil Minister Jabbar al-Luaibi had said there were three or four options to discuss at OPEC's Thursday meeting. Some officials, including Russian Energy Minister Alexander Novak, had suggested that 12 months of cuts were being considered. Earlier this month, Saudi Arabia's oil minister said producers would do "whatever it takes" to rebalance the market.

"Those kinds of reports, whether or not they were founded, get people excited," said Nick Koutsoftas, a portfolio manager with Cohen & Steers.

Other analysts suggested that the steep declines reflected the rapid unwinding of a **bullish** bet. **Oil prices** had closed higher 11 of the previous 14 trading days before Thursday, after OPEC officials indicated plans to extend the cuts and momentum traders helped push up prices. But as speculators realized that the market was falling on the news about the OPEC cut, many rushed to get out once they sensed momentum had shifted violently to the down side.

Billions of dollars are at stake because of OPEC's actions. According to the U.S. Energy Information Administration, OPEC countries' net revenues from oil exports will rise by more than $100 billion in 2017 with the extension of the production cuts.

Many big banks have predicted that an extension of the cuts would help **oil prices** rise to about $60 a barrel by the end of 2017. Such a rise will boost OPEC's petrostates, but will also provide a cash infusion to U.S. shale firms, which have tapped Wall Street financing to keep pumping through the downturn, and would gain an even greater incentive to pump if prices rise.

Saudi energy minister Khalid al-Falih insisted Thursday that the coalition's efforts are working and just need more time, and played down concerns about American producers taking market share.

"The market in my opinion is on its way to recovery," he said in opening public remarks at the Vienna meeting.

"I don't see shale in anyway derailing what we are doing," Mr. Falih said. "The market is big enough to absorb the increased production of shale."

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The New York Times

Common Sense
Business Day
Buy? Sell? Politics May Move the Market, but Rarely for Long

By JAMES B. STEWART
1,481 words
25 May 2017
11:09 AM
NYTimes.com Feed
NYTFEED
English

The United States **stock market**shuddered last week on a report that President Trump had tried to stop an F.B.I. investigation of his former national security adviser, with the Dow Jones industrials falling 373 points in one day and drawing comparisons to the Watergate-era **bear market**.

If you think politics is roiling United States markets, consider Brazil: The day after the Trump-induced turmoil on United States exchanges, the Brazilian market fell 10 percent and trading had to be halted after news of a bribery scandal engulfed its relatively new president, Michel Temer.

In France, investors were relieved that the centrist Emmanuel Macron decisively defeated the far-right National Front leader, Marine Le Pen. An upset Le Pen victory would very likely have made the market reaction to Britain's decision to leave the European Union last summer look tame. The so-called Brexit vote sent European stocks down 7 percent the day after the surprise outcome.

In a period of otherwise extended market calm, geopolitics have been driving periodic bouts of **volatility**. Even small investors have been making bets on the impact politics can have on stocks and other asset classes. After last week's sell-off, I got a wave of questions from people asking whether Mr. Trump might be impeached and if they should sell stocks.

I obviously can't answer the first question. As for selling stocks, my answer, as it has been consistently since the election, is "no," at least not because of the troubles swirling around the president.

Consider what has happened in the days since the headline-making news. By the middle of this week, the **Standard & Poor**'**s 500**-**stockindex** had recovered virtually everything it lost after the Trump-Russia news broke, and was within a few points of a record close.

Brazil's Bovespa index regained much of the ground it lost last week and was in positive territory for the year to date.

Within a month of Brexit, European stocks had recovered nearly all their losses. This year European stock markets have been notching new highs.

Even some of Wall Street's most famous and successful investors have been struggling this year to turn political upheaval into market gains. Paulson & Company and Soros Fund Management, two of the best-known global macro hedge funds, which make bets on geopolitical events, lost billions last year according to an annual hedge fund ranking compiled by LCH Investments. Paul Tudor Jones's Tudor Investment, another macro fund, was flat, and Mr. Jones recently told investors he's taking on more risk and shifting to more quantitative strategies in an effort to enhance performance.

A macro hedge fund index compiled by Hedge Fund Research is down nearly 1 percent since Jan. 1 and over 4 percent for the last 12 months, one of the worst performing hedge fund indexes. Meanwhile, the **S**.**&P**. **500** gained almost 10 percent in 2016 and is up more than 7 percent this year.

By and large, "investors should tune out political events," said James B. Stack, president of InvesTech Research and Stack Financial Management, who has done a study of what he calls "crisis events" and their effect on markets. "Historically speaking, and as a seasoned investor, I'd say investors should just ignore geopolitical events like Brexit or whatever is happening in Brazil."

The problem, Mr. Stack's research has found, is that "geopolitical events may be widely feared, and there will often be a knee-jerk market reaction when they're unexpected, but seldom do they have a lasting impact. Underlying economic trends and monetary policy are far more important."

Markus Schomer, chief economist at the asset manager PineBridge Investments, made a similar point. As fundamental investors with longer time horizons, "we try not to be distracted by the political noise," he said. "I've been telling even our traders with shorter time horizons that what we're seeing doesn't really affect the economy or monetary policy, which is more important for markets than anything else."

Mr. Stack noted that stocks declined sharply after the terrorist attacks of Sept. 11, 2001. But the **bear market** and recession that followed the technology bubble that exploded in 2000 were already well underway by then. September 2001 turned out to be an unusually bad time to sell stocks: By New Year's Day 2002, little more than three months after the post-9/11 low reached on Sept. 21, the **S**.**&P**. **500** had gained close to 20 percent.

A more recent example was the showdown over the federal debt ceiling in 2011, when Standard & Poor's downgraded United States government securities for the first time amid fears the government might default on its debt. "Stocks dropped 15 percent in less than two months and we were on the brink of a **bear market**," Mr. Stack said. "Once the crisis was resolved, stocks came roaring back," and had regained all their losses by year-end.

Of 11 major geopolitical events examined by Mr. Stack's firm, only two — the Nazi invasion of France in May 1940, and Japan's bombing of Pearl Harbor in December 1941 — led to market losses over one-week, three-month and one-year periods (and in the case of Pearl Harbor, the one-year decline was less than 1 percent).

President John F. Kennedy's assassination had no discernible impact: Stocks were up more than 20 percent a year later.

As geopolitical crises go, those were pretty big shocks to markets and investor psychology. So far, nothing in the Trump administration has come close. Still, expectations that Mr. Trump and a Republican Congress would succeed in enacting business- and shareholder-friendly tax and regulatory changes are part of what has driven recent market gains.

Mr. Stack noted that measures of confidence among small businesses, chief executives and consumers are at or near record levels. "There's no doubt that expectations have accelerated since the election," he said. "So the question is whether political turmoil will turn those expectations upside down," leading to a loss of confidence and lower consumer spending. That could happen, but so far, "we're not seeing any evidence of that," he said.

He said comparisons to the Watergate-era **bear market** of 1973-74 were off base, because then the country was in recession, the Arab oil crisis sent gasoline prices surging, inflation was raging and interest rates hit record highs. Arguably, President Richard M. Nixon's abandonment of the gold standard and the transition to market-determined currency exchange rates had more to do with plunging stock prices than his crumbling presidency.

Mr. Schomer said a failure to act upon many of Mr. Trump's spending and tax proposals might not be such a bad thing for markets, given that the United States economy is already at or close to full employment and doesn't need additional stimulus. "At the end of the day, the only reason we'll have a recession is if the Fed is forced to raise interest rates too quickly, unless we have a massive crisis, which I don't see happening," he said.

If anything, history suggests that long-term investors should buy stocks after markets fall on bad geopolitical news, not sell. But that's not to say this time won't prove to be an exception, or that markets won't correct for other reasons.

Whatever happens with President Trump, the United States is in the ninth year of the second-longest **bull market** since World War II; none have made it past 10 years. Valuations are getting stretched. Sooner or later, there will be another correction, and eventually a **bear market**.

Nonetheless, Mr. Schomer says he sees no imminent end to the **bull market**. "We're not going to see a 25 percent surge this year, but this economic cycle is so slow and steady with so few imbalances, we could end up with 8 to 10 percent gains the next few years and a much greater degree of overvaluation."

For his part, Mr. Stack said: "We still believe this market will hit new highs in 2017, but the low **volatility** and the high valuations suggest this is not a low-risk market. It's not a market in which you should be investing large sums of new capital."

* Scandal in Brazil Raises Fear of Turmoil's Return

* Drama in Washington Rattles Wall Street, and Stocks Dive

* Emerging Markets Are Bouncing Back From a Six-Year Slowdown

* The **Stock Market** Has Gone So High, It's a Problem

The New York Stock Exchange. Even some of Wall Street's most famous and successful investors have been struggling this year to turn political upheaval into market gains. | Peter Morgan/Associated Press..

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The New York Times

Business Day; DealBook

Movers: Best Buy Surges, OPEC Extends Production Cuts

By THE NEW YORK TIMES
161 words
25 May 2017
10:07 AM
NYTimes.com Feed
NYTFEED
English

We're following major developments in the markets throughout the day. Check below for the latest updates.

Best Buy Surges

In a rare it of good news for the beleaguered retail industry, electronics retailer Best Buy beat analyst expectations with its latest quarterly earnings. The result: a jump of nearly 20 percent for the shares.

"Compared to our expectations going into the quarter, our revenue was higher due to strong performance in gaming, a better-than-expected result in mobile, and the improvement of overall sales trends due to the arrival of delayed federal tax refund checks." — Hubert Joly, Best Buy's chief executive

What to Watch For: OPEC Extends Production Cuts

• The Organization of the Petroleum Exporting Countriesextended production cuts through March 2018. But markets were not impressed: **Oil prices** fell nearly 1.5 percent.

• Don't forget to read the DealBook Morning Agenda.

Document NYTFEED020170525ed5p003h1

THE WALL STREET JOURNAL.
U.S. EDITION

Treasurys' Appeal Picks Up Overseas --- Beijing leads charge as asset regains its traditional clout; the tide is shifting

By Min Zeng
882 words
25 May 2017
The Wall Street Journal
J
B12
English

Foreign central banks are scooping up U.S. government bonds again after paring their holdings in 2016. And the biggest buyer this year? China.

Last year, U.S. Treasurys held by foreign central banks via the Federal Reserve's custody accounts declined $140 billion, sparking alarm over whether a wave of Treasury selling by central banks overseas was coming.

This year, the debt holdings have climbed by $61 billion to $2.92 trillion, the highest level since June 2016, according to the latest data from the week ended May 17.

There has been a similar shift by China, the second-largest foreign holder of Treasurys after Japan. In 2016, the country slashed its Treasury holdings by $188 billion. But in the first quarter of 2017, China increased its holdings by $29 billion to $1.088 trillion, the most recent such Treasury data released on May 15 show.

"The tide is shifting subtly," said Brad Setser, a senior fellow at the Council on Foreign Relations. "The pressure for China to sell Treasurys has eased off, given the relative stability of its foreign reserves and the Chinese yuan."

China's foreign reserves slid more than $500 billion between August 2015 -- when China shocked the world with a one-time devaluation of the yuan -- and December 2016. The reserves have since rebounded from $3.01 trillion in December to $3.03 trillion in April, according to TD Securities.

A reversal in the U.S. dollar has helped fuel central-bank buying of Treasurys. A strengthening U.S. currency from mid-2014 to the end of last year created a negative feedback loop in emerging markets, with capital leaving developing economies, which then caused local currencies to tumble.

Selling Treasurys is a popular solution for central banks aiming to support local currencies. But this year, a steadily weakening dollar has helped stabilize local currencies and reduced the need for central banks to sell Treasurys and use the proceeds to intervene in the currency market.

The dollar has fallen 1.4% this year against the Chinese yuan freely traded in the offshore markets, after a 6% rally in 2016. The Chinese currency was little changed Wednesday after Moody's Investors Service lowered China's sovereign credit rating for the first time in nearly three decades, citing expectations that the country's financial strength will deteriorate.

Analysts tracking the capital-flows data have warned that they provide an incomplete picture of China's Treasury investments because the country can park its holdings in a third destination. For instance, a popular proxy to gauge China's investments has been Belgium, where Treasury holdings fell $11.5 billion in the first three months of the year.

Still, U.S. Treasury bonds also continue to offer more attractive yields compared with their peers in Germany, Japan and the U.K. At $13.9 trillion, the Treasury market is also still the world's biggest bond market and the most liquid, a draw to central banks seeking a safe place to keep their large cash piles.

The yield on the benchmark **10-year Treasury** note was 2.266% in late New York trading Wednesday, down from 2.446% at the end of 2016. Yields fall as **bond prices** rise.

On Wednesday, the yield fell from 2.285% Tuesday as government bonds strengthened after the Federal Reserve's latest minutes suggested the central bank would likely start reducing its bond holdings later this year in a more cautious manner than anticipated. The plan could lead to an unwinding of the Fed's balance sheet that would be "a little more stretched" out than many analysts had expected, said Blake Gwinn, U.S. interest rates strategist at Natwest Markets.

Purchases from foreign central banks had contributed to declines in Treasury yields this year after a big rise in late 2016. That in turn has caused hedge funds and money managers to exit from or pare back bets that bond yields would extend a climb.

"There are not a lot of options for foreign central banks" to diversify their portfolios away from the Treasury bond market, said Bill Northey, chief investment officer at the private client group of U.S. Bank.

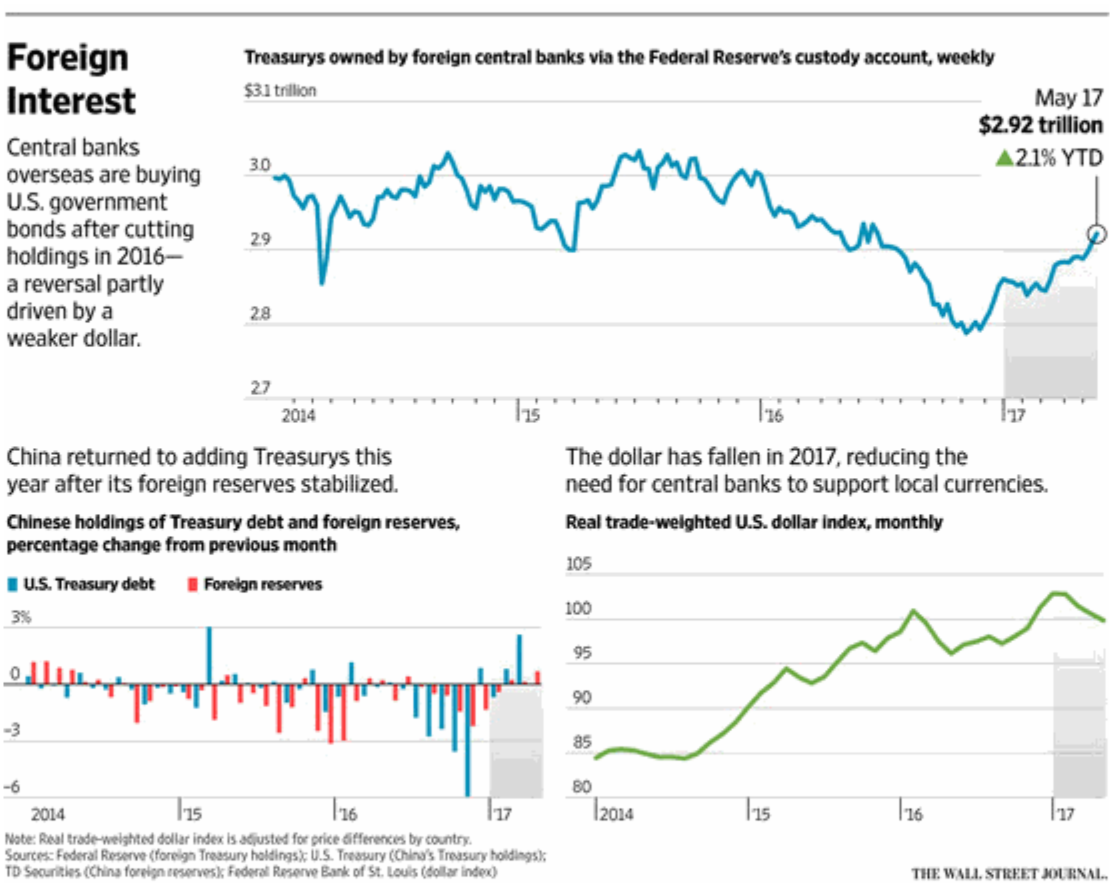
Global foreign reserves excluding gold have stabilized. The amount was $10.9 trillion at the end of March, up from $10.8 trillion at the end of December, data from the International Monetary Fund show.

During the first quarter, Saudi Arabia's Treasury holdings rose $11.6 billion. Russia's holdings rose $13.7 billion, South Korea's was up $4.2 billion and Singapore's was up $2.5 billion.

It is premature to worry about selling Treasurys by the central banks, analysts say. But should the dollar resume its appreciation, pressure may mount for central banks to sell Treasurys to defend local currencies.

"The wild card is the dollar," said Alejandra Grindal, senior international economist at Ned Davis Research. "Whether the stabilization will continue depends on if the dollar strengthens significantly and how well China manages its outflows and its communication about yuan policy."

Lingling Wei and Sam Goldfarb contributed to this article.



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THE WALL STREET JOURNAL.
U.S. EDITION

U.S. Shale Oil Puts Heat on OPEC

By Lynn Cook and Benoit Faucon
860 words
25 May 2017
The Wall Street Journal
J
B1
English

VIENNA -- OPEC's back is against the wall and U.S. oil producers put it there.

The Organization of the Petroleum Exporting Countries and a coalition of other nations including Russia are poised to curtail oil production for at least another nine months. The truth is the group has little choice, as U.S. drillers stepped up production following OPEC cuts announced in November to ease a global glut.

U.S. oil output is now on pace to exceed 9.9 million barrels a day in 2018, a record, according to the U.S. Energy Information Administration.

For OPEC, competing against American shale oil now entails competing against Wall Street and its financial engineering -- a prospect that has bedeviled government-run oil companies from Saudi Arabia to Nigeria.

Meanwhile, OPEC members and other big oil-pumping nations, which are set to meet here Thursday, have grown weary of lower prices, currently just above $50 a barrel, and are determined to take about 2% of global supplies off the market in an effort to shrink bloated oil inventory levels and put a floor under crude prices.

Saudi Arabia is particularly eager to boost oil values because it plans to take a piece of the government-run oil company, Saudi Aramco, public next year in a deal it is counting on to raise tens of billions to transform its economy away from oil.

American shale producers have prevailed so far because they have continued to innovate and cut costs as they refine hydraulic fracturing, horizontal drilling and other pioneering techniques to unlock a flood of oil from Texas to North Dakota.

But there is another major factor at play. Private-equity firms have continued to pump money into shale companies, even after many went bankrupt when **oil prices** plunged from $100 a barrel in 2014. U.S. drillers meanwhile have exploited a variety of financial instruments -- special contracts called hedges, collars and swaps -- to effectively lock in prices for future oil sales, insulating them from the potential fallout of falling prices.

Laredo Petroleum Inc. has hedged 70% of its expected oil production for 2017. Even as U.S. crude languished under $50 a barrel this spring, the independent producer got nearly $56 for most barrels it pumped in the Permian Basin in Texas and New Mexico. The contracts ensure that Laredo can continue plans to spend $500 million on 70 new horizontal wells under the West Texas desert this year.

Innovation is also helping. Most of Laredo's horizontal wells are now super-sized to two miles long, which will allow Laredo to produce effectively as much as if it had doubled its rig count.

Today the company can also drill twice as fast. The efficiency gains have lowered Laredo's break-even price to under $40 a barrel, down from $63 in 2014.

Randy Foutch, Laredo's chief executive, noted that if Texas were an oil-producing country, it would rank among the top 10 producers, between Iran and the United Arab Emirates.

"The Saudis have come to grips with reality," Mr. Foutch said, adding, "We've got it. We're there. We have a seat at the table."

OPEC Secretary-General Mohammad Barkindo says all producers will benefit from OPEC's action, including American shale players. "No one was insulated from the vagaries of this cycle," he said.

Shale producers still aren't under much immediate pressure to make money for investors, who are betting that the disruptive, fast-growing companies will eventually profit when prices increase.

Even so, U.S. operators have been aggressively wringing costs out of their operations, with 60% of horizontal wells in the major shale basins now breaking even between $35 and $55 a barrel, says Allen Gilmer, chairman of Austin consulting firm Drillinginfo.

Even shale drillers that continue to lose money are going back to work, said Paal Kibsgaard, chief executive of the world's largest oil-field service company, Schlumberger Inc.

To counter the threat of shale, OPEC's 13 members cobbled together a coalition with 11 others outside the cartel, including Russia, to cut production.

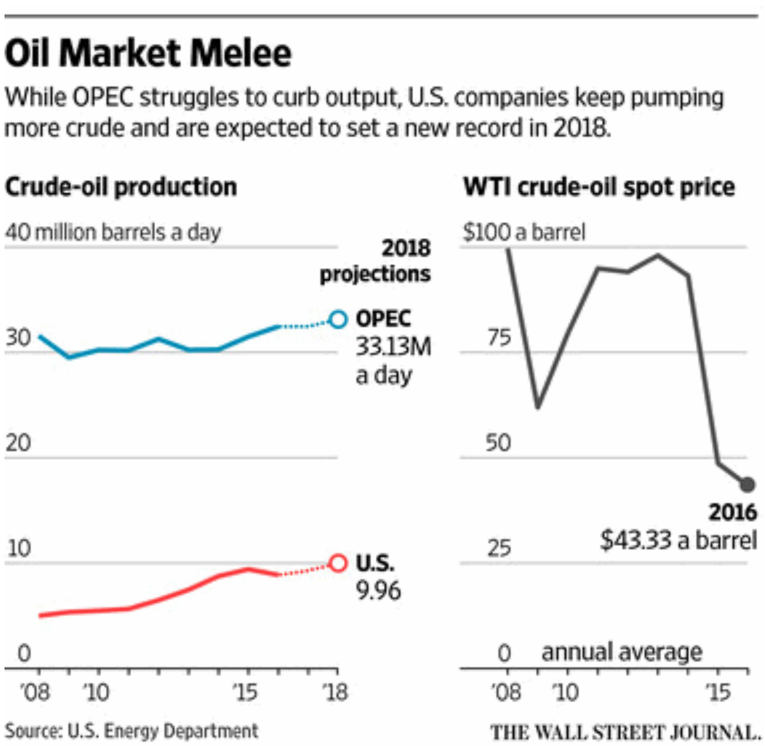
Two more, Egypt and Turkmenistan, have signaled they will join the latest effort, which means 26 countries with output of 52 million barrels of oil a day -- almost 60% of world demand -- will be dialing down production.

Russia, which has held the cartel at arm's length for years, gave the coalition a boost by agreeing to cuts after low **oil prices** pushed the country's economy to the brink.

Russian President Vladimir Putin is up for re-election next year, and the country's budget gets a $30 billion infusion for every $10 increase in the price of oil.

Some experts say the efforts are slowly but surely addressing the global oversupply problem. But any new agreement to limit production from Iraq and other OPEC members will only spur production from the U.S., warned Alan Eyre, who is in charge of Middle East energy at the State Department.

Summer Said contributed to this article.



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The New York Times

Business Day; Energy & Environment

OPEC, Fighting Multiple Trends, Tries to Control the Oil Market

By STANLEY REED
1,047 words
25 May 2017
12:00 AM
NYTimes.com Feed
NYTFEED
English

VIENNA — A sense of déjà vu pervades the latest meeting of oil exporting countries on Thursday.

While the promise of production cuts has once again bolstered **oil prices**, the optimism may fade, as shale producers in the United States jump back into the market and the rise of renewables dims prospects for future demand.

The Organization of the Petroleum Exporting Countries will extend its plan to cut oil production until March 2018, Khalid A. al-Falih, the Saudi energy minister, said in Vienna on Thursday. That follows a decision by Saudi Arabia and Russia to do so this month. The announcements have helped lift prices to more than $53 a barrel, up from a low of $46.

The markets followed a similar path in September, when OPEC, along with Russia and other nations, initially outlined plans for reductions. But the euphoria didn't last and prices slumped.

“OPEC is being caught in a pincer movement of technology and policy that will, over time, erode oil use,” said Bill Farren-Price, chief executive of Petroleum Policy Intelligence, an advisory firm for hedge funds and other investors. “This meeting is more about forestalling an **oil price** collapse than driving prices higher.”

The Shale Boom

Oil prices that topped $100 a barrel as recently as 2014 may have helped plant the seeds that are now weakening OPEC.

Back then, companies in the United States took advantage of the high prices, learning to produce huge quantities of oil from shale rock in a process called hydraulic fracturing, or fracking. The technique, which involves extracting energy by drilling long horizontal wells and then loosening oil from the rock, has transformed the United States into a so-called swing producer that is able to adjust production rapidly to match changes in the market.

But fracking has required substantial investment. When **oil prices** plummeted in 2015 and 2016, output from shale in the United States fell by around 900,000 barrels a day, equivalent to almost 1 percent of the global supply.

The American shale industry today, however, is far more efficient. And unlike in previous years, it has an array of sources of capital to finance the drilling of new wells, including advance sales of oil, bank and private loans and high-yield bonds.

When prices are down, that money dries up. But when prices tick up around $52 a barrel, activity turns on a dime, according to Roger Diwan, a vice president at IHS Financial Services, which advises investors.

Now, with **oil prices** near $50 a barrel, OPEC's biggest worry is a revival of American shale production, presenting the bloc with a thorny problem as it considers its own market moves.

“The higher the price goes, the more shale operators accelerate production, and the more OPEC has to cut,” said Mr. Diwan, who forecast that United States shale operators would increase their output by about 900,000 barrels a day this year, soaking up much of OPEC's production cuts.

The Electric Engine

A few years ago, high energy prices were sustained by a belief that the supply of oil was reaching a peak, but demand — driven by fast-growing economies like China and India — would keep rising.

That is changing, and fast. Not only does there seem to be a massive new source of oil from shale, as well as other sources like ocean drilling, but growth in demand is slowing.

Among the biggest factors is the growing number of electric vehicles, a shift that may accelerate with the development of cars run by computers.

“Everything is gradually going digital and everything digital is effectively electric,” Dieter Helm, a professor of energy policy at Oxford, wrote in a recent commentary. “Transport will not escape this trend.”

Mr. Helm, the author of new book on the decline of fossil fuels titled “Burn Out,” argues that given oil’s uncertain future, a price of $50 a barrel could prove to be “very high.”

Even some big oil companies are coming around to the view that demand for fossil fuels may soon decline.

In its Energy Outlook 2017, BP said that if the rise of alternative fuel vehicles, improved fuel efficiency and other trends accelerated more than expected, demand for oil might peak as early as 2035.

An Erosion of Credibility

In decades past, an OPEC decision to curb or increase production had wide consequences.

This no longer seems the case: Markets are prepared.

“OPEC has used Band-Aids to get through crises of the moment,” said Bhushan Bahree, an OPEC analyst at research firm IHS Energy. “It’s not clear they are willing or able to address the larger issues of the global market.”

With that in mind, Saudi Arabia, OPEC’s de facto leader, brought in Russia and other producers outside the cartel to add clout to the recent production cuts.

But adding those players has increased the complexity of presenting a united front.

There is already disunity within the 13-nation bloc. Member countries like Iraq and Iran believe they are entitled to higher production because of years of revenue lost to conflict and sanctions, and will probably press for increases to their output allocations.

Added to that has been a disconnect between the announced level of the cuts and the actual reductions.

Knowing that cuts were on the horizon, OPEC members increased production before they were implemented, which meant starting from an artificially high base. Several members have also been selling from their stockpiles of crude, blunting the impact of the reductions.

IHS Markit, for instance, estimates that OPEC countries trimmed output by 1.1 million barrels a day in the first quarter of 2017, but exports fell by only 900,000 barrels a day.

There are signs that the oil glut is easing, but its persistence has undermined OPEC’s credibility with the markets.

* As Their Clout Wanes, Saudi Arabia and Russia Extend Oil Production Cuts

* Oil Producers Comply With OPEC Deal to Cut Output, but for How Long?

* OPEC Agrees to Cut Production, Sending **Oil Prices** Soaring

A section of the BP oil project in the North Sea, about 100 miles east of Aberdeen, Scotland, in 2014. | Pool photo by New

Document NYTFEED020170525ed5p0012x

The New York Times

Business/Financial Desk; SECTB
Fed's 'Careful, Slow' Plan to Reduce Bond Holdings Pleases Wall Street

By THE ASSOCIATED PRESS
713 words
25 May 2017
The New York Times
NYTF
Late Edition - Final
2
English

Stocks on Wall Street rose for the fifth consecutive day Wednesday as investors went on a late buying spree. The gains came after news that the Federal Reserve planned to start reducing its huge portfolio of bonds. The **Standard & Poor's 500-stockindex** closed at a record high.

Stocks were slightly higher for most of the day as the market kept chipping away at the losses it sustained one week before. Technology companies like Intuit, the maker of TurboTax, and materials companies, including the industrial gas company Praxair, made some of the biggest gains.

The **S.&P. 500** picked up 5.97 points, or 0.25 percent, to close at 2,404.39. The **Dow Jonesindustrial average** gained 74.51 points, or 0.4 percent, to 21,012.42. The **Nasdaq composite** rose 24.31 points, or 0.4 percent, to 6,163.02.

In the afternoon, the Federal Reserve released the minutes from its latest meeting, early this month. Officials discussed steps for shrinking the central bank's $4.5 trillion in bond holdings, and Wall Street liked what it heard.

The Fed bought huge amounts of bonds during the global economic crisis in an effort to stimulate the economy. When the Fed suggested in April that it was considering reducing its portfolio, investors were unnerved. But when investors saw some details of how the plan might look, they were pleased.

''They're going to do it in a very careful, slow and, at least by Fed standards, transparent method,'' said Ed Keon, a portfolio manager at QMA, a fund manager owned by Prudential Financial. ''They're not going to do it in a way that runs the risk of shocking the market.''

In the wake of the Fed's disclosure, **bond prices** turned higher. The yield on the **10-year Treasury** note fell to 2.25 percent, from 2.28 percent. High-dividend stocks including utility companies and real estate investment trusts climbed as investors looked for yield. NRG Energy jumped 88 cents, or 5.5 percent, to $16.76, and Simon Property Group gained $2.53, or 1.6 percent, to $159.78.

Praxair's shares rose after it agreed to terms with Linde in Germany. The companies said they would combine in an all-stock deal in December, part of a wave of consolidation in the chemical and materials industries. Praxair picked up $2.30, or 1.8 percent, to $132.27. Linde's German stock rose 2.8 percent.

Intuit, the accounting software maker, had a stronger quarter than investors expected, and Wall Street was also pleased with its forecasts. Its stock gained $8.68, or 6.7 percent, to $137.83.

General Electric slumped after its chief executive, Jeffrey Immelt, suggested it would be tough for the company to reach the earnings targets some investors want to see. The stock fell 45 cents, or 1.6 percent, to $27.83. G.E., which is seen as a bellwether for many different industries, has been trading at its lowest price in a year and a half.

Benchmark crude lost 11 cents to settle at $51.36 per barrel in New York while Brent crude, used to price international oils, sank 19 cents, to $53.96 a barrel in London.

Gold fell $2.40, to $1,252.40 an ounce. Silver lost 2 cents, to $17.12 an ounce. Copper fell 1 cent, to $2.58 a pound.

The dollar rose to 111.59 yen, from 111.79 yen. The euro edged up to $1.1215, from $1.1181.

The FTSE 100 index in Britain was up 0.3 percent, and the DAX in Germany fell 0.2 percent. The CAC 40 in France was 0.2 percent lower. The Hang Seng in Hong Kong finished unchanged after Moody's downgraded the Chinese government's credit rating. The Nikkei 225 in Japan rose 0.7 percent. The Kospi in South Korea gained 0.2 percent.

CHARTS: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Wednesday. (Source: Reuters); 5-Year Treasury Notes: High yields at auction. (Source: Treasury Department)

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The New York Times

Business Day
Moody's Downgrades China Rating Over Debt Worries

By KEITH BRADSHER
1,376 words
23 May 2017
10:50 PM
NYTimes.com Feed
NYTFEED
English

SHANGHAI — China has gone on a spending spree, borrowing money to build cities, create manufacturing giants and nurture **financial markets** — money that has helped drive the economic powerhouse in recent years. But the debt-fueled binge now threatens to sap the energy of the world's second largest economy.

With its economy maturing, China has to pile on ever more debt to keep its growth going, a pace that could prove unsustainable. And the money is increasingly flowing through opaque channels that operate outside the regulated banking system, leaving China vulnerable to blowups.

A major credit agency sounded the alarm on Wednesday, saying the steady buildup of debt would erode China's financial strength in the years ahead. The agency, Moody's Investors Service, cut the country's debt rating, its first downgrade for the country since 1989.

China's debt problems stem from the global financial crisis in 2008. As world growth faltered, China unleashed a wave of spending to build highways, airports and real estate developments — all of which kept its economic engine chugging.

To finance the construction, local officials and state-run companies borrowed heavily. Even after the worst of the crisis passed, China continued to rely on debt to fund growth.

But debt no longer packs the same economic punch for China. An aging work force, smaller productivity gains and the sheer math of diminishing returns mean it must borrow more money to achieve less growth.

China's debt has been increasing lately by an amount equal to about 15 percent of the country's output each year, to keep the economy growing from 6.5 percent to 7 percent. Overall debt in China, by the same measure, barely changed from 2001 to 2008, when the country achieved some of its fastest double-digit growth rates.

As a percentage of economic output, China's total debt — including the government, households and businesses — is now high for a developing country. It sports similar levels to many developed Western countries, though it is still considerably smaller than Japan's, according to the Institute of International Finance, a trade group of global banks. Some economists now compare China to Japan, where a lack of willingness to deal with its deeply indebted companies has led to what is commonly called the Lost Decade, a period of sluggish economic activity there.

Against that backdrop, Moody's on Wednesday lowered its rating on China's sovereign debt by one notch, to A1 from Aa3. The move brings it in line with another major ratings company, Fitch Ratings. A third, Standard & Poor's, rates China a notch higher but with a negative outlook, which means its next move is also likely to be downward. Moody's changed its outlook for further rating changes to stable from negative.

"The downgrade reflects Moody's expectation that China's financial strength will erode somewhat over the coming years, with economywide debt continuing to rise as potential growth slows," the credit rating company said.

China criticized the move within hours, saying that Moody's failed to understand China's legal or financial systems and underestimated the country's efforts to restructure its economy to achieve more sustainable growth. More broadly, experts inside and outside China believe Beijing probably has the power to stop a meltdown of the kind that slammed the United States and much of the rest of the world a decade ago, thanks to the Chinese government's considerable financial firepower and ironclad grip on the country's banking system.

Economists at the International Monetary Fund and at Goldman Sachs have issued a series of increasingly strong warnings about the pace at which the debt is rising. China's financial system has traditionally been firmly under the control of the central government, giving many economists confidence that Chinese officials could contain a crisis of the sort that gripped the world in 2008. Still, fast growth and signs of fragility in the financial system have given pause to economists and Chinese regulators alike.

Chinese corporate debt has been mounting, and China's banks show little inclination to force companies to do something about it. China's banks have kept lending to the country's state-owned companies, even to those in trouble, to help them make payments on previous loans. That helps those companies stay in business and helps the economy keep growing despite mounting debt.

Regulators and economists are also questioning where China's lending comes from.

Traditionally, China's lending has come from four big, state-controlled banks with a solid deposit base. But in recent years, local and provincial banks that lack the deposit base and nationwide branch network of their bigger brethren have grown rapidly, and they now account for half of the assets in the banking system.

Many of these smaller banks raise money partly through borrowing the deposits of the big four banks and partly by selling lightly regulated investments — called wealth management products — to their customers. A growing number of nonbank financial firms also market their own wealth management products and invest the money with little disclosure of where the money goes.

The worry is that if the public loses confidence and stops buying these wealth management products from smaller banks and nonbank firms, a wave of defaults could spread across the economy.

In a series of interviews over the last two weeks, current and former Chinese officials contended that the structure of their country's debt made it inherently much more stable than the debts of other nations.

For starters, China owes little to other countries. Brad Setser, a former Treasury official specializing in China's finances who is now a senior fellow at the Council on Foreign Relations, said that China's $3 trillion in foreign reserves far exceeded the country's overseas debts and gave it a large financial cushion.

Within China, most households also appear to have manageable debts, in contrast with the United States before its mortgage crisis. Only in the past year and a half has China allowed rapid growth in mortgages to help the construction industry as well as its suppliers, like steel mills and cement factories. Overall mortgage debt is still fairly low.

The central government in China also owes little over all, with total debts equal to less than 40 percent of the economy. That means the government has a lot of capacity to borrow money and bail out troubled borrowers.

By far, the biggest category of debt in China is corporate debt, which equals almost 170 percent of annual economic output. This debt consists overwhelmingly of loans by state-owned banks to state-owned enterprises.

On Wednesday, the Finance Ministry said the downgrade was a mistake because it applied to China's central government bonds, even though the central government was not on the hook for the debts of local governments and state-owned companies.

Still, China could end up paying the tab. The central government could decide to tell the state-owned banks to write off a lot of their bad loans, and then recapitalize the banks by providing money to them. Mr. Setser, at the Council on Foreign Relations, said he thought that a large, government-led recapitalization of the banks was likely but that the central government had the financial strength to handle it.

Stock markets in China and Hong Kong opened lower on Wednesday on the news but soon recovered their losses and closed with little change. The Australian dollar, which is widely considered a barometer of investor sentiment about China because Australia sells such a large amount of its raw materials to that country, weakened against the United States dollar.

Ailin Tang contributed research.

* China's Ratings Downgrade, Explained

* Debt Crisis Shakes Chinese Town, Pointing to Wider Problems

* As China's Economy Slows, a Look at What Could Happen

* China's Big Debt Worries George Soros. Should It Worry You?

* As China's Economy Slows, Beijing's Growth Push Loses Punch

A construction site in Beijing on Tuesday. Moody's Investors Service said Wednesday that the buildup of debt in China's economy would erode its financial strength in the coming years. | China Stringer Network, via Reuters

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THE WALL STREET JOURNAL.
U.S. EDITION

Do Dishes, Then Track Oil Data

By Georgi Kantchev
971 words
24 May 2017
The Wall Street Journal
J
B1
English

On a recent Sunday evening, Samir Madani had dinner with his family in suburban Stockholm, did the dishes and put his two children to bed.

Then he opened his laptop and started crunching U.S.oil-import data late into the night.

Mr. Madani, a technology executive who trades and researches crude as a hobby, is part of a growing group of oil sleuths who have sprung up to sate the market's voracious appetite for data and intelligence.

"So much of oil data is hidden, and we're trying to make it accessible," said Mr. Madani, who runs a free oil-data website from his house. "Besides, there's so much drama in oil."

Dramatic gyrations in the price of oil in the past three years have boosted demand for such services, intensifying competition in a market that for years had been dominated by governments, oil companies and a handful of big data providers.

The new entrants include both amateurs armed with an internet connection and a Twitter account, and professional services using shoebox-size satellites and sophisticated computer models. They are crunching data on everything from Middle Eastern exports to U.S. drilling. Such statistics often move **oil prices** as they predict government releases on crude inventories or cover data black spots such as Chinese stockpiles and Iranian tanker movements.

With the proliferation of data sources, the oil industry is catching up to other sectors. Retail and commodity investors, for instance, have long had access to a wealth of sophisticated information on things such as store traffic and crop yields. But the free fall in the price of oil -- from more than $100 a barrel in 2014 to just a little over $50 today -- created new trading opportunities for hedge funds and day traders.

When Doug King started the Merchant Commodity hedge fund at RCMA Asset Management in 2004, there were only a few outside data sources, he said. "We used to do our own data crunching by hand. It was a simpler time," said Mr. King, who now subscribes to several data services.

"The oil-data industry has exploded," said Mr. King, chief investment officer at RCMA.

At least three new oil-data services companies are launching this year. One is Kayrros, a Paris-based startup due to open for business in June. It aims to use computer algorithms to analyze satellite imagery, financial data and social news to come up with detailed estimates and forecasts for key oil numbers, said Antoine Halff, a founding partner of the firm.

"A decade or more ago, it used to be people with binoculars sitting in a hotel watching tankers move in and out of the port," said Mr. Halff, who is also a senior researcher at Columbia University's Center on Global Energy Policy.

A popular service that such firms offer is tracking where oil tankers are going. That gives, for instance, insight into how much crude the members of the Organization of the Petroleum Exporting Countries are exporting after their deal last year to limit supply.

Another new entrant, Vortexa, promises real-time tracking of more than 94% of all oil cargoes globally. The firm was co-founded by a former head of trading technology at oil giant BP PLC.

Paris-based Kpler has19 data "engineers" spread across offices in France, Singapore and Houston who use sources such asship brokers and customs data and tiny nanosatellites, which can deliver more-frequent imagery than traditional satellites.

Oil upstarts such as Vortexa and Kpler are moving onto the turf of more-established players. Financial-data companies such as Bloomberg LP, Thomson Reuters Corp. and the commodity-market information provider Genscape Inc. have been offering oil data such as tanker movements and production surveys for years. Reuters and Bloomberg compete with Dow Jones, the publisher of The Wall Street Journal, on some services.

Services like Louisville, Ky.-based Genscape cost up to several hundred-thousand dollars a year, depending on the size of the customer and the data package. Such hefty price tags have been driving independent traders such as Mr. Madani to look for data themselves.

Mr. Madani turned to Twitter. A year ago, he created the #OOTT hashtag, which stands for Organization of Oil Trading Tweeters, to collate posts about oil news and publicly available data. The community quickly grew, with tweets featuring the hashtag reaching more than seven million accounts in the first two weeks of May, according to information provider Klear.

Mr. Madani then started crunching oil data from publicly available sources like free tanker-tracking websites and government statistics. Mr. Madani used a shared Google spreadsheet to publish his findings, and that later grew into TankerTrackers.com, a free oil-data website. He said he doesn't plan to charge a subscription as his website is aimed at independent traders who often can't afford professional services.

"We're looking after the average Joe & Jane,"said Mr. Madani who routinely stays up until 2 a.m. trying to estimate OPEC members' compliance with the group's deal to cut production. "We're all news and data junkies."

Executives at some of the incumbent providers say they offer more data than the upstarts do, but that they welcome the competition. "The more eyes we have watching the market, the more transparent it gets," said Matt Smith, director of commodity research at ClipperData, a New York-based oil-data provider.

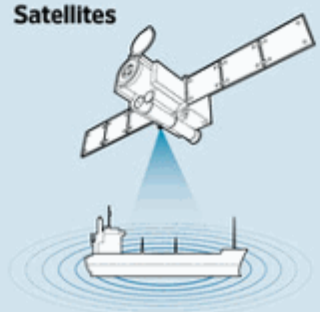
Lee Saks, a New York-based oil-futures trader who often tweets using the #OOTT hashtag, said that while such free websites don't have the resources of paid providers and can make mistakes, "they are on point a lot."

"Free services can be a decent substitute for paid subscriptions," he said.

Oil Sleuths

Oil-data gatherers use a variety of technologies to match the market's voracious appetite for statistics and scraps of intelligence.

Satellites

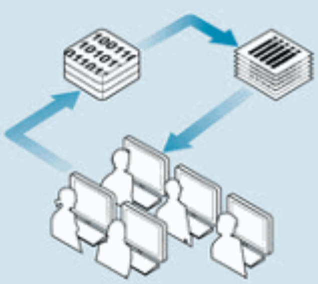


- Companies use satellites to monitor oil tankers as they criss-cross the seas
- That helps them reveal the location of Iranian oil tankers or how congested major oil ports are
- Some firms use shoebox-size nanosatellites that can deliver more frequent imagery than traditional satellites

Infrared cameras

- Louisville, Ky.-based Genscape uses infrared cameras to measure the level of stored oil
- Those cameras are mounted on helicopters that fly around tanks around the world
- The market-moving data is usually released a few days ahead of government statistics

Computer algorithms



- Oil-data firms use computer programs to analyze reams of data to come up with forecasts for key oil numbers
- Input sources include: satellite imagery, customs databases, shipping records, social news
- The data is then distributed via online portals featuring charts and live tanker-tracking maps

Sources: the companies; staff reports

THE WALL STREET JOURNAL.

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The New York Times

Business/Financial Desk; SECTB
Investors Find Positive News In Trump's Budget Plan

By REUTERS
651 words
24 May 2017
The New York Times
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2
English

Wall Street ended higher on Tuesday after the release of President Trump's budget plan, but gains were tempered by declines in consumer discretionary stocks.

Oil prices rose slightly in **volatile** trading as expectations of an extension to OPEC-led supply cuts and another drop in crude inventories. Those factors offset a proposal in Mr. Trump's budget plan to roll out sales of the nation's petroleum reserves over 10 years.

Crude rose 0.84 percent to $51.47 a barrel and Brent crude, the main international benchmark, was $54.26, up 0.72 percent on the day.

Mr. Trump's first full budget plan calls for an increase in military and infrastructure spending but also a raft of cuts, including health care and food assistance.

''People will keep an eye on any sort of indication of corporate tax reform as well as infrastructure spending,'' said Nadia Lovell, United States equity strategist at J.P. Morgan Private Bank in New York.

The **Dow Jonesindustrial average** rose 43.08 points, or 0.21 percent, to end at 20,937.91, the broader **Standard & Poor's 500-stockindex** gained 4.4 points, or 0.18 percent, to 2,398.42 and the **Nasdaq composite** added 5.09 points, or 0.08 percent, to 6,138.71.

''There were no large surprises. The market is pleased with that,'' said Wade Balliet, chief investment strategist at Bank of the West in Denver.

Mr. Trump's tax and spending plan in its current form is unlikely to be approved by Congress, which will craft its own.

The British pound was subdued after reports showing sluggishness in the British economy and a suicide bombing at a pop concert in Manchester on Monday night.

''Increasingly the markets are just more and more numb to these. As bad as they are and as horrific as they are, the market immediately looks through these things and uses these as buying opportunities more than anything else,'' said Brad Bechtel, managing director for foreign exchange at Jefferies in New York.

While the president is on an overseas trip, stocks were helped by a lack of major news updates related to the government inquiry on possible ties between his election campaign and Russia.

''With the president being away, with the news cycle slowing a little bit, investors have nibbled their way back in,'' said Rick Meckler, president of LibertyView Capital Management in Jersey City. ''This market has had tremendous strength on the idea that the new administration is going to be able to push through a pro-business platform. To the extent it loses political credibility, the market has had trouble holding these gains.''

In the morning, economic data showed new single-family home sales in the United States in April tumbled from near a nine-and-a-half-year high, while manufacturing activity for May fell to the lowest level since September.

The biggest drag on the consumer sector was the stock of the auto-parts retailer AutoZone, which fell 11.8 percent to $581.40. Its quarterly results missed expectations. Advance Auto Parts fell 4.6 percent, while O'Reilly Automotive fell 3.3 percent.

Yields on United States Treasury debt rose, with some investors paring bond positions to make room for this week's federal and corporate supply while others reduced holdings in favor of stocks.

The benchmark **10**-**year Treasury** note yield was 2.28 percent, up from 2.25 on Monday.

The dollar rose against a basket of major currencies as its worst week of losses in a year drove some profit taking, and as investors turned their attention to the Fed minutes, which will be released on Wednesday.

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

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THE WALL STREET JOURNAL.
U.S. EDITION

The Property Report
Ratings Companies Give Closer Scrutiny To Shopping Malls

By Esther Fung
483 words
24 May 2017
The Wall Street Journal
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B6
English

Bond rating companies are looking closer at securities tied to shopping mall debt as concerns intensify about mall owners' ability to repay their mortgages amid closures of anchor stores.

The ratings firms in some cases are issuing downgrades on securities backed by malls suffering from an anchor store closure and putting on watch malls with large stores such as Macy's Inc., J.C. Penney Co. and Sears Holdings Corp., even if the places remain open.

While anchor stores might not be part of the collateral of the mall loan or contribute much rent to the property owner, fluctuations in occupancy rates raise the probability of losses. Ratings firms also look at clauses that allow tenants to renegotiate for concessions such as early lease termination or rent relief from the landlord.

The moves come amid a rapid pace of store closures this year, more than 3,000 to date. The overbuilt retail real-estate market and the rising popularity of e-commerce have clouded prospects for many middling malls.

Cottonwood Mall based in Albuquerque, N.M., is losing its Macy's anchor store. Fitch Ratings applied a 50% haircut to the most recent reported property cash flow to account for co-tenancy clauses and predicted a 29% loss on the $101 million loan.

The loan, which was earlier bundled into a commercial mortgage-backed security deal, is still performing, but Fitch recently issued negative ratings outlooks on two parts of the deal.

During the last recession, retail landlords struggled as people curbed spending and unemployment rates shot up. Now, while consumer spending is much stronger, e-commerce and the oversupply of retail space are disrupting retail real estate, analysts said.

Since last August, Macy's, J.C. Penney and Sears have said they are closing as many as 390 stores in all, with Sears recently saying that it would shut pharmacies and auto centers.

Apart from metrics such as sales a square foot, the mix of anchor stores, and its co-tenancy clauses, credit analysts also scrutinize a mall's performance compared with its competition, whether it is dominant mall in the market, and tenants' occupancy costs as a percentage of sales.

Kroll Bond Rating Agency recently revised the performance outlook of the loan of Oglethorpe Mall in Savannah, Ga., to underperform from perform.

While the mall is 97% occupied and the loan remains above water, the lowered performance outlook has more to do with its exposure to the three department stores owned by J.C. Penney, Sears and Macy's.

"We are being proactive given the current **volatility** in the retail sector as well as the fact that there is a possibility of additional store closures in the future," said Keith Kockenmeister, managing director in the CMBS Group of Kroll.

Document J000000020170524ed5o0000h

The New York Times

Business Day; Economy
Economists See Little Magic in Tax Cuts to Promote Growth

By PATRICIA COHEN and NELSON D. SCHWARTZ
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English

If one assumption has undergirded Republican economic policy for decades — and is the foundation of the Trump administration's first budget proposal — it is that tax cuts will unleash fantastic growth.

The basic idea is that shrinking the government's share increases what people take home, encouraging workers to work more and investors to invest more. But while taxes can create incentives that can promote growth, liberal and conservative economists alike said there was no evidence that the White House budget announced on Tuesday would do so.

"The assumed effects on growth are just huge and unwarranted," said William G. Gale, a co-director of the nonpartisan Urban-Brookings Tax Policy Center and a former economic adviser to the first President George Bush.

The Trump administration promises to cut taxes, keep revenues steady and crank out average annual economic growth of 3 percent, but neither the budget nor the tax reforms previously outlined in sketchy form provide enough detail to figure out if that will happen.

While the United States cruised along with 3 percent growth — and higher — in the late 1990s and mid-2000s, growth has not reached anywhere near that level since well before the recession. The best showing in the past decade was in 2015, when the annual rate of expansion hit 2.6 percent.

In 2016, the economy expanded at an annual rate of 1.6 percent, the weakest performance in five years. Even as economies in Europe and Asia show signs of life after years of stagnation or outright recession, expectations for faster growth soon in the United States have ebbed. Both the Federal Reserve and the Congressional Budget Office have projected a pace of less than 2 percent in the long run.

Since mid-March, yields on the benchmark **10-year Treasury bond** have fallen from 2.62 percent to 2.28 percent on Tuesday, a sign that traders are discounting the likelihood of a sudden pickup in growth.

An analysis of Mr. Trump's tax plan by the bipartisan, nonprofit Committee for a Responsible Federal Budget estimated that the federal debt would rise by $5.5 trillion over the first decade. Even if lower taxes encouraged people to save and invest more, the huge government deficits created by the budget would crowd out private investors and offset some of those direct effects, several economists agreed.

Alan D. Viard, a tax expert at the American Enterprise Institute, a conservative research organization in Washington, said he and other researchers had repeatedly found that "deficit-financed tax cuts were usually harmful to growth."

Cutting the tax on investment income, for example, delivers the most bang for the buck, Mr. Viard said, but unless the lost revenue is made up through increases in other taxes or spending cuts, the deficit will balloon and economic growth will suffer.

Previous presidents have not had a lot of success using tax cuts to spur growth. "The historical record is pretty clear that large tax cuts don't pay for themselves through economic growth," said Michael J. Graetz, a professor of tax law at Columbia University.

The 1981 tax cut that President Ronald Reagan pushed through did provide a short jolt to the economy, Mr. Graetz said, but he pointed out that the administration was compelled to raise taxes in 1982 and 1984 to keep the deficit under control.

Tax cuts championed by President George W. Bush in 2001 and 2003 performed even worse. While the cuts temporarily stimulated spending by putting more money in people's pockets, they did not have much impact in enhancing the economy's ability to produce goods and services.

Both President Trump and the House Republicans' proposals reserve the biggest tax cuts for the wealthiest. Slashing rates at the top is probably the least effective way of spurring spending, however, because high-income households have the luxury of socking away a financial windfall, said Nariman Behravesh, chief economist at the research firm IHS Markit. The Trump plan, he said, "could well end up hurting a lot of poor people without boosting growth."

"If you tilt the tax cuts toward lower-income households, they will spend more of it," Mr. Behravesh said. "There is virtually no debate among economists about that."

And the deep cuts to programs that benefit primarily those at the bottom of the economic ladder that are included in the budget will, if anything, reduce their spending.

The left-leaning Economic Policy Institute estimated that the budget cuts would decrease growth by more than 1 percent by 2020.

Many economists on the left and the right agree that the current code as it applies to businesses is misguided: It puts the United States at a competitive disadvantage and encourages corporations to keep their income abroad. But fixing that problem isn't merely a matter of slashing rates.

"With the economy back to near full employment, conventional tax cuts or stimulus spending won't have that much of an effect," said Douglas Holtz-Eakin, a conservative economist who served in the George W. Bush administration and advised John McCain's 2008 presidential campaign. "What is needed are policies that genuinely augment the supply side of the economy."

What might that look like? Instead of simply cutting rates, Mr. Holtz-Eakin would opt for incentives for business to invest in new equipment or software, infrastructure investments that speed transportation and ease other frictional costs, and retraining that improves workers' skills and increases the proportion of prime-age Americans who are employed.

Mr. Viard of the American Enterprise Institute added tax relief for child-care expenses to the list of reforms that could bolster growth.

There are lots of reasons to tinker with the tax code, many experts say, but the notion that there is a simple cause-and-effect relationship between cuts and growth is faulty. "Tax policy is clearly not some overwhelmingly powerful tool that affects growth," Mr. Viard said. There are simply too many other things — like technology, worker productivity and aging — that can either muffle or overwhelm their impact.

In the months after President Trump's unexpected victory in November, many business leaders and investors thought that the Washington logjam might finally break and that corporate tax reform, more infrastructure spending and other growth-friendly policies would be passed by Congress and signed into law.

But with Washington and the White House now distracted by the investigation into possible ties between former Trump aides and Russia, momentum for major tax cuts or a big infrastructure bill has stalled.

On Friday, the government will announce revised figures for growth in the first quarter of 2017, but not much improvement from the initial 0.7 percent estimate last month is expected.

* Trump's Budget Cuts Deeply Into Medicaid and Anti-Poverty Efforts

* Trump's First Budget Works Only if Wishes Come True

* G.D.P. Report Shows U.S. Economy Off to Slow Start in 2017

The Trump administration promises average annual economic growth of 3 percent, but the Federal Reserve and the Congressional Budget Office have projected a pace of less than 2 percent in the long run. | Todd Heisler/The New York Times

Document NYTFEED020170523ed5n008n6

THE WALL STREET JOURNAL.
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'Leveraged' ETF Amplifies Brazil's Swings --- A 48% one-day slide because of country's scandal shows risk of such investments

By Ben Eisen
618 words
23 May 2017
The Wall Street Journal
J
B14
English

Markets' reaction to the political tumult that rattled Brazil last week underscores the risks facing investors who use so-called leveraged exchange-traded funds in highly **volatile** areas in a bid to turbocharge their returns.

Even in the high-octane world of leveraged ETFs, the 48% drop in the Direxion Daily MSCI Brazil Bull 3X Shares on Thursday stood out. Its one-day fall was bigger than the drop in leveraged products tracking financial stocks during the 2007-09 recession, and it outpaced the wildest plunges in products that hold perpetually **volatile** gold-miner stocks, according to Charlie Bilello, director of research at Pension Partners. The ETF subsequently rebounded 18% on Friday, but dropped 7.9% on Monday.

By comparison, the iShares MSCI Brazil Capped ETF, which tracks the same index but doesn't have leverage, fell 16% on Thursday after reports that Brazilian President Michel Temer was involved in an alleged bribery. Mr. Temer said he was innocent.

The concept of using an exchange-traded product to multiply the returns of a given asset increasingly has been applied to riskier investments. In recent years, fund firms have created leveraged products tied to emerging markets like Russia and commodities such as crude oil. The Securities and Exchange Commission has increased scrutiny of these types of products.

"High **volatility** and leverage don't mix very well," Mr. Bilello said. "It's interesting because the most popular ETFs are the most **volatile**."

Leveraged ETFs deliver amplified price moves on a single day. Holding these products for days or weeks, especially when markets are **volatile**, can result in price swings that are exaggerated well beyond the stated two or three times leverage. For instance, the unleveraged iShares ETF is up 2% this year while its triple-leveraged ETF counterpart is down 17%.

In the case of this Brazil ETF, investors face another risk: currency fluctuations. U.S. investors who buy international-stock ETFs trade dollars for the local currency, effectively making them long both stocks and the real in this case. That means that even if Brazil's stocks rise, a falling real would erode the ETF's gains. The value of the Brazilian real fell 7.1% against the dollar Thursday and 0.3% Monday, though it rebounded 3.8% Friday.

Sylvia Jablonski, managing director of capital markets for Direxion, the company that offers the ETF, said that while she wouldn't advise the product as a long-term investment, it can be a good trading tool.

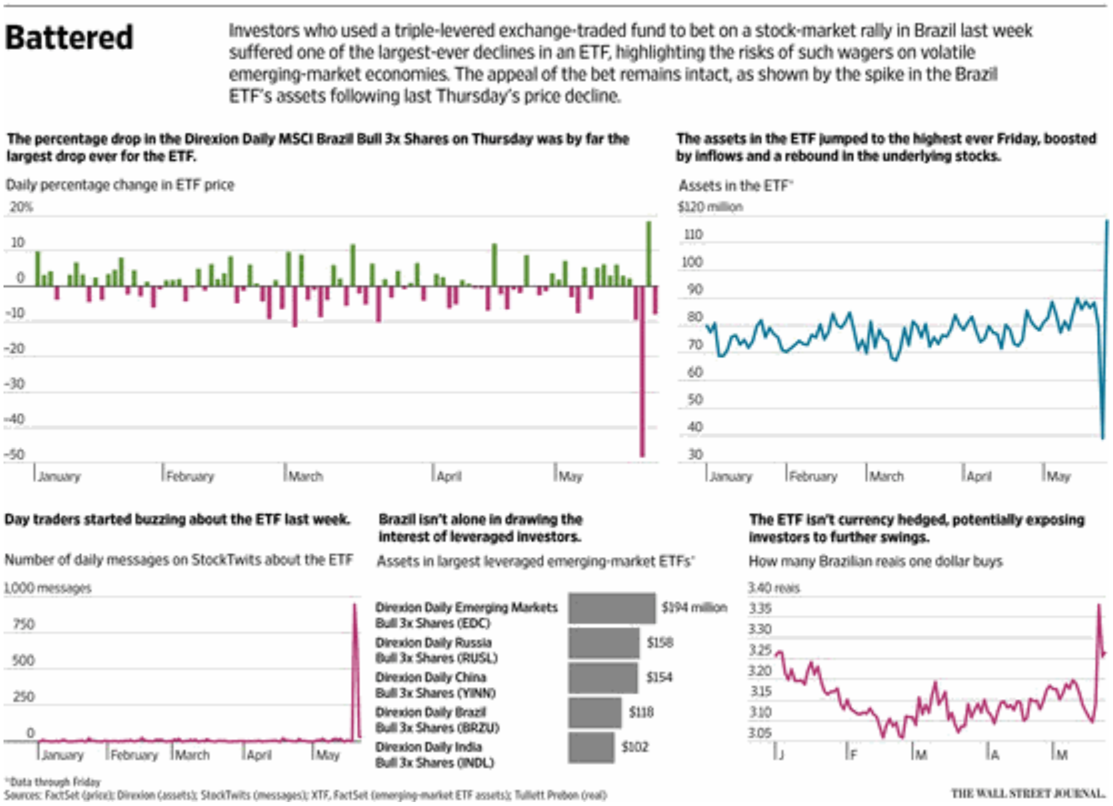
After the size of the ETF roughly halved Thursday, investors put more than $60 million of new money into the product Friday. When the ETF's share price rebounded that day, the size of the ETF ballooned to over $118 million, its largest ever, Direxion said.

"Someone is betting largely that Brazil is going to rebound after falling almost 50%," said Mohit Bajaj, director of ETF trading solutions at brokerage WallachBeth Capital.

Investors may have also piled in as part of a larger trade, according to Ms. Jablonski. Some may have bet against the unleveraged Brazil ETF or the stocks it holds, and then bought the leveraged version as a hedge.

Day traders, who often like to make bets around big market moves, buzzed about the leveraged ETF as the news unfolded. On StockTwits, a popular forum for traders to discuss investment ideas, there were more than 900 messages on Thursday about the product and nearly 700 Friday, up from virtually none the week before.

Chris Dieterich contributed to this article.



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THE WALL STREET JOURNAL.
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CEO Council: Asia (A Special Report) --- The Banker's Viewpoint: Haruhiko Kuroda on economic inequality, protectionism and monetary policy

By Gerard Baker
954 words
23 May 2017
The Wall Street Journal
J
B6
English

Monetary policy can stymie or enhance free trade and global economic growth. And one of the biggest influencers of monetary policy in the world is the Bank of Japan. Gerard Baker, editor in chief of The Wall Street Journal, sat down with the bank's current governor, Haruhiko Kuroda, to discuss the populist backlash against globalization, the rise of economic nationalism, and the economic health of the world. Edited excerpts of their discussion follow.

MR. BAKER: Governor, you just got back from a G-7 finance ministers and central bank governors meeting in Bari, Italy. Economists such as yourself have argued for a very long time that global economic integration and cooperation has been very good for global growth and has lifted incomes, particularly in parts of the world like Asia. If we're going to see a revival of economic nationalism, a rolling back of economic integration, what does that mean for the economy, Japan's economy in particular?

MR. KURODA: In Italy we discussed economic growth and inequality. This is a very topical agenda faced by many countries, including G-7 countries, and we agree that free trade actually contributed to reducing global inequality.

But at the same time, it is true that in the last couple of decades, inequality within each country has increased. We discussed how to address this issue in each country. Now, protectionism, I don't think it will contribute to reducing inequality. Trade restriction would decelerate global trade, and that would dampen global growth. Without growth, living standards cannot be raised. I think it is well understood that free trade is key for global growth and continued improvement of living standards of the people.

At the same time, in the last couple of decades, a very defined, delicate, intertwined global supply chain has developed, not just in Asia, but in the Western Hemisphere as well as Europe. And without this extensive supply chain, any economy cannot prosper. If any country introduced a protectionist measure, that would hurt that country and hurt the world economy. So I don't think that protectionists are likely to prevail in the world.

MR. BAKER: To be fair, the critics -- especially people like Donald Trump -- say they're not protectionists. They want to encourage trade. What they argue is that the trade deals over the past 20 years, many of them -- the World Trade Organization, the North American Free Trade Agreement -- have been unfair, because they haven't been genuinely free-trade deals. Countries have been able to exploit opportunities. China in particular. Japan is also criticized in this way. Whereas the U.S. in particular runs a massive trade deficit and has seen a lot of manufacturing jobs disappear.

So people are arguing that trade itself is maybe not the problem. It's actually unfair trade and the fact that some countries give themselves unfair advantages. How do you address that?

MR. KURODA: There are many detailed economic analyses already made by trade economists and they show that the WTO round of negotiations to improve free trade in the world actually haven't resulted in any major negative impact on the U.S. economy.

But some economists argue that after China joined the WTO, China expanded its global trade, and, in some countries, a too-rapid expansion of Chinese exports to their economies might have had some negative impact.

But, that said, I really don't think WTO has created the huge problems. In general, I think free trade has contributed. And I don't think any particular economy has made a negative impact on the U.S. economy.

MR. BAKER: In the past six months, there has been significantly increased optimism about the U.S. economy in particular. The stock market has done extremely well. There are expectations of much stronger growth on the back of a tax cut, and maybe infrastructure spending and various other things associated with deregulation and the Trump administration. That seems to have helped the background for the Federal Reserve, which has been tightening policy and looks like it's going to be tightening possibly further.

Where does that leave the rest of the world and, in particular, Japan?

MR. KURODA: Actually, the world economy, including the U.S. economy, started to recover from the bottom by the middle of last year -- well before the U.S. presidential election. I agree that the market has anticipated that under the new administration more aggressive economic policies would be implemented so that the U.S. economy could grow faster. That also means interest rates might rise faster than expected before. That might also have implications for exchange rates.

But if you carefully look at those market data, interest rates and the dollar haven't risen so much.

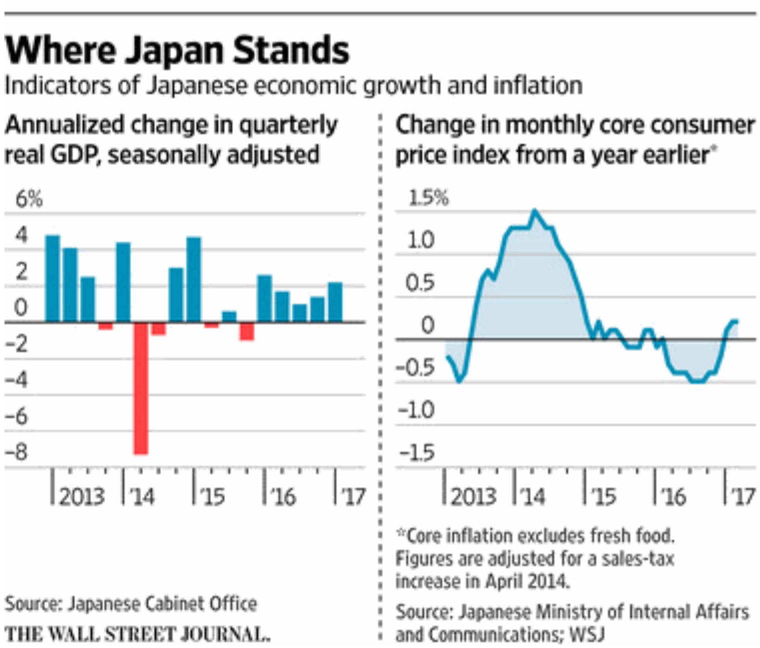
MR. BAKER: Not since that initial rise --

MR. KURODA: That's right.

MR. BAKER: -- in November.

MR. KURODA: The Federal Reserve would normalize its monetary policy in view of a very strong U.S. economic outlook, this year, next year, and that would be good not just for the U.S. economy but for the world economy. So I'm not very much concerned. Because that reflects a strong economic recovery.

On the other hand, Europe and Japan are lagging behind. The Japanese economy is growing by about 1.5% now, and is expected to continue to grow like that. Our inflation rate is still quite low. So our monetary policy is targeted at price development. That is to say to achieve the 2% price-stability target at the earliest possible time.



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THE WALL STREET JOURNAL.
U.S. EDITION

Streetwise: Time to Bring Back Pre-Trump Playbook

By James Mackintosh
718 words
23 May 2017
The Wall Street Journal
J
B1
English

A week is a long time in politics, and last week the reality-TV show that is Donald Trump's administration packed in enough extra episodes to fill a box set. But investors have hit mute.

Stocks remain strong, although not because of bets on tax cuts, easier regulation or an infrastructure boom.

In fact, quite the opposite. Stocks that should benefit from lower corporate taxes, cuts to red tape or infrastructure building have seen bets against them leap this year. J.P. Morgan strategist Nikolaos Panigirtzoglou calculates that relative to marketwide short positions -- bets on a falling price -- there is now more shorting of stocks that should be tax-cut winners than before the election.

Stocks in **S&P 500** high-tax companies that ought to be the biggest winners from lower taxes have this year given back all of their early postelection outperformance and more, according to Goldman Sachs calculations. Similarly, smaller companies have underperformed bigger rivals, which tend to be better able to manipulate loopholes in the tax code.

Investors don't think Mr. Trump will be impeached. But he was already finding it difficult to get his policies through Congress, and last week's White House shenanigans will make it harder still.

Even before the latest episodes of "All the President's Tweets," speculators had been paring bets on the dollar, and it has now completed a full reversal of its postelection gains against developed currencies. Mr. Panigirtzoglou estimates dollar bets overall are now flat, with speculators positioned for the euro to gain.

So what should worry investors? The biggest support for markets as the Trump trade evaporated was the widespread belief in synchronized global growth. Europe, the U.K. and Japan have surprised economists with the strength of their recoveries this year. In the eurozone, there is even optimism about earnings again. Analyst upgrades outnumber downgrades by the most since the Greek bailout in 2010.

Yet, that synchronized growth seems to be leaving the U.S. behind. Estimates of U.S. output this year have been cut back, even as economists surveyed by Consensus Economics raised forecasts for Europe, the U.K. and Japan. U.S. economic data have been coming in below expectations this month, too, with Citigroup's economic-surprise and inflation-surprise indexes turning negative for the U.S.

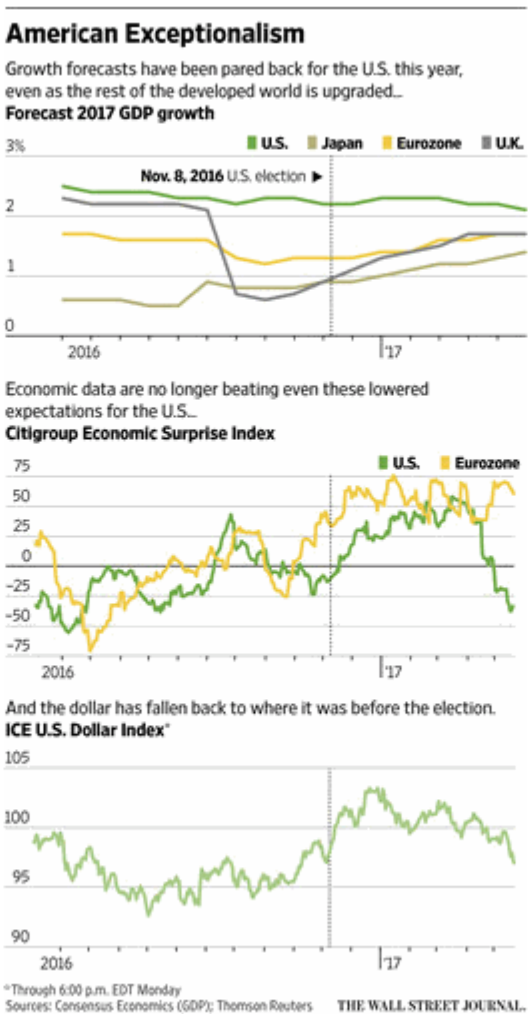
The bond markets have already accepted weaker growth, with the **10**-**year Treasury** yielding 2.25%, down from December's peak above 2.6%. The gap between the two- and 10-year yields, which typically widens when growth and inflation are expected, is again narrower than on Election Day.

S&P 500 companies make about a third of sales overseas, so they should show less concern than Treasurys about economic expansion. But even for equities the postelection euphoria about U.S. growth has gone, and with it the bets on growth-sensitive cyclical stocks and smaller companies. The extreme example is U.S. Steel Corp., which should win big from protectionism, lower tax rates, infrastructure spending and domestic growth. Its shares doubled from Election Day to late February, and have now fallen all the way back down.

Instead, U.S. markets have been led since the end of February by the big technology companies that can thrive even in a weak economy, and by the bond proxies of defensive utility stocks. (A rise in a third sector, consumer discretionary, is usually a sign that the economy is doing well, but this time it was because of the soaring price of Amazon.com Inc., by far its biggest component.)

Investors who still think Mr. Trump will be able to work with Congress to cut corporate taxes and boost the economy should be buying smaller stocks, infrastructure plays and nontech cyclicals.

The alternative for those who want to keep money in the U.S. market is to pick from the pre-Trump playbook of paying up for earnings growth in the tech sector or paying up for safe yield from the bond proxies. Faced with these expensive choices, a lot of money is being sent abroad, making it even more important that the European and Japanese economies don't, as so often, disappoint investors.



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Heard on the Street
Why Trump Doesn't Scare Market

By Justin Lahart
479 words
23 May 2017
The Wall Street Journal
J
B14
English

[Financial Analysis and Commentary]

President Donald Trump has stirred plenty of uncertainty, but except for one day last week, he hasn't shaken stocks. Two economists have a theory for why.

Last week's little bout of market jitters was quickly forgotten. With stocks moving higher on Monday, the CBOE**Volatility** Index, or VIX, slipped back below 12. Meanwhile, an index based on word combinations in news articles shows uncertainty surrounding U.S. policy is unusually high. And so the mystery of why the market's fear gauge can signal so little worry, despite everything else, is back.

Usually periods of unusual policy uncertainty are periods when **stock-market volatility** is unusually high. Economists Lubos Pastor and Pietro Veronesi even developed a model of why, theorizing that policy uncertainty reduces the value of the implicit protection that the government provides for the market. Investors, knowing they may be facing more risk than before, get a bit wobbly.

What is going on now might seem out of step with that model, but Messrs. Pastor and Veronesi say that isn't the case. Rather, they argue that **volatility** is a function not just of policy uncertainty but how clear a signal is being sent by Washington. What may really have changed, they say, is that U.S. political signals have become less precise than they used to be amid all of the White House's reversals. So much noise with so little signal may make investors nervous, but because it is so uninformative it doesn't push prices around.

That is a sharply different situation than in the early 2000s, when policy uncertainty was high during the regulatory backlash to the dot-com bust, and later during the financial crisis. In fact, the only other time the news-based U.S. policy uncertainty was high and the VIX was low was around 2013. But that was probably only because the newspapers the index uses were writing a lot about European woes that only had a glancing effect on U.S. stocks.

None of this is to say that policy uncertainty might not move the market in the months ahead, the economists say. Just because political signals coming directly from the White House aren't getting the kind of attention they did in past administrations doesn't preclude the market from reacting to political signals that come from elsewhere. Last Wednesday's selloff provides a case in point: It wasn't one of Mr. Trump's pronouncements that sparked selling, but reports that Mr. Trump in February allegedly asked then-Federal Bureau of Investigation Director James Comey to back off the investigation of former national security adviser Michael Flynn.

Just because the market has been quiet doesn't mean it can't spring a leak.

Out of Step

Ratio of the news-based U.S. Policy Uncertainty Index to the CBOE Volatility Index's monthly average

Sources: Baker, Bloom and Davis; FactSet (CBOE) THE WALL STREET JOURNAL.

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STOCKS & BONDS
Business/Financial Desk; SECTB
Shares Rise for a Third Consecutive Day As Technology Firms Make Strong Gains

By THE ASSOCIATED PRESS
807 words
23 May 2017
The New York Times
NYTF
Late Edition - Final
2
English

Strong gains for technology companies like software and chip makers helped lead stock indexes higher Monday. Defense contractors also climbed as the market continued to recover from turbulence last week.

Stocks rose for the third day in a row. Technology companies are nearing record highs, led by big names like Cisco Systems and Qualcomm.

Aerospace and defense companies rose after President Trump presided over a huge sale of military equipment to Saudi Arabia. Amazon led consumer companies higher. Energy companies lagged even though **oil prices** continued to climb.

Sameer Samana, a strategist for Wells Fargo Investment Institute, said spending on personal electronics rose, while investment by businesses in automation and software helped productivity.

''In a low-growth environment, you've got to squeeze more out of every dollar of investment,'' Mr. Samana said. At the same time, some overseas markets have been stronger than expected this year, he said.

The **Standard & Poor's 500**-**stockindex** jumped 12.29 points, or 0.5 percent, to 2,394.02. The **Dow Jonesindustrial average** added 89.99 points, or 0.4 percent, to 20,894.83. The **Nasdaq composite** index gained 49.91 points, or 0.8 percent, to 6,133.62. The Russell 2000 index of smaller-company stocks picked up 9.81 points, or 0.7 percent, to 1,377.14.

The technology component of the S.&P. has soared 18 percent this year, almost three times as much as the **S**.**&P**. **500**. On Monday, the chip maker Qualcomm gained $1.61, or 2.8 percent, to $59.28,

and Cisco Systems, which sells equipment like routers, switches and software, rose 38 cents, or 1.2 percent, to $31.59.

Adobe Systems gained $2.42, or 1.8 percent, to $138.85 and the design software maker Autodesk jumped $3.45, or 3.1 percent, to $113.36.

The **S**.**&P**. **500** and tech-heavy **Nasdaq composite** index set records early last week before pulling back amid worries about growing political uncertainty in Washington, which could hamper President Trump's agenda of tax cuts and deregulation.

Mr. Samana predicted that stocks would become more **volatile** in coming months, but not because of politics. Instead, he speculated that the cause would be the Federal Reserve and European Central Bank pulling back on the stabilizing measures they have used since the global financial crisis.

''If they both start to lay the groundwork for pulling back on the extraordinary stimulus, that's probably the catalyst for a little bit more **volatility**,'' he said.

Aerospace and military equipment companies climbed after Mr. Trump presided over a $110 billion sale of ordnance to Saudi Arabia. The agreement could expand to $350 billion over 10 years. Lockheed Martin climbed $4.24, or 1.6 percent, to $277.03 and Boeing gained $2.91, or 1.6 percent, to $183.67.

Ford replaced its chief executive, Mark Fields, as it struggled to keep the traditional parts of its business running smoothly amid efforts to remake itself. In Mr. Fields's three years as chief, popular cars like the Fusion sedan became dated, and Ford lagged in bringing long-range electric cars to market. Ford's new chief executive and president is Jim Hackett, who has led Ford's mobility unit for more than a year.

Ford added 23 cents, or 2.1 percent, to $11.10. The stock is down 8.5 percent this year.

Oil prices continued to rise. Benchmark crude oil futures for June delivery added 40 cents to $50.73 a barrel in New York. Brent crude, used for international **oil prices**, rose 26 cents to $53.87 a barrel in London.

Gold for May rose $8 to $1,260.70 an ounce.

Bond prices declined a bit. The yield on the **10**-**year Treasury** note inched up to 2.25 percent, from 2.24 percent on Friday.

The dollar fell to 111.21 yen from 111.15 yen. The euro rose to $1.1234 from $1.1202.

In Britain, the FTSE 100 gained 0.3 percent. The German DAX dipped 0.2 percent and the French CAC lost a small fraction of a percentage point. Japan's market rose after strong trade data.

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

The New York Stock Exchange on Monday. Aerospace and defense firms rose after the Trump administration reached a major deal over the weekend to sell weapons to Saudi Arabia. (PHOTOGRAPH BY BRENDAN McDERMID/REUTERS) CHARTS: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Monday. (Source: Reuters); 3-Month Treasury Bills: High rate at weekly auction. (Source: The Bond Buyer)

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THE WALL STREET JOURNAL.
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Got Milk? Way Too Much, Say Farmers --- Many bulked up their U.S. herds when prices were high, but then trouble in the global market hit

By Heather Haddon
773 words
22 May 2017
The Wall Street Journal
J
B1
English

U.S. dairy farmers' big bet on global demand for milk is souring.

The industry was in trouble long before a trade squabble with Canada last month that reduced demand for ultrafiltered milk, a cheese ingredient. Dairy farmers fear a spat that has jeopardized roughly $150 million in sales for Wisconsin, New York and Minnesota producers is just a prelude to disruptions to come if President Donald Trump renegotiates the North American Free Trade Agreement as promised.

"There was a perfect storm," said Jaime Castaneda , senior vice president of trade policy at the National Milk Producers Federation .

Dairy farmers aggressively expanded their herds three years ago when milk prices were driven up by growing demand from middle-class consumers in North America, Asia and other markets. By March, there were 9.4 million commercial dairy cows in the U.S., a 20-year high, according to the Agriculture Department.

But China, Russia, Venezuela and other importers scaled back their dairy purchasing in recent years due to domestic troubles. The European Union , meanwhile, greatly increased its dairy production after lifting 30-year-old quotas in 2015. Then came a world-wide surge in agricultural production that has pushed down prices for grains and meat as well as for dairy.

The dollar has also been on a multiyear climb, making U.S. exports less competitive. Milk prices have plummeted by one-third in the past two years, USDA data show. The value of U.S. dairy exports was $4.8 billion last year, down 50% from 2014.

Milk prices in March stood at $17.30 per hundred pounds, the USDA said, down $1.20 from a month earlier.

Commodities markets like dairy are prone to booms and busts because of the long lead time to ramp up supply. But the current glut -- and the accompanying downswing in exports -- may pose one of the biggest challenges yet to the U.S. dairy industry.

"A lot relies on exports, and that's why swings are such a big deal," said Ben Laine, an economist at CoBank Acb, an agriculture cooperative bank. "That's where any surplus goes."

The glut is likely to grow this spring, the most productive time of the year as temperatures rise and days grow longer. An unusually mild winter started this year's milking season months early at some dairies, further contributing to the milk crush.

"You can't turn the cows off," said Ken Nobis, president of a dairy cooperative in Michigan, where the busy season started three months early.

In a recent interview, Agriculture Secretary Sonny Perdue said renegotiating Nafta could improve access to Canada for U.S. farmers. "We're going to try and balance the scorecard in a number of ways," he said.

Tom Vilsack , agriculture secretary during the Obama administration and current president of the U.S. Dairy Export Council, urged the Trump administration to find new foreign buyers for American milk.

"To keep pace with those efficiencies in productivity, we have to look for additional markets," Mr. Vilsack said.

Meanwhile, U.S. dairy products are piling up. The U.S. has more than 800 million pounds of American cheese in reserve, the most since 1984, according to the USDA . The amount of butter in reserve totals 272 million pounds, the most since 1994. Some U.S. farmers are dumping millions of pounds of excess milk onto fields. In the Midwest and Northeast, nearly 78 million gallons of milk have been dumped so far this year, up 86% from the same period last year.

Lawmakers from Wisconsin and New York are asking the USDA to buy excess cheese again. Last year the agency spent $20 million to purchase cheese from private inventories for food banks and pantries.

The USDA already spent all authorized funds to buy up excess dairy this fiscal year, but the new request is under consideration, an agency spokeswoman said.

Some big purchasers like Dean Foods Co . say they don't even try to predict milk prices anymore.

"We learned our lesson back in 2014," said Chief Financial Officer Chris Bellairs , referring to a year when spiking milk costs drove losses for Dean. "The market was volatile, and it remains that way today."

To cope, farmers need to stop expanding their herds, said Mark Stephenson, director of the Center for Dairy Profitability at the University of Wisconsin-Madison. "That's something we don't want or need," Mr. Stephenson said.

Jacob Bunge contributed to this article.

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Innovations in Energy (A Special Report) --- Can OPEC's Grand Coalition Hold? An agreement with countries outside the cartel is about to be put to the test; There are plenty of skeptics

By Benoit Faucon
1,231 words
22 May 2017
The Wall Street Journal
J
R2
English

A few minutes after OPEC declared last November that it would cut production to jolt petroleum prices higher, the oil cartel's president, Mohammed al-Sada of Qatar, faced reporters in Vienna and made a startling admission.

"We wouldn't have an agreement," he said, without the help of 11 countries from outside the cartel that said they, too, would cut their output.

Such is the predicament of the Organization of the Petroleum Exporting Countries in the age of the oil glut. Once able to bring the industrialized world to its knees by turning off its oil flows, the cartel now is less able to affect global oil markets on its own. OPEC officials openly acknowledge they must enlist help from oil-producing countries outside of OPEC to have an impact on global supply and prices.

The grand coalition that OPEC brought together late last year is the cartel's future in a world in which oil traders are more focused on the power of U.S. shale producers and enormous stockpiles of crude.

"What we did is history," says Mohammad Barkindo, OPEC's secretary-general, in an interview. "It's a complete turnaround, a new chapter. Bringing a broad coalition of global producers to agree on supply adjustments . . . that's the way forward," he says.

Mr. Barkindo launched this new strategy almost immediately after taking office last summer. He and other top OPEC leaders, such as Saudi energy minister Khalid al-Falih, engaged in an unusual level of shuttle diplomacy with heads of state to make the November agreement happen. The six-month deal signed in Vienna, which expires this month, successfully tightened global oil supplies and led to a 20% rise in oil global **oil prices**.

Still, oil analysts say the strategy is riddled with potential pitfalls and points to an uncertain future for the 57-year-old cartel.

OPEC's ability to sway the market is largely based on its credibility. The group's Arab members made the world take notice in 1973 when its embargo against the West over support for Israel sent **oil prices** soaring and resulted in gasoline rationing in the U.S. But over time, the group's reputation as a potent force has suffered as members repeatedly failed to comply with agreements to hold back production. The rise of powerful new oil producers that aren't in OPEC, such as Russia, also has weakened the cartel's credibility as a central authority.

Non-OPEC producers "don't have a history or habit of even pretending to cooperate," says Robert McNally, president of energy consultancy Rapidan Group in Washington, D.C.

Such fissures may become newly apparent at a May 25 meeting in Vienna at which OPEC and non-OPEC producers are expected to discuss a possible extension of the November agreement. Whether an extension can be achieved, and for how long, could depend in part on the degree to which each nation has lived up to the production cuts pledged in the original deal. OPEC members were producing 33 million barrels of oil a day before the cuts; non-OPEC nations party to the deal were pumping about 18 million barrels a day.

Despite its members' shared interest in a stable, healthy oil market, OPEC isn't a group that can make decisions quickly. Its members span three continents and have strong differences in culture and economies. It took almost a year to reach the November accord. When more countries are added to negotiations, it can slow things down, analysts say.

Meanwhile, there are concerns that the non-OPEC participants aren't living up to their pledges. According to the International Energy Agency, about 95% of the total cut agreed to by all participants in the six-month deal had been achieved in March, but the non-OPEC producers have hit only 64% of their target. (Some OPEC members had committed to larger proportional cuts than the nonmembers, and some members cut more than they promised to.)

Representatives of both groups, OPEC and non-OPEC, have met each month since November to assess how each country has performed. But while OPEC members use a unified set of independent experts to measure their outputs, making it easier to compare reductions, non-OPEC producers tend to measure output using a mix of their own numbers and external data, making it harder for outsiders to assess their efforts. Estimates of Russian output for March, for example, vary by as much as 300,000 barrels a day -- an amount equal to the daily cuts that Russia agreed to in November.

OPEC officials say they have little choice but to try to persuade the non-OPEC countries to continue with their agreements. And despite broad skepticism from analysts, OPEC's Mr. Barkindo says there is widespread compliance with the current accord.

Meanwhile, if the world's oversupply of oil doesn't fall back into balance with demand by next year, Mr. McNally, the Washington consultant, says he expects OPEC's grand alliance with non-OPEC countries "will fall apart."

Back in 1960, when the cartel was founded by Iraq, Saudi Arabia, Venezuela, Iran and Kuwait, those members alone controlled more than half of the world's crude-oil production. Now, even with 13 members, the group controls only about a third of global oil production, including crude and natural-gas liquids, and "has made it clear it would not be able to restore stability on its own," Mr. Barkindo says.

The key cause in this slippage: technological advances that have given energy companies the ability to extract more oil from the ground and get it to market faster. Until recently, most oil production -- in and out of OPEC -- came from big projects that produced about the same amount of oil over a long period, often three or four decades if not more.

The spectacular rise of hydraulic fracturing and horizontal drilling -- the technology that unlocked the American shale-oil boom -- upended that dynamic. Shale wells produce their most oil shortly after being drilled, before heading into a decline. Fracking companies can more easily turn their production on and off, which is why it is often called "short-cycle" production.

When **oil prices** soared, first to over $140 a barrel in 2008, and then steadily remained over $100 a barrel from 2011 to 2014, U.S. shale producers ramped up output. Production also came flooding in from regions that were once seen as too complicated and expensive to produce oil, such as Canada's oil sands. The global glut and crash in **oil prices** that ensued convinced OPEC of the wisdom in keeping a closer watch on production outside the cartel.

"OPEC's attempt to regain power via a super-OPEC may be a smart strategic move," says Jamie Webster, an energy analyst fellow at the Center for Global Energy Policy at New York's Columbia University. But, he adds, "it's hardly the recipe for a strong organization that can effectively exert itself through market downs and ups."

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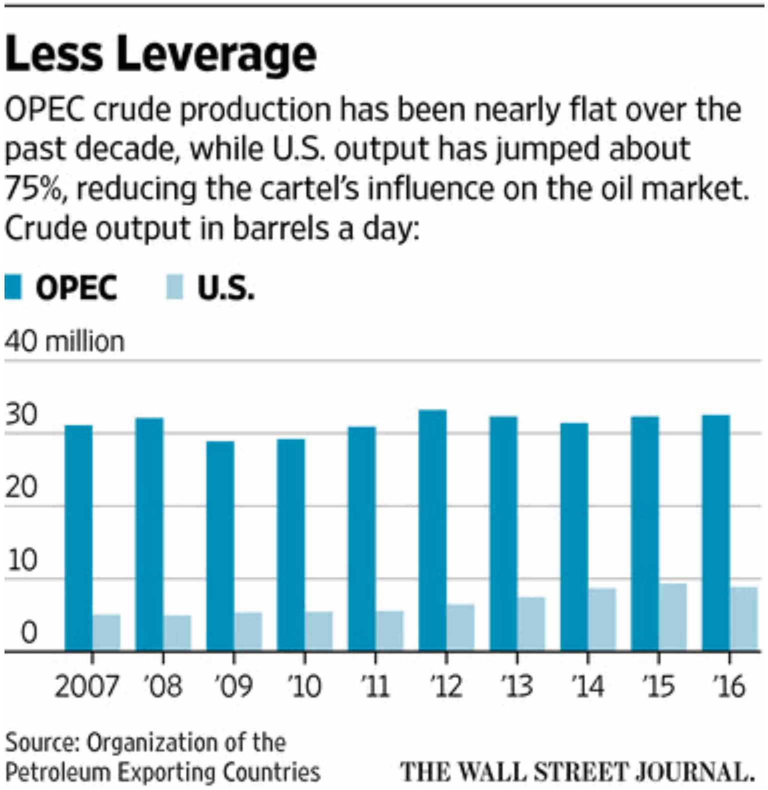

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The Fed Took a Road It Has Trouble Exiting

By Katy Burne
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English

Federal Reserve officials grappling with the legacy of expansive stimulus would find it difficult to return to the central bank's precrisis role on the sidelines of **financial markets**, analysts and central-bank watchers say.

A long list of programs adopted to help foster economic growth, along with changes in money markets and bank regulation, have vastly expanded the Fed's balance sheet and its involvement in markets. The Fed's assets now total$4.5 trillion, up from less than $1 trillion a decade ago. Since 2013, the central bank has become one of the largest traders with U.S. taxable money-market funds, according to Crane Data.

Many analysts and investors worry that significantly rolling back the Fed's expansion, a course advocated by some in conservative circles, risks disrupting markets and the economy at a time when growth remains tepid. It would also reduce the connections the institution has built with a diverse set of Wall Street firms, beyond the group of banks it dealt with before the crisis.

The Fed has become "like an octopus," said Jeffrey Cleveland, chief economist at Payden & Rygel, a Los Angeles money manager. "Once you get the power and you are influencing all these markets, do you really want to retreat from all that?"

Investors are already assessing how stocks and bonds might react when the central bank begins the latest stage of its yearslong retreat from stimulus -- likely later this year -- by ending the practice of reinvesting the proceeds of maturing bonds into new bonds. The Fed is scheduled to publish Wednesday the minutes of its latest policy meeting, at which officials may have continued their debate over the mix of policy tools they plan to use in the future.

Some Fed officials say they are attracted to maintaining parts of their current approach. Minutes of their November meeting also showed officials discussing the advantages of keeping something similar to the existing system in place, in part because it is simpler to operate than the precrisis one.

The Fed hasn't decided the issue, but its choices will be closely watched because its leadership is in transition. President Donald Trump is preparing to fill three vacancies on the Fed's seven-member board. Republican lawmakers have revived legislation to subject its decisions to greater public scrutiny, and some want monetary policy conducted by preset rules.

"It's not your father's Fed," said Adam Gilbert, partner at PricewaterhouseCoopers LLP and a former New York Fed official. Changes could herald "incoming policy makers who are by nature skeptical of a Fed that continues unorthodox approaches to both monetary and regulatory policy."

New York Fed President William Dudley told an audience this month the portfolio isn't likely to return to its precrisis size. Federal Reserve Bank of San Francisco President John Williams said this month the portfolio would be "significantly smaller" than it is today, but likely above $2 trillion in assets.

The ultimate size will be closely tied to which system the central bank decides to use to control interest rates in the future. A handful of Fed officials have already begun questioning the wisdom of returning to the blueprint for controlling rates that they used before the crisis, although they have more time to decide.

At the center of the debate is a special investment program the Fed launched in 2013. Through the facility, it lends money-market funds and others Treasurys in exchange for cash, temporarily draining excess cash from money markets and discouraging lendersfrom lending at rates below the target range for interest rates.

Initially, the central bank said it would reduce the capacity of this reverse repo facility "fairly soon after" it had begun raising short-term rates in 2015. Today, the Fed has no current plans to do so. Mr. Dudley suggested in April the Fed likely wouldn't phase out the facility.

Without the Fed repos, short-term rates could slip too low, and demand for Treasurys in the open market would surge, causing problems for money-market funds seeking alternative places to park cash overnight. Removing the program would "cause huge dislocations from a bond-market standpoint," said Debbie Cunningham, chief investment officer for global money markets at Federated Investors.

A balance sheet that is smaller than today's, yet still substantial, would enable the Fed to keep the reverse repos. It would also support the Fed's foreign repos for overseas accounts, where weekly balances have averaged $250 billion, up from $30 billion before the crisis, as well as the $1.5 trillion in currency outstanding and changing cash-management policies at the Treasury Department.

If the Fed reduces its bond portfolio, the burden will be on private market participants to step in. In 2018, Morgan Stanley calculates investors may have to absorb $400 billion in mortgage bonds alone, a level not seen since 2008. In the past, such transitions were smoothed by the banks authorized to trade opposite the Fed, called primary dealers. Now those firms are grappling with new leverage rules, and some have less capacity.

Communicating a strategy for unwinding risks some unintended signals. In 2013, when the Fed surprised investors with talk of slowing bond purchases, **financial markets** convulsed, thinking the Fed meant earlier rate rises than were expected.

The Fed is wary of destabilizing the Treasury market, in particular, because of increasing lurches driven by algorithmic trading. To avoid market disruptions, former Fed Chairman Ben Bernanke wrote in a recent blog post for the Brookings Institution, "There's no need to rush."

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The New York Times

Business Day
OPEC Ministers Will Meet, and Few Surprises Are Expected From the Fed

By THE NEW YORK TIMES
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NYTFEED
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Here’s a look at what’s coming up this week.

BANKING

R.B.S.’s shareholder lawsuit heads to court.

A trial is set to begin in London on Monday in a shareholder lawsuit against the Royal Bank of Scotland over a rights issue by the lender before its near collapse in 2008. The litigation is related to the bank’s raising of 12 billion pounds, or about $15.5 billion, weeks before the British government rescued it. R.B.S., which remains 73 percent owned by the British government, received a £45 billion bailout that year. After an agreement announced last month, R.B.S. has settled with shareholders representing 87 percent of the claims against it, based on value. Chad Bray

TECHNOLOGY

Humans get another crack at beating a computer.

The venerable Chinese game of Go will give humans another shot to prevail over machines. AlphaGo, the Go-playing contender from the DeepMind artificial intelligence arm of Google’s parent, Alphabet, will take on the world champion, Ke Jie, at a humans vs. computers competition in Wuzhen, China, beginning on Tuesday. AlphaGo’s defeat of a top Go player in South Korea last year was considered a major victory for artificial intelligence. Carlos Tejada

CENTRAL BANKING

Investors anticipate a benchmark interest rate increase.

The Federal Reserve on Wednesday will release the minutes of its most recent meeting, in early May. Surprises are unlikely. Investors expect the Fed to raise its benchmark interest rate at its next meeting in June, partly because the Fed did nothing to diminish those expectations at the May meeting. The Fed’s statement after the meeting said officials expected the economy to rebound after a weak first quarter. And a few days later, the federal government announced that the unemployment rate had declined to 4.4 percent in April. Binyamin Appelbaum

HOUSING

Data on sales of previously owned homes in April is coming.

Also on Wednesday, the National Association of Realtors will report sales in April of previously owned homes. Sales of previously owned homes posted solid gains in March, as job growth and easing lending standards made it easier to buy a home. Economists expect the housing market to continue its steady recovery; however, a persistent scarcity of homes for sale will limit the pace of growth, and is likely to lead to a lot of disappointed home shoppers through the spring and summer. Conor Dougherty

ENERGY

OPEC leaders will consider extending production cuts.

OPEC ministers are scheduled to meet in Vienna on Thursday amid skepticism about whether the oil output cuts agreed to late last year are working. OPEC is likely to go along with the recent agreement by Saudi Arabia, the cartel's de facto leader, and Russia to extend the trims nine more months, through March. But analysts say OPEC, which will most likely be joined in Vienna by officials from other producing countries, may also consider other measures to further prop up prices — now about $49 per barrel for United States crude — such as curbing exports to soak up the oil glut. Stanley Reed

BANKING

New guidelines for trading in foreign currency markets will be unveiled.

The Bank of England will unveil on Thursday a new global code for best practices for trading in the foreign currency markets. The code was developed after a series of investigations into potential manipulation of the currency markets. The inquiries have led to billions of dollars in penalties, guilty pleas and even criminal charges in the United States by some of the world's biggest banks, including Barclays, Citigroup, JPMorgan Chase and the Royal Bank of Scotland. Several traders have lost their jobs as a result. The code, which is a self-regulatory measure, was jointly developed by the industry and central bankers. Currency trading firms will voluntarily agree to abide by it. Chad Bray

ECONOMY

The Commerce Department will offer a snapshot of early 2017's economy.

On Friday, the Commerce Department will issue two reports outlining how the economy performed in early 2017. After an initial estimate of gross domestic product growth of 0.7 percent in the first quarter, statisticians will offer a revised number based on additional data. Wall Street economists are not expecting a big change, but there could be a slight upward adjustment in the annual rate to near 1 percent, factoring in slightly healthier business investment and government spending.

While the G.D.P. number covers January, February and March, new data on durable goods sales for April will count toward growth in the current second quarter. The headline figure is expected to show a drop in overall durable goods orders, led by a decline in **volatile** aircraft and defense orders. Demand for core durable goods like appliances is expected to have held up better, showing a slight rise of 0.6 percent. Nelson D. Schwartz

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The New York Times

ECONOMIC VIEW
Money and Business/Financial Desk; SECTBU
How Tales of 'Flippers' Led to a Housing Bubble

By ROBERT J. SHILLER
1,163 words
21 May 2017
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3
English

There is still no consensus on why the last housing boom and bust happened. That is troubling, because that violent housing cycle helped to produce the Great Recession and financial crisis of 2007 to 2009. We need to understand it all if we are going to be able to avoid ordeals like that in the future.

But the explanations for what happened in housing are not, I think, to be found in the conventional data favored by economists but rather in sociologically important narratives -- like tales of getting rich through ''flipping'' houses and shares of initial public offerings -- that constitute the shifting mentality of the era.

Consider the data for a moment. It shows us that extreme changes took place but doesn't tell us why.

Real home prices rose 75 percent from February 1997 to December 2005, according to the S&P/Case-Shiller National Home Price Index, corrected for inflation by the Consumer Price Index. And then, from 2005 to 2012, real prices reversed course, falling to just 12 percent above their 1997 level. In the years since 2012, they have climbed 29 percent, about halfway back to their 2005 peak. This is a roller coaster in national home prices -- it has been even scarier in some more **volatile** cities -- yet we have no clarity on why it happened.

The problem for economists is that these changes don't correspond to movements in the usual suspects: interest rates, building costs, population or rents. The Consumer Price Index for Rent of Primary Residence, compiled by the United States Bureau of Labor Statistics and corrected for inflation, went up only 8 percent in 1997 to 2005, so unmet demand for housing services can't explain the huge increase in real home prices. It doesn't explain the 29 percent rise in real home prices since 2012 either, because inflation-adjusted rents increased only 10 percent in that period. So what has been driving the wild ride in home prices?

I believe the price swings have something to do with the changing mentality of the times, changes caused by narratives that have gone viral and swept across the population. Looking for answers in such popular stories contrasts starkly with the prominent approach of modeling people as though they react logically to economic forces. But a less orthodox approach can be quite useful.

One thing is clear: The prevalent narratives of 1997 to 2005 did not include the concept of a housing bubble, not at first. A computer search using ProQuest or Google Ngrams shows that the phrase ''housing bubble'' was hardly used until 2005, the end of the boom. What is a bubble? It typically includes the notion that, spurred by the public's expectation of ever further price increases, demand eventually reaches levels that cannot be sustained, and so the enthusiasm wanes and the bubble collapses. But that thought was just not on many people's minds then, the evidence suggests.

Instead, during the 1997 to 2005 boom there were multitudes of narratives about smart investors who were bold enough to take a position in the market. To single out one strand, recall the stories of flippers who would buy a house, fix it up, and resell it within months at a huge profit. These stories appear to have been broadly exciting to people who didn't flip houses themselves but who appear to have begun to think that stretching a little and buying a house with a large mortgage would make them wise investors.

In his book ''The Complete Guide to Flipping Properties,'' published in 2004, Steve Berges extolled what he called ''the O.P.M. principle,'' meaning ''other people's money.'' He wrote, ''Your objective is to control as much real estate as possible while using as little of your own capital as possible.'' In other words, borrow as much as you can. He wrote about the upside of leverage but not about the perils of leverage during the kind of big price drops that were just around the corner.

It can take a long time for narratives like this to grip the popular imagination. Flipping was ''a thing'' in the condominium conversion boom of the 1970s and '80s. The idea then was this: Big-time converters with deep pockets would buy apartment buildings and convert the rental apartments to owner-occupied condos, selling units to diverse individuals, some of them flippers. For public relations purposes, converters would offer to sell at reduced prices to renters already living in a building, and typically to some outsiders, too.

This generated buzz. When renters and speculators flipped their purchase contracts at a big profit, sometimes using borrowed money for down payments to flip multiple units without actually even closing on the condos, it was thrilling. It seemed that anyone with energy and initiative could get rich doing this.

Some people eager to make quick profits bought Donald J. Trump's well-timed 2004 book, ''Trump: Think Like a Billionaire: Everything You Need to Know About Success, Real Estate, and Life,'' written with Meredith McIver. Some enrolled in the less well-timed Trump University, which emphasized real estate investment in 2005, at the very end of the housing boom; it shut down, amid lawsuits and recrimination, in 2010.

Narratives about flipping weren't restricted to real estate. Just after the time of the condo boom, stories of rapid buying and selling of initial public offerings took off as well. As with the condo promoters, I.P.O. underwriters would sell some shares below market prices to customers, who might then flip the I.P.O. for a quick profit.

The promoters of condo conversions and I.P.O.s were onto something. By giving discounts to buyers who would make a high return, they captivated the nation with tales of people who had no advanced degrees or hefty résumés but made fortunes anyway.

By now, the notion of getting rich by flipping houses is entrenched. I searched Amazon for books on ''flipping houses'' and came up with 328 hits, most written in the past few years. Buying and rehabbing existing houses for resale is a legitimate business. But many of these books make extravagant pitches and seem aimed at inspiring amateurs to plunge into risky ventures.

The public fascination with speculating in housing has been held in check by regulators empowered by the 2010 Dodd-Frank Act, but that restraint is tenuous with the election as president of a real estate promoter intent on reducing regulators' power. These narratives are still potent and could easily spur further spirals in the housing market.

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Robert J. Shiller is Sterling Professor of Economics at Yale.

DRAWING (DRAWING BY MINH UONG/THE NEW YORK TIMES)

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THE WALL STREET JOURNAL.
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Europe Inc. Sprints Ahead As Economy Regains Health

By Eric Sylvers
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20 May 2017
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Europe's largest companies are on track to record their strongest quarter of profit growth in almost seven years, benefiting from something the continent hasn't seen since before the global economic crisis: a willingness among consumers -- and other companies -- to spend again.

The first-quarter numbers are raising hopes that the continent is poised to finally shake off the legacy of the global economic crisis that began in 2008 and has weighed on Europe much longer than on the U.S. or Asia.

"Europe is proving at the moment to be surprisingly resilient," said Martin Daum, chief executive of Daimler AG's commercial-vehicles business, one of the world's biggest truck makers. European sales have protected Daimler from weakness in the U.S. and Brazil in recent quarters, he said.

Analysts do expect earnings growth to moderate in the second quarter, and there is still plenty of caution in European boardrooms. Signs of a sustained upswing have appeared before, only to fade. Uneven growth and pockets of debt and high unemployment are reminders of the crisis years. While profits have risen, profit margins at many European companies are far below those of U.S. rivals. Car sales are strong, but auto makers are still selling fewer cars in Europe than at their precrisis peak.

First-quarter earnings per share at Europe's big companies were on average 23% ahead of year-earlier levels, J.P. Morgan Cazenove estimates. That would handily outpace the 14% rise for **S&P 500** firms in the U.S., according to J.P. Morgan calculations.

Europe's corporate earnings are riding broader economic tailwinds. Unemployment rates in the eurozone and its biggest members have been falling gradually in recent years, emboldening consumers who were already paying down debt and freeing up spending money. On Friday, the European Commission reported its measure of consumer sentiment rose to the highest level since July 2007.

In addition, **oil prices** have moderated from their lofty levels of a few years ago, and governments have stopped cutting spending. Many travelers shifted vacation plans to places like Spain and Greece from North Africa and Egypt.

The profit growth has surprised executives across the continent. European central bankers failed for years to spur significant borrowing or spending with ultralow interest rates. Terror attacks dampened tourism, and firebrand politicians campaigning against the European Union threatened political upheaval.

Now, two quarters of economic growth is translating into big earnings gains. The eurozone -- the bloc of European countries that use the euro -- has beaten the U.S. in economic output for two consecutive quarters.

The strong start to 2017 is good news beyond Europe. The continent has been the global economy's sick man since the depths of the financial crisis. Real recovery would lift many boats, including U.S. and Asian companies that sell to Europe.

Massimo Carboniero, chief executive of privately held Italian machine-tool maker Omera Srl, began ordering new machines last year after sales picked up, particularly from Italy and Germany, of factory-floor equipment like hydraulic presses. His 100-person company recently hired two electric engineers and plans to hire two machinists. "Our customers are investing, and we have to invest ourselves if we want to keep up with orders," he said.

At the depths of the economic crisis in 2009, capital investment by the European Union's private sector fell sharply. It recovered slightly the next year, and then flatlined before picking up more recently. The investment -- on things such as equipment and buildings -- rose 3% in 2016 from the year earlier, and 14% from 2013, according to EU statistics.

Business travelers are back, too. British Airways parent International Consolidated Airlines Group SA said it is raising ticket prices, its first fare increase in three years, as corporate bookings improve.

There is still plenty of skepticism about whether the upturn will last. Far-right parties that campaigned against the EU in the Netherlands and France have lost out this year to candidates supportive of Brussels. But consequential elections in the U.K., Germany and Italy lie ahead. France holds parliamentary elections next month.

The U.K. is setting out on the politically and economically fraught process of negotiating its exit from the EU. For businesses that operate on both sides of the English Channel, "nobody knows what things will look like in two years," said Marc Bitzer, chief operating officer of Whirlpool Corp., which runs factories throughout Europe. "Where will the pound be? Will there be tariffs?"

For now, consumers are doling out for big-ticket items and smaller indulgences. Passenger-car sales in the 28 countries that make up the EU rose 4.7% through the first four months of the year. In the U.S., consumer spending slowed in the first quarter, and car sales declined in April for the fourth straight month.

Matevz Vidmar, manager of a restaurant in Ljubljana, Slovenia, said diners are ordering bottles of wine instead of glasses. "It's clear that people are spending more," he said.

Jeannette Neumann in Madrid, Nick Kostov in Paris, William Boston in Berlin and Robert Wall in London contributed to this article.

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THE WALL STREET JOURNAL.
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Heard on the Street
Count Out Fed if Market Tumbles

By Justin Lahart
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[Financial Analysis and Commentary]

After months of placid markets, many investors have probably forgotten how much they have relied in recent years on the Federal Reserve to halt any meltdown. Now that **volatility** has returned, the Fed may not be there anymore.

This was a nerve-racking week in **financial markets**. At best, it now seems like the White House and congressional Republicans will have a harder time pushing through tax cuts. And at worst? This week Wall Street analysts began passing around **stock-market** charts from the Watergate era.

The so-called Fed put, in which the central bank steps in to help stop a selloff, has been part of the market's dynamics for years. Starting with the financial crises of the 1990s, the central bank has regularly put planned rate increases on hold, or rushed in with rate cuts and other easing actions, during **stock-market** routs. That history seemed on investors' minds during Wednesday's **stock-market** selloff, with futures showing them dialing back their rate-increase expectations for this year.

But now there are compelling reasons to believe that the Fed won't come to the market's rescue.

First, a big reason the Fed has been so quick to act was that the economic environment seemed so fragile that not acting might put the economy at risk. That was true as recently as early last year, when it dialed back its plans to raise rates in response to a tangle of emerging-market, debt and currency woes. Now, with the global economy growing, falling stock prices don't seem nearly as dangerous.

Second, the **stock market**'s influence on consumer spending seems less certain than the Fed once believed. This is partly because not as many Americans are invested in the **stock market** anymore, and those that do are mostly better off. It is also because after years of rising stocks and so-so consumer spending, economists have begun to think that a rising **stock market** doesn't have much of an impact on consumption.

Third, the Fed thinks the **stock market** is expensive. The minutes from its March rate-setting meeting pointed out that price/earnings ratios had become even more stretched, and that some Fed officials "viewed equity prices as quite high relative to standard valuation measures." A Fed that has become concerned about valuation, especially because it has been criticized in the past for fueling market excess, likely wouldn't be all that interested in propping up a market it already sees as pricey.

Of course, even with these considerations, a big enough fall would likely get the Fed to act. The problem for investors is that it is probably far below where the **stock market** is now.

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Funds: Cash Floods Into Tech Funds At the Fastest Clip in 15 Years

By Chris Dieterich
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A relentless stream of money is flowing into technology funds this year, and one strategist is asking if a minimania might be taking hold in the market's most popular stocks.

Tech-focused mutual and exchange-traded funds have gathered new money for 11 consecutive weeks and have pulled in $8.7 billion in the year through Wednesday, according to EPFR Global. At the current pace, flows into tech funds would swell the group's assets by nearly 25% for the entire year, the fastest pace in at least 15 years, according to Bank of America Merrill Lynch.

Big market-capitalization tech stocks are the **S&P 500**'s best performers in 2017, and fund flows indicate that investors are chasing performance in companies that sport high rates of profitability, such as Apple Inc. The world's most valuable company is up 32% in 2017, helping to drive up **S&P 500** tech stocks by 17%.

And popularity for tech is registering elsewhere. For instance, the PowerShares QQQ exchange-traded fund isn't explicitly a tech fund but is heavy in the sector. Within this ETF, Apple, Microsoft Corp., Amazon.com Inc., Facebook Inc. and Alphabet Inc. represent nearly half of the ETF's weight. This ETF by itself has pulled in about $1.2 billion in 2017 through Thursday, according to FactSet.

It isn't hard to see why big-cap tech names have been on fire. These companies have well-known brands and dominant businesses. At the same time, middling economic growth in the U.S. has made fast profit and earnings growth harder to find elsewhere in the U.S. **stock market**. Meanwhile, low government- and corporate-bond yields have left investors with few obvious choices for where to plunk down new money.

One potential issue is that, as tech stocks become increasingly popular, they may also become the first ones that investors sell during bouts of broader market turmoil. Take Apple this past week: As the U.S. **stock market** suffered its worst declines in eight months on Wednesday, shares of Apple, absent corporate news, plunged 3.4% -- its worst day since the company missed analysts' expectations on an earnings report in April 2016.

Michael Hartnett, chief investment strategist at Bank of America Merrill Lynch, noted Friday that the longer it takes for U.S. economic growth to accelerate and bond yields to rise, there is "greater risk of tech mania."

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Emerging Markets: Brazil Bears Appear After Bribery News

By Gunjan Banerji
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After tumbling Thursday, Brazilian and emerging markets rebounded Friday. But increased **bearish** positioning in a key exchange-traded fund shows investor confidence has been shaken.

The iShares MSCI Brazil Capped exchange-traded fund, or EWZ, bounced back 6.8% in late trading Friday. But investors are still bracing for more **volatility** after the fund fell 16% Thursday amid reports Brazil President Michel Temer is under investigation in a widespread corruption scandal that emerged this past week. His opponents called for impeachment, sending Brazilian stock and currency markets tumbling.

Short interest, or **bearish** bets, in EWZ nearly doubled on Thursday to 9.8%, the highest level in almost two months, data from research firm IHS Markit show.

Investors also built up protective positioning via the options market. The ratio of **bearish** options to **bullish** ones on EWZ, known as the put-call ratio, rose to 1.71 on Thursday, 28% higher than this year's average of 1.33, according to options-data provider Trade Alert. A measure of expected swings over the next month for the ETF is near one-year highs, Trade Alert data also show.

Investors took similar actions on a heavily traded ETF that tracks emerging-market equities. Short interest on the iShares MSCI Emerging Market ETF, called EEM, rose to 9%, compared with the 2017 average of 8.5%, Markit data show. The put-call ratio rose to 2.52, vs. a year-to-date mean of 2.3, Trade Alert data show.

On the Brazil ETF, "we could see big moves to the upside and downside," Pravit Chintawongvanich, head of derivatives strategy at Macro Risk Advisors, said in a note.

He recommended that investors own options on EWZ with strikes -- the prices at which the options can be exercised -- higher or lower than where the fund now trades. He also noted how some prescient options traders managed to position themselves protectively ahead of Thursday's rout in Brazilian markets.

"Some investors appear to have been hedging against a major selloff in Brazilian equities and FX," wrote Mr. Chintawongvanich. Open interest in puts, or **bearish** contracts, expiring in June has increased this month, he said.

One of the top trades Thursday was on **bullish** call options, according to Trade Alert analyst Fred Ruffy. Still, investors wary of swings in U.S. stocks with significant exposure to Latin America can protect themselves with options, according to Amy Wu Silverman, equity derivatives strategist at RBC Capital Markets in a note this past week.

Companies include Caterpillar Inc. and major airlines such as United Continental Holdings Inc., Delta Air Lines Inc. and American Airlines Group Inc., she wrote.

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Equities: Stocks in Volatility Lull Acted Like Bonds

By Jon Sindreu and Christopher Whittall
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English

Stocks now look so much like bonds that some investors are treating them as if they are.

That is raising concerns that some funds will quickly sell when markets spike out of the current volatility lull, and shares once again act like shares.

For much of 2017, stocks have defied traditional views that they are a riskier bet than bonds. Shares in the S&P 500 index recently fell to levels of volatility that put them almost on a par with ultrasafe 10-year Treasurys.

That has been a green light for the large number of investors who measure risk by looking at volatility to plow money into equities, helping push stock benchmarks toward records.

On Wednesday, the S&P 500 tanked and volatility spiked, offering investors a reminder that the tide can turn, even if markets had calmed again by Friday.

A volatility-targeting strategy "works fine as long as volatility stays low," said Robert Schoen, chief investment officer of global asset allocation at Putnam Investments. "If volatility spikes . . . all of a sudden you're caught offside with a lot more risk than you intended."

Money managers are grappling with these issues after a decade of unprecedented central-bank stimulus, in which the traditional rationales for choosing between stocks and bonds have often been turned upside down. Bonds were once seen as a steady investment bought for their income, while stocks were the more exciting investment, which could rally but were more prone to swings.

But in the past few years, many investors have bought bonds to profit from surging prices, as interest rates touched fresh lows. Bond yields fall as their prices rise.

Those gains could soon turn to speedy declines if monetary policy suddenly changes. Meanwhile, investors have started seeing stocks as a stable, income-producing investment in an improving global economy.

"People are reassessing the risk properties of different assets," said Eric Lonergan, fund manager at M&G Investments, and markets have the "behavioral bias to allocate risk into lower volatility."

On average over the past six months, the difference between the realized volatility of the S&P 500 and that of 10-year Treasury futures is the narrowest since 2004. But on Wednesday, it started widening again: Volatility is now 9% for stocks and 4% for bonds, compared with Tuesday's 6% and 4%, respectively.

Some investors, including Berkshire Hathaway Inc.'s Warren Buffett, have long questioned whether volatility is a good measure of how much risk holders of assets really face.

But there are funds that use volatility as the key measure of risk. That includes some U.S. insurance companies and investors such as risk-parity funds that decide how much to allocate between different asset classes based on their volatility. For these investors, lower volatility is a buy signal and, in some cases, a prompt to increase leverage.

"As asset prices go higher, volatility goes lower, causing you to buy more assets in a risk-parity framework," said Scott Hixon, head of research at Invesco. Ltd. "That's going to translate into more overall leverage in a portfolio."

Analysts believe the amount of assets in strategies that target **volatility** has grown in recent years. That money then may play a part in the speed of any market decline, and the size of the swings as it falls.

"We're seeing that as a fast-growing category, especially with insurance companies in the U.S.," said Mr. Schoen.

By this month, risk-parity funds had increased their equity allocations to 40%, the highest level since records started in 1999, according to Morgan Stanley.

Many investors point out that the rally in stocks and decline in **volatility** in recent months are merely the effects of greater optimism about economic growth and corporate earnings.

Invesco's risk-parity portfolio is 42% exposed to equities, compared with an average of around 35% in recent years, but that isn't merely because **volatility** has been low, said Mr. Hixon. "Equity is a good place to be," he said, citing economic fundamentals and current valuations.

Some analysts also wonder whether there is enough money in **volatility**-targeting strategies to truly sway markets if they start a nose dive. According to estimates by Bank of America Merrill Lynch, managers of such portfolios would need to manage around $1 trillion in assets to account for 20% of weekly trading volumes in global equity index-futures markets under a scenario of severe market stress, but their actual size is thought to be far below that number. Still, others now worry that **volatility**-targeting strategies have helped create a circular dynamic that could turn quickly. Investors buy more stocks because they look less risky, which pushes down **volatility** and drives investors to buy even more stocks. If stocks begin to fall, the spike in **volatility** may then exacerbate the selloff.

"It's basically a self-reinforcing feedback loop: As long as the market doesn't go down you keep accumulating new positions," said Nigol Koulajian, chief investment officer at Quest Partners LLC, a New York-based investment firm that offers clients protection against market crashes.

Mr. Koulajian is standing ready to quickly buy insurance against **volatility** if there are any signs of a fall in stocks.

"We are standing right on the edge of a cliff," he said.

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U.S. News: Cellphone-Plan Price War Keeps Inflation Subdued

By Ben Leubsdorf
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A5
English

A slowdown in inflation over the past couple of months could be coming from Americans' smartphones.

Many private economists and Federal Reserve policy makers expected price growth would pick up this year, with unemployment low and the job market tightening. But core inflation -- prices excluding the **volatile** categories of food and energy -- rose just 1.9% in April from a year earlier, decelerating from 2.3% growth in January, as measured by the Labor Department's consumer-price index.

Core prices fell in March from the prior month, the first time that had happened in more than seven years.

Multiple forces are at work, including a glut of used cars pushing down vehicle prices and a deceleration in medical inflation. But Paul Ashworth, chief U.S. economist at Capital Economics, said in a research note this past week that nearly half of the decline in core CPI inflation this year can be traced to a single item: wireless telephone services.

Cell-plan prices dropped 7% in March and fell an additional 1.7% in April, according to Labor Department data. From April of last year, wireless-service prices were down 12.9%, the largest decline in 16 years.

Mr. Ashworth attributed the drop to "the price war that has broken out among cellphone-service providers, with all the big providers now offering unlimited data plans at cheaper rates." Competition among cell-service providers like Verizon Communications Inc., Sprint Corp., T-Mobile US Inc. and AT&T Inc. has driven down prices for years, and Verizon, the nation's largest wireless carrier, in February followed its rivals in reintroducing unlimited-data plans.

Government statisticians in January changed how they adjust available prices for cellphone plans to account for features that improve quality. "In March, these procedures resulted in downward adjustments for many quotes based on changes in plans, largely in changes in data limits," Bureau of Labor Statistics economist Steve Reed said in an email.

Mr. Ashworth said he expects the drop will likely be "a one-off, since it is hard to improve on an unlimited data plan." Still, the drop has left core inflation on a lower trajectory.

That might complicate matters for the Fed, which has said it intends to keep raising short-term interest rates this year. Weaker inflation could undermine the case for higher rates.

Officials could shrug off the recent weakness. Fed officials prefer the Commerce Department's personal-consumption-expenditures price index to the CPI gauge, and the PCE index gives less weight to cell-phone plans, Mr. Ashworth noted.

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Business/Financial Desk; SECTB
Markets Trim Losses From Earlier in the Week

By THE ASSOCIATED PRESS
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20 May 2017
The New York Times
NYTF
Late Edition - Final
3
English

Industrial companies led stocks higher on Wall Street Friday, giving the **stock market** its second gain in two days.

The rally was broad, with all 11 industry sectors in the **Standard & Poor's 500**-**stockindex** closing higher. That included energy stocks, which climbed as the price of crude oil rose.

The **S**.**&P**. **500 index** rose 16.01 points, or 0.7 percent, to 2,381.73. The **Dow Jonesindustrial average** added 141.82 points, or 0.7 percent, to 20,804.84. The **Nasdaq composite** index gained 28.57 points, or 0.5 percent, to 6,083.70.

The gains helped trim some of the losses that traders booked on Wednesday, when the **stock market** posted its worst day in eight months amid deepening political turmoil in Washington.

Investors appeared to shrug off those concerns on Friday, preferring instead to focus on the latest batch of corporate earnings, which included solid results from Deere & Co. and other companies.

''If you took a week off, you probably thought you didn't miss much, because we're at about the same levels today as we were last Friday,'' said Sean Lynch, co-head of global equity strategy at Wells Fargo Investment Institute. ''And yet, we spiked to a new all-time high on the S.&P. on Monday, we suffered the worst decline of the year on Wednesday, and again we're back within 1 percent of that all-time high today.''

Bond prices edged lower. The **10**-**year Treasury** yield rose to 2.24 percent from 2.23 percent late Thursday.

Investors had grown concerned Wednesday that President Trump's pro-business agenda could be hindered by fallout from allegations that he asked the F.B.I. to end an investigation into his former national security adviser, Michael T. Flynn, sparking the steep sell-off.

But they remained in a buying mood Friday, nudging United States stock indexes higher early on, extending modest gains from the day before.

Traders bid up shares in several companies like Deere & Co. that reported solid quarterly results Friday.

The heavy equipment maker's shares jumped $8.23, or 7.3 percent, to $120.90.

Autodesk vaulted 14.7 percent after the design software company raised its earnings forecast for the year and reported a loss in its latest quarter that was narrower than analysts were expecting. The stock was the biggest gainer in the **S&P 500**, adding $14.08 to $109.91.

McKesson jumped 8.2 percent after the prescription drug distributor reported earnings for its latest quarter that easily beat Wall Street's forecasts. Its shares gained $11.57 to $153.01.

Some companies turned in disappointing results.

Foot Locker plunged 16.7 percent after the athletic footwear and apparel retailer's latest quarterly profits fell short of analysts' forecasts. The stock was the biggest decliner in the **S**.**&P**. **500**, shedding $11.73 to $58.72.

Campbell Soup gave up 2 percent after the company turned in disappointing quarterly results. Its shares fell $1.16 to $55.78.

Energy futures closed higher. Benchmark crude oil gained 98 cents, or 2 percent, to close at $50.33 a barrel in New York. Brent crude, used to price international oils, rose $1.10, or 2.1 percent, to settle at $53.61 a barrel in London.

Among metals, the price of gold inched up $1.00 to settle at $1,252.70 per ounce. Silver added 13 cents to $16.80 per ounce. Copper rose 5 cents to $2.58 per pound.

In currency trading, the dollar weakened to 111.15 yen from 111.32 yen on Thursday. The euro jumped to $1.1202 from $1.1111.

Several major indexes overseas also posted gains Friday.

The German DAX rose 0.4 percent, while the CAC 40 in France gained 0.7 percent. In Britain, the FTSE 100 added 0.5 percent. In Asia, the benchmark Nikkei 225 in Japan gained 0.2 percent. The Kospi in South Korea added nearly 0.1 percent. The Hang Seng in Hong Kong rose 0.3 percent.

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

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Crude Oil Cruises To One-Month High

By Timothy Puko
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Oil prices rose to a one-month high on some of their largest one-day gains of the year.

U.S.-traded crude surged above $50 a barrel for the first time since April amid renewed optimism about output cuts from the world's biggest exporters and the possibility they will be extended at this coming week's meeting of the Organization of the Petroleum Exporting Countries.

Oil markets are now up about 9% in just two weeks, after long-awaited declines in U.S. crude stockpiles and bets that they are the result of OPEC's effort to ease a glut.

Light, sweet crude for June delivery settled up 98 cents, or 2%, at $50.33 a barrel on the New York Mercantile Exchange, its highest settlement since April 19. U.S. crude has gained more than 2% only seven times in 2017. Brent crude, the global benchmark, rose $1.10, or 2.1%, to $53.61 on ICE Futures Europe. Friday's gains were the ninth in 11 sessions, a sharp turnaround since falling to a five-month low earlier this month. That led U.S. oil to gains of 5.2% for the week, the biggest since the last week of March. Brent rose 5.4%, its best week in six months.

This is the market's third push above $50 a barrel since OPEC and other major exporters including Russia agreed in November to cut production by 1.8 million barrels a day for the first six months of this year. While that has failed to lower historically high stockpiles or rally prices as much as many expected, a recent push to extend the deal has revived **bullish** expectations. Many traders now expect those producers to cut output through next winter.

"Today is just the optimism: We're getting closer, people think it can actually happen," said Ryan McKay, commodity strategist at TD Securities in Toronto.

Many spot markets are stronger, suggesting the OPEC cuts are having an effect and making supply a little harder to come by, said Scott Shelton, a broker at ICAP PLC.

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Weekend Profile: The Stock Picker Behind the S&P 500 --- The even-keeled David Blitzer keeps calm and indexes on when brickbats fly from critics

By Akane Otani
1,033 words
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B1
English

What's behind trillions of dollars of passive funds? A stock picker.

David M. Blitzer leads the committee that determines the makeup of the S&P 500, which aims to include stocks that collectively reflect the U.S. economy. The index is one of the most popular and widely tracked benchmarks in global financial markets.

With more than $7.8 trillion in funds pegged to the S&P 500, according to S&P Dow Jones Indices, any change that shuffles stocks inevitably draws some criticism. Some investors said the committee's decision in the late 1990s to give technology stocks their own sector missed much of the group's meteoric rise but exposed investors to the sharp pullback that followed. Last year, S&P and MSCI Inc., another index provider S&P works with to decide how sector and index groupings are defined, split off the real-estate sector from financials after the stocks had been popular for a decade.

The silver-haired, bespectacled Mr. Blitzer says decisions aren't arbitrary.

"It's not a bunch of people sitting in a room throwing darts at the wall or flipping coins," said Mr. Blitzer. "When it's a big surprise and one of your colleagues writes, 'I don't know where they got that from,' it doesn't do any good for us," he said. The committee has published its methodology, which includes considering factors like liquidity, a company's profitability and market capitalization, he adds.

The 68-year-old economist's latest project concerns whether the smallest of the index's 11 sectors, the four-stock telecommunication-services group, should go or stay as a stand-alone sector. Mr. Blitzer, who is holding discussions with analysts, portfolio managers and fund issuers, says a decision could be made sometime this year. The committee, which includes nine other S&P Dow Jones Indices employees whose identities are kept anonymous, meets monthly to discuss potential changes.

Telecom has steadily shrunk over the years as companies have merged or spun off businesses, with its share of the S&P 500's market capitalization falling to 2.3% this year, according to S&P Dow Jones Indices, from 8.7% in 1990.

Laszlo Birinyi, founder and president of money-management and research firm Birinyi Associates Inc., says telecom has long been too small to be a useful sector. "During the days of the ticker tapes, we'd sit on the trading floors and know everything going on in the markets. Now you have quants, academics and consultants who aren't quite aware of what's going on in the markets themselves," he said. "So they come up with these great ideas, but are they really pragmatic?"

Mr. Blitzer doesn't get flustered by his critics.

He is so even-keeled, he manages to calm the people around him, said Howard Silverblatt, a senior index analyst at S&P Dow Jones Indices who has known Mr. Blitzer since they worked together in the early 1980s. It's both his best and worst trait, he added.

"When you're raising your voice and trying to make a point, he'll be just listening, maybe writing a note or two down on the side, then looking right into your eyes. He's never yelling back. Which is unusual and sometimes frustrating," Mr. Silverblatt said.

Mr. Blitzer is an icon in the indexing world. He's rarely seen or photographed without a bow tie. "It's harder to spill soup on them," he said.

He never imagined he'd become what one exchange-traded-fund-focused website once called him: a "legend of indexing." A New York native, Mr. Blitzer majored in engineering at Cornell University, where he developed an interest in environmental advocacy. After earning his master's degree in economics at George Washington University and his Ph.D. at Columbia University, Mr. Blitzer hoped to put his economics skills into use as a consultant for environmental groups.

The 1980 election of Ronald Reagan, who vowed on the campaign trail to slash environmental regulations, changed everything.

"I realized the environmentalist groups went into a **bear market**," Mr. Blitzer said, laughing. "So I decided this was the time to look around and see what else there was."

Mr. Blitzer joined what was then known as McGraw Hill as a corporate economist in 1980, just as a swell of changes was beginning to shift the world of **stock-market** investing from active to passive management.

The Chicago Mercantile Exchange launched futures based on the **S&P 500** in April 1982. That July, the Chicago Board Options Exchange introduced trading of options contracts based on the **S&P 500**. The company around him became more active in the indexing business, too. Mr. Blitzer joined the index committee in 1989 and became its chairman in 1995.

"It was clear this was a real, serious business, and that we had to be careful about adding or removing stocks from the index," Mr. Blitzer said.

Some contend the index's structure is fundamentally flawed. The **S&P 500** assigns weighting by market capitalization, meaning the largest companies have an outsize impact on performance. Some say passive investors are better served by indexes that weight companies by factors other than size alone, such as earnings or book value.

Other indexes are maintained in part or entirely by committees, including the FTSE Russell indexes and the **Dow Jones Industrial Average**. The Dow also is owned by S&P Dow Jones & Co., a unit of The Wall Street Journal parent company News Corp, completed a sale of its stake in 2013. Two representatives of the Journal still help determine the composition of the Dow industrials.

Still, even critics of the **S&P 500** say it's hard to identify a better broad index out there. "Nothing else has proven itself to be a better benchmark for the average large-cap investor," said Barry Ritholtz, co-founder and chief investment officer of Ritholtz Wealth Management.

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Intelligent Investor: The Long And Short Of an ETF Scorcher

By Jason Zweig
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English

Volatility is back, but the latest way of trying to make money off it is wildly risky.

Until this past Wednesday, the **S&P 500** had gone for 15 days in a row without moving up or down by more than 0.5%, the longest such streak, according to WSJ Market Data Group, since February 1969. Then the index snapped down 1.8% on the political turmoil in Washington.

At the same time, the Securities and Exchange Commission is reconsidering its approval of a pair of exchange-traded funds that would seek to quadruple the daily returns on U.S. stocks. That decision isn't expected right away. But a closer look at these funds shows how easy it is for investors to get scorched when they play with fire and how hard it still can be to get the information you need on risk.

These funds, called ForceShares Daily 4X US Market Futures, come in two versions, each betting on financial contracts whose returns are tied to those of the **stock market**. The long fund seeks to deliver four times the daily performance of those futures; the short fund, four times the opposite.

Thus, on a day when **S&P 500** futures were up 1%, the long fund would gain approximately 4% and the short fund would lose about 4%. On a 1% down day, the long fund would lose roughly 4% and the short fund would gain about the same amount.

How risky is that over time? Not very, if you go by the disclosures in ForceShares' offering document, which are the equivalent of a shrug emoji.

There, three tables show how the funds might perform. Remarkably, two of those tables assume that the market doesn't fluctuate at all. In one, stocks go up exactly 0.14% every day over the 20-day period; in another, they go down by that identical amount each day.

A third table assumes that stocks fluctuate at an annual rate of 12.54%, significantly lower than the 14.28% cited elsewhere in the ForceShares document for the five years ended in December 2015.

The maximum loss shown in these tables is less than 11%, although the prospectus does warn that the funds aren't suitable for long-term holders and "you could incur a partial or total loss of your investment."

Kris Wallace, principal executive officer of ForceShares, declined to comment on any aspect of the filing. A spokeswoman for the SEC also declined to comment.

But markets are rarely as calm as these disclosures imply.

William Trainor, a finance professor at East Tennessee State University, has been researching leveraged funds for years. I asked him to estimate the returns the ForceShares funds would generate over a full year.

If the **S&P 500** falls between 18% and 22% in a year, a quadruple long fund would lose an average of about 60% even if stock prices declined in a smoother pattern than the historical average, says Prof. Trainor. If prices bounce around even more sharply on the way down, the fund could lose about 70%. A 4X short fund would produce comparable losses in a similarly rising market, his analysis shows.

That's not all. These funds can lose money even if the market goes nowhere.

Pauline Shum-Nolan, a finance professor at York University in Toronto, calculates that even in a year when the **stock market** fluctuates normally but ends up delivering an annual return of zero, a quadruple long fund could lose 11.4%, and a quadruple short fund 18.4%.

While such funds might be suitable for short-term traders, says Prof. Trainor, "over periods of six months to a year you should expect to have most of your wealth disappear," especially in the quadruple-short variety.

Why do the returns of leveraged ETFs deviate so sharply over longer periods from the performance of their benchmarks?

Say you put $10,000 in both the **S&P 500** and a 4X long fund tied to it. If the market rises 10% today, your S&P investment would gain $1,000, so you now have $11,000 there. And the leveraged fund would gain four times as much, turning $10,000 into $14,000.

Now let's assume that the **S&P 500** falls 9.1% the next day. Your investment in the index would fall by $1,000, leaving you with $10,000, right back where you started. Meanwhile, the 4X fund would quadruple that loss, for a decline of 36.4%. That would knock your $14,000 down to just over $8,900. (For simplicity, we're ignoring the effect of fees.)

The longer you hold such a fund and the more stocks fluctuate, the more its returns will differ from a simple quadrupling of the market.

All told, leveraged and inverse ETFs have a combined $43.6 billion in assets, according to ETF.com. If speculators want to double, triple or even quadruple their bets, well, it's a free country. But they should, at the very least, get clear disclosures that enable them to understand the risks they're running.

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The New York Times

Strategies
Your Money
In the Stock Market, International Is Actually First

By JEFF SOMMER
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In his first speech as president of the United States, Donald J. Trumpdeclared, “From this day forward, it is going to be only America first, America first.”

If you had taken his words at face value, you might have expected that big American companies that make nearly all of their money in the United States would flourish in a new, America First environment.

But that’s not the way it has turned out, at least not in the stock market so far.

Shares of American companies that make nearly all of their sales domestically have lagged behind those that generate most of their revenue outside American borders. In fact, those globalized companies — I’ll call them International First companies — have outperformed America First companies by a wide margin.

Paul Hickey, a founder of Bespoke Investment Group, an independent market research firm, ran the numbers at my request. He found that 113 companies in the Standard & Poor’s 500-stockindex make at least 50 percent of their sales outside the United States. Their fortunes depend, to a large extent, on the rest of the world’s economic trends.

It’s also relevant that many of these companies, like Apple, Microsoft, IBM, Pfizer, General Electric and Exxon Mobil, have stashed billions of dollars overseas. They stand to receive a windfall under proposed Trump administration tax policies that would allow them to repatriate that money at a very low rate, perhaps 10 percent, compared with the current statutory federal corporate tax rate of 35 percent. That potential bonanza, in itself, gives them a boost in the stock market.

By contrast, the America First category contains 161 S.&.P. 500 companies that make at least 90 percent of their sales within the United States. The group includes retailers like Macy’s, Nordstrom and Target, railroads like CSX and Norfolk Southern, and regional natural gas and petroleum companies like Southwestern Energy, Range Resources and Pioneer Natural. All of their fortunes are determined mainly by events and policies within the United States.

While each stock has its own story, Mr. Hickey said he found a clear pattern in the overall data. From the presidential election on Nov. 8 through this past Tuesday, he said, shares in the International First group gained an average 13.56 percent, compared with only 8.15 percent for the America First shares, for a spread of 5.41 percentage points.

That’s a substantial gap for a roughly six-month period. And it would be even larger if Mr. Hickey had used asset-weighted and not equal-weighted performance numbers in his calculations, because the International First group is salted with gigantic companies like Apple, Alphabet (Google) and Microsoft. Their enormous market capitalizations — Apple’s is more than $800 billion — have an outsize impact on asset-weighted indexes like the S.&.P. 500.

Why have the internationally oriented companies outperformed the domestically focused ones? Several factors explain the discrepancy.

First, the initial wild enthusiasm in financial markets for Trump policies faded.

“There was a lot of optimism by people in the markets about America First policies right after the election,” Mr. Hickey said, “but in 2017 in actual terms, that has been completely flipped.”

Soon after the election, when the Trump rally in the overall **stock market** had the most momentum, the America First companies did outperform the International First group. The markets may then have been reacting to Mr. Trump’s publicly stated views, which he summarized in his inaugural address this way: “Every decision on trade, on taxes, on immigration, on foreign affairs will be made to benefit American workers and American families. We must protect our borders from the ravages of other countries making our product, stealing our companies and destroying our jobs.”

American companies with little foreign exposure maintained an advantage in the **stock market** until mid-March, when the tables turned and the International First group pulled ahead.

As I wrote in March, it wasn’t just the **stock market** that changed course: The shift started in the currency markets. The dollar, which had soared on Mr. Trump’s surprise election victory, began to weaken against other currencies, particularly the Mexican peso.

More precisely, measured against a basket of currencies, the dollar peaked in strength on Jan. 3 — with a 6.53 percent gain since the election — and then began to plummet. On Thursday, the dollar was still stronger than it had been on Election Day, but by less than 1 percent.

Some of that decline may have been simple mean reversion, a tendency of markets to return to an average level after a big move. But there was more to it than that.

While the Trump administration’s effort to crack down on unauthorized immigrants has been real enough — Immigration and Customs Enforcementarrests jumped by nearly 40 percent in Mr. Trump’s first 100 days — the administration has not done much to alter international trade patterns.

That may still happen. On Thursday, it notified Congress that it intends to renegotiate the North American Free Trade Agreement (Nafta). But the parameters of that renegotiation have narrowed sharply, perhaps in response to substantial resistance to many of Mr. Trump’s policies by companies that have prospered under Nafta. Jeffrey Immelt, the General Electric chief executive, for example, has urged the president to avoid protectionism, and said on May 12 in Mexico that his company is “very supportive” of Nafta.

What’s more, Mr. Trump has moderated his position on China, reaching new trade agreements that may increase, rather than hamper, bilateral trade. That could improve the prospects for globalized American companies.

And Mr. Trump decided to send a delegation to Beijing for China’s economic conference on its new Silk Road plan, known as the Belt and Road initiative. That, too, could lead to more business for internationally minded American capitalists.

The International First companies have also been helped by signs of economic improvement in Europe and strong performance in foreign stock markets, many of which have been outperforming the American **stock market** in both local currency and in dollar terms. In short, American companies with heavy exposure to foreign markets have gotten some international tailwinds.

Domestic problems — Mr. Trump’s political struggles, and Congress’s inability to enact major legislation — may have led the **stock market** to ignore the Trump agenda. That helps globalized companies.

“You don’t hear much about America First policies these days,” Mr. Hickey said. “But it’s becoming clear that even if you don’t get thorough tax policy reform done or a big infrastructure stimulus program done, the **stock market** isn’t falling apart. Instead, the stocks that are leading the market now are not America First plays, they are international plays — companies geared toward international exposure that benefit from a weaker dollar and better growth overseas.”

Then there is the tax question. Despite the political turmoil in Washington, tax cuts and a possible windfall for the International First companies remain on the table. The administration still aims at repatriating at least some of the $2 trillion in stranded overseas corporate cash and ending the taxation of newly minted corporate profits earned abroad. Market analysts are already calculating the potential benefits to companies with substantial foreign earnings and big cash hoards, like Apple.

Put all of that together, and you get a recipe for a rally in International First companies. America First may be the administration's slogan, but for the most part, the **stock market** has been ignoring it.

* Trump Sends Nafta Renegotiation Notice to Congress

* The New Currency Champ Lives South of the Border

* A Stranded $2 Trillion Overseas Stash Gets Closer to Coming Home

* The Fabulous Apple Cash Machine

Global stocks have been pulling ahead, despite the Trump administration's America First slogan. | Minh Uong/The New York Times

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THE WALL STREET JOURNAL.
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Banking & Finance: Breakup of Big Banks Not in Cards

By Ryan Tracy
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WASHINGTON -- The Trump administration took the idea of breaking up big banks off the table Thursday, with Treasury Secretary Steven Mnuchin telling a congressional panel that isn't what officials have in mind in reviewing the line between commercial- and investment-banking activities.

"We do not support a separation of banks from investment banks," Mr. Mnuchin said before the Senate Banking Committee. He said doing so would create problems for the "**financial markets**, on the economy, and liquidity."

The statement was a strong indication the Trump administration's review of U.S. banking regulations will be less onerous than Wall Street's worst fears. Officials say their priority is overhauling regulations with the aim of boosting lending and economic growth.

President Donald Trump's economic team has said it is considering a modern version of the 1933 Glass-Steagall Act -- a partially repealed law that would force the largest U.S. banks to break themselves apart if it were still in effect. The issue has created confusion and angst among bankers and analysts every time an official mentions the topic.

One reason for the tension: Sen. Elizabeth Warren (D., Mass.), a member of the banking committee, has introduced a bill she also calls the "21st Century Glass-Steagall Act."

Her bill, which has yet to receive support from any other committee members, mandates that a financial company can't own a traditional bank -- one that takes deposits, makes loans and processes payments -- alongside other business, such as underwriting and marketing stocks and bonds. The 1933 version of Glass-Steagall included similar prohibitions before it was partly repealed in 1999.

Those who support a revival of Glass-Steagall argue, among other things, that combining securities and banking activities allows financial firms to become too large and politically powerful, which in turn allows them to take excessive risks, exploit clients and rely on taxpayer bailouts if they get in trouble.

Behemoths such as J.P. Morgan Chase & Co., Citigroup Inc., and Bank of America Corp. would have to split apart under Ms. Warren's proposal. For other Wall Street titans, the impact might be less severe. Goldman Sachs Group Inc. Chief Executive Lloyd Blankfein said on May 9 that although he doesn't believe reinstating Glass-Steagall makes sense today, "our adaptation to that would be relatively easy," because the firm's bank is "very minor" compared with its other businesses.

Ms. Warren on Thursday said it was "just bizarre" that the Trump administration could claim to support Glass-Steagall without supporting bank breakups.

More details about how the Trump administration wants to tailor rules should come in June, when the Treasury Department is scheduled to report to Mr. Trump about a broad review of financial regulations.

National Economic Council Director Gary Cohn in April said, "If we come up with a 21st-century, modern Glass-Steagall, we may be able to tailor regulation for different aspects of the **financial markets** and different aspects of financial institutions."

Acting Comptroller of the Currency Keith Noreika -- the only bank regulator the Trump administration has installed so far -- is skeptical of returning to Glass-Steagall. In an interview last week, he said banks are safer if they rely on several different businesses for revenue.

Mr. Noreika also said Glass-Steagall would have limited the government's options during the 2008 financial crisis. J.P. Morgan couldn't have purchased the teetering Bear Stearns investment bank, Bank of America couldn't have bought struggling Merrill Lynch and Goldman Sachs and Morgan Stanley couldn't have converted to bank holding companies to stabilize themselves.

"It may sound like great politics to say we are going to bring back all the sections of Glass-Steagall," Mr. Noreika said, "but do you want another Bear Stearns?"

Analysts say the administration could use existing regulatory authority to restrict interactions at subsidiaries of large financial firms, while cutting back regulations that apply to each type of business.

"Mr. Trump can have his Glass-Steagall cake and still eat regulatory relief because the rules for banks could get a lot less binding even as [bank holding companies] are severed into component parts," Karen Shaw Petrou, managing partner of Federal Financial Analytics Inc., said in an April note to clients.

A key question, according Ms. Petrou, is how the separate businesses will be regulated.

Under one proposal from Federal Deposit Insurance Corp. Vice Chairman Thomas Hoenig, big firms' banking and securities businesses would have to fund themselves mostly separately and with a higher share of investor equity than they do today.

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Business/Financial Desk; SECTB
Markets Close Higher A Day After a Sell-off

By THE ASSOCIATED PRESS
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19 May 2017
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English

Solid gains among phone companies and some retailers helped nudge stocks higher on Thursday, a day after Wall Street had its biggest drop in eight months. Banks also recouped some of their losses. Energy and materials stocks fell.

The upturn came a day after the market's worst drop since September as political tumult deepened in Washington, stoking worries among investors that President Trump may have trouble enacting tax cuts and other business-friendly policies.

''People may be wanting to put money to work in stocks, but the bonds they bought yesterday, they're still going to keep those as a little bit of a hedge, just in case,'' said JJ Kinahan, chief market strategist at TD Ameritrade.

The **Standard & Poor**'**s 500**-**stockindex** rose 8.69 points, or 0.4 percent, to 2,365.72. The **Dow Jonesindustrial average** added 56.09 points, or 0.3 percent, to 20,663.02. The **Nasdaq composite** index gained 43.89 points, or 0.7 percent, to 6,055.13.

Bond prices slipped. The **10**-**year Treasury** yield rose to 2.23 percent from 2.22 percent.

Despite the day's gains, the major stock indexes were still on course to end the week lower than they started.

Stocks appeared headed for another down day early Thursday after sell-offs in Asia and Europe. But better-than-expected quarterly results from Walmart Stores and retailers such as L Brands helped lift the market.

Walmart gained $2.42, or 3.2 percent, to $77.54, while L Brands rose $1.29, or 2.7 percent, to $49.69.

Traders also welcomed data from the Labor Department showing that applications for unemployment benefits fell last week to the lowest level in nearly three months.

Among other big movers: Incyte surged 6.9 percent on growing analyst optimism over the biopharmaceutical company's work developing cancer treatments. The stock gained $8.31 to $128.80.

Weak quarterly results from other companies sent those stocks lower.

Ascena Retail Group sank 27 percent after the retailer cut its forecast for its fiscal third quarter and full year, citing lagging customer traffic and other challenges. The stock lost 76 cents to $2.06.

Cisco Systems fell 7.2 percent a day after the internet gear maker said it expects revenue in its fiscal third quarter to be down from a year earlier. The company also said it was laying off 1,100 workers in addition to the 5,500 job cuts Cisco announced last August. The stock gave up $2.44 to $31.38.

Benchmark crude oil futures rose 28 cents, or 0.6 percent, to close at $49.35 a barrel in New York. Brent crude, used to price international oils, climbed 30 cents, or 0.6 percent, to settle at $52.51 a barrel in London.

In metals trading, the price of gold fell $5.80 to settle at $1,251.70 per ounce. Silver lost 24 cents to $16.67 per ounce. Copper slipped 2 cents to $2.53 per pound.

The euro slipped to $1.1111 from $1.1151 on Wednesday. The dollar strengthened to 111.32 yen from 111.97 yen.

Major stock indexes overseas closed lower.

In Europe, the German DAX was down 0.3 percent, while the French CAC 40 was 0.5 percent lower. The FTSE 100 index of leading British shares was down 0.9 percent. In Asia, the Japanese benchmark Nikkei 225 index slid 1.3 percent. The South Korean Kospi lost 0.3 percent. In Hong Kong, the Hang Seng shed 0.6 percent.

CHARTS: Freddie Mac Yields: Average for some Federal Home Loan Mortgage Corp. securities. (Source: F.H.L.M.C.); The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Thursday. (Source: Reuters)

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The New York Times

Business/Financial Desk; SECT
Asian and European Markets Down on Turmoil in Washington

By THE NEW YORK TIMES
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The New York Times on the Web
English

European and Asian markets fell sharply on Thursday after declines in American stocks, dragged down by worries that President Trump's policy agenda was being drowned out by persistent turmoil at the White House.

Just this month, Mr. Trump has fired the director of the F.B.I. and shared confidential intelligence details with Russian diplomats, and revelations have emerged that the president had asked for a federal investigation into his former national security adviser to be shut down.

By contrast, Mr. Trump's stated ambitions of lowering corporate taxes, overhauling the American health care system and rolling back business regulations have gained little traction.

Major Asian markets fell on Thursday, with Japan's Nikkei-225 index dropping 1.3 percent, while European indexes including London's FTSE-100 and Paris's CAC-40 dropped more than 1 percent.

On Wednesday, the **Standard & Poor**'**s500 index** fell 1.8 percent, the largest single-day drop since September.

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THE WALL STREET JOURNAL.
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Budget Plan Relies on Cuts --- White House aims at balance over 10 years, projecting much faster growth in economy

By Nick Timiraos
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The Wall Street Journal
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President Donald Trump next week will propose the U.S. can balance the federal budget over 10 years with substantial cuts to safety-net programs such as food stamps and other antipoverty efforts, combined with a tax and regulatory overhaul that speeds up the nation's economic growth rate, a senior White House budget official said.

The president's budget, due for release Tuesday, will spare the two largest drivers of future spending -- Medicare and Social Security -- leaving trillions in cuts from other programs. That includes discretionary spending cuts to education, housing, environment programs and foreign aid already laid out by the administration, in addition to new proposed reductions to nondiscretionary spending like food stamps, Medicaid and federal employee-benefit programs.

The budget release, which will be unveiled while Mr. Trump is visiting Europe and the Middle East, shows how his economic policy team is trying to forge ahead on his agenda even as distracting political controversies swirl around Washington.

The White House's budget proposal next week builds upon an earlier outline in March that called for a nearly 10% boost in defense funding next year, offset by around $54 billion in cuts for nondefense programs.

While there is bipartisan support for more military funding, Democrats and even some Republicans have balked at the magnitude of spending cuts Mr. Trump outlined.

Next week's budget document will outline additional cuts to programs that aren't subject to annual spending bills, such as antipoverty spending or Medicaid, which could meet strong resistance in Congress.

Among the more controversial elements of the budget will be the administration's growth forecasts. The White House projects the nation's economic growth rate will rise to 3% by 2021, compared with the 1.9% forecast under current policy by the Congressional Budget Office.

The CBO and other forecasters see retiring baby-boomer workers and slow worker productivity growth continuing to restrain output in years ahead. But the Trump administration argues tax and regulatory cuts can reverse the trend.

"This president campaigned on economic growth," said the budget official. "That's the debate we want to have: What are the economic policies needed to get there?"

Overly aggressive growth assumptions could undercut the administration's ability to sell its agenda to Congress.

"I am extremely pessimistic that you can show a balanced budget unless you're going to make the mother of all 'rosy scenario' type assumptions," said William Hoagland, a former congressional Republican budget aide who is now at the Bipartisan Policy Center in Washington.

Under current policy, the CBO expects deficits to rise from around 3% of gross domestic product today to 4% early next decade and 5% by 2027. That would swell the national debt from around 77% of GDP to nearly 89%. Mr. Trump will present a budget forecast that shows the national debt declining to 60% of GDP by 2027.

While the Trump forecast will show a large increase in the country's growth rate, it won't show nearly as much of an increase in government borrowing costs. The White House budget official said the forecast will show yields on benchmark **10**-**year Treasury** notes rising to 3.8% by 2020, which is only slightly higher than the CBO, which estimates rates rising to 3.6% over the next decade.

Faster growth often goes in hand with higher rates. Since 1962, the relationship between growth, inflation and interest rates implies Treasury yields of around 5% or more when growth is 3%.

Kate Davidson contributed to this article.

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OKLAHOMA

Officer Acquitted in

Videotaped Shooting

Protesters briefly blocked a street in Tulsa, Okla., after a jury acquitted a white female police officer in the videotaped shooting death last year of an unarmed black motorist.

Officer Betty Jo Shelby was found not guilty late Wednesday of first-degree manslaughter after arguing that she feared for her life when she fatally shot Terrence Crutcher.

Widely seen video footage of the Sept. 16 shooting -- recorded by a police helicopter and a dashboard camera and released by the Tulsa Police Department -- show Mr. Crutcher walking toward his car with his arms raised and then placing his hands on the top of the car. Just after the view of the man is blocked in two separate videos, shots ring out and he falls to the ground.

Lawyers for Officer Shelby had argued she feared Mr. Crutcher was reaching for a gun in the car. She also said he showed signs of being under the influence of PCP and had repeatedly refused to get on the ground in the minutes before the shooting.

No gun was found inside the car, police said, but an autopsy found he did have PCP in his system.

"Betty Jo Shelby murdered my brother," Tiffany Crutcher told reporters and supporters after the verdict was announced. "Terrence did not attack her. Terrence did not charge at her. Betty Shelby was the aggressor."

-- Joe Barrett and Shibani Mahtani

SOCIAL MEDIA

Dean Sent on Leave

For Insensitive Posts

A Yale University dean who has taught psychology and Asian-American studies was placed on leave after posting a series of racially insensitive reviews online, her boss at the school's Pierson College said in an email Thursday.

June Chu, dean of the residential college, apologized last week for two reviews on social media that were deemed offensive and gave assurances that those were the only troubling posts, according to the email.

Then over the weekend more posts surfaced, leading to the decision to place her on leave, said Stephen Davis, head of Pierson College.

The additional posts "further damaged my trust and confidence in Dean Chu's accountability to me and ability to lead the students of Pierson College," Mr. Davis wrote in the email.

The school declined to comment beyond the email.

Ms. Chu's reviews, which were posted under the name June C. and have since been taken down, covered restaurants, movie theaters and gyms. "If you are white trash, this is the perfect night out for you!" read one review of an Asian restaurant.

Dr. Chu didn't respond to a request to comment.

-- Joe Barrett

ECONOMY

Key Economic Index

Points to Growth

A basket of economic indicators rose for the fourth consecutive month in April.

The Conference Board's leading economic index rose 0.3% to 126.9 last month after it showed gains in January, February and March.

Ataman Ozyildirim, director of business cycles and growth research at the Conference Board, said the indicator along with consumer confidence and **financial markets** show the economy is growing.

-- Austen Hufford

ECONOMY

Jobless Claims Signal

Tighter Labor Market

The number of Americans applying for first-time unemployment benefits fell last week for the third consecutive time, the latest sign of steady job creation. Initial jobless claims, a proxy for layoffs across the U.S., fell 4,000 to a seasonally adjusted 232,000 in the week ended May 13, the Labor Department said Thursday. Economists surveyed by The Wall Street Journal had forecast 240,000 new claims.

Estimates of jobless claims can be **volatile** from week to week, but generally have hovered near four-decade lows in recent months, suggesting that employers are holding on to workers.

The four-week moving average of initial claims, which evens out weekly **volatility**, decreased last week to 240,750.

The low level of layoffs is one sign the labor market is tightening and may be at or near the level that economists consider maximum employment. The Labor Department said in its latest jobs report that the unemployment rate dropped to 4.4%.

-- Sarah Chaney and Jeffrey Sparshott

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OPEC Tries To Beat 'Shorts'

By Alison Sider, Timothy Puko and Laurence Fletcher
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English

OPEC is trying harder than ever to win over big investors, but the group is finding that falling **oil prices** are making that a tough sell.

Dozens of hedge-fund managers and oil traders attended a series of closed-door meetings in recent months with OPEC leaders -- the first of their kind, according to Ed Morse, Citigroup Inc.'s global head of commodities research, who helped organize some of the events.

Group officials made the case for how supply cuts from the Organization of the Petroleum Exporting Countries would reduce the global glut. Instead, stockpiles have remained stubbornly high, **oil prices** are down close to 10% from their February peak, and some prominent hedge-fund traders are reeling.

Pierre Andurand, a French hedge-fund manager with a history of double-digit-percentage returns, met with a Saudi official from OPEC just before the Nov. 30 decision to cut production, said people familiar with the meeting. On the heels of a series of **bullish** bets, his main fund at Andurand Capital is down about 16% this year through May 5, according to a person who had seen the performance numbers.

The oil group is now intentionally countering "shorts," funds that bet on falling **oil prices**, an OPEC official said. The official pointed to an announcement earlier this week that Russian and Saudi Arabian energy ministers would support another nine months of production cuts. It was a response to the recent fall in prices and designed to show how serious big producers are about cutting output.

"We are hitting back at the shorts," the official said. Oil rose 2.1% on Monday after the announcement.

Prices gave up some of those gains on Tuesday but edged higher again Wednesday, rising 0.84% to $49.07 a barrel after the U.S. Energy Information Administration reported that stockpiles continued to fall last week. But many traders see any extension as OPEC's acknowledgment that the first round of cuts wasn't effective and further evidence that the group's influence on the market has become severely limited.

"In my view, it's the wrong response," Doug King, chief investment officer at RCMA Asset Management and manager of that firm's $200 million Merchant Commodity hedge fund, said of extending the current cuts. "We're not seeing what we needed to see," he said. "They need to cut harder, right now."

Mr. Morse of Citigroup said he arranged introductions between OPEC Secretary-General Mohammad Barkindo and the more than 100 hedge-fund managers and other oil buyers who have met with Mr. Barkindo in Washington, D.C., New York and London since October.

The coordinated outreach was a new effort by the group to build bridges between its members and Wall Street, aiming to persuade investors that producers were serious about reining in supply, Mr. Barkindo said.

After asking what OPEC planned to do to boost prices, fund managers came away impressed, Mr. Morse said, adding that some still text with the OPEC leader.

OPEC's cuts started in January. **Oil prices** jumped 8.7% in December as traders anticipated an easing supply glut. **Bullish** bets by money managers hit a record for the 10 years of data from the Commodity Futures Trading Commission early this year.

Many analysts aligned with the upbeat mood, forecasting that crude prices would reach $60 a barrel or higher by the end of 2017.

U.S. oil inventories have declined since OPEC's output cuts, but they remain near historic highs. That is in part because U.S. production has increased by about 200,000 barrels a day during the past two months.

If output continues to rise at that pace, U.S. producers could replace much of what OPEC has taken off the market, analysts say.

In recent weeks, hedge funds have cut their **bullish** position on **oil prices** to the lowest level since November as a gasoline glut raised worries that demand could falter.

Mr. Andurand told investors in an April 24 letter reviewed by The Wall Street Journal that **oil prices** "will reach new highs." But three weeks later, he had abandoned most of his **bullish** bets, said a person familiar with the matter.

Veteran oil trader Andrew Hall also bet heavily that OPEC's strategy would work. A fund managed by his Astenbeck Capital Management LLC, a Southport, Conn., hedge-fund firm, lost 17% this year through April, said a person familiar with the matter.

Mr. Hall is one of a few still preaching patience. He recently wrote to investors predicting that inventory excesses would be eliminated, said the person familiar with the matter. Astenbeck and Mr. Hall didn't respond to a request for comment. It isn't clear if he or anyone at his fund attended meetings with OPEC.

Benoit Faucon contributed to this article.

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The New York Times

Economic View
The Upshot
How Tales of 'Flippers' Led to a Housing Bubble

By ROBERT J. SHILLER
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English

There is still no consensus on why the last housing boom and bust happened. That is troubling, because that violent housing cycle helped to produce the Great Recession and financial crisis of 2007 to 2009. We need to understand it all if we are going to be able to avoid ordeals like that in the future.

But the explanations for what happened in housing are not, I think, to be found in the conventional data favored by economists but rather in sociologically important narratives — like tales of getting rich through "flipping" houses and shares of initial public offerings — that constitute the shifting mentality of the era.

Consider the data for a moment. It shows us that extreme changes took place but doesn't tell us why.

Real home prices rose 75 percent from February 1997 to December 2005, according to the S&P/Case-Shiller National Home Price Index, corrected for inflation by the Consumer Price Index. And then, from 2005 to 2012, real prices reversed course, falling to just 12 percent above their 1997 level. In the years since 2012, they have climbed 29 percent, about halfway back to their 2005 peak. This is a roller coaster in national home prices — it has been even more scary in some more **volatile** cities — yet we have no clarity on why it happened.

The problem for economists is that these changes don't correspond to movements in the usual suspects: interest rates, building costs, population, or rents. The Consumer Price Index for Rent of Primary Residence, compiled by the United States Bureau of Labor Statistics and corrected for inflation, went up only 8 percent in 1997 to 2005, so unmet demand for housing services can't explain the huge increase in real home prices. It doesn't explain the 29 percent rise in real home prices since 2012 either, because inflation-adjusted rents increased only 10 percent in that period. So what has been driving the wild ride in home prices?

I believe the price swings have something to do with the changing mentality of the times, changes caused by narratives that have gone viral and swept across the population. Looking for answers in such popular stories contrasts starkly with the prominent approach of modeling people as though they react logically to economic forces. But a less orthodox approach can be quite useful.

One thing is clear: The prevalent narratives of 1997 to 2005 did not include the concept of a housing bubble, not at first. A computer search using Proquest or Google Ngrams shows that the phrase "housing bubble" was hardly used until 2005, the end of the boom. What is a bubble? It typically includes the notion that, spurred by the public's expectation of ever further price increases, demand eventually reaches levels that cannot be sustained, and so the enthusiasm wanes and the bubble collapses. But that thought was just not on many people's minds then, the evidence suggests.

Instead, during the 1997 to 2005 boom there were multitudes of narratives about smart investors who were bold enough to take a position in the market. To single out one strand, recall the stories of flippers who would buy a house, fix it up, and resell it within months at a huge profit. These stories appear to have been broadly exciting to people who didn't flip houses themselves but who appear to have begun to think that stretching a little and buying a house with a large mortgage would make them wise investors.

In his book "The Complete Guide to Flipping Properties," published in 2004, Steve Berges extolled what he called "the O.P.M. principle," meaning "other people's money." He wrote: "Your objective is to control as much real estate as possible while using as little of your own capital as possible." In other words, borrow as much as you can. He wrote about the upside of leverage but not about the perils of leverage during the kind of big price drops that were just around the corner.

It can take a long time for narratives like this to grip the popular imagination. Flipping was “a thing” in the condominium conversion boom of the 1970s and ’80s. The idea then was this: Big-time converters with deep pockets would buy apartment buildings and convert the rental apartments to owner-occupied condos, selling units to diverse individuals, some of them flippers. For public relations purposes, converters would offer to sell at reduced prices to renters already living in a building, and typically to some outsiders, too.

This generated buzz. When renters and speculators flipped their purchase contracts at a big profit, sometimes using borrowed money for down payments to flip multiple units without actually even closing on the condos, it was thrilling. It seemed that anyone with energy and initiative could get rich doing this.

Some people eager to make quick profits bought Donald J. Trump’s well-timed 2004 book, “Trump: Think Like a Billionaire: Everything You Need to Know About Success, Real Estate, and Life,” written with Meredith McIver. Some enrolled in the less well-timed Trump University, which emphasized real estate investment in 2005, at the very end of the housing boom; the university shut down, amid lawsuits and recrimination, in 2010.

Narratives about flipping weren’t restricted to real estate. Just after the time of the condo boom, stories of rapid buying and selling of initial public offerings took off as well. As with the condo promoters, I.P.O. underwriters would sell some shares below market prices to customers, who might then “flip” the I.P.O. for a quick profit.

The promoters of condo conversions and I.P.O.s were onto something. By giving discounts to buyers who would make a high return, they captivated the nation with tales of people who had no advanced degrees or hefty résumés but made fortunes anyway.

By now, the notion of getting rich by flipping houses is entrenched. I searched Amazon for books on “flipping houses” and came up with 325 hits, most written in the past few years. Buying and rehabbing existing houses for resale is a legitimate business. But many of these books make extravagant pitches and seem aimed at inspiring amateurs to plunge into risky ventures.

The public fascination with speculating in housing has been held in check by regulators empowered by the 2010 Dodd-Frank Act, but that restraint is tenuous with the election as president of a real estate promoter intent on reducing regulators’ power. These narratives are still potent and could easily spur further spirals in the housing market.

The Upshot provides news, analysis and graphics about politics, policy and everyday life. Follow us on Facebook and Twitter. Sign up for our newsletter.

Robert J. Shiller is Sterling Professor of Economics at Yale.

* Don’t Bet the Farm on the Housing Recovery

* Home Buyers Are Optimistic but Not Wild-Eyed

* Caution Signals Are Blinking for the Trump **Bull Market**

Minh Uong/The New York Times

Document NYTFEED020170518ed5i0043a

The New York Times

National Desk; SECTA
Capital Drama Rattles Wall St. And Stocks Dive

By KATE KELLY and ALEXANDRA STEVENSON
1,083 words
18 May 2017
The New York Times
NYTF
Late Edition - Final
1
English

Confidence in President Trump's agenda to stoke economic growth was questioned Wednesday, as stocks tumbled and the dollar weakened.

The sell-off was startling because it followed months of a steadily climbing, tranquil **stock market**, a rally that came to be known as the Trump bump. And domestic employment and corporate profits have been strong, usually a boon for stocks.

Yet investors, who have shrugged off previous turmoil in the Trump administration, were clearly rattled by the most recent episode. Some on Wall Street speculated about whether the White House's pro-business pledges to cut taxes, lighten regulation and increase infrastructure would be thwarted by the growing tumult in Washington. Some bank analysts even discussed the probability of impeachment.

And at a gathering of big money managers in Las Vegas, the former chairman of the Federal Reserve, Ben Bernanke, said he was worried about the stability of Mr. Trump's leadership.

''I think it's a reasonable concern, obviously,'' Mr. Bernanke said. He later added that after years of a strong economy, statistically speaking, it was time for a slowdown.

''Over the next four years,'' he told an audience of hundreds of investors, ''there is a pretty good chance we'll have a downturn.''

The question is whether it began on Wednesday.

The New York Times report Tuesday that Mr. Trump had asked James B. Comey, then the F.B.I. director, to scuttle an investigation shook markets around the world.

Stocks ended lower in Asia and Europe on Wednesday. In trading in the United States, the benchmark **Standard & Poor's 500**-**stockindex** tumbled 1.8 percent, its sharpest decline since September. Wall Street's fear gauge, the **volatility** index known as the VIX, spiked 46 percent after a long streak at historically low levels. And the dollar weakened against other currencies, with the Bloomberg dollar index falling to its lowest level since the election.

Investors flocked to markets considered safer in times of political risk. The price of gold rose nearly 2 percent, while Treasury securities rallied. The yield on the **10**-**year Treasury** note, a benchmark for many interest rates, fell to 2.22 percent from 2.33 percent on Tuesday. (Yields and prices move in the opposite direction.)

One day in the markets does not make a pattern. Still, the reaction contrasted sharply with investors' earlier complacency. The surprising firing of Mr. Comey last week and even the news early this week that Mr. Trump had shared confidential intelligence details with Russian diplomats had little discernible effect on markets.

But the revelations on Tuesday that a memo written by Mr. Comey detailed a plea by Mr. Trump to shut down a federal investigation into his former national security adviser, Michael Flynn, over his ties to Russia, seemed to be more than investors could stomach.

"This piece of news, the market appears to be acting differently towards," said Curtis Schenker, co-founder of Scoggin Capital Management. "For the first time, there is real concern that Trump has overstepped his boundaries, which may create some chaos in the market."

The political risk has existed for months, with Mr. Trump's provocative Twitter posts drawing scrutiny. Questions have been raised about links to Russia in his campaign team and administration, and the White House has fumbled its legislative agenda.

Yet throughout the president's first months in office, stock investors focused not on the questions and the missteps, but on the pro-business policies he had promised.

These included health care changes that would save the government money, paving the way for lower taxes, and help private insurers. One important pledge has been lighter regulation to help banks redeploy their capital and speed infrastructure projects. Perhaps the most anticipated change is a tax overhaul that would lower the corporate tax rate to 15 percent, helping big corporations and small businesses alike.

But with few policy victories in hand and the prospect of tax cuts seeming more distant, the reports on Mr. Trump's plea to Mr. Comey stimulated a market backlash.

"Equities had been rallying for a long time, without much of a pause," Stephen Jen, a London-based hedge fund manager, wrote by email Wednesday. "To the extent that the political noises in the U.S. further reduce the prospect of market-boosting measures such as tax cuts," he added, "a correction in the risk assets," in this case, stocks, "makes sense."

Wednesday's rout was so unexpected that, even with stock futures sagging early, few research notes analyzing the implications of the Comey news were written.

Traders said on Wednesday morning that concerns about the Comey memo could easily blow over, as other recent indications of presidential dysfunction had. But by midmorning, that confidence appeared to be fading.

In Las Vegas, where investors had gathered for the annual SALT hedge fund conference, participants spent the early morning catching up on the news from overnight. Outside a ballroom at the Bellagio Hotel, where the meeting was being held, some people hovered near a television screen tracking the **S**.**&P**. **500**.

In his remarks, Mr. Bernanke described Mr. Trump as a "very unprecedented, unusual person" with no government background who would have a harder time pushing through tax reforms and infrastructure changes because of his low approval ratings.

Analysts at Japan's Nomura bank wrote that, while "impeachment still seems a distant prospect," the "negative impacts that the latest developments have on Trump's ability to pursue his policy agenda could be more important for markets."

Still, not every investor was unnerved. With the United States job market robust, the prospect of improving growth and a season of healthy corporate earnings ending, the domestic economy is in good shape, some investors said.

That strong foundation cannot be undermined by possible presidential misconduct, they argued, no matter how serious.

In the absence of more negative economic factors a sustained sell-off in the markets was hard to envisage, Brad McMillan, chief investment officer of Commonwealth Financial Network, wrote in a note to clients.

"We might see a bigger drawdown," or dip in the markets, "but it is likely to be both limited and reasonably short-lived," Mr. McMillan wrote. "There will be a time to worry, but right now, despite the very real issues being debated, we are still in a good place as investors."

CHART: Biggest Decline Since the Election (Source: Reuters) (A21)

Document NYTF000020170518ed5i0004q

The New York Times

Business/Financial Desk; SECT
Movers: Stocks Slide

By THE NEW YORK TIMES
215 words
18 May 2017
The New York Times
NYTF
The New York Times on the Web
English

We're following major developments in the markets throughout the day. Check below for the latest updates.

Stocks Slide

Stocks in the United States were down sharply on Wednesday. The **Dow Jonesindustrial average** and the **Standard & Poor's 500**-**stockindex** each were down 1.8 percent, while the **Nasdaq** was down 2.6 percent.

Among the reasons for the sudden skittishness:

Continued turmoil in Washington. New revelations about President Trump's sharing of sensitive information with Russian diplomats, and his reported suggestion that former F.B.I director James Comey drop his investigation into former national security adviser Michael T. Flynn are raising fears that Trump's agenda of lower taxes and lighter regulation could be harder to enact.

Underlying weakness in the economy. While strong tech stocks have been inflating the major indexes in recent months, some key companies for the American economy -- especially retailers and car makers -- are facing real struggles.

The dollar was weaker against other major currencies on Wednesday.

And Wall Street's fear gauge is up. After hitting historic lows, the Chicago Board Options Exchange**volatility** index, or VIX, spiked 20 percent in early trading on Wednesday, although the index remains well below its historical average.

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THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
Overheard

165 words
18 May 2017
The Wall Street Journal
J
B14
English

[Financial Analysis and Commentary]

Finally, there is some real fear in the fear gauge.

When markets were going nowhere, there was a growing obsession with the low level of the CBOE**Volatility** Index, or VIX. Either markets would tank because they always do when the VIX was so low or they wouldn't because investors were so anxious about the low VIX

On Wednesday, the upheaval-is-coming crowd was the winner. The VIX was up nearly 50%.

Now that there is **volatility**, will people stop talking about the VIX?

According to Factiva, there were 706 articles published last week that included "VIX." That exceeds the high volume of VIX articles around the U.S. election and during the Brexit vote.

There is a pattern emerging here: A Google trends search shows the last time interest in the VIX was this high was August 2011, when tumult in Washington over the debt ceiling sent markets tumbling.

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THE WALL STREET JOURNAL.
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Markets & Finance: Goldman Sachs Bruises Blue Chips

By Ben Eisen
323 words
18 May 2017
The Wall Street Journal
J
B11
English

Goldman Sachs Group Inc. pushed the **Dow Jones Industrial Average** higher after the presidential election. On Wednesday, it dragged the index lower.

Shares of the bank fell 5.3%, making the stock responsible for more than one-fifth of the day's 1.8% decline in the Dow industrials.

The bank contributed 81points to the blue-chip index's 373-point fall on Wednesday, according WSJ Market Data Group, the most of any component of the index.

Goldman's stock has an outsize influence on the Dow because the index is price-weighted.

With a share price of more than $200, Goldman is the highest-priced of the Dow's 30 constituents.

On Wednesday, Goldman shares closed at $213.72.

Bank stocks struggled as some of the most popular postelection trades were down more than the broader market amid the political turmoil in Washington. J.P. Morgan Chase & Co. was the Dow's second-worst performer, down 3.8%. That decline shaved 23 points off the Dow.

The KBW **Nasdaq** Bank Index dropped 4.1%on Wednes-dayas investors took off bets that President Donald Trump would be able to push through his policy priorities that would benefit big lenders, such as deregulation and tax cuts, as controversy over the dismissal of then-Federal Bureau of Investigation Director James Comey continued to escalate.

The bank index had jumped 22% from election day to the end of 2016. Since then, the index is down 3.1%.

Goldman's share-price moves have been more pro-nounced, climbing 32% after the election and contributing 394 points to the Dow's 1,430-point rise during that period. This year, the stock has retreated 11%.

Other big contributors to the Dow's drop Wednesday included Apple Inc. (36 points), Boeing Co. (27 points), and 3M Co. (21 points).

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THE WALL STREET JOURNAL.
U.S. EDITION

The Struggle Behind Oil's Ups and Downs

By Daniel Yergin
1,058 words
17 May 2017
The Wall Street Journal
J
A19
English

A great struggle is unfolding in the world oil market. On one side are forces pushing to rebalance supply and demand; on the other, those pulling to recalibrate the business so that it operates at lower cost. That tension explains why the price keeps jumping toward $60 a barrel and then falling back near $40.

Oil prices collapsed at the end of 2014 because supply and demand had gotten out of whack. That year global supply grew 2.5 times as fast as demand. The shale revolution in the U.S. was a prime cause of the imbalance; American supply grew by 1.4 million barrels a day in 2014 -- 60% of the entire increase.

The expectation was widespread in 2014 that Saudi Arabia would cut its oil output to keep prices up. But Riyadh tried that in the 1980s, only to see its own market share shrink dramatically. "We will not make the same mistake again," then-Saudi oil minister Ali Naimi said two years ago. In particular, the Saudis made clear there would be no deal to cut output without participation by nonmembers of the Organization of the Petroleum Exporting Countries -- especially Russia, the world's largest oil producer.

By the fall of 2016, lower prices had pushed supply down and stimulated demand, moving the two closer to balance. U.S. oil production had fallen by a million barrels a day. Around the world, spending on exploration and production for 2015-19 is 50% lower than what had been expected in 2014, before the price collapse. At the same time, demand grew in 2016 at almost double the 2014 rate.

Last December, oil-exporting countries took the action that had been beyond reach in 2014: They agreed to cut production. "Oil revenues are . . . the main reason," Saudi Deputy Crown Prince Mohammed bin Salman said earlier this month on a Saudi-owned TV station. Even Russia, whose rainy-day sovereign-wealth funds were depleting rapidly, signed on. It also brought 10 other non-OPEC countries to the table.

With the market heading back into balance, this expanded group concluded that total cutbacks of just under 1.8 million barrels a day would be sufficient to wear down the excessively large inventories overhanging the market. OPEC countries demonstrated remarkable compliance with quotas, in sharp contrast to previous efforts. By March, prices had rebounded 75% from their 2016 lows.

But since then, prices have fallen. Rebalancing is now colliding with the other force -- recalibration of costs to a lower level of **oil prices**. This massive adjustment is reshaping the way the global oil industry works.

It first became evident in the U.S. The collapse in revenues, along with heavy debt burdens, led to multiple bankruptcies and the expectation that prices would be "lower for longer." Shale producers had no choice but to slash costs if they wanted to survive. In the process, they became more efficient, focused and innovative. A new well that might have cost $14 million in 2014 now costs $7 million. The gain in efficiency is so great that a dollar invested in U.S. shale today will produce about 2.5 times as much oil as a dollar invested in 2014, according to IHS Markit.

In 2014, many thought a drop in price to $70 a barrel from $100 would shut down U.S. production. It didn't. Today, new shale oil wells can be profitable at $40 to $50 a barrel, and some companies claim even lower. That makes possible a new surge in U.S. production -- as much as 900,000 additional barrels a day over the course of this year. By next year, the U.S. is likely to hit the highest level of oil production in its entire history.

This cost recalibration is happening everywhere, as a new analysis by IHS Markit shows. Canada's oil sands have always been among the highest-cost, yet some new projects can produce near $50 a barrel. In Russia, costs have come down more than 50%. Even deep waters offshore can now produce at less than $50. In March the CEO of the Norwegian company Statoil told the CERAWeek conference that owing to a wholesale redesign, a project in the North Sea that had originally required $75 a barrel to be economical now needs just $27 a barrel.

This recalibration will push up supply more than had been anticipated, at least in the next few years. But there's a big question. How much of the cost saving is the result of innovation, efficiency and new ways of doing things? And how much is the result of dramatic cutbacks in spending, leading to head-count reductions and idle rigs and other equipment? What happens when the markets for people, equipment, and services tighten?

As activity goes up, so will oil-field costs. That's already evident in today's hottest area for drilling -- the Permian Basin in West Texas and New Mexico. Companies large and small, along with private-equity investors, are piling in. They've realized that shale technologies may make the Permian, in terms of recovery, the second-largest oil field in the world.

The effects are already visible. As drilling increases, tightness and bottlenecks are starting to become apparent in terms of manpower, supplies and equipment. Costs in the Permian could increase by 15% to 20% this year, whereas they will remain flat in most of the rest of the industry.

As oil producers get back to business all over the world, some of the big cost savings will be given back, which will support rebalancing -- so **oil prices** will rise. But the entire business has been recalibrated to a lower price level. An industry that had become accustomed a few years ago to $100 oil now regards that as an aberration that will not recur absent an international crisis or a major disruption. The lessons about costs since the price collapse are not going to go away. They are too powerful to forget, and too painful.

Mr. Yergin, vice chairman of IHS Markit, is author of "The Prize" and "The Quest.

(See related letters: "Letters to the Editor: Oil Responds to Supply, Demand and Dollar Changes" -- WSJ May 23, 2017)

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The New York Times

Business Day; DealBook
Movers: Markets Down Early

By THE NEW YORK TIMES
293 words
17 May 2017
08:30 AM
NYTimes.com Feed
NYTFEED
English

We're following major developments in the markets throughout the day. Check below for the latest updates.

Markets Off Early

Stocks in the United States were down sharply in early trading. The **Dow Jonesindustrial average**, the **Nasdaq** and the **Standard & Poor**'**s 500**-**stockindex** each were down nearly a percent.

Among the reasons for the sudden skittishness:

• Continued turmoil in Washington. New revelations about President Trump's sharing of sensitive information with Russian diplomats, and his reported suggestion that former F.B.I director James Comeydrop his investigation into former national security adviser Michael T. Flynn are raising fears that Trump's agenda of lower taxes and lighter regulation could be harder to enact.

• Underlying weakness in the economy. While strong tech stocks have been inflating the major indexes in recent months, some key companies for the American economy — especially retailers and car makers — are facing real struggles.

The dollar was weaker against other major currencies on Wednesday.

And Wall Street's fear gauge is up. After hitting historic lows, the Chicago Board Options Exchange**volatility** index, or VIX, spiked 20 percent in early trading on Wednesday, although the index remains well below its historical average.

What to Watch For: Puerto Rico, Google and Tencent

• Puerto Rico and its creditors will meet in San Juan to start the process of restructuring the island's debt. It is the first such gathering since Puerto Rico sought bankruptcy-like protection.

• Google will hold its annual developers' conference in Silicon Valley. The focus is likely to be on artificial intelligence.

• Tencent, the Chinese technology giant, posted earnings that easily beat analysts' expectations.

• Don't forget to read the DealBook Morning Agenda.

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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
Nasdaq Keeps Rising on Otherwise Mediocre Day

By THE ASSOCIATED PRESS
712 words
17 May 2017
The New York Times
NYTF
Late Edition - Final
4
English

A subdued day of trading on Wall Street ended Tuesday with stocks closing mostly lower even as the **Nasdaq composite** index notched another record high.

Utilities, phone companies and other stocks that pay high dividends were among the biggest decliners. Energy stocks also fell, along with the price of crude oil. Technology companies climbed the most. Financials eked out a gain.

The **Standard & Poor's 500-stockindex** dipped 1.65 points, or 0.1 percent, to close at 2,400.67. The **Dow Jonesindustrial average** slid 2.19 points, or 0.01 percent, to 20,979.75. The **Nasdaq** gained 20.20 points, or 0.3 percent, to 6,169.87. That tech-heavy index and the **S.&P. 500** had each hit new highs on Monday.

Investors were sizing up the latest crop of company earnings and new data on home construction and industrial production.

''The economic data that we've seen today is sort of what we've seen the last few weeks: some good, some bad,'' said Jim Davis, regional investment strategist for the Private Client Group at U.S. Bank.

The Federal Reserve provided some positive economic news, reporting that industrial production at United States factories, mines and utilities shot up 1 percent in April from March. That was the biggest gain since February 2014 and the third straight monthly gain. The increase was more than twice what economists had expected.

A separate report on residential construction was less encouraging. The Commerce Department said home construction had fallen for a second straight month in April, to the slowest pace in five months.

Traders also had their eyes on the latest batch of quarterly results from companies.

Home Depot got a small lift after topping expectations for profit and revenue in the first quarter and raising its profit outlook for the year. The stock gained 93 cents, or 0.6 percent, to $158.26.

Several companies that delivered disappointing results fell sharply.

Dick's Sporting Goods slumped $6.53, or 13.7 percent, to $41.04, while the TJX Companies, the apparel and home goods company that owns the chains T. J. Maxx and Marshalls, slid $3.14, or 4.1 percent, to $73.76.

Staples gave up 3.5 percent, losing 33 cents to close at $8.99, after the company reported quarterly revenue that fell far short of Wall Street analysts' expectations.

News that two private equity firms, TPG Group Holdings and Dragoneer Investment Group, had disclosed a combined 8 percent stake in Etsy, the crafts website, sent shares sharply higher. The stock climbed $2.41, or 21.3 percent, to $13.73.

Energy prices declined, giving back some of their gains from Monday, when a group of oil-producing countries said they had cut production in hopes of supporting the price of oil.

Benchmark crude slipped 19 cents to close at $48.66 a barrel in New York. Brent crude, used to price international oils, lost 17 cents, settling at $51.65 a barrel in London.

The price of oil has swung sharply in recent years, from more than $100 three years ago to less than $30 last year, as concerns rose and fell over whether supplies would overwhelm demand.

The price of gold rose $6.40 to settle at $1,235.00 per ounce. Silver rose 13 cents, to $16.69 per ounce. Copper gained 1 cent, to $2.55 per pound.

In currency trading, the dollar declined to 113.03 yen, from 113.68 on Monday. The euro rose to $1.1095, from $1.0978.

Bond prices rose. The **10**-**year Treasury** yield fell to 2.33 percent.

Major stock indexes in Europe were mixed. The DAX in Germany was flat, while the CAC 40 in France was down 0.2 percent. The FTSE 100 in London rose 0.9 percent. The Nikkei 225 in Tokyo rose 0.2 percent.

The New York Stock Exchange on Tuesday. Technology stocks were the biggest climbers; energy stocks fell with the price of oil. (PHOTOGRAPH BY RICHARD DREW/ASSOCIATED PRESS) CHART: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Tuesday. (Source: Reuters)

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THE WALL STREET JOURNAL.
U.S. EDITION

SEC Rethinks Approval Of New Leveraged ETF

By Dave Michaels and Chris Dieterich
706 words
17 May 2017
The Wall Street Journal
J
B1
English

The Securities and Exchange Commission will reconsider its initial approval of a risky, first-of-its-kind exchange-traded fund that promises four times the daily price moves of **S&P 500** futures contracts, according to people familiar with the matter.

The commission's decision means the earlier approval -- given by the SEC's staff, not the politically appointed commissioners -- has been put on hold and doesn't allow the ForceShares Daily 4X US Market Futures Long Fund and Short Fund to begin trading, the people said. The commission, which currently has three members, could reverse or uphold the staff's decision, but the move puts more scrutiny on a product approval that took many by surprise.

"I was surprised [the staff] let them go," said Amy Doberman, a partner at Wilmer Cutler Pickering Hale & Dorr LLP who was previously general counsel of ProShares, a leveraged ETF provider. "They are certainly not any less risky. I cannot imagine they are going to be any less susceptible to the impact of **volatility** that caused issues with the other [leveraged] funds."

The SEC's approval of the 4X funds on May 2 appeared to signal that the SEC's view of risky ETFs had changed after former Chairman Mary Jo White stepped down in January. Ms. White led an effort to crack down on the use of leverage by mutual funds and ETFs, but the approach wasn't popular with Republican lawmakers or regulators.

Leveraged ETFs employ derivatives to deliver two or three times the daily price moves of benchmarks. The ForceShares quadruple-leveraged funds would be the first to move beyond triple leverage.

There are 273 leveraged, inverse or leveraged inverse exchange-traded products on the market, with a collective $44 billion in assets, according to market-data firm XTF. While that represents just 1.5% of the total $2.9 trillion of U.S. ETF assets, many leveraged and inverse ETFs are heavily traded on U.S. exchanges.

Leveraged ETFs are marketed as tools designed for short-term trading. Securities regulators have been cool to leveraged ETFs for several years, even though they approved them a decade ago, warning repeatedly that owning such products for longer than one day can lead to surprises. The SEC warned brokers in 2012 that leveraged ETFs are potentially "unsuitable" for long-term investors. Morgan Stanley agreed in February to pay $8 million to settle SEC claims that it didn't properly oversee sales of inverse ETFs to clients.

ForceShares is a first-time ETF sponsor that worked with ETF Managers Group LLC, a firm that provides services to aid smaller sponsors in launching new ETFs. A principal at ForceShares couldn't be reached for comment. A spokesman for ETF Managers Group declined to comment.

An SEC spokeswoman didn't respond to a request for comment.

In December 2015, the SEC proposed a rule that would have made it much more difficult for triple-leveraged and triple-leveraged-inverse ETFs to be sold as mutual funds to retail investors. The rule proposal sought to significantly scale back the exposure that mutual funds could have to derivatives, which provide the rocket fuel that allows leveraged funds to generate exponential returns. The rule could have resulted in closures or forced modifications of dozens of leveraged ETFs.

ForceShares' products wouldn't have been subject anyway because they aren't registered under rules that govern traditional mutual and exchange-traded funds. The company's 4X fund structure instead was presented to regulators as a type of commodity product that doesn't need to meet the same standard of investor protections that mutual funds must offer, such as oversight by independent boards.

That means some large brokerages might not have been willing to recommend ForceShares' 4X funds to retail investors, out of concern that regulators would find them too complex for mom-and-pop traders.

ForceShares' application could have escaped the attention of commissioners before its approval because the SEC staff has the authority to make some decisions on its own. SEC commissioners can move to review those decisions, including the approval of new products.

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THE WALL STREET JOURNAL.
U.S. EDITION

Streetwise: A Lack of Fear Is Now Big Worry in Markets

By James Mackintosh
775 words
16 May 2017
The Wall Street Journal
J
B1
English

The only thing we have to fear is fear itself, said Franklin D. Roosevelt. The wartime president had enough to worry about without the VIX. The CBOE**Volatility** Index's superlow levels are prompting many to invert his famous line: Some investors now fear that there isn't enough fear.

Investor complacency is a sensible thing to be concerned about after a long **bull market**. But we should be clear about what the VIX is telling us.

The VIX is a measure of implied **volatility** derived from **S&P 500** options prices. It has gained appeal because it is known as Wall Street's "fear gauge" and for good reason: It typically goes up when the market goes down.

The strongest message from a low VIX is merely that the market has gone up a lot. Last week, the VIX hit the lowest level since 1993, twice closing below 10.

Contrarians like to think the real message is that the market's more likely to go down. That isn't obviously the case. On the previous occasions the VIX closed below 10 -- in 1993, 1994, 2006 and 2007 -- the S&P went up over the next 30 days. This is a tiny sample, but on average, investors have made money over the next 30 days whenever the VIX was below 50.

The VIX seems to have done roughly what it's supposed to do, with a low VIX anticipating that stocks won't swing around much in the next 30 days and a high VIX predicting that they will. When the VIX is low, you probably won't win or lose much in the market. When it's high, you're more likely to win or lose a lot.

There are two reasons to be more concerned about the VIX now than in previous low VIX periods. First, a lot of investors seem to be betting on **volatility** staying low, not least via the previously obscure VelocityShares Daily Inverse VIX Short Term ETN, an exchange-traded note with the "XIV" ticker.

Betting against **volatility** is often compared to picking up pennies in front of a steamroller. But in this case, investors found fat wads of cash, not pennies. XIV shares are up 71% this year alone.

No one knows when the steamroller will run over XIV shareholders, but we can be sure bad stuff will happen in markets one day. When it does, XIV shares will surely be flattened. They fell 54% in August 2015 amid the China devaluation scare. The more people are betting on low **volatility**, the worse the rush for the exit is likely to be.

Tim Edwards, senior director of index investment strategy at S&P Global, calculates that more money in the major **volatility** ETFs is betting on **volatility** rising than falling, even when short positions are included. But clearly more investors than usual are ready to dive in front of the steamroller.

Second, the VIX might be sounding a longer-term warning. Its previous forays below 10 look suspicious, with the 1993 and early 1994 lows followed within months by a near-10% tumble in the S&P as the Federal Reserve got aggressive on rates. The low VIX at the end of 2006 and start of 2007 preceded the subprime collapse.

Wider measures of sentiment show chief executives and consumers about as confident as they've been since well before the 2007-2008 crisis. Investor surveys are more subdued, with few suggesting the euphoria one might detect based on current levels of the VIX, which recently was around 10.5.

Almost everything is expensive, but when and why will that change?

One reason would be if central banks pull support. However, as J.P. Morgan chief market strategist Jan Loeys puts it, "hyper-active central banks, that arguably learned their lessons during the crisis, are faster than ever to douse any . . . brushfire with extra liquidity."

Another would be the fear of politics. Commentators lament that markets are ignoring supposedly obvious political risks. But politics has turned out to be a lot less scary than it first seemed to investors.

Then there's the economy. Hopes of a global rebound are helping sustain markets and keep **volatility** low, but some disappointing U.S. data and a credit clampdown in China might knock confidence in world growth if they continue.

Markets are expensive, and risks are still easy to enumerate. But the VIX is probably right to think they're unlikely to materialize in the next 30 days.

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Equities: Improving Sentiment Helps Housing Shares Build on Market Rally

By Akane Otani
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Rallying home-builder shares got a fresh boost after upbeat data on the housing industry.

Home-builder stocks have generally outperformed the **S&P 500** this year as reports have pointed to the U.S. housing market strengthening.

On Monday, the group added to its gains, with D.R. Horton Inc. shares rising 1.1% to $33.45, Lennar Corp. climbing 1.3% to $51.03, Toll Brothers Inc. adding 1.2% to $37.44 and KB Home gaining 1.8% to $21.29.

Each of the four stocks is up by double-digit percentages this year, while the **S&P 500** has risen 7.3%.

The day's moves came after a report showed the National Association of Home Builders/Wells Fargo Housing Market Index, a measure of sentiment among U.S. home builders, climbed in May to its second-highest reading since 2005. Economists polled by The Wall Street Journal had expected to see the gauge hold steady.

Monday's report added to a string of upbeat readings for the housing industry. Home sales in the first quarter climbed to their highest level since the same period of 2007, the National Association of Realtors said Monday.

The share of first-time buyers is rising back toward its historical average, according to data from the Census Bureau, and new households are more often choosing to buy homes rather than rent, home-tracker Trulia said this month. That has created fresh demand for new homes, as well as lifted shares of home-improvement companies.

Shares of big-box retailer Lowe's Cos. have gained 20% this year, while paint maker Sherwin-Williams Co. has risen 24%.

Data scheduled for release Tuesday could give home-builder shares another boost. U.S. single-family housing starts are expected to have risen 3.7% in April from the previous month, according to economists polled by the Journal.

Upbeat earnings also could bolster shares of companies tied to the housing market. Home Depot Inc., shares of which are up 17% this year, is expected to report results on Tuesday.

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The New York Times

Business/Financial Desk; SECTB
Price of Crude Soars as Two Oil Giants Agree to Cut Production

By STANLEY REED
1,201 words
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1
English

With oil markets flagging, the world's two biggest oil exporters agreed on Monday to extend production cuts for several months, sending the price of crude soaring.

Major oil-producing nations have struggled of late to bolster prices, as inventories piled up and crimped the potential for demand. Prices dipped below $44 a barrel this month, their lowest level in more than a year.

Countries like Saudi Arabia and Russia -- which are heavily dependent on energy sales to fund national budgets and government services -- are trying to manage the markets by promising to reduce production. The move on Monday pushed **oil prices** up by nearly 3.8 percent, to almost $50 a barrel, the highest level in about three weeks.

The strength in **oil prices** sent American stocks to new highs. With energy shares surging, the **Standard & Poor's500 index** surpassed its record, closing just above 2,400 points.

The latest swings are proving problematic for global producers. For years, Saudi Arabia and other nations in the Organization of the Petroleum Exporting Countries were often able to easily prop up prices. But their clout has ebbed as new players like American shale producers came into the market and the growth in demand for oil slowed.

Amid weak prices late last year, OPEC countries, along with Russia, agreed to cut around 1.7 million barrels from their collective output. It worked for a while as markets recovered. But the higher prices also drew in OPEC's rivals, including shale oil producers in the United States.

That is forcing Saudi Arabia and Russia to step in again. The two countries agreed on Monday to lower their production levels for nine months longer than originally agreed, through next March. OPEC, of which the Saudis are the de facto leaders, is likely to follow suit when its 13 members meet in Vienna on May 25.

Oil prices rose to their highest level in weeks after Monday's announcement. At the end of trading, West Texas Intermediate crude settled at $48.85 a barrel, up $1.01, while Brent crude rose 98 cents to $51.82.

"What OPEC, and to some extent Russia, and these other countries have been doing since the price collapse of 2014 is pretending to manage the market," said Robert McNally, a former White House energy adviser who is president of the Rapidan Group, a Washington-based research firm, and the author of a recent book on oil booms and busts titled "Crude **Volatility**."

In reality, Mr. McNally said, they were simply "managing or manipulating sentiment."

OPEC and other big oil producers, in effect, are no longer the only voice in the market.

It is a marked shift for a bloc that even today accounts for about a third of the world's oil production. In the late 1990s, a series of cuts by OPEC, as well as other producers outside the organization, lifted prices after a collapse to the $10 per barrel range.

Now, they are fighting a wave of forces beyond their control.

In the short term, large amounts of crude remain unsold and in storage. Saudi Arabia and Iran, in particular, have been selling some of those stores, blunting the impact of the cuts, according to Richard Mallinson, an analyst at the research firm Energy Aspects. And higher prices in recent months have thrown a lifeline to shale oil companies in the United States, where output had plunged when prices fell. With prices around $50 a barrel, production from shale companies is surging again.

Shale and other sources are likely to fill in whatever gaps OPEC production cuts created in the market. And OPEC may be making things easier for shale producers by agreeing to rein in output for such a long period.

''It is now becoming very clear that the cuts aren't making the oil market rebalance sooner,'' said Rob West, a partner at Redburn, a market research firm in London. ''They are prolonging the glut.''

In the longer term, increased use of electric cars and more efficient use of energy may contribute to slowing growth in world demand, analysts say. In April, the International Energy Agency, the Paris-based monitoring group, forecast that oil demand growth would slow in 2017 for the second straight year, citing gains in the fuel efficiency of motor vehicles in the United States in particular.

The current output cuts, which went into effect in January, may also have been less significant than the fanfare that greeted them might suggest.

In the months before the cuts came into effect, OPEC countries produced flat out. As a result, when they finally throttled back, they were effectively just returning to more normal levels.

Saudi Arabia, which has taken the brunt of the cuts, produced only about 170,000 fewer barrels a day in April than it had in the same period a year earlier. That is equivalent to about 2 percent of its previous total output, and a tiny fraction of global oil demand.

''What they have chosen is restraint rather than huge cutbacks,'' said Bhushan Bahree, an OPEC analyst at IHS Markit, a research firm.

And some OPEC members like Libya and Nigeria, who are exempt from the cuts, are now substantially increasing output. Libya, for instance, is producing over 800,000 barrels per day, more than double the level of a year ago.

The calculations are complex for the bloc.

Three years ago, Saudi Arabia and others decided to do nothing, even as prices dropped swiftly from more than $100 a barrel. Riyadh argued at the time that bolstering prices would spur investment in rival sources of energy like American shale producers, and it hoped that lower prices would kill those rivals' growth.

As OPEC nations continued to pump oil at high levels, prices dropped to around $30 per barrel early last year. So with the Saudis' budget getting pummeled by the loss of oil revenue, they had to reconsider the strategy.

Ali al-Naimi, the Saudi oil minister for two decades, lost his job, and his successor, Khalid al-Falih, a veteran oil executive, traveled the world promising to restore balance to the market. Those efforts ultimately paid off when OPEC and other major producers like Russia agreed to trim output.

It appears that, for now, they are sticking to that path.

In a statement on Monday, Saudi Arabia and Russia said they had ''agreed to do whatever it takes to achieve the desired goal of stabilizing the market,'' adding that a deal between major oil exporters to reduce production should be extended through the end of March.

The two countries said they would work with others ahead of the Vienna meeting, ''with the goal of reaching full consensus on the nine-month extension.''

''What they looked to do,'' said Mr. Mallinson, the analyst, ''is send a positive surprise by exceeding market expectations.''

A worker checking a valve at an oil field owned by the Russian producer Bashneft. Russia and Saudi Arabia said they would limit production for nine months to try to stabilize the market. (PHOTOGRAPH BY SERGEI KARPUKHIN/REUTERS)

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The New York Times

Business/Financial Desk; SECTB
Oil and Tech Hoist 2 Indexes to Records

By REUTERS
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English

The **Standard & Poor's 500**-**stockindex** and the **Nasdaq composite** index closed at record highs on Monday, powered by demand for technology stocks after a global cyber attack and by rising **oil prices**.

Oil rose to the highest level in more than three weeks after top exporters Saudi Arabia and Russia said supply cuts needed to last into 2018, a step toward extending a deal to support prices for longer than originally agreed.

The rising **oil prices** and housing data drove optimism about the economy and helped make financial stocks the second biggest driver of gains for the **S**.**&P**. **500**, behind the technology sector.

Energy ministers from the world's top two oil producers said production cuts, which were set to expire next month, should continue until March, beyond an optional six-month extension specified in the deal. The Organization of the Petroleum Exporting Countries meets in Vienna on May 25 to consider the extension.

''The oil markets are acting well and that's helping,'' said R.J. Grant, head of trading at Keefe, Bruyette & Woods in New York, who also cited the strong corporate earnings season.

About 75 percent of **S**.**&P**. **500** companies that have reported quarterly results so far have beaten Wall Street expectations, according to Thomson Reuters data.

Stronger sentiment for home builders also gave investors some confidence in the economy.

''We need that because there's been a tug-of-war in this market as to whether this economy is peaking,'' Quincy Krosby, market strategist at Prudential Financial in Newark said, referring to the housing sentiment.

The **Dow Jonesindustrial average** was up 85.33 points, or 0.41 percent, to 20,981.94, the **S**.**&P**. **500** gained 11.42 points, or 0.48 percent, to 2,402.32 and the **Nasdaq** added 28.44 points, or 0.46 percent, to 6,149.67.

Johnson & Johnson and Cisco Systems were the biggest drivers for the **S**.**&P**. **500** after prominent analysts upgraded their ratings on the stocks.

Shares of online security firms jumped on expectations that they would benefit from greater spending after an enormous ransomware attack had begun spreading across the globe on Friday.

Shares of Fireye rose 7.5 percent, and Symantec and Palo Alto Networks both gained around 3 percent. The 2.3 percent rise in Cisco was driven in party by its security technology business.

Crude oil futures for June delivery rose $1.01 to $48.85 a barrel in New York and Brent was last at $51.76, up 1.81 percent on the day.

The news from the energy sector more than offset concern over the weekend after a successful missile test by North Korea and a cyber attack with unprecedented global reach.

The currencies of economies dependent on commodities got a lift from the jump in **oil prices**.

The New York Federal Reserve's barometer on business activity in the state unexpectedly fell in May, sinking into negative territory for the first time since October.

Analysts cautioned that the index's downturn could be a harbinger of a drop in the manufacturing sector.

''We have been expecting some cooling in the manufacturing sector following a solid start to the year, but if the Empire State survey's orders index proves to be a reliable forward-looking indicator, the slowdown could be more severe than we had been anticipating,'' Daniel Silver, an economist at J.P. Morgan, wrote in a research note.

The dollar index, tracking the greenback against a basket of other major currencies, fell 0.32 percent, with the euro up 0.42 percent to $1.0974. The Canadian dollar was at its strongest in over two weeks against the United States dollar.

Treasury yields slipped after the weak data. Benchmark 10-year notes last fell 0.01 in price, while its yield rose to 2.34 percent, from 2.33 percent late on Friday.

Gold for May delivery added $2.40 to $1,228.60 an ounce

CHART: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Monday. (Source: Reuters | By The New York Times)

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Heard on the Street
The Real Winner From Oil Supply Cuts

By Spencer Jakab
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[Financial Analysis and Commentary]

The most surprising result of the anticipated deal among big oil producers to extend supply cuts might be that the U.S. re-emerges as the world's biggest oil producer.

Monday's news that the members of the Organization of the Petroleum Exporting Countries, plus nonmember Russia, are extending supply cuts sent prices up about 2%; they have risen 7% since speculation intensified last Tuesday. But the bounce comes after a slump that had sent prices down to the same level as shortly before the November agreement.

The group cutting supply has a similar share of the world oil market as the countries that participated in the Arab oil embargo in 1973-1974, quadrupling prices, but the results have been very different. While prices will be somewhat higher due to the extension, oil revenue for Saudi Arabia, the largest single output cutter, probably will be lower, all else being equal.

The ultimate free rider on Saudi sacrifice is nimble U.S. shale. So much capital is now being deployed that the U.S. may become the world's top oil producer by 2018, topping Russia and Saudi Arabia.

U.S. production of oil peaked almost a year after the crude **bear market** started, reaching 9.61 million barrels in June 2015. After dropping below 8.5 million by last summer, the old record may be exceeded in a matter of months. The U.S. Energy Information Administration recently updated its forecast and expects U.S. production to average 10 million barrels a day next year. Russia currently produces 10.3 million barrels and Saudi Arabia 9.95 million. If related liquids are included then the U.S. has been the top global petroleum producer since 2013.

Extending the OPEC plus Russia cuts should help bring commercial petroleum inventories back to a normal range and boost crude prices by a few dollars a barrel in the short term. The more painful part of the equation for OPEC may be ceding more market share to the U.S. by boosting cash flow and capital spending in the shale patch.

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THE WALL STREET JOURNAL.
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Agriculture (A Special Report) --- Seat Cushions Made With Soybeans; Sneakers Made With Corn: A crop glut has farmers seeking out new uses for their harvests

By Benjamin Parkin
924 words
15 May 2017
The Wall Street Journal
J
R4
English

Facing overstuffed silos and forecasts for another huge harvest this year, U.S. farmers are trying to find new uses for their corn and soybeans.

Robust demand for processed foods, animal feed and biofuels isn't keeping up with a record glut of crops in the U.S. and world-wide, after several years of bumper harvests and largely benevolent weather. To sell the surplus, farmers and trade groups are going after new customers, from auto makers to toy companies.

In recent years, corn and soybeans have been added to the recipes for Ford Motor Co. seat cushions, IKEA mattresses, Danone SA's yogurt cups and Procter & Gamble Co.'s Olay moisturizers. Adidas AG's Reebok brand recently unveiled sneakers made with corn. Lego A/S earlier this year said it was toying with using grain-based materials to mold its famous bricks.

Industry groups also are calling for more research into new ways that the crops could replace petroleum as a raw material in industrial and construction applications.

"We're sitting on a pretty good surplus," says Paul Bertels, vice president of the National Corn Growers Association, which recently called for more research to put corn in more products. "We stepped back and said, 'We need to find new uses.' "

U.S. corn and soybean stockpiles swelled to a combined 10.35 billion bushels in the first quarter of 2017, a record. Soybean futures have fallen more than 10% at the Chicago Board of Trade since mid-January. Corn prices are also under pressure. Analysts expect big harvests in South America to increase the global glut, and the U.S. Department of Agriculture said in March that U.S. farmers also are expecting record acreage of soybeans this year.

The hunt for alternative uses for grains and oilseeds isn't new. NatureWorks LLC, the world's first and largest maker of a bioplastic called PLA, started in 1989 as a Cargill research project. But the multiyear glut, which has pushed many farmers deeper into debt and some out of business, adds urgency to that work.

Argo Genesis Chemical LLC of Illinois recently developed its own highly flexible, soy-made plastics for use in products like road-paving materials, cardboard and diapers adhesives. The company says such compounds can help shield manufacturers from **volatile oil prices**.

"Long term, we see this being the way the plastics industry moves," says Steve Davies, spokesman for NatureWorks. "There's tremendous potential to grow."

For consumers of these new products, the use of corn and soybeans could be a positive. Many consumers are willing to pay a premium for sustainability. Switching to raw materials that can be grown year after year allows companies to tout their "green" credentials, though researchers are divided over the overall environmental impact.

Still, these new uses account for only a fraction of the output in an industry geared toward cranking out billions of bushels a year for animal feed, alcohol and food. Some 96% of global agricultural land is used to produce food, feed and pastures, according to trade association European Bioplastics. Crops for bioplastics took up just 0.01% in 2014; rubber and cotton plants along with crops for biofuel made up much of the remainder.

"Those fringe uses of corn are so specialized that they're interesting, but really people are looking for uses that develop 5 billion bushels of demand," said Tomm Pfitzenmaier, a founding partner at Summit Commodity Brokerage in Des Moines, Iowa. "That's where the big swing could come."

But boosters see room for rapid growth, and point to ethanol's trajectory in the U.S. as an example. Less than 1% of U.S. corn was used as ethanol in the 1980-81 crop year, according to the Agriculture Department. In 2015-16, 5.2 billion bushels, or 38%, of the U.S. crop became biofuel.

Some food-security groups say steering grain and soybeans to factories takes away land that will be needed to feed a growing global population. Others say the added value from such alternative uses won't trickle down to the farmers themselves, since they aren't the ones processing the grains into higher-priced products.

"A lot of these folks are going to continue to be caught in the system where they're getting a tiny fraction of what the final product brings to the processors," says Greg Fogel, policy director at the National Sustainable Agriculture Coalition. "That's not going to solve the problems that currently exist with the rural farm economy."

John Motter, an Ohio farmer and chairman of the United Soybean Board, says that for now U.S. farmers need all the buyers they can find.

"Farmers are businessmen. We all take a longer view," he says, proudly pointing out that the seats in his 2013 Ford F-250 pickup truck are made from oilseed foam.

That's the kind of business opportunity farmers want U.S. companies to see in their fields. "Ford isn't running soy in their seats because they think it's a neat thing to do," says Keith Cockerline, director of industrial uses at the United Soybean Board. "It's because they're making money at it."

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Wall Street Feels Heat From China's Banks

By Rachel Rosenthal and Julie Steinberg
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English

China's banks are pressing hard on Wall Street firms in one of the banking world's hottest markets: helping Chinese companies raise money overseas.

Dollar-denominated bond issuance from China has exploded in recent years, as the country's globally focused companies raise cash for expansion and investment abroad. Chinese borrowers have been the second-biggest seller of dollar-denominated debt this year and last year, after only those in the U.S.

Chinese investment banks so far in 2017 took five of the top 10 spots in league-table rankings for underwriting offshore Chinese debt deals, and they accounted for just under half of associated sales volume. That is up from one spot and 13% of associated volume in 2012, according to Dealogic.

Driving the gains is a battle for business by Chinese banks, which are willing to accept smaller profits than Western rivals, bankers say. The banks are bringing with them some nonstandard practices honed in China's famously bumpy home markets, some of which could lead to unruly trading in offshore markets as well, Wall Street bankers say.

After a recent government crackdown on runaway debt in China sent bond yields climbing, Chinese banks have also been pursuing companies rushing to sell bonds overseas. China's overall debt is now estimated to be almost triple gross domestic product, a level many experts view as dangerous. Bond yields rise as prices fall.

Historically, Western firms with connections and financial heft, including Morgan Stanley, Goldman Sachs Group Inc. and HSBC Holdings PLC, have had an advantage in helping Chinese companies tap global investors and **financial markets** despite China's regulations curbing foreign participation in onshore investment-banking and trading.

In recent years, though, big Chinese financial firms like China Construction Bank Corp. have piled into the business of advising on stock listings in the offshore market of Hong Kong.

The same thing has happened in Chinese dollar-bond underwriting, where fierce competition among Chinese banks has pushed the number of firms per deal to an average of 6.4 in 2017, more than double the average for 2011 and roughly triple the number involved in similar deals in the U.S., the U.K. or Germany, according to Dealogic. Some recent Chinese dollar deals have involved more than 20 banks, according to Dealogic.

The competition hits profits, bankers say. Chinese companies have paid $385 million in fees for underwriting their dollar-bond deals this year, second only to U.S. issuers, according to Dealogic. But fees on such deals for corporate clients were on average a little more than half of what they were for U.S. deals, Thomson Reuters data show.

Fees aren't distributed evenly among investment banks, as they tend to be in the U.S. or Europe, where orders go in a shared pool, and other underwriters can see the names of investors in a bond issue and the amount they are buying.

In mainland as well as offshore Chinese bond deals, Chinese issuers urge banks to compete for fees, awarding the biggest amounts to those banks that snag the most investor orders. One way of amassing that business is through anonymous orders, known as "x-account orders," that are credited to the bank that receives them.

The use of x-orders is now relatively rare in most other markets around the globe, bankers say. Decades ago, bankers in the U.S. and Europe shifted to a more transparent system, arguing that it ensures a steady and diverse base of investors and helps the bonds trade smoothly.

Some investors say they like x-orders because the anonymity lets them preserve relationships with their favorite banks without offending others on the deal. Many Chinese banks say x-orders help them show their corporate clients -- particularly newcomers to dollar-bond issuance -- that they are earning their fees.

Bankers say x-orders are common in Chinese offshore deals and can represent as much as 75% of orders.

"The more account x's . . . you can potentially get more fees," said one debt-capital markets manager at a big Chinese bank. "This is definitely an incentive."

Some global banks say they are uncomfortable with anonymous orders and have walked away from deals involving them. Other Western bankers say they feel pressure to place x-orders to keep a top spot in the bond-underwriting league tables -- an important factor when pitching new business.

One challenge is that investors sometimes place duplicate x-orders with multiple banks to make sure they can get all the bonds they want to buy, which can make demand seem larger than it really is, bankers say.

Last year, China Cinda Asset Management Co. enlisted 23 banks to ensure the smooth launch of a dollar-denominated bond it was using to bolster capital. Cinda initially aimed to raise as much as $4.45 billion. Bankers on the deal say orders, mostly anonymous, at one point were thought to total about $10 billion. By the time pricing was finished and all the orders reconciled, the value had shrunk to $3.2 billion.

Cinda didn't respond to requests for comment.

X-orders also make it impossible to know whether investors are stable long-term holders or fast-trading hedge funds -- and thus, how the bonds will trade.

"That's one of the reasons we're not buying" Chinese U.S. dollar bonds, said Jan Dehn, head of research at fund manager Ashmore Group in London. "As soon as momentum weakens, all these overvalued bonds are in the hands of investors who flip them."

Many Chinese banks use their big stores of cash to buy into the bond deals they are arranging -- something their relatively lean Western counterparts can't do. Chinese bankers say the practice encourages other investors to pile in and ensure the fundraising goes smoothly. Western bankers say their rivals are placing these orders to secure business from the issuer, and that the practice limits the number of bonds going to other investors.

Chinese banks issuing bonds outside the mainland are "importing book-building practices from the onshore market that tend to conflict with the typical collaborative international approach," said one senior debt-capital-markets banker at a big Western firm in Hong Kong.

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Equities -- MoneyBeat: Calm Descends on Dow

By Ben Eisen
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B10
English

The **stock market** is at its quietest in half a century.

The **Dow Jones Industrial Average** has risen by 1% or more just three times this year and has fallen 1% or more only once. That marks the fewest 1% moves for the blue-chip index for any period between the beginning of the year and May 12 since 1965, according to the WSJ Market Data Group.

It is a contrast to last year, which started with a 10% correction in the Dow, and proceeded to mark a number of twists and turns around the British vote to leave the European Union in June and the U.S. presidential election in November.

And the calm in major indexes appears to be strengthening, as evidenced by the broader **S&P 500**, which has had an absolute daily move of less than 0.5% for 13 consecutive trading sessions through Friday, the longest such streak since 1995.

Another measure, the CBOE**Volatility** Index, an options-based measure of expected **stock-market** swings over the next 30-days, hit its lowest level in nearly a quarter-century last week.

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Intelligent Investor: Put a Fork In Stock Pickers

By Jason Zweig
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13 May 2017
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English

Propaganda dies hard.

Even as evidence continues to mount that stock pickers have underperformed the market averages, active managers insist that they will make a comeback. Analysts at Bank of America Merrill Lynch found earlier this month that 63% of active fund managers investing in large U.S. stocks outperformed their benchmarks in April, the best since February 2015.

Stock pickers claim that the rise of market-matching index funds, along with artificially low interest rates, have driven all stock prices up, making it unusually hard to pick winners. But active managers, they say, will prove their worth again when the market finally goes down.

Unfortunately, that isn't what history shows. The odds of finding a stock picker who can do better in down markets have long been less than 50-50. The brief periods in which active managers did resoundingly better than the **S&P 500** have tended to be times in which small stocks outperformed large. If you or your financial adviser think stock pickers will prevail in the next downturn, the evidence isn't on your side.

I asked Rui Dai, an analyst at Wharton Research Data Services at the University of Pennsylvania, to analyze mutual-fund performance since 1962. That is as far back as it's possible to go with the comprehensive data on funds compiled by the Center for Research in Security Prices at the University of Chicago's Booth School of Business.

Over that long sweep of time, Mr. Dai found, active managers didn't do significantly better than the market when stocks went down. On average, he says, the odds of finding a manager who will preserve your capital in a falling market are "slightly worse than the flip of a coin."

During the financial crisis, from late 2007 through early 2009, the **S&P 500** lost 50.2%; the average U.S. stock mutual fund fell 49.7%. In the **bear market** of 2000-02, as internet stocks imploded, the **S&P 500** lost 43.4%; the average fund lost 43.2%. But funds fell worse than the market in the sharp declines at the beginning of 2016 and in the summer of 2015.

All these numbers include the income from dividends as well as changes in price. The average of fund returns is weighted by size, with bigger portfolios counting more.

Stock picking does cost money. Since 1962, mutual funds have incurred an annual average of about 1% in expenses and probably at least as much in trading costs, reducing their net returns.

The **S&P 500**, a hypothetical bundle of stocks that you can't invest in directly, doesn't bear the burden of those costs. Index funds based on the **S&P 500** do incur expenses, although at a fraction of 1%, because these funds simply own the underlying basket of stocks without trying to pick winners and trade only when a stock enters or leaves the index.

What about the good old days, when swashbuckling fund managers could do as they pleased? In the crash of 1973-74, which, until the financial crisis, was the worst drop since the Great Depression, the **S&P 500** lost 37.3%. Stock funds lost 38.9% on average, even though they had almost one-tenth of their assets in cash at a time when interest rates exceeded 7%.

As far back as the 1920s, the investing public was led to believe that portfolio managers could work miracles. "Investment trusts," like today's closed-end funds, issued finite numbers of shares that could sell for more than the underlying value of their assets.

To evaluate such a fund, the Magazine of Wall Street wrote on Sept. 21, 1929, "a simple rule is to add 30 percent to 100 percent, or more, depending [upon] one's estimate of the management's worth," to the value of the portfolio's net assets. In other words, the brainpower of the manager could make the fund worth at least twice as much as its underlying assets.

A few weeks later, stocks fell 12% in a day, on their way to shriveling more than 80% in the Great Depression. Index funds, which didn't exist then, would have done just as badly. Active stock pickers did worse on average; many of their funds went bust.

For as long as there have been funds, there have been fund managers who -- sometimes with skill, often with luck -- have beaten the market, at least for a while. But they have always been hard to find, and their performance has typically been highly perishable.

If you want to protect yourself against a **bear market**, keep more of your money in cash and other assets unrelated to stocks. Don't believe the propaganda that says you can count on a stock picker to provide your parachute.

(See related letter: "Letters to the Editor: We'll Find Value When Index Bubble Bursts" -- WSJ May 31, 2017)

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THE WALL STREET JOURNAL.
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U.S. News: Retail Sales Offer Promising Sign of Growth

By Ben Leubsdorf
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The Wall Street Journal
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A2
English

Better consumer spending and confidence add to a growing body of evidence that U.S. economic growth is picking up this spring following another weak winter.

Sales at U.S. stores, restaurants and online retailers increased a seasonally adjusted 0.4% in April from the prior month, the largest gain in three months, the Commerce Department said Friday. Also, the University of Michigan reported its consumer-sentiment index rose to 97.7 in early May -- the strongest reading since January, when sentiment reached a 13-year high.

The reports were a striking counterpoint in a week marked by dismal earnings reports by brick-and-mortar U.S. retailers like Macy's Inc., and Kohl's Corp. and Nordstrom Inc., which are struggling to adjust to a shift to online shopping. On Friday, J.C. Penney Co. reported a surprise adjusted profit, but revenue was below expectations and the stock plunged 14%.

Households are still spending, just in different places.

"We're going to have a nice strong consumer in the second quarter, and it's not surprising," said Diane Swonk, founder of consultancy DS Economics. "We've got more income. The labor market continues to improve."

Forecasters are increasingly confident that overall growth is rebounding after gross domestic product, a broad measure of U.S. output of goods and services, rose at a 0.7% annual pace in the first quarter. The Federal Reserve Bank of Atlanta's GDPNow model on Friday predicted a 3.6% growth rate in the second quarter, and Macroeconomic Advisers projected second-quarter growth at a 3.9% rate. If they are right, it will be the best quarter since the summer of 2014.

That would be welcome news at the Federal Reserve, which wants a sustainable economic expansion without letting the economy overheat. Central-bank officials had largely shrugged off the weak first quarter as an anomaly. Investors and analysts think a second interest-rate increase this year is likely at the Fed's next policy meeting in mid-June. Still, rates remain historically low.

One potential concern for the central bank is the emergence of a lower trajectory for inflation. The consumer-price index rose 2.2% in April from a year earlier, the Labor Department said Friday. That is down for the second straight month from a 2.8% annual increase recorded in February. Excluding **volatile** food and energy costs, annual inflation is growing at the slowest pace since October 2015.

Fed officials had worried that low inflation was a sign of low economic vitality. Now, with the unemployment rate at the lowest level in a decade, at 4.4%, Fed officials are more confident the expansion is on track and they are moving toward gradually raising rates.

The April gain in retail sales was slightly below economists' expectations, but March sales were revised to a 0.1% increase from an earlier estimated decline. "If you look at the revisions, it's actually a very strong report," Ms. Swonk said.

The report highlighted the continuing shift in consumer spending from shopping malls and storefronts to online, a trend that has pressured many big-name retailers. In April, nonstore retailer sales -- a category that includes online shopping -- jumped 1.4% from the prior month, while sales at department stores rose 0.2%. Over the past year, nonstore sales rose 11.9% and department-store sales fell 3.7%.

Macy's, J.C. Penney and Kohl's each reported sales declines for their fiscal first quarters. "We're not banking on a rebound in consumer spending for the remainder of the year," said Karen Hoguet, Macy's finance chief. The retailer has experienced nine straight quarters of same-store-sales declines, but Ms. Hoguet exhorted, "don't count us out. We're not dead."

On the brighter side, the chains noted that business improved in March and April after a weaker-than-usual February. Penney Chief Executive Marvin Ellison said sales excluding newly opened or closed locations turned positive in March and April after "the very difficult month of February."

Like other retailers, HSN -- the former Home Shopping Network -- has seen customer behavior change in recent years. President Bill Brand said about half of HSN's sales now come via the web and mobile devices.

"Maybe fewer people are watching TV," he said.

Friday's report on retailing offered an early but incomplete look at consumer spending in the current quarter; it excluded outlays on most services including medical care and housing. It showed sales rose in April at home-improvement stores and restaurants, but fell at grocery and clothing stores.

Suzanne Kapner, Eric Morath and Ben Eisen contributed to this article.

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Heard on the Street
OPEC Should End Output Cuts

By Spencer Jakab
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English

[Financial Analysis and Commentary]

The Organization of the Petroleum Exporting Countries deserves a pretty good grade, arguably a B-plus, for its effort to prop up the world oil market.

That may not be reflected in prices, which are barely 4% higher than last September, just before the coalition laid the groundwork for its deal to reduce production. Instead, they get points for denting the inventory glut weighing on the market and for keeping cheating to a minimum.

The **bear market** in oil and subsequent rebound did two more important things. It showed the resilience of U.S. shale production, and it significantly cut spending in capital intensive projects in non-OPEC producers. The latter change pushed global oil discoveries to their lowest level in more than 70 years and is the reason why OPEC should end its production cuts when it meets on May 25.

Nearly three years after the cyclical peak in **oil prices**, it should be clear that the "sheikhs vs. shale" struggle will never be a battle to the death. The OPEC cuts have shown that unconventional oil production in the U.S. will keep coming back like a movie monster. Worse for OPEC, the monster comes back stronger every time as shale producers reduce break-even costs.

The **bear market**'s real victim has been traditional non-OPEC producers. Their huge cuts in capital spending are now starting to show up in production and will affect global supply for years even if prices recover sharply.

Energy giants like Exxon Mobil have cut back sharply on large, complex projects and piled into the crowded shale patch along with dozens of smaller companies. That flood of cash, along with the damage already done to conventional rivals, should convince Saudi Arabia and three Persian Gulf allies, which collectively have made about two-thirds of OPEC's production cuts, to change their strategy.

Shortly before oil producers agreed in principle last September to stabilize the market, OPEC's analysts saw production outside of the group dropping by about 100,000 barrels a day in 2017. By the time the ink was dry on their November agreement and prices had rallied, that estimate had swung to growth of roughly 200,000 barrels a day.

This week the estimate mushroomed to 950,000 barrels a day, mostly because of a resurgence of U.S. shale production with a little help from Canada and Brazil. That million-barrel-plus swing in expectations since last summer is nearly two-thirds of the 1.8 million barrel production cut OPEC agreed to with Russia and others, and now wants to extend.

OPEC should be happy with what it has achieved. Now, it should reap more of the benefits.

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Yuan Is Now Markets' Oasis of Calm

By Saumya Vaishampayan
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B10
English

China's stock, bond and commodity markets have been tumbling. So why has the yuan, typically a barometer of fear about the country's health, been so calm?

The Chinese yuan is down just 0.1% against the U.S. dollar so far this month in the offshore market, which is accessible to foreign investors. More telling: Expectations for swings in the dollar-yuan pair offshore, as measured by implied **volatility**, have slid to a nearly two-year low.

At the same time, the Shanghai Composite Index has declined 2.3% so far in May, iron-ore futures on China's Dalian Commodity Exchange have slumped 13%, and the 10-year Chinese government-**bond yield** was near a 25-month high as **bond prices** fall.

That is wildly different than in early 2016, when the yuan dropped and implied **volatility** surged, and gyrations in several Chinese markets sent tremors around the globe.

Among the reasons, recent declines in stocks, bonds and commodities have been driven by Chinese authorities' crackdown on leverage in the economy, rather than worries about the economy itself. Indeed, Chinese growth hit 6.9% in the first quarter, the fastest pace in a year and a half. In early 2016, anxiety about China's economy helped spark declines across asset classes.

"Market participants understand there has to be a point where China deals with this," said Eddie Cheung, Asia currency strategist at Standard Chartered Bank, pointing to the excessive debt in the system.

China has tightened its grip on how much money can leave the country, helping stem capital outflows and, in turn, expected yuan **volatility**.

Also, authorities may be unwilling to let the currency weaken too much given U.S. President Donald Trump's focus on currency levels and manipulation, analysts say.

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THE WALL STREET JOURNAL.
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OPEC Looks to Expand Production-Cut Pact

By Benoit Faucon
638 words
13 May 2017
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B12
English

LONDON -- Six months after restricting their oil output in an effort to raise global crude prices, some members of OPEC are pushing for a broader effort to reduce petroleum production, say people familiar with the matter.

Group members in recent weeks have suggested either making deeper production cuts or bringing new participants into the effort to cut oil exports, these people said.

Members of the Organization of the Petroleum Exporting Countries are widely expected to agree later this month to extend the deal they reached late last year to cut production, along with 11 other states including Russia, by a total of 1.8 million barrels a day. Taking that oil off the world market helped to stabilize **oil prices**, but was offset by rising U.S. production.

On Friday, Brent crude for July delivery, the global benchmark, rose 7 cents, to $50.84 a barrel on ICE Futures Europe, down 11% since the start of the year. Oil for June delivery on the New York Mercantile Exchange edged up 1 cent to $47.84.

To add credibility to its efforts to rebalance the market, OPEC is seeking cooperation from less significant producers, including Turkmenistan and Egypt, say people familiar with the matter.

The effort includes lobbying by Saudi Arabia, OPEC's biggest producer and most powerful member. During a visit to Turkmenistan's capital two weeks ago, Saudi Energy Minister Khalid al-Falih asked Turkmenistan President Gurbanguly Berdimuhamedov to send a representative to the May 25 meeting in Vienna, where OPEC will discuss extending production limits, OPEC officials said. Turkmenistan's president agreed, they said.

Egypt has told OPEC that President Abdel Fattah Al Sisi instructed an envoy to attend the gathering, those people said. A spokesman for Turkmenistan's London Embassy declined to comment. Egypt's oil ministry declined to comment. Egypt and Turkmenistan pump a combined 700,000 barrels a day. While that is a fraction of the world's global output, adding to the number of participants would help boost the coalition's clout, one OPEC official said.

Mr. Falih told an oil conference in Kuala Lumpur, Malaysia, on Monday that OPEC is considering an extension of the production limit. An official at Saudi Arabia's oil ministry declined to comment.

Saudi Arabia has borne the brunt of production cuts and has indicated that it wants other producers to pick up a bigger burden of the supply reductions.

OPEC member Venezuela, which is in the throes of an economic crisis that has some people starving, has told other members it wants deeper cuts of as much as five million barrels a day, OPEC officials say.

A spokeswoman for state-run Petroleos de Venezuela SA, which oversees the country's oil industry, declined to comment. The Venezuelan proposal hasn't received support from OPEC members, according to OPEC officials.

The push for further reductions underscores how ineffective OPEC's November production cut, its first in eight years, has been. The rising prices it caused prompted U.S. and Canadian producers to boost production.

On Thursday, OPEC reported that oil production from North America is increasing faster than the group had expected. OPEC upgraded its estimate for U.S. oil output this year by 285,000 barrels a day, bringing its forecast to an increase of 820,000 barrels a day.

After a two-year decline, U.S. crude production rose by 500,000 barrels a day in the six months to February, a period in which prices rose 20%.

In March, oil inventories in industrialized countries remained 276 million barrels above OPEC's targeted five-year average, according to the group's monthly report on Thursday.

Summer Said, Thomas Grove and Anatoly Kurmanaev contributed to this article.

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The New York Times

Business/Financial Desk; SECTB
Disappointments in Retail Nudge Markets Lower

By THE ASSOCIATED PRESS
699 words
13 May 2017
The New York Times
NYTF
Late Edition - Final
2
English

Shares of department stores sank again Friday, hurt by more evidence that shoppers are turning away. A drop in Treasury yields also put pressure on bank stocks, and the weakness helped pull the **Standard & Poor's 500-stockindex** to its first weekly loss in the last four.

The **S.&P. 500** dipped 3.54 points, or 0.1 percent, to close at 2,390.90, leading to a 0.3 percent loss for the week. The index is still within half a percent of its record, though, and the market continues to make only modest daily moves.

The **Dow Jonesindustrial average** fell 22.81 points, or 0.1 percent, to 20,896.61, and the **Nasdaq composite** rose 5.27 points, or 0.1 percent, to 6,121.23. Small-company stocks fell more than the rest of the market.

The biggest loss in the **S.&P. 500** came from Nordstrom, which plunged $5.01, or 10.8 percent, to $41.20 after it said a key sales figure weakened last quarter by more than analysts expected.

Nordstrom joined a long list of other department-store chains that have reported discouraging results recently, as their customers increasingly head online. J.C. Penney fell 74 cents, or 14 percent, to $4.55 after it reported a loss for its latest quarter and weaker revenue than analysts expected.

The broader market, though, was quiet. It was the 13th straight day that the **S.&P. 500** moved by less than 0.5 percent, the longest such streak since 1995.

''It's extremely calm, which always makes us a little nervous,'' said Eric Marshall, portfolio manager at Hodges Capital Management. ''We're in a very narrow market and a very thin market: It's hard to buy things, and it's hard to sell things because the amount of trading volume out there has slowed down in recent weeks.''

Still, companies have reported stronger-than-expected profits and as encouraging data lifted optimism about the global economy. The calmness also comes despite a spate of political jolts, including concerns about how successful Republicans in Washington will be at pushing through the pro-business changes that many investors are expecting.

Consumer prices also picked up a bit of momentum in April. Prices rose 0.2 percent last month, after a drop of 0.3 percent in March, as energy prices climbed higher. But after excluding energy and food prices, inflation was weaker last month than economists were expecting.

The Federal Reserve is paying close attention to inflation as it raises interest rates off their record lows, particularly where it is after excluding energy and food prices, which can be **volatile**.

Bond yields dropped as Treasury prices rose. The yield on the **10-year Treasury** fell to 2.33 percent, from 2.39 percent on Thursday.

Bank stocks have recently been trading in the opposite direction of Treasury yields, because a rise in interest rates would allow banks to make bigger profits from loans. On the winning side were utilities, whose relatively big dividends look more attractive when bonds are paying less in interest.

In European markets, the French CAC 40 rose 0.4 percent, the German DAX gained 0.5 percent and the FTSE 100 in London picked up 0.7 percent. In Asia, the Nikkei 225 in Japan fell 0.4 percent, the Kospi in South Korea fell 0.5 percent and the Hang Seng in Hong Kong ticked up by 0.1 percent.

Benchmark crude oil futures for June delivery rose one cent to settle at $47.84 a barrel. Brent crude, the international standard, rose 7 cents to $50.84 a barrel.

Gold prices for May rose $3.50 to settle at $1,226.20 an ounce.

The euro rose to $1.0928 from $1.0862 on Thursday. The dollar slipped to 113.29 Japanese yen from 113.84 yen, and the British pound held steady at $1.288.

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

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THE WALL STREET JOURNAL.
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Consumer Shares' Two Sides

By Akane Otani
282 words
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B13
English

Department stores and retail chains this past week said sales continue to dwindle, dealing another blow to their shares. Yet the consumer-discretionary sector is one of the best performers in the **S&P 500** this year.

The discrepancy highlights how a changing landscape for consumers has created winners and losers within the broad category. Roughly one-third of consumer-discretionary stocks in the **S&P 500** are in negative territory, even as the group has gained 10% this year. That is the second-biggest climb among the index's 11 sectors after technology, which is up 18%. The **S&P 500** is up 6.8% in 2017.

Declining foot traffic at stores and competition from online outlets are pressuring department-store operators and retail chains, which have shut their stores at a record pace this year.

At the same time, shares of online-focused businesses have risen in 2017 as consumers have turned to buying everything from their weekly groceries to sofas at e-commerce sites such as Amazon.com Inc.

Shares of Amazon.com are up 28% this year, one of the biggest gainers in the sector, while Netflix Inc. has risen 30%. Tourism-focused businesses have also fared well, with shares of casino operator Wynn Resorts Ltd. up 45% this year and Royal Caribbean Cruises Ltd. up 31%.

"It pays to be selective and patient in this space," said Diane Jaffee, a senior portfolio manager at asset-management firm TCW, which owns shares of J.C. Penney Co. and Home Depot Inc. "The consumer is not dead, but they're picking their shops carefully."

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Global Finance: Azeri Bank Files for Bankruptcy

By Tom Corrigan
273 words
13 May 2017
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B11
English

The International Bank of Azerbaijan, the country's largest lender, filed for bankruptcy in New York on Thursday to aid the restructuring of some $3.3 billion in debt.

Hurt by a steep decline in **oil prices** and subsequent currency fluctuations, the Azeri bank sought chapter 15 protection, the part of the U.S. bankruptcy code covering international insolvencies.

If approved by a judge, chapter 15 would give the bank the benefits of U.S. bankruptcy law, including protections that halt lawsuits and otherwise prevent interference from creditors.

A formal restructuring process began in Azerbaijan in April, court paper show.

The bank, which is majority-owned by the government, says it has taken substantial losses in recent years, despite several capital infusions. According to court papers, the bank has transferred billions of dollars in bad loans to a separate, government-backed bank -- much like the U.S. did during the global financial crisis -- but those steps have proved insufficient.

"The Ministry of Finance has noted with concern the deteriorating financial and capital position of International Bank of Azerbaijan," Samir Sharifov, Azerbaijan's minister of finance, said in a statement.

"Re-establishing the financial viability of IBA is critical so that the bank can continue to provide important banking services to the Azerbaijan economy," he said

In court papers, lawyers for the bank say getting approval of its U.S. bankruptcy petition is critical to both the bank and the larger economy of Azerbaijan, a small oil-rich country on the Caspian Sea, nestled between Russia and Iran.

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THE WALL STREET JOURNAL.
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U.S. News: Index Signals Inflation Pressure

By Sarah Chaney
254 words
12 May 2017
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J
A2
English

WASHINGTON -- A gauge of U.S. business prices rose to the highest level in five years, another sign inflation pressure is picking up across industries.

The producer-price index for final demand, measuring changes in the prices that U.S. companies receive for their goods and services, increased 2.5% in April from a year earlier. The advance marked the index's steepest climb since February 2012, the Labor Department said Thursday.

Excluding often-**volatile** prices for food and energy, the index grew 1.9% in April from a year earlier. Import prices, another gauge for inflation, accelerated 4.1% in April from a year prior, the department said Wednesday. The figures suggest that broad-based price pressures are firming, despite soft March data that hinted otherwise.

Though energy prices are still a factor, "we're seeing it more generally because of the tighter labor market and greater pricing power for businesses," said Gus Faucher, chief economist at PNC Financial Services Group.

Producer prices in April increased a seasonally adjusted 0.5% from March. Prices on services, such as securities brokerages and investment advice, contributed heavily to the gains.

PPI is an inflation gauge that looks at prices businesses receive from customers, including consumers, other businesses and governments. As a result, changes in the index don't necessarily directly reflect what consumers pay. But PPI readings generally follow the same trends as other major inflation gauges.

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THE WALL STREET JOURNAL.
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Streetwise: An Algorithm and ETF Walk Into a Saloon

By James Mackintosh
763 words
12 May 2017
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B1
English

Tie together an algorithm, an exchange-traded fund and an academic study finding an anomaly in the markets, and voila! You have a formula for making money. The trouble is, it turns out that most of the supposed anomalies academics have identified don't exist, or are too small to matter.

A new study making waves in quantitative finance tested 447 anomalies identified by academics and found more than eight out of 10 vanish when rigorous tests are applied. Among those failing to reach statistical significance: one anomaly recently set out by the godfathers of quantitative finance, Nobel-winning economist Eugene Fama and his colleague Kenneth French.

The study, "Replicating Anomalies,"published this week by Kewei Hou and Lu Zhang at Ohio State University and Chen Xue at the University of Cincinnati, is the biggest test of examples of inefficient markets carried out so far. The trio applied consistent analysis to the supposed anomalies, used the same database of stocks and set higher standards for statistical significance. Simply reducing the influence of the plethora of rarely traded penny stocks -- which make up just 3% of market value but 60% of all listings -- by using market capitalization weightings made more than half of past findings no longer significant.

Messrs. Hou, Xue and Zhang warn that academics have been fiddling the statistics to come up with interesting findings, known to statisticians as data mining or p-hacking. "The anomalies literature is infested with widespread p-hacking," they write.

It isn't all bad news for investors and those trying to make a living flogging what have become known as "factors." The research confirmed that the most popular factors have indeed outperformed the market over long periods even when faced with rigorous tests, but found much smaller returns than previous studies estimated.

Market anomalies that passed the new study's tests included several of the biggest. Cheap stocks indeed beat expensive ones; share prices have momentum; companies that invest a lot underperform, and quality of earnings matters. Known as value, momentum, investment and quality, these have become the biggest of the so-called "smart beta" ETFs sucking in tens of billions of dollars.

A lot depends on exactly how the factors are implemented, though, and the researchers dismissed one of the industry-standard Fama-French factors as statistically insignificant: Companies with high operating return on equity don't outperform meaningfully on their tests. Other measures of return on equity did outperform sufficiently, however, underlining the sensitivity of some factors to exactly how they are defined.

One lesson for investors is to be careful about trying to make money by repeating what seems to have worked in the past. If it was so easy, everyone would do it and it would stop working.

A former student of Mr. Fama, Cliff Asness, founder of quantitative hedge-fund manager AQR Capital Management, said he tries to avoid being caught out by false findings by trading on anomalies he can explain, economically or through investor behavior. To assess whether the market anomalies will continue, he looks for ones which carried on after being identified, can be seen in other markets or asset classes, and where minor changes to how they are defined don't much affect the result. These include most famously value, momentum and corporate quality, among others.

Still, he worries that the "awesome effort" in the new paper might lead some to overreact and reject all factors, even those which Messrs. Hou, Xue and Zhang found evidence for.

"Many factors are demonstrably silly, or are highly correlated versions of the same idea," he said. "Where I get worried is about overreaction [to the paper] and the cynicism it breeds."

Investors are still likely to be confused. There are well over 100 value and high-dividend ETFs in the U.S. alone, tracking large, small or midsize stocks, based on different definitions and often combined with other factors such as momentum, quality or low **volatility**. Intelligently choosing between them would mean examining how indexes are constructed and comparing to the long-term academic studies to see which methodology was best; in practice, for most investors, there is little more to go on than a few years of performance data and fees.

Messrs. Hou, Xue and Zhang provide a handy dismissal of factors that didn't even work that well in the past. But ultimately no one knows whether even previously robust factors like value and momentum will keep working.

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The New York Times

THE BEST WORDS
Business/Financial Desk; SECTB
Trump Says We Need to 'Prime the Pump' With Tax Cuts. Do We Really?

By NEIL IRWIN
1,041 words
12 May 2017
The New York Times
NYTF
Late Edition - Final
3
English

President Trump recently sat for a long interview with The Economist magazine in which he discussed his economic agenda. One exchange was particularly attention-grabbing for those who could remember their high school history, or who paid vague attention to the debates over stimulus during the last recession.

Explaining why he seeks tax cuts even if they risk expanding the budget deficit, President Trump said that they might increase the deficit temporarily, but that ''we have to prime the pump.''

''Have you heard that expression before, for this particular type of an event?'' the president said.

Yes, the interviewer -- who, again, is an editor of The Economist -- confirmed.

''Have you heard that expression used before? Because I haven't heard it. I mean, I just ... I came up with it a couple of days ago and I thought it was good.''

Hoo boy. Let's unpack this.

What is Mr. Trump talking about?

''Priming the pump'' is a common metaphor for using government tax and spending to try to boost the economy into a higher level of functioning.

The origin of the metaphor refers to pumps used to extract water from wells, which were more widespread before most people had indoor plumbing. The basic idea was to pour a bit of water into a mechanism to make it possible to pump water out. Here's a video!

[Video: DIY - How to Prime Your Water Pump Watch on YouTube.]

The economics metaphor is that the government might increase economic growth by pumping a little extra cash into the system, perhaps by spending money on jobs programs, or, to use Mr. Trump's preferred policy, cutting taxes. The hope is that the economy then takes off on its own, just as adding a little water to a pump enables water to flow freely.

Did he invent the term?

No. It dates to before Mr. Trump was born. It was in wide use by 1933, when President Roosevelt fought the Great Depression with pump-priming stimulus. For example, a 1933 cartoon assailing the Roosevelt administration's spending practices was titled ''What we need is another pump'' and showed a desperate Roosevelt, with billions already spent, pouring more water into a pump, fruitlessly.

The term is most closely associated with the economic theories of John Maynard Keynes, who advocated energetic intervention to try to arrest the depression. By the time Mr. Trump was in school in the 1950s and 1960s, it was widely taught in history and economics courses as part of the story of how the United States emerged from the depression.

The concept was widely discussed again in 2009 and subsequent years in the context of the Obama administration's stimulus package, which aimed to jolt the United States out of the deep recession. A Nexis search shows the phrase "pump priming" or its variants appeared in 1,073 news articles in major publications in 2009 alone, and they are almost all referring to economics, not water pumps.

In fact, arguably "priming the pump" is now a "dead metaphor," or a metaphor in which the original evocative meaning is largely lost. Not many people have a home water pump they need to prime anymore, after all. Other dead metaphors include "champing at the bit" (technically a reference to obstreperous horses) or "selling like hot cakes" (an early term for pancakes, which were in high demand in the 19th century).

Does Trump really think that he invented it?

A more generous reading of the interview with The Economist suggests that perhaps he didn't literally mean that he came up with the term on his own; he seemed to know that it was a phrase that the editors might have already heard. Still, this fits with a pattern in which the president seems to learn of widely known, widely discussed concepts and view them as novel and revelatory.

For example, he seemed surprised when the Chinese president explained why his country couldn't simply coerce North Korea into more agreeable behavior, and he has expressed wonderment that health care policy is complicated.

Is now a really good time to be priming the pump?

In Keynesian economic theory, the strategy makes the most sense when there are underutilized economic resources to be tapped, such as during a recession or depression. While the United States economy probably isn't yet at full capacity, with the unemployment rate at 4.4 percent it does seem to be closing in on full employment. Factories are running closer to full speed, among other evidence that the economy is hardly depressed.

Perhaps workers who have left the labor force could be coaxed back in with faster economic growth, or the right mix of tax and regulatory policies could unleash higher productivity growth. But those are more esoteric arguments than the standard "prime the pump" concept.

To extend the metaphor, it's hard to prime a pump when the water is already flowing just fine.

Are there any other concepts from Keynesian economics the president might wish to learn about?

There is one that might hold special interest for him. As Zach Carter of The Huffington Post noted in a tweet, one of the most famous and influential pieces of analysis Keynes offered was a metaphor for how **financial markets** work.

Nobody tell Trump, but the most important idea in Keynesian economics is literally about beauty contests. pic.twitter.com/o1Cgmatuox -- Zach Carter (@zachdcarter) May 11, 2017

The **stock market**, Keynes argued, was much like a hypothetical beauty contest in which readers of a newspaper had not simply to vote for whom they found most beautiful, but to predict whom others would find most beautiful. This in turn would create perverse feedback loops that might lead to winners who aren't actually the most beautiful.

For a former owner of the Miss Universe pageant, this would seem to be a financial idea that would be easy to remember -- or maybe to invent all over again.

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The New York Times

Business/Financial Desk; SECTB
Markets Fall on Retailers' Weakness

By THE ASSOCIATED PRESS
639 words
12 May 2017
The New York Times
NYTF
Late Edition - Final
2
English

Disappointing quarterly results from Macy's, Kohl's and other big department store chains put investors in a selling mood on Thursday, sending stock indexes modestly lower.

Stocks in the consumer discretionary sector, which includes many retailers, slumped the most. Macy's plunged 14 percent. Kohl's, Dillard's and Nordstrom also fell sharply.

''Those retail numbers are weighing on the market,'' said Quincy Krosby, market strategist at Prudential Financial. The Macy's results ''came in well below what the market had expected, and that has basically put a cloud over the brick-and-mortar retail across the board.''

Shares of banks and real estate companies also fell. Consumer goods, health care and utility stocks managed small gains.

The **Standard & Poor's 500-stockindex** fell 5.19 points, or 0.2 percent, to 2,394.44. The **Dow Jonesindustrial average** lost 23.69 points, or 0.1 percent, to 20,919.42. The **Nasdaq composite** declined 13.18 points, or 0.2 percent, to 6,115.96, a day after closing at another record high.

Small-company stocks fell more than the rest of the market.

Macy's tumbled 17 percent after its results fell short of Wall Street's forecasts. The stock was the biggest decliner in the **S**.**&P**. **500**, sliding $4.99 to $24.35.

Dillard's and Kohl's reported revenue that was below what analysts were expecting. Dillard's slumped $10.13, or 17.5 percent, to $47.77. Kohl's fell $3.16, or 7.8 percent, to $37.16.

Shares in Nordstrom also declined, sliding $3.80, or 7.6 percent, to $46.21. The department store chain reported its results after the close of regular trading.

''It's definitely a discouraging sign, the reports we got from Macy's and Kohl's,'' said Lindsey Bell, investment strategist at CFRA. ''The retailers that are more levered to apparel are going to have a tough quarter.''

J. C. Penney is scheduled to report quarterly results on Friday. Walmart, Target, Home Depot and other big retailers will report next week.

Shares of Snap, the parent company of Snapchat, were also among the big movers Thursday. Snap plunged 21.5 percent a day after it reported a huge loss. The stock slid $4.93 to $18.05.

Investors also sold off shares in Straight Path Communications after the end of a bidding war between AT&T and Verizon Communications to acquire the wireless license company. Verizon agreed to acquire Straight Path in an all-stock deal valued at about $3.1 billion. Shares in Straight Path fell $45.68, or 20.4 percent, to $178.11. Verizon lost 36 cents to $46.02.

Bond prices rose. The yield on the **10-year Treasury** note slipped to 2.39 percent from 2.41 percent late Wednesday.

Benchmark crude oil rose 50 cents, or 1.1 percent, to settle at $47.83 a barrel in New York after rising $1.45 on Wednesday. Brent crude, the international standard, added 55 cents, or 1.1 percent, to close at $50.77 per barrel in London.

Among metals, gold gained $5.40 to settle at $1,222.70 an ounce.

In currency trading, the dollar fell to 113.84 yen from 114.25 yen on Wednesday. The euro also fell to $1.0862.

Major stock indexes in Europe closed mostly lower. Germany's DAX fell 0.4 percent, while France's CAC 40 edged down 0.3 percent. Britain's FTSE shed early gains to end flat.

CHARTS: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Thursday. (Source: Reuters | By The New York Times); **30**-**Year Treasury Bond**: High yield at auction. (Source: Treasury Department)

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THE WALL STREET JOURNAL.
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Banking & Finance: Finance Watch

553 words
12 May 2017
The Wall Street Journal
J
B10
English

ASIAN STOCKS

Taiwan Index Soars

To a 17-Year High

Taiwan's main **stock index** finished at a 17-year high Thursday and closed above 10000 points, as continued iPhone-related hopes bolster the trade hub's growth prospects.

The Taiex **stock index** ended up 0.3% at 10001.48 and has gained 8.1% this year. It has risen steadily for the past year after bottoming out just below 8000 last May. Strong global demand for consumer electronics and technology products has been fueling gains, Commerzbank said recently.

Taiwan's exports have risen for seven consecutive months from a year earlier, including April's 9.4% growth amid an 11% increase in electronics components. While the Taiex has moved above 10000 during intraday trading recently, it always fell back before the close. The last time it closed above 10000 points was in 2000, just before the U.S. tech-stock bubble burst. Tech makes up roughly half of the Taiex.

Taiwan has been a hot destination for foreign equity investors in emerging markets, partly because of its reliance on Apple Inc. Many of the company's iPhone suppliers are based on the island, and the 10th anniversary edition due out this year has been eagerly awaited. Apple shares have been reaching a series of records, and many Taiwan stocks have followed. Camera-lens-module maker Largan Precision Co. has jumped 31% this year and casing supplier Catcher Technology Co. is up 44%.

-- Ese Erheriene

WELLS FARGO

Further $2 Billion

Added to Cost Cuts

Wells Fargo & Co. plans to cut an additional $2 billion in expenses by the end of 2019, more than analysts had expected.

The expense savings, announced at Wells Fargo's investor day, come on top of the bank's January announcement to cut $2 billion in costs by the end of 2018.

Wells Fargo, which has been under pressure since its sales-practices scandal last fall, said the cuts would bolster its bottom line. The bank said it plans to consolidate "similar operational activities" and automate more of its manual processes.

As part of its focus on costs, Wells Fargo said it plans to close about 450 branches in 2017 and 2018. The bank said the closures will be across the country, but will include "saturated markets" and "redundant locations."

-- Christina Rexrode

SOFTBANK

Firm Invests in

Nascent Technology

Masayoshi Son, founder and chief executive of Japanese telecommunications and internet giant SoftBank Group Corp., is making another big bet -- this time on a nascent technology that might take years or decades to bloom.

Improbable, a London-based startup that makes virtual worlds for videogames and simulations of the real world, said it raised $502 million in a SoftBank-led funding round. Improbable said SoftBank would take a board seat and noncontrolling stake in the startup but didn't disclose the deal's terms. The company said that based on the funding round, investors value it at more than $1 billion.

The deal fits into Mr. Son's recent interest in artificial intelligence. He has said that the promise of A.I. and the Internet of Things -- the idea that everyday items such as sneakers and refrigerators will be connected to the web -- has underpinned recent deals.

-- Stu Woo

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THE WALL STREET JOURNAL.
U.S. EDITION

Natural Gas Rallies On Stockpile Data

By Timothy Puko
312 words
12 May 2017
The Wall Street Journal
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B11
English

Natural-gas prices jumped to a three-month high, breaking from a recent pattern of tight trading after government data showed a smaller-than-expected storage addition for last week.

The U.S. Energy Information Administration said natural-gas stockpiles grew by 45 billion cubic feet in the week ended Friday, compared with the 54 bcf expected by forecasters surveyed by The Wall Street Journal. The report is a widely watched measure of supply and demand. A smaller-than-expected addition to storage likely indicates smaller supply or larger demand than expected.

Natural gas for June delivery settled up 8.4 cents, or 2.6%, at $3.376 a million British thermal units on the New York Mercantile Exchange on Thursday. A three-session winning streak with a total gain of 6.4% has now jolted gas futures out of the tight 40-cent range they were stuck in for seven weeks.

That has helped revive a rally that had gas on one of Wall Street's hottest streaks from mid-February through the start of April.

The new highs Thursday put futures at prices unseen since the last week of January, typically the height of winter-heating season and often the highest prices of the year. Many are betting a glut is easing now that an unseasonably warm winter -- with soft demand -- is over and production is holding steady.

The weak heating demand caused prices to fall in the middle of winter, which ultimately brought bargain buyers back into the market.

So many money managers have piled into **bullish** positions on prices in recent months that, as of last week, those positions outnumbered **bearish** positions by a record number -- more than 200,000 -- in data collected by the Commodity Futures Trading Commission since 2006.

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The New York Times

Business Day
As Ford Takes Investor Meeting Online, Brickbats Still Sting

By BILL VLASIC
834 words
11 May 2017
07:06 PM
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NYTFEED
English

DETROIT — Ford Motor moved its annual shareholders meeting from the physical world to the virtual on Thursday. But the new format did little to shield the company from dissatisfied investors.

Mark Fields, the chief executive, said the company was making progress in its transition to new technology to compete in an era of self-driving cars and electrified vehicles. But shareholders who took part in the meeting's online question-and-answer session hardly shared his optimism.

In a series of questions read aloud by Ford's chairman, William C. Ford Jr., investors called the company's stock performance "pathetic" and "dismal," and said the sinking share price indicated a "lack of confidence" in the company's direction. (Mr. Ford did not identify the shareholders.)

Ford's shares have dropped nearly 40 percent since Mr. Fields became the C.E.O. three years ago, and Mr. Ford conceded that the **stock price** was a major concern. Last month, Ford's market capitalization fell behind that of Tesla, the upstart electric-car maker.

"Look, we are as frustrated as you are by the **stock price**," said Mr. Ford, whose family effectively controls the company through a class of shares that carry outsize voting rights,. "A couple of people have said, does the Ford family care about the **stock price**? The short answer is yes — a lot."

And Ford came under fire from shareholders for the format of the meeting itself, one that for years has been held in an auditorium in Wilmington, Del., where the company is incorporated.

While other companies have increasingly chosen to hold their annual meetings online, the switch for Ford spurred mounting dissatisfaction among investors.

The format also allowed some shareholders to call in. One of them, John Chevedden, commented on shareholder proposals that included eliminating the 16-votes-per-share rights attached to the Ford family's special class of stock. (The vote on the proposal failed by a margin of about 2 to 1.)

Mr. Chevedden likened the online meeting to a "retreat into a foxhole" by Ford's leaders. "Maybe they're hiding in Dearborn today in the basement," he said, referring to Ford's corporate headquarters in Michigan.

At their own meeting this week, Ford's board reflected some of the concerns expressed by shareholders, scheduling extra time to press Mr. Fields on the prospects for growth in the company's core auto operations and its expansion into autonomous vehicles.

Like most other major automakers, Ford has benefited in recent years from surging sales of trucks and sport utility vehicles in the American market.

But after two consecutive years of record sales industrywide, the market has cooled off. Ford's sales slid about 5 percent in the first four months of 2017, slightly worse than the industry's overall performance.

The company recently reported that its first-quarter earnings fell by about 35 percent, to $1.6 billion, from the same period last year. Ford's United States market share also dipped, mostly because of plunging sales of passenger cars.

Other automakers are also coping with slower sales, particularly those of cars.

But Ford is suffering compared with larger competitors such as General Motors, Volkswagen and Toyota, which have greater resources to devote to emerging technology. Ford, for example, is lagging behind Tesla and G.M. in introducing electric vehicles to the mass market.

While Mr. Fields has been vocal about the need to move aggressively into electrified models, Ford is still at least three years from producing its first long-range, battery-powered model for mainstream consumers.

And the company is locked in an expensive race with automakers and Silicon Valley companies to perfect self-driving equipment considered critical to the growth of ride-hailing services like Uber and Lyft.

“The bottom line is the biggest strategic shift in the history of our company is well underway and gaining momentum,” Mr. Fields said in his presentation to shareholders.

Mr. Fields described Ford’s mission as balancing two imperatives: manufacturing traditional automobiles for global markets, and investing in technology to capture new revenue from autonomous models down the road.

“We continue to deliver solid results in our core automotive business by keeping one foot in today,” he said, adding that Ford’s technology push was akin to “placing one foot in tomorrow” as well.

Mr. Ford and the company’s chief financial officer, Robert L. Shanks, dismissed the potential for a share buyback program to increase the value of the stock.

Mr. Shanks also said the company needed to conserve its cash reserves for investing in new technology and maintaining its dividend in the event American auto sales continue to decline.

* Even Amid Trade Tensions, Ford Pushes Pickup Trucks in China

* Tesla Passes Ford in Market Value as Investors Bet on the Future

* Ford to Expand U.S. Production of Trucks and S.U.V.s

* Meet the Shareholders? Not at These Shareholder Meetings

Document NYTFEED020170511ed5b00ac9

THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Import Prices Rose 4.1% in April

By Sarah Chaney
320 words
11 May 2017
The Wall Street Journal
J
A2
English

WASHINGTON -- Prices for foreign goods shipped to the U.S. rose for the fifth consecutive month in April, signaling broader-based inflation pressure even though **oil prices** have cooled.

Import prices increased 4.1% in April from a year earlier, the Labor Department said.

While the movement of import prices is heavily influenced by **oil prices**, Wednesday's report showed an increase driven by a broader base of goods.

Nonpetroleum import prices, up 1.1% from a year earlier, experienced the largest yearly increase since March 2012, driven by rising costs for industrial supplies such as building materials, metals and motor vehicles.

The data suggest an improving global economy and stronger demand are putting mild upward pressure on inflation in the U.S.

A softer dollar, which is down 2.6% so far this year, could be one contributing factor.

The import-price index is one of several gauges the Federal Reserve studies to understand how quickly prices for products are rising in the U.S.

The Fed's preferred inflation gauge, the Commerce Department's personal-consumption-expenditures index, advanced 1.8% year over year in March.

Signs of firming inflation give the central bank leeway to consider raising its benchmark rate. The Fed held interest rates steady at its latest meeting but is expected to lift rates two more times this year.

"There has been this doubt in the market that inflation is going to continue to be at or near the Fed's 2% target," said Thomas Simons, a Jefferies economist. "[Wednesday's] import-price data give you some confidence there's some pressure outside of just oil."

Wednesday's report also showed prices for U.S. exports increased 3% in April from a year earlier. From a month earlier, export prices were up 0.2%.

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THE WALL STREET JOURNAL.
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Heard on the Street
The Surprise Losers of VIX's Decline

By Spencer Jakab
507 words
11 May 2017
The Wall Street Journal
J
B11
English

[Financial Analysis and Commentary]

They have nothing to fear but the lack of fear itself.

The low level of the market's so-called fear gauge, formally known as the CBOE**Volatility** Index or VIX, is a divisive issue on Wall Street.

Some assert that the lowest values in nearly a quarter-century signal investor complacency. They say that has almost always been a sign that a selloff is near. Others scoff that there is no cause and effect.

Without wading into this debate, the VIX's descent into the single digits -- it touched 9.56 on Tuesday -- is bad news for investors who bet on higher **volatility**. Now it is also bad news for more conservative investing strategies that profit directly from market choppiness.

The VIX essentially represents a premium derived from the formula used for pricing **S&P 500 index** options with a 30-day term. For example, a VIX of 15 suggests that prices of puts and calls reflect the expectation that stocks will move less than 15% on an annualized basis for the life of those options.

Even before the VIX was unveiled in the early 1990s, though, there were strategies designed to generate steady returns from what amounts to an insurance premium. Two common ones are writing puts or downside protection with enough cash collateral to back up those bets or writing calls -- bets on a rising market -- while owning the stocks. The CBOE has created an index for each: The CBOE**S&P 500** PutWrite Index and the CBOE**S&P 500** BuyWrite Index.

Both are fairly conservative and profitable. Going back to June 1986, the put-selling index generated an annualized return of 10.1%, the same as the **S&P 500**, while the covered-call strategy generated a still respectable 8.9% annualized.

So far this year, though, both strategies have lagged behind a simple **S&P 500 index** fund, trailing by 2.5 and 1.9 percentage points through Monday, respectively.

An even more profitable strategy has emerged in the past several years: selling the VIX itself short. A liquid futures market and several exchange-traded products have allowed investors to try to profit from rising **volatility** -- usually a losing bet. A far better one has been selling short VIX futures. In that trade, investors are essentially selling insurance against a rise in **volatility**, which often means a **stock-market** selloff.

An exchange-traded product designed to do this launched nearly seven years ago has generated a gain of 39% annualized and doubled since the U.S. presidential election alone.

But the trade gets increasingly risky when the VIX gets very low. In the late summer of 2015, for example, a bout of emerging-market jitters caused the note to lose more than half of its value in 11 sessions.

Complacency may not herald a **stock-market** swoon, but it is a lousy time to be in the insurance business.

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THE WALL STREET JOURNAL.
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Politics & Ideas: An Econ Mystery: Why Did Wages Flatline?

By William A. Galston
834 words
10 May 2017
The Wall Street Journal
J
A17
English

On its face, the April jobs report, released Friday, was filled with good news. Employment increased by 211,000; the unemployment rate ticked down to 4.4%. Over the past year, the number of unemployed Americans shrank by 854,000; people unemployed for 27 weeks or more fell by 433,000; those working part-time who would prefer full-time employment dropped by 698,000.

The Trump administration celebrated the news. "This steady and sustained increase in job creation equals new paychecks for American workers and income for American families," Labor Secretary Alexander Acosta wrote. But the fine print of the jobs report tells a different story.

A statement from the acting commissioner of the Bureau of Labor Statistics, released in tandem with the monthly report, hinted at the worm in the apple. Over the past year average hourly earnings have risen by 2.5%. Unfortunately, the consumer-price index, a standard measure of inflation, rose by 2.4%, meaning the average worker's purchasing power hardly grew at all.

This is no aberration. Since 2010, hourly wages corrected for inflation have risen at barely 0.5% a year. The official statistics back up reports that Americans are working harder than ever just to stay even.

Since the depths of the Great Recession, household incomes have increased steadily -- not because wages are rising, but because Americans are working more hours. A longer view reveals the limits of these gains. Nearly eight years after the official end of the recession, median household incomes aren't much higher than they were when the recession began, and they remain a bit lower than in January 2000. For families in the middle, it has been a lost two decades.

As labor markets heated up between 1995 and 2000, inflation-adjusted wages soared, as did household incomes. The mystery is why this trend has not been repeated during the current recovery.

By many standard measures, today's labor market is tight. The top-line unemployment rate is not only down to pre-recession levels but also meets the official definition of full employment. Broader measures show similar trends. The median duration of unemployment, which peaked at 25.2 weeks in June of 2010, has fallen to 10.2 weeks, only modestly above its level when the recession began. The broad measure known as U-6 -- which includes part-time workers who want full-time jobs, as well as people not counted as unemployed who remain marginally attached to the labor force -- rose from 8.8% at the start of the recession to 17.1% at its peak but had fallen back to 8.6% as of April.

To be sure, the labor-force participation rate, which nudged above 67% in the late 1990s, stands at only 62.9% today. On its face, this suggests continuing slack in the employment market. But this number has barely budged since late 2013, despite the steady drop in the unemployment rate. About half the difference between now and the 1990s reflects the aging of the population. Many economists attribute another quarter to the effects of long-term unemployment on workers whose skills have rusted and motivation waned. If so, the remaining slack in the labor market represents about 1.6 million people -- less than a year of employment growth at the current pace. If a tight labor market were enough to accelerate wage growth, there would be signs of it by now.

Declining unemployment triggered a sharp rise in wage growth as recently as the expansion of 2003-07 -- just as it had in 1982-89 and 1992-2000. What has changed? No one knows for sure.

Unions are historically weak, reducing workers' bargaining power. But it is hard to argue that they are significantly weaker now than they were a decade ago. One hypothesis, plausible but unproven, is that increased corporate consolidation has shifted power toward companies at the expense of workers.

Productivity gains have been meager since the end of the Great Recession. But as this newspaper reported last week, profits at **S&P 500** companies in the first quarter of 2017 were up nearly 14% over the comparable period a year ago. Firms have gains they could share with their workers, but they have chosen not to do so. Even in occupations where companies complain of labor shortages, there is scant evidence that they are responding by raising compensation.

After a full generation with little progress, average families are expecting President Trump to make America great again by delivering a rising standard of living. This is the point of Mr. Trump's positions on trade, immigration and infrastructure, which helped put him into the Oval Office. And this is why he should pay attention not only to jobs, but also to wages.

(See related letter: "Letters to the Editor: Wage Doldrums? The Competition Is Global" -- WSJ May 23, 2017)

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The New York Times

Business Day; DealBook
Buying Into the Turmoil: Investors Embrace the Risks

By LANDON THOMAS Jr.
1,098 words
10 May 2017
04:55 PM
NYTimes.com Feed
NYTFEED
English

Buy the dip.

Be it stocks, bonds or more complex derivative bets, investors following this Wall Street maxim have reaped robust rewards in recent years.

Such buying has been evident in the shares of large American companies since March 2009, when the **Standard & Poor**'**s500 stockindex** touched a low of 666. (It closed on Wednesday at 2,399.63.) It also appeared when investors piled into European stocks after Britain's vote to leave the European Union last summer. And the phenomenon has been amply illustrated by the wagering that the VIX index, a measure of how sharply investors think stocks will shoot up and down, will continue to move lower as it has done in recent weeks.

Yet as stock markets hit record highs and the yields on **volatile** junk and emerging market bonds plunge, this view that market corrections should be seen as a buying opportunity, as opposed to a warning to be heeded, has begun to worry investors.

The fear is that each subsequent rebound will embolden excessive risk taking and inflate richly valued stock and bond markets.

Investors have repeatedly shaken off the risks of political turmoil, including the latest shock, President Trump's firing of James B. Comey, the director of the Federal Bureau of Investigation, on Tuesday night. On Wednesday, the **S**.**&P**. **500** ended the day up 0.11 percent, while the VIX was still near its decade lows, at 10.21.

“No one has been penalized for buying the dip,” said Bill Luby, an independent investor and active blogger who specializes in trades connected to the VIX.

Until recently, he has been an active participant in Wall Street's most popular trade: Betting against VIX futures with the expectation that market **volatility** will remain quiescent.

Now, he is worried about what will happen when the dip becomes something more severe than just a temporary dip, and the index bolts higher as investors panic.

“That trade is really loaded up,” Mr. Luby said. “It won't take much of a spike to cause a lot of pain.”

Shorting, or betting against, the VIX is not the only trade of late where investors have been handsomely compensated for setting aside their fears.

Investors have been snapping up government bonds issued by countries like Russia, Turkey and even Mongolia, enticed by mouthwatering yields and a perception that economic and political risks, which previously warned investors away, are no longer so severe.

And in the United States **stock market**, stock pickers continue to ignore sky-high valuations of stocks and the market as a whole, buying up index giants like Amazon, which has a price-to-earnings ratio of 136, Apple and Facebook at the slightest sign of weakness.

Few are predicting an outright market collapse.

Economic growth, at home and abroad, is picking up, and the earnings for companies listed on the S.&P. 500 have been strong. And even with the political upheaval in Washington, most market participants remain convinced that the Trump administration's pledges for lower taxes and lighter regulation will provide ballast to the market.

And with bank deposits and bonds from developed countries still offering meager returns, stocks and higher-risk fixed-income securities have come to be seen as the default option for investment managers looking to the long term.

Nevertheless, the combination of complacency and rising markets has prompted a growing number to become more cautious.

"We have been in a long up cycle and valuations are above average," said Bradley J. Vogt, a portfolio manager who invests in large capitalization United States stocks for the Capital Group, the Los Angeles-based fund giant that oversees $1.4 trillion. "I am holding more cash than I usually hold in my funds right now."

To be sure, some of this recent spate of buying can be explained as investors looking for bargains in beaten-down areas — like emerging markets.

Having lagged the broader rally in recent years, these markets took a further hit in the wake of Mr. Trump's election. Currencies tumbled and investors took flight, fearful of the administration's anti-trade policies and a resurgent dollar, not to mention the usual dose of political turmoil.

Nishant X. Upadhyay, an emerging market bond investor at HSBC Global Asset Management, took the opportunity late last year to buy Turkish government bonds, betting that worries about President Recep Tayyip Erdogan and his political ambitions were overdone.

It was a winning trade — bond yields have fallen and the lira has strengthened substantially. Now, billions of dollars (Mr. Upadhyay estimates over $30 billion last quarter) are flowing into emerging market bonds as investors rush in to get a piece of the action.

"No doubt the spreads are tightening," he said, in describing how the recent boom in the asset class has made them less attractive relative to lower-yielding bonds in developed markets. "And there are risks out there. But the question is: Do you want to be sitting in cash right now or investing your dollars in alternative markets?"

Fund managers with a long memory argue that while it may be true that markets are richly priced, it would be a mistake for investors to try to predict when markets will fall and remove their funds accordingly.

Especially now, when cash and safe government bonds are such unattractive alternatives in terms of investment returns.

Indeed, for all the ups and downs in the **stock market** over the last five years, the total return of the **S**.**&P**. **500 stock index** is up close to 15 percent — beating most of the opportunities available to investors.

"The view we frequently hear today is, 'aren't stocks expensive now given S.&P. price to earnings multiple,' which is at a 15 to 20 percent premium to the historical average," said William C. Nygren, who has been investing in United States stocks, under the Oakmark Funds brand, at Harris Associates in Chicago for more than 30 years.

Making market timing bets have been a "kiss of death" for investors over the years as stocks continue to rise over the long term, he said.

And that holds true for today, he believes.

"We have better economic growth looking forward the next five years than we do looking backward," Mr. Nygren said. "And alternative asset classes offer returns that are exceedingly low."

* The **Stock Market** Is Weirdly Calm. Here's a Theory of Why.

* Political Turmoil Is High, but Wall Street's Fear Gauge Is Very Low

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THE WALL STREET JOURNAL.
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Bitcoin Receives Boost From Digital Brethren

By Paul Vigna
509 words
10 May 2017
The Wall Street Journal
J
B19
English

The price of the digital currency bitcoin surged past $1,700 after a 6% rise driven by speculative buying in a new kind of capital raising and virtual-currency creation dubbed the "initial coin offering."

Bitcoin hit an intraday record of $1,747 on the index maintained by research site CoinDesk. That would put it up about 80% year to date, after closing 2016 at $968. Even for bitcoin, a currency whose short history has been marked by extreme **volatility**, that is a big move.

In late February, the currency pierced its old high of $1,147 set in 2013, and it has been mostly rising since then.

Bitcoin, a stateless digital currency running on a decentralized computer network, benefited from perceptions of increased geopolitical uncertainty following the election of Donald Trump as U.S. president. But it has followed up on early gains this year due in part to enthusiasm for new coins that function like bitcoin but are designed to promote new startup companies.

The startups are creating and selling bitcoin-like tokens that operate as a cryptocurrency-crowdfunding hybrid.

Sometimes the new coins are marketed as a pure investment in a new company, while other times they provide access to do business with the new company.

Bitcoin, which was launched in 2009, allows holders anywhere to exchange value directly without involving a third party such as a bank.

In its short lifetime, it has attracted passionate followers, equally passionate skeptics, and a handful of catastrophic hacks that have undermined investors' confidence. It has also spawned imitators seeking to catch the next big technology wave.

The proliferation of dozens of new "alt coins" has sparked a fresh round of speculative buying across all virtual currencies, including bitcoin. Ethereum, one of the more established alternatives, has risen from $8 to $87 this year. Ripple's total market value was $231 million at the start of the year. It is currently $7 billion.

"There is obviously a lot of hype in the whole space," said Jed McCaleb, an early bitcoin acolyte who co-founded both Ripple and another platform called Stellar. "When you raise millions in a matter of minutes, there's probably a lot of hype driving that."

Bitcoin's rise Tuesday, however, came despite declines in many smaller virtual currencies that followed reports of service problems at one of the larger exchanges that deals in the small tokens.

Bitcoin's rise has also been fueled by hope that it will become a more-modern store of value for investors, a sort of gold 2.0.

Bitcoin earlier this year finally started trading above the price of gold, when it crossed above $1,200, and has only increased since then.

Gold peaked at a closing high of about $1,292 this year and now trades at about $1,214. Bitcoin first traded above $1,200 in March, had one brief drop to below $1,000, and has been surging since then.

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The New York Times

Business/Financial Desk; SECTB

Energy Companies Deepen Their Losses, Holding Back Markets

By THE ASSOCIATED PRESS
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English

The **Nasdaq composite** index ticked higher, to another record, on Tuesday, but a drop by energy stocks held back other major sectors.

It was the third straight day that the **Nasdaq** notched a new high, but each of those has been by only a marginal amount. Stocks have been stuck in a largely listless trading pattern in recent weeks, with investors seeing few reasons to make big moves in either direction.

The **Nasdaq** rose 17.93 points, or 0.3 percent, to close at 6,120.59. The **Standard & Poor's 500**-**stockindex** flirted with its own record throughout the day but lost momentum in the last half-hour. It slipped 2.46 points, or 0.1 percent, to 2,396.92.

The **Dow Jonesindustrial average** fell 36.50 points, or 0.2 percent, to 20,975.78.

Markets have been placid the last two weeks, and the biggest one-day move for the **S**.**&P**. **500** during that span has been 0.6 percent. Last week's solid jobs report gave reassurance that the American economy was improving despite a weak showing at the start of the year.

Companies have been turning in a series of stronger-than-expected profit reports, which has tempered concerns that stocks have grown too expensive relative to earnings. And the presidential election in France raised confidence that voters might be turning their backs on a nationalistic brand of politics that could hurt global trade.

''This is almost like the postcelebration letdown,'' said Brian Jacobsen, chief portfolio strategist at Wells Fargo Funds Management. ''Everyone is just relaxing, trying to figure out what direction to go next.''

It could stay that way for a few days unless something unexpected happens to knock the market out of its lazy drift, with few events on the calendar with market-moving potential.

''We're in a little bit of a lull here, and I think traders are thinking it's like a 'Seinfeld' episode, where it's all about nothing,'' Mr. Jacobsen said.

The day's biggest excitement involved energy stocks, which deepened their losses for the year. Energy stocks in the **S**.**&P**. **500** lost 0.9 percent, tied for the most among the 11 sectors that make up the index. They are down 10.8 percent for the year, during which the broader **S**.**&P**. **500** is up 7.1 percent.

The sector followed the price of oil lower. Benchmark crude futures for June delivery fell 55 cents to settle at $45.88 a barrel. Brent crude, the international standard, fell 61 cents, to $48.73 a barrel.

High-dividend stocks were also weak. Utilities in the **S**.**&P**. **500** lost 0.9 percent while telecommunications fell 0.6 percent.

Demand has waned for high income-paying stocks as bonds have begun to pay more in interest. The yield on the **10**-**year Treasury** note held steady at 2.39 percent Tuesday, but it is up from a low of 2.17 percent three weeks ago.

Gold for May delivery dipped $11.00 to settle at $1,214.30.

Marriott International jumped $6.13, or 6.4 percent, to $102.50 after reporting stronger-than-expected earnings for the latest quarter. The hotel operator cited improving trends around the world, from North America to Europe to Asia.

Hertz Global Holdings sank $2.11, or 14.2 percent, to $12.80 after reporting a larger loss for the last quarter than analysts expected.

European stock markets were mostly higher. The German DAX rose 0.4 percent. The CAC 40 in France gained 0.3 percent, and the FTSE 100 in London rose 0.6 percent.

The euro fell to $1.0872, from $1.0928 on Monday. The dollar rose to 113.92 Japanese yen, from 113.17 yen, and the British pound slipped to $1.2932, from $1.2938.

CHART: The **Nasdaq** Minute by Minute: Position of the **Nasdaq Composite** Index at 1-minute intervals on Tuesday. (Source: Reuters)

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Metropolitan Desk; SECTA
Jersey City Mayor Balks at Tax Break for Kushners

By PATRICK McGEEHAN; Jesse Drucker contributed reporting.
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The Democratic mayor of New Jersey's second-largest city, who has had his ups-and-downs with the state's **volatile** governor, Chris Christie, is now threatening to stymie luxury development dreams of the family of President Trump's son-in-law, Jared Kushner.

Steven Fulop, the mayor of Jersey City, went public on Sunday with his opposition to the Kushners' request for hefty tax breaks for a pair of towers that would contain 1,500 luxury apartments. Mr. Fulop said in a posting on his Facebook page that his administration was ''not supportive'' of the abatement deal the developers sought.

The Kushner Companies -- which Jared Kushner, Ivanka Trump's husband, led before resigning in January to advise Mr. Trump -- is a partner in the group proposing the project, known as One Journal Square. Over the weekend, Mr. Kushner's sister Nicole Meyer mentioned her brother's service to the company while she pitched the project to prospective investors in China.

The project ''means a lot to me and my entire family,'' Ms. Meyer said in Beijing to an audience of people interested in securing permanent residence in the United States in exchange for investments of $500,000 or more.

The roadshow in China added fuel to fears that the Trump family has not sufficiently severed ties to its varied business interests, leaving open many avenues to conflicts of interest.

In Jersey City, the Kushner family's involvement in the project has stirred up opposition among liberal and progressive residents of Jersey City who are critical of Mr. Trump's policies, especially his stance on immigration. One activist group has campaigned to ''evict Trump-Kushner,'' demanding that the city refuse any tax breaks to companies that Jared Kushner has a stake in.

In his brief posting, which linked to a story in The New York Times about the investor roadshow in China, Mr. Fulop indicated that he had found fault with the terms of the requested tax abatements.

Mr. Fulop, who faces re-election this year, gained widespread attention when he accused state officials of refusing to meet with him in retaliation for his declining to endorse Mr. Christie for re-election in 2013. Emails that came to light in the George Washington Bridge lane-closing investigation showed Mr. Christie's aides scheming to freeze out Mr. Fulop.

Some critics of the mayor charged this week that the opposition to the tax break was aimed at appeasing liberals who disapprove of Mr. Trump.

''It's 100 percent political,'' said Bill Matsikoudis, a former Jersey City corporation counsel who is running against Mr. Fulop. ''He's trying to throw a bone to the progressive, very anti-Trump people in Jersey City.''

Mr. Matsikoudis, a Democrat, said he could not recall a request for a large tax abatement being turned down in Jersey City, whose leaders have used tax breaks to lure developers to its growing financial district on the west bank of the Hudson River. But he added that the package of tax breaks the Kushner group was seeking appeared to be quite rich even by the standards of the Fulop administration.

Asked about his reasoning, Mr. Fulop and his senior staff declined to comment for publication, nor have they released the abatement application. A copy of the application posted by NJ.com shows that the developers intended to apply for a tax abatement that would last at least 30 years, as well as $30.4 million in bond financing, from the city.

The tax breaks would require an ordinance passed by the City Council, which has not yet taken up the matter. But in his posting, Mr. Fulop said, ''I don't foresee the council voting in favor.''

That pronouncement drew cheers from ''Evict Trump/Kushner,'' which released a statement saying, ''we know that our resistance is just beginning.'' Alluding to the promotional events in China, the group said, ''This attempt to use the office of the presidency for personal profit is grossly unethical. Such behavior is a direct consequence of Jared Kushner's failure to fully and transparently divest from his businesses.''

A spokesman for the Kushner Companies, James Yolles, said the project would be a boon to Jersey City. ''Our current proposal for One Journal Square would provide 4,000 sorely needed union jobs and $180 million in tax revenue for Jersey City over the next 30 years,'' he said. ''Earlier this year, we looked at the market and decided on a more conventional project, which we think strengthened our proposal. We are committed to moving ahead with this meaningful investment in the long-term future of Journal Square.''

Jared Kushner has divested his interests in the One Journal Square project, selling them to a family trust whose primary beneficiaries are his siblings and whose trustee is their mother. He remains the beneficiary of a series of trusts that hold stakes in the majority of the Kushner Companies business.

About 18 months ago, One Journal Square received $93 million in tax breaks from the state of New Jersey through its Economic Development Authority. The main partner of the Kushner Companies in the project is KABR Group, a private equity real estate firm.

A different Kushner Companies project that opened late last year in Jersey City relied on $50 million raised from foreign investors seeking entry to the United States on EB-5 visas. That visa program awards foreigners the right to live in the United States for two years, and a good shot at permanent residency, in exchange for investments of at least $500,000 in American development projects.

That building, a Trump-branded luxury high-rise apartment, got its EB-5 funding entirely from Chinese applicants. Applicants from China account for about 75 percent of the EB-5 visas.

The Kushners seek $150 million in EB-5 financing for One Journal Square. The copy of the abatement application for the project estimated that the project would cost more than $820 million.

Mayor Steven Fulop (PHOTOGRAPH BY YEONG-UNG YANG FOR THE NEW YORK TIMES)

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THE WALL STREET JOURNAL.
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The Middle Market (A Special Report) --- Good News From the Middle: Midmarket companies had a terrific year, says Tom Stewart; As for what's on their wish list: Simpler taxes and more certainty

By John Bussey
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Middle-market companies are getting healthier -- but still face a lot of uncertainty.

That's the assessment from Tom Stewart, executive director of the National Center for the Middle Market. In a discussion with The Wall Street Journal's John Bussey, he talks about where the middle market stands today and its prospects for the future. Here are edited excerpts of their conversation.

MR. BUSSEY: Your Center for the Middle Market spends a lot of time talking to many in the middle market throughout the United States, and surveying their sentiment at the moment. This is a pretty good time, if your data is correct.

MR. STEWART: We survey 1,000 companies across the middle market, ask them how's business. In data collected at the end of March, we saw a year-on-year, top-line growth of 9.2% and employment growth of 7.5%, which sort of blew our minds.

Construction had a booming year. The other thing is that there was a big increase in merger-and-acquisition activity. The number of middle-market companies that said they made a deal in the last 12 months went up by a third, compared to the 12 months before.

The number of companies that said that their performance was flat or down, compared to the year before, dropped by 10 percentage points. The rising tide lifted all boats. It was a terrific year. Middle-market companies are in this sweet spot where there is just an awful lot of growth and confidence.

This is the first time we've seen confidence in the national economy higher than confidence in the local economy. Normally, middle-market companies are most confident in the local economy, then national, then global.

MR. BUSSEY: The global-economy number strikes me. This is a time when global trade pacts are on their heels.

MR. STEWART: We started seeing this global-economy confidence number bumping up last summer.

I thought, wait a minute. We've got Brexit. We've got other things.

But right now, for the first time in its history, every economy in the EU is growing. Now, it may be growing at a minuscule rate. But there's actually decent reason to be confident. It doesn't mean you're **bullish**. But they're feeling confident.

But there's a fly in this ointment. We asked, what do you buy or sell internationally? Did you do that five years ago? Do you expect to do more of it five years from now? There was a five-percentage-point jump between five years ago and today. If you ask them about the next five years, it's flat.

MR. BUSSEY: Can you deconstruct a bit the employment-growth number? There is an unemployment rate of about 4.6%. You would think this is going to drive up inflation, that people would be having a hard time finding people to do the jobs that they want to hire them for.

MR. STEWART: Half of companies say that I could grow faster if I had the people. And that's at all levels. It's top of the house, it's management, it's technical workers, it's STEM workers. So talent is absolutely an issue across the middle market.

MR. BUSSEY: Tell us what's on the minds of middle-market companies, from a policy-making standpoint, both national and state.

MR. STEWART: I think the No. 1 thing that middle-market companies tell us is simplify, simplify, simplify. We have asked more than once, if you had a choice between lower taxes or simpler taxes, which would you prefer, and a plurality prefers simpler taxes over lower taxes.

You ask them which level of government you like working with the best, it's local, state, federal, in that order.

That's partly because there's stuff that you have to deliver at the local level that is very practical that businesspeople see and touch. Whereas other issues of policy and so on seem more remote and seem like they're less relevant to helping me run my business.

They say, let's get some certainty about some issues. Let's recognize that trade is good for us. Let's recognize that we need infrastructure. Let's recognize that we need talented people. And let's recognize, that having been said, in many cases, less is more when it comes to government.

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THE WALL STREET JOURNAL.
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Banking & Finance: Funds Pitch 'Teletubbies,' Tesla

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Corrections & Amplifications

Debra Fine is a hedge-fund manager. A Banking & Finance article on Tuesday about the Sohn Investment Conference in New York incorrectly identified Ms. Fine as a long-only value manager. Also, DHX Media Ltd.'s market capitalization was $569.7 million as of Monday's close, according to FactSet. The article incorrectly said the company's market value was about $100 million.

(WSJ May 10, 2017)

(END)

Some of the biggest names of the hedge-fund world gathered Monday at the Sohn Investment Conference in New York to pitch their new investment ideas.

The closely watched annual gathering featured a range of **bullish** and **bearish** calls on everything from master-planned communities to the entire **S&P 500**.

Here were some of the highlights:

DHX Media Ltd.

Debra Fine, founder of hedge fund Fine Capital Partners, is **bullish** on "Teletubbies."

The long-only value manager is **bullish** on DHX Media, a Canadian firm that buys children's content that was popular a generation ago and banks on its value growing over the long term.

One of those shows is "Teletubbies," which centered around the adventures of four colorful, vaguely psychedelic creatures. "If Teletubbies is only half as successful as it was in 1999, its profits alone would more than double DHX's" earnings before interest, taxes, depreciation and amortization, she said.

"The value of children's content does not diminish" after the first run, Ms. Fine said, because, unlike their parents, kids don't mind watching the same show more than once. DHX also holds the rights to "Caillou," "Bob the Builder," "Inspector Gadget" and "Strawberry Shortcake."

Ms. Fine said DHX, which has a market capitalization of about $100 million, could rise as high as $20 to $30. Shares rose 6.9% to $4.20 on **Nasdaq** Monday.

-- Akane Otani

Core Laboratories NV

Greenlight Capital Inc. founder David Einhorn said he is shorting Core Laboratories NV, which provides analysis for petroleum-industry drilling.

The stock trades at a big premium to peers, he said, adding that there is a misunderstanding about Core being a secular growth company. Core's management continues to predict a V-shaped rebound in the oil market despite evidence to the contrary, Mr. Einhorn said in his presentation, which was littered with old New Yorker cartoons.

"Reading Core's annual reports is like opening up a time capsule," preserving the peak of oil market hype, he said. The stock, he said, is worth $62 a share. It closed down 2.4% at $110.75. Core declined to comment.

-- David Benoit

Tesla Inc.

Social Capital LP founder Chamath Palihapitiya thinks Elon Musk, founder of electric-car company Tesla Inc., is "our generation's Thomas Edison."

He pitched a bet on Tesla's convertible bonds. The securities, which can be converted into stock, rise in value along with shares but retain downside protection if prices fall.

Mr. Palihapitiya said the company could be worth hundreds of billions of dollars within a decade, comparing it with Apple Inc., whose market cap passed the $800 billion mark Monday. But Tesla's heavy capital needs make the stock a tough bet right now, he said.

Tesla's convertible bonds have jumped around a bit lately, trading at 111.374 cents on the dollar Monday, up from 107.682 on May 4. They traded above 115 on May 1.

It wasn't Mr. Palihapitiya's first time pitching a tech company. At last year's Sohn conference, he said Amazon.com Inc. could one day become a $3 trillion company. The online retailer's shares are up about 40% since.

-- Ben Eisen

Chamath Palihapitiya, Social Capital LP

Direction: **Bullish**

Position: Car maker Tesla Inc.'s convertible bonds

Quote: "A chance to stand shoulder to shoulder with the guy we think is our generation's Thomas Edison."

Debra Fine, Fine Capital Partners LP

Direction: **Bullish**

Position: Children's media company DHX Media Ltd.'s stock

Quote: "A Polly Pocket comforter is a much bigger seller than 'House of Cards' sheets."

David Einhorn, Greenlight Capital Inc.

Direction: **Bearish**

Position: Petroleum drilling analysis provider Core Laboratories NV's stock

Quote: "Core's earnings will disappoint over the next few years."

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The New York Times

Economic Trends
The Upshot

The Stock Market Is Weirdly Calm. Here's a Theory of Why.

By NEIL IRWIN
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NYTFEED
English

When Donald J. Trump won the presidency in November, one bet seemed like a sure thing: We were in for a **volatile** few years. And in Washington, that forecast has come true. This unconventional presidency is creating an avalanche of uncertainty in areas including global trade, taxes and health care.

But on Wall Street, these are the quietest of times. Prices for stocks and many other assets are less **volatile** than at any time since before the global financial crisis a decade ago, and **volatility** is, by some measures, near record lows.

Consider this: In 2015, the **Standard & Poor**'**s500 index** moved by more than 1 percent on 29 percent of trading days. Last year that fell to 19 percent. So far in 2017, there has been a 1 percent or greater swing in the market in only three trading sessions, or 3.5 percent.

And the **Volatility** Index, or Vix, which captures expectations for future **stock market volatility** based on prices in the options market, finished Monday at the lowest level in its 27-year history other than three days in December 1993.

This sense of calm would be notable in any event, but the contrast with the sheer variance in the policy world makes it particularly unusual. In a single week, the Trump administration might flirt with exiting the North American Free Trade Agreement, roll out an outline for a multitrillion dollar tax cut and push legislation that would overhaul the health care sector, one-sixth of the United States economy.

There are some technical explanations for what is going on. The advent of products that let people easily bet on the Vix and other **volatility** indexes may be distorting their prices, and there have been changes in how major investors are hedging their portfolios against losses that may be making the index artificially low.

But while they do a good job of indicating why indexes like the Vix are so low, these technical explanations are less effective at explaining why the actual fluctuations in markets have been so subdued — realized **volatility**, to use the traders' term, as opposed to expected **volatility**.

Something is causing the shares of the most widely owned companies to jump around less than they almost always have in the past. And they also don't do a great job of explaining why many other markets have also become less **volatile** than in the recent past, including international stocks, currencies and bonds.

Dating to the 2008 financial crisis, markets have swung on every hint of news out of world capitals — Washington, especially, but also Berlin and Tokyo and Beijing — because the very future of the global economy seemed to hang in the balance. From the financial crisis to the eurozone crisis to the efforts by Japan to reflate its economy to the effort by China to deleverage its economy, the policies set by central banks and national governments were the prime mover of investor sentiment and the global outlook.

Those days are over, at least for the moment. In normal times, markets are driven much less by what governments do and much more by, well, the economic fundamentals. How many people are working, with what level of productivity and savings levels, and what are the resulting economic growth rates, levels of corporate profitability, and interest rates?

Even though it is a historical aberration, doesn't the very low **stock market volatility** of 2017 make more sense than the kind of wild swings we saw until recently? Why should the collective value of major companies swing by more than 1 percent three days out of 10?

After all, the assets of those major companies — Exxon Mobil's oil rigs and Google's search algorithm and all the rest — don't really change from day to day. All that changes is investor perception about what kind of cash those assets will generate in the future. Isn't it actually fairly rare that a piece of news should change the fundamental outlook by that much?

What makes this moment unusual is that there really are policy choices in play that could have hugely distortive effects on those fundamentals: what happens to trade policy, taxes and health care in the United States; what terms Britain achieves in its exit from the European Union; even whether the E.U. as we know it survives.

But if the last few years have taught investors anything, it is that those with a hair-trigger reaction to political news stand to lose, while those who bet on a continued steady and unexceptional expansion will win.

You see a bit of that in how each standoff over United States fiscal policy during the Obama years generated less market **volatility**. The debt ceiling standoff of 2011 generated huge market swings as traders bet on the risk of a default; the standoffs over the "fiscal cliff" at the end of 2012 and a government shutdown in October 2013 caused mere murmurs.

Investors learned a lesson that it's easy to overreact to political developments, and the same seems to have happened globally in the last several months.

The risk, of course, is that this generates complacency.

Low **volatility** could make banks, hedge funds and other institutions more comfortable taking on extra leverage, paradoxically making the financial system less stable and more subject to large swings over time.

And perhaps most worrisome, sometimes big **financial market** moves are the mechanism by which policy makers receive the signal that they're doing the wrong thing. We saw that again and again in the global financial crisis and the eurozone crisis, when it was big market swings that got governments' attention.

So the biggest risk of this period of ultralow **volatility** is that by looking past the latest headlines out of world capitals, investors won't send the signals that might prevent political leaders from making a mistake in the first place.

The Upshot provides news, analysis and graphics about politics, policy and everyday life. Follow us on Facebook and Twitter. Sign up for our newsletter.

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