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Clouds Are Forming Over the Bond Market; Strategies

By JEFF SOMMER
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The bond market is flashing warning signals that bad times may be ahead for the **stock market** and the economy.

That is probably not what most people want to hear — stock investors especially. In the first half of the year, after all, stocks have performed spectacularly. The **Standard & Poor**'**s 500**-**stockindex** returned 9 percent through June, churning out gains so regularly that it may seem churlish to note that clouds are appearing on the horizon.

Yet like a long-range forecast about a possible storm, an old and trusted financial indicator is telling us that trouble may be looming.

Simply put, while the Federal Reserve has been raising short-term interest rates since December, the bond market hasn't gotten the memo. The longer-term rates that are set through bond market trading have, for the most part, been declining, though there was a brief reversal in the last few days. But the disconnect over the last few months is a sign that bond investors believe economic growth and inflation are still weak and the Fed's actions are premature.

In the past, when disputes between the Fed and the bond market have persisted and grown, they have sometimes predicted big problems ahead — like a plunging **stock market** and, eventually, a recession.

"I think people should be paying close attention to all of this right now," said David Rosenberg, chief economist and strategist at Gluskin-Sheff in Toronto. "When do you want to make sure you've got an umbrella? When rain is in the forecast or after it's already started pouring?"

Rain is coming, Mr. Rosenberg said, recommending that investors prepare by keeping enough cash on hand and setting up their portfolios to weather a storm. Regions like the eurozone are in an earlier stage of the economic cycle, he said, and may be better bets now. He urges caution in the United States. "I can't tell you when it is going to happen," he said, "but the economic cycle has not been abolished, and the chances of a recession are rising."

Though there is widespread concern about the behavior of the fixed-income markets, some analysts aren't as convinced that the forecast is quite so gloomy.

"There are grounds for concern, certainly," said Edward Yardeni, an independent economist and strategist, who has been studying the bond markets for decades. "But we're in a very strange world now, and it's hard to know how this will all play out."

"The economy is growing very slowly," he added, "at a pace of less than 2 percent per year, a rate that we used to call 'stall speed,' in the belief that when the economy is that feeble, it will fall into a recession. But that hasn't happened. The economy keeps growing, the **stock market** keeps going up, yet inflation remains very low. Where are we heading? There are many possibilities here. This isn't the economy we used to know."

Understanding the situation more deeply requires a little technical knowledge, so bear with me.

The Federal Reserve, along with other central banks, lowered short-term rates to near-zero levels during the financial crisis. With the economy on the mend, and asset prices like stocks and real estate soaring, Fed officials have begun raising short-term rates and say they intend to continue to do so.

What is unusual is that while the short-term rates that are controlled and heavily influenced by the Fed have been rising, the longer-term rates that the bond market sets have generally been dropping. That is why 30-year fixed mortgage rates are still below 4 percent, not all that much higher than they were a year ago.

The benchmark **10**-**year Treasury** note, for example, declined from more than 2.6 percent in March to about 2.1 percent earlier in June. (It rose to 2.3 percent on Friday.) The rate on the 10-year note has been hovering at only about 1 percentage point above the Fed funds rate and 0.6 or 0.7 of a percentage point above the three-year Treasury note.

In bond market jargon, "the yield curve has been flattening" — meaning short- and long-term interest rates have been moving closer to parity. In itself, such a development is unusual. But if the trend continues, with shorter-term rates rising above longer-term rates, the message from the bond market would amount to a flashing red light.

In such a case, bond mavens would say, "The yield curve has inverted," implying a reversal of the natural order of things, because most of the time, investors demand a yield premium for tying their money up for longer periods. An inversion would express deep skepticism about Fed policy and about the health of the economy. In the past, inversions have often predicted economic recessions and sharp declines in the **stock market**.

In fact, the last yield-curve inversion occurred in 2006 and 2007, according to data maintained by the Federal Reserve Bank of New York. Recession probabilities climbed, a model maintained by the New York Fed showed, and for good reason. The economy plunged into recession in December 2007, and, by some measures, it is still recovering. That's why the yield curve's messages are worth taking seriously.

That said, we don't have an inversion at this point, and we may not go there at all.

"Just because the yield curve is flattening doesn't mean that it will become an inversion," said Jeffrey Kleintop, chief global investment strategist at Charles Schwab. At the moment, he said, the British economy has been battered by "Brexit" and other worries and is quite vulnerable to a downturn. But he believes that the probability of a recession in the United States in the next 12 months is low. "I think we've probably got a year or more of growth ahead here," he said.

Mr. Yardeni remains **bullish** on United States stocks and is cautiously positive about the economy, saying low bond yields probably reflect persistently low inflation, which could be benign. Factors like demography (the aging of the baby boom generation), technology (the efficiency of smartphones and cloud computing) and globalization have changed the economy and reduced the inflation rate, he said.

Low inflation, along with low global interest rates, are at least partly responsible for the low bond yields in the United States. Those low yields have been a boon to people who own bonds because yield and price move in opposite directions: The benchmark Bloomberg Barclays Aggregate index returned more than 2.4 percent through June, despite predictions early in the year of bad times for bond investors.

The danger signals from the bond market could easily change to another pattern. The Fed may pause in raising short-term rates, though that could unleash irrational exuberance and drive already stretched stock prices higher. On the other hand, the bond market could blink, raising bond yields and relieving the tension. But that would be far more likely if, counter to current expectations, inflation or economic growth began to surge.

For now, the rally in risky assets like stocks continues unabated, while the conflict between the Fed and the bond market continues. Fed officials indicate that they are determined to keep raising short-term rates and to begin reducing the Fed's bond holdings — perhaps preparing the central bank for action whenever the next recession comes.

At a bare minimum, the policy choices ahead are difficult. And for investors, there is ample reason for caution.

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PHOTO DRAWING

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Business Day; DealBook
S.E.C. Lets All Firms Keep Parts of I.P.O. Filings Secret

By CHAD BRAY and MATTHEW GOLDSTEIN
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Correction Appended

In an attempt to revitalize the public capital markets, the nation's top regulator of stocks is turning to stealth mode.

The Securities and Exchange Commission, in Walter J. Clayton's first major policy move as chairman, is expanding a program that will allow all private companies to keep some details of their finances and business strategies under wraps early in the process of an initial public offering.

Currently, only smaller companies are allowed to confidentially file draft registration statements for review by the agency before offerings. Some well-known companies, like Snap, Twitter and the burger chain Shake Shack have been able to do so, but the threshold of annual gross revenue of $1 billion has barred others.

Beginning July 10, all companies will have access to that program, which originated in the 2012 JOBS Act, the commission said late Thursday. The companies would be required to file their paperwork publicly at least 15 days before any "road show" to meet with potential investors, the commission said.

Filing confidentiality is intended to make it easier for companies that want to go public. It allows companies to iron out any wrinkles in their financial reporting with the regulator privately. And they do not have to worry about competitors getting an early peek at their figures.

Yet some market specialists say confidential filing has had little impact and question why markets regulators are emphasizing secrecy over openness.

Since the JOBS (Jumpstart Our Business Start-Ups) Act was enacted, some 1,350 confidential filings have been submitted, as of March 31, the Securities and Exchange Commission said.

The **Nasdaqstock market**, which competes with the New York Stock Exchange for the listings of new companies, cheered the S.E.C.'s decision.

"We have long supported such an action and believe it is one step forward in making the public markets more attractive, which will foster economic growth," Adena Friedman, the chief executive of **Nasdaq**, said in a statement.

Jay R. Ritter, a professor at the Warrington College of Business at the University of Florida, who studies initial public offerings, was more skeptical about its effects, although he generally supported the idea.

"This is not necessarily going to encourage more companies to go public," Professor Ritter said. "The whole JOBS Act has had very marginal impact."

One criticism of the confidentiality provision has been that it shortens the time between when a prospectus becomes public and the road show for investors before the trading debut of a stock. But that should not be a major obstacle for big investors who can spend time poring over the filing, Professor Ritter said.

The move by the commission follows several slow years in the market for new stocks. And fewer initial public offerings have meant fewer publicly traded companies. From a peak of 7,322 publicly traded companies in 1996, the total number of companies listed on the United States **stock market** has plunged by nearly half, according to research by Credit Suisse, aptly titled "The Incredible Shrinking Universe of Stocks."

At his confirmation hearing in March, Mr. Clayton — who as a longtime lawyer at the Wall Street law firm Sullivan & Cromwell worked on a number of initial public offerings, including Alibaba's and Och-Ziff Capital Management's — emphasized that he would "like to see more companies going public here."

He and Republican lawmakers have pointed to regulation as a prime culprit for the shrunken universe in American stocks.

"We are striving for efficiency in our processes to encourage more companies to consider going public, which can result in more choices for investors, job creation and a stronger U.S. economy," Mr. Clayton said on Thursday.

Yet other forces have clearly been at work over the last two decades. Wave after wave of mergers and acquisitions have caused many stocks to be delisted. Mutual funds and other big investors tend to prefer bigger investments to many small investments in new company offerings and the like.

Perhaps more important, younger companies, particularly in technology, are now able to raise huge sums of capital privately and have no need of public markets. Take Uber, which has raised more than $14 billion from venture capitalists and other investors, giving the private company a valuation of $70 billion.

Mr. Clayton cited Uber during his confirmation hearing as an example of a company that 20 years ago probably would have gone public at this point.

This year, however, there have been signs of improvement in the market for new stocks. Renaissance Capital noted on Thursday that 54 initial offerings raised $11 billion in the second quarter — the most in number and proceeds in two years. Already, the market for new stocks, led by companies like Altice USA and Blue Apron, has raised more capital this year than in all of 2016.

The commission said on Thursday that permitting all companies to file secretly would give them more flexibility to plan their offerings and reduce "the potential for lengthy exposure to market fluctuations that can adversely affect the offering process and harm existing public shareholders."

Anna Pinedo, a partner at Morrison & Foerster who specializes in securities law, said the expansion on confidential filing would also apply to companies considering a direct listing on a stock exchange without seeking to raise capital through a public offering.

The streaming music service Spotify is said to be considering a direct listing — a move that eliminates the need to hire underwriters and conduct a road show to woo investors. The advantage of a direct listing is that a company's shares simply begin trading on an exchange.

But until now, a company considering a direct listing had to make its filing public when it applied. Ms. Pinedo said the commission's action would permit any company to keep its financial statements confidential until 15 days before its shares are set to begin trading.

"If you look at how much money unicorns have raised, perhaps they don't need to do a conventional I.P.O.," she said.

Follow Chad Bray on Twitter @Chadbray.Jeffrey Cane contributed reporting.

Correction: June 30, 2017, Friday

This article has been revised to reflect the following correction: An earlier version of this article misstated the name of the burger chain that recently made its initial public offering. It is Shake Shack, not Snack Shack.

* 2 Expected to Be Named to S.E.C. Enforcement Role

* What the Future of S.E.C. Enforcement Holds Under Jay Clayton

* Trump's S.E.C. Nominee Disclosure Offers Rare Glimpse of Clients and Conflicts

* Donald Trump Nominates Wall Street Lawyer to Head S.E.C.

The chairman of the Securities and Exchange Commission, Walter J. Clayton, wants more companies to go public. | Aaron P. Bernstein/Reuters

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The New York Times

Retiring
Your Money
Retirement Savings, the Muslim Way

By TOM VERDE
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When faced with a loss in the market versus a lapse in his faith, Nabeel Hamoui, 37, a radiologist in Chicago, will invariably opt for the loss. This is because Dr. Hamoui manages his retirement portfolio in accordance with halal, or religiously sanctioned, Islamic guidelines.

"I chose halal investing based on my religious beliefs, and try to remain in compliance with those beliefs," Dr. Hamoui said. A return on his investment, he said, is beside the point.

For Dr. Hamoui and many other Muslims, both in the United States and abroad, saving for retirement means steering clear of investments in companies and funds that trade in a host of forbidden goods and services, which are known as haram. The lengthy list includes alcohol, tobacco, pork products and media or entertainment considered immoral, such as pornography.

The rules can be tricky to navigate. Investments are banned in companies with too much debt as a percentage of their assets. Interest on loans (known as riba) is also haram, which rules out investing in conventional banking and insurance sectors. Investing in companies earning a minimal amount of interest, typically 5 percent or less, may be allowed, so long as the dividend income derived from that interest is donated to charity.

Equally problematic are many customary market gambits such as annuities and short-selling, which can be viewed as gambling, and thus are prohibited under Islamic law, or Shariah.

"The Islamic principles look to what you are doing with your capital, what types of businesses, assets and operations are you furthering," said Umar Moghul, a New York-based lawyer specializing in Islamic finance.

Other important criteria, he said, are the terms and conditions of someone's holdings, "since Shariah also speaks to procedure as well as to the substance of investment."

In spite of these challenges, the global Islamic financial sector is healthy and growing.

While the bulk of the Islamic financial sector's assets lie in Malaysia, the United Arab Emirates and Bahrain, financial services managers in the United States are addressing the retirement savings needs — and dollars — of a steadily growing number of observant Muslim-Americans, now about 1 percent of the United States population. Their economic profiles show them to be slightly more likely than non-Muslim workers to be engaged in professional careers, according to a 2009 Gallup Poll, and as likely as other Americans to earn annual incomes in excess of $100,000, according to a 2011 Pew Research Center study.

Islamic finance in the United States is "a nascent industry, but people are very optimistic about where it is going," said Bashar Qasem, the chief executive of Azzad Asset Management, a money management firm in Falls Church, Va., that he founded in 1997.

The philosophy behind Islamic saving and investing can be traced to the Quran and other early Islamic texts. The story of the prophet Yusuf (Joseph, the same one as in the Bible) conserving grain from rich harvests in Egypt, related in Sura (chapter) 12 of the Quran, is often cited as an admonition to save against hard times. Other verses advise against squandering wealth, while the Prophet Muhammad warned in a hadith (a collection of his sayings) that one "who is prudent in spending will not be dependent on others" later in life.

Both the Quran and hadith inform Shariah, which guides Muslims through practical life decisions, including how they should make and save money while remaining true to their religious principles.

“Because Islam tends not to distinguish between the temporal and the religious, there is a perennial desire among Muslims to live all aspects of their lives, including the financial, in a manner consistent with their faith,” observed Usman Hayat and Adeel Malik, the authors of a 2014 study of Islamic finance by the CFA Institute.

The Accounting and Auditing Organization for Islamic Financial Institutions, Malaysia’s Islamic Financial Services Board and Bahrain’s International Islamic **Financial Market** are among the major independent organizations that help Muslims achieve these goals. Advised by boards of Islamic financial experts and religious scholars, these organizations continuously and systematically review companies, bonds and mutual funds to ensure they are Shariah-compliant. The vetted products are listed on various Islamic indexes that have concurrently emerged.

“As Islamic funds were being developed, there was a need for benchmarks, and so we were responding to the needs of the assets management industry,” said Michael Orzano, the director of equity indexes for the Dow Jones Islamic Market Indices. The original Dow Jones Islamic Market Index was introduced in 1999 as the world’s first Shariah-compliant index. Today, the company’s portfolio of more than 15,000 indexes is among many offered by major financial firms.

Like Shariah itself, which varies in interpretation (known as ijtihad), the indexes differ on what is compliant and what is not. Most regard the trade and manufacture of weapons as noncompliant, for example, yet Standard & Poor’s board of Islamic scholars takes a nuanced approach. The use of weapons can be permissible (self-defense) or nonpermissible (unprovoked violence), but the weapons themselves are neutral, so investing in their manufacture is sanctioned, as Mr. Orzano noted in a 2013 report.

A vast range of customized, equally nuanced Islamic financial products structured like standard investments but operating within Shariah has likewise gained traction in the market.

Sukuks are among the most prevalent. These are essentially Shariah-compliant bonds. Yet whereas standard bonds pay investors a set rate of interest over a period of time, sukuks offer a fixed rate of profit instead, thus avoiding forbidden riba.

Another important distinction is that sukuks must be backed by some tangible asset, such as properties or a Shariah-compliant business. Ownership is transferred to the investors who then lease the asset to the issuer for a set period, essentially charging rent for its use, an arrangement known in Islamic finance as ijarah.

“So with a sukuk, the investor owns a piece of the asset,” said M. Yaqub Mirza of Saturna Capital in Bellingham, Wash. “With a bond, it is a debt, and you earn interest on it, which is noncompliant with Shariah.” In 1986, Dr. Mirza introduced the Amana Income Fund, the first Shariah-compliant mutual fund in the United States.

Shariah-compliant exchange traded funds (E.T.F.s) are another attractive product for Muslim investors. Whereas a standard E.T.F. is a security that tracks an index, commodity, bonds or an index fund, an Islamic E.T.F. exclusively tracks a benchmark index composed of Shariah-compliant companies. They are also usually overseen by a Shariah committee to ensure compliance.

Saving for retirement the Muslim way involves “very intentional investing that is consistent with values,” said Josh Zinner, the chief executive of the Interfaith Center on Corporate Responsibility, in a telephone interview from his office in New York.

Yet whether driven by conscience or a keen sense of the market, Muslim and non-Muslim investors alike have historically done well by parking retirement savings in the Islamic financial sector, particularly during **volatile** times. Both WorldCom and Enron were removed from the Dow Jones Islamic Market Index when their debt levels hit 33 percent, the Shariah cutoff. Shares of both companies later lost their value after they collapsed in 2001-2. More recently, halal investors similarly weathered the financial crisis of 2008 in relative safety, Mr. Orzano observed.

“During that specific time frame, when the financial sector was devastated, being in a Shariah-compliant investment was beneficial,” he said.

The bottom line for Khalique Zahir, a plastic surgeon from McLean, Va., is that whether it be high finance or in the interest of a higher cause, building a Shariah-compliant nest egg simply makes sense.

“Basically it’s just safe, intelligent investing,” said Dr. Zahir, who is 51. He began saving for retirement in conventional markets soon after graduating from medical school but was drawn to halal investing around 2001, after watching the rise and fall of the dot-com bubble.

“With halal investing, you’re investing in a company that has at least 50 percent of its value in hard cash,” Dr. Zahir said. “It’s not in some hypothetical dot-com kind of thought processes. It doesn’t matter if you’re Muslim or non-Muslim — you just don’t like to lose your capital.”

* The Monk Who Left the Monastery to Fix Broken Retirement Plans

* Before You Pay for Financial Advice, Read This Guide

Nabeel Hamoui, a radiologist in Chicago, manages his retirement portfolio in accordance with halal, or religiously sanctioned, Islamic guidelines. | Whitten Sabbatini for The New York Times

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Bank Stocks Rally on Higher Dividends

By Christina Rexrode and Rachel Louise Ensign
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Bank stocks rallied Thursday after strong stress-test results led many lenders to increase dividends and share buybacks. The surge came on a day when the market overall slumped on falling technology shares.

The green light from the Federal Reserve for big banks to return loftier levels of capital led investors to put aside for the moment worries about the future direction of long-term interest rates or policy ructions in Washington.

Instead, they were salivating over the prospect of higher dividend yields at banks.

"The capital return tide has turned," Morgan Stanley bank analyst Betsy Graseck wrote in a note to investors Thursday. "Yield investors will have to start paying more attention to bank stocks, expanding the investor base."

Consider that Bank of America Corp. shares were yielding about 1.26% Wednesday, based on the bank's prior annual dividend payout of 30 cents a share. The bank said Wednesday, following the release of the stress-test results, that it would jack the annual dividend up to 48 cents a share.

That would push the prospective dividend yield to around 2%, even taking into account the increase in Bank of America's stock Thursday. The shares rose 1.8%.

While yields on U.S. Treasury securities have risen in recent days, such dividend-yield increases put some bank-stock payouts more in line with longer-dated government bonds. The five-year U.S. Treasury note, for example, yielded 1.85% in Thursday trading.

Shares of other big banks, such as J.P. Morgan Chase & Co., Wells Fargo & Co. and Citigroup Inc., also rose Thursday. Those banks, too, had announced increased dividends the evening before. Sweetening the pot, banks also announced sizable increases in their expected share buybacks over the coming year.

Overall, banks increased their payouts more than analysts had expected. Ms. Graseck noted that dividends could continue to increase, forecasting a median 11% increase in 2018 for stress-test banks following a 12% increase this year.

Reflecting the upbeat sentiment, the KBW **Nasdaq** Bank index rose more than 1% Thursday even as the **Dow Jones Industrial Average** declined 167.58 points, or 0.8%.

Michael Levine, manager of the OppenheimerFunds $4 billion Equity Income fund, said he remains optimistic on banks in part because of likely dividend growth, especially at Citigroup, one of the fund's biggest holdings.

He sees the dividends as a sign of tangible progress for banks.

Between the November election and the end of 2016, the KBW index rose 23%. That was largely due to investor hopes for higher economic growth that would lead to higher interest rates, and so bank profits, as well as a reduction in bank regulation and an overhaul of the U.S. tax code.

While the Fed has raised short-term rates and there have been some signs of regulatory relief, investors' hopes have yet to be fully realized. A rise in longer-term rates in recent days, for example, hadn't brought much relief to banks. The difference in yields between the 10-year and two-year Treasury was just 0.90 percentage point, a low level that can signal a squeeze on bank profits.

Given that, capital returns become even more important. "We don't think rates are going to skyrocket, and regulatory change has become more vulnerable," Mr. Levine said. "But you're still going to have relatively attractive dividend growth."

Even with Wednesday's announced dividend increases, yields often remain below pre-financial crisis payout levels. Shares in Bank of America, for instance, had an average yield of 3.36% from June 1997 to June 2007, according to FactSet.

One unknown, though, is how consistent growth will be in coming years for capital returns. That depends on the Federal Reserve.

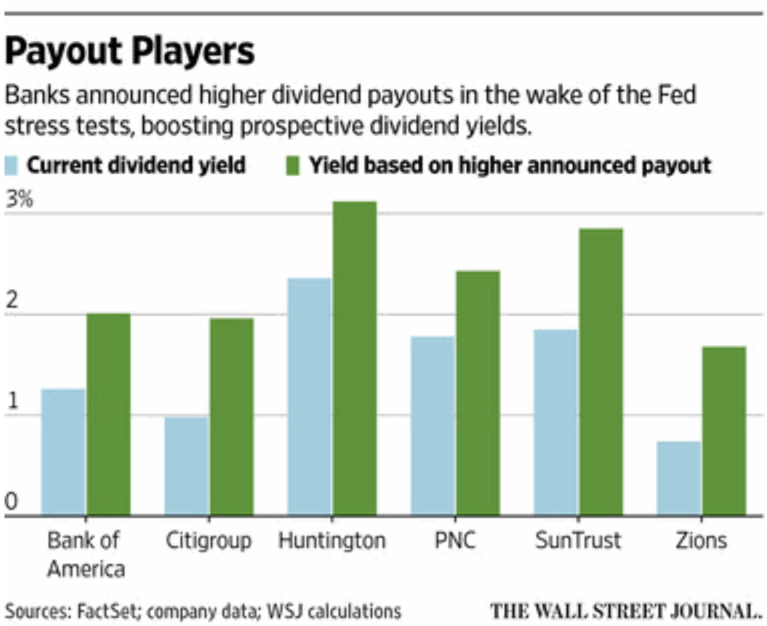
Before the financial crisis, bank boards decided on dividend or buyback increases. Now, though, the banks must go through annual stress tests and the Fed must sign off on their capital plans.

Not everyone was joining the bank-stock celebration. Terry McEvoy, a bank analyst at Stephens Inc., remained more focused on whether looser regulation and tax changes will materialize. He said he believes those are necessary for bank shares to advance further.

Meanwhile, Citigroup bank analyst Keith Horowitz wrote Thursday that the only development was a change in the timeline for when capital would be returned.

Because investors knew the capital would eventually be returned, the announcement had little impact on his valuation estimates.

"This is why we do not share the view of others that these results are a big positive," Mr. Horowitz wrote.



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Streetwise: Divining the Secrets Of Draghi's Temple

By James Mackintosh
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Are central bankers twisted geniuses manipulating the markets in order to meet their inflation goals? Or are they bumbling former academics whose ramblings are overinterpreted by investors besotted with their brilliance?

The question has become increasingly important as investors try to navigate the end of global easy money, and wild swings in currencies this week show how markets are prone to misconstrue statements of the obvious by leading policy makers.

A historic palace in Sintra, Portugal, was the prime location for the misunderstanding. European Central Bank President Mario Draghi set out the nuances of monetary policy in a speech, only for most of it to be ignored by traders who seized on one sentence to conclude he had turned hawkish. The euro soared 1.4% against the dollar, then dropped almost a cent the next day when ECB officials denied the interpretation, before making it all back. German bond yields swung similarly.

Bank of England Gov. Mark Carney then sent the sterling up 1% against the dollar when he said that he would be in favor of raising rates if investment and wages rose, a statement that is not only obvious but in agreement with his previous views. Serious money rests on the question of whether these were delicate signals to the market. Believing they were requires two assumptions about central bankers: that they wanted to tighten policy and that they were capable of saying so subtly.

Both the Bank of England and the ECB were already clear that they no longer lean toward easing. There are several reasons they might want to lean more toward tightening: The Fed is already leading the way, and they don't want to be left behind; they would like to prepare the ground for rate increases so markets aren't shocked when it happens; or they would like to damp market exuberance, which several prominent bankers have worried about recently in public.

Believing they are capable is harder. The hawkish interpretation of both Mr. Draghi and Mr. Carney rested on a few words amid speeches setting out existing policy as clearly as possible. Central bankers would have to be more attuned to the sensitivities of traders than full-time central-bank watchers, who initially took the apparently bland words as restatements of previous positions.

The true twisted genius would be on display if the Sintra speeches weren't misinterpreted at all, but were trial balloons designed to test market sensitivities. On this reading, Messrs. Draghi and Carney want to know how worried investors are about tighter policy so they tried out ambiguous language before soothing nerves by letting it be known they were misinterpreted.

Investors have little choice but to pay attention to central banks: They set the price of money, on which the price of everything else is, to some extent, dependent. Markets are particularly sensitive in Europe because of the approaching end of ECB bond purchases and an unexpectedly close vote on interest rates at the Bank of England. Poor communication -- or perhaps market misunderstanding -- when the Fed neared the end of its bond buying in 2013 led to the "taper tantrum," when **10**-**year Treasury** yields leapt more than a percentage point in two months.

The ECB and investors are on alert for any similar bond selloff. Yet, the Kremlinology is going too far.

Peter Fisher, a senior fellow at the center for business, government and society at Dartmouth's Tuck School of Business, and a former Fed official, says much misinterpretation of policy makers comes from their tendency to argue with each other in public in recent years.

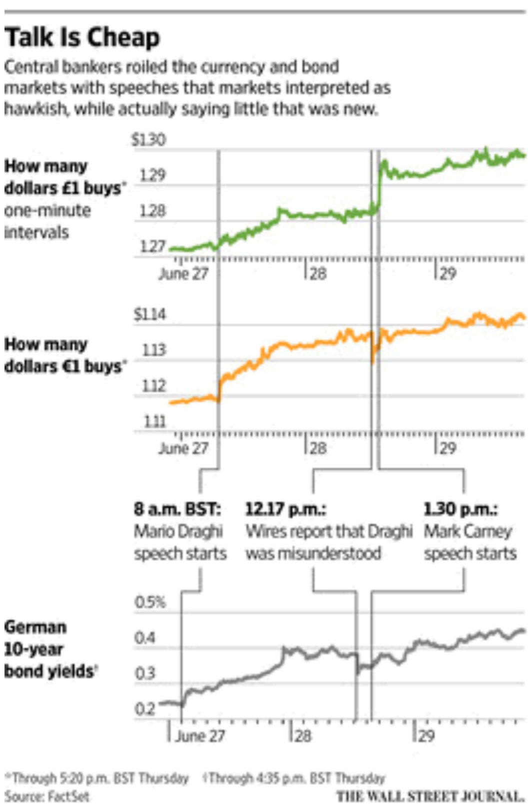
Neville Hill, head of European economics at Credit Suisse Group AG, shares the common view that Mr. Draghi is a silver-tongued communications virtuoso, but thinks Mr. Carney was just misinterpreted. "He's trying to get us to taper without having a tantrum," he said, referring to Mr. Draghi. "I think that is why they [the ECB] pushed back the next day, because the price action looked like there might be a tantrum."

Investors should try to think long term about central bankers' motivations. A few things are clear: They are still wedded to the "Phillips curve" link between lower unemployment and higher inflation, even though it hasn't held up in recent years. So if joblessness keeps falling, expect tighter money than inflation would otherwise suggest.

They are still reluctant to risk market disruption through surprise decisions, so expect big policy shifts to be well-telegraphed.

Finally, there were some signs of concern this week about high stock prices and low corporate bond yields from both the Fed and the Bank of England. But so far that isn't enough to cast doubt on the "Yellen put," the idea that the Fed will save investors from themselves by easing policy if markets fall.

So forget the linguistic analysis and take central bankers' speeches at face value. As Neal Soss, the vice chairman in research at Credit Suisse and a former assistant to Fed Chairman Paul Volcker, puts it: "In the end, watch what they do."



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The New York Times

COMMON SENSE
Business/Financial Desk; SECTB
Feel Optimistic About the Booming Market? Then Read at Your Own Risk

By JAMES B. STEWART
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Throughout the turbulence of his first months in office, President Trump has been able to point to one bastion of support: the **stock market**. Earlier this month he tweeted the ''great economic news'' he thinks the mainstream media has been ignoring: The **Dow Jonesindustrial average** was up 16 percent and the **Nasdaq** up 19.5 percent since his election. Commerce Secretary Wilbur Ross maintained that the Trump administration had bestowed $4 trillion in gains on investors.

Investors have seemingly been oblivious to claims of Russian interference in the election, the firing of a director of the Federal Bureau of Investigation, and the appointment of a special prosecutor. As the second quarter ends this week, 2017 has so far been a banner year, with major indexes hitting records.

But as the **bull market** rolls on, some see storm clouds on the horizon. ''Valuations are high and it's one of the longest and largest bull markets in history,'' said James Stack, president of InvesTech Research. ''Bull markets don't last forever. So the question is, when will the music stop?''

Investors ''are on a knife's edge,'' said Michael J. Kelly, global head of asset allocation for PineBridge Investments. With many still scarred by the financial crisis, ''they see a potential disaster around every corner.''

This month the so-called Faang stocks -- Facebook, Amazon, Apple, Netflix and Google, which have led the market's rally -- faced a sudden downdraft, which many market watchers called a warning of turbulent times to come. Those jitters were on display Thursday, as tech shares led a sell-off that put a dent in the major indexes.

On June 14, the Federal Reserve raised short-term interest rates for the second time this year, a move that was widely expected. But more ominously for stock investors, the Fed also said it would reduce its $4.2 trillion balance sheet and taper its purchases of longer-term government bonds (though it didn't say how fast), bringing to an end the quantitative easing it undertook after the financial crisis. And the prospect that European central banks might join in the tightening has sent **bond prices** lower.

And then there's Mr. Trump himself, whose unpredictability and erratic behavior still have the potential to rattle markets.

So I asked some prominent investors and market analysts whether they were pulling back from stocks, and how they viewed these latest developments.

A Crack in the Faang Stocks

After some of the Faang stocks plunged over 3 percent on June 9, Goldman Sachs compared them to the leading stocks of the tech bubble. But by the end of the month they'd recovered and were again approaching all-time highs.

There's no question that these market darlings, which together have accounted for a disproportionate percentage of the market's gains, are expensive, and getting more so. Price-to-earnings ratios range from 38 (Facebook) to 184 (Amazon). Their market caps are so huge they dominate the indexes. They show up not only in so-called growth funds, but also in value and low-**volatility** funds. Should they embark on a sustained plunge, a **bear market** could quickly follow.

The tremor in June was "a warning shot across the bow," said Bill Smead, the founder of Smead Capital Management in Seattle. The Faang stocks "are showing all the classic signs of being overcooked," he added. "What magazine hasn't had Jeff Bezos or Mark Zuckerberg on the cover? There's no question this can end very badly. But the market can stay irrational for a very long time. My sense is that there's one big blowout rally left in these stocks."

Mr. Stack noted that the Faang stocks had brief sell-offs last June and October, only to rebound. Still, he said, "the Faang stocks will be among the hardest hit in the next **bear market** due to the amount of money that flowed into them and the high expectations that have driven them higher."

But like Mr. Smead, he doesn't expect that to be imminent. "We're not buying them, but we're not necessarily saying sell," Mr. Stack said. He urged investors to rebalance portfolios that have become too heavily weighted in these stocks.

A Tightening Federal Reserve

Everyone I interviewed agreed that the Fed is the most likely catalyst for the next **bear market**, but that may still be years away.

"Historically it's difficult to find a **bear market** that wasn't triggered to some extent by the Fed," Mr. Smead said. "But I don't think unwinding the long bond position as gradually as they're going to will have a significant impact. What would have an impact is if the Fed is forced to raise rates faster than everyone anticipates. The Fed has prepared investors for one more rate hike this year. That's where the potential surprise could come. If we see two or three by year's end, we're going to see definite headwinds and maybe a market top of some significance."

Mr. Kelly said the Fed had plenty of room to maneuver before stocks start to be affected. "We just had a once-in-70-year crisis that left very long scars. Businesses basically didn't invest for eight years. In tightening, the Fed is acknowledging that a monetary policy built on a very fragile economic backdrop is no longer appropriate. But we're just getting to the point now where people are crawling out of their shells and we're seeing more normal economic activity."

Mr. Kelly said bull markets typically last another three to four years after such a point in the economic cycle, and can even go another eight or nine. "Bull markets die from excess, not old age," he said.

Mr. Smead agreed. "There's no question we're getting closer to normal rates," he said. "That will be difficult for the **stock market** when it happens. People will be less willing to be adventurous. But that's still years away."

Over at InvesTech Research, "we're still quite **bullish**," Mr. Stack said. "We're not increasing cash reserves. We are rebalancing towards more defensive and out-of-favor sectors, like consumer staples and health care."

'I Wouldn't Call It a Trump Rally'

"The risks don't lie with potential charges of obstruction of justice or even impeachment," Mr. Stack said. "For political mayhem to upset the economic apple cart, it has to irreparably damage confidence at the consumer and business level. So far we don't see that happening. Consumer confidence and consumer sentiment measures are at 16-year highs, and C.E.O. confidence in April was the highest since 2004."

Nor have investors given up hope that a Republican Congress will still deliver business-friendly corporate tax reform and a pro-growth overhaul of the tax code, despite the president's troubles.

At the same time, "Trump shouldn't be looking to the market for vindication," Mr. Smead said. "I wouldn't call it a Trump rally. He's basically riding on the Obama years. "

His bottom line: "We don't pay much attention to politics, and that's been a good thing."

Traders outside the New York Stock Exchange. The **bull market** has rolled on despite a Federal Reserve clampdown and political turmoil around President Trump. (PHOTOGRAPH BY TODD HEISLER/THE NEW YORK TIMES); The New York Stock Exchange this month as Janet L. Yellen announced an interest rate increase. (PHOTOGRAPH BY DREW ANGERER/GETTY IMAGES) (B3)

Document NYTF000020170630ed6u0006n

The New York Times

Business/Financial Desk; SECTB
Fear of an End to Easy Money Prompts Sell-Off

By LANDON THOMAS Jr.
932 words
30 June 2017
The New York Times
NYTF
Late Edition - Final
1
English

Fears that central banks would unwind years of easy money policies rattled global markets on Thursday, prompting a sharp sell-off in European stocks and technology companies in the United States.

Since the financial crisis, central banks in the United States, Europe and Japan have injected trillions of dollars into their economies in a bid to jump-start sluggish growth and halt broader deflationary trends.

Now, with markets on a perpetual sugar high from so much stimulus, central bankers have become more forthright in signaling interest rate increases, or in paring bond-buying programs that have flooded the markets with cash.

The initial tremors were felt in European government bonds after a cautionary speech on Tuesday by Mario Draghi, the president of the European Central Bank. By Thursday, the selling had spread from the bond market to global stocks.

After European stocks slumped, the sell-off extended to United States trading, particularly in technology stocks, whose rich valuations have been questioned. The technology-laden **Nasdaq composite** index closed down 1.44 percent on Thursday.

The yield on the 10-year United States Treasury note, which was at 2.12 percent on Monday, had risen to 2.27 percent on Thursday. (Bond yields and prices move in opposite directions.)

A sign of the state of investors' nerves was an intraday spike in the index known as Wall Street's fear gauge, the VIX, which jumped 51 percent, before ending the day up 14 percent.

In his remarks, Mr. Draghi highlighted the success of European Central Bank policies in increasing jobs, spurring growth and stopping deflation.

But in calling for prudence in policy, Mr. Draghi -- who, more than any other central banker, is known for his judicious choice of words -- sparked an immediate sell-off in European government bonds as investors interpreted his use of the word "prudence" as a stepping away from the bank's commitment to keep buying European government bonds.

Taken aback by the rout, central bank officials quickly said that the speech should not be seen as a statement by Mr. Draghi that he would tighten policy immediately, but investors paid them little heed.

"Central bankers are saying that economies are doing well enough and conditions are loose enough that we do not need to press the pedal to the metal anymore," said Michel Del Buono, global strategist for Makena, an investment firm that caters to foundations and endowments. "But many investors are still thinking that they will be doing the maximum forever."

It is not just the European Central Bank that has, fairly abruptly, signaled a change in direction.

Mark Carney, the governor of the Bank of England, another central banker known for dovish sympathies, said in a speech on Tuesday that an increase in rates might be in order just a month after he indicated that interest rates would remain low.

The pound and the yield on the British 10-year note surged afterward.

The swift sell-off in European stocks and bonds recalled the so-called taper tantrum in 2013, when the Federal Reserve first said it would begin to taper its policy of buying mortgages and other securities in an attempt to stimulate the economy.

Even though an actual rate increase was years away, stocks and bonds in emerging markets, long dependent on interest-rate sensitive capital flows, fell sharply in what would become a three-year **bear market** for the asset class.

That Mr. Draghi and Mr. Carney moved so quickly to signal this new approach has prompted analysts to speculate that there may be some form of coordination among central bankers to warn investors who have benefited from the liquidity boom.

Stock markets in the United States have hit highs and, for quite awhile, the interest rates on trillions of dollars' worth of European government bonds dipped into negative territory as global investors piled into these securities, confident that the central bank would continue to buy.

In the last few weeks, some officials from the Federal Reserve have warned about overheated **financial markets**.

On Tuesday, for example, Janet L. Yellen, the Fed chairwoman, described **stock market** valuations as being ''somewhat rich.'' Her language did not carry the punch of ''irrational exuberance,'' Alan Greenspan's phrase to refer to a runaway **stock market** in the late 1990s.

Nevertheless it did send a clear signal to many investors that the Fed, even though it has no official mandate to guide or influence **financial markets**, is watching for potential bubbles. And that, perhaps, it will consider overvalued stock and bond markets when weighing its next rate increase.

So in that sense, some analysts say, central bankers' recent turn to a more conservative approach should not be seen as a surprise.

On Thursday, stocks in Paris fell 1.9 percent, while Frankfurt shares ended 1.8 percent lower. The iShares EZU exchange traded fund, a $9 billion fund that follows a broad basket of stocks in the eurozone, closed the day down 1.4 percent.

In the United States, the benchmark **Standard & Poor**'**s 500**-**stockindex** ended down 0.86 percent -- having recovered lost ground late in the day. The slump came even amid gains in big banks, which, having passed the Federal Reserve's annual stress tests, announced they would pay their shareholders the largest dividends in nearly a decade.

Of the **Dow Jonesindustrial average**'s 30 members, only Goldman Sachs (up 0.9 percent) and JPMorgan Chase (up 1.48 percent) were positive for the day.

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THE WALL STREET JOURNAL.
U.S. EDITION

Banks Boost Payouts After Passing Tests --- In turning point for industry, Fed sanctions large increase in dividends, buybacks

By Liz Hoffman and Ryan Tracy
1,068 words
29 June 2017
The Wall Street Journal
J
A1
English

Big U.S. banks plan to increase dividend payouts and share buybacks to their highest levels in years after the Federal Reserve on Wednesday approved capital plans for all 34 firms taking part in its annual stress tests.

The approvals -- the first time since the annual tests began in 2011 that all firms got passing grades -- reflect a turning point for big financial institutions that have been shackled by tighter regulation since the financial crisis. They could also herald a return to precrisis days when banks were reliable dividend payers and shareholders flocked to them.

Bank of America Corp., for example, said that it would increase its dividend by 60% to 12 cents a share per quarter, putting it above a threshold where Warren Buffett's Berkshire Hathaway Inc. may convert a stake in the firm into common stock and become the bank's largest shareholder. The second-biggest U.S. bank by assets also said it received approval to repurchase up to $12.9 billion of its shares, far above the $7.7 billion it bought back over the previous year.

On average, the group of firms taking part in the stress tests requested payouts that are near 100% of their expected earnings over the next year, up from 65% last year, senior Fed officials said. That means banks in some cases will be able to start whittling away at capital buffers that many bank executives say are well in excess of what is needed to absorb potential losses.

Such moves signal an easing of the Fed's hardline stance toward banks since the crisis and could provide a durable pillar of support for higher bank stock prices. Those soared following President Donald Trump's election but largely have treaded water so far in 2017 amid lackluster economic indicators, political defeats for the White House and a flattening yield curve that threatens to weigh on bank profits.

The KBW **Nasdaq** Bank index is up 2.8% year to date versus an 8.9% gain for the **S&P 500**. That said, bank stocks are still well ahead of the broader market when measured from November's election. Big-bank shares rose in many cases more than 1% in after-hours trading Wednesday, while some, like Citigroup Inc., were up more than 2%.

The payouts announced by banks Wednesday were in many cases above investor expectations. Citigroup, for instance, said it planned to return $18.9 billion to shareholders over the coming four quarters. That is equal to 132% of what Wall Street analysts expect the bank to earn over the same period. Analysts had expected the bank's payout ratio would be around 110%.

Morgan Stanley and Alabama-based Regions Financial Corp. were also among those that were approved for payout ratios in excess of 100%, according to FactSet estimates and Wall Street Journal reviews of corporate filings.

"The absolute minimum is there won't be increased capital in these businesses," Morgan Stanley Chief Executive James Gorman said earlier this month. "There shouldn't be and there won't be."

Morgan Stanley, Goldman Sachs Group Inc. and State Street Corp. cleared one of the Fed's yardsticks by just tenths of a percentage point, suggesting they have gotten more adept at figuring out how to squeak through the tests.

The latest result was the second part of the Fed's test results. In the first leg, released last week, the Fed said all big U.S. banks were able to survive a hypothetical recession.

Fed governor Jerome Powell said the stress-test process, now in its seventh year, "has motivated all of the largest banks to achieve healthy capital levels."

Born of the financial meltdown, the stress tests have come to command bankers' and investors' attention. Executives manage with the tests in mind and have collectively spent billions of dollars to develop risk-management systems to meet the Fed's expectations.

This year's passing grades suggest that those efforts have paid off. Banks today are better capitalized and more conservatively managed than before the financial crisis and have better insight into risks lurking in their own books.

J.P. Morgan Chase & Co., the nation's biggest bank by assets, was approved for a 12% increase to its dividend and a $19.4 billion buyback program. CEO James Dimon said the bank was "pleased to further increase capital returns to our shareholders while continuing to invest in our businesses."

In a nod to progress at banks, the Fed has made changes to the exams. This year, only 13 of the biggest, most complex banks faced a qualitative exam of their risk-management abilities. Others, such as the U.S. arm of Spain's Banco Santander SA, had to pass only a numerical assessment.

The results had some banks breathing sighs of relief. At Santander, the U.S. chief executive said he planned to hold a champagne toast in the boardroom after the Fed approved its capital plan. The bank had failed the tests the previous three years.

Wells Fargo & Co.'s approval, too, is a sorely needed win for the bank, which has been in the spotlight for months over a sales-practices scandal. Some analysts had predicted that the Fed might flunk Wells Fargo on "qualitative" grounds even if it passed the numerical part of the exam.

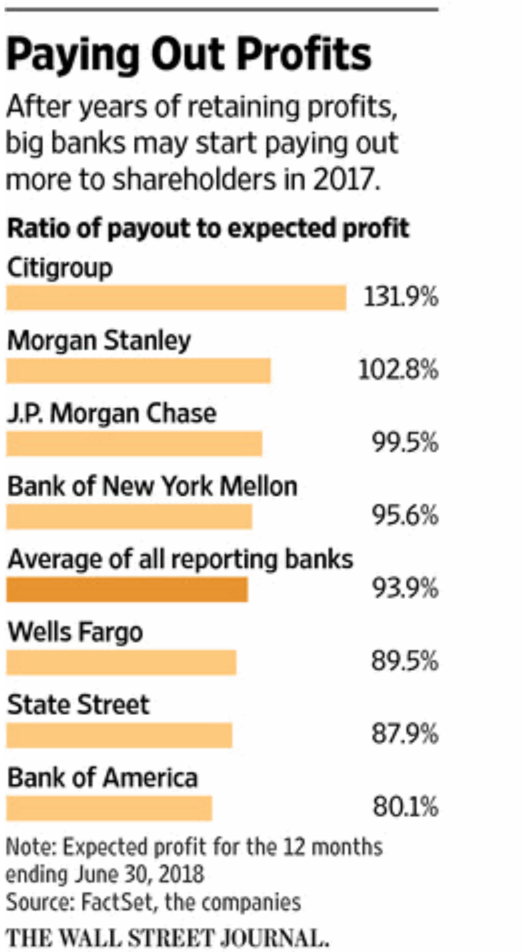
Wells Fargo Chief Financial Officer John Shrewsberry said this spring that the bank was "very self-aware" of that risk and that it had "sized our [capital-return] ask appropriately."

The Fed said the largest and most complex firms, however, still have work to do in maintaining accurate data and identifying risks in new products.

One spot hit hard this year was credit cards. Credit-card defaults are rising after years in record-low territory and were a chief focus of Fed officials who designed this year's tests. Last week's results forecast $100 billion of credit-card losses in a severe downturn across the industry.

Two of the largest stand-alone card issuers, Capital One Financial Corp. and American Express Co., revised their payout requests downward after receiving the results of the stress test's first part last week.

Christina Rexrode contributed to this article.



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THE WALL STREET JOURNAL.
U.S. EDITION

ETF Buyers Propel Stock Market's Surge --- The funds are on pace to top purchases for 2015-2016 combined; some warnings raised

By Chris Dieterich
1,006 words
29 June 2017
The Wall Street Journal
J
B12
English

Booming demand for passive investments is making exchange-traded funds an increasingly crucial driver of share prices, helping to extend the long U.S. stock rally even as valuations become richer and other large buyers pare back.

ETFs bought $98 billion in U.S. stocks during the first three months of this year, on pace to surpass their total purchases for 2015 and 2016 combined, according to the Federal Reserve Board's most recent quarterly tally of U.S. financial accounts.

These funds owned nearly 6% of the U.S. stock market in the first quarter -- their highest level on record -- according to an analysis of Fed data by Goldman Sachs Group Inc.

Surging demand for ETFs this year has to an unprecedented extent helped fuel the latest leg higher for the eight-year stock-market rally. The Dow Jones Industrial Average and S&P 500 are on pace for their strongest first six months of any year since 2013. The Nasdaq Composite Index is on track for its best first half since 2003.

These gains have come despite stock-market valuations hovering just below their highest levels in 13 years, based on analysts' expectations for S&P 500 earnings over the next year.

The market rally also has shrugged off many middling economic readings and the diminished expectations that the Trump administration would be able to deliver economy-boosting policies.

Some fear that stocks and other risky investments will come under selling pressure as the Federal Reserve continues to raise interest rates from historically low levels.

Some also worry that investors are likely to dump their ETFs if the market reverses course, and they note that this already has happened in a few instances.

On June 9, for example, when strong-performing technology stocks abruptly suffered their worst declines in nearly a year, trading volume in the PowerShares QQQ ETF -- which tracks the Nasdaq-100 Index -- surpassed $15 billion and the ETF fell 2.5%. A day later, the ETF experienced an outflow of $1.9 billion. Both the trading volume and withdrawal were the biggest moves in nearly a decade, according to FactSet.

ETFs haven't been the only factor pushing share prices higher, but Fed data show that ETFs are taking on a more prominent role as other buyers are showing signs of fading. A surge in corporate share repurchases helped lift the S&P 500 in recent years, analysts say, as many companies used buybacks as a way to boost per-share earnings even when profits weren't rising.

But U.S. corporate demand for stocks in the first quarter was the smallest in a year and a half, at $136 billion, according to Goldman. A separate reading showed that S&P 500 companies repurchased $133.1 billion of their own shares in the first three months of the year, down 18% from the year-earlier period, according to S&P Dow Jones Indices.

There are more than 1,800 U.S.-listed ETFs with nearly $3 trillion in assets under management, offering push-button exposure to everything from 3D-printing stocks to bonds issued by governments in emerging markets, according to data provider XTF.

More than 1,300 funds and $2.3 trillion are linked to stocks, while another 302 funds and $500 billion are tied to bonds.

Actively managed mutual funds, run by stock pickers who choose shares based on business prospects and valuations, have become sellers recently to meet redemption requests. These funds had $985 billion in withdrawals since the start of 2009 through May, according to Morningstar.

Mutual-fund ownership of the U.S. **equity market** in the first quarter fell to 24%, the lowest since 2004, according to Goldman.

The rising popularity of funds that track indexes is providing a broad-based support for the market this year. Investors' preference for ETFs is steadily boosting how much these funds control big U.S. companies.

U.S. ETFs held 5.4% of Apple Inc.'s shares as of May, compared with 3.7% five years ago, according to XTF data. They held 5.8% of Microsoft Corp.'s shares, up from 4%.

"There's this rising tide of buying that tends to drive the day-to-day action," said Michael O'Rourke, chief market strategist at JonesTrading Institutional Services LLC. "The market structure has definitely changed."

The rise of passive index-tracking funds has been decades in the making, bolstered by evidence that active stock pickers struggle to consistently beat broad market funds.

Still, some analysts warn that the rise of ETFs threatens to separate the market from underlying fundamentals because these passive investments buy an index, rather than focusing on stocks that are undervalued or benefiting from faster growth, as active managers do.

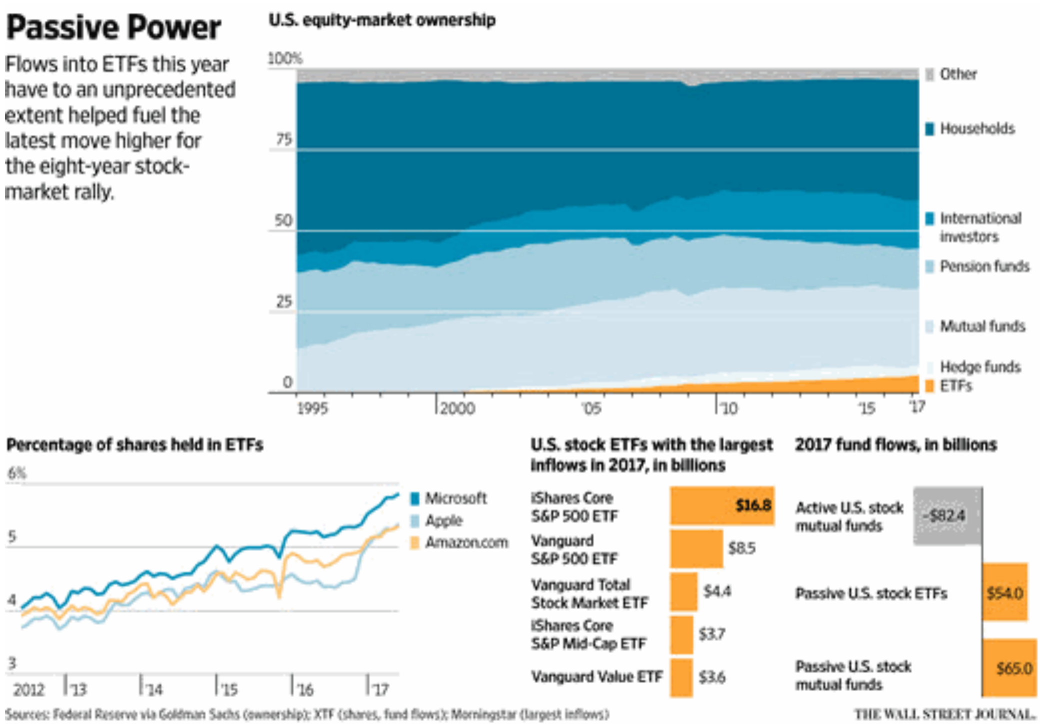
"As people pile in, it can make that entire market expensive," said Lance Humphrey, a portfolio manager at USAA Asset Management Co., who has accumulated about $5.5 billion in ETFs in recent years.

Many investors say the test will come once multiple central banks pare back their stimulus efforts, which have suppressed interest rates to near historic lows and made stocks more appealing. The worry is that policy shifts could trigger bouts of **volatility** and prompt investors to take money out of ETFs.

The Federal Reserve has raised interest rates twice so far in 2017 and said in its policy meeting earlier this month that it expects to boost rates again by year-end. The Fed also plans to unwind its $4.5 trillion balance sheet, which has helped push investors into risky assets.

European Central Bank President Mario Draghi hinted on Tuesday that the central bank could also begin to dismantle its stimulus efforts.

"By next year, investors might not have monetary policy on their side," said Mr. O'Rourke. "The risk is blind buyers turn to blind sellers."



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THE WALL STREET JOURNAL.
U.S. EDITION

Signals on Stimulus Roil Global Markets

By Tom Fairless in Sintra, Portugal, Paul Vieira in Ottawa and Christopher Whittall in London
919 words
29 June 2017
The Wall Street Journal
J
A1
English

Easy money unleashed by global central banks is receding, a development that could test a range of assets -- from stocks to real estate -- that have become tightly linked to monetary support since the global financial crisis.

Top European Central Bank officials left investors with mixed impressions over the past two days about when the ECB would reel in its 2.3 trillion euro ($2.6 trillion) bond-buying program, and the chiefs of the Bank of England and the Bank of Canada both suggested they'd be reducing stimulus.

The euro plunged against the dollar on Wednesday, then recovered. The pound and the Canadian dollar leapt. Yields on U.K. government bonds shot up. Yields on Treasurys and other bonds also moved higher.

When and how much Western central banks pull back from their unprecedented run of ultralow interest rates and large-scale asset purchase programs, known as quantitative easing, are the foremost questions for global investors.

The prospect of an end to stimulus has lurked in the background for months but has zoomed to the fore now that signs of an economic recovery are beginning to appear in regions, especially Europe, that have struggled to shake off the aftereffects of the global financial crisis.

An end to the ECB's bond buying "is probably the most important supply-demand change that we can foresee in bond markets," said Tim Haywood, investment director for fixed income at Swiss money manager GAM.

Global bond markets have been strongly interconnected, and U.S. government bonds closely tracked moves in Europe on Wednesday. The yield on the **10**-**year Treasury** note rose to 2.223%. Higher yields on European government bonds make U.S. government bonds less attractive to overseas investors, who have been buying up Treasurys in search of better returns than what they can get at home.

Investors had been selling government bonds and buying the euro since Tuesday, when ECB President Mario Draghi's comments, delivered at an ECB conference in Sintra, Portugal, on a "strengthening and broadening" economic recovery were interpreted as a sign the central bank was preparing to trim its massive bond buying.

But those moves briefly reversed on Wednesday. In an interview on CNBC, Vitor Constancio, the ECB's vice president, suggested investors might have overreacted to Mr. Draghi's comments. An ECB spokesman declined to comment. The euro, which had neared $1.14 earlier in the day, dropped below $1.13.

Then Mr. Draghi, speaking again at the ECB conference, repeated his positive outlook for the eurozone economy. By the early evening in London, the euro was at $1.1375, up 0.3% on the day.

"Central banks are stumbling here and losing a bit of credibility with mixed communications, whether that's in Europe or the U.K.," said Jon Jonsson, a senior portfolio manager at Neuberger Berman.

Bank of Canada Gov. Stephen Poloz joined the fray Wednesday, noting in a television interview in Portugal that excess slack in the Canadian economy is being absorbed "steadily" at the current pace of growth, a comment investors took as evidence the Canadian central bank could raise short-term interest rates as early as next month.

Together, the policy makers' comments highlight a readiness to start moving away from the extraordinary measures -- including interest rates pushed to zero and below and large-scale asset-buying programs -- employed since the crisis to revive their battered economies.

At the same time, many central bankers face a policy dilemma. Falling unemployment normally justifies higher interest rates to prevent their economies and asset prices from overheating, but still-muted inflation calls for continued stimulus measures to ensure it doesn't drift lower.

Officials at the Fed, the ECB and BOE are actively debating whether they might be withdrawing support too soon, or too late.

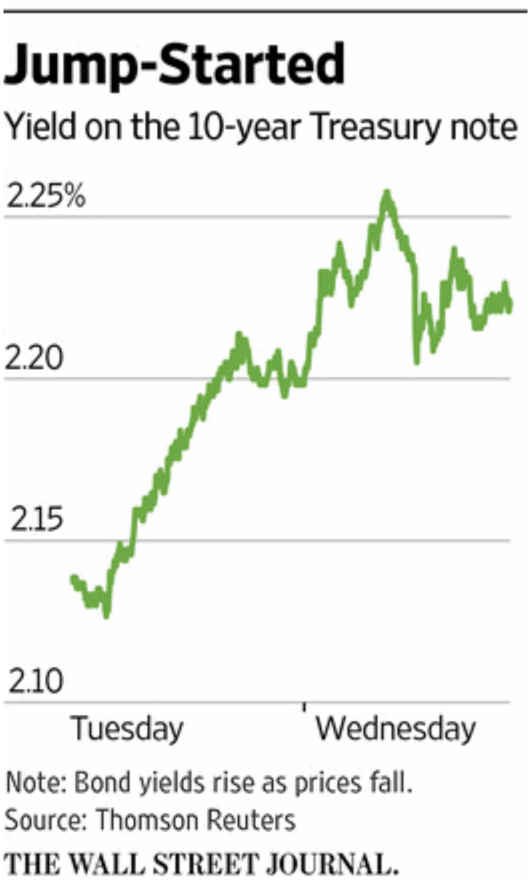
A range of factors are suggesting a shift away from easy money may be in the offing. As financial crises recede and economic growth proceeds steadily, central bankers see slack in their economies disappearing. That raises the potential for inflation to pick up after running below their targets for several recent years.

Mr. Draghi's remarks follow a run of strong eurozone economic data this year. Growth has firmed, unemployment has fallen, and business and consumer confidence is at highs not seen since before the financial crisis. Lending to households in the eurozone grew at a faster pace in May while lending to firms held steady, the ECB reported Wednesday.

Mr. Poloz said Canada's growth would proceed at a "more normal pace but still above potential. That's the important thing. That means that we're absorbing excess capacity that was built up in the wake of the crisis and then built up again in the wake of the oil shock two years ago."

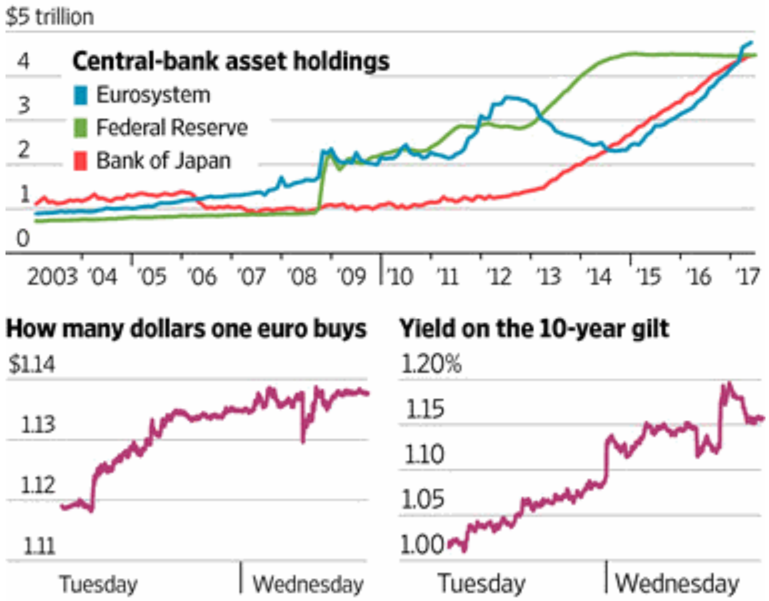
This is the Fed's calculation, too. With the U.S. jobless rate down to 4.3%, the Fed is expected to raise short-term rates one more time this year and start shrinking its bond portfolio.

Some government officials in Europe are growing concerned about the side effects of years of easy money. In Germany, Europe's largest economy, senior officials have complained for years that low interest rates harm savers and pensioners. The nation's central bank has warned that house prices may be overvalued by as much as 30%.



Biggest Buyers in Town

Global government bonds and currencies have fluctuated this week as investors parse signals from central banks about when they could scale back stimulus measures.



Note: Charts are in EDT. Bond yields rise as prices fall.
Sources: Federal Reserve; European Central Bank; Bank of Japan (assets); Thomson Reuters (currency, yield)

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Heard on the Street
Wake-Up Call Comes for Investors

By Richard Barley
468 words
29 June 2017
The Wall Street Journal
J
B12
English

[Financial Analysis and Commentary]

Sometimes **financial markets** are surprisingly bad at connecting the dots -- until they can't ignore the picture forming before their eyes. The screeching U-turn in bond markets is a good example. The world's central banks are sending out a message that loose monetary policy can't last forever.

The shift is mainly rhetorical, and action may yet be some way off. But expectations matter, as they did when the Federal Reserve indicated in 2013 that its quantitative-easing program could be wound down. That caused global bond yields to surge and sparked extended turmoil in emerging markets.

This time, the bond reversal has been centered on Europe. Ten-year German bund yields started Tuesday just below 0.25%, but by Wednesday afternoon stood at 0.363%. That helped lift bond yields elsewhere, since low German yields have been acting as an anchor. The selloff in the bund Tuesday was the worst in 22 months, according to Deutsche Bank.

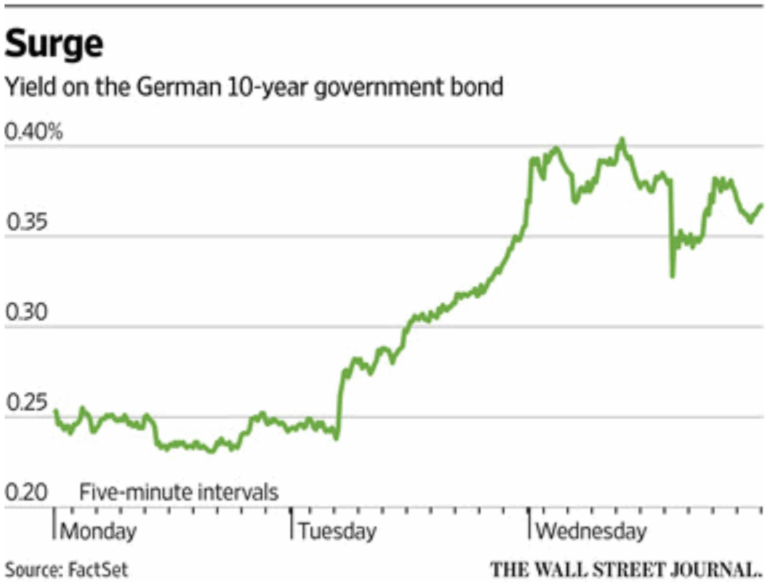
The immediate trigger was a speech from European Central Bank President Mario Draghi arguing that as the eurozone recovery progresses, keeping policy unchanged would be a form of monetary loosening. Instead, the central bank could "adjust the parameters of its policy instruments." In more straightforward terms, ultrastimulative policy measures are set to be reined in, though Mr. Draghi emphasized that this would be a careful, gradual process. If they can, central bankers are likely to want to avoid a rerun of the "taper tantrum."

What is surprising is that markets are surprised by this shift. The tone from global central banks has been growing steadily more confident. The Fed has raised rates and is talking about shrinking its balance sheet, and has shown little sign of stepping back.

The ECB has sounded more encouraged by a broadening eurozone recovery, and there has been a good deal of debate about its exit strategy. And the design of the ECB's bond-purchase program, which includes limits on the amount of government securities it can buy, means it is hard to avoid winding down stimulus.

Meanwhile, the Bank of England has shifted toward tightening policy, too. Gov. Mark Carney added a fresh dash of **volatility** to markets Wednesday by hinting that a rate rise may become necessary if the economy keeps growing. The pound and gilt yields jumped in response.

This could be a significant moment for markets. In the first half of 2017, worries about complacency have grown, with bonds and stocks putting in good performances. That doesn't appear to be sustainable. If central banks stick to the message they have been sending, then the second half of the year may not be such a smooth ride.



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THE WALL STREET JOURNAL.
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A Bond-Investing Conundrum Returns --- Concerns arise that Fed moves might hurt the economy or affect asset-allocation plans

By Min Zeng
756 words
28 June 2017
The Wall Street Journal
J
B16
English

The U.S. bond market is defying the Federal Reserve again.

The central bank has raised short-term interest rates four times beginning in December 2015 and pushed up the key policy rate by one percentage point. Yet the yield on the benchmark **10-year Treasury** note settled at 2.198% on Tuesday, below the 2.269% where it settled before the Fed's first rate increase since 2006. Yields fall as **bond prices** rise.

The tension reminds some investors of the "conundrum" described by Alan Greenspan, then Fed chairman, in February 2005. Mr. Greenspan was puzzled by long-term Treasury yields that were ticking lower despite increases in the federal-funds target rate.

"I think it's part of the same conundrum, maybe just a bond-market conundrum redux," said Michael Collins, senior portfolio manager at PGIM Fixed Income.

Resolving that quandary is key to investors and Fed policy makers because of concerns the central bank's moves to normalize interest rates could dent the economic expansion, already the third longest in U.S. history. Some worry it could also affect asset-allocation strategies at a time when many are concerned that stock valuations could be stretched.

If low interest rates push investors into excessive risk-taking, the Fed may need to tighten monetary policy more drastically, a scenario that could cause a sharp pullback in stocks and other riskier assets and raise the threat of a U.S. recession, some investors said.

Recently, Eric Rosengren, president of the Federal Reserve Bank of Boston, said that the era of low rates in the U.S. and elsewhere poses financial-stability risks. And Fed Vice Chairman Stanley Fischer said the world "cannot afford another pair of crises of the magnitude of the Great Recession and the global financial crisis."

Fed officials don't want to see a sharp rise in bond yields either, some analysts said. The **10-year Treasury** yield is a benchmark for global finance, so a big rise would push up long-term borrowing costs for consumers and businesses and tighten financial conditions sharply, a scenario central bankers are trying to avoid, several said.

The Fed's conundrum is partly a result of investors' confusion about how to respond to the central bank's plans, which also include paring back its large balance sheet later this year.

Yields have risen on short-term government debt, which is more sensitive to the central bank's policy outlook. But yields on long-term debt are influenced by a variety of factors, including the economic and inflation outlook in both the U.S. and abroad.

In previous tightening cycles, a popular trade was to sell short-term debt and put money into long-term bonds, betting on the gap between the two yields to fall, which is known as a flattening yield curve. The **10-year Treasury**'s premium relative to the two-year note is trading near the lowest level since 2007.

But some investors are concerned that this trade may be getting crowded and could be vulnerable to a reversal if the Fed surprises investors with an aggressive approach in unwinding its balance sheet.

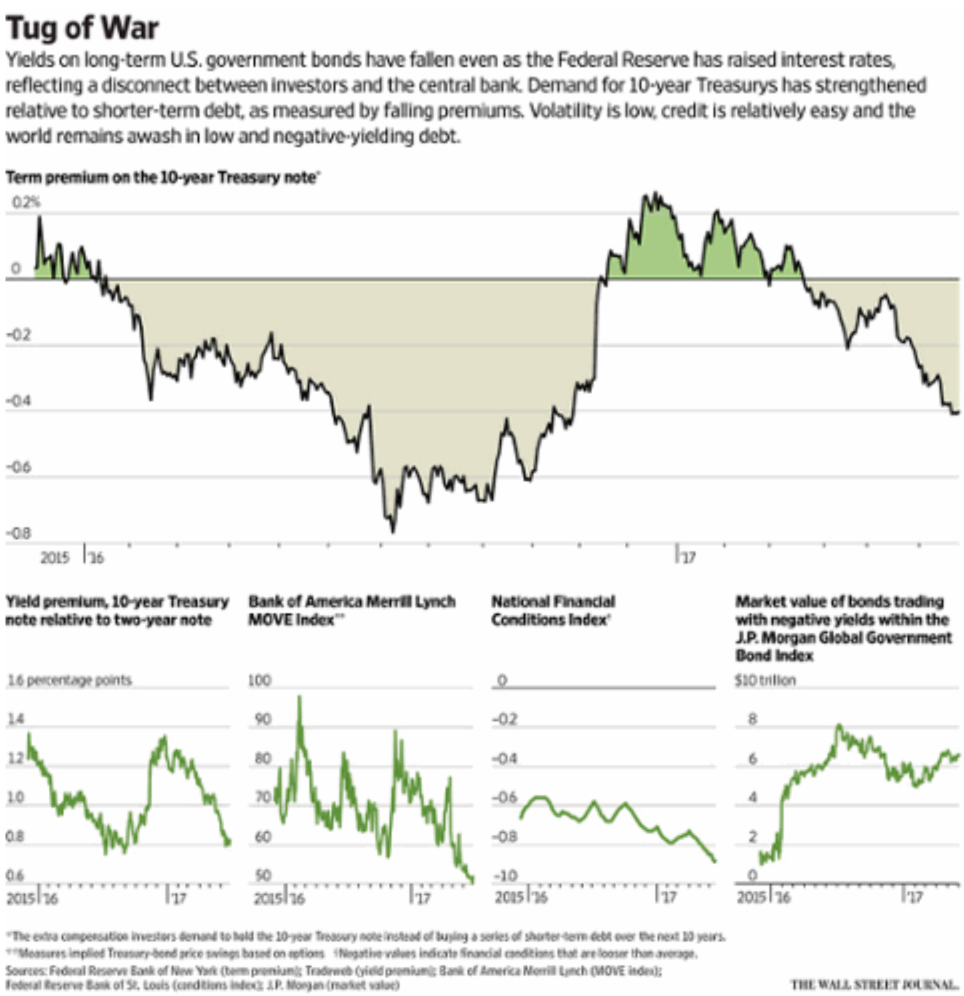
That balance-sheet reduction could push up the term premium for the 10-year note, say some analysts and investors. The term premium is the extra compensation investors demand to hold the **10-year Treasury** note instead of buying a series of shorter-term debt over the next 10 years.

The premium has fallen below zero since March, a sign of heightened demand for the 10-year note. The premium traded at around negative 0.4% on June 23, according to the latest data from the New York Fed's website, near a record low of negative 0.77% in July 2016, when the 10-year yield closed at a record low of 1.366%.

Some money managers said the Fed's slow and cautious approach could reduce the chances of a repeat of the 2013 "taper tantrum," when the bond market was spooked by then Fed Chairman Ben Bernanke's comment over a possible cut in bond purchases.

Several said they planned to wait for the actual implementation of the Fed's balance-sheet reduction before making wagers on the yield curve.

"The old playbook may not work," said Jason Evans, co-founder of hedge fund NineAlpha Capital LP.



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THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
If You Think Stocks Are Dull, Look at the Economy

By Justin Lahart
475 words
28 June 2017
The Wall Street Journal
J
B1
English

[Financial Analysis and Commentary]

Volatility has disappeared from the **stock market**. One simple reason is that the economy has never looked so calm.

Stocks are having one of their quietest periods in history, despite the unsettled politics and uncertain direction of policy both in the U.S. and abroad. The average daily swing in **S&P 500** in the soon-to-be-completed second quarter has been 0.3 percentage point, the lowest in more than half a century.

One factor underpinning the lack of **volatility** in stocks is that economic **volatility**, both in the U.S. and abroad, is extraordinarily low. The risk is that after a long period of not getting blindsided by the economy, investors may be too complacent.

Over the past three years, the standard deviation of the annualized change in U.S. gross domestic product -- how far it has tended to swing each quarter from its underlying trend -- is just 1.5 percentage points, or about as low as it has ever been. It is a trend that is being matched elsewhere, with global GDP exhibiting the lowest **volatility** in history.

A portion of the decline in GDP **volatility**, both in the U.S. and globally, probably stems from slower economic growth. But other economic measures that aren't all that low relative to history, such as U.S. jobs growth and corporate profits, also are exhibiting low **volatility**. So there are other factors at work.

Some are longstanding. Government spending isn't as lumpy as it used to be. The service sector, which is inherently less choppy than manufacturing, counts for more of the economy. Technology has given businesses better insight into inventory levels, reducing the risk of getting caught with a pile of unsold goods.

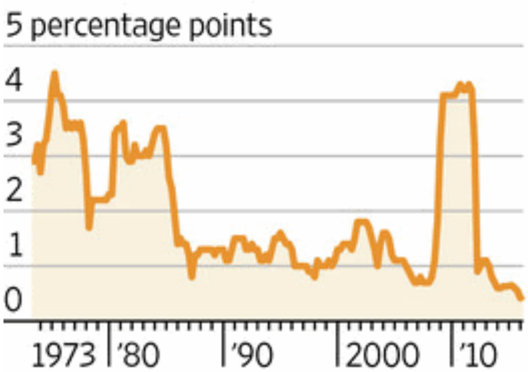
In the years since the financial crisis, the Federal Reserve and other central banks have acted like the overprotective parents of a toddler, rushing in whenever the economy looked as if it might stumble. That risk-averse behavior has extended to businesses, making them unwilling to take chances. Housing activity has been consistently soft throughout the recovery.

Globally, economic **volatility** has been muted not only because individual economies are shaking less, but because they have become less correlated with one another, points out J.P. Morgan economist Joseph Lupton. Like a diversified portfolio, they are offsetting each other, bringing overall **volatility** lower.

For investors, low economic **volatility** is a good thing, because they get hit by fewer surprises. But it also can lure them into complacency and leave them more vulnerable when things bounce around again. Indeed, the economy was unusually placid right before both the dot-com bust in 2000 and the financial crisis in 2008. That changed in a heartbeat.

A World of Calm

Three-year rolling standard deviation of the annualized quarterly change in global gross domestic product



Source: J.P. Morgan

THE WALL STREET JOURNAL.

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Document J000000020170628ed6s00019

The New York Times

Business/Financial Desk; SECTB
Tech and Utilities Plunge, Dragging Market Down

By THE ASSOCIATED PRESS
653 words
28 June 2017
The New York Times
NYTF
Late Edition - Final
2
English

Technology stocks led a broad slide in the markets on Tuesday after a day of choppy trading.

Phone and utilities companies were among the big decliners after a sell-off in bonds sent yields sharply higher. Banks bucked the broader market decline amid heightened expectations of rising interest rates. **Oil prices** rose for the fourth-straight day.

Late-afternoon developments in Washington helped put investors in a selling mood. Republican leaders in the Senate decided to delay a vote on a health care overhaul bill until after the July 4 recess.

''The delay of the health care vote added to a little bit of the uneasiness going into the quarter end here,'' said Sean Lynch, co-head of global equity strategy at the Wells Fargo Investment Institute. ''It's just worries that some of this political noise can complicate the chance of possible tax reform, health care reform and other policy measures that could boost the economy.''

The **Standard & Poor**'**s 500**-**stockindex** fell by 19.69 points, or 0.8 percent, to close at 2,419.38. The **Dow Jonesindustrial average** slid 98.89 points, or 0.5 percent, to close at 21,310.66; and the **Nasdaq composite** lost 100.53 points, or 1.6 percent, to close at 6,146.62.

Bond prices fell. The **10**-**year Treasury** yield rose to 2.20 percent from 2.14 percent on Monday.

The bond sell-off started early Tuesday as investors reacted to remarks from the European Central Bank president, Mario Draghi, who expressed optimism over the future of the economy of the 19-country eurozone. Mr. Draghi did not say the central bank was ready to rein in its stimulus measures, but investors took his remarks as a hint that a change of policy could be coming in the next few months.

European stock markets closed lower as the euro surged following Mr. Draghi's remarks. The DAX in Germany fell 0.8 percent, while the CAC in France 40 slid 0.7 percent. The FTSE 100 of leading British shares shed 0.2 percent.

The dollar rose to 112.15 yen from 111.85 yen on Monday. The euro strengthened to $1.1347 from $1.118.

Investors also weighed new data on United States home prices and consumer confidence. The S.&P.'s CoreLogic Case-Shiller 20-city home price index shows prices climbed 5.7 percent nationwide in April. The latest gain follows price increases of 5.9 percent in March and February. Separately, the Conference Board reported that its consumer confidence index rose to 118.9 this month from 117.6 in May.

Technology companies were among the biggest decliners on Tuesday. Alphabet, Google's parent company, slid 2.5 percent after the European Union hit Google with a $2.7 billion fine. The European Union said that the company had breached antitrust rules with its online shopping service. Alphabet said it was considering an appeal; its shares fell $24 to $948.09.

Sprint gained 2.1 percent after a Wall Street Journal report suggesting the mobile phone company was in partnership talks with Charter Communications and Comcast Corporation. Sprint picked up 17 cents to $8.18. Comcast slid 34 cents, or about 1 percent, to $39.25, while Charter lost $2.78, or 0.8 percent, to $329.87.

Oil and gas futures notched gains on Tuesday. Benchmark United States crude gained 86 cents, or 2 percent, to settle at $44.24 a barrel in New York. Brent, the international standard, added 82 cents, or 1.8 percent, to close at $46.65 a barrel in London.

Gold inched up 10 cents to settle at $1,246.40 ounce.

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

Document NYTF000020170628ed6s00056

THE WALL STREET JOURNAL.
U.S. EDITION

Calm Markets Inspire Fears Storm Is Coming

By Ira Iosebashvili
895 words
27 June 2017
The Wall Street Journal
J
B1
English

Corrections & Amplifications

A Neuberger Berman money manager has been selling put options on stocks, a strategy that enables his funds to make extra income, but one that also could require a payout on the options in a market downturn. An article on Tuesday about market **volatility**, which was published on Page One in some editions and in Business & Finance in others, failed to make clear that the strategy could involve a payout.

(WSJ June 28, 2017)

(END)

Stock **volatility** is near an all-time low and corporate profits have bounced back from a year ago, but investors are increasingly moving to protect themselves from big swings in **financial markets**.

Long-term U.S. government bond yields, which move opposite to price, fell to fresh lows for this year on Monday, the latest sign of investors' skepticism about economic growth. Meanwhile, utility stocks, often a refuge for nervous investors, have rallied this year, with another move up Monday helping to lift the broader market.

Other signs of anxiety abound: A measure that shows expectations there will be a big move in Wall Street's fear gauge, the CBOE**Volatility** index or VIX, rose to an all-time high this month. The VIX -- which offers a reading on investor expectations for turbulence -- this month has been hovering near an all-time low. The cost of insuring against a drop in the **S&P 500** has climbed steadily since the beginning of the year. And currencies typically considered havens, such as the Swiss franc, have appreciated against the dollar since last month.

So far this month, investors have pulled $235 million from the two largest exchange-traded funds that profit from declining **volatility**, on track to be the biggest monthly outflow since November, according to FactSet.

The moves illustrate a bind ensnaring many investors. Stocks have soared to records this year, even as anxiety mounts over a cluster of issues that could derail the rally. Those include fears that a mistimed interest-rate increase by the Federal Reserve could dent economic growth, an accelerating drop in **oil prices** could hurt wagers on emerging markets, or China's economy could slow, with consequences beyond its borders.

Although money managers are loath to sit out a market rally, many have opted to increase their allocations to investments that would take the edge off a sharp decline in markets.

Erik Knutzen, chief investment officer for multiasset-class portfolios at Neuberger Berman, which manages $267 billion, has recently trimmed his exposure to assets that have soared in price, such as U.S. large-capitalization stocks, concerned that lofty valuations could take a hit if there's a threat to global growth. Mr. Knutzen is also selling put options on stocks, allowing him to buffer his portfolio from a decline in equities while still maintaining market exposure.

"There's a lot of anxiety about where to put money to work," he said. "We know the VIX won't stay low forever."

Some investors worry the Fed's pace of interest-rate increases will further slow a U.S. recovery that appears to have shifted into low gear. While the Fed's decision earlier this month to raise rates was widely expected, many investors were surprised that Fed Chairwoman Janet Yellen gave little weight to a series of weak inflation readings and indicated the central bank remains on track to tighten monetary policy for a third time this year.

Stocks fell an average of 7.4% in the six months after the Fed raised rates during a quarter in which GDP growth was 1.2% or below, according to data from UBS Group AG that analyzes three decades of Fed policy.

Some wariness is already apparent in the bond market, several analysts said. The yield premium investors demand to hold the benchmark 10-year U.S. Treasury note relative to the two-year note shrank this month to the smallest since September, approaching a 2007 low. A falling premium is known as a flattening yield curve and typically happens when worries rise that economic momentum is slowing.

"The bond market is already pricing in a Fed policy mistake," said David Woo, head of global interest rates and foreign exchange at Bank of America Merrill Lynch.

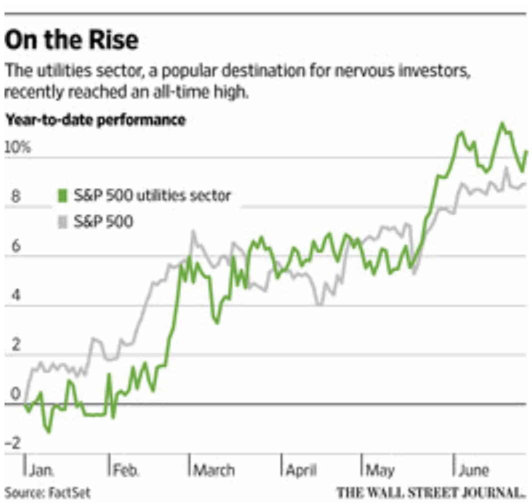
While riskier assets such as emerging markets are rising on hopes that a global recovery is sparking long absent inflation, "the bond market believes that rates will go up and inflation . . . will get crushed," Mr. Woo said.

He is also worried that a recent drop in **oil prices** will rout investors from emerging-market trades that have delivered big gains this year. The Russian ruble, which tends to move with **oil prices**, is down about 3.7% this month. Mr. Woo is advising his clients to buy the Japanese yen, a popular haven for investors during turbulent times. The yen has strengthened around 2% from its May lows against the dollar.

Timothy Graf, head of macro strategy EMEA at State Street Global Markets, which manages $2.56 trillion, is using an options strategy that would benefit if a bout of uncertainty caused sharp declines in comparatively **volatile** major currencies such as the Australian and New Zealand dollars.

A Chinese economic slowdown is clients' top concern, according to a poll his firm recently conducted. Moody's Investors Service cut China's sovereign credit rating for the first time in nearly three decades last month, even as Beijing has intensified a campaign to rein in risky investment and financing practices that pose a threat to the world's second-largest economy.

Even though risky assets have lately performed well, "there is a desire to hedge," Mr. Graf said. "Investors are trying to guess where the next crisis will come from."



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THE WALL STREET JOURNAL.
U.S. EDITION

In China, Debt Boom Is Losing Its Rumble

By Saumya Vaishampayan
489 words
27 June 2017
The Wall Street Journal
J
B11
English

A fall in the price of bonds issued by China's largest property developer last week is adding to strains in the market even as Chinese companies continue to pile up a mountain of dollar-denominated debt this year.

China Evergrande last week sold $6.6 billion in bonds, the largest issuance by an Asian high-yield company ever, according to data provider Dealogic. The company issued $3.8 billion of new debt and exchanged $2.8 billion of old bonds for new debt, paying coupons of up to 8.75%.

Still, the bonds fell sharply in their first few days of trading, and on Monday, just days after the issue, they were still trading below face value, according to Thomson Reuters data. Such a price fall is unusual for newly issued bonds, market analysts say.

Evergrande's bond deal comes on top of a dizzying amount of dollar-bond issuance by Chinese companies this year. Collectively, they have sold about $90.5 billion in dollar debt, nearly as much as the $102.8 billion issued in all of 2016, according to Dealogic. The year-to-date issuance is a record this century, based on Dealogic data.

Alongside the surge, Chinese regulators have in recent months tightened scrutiny over companies wishing to issue bonds overseas. The Wall Street Journal reported last week that China's banking regulator is checking the borrowings of some of the country's biggest overseas deal makers. The offshore bonds of many of those companies were hit hard last week, according to research firm CreditSights.

Market participants said the fall in Evergrande's bonds appeared to be mostly due to a large amount of bonds being allocated to buyers. Investors often place larger orders for new bond issues than they want to receive, because they don't expect to get the full amount of their order.

"The price reaction was predominantly because of the very large volume," said Rick Mattila, international head of market strategy at MUFG Securities Asia Ltd. in Hong Kong. "Investors ended up with more bonds than they would have perhaps liked."

Evergrande couldn't be reached for comment.

Chinese companies have turned to offshore markets for funding in recent months as Beijing takes steps to bring down the country's lofty debt levels. Rising yields in China's government-bond market have made it more expensive for Chinese companies to borrow onshore, because investors generally demand higher yields to own corporate bonds because of the risk of default.

Falling U.S. Treasury yields have made it more attractive for Chinese companies to issue U.S. dollar debt. The yield on the 10-year Chinese government bond was at 3.566% on Monday in Hong Kong, while the 10-year **U**.**S**. **Treasuryyield** settled at 2.135%, according to Thomson Reuters data.

Document J000000020170627ed6r0000p

The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
Markets Edge Higher, Led by Utilities, in Slow Trading

By THE ASSOCIATED PRESS
719 words
27 June 2017
The New York Times
NYTF
Late Edition - Final
4
English

Stock indexes closed mostly higher on Monday, snapping a four-day losing streak for the **Dow Jonesindustrial average** on a day of largely listless trading.

Utilities led the gainers as falling bond yields made high-dividend companies more attractive to investors seeking income. Phone companies and real estate investment trusts, which also tend to offer higher yields, made gains. Financial stocks also did well. Technology companies declined the most, giving up gains from a recent rally.

''It's a pretty low **volatility** day and a continuation of the trend we saw last week, which is equity markets largely treading water,'' said William Northey, chief investment officer at the private client group at U.S. Bank Wealth Management.

The **Standard & Poor's 500-stockindex** added 0.77 points, or 0.03 percent, to close at 2,493.07; the Dow gained 14.79 points, or 0.1 percent, to 21,409.55; and the **Nasdaq composite** index slid 18.10 points, or 0.3 percent, to 6,247.15. The Russell 2000 index of small-company stocks rose 1.86 points, or 0.1 percent, to 1,416.64.

The major stock indexes were headed slightly higher in early trading but spent much of the day wavering between small gains and losses.

Early on, investors received discouraging news on the economy from the Commerce Department, which reported that orders for durable goods, items meant to last at least three years, slid 1.1 percent in May. That was the second straight decline and a larger drop than analysts were expecting.

That helped pull down bond yields, which have been weighed down by increased demand from overseas bond investors seeking better yields and persistently low inflation in the United States. The yield on the **10-year Treasury** note was down to 2.12 percent on Monday before bouncing back to 2.14 percent by late afternoon.

The trend made high-dividend stocks favorite buys for many investors seeking income, including utilities such as FirstEnergy and Exelon.

FirstEnergy climbed $1.18, or 4.1 percent, to $30.09, and Exelon gained 71 cents, or 1.9 percent to $37.21.

Several real estate investment trusts also climbed. Kimco Realty rose 48 cents, or 2.7 percent, to $18.47. CBRE Group picked up $1.13, or 3.2 percent, to $36.48.

Store Capital, a real estate investment trust, jumped 11.3 percent after news that Warren E. Buffett's Berkshire Hathaway was buying a 9.8 percent stake. The stock gained $2.34 to $23.11.

Traders also bid up shares in companies undergoing leadership changes.

Pandora Media, a streaming music service, rose 2.2 percent after reports that its founder and chief executive, Tim Westergren, was stepping down. The stock picked up 18 cents to $8.46.

Supervalu, a grocery chain, gained 3.1 percent after it said Bruce Besanko would step down as chief financial officer. The stock climbed 9 cents to $3.03.

Arconic Manufacturing was the biggest decliner in the **S**.**&P**. **500**, slumping 6 percent after a published report asserted that it knowingly supplied flammable panels for London's Grenfell Tower, where a fire on June 14 left 79 people dead or missing. Arconic slid $1.53 to $24.01.

Crude **oil prices** recovered after wavering in early trading. Benchmark United States crude rose 37 cents, or 0.9 percent, to settle at $43.38 a barrel in New York. Brent, the international standard, gained 29 cents, or 0.6 percent, to close at $45.83 a barrel in London. **Oil prices** hit their lowest point last week since August and are 15 percent below where they were a year ago.

Gold fell $10 to settle at $1,246.30 an ounce. Silver slid 8 cents to $16.57 an ounce, and copper was little changed at $2.63 a pound.

The dollar rose to 111.89 yen from 111.26 yen late Friday. The euro weakened to $1.1181 from $1.1199.

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)

Document NYTF000020170627ed6r0005h

THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Orders for Durable Goods Fall Again

By Ben Leubsdorf
375 words
27 June 2017
The Wall Street Journal
J
A2
English

Demand for long-lasting factory goods declined in May for the second straight month, driven by a pullback in airplane orders, while the U.S. manufacturing sector continues to find its footing.

Orders for durable goods -- products designed to last at least three years, such as jet planes and industrial robots -- decreased 1.1% from April to a seasonally adjusted $228.18 billion in May, the Commerce Department said Monday. That was the largest drop in six months.

Economists surveyed by The Wall Street Journal had expected a 0.4% decline last month. April orders were revised down to a 0.9% decline, which followed four straight monthly rises.

"The broad story in terms of capital spending appears to be wait-and-see," Stephen Stanley, chief economist at Amherst Pierpont Securities said in a note to clients.

Last month's fall was led by sharp declines in two **volatile** categories, a 30.8% drop in military-aircraft orders and a 11.7% decline in orders for civilian airplanes and parts. Excluding the transportation segment, orders rose 0.1% in May.

More broadly, factory demand has strengthened in 2017. Durable-goods orders rose 2.8% in the first five months of 2017, compared with a year earlier. A closely watched proxy for business investment in new equipment, orders for nondefense capital goods excluding aircraft, fell 0.2% in May from the prior month but was up 2.3% year-to-date.

Monday's report was "a bit weaker than expected," but "the data are **volatile** and through the **volatility** trends have generally been up -- modestly at least," said Jim O'Sullivan, chief U.S. economist at High Frequency Economics, in a note to clients.

The U.S. manufacturing sector, meanwhile, gained traction over the past year after a weak stretch in 2015 and into 2016.

Total U.S. industrial production rose 2.2% in May from a year earlier, including 1.4% growth for manufacturing output, according to Federal Reserve data. A private-sector gauge of U.S. manufacturing activity, produced by the Institute for Supply Management, showed expansion in May for the ninth consecutive month.

Document J000000020170627ed6r0002e

THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
Sometimes It Pays Not to Invest

By Richard Barley
484 words
26 June 2017
The Wall Street Journal
J
B10
English

[Financial Analysis and Commentary]

In a world where many markets look expensive, putting cash to work is hard. Simply hanging on to more of it might be a good idea.

That is particularly the case after the first half of 2017 has delivered good results across the board. Most strikingly, both bonds and stocks are up. The MSCI World index of developed-market stocks is up 9.7% so far this year, while long-dated bonds are also partying, with the **30**-**year Treasury** yield falling around 0.25 percentage point to just 2.73%, boosting prices. Corporate-**bond yield** spreads are back to their tightest levels since the global financial crisis.

Yet falling bond yields and rising equity markets are sending conflicting signals: the former reflecting the lackluster picture for inflation; the latter hopes for growth. Bond yields are still ultralow, while equity valuations are high, with the **S&P 500**, for instance, trading at 17.6 times forward earnings. This disconnect only can hold if the path of global growth and inflation don't change markedly. Hopes of a fiscal bump to growth led by the U.S. have faded, while the recent decline in **oil prices** may cause new worries about headline inflation.

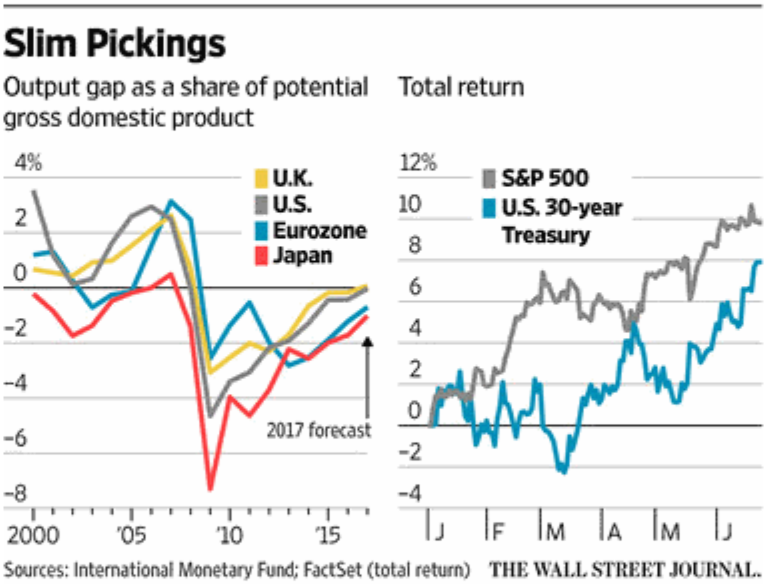
More significantly, perhaps, the flood of global central-bank liquidity that has supported markets is past its peak. The Federal Reserve is raising rates, and the European Central Bank is inching toward an exit from ultraloose monetary policy.

While policy makers don't want to shock markets, global output gaps are closing. The need for monetary largess is therefore no longer as clear-cut as it was.

In this environment, faced with unappetizing initial valuations, not investing might be a valid strategy.

Building up cash doesn't reflect a particular fear that a big shock, like a new recession, is about to hit. And there are still pockets in markets where the picture is fundamentally brighter, such as in European equities or in emerging markets. Instead, it is a tactical play: Selling some assets and raising cash here is about locking in profits and creating room to maneuver. There have been big opportunities even as markets have continued their broad upward journey: Think of the U.S. high-yield-bond selloff that started in 2015, and the swoon in stocks in early 2016, as oil cratered. Or think of when bond yields rose in the wake of Donald Trump's election. Those turned out to offer attractive buying opportunities as markets rebounded -- if investors had cash to exploit them.

Different types of investors vary in their ability to keep some dry powder, of course. The catalyst for deploying it isn't clear either. But, after a strong first half, raising cash to invest at higher yields or lower prices appears wise.



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THE WALL STREET JOURNAL.
U.S. EDITION

Stock Pickers to Add Chinese Shares

By Daisy Maxey
668 words
26 June 2017
The Wall Street Journal
J
B9
English

MSCI Inc.'s decision to add Chinese stocks to its emerging-markets index will almost certainly cause several overseas-stock pickers to start adding the shares to their mutual funds. Many already have.

Such actively managed funds don't track indexes like passive funds do, but MSCI's decision to include 222 of the Chinese **stock market**'s A-shares -- stocks denominated in yuan and listed in either Shanghai or Shenzhen -- will put pressure on the people running them to wade into the arena, investors said. The inclusion in the index takes effect next year.

"Looking at some of our peers, they haven't been investing, and I'm sure they will, and they certainly won't wait until the final inclusion to do that," said Richard Thies, a portfolio manager at Driehaus Capital Management LLC. There is lots of room for funds to increase their exposure because foreign ownership of Chinese A-shares is extremely low, he said. He said A-shares have been a good source of returns for his fund.

MSCI indexes already include Chinese companies' shares listed in cities like Hong Kong and New York. The 222 stocks would increase China's 28% weighting in the MSCI Emerging-Markets Index by 0.73 percentage point.

The change won't make much of a difference for the Driehaus Emerging Markets Growth Fund because it has invested in A-shares for many years, Mr. Thies said, but some of its institutional clients, including pensions and foundations, which don't invest in the shares will probably revisit that decision.

Anthony Cragg, senior portfolio manager at Wells Fargo Funds, has been investing in China's A-shares for several years based on what he described as the companies' positive fundamentals. He said he believes other active fund managers will now join him.

"Now that A-shares are going to be in the index, obviously, the passive funds will have to -- come a year from now -- be invested, but even a lot of active managers will have to get involved," said Mr. Cragg, who manages the Wells Fargo Emerging Markets Equity Income Fund and the Wells Fargo Asia Pacific Fund.

Many large actively managed emerging-markets funds are in every other area "pretty close to the benchmark," said Mr. Cragg.

"The one area that stands out like a sore thumb is China; it's really the only major market where many major funds are a long way from the benchmark."

Concerns persist over the Chinese **stock market**'s transparency, corporate governance and frequent government intervention.

"There still remain liquidity challenges, and there's likely to be strong demand, which will push up valuations that may scare off some investors initially," said Todd Rosenbluth, director of ETF and mutual-fund research at financial data and analysis provider CFRA. "Even though the Chinese economy is showing signs of improvement, we believe there remain many skeptics."

Still, Mr. Thies said, with China's markets opening further, "that should mean that the markets are regulated in a more normal way," echoing the prediction of several analysts and investors who track the Chinese **stock market**.

Over time, that could help expand the potential universe of Chinese stocks for Edmund Harriss, portfolio manager at Guinness Atkinson Asset Management.

Mr. Harriss, who manages the Guinness Atkinson China & Hong Kong Fund and the Guinness Atkinson Renminbi Yuan & Bond Fund, said his funds already have a good range of exposure to China through shares traded in Hong Kong, which includes financial, retail, technology, education and health-care companies. But they hold no A-shares.

MSCI's decision, he said, means China's A-shares may become more accessible and attractive.

"It pushes the regulators and the stock exchange in China themselves to iron out some of the wrinkles that are still tricky for me to buy A-shares and settle purchase of the shares," he said. "That makes them more accessible."

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MoneyBeat: Nasdaq Defies Gravity

By Chris Dieterich
210 words
26 June 2017
The Wall Street Journal
J
B9
English

The tech-heavy **Nasdaq Composite** Index hasn't had a peak-to-trough decline of 5% since before November's election, a span of 158 days. That is the longest streak for the **Nasdaq** without such a pullback since 1989, surpassing all stretches during the heady days of the late 1990s dot-com boom, according to WSJ Market Data Group.

At a time of middling economic growth, investors have piled into shares of revenue-generating powerhouses such as Apple Inc., Amazon.com Inc. and Google parent Alphabet Inc. Gains in those stocks have driven the **Nasdaq**'s climb for months.

Even an abrupt, five-day rout for the **Nasdaq** in the middle of this month only dragged the index down 2.7%.

All U.S. stocks have been placid this year but the unusually long stretch for the **Nasdaq** means investors are being rewarded without facing a typical amount of risk. The **Nasdaq** comprises over 3,000 stocks, many of which are smaller and therefore more **volatile** than blue chips in the Dow, which has seen its longest stretch without a pullback since 2006. The **S&P 500**'s streak is the longest since 1996.

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THE WALL STREET JOURNAL.
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Digital Currency Suffers 'Flash Crash' --- Ether, a bitcoin cousin, plunged Wednesday before recovering to near record levels

By Paul Vigna
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The Wall Street Journal
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B1
English

The flash crash has come to cryptocurrencies.

Ether, the digital currency used on the Ethereum platform, experienced a surge in trading this week that led to debilitating bottlenecks and at one point a "flash crash," with one exchange reporting trades as low as 10 cents for an asset that was trading above $300 just minutes before.

While the price recovered after Wednesday's mishap, it was the latest twist for a digital currency that has garnered much attention this year, with a big run-up in price. And it was a reminder that Ethereum and other cryptocurrencies are still effectively under construction, and don't feature all of the protections that stock and bond investors are used to.

Both Ethereum , which started in 2013 and its eight-year-old cousin, bitcoin, have garnered enthusiasm among technology buffs who see the currencies as a way to transact more directly, without middlemen like banks.

Speculative investors have jumped onto the currencies, called cryptocurrencies because they incorporate concepts used in cryptography to shield user identities. This year, bitcoin is up 185%, while Ether has skyrocketed from $8 to $340.

But this week's **volatility** in Ethereum serves as a reminder to investors that these currencies basically trade on a technological Wild West, where undoing or altering trades to smooth out mistakes is discouraged.

On Friday, the exchange operator at the center of the issue, Coinbase 's GDAX platform, said it would credit some customers hurt by the **volatility**, but said it wouldn't reverse trades.

"We will establish a process to credit customer accounts which experienced a margin call or stop loss order," the company noted in a blog post late Friday. The credits will come from company funds and "allow eligible customers to restore the value of their account," it added. Customers are expected to be notified next week.

Trading in Ethereum has been on the rise since this spring. A surge in activity in the past few days was driven by investor demand for an initial coin offering that overwhelmed several exchanges that trade Ethereum .

The offerings, which resemble a crowdfunding effort for digital services, have proliferated in recent months.

Some exchanges, unable to process the backlog, simply froze trading, and one, the GDAX platform, saw an actual crash sparked by one large sell order.

On Tuesday, there were a record 308,000 transactions, according to the research site Etherscan, about 10 times the volume from the start of the year. The surge seems to have caught many exchanges off guard.

The flash crash in Ethereum happened on Wednesday, at 3:30 p.m. EDT, when one "multimillion-dollar market sell" order was placed on GDAX, according to Coinbase 's Adam White in an earlier blog post. That sell order sparked a cascade of about 800 automatic stop-loss orders and margin-funding liquidations, Mr. White noted.

At the end of that cascading wave, the currency briefly traded at 10 cents. Before the flash crash, it had been trading at about $335.

There wasn't any indication that the trades were caused by any wrongdoing or fraud, Mr. White noted, and the exchange's matching engine worked as designed, even if the trades were extreme. In other words, the trades were legitimate.

"It is important to note that these trades are final in accordance with our GDAX trading rules," Mr. White wrote. "Honoring properly executed orders is critical to maintaining the integrity of an exchange."

After the 2010 flash crash in the **stock market**, in which the **Dow Jones Industrial Average** fell by nearly 1,000 points, many of the most extreme trades were reversed.

Moreover, the exchanges that trade these assets don't have trading curbs, or circuit breakers, or even a closing bell. These automated exchanges run 24 hours a day, seven days a week. Some exchanges offer more sophisticated "stop" orders, options and leveraged trading tools for individuals, though critics say some of then essentially amount to layering risky borrowing on top of an already **volatile** asset.

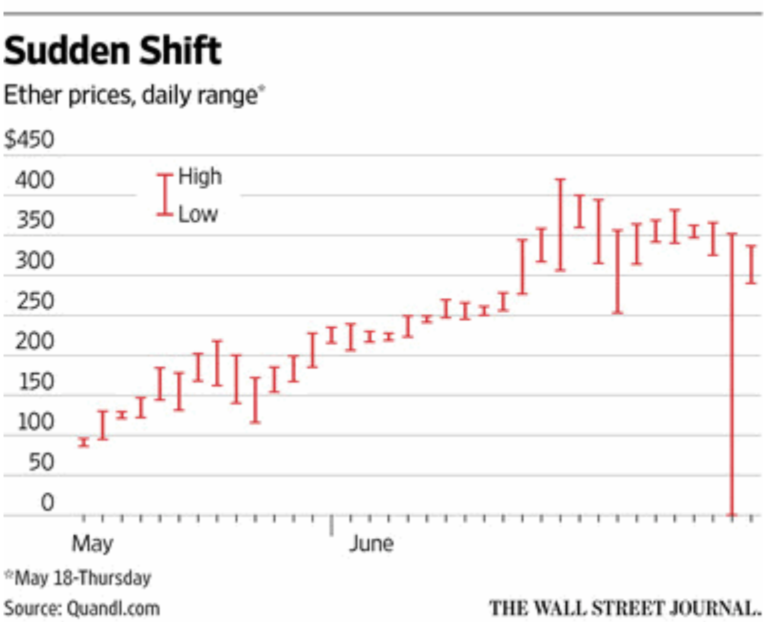
Ethereum is a digital relative of bitcoin, but differs from the latter in important respects.

Bitcoin is a protocol designed to support trading of an asset also called bitcoin. Ethereum makes use of the concepts behind bitcoin, but is designed to support online services and apps.

The flash crash isn't Ethereum 's first bump along its road. One year ago, a startup called the DAO raised more than $100 million worth of ether but suffered a debilitating hack that allowed a malicious actor to direct some of the funds to a personal account.

Etherum's core founders and developers controversially unwound the DAO's entire trading history, and the currency essentially split into two, one altered and one left alone.

Both Ethereum and bitcoin hit records earlier this month. They've fallen about 14% and 9%, respectively, from those peaks.



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THE WALL STREET JOURNAL.
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REVIEW --- Venezuela's Sinister Turn --- Under Nicolas Maduro, a country that had been one of Latin America's wealthiest is having its democratic institutions shredded amid rising poverty and corruption

By David Luhnow and Jose de Cordoba
2,718 words
24 June 2017
The Wall Street Journal
J
C1
English

Almost two decades after Venezuela's late president, Hugo Chavez, came to power in an electoral landslide, his country's transformation seems to be taking an ominous new turn. A country that was once one of Latin America's wealthiest is seeing its democratic institutions collapse, leading to levels of disease, hunger and dysfunction more often seen in war-torn nations than oil-rich ones.

Mr. Chavez's successor, President Nicolas Maduro, has called for a National Constitutional Assembly to be elected on July 30 to draft a new constitution, in which ill-defined communal councils will take the place of Venezuela's traditional governing institutions, such as state governments and the opposition-dominated Congress. The new assembly appears to be rigged to heavily represent groups that back the government.

The Maduro government says that the new assembly will find a peaceful way forward for a country enduring an economic depression and standing on the brink of civil conflict. The government says it is building on the legacy of Mr. Chavez, a military man who vowed to fight corruption, dismantle the venal old political establishment and be a voice for millions of poor Venezuelans. But the opposition, which is boycotting the assembly vote, calls it a naked attempt to end democracy and turn the country into a Cuba-style communist autocracy. The government's own attorney general calls the vote illegal.

The 545-member assembly, a modern-day soviet, would hold unlimited power while it writes a new governing charter, which could take years. Meantime, the assembly is widely expected to scrap next year's presidential elections.

"This is the last battle for democracy in Venezuela," says David Smilde, a Venezuela expert at Tulane University.

For the U.S., the prospect of a new Cuba sitting atop trillions of dollars of oil reserves is profoundly unpleasant. For the past decade, Venezuela has aligned itself with Russia, China, Iran and Syria. Whether it thrives or implodes, Mr. Maduro's petrostate could cause far greater headaches to the U.S. and Latin America than isolated Cuba. An implosion could mean bigger shipments of cocaine to Central America and the U.S., as well as a massive increase in the current flow of tens of thousands of refugees already fleeing the country for the U.S., Colombia, Brazil and elsewhere. And a consolidation of power could let Mr. Maduro deepen his partnership with U.S. adversaries.

The Trump administration has criticized Mr. Maduro's plans to change the constitution, urging "respect for democratic norms and processes." The U.S. has called for Venezuela to free political prisoners, respect the opposition-controlled congress and hold free and democratic elections.

Mr. Maduro's move has aggravated Venezuela's political crisis. The opposition, sensing a do-or-die moment, plans to ramp up daily street protests. Some 80 people have died in such demonstrations in the past three months, and the president is unlikely to ease off on the tear gas, rubber bullets and water cannons.

"Maduro's ultimate aim is to turn Venezuela into Cuba. And we will not accept being put in that cage," says Julio Borges, the head of the opposition-dominated National Assembly.

Venezuela's momentous new step isn't taking place amid the kind of revolutionary euphoria that Mr. Chavez may have imagined before he died of cancer in 2013. Rather, it is being pushed by an unpopular government trying to keep power amid an economic implosion.

By year's end, Venezuela's economy will have shrunk by nearly a third in the past four years -- a plunge similar to Cuba's after the fall of the Soviet Union, and one rarely seen outside of conflict zones. In a nation estimated to be sitting on as much oil as Saudi Arabia, it is common to see poor families rummaging through garbage for food, even as the wealthy pack nearby gourmet restaurants.

Inflation was estimated by the International Monetary Fund at 720% this year; it is expected to surpass 2,000% next year. Shortages are so acute that three out of four Venezuelans lost an average of 18 pounds last year, according to a survey by Venezuelan universities. Diseases not seen there in decades, such as malaria, are back.

"The government is desperate because they know the next presidential election will be their last," says Cesar Miguel Rondon, a popular radio host. When the host recently tried to leave Venezuela on a business trip to Miami with his family, he had his passport seized. "I'm a hostage in my own country," he said.

Amid the economic crisis and protests, the government has headed down an increasingly authoritarian path. It has raised the number of political prisoners over the past year to 391, according to the Venezuelan human-rights group Foro Penal -- nearly four times the total from a year ago. Most are being tried in military courts. And the government is seeking to remove its rebellious attorney general through a case in the supreme court. The government didn't answer requests for comment.

The so-called Bolivarian revolution has become less about ideology and more about money. Venezuelans often call it a "robolucion" rather than a "revolucion," using the Spanish word for robbery. If Cuba is an ideologically motivated communist dictatorship, Venezuela is something different: as oil-rich as Saudi Arabia, as authoritarian as Russia and as corrupt as Nigeria.

Spectacular accusations of drug trafficking and corruption have sullied Mr. Maduro's own family. Two nephews of Venezuela's first lady, Cilia Flores, are awaiting sentencing in New York after being found guilty last year of conspiring to import 800 kilos of cocaine to the U.S. through Honduras. They pleaded not guilty.

The interior minister, Gen. Nestor Reverol, has been indicted in the U.S. for drug trafficking; Vice President Tareck El Aissami is on the U.S. Treasury Department's kingpin list for allegedly protecting drug traffickers; and the head of Venezuela's supreme court is on another Treasury blacklist for gutting the country's democratic institutions. They all say that they are innocent and accuse the U.S. of trying to destabilize Venezuela.

In some ways, analysts say, the extent of these accusations has made a negotiated solution to Venezuela's crisis more difficult. "The regime's connection to crime and drugs is what makes it difficult for them to give up power," says Harold Trinkunas, an expert on Venezuela at Stanford University. "Many have to be worried that if they step down, they will be put on a plane to the U.S."

In Cuba, the Castro dynasty has kept power despite decades of disastrous economic policies due to devotion to the charismatic Fidel, popular achievements such as universal free health care, ideological loyalty to Marxism, discipline enforced by security forces, and the nationalist frisson of facing off against the U.S. In Venezuela, aside from a similar devotion to Mr. Chavez, the glue that has held the regime together is simpler: oil-soaked corruption on an epic scale.

Former planning minister Jorge Giordani, one of Mr. Chavez's closest confidantes, said in 2015 that of an estimated $1 trillion in oil revenue received during the Chavez years, two-thirds had been distributed to workers through subsidies and cash transfers. The rest, more than $300 billion, had "fallen through the cracks," he said. Mr. Giordani quit Mr. Maduro's government in disgust in 2014 and now lives in a quiet neighborhood of Caracas.

This year, the U.S. Treasury Department put Samark Lopez, a Venezuelan businessman, on a blacklist, accusing him of being a frontman for Vice President El Aissami, an alleged drug trafficker. Announcing the seizure, Treasury Secretary Steven Mnuchin said that the U.S. had frozen assets worth "tens of millions" of dollars when it seized a slew of properties and firms owned or controlled by Mr. Lopez in the U.S., the U.K. and elsewhere. In a statement, Mr. Lopez denied any wrongdoing and called the accusations "politically motivated."

The government didn't respond to requests for comment, but in the past, Mr. Maduro and other officials have dismissed accusations of corruption, economic mismanagement and repression as part of an "economic war" being waged by Venezuela's private sector, in cahoots with the U.S., to destabilize and overthrow the socialist government.

As in many petrostates, oil accounts for 95% of Venezuela's foreign-currency earnings. Since the government administers the oil, one sure way to get ahead is not by creating a new business but by getting close to the government to secure access to oil rents. Venezuelans call the enterprising class following this model "los enchufados" -- the plugged-in ones.

The path to power in Venezuela is often said to run through the army and oil. Once in power, the populist Mr. Chavez went after the oil, eventually firing 19,000 employees of the state-run oil firm Petroleos de Venezuela to stack the company with his yes-men. After a brief and unsuccessful coup against him in 2002, he also cleaned out the barracks, handing over indoctrination and training to his Cuban allies.

In the following years, **oil prices** rose sharply, and Mr. Chavez spent lavishly. He saved none of the windfall, ran large budget deficits even at peak-**oil prices**, raided the country's rainy-day oil fund, and borrowed heavily, first from Wall Street and then from the Chinese and the Russians. He handed out billions of dollars worth of cut-rate oil to Cuba, Nicaragua and even Boston and London to show off Venezuela's growing energy clout.

The number of government employees doubled, to five million, and spending skyrocketed. Printing so much money caused inflation, so the government set prices, sometimes below the cost of production. Companies that refused to sell at a loss were seized, aggravating shortages. Less local production made the country ever more reliant on imports.

But once the price of oil began to drop in 2014, Venezuela could no longer afford the imports, which have fallen from $66 billion in 2012 to about $15.5 billion this year. And there is little domestic industry left to pick up the slack.

"It is classic Latin American populism on steroids, and now we have the worst hangover in history," said Juan Nagel, a Venezuelan economist living in Chile.

Beyond some new public housing, little was built. Mr. Chavez left Venezuela littered with the bones of ambitious, half-finished public-works projects. Among them was a $20 billion scheme to build a train network, which now lies abandoned. In Caracas, a new subway line ended up being just one additional stop on an existing line, prompting local wags to call it the Centi Metro (centimeter) rather than just a plain Metro.

Unperturbed, the flamboyant leader focused on projects like changing Venezuela's time zone by half an hour. He renamed the country the Bolivarian Republic of Venezuela. And to mark the shift in Venezuela's political course, he changed the direction of a wild stallion on the country's coat of arms, making the horse gallop left instead of right.

Mr. Chavez's revolution attacked the old elites, sending nearly two million Venezuelans -- and billions of dollars -- packing in the past 10 years. But in their stead rose a new elite: the so-called Boliburgueses, or Bolivarian bourgeoisie, who enjoyed a life of premium wines, Scotches and cars as poverty levels rose.

"You don't see that in Cuba or Vietnam. But here, you see Hummers, private jets and obscene new mansions," says Miguel Pizarro, an opposition leader whose father was a Marxist guerrilla in Venezuela and whose mother served in Mr. Chavez's first political party in the mid-1990s. "These guys literally bought the homes where Venezuela's elite lived, tore them down and built even bigger ones."

Few enjoyed la dolce vita of Caracas more than Wilmer Ruperti, a businessman who earned Mr. Chavez's loyalty in 2002 when he helped break an oil strike. Mr. Ruperti was a familiar sight in Caracas, riding in an armored Jaguar accompanied by two North Korean bodyguards. The magnate cemented his friendship with Mr. Chavez by buying a pair of Simon Bolivar's pistols for $1.7 million in a New York auction and presenting them to the Venezuelan leader.

Last year, Mr. Ruperti paid the multimillion-dollar legal fees for the criminal defense of Mr. Maduro's nephews. At the same time, Mr. Ruperti's firm won a $138 million contract from the state oil company. Mr. Ruperti said it was his patriotic duty to pay the nephews' legal fees as a way of relieving the pressures on Mr. Maduro. He denied any link between the payment of the fees and the state oil-firm contract.

Corruption helps the government maintain political control. And no tool has been more effective than exchange controls, initially adopted by Mr. Chavez in 2002 during a national strike to control capital flight. Fifteen years later, they have reshaped Venezuela's economy and given the government enormous power to pick who gets dollars from the country's oil wealth -- often at absurdly low rates.

For instance, firms and others who import food get dollars at the official rate of 10 bolivars. But they can turn around and sell those dollars on the black market for 8,300 bolivars.

Venezuela's army recently got the rights to set up its own mining and oil companies, and the armed forces are in charge of most critical imports. In 2016, 18 generals and admirals were tasked with importing key foods and sanitary items. One brigadier general was put in command of acquiring black beans; another was charged with acquiring toilet paper, feminine napkins and diapers. Logically, an admiral was placed in charge of acquiring fish.

No one knows how much money has been lost. Mr. Giordani estimated that a third of the $59 billion that the government handed out to companies to bring imports into the country in 2012 might have ended up in fraudulent schemes.

"It's a terrible economic model, but it's great for politics and power," says Asdrubal Oliveros, a prominent Venezuelan economist.

The opposition and the regional governments don't know how to turn the tide. An Organization of American States resolution this week urging Venezuela to return to democracy was supported by every major country in the hemisphere but blocked by Venezuelan allies like Nicaragua and a handful of statelets like St. Kitts and Nevis.

Many in Venezuela hope that parts of the army haven't been tempted by money and will want to honor the country's democratic past. Ibsen Martinez, who helped write some of the country's most beloved soap operas, says that hope is likely in vain.

"The army is now a criminal organization," he said in an interview from Bogota, where he now lives in exile. "But in every culture, there are mythical creatures. In Venezuela, it is the idea of an institutional military man, who will come out like Captain America to resolve everything." That instinct, he added, led to Mr. Chavez in the first place.

His revolution's mournful impact can be seen everywhere. Venezuela's national baseball league now plays to empty stadiums and is considering suspending this year's season. The Teresa Carreno theater, an architectural masterpiece in Caracas, used to produce some of the region's best operas and dramas; it now mostly hosts government rallies. In the nearby Caracas Museum of Contemporary Art, water drips into buckets near paintings by Picasso and Mondrian. The museum is so empty that a thief replaced a Matisse portrait with a fake without anyone noticing for several years.

Alberto Barrera, the author of a biography of Mr. Chavez who now lives in Mexico City, thinks that the time is fast approaching when he and the opposition may need to say goodbye to their hopes. "I wonder when I will wake up and realize, 'They beat us.' That it's all over and the country I knew is gone," he said.

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THE WALL STREET JOURNAL.
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REVIEW --- The Fed Should Surprise Us --- Its habit of calming markets may help set up a crash

By Sebastian Mallaby
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24 June 2017
The Wall Street Journal
J
C3
English

With every passing month, the U.S. economy feels, ominously, more like it did in 1999 and in the mid-2000s. Both were times when a promising mix of full employment, low inflation and buoyant spirits gave way to a financial convulsion that triggered a recession. Unfortunately, the Federal Reserve under Janet Yellen is ignoring a relatively painless policy that would reduce the danger of a sequel.

The debate surrounding the Fed's interest-rate decisions tends to follow a familiar script: Should the federal-funds rate be nudged lower or higher? Inevitably, this means parsing conflicting signals: Lately, inflation has been below the Fed's annual 2% target, which argues for low interest rates; but at the same time, unemployment is very low, and loose money may have pumped up asset prices unsustainably, both of which argue for higher interest rates.

A different debate could help the Fed out of this bind. Even if Ms. Yellen's current, rather gradual pace is appropriate, the Fed can reduce the odds of a financial bust by tweaking the manner of its tightening.

To do so, the Fed should examine a tenet of the central-banking faith: that transparency is always virtuous. By being less transparent -- and reserving the option of deliberately ambushing investors with a shock move -- the Fed could discourage them from taking too much risk.

Such an ambush would unsettle markets, to be sure; but that would be the point. The painfully learned lesson from the late 1990s and mid-2000s is that excess financial serenity leads to excess risk-taking, which in turn increases the chances of a blowup. In the first case, that meant the tech bust of 2000; in the second case, it meant the planet-shaking subprime-mortgage meltdown. Since market convulsions caused the last two recessions, reducing the probability of the next one must be a Fed priority.

This link between serenity and excessive risk-taking isn't just an observation about market psychology. It follows from the so-called Sharpe ratio, named after William Sharpe, a Stanford economist who won a Nobel Prize in 1990. The Sharpe ratio states that the attractiveness of an investment -- a stock, a bond or some bundled combination of financial instruments -- can be measured by its expected return (technically, the excess return over the risk-free rate, such as on Treasury bonds) divided by its expected **volatility**. A financial bet that you think will earn, say, 6% a year is extremely attractive if its **volatility** is low. But if markets are choppy and the risk looks large, 6% won't be worth it.

It follows that, when risks seem modest, Wall Street borrows to make bets that look great based on the Sharpe ratio. Many algorithmic trading systems do this automatically: They are programmed to borrow more and bet bigger when recent market history indicates serenity. Human traders do this too, loading up on positions as **volatility** falls, in a strategy known as "vol targeting."

Then there is what Wall Street calls "selling **volatility**." When markets are calm, a tempting way to juice returns is to sell insurance against future disruptions. Traders do so by selling options, collecting a premium for shouldering the risk that markets could collapse. The more traders do this, the more they induce trading behavior that makes their predictions of stability come true. The expectation of calm becomes self-fulfilling, until a shock causes a spike in fear -- at which point the alchemy of options intensifies the instability. A similar dynamic exacerbated the dramatic crash of 1987.

In the past month, I have heard traders in London, New York and Singapore worry about the dangers of **volatility** selling. Frank Brosens, the co-founder of Taconic Capital, a hedge fund, has tried to gauge the size of this practice in U.S. equity markets: He isn't alarmed enough to bet aggressively on a collapse, he told me, but he has bought some cover against the risk of one.

The longer the eerie calm in the market continues, the greater the danger that vol selling will spread. And the longer the real cost of short-term borrowing can be counted upon to remain negative or near zero, the likelier it is that financial excess will ultimately destabilize the economy.

Given all this, why does the Fed accentuate this risky calm? Part of the answer is that its leaders don't like to play the villain. Chastened by the experience of the 1970s, they accept that they must raise interest rates and destroy jobs when inflation threatens. But the equally hard lesson of 2008 hasn't yet been absorbed: that they should embrace modest, short-term market instability to head off truly disruptive crashes over the horizon. Instead, the calmer markets remain, the prouder the central bankers feel.

The other part of the answer is that, facing an immensely complex task, central bankers are fatally attracted to simplicity. In the "monetarist" era of 1979-82, the Fed, like many central banks, presumed to steer economies by targeting a single measure -- the rate of growth of money. But it soon abandoned this project because "money" proved hard to define or measure.

Similarly, in the 1990s, many central banks aspired to abolish exchange-rate **volatility** by pegging their currencies to the dollar. That project was ditched when it turned out that weaknesses within an economy can turn a currency peg into a currency crisis.

The central-banking fashion now is to target inflation and to communicate prodigiously about coming interest-rate adjustments. Fed officials publish their expectations for interest rates over the next three years and telegraph changes via statements, speeches and interviews. But stable finance often matters more than stable prices. And transparency about future interest-rate moves can induce disruptive speculation.

In January 2004, some three years before the subprime mortgage bust, the Fed saw financial risks building. With inflation low, the federal-funds rate was down at just 1%, which ran the risk of pumping up asset markets unsustainably. "The potential snapback effects are large," Fed Chairman Alan Greenspan acknowledged at the Fed's first interest-rate meeting that year. "In my view, we are vulnerable at this stage to fairly dramatic changes in psychology."

Like today's Fed, in other words, Mr. Greenspan and his colleagues faced the danger that the interest rate that would stabilize consumer prices would also destabilize asset prices. The Fed could have escaped this dilemma by acting less predictably. Instead, it telegraphed its intentions and avoided surprises. The resulting calm in the markets was "a central banker's dream," as one of Mr. Greenspan's colleagues said. "The market now pretty much anticipates how we're going to respond to various events," Mr. Greenspan rejoiced in May 2005. The Fed's interest-rate moves, he added, were causing "as little reaction . . . as possible."

With the unfair benefit of hindsight, we know that this lack of market reaction was a curse: One central banker's dream became another central banker's nightmare. The Fed needs to absorb this lesson -- and soon.

Mr. Mallaby is a senior fellow at the Council on Foreign Relations and the author of "The Man Who Knew: The Life and Times of Alan Greenspan" (Penguin Press).

(See related letter: "Letters to the Editor: Better Fed Monetary Policy Would Beat Surprise Moves" -- WSJ July 1, 2017)

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Heard on the Street
China's Broad Debt Crackdown Could Get Out of Hand

By Nathaniel Taplin
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24 June 2017
The Wall Street Journal
J
B10
English

[Financial Analysis and Commentary]

China is poised for a once-in-five-years conference this fall, in which the next generation of Communist Party leadership will be chosen. Nothing dramatic can happen before that, right?

Wrong. The winter of 2016 and spring of 2017 have already proved to be among the most **volatile** in memory, particularly in the bond market as yields shot higher, but also in stocks, which felt the heat from the broad regulatory crackdown on debt in April and May. The latest victims are China's highflying overseas deal makers: Anbang Insurance Group, HNA Group, Fosun International and Dalian Wanda Group, whose widespread borrowing throughout China's banking sector is now under investigation.

As early as January, it was clear that the improving economic -- and particularly employment -- picture in China could give policy makers a window to deal with mushrooming financial-sector risks before the Party Congress made big political moves too risky. That window is about to close.

Although China's economy remains in reasonable shape, there are signals that growth has already peaked cyclically. And slowing industrial profit growth will start to put pressure on the job market as well, the key to political stability that the Communist Party prizes above all.

Although some surveys paint a brighter picture, China's official purchasing managers' indexes show the job market moving back into contraction: Nonmanufacturing, which includes construction, peaked in November, while manufacturing peaked in March. Tightening financial conditions could accelerate this trend. After falling since late 2015, real borrowing costs for Chinese firms probably started rising again in the second quarter. Chinese factory gate inflation peaked in March, the same time as industrial profits.

The early warning signs of a slowdown mean that the pressure from President Xi Jinping to keep raising the heat on financial-sector leverage will soon ease.

But regulatory crackdowns can take on a life of their own. In April, regulators competed to show leaders they were heeding Mr. Xi's call to tackle risks. The 2015 stock crash, triggered in part by regulators' belated crackdown on margin borrowing, was a classic example of the danger of too little action, too late.

Chinese regulators may succeed in tamping down just enough on leverage, at just the right time, to postpone a debt reckoning once again. But that is a tricky needle to thread, and the consequences of failure large indeed.

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The New York Times

Business/Financial Desk; SECTB
Rising Energy Prices Drive Markets Upward

By THE ASSOCIATED PRESS
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24 June 2017
The New York Times
NYTF
Late Edition - Final
5
English

Wall Street stock indexes nudged higher Friday after energy companies clawed back some of their sharp losses from earlier in the week.

After meandering up and down through the day, the **Standard & Poor's 500-stockindex** rose 3.80 points, or 0.2 percent, to end at 2,438.30. The **Dow Jonesindustrial average** slipped 2.53 points, or less than 0.1 percent, to 21,394.76, and the **Nasdaq composite** gained 28.56, or 0.5 percent, to 6,265.25. More than twice as many stocks rose than fell on the New York Stock Exchange.

Energy stocks led the way, and those in the **S.&P. 500** climbed 0.8 percent for the largest gain of the 11 sectors that make up the index.

Rising prices for oil and natural gas drove the gains. Benchmark crude added 27 cents to settle at $43.01 per barrel. Brent crude, the international standard, gained 32 cents to $45.54 and natural gas rose 4 cents, or 1.2 percent, to $2.93 per 1,000 cubic feet.

EQT, a producer of natural gas and crude, had the day's biggest gain in the **S.&P. 500** and jumped $4.16, or 8 percent, to $56.19. Cabot Oil & Gas climbed 88 cents, or 3.8 percent, to $23.74.

Friday's gains weren't enough to keep energy stocks from closing out their worst week in nine months. They had sunk for four straight days as oil dropped to its lowest price since August on expectations that the world has more crude supplies than are needed. Energy stocks lost 2.9 percent over the week.

What kept broad indexes afloat were big gains for health care and technology stocks. The **S.&P. 500** rose 0.2 percent for the week.

Health care stocks climbed as the Senate unveiled its proposal to revamp the insurance market. Technology companies are forecast to report strong growth in the upcoming earnings season, and Oracle's profit report on Wednesday sailed past expectations.

''What you really worry about with oil is what it does to earnings,'' said Steve Chiavarone, portfolio manager at Federated Investors. A big pickup in corporate profits has helped drive the **stock market**'s continued climbs this year, and energy companies had been forecast to provide some of the strongest growth in 2017.

With the price of oil about 15 percent lower than a year ago, energy companies' profits may be at risk. But as long as the price can hold close to where it is, ''that's good enough, given that there's corporate profit growth everywhere else,'' Mr. Chiavarone said.

Bond prices were little changed, and yields held relatively steady. The **10-year Treasury** yield dipped to 2.14 percent from 2.15 percent late Thursday. The two-year yield was flat at 1.34 percent, and the 30-year yield held at 2.72 percent.

The dollar slipped to 111.25 Japanese yen from 111.23 yen late Thursday. The euro rose to $1.1197 from $1.1151, and the British pound rose to $1.2723 from $1.2686.

In European markets, France's CAC 40 fell 0.3 percent, Germany's DAX lost 0.5 percent and the FTSE 100 slipped 0.2 percent.

Japan's Nikkei 225 index added 0.1 percent, South Korea's Kospi rose 0.3 percent and the Hang Seng in Hong Kong was close to flat.

In the commodities market, gold rose $8.60 to $1,256.20 an ounce. Silver added 14 cents to $16.65 per ounce, and copper rose 3 cents to $2.62 per pound.

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 WALL STREET JOURNAL.
U.S. EDITION

Weekend Investor: As Stocks Climb, Safeguard Any Gains

By Daisy Maxey
912 words
24 June 2017
The Wall Street Journal
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B4
English

With the **Dow Jones Industrial Average** and the **S&P 500** both closing at highs earlier this week, investors might want to consider ways to protect their portfolios.

While money managers differ on the value of hedging strategies for individual investors, some say options, stop-loss orders and managed futures are methods that can benefit some investors.

Protective Puts

Put options -- contracts that give the owner the right but not the obligation to sell an investment at a set price until the contract expires -- offer one way for investors to stay in the market without risking all of their gains.

Put options essentially allow a stock owner to hold a stock he expects to appreciate, while offering protection in case it declines. The cost of the contract will reduce an investor's profit if the stock rises in value, but limit losses should the shares decline below the strike price, the price at which the put option can be executed.

For example, an investor may purchase 100 shares of a stock at $40, and when the shares are trading at $55, buy an options contract to sell them at $52. If he pays $4 a contract, the total cost to cover the 100 shares would be $400.

If the stock rises in value, the put option will expire worthless. If the investor sold the stock at $60, the pretax profit would be $1,600, $2,000 minus the $400 paid for the contracts.

But if the stock declines to $45, the investor may sell it at $52 because he has the put in place. If he does so, the pretax profit would be $800, $5,200 minus the initial outlay of $4,000 for the shares and $400 for the puts options. Without the protection, the pretax profit would be just $500, $4,500 minus his initial outlay of $4,000.

Stop Orders

Stop-loss orders are also meant to limit an investor's downside on a specific holding. Made with a broker, such orders trigger the sale of an investment if its price falls by a specified level.

Because stop-loss orders execute automatically once set, they can take the emotion out of selling a holding, says Terri Spath, chief investment officer at Santa Monica, Calif.-based Sierra Investment Management. The orders are free except for the cost of any trade that gets triggered and any tax consequences.

Sierra, which manages $2.4 billion, has trailing stop-loss orders on all of its 150 mutual-fund and exchange-traded-fund investments. Such orders set a certain percentage below the current price of an investment or a dollar price at which to trigger a sale. If the investment rises in value, the trigger price will rise with it. If a trailing stop order was set to sell a mutual fund at 10% below its price, for example, and the fund's price rose to $300, the order would be triggered when the price falls to $270.

One risk with this strategy is that if a stock is being sold off quickly, its price could fall further after the stop-loss order is triggered but before it can be sold, says Dan Moisand, principal and financial adviser at Moisand Fitzgerald Tamayo LLC in Melbourne, Fla.

When a stock or fund hits the trigger price, the order becomes a market order, and the investor doesn't know how quickly after that the order will be executed, he says. A market order is an order to buy or sell to be executed immediately at the current market price.

To avoid selling at a price that is too low, investors can use a stop-limit order, which will prevent their order from being executed if a holding drops below a certain price, says Ms. Spath. For example, if a stock is trading at $30, and an investor has a stop-limit sell order in place specifying a stop price of $20, the stock will be sold when it hits $20 for $20 or more if there are willing buyers. But if the stock falls to $20 and continues to decline before a willing buyer is found, then it wouldn't be sold.

Managed Futures

The funds gained notice during the 2008 financial crisis when the average managed-futures fund returned 9.7%, as the total return of the **S&P 500** plummeted 37%, according to fund-tracker Morningstar Inc.

Managed-futures funds invest in futures contracts in a variety of markets, including currencies and stocks, and can diversify the risk of a conventional stock-and-bond portfolio. They aim to profit from current trends in the markets, taking long positions in a rising-price environment and short positions in a falling-price world.

"It's always a good time to have your portfolio broadly diversified, and managed futures are definitely a part of that," says Michael Scherer, a senior financial adviser and director of research at Summit Financial Strategies Inc. in Columbus, Ohio. He has been using managed-futures funds in clients' portfolios since 2009 and appreciates them for their low correlation to stocks and the stability they bring to a portfolio, he says.

But that can also work against investors. Last year, as the total return of the **S&P 500** rose about 12%, the average managed-futures fund lost about 2.9%, according to Morningstar.

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Heard on the Street
Change Afoot For Markets In the U.K.

By Richard Barley
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24 June 2017
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[Financial Analysis and Commentary]

One year on from the Brexit vote, discerning the U.K.'s future outside the European Union is still difficult.

Markets, however, distilled things into a more straightforward proposition: For much of the past year, Brexit has been bad for sterling but good for the FTSE 100 **stock index**. That might be changing.

Sterling has been the key barometer of the U.K.'s fortunes. The more disruptive the prospect of Brexit appeared to be, the more the pound fell. That helped the FTSE 100, home to large multinational companies whose foreign earnings are inflated by a weaker pound.

Sterling and stocks, uncorrelated before the vote, became negatively correlated. Sterling has made a big difference to returns. In local-currency terms, the FTSE 100 is up 17% since the vote; in dollar terms, it is little changed.

Sterling is up 3% against the dollar this year. The last week saw a surprising shift toward tighter monetary policy from several Bank of England rate-setting officials. Uncertainty around Brexit means sterling faces challenges in strengthening further, but the currency tailwind has faded.

And economies on the other side of the negotiations are now on the march. Eurozone stocks have fared better this year. Meanwhile, the U.K. economy faces a wage squeeze, and the reality of Brexit may lead to disruption for companies.

The clock is now ticking on Brexit talks, and harder times lie ahead. For U.K. stocks and sterling, it may not be such a simple equation.

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The New York Times

Economic View
Business Day

In Long Run, There's No Such Thing as an Einstein Investor

By ROBERT J. SHILLER
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There are no easy answers in investing. It is tempting to replicate a successful strategy — one created by an outstanding investor, like Warren Buffett, or through in-depth statistical analysis of the wisdom of crowds — and such approaches can actually work for long periods.

But paint-by-number portfolios won't succeed forever. And without deep expertise, it makes little sense to veer much from a simple market portfolio — one that seeks to match the overall performance of the market, and not beat it.

These reflections are prompted by the television series "Genius" (based on the Walter Isaacson biography "Einstein: His Life and Universe "), which I've been watching on National Geographic TV. The series also inspired me to reread Einstein's own popularization of his theories, in the book "Relativity: The Special and General Theory."

Albert Einstein, who may have been the most famous person ever to be publicly identified as a genius, had a disrespectful attitude toward the dignitaries of the physics profession of his time, and a lonely and unique approach to science.

Yet great as Einstein's theories were, others in the scientific community had been on the verge of discovering them when he came along. In fact, it is possible to argue that large numbers of collegial scholars who do not keep secrets, do not pretend to know everything and share freely will eventually surpass the achievements of a lone genius.

Similar debates dominate professional investing. For help in making important financial decisions, some of us are looking for Einsteins, others for communities of scholars or professional money managers with solid ideas.

In terms of popular reputation, Mr. Buffett may be investing's closest approximation of an Einstein. Some investors have done well simply by copying Mr. Buffett's financial moves.

On the other hand, many investors embrace the catchy methods that bubble up from time to time, like "smart beta," a phrase for a form of systematic investing that claims to outperform the market. There is no universal agreement on what smart beta means, but it typically refers to published theories and replicable statistical analysis, and mechanical procedures aimed at beating them. Smart beta clearly is the epitome of community property, not quirky genius.

A lone investor, whether a genius or not, can typically keep a secret better than a community can, and does not have to publish his methods. This difference is important but not absolute, because the Securities and Exchange Commission generally requires large institutional investment managers to file quarterly reports listing their holdings.

Through the years, despite Mr. Buffett's admonitions not to do so, many people have tried to mirror his strategy as it is revealed on the Berkshire Hathaway Form 13F filed with the S.E.C. Because Mr. Buffett presents himself as a long-term value investor, investors may think it doesn't matter that this filing may be months out of date. But not understanding exactly how he makes decisions, they don't have his edge, must come to the party late and have frequently bid up prices as they compete against one another to buy the assets in his portfolio.

There is plenty of evidence of this: A 2008 study by Gerald S. Martin of American University and John Puthenpurackal of the University of Nevada, Las Vegas, found that when S.E.C. filings reveal changes in the Berkshire Hathaway portfolio, the stock prices of newly acquired companies had an abnormal one-day increase averaging 4 percent. Even so, they found long-lasting effects. A simulated replication strategy from 1976 through 2006 based on the S.E.C. filings outperformed the market by over 10 percent a year.

That was an amazing result, though merely copying Mr. Buffett has been less satisfying in recent years because his investment performance has dimmed somewhat. No one can excel all the time, and even a Buffett may produce in a lifetime no more than a few great ideas that may not be viable forever.

There are even bigger problems in replicating strategies extracted from the community of scholars who publish not only what they do, but why they do it.

For example, a much-talked-about paper by R. David McLean of Georgetown University and Jeffrey Pontiff of Boston College published last year pointed out that the effectiveness of **stock market** investing strategies seems to diminish, but not disappear, after publication.

The paper, which won the American Finance Association's 2016 Amundi Smith Breeden Award, examined 97 financial patterns that appeared to predict investing returns, and had been published in reputable scholarly journals and supported by tests that found statistical significance. Such strategies relied on factors like price-earnings ratios, changes in analyst recommendations, credit rating downgrades, **stock price** momentum, industry momentum and failure to pay dividends.

The researchers looked at the performance of each of these strategies, assuming you had started right after publication of research papers on them and then continued for years. They found that while the strategies outperformed the market, their success decreased by more than 50 percent after publication.

In a follow-up paper, the two authors, along with Joseph Engelberg of the University of California, San Diego, showed that one-day positive surprises on firms' earnings announcements accounted for nearly all of the investment's total outperformance. Why? It appears to be because the market consistently makes mistaken valuations of corporate earnings, which tend to be corrected in stock prices only when the final earnings evidence is staring traders in the face.

So what's an investor to do? Both published statistical analyses and published actions and opinions of knowledgeable people, whether geniuses or just smart and well-informed investors, are worth mulling over, if you have a taste for such things. But don't follow these strategies blindly. We need to exercise our intuitive judgment as well as rely on the wisdom of smart, well-informed people to decide whether to continue to rely on statistical indicators and investment strategies that seemed to work in the past.

The problem is that the world is too complex for any method to work all of the time. The economist Alfred Marshall, then of Cambridge University, wrote in his 1890 textbook "Principles of Economics": "Although scientific machinery should be as definite as possible, at the same time it should be flexible." He added, "There is so much variety in economic problems, economic causes are intermingled with others in so many different ways, that exact scientific reasoning will seldom bring us all the way to the conclusion for which we are seeking."

His reasoning is still valid. We need to use statistical analysis but also respect human intuition and even genius, if we are able to identify it. But do so with caution. No single strategy is likely to beat the market forever.

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

* Faith in an Unregulated Free Market? Don't Fall for It

* Can Talk of a Depression Lead to One?

* Making America Great Again Isn't Just About Money and Power

* Why Land and Homes Actually Tend to Be Disappointing Investments

Yarek Waszul

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The New York Times

COMMON SENSE
Business/Financial Desk; SECTB
Monkey Throwing Darts Loses a Faithful Disciple

By JAMES B. STEWART
1,272 words
23 June 2017
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NYTF
Late Edition - Final
1
English

In his classic 1973 book ''A Random Walk Down Wall Street,'' Burton Malkiel, a Princeton economics professor, made an assertion that was startling at the time: that ''a blindfolded monkey throwing darts at the stock listings could select a portfolio that would do just as well as one selected by the experts.''

Three years later, Vanguard, the asset manager where Mr. Malkiel served on the board for 27 years, started the first passive index fund, an innovation that has swept the financial world.

Now, at age 84, Mr. Malkiel has had a remarkable change of heart: Maybe the experts can beat the monkeys after all. That is, if the experts are software engineers writing sophisticated algorithms for computer-generated trading.

Mr. Malkiel is chief investment adviser for Wealthfront, a pioneering automated investment manager that last week adopted a new approach it calls Advanced Indexing. The strategy aims to exploit market inefficiencies and beat the passive approach, based on an index weighted by stocks' market capitalization, which Mr. Malkiel has long championed. This falls within a broad investing category known as ''smart beta,'' beta being a measure of the **volatility** of a security or a portfolio in comparison to the market as a whole.

''I have been a critic of smart-beta funds because they have typically been sold with high expense ratios and have ignored tax consequences,'' Mr. Malkiel told me this week. ''Smart beta has in effect been expensive beta.'' But decades of academic research into efficient markets and Wealthfront's ability to deliver a smart-beta approach at low cost, coupled with tax efficiency, finally won him over, he said.

Rob Arnott, founder of Research Affiliates, which devises smart-beta products for money managers like Pimco and BlackRock, greeted news of Mr. Malkiel's conversion as ''a fascinating turn of events.''

''Even though Burt Malkiel was never a die-hard efficient market person, he was pretty staunchly in that camp,'' Mr. Arnott said. ''He has acknowledged there may be some market inefficiencies, but any advantage from trading on them got eaten up in fees. Now the approach has become so cost-effective that even a skeptic like him is acknowledging it can add value.''

A large and growing body of academic research suggests there are market anomalies that can be exploited to beat a strict index approach. Some of that research has been recognized with Nobels in economic science -- William F. Sharpe in 1990 and Eugene F. Fama in 2013. One of these findings is that value outperforms growth, rewarding those who identify stocks with lower price-earnings ratios and other metrics that suggest they're undervalued. Another factor is momentum, in which stocks that are already outperforming market averages continue to do so.

Even so, ''smart beta isn't the kind of thing you hear talked about at cocktail parties, unless you move in very geeky social circles,'' said Matt Hougan, chief executive of Inside ETFs, which provides research and conferences on exchange-traded funds.

That may change now that someone of Mr. Malkiel's stature has thrown his weight behind it.

Wealthfront stressed that it was not abandoning the essence of Mr. Malkiel's long-held belief in passive investing, and it calls its new approach PassivePlus. ''Burt Malkiel is still the high priest of passive investing,'' said Jakub

Jurek, vice president for research at Wealthfront. "To be absolutely clear, we're not stock pickers. There are decades of research on active investors, which show they underperform." At the same time, he said, "there are small adjustments you can make to improve after-tax returns."

In addition to value and momentum factors, Wealthfront's approach embraces stocks with high dividend yields, low market beta and low **volatility**, all factors that "have proven robust across long time periods, geographies and asset classes," Mr. Jurek said. (Wealthfront excluded another widely cited factor, small market capitalization, because its investment universe is limited to large-cap issues.)

Wealthfront's testing against historical data indicates its multifactor approach outperformed a strict index approach by an average of 1 percentage point per year over the past 50 years, and even more since 2000, without any increase in **volatility**. As would be expected, there were some periods in which it underperformed.

"There's a lot of statistical and, perhaps more important, behavioral support for these strategies," Mr. Hougan said. "You'll find plenty of two- or three-year stretches where this will underperform, but if you buy and hold, it's going to add value. We've seen value outperform for over 80 years. And Wealthfront is blending five factors that should smooth out and reduce those periods of underperformance."

Smart beta has its critics, including Mr. Arnott, viewed by many as the godfather of the field. "Smart beta can be smart, and then it can be not so smart," Mr. Arnott said. "There are tons of strategies being offered now based on nothing but back tests. Anyone can create a brilliant strategy with benefit of hindsight. But does that mean anything for future returns?"

"Pretty much everyone is looking at the same factors, which is a danger," he added. "It's a very crowded space. If 10,000 quants are all looking at the same data and trading on it, the chances are that it's not going to work."

Mr. Jurek responded that "at a very general level, you could say that every back test is problematic." But he stressed that "when designing Advanced Indexing, we relied on decades of peer-reviewed research to select factors that have stood the test of time" -- even after being widely publicized -- and "across asset classes." He noted that smart-beta exchange-traded products account for about $500 billion in assets, still a relatively small fraction of total assets invested.

Multifactor smart-beta E.T.F.s are now available from many major fund providers, including BlackRock's iShares, Invesco's PowerShares, State Street's SPDRs and WisdomTree E.T.F.s, but their track records are too short to draw any meaningful conclusions. And despite similar names and what purport to be similar strategies, their actual holdings can vary widely.

There are even more single-factor E.T.F.s, such as the venerable Vanguard U.S. Value Fund, started in 2000. Its 10-year annualized return as of this week was 5.8 percent, compared to 7.2 percent for the **Standard & Poor**'**s 500**-**stockindex**.

Low-**volatility** funds, which tend to smooth out performance, have been especially popular since the financial crisis. The PowerShares **S**.**&P**. **500** Low **Volatility** Fund is the oldest, begun in 2011. It has a five-year annualized return of 13.6 percent, compared with the **S**.**&P**. **500**'s 14.9 percent, according to Morningstar.

Mr. Malkiel stressed that low fees were critical in enhancing long-term smart-beta returns. Wealthfront charges its standard 0.25 percent management fee, with no additional charge for its Advanced Indexing feature. (Some smart-beta E.T.F. fees are even lower, although the average fee is over 1 percent.)

Mr. Hougan agreed. "You can easily waste away all the outperformance if the strategy isn't carefully implemented," he said. "We used to have to pay 1 percent and 1.5 percent to overpaid managers. Now we can get those strategies for 30 basis points or less. I think that's great."

Burton Malkiel asserted in 1973 that a monkey throwing darts could match experts' stock picks. (PHOTOGRAPH BY JULIE GLASSBERG FOR THE NEW YORK TIMES) (B6)

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The New York Times

Business/Financial Desk; SECTB
Indexes Flatten Out As Oil Prices Rise

By THE ASSOCIATED PRESS
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English

Wall Street stock indexes held steady Thursday after the price of oil halted its slide, at least for now.

Energy stocks fell again, but not by nearly as much as earlier in the week, after the price of crude rose for the first time in four days. Big gains for health care stocks also helped to offset losses for financial companies and in other areas of the market, leaving indexes close to flat.

The Standard & Poor's 500-share index edged down by 1.11 points, or less than 0.1 percent, to 2,434.50. The **Dow Jonesindustrial average** dipped 12.74, or 0.1 percent, to 21,397.29, and the **Nasdaq composite** index rose 2.73 points, or less than 0.1 percent, to 6,236.69.

Markets had been dominated this week by oil's tumbling price. But on Thursday, benchmark crude rose 21 cents to settle at $42.74 per barrel, and Brent crude, the international standard, added 40 cents to $45.22 per barrel. Those modest increases were a big shift in momentum from earlier in the week, when oil dropped to its lowest level since August on expectations that supplies would exceed demand.

Helping to support indexes were health care stocks, which have been shooting higher this week even as the rest of the market struggled. For example, HCA Healthcare, which owns hospitals around the country, rose $2.09, or 2.5 percent, to $86.14.

Expectations used to be high that big changes coming out of Washington, such as lower tax rates, would help businesses make bigger profits and markets rise higher. That is much less the case today.

''Expectations have gotten so low, as far as what's going to come out of this administration,'' said Jon Adams, senior investment strategist at BMO Global Asset Management. ''Most think some kind of health reform will get done, but tax reform is a coin flip, and the expectation is it will be very, very modest if it does get through.''

The day's biggest gainer in the **S**.**&P**. **500** was Oracle, which jumped $3.97, or 8.6 percent, to $50.30 after reporting stronger revenue and earnings for its latest quarter than analysts expected.

On the opposite end was the consulting company Accenture, which fell $5.03, or 4 percent, to $122.08. It trimmed the top end of its forecast for revenue growth this year, when taking changes in foreign-currency values into account.

The **10**-**year Treasury** yield declined to 2.15 percent from 2.17 percent, while the two-year yield fell to 1.34 percent from 1.35 percent late Wednesday, and the 30-year yield dipped to 2.72 percent from 2.73 percent.

The euro fell to $1.1151 from $1.1164 late Wednesday, and the British pound rose to $1.2686 from $1.2664. The dollar dipped to 111.23 Japanese yen from 111.33.

Gold rose $4.20 to $1,247.60 per ounce.

CHARTS: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Thursday. (Source: Reuters); Freddie Mac Yields: Average for some Federal Home Loan Mortgage Corp. securities. (Source: F.H.L.M.C.)

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Banks Move Forward To Replace a Key Rate

By Katy Burne
468 words
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Efforts to replace Libor with a credible alternative have taken another step forward.

Fifteen banks voted Thursday on a replacement for the U.S. dollar London interbank offered rate, the besmirched interest-rate benchmark that some of them were accused of rigging in an industrywide scandal a few years ago.

Banks participating in the vote had settled on two likely candidates as of last year and decided on a rate derived from a broad set of borrowing transactions secured by U.S. Treasurys, according to a statement from the Alternative Reference Rates Committee. The individual vote tally wasn't disclosed, a spokesman for the committee said.

Phasing in the new rate is expected to start next year on a voluntary basis after the committee publishes a report on its work.

Libor has been deeply embedded in **financial markets** for decades and is used to set rates for hundreds of trillions of dollars of derivatives and other borrowings, including loans to consumers, companies and governments.

In May, the U.K. announced an alternative reference rate to Libor for sterling-based derivatives and other **financial-market** contracts.

In the U.S., the committee has "got to have a plan to encourage the market to adopt it," said David Duffee, partner at law firm Mayer Brown.

The banks that voted Thursday were brought together in 2014 by the Federal Reserve Bank of New York and the Fed Board of Governors in Washington after certain banks were alleged to have manipulated Libor. Banks collectively paid billions of dollars to settle those investigations.

At the time the committee was formed, neither of the U.S. alternative rates had been created. Even now, the preferred rate selected has to go through a round of public comment and won't be published until later this year or 2018.

The rate the banks decided on is based on short-term loans known as repurchase agreements or "repo" trades, backed by Treasury securities as collateral. The New York Fed has proposed publishing the rate in cooperation with the Office of Financial Research.

The chosen rate consists of transaction data from across the repo markets, including some provided by Bank of New York Mellon Corp. and others settled by a unit of the Wall Street-controlled utility Depository Trust & Clearing Corp. But it excludes trades struck one-for-one between firms that aren't processed by third parties, as well as repo trades conducted with the Fed.

The runner-up in the vote, the Overnight Bank Funding Rate, is an overnight gauge of unsecured bank funding costs composed of transactions from the federal-funds market and Eurodollar trading. That rate has at times been beset by slumping trading volumes.

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The New York Times

Breakingviews
Business Day; DealBook
Ten Years After Going Public, Blackstone Stock Hasn't Budged

By JEFFREY GOLDFARB
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NYTimes.com Feed
NYTFEED
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Correction Appended

In a sense, Blackstone is back where it started. On June 22, 2007, at what turned out to be a market peak, Steve Schwarzman and Pete Peterson took their private equity firm public in a ballyhooed transaction that inspired rivals to do the same. A decade on, the firm's units are trading just above their $31 price ahead of their New York Stock Exchange debut. A better result over the next 10 years could require Blackstone to financially re-engineer itself.

Even including dividends, assumed reinvested to derive a total return, Blackstone's performance has been just ordinary. At about 7 percent a year since the initial public offering, its stock has fared no better than the **Standard & Poor's 500-stockindex**, and at a much higher risk. The firm has roughly $360 billion to deploy into buyouts, real estate and credit on behalf of pension and sovereign wealth funds, and that has historically generated at least twice as much return for the investors in the funds Blackstone runs.

And while Blackstone units have outperformed the 1.2 percent total return delivered by shares of the Wall Street blue-chip Goldman Sachs, they've badly lagged some best-of-breed money managers, including BlackRock, the mutual and exchange-traded fund behemoth, and Berkshire Hathaway. Warren E. Buffett's conglomerate makes for an apt comparison in that it's an investment akin to owning a slice of both Blackstone's publicly traded units and a piece of each of the companies held by its funds.

Public Benefits

Inside 32-year-old Blackstone, the stock performance isn't the main measure of the I.P.O.'s success. Simply going public conferred a certain brand status, particularly overseas. Selling a big slug of the new units to China Investment Corporation also paid off. China Investment gritted its teeth through a share-price decline of nearly 90 percent at one stage and helped Blackstone forge relationships with other pools of capital in the People's Republic. Over the years, the firm has sold more than $30 billion of its holdings, including stakes in Hilton Worldwide and the European warehouse owner Logicor, to Chinese buyers. And Mr. Schwarzman established a unique scholarship program at Tsinghua University.

The units also provided a currency to reward employees and expand the firm. For example, less than a year after the listing, Blackstone used units to help fund the acquisition of GSO Capital Partners, which significantly enlarged its credit-investment arm. Since going public, Blackstone has quadrupled its assets under management while increasing its work force less than threefold, to about 2,100.

That's a measure of the economies of scale Mr. Schwarzman and his right-hand man, Tony James, have produced, with the right people to help them. They're not alone, though. Over the same span, Larry Fink's far larger BlackRock has nearly quintupled the amount it oversees, to some $5.1 trillion, with two and a half times the staff, now numbering 13,000.

Opening its books to public scrutiny also may have made it easier for Blackstone to get a credit rating. That in turn has allowed it to borrow and to entice incoming fund investors with an extra demonstration of its financial robustness.

Perception vs. Assertion

Nevertheless, it is the **stock market** perceptions of Blackstone that perplex Mr. Schwarzman, who routinely complains about them. Merely putting its profit on the broad average price-to-earnings multiple would make it a roughly $50 stock, he recently argued. If instead of its recent dividend yield of about 8 percent the units were priced on the **S**.**&P**. **500** average payout of a little over 2 percent, they'd fetch over $100 apiece, he claimed. With Blackstone's current market capitalization at about $40 billion, that would represent a huge markup for investors.

Despite years of trying to educate outside investors, and the subsequent I.P.O.s of rivals such as Apollo, Carlyle and KKR, portfolio managers are reluctant to ascribe much value to private equity's secret sauce, which is generating profit on investments and collecting a cut. Instead, it is steady management fees of 1 to 2 percent on assets that are coveted.

This attitude favors investment managers who worry more about gathering assets than making money for those who invest in them. Blackstone did say from the start that its main goal would be making money for limited partners in its funds, a group that includes its own senior people, rather than for investors in the firm's publicly traded units. The trouble is that when the profit does flow through to unit holders, they don't value it as highly as they might.

Paths to Growth

Such an unchanging mind-set suggests that if Blackstone is genuinely eager to see its stock rise more strongly in the next decade, it may take more than Mr. Schwarzman thumping the table. One option could be to pay a fixed annual dividend rather than a variable one based on performance. It's a solution that could perversely mean giving back less to unit holders than the firm has of late, but it might help assuage investor fears about the lumpiness of returns.

Any excess funds stockpiled also could be used to buy back units, thus enabling Blackstone, in theory at least, to nudge up their price. One case study is not encouraging so far, though. KKR unveiled such a plan in October 2015 and has not benefited much in terms of its **stock price**.

An even bigger Blackstone makeover might have a greater effect. Converting the firm from a partnership to a more conventional sort of corporation would garner considerable attention. For one thing, it would make its stock eligible for entry into indexes, thus attracting many index-following funds that would be forced to buy them. Investors who are currently put off by the firm's complex partnership structure and paperwork might consider putting their money into a simpler Blackstone that has shares, not units, and pays regular corporate taxes rather than passing untaxed income through to unit holders.

Making such a radical restructuring financially worthwhile, however, could require a reduction in business tax rates in the United States . In one of his other roles, Mr. Schwarzman is serving as a consigliere to President Trump, who says he is eager to cut taxes. The association may provide a modest advantage. More likely, Blackstone and its leadership team will have to find one for themselves.

Correction: June 22, 2017, Thursday

This article has been revised to reflect the following correction: An earlier version of this article misstated its author. It is Jeffrey Goldfarb, not Rob Cox.

* Big Payoff After Blackstone Courted a Saudi Prince

* SeaWorld Stake, Long Held by Blackstone, Is Sold to Chinese Firm

* Blackstone to Acquire Aon Unit for Up to $4.8 Billion

Document NYTFEED020170622ed6m007ep

THE WALL STREET JOURNAL.
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Markets & Finance: Global Calm Descends on Markets

By Steven Russolillo
559 words
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English

HONG KONG -- Investors had hoped the U.S. presidential election would usher in a new bout of market **volatility**. Instead, calm not only has persisted, but has spread.

Based on one commonly used measure, Asian stocks are near their least **volatile** this century. In Europe, large price swings in eurozone stocks have largely subsided. And in the U.S., Wall Street's "fear gauge," known as the VIX, has been trading near historic lows for much of the year.

"A very supportive Trump trade is gone," said Dwyfor Evans, head of macro-strategy for Asia-Pacific at State Street Global Markets in Hong Kong. "Nobody talks about it anymore. Instead, people are getting concerned that this has been a very extended period without any adverse reactions in markets. They don't want to get caught when things turn."

The phenomenon -- which analysts attribute to a confluence of central-bank support for markets, improving corporate earnings and, some say, misguided investor complacency -- marks a turnabout from what investors expected last year after Donald Trump won the presidential election.

Then, investors hoped Mr. Trump's growth plan, combined with his unconventional approach, would generate outsize swings and restore the potential of individual stock picking, as investors could bet on which companies and sectors would benefit or suffer.

While the U.S. **stock market** has risen since then, **volatility** hasn't.

That is because without the significant policy changes that were expected by investors from Mr. Trump, easy-money policies by central banks have continued to be a dominating influence on markets, buoying asset classes.

The calm, analysts say, is one reason investors are intrigued with markets like that for bitcoin. That virtual currency has moved this year by as much as 14% in a day. It topped $3,000 last week and then promptly fell 27% before rebounding a bit.

"Investors are reaching for opportunities in speculative assets, and you're seeing it in things like art and wine and even bitcoin," said Sean Darby, chief global equity strategist at Jefferies in Hong Kong.

Meanwhile, many expect the tranquility in stock markets to continue. The phenomenon is due in large part, investors say, to the unprecedented support for markets from global central banks that came after the financial crisis.

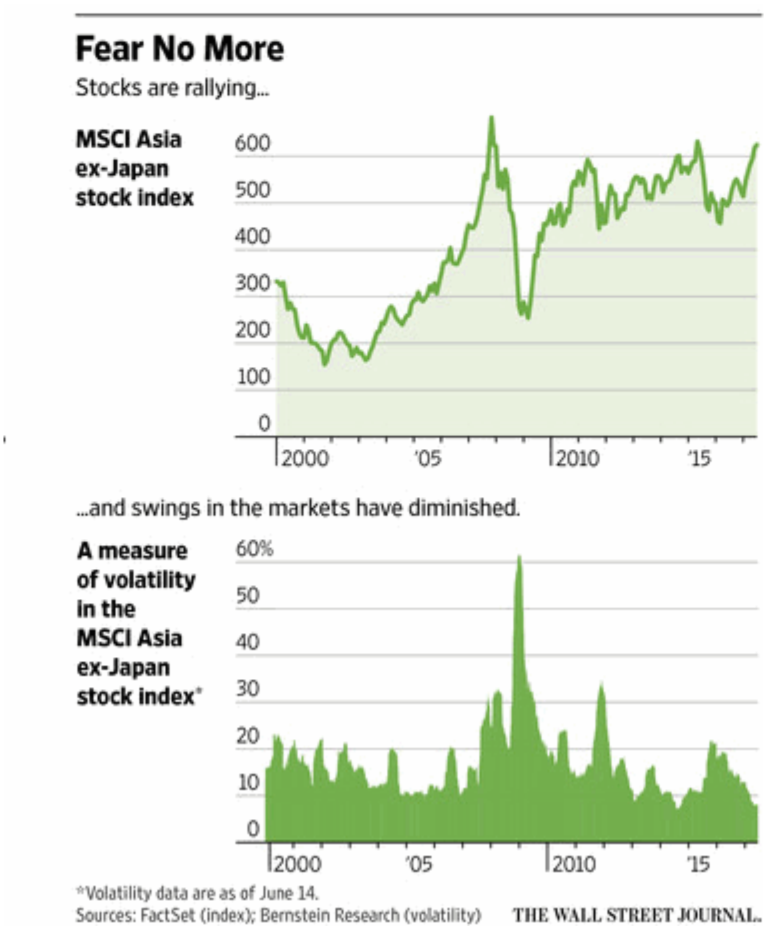
In addition, corporate earnings have improved, not only in the U.S. but also in Europe.

"All of these potential shocks and fears haven't come to fruition," said Steven Wieting, managing director and global chief investment strategist at Citi Private Bank. "We're in calm seas."

In China, signs of healthier consumer demand and strengthening industrial profits in particular have helped bolster stocks, according to Michael Parker, head of strategy, Asia-Pacific at Bernstein Research in Hong Kong.

Mr. Parker cited the MSCI Asia ex-Japan **stock index**, a broad measure of regional performance -- weighted most heavily to China, South Korea, Taiwan, Hong Kong and India -- which has risen 19% this year.

The index's 90-day realized volatility, a measure of historical moves over that period, has fallen to 8.2%, near its lowest since at least 2000 and down by nearly half from a year ago, according to Mr. Parker. Only in the summer of 2014 has this metric been lower.



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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB

Energy Shares Fall as Oil Price Hits a 10-Month Low

By THE ASSOCIATED PRESS
696 words
22 June 2017
The New York Times
NYTF
Late Edition - Final
2
English

Energy stocks on Wall Street plunged again on Wednesday as oil dropped to its lowest price since last summer, extending a dismal start to the year. Gains for health care and technology stocks helped limit losses for broader market indexes.

The **Standard & Poor's 500**-**stockindex** dipped 1.42 points, or 0.1 percent, to 2,435.61. The **Dow Jonesindustrial average** fell 57.11, or 0.3 percent, to 21,410.03, and the **Nasdaq composite** index rose 45.92, or 0.7 percent, to 6,233.95.

''The story truly is energy right now,'' said J J Kinahan, the chief market strategist at TD Ameritrade.

Crude dropped for a third straight day and touched its lowest price since August on expectations that supplies of oil will far outweigh demand. Even a report showing that supplies in United States inventories shrank last week did little to turn the tide.

Benchmark crude lost 98 cents, or 2.3 percent, to settle at $42.53 a barrel. Brent crude, the international standard, fell $1.20, or 2.6 percent, to $44.82 a barrel.

The price of oil has dropped more than 20 percent this year, to what traders call a **bear market**. How much of an effect the decline will have on most 401(k) accounts will depend on how much it undercuts energy company profits, and whether the pain will affect other areas of the market.

Accelerating corporate profits and expectations that the trend will continue have been big reasons for the **stock market**'s rise this year, and energy companies had been forecast to provide some of the biggest gains.

Energy stocks in the **S**.**&P**. **500** tumbled 1.6 percent on Wednesday, a day after falling 1.2 percent. They are down nearly 15 percent for the year; the overall **S**.**&P**. **500** is up 8.8 percent.

Losses for the broad **S**.**&P**. **500** were more modest on Wednesday because of strong gains for health care and technology stocks.

Red Hat, an open-source software company, surged to one of the biggest gains in the index after reporting better-than-expected earnings for its latest quarter. Its forecast for revenue and earnings this fiscal year also topped analysts' expectations. Its stock rose $8.62, or 9.6 percent, to $98.58.

La-Z-Boy jumped $5.80, or 22.1 percent, to $32.00 after reporting quarterly earnings that easily topped analysts' expectations. Its customers have been shifting toward higher-priced and more profitable products for the company, such as leather.

In overseas markets, the Shanghai composite rose 0.5 percent after the index provider MSCI said it would include 222 of what are called Chinese A-shares in its widely followed Emerging Markets index.

The change, which will begin next year, is likely to cause big shifts of money into mainland Chinese stocks by mutual funds and other investors that track the index.

In Europe, the French CAC 40 fell 0.4 percent, the German DAX lost 0.3 percent, and the British FTSE 100 slipped 0.3 percent. In Asia, the Japanese Nikkei 225 index fell 0.5 percent, the South Korean Kospi lost 0.5 percent, and the Hang Seng in Hong Kong dropped 0.6 percent.

The **10**-**year Treasury** yield held steady at 2.16 percent. The two-year yield slipped to 1.34 percent from 1.35 percent late Tuesday, and the 30-year yield edged down to 2.73 percent from 2.74 percent.

The British pound rose to $1.2668 from $1.2629 late Tuesday. The euro rose to $1.1167 from $1.1128, and the dollar dipped to 111.34 Japanese yen from 111.41 yen.

In the commodities markets, gold rose $2.40 to settle at $1,243.40 an ounce, silver slipped 4 cents to $16.37 an ounce, and copper added 5 cents to $2.60 a pound.

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

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Giant Funds Hold Sway In Global Bond Market

By Jon Sindreu
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English

Giant bond firms increasingly are taking on a price-setting role in global debt markets, elbowing aside big banks facing tighter postcrisis regulation and generating concerns about the toll paid by smaller investors.

The bond funds, which traditionally turned to banks for prices, are usurping the role as banks face pressure to reduce risk. Banks still act as middlemen in bond trading, but what trading they do is directed at bigger funds, say bankers and fund managers. Smaller funds have less service and higher costs in trading, say many money managers who work for them.

While bigger bond investors have long had advantages, the differences have become more pronounced.

"There's no question that bank balance sheets are much more constrained than they used to be," said Scott Clemons, chief strategist at Brown Brothers Harriman & Co., which oversees $54 billion, and this "has shifted the relative importance of players in the market."

What's happening in bond markets would be similar to a retail sector in which wholesalers -- a role played by banks in **financial markets** -- were scaling back their business. Small retailers would struggle to stock up, but big-box stores with their mega warehouses and access to international producers would get by fine.

Before the financial crisis, Jay Sommariva, portfolio manager at Fort Pitt Capital Group, a Pittsburgh firm that manages $1.5 billion, would call a few banks to sell a bond and it would be snatched up within hours, he said. Now, it takes at least a couple of days, and the cut that the bank takes is much greater, he said.

For every billion dollars of bonds outstanding in U.S. markets, dealer banks held only $8 million in 2016, one-third the amount in 2008, according to the Federal Reserve and the Securities Industry and **Financial Markets** Association. This change has made trading choppier, research published by the Fed last month suggested.

It is also shifting the balance of power away from banks and small funds, investors say, and into the hands of the largest asset managers.

In recent years, whenever Mr. Sommariva wanted to sell a bond, banks would normally only buy it if they had someone lined up to sell it to, he said. Big funds say that this someone is them.

"They'll call us, Pimco, BlackRock, and ask 'Can you take that on?'" said Gregory Peters, a senior fund manager at PGIM Fixed Income, part of PGIM Inc., an asset manager that oversees $1 trillion. "It's really Darwinian when it comes to size."

This approach wasn't as common pre-2008, when banks could buy the bond on the spot and wait to sell it when a buyer was willing to meet their price.

Taking the bond off the banks' hands, however, is a service done only for a good price, Mr. Peters added, giving firms like his an edge.

Who is getting the short end of the deal? Banks are being hit because they have less flexibility in trading and because asset managers now have more analysts, more data and electronic tools that allow them to trade directly with one another, analysts say.

"A client has a lot of transparency now and, in many ways, more than a dealer," said Chris Orr, co-head of European investment-grade credit trading at Credit Suisse Group AG.

But ultimately, if banks trade less, it is the small investor who suffers, analysts say. Smaller asset managers rely on banks; they don't have the capacity to stockpile bonds themselves.

Banks have long given better prices to bigger funds sending larger orders, because they bring in more fees -- trading small blocks can be five times as pricey as doing it in bulk, managers said. Smaller funds are also trying to adapt and play to their strengths, they say, for example by holding less-traded bonds for longer.

Large asset managers, meanwhile, are adapting to their new role and behaving more like banks used to.

Now, instead of just calling banks for quotes on bonds, big funds often amass large stockpiles of their own and then call banks to tell them at what price they are willing to sell, said David Lloyd, head of institutional public debt at M&G Investments, a GBP 265 billion ($335 billion) asset manager.

It is hard to pin down the cost of trading because it varies depending on the risk and maturity of the asset as well as daily moves. Large funds say that roughly 1% of the money they can make on a bond may be spent on buying or selling it to a bank, with some reporting only slight increases since the crisis.

Some smaller funds say that for them, this cost could go up to 15%, an increase of roughly a fifth after 2008.

Larger funds tend to outperform smaller ones, though there are many other possible reasons. Individual U.S. dollar corporate-debt funds larger than $1 billion returned a cumulative 61% between 2008 and 2016, while those managing less than that yielded 48%, according to data by fund tracker Morningstar Inc.

"The bigger you are the better off you are," said Bob Baur, chief global economist at Principal Global Investors, which manages more than $400 billion.

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Equities: Investors Look for China to Step Up Its Game

By Gregor Stuart Hunter
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MSCI Inc.'s decision to include mainland Chinese shares in its global benchmarks for the first time could prompt changes to how companies are run, even if the initial amount of capital inflows won't be enough to cause a sizable shift in the country's markets, analysts and brokers said.

MSCI said it would admit 222 Chinese stocks -- known as A-shares, or stocks denominated in yuan and listed in either Shanghai or Shenzhen -- to benchmarks such as its Emerging Markets Index, which is tracked by funds with some $1.6 trillion of assets under management world-wide.

The approval -- which came before the start of Chinese stock trading Wednesday and followed three years of rejections by MSCI -- drew a muted reaction from mainland investors. The Shanghai Composite Index closed up 0.5%, while its Shenzhen counterpart gained 0.4%.

The tepid response was viewed in the market as a reflection of the relative caution apparent in MSCI's decision. After discussions with big fund managers such as BlackRock Inc., the world's largest money manager by assets, the index provider said it would admit roughly half of the largest number of companies it had considered including in past years.

MSCI estimates some $17 billion will flow into Chinese markets -- both from passive funds that automatically track its indexes and active fund managers -- when the country's stocks are included a year from now. That is a fraction of the Shanghai and Shenzhen markets' combined $7.5 trillion market capitalization.

MSCI indexes already include Chinese companies' shares listed in cities like Hong Kong and New York, but not those in mainland China.

Still, the decision was heralded by market participants who have long salivated over the prospect of gaining greater access to the world's second-largest economy. The move could change the way that global investors look at China, said Chin-Ping Chia, head of research for Asia-Pacific at MSCI.

"It's about the opening of a new phase of emerging-market investing," he said. "The opening of the Great Wall, so to speak."

Including mainland Chinese stocks in MSCI benchmarks will have "far-reaching implications" for global investors, said Rakesh Patel, head of equities for Asia-Pacific at HSBC. He said some $500 billion could flow into Chinese markets in time, as they become more accessible and companies such as MSCI and FTSE Russell give a full weighting to Chinese stocks in their indexes.

The country's **stock-market** regulator, the China Securities Regulatory Commission, said the decision reflected confidence from global investors in the Chinese economy and **financial markets**.

The regulator also pledged to further revamp its capital markets. "The Chinese capital market must welcome foreign investors more openly," it said.

In the year since MSCI's most recent rejection of Chinese stocks' inclusion in its indexes, the country has further opened up the Shenzhen market to global investors via a trading link with Hong Kong. It has also overhauled the rules governing share suspensions, making it more difficult for companies to halt trading in shares.

One concern for investors is whether having more shareholders from overseas will encourage greater transparency and better corporate governance at Chinese companies.

"Now that China's domestic **stock market** has become a member of the international family, it has become easier for us to have a dialogue with companies and regulators to express our views," said Victoria Mio, Hong Kong-based chief investment officer for China at asset manager Robeco.

Following MSCI's decision, global investor attention will focus on improvements in the quality of management at Chinese companies, said Kevin Anderson, head of investments for Asia-Pacific at State Street Global Advisors.

"There will now be a lens shone on Chinese companies, with an eye on improving shareholder value, corporate governance and returns from those companies," he said.

Yet others were less upbeat. Chinese stock markets "still suffer from serious institutional shortcomings as well as heavy political influence," according to analysts at research firm Eurasia Group.

Since China's market crashes in 2015 and early 2016, the presence of state-backed investment funds in the market has risen in importance. Domestic traders say such funds often step in to buy or sell shares during periods of market **volatility**.

In addition, China's market regulator continues to exert strong control over the pace of initial public offerings. Despite recent revamps, the country's tight capital controls can still make it difficult for investors to move money across the border.

The MSCI decision is unlikely to lead to huge inflows of capital from abroad until China makes further changes to the structure of its capital markets, said Liu Weiming, Beijing-based chief investment officer at Fuxi Investment Management Co.

"Has MSCI given China a chicken wing to help it fly higher or is it just chicken ribs that carry little meat or value? I think it's chicken ribs," he said. "If you don't make your home clean and tidy enough, how do you expect your guests to come for a visit?"

Chao Deng and Shen Hong contributed to this article.

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Markets & Finance: A Clash Over VIX Bragging Rights --- Pair of academics say their research is at heart of Wall Street's 'fear gauge' but credit went to a rival

By Ben Eisen
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Two academics who did early work on a gauge of **stock-market volatility** fear they are being written out of its history.

Menachem Brenner, a finance professor at New York University, and Dan Galai of the Hebrew University of Jerusalem called their version "Sigma" and say they pitched it to various exchanges years before the Chicago Board Options Exchange rolled out its **volatility** index in 1993.

The CBOE's VIX is based on the work of Vanderbilt University's Robert Whaley, who is typically credited with developing the index, widely known as Wall Street's "fear gauge" for its options-based read on expected **stock-price** swings. It tends to soar as stocks fall and investors turn anxious.

In academic circles, the duo has for years quietly fumed that Mr. Whaley's work is based on theirs. The popularity of the gauge has grown as it hit record lows this year, pushing some investors to fret over market complacency.

The resulting interest in the VIX's history has prompted Messrs. Brenner and Galai to openly dispute the common knowledge of how one of the most popular market measures came to be.

"There were many occasions that I wanted to come out with it, even though it's a 20-year-old story," Mr. Brenner told The Wall Street Journal in his first public comments about the disagreement. "But every time I said, 'Let's be positive.'"

Mr. Whaley stands behind his work and the credit it has earned him. He said that while the idea of a **volatility** index long was discussed in general terms, including by Messrs. Brenner and Galai, he was the first to create a formula calculated in real time.

A spokeswoman for the exchange said: "CBOE engaged Professor Robert Whaley to develop the original methodology for the CBOE**Volatility** Index." The spokeswoman added, "The staff involved with the development of the original index are no longer at CBOE and we have no one who can comment on what transpired."

Messrs. Brenner and Galai say that at the center of their work was the idea to create what they called synthetic options prices that consistently showed implied **volatility** over the next 30 days. Because **S&P 500** options had monthly expirations, they needed to find a way to create something that didn't exist: a series of options prices whose time until expiration never change.

Once they had that, they say, they had the pieces in place for a consistently updating index. They pitched the idea of the index to the American Stock Exchange and the CBOE in the 1980s, but nothing came of it, according to the two academics and correspondence written at the time. In 1989, they jointly published research on the idea of the index, as well as on a derivatives market built around the index.

Mr. Galai said he first explained the details of the work he was doing to Mr. Whaley when the two were expert witnesses on a legal case in 1988 and 1989. "We had long days and nights working on the case," Mr. Galai said.

Mr. Whaley remembers working on that case and said a conversation about **volatility** indexes could have taken place although he said he didn't recall anything specific. He said in a written response to questions that he had such discussions with many people in that period.

Mr. Whaley had also been doing work on **volatility** before CBOE hired him to create the VIX. He said that he had been aware of some of the work done by Messrs. Brenner and Galai, and cited it in research published in 1993, but that they didn't have a formula or specific computations for index levels. He considers his creation of the formula to be the heart of his work, he said.

"The CBOE asked me to build an implied market **volatility** index and show them how it performed, and that's what I did," he said.

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Oil Prices Return To Bear Market

By Stephanie Yang, Alison Sider and Timothy Puko
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A1
English

Oil prices are back in bear-market territory, frustrating OPEC members that cut production in an attempt to boost prices and renewing fears that falling prices could spill into stocks and other markets.

A persistent glut has weighed on prices for most of the past three years, a blow to investors who believed that the Organization of the Petroleum Exporting Countries' move this year to limit production would provide relief.

Instead, U.S. producers ramped up production when the world was already swimming in oil as OPEC members, Russia and other producing nations curtailed output.

U.S. oil production is up 7.3% to 9.3 million barrels a day since OPEC announced plans in November to cut output, and the number of active rigs in the U.S. is at a two-year high.

The cartel's output cut "has been deemed an OPEC failure and a U.S. production win," said Tony Headrick, energy analyst at CHS Hedging.

While oil prices have enjoyed gains in short spurts over the past year, U.S. prices closed down 2.2% to $43.23 a barrel Tuesday. They have fallen in four of the past five sessions to a new low for the year.

Prices are down 20.6% since Feb. 23, marking the sixth bear market for crude in four years and the first since August. Crude prices have lost 62% since settling at $115.06 a barrel three years ago. A bear market is typically defined as a decline of 20% or more from a recent peak, while a bull market is a gain of 20% or more from a recent trough.

"We're seeing this decline amid some major OPEC production restraints," said Jim Ritterbusch, president of energy-advisory firm Ritterbusch & Associates. "That's the huge difference" compared with previous bear markets.

The oil market has also been more volatile this spring. Traders have crowded into bullish positions, only to reverse suddenly when the market failed to respond to positive data or news that OPEC was extending its cuts. Tuesday's move marked oil's eighth loss of more than 2% in the past two months.

Investors are starting to worry that oil's steady declines may start to drag down other markets. When the oil-price plunge gathered steam at the end of 2015, analysts blamed crude in part for sparking selloffs in other commodities, emerging markets and other risky assets.

The S&P GSCI index, which broadly tracks commodity prices, fell 1.2% Tuesday. The S&P 500's energy sector, already the worst-performing group of stocks in the index, dropped an additional 1.2%. Seven out of the 10 worst-performing stocks in the S&P 500 this year are energy stocks, according to FactSet.

"You've got a buyer's strike out there on the equities side," said Dan Pickering, head of the asset-management arm of Tudor, Pickering, Holt & Co. "I love the values I see, but I'm scared to death to put money to work."

There are also signs that anxiety is spreading to the debt market. Bonds of oil and gas companies with below-investment-grade credit ratings, or junk bonds, have held up for most of this year, but anxiety is starting to creep in, analysts and investors say. The Bloomberg Barclays high-yield energy index has returned negative 1.6% since the beginning of June, through Monday.

The deepening oil rout brought strong demand for long-term U.S. government bonds, sending the yield on the **30**-**year Treasury** debt to the lowest level this year Tuesday. Lower energy prices tend to deflate inflation expectations, making long-term Treasury debt more appealing.

Falling **oil prices** are typically helpful to U.S. consumers and the companies that serve them. Airlines made record profits last year in part from lower **oil prices** and were girding for profits to fall this year if oil rose. Lower prices in the futures market are also likely to show up at gasoline pumps in the months ahead, potentially lowering costs for drivers at the end of summer driving season.

But as the U.S. energy production has grown and become a bigger part of the overall economy, many companies have recently been touting the benefits of higher **oil prices**. They now stand to lose out.

Neiman Marcus Group Ltd., for one, a week ago credited higher **oil prices** with improving traffic in its Texas stores. Railroad executives have been concerned about shrinking oil shipments on their lines after low prices forced drillers to cut back two years ago. A continuing rebound in drilling could end or slow with lower prices.

"That's something that we monitor, just given how radical the [last] decline was and how prolonged it was," Keith Cline, chief executive of hotel operator La Quinta Holdings Inc., said at a recent lodging conference. "We're keeping a close eye on the 11% of our rooms that could be impacted in some way by oil production."

Oil returned to a **bear market** for the first time since August 2016, before the historic agreement between OPEC and other major oil-producing nations to limit output by about 1.8 million barrels a day at the end of last year. In May, the group decided to extend the deal into March 2018.

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China Wins Entry Into Benchmark It Coveted

By Carolyn Cui and Gregor Stuart Hunter
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China's efforts to open up its markets to global investors won a long-awaited endorsement when MSCI Inc. said it would add Chinese shares to its emerging-markets index.

MSCI's decision Tuesday to add China A-shares, stocks denominated in yuan and listed in either Shanghai or Shenzhen, to its MSCI Emerging Markets Index stands to boost demand for Chinese stocks by billions of dollars over time.

Yet adding China to the MSCI index would expose foreign investors to a market still plagued by limited transparency and frequent government intervention, some of the concerns cited by the index provider in the past three years following rejections. Even as China aims to attract more global capital, authorities continue to intervene in domestic stock and currency markets, and take on speculators.

MSCI said the decision won broad support from international institutional investors and was primarily the result of the country's steps to improve "the accessibility of the China A market," including its decision to loosen requirements for foreign fund providers seeking approval from Chinese exchanges for products linked to its indexes.

"We believe there are still material access and investor protection issues outstanding," said Timothy Atwill, head of investment strategy at Seattle-based Parametric Portfolio Associates, a unit of Eaton Vance Corp. that manages $197.8 billion, ahead of the announcement. For example, China still limits the amount of money that foreign investors can repatriate each month.

The inclusion, expected to take effect in two stages roughly a year from now, means the funds that track MSCI indexes will automatically allocate money into China, a market that has historically been the domain of stock pickers who decide which shares to buy and sell.

The Emerging Markets Index is tracked by money managers with $1.6 trillion in assets, according to MSCI. About one-third of emerging-market stocks are invested through passive vehicles such as exchange-traded funds, which aim to match the returns from an index, according to Franklin Templeton Investments.

Jorge Mariscal, emerging-markets chief investment officer at UBS Wealth Management, which oversees $1 trillion in assets, said ahead of the announcement that such a move would be a catalyst for investors like him to start looking at the A-shares.

"A lot of our clients use benchmarks such as the MSCI index," he said.

At present, foreign investors hold just 1.5% of the Chinese **stock market**.

Meanwhile, MSCI decided not to add Argentina shares to the emerging-markets index this year, citing investor concerns over market accessibility.

In addition, the index compiler said it will consider classifying Saudi Arabia as an emerging market as early as next year, a move that could add billions of dollars into that country.

MSCI indexes already include Chinese companies' shares listed in cities like Hong Kong and New York, but not those in mainland China. The combined market capitalization of the Shanghai and Shenzhen stock exchanges is $7.5 trillion, according to the World Federation of Exchanges, making it the second-biggest **stock market** in the world after the U.S.

MSCI said 222 companies would be eligible for inclusion, increasing China's weighting in the emerging-market index by 0.73 percentage point from its current 28%. The change will also be reflected in other indexes, including the MSCI All Country World Index.

MSCI had previously said it expected to increase China's weight over time to as much as 45% of the emerging-market index. Goldman Sachs Group Inc. analysts estimated that a total of $210 billion of index money could flow into China in the next five years.

Concerns about China's restrictions on foreign investors had contributed to the proposals' rejection in previous years. The index provider's decision to delay adding A-shares in 2015 triggered a steep selloff in China's **stock market**.

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Banks Rally Even as Yield Curve Flattens --- Unusual trend shows divergent opinions on which way the economy is headed

By Ben Eisen
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21 June 2017
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Financial stocks are getting their groove back -- and they are doing it without help from the bond market.

S&P 500 financials are up 4.9% this month, on pace to be the best performer among the benchmark's 11 sectors. If that holds through the end of June, it would be the best month for the sector since February, when investors were still betting on an economic boom fueled by President Donald Trump's plans for tax cuts and deregulation.

The KBW **Nasdaq** Bank index is up 5.4% this month through Tuesday, while Goldman Sachs Group Inc. is up 6.6% and Morgan Stanley is up 9%.

The stocks of banks, insurers and other financial institutions typically climb when the differential between short-term rates and long-term rates is rising, a development known as a steepening yield curve. That is often thought to boost the net interest margins that banks harvest from borrowing at low short-term rates and lending at higher long-term rates.

But what is remarkable is that financials have rallied while the yield curve has been moving in the opposite direction. The differential between the two-year Treasury note yield and 10-year yield was at 0.81 percentage point on Tuesday, near its smallest since 2007. That is down from 0.92 percentage point at the end of last month.

The rally in financial stocks is at the center of diverging outlooks on the economy. Major stock indexes, and sectors such as financials that are sensitive to the economic outlook, have been gaining steam in recent sessions. At the same time, bond yields have been falling, signaling a less robust outlook for growth and inflation.

"As much as the bond-market vigilantes like to think they are right, it's not always the case," said Julian Emanuel, an equity and derivatives strategist at UBS. "Price is a very powerful signaling mechanism, and the fact that the financials have outperformed while the yield curve is flattening leads us to believe there is a distinct possibility that the yield curve will stop flattening."

During the week that ended June 14, investors poured $1.4 billion into funds that invest in the financial sector, the largest inflow in 14 weeks, according to Bank of America Merrill Lynch. Investors also put $9 billion into bond funds, the 13th straight week of inflows. Meanwhile, investors have cooled on technology stocks in the past week, but still put $100 million into funds that invest in them.

Before the recent upturn, many investors had soured on financials in recent months as Mr. Trump's policy agenda stalled and economic data took a weaker turn. Citigroup Inc.'s U.S. economic-surprise index, which measures how data compare with forecasts, was at its lowest since 2011 on Friday after inflation and retail-sales numbers came in below economists' expectations.

If the economy continues to weaken, it could put the gains in the financial sector at risk. But at the moment, some see the economic outlook as excessively negative, meaning it is poised to rebound to match what bank stocks show. Plus, even if U.S. data continue to be soft, the global economy is expected to accelerate at the fastest pace since 2010 next year, according to Fitch Ratings.

"The market is making new highs here and expectations for the economy have gone straight south," said Bruce Bittles, chief investment strategist at Baird. "That to me suggests the potential for an upside surprise is much greater than the potential for a downside surprise."

There are signs that the new administration wants to take a lighter touch to financial regulation. And while low market **volatility** can pose a challenge to banks' trading businesses, some analysts say **volatility** is poised to tick higher.

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As OPEC Works to Shrink Crude Supplies, Libya Is Flooding the Markets With Oil

By CLIFFORD KRAUSS
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HOUSTON -- The price of oil keeps sinking, and there is no shortage of reasons: American oil companies are producing too much petroleum. The Organization of the Petroleum Exporting Countries has not cut production enough. Motorists around the globe are not driving enough to shrink crude and gasoline inventories as quickly as expected.

But the biggest wild card in the equation -- one that could tip prices at the pump from one day to the next -- is oil-rich Libya, among the most unstable countries in North Africa. Contrary to the predictions of almost all experts, Libya's production has climbed a wall of crisis in recent months to 885,000 barrels a day last week, roughly triple its production of only a year ago.

The unexpected production in Libya has added to the downward pressure on prices. West Texas intermediate crude ended Tuesday at the lowest point since last year, $43.23, a decline of 2.2 percent.

Libya's success in the oil fields has been highly improbable at a time when the country is hopelessly divided between two competing governments and several hostile tribal and regional militias. Deals are made from week to week between oil officials and tribal groups seeking leverage in the southern desert just to keep pipelines open. And suddenly the tensions between Qatar and its Middle Eastern neighbors are echoing more strongly in Libya, threatening exports.

But the seemingly ungovernable country has already undermined OPEC's efforts to cut production, and now Libyan oil executives are projecting that their production will reach a million barrels a day by the end of July, a level not seen in four years.

''It's an incredible disconnect between the security situation and the oil story,'' said Helima Croft, head of commodity strategy at RBC Capital Markets. ''I just find it amazing, but I don't know how long you can reconcile these divergent stories.''

Libya has Africa's largest oil reserves, and its high-quality light crude is in demand around the world. During the 2011 revolution against Col. Muammar el-Qaddafi, and most of the years that followed, production was reduced to a trickle while exports were blocked by militias that controlled the ports.

But by the end of 2016, the blockades were lifted by one armed group, the Libyan National Army, and threats to the oil fields by local adherents of the Islamic State were alleviated by a successful push of opposing militias. Those were positive developments for Libya, but they came just as OPEC decided to take a new course of production cuts to lift crude prices.

Libya, along with Iran and Nigeria, was excluded from the OPEC agreement to slash production last year by more than a million barrels a day. Now all three have increased production, but Libya has been by far the biggest surprise.

''A lot of experts figured things were so unstable in Libya and politics were so opaque that they did not want to factor in more supply from there,'' said Michael Lynch, president of Strategic Energy and Economic Research. With the Libyan surprise, he added, ''OPEC has been wounded. It gets back to the problem that OPEC has a lot of members in bad shape, making it difficult for them to call on everybody to make sacrifices equally. So they excluded those three and now it's come back to bite them.''

Oil prices have plummeted by 16 percent since late May, when OPEC announced an extension of its cutback agreement to next year. Global inventories of oil and refined products have remained stubbornly high, even during the summer driving season. Still, Saudi and other OPEC officials have expressed confidence that inventories and demand will come into balance in the fourth quarter of the year despite the increased oil production in the United States, Libya and a few other countries.

Libya continues to complicate that outlook.

The German oil company Wintershall reached an interim agreement to settle a dispute with the National Oil Corporation of Libya last week to resume production in two fields that potentially could combine to increase output by 160,000 barrels a day. Already, the country's daily production has jumped by 50,000 barrels.

Last month the national oil company announced an aggressive three-phase development plan to lift Libyan output to 1.32 million barrels a day by the end of 2017, to 1.5 million barrels a day by the end of 2018, and to 2.2 million barrels a day by 2023. That kind of growth will require the expertise of Western oil companies that have mostly shied away from investing in Libya in recent years because of the instability and dangers to their workers. Few oil executives outside of Libya are optimistic that the goals will be reached.

Many oil experts say that the Libyan oil company and its partners have been lucky over the last year and that their luck may soon run out, in part because of the rising tensions between Qatar and its Persian Gulf neighbors along with Egypt. The Qataris are aligned with powerful members of the Tripoli-based government backed by Western nations and Turkey, while the competing government based in the eastern city of Tobruk is backed by the United Arab Emirates, Saudi Arabia, Egypt and Russia.

The two governments reached an uneasy deal in late 2015, and the national oil company tries to remain neutral, but the effort led by the United Arab Emirates and Saudi Arabia to isolate Qatar is already spilling over into Libya.

Potentially caught in the crossfire is Glencore, the Swiss-based commodities trading giant, which is the marketer of a large percentage of Libyan oil production and is partly owned by the Qatari Investment Authority. The head of the eastern branch of the Libyan national oil company has accused Qatar of using its 8.5 percent stake in Glencore to divert the trading company's sales of Libyan oil to finance terrorists, a charge denied by Mustafa Sanalla, the chairman of the national oil company based in Tripoli.

Mr. Sanalla has official authority over all exports, but the prime minister of the eastern government, Abdullah al-Thinni, has ordered Glencore to halt oil exports from the port of Hariga. About 200,000 barrels a day of exports could eventually be put at risk.

''I appreciate the deals that Sanalla has done to re-establish production,'' said Geoff D. Porter, president of North Africa Risk Consulting. ''But those deals don't reflect any structural change in the oil sector or the geopolitical risks or labor unrest, safety issues and tribal unrest. These are huge issues that could slow up the sector at any point.''

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The New York Times

Business/Financial Desk; SECTB
Sliding Oil Prices Drag Down the Energy Sector and Indexes

By THE ASSOCIATED PRESS
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Wall Street stock indexes retreated from their record heights Tuesday after a slump in the price of oil weighed on energy companies.

The **Standard & Poor's 500**-**stockindex** fell 16.43 points, or 0.7 percent, to 2,437.03, and the **Dow Jonesindustrial average** lost 61.85 points, or 0.3 percent, to 21,467.14. The **S**.**&P**. **500** and Dow each set records on Monday thanks to big gains from technology stocks.

The **Nasdaq composite** lost 50.98 points, or 0.8 percent, to 6,188.03.

Losses were widespread across the market, with many of the sharpest declines concentrated in the energy sector, as the price of oil touched its lowest price since mid-November.

Benchmark crude lost 97 cents, or 2.2 percent, to settle at $43.23 per barrel, and Brent crude, the international standard, fell 89 cents to $46.02 per barrel.

The price of oil has been sloshing between $40 and $55 per barrel for much of the last year, down from a peak of more than $110 in the summer of 2013. Drillers have gotten much better at pulling oil from the ground, which has helped supplies to balloon and correspondingly weighed on prices.

One main reason for the **stock market**'s climbing to record after record this year has been the resurgence in profit growth for big companies, and the energy sector is expected to play a leading role in that. Analysts forecast energy companies in the **S**.**&P**. **500** will report better than 300 percent growth in their earnings per share this year. But if the price of oil keeps dropping, that is at risk.

John Manley, chief equity strategist at Wells Fargo Funds Management, is still optimistic that expectations for earnings across the market can keep rising. Lower **oil prices** would undercut profits for energy stocks, but they should also help other industries that will be paying lower fuel bills. And as long as profits continue to rise, Mr. Manley says stocks can, too.

''Earnings are starting to re-accelerate,'' he said. ''It may stop tomorrow, and if it does, well, I'll change my mind tomorrow. But right now, earnings are growing.''

Tuesday's slump for oil led shares of Transocean to drop 36 cents, or 4.2 percent, to $8.20 and Marathon Oil to lose 43 cents, or 3.4 percent, to $12.06.

The worst-performing stock in the **S**.**&P**. **500** was Chipotle Mexican Grill, which lost $33.31, or 7.3 percent, to $425.60 after analysts cut their profit estimates for the restaurant chain. Chipotle said marketing costs will eat up a slightly bigger percentage of revenue this quarter than in the first three months of the year.

In the Treasury market, **bond prices** rose, which caused yields to fall. The yield on the **10**-**year Treasury** note sank to 2.16 percent from 2.19 percent late Monday. The two-year yield dropped to 1.34 percent from 1.36 percent, and the 30-year yield fell to 2.73 percent from 2.79 percent.

The British pound fell to $1.2629 from $1.273 after the Bank of England cooled market expectations that it may soon raise interest rates.

The euro dipped to $1.1124 from $1.1147, and the dollar slipped to 111.45 Japanese yen from 111.56 yen.

In the commodities markets, gold dipped $3.20 to settle at $1,241.00 per ounce, silver lost 9 cents to $16.42 per ounce and copper dropped 4 cents to $2.55 per pound.

In overseas markets, the French CAC 40 slipped 0.3 percent, the German DAX lost 0.6 percent and the British FTSE 100 fell 0.7 percent.

The Japanese Nikkei 225 rose 0.8 percent, the Hang Seng in Hong Kong fell 0.3 percent and the Kospi in South Korea dipped 0.1 percent.

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 New York Times

Business/Financial Desk; SECTB
Move Over, Bitcoin. It's Ether's Turn To Win Fans.

By NATHANIEL POPPER
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The price of Bitcoin has hit record highs in recent months, more than doubling in price since the start of the year. Despite these gains, Bitcoin is on the verge of losing its position as the dominant virtual currency.

The value of Ether, the digital money that lives on an upstart network known as Ethereum , has risen an eye-popping 4,500 percent since the beginning of the year.

With the recent price increases, the outstanding units of the Ether currency were worth around $34 billion as of Monday -- or 82 percent as much as all the Bitcoin in existence. At the beginning of the year, Ether was only about 5 percent as valuable as Bitcoin.

The sudden rise of Ethereum highlights how **volatile** the bewildering world of virtual currency remains, where lines of computer code can be spun into billions of dollars in a matter of months.

Bitcoin, the breakout digital currency, is also hitting new highs -- one Bitcoin was worth $2,600 on Monday. But the Bitcoin community has struggled with technical issues and bitter internal divisions among its biggest supporters. It has also been tainted by its association with online drug sales and hackers demanding ransom.

Against this backdrop, Ether has been gaining steam. The two-year old system has picked up backing from both tech geeks and big corporate names like JPMorgan Chase and Microsoft , which are excited about Ethereum 's goal of providing not only a digital currency but also a new type of global computing network, which generally requires Ether to use.

In a recent survey of 1,100 virtual currency users, 94 percent were positive about the state of Ethereum , while only 49 percent were positive about Bitcoin, the industry publication CoinDesk said this month.

If recent trends continue, the value of Ethereum 's virtual currency could race past Bitcoin's in the coming weeks. Virtual currency fanatics are monitoring the value of each and waiting for the two currencies to switch place, a moment that has been called ''the flippening.''

''The momentum has shifted to Ethereum -- there is no doubt about that,'' said William Mougayar, the founder of Virtual Capital Ventures, which invests in a variety of virtual currencies and start-ups. ''There is almost nothing you can do with Bitcoin that you can't do with Ethereum .''

Even though most of the people buying Ether and Bitcoin are individual investors, the gains that both have experienced have taken what was until very recently a quirky fringe experiment into the realm of big money. The combined value of all Ether and Bitcoin is now worth more than the market value of PayPal and is approaching the size of Goldman Sachs .

Investors buying Ether are placing a bet that people will want to use the Ethereum network's computing capabilities and will need the currency to do so. But that is far from a sure thing. And real-world use of the network is still scant.

Bitcoin, on the other hand, has made inroads into mainstream commerce, with companies like Overstock.com and Expedia accepting Bitcoin for purchases, along with the black-market operators who use the currency.

The fact that there are fewer real-world uses for Ethereum has many market experts expecting a crash similar to the ones that have followed previous run-ups in the price of Bitcoin and other virtual currencies. Even during recent pullbacks, though, the value of Ether has generally continued to gain on Bitcoin in relative terms.

Ethereum was launched in the middle of 2015 by a 21-year-old college dropout, Vitalik Buterin, who was born in Russia and raised in Canada. He now lists his residence, jokingly, as Cathay Pacific Airlines because of his travel schedule.

The Ether he holds has made him a millionaire many times over, but he has generally avoided commenting on the price increase in Ether.

Mr. Buterin was inspired by Bitcoin, and the software he built shares some of the same basic qualities. Both are hosted and maintained by the computers of volunteers around the world, who are rewarded for their participation with the new digital tokens that are released onto the network each day.

Because the virtual currencies are tracked and maintained by a network of computers, no government or company is in charge. The prices of both Bitcoin and Ether are established on private exchanges, where people can sell the tokens they own at the going market price.

But Ethereum was designed to do much more than just serve as a digital money. The network of computers hooked into Ethereum can be harnessed to do computational work, essentially making it possible to run computer programs on the network, or what are referred to as decentralized applications, or Dapps. This has led to an enormous community of programmers working on the software.

One of the first applications to take off was a user-led venture capital fund of sorts, known as the Decentralized Autonomous Organization. After raising over $150 million last summer, the project crashed and burned, and appeared ready to take Ethereum with it.

But the way that Mr. Buterin and other developers dealt with the problems, returning the hacked Ether to users, won him the respect of many in the corporate world.

''It was good to see that there is governance on Ethereum and that they can fix issues in a timely manner if they have to,'' said Eric Piscini, who leads the team looking into virtual currency technology at the consulting firm Deloitte.

Many applications being built on Ethereum are also raising money using the Ether currency, in what are known as initial coin offerings, a play on initial public offerings.

Start-ups that have followed this path have generally collected Ether from investors and exchanged them for units of their own specialized virtual currency, leaving the entrepreneurs with the Ether to convert into dollars and spend on operational expenses.

These coin offerings, which have proliferated in recent months, have created a surge of demand for the Ether currency. Just last week, investors sent $150 million worth of Ether to a start-up, Bancor, that wants to make it easier to launch virtual currencies. If projects like Bancor stumble, Ether could as well.

Several big companies have also been building programs on top of Ethereum , including the mining company BHP Billiton , which has built a trial program to track its raw materials, and JPMorgan , which is working on a system to monitor trading.

Over the last few months, over 100 companies have joined the nonprofit Enterprise Ethereum Alliance, including global names like Toyota, Merck and Samsung , to build tools that will make Ethereum useful in corporate settings.

Many of the companies using Ethereum are building their own private versions of the software, which won't make use of the Ether currency. Speculators are betting that these companies will eventually plug their software into the broader Ethereum network.

There is, though, also the possibility that none of these big trials come to fruition, and the current excitement fizzles out, as has happened many times in the past with Bitcoin after big price surges.

''I hope this is the year where we start to close the gap between the speculative value and the actual value,'' Mr. Mougayar said. ''There is a lot at stake right now.''

A server farm mining Bitcoin in Guizhou, China. The price of Bitcoin has hit record highs in recent months, but Ether has gained value in an eye-popping fashion. (PHOTOGRAPH BY GILLES SABRIé FOR THE NEW YORK TIMES) (B2)

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Don't Raise the Debt Limit -- Repeal It

By Jason Furman and Rohit Kumar
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Over the past eight years, high-stakes negotiations in Congress over the federal debt limit have repeatedly brought Washington to the verge of default. We were on opposite sides of these debates, as senior policy advisers to President Obama and Senate Republican Leader Mitch McConnell, and we continue to disagree about taxes and the proper size of government. Yet we both believe that the statutory debt limit has outlived its usefulness as a mechanism for restraining the size of the national debt. Or, put more precisely, we think that whatever residual value the debt limit may have is far outweighed by the risk that a potential U.S. default poses to the global economic order.

Now the debate is heating up again: The Treasury Department is already taking "extraordinary measures" to avoid going above the debt ceiling, but that can last only a matter of months. Congress will have to act. But this time instead of merely raising the debt limit, lawmakers should abolish it altogether -- for the good of President Trump, all his successors and the American people.

The Constitution assigns Congress the power to tax and spend, which determines the annual budget deficit and, therefore, the debt. Separately, the Constitution authorizes Congress to "borrow Money on the credit of the United States." But what if lawmakers approve spending, and then later refuse to borrow the money needed to satisfy the obligation? The result would be a default: Washington either would stop paying bondholders or would fall short on its other commitments -- for example, to disabled veterans or defense contractors or even taxpayers who are owed refunds.

Fortunately, this has never happened. Congress has always met its responsibility to authorize the borrowing needed to pay America's bills. Over the past several decades, however, lawmakers have made an increasingly regular practice of using the debt limit as leverage, flirting with default as a way to get concessions from the other side.

Until World War I, Congress authorized debt on a case-by-case basis, approving individual bond issues or allowing borrowing for a specific purpose. In 1917, in an effort to make the process more efficient, Congress granted the Treasury the authority to borrow up to a certain limit.

For decades, this system worked effectively. But skirmishes over the debt limit began as early as 1953, when President Eisenhower asked lawmakers to raise the figure. Sen. Harry F. Byrd Sr., a Democrat from Virginia, led the upper chamber's Finance Committee to reject the president's request. Then in 1967 the House, controlled by Democrats, rejected in a floor vote a debt-ceiling increase requested by President Lyndon Johnson.

The challenge of raising the debt limit became even more difficult over the following decades. In 1985 Treasury Secretary James Baker became the first to use "extraordinary measures" to prevent borrowing from hitting the cap. An expanding set of such measures were deployed in 1995-96, 2002, 2003, 2011, 2013, 2014, 2015 and 2017. Now that these measures are used almost annually, it is hard to justify calling them "extraordinary."

Although the measures mostly involve inconsequential reshuffling in the federal ledger, they can have real-world costs. For example, Treasury Secretary Steven Mnuchin, like several of his predecessors, has suspended the sale of state and local government series bonds. This allows the Treasury to stay below the debt ceiling for longer but can make it more costly for states and cities to manage their finances.

As the debt limit nears, costs mount. In the past, the Treasury has operated with a smaller cash cushion against unforeseen contingencies, has rejiggered bond maturities in ways that interfere with liquidity in the financial system, and has paid higher yields to borrowers worried about timely repayment. At the same time, brinkmanship over the debt limit erodes consumer and business confidence and increases market **volatility**.

Note that these costs are incurred simply by approaching the debt limit without actually reaching it. In a 1985 letter, President Reagan discussed what would happen if the government did someday teeter over the edge: "The full consequences of a default -- or even the serious prospect of default -- by the United States are impossible to predict and awesome to contemplate." During the debt negotiations of 2011, President Obama similarly warned that hitting the limit "would risk sparking a deep economic crisis -- this one caused almost entirely by Washington."

While many countries have limits on the policies that drive debts and deficits, none of them have a history of using the threat of default as a negotiating tool once spending and taxing decisions have been made. Denmark is the only other country with a debt limit on the books, but it is set so high as to be irrelevant.

To meet the obligations set out by Congress, the U.S. will have to raise the debt limit by about $3 trillion over the next four years -- and another projected $1 trillion, give or take, each year thereafter. At this pace, the risk is high that negotiations to raise the debt ceiling may fail, with unimaginably severe consequences.

Lawmakers are right to be concerned about steep increases in the debt. But those worries should be expressed when the policies that actually increase the debt are voted on. Once new policies become law, defaulting on interest payments or veterans' benefits is hardly productive. A new mechanism is necessary to tackle the debt issue -- and it must be one that does not prejudge the question of revenue increases versus spending cuts, which is for future Congresses to resolve.

For now, the right move is to eliminate the debt limit permanently. That would let the Treasury focus on the most efficient and effective ways to manage the federal government's cash flow, giving future presidents, both Democratic and Republican, a freer hand. No matter which party holds the White House, all Americans would benefit from taking the threat of a U.S. default off the table.

Mr. Furman, a senior fellow at the Peterson Institute for International Economics, was chairman of the White House Council of Economic Advisers, 2013-17. Mr. Kumar, a principal at PwC, was policy director and deputy chief of staff to Senate Republican Leader Mitch McConnell, 2007-13.

(See related letters: "Letters to the Editor: Debt Is the Real Issue, Not the Debt Limit" -- WSJ June 23, 2017)

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Oil Companies Adapt to a Low-Price World

By Georgi Kantchev, Sarah Kent and Erin Ailworth
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Three years after the price of crude began its rapid descent, the oil industry and investors are finally resigned to the idea of lower prices for longer, potentially ending a period of crisis for the sector.

The price of Brent crude, the international benchmark, is down 59% since it settled at $115.06 a barrel three years ago on Monday. West Texas Intermediate, the U.S. gauge, also is 59% lower than its $107.26 settlement hit a day later.

The steep fall sparked a slump in oil company profits, recessions from Russia to Venezuela, and huge job cuts across the world's oil fields.

But now, petrostates, investors and major oil companies are adapting to a world in which they see a range of $50 to $60 a barrel as the new equilibrium. The industry has had little choice but to accept the new reality after the Organization of the Petroleum Exporting Countries and other big producers failed to lift **oil prices** by capping their production, most recently at a meeting in late May.

Producers have cut costs, focused on more-profitable assets and no longer throw money at costly projects in places like the Arctic. Their ability to profit at lower **oil prices** has helped steady investors' nerves, and they are starting to fund new projects again, though a debate is still raging over the prospect of a supply crunch down the line.

"Lower for longer has become the new mantra in the industry," said Daniel Yergin, vice chairman of IHS Markit and a longtime oil-market watcher. "People are regearing themselves to a new price level and $50 to $60 seems acceptable to most."

To be sure, this new range is far from comfortable for some countries and companies, particularly in the services sector, which continue to struggle. Venezuela and its oil-fueled economy have collapsed, and others, like Iraq, are still facing economic challenges.

On Monday, **oil prices** edged lower, with Brent down 1%, to $46.91 a barrel, and U.S. crude off 1.2%, to $44.20.

But for others the new level is a relief after a combination of booming U.S. shale output and Saudi Arabia's continued pumping sank crude to decade-low levels of under $30 early last year. Those U.S. drillers have led the way in adapting to the lower price.

Before the bust, producers often needed oil at $80 to $85 a barrel to break even.

Shale producers operating in a number of fields can break even at $50 to $60 oil today, according to oil-and-gas data firm Rystad Energy. There are a handful of companies that have learned to make money on wells at $40 oil.

When the **oil price** began to fall, Bryan Sheffield, chief executive of Parsley Energy Inc. doubted his Austin, Texas-based company would pull through.

"In year one, I wasn't sure we were going to survive. We went from $17 to $11 in like three days," he said of a decline in share price at one point in 2014.

Since the start of 2015, in the U.S., 105 producers and 120 oil-field-service companies have filed for bankruptcy, according to Haynes & Boone LLP. In a calmer environment, there might be one or two bankruptcies of note among oil and gas producers a year and a few more among smaller services companies.

U.S. shale drillers persevered by focusing on their best acreage and making technological improvements, such as drilling supersize wells with more sand to gain savings via economies of scale.

Parsley repeatedly sold shares to raise cash, bolstering its balance sheet and allowing it to make acquisitions in the Permian Basin, a drilling field in West Texas that has become one of the most economic places in the U.S. to operate, where producers can make money on wells even at low **oil prices**. Now, Mr. Sheffield said Parsley can continue to expand even if oil drops down to $40 a barrel.

Big oil, too, is settling in for an extended period of cheap crude. Chevron Corp., Royal Dutch Shell PLC, Exxon Mobil Corp. and BP PLC have all indicated they will be able to generate enough cash at $60 a barrel to cover spending and shareholder payouts this year, a major focus for investors worried about the safety of dividends. At $50 a barrel, the picture is more mixed.Butthe companies say they are focused on living within their means at even this price.

In the first quarter of 2017, many big oil companies posted their highest profit in over a year, and investments are picking up again as cost-cutting efforts begin to pay off.

BP spent most of this decade retrenching in the wake of its fatal blowout in the Gulf of Mexico in 2010 and as the **oil price** skidded lower, but despite weaker crude prices the U.K.-based company is now preparing for a period of strong growth. It is planning to add 800,000 barrels a day of new production by 2020. Last week, BP said it plans to spend $6 billion with partner Reliance Industries Ltd. to develop gas projects offshore India. "Across the business we are firing on all cylinders," BP Chief Executive Bob Dudley told investors at the company's annual meeting last month.

Others are also stepping up activity. On Friday, Exxon and its partners announced a $4.4 billion project to develop one of the largest oil finds in the last decade off the coast of Guyana.

Shares in Shell and Exxon are trading at or just below the levels of much of 2011 to 2014, when **oil prices** were consistently over $100 a barrel, showing that investors, too, believe big oil companies can handle the lower prices. Companies have driven down costs by squeezing suppliers and contractors, trimmed less profitable projects and tackled a once spendthrift culture.

This is all a big change from just three years ago.

In 2013, Saudi Arabia's then oil minister, Ali al-Naimi, declared $100 a barrel a "reasonable price" for consumers and producers. Now, many people in the oil industry don't even want to see that price again, some analysts say. That is because high **oil prices** triggered a big investment boom that fueled a global supply glut and crashed the market.

In Iraq, the once-booming oil town of Basra is now dotted with half-finished construction projects and motorways that go nowhere, stalled as the **oil price** plummeted.

Sarah McFarlane contributed to this article.

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Streetwise: Your ETF Isn't What You Might Think It Is

By James Mackintosh
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English

Much of the point of passive investing is to take away the effort and stress required in making investment decisions. It isn't working, at least when it comes to the world's second-biggest **equity market**, China.

MSCI will decide on Tuesday whether to include Chinese domestic stocks in the benchmark emerging-markets index, a decision that could lead to hundreds of billions of dollars eventually being invested there.

It might seem obvious that the $7.8 trillion of A shares in China ought to be in the benchmark, given they make up more than 10% of the value of the world's stocks and more than 60% of the value of emerging markets.

The difficulty of the decision is due to the conflicting nature of modern indexes as both measures of performance and the basis for investment. A measure of stock prices that excludes China is obviously flawed. Yet, tracking an index that includes China exposes investors to strict capital controls and arbitrary suspensions.

Investors in mutual and exchange-traded funds tracking indexes often think they are making a simple decision to follow what the market is doing. In reality the indexes have mutated from measures of the market into primitive investing algorithms, with sometimes odd effects.

Consider the latest plan by MSCI for China, watered down to cater to the needs of index trackers. China's $7.8 trillion of domestically listed A shares are bigger than London and Frankfurt combined. But MSCI has suggested adding only 169 of China's 3,261 A shares, giving them a weight of just 0.5% of the EM index, in line with the ability of investors to get money in and out of China via Hong Kong's Stock Connect mechanism.

For an investing algo, this makes perfect sense. Computer-driven investing has to follow rules, and has to have some chance of being able to follow the rules. If it is difficult to invest more in China, there is no point in giving China a higher weight, however big the Chinese market may be.

However, the result is that the supposed benchmark is neither a sensible measure of what is happening in emerging markets, because China's weight is too small, nor a useful tool for big investors who have secured preferential access to the market.

Other algos can follow different rules. Vanguard runs $70 billion in the biggest EM ETF following a FTSE index that includes almost 5% in Chinese A shares, 10 times what MSCI is proposing, based on quotas allocated to large foreign investors. They may be simpler than the usual computer-driven trader, but the big decisions still matter: Vanguard's EM ETF is up 14.1% this year against 17.7% for BlackRock's iShares MSCI-driven ETF because of weak A-share performance and MSCI's inclusion of star performer South Korea in EM. Active fund managers often have narrower gaps in performance.

The index's role as an investment tool means something ostensibly designed as a measure can end up with a big influence on the market itself.

Goldman Sachs analysts think including China could prompt $210 billion of index money to flow into the country in the next five years as MSCI increases lifts China's weighting. Such big money flows can lead to strange price outcomes, as Pakistan experienced last month. Its promotion to the EM index led shares to soar, then plummet, as traders bought stocks in the hope of selling them on to index funds forced to buy at any price.

The same conflict between measurement and investing is at work in corporate governance. When measuring stock performance, it doesn't really matter how a company is run. But investors -- rightly -- care a lot. MSCI is consulting index users on whether to exclude companies such as Snap Inc., owner of Snapchat, that issue nonvoting shares.

The FTSE 100, the British benchmark, goes much further, only including London-listed companies incorporated elsewhere if they meet a range of different standards.

In theory, index investing has three big advantages: It is cheap, it takes away the need to assess the skills of active managers and it is simple, just buying everything in proportion to its value.

In practice, index investing is indeed very cheap, with the iShares Core **S&P 500** ETF charging only 0.04% a year. But the plethora of options means investors now need to assess the skills of index designers, while increasingly complex rules take most indexes well away from a simple weighting by market capitalization.

Investors who just want to buy the entire market, or try to measure what is going on with stocks, shouldn't be fooled into thinking these index algos are truly passive.

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The New York Times

Business/Financial Desk; SECTB
Tech Shares Drive S.&P. 500 to New High

By THE ASSOCIATED PRESS
675 words
20 June 2017
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NYTF
Late Edition - Final
2
English

Apple and other big-name technology stocks returned to their winning ways on Monday and helped drive United States indexes once again to record heights while oil futures sank to their low for 2017.

The **Standard & Poor's 500-stockindex** rose 20.31 points, or 0.8 percent, to 2,453.46 and surpassed its old record, set nearly a week ago, by half a percent. The **Dow Jonesindustrial average** also set a record, adding 144.71 points, or 0.7 percent, to 21,528.99, and the **Nasdaq composite** jumped 87.25, or 1.4 percent, to 6,239.01.

Tech heavyweights, which had been among the **stock market**'s biggest stars until recently, led the way. After being up more than 20 percent for the year, tech stocks in the **S.&P. 500** fell sharply two Fridays ago on worries that they had risen too quickly. In a little more than a week, tech stocks lost about a fifth of their year-to-date gains.

On Monday, Apple rose for the second time since two Thursdays ago. It jumped $4.07, or 2.9 percent, to $146.34 for its second-best day of the year. Google's parent, Alphabet, rose $16.60, or 1.7 percent, to $975.22.

Altogether, tech stocks in the **S.&P. 500** rose 1.7 percent, the largest gain among the 11 sectors that make up the index.

It is the latest example of investors steeling themselves and ''buying the dip.'' Every time the **stock market** has shown any weakness in the last eight years, it has proved to be a good move for investors to buy. That is because stocks have ended up more than erasing any losses. That track record has trained investors to pounce whenever they see a dip, and analysts have noticed how ingrained the practice has become.

In the commodities markets, benchmark crude fell 54 cents to settle at $44.20 a barrel, the lowest close since Nov. 14. Brent crude, the international standard, fell 46 cents to settle at $46.91 a barrel.

The biggest gainer in the **S.&P. 500** on Monday was PerkinElmer, which sells testing equipment and scientific instruments. It jumped $4.16, or 6.5 percent, to $67.73 after it agreed to buy Euroimmun Medical Laboratory Diagnostics of Germany for $1.3 billion in cash.

On the other end was the energy company EQT, which fell $5.26, or 9 percent, to $53.51 for the largest loss in the index. It agreed to buy Rice Energy for $6.7 billion in cash and stock in a deal that EQT said would make it the country's largest producer of natural gas. Rice surged $4.88, or 24.8 percent, to $24.57.

In overseas markets, European shares rose after French voters gave their new president. Emmanuel Macron, a political majority in Parliament. The vote ''will lend him enough support to rapidly implement his pro-business reform program,'' said Marion Amiot, senior economist at Oxford Economics.

The French CAC 40 gained 0.9 percent, and Germany's DAX rose 1.1 percent. The FTSE 100 in London rose 0.8 percent as Britain opened negotiations to withdraw from the European Union.

In Asia, Japan's Nikkei 225 added 0.6 percent, the Hang Seng in Hong Kong climbed 1.2 percent, and South Korea's Kospi gained 0.4 percent.

Bond prices fell, which sent yields higher. The yield on the **10**-**year Treasury** rose to 2.19 percent from 2.15 percent late Friday. The two-year yield climbed to 1.35 percent from 1.31 percent, and the 30-year yield ticked up to 2.79 from 2.77 percent.

The dollar rose to 111.56 Japanese yen from 110.83 yen late Friday.

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

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THE WALL STREET JOURNAL.
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CFO Journal: Index Mulls Booting Unequal Voting Shares --- FTSE Russell proposal comes as big holders press for change; a stock's price at risk

By Richard Teitelbaum
638 words
20 June 2017
The Wall Street Journal
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B5
English

A proposal being floated by a large index firm could force finance chiefs at companies such as Alphabet Inc., Facebook Inc. and Ford Motor Co. to choose between keeping their places in broad stock benchmarks or changing their share class structures.

FTSE Russell is proposing possible restrictions on the inclusion of companies with unequal voting rights in its indexes, but the firm will weigh input from clients and investors before working out specifics.

The proposal calls for setting a minimum threshold for the percentage of voting control attached to company shares in an index. For example, a company whose Class A shares in an index control 40% of the total votes might be excluded from FTSE Russell's main indexes, like the Russell 3000 or Russell 2000, if the threshold were higher.

FTSE Russell, which is owned by London Stock Exchange Group PLC, gave until last Friday to respond to its proposal. A spokesman said it expects to release a decision in July.

The firm asked for feedback on what the threshold might be. It also said it might ultimately decide not to change FTSE Russell rules at all.

The proposal addresses a corporate governance issue important to key investors. "The future of the markets are at stake," said James Andrus, an investment manager at the California Public Employees' Retirement System.

Many institutional investors are increasingly critical of unequal voting rights. Organizations like the Council of Institutional Investors, an advocacy group, have called for banning nonvoting shares from indexes.

Whether barring companies with unequal voting rights from indexes would prompt them to opt for a different share class structure when going public is uncertain. "The answer would depend on how restrictive [the ban is], that is how many indexes we were excluded from," said Fitbit Inc. Chief Financial Officer Bill Zerella in an email. "We would have to weigh that with the benefits of a dual class."

Fitbit went public in 2015 with Class A shares entitled to one vote and Class B shares entitled to 10 votes.

All things being equal, companies shifted from popular indexes are likely to see share prices fall because investors who track the benchmark are no longer required to hold their stock. "There are some studies that show it could make a 15% difference," Mr. Andrus said.

By FTSE Russell's estimates, 38.64% of Alphabet's voting power is represented by the shares included in its main indexes. For Facebook, 30.27% of total votes are represented by the shares in its main indexes and 59.64% for Ford Motor.

Alphabet and Facebook didn't respond to emails seeking comment on the proposal or FTSE Russell's estimates.

A Ford spokesman referred to a section of the company's 2017 proxy statement that says, "Our ownership structure has helped insulate our Company from business cycles and related short-term pressures."

Critics of unequal voting rights are likely to applaud restrictions. "The mere fact that they are considering keeping nonvoting shares out of the index is a good thing," said Charles Elson, a professor of corporate governance at the University of Delaware.

Kathleen Smith, co-founder of investment firm Renaissance Capital LLC, said excluding dual voting class companies may result in leaving out superior **stock-market** performers. "This could be a minefield," she said.

Rival index firms S&P Dow Jones Indices and MSCI Inc. also have launched reviews of nonvoting share policies.

A spokeswoman for S&P said the index firm would complete its consultations with market participants on June 30 and announce its decision soon after.

An MSCI spokeswoman didn't return requests for comment.

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Business News: EQT, Rice Energy in $6.7 Billion Natural-Gas Deal

By Dana Mattioli and Erin Ailworth
590 words
20 June 2017
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B3
English

EQT Corp. agreed to buy Rice Energy Inc. for $6.7 billion in the latest proposed tie-up between energy producers suffering from low oil and gas prices.

EQT said the deal was driven by the opportunity to drill longer horizontal wells by adding Rice's acreage to its own footprint. Rice's pipeline assets will also allow EQT to get more of its natural gas to markets including the Gulf and to benefit from benchmark pricing at Henry Hub in Louisiana.

Rice shares rose 25% Monday, while EQT's stock fell 9%. Rice shares had highs above $33 during a big discovery in 2014.

EQT and Rice have significant amounts of debt and have suffered from the glut of natural gas that has caused gas prices to fall 60% from June 2014.

EQT Chief Executive Steve Schlotterbeck told an analyst call Monday that the deal will create the country's biggest natural-gas producer. Tim Rezvan, a managing director at Mizuho Securities, said the combined output would top 3.5 billion cubic feet a day of natural gas.

Rice shareholders are to receive slightly more than one-third of a share of EQT stock and $5.30 a share in cash, the companies said. The deal is expected to close toward the end of the year.

Rice, which focused on the Marcellus Shale in southwestern Pennsylvania and the Utica Shale just across the border in Ohio, drilled a 2014 gas well called Bigfoot 9H that by one measure ranks among the most successful in U.S. history.

It hit an initial production of 41.7 million cubic feet a day, enough to power every home in Pittsburgh for 36 hours.

Even after a year of other gushers in the Utica Shale, Bigfoot still ranked fifth among the most successful in that area at the end of 2015, putting it among the biggest onshore gushers in U.S. history at the time, according to Morgan Stanley.

Rice and EQT at times have been victims of their own success. The monster wells and rich reserves they have found in the Utica and the overlapping Marcellus added to a glut that was already severe, helping push prices to record lows as recently as last year.

EQT is based in Pittsburgh and focused on Appalachian-area natural-gas production, gathering and transmission, but it hasn't been able to move all the gas produced there for lack of pipeline capacity and has struggled with low prices for that output.

Rice's network will enable EQT to ship gas to markets in the Midwest and the Gulf, where it can fetch better prices.

Rice made its **stock-market** debut in January 2014 in an offering that valued the stake of its controlling Rice family at $900 million.

The stock's strong start fizzled that summer when **oil prices** began to fall, prompting a broad selloff in energy stocks, including those of U.S. gas producers.

Chief Executive Daniel Rice IV runs the company alongside younger brothers Toby and Derek, the company's chief operating officer and exploration head, respectively. A fourth brother, Ryan, joined in 2014 as a petroleum engineer.

Citigroup Inc. acted as financial adviser to EQT, and Wachtell, Lipton, Rosen & Katz acted as legal adviser. Barclays PLC acted as financial adviser to Rice Energy, and Vinson & Elkins LLP acted as legal adviser.

Timothy Puko contributed to this article.

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Heard on the Street
The Fed's Poor Record on Soft Landings

By Justin Lahart
513 words
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English

[Financial Analysis and Commentary]

There are two things investors should keep in mind about the Federal Reserve: One, it is in a tightening cycle. Two, tightening cycles almost always end badly.

The Fed raised rates for a third time in six months last week and signaled there are more rises to come. After all the fits and starts of the past several years, the Fed is finally, unambiguously in a tightening cycle -- a fact underscored by its plans to start reducing the amount of bonds it holds on its balance sheet, a legacy of its efforts to restart the economy after the financial crisis, "relatively soon," according to Chairwoman Janet Yellen.

The Fed's aim is to guide the economy to a soft landing. To do that, it foresees continuing to raise rates in order to slow growth, ease the pace of hiring and nudge the unemployment rate a little higher.

That way, it reckons it will be able to prevent the job market from overheating while getting the inflation rate to settle at 2%.

But executing a soft landing is notoriously difficult to pull off. The Fed can only guess at what the economy's just-right levels of growth and employment are, and at what level of interest rates is consistent with hitting those marks. The process of running down its balance sheet introduces new complications, points out J.P. Morgan economist Michael Feroli, as does a likely change in leadership at the Fed.

Moreover, the Fed's track record with soft landings is incredibly poor. It has had, with the benefit of hindsight, a tendency to overtighten in its efforts to tame inflation and other excesses. Rates suddenly go from looking as if they are too low to too high, and the economy suffers as a result.

By the time it stopped raising rates in 2006, for example, the housing bust that would drag the economy into recession and set off the financial crisis was under way.

The only time the Fed really succeeded in executing a soft landing, according to most economists, was when it raised rates through 1994. In the mid-1960s and mid-1980s it had a couple of qualified successes. Its other tightening cycles over the past 60 years were followed by recessions, though in some cases a recession was necessary to wipe out inflation.

A recession seems far from imminent at the moment. Hiring appears to have slowed, but is still running fast to keep the unemployment rate slipping lower. Inflation has been stubbornly low, allowing the Fed to raise rates slowly, which might prevent the bank from tightening too much.

And while stock valuations are running high, the types of **financial market** excess that got the economy in trouble during the dot-com and housing bubbles haven't presented themselves.

Still, with the Fed trying to pull off a maneuver it has had little success with, investors should pay attention. And be a little nervous.

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Heard on the Street
Overheard

215 words
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English

[Financial Analysis and Commentary]

Does this cheese go with that wine? You may think the best way to figure that out is to ask the local wine shop owner or cheese monger, but why do that when you can rely on the real experts: economists.

Wine-cheese pairing is just one of the heady issues that will be taken up at the annual conference of the American Association of Wine Economists later this month in Padua, Italy.

In a paper slated for the conference, five oenonomists detail how they experimented with "a temporal multidimensional sensory method" to deal with the dynamic complexities of taste (mastication and **volatile** release are some of the issues). And to show that consumers think Epoisses goes with Pouilly-Loche.

Among the other items on the conference menu: A paper on the social and economic impacts of mislabeling bottles and other "wine crimes." A paper on young Italians' preference for sparkling wine. A paper on the risk preferences of French winegrowers.

Former Federal Reserve Chairman William McChesney Martin, a teetotaler, famously said the central bank's job was "to take away the punch bowl just as the party gets going." He probably didn't foresee what places economics might careen off to.

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Fear Is What Changed Saudi Arabia

By Walter Russell Mead
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Saudi Arabia used to be one of the most cautious players in the world of diplomacy. Not anymore. In the past three weeks, the Saudis have launched a coordinated diplomatic offensive against neighboring Qatar, hinted at new ties with Israel, scolded Pakistan, turned up the heat in their confrontation with Iran, and carried on a war of words with Turkey. Meanwhile, they continue to bomb Yemen to support their local allies in that country's increasingly bitter civil war.

The Saudis are also bringing new gusto to domestic policy: The 2030 plan backed by Deputy Crown Prince Mohammed bin Salman is the most far-reaching and ambitious program for Saudi reform and restructuring ever seriously proposed. Privatizing the state oil giant Aramco (or at least part of it) and using the money to diversify the economy is, by Saudi standards, a revolutionary idea.

The jury is out on whether the Saudis' new foreign and domestic policies will work, but no doubt something fundamental has changed in what used to be one of the world's most cautious and slow-moving countries. The question is why. Some look to the deputy crown prince, a 31-year-old reformer elevated to his current role in 2015. But his rise is more a sign of the times than the main force driving change. After all, in the old Saudi Arabia, a mere 30-something never would have been allowed anywhere near the reins of power.

So what is behind the new Saudi activism? Fear. It's an emotion that comes naturally to an oil-rich kingdom with a relatively small population in a neighborhood full of predatory rivals. For years fear made the Saudis cautious, since they felt they could take shelter behind a strong and confident America. Now they aren't so sure.

In Riyadh, the Age of Insecurity began during President Obama's tenure. Mr. Obama's outreach to Iran -- and his willingness to overlook its unprecedented regional aggression in his quest for a nuclear deal -- left the Saudis feeling isolated and betrayed. As Iranian power spread across Iraq, Syria and Lebanon, Saudis concluded that the U.S. no longer saw Saudi security as part of its core national interest.

The Trump administration has sought to reassure the Saudis that the "tilt to Iran" has ended, but their insecurity runs deep. From Riyadh, and from many other world capitals, the erratic shifts in American foreign policy -- from Bush to Obama to Trump -- raise disturbing questions about the future. Who comes after Mr. Trump? Elizabeth Warren? Sean Hannity? As American politics becomes less predictable and more extreme, countries that have grounded their national strategy on the stability of an American alliance must reassess their options.

Then there is oil, an issue on which Saudis and Americans once saw eye to eye. With their enormous reserves, the Saudis believed that they were in the oil business for the long term. Unlike more aggressive players, who wanted to push **oil prices** as high as possible, the Saudis used their position as a "swing producer" to keep markets reasonably stable -- something the U.S. appreciated. The Saudi goal was to keep their customers committed to oil long term and forestall heavy investment in alternative fuels.

The shale revolution is shifting this balance. The U.S. and Saudi Arabia are no longer allies in the oil market. American frackers, who can quickly increase or decrease output as prices change, are challenging Saudi Arabia's role as the global swing producer.

Worse, from a Saudi point of view, the long-term dynamics of the oil market seem to be changing. There is much less talk of "peak oil" in the sense of peak production, and more talk of "peak demand." Advances in energy efficiency and alternative power-generation are shifting the long-term demand curve for hydrocarbons. At the same time, Saudi Arabia's rapidly growing population will place increasing demands on its economy. Riyadh worries that if oil becomes less profitable, it will be unable to keep its people happy.

All this suggests that the current turbulence in the Gulf is here to stay. If the Trump administration wants to restore tranquillity, it should think holistically about Saudi Arabia's economic and security problems -- and creatively about how this American alliance, a pillar of Middle East stability since World War II, can be renewed.

Mr. Mead is a fellow at the Hudson Institute, a professor of foreign affairs at Bard College, and editor at large of the American Interest.

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The New York Times

Business Day; DealBook
Move Over, Bitcoin. Ether Is the Digital Currency of the Moment.

By NATHANIEL POPPER
1,315 words
19 June 2017
03:11 PM
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NYTFEED
English

The price of Bitcoin has hit record highs in recent months, more than doubling in price since the start of the year. Despite these gains, Bitcoin is on the verge of losing its position as the dominant virtual currency.

The value of Ether, the digital money that lives on an upstart network known as Ethereum , has risen an eye-popping 4,500 percent since the beginning of the year.

With the recent price increases, the outstanding units of the Ether currency were worth around $34 billion as of Monday — or 82 percent as much as all the Bitcoin in existence. At the beginning of the year, Ether was only about 5 percent as valuable as Bitcoin.

The sudden rise of Ethereum highlights how **volatile** the bewildering world of virtual currency remains, where lines of computer code can be spun into billions of dollars in a matter of months.

Bitcoin, the breakout digital currency, is also hitting new highs — one Bitcoin was worth $2,600 on Monday. But the Bitcoin community has struggled with technical issues and bitter internal divisions among its biggest supporters. It has also been tainted by its association with online drug sales and hackers demanding ransom .

Against this backdrop, Ether has been gaining steam. The two-year old system has picked up backing from both tech geeks and big corporate names like JPMorgan Chase and Microsoft , which are excited about Ethereum 's goal of providing not only a digital currency but also a new type of global computing network, which generally requires Ether to use.

In a recent survey of 1,100 virtual currency users, 94 percent were positive about the state of Ethereum , while only 49 percent were positive about Bitcoin, the industry publication CoinDesk said this month.

If recent trends continue, the value of Ethereum 's virtual currency could race past Bitcoin's in the coming weeks. Virtual currency fanatics are monitoring the value of each and waiting for the two currencies to switch place, a moment that has been called "the flippening."

"The momentum has shifted to Ethereum — there is no doubt about that," said William Mougayar, the founder of Virtual Capital Ventures, which invests in a variety of virtual currencies and start-ups. "There is almost nothing you can do with Bitcoin that you can't do with Ethereum ."

Even though most of the people buying Ether and Bitcoin are individual investors, the gains that both have experienced have taken what was until very recently a quirky fringe experiment into the realm of big money. The combined value of all Ether and Bitcoin is now worth more than the market value of PayPal and is approaching the size of Goldman Sachs .

Investors buying Ether are placing a bet that people will want to use the Ethereum network's computing capabilities and will need the currency to do so. But that is far from a sure thing. And real-world use of the network is still scant.

Bitcoin, on the other hand, has made inroads into mainstream commerce, with companies like Overstock.com and Expedia accepting Bitcoin for purchases, along with the black-market operators who use the currency.

The fact that there are fewer real-world uses for Ethereum has many market experts expecting a crash similar to the ones that have followed previous run-ups in the price of Bitcoin and other virtual currencies. Even during recent pullbacks, though, the value of Ether has generally continued to gain on Bitcoin in relative terms.

Ethereum was launched in the middle of 2015 by a 21-year-old college dropout, Vitalik Buterin, who was born in Russia and raised in Canada. He now lists his residence , jokingly, as Cathay Pacific Airlines because of his travel schedule.

The Ether he holds has made him a millionaire many times over, but he has generally avoided commenting on the price increase in Ether.

Mr. Buterin was inspired by Bitcoin, and the software he built shares some of the same basic qualities. Both are hosted and maintained by the computers of volunteers around the world, who are rewarded for their participation with the new digital tokens that are released onto the network each day.

Because the virtual currencies are tracked and maintained by a network of computers, no government or company is in charge. The prices of both Bitcoin and Ether are established on private exchanges, where people can sell the tokens they own at the going market price.

But Ethereum was designed to do much more than just serve as a digital money. The network of computers hooked into Ethereum can be harnessed to do computational work, essentially making it possible to run computer programs on the network, or what are referred to as decentralized applications, or Dapps. This has led to an enormous community of programmers working on the software.

One of the first applications to take off was a user-led venture capital fund of sorts, known as the Decentralized Autonomous Organization. After raising over $150 million last summer, the project crashed and burned , and appeared ready to take Ethereum with it.

But the way that Mr. Buterin and other developers dealt with the problems, returning the hacked Ether to users, won him the respect of many in the corporate world.

“It was good to see that there is governance on Ethereum and that they can fix issues in a timely manner if they have to,” said Eric Piscini, who leads the team looking into virtual currency technology at the consulting firm Deloitte.

Many applications being built on Ethereum are also raising money using the Ether currency, in what are known as initial coin offerings, a play on initial public offerings.

Start-ups that have followed this path have generally collected Ether from investors and exchanged them for units of their own specialized virtual currency, leaving the entrepreneurs with the Ether to convert into dollars and spend on operational expenses.

These coin offerings, which have proliferated in recent months, have created a surge of demand for the Ether currency. Just last week, investors sent $150 million worth of Ether to a start-up, Bancor, that wants to make it easier to launch virtual currencies. If projects like Bancor stumble, Ether could as well.

Several big companies have also been building programs on top of Ethereum , including the mining company BHP Billiton , which has built a trial program to track its raw materials, and JPMorgan , which is working on a system to monitor trading.

Over the last few months, over 100 companies have joined the nonprofit Enterprise Ethereum Alliance , including global names like Toyota, Merck and Samsung , to build tools that will make Ethereum useful in corporate settings.

Many of the companies using Ethereum are building their own private versions of the software, which won’t make use of the Ether currency. Speculators are betting that these companies will eventually plug their software into the broader Ethereum network.

There is, though, also the possibility that none of these big trials come to fruition, and the current excitement fizzles out, as has happened many times in the past with Bitcoin after big price surges.

“I hope this is the year where we start to close the gap between the speculative value and the actual value,” Mr. Mougayar said. “There is a lot at stake right now.”

* Business Giants to Announce Creation of a Computing System Based on Ethereum

* Ethereum, a Virtual Currency, Enables Transactions That Rival Bitcoin's

* What Is Bitcoin? All About the Mysterious Digital Currency

Racks of machines at a server farm mining Bitcoins and Ether in Guizhou, China, last June. | Gilles Sabrié for The New York Time | Ethereum was launched in 2015 by Vitalik Buterin, a 21-year-old college dropout who was born in Russia and raised in Canada. | John Phillips/Getty Images

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THE WALL STREET JOURNAL.
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REVIEW --- Books: Goodbye, Yellow Brick Road --- Gold shaped our country's monetary policy -- and Americans' fantasies of wealth -- for nearly four centuries

By James Grant
1,787 words
17 June 2017
The Wall Street Journal
J
C5
English

One Nation Under Gold

By James Ledbetter

Liveright, 380 pages, $28.95

It's no work at all to make modern money. Since the start of the 2008 financial crisis, the world's central bankers have materialized the equivalent of $12.25 trillion. Just tap, tap, tap on a computer keypad.

"One Nation Under Gold" is a brief against the kind of money you have to dig out of the ground. And you do have to dig. The value of all the gold that's ever been mined (and which mostly still exists in the form of baubles, coins and ingots), according to the World Gold Council, is a mere $7.4 trillion.

Gold anchored the various metallic monetary systems that existed from the 18th century to 1971. They were imperfect, all right, just as James Ledbetter bends over backward to demonstrate. The question is whether the gold standard was any more imperfect than the system in place today.

That system features monetary oversight by former university economics faculty -- the Ph.D. standard, let's call it. The ex-professors buy bonds with money they whistle into existence ("quantitative easing"), tinker with interest rates, and give speeches about their intentions to buy bonds and tinker with interest rates ("forward guidance").

You wonder how the Ph.D. standard came to eclipse a system whose very name, "gold standard," is a byword for excellence. Addressing a national television audience on Sunday evening, Aug. 15, 1971, President Richard Nixon announced the temporary suspension of the dollar's convertibility into gold. No more would foreign governments enjoy the right to trade in their greenbacks for bullion at the then standard rate of $35 to the ounce. (Americans had long since relinquished that right; indeed, as Nixon spoke, they could not legally own gold.) Roughly a half-century later, the temporary suspension is beginning to look permanent.

Up until the Nixon edict, paper money, under the law, was a kind of derivative. It derived its value from the metal into which it was convertible. Today's dollar is inconvertible. To be sure, you can exchange Federal Reserve notes for gold coins or bitcoins to your heart's desire, but the rate of exchange is whatever the market will bear. Under a gold standard, fixedness was the great monetary virtue. Nowadays, adaptability is the beau ideal. As George Gilder observes, money has been transformed from a measuring rod into a magic wand. Anyway, the Hamiltons or Lincolns or Grants in your wallet owe their value to the government's fiat, not to its gold.

Mr. Ledbetter's book is a chronicle of the American people's fascination with gold. He is mystified and bemused by it. He rolls his eyes at the gold rushes and the gold-centered orthodoxies of yesteryear. Whatever were our forebears thinking?

His well-spun narrative spans the better part of four centuries. He takes us from gold mining in North Carolina during the administration of John Adams to the Founders' monetary protocols, which defined the dollar as a weight of gold or silver; from the California Gold Rush to the late-19th-century politics of inflation, featuring William Jennings Bryan and his unsuccessful campaign to inflate the gold dollar by substituting abundant silver; from the formation of the Federal Reserve in 1913 -- the dollar was still as good as gold -- to the shockingly improvisational dollar policies of the New Deal. One fine day, Mr. Ledbetter relates, FDR raised the gold price by 21 cents because it seemed to the president that three times seven was a lucky number.

Next comes the patchwork gold regime of the 1950s and 1960s, the system known by the place at which it was conceived, Bretton Woods (N.H.). No more was gold the gyroscope, or flywheel, of the international monetary system, as Lewis E. Lehrman has written. Now the metal sat inert in vaults. Central banks might demand the right to convert their dollars into gold, and vice versa, but few exercised the option.

Mr. Ledbetter breaks some historical news by uncovering the existence of Operation Goldfinger, a secret government project in the time of Lyndon Johnson to extract gold from "seawater, meteorites, even plants." By the late 1960s, America's foreign liabilities were growing much faster than the gold available to satisfy them. For better or worse, the run on finite American gold continued, and Nixon cut the cord.

On, now, to the great inflation of the 1970s, along with the rise of the goldbugs, the cranks (Mr. Ledbetter's interpretation) or visionaries (as others might style them) who predicted the collapse of the dollar and the rise of double-digit inflation in the Jimmy Carter years. In the mid-1970s, as Mr. Ledbetter recounts, the long fight to restore the right of American citizens to own gold -- a right that FDR's administration had extinguished in 1933 -- was finally won. The author concludes his story with a survey of the contemporary rear-guard movement to expose the failings of today's monetary nostrums and reinstitute a gold dollar.

As if to clinch the case against gold -- and, necessarily, the case for the modern-day status quo -- Mr. Ledbetter writes: "Of forty economists teaching at America's most prestigious universities -- including many who've advised or worked in Republican administrations -- exactly zero responded favorably to a gold-standard question asked in 2012." Perhaps so, but "zero" or thereabouts likewise describes the number of established economists who in 2005, '06 and '07 anticipated the coming of the biggest financial event of their professional lives. The economists mean no harm. But if, in unison, they arrive at the conclusion that tomorrow is Monday, a prudent person would check the calendar.

Mr. Ledbetter makes a great deal of today's gold-standard advocates, more, I think, than those lonely idealists would claim for themselves (or ourselves, as I am one of them). The price of gold peaked as long ago as 2011 (at $1,900, versus $1,250 today), while so-called crypto-currencies like bitcoin have emerged as the favorite alternative to government-issued money. It's not so obvious that, as Mr. Ledbetter puts it, "we cannot get enough of the metal." On the contrary, to judge by ultra-low interest rates and sky-high stock prices, we cannot -- for now -- get enough of our celebrity central bankers.

What was the gold standard, exactly -- this thing that the professors dismiss so airily today? A self-respecting member of the community of gold-standard nations defined its money as a weight of bullion. It allowed gold to enter and leave the country freely. It exchanged bank notes to gold, and vice versa, at a fixed and inviolable rate. The people, not the authorities, decided which form of money was best.

The gold standard was a hard task master, all right. You couldn't devalue your way out of trouble. You couldn't run up a big domestic budget deficit. The central bank of a gold-standard country (if there was a central bank) was charged with preserving the convertibility of the currency and, in a pinch, serving as lender of last resort to needy commercial banks. Growth, employment and price stability took their own course. And if, in a financial panic or a business-cycle downturn, gold fled the country, it was the duty of the central bank to establish a rate of interest that called the metal home. In the throes of a crisis, interest rates would likely go up, not down.

The modern sensibility quakes at the rigor of such a system. Our forebears embraced it. Countries observed the gold standard because it was progressive, effective, civilized. It anchored prices over the long term (with many a bump in the short term). It promoted balance in international accounts and discipline in domestic ones. Great thinkers -- Adam Smith, David Ricardo and, yes, John Maynard Keynes himself in the wake of World War I -- extolled it.

The chronic problem in gold-standard days was the one that continues to bedevil us moderns: how to maintain a stable currency when lenders and borrowers run amok. President James Buchanan, Lincoln's immediate predecessor, addressed the question in his first State of the Union address in the wake of the Panic of 1857. The story of American finance, he contended, was the story of paper credit subverting sound money: "At successive intervals the best and most enterprising men have been tempted to their ruin by excessive bank loans of mere paper credit." A not-so-distinguished president, Buchanan made the monetary point that Mr. Ledbetter skirts: Excessive lending and borrowing subverts the stability of money. It's the cause of panics under monetary systems both metallic and paper. Which is to say that we earthlings will never achieve financial perfection. It seems that the trouble (or, at least, one trouble) with money is credit and that the trouble with credit is people.

The gold standard, perhaps above all, was a political institution. It flourished in the age of classical liberalism. It was the financial counterpart to the philosophy of limited government. The Ph.D. standard is likewise a political institution. It is the financial counterpart to the philosophy of statism. The policy that some banks are too big to fail

-- that they must be treated almost as wards of the state to prevent their failure -- is a hallmark of the modern age. The policy -- indeed, the law -- that the stockholders of a bank are themselves responsible for the solvency of the institution in which they hold a fractional interest was a hallmark of the gold-standard era.

Mr. Ledbetter is on a mission to set the historical record straight and head off an unprogressive movement away from paper money. He writes: "To avoid gold's false paths, we need to argue with the past, to test the assumptions that are too often and too casually passed uncritically."

I expect that before very long we will be arguing with our immediate past -- demanding to know why the public debt has doubled since 2007, second-guessing our collective belief in the mazy doctrines of "quantitative easing" and "forward guidance," and tuning in to watch congressional hearings into the causes of some future **stock-market** crash. Mr. Ledbetter has told some good stories. He hasn't made his case.

Mr. Grant is the editor of Grant's Interest Rate Observer.

(See: "Letters to the Editor: Non-Billionaire Economists Should Show Some Humility" -- WSJ June 23, 2017)

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Amazon Set to Devour Whole Foods --- A $13.7 billion purchase opens new terrain for retailing's online giant, in the grocery aisles

By Laura Stevens and Annie Gasparro
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Amazon.com Inc. said it would buy Whole Foods Market Inc. in a deal valued at $13.7 billion, instantly transforming the online giant into a major player in the bricks-and-mortar retail sector it has spent years upending.

The acquisition, Amazon's largest by far, gives it a network of more than 460 stores that could serve as beachheads for in-store pickup and a distribution network. It makes Amazon an overnight heavyweight in the all-important grocery business, a major spending segment where it has been seeking a foothold, because consumers still largely prefer to shop for food in stores.

In its drive to conquer consumer spending, Amazon has ventured far from its roots as an online bookseller. It is developing its own delivery network, and it has become a significant creator of video content and a cloud data-service provider.

Its Whole Foods deal is a blow to other retailers, notably Wal-Mart Stores Inc., which derives more than half its sales from groceries and is struggling to compete online. Traditional grocers such as Kroger Co. and Albertsons Cos. have been battling **volatile** food prices, lackluster consumer spending and stiffer competition from deep discounters, online merchants and a plethora of places to purchase food.

Retail stocks including Wal-Mart, Target Corp. and Costco Wholesale Corp. sank. Amazon shares were up more than 2% to $987.71 at the close.

"Amazon views grocery as one of the most important long-term drivers of growth in its retail segment," Colin Sebastian, a Robert W. Baird analyst, wrote. The acquisition gives Amazon a scale and density "that otherwise would have taken years to build out."

The deal came together in the past month or so, just after Whole Foods announced an overhaul of its board of directors, according to people familiar with the deal. The process was influenced by Amazon's own plans to build a network that would have competed against Whole Foods, the people added.

Amazon agreed to pay $42 a share for Whole Foods, valuing it at a 27% premium to its closing price Thursday, or $13.7 billion including debt. It expects the deal to close in the second half of this year.

Mutual-fund giant Neuberger Berman, which owns some 2.7% of Whole Foods, and activist hedge fund Jana Partners LLC, with roughly 8.2%, had been pressing the retailer to add directors experienced in retail operations, technology, finance and real estate, and to consider a sale.

Neuberger portfolio manager Charles Kantor said Amazon's bid could be topped by grocery companies worried about new competition. "It's not a big check," he said in an interview. "I would be very surprised if this is the final chapter of Whole Foods."

Buying Whole Foods is strategic for Amazon, a way for it to quickly grab a bigger portion of the estimated $674 billion U.S. market for edible groceries, according to consulting firm Kantar Retail. Until now, Amazon's grocery efforts have largely focused on its Amazon Fresh subscription service, which promises quick delivery of online food orders.

Analysts said they expect Amazon eventually to use the stores to promote private-label products, integrate and grow its artificial-intelligence-powered Echo speakers, boost Prime membership and entice more customers into the fold.

Online grocery selling is logistically complex, often requiring fast delivery of cold items as part of large orders on routes where stops are spread far apart. And many consumers still prefer to touch, smell and pick out fresh items like fruits and vegetables.

Online shopping accounted for 2% of grocery sales last year, according to Kantar. Before Amazon's announcement, that share was projected to grow to 3% by 2021. Amazon's food-and-beverage grocery market share was estimated at 1.1% last year, compared with 1.7% for Whole Foods, according to Cowen.

Now Amazon has to combine two distinct corporate cultures and leverage its full-scale entry into bricks-and-mortar retailing. Largely a hands-off manager of smaller acquisitions like Zappos.com, Amazon is likely to take a more active role in Whole Foods, Macquarie analyst Ben Schachter said.

Whole Foods has come under fire as traditional grocers offer more natural and organic items, which are Whole Foods' mainstay. Its shares had lost nearly half their value since a 2013 peak, and sales at stores open at least a year had slumped.

At first, the two retailers don't seem like an immediate match. Amazon is a low-price leader, while Whole Foods is a premium offering. Whole Foods' operating margins, at 5.5%, are higher than those of Amazon's North American retail business at 3%, Citi analysts note. The combined companies would be the fifth-largest U.S. grocery retailer by market share, according to an analysis by Cowen, behind Wal-Mart, Kroger, Costco and Albertsons/Safeway.

John Mackey will remain chief executive of Whole Foods; stores will operate under that name and maintain their suppliers, Amazon said. Amazon Chief Executive Jeff Bezos said the company is "doing an amazing job and we want that to continue."

David Benoit and Austen Hufford contributed to this article.

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Weekend Investor -- Tax Report: More States Are Killing the Estate Tax

By Laura Saunders
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Want proof taxes can actually go down? In the past three years, nine states have eliminated or lowered their estate taxes, mostly by raising exemptions.

And more reductions are coming. Minnesota lawmakers recently raised the state's estate-tax exemption to $2.1 million retroactive to January, and the exemption will rise to $2.4 million next year. Maryland will raise its $3 million exemption to $4 million next year. New Jersey's exemption, which used to rank last at $675,000 a person, rose to $2 million a person this year.

Next year, New Jersey is scheduled to eliminate its estate tax altogether, joining about a half-dozen others that have ended their estate taxes over the past decade.

This tax-cutting trend has been fueled by competition between the states for affluent and wealthy taxpayers. Such residents owe income taxes every year, but some are willing to move out of state to avoid death duties that come only once. Since the federal estate-and-gift tax exemption jumped to $5 million in 2011, adjusted for inflation, state death duties have stood out.

"States are under pressure to keep pace with both the federal estate-tax exemption and exemptions in neighboring states," says Bruno Graziano, a senior analyst with information services firm Wolters Kluwer NV.

Two holdouts remain: Massachusetts and Oregon. These two have estate-tax exemptions of $1 million or below, compared with nine that did in 2009. The tax bite is set to increase in each because neither adjusts its break for inflation.

In Massachusetts, some lawmakers are worried about losing residents to other states because of its estate tax, which brought in $400 million last year. They hope to raise the exemption to half the federal level and perhaps exclude the value of a residence as well.

These measures stand a good chance of passage even as lawmakers are considering raising income taxes on millionaires, says Kenneth Brier, an estate lawyer with Brier & Ganz LLP in Needham, Mass., who tracks the issue for the Massachusetts Bar Association. State officials "are worried about a silent leak of people down to Florida, or even New Hampshire," he adds.

The outlook is different in Oregon, according to Mark McMullen, the state's chief economist. No efforts to raise the exemption have gotten traction in the legislature, although estate-tax revenue of more than $200 million for the two-year cycle ending June 30 is 50% higher than forecast, helped by strong housing and **financial markets**.

"We don't see a lot of folks migrating out to avoid the estate tax," says Mr. McMullen.

While most recent changes have been to state estate taxes, some states with inheritance taxes are feeling pressure as well. Six states have these levies, which are payable by the person who inherits assets rather than the estate of the person who died. States can have either one of the taxes, or both.

Inheritance tax rates and exemptions often vary according to the heir's relation to the decedent.

Last year, lawmakers changed Pennsylvania's inheritance tax, which brought in $962 million for the fiscal year ended June 30, 2016, so that family farms and businesses are exempt. The provisions were retroactive to 2012 for farm owners and 2013 for business owners.

In Kentucky, Gov. Matt Bevin has called for repeal of the state's inheritance tax, which has rates up to 16%, while remaining open to other revenue increases.

Two states, New Jersey and Maryland, have both estate and inheritance taxes. Although both have scaled back their estate tax, neither has cut the inheritance tax, according to Mr. Graziano.

In New Jersey, the inheritance tax is typically far less important than the estate tax because it exempts lineal descendants, says Samuel Weiner, an attorney with Cole Schotz PC in Hackensack, N.J. Maryland has generous exemptions to its inheritance tax as well.

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Equities: Health Care Is This Year's Surprise Winner

By Liying Qian
338 words
16 June 2017
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English

Health-care stocks have risen 13% in the **S&P 500** this year, making the sector the second-biggest gainer after technology. It is a turnaround for a group that underperformed the other 10 sectors in 2016, and many investors and analysts expect health care's rebound to continue.

According to month-end data, health-care surpassed financials in May to become the second-largest sector in the **S&P 500** in market value, trailing only tech stocks.

A recovery in biotechnology stocks has helped boost health care this year. The **Nasdaq** Biotechnology Index posted its worst year since 2002 in 2016, partly as drug pricing came under scrutiny during the U.S. election campaign.

But the index has gained 11% this year, led by companies such as Loxo Oncology, whose shares rose more than 40% on June 5 after the company announced encouraging data from its studies of an experimental cancer drug.

Some investors appear to be betting on a favorable environment for policy and innovation. The Food and Drug Administration has approved 21 novel drugs so far this year, compared with an average of 15 from 2011 to 2016 by each year's end of June, according to the agency's website. Scott Gottlieb, the new commissioner of the FDA, has advocated faster drug approval.

Wells Fargo Investment Institute was optimistic about health care in a midyear report, citing the sector's long-term earnings-growth potential and current valuations.

The health-care sector has been trading at a lower 12-month trailing price/earnings ratio than the **S&P 500** for much of the time since last November's presidential election, which some analysts and investors said has made the sector relatively attractive. Earnings per share also have been rising.

"We are going to see moderate and steady growth" in health-care stocks, said Scott Wren, senior global equity strategist at Wells Fargo Investment Institute.

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Streetwise: This Time, the Fed May Turn Out to Be Correct

By James Mackintosh
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B1
English

There are two ways to trade the Fed. One is to look at what the Federal Reserve says, compare it with your own forecasts for inflation, growth, productivity and wages, and decide whether Fed Chairwoman Janet Yellen was right to show a flicker of hawkishness on Wednesday. This is what almost every major fund manager does, investing huge amounts of time and effort in econometric analysis. Most is wasted.

The alternative is to look at the market's assumptions to see what's being ignored. Right now, it is the reflation trade, abandoned along with President Donald Trump's credibility on Wall Street.

After the election, investors bet big on Mr. Trump and the Republican Congress adopting growth-friendly tax cuts, spending boosts and cuts to red tape. The Fed, they thought, wouldn't derail growth. Since shortly after the Fed's mid-December rate increase, investors' assumptions have completely reversed. A divided Congress won't be able to do anything, the Fed might be making a mistake to tighten and inflation isn't just resting, it is in a coma.

The reverse of the reflation trade is visible in equities, bonds and the economy. How one feels about it depends on a critical shift by the Fed, from being "data dependent" -- backward looking -- to return to the traditional central-bank approach of setting policy according to what it expects to happen, not what's already happened.

The data on which the Fed no longer depends have indeed shown little of the dynamism needed to justify rate increases on a backward-looking basis. Wages have been rising fast in some sectors, but overall are growing only a little above inflation, despite unemployment well below the Fed's estimate of what counts as full employment (which Fed policy makers keep cutting, with the median estimate down again on Wednesday to 4.6%). Inflation remains stubbornly below the Fed's target. And economic data have been disappointing, with the most unpleasant surprises compared with forecasts in more than two years, according to a Citigroup index.

Yet, all this and more is now priced in. The bond market is priced for inflation over the next 10 years to average just 1.72%, now below both where it stood on election day and the Fed's 2% target. The **10**-**year Treasury** yield is back down to where it was the day after the election, and on Wednesday its post-Fed rise wasn't enough to offset its drop in response to earlier disappointing inflation figures.

As a result, the closely watched gap between two-year and 10-year yields dropped below 0.8% for the first time since last summer's fears of deflation. In the past when it has fallen below zero, a recession has almost always followed.

Back in late November and December, I was skeptical that Mr. Trump could deliver enough to justify the huge run-up in cyclical stocks and bond yields, which seemed to be based on wild overexcitement from investors. Now those same investors expect the administration to achieve nothing and have returned to their pre-election gloom about the economy.

Investors should accept that they know far less about what's likely to happen to growth, wages and inflation than economists like to make out.

The Fed might turn out to be right this time, and wages and then inflation might pick up as job vacancies prove hard to fill. Further, the Republicans will surely soon realize that they have to pull together and pass something -- anything -- on taxes and red tape to avoid going into next year's midterm elections with nothing to show voters.

Economic and political analysis is worth trying. But the hurdle to success for the reflation trade is much lower, and the idea that Mrs. Yellen might be right this time is worth a punt.

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Once-Hot Quant Funds Get Lukewarm Start to Year

By Gregory Zuckerman and Laurence Fletcher
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A1
English

This year is shaping up to be a dismal one for so-called quant funds, typically some of Wall Street's hottest investors.

At Two Sigma Investments LLC, the $45 billion firm's flagship Compass fund is down 2.5% this year through May 31, fund investors say. In 2016, the fund climbed 10.33% for the year and 15% in 2015.

AHL Dimension, a $5.2 billion fund that is the biggest managed by Man Group PLC's Man AHL unit, is up just 2.2% this year, through June 9, after dropping 1.5% last year.

And Winton Group's $10.5 billion Winton Futures Fund rose just 1.4% through June 7. It fell 3% last year and climbed less than 1% in 2015. The firm recently cut fees charged to its investors.

Overall, quant funds, which use sophisticated statistical models often developed by Ph.D.s rather than trade based on human research and intuition to find attractive trades, rose 1.44% this year, through May, according to data-tracker HFR. That compares with a gain of 8.7% for the **Standard & Poor**'**s500 index** and a rise of 5.7% for the Vanguard Balanced Index Fund, which invests 60% in stocks and 40% in bonds, highlighting how far quant hedge funds are lagging behind more traditional investments.

"You will see some very, very bad May numbers for a lot of firms," says Andrew Fishman, president of Schonfeld Strategic Advisors LLC, which invests about $16 billion in various quantitative strategies.

So far, the weakness hasn't stunted investor interest.

Through the first quarter of this year, $4.6 billion of net new money was invested in quant funds, even as over $10 billion was withdrawn from non-quant funds, HFR says. Quants now are responsible for 27% of all U.S. stock trades by investors, according to the Tabb Group, a research and consulting firm in New York.

At the same time, more traditional investors are turning to sophisticated computer models to guide their trading, adding to the flow of money backing quant strategies.

The disappointing recent performance raises questions among some investors about whether too much money is pursuing quant strategies and whether performance is beginning to suffer as a result.

"There are so many different types of bets quant firms can make over so many different time horizons and with so many data sets, so I'm not worried yet," says Mr. Fishman, whose fund is up about 7% so far this year, according to investors. "But there are definitely a lot of guys chasing similar ideas."

So-called trend-following firms -- quant funds that bet on the continued momentum of certain investments -- have been especially weak performers, partly because some trends that worked over the past year or so, such as rising **oil prices** and a climb in the value of the U.S. dollar, haven't continued. Surprising strength for Treasurys and a lack of overall market **volatility** are among other reasons for the losses, investors say.

GSA Capital Partners LLP, a $7.8 billion firm that spun out of Deutsche Bank in 2005, saw its $3.8 billion Trend fund drop 7.6% through June 8, even as the fund received $1 billion of new cash this year, said a person familiar with the matter. The flagship fund run by Leda Braga's Systematica Investments, the $5.5 billion BlueTrend Fund Ltd., is up less than 1% this year, through June 2. The fund, which takes riskier bets on market moves than many of its peers, fell nearly 11% last year.

The broad remit of quantitative funds makes it hard to generalize about them. Some firms hold investments for seconds while others hold for seasons, for example, and many pursue multiple strategies.

And some are up a lot. Renaissance Technologies LLC's $14 billion Renaissance Institutional Equities LP fund, or RIEF, rose over 10.5% this year, through May, investors say, while the $11 billion Renaissance Institutional Diversified Alpha Int. LP fund rose about 13.5% this year.

"Renaissance has other inputs in its algorithms besides trend following," explaining the outperformance, says Amanda Haynes-Dale, co-founder of Pan Reliance Capital Advisors, a Renaissance client.

The firm has thousands of trading signals it relies on -- from economic-data points to the value of global assets in real time -- and employs computer science, statistics and more.

Some quant firms with struggling funds have others with better results. Man AHL's Evolution fund rose 9.9% through June 9, for instance. Systematica's $1 billion Systematica Alternative Markets Fund Ltd. is up 8.7% this year, profiting from niche trades on credit derivatives and Czech interest rates, according to an investor letter seen by The Wall Street Journal.

Some investors turn to some of these strategies for uncorrelated returns, those that don't move in lockstep with stocks. So they may not be disappointed with the funds' performance, as long as they hold up during a downturn.

Still, some funds are changing their methods to adjust to the new environment, which some quants say has been challenging amid the market swings since the U.S. election.

Florin Court Capital, a London fund backed by Swedish investment firm Brummer & Partners, has largely stopped trying to make money from momentum trades in developed markets, a strategy still used by many trend-following firms and other quants. It has shifted to more complex trades, such as taking advantage of small differences in various maturities of a single bond.

Florin's founder Doug Greenig says trend-following funds trading developed markets had been "languishing" and managers needed to look for new sources of returns.

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Investors Fear Policy Misstep by the Fed --- Some worry central bankers will move too fast as expectations on economy, inflation fall

By Min Zeng
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B12
English

While the Federal Reserve shakes off softening inflation data and sticks to its rate-raising plan, bond and commodity traders are increasingly anxious that a potential policy error by the central bank will become a problem for economic growth.

The yield premium investors demand to hold the benchmark 10-year U.S. Treasury note relative to the two-year note shrank on Wednesday to the smallest since September and approached the lowest since 2007. A falling premium is known as a flattening yield curve and typically happens when worries rise that economic momentum is slowing.

Inflation expectations, meanwhile, are sliding. One gauge, the 10-year break-even rate, which measures the yield premium on the **10**-**year Treasury** note relative to the **10**-**year Treasury** inflation-protected security, fell Thursday to the lowest since October. The Bloomberg Commodity Index slipped Wednesday to its weakest since April 2016.

Unease that the Fed will move too quickly signals deteriorating sentiment in the market after a period when stock prices soared to historic highs and valuations became stretched. The worries also mark a shift from earlier this year, when economic indicators prompted some to say the U.S. central bank was falling behind the curve in tightening policy.

The Fed concluded its two-day meeting Wednesday with a rate increase that was widely expected. What surprised many investors was that Fed Chairwoman Janet Yellen didn't blink after an inflation report, released right before the Fed's decision, was weaker for the fourth month in a row.

Instead, Ms. Yellen said the data, which showed inflation drifting below the central bank's 2% target again, can be noisy. The Fed chief said she believes that a robust labor market is likely to push up inflation.

But some money managers aren't buying it.

"The bond market is sending the world a warning that the Fed rate hike is unnecessary with inflation falling," said Jonathan Lewis, chief investment officer at Fiera Capital Inc. "We are in a very dangerous stage of a market and growth cycle. Any misstep from the Fed would backfire."

Falling inflation expectations can be self-fulfilling. Not only would it make meeting the Fed's 2% target harder, but consumers and businesses who think inflation will fall may delay spending plans, which could in turn throttle economic growth.

The "tightening into a slowdown" narrative is "a bad cocktail for risk," according to Charlie McElligott, managing director and head of U.S. cross-asset strategy at RBC Capital Markets. He said that is partly why U.S. stocks have slipped -- albeit modestly -- after the Fed's rate decision.

Compounding investor anxiety is that other major central banks became more hawkish this week, indicating a possible shift away from a period of highly accommodative monetary policy. Two Bank of Canada officials said this week that the nation's recovery is picking up, sending the country's two-year **bond yield** higher. The U.K.'s two-year government-debt yield rose Thursday after three Bank of England officials called for a rate increase.

Predicting the inflation outlook appears to be a challenge for investors. In late 2016, a reflation trade -- betting on stronger growth and higher inflation -- dominated global markets as optimism rose over wide-ranging U.S. fiscal stimulus.

But that narrative has faded, as President Donald Trump's agenda hasn't gained traction.

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The New York Times

Business/Financial Desk; SECTB
OPEC Plan To Conquer Oil Market Backfires

By CLIFFORD KRAUSS
1,250 words
16 June 2017
The New York Times
NYTF
Late Edition - Final
1
English

HOUSTON -- Picture a three-year-old tug of war waged across the globe that leaves both sides wobbly and scarred but unmoved. That's one way of looking at the high-stakes competition between the world's big oil exporters and the companies drilling in American shale fields.

The struggle for dominance of the 97-million-barrel-a-day global market has left a scorecard that few in the oil patch could have anticipated three years ago, when oil sold for over $100 a barrel -- more than twice the current price, which is near 12-month lows. With the onset of the summer driving season, oil and gasoline prices should be rising, but they have fallen over the last two weeks as inventories of crude and refined products remain stubbornly high in the United States and abroad.

On one side of the rope is the Organization of the Petroleum Exporting Countries, the Saudi-led group whose strategy for retaining market dominance has twirled from one failed tactic to another as it struggles to conquer a glut that will almost surely suppress prices for at least another year.

And on the other side are the companies still working at a frenzied pace to tap shale reserves in the United States, especially across Texas. They have survived the cartel's attempts to kill off shale production, but they are limping from the depressed crude prices that make eking out a profit a daily struggle.

At least 123 of the companies operating in North America have filed for bankruptcy since early 2015, and the survivors, like Exxon Mobil and Chevron, have watched their share prices slump well below **bull market** averages as they borrow to keep up their dividends. More than 150,000 oil workers lost their jobs in the United States alone, although the job market is beginning to recover.

''For both sides, there has been one twist in the road after another,'' said Daniel Yergin, the energy historian and vice chairman of IHS Markit, an energy research consultancy. For prices to rise again, ''inventories have to be seen as coming down, and there needs to be a tempering in the growth of U.S. shale production,'' he said. ''Those are the two things that are defining the market right now.''

But neither is happening.

This week oil traders were shaken by a report by the International Energy Agency that global supplies rose by 585,000 barrels a day in May as both OPEC countries and non-OPEC countries increased production. Oil stocks for the 35 industrialized economies, the agency noted, are not only well above the historical average but higher than when OPEC decided late last year to cut output.

United States oil production, which averaged 8.9 million barrels a day in 2016, will rise to 9.3 million barrels a day this year, according to the Energy Department. The department is projecting production of 10 million barrels a day in 2018, exceeding the record set in 1970. Last week domestic crude inventories eased a bit, but gasoline stockpiles rose by 2.1 million barrels.

OPEC set the latest market cycle in motion in late 2014, when the Saudis and their allies decided to swing cartel policy in an unexpected direction. Instead of cutting production to support prices, as it had done so often in the past, OPEC decided to let market forces loose and then even raised production.

The goal was a sharp but brief price slump that would drive independent American producers out of business to guarantee continued OPEC dominance of international markets.

American drilling did drop precipitously, as companies decommissioned more than half their rigs and neglected to complete wells already drilled through 2015 and part of last year.

But the American producers proved durable. They pushed innovation to produce more oil at lower costs by drilling longer lateral wells through shale fields. Their effort was helped along by cost reductions for drilling and production made possible in part by new technologies, including robotics and sensors to improve efficiencies.

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Political instability could throttle production from either country at any moment, but both continue to surprise the markets with their robust exports.

The low oil and gasoline prices are nice for consumers, but they also hurt the competitiveness of cleaner electric cars. They could also damage the prospects for an initial public offering by the state-owned oil company Saudi Aramco -- a move central to King Salman's efforts to remake the economy.

But another twist may lie ahead in the battle for markets. Lower prices could force companies to slash production again. Already, some are cutting back on exploration and new projects in fields where it is expensive to operate, like the Canadian oil sands.

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Pumpjacks dot the landscape of Midland, Tex., representing older oil field technology. Left, a floor hand washes a rig. Producers in the United States are limping from the depressed crude prices that make eking out a profit a daily struggle. (PHOTOGRAPHS BY ILANA PANICH-LINSMAN FOR THE NEW YORK TIMES) (B4)

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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
Shares Fall, Led by Tech and Small Firms

By THE ASSOCIATED PRESS
586 words
16 June 2017
The New York Times
NYTF
Late Edition - Final
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English

Stocks on Wall Street fell Thursday as technology and small companies skidded. Investors bought high-dividend stocks, which prevented greater losses.

Stocks dropped in early trading as investors reacted to rising interest rates in the United States, while the Bank of England came unexpectedly close to raising interest rates in Britain for the first time in 10 years. Smaller, more domestically oriented companies fell as investors wondered if the expanding special counsel investigation in Washington would affect President Trump's proposed agenda of cuts in taxes and regulations.

The **Standard & Poor**'**s500 index** lost 5.46 points, or 0.2 percent, to close at 2,432.46, after falling as much as 19 points in the morning. The **Dow Jonesindustrial average** dipped 14.66 points, or 0.1 percent, to 21,359.90 after it closed at a record high on Wednesday. The **Nasdaq composite** index declined 29.39 points, or 0.5 percent, to 6,165.50.

''Investors are getting a bit antsy waiting for these pro-growth policies,'' said Karyn Cavanaugh of Voya Investment Strategies.

Technology companies extended their slump. Nike, the shoe company, and Mattel, the toy company, both fell. But industrial companies rose after new signs that manufacturing has steadied, and utilities and real estate companies did well.

Technology companies, which have done much better than the rest of the market this year, continued to slide. Apple lost 87 cents to $144.29, and Alphabet, Google's parent company, sank $7.75 to $960.18. Symantec shed 68 cents, or 2.3 percent, to $28.41. The sector has been slipping since Friday and the **Nasdaq** may post its second consecutive weekly loss.

Nike declined $1.76, or 3.2 percent, to $52.90 after announcing it would eliminate 1,400 jobs, or about 2 percent of its staff positions. Amazon dipped $12.30, or 1.3 percent, to $964.17.

Kroger, the grocery chain, had its biggest one-day loss since 1999. It cut its annual profit outlook amid growing competition from the discount chain Aldi and from Lidl, a German chain opening its first locations in the United States.

Mattel said it wanted to restructure itself to help bring products to market faster. The stock fell $1.48, or 6.7 percent, to $20.67.

As the dollar regained strength, the price of gold sank $21.30, or 1.7 percent, to $1,254.60 an ounce.

The German DAX fell 0.9 percent, the British FTSE 100 dropped 0.7 percent and the French CAC-40 sank 0.5 percent. The Japanese Nikkei 225 **stock index** fell 0.3 percent, the South Korean Kospi sank 0.5 percent and the Hang Seng in Hong Kong lost 1.2 percent.

Bond prices fell. The yield on the **10**-**year Treasury** note rose to 2.16 percent from 2.13 percent. Stocks that pay large dividends, including utilities and real estate investment trusts, did better than the rest of the market.

Benchmark crude fell another 27 cents to $44.46 a barrel in New York. Brent crude, used to price international oils, lost 8 cents to $46.92 a barrel in London.

The dollar rose to 110.86 yen from 109.53 yen. The euro dropped to $1.1155 from $1.1220.

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

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THE WALL STREET JOURNAL.
U.S. EDITION

Kroger Rattles Nerves in Grocery Section --- Chain's profit warning points to unrelenting pressure on industry; its shares fall 19%

By Annie Gasparro
824 words
16 June 2017
The Wall Street Journal
J
B1
English

Pressure on U.S. grocers increased on Thursday after a lower earnings forecast from Kroger Co. sent shares in the nation's biggest supermarket chain down 19%.

Kroger said that sales at longstanding stores fell for the second straight quarter and that increasing competition will hurt earnings for the year. Kroger's shares took their steepest one-day drop in more than 17 years on the news. Shares of other big food retailers also fell.

It was the latest blow to big grocers battling **volatile** food prices on one front and stiffer competition on another.

"The change right now in what the customer wants has never been faster," Kroger Chief Executive Rodney McMullen said in an interview.

Consumers are buying more of their groceries outside of traditional supermarkets. Online merchants, discounters and meal-kit delivery services are all grabbing market share. At the same time, a global commodity glut has pulled down prices for many staple foods over the past 18 months, putting pressure on many retailers to lower prices.

Sales have continued to slacken. In the first quarter, food and beverage sales at brick-and-mortar stores in the U.S. were off nearly $3 billion, or 2.5%, from a year earlier, market research firm Nielsen says.

Grocery-store visits rose just 0.5% over the past year.

Some grocery sellers are making gains. Trips to deep-discount chains are up 2.9% over the past year, Nielsen says, and online grocery orders have risen 6.8%.

"The economic model of the traditional grocery store is incredibly challenged," said Wolfe Research analyst Scott Mushkin.

Germany-based chain Lidl is opening its first 10 stores in the U.S. this week. At a store opening in Wilson, N.C., on Thursday, a line of more than 100 people snaked around the block ahead of time, an industry analyst reported.

Rival German chain Aldi, which has operated in the U.S. for decades, plans to invest $5 billion over the next five years to open nearly 900 stores and remodel hundreds more.

Amazon.com Inc. also is selling fresh groceries in some cities and recently launched two grocery pickup locations in Seattle.

"This is the most disruption the grocery industry has seen in the last half-century," said David Ciancio, a former Kroger executive and a strategist at consumer-data company dunnhumby. "More customers are concerned about price and value, and that has a material impact on profitability."

Whole Foods Market Inc. is under pressure to reverse a nearly two-year decline in same-store sales that has halved the specialty-food chain's share price. Wal-Mart Stores Inc., the largest U.S. food seller, is cutting prices to keep up with competition from Amazon. Target Corp.'s food-and-beverage comparable sales continued to fall in the latest quarter, even after the chain replaced its grocery chief earlier this year.

Some grocers may need to merge to keep up, said Mr. McMullen, Kroger's CEO. "We would expect there would be consolidation in the industry."

Kroger will continue to cut prices to retain customers, he said, and strive to improve customer service in part by paying higher wages. That will add to pressure on Kroger's bottom line.

"The best thing that we can do is to stay on the offense," he said.

The downbeat outlook from Kroger, the largest traditional grocery chain in the U.S. by sales, triggered a selloff on Thursday across the food-retail sector. Shares of Whole Foods fell nearly 7%, while Wal-Mart shed more than 1%. Target's shares were off by more than 4%.

Kroger's stock had already dropped 12% this year through Wednesday, hurt by a quarterly sales decline that broke a 13-year streak of quarterly growth. Thursday's share-price tumble to $24.56 erased another $5 billion in Kroger's market value.

The Cincinnati-based company, which operates Ralphs, Fred Meyer and other chains in addition to its flagship Kroger stores, said on Thursday that same-store sales excluding fuel fell 0.2% in Kroger's fiscal first quarter, which ended May 20. That compares with a 2.4% rise in the same quarter a year earlier.

Same-store sales could still grow by as much as 1% this year, Kroger forecast. Executives noted that same-store sales were positive in the last nine weeks of its fiscal first quarter and in the second quarter so far.

Kroger expects annual adjusted earnings of between $2 to $2.05 a diluted share in 2017, compared with its previous estimate of $2.21 to $2.25.

In all, the company reported a first-quarter profit of $303 million and revenue of $36.29 billion.

Austen Hufford contributed to this article.

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The New York Times

National Desk; SECTA
Fed Actions Show Confidence But Are Not at Trump Speed

By BINYAMIN APPELBAUM
1,335 words
15 June 2017
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1
English

WASHINGTON -- As one of the longest economic expansions in American history chugs into its ninth year, the Federal Reserve said Wednesday it was raising its benchmark interest rate to a range of 1 percent to 1.25 percent.

The Fed accompanied the widely expected rate increase with a further show of confidence: a description of its plans to start reducing its portfolio of more than $4 trillion in bonds later this year. The Fed intends both measures to raise borrowing costs for businesses and consumers after almost a decade of historically low interest rates.

''Our decision reflects the progress the economy has made and is expected to make,'' Janet L. Yellen , the Fed's chairwoman, told reporters after the announcement.

Ms. Yellen may soon lose her role as the conductor of the Fed's slow, steady and successful retreat. The Trump administration is beginning to consider whether Ms. Yellen should be replaced when her term as chairwoman ends in early February. Gary Cohn , President Trump's chief economic adviser, is heading the search for a new leader.

The administration has not ruled out a second term for Ms. Yellen, but Mr. Trump said on the campaign trail that he would ''most likely'' pick a new person. Ms. Yellen's management of monetary policy may matter less than her disagreements with Mr. Trump about regulatory policy and Mr. Trump's preference for people he knows.

Ms. Yellen said Wednesday that she had not had any conversations with the administration about its plans. She declined to comment on her interest in a second term.

If Ms. Yellen is replaced, she would become the first Fed leader in 40 years to serve only a single term. The last three leaders -- Ben S. Bernanke , Alan Greenspan and Paul A. Volcker -- were renominated by a president of a different party.

The Fed has increased its benchmark interest rate by a full percentage point over the last two years, after leaving the rate close to zero from late 2008 to late 2015.

Ms. Yellen and her colleagues have concluded that the economy is growing about as fast as it can. Low rates encourage borrowing and risk-taking; the Fed is now trying to raise rates to a level that neither encourages nor discourages economic activity. Most Fed officials expect that the Fed will raise rates at least one more time this year.

So far, however, **financial markets** are not cooperating. Interest rates on auto loans have increased a little since the Fed started raising rates in 2015, but rates on mortgage loans are about the same. Rates on some corporate loans have even declined. Measures of financial conditions have loosened.

The march toward that neutral stance reflects the Fed's upbeat view of economic conditions. ''The labor market has continued to strengthen,'' the Fed said in a statement published at the end of a two-day meeting of its policy-making panel, the Federal Open Market Committee.

The Fed added that economic growth ''has been rising moderately so far this year,'' making no mention of weakness during the winter.

The Fed in recent years has been consistent in predicting faster inflation -- and in being wrong. The Fed conceded it was overly optimistic in predicting stronger inflation this year. In economic forecasts published Wednesday, Fed officials predicted that prices would rise by just 1.6 percent this year, down from a forecast of 1.9 percent in March.

Ms. Yellen said the Fed was keeping a close eye on a recent downturn in inflation. But she also said officials expected inflation to rebound because of the continued decline of the unemployment rate and other signs of a tighter labor market, including worker shortages in some parts of the country. The unemployment rate fell to 4.3 percent in May, and in a new set of forecasts the Fed published Wednesday, some officials predicted the rate could fall below 4 percent.

Ms. Yellen also noted a sharp decline in the price of cellphone service is weighing on inflation. That is a good thing for consumers, and a one-time event.

''We continue to feel that with a strong labor market and a labor market that's continuing to strengthen, the conditions are in place for inflation to move up,'' she said.

The Fed affirmed Wednesday that it planned later this year to start reducing its portfolio of more than $4 trillion in Treasuries and mortgage-backed securities.

The Fed said it would initially shed $10 billion a month for three months, divided 60-40 between Treasuries and mortgage bonds. It will then raise the pace by $10 billion every three months, maintaining the same division, until reaching $50 billion a month.

Neel Kashkari , the president of the Federal Reserve Bank of Minneapolis, was the only member of the Federal Open Market Committee to vote against the rate increase at Wednesday's meeting. He has argued that economic conditions remain too weak.

Mr. Trump, by contrast, has shown some interest in appointing Fed officials who want to raise interest rates more quickly. The administration is planning to fill two vacancies on the Fed's board by nominating Randal K. Quarles, a Treasury Department official in the George W. Bush administration, and Marvin Goodfriend, a former Fed official who is a professor of economics at Carnegie Mellon University.

Both men have criticized the Fed for its efforts to stimulate growth in the aftermath of the financial crisis.

At times, however, Mr. Trump also has praised Ms. Yellen's efforts. When Mr. Trump first met Ms. Yellen, at the White House earlier this year, he told her they were both low-interest-rate people.

Asked about the conversation on Wednesday, Ms. Yellen smiled. ''I have felt that it's been appropriate for interest rates to remain low for a very long time,'' she said.

The sharper differences regard regulatory policy. Mr. Trump has repeatedly promised to relax financial regulations, and the Treasury Department earlier this week released a description of its plans for doing so, which it says will increase economic growth.

Ms. Yellen, by contrast, played a key role in strengthening financial regulation after the 2008 crisis, and she remains a staunch defender of the benefits of those changes.

''I don't think our regulations have played an important role, at least broadly speaking, in impeding credit growth and the growth of the economy,'' Ms. Yellen said Wednesday.

While the administration is at the beginning of the search process for a new leader of the Fed, speculation among investors and other close watchers of the central bank is already in high gear.

Mr. Cohn, who has the president's ear on economic issues, is widely seen as a potential candidate for the post. Kevin Warsh , a former Fed governor who is a member of Mr. Trump's business advisory council, is also expected to receive consideration.

Neither man is an economist. The last Fed leader without a doctorate in economics was G. William Miller, a businessman who served for about 17 months in the late 1970s. Mr. Trump has shown a marked preference for business leaders. But he could consider prominent conservative economists like Glenn Hubbard, the dean of the Columbia Business School and a former adviser to Mr. Bush, and John Taylor, a Stanford University professor.

Ms. Yellen could choose to remain on the Fed's board even if she is not nominated to a second term as chairwoman. Her term as a Fed governor does not end until 2024.

Follow Binyamin Appelbaum on Twitter @bcappelbaum.

Get politics and Washington news updates via Facebook , Twitter and in the Morning Briefing newsletter.

Janet L. Yellen, the Fed chief. (PHOTOGRAPH BY JOSHUA ROBERTS/REUTERS) (A1); The latest interest rate increase on Wednesday brings the Fed a step closer to ending the stimulus campaign it began in the depths of the 2008 financial crisis. (PHOTOGRAPH BY KEVIN LAMARQUE/REUTERS) (A12)

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International
New York Times

business
OPEC Took Aim at U.S. Oil Producers, but Hurt Itself, Too

By CLIFFORD KRAUSS
1,293 words
15 June 2017
International New York Times
INHT
English

HOUSTON — Picture a three-year-old tug of war waged across the globe that leaves both sides wobbly and scarred but unmoved. That's one way of looking at the high-stakes competition between the world's big oil exporters and the companies drilling in American shale fields.

The struggle for dominance of the 97-million-barrel-a-day global market has left a scorecard that few in the oil patch could have anticipated three years ago, when oil sold for over $100 a barrel — more than twice the current price, which is near 12-month lows. With the onset of the summer driving season, oil and gasoline prices should be rising, but they have fallen over the last two weeks as inventories of crude and refined products remain stubbornly high in the United States and abroad.

On one side of the rope is the Organization of the Petroleum Exporting Countries, the Saudi-led group whose strategy for retaining market dominance has twirled from one failed tactic to another as it struggles to conquer a glut that will almost surely suppress prices for at least another year.

And on the other side are the companies still working at a frenzied pace to tap shale reserves in the United States, especially across Texas. They have survived the cartel's attempts to kill off shale production, but they are limping from the depressed crude prices that make eking out a profit a daily struggle.

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* Drivers Head Into Summer With a Gift at the Gas Pump

* Digging the Graveyard of Oil’s Past

* OPEC, Fighting Market Forces, Extends Production Cuts

* For I.P.O., Saudi Oil Company May Have to Give Up Some of Its Secrets

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The New York Times

Common Sense
Business Day
Did ‘Superstar’ Jack Welch Sow Seeds of G.E.’s Decline?

By JAMES B. STEWART
1,526 words
15 June 2017
11:55 AM
NYTimes.com Feed
NYTFEED
English

For Fortune magazine in 1999, Jack Welch, then General Electric’s chief executive, wasn’t just the country’s best executive, or the manager of the year, but nothing less than the best manager of the 20th century, “far and away the most influential manager of his generation.”

Mr. Welch himself was more circumspect. “My success will be determined by how well my successor grows it in the next 20 years,” he said at a management conference that year.

Eighteen years later, with this week’s announcement that Mr. Welch’s handpicked successor, Jeffrey R. Immelt, would step down as G.E.’s chief executive, the verdict would appear to be in.

“Given how horrendous the stock performance has been for so many years, the most amazing thing is why the board didn’t act sooner” to replace Mr. Immelt, said Charles M. Elson, a professor and director of the John L. Weinberg Center for Corporate Governance at the University of Delaware.

Scott Davis, a Barclays managing director, said on CNBC that Mr. Immelt’s tenure was “an unmitigated disaster for shareholders.”

Mr. Welch brought much needed energy and charisma to the chief executive’s job and streamlined G.E.’s bloated bureaucracy. Had he stayed on through the financial crisis, perhaps he would have recaptured the growth that eluded Mr. Immelt.

But hardly anyone considers Mr. Welch, now 81, a management role model anymore, and the conglomerate model he championed at G.E. — that with strict discipline, you could successfully manage any business as long as your market share was first or second — has been thoroughly discredited, at least in the United States.

No wonder, given the performance of the company’s stock over the past 10 years. G.E. shares dropped 25 percent during that period, in contrast with a 59 percent rise for the **S**.**&P**. **500**. The rival industrial conglomerate Honeywell’s stock has more than doubled, and Danaher’s has tripled. United Technologies gained 67 percent.

Nonetheless, Mr. Immelt remained one of the country’s highest-paid executives: $21.3 million in 2016, $33 million in 2015, and $37 million in 2014. Even without a formal severance package, Mr. Immelt, 61, will get an additional $211 million when he retires, Fortune estimates.

“I’m a long-term G.E. shareholder,” Mr. Elson said. “The bottom line is, I did poorly and he did very well.”

Speaking of his tenure as G.E.’s leader, Mr. Immelt pointed to the increased strength of the company’s industrial businesses, their competitiveness and large market shares.

“I’ll say that will stand the test of time,” he said in an interview on Monday with my colleague Steve Lohr. “Let other people make their own judgments.”

Mr. Immelt’s defenders have pointed out that he had to contend with the collapse of the tech bubble, the Sept. 11 attacks and the financial crisis, all circumstances beyond his control. But so did the chief executives of every other major company.

“About the best that can be said is that he enabled G.E. to survive through a difficult time,” said Bruce Greenwald, professor of finance and asset management at Columbia. “But he never really understood how to create value through growth.”

And he inherited “a highly inflated **stock price**,” Mr. Greenwald said, thanks to Mr. Welch’s aura and lofty expectations that probably no one could have met.

As Aswath Damodaran, a finance professor at the New York University Stern School of Business, put it, “It’s always tough to follow a legend.”

Suffice to say that Mr. Immelt won’t be writing a book like Mr. Welch’s national best seller, “Jack: Straight From the Gut,” to celebrate his tenure at the helm of G.E. But ultimately, it may be the much-lauded Mr. Welch whose reputation emerges more tarnished.

“Jeff Immelt brought his best every day for 16 years,” Mr. Welch said in a statement. His office said he was not available to comment about his own legacy.

Mr. Immelt tacitly repudiated the Welch model himself, moving to dismantle parts of the sprawling G.E. empire by getting rid of NBCUniversal and the once-too-big-to-fail GE Capital. The problem, many critics said, is that he didn’t do so nearly fast enough.

“I don’t think Jack Welch was ever as good as he was made out to be,” said Mr. Damodaran, who has spent years trying to value G.E. During Mr. Welch’s tenure, “he benefited from the growth of financial services in the American economy and the growth of GE Capital,” Mr. Damodaran added. “That’s what made it untouchable for so long.”

That strategy backfired in 2008, years after Mr. Welch had left, with the arrival of the financial crisis. “It turned out G.E. had no competitive advantage in financial services,” Mr. Damodaran said. “If anything, their risk controls were even worse” than those at other large financial institutions. Warren E. Buffett had to come to the rescue with a $3 billion infusion.

Mr. Damodaran said he warned G.E. executives in 2005 that complexity could become a problem. “If you wanted to create a valuation hell, it would be G.E.,” he said. “It was too complex by design, growing through numerous acquisitions. I told them back then, ‘You’re getting away with this now, but if there’s ever a crisis, it will come back to haunt you.’”

Mr. Greenwald, the Columbia professor, agreed that much of G.E.’s success, and then its problems, stemmed from an overreliance on its huge financial services business. “It was contributing 60 percent of profits, and Jack Welch could always tweak the earnings by turning to GE Capital,” he said. “But it had no stable source of deposits” to fall back on in the financial crisis.

That is the main reason G.E.’s rivals have fared so much better, Mr. Greenwald said. “They were never the broad conglomerate G.E. was, with huge financing businesses,” he said. “They’re much more focused on industrial production.”

Both Mr. Greenwald and Mr. Damodaran said the Welch conglomerate model had been thoroughly repudiated, so much so that there is a widely recognized “conglomerate discount” applied by investors to the stock prices of companies consisting of businesses with no obvious synergies. Activist investors have pounced on this to urge the breakup of disparate operations, and G.E. itself has been the target of the activist investor Nelson Peltz.

“Specialization is something that provides real value,” Mr. Greenwald said. “If you’re a conglomerate, by definition you’re not specialized.”

Even companies like Honeywell and United Technologies “aren’t trying to do everything,” he added. “They have areas of specialization.”

Mr. Damodaran said few of the world’s conglomerates, if any, are superstars.

“They may be doing better than G.E., but they all suffer from similar problems,” he said. “They’re not nimble and adaptable. It’s much harder to be a conglomerate today than it was 20 or 30 years ago. The Welch model is certainly dated. Maybe it’s still used in a few old-line manufacturing businesses, but not in the rest of the economy, where a start-up can destroy your business.”

Even though Mr. Immelt deserves praise for abandoning the Welch model, Mr. Damodaran said, he did it much too late. “They’d be much better off if they’d started sooner,” he said.

In a statement, a General Electric spokeswoman said, “Today, G.E. is a more focused industrial company with strong growth opportunities in the long term.”

G.E. shares rallied this week on news of Mr. Immelt’s departure, largely on hopes that his successor — John Flannery, a company veteran — will embrace that logic. He promised a “comprehensive review” of all G.E. businesses to be carried out “with speed, urgency and no constraints.”

That left investors salivating for more divestitures or spinoffs. “Does anyone really think there are any synergies between medical equipment and jet engines?” Mr. Greenwald asked. “A complicated, specialized business like medical equipment would be much better on its own.”

More divestitures may well result in pretty much the same G.E. that Mr. Welch inherited, which is “a boring, mature company,” Mr. Damodaran said. “This isn’t a company that’s going to work miracles. Even if well run, about the best G.E. can hope for is to grow at the rate of the economy. But that may be the best-case scenario. If it tries to rediscover its youth, that would make me nervous.”

* The G.E. Puzzle, and the Pieces a New Chief Will Have to Make Fit

* A Stagnant General Electric Will Replace the C.E.O. Who Transformed It

* For G.E.’s John Flannery, It Was a 30-Year Trip to the Top

* G.E.’s History of Innovation

Jack Welch, left, then chief executive of General Electric, and his successor, Jeffrey R. Immelt, at a news conference in New York in 2000.

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THE WALL STREET JOURNAL.
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Fed Lifts Rates, Readies Asset Cuts

By Nick Timiraos
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WASHINGTON -- The Federal Reserve said it would raise short-term interest rates and spelled out in greater detail its plans to start shrinking its $4.5 trillion portfolio of bonds and other assets this year.

The moves on Wednesday mark the latest test of the economy's ability to grow on its own as the central bank dials back the unprecedented stimulus measures it unleashed through successive bursts of bond purchases after the 2008 financial crisis.

"The economy is doing very well, is showing resilience," said Fed Chairwoman Janet Yellen at a news conference following the Fed's two-day policy meeting.

The Fed said it would increase its benchmark federal-funds rate on Thursday by a quarter percentage point to a range between 1% and 1.25% and penciled in one more increase later this year if the economy performs in line with its forecast.

Together with the decision to raise interest rates, the balance-sheet plans show confidence in the economic expansion, which has been unspectacular but is also the third-longest on record.

"We should want the Fed to raise rates because it signals something good about the underlying economy," said Tobias Levkovich, chief U.S. equity strategist at Citigroup. "When it gets overheated and the Fed has to cut if off, that's when you get worried."

Markets were little changed after the expected moves. The **Dow Jones Industrial Average** rose 46.09 points, or 0.2%, to a fresh high of 21374.56. The **S&P 500** fell 2.43 points, or 0.1%, to 2437.92.

Wednesday's decisions mark a new chapter for the Fed and Ms. Yellen, whose tenure has been defined by meticulous plans to slowly drain reservoirs of stimulus that she and other Fed leaders forcefully advocated in response to the financial crisis that deepened the 2007-09 recession.

Ms. Yellen's tenure as Fed chairwoman began in early 2014, as the Fed began to slow its purchases of Treasury and mortgage securities, the conclusion of the latest -- and broadest -- effort to spur household and business investment by pushing down long-term interest rates.

The Fed stopped adding to its holdings, also known as its balance sheet, in October 2014, but it has continued to reinvest the proceeds of maturing assets to maintain the portfolio's size. Since then, central bankers in Europe and Japan have ramped up similar bond-buying experiments.

"The Fed has done a tremendous job helping the economy grind its way out of an extremely deep and disruptive recession," said Michael Gapen, chief U.S. economist at Barclays and a former Fed economist.

Plans revealed by the Fed on Wednesday would start reducing the central bank's holdings gradually by allowing a small amount of net maturities every month. It would start by allowing up to $6 billion in Treasury securities and $4 billion in mortgage bonds to roll off without reinvestment, and let those amounts rise each quarter, essentially setting a speed limit for the wind-down.

The limits would ultimately rise to a maximum of $30 billion a month for Treasurys and $20 billion a month for mortgage-backed securities.

Ms. Yellen said if the economy performed in line with the central bank's forecasts, the Fed could set those plans into motion "relatively soon," which market strategists believe could mean September or October.

Officials have taken pains to communicate their strategy in advance to avoid a rerun of the 2013 "taper tantrum," when investor concerns over the Fed's decision to slow down asset purchases triggered market turmoil, including a sharp increase in Treasury yields and capital outflows from emerging markets.

"The plan is one that is consciously intended to avoid creating market strains and to allow the market to adjust to a very gradual and predictable plan," Ms. Yellen said Wednesday.

Allowing some of the holdings to mature without reinvestment could push up long-term rates. The Fed has been buying around $24 billion in mortgage securities a month this year and around $17.5 billion in Treasurys, according to FTN Financial.

The Fed said all participants at its policy-setting meeting had agreed with the balance-sheet plans. Minneapolis Fed President Neel Kashkari cast the lone dissenting vote on Wednesday's decision to raise rates because he wanted to hold them steady.

Since officials last met in early May, they have faced conflicting signals about the economy on two items that matter most: employment and inflation. Solid job gains have pulled down the unemployment rate to lower-than-expected levels, at 4.3% in May, but inflation has unexpectedly slowed.

Ms. Yellen said officials are "monitoring inflation developments closely," but warned against reading too much into recent one-off declines in consumer prices, such as wireless-phone plans, that have weighed on inflation gauges.

Fed officials marked down their projections for inflation this year, though they still see annual price gains reaching their 2% target by the end of 2018, in part because they expect tighter labor markets to ultimately help firm up prices.

Officials' median expectation for the federal-funds rate showed few changes from projections released in March, and implies three more quarter-point increases in 2018 and three more in 2019.

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Oil Glut Exposes OPEC's Limits

By Summer Said, Georgi Kantchev and Neanda Salvaterra
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A1
English

OPEC is running smack into a wall of crude-oil storage.

The global oil glut is proving immune to the curbs set by the Organization of the Petroleum Exporting Countries and its big-producer allies like Russia, fueling the idea that output caps withholding almost 2% of world crude supply were a miscalculation.

Brent, the international oil benchmark, and West Texas Intermediate, the U.S. price setter, fell almost 4% to their lowest levels of 2017 on Wednesday after the release of fresh data about inventories. Overall, prices are down more than 17% since the beginning of the year.

In the U.S., the Energy Information Administration said Wednesday that crude stockpiles fell last week by 1.7 million barrels, less than the 2.6 million drop forecast by a Wall Street Journal survey. At the same time, gasoline inventories rose by 2.1 million barrels, compared with the survey's expectation of a decline of 700,000, underlining worries about the oversupply extending to crude oil's products.

Oil stockpiles in the Organization for Economic Cooperation and Development -- a club of 35 countries with industrialized economies -- rose by 18.6 million barrels in April and were higher than they were when OPEC agreed to its cut late last year, said the International Energy Agency, a Paris-based group that advises governments on energy trends.

"There's still so much crude in storage," said Doug King, chief investment officer at RCMA Asset Management and manager of that firm's $200 million Merchant Commodity hedge fund. "OPEC needs much deeper cuts to draw inventory."

Adding to oil traders' angst: U.S. oil production has come roaring back to life. The IEA said U.S. crude supply will grow almost 5% on average this year, and nearly 8% in 2018, potentially vaulting American producers ahead of Saudi Arabia in daily output.

"Such is the dynamism of this extraordinary, very diverse industry it is possible that growth will be faster," the IEA said.

With shale producers humming and storage tanks still brimming full of crude, the production limits that OPEC, Russia and others have approved through March 2018 are coming under heightened scrutiny. Bjarne Schieldrop, chief commodities analyst at SEB Markets, the Nordic bank, called OPEC's move an error.

"It would stimulate production in the U.S. too much and this is basically what we are seeing," he said.

OPEC and its leader, Saudi Arabia, the world's largest exporter, had resisted cutting output when **oil prices** began crashing in the summer and fall of 2014, reasoning it couldn't stop the market slide on its own. It changed course late last year after bringing Russia and 10 other non-OPEC producers on board for almost 600,000 barrels a day in cuts.

But even those combined efforts have done little to drain oil in storage. Eugen Weinberg, an oil analyst at Commerzbank, said OPEC needed to end its production cut.

"The only option that OPEC has for the next five years is to let the market go," said Mr. Weinberg.

OPEC representatives said Wednesday that the rising inventories were of concern but that they couldn't abandon the production deal. They pointed to a problem of rising production from Libya and Nigeria, which were exempted from obligations.

"The market fundamentals are improving and there are signs that stocks are going down, but only time would tell if we have made the right decision or not," said a senior OPEC official from a Persian Gulf oil-producing country.

Saudi energy minister Khalid al-Falih said in a CNBC interview this week that the production cuts would start having an impact this summer, accelerating a drop in stored oil that OPEC said began in January. He has said OPEC and Russia would do "whatever it takes" to bring supply back in line with demand.

Daniel Yergin, vice chairman of IHS Markit and a longtime oil market watcher, said OPEC wouldn't abandon its production-cut agreement, which took almost a year to put together through 2016.

"When OPEC and the other producers agreed to this deal, they hoped that, as the old adage says, time heals all -- and time will heal the inventory problem," Mr. Yergin said. "They should now take a deep breath and realize this will take a lot more time."

OPEC this week said its efforts weren't working as quickly as it thought. In its own monthly market report, the cartel on Tuesday blamed U.S. shale for slowing its rebalancing efforts.

The cartel set a tough goal last December when its officials said they wanted to cut oil-storage levels to the five-year average.

OPEC said OECD storage levels actually have been falling but by only 88 million barrels in the first four months of 2017. At that pace, it would take until March 2018 for stockpiles to fall another 250 million barrels to the five-year average.

In 2018, non-OPEC production is set to increase by 1.5 million barrels a day, the IEA said, more than the 1.4 million barrels of growth forecast for world consumption. That means OPEC could have to sacrifice more market share over a longer period to maintain its output cuts.

Stephanie Yang contributed to this article.

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Heard on the Street
Fed, Inflation Go Separate Ways

By Justin Lahart
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English

[Financial Analysis and Commentary]

Inflation is cooling again, and the Federal Reserve hopes that is only a temporary thing. What if it isn't?

One of the Fed's aims is to get inflation up to 2%, a rate that it believes minimizes the risks of the economy overheating or stumbling into recession. So it counted as awkward when the Federal Reserve raised rates on the same day the Labor Department reported that inflation continues to cool.

Consumer prices edged lower last month, the Labor Department reported Wednesday, driven by a decline in gasoline prices. Core prices, which exclude food and energy items to better capture inflation's trend, came in weak for the third month running and were up just 1.7% from a year earlier. That implies that the Fed's preferred measure of core inflation was up just 1.4% on the year, according to J.P. Morgan's calculations, which would mark the slimmest gain since late 2015.

The Fed, in announcing its rate increase, indicated a bit more concern about the cool-down, specifying that it is "monitoring inflation developments closely." Policy makers also lowered their inflation projections for this year.

But the projections also showed policy makers still expect to raise rates once more in 2017. Additionally, they expect to start shrinking their balance sheet this year, which in effect will make monetary policy tighter.

Part of why inflation is so low is that wage growth, despite the low unemployment rate, has been weak. The Fed is working under the assumption that the tight labor market will eventually flow through into faster wage growth. But as Fed Chairwoman Janet Yellen pointed out in the news conference following the Fed's meeting, inflation may be less sensitive to unemployment-rate declines than in the past.

There are some one-time changes in prices weighing on inflation but it is hard to deny that overall inflation has weakened. Scars consumers still carry from the financial crisis may be playing a role, as might the ease with which technology allows people to ferret out bargains. Whatever the reason, just as the economy remains in a slow-growth rut, inflation might be stuck below 2%.

Investors are betting that is the case. The yield on the **10**-**year Treasury** fell to its lowest level since November, and the dollar is at its lowest level versus other major currencies since October.

If so, today's low inflation readings shouldn't be read as a sign that deflation risks are elevated and that the Fed ought to counter them. But at the same time, they call into question why the Fed thinks it is a good idea to keep on raising rates. The economy is cool enough already, and the danger is that the Fed will only make it colder.

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Markets & Finance -- World Markets: Investors Find Renewed Faith in Euro --- Surge into stocks isn't offset by moves to contain currency risk; returns are magnified

By Mike Bird
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15 June 2017
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B12
English

International investors have rediscovered a love for Europe after a year's hiatus -- but this time, they love the euro, too.

Once, investors who wanted to bet on Europe's stocks and bonds often did so while hedging against sharp changes in the euro -- a sign they weren't confident about the currency. But this year so far, $13 billion has flowed into U.S. exchange-traded funds focused on European shares without any such safeguards. For their hedged peers, inflows have run to a mere $275.4 million.

In the first half of 2015, when investing in Europe was last popular in the U.S., $32.7 billion entered the same group of Europe-focused ETFs domiciled in North America. Of that, 63% was hedged against currency risk.

"It looks like North American investors, in particular, have regained their appetite for European investments," said Simon Colvin, research analyst at IHS Markit. "In Europe, we're now seeing a lot more political clarity, and there's been an overwhelming preference for unhedged products."

The risk that anti-euro nationalist Marine Le Pen would triumph in France's presidential election has now been removed, lifting a political obstacle to buyers.

Unlike the last time European stocks became popular with U.S. buyers, the euro has appreciated recently, magnifying returns for American investors who haven't hedged their exposure to shifts in currency markets.

The Euro Stoxx index, which is priced in euros, has returned 12% since the start of 2017. But because of the rise in the European currency's value, for U.S. investors exchanging their euro returns into dollars, it has returned 19%.

By comparison, in the first six months of 2015, the Euro Stoxx index returned 13% to European investors. But in dollar terms, the euro's fall meant that a buyer would have made only 4%.

The decision not to hedge is now fueling the recent rise in the euro and helps explain why the currency has broken a traditional relationship with interest rates and bond yields.

When U.S. investors buy European assets, they need to buy euros to acquire them, which drives up the value of the currency.

But if they hedge their foreign-exchange risk in the forward market, they agree to sell euros at a specified dollar price in the future -- effectively canceling out the original purchase and muting the impact on the exchange rate.

So despite huge inflows to European stocks during the first months of 2015, the euro actually fell, to as low as $1.05 in March 2015 from around $1.216 at the end of 2014.

This time around, the euro has rallied with inflows, and the currency's conventional relationship with interest rates and bond yields has weakened.

The gap between U.S. and German 10-year government-bond yields has barely changed since the week before the first round of the French presidential election, when U.S. two-year yields were 2.07 percentage points above their German peers. On Monday, the yields were 2.06 percentage points apart. But during that time the euro has risen by more than 5% against the dollar, climbing above $1.12.

Currencies tend to track differences in bond yields because the yields work as a proxy for expected interest rates. Investors tend to move money to areas where interest rates are higher, driving up the domestic currency.

One reason why interest-rate expectations have barely budged despite investors having piled into European stocks is that growth seems to be firming more quickly than inflation in the eurozone. Without a pickup in inflation, the European Central Bank may feel in no rush to raise interest rates to meet its target for inflation, which is to be near but below 2%.

"It drives capital inflows into equities if you see an economy doing well, but you have this divergence between growth and inflation," said Goldman Sachs strategist Christian Mueller-Glissmann. "It depends how much the ECB cares about growth, relative to how much they look at core inflation, which is still muted."

The ECB expects growth of 1.9% this year and 1.8% next year, but for inflation to reach just 1.2% and 1.4%, respectively.

The Commodity Futures Trading Commission says investors have the most **bullish** position against the euro in more than six years, with 74,009 more long contracts -- betting on the currency's appreciation -- than short contracts on the euro registered in the week to June 9.

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The New York Times

ECONOMIC TRENDS
Business/Financial Desk; SECTB
Yellen, the Fed and the Case of the Missing Inflation

By NEIL IRWIN
1,130 words
15 June 2017
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3
English

Inflation has stubbornly stayed lower than the Federal Reserve has desired for the past eight years, and it has been falling in the last few months. In a move that could well define her chairmanship of the central bank, Janet Yellen is betting that falling prices are a temporary blip that will soon be forgotten.

If her forecast is right, the Fed policy meeting on Wednesday will turn out to be a nonevent in a gradual return to normal policy. If she's wrong, the June 2017 meeting will look like a giant unforced error that unnecessarily prolonged an era in which the Fed proved impotent to get inflation up to the 2 percent level it aims for and lost credibility needed to fight the next downturn.

The Federal Reserve is assigned a ''dual mandate'' -- its mission is to achieve maximum employment and stable prices. Ms. Yellen emphasized that the job market looked quite healthy, justifying the Fed's decision to raise interest rates for the second time this year and fourth time in 18 months.

She is a labor market scholar, after all, and in her view the labor market looks pretty darn good, with a 4.3 percent unemployment rate and the economy still producing more new jobs than it is new workers.

Using the economic models on which the Fed has traditionally relied and which were taught to generations of undergraduates, that would seem to set the stage for higher inflation. Employers would compete for workers and hike wages, fueling broader price increases for all types of goods and services.

But there is little evidence this cause-and-effect is actually happening.

The Fed has defined stable prices as inflation of 2 percent. Right now, not only are key inflation measures below that level, but they are also falling. The most recent reading of the inflation measure favored by the Fed is at only 1.5 percent. And the Consumer Price Index, excluding **volatile** food and energy prices, rose 1.7 percent over the year ended in May, down from 2.2 percent in February.

In other words, the jobs side of the mandate would seem to offer Ms. Yellen and her colleagues a green light to raise rates steadily to keep the economy from overheating, while the inflation side would seem to offer instead a yellow light, and arguably a red one.

But at Wednesday's meeting, only one official with a vote dissented from the rate increase: the Minneapolis Fed president, Neel Kashkari. Moreover, 12 of 16 Fed officials think that at least one more rate increase this year would be justified, based on newly released projections the central bank released.

This sure looks like a central bank that has set its course for 2017 and will continue on it unless strong evidence emerges that it has misread the state of the economy. The line between intellectual confidence and mere stubbornness can be thin, however.

Ms. Yellen emphasized that monetary policy ''is not on a preset course'' and that she and her colleagues ''have taken note of the fact that there have been several weak readings'' on inflation lately.

But, she added, ''it's important not to overreact to a few readings, and data on inflation can be noisy.'' Twice, she mentioned factors that seem to be temporarily depressing inflation measures. A pricing war among mobile phone service providers has led to falling prices for cellphone plans, and prescription drug prices have made what appears to be a one-time drop.

In effect, she argued, brushing off those one-time drops is the equivalent of brushing off a one-time surge in, say, energy prices that may drive inflation higher but not affect the long-term trend on inflation.

But evidence from the bond market suggests that global investors aren't so sure. The gap between rates on regular and inflation-protected bonds suggests that consumer prices in the United States will rise only 1.6 percent a year in the next five years, down from 2 percent in March. Even for the five years after that, the rate of inflation implied by **bond prices** has fallen from 2.1 percent to 1.9 percent.

The recent inflation numbers are not so low as to suggest some deflationary spiral is imminent. It's probably not worth obsessing too much over prices rising 1.5 percent instead of the targeted 2 percent. The direct cost of mildly undershooting the Fed's inflation target is low, favoring creditors over debtors, for example, but it's not likely to cause any broad economic distress.

What is worrisome is not direct economic damage, but the fact that the Fed has missed its (arbitrary) 2 percent target in the same direction -- undershooting -- year after year. If it's not a drop in prices for cellphone plans, it's a falloff in **oil prices**, or cheaper imports because of a strong dollar.

That in turn implies that the low-growth, low-inflation, low-interest-rate economy since 2008 isn't going anywhere. This would prove especially damaging if the economy ran into some negative shock; a lack of Fed credibility could leave it less able to prevent a recession. Already, the combination of lower inflation and interest-rate rises adds up to higher "real," or inflation-adjusted, interest rates, which could constrain growth in the quarters ahead.

Setting monetary policy, it has been said, is akin to driving a car by looking only in the rearview mirror. When Federal Reserve officials set interest rate policy, they can look only at how the economy has performed in the past and feed information into models to make decisions that will not show their effects until months into the future.

Ms. Yellen has earned the benefit of the doubt as an economic forecaster: Her abilities to peer into the rearview mirror and direct the car appropriately are strong. She was early to understand the peril of the financial crisis and the need for aggressive monetary intervention, according to transcripts of Fed meetings from 2007 to 2010. Her decision to plod ahead with gradual rate increases as chairwoman looks pretty good so far -- the job market is looking healthier than it has in a decade.

There's a good chance the Yellen chairmanship will end early next year, if President Trump declines to reappoint her. For the sake of the economy, we should hope she has one more good call in her, and that the June 2017 Fed meeting is one we soon forget.

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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
Shares Fall on Bad Retail and Oil News

By THE ASSOCIATED PRESS
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15 June 2017
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2
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Stocks on Wall Street dipped Wednesday as investors worried about weak retail sales and **oil prices** sank. The Federal Reserve raised interest rates for the third time in six months.

The Commerce Department said retail spending declined in May, which surprised analysts. Investors reacted by buying traditionally safe assets like government bonds and high-dividend companies and by selling stocks from industries that depend more on economic growth. Bond yields hit their lowest level of 2017. **Oil prices** also hit an annual low after the government's weekly report on oil stockpiles.

The **Standard & Poor's 500**-**stockindex** slid 2.43 points, or 0.1 percent, to 2,437.92. The **Dow Jonesindustrial average** rose 46.09 points, or 0.2 percent, to a record 21,374.56. After a late tumble in technology stocks, the **Nasdaq composite** index lost 25.48 points, or 0.4 percent, to 6,194.89.

In the past few weeks, Wall Street has been disappointed by several economic reports. That did not appear to change the Fed's thinking, even though higher interest rates tend to slow economic growth. For years, investors have hoped for faster growth.

''This economy has always been something of a healthy tortoise,'' said David Kelly, chief global strategist at JPMorgan Asset Management. ''I think growth will pick up a bit, but there is sort of a failure to bounce in this economy.''

The Commerce Department said people spent less money at gas stations, department stores and electronics retailers last month. GameStop, a video game seller, was down 35 cents, or 1.6 percent, to $21.55, and Kohl's, a department store chain, dropped 38 cents, or 1 percent, to $37.66.

In a separate report, the Labor Department said consumer prices had slipped, partly because of lower energy prices. That is one reason there has been little inflation in the economy lately, a continued concern for Federal Reserve policy makers.

Bond prices jumped. The yield on the **10**-**year Treasury** note fell to 2.13 percent from 2.21 percent. Earlier, the 10-year note hit its lowest level since November.

Oil futures plunged after the United States said oil supplies had shrunk only slightly last week while gasoline stockpiles grew. Benchmark crude fell $1.73, or 3.7 percent, to settle at $44.73 a barrel in New York. Brent crude, used to price international oils, shed $1.72, or 3.5 percent, to close at $47 a barrel in London.

Exxon Mobil lost 89 cents, or 1.1 percent, to $82.07 and Anadarko Petroleum sank $1.94, or 3.9 percent, to $47.28.

The Fed also gave more details about its plans to shrink its bond portfolio. This year, it will reduce the amount of principal payments it invests in new bonds. It does not plan to sell any bonds.

The dollar slid to 109.53 yen from 109.96 yen. The euro edged up to $1.1220 from $1.1212.

Biogen, a drugmaker, fell and Alexion Pharmaceuticals rose after the companies said Paul Clancy, chief financial officer of Biogen, would move to Alexion in the same capacity at the end of July. Analysts said Wall Street had a lot of respect for Mr. Clancy, who has been Biogen's chief financial officer for 10 years.

Biogen declined $8.05, or 3.1 percent, to $253.37, and Alexion gained $10, or 9.3 percent, to $118.

Gold rose $7.00 to $1,272.80 an ounce. Silver jumped 37 cents, or 2.2 percent, to $17.14 an ounce. Copper slipped 2 cents to $2.57 a pound.

The German DAX advanced 0.3 percent and the French CAC-40 lost 0.4 percent. The British FTSE 100 fell 0.3 percent. In Tokyo, the Nikkei 225 retreated 0.1 percent, and the Hang Seng Index in Hong Kong advanced 0.1 percent. In South Korea, the Kospi retreated 0.1 percent.

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

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Saudi Divide Slows Aramco's IPO

By Ben Dummett, Summer Said and Maureen Farrell
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A divide between Saudi Arabia's ruling family and executives of the kingdom's oil company over where to list its shares is slowing the march toward a planned 2018 initial public offering, according to people familiar with the matter.

Executives at Saudi Arabian Oil Co., known as Saudi Aramco, are pushing Saudi Arabia's king and his son, Deputy Crown Prince Mohammed bin Salman, on the merits of listing the state-owned oil company on the London Stock Exchange.

Those executives are concerned that listing in the U.S. would expose the company to greater legal risks, including from potential class-action shareholder lawsuits, according to these people.

But the Saudi Arabian royal court favors the New York Stock Exchange, which is owned by Atlanta-based Intercontinental Exchange Inc., according to the people familiar with the matter, in part because of the kingdom's longstanding political ties to the U.S. and because the U.S. market represents the deepest pool of capital in the world.

The visit by President Donald Trump to Saudi Arabia last month helped to cement the prince's preference for New York, according to one of the people familiar with the decision process.

"The deputy crown prince wants New York, and he has been pushing for it more and more in recent weeks," the person said.

NYSE Group President Thomas Farley joined a group of U.S. executives to accompany Mr. Trump on his recent visit to Saudi Arabia. Similarly, London Stock Exchange Group PLC Chief Executive Xavier Rolet accompanied British Prime Minister Theresa May on her visit to Saudi Arabia in April, and they met with Aramco Chairman Khalid al-Falih.

A decision on where to list Aramco, which could value the company as high as $2 trillion, had been expected by some to come before the Islamic month of Ramadan, according to people familiar with the matter, but is now not expected until the end of July and could take longer than that.

During a cabinet meeting late Monday night in Jeddah attended by both the prince and King Salman, senior company executives pressed their case for London as the safer bet, according to two people familiar with the matter.

"London is definitely the front-runner for them and the legal team," one of those people said of the Aramco executives who discussed the options at the cabinet meeting.

The indecision about the venue is fueling a contest between the New York and London exchanges. Along with other major global exchanges, the two have been pitching the merits of their trading venues, in some cases touting their existing crop of energy stocks and the breadth of their country's energy sector to win the listing of what is likely to be the largest IPO in history.

A Saudi Aramco spokesman said that no decision on a venue beyond a listing on Saudi Arabia's Tadawul exchange has been made, and that "all options continue to be held under consideration."

A representative for the royal court didn't respond to requests for comment.

For the venues, such a listing promises more than healthy fees. It is likely to attract international investors looking for a piece of the oil producer, and that interest would generate greater trading volumes, the lifeblood of any **stock market**.

Losing the battle for Aramco would mean forfeiting the bragging rights that it can use to compete against rivals for the next big IPO.

In recent weeks, the London exchange has signaled to Saudi Aramco that even though U.K. rules require 25% of the company's shares to be held by public investors for a premium listing, which means a company meets the highest corporate governance and regulatory standards, it would consider lowering that threshold for the company or creating an international segment for some foreign companies, including Saudi Aramco. U.K. rules give the regulator the ability to lower the 25% requirement for such a listing.

"London is trying hard to accommodate Aramco," said one of the people familiar with the matter.

The NYSE declined to comment, as did the LSE.

Some officials who attended Monday night's meeting in Jeddah acknowledged that continuing to weigh the options and talking further with the two exchanges during the next month may yield better results for the company, according to one of the people familiar with the discussions.

According to another person familiar with the discussions, the choice of venue is complicated by the royal court's reluctance to potentially put key economic relationships at risk by rejecting the exchanges of countries with which Saudi Arabia wants to court for investment or trade.

A listing in New York, along with one on the Tadawul exchange, has long been the favored listing option for Prince Mohammed, who is driving the IPO as part of a broader push to overhaul and diversify the country's economy.

Aramco also could decide to list on more than one exchange in addition to Tadawul as an alternative solution.

For some of the bankers involved, the slow pace of decision-making has been a frustration, because settling on the venue is a key step in moving the IPO process toward regulatory requirements for a listing.

The prince has pegged the value of the company at $2 trillion. While some officials working on the deal put its value closer to $1.5 trillion, even at the lower end of that range, Aramco would stand to raise at least $75 billion.

Bradley Hope and Alexander Osipovich contributed to this article.

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THE WALL STREET JOURNAL.
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REVIEW & OUTLOOK (Editorial)
The Fed Moves Up

427 words
15 June 2017
The Wall Street Journal
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English

The Federal Open Market Committee surprised no one Wednesday when it raised the federal funds rate by another quarter percentage point, its third such increase since December. The real surprise Wednesday is that the government's measure of inflation fell in May to below the Fed's target of 2%.

The Fed's governors and regional presidents might have been spooked by that decline in the price level to below their target, and a year or two ago they would have been. But the economy has now reached its eighth anniversary of expansion, and the Fed is still holding its target interest rate of 1%-1.25% below the increase in the consumer price index. The real rate of interest is still negative, even as the national jobless rate has fallen to 4.3% and the global economy seems to be accelerating.

In other words, the Fed hardly seems at risk of tightening too quickly even if the dangers of price inflation are receding. Much of the price decline is due to the fall in **oil prices** in recent weeks, and the Fed's decision makers should see how that moves through the overall economy in the coming months.

Monetary conditions have even eased since the Fed's last move as long-bond rates have fallen. Investors bid up bond yields after they anticipated pro-growth tax policies from the new Republican Congress and President, and they have bid them back down as they grow more doubtful of that result. The Open Market Committee's estimates for future interest rate levels suggested one more increase through the end of 2017, but the committee can adjust that pace if the economy slows.

The Fed also released more detail of its plans to begin winding down the huge balance sheet it acquired during and since the financial panic. Sometime this year the Fed will stop reinvesting all of the principal proceeds of its securities as they mature. The Fed will initially cap its roll off at $6 billion a month for Treasury bonds and $4 billion a month for mortgage-related debt and securities.

The idea seems to be to go slow given that the Fed has never attempted this kind of policy reversal. That's fair enough, but we wish the Fed started by selling its mortgage bonds first so it gets out of the business of allocating capital that much sooner. The U.S. housing market is doing well enough these days in any case.

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THE WALL STREET JOURNAL.
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U.S. News: Inflation and Retail Data Challenge Fed

By Jeffrey Sparshott and Josh Mitchell
318 words
15 June 2017
The Wall Street Journal
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A2
English

WASHINGTON -- U.S. consumer prices are rising at the slowest pace in half a year and consumers last month showed renewed signs of caution, potential complications for the Federal Reserve as it charts out plans for short-term interest rates through the rest of the year.

The consumer-price index, which measures what Americans pay for everything from dog food to doctors' visits, declined a seasonally adjusted 0.1% in May from the prior month, the Labor Department said Wednesday. Excluding the often-**volatile** categories of food and energy, so-called core prices rose only 0.1% from April.

From a year earlier, consumer prices rose 1.9%, the third straight month annual gains have eased and the lowest reading since November. Prices were up 1.7% on the year when excluding food and energy, the weakest mark in two years.

For now, Fed officials don't appear overly concerned with the recent downward path, attributing it at least in part to one-time drops in prices for things like wireless telephone services and prescription drugs.

"With employment near its maximum sustainable level and the labor market continuing to strengthen, the committee still expects inflation to move up and stabilize around 2% over the next couple of years in line with our longer run objective," Fed Chairwoman Janet Yellen said Wednesday. "Nonetheless, in light of the softer recent inflation readings, the committee is monitoring inflation developments closely."

Separate data out Wednesday showed a slowdown in key components of consumer spending. Retail sales -- reflecting spending at stores, restaurants and websites -- fell 0.3% in May, the biggest decline since January 2016, the Commerce Department said. While that in part reflected cheaper gasoline prices, Americans also cut spending at department stores, car dealerships, electronics retailers and restaurants.

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The New York Times

Business Day; Economy
Fed Actions Show Confidence but Are Not at Trump Speed

By BINYAMIN APPELBAUM
1,351 words
14 June 2017
05:00 AM
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NYTFEED
English

WASHINGTON — As one of the longest economic expansions in American history chugs into its ninth year, the Federal Reserve said Wednesday it was raising its benchmark interest rate to a range of 1 percent to 1.25 percent.

The Fed accompanied the widely expected rate increase with a further show of confidence: a description of its plans to start reducing its portfolio of more than $4 trillion in bonds later this year. The Fed intends both measures to raise borrowing costs for businesses and consumers after almost a decade of historically low interest rates.

“Our decision reflects the progress the economy has made and is expected to make,” Janet L. Yellen , the Fed’s chairwoman, told reporters after the announcement.

Ms. Yellen may soon lose her role as the conductor of the Fed’s slow, steady and successful retreat. The Trump administration is beginning to consider whether Ms. Yellen should be replaced when her term as chairwoman ends in early February. Gary Cohn , President Trump’s chief economic adviser, is heading the search for a new leader.

The administration has not ruled out a second term for Ms. Yellen, but Mr. Trump said on the campaign trail that he would “most likely” pick a new person. Ms. Yellen’s management of monetary policy may matter less than her disagreements with Mr. Trump about regulatory policy and Mr. Trump’s preference for people he knows.

Ms. Yellen said Wednesday that she had not had any conversations with the administration about its plans. She declined to comment on her interest in a second term.

If Ms. Yellen is replaced, she would become the first Fed leader in 40 years to serve only a single term. The last three leaders — Ben S. Bernanke , Alan Greenspan and Paul A. Volcker — were renominated by a president of a different party.

The Fed has increased its benchmark interest rate by a full percentage point over the last two years, after leaving the rate close to zero from late 2008 to late 2015.

Ms. Yellen and her colleagues have concluded that the economy is growing about as fast as it can. Low rates encourage borrowing and risk-taking; the Fed is now trying to raise rates to a level that neither encourages nor discourages economic activity. Most Fed officials expect that the Fed will raise rates at least one more time this year.

So far, however, **financial markets** are not cooperating. Interest rates on auto loans have increased a little since the Fed started raising rates in 2015, but rates on mortgage loans are about the same. Rates on some corporate loans have even declined. Measures of financial conditions have loosened.

The march toward that neutral stance reflects the Fed’s upbeat view of economic conditions. “The labor market has continued to strengthen,” the Fed said in a statement published at the end of a two-day meeting of its policy-making panel, the Federal Open Market Committee.

The Fed added that economic growth “has been rising moderately so far this year,” making no mention of weakness during the winter.

The Fed in recent years has been consistent in predicting faster inflation — and in being wrong. The Fed conceded it was overly optimistic in predicting stronger inflation this year. In economic forecasts published Wednesday, Fed officials predicted that prices would rise by just 1.6 percent this year, down from a forecast of 1.9 percent in March.

Ms. Yellen said the Fed was keeping a close eye on a recent downturn in inflation. But she also said officials expected inflation to rebound because of the continued decline of the unemployment rate and other signs of a tighter labor market , including worker shortages in some parts of the country. The unemployment rate fell to 4.3 percent in May, and in a new set of forecasts the Fed published Wednesday, some officials predicted the rate could fall below 4 percent.

Ms. Yellen also noted a sharp decline in the price of cellphone service is weighing on inflation. That is a good thing for consumers, and a one-time event.

"We continue to feel that with a strong labor market and a labor market that's continuing to strengthen, the conditions are in place for inflation to move up," she said.

The Fed affirmed Wednesday that it planned later this year to start reducing its portfolio of more than $4 trillion in Treasuries and mortgage-backed securities.

The Fed said it would initially shed $10 billion a month for three months, divided 60-40 between Treasuries and mortgage bonds. It will then raise the pace by $10 billion every three months, maintaining the same division, until reaching $50 billion a month.

Neel Kashkari , the president of the Federal Reserve Bank of Minneapolis, was the only member of the Federal Open Market Committee to vote against the rate increase at Wednesday's meeting. He has argued that economic conditions remain too weak.

Mr. Trump, by contrast, has shown some interest in appointing Fed officials who want to raise interest rates more quickly. The administration is planning to fill two vacancies on the Fed's board by nominating Randal K. Quarles, a Treasury Department official in the George W. Bush administration, and Marvin Goodfriend, a former Fed official who is a professor of economics at Carnegie Mellon University.

Both men have criticized the Fed for its efforts to stimulate growth in the aftermath of the financial crisis.

At times, however, Mr. Trump also has praised Ms. Yellen's efforts. When Mr. Trump first met Ms. Yellen, at the White House earlier this year, he told her they were both low-interest-rate people.

Asked about the conversation on Wednesday, Ms. Yellen smiled. "I have felt that it's been appropriate for interest rates to remain low for a very long time," she said.

The sharper differences regard regulatory policy. Mr. Trump has repeatedly promised to relax financial regulations , and the Treasury Department earlier this week released a description of its plans for doing so, which it says will increase economic growth.

Ms. Yellen, by contrast, played a key role in strengthening financial regulation after the 2008 crisis, and she remains a staunch defender of the benefits of those changes.

"I don't think our regulations have played an important role, at least broadly speaking, in impeding credit growth and the growth of the economy," Ms. Yellen said Wednesday.

While the administration is at the beginning of the search process for a new leader of the Fed, speculation among investors and other close watchers of the central bank is already in high gear.

Mr. Cohn, who has the president's ear on economic issues, is widely seen as a potential candidate for the post. Kevin Warsh , a former Fed governor who is a member of Mr. Trump's business advisory council, is also expected to receive consideration.

Neither man is an economist. The last Fed leader without a doctorate in economics was G. William Miller, a businessman who served for about 17 months in the late 1970s. Mr. Trump has shown a marked preference for business leaders. But he could consider prominent conservative economists like Glenn Hubbard, the dean of the Columbia Business School and a former adviser to Mr. Bush, and John Taylor, a Stanford University professor.

Ms. Yellen could choose to remain on the Fed’s board even if she is not nominated to a second term as chairwoman. Her term as a Fed governor does not end until 2024.

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* Markets Unfazed as Federal Reserve Nears Plan to Shed Bonds

* Trump Said to Pick Nominees for 2 Positions on Fed Board

* Despite Weak Inflation, Fed Is Likely to Raise Interest Rates in June

The latest rate increase brings the Fed one step closer to ending the economic stimulus campaign it began in the depths of the 2008 financial crisis. | Kevin Lamarque/Reuters

Document NYTFEED020170614ed6e002ju

THE WALL STREET JOURNAL.
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Investors Await Fed Balance-Sheet Moves --- Officials expect announcement will have only a modest effect on markets

By Michael S. Derby
698 words
14 June 2017
The Wall Street Journal
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B21
English

With the Fed on track to announce a strategy for shrinking its big bondholdings, attention is shifting from how it will work to how it will affect **financial markets**: Will it be a snooze or a storm?

Fed officials are hoping for the former, seeking to avoid a replay of the 2013 "taper tantrum" that occurred when the prospect of declining central-bank bond purchases triggered global market convulsions, including big capital outflows and currency drops in emerging markets.

Many expect a modest effect on markets, a view shared by Fed officials who believe their ample guidance about their plans should limit any negative reaction. Some caution, however, that they see potential for turbulence if investors are too complacent about preparing for the Fed's plans.

The Fed is likely to announce Wednesday, at the end of its two-day policy meeting, that it is raising its benchmark short-term interest rate by a quarter-percentage point to bring it to a range of between 1% and 1.25%, and signal that it expects about one more such increase this year.

Fed officials have said for months they were discussing how to reduce the balance sheet, and in May outlined a proposed approach that would let increasing amounts of securities mature over time.

The Fed's portfolio of assets grew to $4.5 trillion currently from around $800 billion before the crisis through a series of bond-buying programs aimed at lowering long-term interest rates. Allowing those assets to roll off could push up long-term rates.

The Kansas City Fed estimated in early May that shrinking the holdings by $675 billion by 2019 would have the effect of a one-quarter-percentage-point increase in the Fed's benchmark short-term rate. The Fed has raised the rate in three such increments since December 2015.

A mid-May Wall Street Journal survey of private economists found half of respondents reckoned the wind-down process would boost the yield on the **10**-**year Treasury** note by just 0.2 percentage point or less over time.

A recent Fed board paper estimated that the expansion of Fed bondholdings since the crisis likely lowered the yield on the **10**-**year Treasury** by a percentage point from where it would otherwise have been. By 2023, the paper said, the yield would still be about a quarter-percentage point lower, all else being equal, despite an anticipated shrinkage in the balance sheet.

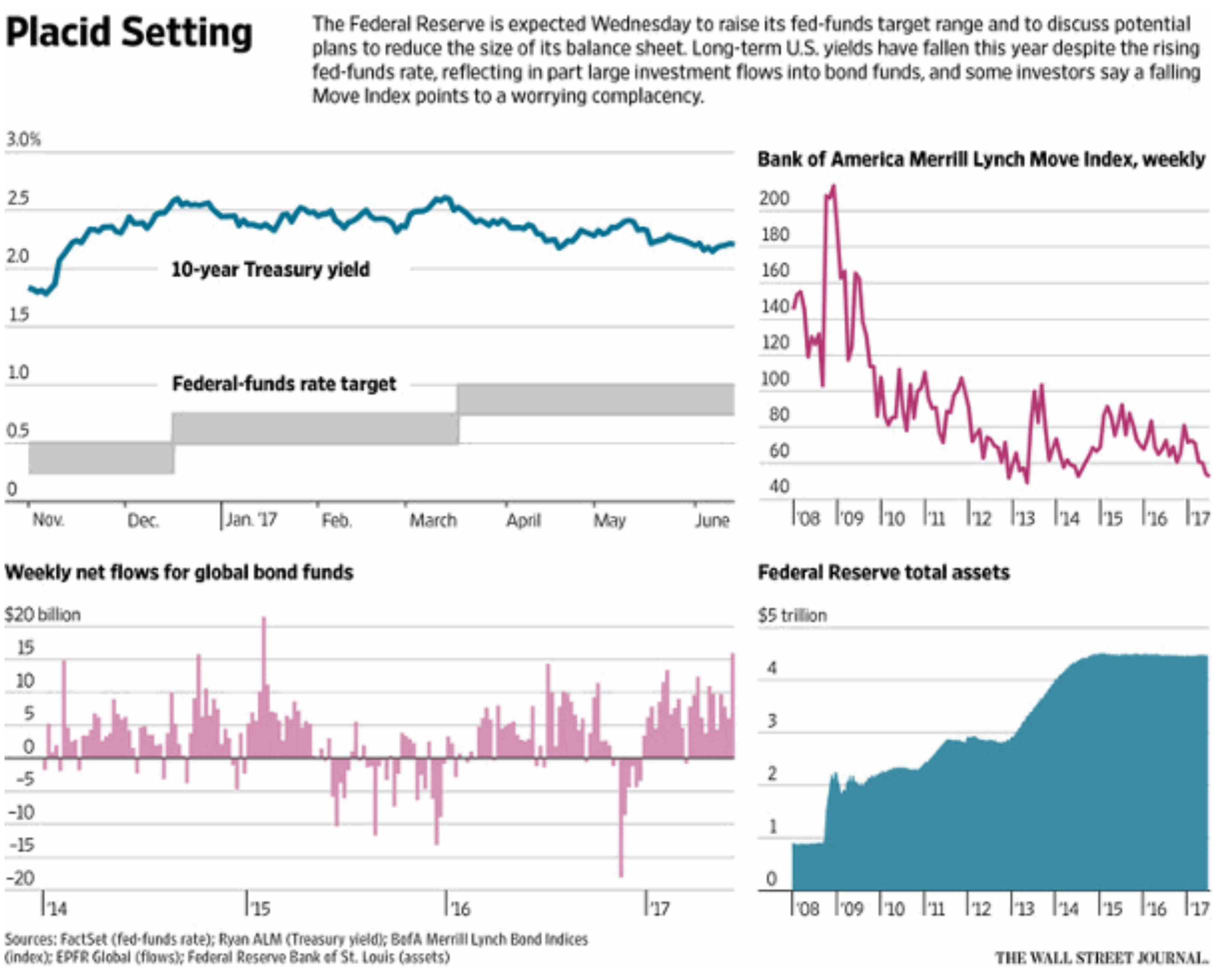
However, officials haven't revealed several key details that could influence the market effects, including when the process begins, its pace and the likely size of the balance sheet at the end.

Some analysts worry about the disconnect between current easy financial conditions and Fed efforts to tighten them. Stocks have climbed recently, yields have fallen and **volatility** is low, despite recent Fed rate increases and plans for more. The gap could mean markets aren't ready for the Fed to start reducing its balance sheet.

"Markets are overlooking both the Fed's resolve to normalize policy and the impact their receding from bond markets will have," Shehriyar Antia, chief market strategist with the Macro Insight Group, wrote to clients. "The longer it takes for market expectations to converge with the Fed's policy trajectory, the greater the potential for an abrupt price move."

Some uncertainty about the effects stems from the operation's unprecedented scale. Before the crisis, the Fed bought and sold almost only Treasury securities to adjust short-term rates, and the relative size of those interventions was small.

Also, shrinking the balance sheet is only one way the Fed is trying to reduce the economic stimulus it is providing as the recovery gains strength. Fed officials see the slow growth and ebbing inflation of recent months as likely to be transitory, but some outside analysts aren't convinced. While the Treasury market is vast and unlikely to be much affected by the Fed's action, the central bank's presence in the mortgage market is bigger.



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The New York Times

Business/Financial Desk; SECTB
Tech Sector Snaps Two Days Of Losses, Lifting Indexes

By THE ASSOCIATED PRESS
711 words
14 June 2017
The New York Times
NYTF
Late Edition - Final
2
English

Stocks on Wall Street bounced back to record highs Tuesday as investors put an end to a two-day drop for technology companies. Energy and consumer-focused companies also made outsize gains.

In a reversal from the two previous days, investors put money into companies that stand to benefit from faster economic growth, including retailers, makers of basic materials like paints and chemicals, energy companies and banks. Big-dividend companies, which are usually considered safer investments, did not do as well as the rest of the market.

The **Standard & Poor's 500**-**stockindex** picked up 10.96 points, or 0.5 percent, to 2,440.35. The **Dow Jonesindustrial average** rose 92.80 points, or 0.4 percent, to 21,328.47. The **Nasdaq composite**, which has a large concentration of technology companies, rose 44.90 points, or 0.7 percent, to 6,220.37, but did not get back to its record highs.

Technology companies led the way once again, although they remain well below their peak from last week. Facebook rose $2.24, or 1.5 percent, to $150.68 while Microsoft gained 87 cents, or 1.2 percent, to $70.65. The hard drive maker Western Digital added $3.41, or 3.9 percent, to $90.05.

Even after their recent skid, technology companies have done much better than the rest of the market in 2017. Big tech companies like Apple and Alphabet have been responsible for a huge portion of the **stock market**'s gains this year.

Amazon helped lift retailers. The online giant picked up $15.88, or 1.6 percent, to $980.79 and Best Buy rose $1.07, or 1.9 percent, to $57.85. Home Depot climbed $1.25, or 1.2 percent, to $153.99.

Among materials companies, Dow Chemical jumped $1.25, or 2 percent, to $65.26 and Sherwin-Williams gained $5.31, or 1.5 percent, to $353.25.

Energy companies joined the gains as the price of oil reversed an early loss. Benchmark crude futures added 38 cents to settle at $46.46 a barrel in New York. Brent crude, used to price international oils, picked up 43 cents to $48.72 a barrel in London.

Among energy stocks, Halliburton climbed 92 cents, or 2 percent, to $45.84 and the oil refiner Tesoro rose $3.03, or 3.3 percent, to $94.22.

The Federal Reserve began a two-day policy meeting on Tuesday. On Wednesday, investors expect the central bank to raise interest rates for the third time since December.

Bond prices edged higher. The yield on the **10**-**year Treasury** note was flat at 2.21 percent.

The restaurant chain Cheesecake Factory said sales at established restaurants have fallen in the current quarter. Those sales, an important measure of how a retailer is doing, were down about 1 percent, while FactSet says analysts expected growth of 1.7 percent. The stock lost $5.75, or 9.9 percent, to $52.58.

Verizon officially bought Yahoo's internet business for $4.5 billion. That brought an end to Yahoo's 21 years as a publicly traded company. Yahoo is being combined with AOL in a new Verizon unit called Oath, which is run by AOL's chief executive, Tim Armstrong. Verizon stock lost 73 cents, or 1.5 percent, to $46.46.

Gold slipped 30 cents to $1,265.80 an ounce. Silver fell 18 cents, or 1 percent, to $16.77 an ounce. Copper dipped 2 cents to $2.60 a pound.

The dollar rose to 109.97 yen from 109.85 yen. The euro inched up to $1.1205 from $1.1202.

The DAX in Germany gained 0.6 percent and the CAC 40 in France advanced 0.4 percent. In Britain, the FTSE 100 index lost 0.2 percent. Asian markets finished mostly higher. In South Korea the Kospi rose 0.7 percent and the Hang Seng in Hong Kong advanced 0.6 percent. The Nikkei 225 in Japan dipped 0.1 percent.

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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Heard on the Street
China on Guard for Fed Rate Increase

By Nathaniel Taplin
257 words
14 June 2017
The Wall Street Journal
J
B21
English

[Financial Analysis and Commentary]

China has spent the past two months Fed-proofing its financial system.

As the U.S. central bank prepares for a likely rate rise on Wednesday, those fortifications appear solid, but investors shouldn't rule out further money-market **volatility** in coming weeks. Higher short-term dollar rates have a way of kindling Chinese outflows.

Investors spent much of the past eight weeks fretting over rising money- and bond-market rates in China, but the fixed-income selloff -- largely engineered by the central bank -- has actually helped policy makers kill two birds with one stone.

Regulators under pressure to show progress on the "deleveraging" campaign championed by President Xi Jinping can point to lower bond-market leverage as evidence of success. And by squeezing the market, China has lowered the chances of another disorderly bond-market selloff like the one after the December Fed rise. The dollar and U.S. rates have both weakened recently. An unexpectedly hawkish tone from the Fed on the pace of future increases or plans to shrink its balance sheet could upset that dynamic, though.

China is heading into a peak season for cash demand ahead of midyear tax and regulatory deadlines and investors are notoriously skilled at finding ways around capital controls. Another round of money-market **volatility** this summer can't be ruled out.

For now, though, China's bulwark against Fed-induced debt-market troubles looks sturdy.

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Corrections & Amplifications
Corrections & Amplifications

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Larry Tabb, the founder and research chairman of consulting firm Tabb Group, was incorrectly identified as president of the company in a Page One article on Tuesday about the CBOE**Volatility** Index.

(See: "Bets Pile Up On Wall Street's Fear Index --- The VIX, which tracks **volatility**, spawned a giant trading ecosystem that could magnify losses" -- WSJ June 13, 2017)

C-sharp and D-flat are the same musical note. A Life & Arts article Monday about perfect pitch incorrectly said very few people in Western cultures can tell a C-sharp from a D-flat.

(See: "Life & Arts -- Burning Question: Can Perfect Pitch Be Learned?" -- WSJ June 12, 2017)

A photo in Saturday's U.S. News section of runners at the National Senior Games in Birmingham, Ala., was taken by Andrea Mabry and distributed by AP Images. It was incorrectly credited to Associated Press photographer Julie Jacobson.

In the House Call column in the Mansion section on May 26, former baseball player and manager Lou Piniella recalled parties thrown by the Pasetti family, childhood neighbors, who served crab enchilau. The article incorrectly said the family was named Pancetti, and it incorrectly called the dish crab enchiladas.

(See: "MANSION --- House Call / Lou Piniella: Baseball Was a Family Affair --- Before he was a Yankee, he was coached by his mom; growing up in a close-knit Florida community" -- WSJ May 26, 2017)

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THE WALL STREET JOURNAL.
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Bets Pile Up On Wall Street's Fear Index --- The VIX, which tracks volatility, spawned a giant trading ecosystem that could magnify losses

By Asjylyn Loder and Gunjan Banerji
2,114 words
13 June 2017
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A1
English

Corrections & Amplifications

Larry Tabb, the founder and research chairman of consulting firm Tabb Group, was incorrectly identified as president of the company in a Page One article on Tuesday about the CBOE Volatility Index.

(WSJ June 14, 2017)

(END)

Wall Street's "fear gauge" has neared all-time lows this year. That hasn't stopped retail investor Jason Miller from making a nice chunk of change betting it will go even lower.

The Boca Raton, Fla., day trader says he has made $53,000 since the start of the year by effectively shorting the CBOEVolatility Index, nicknamed the VIX. That includes a white-knuckle day on May 17, when the VIX spiked 46% following reports that President Donald Trump had pressured former FBI Director James Comey to drop an investigation into former National Security Advisor Michael Flynn.

As the 40-year-old Mr. Miller recalls, he rode out the storm, confident the market would revert to its torpid ways -- which it did. "One person's fear is another person's opportunity," says Mr. Miller.

Volatility -- or the lack of it -- has become the central obsession of the markets as the S&P 500 trades around its all-time high. Invented 24 years ago as a way to warn investors of an imminent crash, the VIX has morphed into a giant casino of its own.

Volatility trading has wormed its way into many corners of the investing universe, including insurance products that guarantee retirement income and mutual funds that try to avoid the worst declines. Once the obscure province of academics and derivatives experts, volatility is now traded by would-be retirees alongside the most sophisticated hedge funds in the world.

Even investors who have never heard of the VIX are exposed to its gyrations. There's an estimated $200 billion in so-called "volatility control" funds that use the VIX to decide whether to buy or sell stocks. "Tail risk" strategies, designed to steer clear of sudden slumps, often rely on it. Pensions such as the San Bernardino County Employees' Retirement Association have profited from bets the VIX would fall. Asset managers including AllianceBernstein incorporate volatility into retirement-date savings funds, adjusting stock exposure based on the severity of market swings. And insurance giant AIG sells annuities with fees that rise along with the VIX.

Lately, the VIX has been signaling a near-complete absence of fear, and the preternatural calm is making some people nervous. Opinion is divided on whether it is a bullish signal for stocks or a worrying sign of complacency. After all, the VIX also approached a record low in early 2007, just before the subprime crisis began unspooling. In recent days the VIX nudged higher, rising more than 10%, as technology stocks fell.

Some analysts see low volatility as a sign of increased efficiency, where shocks are more quickly absorbed by the markets. Others credit the growth of passive investing with overriding the herd mentality that exacerbates panicked selling. And yet another theory claims VIX trading itself has smoothed the market's jagged edges by allowing traders to easily offset risks.

Whatever the reason, becalmed stock markets have become a feature of the postcrisis world. Central bankers have lulled investors with record-low interest rates and flooded the market with cash. Even though the Federal Reserve is slowly withdrawing those supports, stocks have lost none of their appeal, notching new highs despite U.S. political turmoil.

This leads to the VIX paradox: The lack of fear scares some investors who say bloated stock prices portend a painful reckoning when monetary policy tightens.

"They're not adding to market stability. They're just building a bigger bomb," says Tom Chadwick, a New Hampshire financial adviser who uses VIX options to help protect his clients' portfolios from downturns. He says the Fed's policies have kept **volatility** artificially low for so long that the speed of any reversal will be more severe. "When this goes, you're going to see the mushroom cloud from Saturn."

The VIX was conceived after the Black Monday crash in 1987, when the market fell 23% in a single day. The measure used **stock-market** bets, known as options, to gauge expectations for the speed and severity of market moves, or what traders call **volatility**. Options prices rise and fall based on the perceived odds of a payoff, akin to the way home insurance costs more on a hurricane-plagued coast than in an untroubled inland suburb.

Unlike home insurance, options prices fluctuate constantly as traders react to news and reassess risk. Those prices feed into the VIX. The CBOE launched the original index in 1993, and it quickly became a staple of the financial press.

It took Wall Street another decade to figure out the VIX wasn't just a market weather vane but a potential gold mine. In the summer of 2002, newly minted billionaire Mark Cuban called Goldman Sachs Group Inc. looking for a way to protect his fortune from a crash. Because the VIX typically rises when stocks fall, he wanted to use it as insurance. But there was no way to trade it.

Devesh Shah, the Goldman trader who fielded the call, says he instead offered him an arcane derivative called a "variance swap," but Mr. Cuban wasn't interested.

Lamenting the lost opportunity, Mr. Shah met up with Sandy Rattray, a Goldman colleague and erstwhile indexing buff with a knack for packaging investment products. What if, the pair speculated, they could tap the VIX brand and reformulate the index based on their esoteric swaps? "The world wanted to drink Coca-Cola," says Mr. Shah, who retired from Goldman as a partner in 2011. "They didn't want the white label."

These were the heady days after financial deregulation, and Wall Street was securitizing everything from weather reports to bundles of sliced-up mortgages. Turning the VIX into something tradable was nothing more than a math problem, says Mr. Rattray. The pair rewrote the VIX formula, expanding it to a larger universe of **stock-market** bets and making it possible to create a tradable futures contract.

Their equation synthesizes thousands of trades and distills them all into a single number meant to represent the collective expectations for the market. When the VIX is at its current level of around 10, it implies that traders believe the **S&P 500** will move by an average of less than 1% a day during the next 30 days.

The more stocks move, the higher the VIX goes. Since the market typically falls much more sharply than it rises, the VIX tends to surge when the market crashes -- hence its potential as insurance.

Messrs. Shah and Rattray handed their invention to CBOE Holdings Inc., the owner of the VIX trademark. Neither had any idea that their brainchild would transform the markets for years to come. "I didn't realize how big it would be," says Mr. Rattray, who is now the chief investment officer for Man Group PLC, an $89 billion hedge fund. The formula allowed the CBOE to cash in its marquee index, launching VIX futures in 2004 and VIX options two years later. The firm billed VIX trading as a new risk-management tool, banking on the same appeal that had drawn Mr. Cuban. Trading grew steadily, but slowly.

Then the financial crisis hit, serving up a huge marketing opportunity. Amid an economic tailspin akin to the Great Depression, surging unemployment, and more than $5 trillion erased from the **S&P 500**, the only thing rising in the U.S. was the VIX, which topped 80 in late 2008. Who wouldn't pay just a little bit more to protect their nest egg from the wipeout?

At Barclays PLC, a farsighted few realized access was a big problem. Trading futures and options was too complicated and costly for many investors. The bank instead devised a product that tracks VIX contracts but trades on an exchange just like any a corporate stock. Suddenly anyone with a brokerage account could trade like the pros. The Barclays iPath S&P 500 VIX Short-Term Futures ETN launched in January 2009, just months before the S&P 500 hit a 12-year low.

VIX trading exploded. Terrified investors piled into Barclays's new product and similar ones that followed, desperate for anything that might help them repair their dented fortunes. "I think of it as the great democratization of volatility," says Bill Speth, vice president of research and product development at CBOE. "Investors who never would have opened a futures account or traded an option could and did trade these exchange-traded products."

Amid the panic, investors were willing to pay to insure their portfolios. The costs would be a drag in bull markets, but looked like a small price to pay in the immediate wake of the crisis. "It was the Wild West," says Bill Luby, who quit a 20-year consulting career in 2005 to become a full-time trader. "If you knew the landscape, there was a lot of money to be made."

Trading the VIX, however, is a lot different from watching it on TV, and its idiosyncrasies left some investors feeling burned. No trading strategy can exactly replicate the VIX index, and traders rely on proxies like futures and options, which can veer widely from the VIX itself.

VIX exchange-traded products are especially susceptible to this divergence because of the peculiar structure of VIX futures. Uncertainty increases with time, and the further away an anticipated downturn is, the more expensive it is to insure against. That means VIX futures for this month are typically less expensive than next month's contracts, which are less expensive than the month after that, and so on.

Some of the most popular exchange-traded products invest in a combination of this month's VIX futures and next month's. To maintain their exposure, they sell the contracts that are nearing expiration and buy contracts for the following month. Put simply, they buy high and sell low almost every day, steadily bleeding money. A share of the original Barclays product, bought at its January 2009 debut, would be nearly worthless today.

This decay is difficult to comprehend, even for sophisticated investors, and leveraged funds can compound those losses. Market experts say the products are designed for short-term tactical trading, not long-term passive investment.

When the VIX dipped in September, Larry Tabb, president and founder of the Tabb Group, a consulting firm, thought volatility would rise and bought an exchange-traded product that aims to double the daily gain of VIX futures. And even though the VIX rose 28% in October, the VelocityShares Daily 2x VIX Short-Term ETN lost money.

"It just kept going down and down and down," says Mr. Tabb, who blames himself for not reading up on its mechanics before buying. "I got completely screwed."

Janus Henderson Group PLC, owner of VelocityShares, declined to comment.

The flip side of the punishing decay favors short sellers, allowing them to profit when volatility is flat and sometimes even when it rises. Instead of buying insurance, selling it became the hot trade. Traders like Mr. Miller see spikes in volatility -- such as those ahead of the U.S. presidential election -- as opportunities to bet that the VIX will quickly collapse again.

Such bets have paid off in the past year as market shocks proved fleeting. The ProShares Short VIX Short-Term Futures ETF that, like Mr. Miller, shorts the VIX, is up 70% this year. Pravit Chintawongvanich, head of derivatives strategy for Macro Risk Advisors, estimates that traders and investors now have a near-record $512 million at stake for every single-point move in VIX futures.

In a twist, the very funds that are meant to protect against volatility may make any correction worse, says Rocky Fishman, an equity-derivative strategist with Deutsche Bank. So-called "volatility control" funds aim to provide investors with a smoother ride by sidestepping the worst dips. A rising VIX signals the funds to shed stocks in favor of safer assets, accelerating the selloff and spooking other investors into joining the exodus.

Rising volatility triggered $50 billion in stock selling during the market gyrations of August 2015, and $25 billion in the wake of the U.K.'s surprise vote to exit the European Union last year, according to Mr. Fishman. "It's a feedback loop that can make selloffs unfold faster," says Mr. Fishman. "There are fund managers whose job it is to sell equities when volatility goes up. And that affects everyone."

(See related letter: "Letters to the Editor: When Good Measures Fail" -- WSJ June 22, 2017)

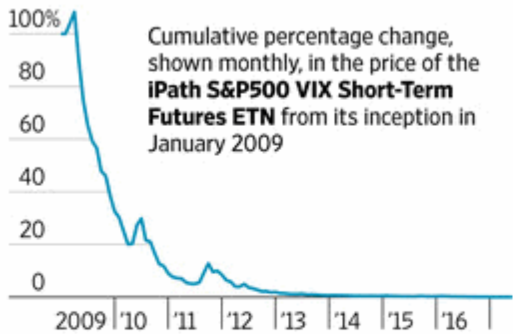
VIX INSURANCE

Because stocks tend to fall much more sharply than they rise, **the VIX typically spikes when stocks plummet**, making it an attractive form of insurance.

But there was no way to trade it until 2004 when CBOE Holdings Inc. launched standardized, publicly traded VIX futures. VIX options followed two years later.

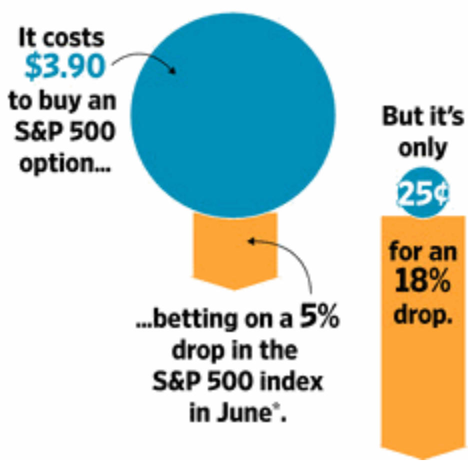
FEAR GOES MAINSTREAM

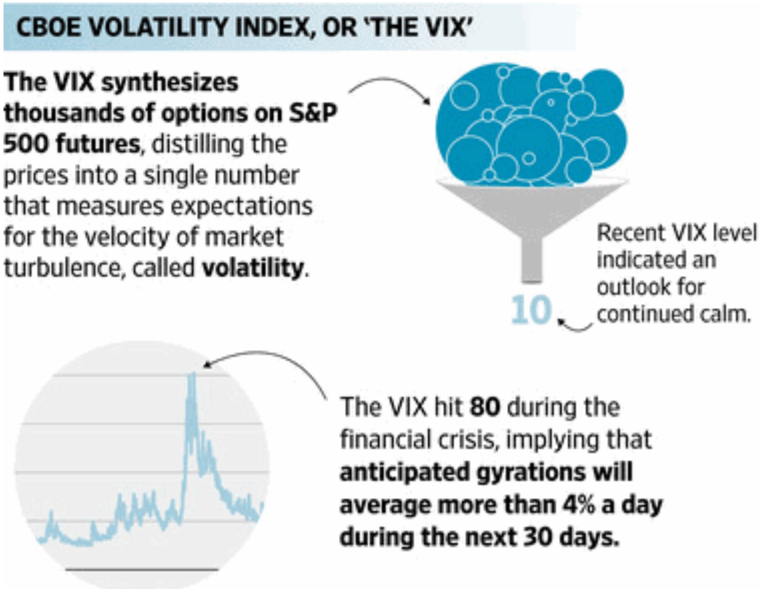
VIX insurance comes at a cost. **Exchange-traded products that track VIX futures typically lose money in the long term** because of the idiosyncrasies of futures pricing.



BASIC INGREDIENTS

Traders buy and sell stock-market wagers, called **options, to bet on the direction, timing, speed and severity of market moves.** Prices change constantly as traders reassess the odds that their wagers will pay off. **The better the odds, the higher the price.**





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THE WALL STREET JOURNAL.
U.S. EDITION

Chip Stocks Buck Broader Slump

By Amrith Ramkumar
823 words
13 June 2017
The Wall Street Journal
J
B1
English

Shares of several chip makers turned higher despite a slump in the broader technology segment, alleviating some concerns that last week's pullback could be the start of a deeper rout.

Nvidia Corp., the **S&P 500**'s worst performer on Friday, Micron Technology Inc. and Texas Instruments Inc. were all up to start the week. The makers of computer chips used in everything from iPhones to self-driving cars have often led their larger counterparts in the tech sector on the way up and down, leading some investors to say the worst of the tech drop had passed. The Dow industrials fell 36.30 points, or 0.2%, to 21235.67.

The **S&P 500** technology sector fell 2.2% last week -- its biggest weekly decline of the year -- as investors sold stocks that led gains in the broader market in 2017, including Apple Inc., Netflix Inc., Amazon.com Inc., Facebook Inc. and Google parent Alphabet Inc. Some analysts and investors had become concerned that the concentrated group of highfliers was vulnerable to a reversal.

The PHLX Semiconductor Index, a group of 30 semiconductor stocks, declined 0.5% Monday compared with Friday's 4.2% slide, which was its second-biggest daily drop of the year. Nvidia climbed 37 cents, or 0.3%, to $149.97, on Monday after shedding 6.5% Friday in its highest-volume trading day since 2004, according to FactSet.

"Is the panic over? To some extent, it feels like it is because if you look at Nvidia, it's bounced back off the [intraday] low," said Yousef Abbasi, global market strategist at JonesTrading Institutional Services, after the market closed Friday.

Nvidia, which more than doubled over the seven months through Thursday, has been watched by some analysts and investors for signs about where the broader tech rally is heading.

Some of the most actively traded options contracts on Nvidia stock Monday were calls, or **bullish** options, expiring in June, according to Trade Alert data.

"I think participants see this latest selloff as short-term in nature," said Fred Ruffy, an analyst at Trade Alert, adding that calls trading on Nvidia outpaced puts, or **bearish** options, exchanging hands on Monday. "There are people using options to play the stock for a rebound."

The PHLX Semiconductor Index has gained more than twice as much as **S&P 500** tech stocks and **Nasdaq Composite** since the start of 2016. Although a strong 2016 accounts for much of the PHLX Index's gains, it has still fared better than the S&P tech sector and **Nasdaq** this year.

As investors dialed back on some of the most popular stocks of the year last week, some of this year's underperformers posted gains.

Energy stocks in the **S&P 500**, the worst performer of the 11 sectors this year, have risen more than 3% during the two-session tech selloff. The KBW **Nasdaq** Bank Index rose 4.9% last week -- its biggest weekly gain of the year. That bounce has raised the prospect that investors may rotate back into underperforming sectors, boosting what had been laggards for much of the year.

At the same time, investors say those sectors face challenges of their own. Bank stocks typically rise when long-term rates increase relative to short-term ones, but that spread has been declining since the end of last year as investors reverse bets on quicker economic growth. Shares of energy companies have fallen largely because **oil prices** are down more than 14% this year.

That has made many analysts and investors wary of calling an end to the tech rally.

"It's all a herd mentality," said Robert Pavlik, chief equity strategist at Boston Private Wealth. "I think once you see this all sort of play out, the market is going to be looking for growth," he said, adding that he thinks investors will use the selloff as a buying opportunity for technology.

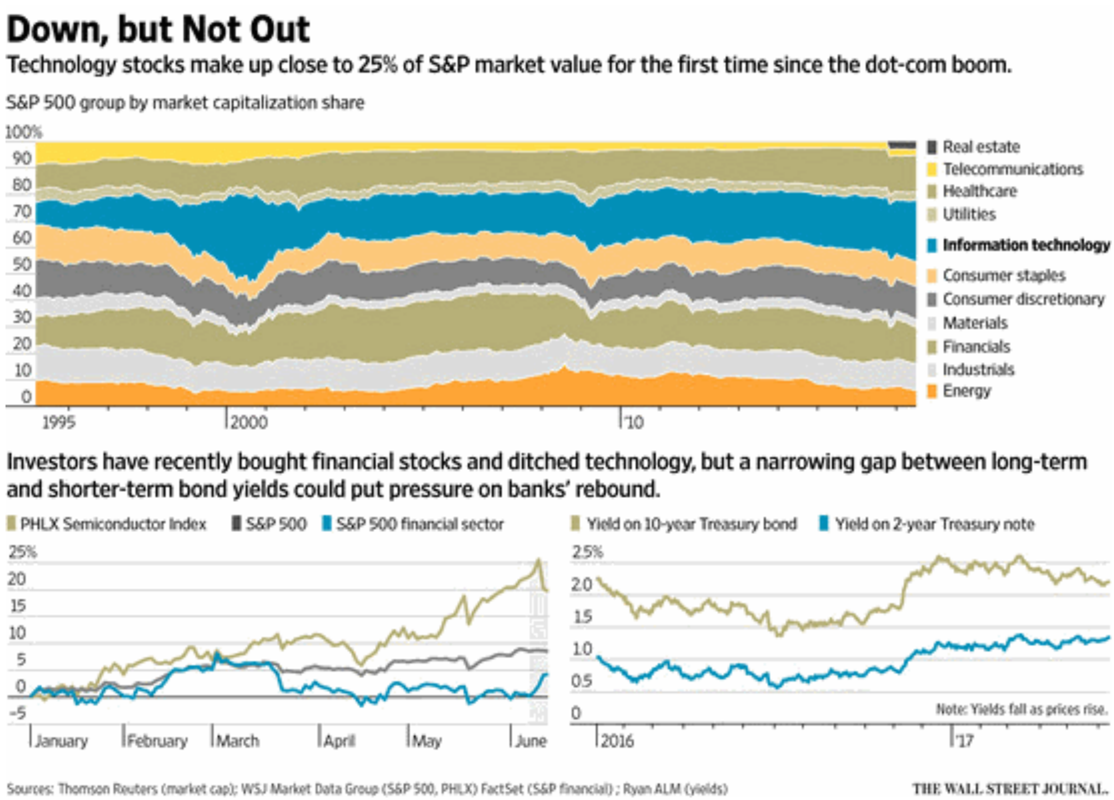
Some say chip makers are one group that has more room to run.

Many semiconductor companies have been benefiting from rising memory-chip prices, according to a Benchmark Research industry note published Monday. Global semiconductor revenue is forecast to increase more than 12% this year, research firm Gartner said in April.

The semiconductor index traded Friday at about 15.7 times Wall Street's projected earnings for the next 12 months, according to FactSet, below the **Nasdaq**'s multiple of 22.5, suggesting that they are still attractively valued relative to the broader market.

"At this point, in 2017, we see the group positioned mid-cycle," said Rick Schafer, managing director and senior analyst at Oppenheimer. "It's always tough when you're in the middle of a cycle to know whether you're in the third inning or the seventh."

Ben Eisen, Gunjan Banerji and Akane Otani contributed to this article.



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THE WALL STREET JOURNAL.
U.S. EDITION

Streetwise: Hot Sector + Crowded Trade = Danger

By James Mackintosh
825 words
13 June 2017
The Wall Street Journal
J
B1
English

Normally, a slight fall in a **volatile stock-market** sector would be of little note. But Friday's pullback in technology stocks bears closer attention than usual, coming out of the blue and, unusually, not being part of a wider selloff.

The fall was small in absolute terms, but it looks huge compared with everything else. The **S&P 500** tech sector has had only two worse days relative to the wider market since the dot-com **bear market** ended in 2003. One was amid the post-Lehman carnage in October 2008, the other after the market began its credit-crunch-induced descent in late 2007. These are not good precedents for investors.

Investors should be cautious about reading too much into one or two days' moves. Nvidia Corp., the graphics card maker that has become the picks-and-shovels supplier to the gold rush in artificial intelligence and cryptocurrencies, had a hard time, dropping 6.5% on Friday. Facebook Inc., Amazon.com Inc., Alphabet Inc. and Apple Inc. were down more than 3% on Friday and fell again on Monday. But the wider **Nasdaq**-100 index, dominated by technology, was off only 2.4% on Friday and 0.6% on Monday. Even Nvidia's Friday drop wasn't its worst day this year. (The stock edged up 0.3% on Monday.) This will probably turn out to be merely a small correction to the phenomenal run-up in tech stocks this year.

Yet, there are both short-term and long-term reasons to worry about tech. In the short term, the fall was an example of what happens when shares lose momentum. When shareholders buy stocks just because they're going up, any interruption can be brutal.

The tech sector has also become universally popular, suggesting the shares have become a crowded trade. Goldman Sachs Group Inc. analysts even point out that the biggest tech stocks -- the "FAAMGs" of Facebook, Apple, Amazon, Microsoft Corp. and Alphabet (Google) -- have appeal to investors who buy into low **volatility**, after recording lower **volatility** than any market sector in the past six months.

They already qualified for those who screen shares for momentum and earnings growth. When popular trades go out of fashion, they often do so suddenly.

Yet, tech stocks aren't repeating the dot-com bubble of 2000. It's true that before its drop on Friday, the S&P tech sector came within 0.1% of breaking its dot-com high for the first time. But unlike 2000, many of today's tech stocks are well established and run highly profitable oligopolies.

In the long term, the danger is that hubris in the boardrooms of tech companies will lead them to fritter away shareholder cash as they set out on a landgrab of new technologies away from their core expertise.

Apple has put the "hub" in hubris with its flashy new wheel-shaped headquarters. Some of the maddest projects have been put on ice -- Apple's plan to diversify from mobile phones into electric cars or Google's internet provision via solar-powered drones -- but plenty of "moonshot" projects remain.

Some of these moonshots will surely pay off, but investors would be wise to wonder about the core expertise of some of the companies in which they're buying shares. Are they high-margin oligopolies in social media, mobile phones and operating systems? Or are they generic technology incubation operations able to turn wacky ideas into new business models?

Treating them as safe, low-**volatility** stocks implies the former, but that isn't compatible with their cash generation being plowed back into high-growth moonshots.

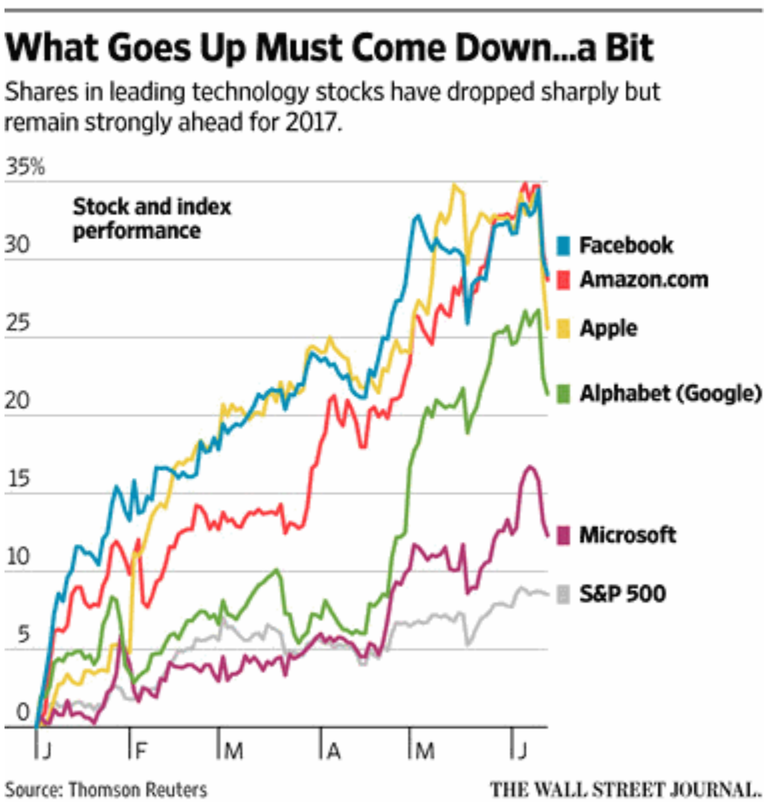
Worsening this risk is the lack of effective controls on the powerful founders of many of the big tech companies. History has shown time and again that executives without effective checks and balances waste company cash on poorly thought out or overly expensive vanity projects, and founders of several of the biggest tech businesses have kept control of their companies through special share classes.

Mark Zuckerberg still controls 60% of Facebook votes, co-founders Larry Page and Sergey Brin control 51% of Alphabet votes, and Snap Inc.'s IPO this year gave buyers of its shares zero votes.

There are other risks.

New tech eventually disrupts old tech; could a new approach to social media send Facebook the way of Myspace, or a new phone style leave Apple looking like Nokia Corp.? Hard to imagine, but so was the invention of the iPhone. Staff shortages are bidding up costs rapidly, as Silicon Valley competes with itself and Wall Street for the best computer-science graduates. There's also a danger that governments, particularly in Europe, get serious about their tax, antitrust or encryption concerns.

All these are for the future; for now, worry about a crowded trade quickly becoming much less crowded.



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The New York Times

Business/Financial Desk; SECTB
Markets Unfazed as Federal Reserve Nears Plan to Shed Bonds

By BINYAMIN APPELBAUM
1,175 words
13 June 2017
The New York Times
NYTF
Late Edition - Final
3
English

WASHINGTON -- The Federal Reserve, which holds more bonds than any other investor, is planning how to shed some of them starting this year. And no one is too worried about it.

The Fed is expected to announce in the near future a plan to gradually reduce its $4.5 trillion portfolio of Treasuries and mortgage-backed securities, the final step necessary to conclude the stimulus campaign it conducted after the financial crisis.

The unveiling could come Wednesday, after a two-day meeting of the Fed's policy-making committee, when the Fed is expected to announce it will raise its benchmark interest rate by a quarter point, to a range between 1 percent and 1.25 percent.

Financial markets have watched the Fed's preparations with equanimity. There is no sign of the panic that briefly gripped investors when the Fed contemplated similar measures in 2013, perhaps because the economy seems to be considerably stronger.

It also helps that the Fed has indicated that it plans to move very slowly. Analysts expect that the Fed might initially reduce its holdings by $10 billion a month -- which would put it on pace to complete the normalization process in about 30 years.

Stanley Fischer, the Fed's vice chairman, offered the ''tentative conclusion'' in an April speech that ''we appear less likely to face major market disturbances now than we did in the case of the taper tantrum,'' the name often given to the sell-off in mid-2013.

The Fed, which held less than $900 billion in assets a decade ago, staged a series of bond-buying campaigns in the aftermath of the financial crisis, often described as quantitative easing. The Fed wanted to further reduce longer-term interest rates, but it had already lowered its benchmark interest rate to near zero.

Buying bonds reduced the supply available to investors, increasing competition so investors had to accept lower interest rates. The Fed, and some outside economists, argued that the purchases modestly reduced borrowing costs on mortgages and commercial loans, contributing to the gradual revival of economic activity.

The Fed estimated in an April analysis that its holdings reduce by about 1 percentage point the interest rate on the benchmark **10**-**year Treasury** note, which is 2.2 percent.

Fed officials now say they expect to start reducing those holdings this year. The retreat is expected to reinforce the effects of the ongoing increases in its benchmark rate: higher borrowing costs for businesses and consumers, some outflow of money from the **stock market** into bonds, and some strengthening of the dollar.

Among outside economists, there is a range of views about the effects of the reduction. Some who doubted the benefits of the program expect the retreat to be similarly inconsequential. Others think the Fed's analysis is in the ballpark. Still others worry that the Fed could roil **financial markets**.

The Fed does not plan to reduce its balance sheet to the precrisis level. The most basic reason is that demand for dollars has increased, and the Fed supplies that demand by purchasing securities. Currency in circulation has nearly doubled over the last decade, from $774 billion in May 2007 to $1.5 trillion last month. At the current rate of growth, the Fed projects currency in circulation would reach $2.8 trillion by 2027.

''It's hard to see the balance sheet getting below a range of $2.5 to $3 trillion,'' Jerome H. Powell, a member of the Fed's board of governors, said in a recent speech to the Economic Club of New York.

The Fed also acquires securities to provide reserves to the banking system. Before the crisis, the Fed's control of interest rates depended on keeping those reserves at a minimum level in normal times -- on average, about $15 billion. But those balances soared in the aftermath of the crisis as the Fed pumped money into the financial system. Banks now hold about $2.2 trillion in reserves.

Moreover, the Fed has changed the mechanics of monetary policy so it can control interest rates without draining those reserves. And the new system is working: The Fed has successfully carried out three rate increases.

In his recent speech, Mr. Powell contrasted the Fed's current approach, which he said ''is simple to operate and has provided good control over the federal funds rate,'' with the old system, which he described as complex and unwieldy.

He said the Fed had not decided whether to keep the new system. But his comments and those of other influential Fed officials have fostered an expectation that the Fed will maintain it. If the Fed does so, the level of reserves will remain above its precrisis level, and that means the Fed's balance sheet will be larger, too.

In an April survey of two dozen Wall Street firms conducted by the Federal Reserve Bank of New York, the median estimate was that bank reserves would remain at roughly $688 billion in 2025 -- and that the Fed's balance sheet would sit at $3.1 trillion.

John C. Williams, president of the Federal Reserve Bank of San Francisco, said he still expected that in five years, the balance sheet would be ''much smaller than today.''

But others think the reduction could end up being quite small.

''In a sense, the U.S. economy is 'growing into' the Fed's $4.5 trillion balance sheet, reducing the need for rapid shrinkage over the next few years,'' wrote Ben S. Bernanke, the former Fed chairman. Mr. Bernanke calculated that the Fed could need a balance sheet of roughly $4 trillion within 10 years.

The mechanics of the Fed's retreat are more certain. The Fed plans to reduce its holdings without selling securities. That is possible because some of the securities mature each month.

Analysts estimate about $280 billion in securities will mature during the remainder of 2017, and another $650 billion will mature during 2018.

By gradually reducing the amount it reinvests each month, the Fed can gradually reduce its investments while avoiding potentially disruptive sales.

Some analysts expect the Fed to wait until December; some say September. There is also a range of predictions about the pace of the retreat.

The Fed said in May, in an account of its most recent policy meeting, that it expected to publish a schedule for the entire process. It will reduce purchases by the same amount for three months, and then increase that cap each quarter.

The plan is orderly on paper, but it assumes the continuation of what is already an unusually lengthy economic expansion. If the economy weakens, the Fed could pause.

It might even see the need to once again expand its balance sheet.

Follow Binyamin Appelbaum on Twitter @bcappelbaum

The Federal Reserve Bank of New York in Manhattan. The Fed may announce how it will reduce its bond holdings on Wednesday. (PHOTOGRAPH BY TODD HEISLER/THE NEW YORK TIMES)

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DealBook
Business Day; DealBook
C.E.O.s Say They're Confident, but Merger Numbers Don't Lie

By ANDREW ROSS SORKIN
1,062 words
12 June 2017
08:23 PM
NYTimes.com Feed
NYTFEED
English

For the past several months, ever since the election, chief executives of the nation's largest companies have repeatedly professed to be more confident than ever. They say, in survey after survey, that they are more optimistic about the economy and their own businesses, waxing about the prospect of lower regulations and lower taxes under President Trump and a Republican-controlled Congress. Investors, at the same time, have bid up the **stock market**.

Yet there is a remarkable divergence between what chief executives have been saying aloud and what they are actually doing in practice. They may not be as confident as they say they are.

On Wall Street, there is one barometer that is considered the ultimate truth serum when it comes to reflecting C.E.O. confidence: merger and acquisition activity.

Corporate chieftains do deals when they are confident about their own business and the trends in the economy. When they are nervous about the future, they usually pull back from deal making and focus inward.

If you can't remember reading about a big deal announced recently, that's because there hasn't been one. The reality is that since Mr. Trump was elected, mergers have fallen off a cliff.

The numbers tell the story: So far this year, the number of deals and their size are at the lowest level since 2013. Total deal making in the United States in the first quarter was off nearly 40 percent from its peak during the same period in 2015, according to S&P Global Market Intelligence.

And yet, the Business Roundtable, which conducts a survey of chief executives, said its confidence index "jumped 19.1 points, from 74.2 in the fourth quarter of last year to 93.3 in the current quarter," well above the historical average of 79.8.

How to make sense of the disconnect?

"C.E.O. and consumer confidence is clearly up,'' said John Waldron, co-head of global investment banking at Goldman Sachs. "But management teams and boards seem to be waiting this out," especially on mega-transactions. He cited "uncertainty around Trump policies being enacted," ticking off "taxes, infrastructure, deregulation," as well as a view that despite the headlines, "regulatory scrutiny hasn't abated yet."

He also said that some companies worry about a backlash from the Trump administration if a deal were to rely on "synergies" — a euphemism for layoffs — to make the numbers work.

Yes, the prospect of an early morning Twitter tirade from Mr. Trump may be holding back deal making. And that's not confidence inducing.

None of this is meant to suggest that chief executives don't genuinely feel more optimistic; they probably do. Maybe it requires a bit of an armchair psychological diagnosis, but that optimism has yet to manifest itself in its most visible form: big acquisitions.

In an admittedly unscientific survey of more than a dozen chief executives, bankers and lawyers — who work for some of the nation's largest companies and maintain a pipeline of potential deals — told me that while mega-transactions have slowed, they were hopeful that the current sense of optimism would translate into more deal making.

“For mergers and acquisitions to do well requires the first two years after closing a transaction to give you an economic tailwind, not a headwind,’’ said Blair Effron, chief executive of Centerview Partners, a boutique investment bank that has worked on some of the largest transactions of the last several years. “And that’s the question mark right now.”

Mr. Effron pointed out that it isn’t just merger activity that has trailed off. Companies have also slowed buybacks of their shares — a practice this column has long argued is too often used as a financial engineering maneuver to increase earnings per share and compensation based on such metrics. But it also suggests that companies are less confident in their future stock prices than they once were.

Perhaps that is simply a reflection of the fact that stock prices are already so high, but it may also say something about executives’ true feelings about the state of the economy.

“If people think we’re going to be in a good place in the next two years, you’ll see transaction activity pick up,’’ Mr. Effron said, noting that the growth rate hasn’t actually changed much in the last five years.

Surprisingly, deal making outside the United States is up, according to S&P Global Market Intelligence. Even with all the geopolitical risks and Britain’s decision to leave the European Union, deal making in Europe, for example, has increased by 23 percent in the first quarter of the year.

Tobias Levkovich, the chief United States equity strategist at Citigroup, has a more dire view of what the lack of deal making means here at home: He’s worried it portends a potential pullback in the **stock market**.

On Friday, he sent his clients a chart overlaying merger activity and the **stock market**. It showed that merger activity is often a good forward indicator of the **stock market** — and right now the lines are out of whack given that the market is up and mergers are down.

“In some respects, one of the scariest charts to look at currently is the number of announced mergers and acquisition deals over the past year or two,” Mr. Levkovich wrote in a note.

He continued: “M&A lawyers argue the ‘uncertainty’ factor, which has come about recently, given some unpredictable aspects of the new Trump administration, has been the issue.’’

But Mr. Levkovich said he also thought it may say something more profound about the possibility of an overvalued **stock market**. “It only may explain the last six months, but the trend has been poor for about two years or more,’’ he said.

Perhaps we will look back on this moment as the calm before a storm of more deals. But in the meantime, the next time a chief executive says he or she is more confident ever, remember the adage: Watch what they do, not what they say.

So far this year, under President Trump, the number and size of merger deals are at the lowest level since 2013. | Al Drago/The New York Times

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Business Day; DealBook
A Slump in Tech Stocks That Leaves Some Investors Mystified

By LANDON THOMAS Jr.
684 words
12 June 2017
04:13 PM
NYTimes.com Feed
NYTFEED
English

The laws of gravity apparently apply to technology stocks after all.

After a relentless three-year ascent, large bellwether companies like Apple, Facebook, Google and Amazon led a two-day sell-off, prompting fears of a wider **stock market** retreat.

No one trigger related to the fundamentals of these companies spurred the snap back. As has been the case for years now, these technology giants sit on trillions of dollars in cash, are growing at a breakneck pace and, compared with companies in earlier tech frenzies, do not have absurd valuations.

Yet it has been this lack of an identifiable cause — a disappointing earnings result or a major investor's unloading stock, for example — that is worrying some market specialists.

"There was no real catalyst; I just think there has been a psychological change," said Julian Emanuel, a **stock market** strategist with UBS Securities in New York. "Even though the long-term earnings picture with these stocks is favorable, there is discomfort with the disproportionate gains in these stocks."

In late trading on Monday, the technology-laden **Nasdaq composite** index was down 0.7 percent. The broader **Standard & Poor's 500-stockindex** was also slightly lower, off 0.2 percent.

Netflix helped lead the way, declining more than 4 percent. Apple was down nearly 3 percent by late afternoon.

The declines for Google and Amazon have been less pronounced. On Monday, their share prices fell slightly more than 1 percent.

To this broader point, UBS published a research report late last week, noting that Facebook, Amazon, Apple, Microsoft and Google were responsible for one-third of the **S.&P. 500**'s return of more than 8 percent this year.

The bell does not ring at a **stock market** peak, the note explained, but there have been periods in recent history when investors, after riding a small group of stocks up to unexpected highs, have abandoned them en masse. The reasons for doing so, however, were less than obvious at the time.

UBS was not the only major investment firm weighing in late last week about the heavy influence of these stocks in investor portfolios.

Goldman Sachs released an analysis that raised concerns about how far these stocks had run, and two investment banks marked down their ratings for Apple, citing worries about slowing iPhone sales.

While traders have said hedge funds could be bailing out on these stocks, the larger question is the extent to which retail investors — given how vulnerable they can be to mood shifts in the market — will stick with them.

According to FactSet, a data collection company, 82 percent of today's combined investor exposure to Facebook, Amazon, Apple, Netflix and Google is in the hands of large mutual fund companies such as Vanguard, BlackRock, Fidelity and the Capital Group.

Hedge funds as an investor class, according to FactSet, hold just $58 billion in these stocks, which are collectively known by the acronym Faang. (Some analysts prefer "Faamg," substituting larger Microsoft for Netflix.)

Compared with the $688 billion held in traditional mutual funds and their faster-growing cousins — exchange-traded funds, or E.T.F.s, which trade on stock exchanges — that is a very small figure.

To a large degree, the ascendance of these companies is a result of their ability to grow and achieve startling success in a sluggish economy.

In the last week, however, a number of analysts have argued that the disconnect between Faang (or Faamg) stocks and other sectors tied more directly to the economy, such as financial and energy stocks, has become too significant to ignore.

Credit Suisse, in a trading alert on Monday, recommended that clients ditch QQQ, a $50 billion exchange-traded fund that tracks the **Nasdaq** index, in favor of XLF, a $22 billion E.T.F. that follows large financial companies.

In the last week, QQQ has declined by 3.3 percent and XLF has increased by about the same amount as investors large and small have started to make this change.

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THE WALL STREET JOURNAL.
U.S. EDITION

IEX Finds Tough Slog To Upend Status Quo

By Alexander Osipovich
975 words
12 June 2017
The Wall Street Journal
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B1
English

Nearly a year after its launch as a full-fledged exchange that would level the playing field for stock trading, IEX Group Inc. is struggling to become more than a niche player.

Part of its dilemma: convincing the high-speed trading firms it once railed against to trade on IEX.

Made famous by Michael Lewis's 2014 book "Flash Boys," IEX hasn't made a dent in the businesses of the New York Stock Exchange, **Nasdaq** Inc. and Bats, each of which handles roughly one-fifth of U.S. equities volume. In May, it had a market share of 2.2%.

IEX becoming an exchange "has largely been a nonevent," said Bryan Harkins, head of U.S. equities and global FX at CBOE Holdings Inc., which owns Bats.

Around half of U.S. equities volume comes from high-frequency trading or HFT firms, which buy and sell shares in the blink of an eye. Such firms do most of their trading on the major exchanges, which offer incentives to brokers and high-volume traders.

IEX vaulted to fame by crusading against ultrafast traders who use computers to exploit slower investors. When IEX raised funds three years ago, it told backers it planned to reach a market share of more than 8% by 2017. That estimate was based on winning exchange approval in 2015, said an IEX spokesman, who declined to provide updated targets. IEX didn't get approved until June 2016 because opposition from other exchanges and trading firms dragged out the process.

IEX representatives have visited major high-speed trading firms to get them to trade more on IEX. Rob Salman, an IEX salesman, met with Citadel Securities LLC as recently as Friday, two people familiar with the situation said.

When IEX held a launch party at Manhattan's Bowery Hotel in September, it had guests from high-speed traders such as Citadel Securities, Global Trading Systems LLC, IMC **Financial Markets** and KCG Holdings Inc., people familiar with the event said.

But IEX says it won't offer special perks to HFT firms. "We are fair access, and willing to meet with all of our members," a spokesman said.

IEX calls itself the best exchange for investors, citing data showing that trades on IEX have less impact on prices than at other exchanges. Other exchanges don't dispute the numbers but say IEX's analysis misses a key point of what an exchange does: providing public data on stock prices.

Before becoming an exchange last year, IEX was a dark pool, where orders to buy and sell stocks aren't publicly broadcast. Today, about one-quarter of IEX's volume is displayed. That means the best posted price for a stock is more likely to be found elsewhere.

In April, IEX's quotes for the most heavily traded stocks matched or beat other exchanges' prices 31% of the time, according to an analysis by advisory firm ViableMkts LLC and data provider MayStreet LLC. By comparison, **Nasdaq**'s flagship exchange displayed the best price 89% of the time and NYSE's Arca exchange had it 78% of the time.

IEX argues it shouldn't be judged by its displayed prices. It says it is more important to offer quality executions to long-term investors, a core group that IEX says other exchanges have forgotten.

One of the biggest factors limiting IEX's market share is its refusal to pay rebates -- the incentives other exchanges pay for orders.

NYSE, **Nasdaq** and Bats paid more than $2 billion last year in rebates, according to company filings. Defenders of the practice say it results in more competitive pricing. IEX says it encourages brokers to send orders to the exchange that pays the biggest rebate, rather than the one that is optimal for the customer.

"We're unwilling to pay kickbacks," IEX Chief Executive Officer Brad Katsuyama said.

But that makes it tough to boost volumes. "They're in a bit of a dilemma because they've made not paying rebates a religious issue," said Jamil Nazarali, senior adviser to the CEO of Citadel Securities, which opposed IEX's exchange application.

IEX, whose backers include venture-capital firm Spark Capital and buy-side firms such as the Capital Group and Brandes Investment Partners, is exploring other ways to grow.

One of those is a big bet on corporate listings. If the plan wins approval, companies listed on NYSE or **Nasdaq** could switch to IEX as early as October.

That would lift IEX's volumes, because the exchange that lists a stock runs its daily opening and closing auctions, which account for a significant chunk of trading. Listing fees also brought more than half a billion dollars last year in revenues to NYSE's parent company, Intercontinental Exchange Inc., and **Nasdaq**.

At least 10 companies, including some members of the **S&P 500**, have expressed interest in switching to IEX, The Wall Street Journal reported in November.

Still, IEX faces an uphill battle. "It's a real challenge to build a successful listing operation," said Eric Noll, former CEO of brokerage Convergex and a member of an IEX outside advisory committee. "It's not going to happen overnight."

And competition is heating up. Rivals have borrowed IEX's ideas, including its best-known feature -- the "speed bump", a delay of 350 microseconds imposed on each incoming trade. The delay ensures there isn't a better price on another exchange.

In July, NYSE plans to introduce its own 350-microsecond speed bump to the smallest of its equities exchanges. Mr. Katsuyama dismisses the copycat threat, saying it is a "distraction" from other NYSE practices that harm investors.

This month Bats also introduced an IEX-style pricing model on one of its exchanges.

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THE WALL STREET JOURNAL.
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Fed Finds Foe in Financial Markets --- Central bank's effort to prevent overheating risks being thwarted by surging stocks, bonds

By David Harrison
872 words
12 June 2017
The Wall Street Journal
J
A1
English

The Federal Reserve's interest-rate increases aren't having the desired effect of cooling off Wall Street's hot streak.

While Fed officials meeting this week will likely decide to raise short-term interest rates for a fourth time since December 2015, much of that tightening effort has yet to be felt in **financial markets**, where stocks have rallied to records this year and bond yields have fallen, developments that tend to prompt more borrowing, faster economic growth and more market speculation.

The tech-heavy **Nasdaq Composite stock index**, despite a drop Friday afternoon, is still up 15% as it nears the midyear mark and the **S&P 500 index** a robust 9% so far in 2017. Yields on **10**-**year Treasury** notes have dropped to their lowest levels since November, meaning borrowing costs are falling for many households and businesses even as the Fed tries to raise them.

Broad financial conditions are as accommodative now as they were in early 2015, the point of maximum Fed stimulus, according to a closely watched Goldman Sachs index, which measures the combined impact of movements in interest rates, stock prices and the value of the dollar.

Easy financial conditions create a risk the market could overheat and then snap back, sending yields soaring and choking off lending, said Torsten Slok, chief international economist at Deutsche Bank Securities. "The rubber band is stretching out here."

In theory, financial conditions should serve as the conduit between the Fed's monetary policy and the real economy. When the Fed lifts short-term rates, long-term rates should rise also and financial conditions should tighten.

The fact that the central bank and Wall Street are moving in opposite directions suggests limits to the Fed's influence over the economy. If it persists, it could also prompt the Fed to shift its strategy. If your dance partner doesn't follow, you might hold that person tighter.

"If we decide that we need to tighten financial conditions and we raise short-term interest rates and that doesn't accomplish our objective, then we're going to have to tighten short-term interest rates by more," New York Fed President William Dudley told The Wall Street Journal last year.

It is still too early to say whether officials will raise rates more aggressively than planned. Still, Harvard University economist Jeremy Stein, a former Fed governor, said because financial conditions are so loose after three rate increases, the Fed is less likely to back away from its plan to keep raising rates, even in the face of low inflation.

Markets could be underestimating the Fed's willingness to pursue its stated path of raising rates twice more this year. Officials are also working on a mechanism to unload some of the Treasury and mortgage securities they bought in the aftermath of the financial crisis and recession.

Investors are broadly split over whether the Fed will manage more than one additional move in 2017, according to CME Group data.

Fed officials note it takes time for their policy moves to translate through to markets and the broader economy. That lag makes it difficult for them to perfectly engineer financial conditions and raises the risk the Fed could overreact and significantly reduce credit.

Today's disconnect is reminiscent of the 2004-2006 period, when financial conditions stayed loose even as the Fed raised its benchmark interest rate by 4.25 percentage points. Former Fed Chairman Alan Greenspan called it a "conundrum."

His successor, Ben Bernanke, suggested long-term borrowing costs were kept down by rapidly developing countries in Asia pouring U.S. dollar holdings -- accumulated through large trade surpluses -- into Treasury securities, a phenomenon he called the "global savings glut."

Those loose financial conditions helped inflate the housing bubble that led to the financial crisis in 2007.

Today, many economists and central bankers once again say the split between Fed policy and market conditions is due to developments over which the Fed has little control. Aggressive central bank stimulus in the eurozone and Japan has pushed down borrowing costs in those countries. That's prompted investors there to look to U.S. government debt for better returns, pushing up the price of long-term Treasury securities and driving down yields, said Mr. Stein.

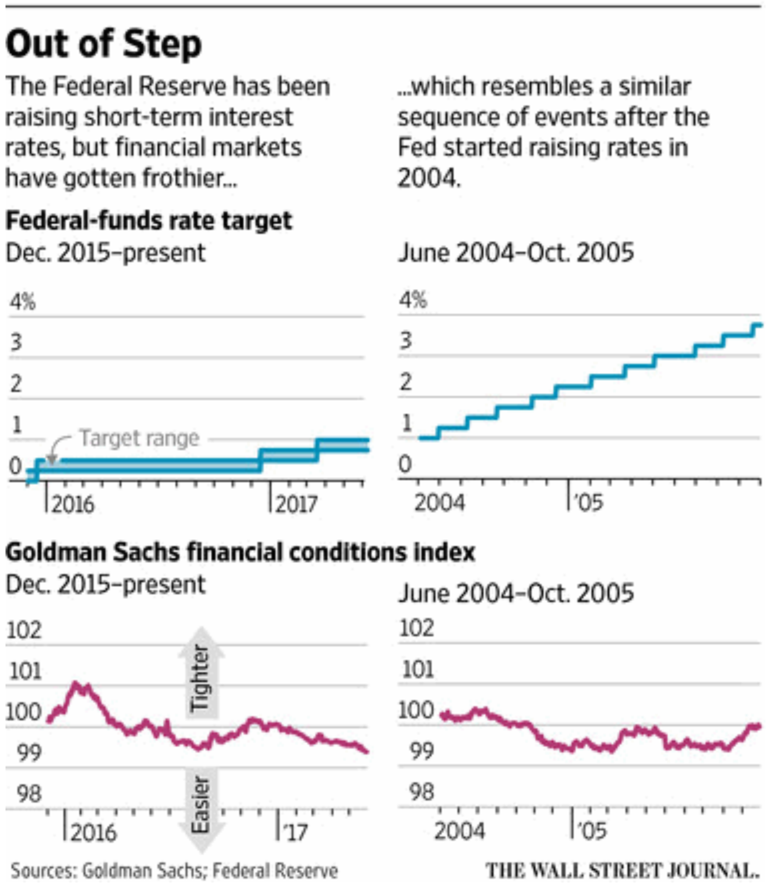
Meanwhile, expectations that the Trump administration would usher in a growth-boosting tax overhaul are waning, pushing Treasury yields down. The long-lagged effects of super easy monetary policy may also be accumulating in stock values.

Moreover, the global economy has picked up this year, which boosts equity prices while weakening the dollar. China's efforts to stabilize its currency by selling U.S. assets have put added downward pressure on the dollar.

Fed governor Jerome Powell told an audience this month he wasn't yet concerned about the similarities to the precrisis era.

At least for now.

"If something like thatdoes persist, then I think it's something you need to take into account in setting monetary policy," he said. "It's premature to be doing that today."



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THE WALL STREET JOURNAL.
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Business News: Bakken Shale Gets Past the Bust --- Drilling region revives in North Dakota, in a sign of wider recovery for oil and natural gas

By Erin Ailworth
750 words
12 June 2017
The Wall Street Journal
J
B3
English

WATFORD CITY, N.D. -- Radio stations here are again running ads from oil-field companies seeking drivers and mechanics. A store is serving up an alligator-and-crawfish lunch to welcome workers from the Gulf Coast. New rigs are rising across the sprawling prairie.

Drillers are edging back to action in North Dakota's Bakken Shale region, a sign the recovery of the U.S. oil and natural-gas sector is spreading beyond the Texas and Oklahoma fields, where production is cheaper because there is more oil that is easier to tap.

The revival after a nearly three-year bust is welcomed by local industry leaders, officials and merchants, who are grateful to see new signs of life in places such as Watford City, a community of about 6,400 people that was booming just a few years ago. The area is expected to get a boost from the June 1 start of the Dakota Access Pipeline, another conduit for oil out of the region. But some are concerned that too much too soon could send **oil prices** plunging once again.

"It's a nice level of production that we hope will be sustainable," said Kari Cutting, vice president of the North Dakota Petroleum Council.

Hess Corp., Continental Resources Inc. and Oasis Petroleum Inc. are drilling new wells here or finishing ones earlier left uncompleted. Yet despite technological improvements and cost-cutting, only some producers can afford to drill in the Bakken at today's **oil prices**. And while shale companies are slowly recovering, prices remain **volatile** -- crude has declined 9% in the past three weeks, moving decisively below $50 a barrel.

While some Bakken producers can break even at $40 oil, according to consultancy Wood Mackenzie, most need upward of $50 and wouldn't significantly increase activity until oil approached $60.

Locals say $60 or $70 oil would be enough to keep the Bakken humming at a reasonable pace. Anything more, they fear, might bring back the chaos of the boom, when a huge influx of people and oil field traffic overwhelmed parts of North Dakota. As oil rose over $100 in 2014, North Dakota's unemployment rate -- consistently the lowest in the U.S. -- fell as low as 2.6%. The population grew more than 2% annually from 2012 to 2015, adding 55,000 residents, a big influx for a state that even now has only about 758,000 people, federal estimates show.

Some workers were making six-figure salaries and regularly dropping hundreds of dollars on shots of Louis XIII cognac in restaurants such as the Williston Brewing Co. But skyrocketing rents forced many to live in trailers, tents and no-frills "man camps."

In Watford, residents remembered traffic so heavy that some people couldn't make left turns out of their driveways. Things are calmer now, though many of the returning rigs are in surrounding McKenzie County.

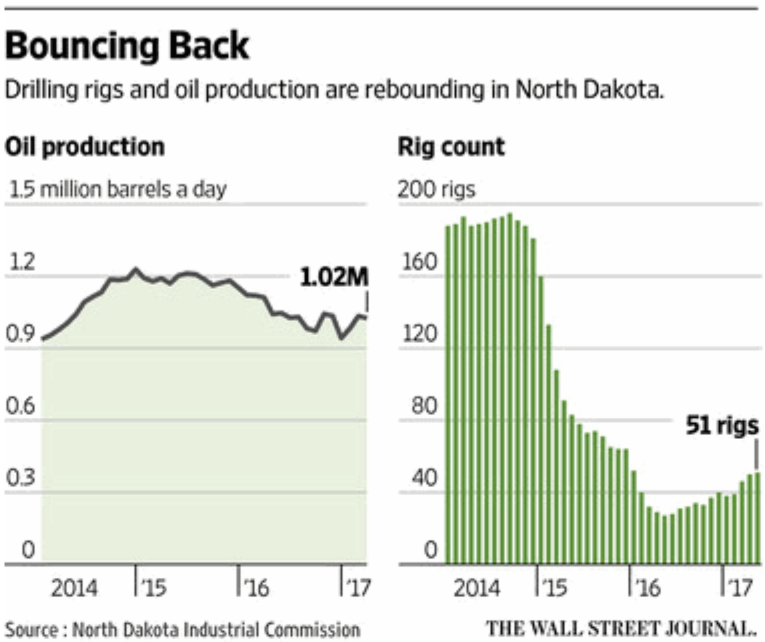
"The man camps around here still have people in them," said Stephen Stenehjem, chief executive of First International Bank & Trust, based in Watford. "There's more traffic. . .more rigs in the county."

It is far from the peak of 218 rigs from five years ago, but North Dakota's rig count has rebounded from a low of 27 in May 2016 to 51 today, state data show. Oil output has again topped one million barrels a day, after wobbling below that point at the start of this year and for a few months in late 2016.

A recent job fair in nearby Williston, a city of about 26,400 people, boasted 60 booths for employers with 1,500 openings, more than twice the number of job seekers that attended, said Cindy Sanford, a manager with the local branch of Job Service North Dakota, a state employment agency. "Tons of jobs, not enough people," she said.

Hesshas four Bakken rigs in place and plans to have six by year-end. It says it has nearly 3,000 locations left to drill in the area -- half of which generate a 15% rate of return at $50 oil.

"We compete very well with the Permian," said Mike Turner, senior vice president of global production at Hess, referring to the region of Texas and New Mexico where much shale drilling has concentrated during the downturn in prices.



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THE WALL STREET JOURNAL.
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Currency Declines Lose Export Punch --- U.K. is test of how global supply chains lessen gains from devaluations

By Christopher Whittall and Mike Bird
1,689 words
12 June 2017
The Wall Street Journal
J
A1
English

For decades, economics textbooks argued that suddenly weaker currencies are a boon to growth, because they make a country's exports more competitive or profitable on the global stage, which in turn boosts domestic production and employment.

What if that theory no longer holds?

Economists and government officials are increasingly wondering if that effect is diminishing, especially among advanced Western economies with shrinking manufacturing capacity and supply chains increasingly interwoven with the rest of the world. The new idea is that much of the benefit from a falling currency is offset by the higher prices paid for components imported from overseas.

The U.K. is emerging as a test case for whether globalization has diminished the effect. Although its currency has been battered by the financial crisis, the Brexit vote to leave the European Union -- which took place a year ago June 23 -- and the country's fresh bout of political uncertainty, its exporting power hasn't responded as textbooks might suggest.

Chemicals made at Chemoxy International Ltd.'s factory in Middlesbrough are worth about 20% more in the export market after last June's fall in sterling, given the beefed-up value of the currencies used to buy those goods overseas. Higher costs for imported materials, however, all but erased that advantage.

"We have a huge interdependency on international markets," says Chemoxy Chief Executive Ian Stark. The company exports more than 60% of its products and imports about 85% of its chemical raw materials. A weakerpound, he says, "isn't revolutionary."

British businesses ranging from car makers to food processors to lumber mills are discovering the same thing.

Adam Posen, president of the Peterson Institute for International Economics, and a member of the Bank of England's rate-setting monetary policy committee between 2009 and 2012, says the effects of currency moves on exports have faded over time. After the financial crisis in 2008, a big sterling depreciation didn't result in the pickup in exports "we would have expected," he says.

"You just don't get as much bang for your pound as you used to," said Mr. Posen.

Whether or how the relationship between a currency's strength and economic growth still holds has ramifications for international politics. In the U.S., manufacturers have long complained about the impact of a strong dollar. President Donald Trump has accused Japan and China of keeping their currencies artificially low, hampering U.S. exports.

In 1992, the pound fell by around 11% between September and the end of that year after the U.K. crashed out of the European exchange rate mechanism -- a precursor to the euro that required a stronger pound than the government could sustain. The U.K. economy then went on an export tear, which turned a trade deficit into a five-year surplus and jump-started a recovery.

Thepoundfell by nearly 25% against the currencies of its major trading partners between 2007 and 2010 and never recovered, sparking optimism in government that exports would rise. In 2012, then-U.K. Treasury chief George Osborne targeted an increase in exports to GBP 1 trillion by 2020, from GBP 499 billion that year. By the end of 2016, exports had risen to just GBP 547 billion.

When the currency took another beating after the Brexit vote, the impact was similarly muted. Car maker Aston Martin, which exports 80% of its vehicles, helps show why. Before Brexit, when the pound traded at $1.50, sports cars sold in New York for $150,000 would bring home GBP 100,000. With the pound now at $1.27, such sales bring an extra GBP 18,000. But over half the car's components must be bought from abroad, blunting the effect.

"During the past decade, a lot of auto suppliers have moved offshore," says Aston Martin Chief Executive Andy Palmer. "In consequence, you don't get the benefits."

In recent months, sterling has recovered from its post Brexit lows and is currently down 15% against the dollar and 13% against the euro. Analysts remain pessimistic about the currency as Britain heads for divorce from its largest trading partner, the European Union.

The pound fell 1.7% on Friday after Prime Minister Theresa May's ruling Conservative Party failed to secure enough seats in a snap general election to alone form a government.

Global economists are debating how much exchange rates affect trade for developed nations. Two recent papers, from the World Bank and the Organization for Economic Cooperation and Development, found movements in exchange rates had a declining impact on trade in several advanced economies.

The OECD paper said a plunge of sterling in 2008 and the yen's decline against the dollar in 2012 had little impact on trade. The study said evidence suggested companies had become more embedded in global supply chains. Between 1995 and 2011, the import content of exports rose from 14.9% to 24.3% among OECD nations.

In May, the Bank for International Settlements published new mathematical modelsfor estimatingreal effective exchange rates, one measure of the strength of a currency. It said without taking into account deep global supply chains, standard exchange-rate models "are increasingly becoming obsolete."

Other economists have resisted the idea, including a team at the International Monetary Fund, which came to a different conclusion and found "little evidence of a weakening in the effects of exchange rates over time."

In its analysis, the IMF suggests a significant currency depreciation -- where currencies weaken by at least 13% in advanced economies, or 20% in emerging ones -- results in a 10% rise in export volumes over five years.

The IMF had some caveats. The paper argues the impact of a weaker currency is strongest when the economy isn't running at full capacity, for example following a recession. It also suggests that financial crises dent companies' ability to take advantage of a depreciation, because of the lack of available credit.

"In general, however" the authors conclude, "the role of flexible exchange rates in facilitating the resolution of trade imbalances remains significant."

Since Britain's vote to leave the EU, consumers abroad have been buying more British products. In the six months through April, the most recent month for which the U.K.'s Office for National Statistics has published data, goods export volumes increased 3.1% from the year-earlier period. Over that same period, import volumes rose even more, by 4.9%.

For some exporters such as Scotland's whisky industry, the pound's fall has been pure good news because most of what goes into a bottle of whisky is produced locally. The Scotch Whisky Association says exports increased 4% last year to over GBP 4 billion.

Most U.K. manufacturing industries, however, can no longer rely on domestic supply chains. In 2015, manufacturing represented 9.8% of the U.K.'s gross domestic product, down from 14.7% in 2000. In the U.S., by comparison, manufacturing represented 12.3% of the GDP in 2015, and 15.5% in 2000.

As U.K. manufacturing declined, service industries grew and now are responsible for 79% of GDP. Those industries are less sensitive to changes in exchange rates. In the services sector, the U.K. runs a trade surplus that grew to 5.4% of GDP at the end of last year. For London's huge financial sector, sterling's tumble has little benefit because business is often denominated in other currencies and demand for service industries tends to be less price sensitive.

Trade in goods, however, is an entirely different story. The U.K. deficit in that area has ballooned from 1.6% of GDP in 1995to 6.4% last year. It has kept rising despite imports becoming more expensive and exports more competitive. This year's goods deficit, through April, is GBP 42.8 billion, excluding oil and particularly **volatile** items such as aircraft.

Some economists have long been skeptical of the idea that trade can be shifted by currency depreciation in the longer term. As a currency weakens, the price of imported goods rises, raising inflation. Also, they say, structural problems, such as weak productivity and competitiveness, are often causes of trade deficits, which depreciation cannot address and may even prevent a country from tackling.

"Don't believe that Britain is going to depreciate itself out of its current account imbalances," says Willem Buiter, chief economist at Citigroup Inc. and a former member of the Bank of England's rate-setting committee.

To make matters worse, Britain has become so reliant on imports to stock its stores that a weaker pound has increased inflation, making life more expensive and curbing consumer spending.

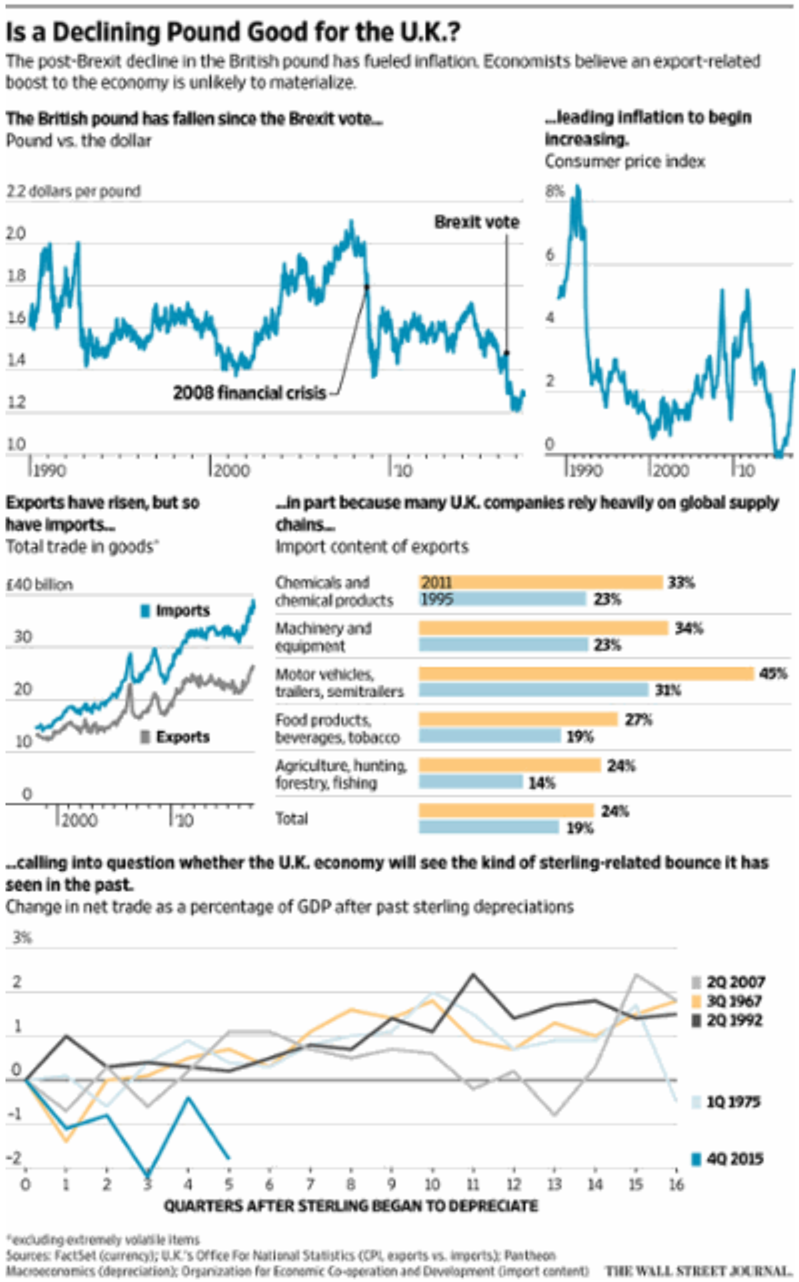
Britain now imports more than 60% of its fish. The pound's fall triggered a 15% overnight jump in prices for the crates of cod and haddock that Mike Woods buys from the docks of Grimsby, in northern England. That cost his food processing company, Albert Darnell Ltd., an additional GBP 15,000 a week.

Like other food manufacturers, Mr. Woods is passing on that increased cost to consumers. Fish and chips have become more expensive at the St. James Fish Restaurant in the center of Grimsby. "We get people complaining now," says waitress Eve Barrow.

While more expensive imports should present opportunities for British manufacturers and suppliers to step in, it will take time for industry to adjust.

Around 80% of the timber used in U.K. construction is imported, mainly from Scandinavia, according to the Timber Trade Federation. It isn't easy for Britain's construction industry, which is responsible for around 7% of GDP, to shift quickly to domestic suppliers.

Keith Ainslie of James Jones & Sons Ltd, the U.K.'s largest sawmill, says the company's main plant in Lockerbie, Scotland, is already "working full tilt." Processing more logs would mean building another sawmill, a roughly GBP 60 million project that would take around three years to get up and running.



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THE WALL STREET JOURNAL.
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Heard on the Street
As Politics Boil Over, Financial Markets Are in Dreamland

By Richard Barley
506 words
12 June 2017
The Wall Street Journal
J
B10
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[Financial Analysis and Commentary]

Financial markets are in fairy-tale land. Surprises like the U.K. election, the victory of President Donald Trump and Brexit show a deep unease with economic conditions. Yet easy money, relatively steady global growth and low inflation have encouraged talk of Goldilocks.

"Goldilocks has not left us yet" was how J.P. Morgan strategists summed it up recently. They aren't alone: Analysts and economists at Societe Generale, ING and Citigroup also have rolled out the markets' favorite fairy-tale character. Growth isn't too hot, not too cold, and performance has been buoyant. Global stocks are up, with the MSCI World index gaining nearly 10% this year. Low inflation means bonds are supported too. Credit markets are strong, and U.S. high-yield bonds have returned 5%. Emerging-market stocks, bonds and currencies have gained.

The metaphor bears examining closely. As a reading of a globally coordinated upturn in growth, coupled with the large amount of liquidity from central banks, and minimal wage and inflation pressures, it might not be a stretch.

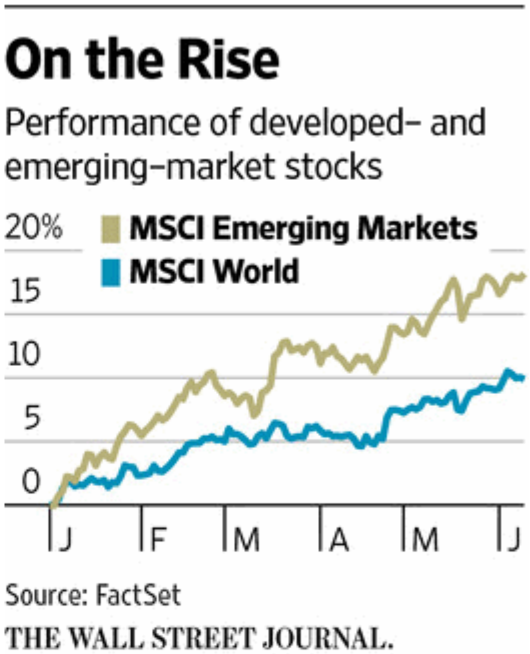
But the political shocks of the past two years, particularly in the U.S. and U.K., suggest that outside **financial markets**, it is a different story. People are fed up with the status quo. One key component of the Goldilocks situation is the absence of a pickup in wage inflation, which means central banks can keep policy loose. But continued poor real-wage growth may also stoke more political turmoil at the ballot box. That increases the risk of electoral shocks that investors may not welcome.

The U.K. is a case in point. The Bank of England's chief economist, Andy Haldane, last year gave a speech asking who had benefited from the recovery, noting that despite data pointing to growth, half of all U.K. households had seen no expansion in real disposable incomes since 2005.

The latest rise in U.K. inflation pushed real-wage growth back below zero just in time for voting. Central bankers around the world are puzzling over the apparent failure of wage formation to respond to falling unemployment, whether in the U.S., Germany, the U.K. or Japan. Yet their easy-money policies also have helped deliver extraordinary returns in **financial markets**.

And those past returns may yet cause an issue with the part of the Goldilocks metaphor that doesn't get mentioned: the porridge. While nutritious, it is hardly particularly appetizing. And the starting point for **financial markets** is similar, because bond yields are ultralow, credit spreads are very tight and developed-market equities are far from cheap. Future return prospects are therefore skinny, although emerging markets offer a brighter outlook. That helps explain why an apparently benign situation feels uncomfortable. Even as markets rise, there are few easy trades.

Goldilocks might stick around for a while, but fairy tales don't have to have happy endings.



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The New York Times

Business Day

Head Start at Video Game Jamboree; Fed Expected to Raise Interest Rate Again

By THE NEW YORK TIMES
810 words
11 June 2017
09:00 PM
NYTimes.com Feed
NYTFEED
English

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

TECHNOLOGY

As E3 starts, companies pitch new products.

The video game industry's annual jamboree, E3, is set to open in Los Angeles on Tuesday, but some of the biggest companies in the business will begin their quest to build buzz before then. On Sunday, Microsoft revealed a new game console that supports 4K video, called Xbox One X. It will go on sale on Nov. 7. On Monday, Sony is expected to promote exclusive games for its PlayStation 4, while Nintendo on Tuesday plans to show off games for its new Switch console, including the much-anticipated Super Mario Odyssey. Nick Wingfield

ECONOMY

A third straight quarterly rate increase is expected.

The Federal Reserve is expected to raise its benchmark interest rate on Wednesday after a two-day meeting of its policy-making committee. That would be the Fed's third straight quarterly rate increase; the benchmark rate would rise to a range between 1 percent and 1.25 percent. With the increase viewed as a foregone conclusion, attention has shifted to what comes next. The Fed has been devising plans to reduce its investment holdings, a final stage in unwinding its postcrisis economic stimulus program. Janet L. Yellen, the Fed's chairwoman, could discuss those plans at a news conference on Wednesday afternoon. The Fed's policy statement, and Ms. Yellen's comments, will also shape expectations about the likelihood of another rate increase in September. Binyamin Appelbaum

New retail sales data may show a tiny rise.

On Wednesday, at 8:30 a.m., the Commerce Department will report data on retail sales in May. Economists are forecasting a 0.1 percent rise in overall retail sales, which they believe were held back by anemic automobile sales and gas purchases. Excluding those more **volatile** categories, economists expect a gain of 0.2 percent. If the data turns out to be weaker than that, or there is softness beyond those two particular sectors, look for economists to ratchet down their estimate of overall economic growth in the second quarter. Nelson D. Schwartz

Greece's bailout is back on the eurozone agenda.

Eurozone finance ministers will meet on Thursday in Luxembourg after failing to reach a deal last month to unlock loans for Greece. Athens must pay about 7 billion euros (about $7.8 billion) next month to service its towering debt, and that has raised pressure on Germany and the International Monetary Fund to resolve a dispute that has held up progress. The I.M.F. is pushing European lenders to make it easier for Greece to manage its repayments as a condition for its involvement in the €86 billion bailout — the country's third since 2010. Prime Minister Alexis Tsipras of Greece also wants concessions after another round of divisive reforms. But Germany has dug in its heels, wary that offering so-called debt relief to Athens could slow the pace of change and damage the popularity of the government in Berlin before German federal elections in September. James Kanter

TECHNOLOGY

Cellphone use in Europe is set to become cheaper.

The cost of making cellphone calls, sending text messages and browsing the internet will fall across Europe on Thursday when new rules go into effect that limit charges when people use their mobile devices outside their home countries. The digital overhaul applies only to European cellphone contracts, meaning Americans and others may still see hefty fees when they use their phones in the region. It also comes as Europe is facing mounting pressure to make sure its digital economy keeps pace with those of the United States and China. Mark Scott

ECONOMY

Bank of England may keep interest rates steady.

The Bank of England will release its latest monetary policy decision on Thursday, but could be overshadowed by the expected actions of the United States Federal Reserve. Much like the European Central Bank last week, the Monetary Policy Committee at the Bank of England is widely expected to keep interest rates steady.

After dropping rates to the lowest level in its history in August, the Bank of England has kept rates steady as the British economy has performed better than expected since Britain's vote to leave the European Union last June. Chad Bray

How is politics affecting consumer confidence?

On Friday, at 10 a.m., the University of Michigan will release the preliminary estimate for its consumer sentiment index for June. Economists don't expect to see much change from the May level of 97.1, but some experts will be looking to see if President Trump's political problems and the gridlock in Washington are affecting the otherwise healthy outlook of consumers. Nelson D. Schwartz

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The New York Times

Your Money; Stocks and Bonds
5 Things to Consider Before Buying Today's Hot Investment

By RON LIEBER
749 words
11 June 2017
09:00 AM
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English

We are again nearing what appear to be all-time highs in the **stock market**, and when that happens, people tend to say and do strange things. This time around, Amazon, Apple, Google (in the form of its parent company, Alphabet), Microsoft and Netflix are worth $2.4 trillion all on their own, accounting for 13 percent of the entire American economy.

And so everyone wants in on them, from mutual fund managers who have to keep up with the overall **stock market**'s performance in order to keep their jobs to individuals who suddenly realize just how essential many of these companies have become to their lives.

You, however, don't have to follow the herd. You don't have to lose your head. You need not chase the lemmings buying Bitcoin again.

Instead, consider these five things.

Most Winners Are Lucky

Somewhere there is someone who bought all five of these tech stocks when they were at their lowest price in the past decade, or at their initial public offerings or at some other opportune moment. But that investor probably lucky . (If not, he or she should start a mutual fund, and you should invest, except you couldn't be sure that the person's skill would persist, so you'd need to rely on luck for that.)

Picking stocks and mutual funds that will do better than other similar investments is a hard thing to do and then repeat over long periods. Maybe you know more than anyone else betting on the same companies, but chances are you don't. So if you win, you're lucky. Do you want to bet your down payment fund or college savings or retirement on luck? Read more »

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Why, What, How

Before you make any big investment decisions, ask yourself three key questions, which I am borrowing from our Sketch Guy columnist, Carl Richards.

First, why is money important to you? My answer: It helps me do memorable things with my family and helps my kids have things at least as good as I did growing up.

Second, what do you want? Literally, how much money will it take to accomplish those things?

Third, how will you get there? Maybe your housing costs need to come down, or you need to work more or longer, or have fewer kids or save more. Do the math. Read more »

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For more personal finance tips, sign up for the Your Money newsletter here.

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The Risk

A big part of the “how” involves the percentage of your investments that will need to be in potentially high-return assets like stock or real estate. With return comes risk, but you may need less than you think. Perhaps you love work and want to do what you do for a very long time, so you’ll need less money for retirement. Or maybe you don’t have kids or have just one in an inexpensive part of the country.

Some goals — many, even, of the “whys” from up above — are modest. Maybe you won’t need much stock (and thus much risk) at all. Or maybe you won’t need to make big bets on giant individual tech stocks. Read more »

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The Last Time

You can learn a lot from the mistakes that other people have made when stocks are many years into a **bull market**, as they are now. Hint: More people tend to buy more stock, a lot more, in fits of exuberance that they often come to regret when the markets fall, which they inevitably do. Read more »

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Participation Is Not Mandatory

Itchy trigger finger? CNBC giving you hives? There is nothing wrong with sitting out the daily market report or even your quarterly investment statements.

In fact, if your goals are longer term, it just may be healthier to pay Amazon and Bitcoin and Google no mind at all, even if you own them. If your “whys,” “whats” and “hows” line up, you should sleep soundly knowing that you have taken the right amount of risk to satisfy your goals.

And if you can’t sleep at all? Well, then it’s time to rethink just how much risk your brain is set to bear — and whether you need safer investments to put it at rest. Read more »

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For more personal finance tips, sign up for the Your Money newsletter here.

Carl Richards

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The New York Times

Business/Financial Desk; SECTB
Time to Drive Like It's 2005

By CLIFFORD KRAUSS; Bob Sandrick contributed reporting from Valley View, Ohio.
1,264 words
10 June 2017
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HOUSTON -- Looking for an excuse to pack up the car for a road trip this weekend?

Look no further: The average nationwide gasoline price on Friday was the lowest for this point of the year since 2005, according to GasBuddy, a website and smartphone app designed to help drivers find the best deals at the pump.

The immediate cause of the price break was the shock to global oil markets that came when the Energy Department reported this week that domestic inventories of both crude oil and gasoline had surprisingly surged the week before despite heavy driving on the Memorial Day weekend.

Crude **oil prices** plummeted by more than 5 percent on Wednesday alone, and are near a one-year low at less than $46 a barrel.

The price drop has been all the more remarkable given that the Organization of the Petroleum Exporting Countries has imposed a production cut since the start of the year, and Saudi Arabia and its allies cut off relations with Qatar this week, threatening the kind of heightened tensions in the Middle East that normally push energy prices higher.

But whatever lies behind the dividend at the pump, drivers are happy to have it. The national average price for a gallon of regular gasoline tumbled to $2.35 on Friday, a drop of 3 cents in the past week and more than 2 cents below last year at this time, according to AAA. And Friday was the first time this year that prices were lower than a year earlier.

Among the beneficiaries was Charlene Kotlarsic of Garfield Heights, Ohio, who was filling up her 2016 Kia Sorento in the Cleveland suburbs for $2.21 a gallon. She expects to take advantage of the lower prices for a road trip to Myrtle Beach, S.C., in July. ''I probably wouldn't have planned it if gas prices were $3 and above,'' she said.

Ohio drivers are among those most likely to notice the impact. Of the 23 states where prices are lower than a year ago, a cluster of states -- Ohio, Illinois, Indiana, Kentucky, Michigan and Wisconsin -- are seeing the biggest declines. Indiana drivers are paying 28 cents a gallon less on average than last year, meaning a driver can save around $5 in filling up a midsize car.

Most energy experts say the break in gasoline prices may last only a few weeks, because stronger seasonal demand will soon draw down refinery storage levels. And if **oil prices** stay low, that would depress new production, which could eventually push prices higher.

''Drivers should be very happy because all prognosticators overestimated what they would be paying,'' said Tom Kloza, global head of energy analysis for the **Oil Price** Information Service. ''This is a slump, a buying opportunity, and Americans can enjoy it. But I think it is a little bit of an anomaly, and I expect to see higher crude **oil prices** in the second half of the year.''

The recent lows become more stark in comparison to mid-2008, when the American oil benchmark hit $145 a barrel and the average price of gasoline hit a record of $4.11 a gallon, according to AAA. Economists credit the slide with helping to keep inflation and interest rates low, and benefiting low-income consumers who spend the most money on energy relative to their incomes.

Tom Sech, a real estate agent from Independence, Ohio, who drives a nine-year-old compact sport-utility vehicle, likes to make trips to his lakeside cottage in Chautauqua, N.Y. ''I can go more often because gas is cheaper,'' he said.

Americans consume roughly 400 million gallons of gasoline a day, so every penny decline means around $4 million a day to American consumers.

Prices at the pump are determined by a variety of factors, including consumer demand, domestic storage levels and OPEC production decisions. And there are great regional variations, reflecting differences in refinery operations as well as state taxes.

The average driver in South Carolina could fill up for $2.02 a gallon on Friday, compared with $3.06 in California and Hawaii, according to AAA. The Western states are seeing the biggest increases from last year, because of rising demand by drivers and unplanned maintenance of local refineries. Drivers in New Jersey are paying 23 cents a gallon more than a year ago because of an increase in gasoline taxes.

There was strong American consumption growth in 2015 and 2016, due in large part to the collapse of oil and gasoline prices. But with winter oil and gasoline prices considerably higher this year than last, motorists drove a bit less and domestic oil companies ramped up production to take advantage of higher crude prices. That produced a glut, with refineries able to pull stocks from storage rather than buy more expensive, new crude.

American oil production, after a two-year slump, is soaring again, with the active drilling rig count more than doubling since May 2016. The Energy Department recently predicted that domestic oil production, which averaged 8.6 million barrels a day in 2016, will average 9.3 million barrels a day this year and 10 million barrels a day in 2018, blowing past the record set in 1970. The bulk of the new production is coming from the shale fields of Texas.

''It's an unbelievable ramp-up considering that the price of a barrel of oil has not increased significantly,'' said Matthew Hale, chief executive of S.O.C. Industries, a pump truck and production chemical services company that operates in the West Texas oil fields. ''The activity level has really boomed, and with technological advances, the increase in the number of barrels we're getting out of each well is pretty amazing to watch.''

The expanded United States production has canceled out much of the reduction in OPEC output, now more a million barrels a day below last year. While Russia and some other producers besides OPEC have also cut production, Brazil and Canada are among those producing more. Nevertheless, the Energy Department is predicting that global oil inventories will fall in the second half of the year.

The Energy Department recently forecast an average regular gasoline retail price of $2.46 a gallon during this summer driving season, 23 cents higher than last summer. But experts say predictions are unreliable, given that demand from China and other developing countries frequently varies because of changing economic and political circumstances. Also, Venezuela, a top source of imported oil, might collapse at any time, and hurricanes can suddenly shut down Gulf refineries.

In short, don't get used to filling the tank for less. Or take advantage while you can.

''Forecasting the price of gasoline is an art form, not a science,'' said Larry Goldstein, a director at the Energy Policy Research Foundation, which studies energy economics. ''There are simply too many variables. The best you could hope for is a range of plus or minus 10 cents a gallon.''

The Akron, Ohio, skyline. Ohio is among a cluster of states in and near the Midwest where gas prices have dropped the most compared with this time last year. (PHOTOGRAPH BY ANDREW SPEAR FOR THE NEW YORK TIMES) (B1); Tom Sech filling up his 2007 Chevy HHR on Friday for $28.85 at a station in Valley View, Ohio. (PHOTOGRAPH BY DUSTIN FRANZ FOR THE NEW YORK TIMES) (B2) MAP: The price of gasoline (Source: AAA)

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The New York Times

Business/Financial Desk; SECTB
Investors Trade in Tech Shares, and Sector Falls 2.7%

By THE ASSOCIATED PRESS
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English

Wall Street turned in an uneven finish Friday as investors unloaded their technology company shares in favor of energy and financial stocks.

The tech-heavy **Nasdaq composite**, which has outpaced gains by other Wall Street stock indexes this year, fell the most. The **Standard & Poor's 500**-**stockindex** closed slightly lower.

Even with the sell-off in technology stocks, the **Dow Jonesindustrial average** closed higher, setting a new record.

All told, the **S**.**&P**. **500 index** fell 2.02 points, or 0.1 percent, to 2,431.77. The Dow gained 89.44 points, or 0.4 percent, to 21,271.97. The **Nasdaq** declined 113.85 points, or 1.8 percent, to 6,207.92. The indexes also closed out the week unevenly after several days of trading in a mostly narrow range.

Despite the day's big tech stock slide, more stocks rose than declined on the New York Stock Exchange.

United States stocks were coming off a two-day winning streak, which included a record high for the **Nasdaq** on Thursday.

But on Friday investors decided to unload technology stocks. The sell-off centered on the biggest companies in the **stock market**: Apple, Microsoft, Alphabet and Facebook. But the biggest decliner was chip maker Nvidia, which lost $10.34, or 6.5 percent, to $149.60.

Alphabet, Google's parent company, fell $34.16, or 3.4 percent, to $970.12, while Apple slid $6.01, or 3.9 percent, to $148.98.

''It's had a good run,'' said Scott Wren, senior global equity strategist for Wells Fargo Investment Institute. ''People are taking a little money off the table.''

The technology sector fell 2.7 percent. It remains up 18.5 percent for the year.

Benchmark crude gained 19 cents to close at $45.83 a barrel in New York. Brent crude, used to price international oils, added 29 cents to settle at $48.15 a barrel in London.

The pound lost more than 2 cents versus the dollar after the Conservatives lost their majority in Parliament, which could send Britain's negotiations to leave the European Union, due to start June 19, into disarray. The pound weakened to $1.2729 from $1.2947. The dollar also strengthened to 110.22 yen from 109.98 yen late Thursday. The euro weakened to $1.1195 from $1.1222.

Pandora Media rose on news that SiriusXM will invest $480 million in the online radio company. SiriusXM, which is buying preferred stock and taking a 19 percent stake in Pandora, will also select three people to be named to Pandora's board. Pandora is breaking off a deal with investment firm KKR from last month. Pandora added 10 cents, or 1.2 percent, to $8.52. SiriusXM slid 20 cents, or 3.7 percent, to $5.20.

Several companies fell after issuing weak outlooks.

VeriFone Systems shed 3.5 percent after the maker of terminals for electronic payments cut its forecasts and said it will sell or restructure several businesses. The stock lost 64 cents to $17.68.

HNI slumped 12.6 percent after the maker of office furniture and fireplaces cut its forecasts because of slower sales and falling wholesale revenue. The stock slid $5.64 to $39.27.

Bond prices fell. The **10**-**year Treasury** yield held rose to 2.20 percent from 2.19 percent late Thursday.

Gold fell $7.80 to $1,268.50 per ounce. Silver lost 19 cents, or 1.1 percent, to $17.22 per ounce. Copper gained 4 cents, or 1.5 percent, to $2.65 per pound.

The DAX in Germany rose 0.8 percent, while the CAC 40 in France gained 0.7 percent. The British FTSE 100 added 1 percent. In Japan, the Nikkei 225 added 0.5 percent, while in South Korea, the Kospi rose 0.8 percent. The Hang Seng in Hong Kong slipped 0.1 percent.

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

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THE WALL STREET JOURNAL.
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Oil Investors' Early Faith In a Rally Begins to Wane

By Alison Sider and Timothy Puko
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10 June 2017
The Wall Street Journal
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English

Crude-**oil prices** have declined almost 9% in the past three weeks, moving decisively below $50 a barrel and forcing investors to reassess whether supply and demand will reach a more balanced state that can support higher prices.

Earlier this year, analysts and traders had projected cutbacks from global exporters would clean up a supply glut and raise prices. Their confidence held up for the first months of 2017, when oil was comfortably ensconced in a range between $50 a barrel and $55.

But crude prices have fallen 15% since the start of the year, as U.S. producers rushed to fill the gap left by the Organization of the Petroleum Exporting Countries. Major selloffs have become almost routine -- with four one-day drops of more than 4.5% since March.

Crude prices rose 19 cents on Friday but dropped 3.8% this past week.

Coming into the year, "we had a strong view that prices were going to rally," said Ebele Kemery, head of energy investing at J.P. Morgan Asset Management. But around March, she said, her view started to shift. U.S. producers were ramping up more quickly than anyone expected. Expectations for strong demand growth were dimming. The bloated storage levels that OPEC aimed to drain remained full.

Now, Ms. Kemery expects prices to be even lower in 2018 than today, unless OPEC takes more drastic action. "The OPEC cut -- it's almost like we need it just to stand still," Ms. Kemery said.

And standing still may be difficult. OPEC and other major producers, including Russia, announced last month that they would continue their output cut of 1.8 million barrels a day through the first quarter of next year. Prices dropped sharply that day and have only continued to slide, reflecting disappointment among investors who had hoped that the group would agree to even deeper cuts or would articulate a strategy on ending cuts next year that would avoid flooding the market again.

Without those assurances, investors have become increasingly jittery, heading for the exits at any sign that global stockpiles aren't shrinking. U.S. crude prices have languished below $50 since.

When government data showed this week that the amount of oil in U.S. storage tanks increased for the first time in nine weeks, crude prices fell more than 5% Wednesday.

"People are starting to doubt it now. They look at the cuts and say, 'Who cares?'" said Ernest Scalamandre, managing member at AC Investment Management LLC, which manages about $750 million in assets, primarily investments in commodity hedge funds.

U.S. production has also come back more quickly than many anticipated. The number of rigs punching new wells in U.S. oilfields has climbed for 21 straight weeks. Some analysts now predict that U.S. output will end the year as much as 1 million barrels a day higher. That's a stark change from late last year year when banks such as Bank of America Merrill Lynch were expecting U.S. output to rise more modestly, by some 660,000 barrels a day by the fourth quarter. Bank of America now expects U.S. shale output to rise by 800,000 barrels a day during the same period.

Some were expecting that shale-oil producers would be constrained by rising costs, such as hiring back workers who were laid off and expenses tied to repairing neglected equipment. Meanwhile, such companies as Halliburton

Co. and Schlumberger Ltd. that do the work of drilling and fracking wells slashed prices in the two-year downturn and have been looking for opportunities to raise them.

But these factors don't seem to be holding producers back, especially in places like west Texas's Permian basin.

"People generally know where it is. Once prices are at levels that can support the expense of actually drilling the well and getting the rig and starting production, it's going to happen," said Jason Thomas, director of research at the Carlyle Group.

Some say that the market has become irrationally negative. They say that investors are ignoring signs that the glut is eroding -- pointing to eight straight weeks of declining stockpiles prior to the surprise increase reported this week. If **oil prices** do drop significantly below $45, even the most resilient U.S. producers could struggle to be profitable.

"It might just be a knee-jerk reaction," said John Groton, director of equity research at Thrivent Financial. "We've got a view on where marginal costs need to go and where OPEC countries need prices to be. That number does not start with a 4."

Still, it wasn't supposed to be this way. At the beginning of the year, analysts said OPEC's agreement to cut production would cause oil supplies to tighten quickly. OPEC and shale producers looked like they had found a way to peacefully coexist after years of battling for market share.

Now they are back to being locked in a stare-down and nobody is blinking.

Even with prices down this year, U.S. oil producers appear committed to the growth they budgeted for going into the year, said Scott Hanold, an analyst at RBC Capital Markets.

Executives at the bank's energy conference in New York this week said they had locked in high enough prices for their output in the futures market, and their balance sheets were healthy enough to weather U.S. **oil prices** between $45 and $50, Mr. Hanold said.

That isn't a happy story for investors. Energy companies are the **S&P 500**'s worst performers this year. Shares are down 12.3% in 2017, one of only two sectors in the red while the broader index has gained 8.6%.

"Sentiment is now to the point where it seems like many are ready to give up," Mr. Hanold said.

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Heard on the Street
Producers of Shale Only Got Stronger

By Spencer Jakab
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English

[Financial Analysis and Commentary]

Three years after the start of the "sheikhs vs. shale" oil battle, the upstart U.S. shale producers were supposed to have been crushed by low prices. The gambit backfired.

Starting in 2014, the big Mideast oil exporters such as Saudi Arabia let **oil prices** fall in the hope they could permanently eliminate supply and ultimately boost prices. The decline put high-cost shale producers in a lot of pain but ultimately the pressure helped them boost their productivity. That is the worst-case scenario for the big exporters.

When prices began to drop, the Midland Basin, part of the prolific Permian Basin, was one of the most expensive shale plays at $77 a barrel, according to BTU Analytics -- meaning it was profitable at then-prevailing prices of more than $100 a barrel. By January 2017, though, the breakeven had tumbled to around $50.

In the three most prolific shale plays, the Permian, Bakken and Powder River Basins, the Oxford Institute for Energy Studies estimated last year that the "estimated ultimate recovery factors," the barrels of crude equivalent that could be pulled from each well, had grown by 41% since 2014 when measured over the first 12 months of a well's life and by 22% over five years.

While the recent decline in crude prices to nearly multimonth lows is costlier to the bottom lines of still high-cost shale producers than the Saudis, the productivity genie can't be put back into the bottle. It has put a permanent dent in long-term **oil prices**, costing traditional exporters tens of billions of dollars in future revenue.

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The New York Times

Business/Financial Desk; SECTB
Anticipating Higher Interest Rates, Investors Grab Bank Shares

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English

Financial companies led Wall Street stock indexes higher Thursday, nudging the **Nasdaq composite** index to a record high.

The latest gains came as the **stock market** continued to trade mostly in a narrow range in the absence of major new economic data and ahead of next week's meeting of Federal Reserve policy makers.

The **Standard & Poor's 500**-**stockindex** gained 0.65 points, or 0.03 percent, to 2,433.79. The **Dow Jonesindustrial average** rose 8.84 points, or 0.04 percent, to 21,182.53. Both indexes remain slightly below their record highs set last Friday.

The **Nasdaq** added 24.38 points, or 0.4 percent, to 6,321.76.

Speculation that the Fed will raise interest rates helped lift financial stocks for the second day in a row. Higher interest rates allow banks and credit card issuers to charge more for loans, which bolster profits.

Utilities and consumer goods companies were among the biggest decliners. Energy stocks also fell as crude **oil prices** declined.

Bond prices fell. The **10**-**year Treasury** yield rose to 2.19 percent from 2.18 percent on Wednesday.

Investors have been looking for more progress out of the White House on its agenda to cut taxes, increase infrastructure spending and implement other business-friendly policies.

The Republican-led House took steps on Thursday to advance President Trump's pledge to ease regulations on businesses by taking a vote on legislation that would undo the stricter banking rules created after the devastating 2008 financial crisis. That helped lift bank stocks.

Goldman Sachs Group picked up $2.98, or 1.4 percent, to $218.76. JPMorgan Chase added $1.04, or 1.2 percent, to $84.95. Regions Financial gained 44 cents, or 3.2 percent, to $14.03.

Traders also welcomed news that members of the Nordstrom family were considering taking the company private.

Like Macy's and other big department store chains, Nordstrom has struggled to cope with competition from online retailers. The company, which has 354 stores in the United States and Canada, has seen its stock tumble by half since early 2015. On Thursday, the share price soared $4.15, or 10.3 percent, to $44.63.

Several companies that reported improved earnings or outlooks also traded higher.

Verint Systems, a maker of software for analyzing intercepted communications, rose 3.2 percent after reporting a strong first quarter. The stock added $1.35 to $43.45.

Investors cheered Alibaba Group Holding's latest revenue forecast. Shares in the Chinese e-commerce company gained $16.70, or 13.3 percent, to $142.34.

Benchmark crude wavered for much of the day before sliding 8 cents to settle at $45.64 a barrel in New York. Brent crude, used to price international oils, fell 20 cents to close at $47.86 per barrel in London.

The dollar rose to 109.94 yen from 109.77 yen. The euro weakened to $1.1216 from $1.1267.

In metals trading, gold fell $13.80, or 1.1 percent, to $1,276.30 per ounce. Silver lost 21 cents, or 1.2 percent, to $17.41 per ounce. Copper gained 6 cents, or 2.3 percent, to $2.61 per pound.

European stock markets were mixed after the European Central Bank kept its stimulus program unchanged. Mario Draghi, the bank's president, said Thursday that risks to the European economic recovery have diminished. The German DAX rose 0.3 percent, while the French CAC 40 slipped 0.2 percent. In Britain, the FTSE 100 fell 0.4 percent.

In Asia, Japan's benchmark Nikkei 225 index lost 0.3 percent, while South Korea's Kospi edged up 0.2 percent. In Hong Kong, the Hang Seng rose 0.3 percent.

CHARTS: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Thursday. (Source: Reuters); Freddie Mac Yields: Average for some Federal Home Loan Mortgage Corp. securities. (Source: F.H.L.M.C.)

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MAINE

Lawmakers Tighten

Mining Regulations

Maine lawmakers toughened the state's mining regulations, overriding a veto from Republican Gov. Paul LePage.

The new rules, sponsored by a Democratic state senator, require mining companies to set aside money for at least a century to cover cleanup after a mine closes to limit future taxpayer liability. They also include strict rules for handling waste and ban open-pit mining.

The restrictions passed with bipartisan support, but the governor has said they will put the state at a competitive disadvantage.

"This bill will deter any company from mining in Maine, and it will discourage exploration of our mineral deposits because this bill would make them undevelopable," Mr. LePage said in his June 2 veto message.

-- Jon Kamp

FINANCES

Household Net Worth

Climbs to a Record

The total net worth of U.S. households climbed by $2.3 trillion in the first quarter, reaching a record $94.8 trillion as the **stock market** soared and home prices climbed in many areas.

Household wealth in the **stock market** rose $1.3 trillion in the quarter, helping to underpin consumer confidence. The figures are from a quarterly Federal Reserve report, known as the Flow of Funds, that tracks the aggregate wealth of all U.S. households and nonprofit organizations.

The report showed the value of household real estate rose by about $500 billion in the quarter. The sum Americans held in savings accounts rose by about $100 billion, while household debts increased by about $46 billion.

-- Josh Zumbrun

ECONOMY

Jobless Claims Fell

By 10,000 Last Week

The number of Americans applying for first-time unemployment benefits fell last week, the latest sign of steady job creation.

Initial jobless claims, a proxy for layoffs across the U.S., fell 10,000 to a seasonally adjusted 245,000 in the week ended June 3, the Labor Department said Thursday.

Estimates of jobless claims can be **volatile** from week to week but generally have hovered near four-decade lows in recent months, suggesting employers are holding on to workers.

The four-week moving average of initial claims, which evens out weekly **volatility**, increased by 2,250 last week to 242,000.

-- Sarah Chaney and Jeffrey Sparshott

Document J000000020170609ed6900023

Search Summary

Text	S&P 500 index or Dow Jones index or Bond yield or oil price or stock index or stock market or DJIA or SPX or equity market or Dow Jones Industrial Average or S&P 500 or Standard & Poor's 500-stock index or U.S. treasury rates or U.S. treasury yield or stock price or earnings suprise or earnings surprises or oil prices or Nasdaq Composite or standard & poor's 500 index or 30-year Treasury bond or 10-year Treasury bond or 30-year Treasury or 10-year Treasury or Bond prices or bull market or bear market or bull market or bear market or bullish or bearish or financial markets or financial market or volatile or volatility or Nasdaq
Date	06/01/2017 to 06/30/2017
Source	The New York Times - All sources Or The Wall Street Journal
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