THE WALL STREET JOURNAL.

Economy

U.S. Jobless Claims Fell Last Week; Claims remain near levels last seen in the 1970s

By Sarah Chaney and Sharon Nunn
265 words
19 April 2018
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The Wall Street Journal Online
WSJO
English

WASHINGTON—The number of Americans claiming new unemployment benefits fell last week for the third time in four weeks, signaling continued health in the labor market.

Initial jobless claims, a proxy for layoffs across the U.S., decreased by 1,000 to a seasonally adjusted 232,000 in the week ended April 14, the Labor Department said Thursday. Economists surveyed by The Wall Street Journal expected 225,000 new claims last week.

Initial claims remain near levels last seen in the 1970s. They have held below 300,000 for 163 consecutive weeks, the longest streak in weekly records going back to 1967.

Data can be **volatile** from week to week. The four-week moving average of claims, a more-stable measure, rose by 1,250 to 231,250 last week.

The low level of claims is among multiple signs of health in the U.S. labor market. The unemployment rate has held at 4.1% since October, the lowest level since late 2000. Employers have added to nonfarm payrolls for 90 straight months in the longest continuous job expansion on record.

Thursday's report showed the number of claims workers made for longer than a week fell by 15,000 to 1,863,000 in the week ended April 7. That figure, known as continuing claims, is reported with a one-week lag.

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Heard on the Street
Aluminum Rally Isn't Something to Rely On

By Nathaniel Taplin
398 words
19 April 2018
The Wall Street Journal
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[Financial Analysis and Commentary]

We live in a time of wonders: Aluminum bulls are freely roaming the land.

Aluminum, the perennial laggard of the metals world in the years since the financial crisis, had a stellar 2017, with prices up more than 30% on the London Metal Exchange. The Trump administration's move to sanction Russian giant Rusal, one of the world's largest producers, has given the metal a further shot in the arm. Prices have leapt another 19% since the sanctions announcement and touched a six-year high Tuesday.

That kind of gain may prove too much, too soon. Prices in London still might move higher in the days ahead as buyers scramble to lock down temporarily scarce supplies, but aluminum inventories in China are near records. Moreover, an essential demand source -- the Chinese auto market -- is looking weak this year now that a big tax cut for car buyers has expired. If Chinese aluminum production, about half of the world's total, keeps rebounding this spring as pollution controls ease, the market might find itself on shaky ground in a hurry.

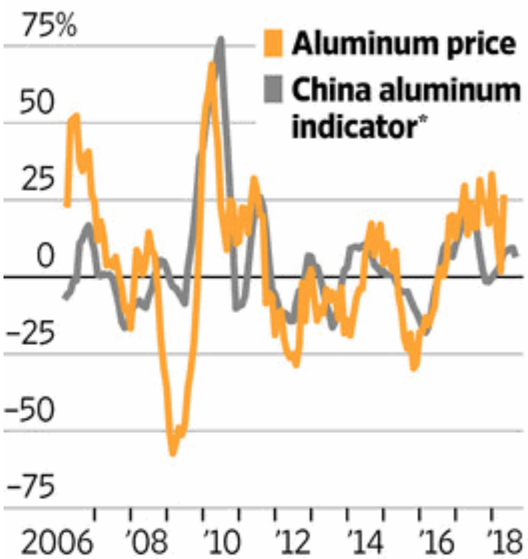
Last year, everything went right for aluminum prices. Chinese auto production and construction, the two most important demand sources globally, both slowed but by less than expected. Chinese aluminum output fell sharply in the second half of the year as local governments frantically tried to hit Beijing-mandated winter pollution targets. And global industry powered higher, boosting demand in the rest of the world.

All those **bullish** trends are on trickier footing in 2018. Global purchasing managers' indexes are showing signs of peaking and Chinese auto production has been steadily weakening since late 2017. It rose just 0.9% on the year in March, down from 6% as recently as June. Meanwhile, Chinese aluminum production is bouncing back: It rose 4% in March, after six straight months of falling output in late 2017. If higher post-Rusal prices and looser seasonal restrictions tempt even more Chinese smelters back into the market this April and May, recent price gains could prove hard to hold on to.

The aluminum bull is profiting from the troubles of the Russian bear, one of its main natural predators. The Chinese dragon's claws still look quite sharp, however.

Still Endangered

Change from a year earlier



*Difference between China's auto and aluminum output growth, on a six-month moving-average basis.

Sources: CEIC; Thomson Reuters

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WSJ PRO CENTRAL BANKING

Economy

Dudley: Trade Wars Aren't Winnable | Beige Book Shows Rising Steel Prices | Poloz: Recovering From Nafta Uncertainty Could Take Time | HKMA's Intervention Bill $6.5 Billion and Counting | Derby's Take: Williams to Maintain Focus on Bankers' Ethics; The Wall Street Journal's central banking newsletter for Thursday, April 19, 2018

1,941 words
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English

Derby's Take: Incoming New York Fed Chief Williams to Maintain Focus on Bankers' Ethics

Fed's Dudley Warns Trade Wars Aren't Winnable

Fed's Beige Book Shows Rising Steel Prices Following Tariffs

Bank of Canada's Poloz: Recovering From Nafta Uncertainty Could Take Time

Band Aid: Hong Kong's Bill for Defending Its Peg Is $6.5 Billion and Counting

Incoming New York Fed Chief Williams to Maintain Focus on Bankers' Ethics

The culture wars aren't over for the New York Fed.

This particular struggle isn't about the arts or the other sorts of squabbles that have come to define the left-versus-right political debate. Instead, it is about what central bankers think about the ethics of the finance industry, and what bankers need to do to fly right.

It is a fight picked prominently by New York Fed chief William Dudley, who is set to retire in June. His designated successor, San Francisco Fed President John Williams, says he shares Mr. Dudley's concerns and won't let the issue die on his watch.

In 2013, Mr. Dudley surprised many in banking when he said "there is evidence of deep-seated cultural and ethical failures at many large financial institutions." He added, "Whether this is due to size and complexity, bad incentives or some other issues is difficult to judge, but it is another critical problem that needs to be addressed."

It was a bold pronouncement for a central banker and important regulator of banks. And whether or not it has led bankers to behave better, Mr. Williams plans to press forward with the campaign.

"I give [Mr. Dudley] a lot of credit for leading on this issue, important set of issues," Mr. Williams said in a talk with reporters on April 6. When one looks at financial firms' troubles, "culture is an important part of that narrative."

Mr. Williams declined to say if he'd go at the issue as aggressively as Mr. Dudley. He noted that his first day at the New York Fed coincides with a conference on banking issues, and he said he'll attend the event. He said he'll continue to "engage" on the bank culture issue.

What happened at Wells Fargo & Co., a troubled bank supervised by the San Francisco Fed, offers lessons, Mr. Williams said.

Effective bank oversight is "really about making sure that the organizations are not only meeting the laws and following the laws and regulations, but are actually well-managed in that they know what's happening and are controlling what's happening in their organizations, which is a lot more than just numbers and spreadsheets," Mr. Williams said.

Key Developments Around the World

Fed's Dudley Warns Trade Wars Aren't Winnable

Federal Reserve Bank of New York President William Dudley warned Wednesday there would be no happy endings to the U.S. engaging in a trade war with other nations. The central banker said he has "nothing against us negotiating hard" to protect U.S. interests, but cautioned against letting the situation devolve into rounds of retaliatory trade actions. "A tariff war would be a terrible, terrible outcome," Mr. Dudley said when asked about recent trade tensions after giving a speech at Lehman College in New York. "I would not look at a trade war as something we can win. I don't really think a trade war is a winnable proposition." Mr. Dudley also said he continues to see gradual Fed interest-rate increases as appropriate.

Fed's Beige Book Shows Rising Steel Prices Following Tariffs

Businesses across the U.S. reported rising steel prices in recent weeks due to recently implemented tariffs, according to a Federal Reserve report released Wednesday. Although prices generally increased at a moderate pace in different parts of the U.S., there were widespread reports that steel prices rose, dramatically in some instances, because of the tariffs on steel and aluminum imports the Trump administration implemented in March. The price-growth evidence comes from the central bank's latest roundup of anecdotal information about regional economic conditions known as the beige book and is one of the first snapshots of the economic impact the trade actions are having on domestic businesses. All of the Fed's 12 regional districts reported expanding economic output in recent weeks, and businesses' economic outlook remained positive.

Flattening Yield Curve Raises Warning Flag

The gap between short- and long-term Treasury yields is at its narrowest in more than a decade, reflecting investors' confidence that the Federal Reserve will maintain its current pace of interest-rate increases despite continuing skepticism about the longer-term outlook for economic growth and inflation.The difference between the two-year Treasury yield and the **10**-**year Treasury** yield, known on Wall Street as the 2-10 spread, settled Tuesday at 0.428 percentage point, its tightest since 2007, before steepening modestly Wednesday. Two-year yields tend to rise along with investors' expectations for tighter Fed interest-rate policy, while longer-term yields are more responsive to sentiment about prospects for the economy.

Cryptocurrency Firms, Investors Seek Exemption From SEC Oversight

Big Silicon Valley backers of cryptocurrencies have sought a broad exemption from federal oversight they say would slow digital coin growth, as the industry steps up lobbying to limit government oversight of the burgeoning world of cryptocurrencies. Andreessen Horowitz and Union Square Ventures met with officials at the Securities and Exchange Commission on March 28, arguing that Washington oversight could slow innovation based on the blockchain technology that underpins cryptocurrencies such as bitcoin, people familiar the matter said. The SEC has launched a broadside against many cryptocurrency deals, saying virtual tokens issued by startups are investments that should be regulated as securities, subjecting the firms to extensive federal oversight.

Bank of Canada's Poloz: Recovering From Nafta Uncertainty Could Take Time

Canada's business investment and exports have suffered on trade policy uncertainty and may not immediately recover once talks on the North American Free Trade Agreement conclude, Bank of Canada Gov. Stephen Poloz says. In an interview with The Wall Street Journal on Wednesday, Mr. Poloz said he is hopeful many firms will start increasing their investments in Canada once Nafta uncertainty has ended. However, he said firms that have already opted to expand their operations outside of Canada may not be in a position to boost investment again in the near future. "It means that Canada may have lost an opportunity there," Mr. Poloz said of firms that have invested elsewhere. "Those decisions don't get made that often."

Bank of Canada Holds Key Rate Steady at 1.25%

The Canadian economy is operating close to capacity, with low unemployment and inflation on target, but low interest rates are still needed to support growth, Bank of Canada Gov. Stephen Poloz said Wednesday as the central bank held its key rate steady. The decision to leave the benchmark interest rate at 1.25% was widely anticipated by economists. Mr. Poloz said high consumer debt levels, trade uncertainty and competitiveness challenges are among the underlying factors that continue to weigh on growth and make some level of stimulus necessary.

Band Aid: Hong Kong's Bill for Defending Its Peg Is $6.5 Billion and Counting

Hong Kong's de facto central bank has spent about US$6.5 billion in the past week to defend its currency's nearly 35-year-old link to the U.S. dollar. The Hong Kong Monetary Authority said Thursday it has bought a total of 51.3 billion Hong Kong dollars and sold US$6.5 billion from its foreign currency reserves in 13 transactions since its first intervention last week. "This is totally in accordance with the design of the linked exchange rate system," said Howard Lee, deputy chief executive of the HKMA, adding that the amount and pace of the transactions have been consistent with the authority's expectations.

Quick Hits: Canada Plans Change in How It Reports Trade Data

Bank of Canada Gov. Stephen Poloz revealed a change in how Canada's statistics agency will report trade data, Morgan Stanley's CEO said this year's Comprehensive Capital Analysis and Review by the Federal Reserve was "more severe than prior years," and Dallas Fed chief Robert Kaplan said Texas' economy is booming. Here are quick hits on central banking and related market views from around the world.

Thursday

8 a.m. EDT

Fed's Brainard speaks

9:30 a.m. EDT

Fed's Quarles gives supervision and regulation testimony before Senate Banking Committee in Washington

6:45 p.m. EDT

Cleveland Fed's Mester speaks

Friday

9:40 a.m. EDT

Chicago Fed's Evans speaks

10 a.m. EDT

European Commission releases April consumer confidence measure for the eurozone

11:15 a.m. EDT

San Francisco Fed's Williams speaks

How Will Fintech and Digital Currencies Transform Central Banking?

Brookings senior fellow Eswar Prasad explores the monetary policy and financial implications of cryptocurrencies and financial technologies, or fintech, in a Brookings paper. Mr. Prasad's findings suggest there would be some advantages in converting to digital versions of central bank money, including easing some constraints on traditional monetary policy. The rise of channels for cross-border capital flows will make it increasingly difficult for national authorities to monitor and control these flows, meaning emerging-market economies will face particular management challenges, and "could be subject to greater monetary policy spillovers and contagion effects," he finds.

The Global Economic Recovery Is Real but Fragile

The International Monetary Fund is optimistic in the short term, but long-term structural risks remain, writes Martin Wolf in the Financial Times. "A decade ago, we experienced a crisis in the global system. But policymakers prevented it from becoming a crisis of the system. Now, at a time of cyclical recovery, we are facing just such a crisis of the system. Ours is in an era of economic and political fragility. The recovery is real. So, alas, is that fragility," Mr. Wolf writes.

Nearly a decade after the global financial crisis, the world's economies have made essentially no progress reining in levels of government debt.

The gap between short- and long-term Treasury yields is at its narrowest in more than a decade, reflecting investors' confidence that the Federal Reserve will maintain its current pace of interest-rate increases despite ongoing skepticism about the longer-term outlook for economic growth and inflation.

Australia's jobs boom has come off the boil, raising fresh doubts about the outlook for consumer spending and GDP growth in the year ahead.

New Zealand consumer prices rose 0.5% in the first quarter of 2018 and were up 1.1% from a year earlier, its lowest rate since mid-2016.

U.K. retail sales slumped in March during a spell of bad weather, adding to signs that the economy got off to a slow start in the first quarter.

Send us your tips, suggestions and feedback. Write to:

Jon Hilsenrath; Katy Burne; Michael Derby; Nell Henderson; Jason Douglas; Paul Hannon; Harriet Torry; Kate Davidson; David Harrison; Kim Mackrael; Tom Fairless; Michael Maloney.

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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
Positive Earnings Help Nudge the S.&P. Higher

By THE ASSOCIATED PRESS
780 words
19 April 2018
The New York Times
NYTF
Late Edition - Final
5
English

US stocks finished broadly higher Wednesday, giving the **S&P 500** its third gain in as many days.

Energy companies rose more than the rest of the market, riding a big upturn in crude **oil prices**. Solid gains in industrial stocks and retailers outweighed losses among food and beverage companies, technology stocks and banks.

Investors continued to bid up companies that reported positive earnings or outlooks. Not all companies delivered welcome results. IBM slumped 7.5 percent, single-handedly pulling the **Dow Jonesindustrial average** into the red.

"Earnings are the principal thing this week," said Paul Christopher, head of global market strategy for Wells Fargo Investment Institute. "The market wants to see more consistent evidence of strong earnings."

The **S&P 500 index** rose 2.25 points, or 0.1 percent, to 2,708.64. The Dow slid 38.56 points, or 0.2 percent, to 24,748.07. The **Nasdaq composite** gained 14.14 points, or 0.2 percent, to 7,295.24. The Russell 2000 index of smaller-company stocks picked up 3.76 points, or 0.2 percent, to 1,583.56.

The major stock indexes are all on track to finish the week higher.

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

Investors continued to sift through corporate earnings reports. Financial analysts are forecasting the strongest growth in seven years for **S&P 500** companies, partly because of a resurgent global economy, but also because of expectations that last year's corporate tax cut will have on corporate balance sheets.

Roughly 10 percent of the companies in the **S&P 500** have reported results so far this earnings season, and some 67 percent of those have delivered both earnings and revenue that exceeded financial analysts' expectations, according to S&P Global Market Intelligence.

Railroad operator CSX jumped 7.8 percent to $61.01 and aircraft maker Textron climbed 6.8 percent to $63.99 after reporting results that beat analysts' forecasts.

United Continental rose 4.8 percent to $70.58 after the airline company raised its earnings outlook for the year.

Best Buy added 3.6 percent to $75.40 after announcing a partnership to sell Fire TVs with Amazon.

IBM was the biggest decliner in the **S&P 500**, sliding 7.5 percent to $148.79. That's its biggest loss in five years. The technology company's results failed to impress investors.

Oil futures surged, pushing closer to $70 a barrel. The pickup in the price of crude came as Reuters published a report citing unnamed industry sources saying that Saudi Arabia would be happy to see crude **oil prices** hit $100 a barrel.

Benchmark U.S. crude rose $1.95, or 2.9 percent, to settle at $68.47 per barrel on the New York Mercantile Exchange. Brent crude, used to price international oils, added $1.90, or 2.7 percent, to close at $73.48 per barrel in London.

"If you look at the activity in oil over the last couple of weeks, it almost seems like it's destined to flirt with the $70 level to see if it can break through," said JJ Kinahan, chief market strategist for TD Ameritrade. "The market seems very comfortable between this $58 and $70-ish area."

The surge in **oil prices** helped lift energy stocks. Newfield Exploration added 5.9 percent to $28.89.

The dollar gained to 107.26 yen from Tuesday's 107.02 yen. The euro rose to $1.2377 from $1.2367.

Gold rose $4 to $1,353.50 an ounce. Silver gained 46 cents, or 2.7 percent, to $17.25 an ounce. Copper added 8 cents to $3.16 a pound.

In other energy futures trading, heating oil rose 3 cents to $2.09 a gallon. Wholesale gasoline picked up 3 cents to $2.07 a gallon. Natural gas was little changed at $2.74 per 1,000 cubic feet.

Major stock indexes in Europe finished mostly higher. Germany's DAX was ended flat, while France's CAC 40 rose 0.5 percent. Britain's FTSE 100 added 1.3 percent. Indexes in Asia ended higher. Tokyo's Nikkei 225 rose 1.4 percent, while Hong Kong's Hang Seng added 0.7 percent. Seoul's Kospi rose 1.1 percent.

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

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

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Heard on the Street
Overheard

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[Financial Analysis and Commentary]

Millions of Americans got an unexpected reprieve on Tuesday when it comes to their hard-earned money, but investors probably shouldn't have been terribly happy about it.

For the first time ever, a computer glitch resulted in the Internal Revenue Service's deadline for filing personal income taxes being extended by a day.

According to analysts at Bespoke Investment Group, though, this also may have delayed an especially auspicious week for investors.

Since 1993, the seven days following the U.S. tax-filing deadline has been positive for the **S&P 500** 80% of the time while the preceding week has been positive only 40% of the time.

Then again, the market's strong start to the week suggests the rally got started on schedule this year, even if the taxman couldn't.

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THE WALL STREET JOURNAL.
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Firms Poised to Jack Up Dividends

By Jon Sindreu
688 words
19 April 2018
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B11
English

The share of big U.S. and European companies expected to increase dividends this year is forecast to reach its highest level in at least a decade, a boost for investors facing resurgent stock **volatility**, rising interest rates and geopolitical risk.

Among big listed companies in the U.S. and Europe, about 71% and 83%, respectively, are expected to increase dividends in 2018, according to research by JPMorgan Chase.

"It's a market in which to be very cautious [and] shares of high-yielding companies offer compelling income," said Emmanuel Hauptmann, a fund manager at RAM Active Investments.

Dividends per share are set to increase at an annual pace of about 8% for the **S&P 500** and 6% for the Euro Stoxx 50, the fastest rate since early 2016 and early 2015, respectively, based on upgraded analysts' estimates for the next 12 months.

Despite continued economic growth, the expected increase in payouts comes as global stock indexes in 2018 have failed to follow on their strong performance a year earlier. The **S&P 500** and **Dow Jones Industrial Average** are up 1.3% and 0.1%, respectively, this year, while the Stoxx Europe 600 is down 1.9% and Japan's Nikkei Stock Average has lost 2.7%.

With U.S. firms flush following a big tax cut in the middle of a nine-year economic expansion and European economic fundamentals looking better than they have for the best part of a decade, investors are looking to corporate largess to generate better returns.

Usually, investors are drawn to firms that are insulated from economic booms and busts and pay a steady income, like utilities and retailers. But some of these staples, like General Electric Co. and French retailer Carrefour SA, have recently cut dividends.

Instead, the quickest dividend growth this year is expected to come from technology, finance and energy stocks, which historically haven't been consistent dividend payers, according to forecasts from research firm FactSet. That is because the global economy remains strong, earnings are rising and these sectors are sitting on large piles of cash, analysts said.

The **stock-market** retreats in February and March mean the dividends look larger compared with a company's **stock price**. This ratio is called the dividend yield and is now at 2.1% for **S&P 500** stocks, from 1.8% in January. For the Euro Stoxx 50, it is 3.8%, the highest since December 2016.

Share buybacks are also expected to increase in the U.S. to $800 billion in 2018 from $530 billion last year, according to JPMorgan. Once buybacks are added, stocks in the U.S. and Europe both yield about 5%, investors said.

"People look at dividends when markets are weak, we believe we should look at dividends all the time," said Dale Winner, a fund manager at Wells Fargo Asset Management, who added to his holdings during recent selloffs.

Mr. Winner's picks include European banks DNB ASA and UniCredit SpA. In Europe, 20 companies are expected to increase dividends 50% or more this year, led by four lenders: CYBG PLC, Deutsche Bank AG, Standard Chartered PLC and Barclays PLC.

In the U.S., some fund managers see established tech firms as safer buys, more akin to utilities, in part because some of these companies are looking to be steady sources of income for shareholders.

Hewlett Packard Enterprise Co. and Cisco Systems Inc. recently announced dividend increases that pushed their yields above the average of the sector, and analysts believe that Apple Inc. will continue to pay out from its large cash pile.

John Toohey, head of the equities team at USAA Asset Management, favors banks, tech and energy firms in his portfolio. That is in part because "it's late in the economic cycle and inflation might be picking up," he said.

Higher inflation makes stocks that pay dividends more attractive because money placed in banks or bonds will lose value over time, whereas dividends often rise to match big increases in consumer prices.

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THE WALL STREET JOURNAL.

Markets

Is the U.S. Shale Boom Hitting a Bottleneck? Congested pipelines, shortages of materials and workers stand in the way of Permian basin's continued growth

By Alison Sider and Bradley Olson
1,127 words
18 April 2018
07:32 PM
The Wall Street Journal Online
WSJO
English

The oil field at the heart of the U.S. shale boom appears to be choking on its own growth, a surprising development with big ramifications for energy profits and global markets.

The Permian basin of West Texas and New Mexico has been one of the few growth engines for oil production world-wide. The region's output is on track to rival that of Iran or Iraq and has lifted American production to all-time highs.

Output is projected to climb from three million barrels a day to more than four million barrels a day within two years. The International Energy Agency forecasts that last year's production level will double by 2023.

But Permian producers are starting to encounter congested pipelines and shortages of materials and workers—bottlenecks that have caused some investors to sour on the region. Some energy executives question whether sky-high forecasts are achievable.

While production is expected to continue rising, the Permian's stumbles could ripple out to the global oil market at a time when OPEC has curtailed output and many companies have cut back on megaprojects. That could become a source of **volatility** that propels **oil prices** elsewhere higher.

"It makes sense that the basin with the lowest costs, seeing the biggest increase in growth would also see the most bottlenecks and the most challenges to that growth," said John Dowd, manager of the Fidelity Select Energy Portfolio. "It's not physically easy to grow production 1 million barrels a day in the U.S."

After crude prices fell from more than $100 a barrel in 2014 to less than $30 two years later, companies in many areas shut down rigs and cut spending.

But in the Permian basin, production never stopped. As **oil prices** have climbed, the pace of work in the region has become frenetic, with production rising by about 800,000 barrels a day in the past year.

Pipeline capacity is emerging as a problem. Oil is starting to back up in West Texas and has recently sold at a $6 to $9 discount to crude prices elsewhere in the U.S. That is a warning sign that some oil might have to travel by more expensive ways like trucks to market and that producers could be forced to take drastic measures like halt drilling.

Pipelines that carry the natural gas gushing from wells alongside oil are also facing looming constraints. Some producers face the prospect of shutting wells.

"The industry will figure out a way to get through, but there could be some bumps along the road," said Rich Dealy, chief financial officer of Pioneer Natural Resources Co., in an interview. For smaller companies, "the speed at which they can place wells [online] and move commodities may be delayed."

Mr. Dealy said it has been hard to get enough workers and find places for all of them to sleep. Pioneer is well prepared, with secured space on pipelines, its own fleet of fracking equipment, and its own sand mine, he said.

A number of major Permian operators reduced their output forecasts last year, often citing weather-related issues—claims that some executives such as shale pioneer Mark Papa have questioned, suggesting that poor acreage, subpar drilling techniques and service constraints are a much more likely culprit. They argue that the bottlenecks could be more severe than some companies have acknowledged.

Even Pioneer, one of the biggest operators in the Permian, lowered its forecast for 2017 output in August, citing "unforeseen drilling delays." Mr. Dealy said Wednesday that the current logistical challenges in the Permian won't stand in the way of the company's objectives there.

Permian operators are likely to see their costs rise up to 15% in the area, an issue that could affect profit margins even as **oil prices** rise. Investors will be watching the pace of output as companies report earnings in coming weeks.

Several seasoned U.S. oil executives have begun to extol the prospects of other areas. Steve Chazen, the former chief executive of Occidental Petroleum Corp., the biggest producer in the Permian basin, built Magnolia Oil and Gas, a company that drills in South Texas.

"When you get to a certain size, growing at 25% every year becomes a mathematical impossibility," Mr. Chazen said in an interview. "I think we're close to where the growth rate is going to decline."

Many analysts expect prices in the region could tumble further before new pipelines arrive in 2019.

Labor and supply scarcity are adding to the challenges. Operators are scrambling to acquire the sand and water needed for enormous fracking jobs.

About 87% of the supplies and equipment needed for fracking jobs in the Permian are in use, and producers are likely to reach full capacity within months, said Matt Johnson, a principal at Primary Vision Inc., a firm that tracks crews, sand, water and other services needed for drilling across the U.S.

Chris Cuyler, vice president of exploration and geoscience at Elevation Resources LLC, a private oil and gas producer, said his small firm has to schedule fracking crews at least a month in advance—compared with two or three weeks a year ago.

Companies are bringing workers from out of town. John Volke owns companies that find housing for oil-field workers and owns trailer parks known as "man-camps."

Hotel rates have spiked as high as $600 a night. Mr. Volke has already ordered 30 new trailers and will likely have to order another 30. Rooms in the trailers Mr. Volke's firm rents to companies run $75 to $95 a night for long-term contracts, depending on the model. That is back to where rates were before **oil prices** plummeted.

The constraints are taking some of the shine off Permian producers, which were Wall Street darlings in recent years.

The shares in a group of 15 such companies, including Pioneer and Concho Resources Inc., have fallen by an average of nearly 1% this year. A broad index of U.S. producers has risen 1.3% in that time. In 2016, the Permian group rose by more than 60%, almost double the increase to a broad subset of U.S. operators.

The Permian's growth rate is expected to account for "half of what's supposed to happen in the whole planet," said John Groton, director of equity research at Thrivent Asset Management. "If that's compromised it's a big deal."

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THE WALL STREET JOURNAL.

Markets

How to Woo Investors in Volatile Times? Pay Them Cash; Companies' capacity for dividends, buybacks is of key importance for shareholders—and payouts are set to rise

By Jon Sindreu
934 words
18 April 2018
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English

In a year of rising interest rates, resurgent stock volatility and creeping political risk, many investors are taking solace in dividends.

An unsettled market outlook means companies' capacity to deliver cash—in the form of share buybacks and dividend payments—is of key importance for shareholders.

Global stock indexes in 2018 have failed to follow on their strong performance a year earlier, despite continued economic growth. The S&P 500 and Dow Jones Industrial Average are up 1% in the year to date, while overseas the Stoxx Europe 600 is down 2.6% and Japan's Nikkei Stock Average has lost 4%.

With U.S. firms flush following a big tax cut in the middle of a nine-year economic expansion, and European economic fundamentals looking better than they have for the best part of a decade, investors are increasingly willing to count on corporate largess to generate better returns.

"It's a market in which to be very cautious [and] shares of high-yielding companies offer compelling income," said Emmanuel Hauptmann, a fund manager at RAM Active Investments.

Among big listed companies in the U.S. and Europe, about 71% and 83%, respectively, are expected to increase dividends in 2018, the highest share in at least a decade, according to research by JPMorgan.

Dividends per share are set to grow at an annual pace of around 8% for the S&P 500 and 6% for the Euro Stoxx 50—the fastest rate since early 2016 and early 2015, respectively—based on upgraded analysts' estimates for the next 12 months.

Stock-market retreats in February and March mean these dividends look larger when compared with a company's stock price. This ratio is called the dividend yield and is now at 2.1% for S&P 500 stocks, from 1.8% in January. For the Euro Stoxx 50, it's at 3.8%, the highest since December 2016.

Share buybacks—another way for companies to pay shareholders—are also expected to increase in the U.S. to $800 billion in 2018 from $530 billion last year, according to JPMorgan. Once buybacks are added, stocks in the U.S. and Europe both yield around 5%, investors said.

Usually, investors are drawn to firms that are insulated from economic booms and busts and pay a steady income, like utilities and retailers.

But some of these staples, like General Electric Co. and French retailer Carrefour SA, have recently slashed dividends.

Instead, the quickest dividend growth this year is expected to come from technology, finance and energy stocks, which historically haven't been consistent dividend payers, according to FactSet forecasts. That is because the global economy remains strong, earnings are rising and these sectors are sitting on large piles of cash, analysts said, which sends an optimistic message for the broader stock market.

"People look at dividends when markets are weak, we believe we should look at dividends all the time," said Dale Winner, a fund manager at Wells Fargo Asset Management, who added to his holdings during recent selloffs.

Mr. Winner's picks include European banks DNB ASA and UniCredit SpA.

In Europe, 20 listed companies are expected to increase dividends 50% or more this year, headed by four lenders: CYBG PLC, Deutsche Bank AG, Standard Chartered PLC and Barclays PLC.

In the U.S., some fund managers increasingly see established tech firms as safer buys, more akin to utilities, in part because some of these companies are looking to be steady sources of income for shareholders.

Hewlett Packard Enterprise Co. and Cisco Systems Inc. recently announced dividend increases that pushed their yields above the average of the sector, and analysts' believe that Apple Inc. will continue to pay out from its massive cash pile—it has raised its dividend for the past four years. Its stock has been less **volatile** than other tech behemoths' this year.

John Toohey, head of the equities team at USAA Asset Management, favors banks, tech and energy firms in his portfolio. That is in part because "it's late in the economic cycle and inflation might be picking up," he said.

Higher inflation makes stocks that pay out more attractive because money placed in banks or bonds will lose value over time, whereas dividends often rise to match big increases in consumer prices. That happened in the 1970s and early 1990s.

To be sure, some investors warn that the dividend boost may be temporary.

"We are more often short stocks with high dividend yield than long," said Federico Riggio, a portfolio manager at Kairos Group. "People tend to price more in the short-term the value of what is distributed and not the value of growth."

But others say time is on dividend investors' side. Since 1970, dividends have made up 40% of total returns for U.S. and European equities, JPMorgan's data shows.

Europe is best positioned to reap the current dividend bump, said JPMorgan equity strategist Mislav Matejka. That is because its economic recovery has trailed the U.S. over recent years and analysts believe it has further to go, with European firms carrying lower debt burdens.

"That opportunity to buy back shares or pay dividends is still there in Europe in a way that doesn't happen in other markets like the U.S.," said Scott Meech, co-head of European equities at Union Bancaire Privée.

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THE WALL STREET JOURNAL.

Markets
S&P 500 Rises for Third Straight Session; Stocks lifted by gains in industrial firms and a continued rise in commodity prices

By Amrith Ramkumar and Georgi Kantchev
733 words
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The S&P 500 rose for a third straight session Wednesday, lifted by gains in industrial firms and a continued rise in commodity prices.

Some investors have said worries about higher interest rates and geopolitical factors ranging from trade tensions to U.S.-led strikes in Syria have faded in recent sessions, putting the spotlight on robust corporate-earnings growth. Despite those sources of market stress and a turbulent start to the year, some investors expect strong first-quarter results to boost stocks.

"Now that we are upon earnings season, I think that's going to be the true north for the compass of investors to refocus on the longer-term fundamentals rather than the short-term fears that people have had," said Jeff Schulze, investment strategist at ClearBridge Investments.

The S&P 500 added 2.25 points, or 0.1%, to 2708.64, logging its ninth day of gains in the past 12 sessions. The Nasdaq Composite edged up 14.14 points, or 0.2%, to 7295.24, while the Dow Jones Industrial Average closed down 38.56 points, or 0.2%, at 24748.07.

With 12% of S&P 500 companies having reported quarterly results as of Wednesday evening, roughly 80% of them have beaten analyst earnings and sales expectations, a higher portion than the five-year average, according to FactSet.

Gains in airline stocks propelled the index's industrials sector to a 1% gain after United Continental Holdings said it is cutting back on some extra flying this year. The firm rattled airline investors in January with plans for additional capacity that raised fears of an industry fare war. United added $3.24, or 4.8%, to $70.58.

Railroad operator CSX was also among the S&P 500's best performers. It doubled its profit in the first quarter of the year, while revenue held steady in a sign that the company's cost cuts and turnaround plan are gaining traction.

Meanwhile, a recent commodities rally following U.S. sanctions against Russia, a major materials producer, continued. U.S. crude oil surged to a fresh three-year high and lifted shares of energy firms. Copper futures climbed 2.6% on the back of a widespread industrial-metals rally, supporting the materials sector.

Still, a 0.9% drop among consumer-staples stocks and declines elsewhere kept major indexes in a muted range.

Financial stocks fell. Morgan Stanley added 2 cents, or less than 0.1%, to 53.26 after reporting that earnings ripped higher in the first quarter. It followed other big Wall Street banks that got a lift from lower taxes and more-active markets.

The S&P 500 information-technology sector also dropped, pausing a recent recovery.

International Business Machines shares declined 12.12, or 7.5%, to 148.79, slicing 83 points off the Dow industrials after the technology company reported a rise in revenue, though profit margins continued to narrow from a year earlier.

Shares of another technology firm, Lam Research, tumbled 8.56, or 4%, to 203.77 after the maker of chip equipment exceeded profit and sales expectations in the most recent quarter.

Some investors remain cautious about stocks, noting that high expectations for earnings could limit future gains.

"If the number comes in higher, it confirms your thesis, it doesn't give you a new reason to buy," said Rick Wedell, chief investment officer at RFG Advisory Group. "If that beat doesn't contain a new reason to buy the stock, most stocks are going to stay flat because most people are expecting beats."

The yield on the benchmark 10-year U.S. Treasury rose to 2.867% from 2.814% Tuesday. Yields rise as prices fall.

Elsewhere, the Stoxx Europe 600 added 0.3%, and indexes in Asia rose across the board. Some analysts said stocks and commodities got a boost from the People's Bank of Chinacutting banks' reserve requirements, a move aimed at bolstering growth.

Hong Kong's Hang Seng Index ended up 0.7%, while Japan's Nikkei Stock Average finished up 1.4%.

Kenan Machado contributed to this article.

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THE WALL STREET JOURNAL.

Markets
Morgan Stanley Posts Record Earnings, Revenue; Lower taxes, expenses buoy profits; traders post best quarter since 2009 amid market volatility

By Liz Hoffman
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Morgan Stanley on Wednesday reported record quarterly profits, the last of the big U.S. banks to benefit from a potent cocktail of lower taxes, active markets, lower expenses and economies growing in lockstep.

The Wall Street firm's first-quarter profits of $2.6 billion and revenues of $11.1 billion were both record highs after reflecting accounting adjustments and jettisoned businesses. Morgan Stanley's traders had their best quarter since 2009, riding a wave of increased volume and **volatility** that also aided rivals, including Goldman Sachs Group Inc. and JPMorgan Chase & Co.

Combined profits at the six largest U.S. banks, which all reported first-quarter results in recent days, rose 24% from a year ago, outpacing an 18% rise in revenues. Meanwhile, the banks' level of profitability as measured by the return they generate on their equity—a key gauge for shareholders—rose to its highest level in years.

Much of that owes to lower taxes, which saved those firms $2.8 billion in the quarter, according to a Wall Street Journal analysis. But even without that boost, earnings would have been up about 15% from a year ago, thanks to banks holding firm on costs, including compensation.

The first quarter is typically the strongest of the year for banks. Investors put on new positions, which boost trading results, and companies raise money to fund new projects, which spurs lending and underwriting.

Morgan Stanley Chief Financial Officer Jonathan Pruzan said Wednesday that the optimism early in the quarter dulled a bit as trade unease and political noise intensified. "We'll have to see how the year plays out," he said.

Goldman Chief Executive Lloyd Blankfein delivered a similar message Tuesday to the bank's managing directors. "We've seen false dawns before," he said.

And bank investors largely shrugged at the results, even as most of the firms beat expectations. That is due in part to the strong run-up in share prices and valuations between the November 2016 presidential election and the end of 2017. Shares of all six big U.S. banks are down since they began reporting results last Friday, even as the **S&P 500** has risen around 2%.

Morgan Stanley's shares, while down during that period, rose on the back of its results Wednesday. Under CEO James Gorman, the firm is in the late innings of a revamp designed to make its revenues more predictable and decrease risk. It has doubled down on fee-based businesses like wealth management and eased its reliance on trading commissions and principal investments.

The firm in January set out new financial targets, most of which appear easily in reach. Morgan Stanley's return on equity of 14.9% in the first quarter is a postcrisis high, and easily beats the 13% goal Mr. Gorman laid out in January—though with a big assist from the cut in the corporate tax rate.

One down note: Mr. Gorman appeared to temper investors' expectations for a large dividend and buyback increase in the upcoming Federal Reserve stress-test and capital-return process. He said the doomsday scenario imagined in the 2018 test was "more severe" than in past years and "that when you dial the scenario up to that level, it could lead to unintended consequences."

Morgan Stanley's stock-trading business, the biggest on Wall Street by annual revenues, was up 27% in the quarter. Prime-brokerage balances rose and equity derivatives, instruments that protect investors from swings in stock prices, were especially strong, Mr. Pruzan said.

The firm's fixed-income trading revenue rose 9% to $1.8 billion, its best quarterly tally in three years. Commodities trading, a big business for Morgan Stanley, and currencies, a smaller one, were both strong, Mr. Pruzan said. Credit trading and interest-rate products were weaker.

"We finally had an environment with more debate and more **volatility** around asset prices," Mr. Pruzan said.

Wealth-management revenues rose 8%. Pretax-profit margins held steady after last year hitting Mr. Gorman's goal of 25%. They have tripled since 2011 as the firm pushed mortgages and other loans to its clients and rode a **bull market** to higher management fees.

The **stock market**'s recent declines—it is down about 8% from January highs—could threaten that fee stream. But because Morgan Stanley charges fees based on the value of portfolios at the beginning the quarter, not the end, that won't show up until the bank reports second-quarter results in July.

Revenue from advising on corporate mergers and underwriting both rose from a year ago. Morgan Stanley missed the biggest underwriting prizes of the quarter—those went to Goldman, on Dropbox Inc.'s initial public offering, and Bank of America on a real-estate investment trust's debut—but it pocketed more than $9 million for leading the IPO of home-security firm ADT Inc., according to filings.

Asset management, a small but high-return business, reported an 18% rise in revenue. Mr. Gorman has made growing that unit a priority.

Write to Liz Hoffman at liz.hoffman@wsj.com

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The New York Times

Foreign Desk; SECTA
Sanctions Sting in Russia, But Putin Isn't Softening

By NEIL MacFARQUHAR; Steven Erlanger contributed reporting from Brussels, and Ivan Nechepurenko from Moscow.
1,402 words
18 April 2018
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MOSCOW -- At least one bright spot stands out in the Russian economy, even as its prospects darken in the face of escalating sanctions: the manufacture of work uniforms.

The production of specialized work clothes, including bulletproof vests, is one of the lone growth areas in the economy, up by 27 percent, said Igor Nikolaev, director of the Strategic Analysis Institute at the FBK auditing and consulting firm. The comments came at an otherwise gloomy news conference Tuesday focused on Russia's economic prospects.

That statistic, amid a generally dormant economy kept afloat as usual by energy sales, seemed to underscore what many analysts are saying at the moment: President Vladimir V. Putin's increasingly aggressive posture toward the West is producing a boomerang effect, with an isolated Russia likely to suffer long-term economic damage as a result.

The deterioration reflects a growing awareness in Western capitals that Russia, growing ever more hostile, should be treated as a threat rather than a mere annoyance. That in turn is pushing them toward a unified front in challenging Moscow over such serial transgressions as destabilizing its neighbors, assassinating its critics abroad, meddling in the elections of other countries, tolerating the use of chemical weapons by the Syrian government and cyberskirmishing.

The confrontation is likely to only get worse, analysts say, for one main reason: Mr. Putin and his closest advisers are convinced they are justified in their policies and have persuaded important portions of the elite as well as the bulk of Russians that the country is thriving, rebuilding its global muscle rather than weakening itself.

''The party of war has won within the Russian elite,'' said Yuliy A. Nisnevich, a political-science professor. ''There are people in the elites who would like the confrontation to stop -- these are the people who would like to spend or earn money abroad. But the party of war, the people who get their money inside the country and live here, is prevalent now.''

Russia, of course, professes its innocence on all fronts. It accuses the West of suffering from an advanced case of Russophobia, a longstanding disease that emerges from hibernation whenever Russia begins to ''get up off its knees.''

Sergei V. Lavrov, Russia's foreign minister, said in a television interview broadcast Tuesday that the last vestiges of trust with the West were evaporating, sinking below even Cold War levels. ''There were communication channels during the Cold War, and there was no obsession with Russophobia, which looks like genocide through sanctions,'' Mr. Lavrov told the BBC.

From the Western countries' perspective, however, the mood is one of enough is enough, and they are gradually acting in concert in delivering that message to the Kremlin. Economic sanctions imposed after the 2014 annexation of Crimea, which represented the start of deteriorating relations, have remained intact despite repeated predictions from the Kremlin that one European Union member or another would eventually veto them.

More recently, there was the mass expulsion of some 150 Russian diplomats from Western nations after the chemical poisoning of a former Russian spy in Britain in March; harsh United States sanctions against several

Russian oligarchs, political figures and companies; and the bombing of Syria by the United States, France and Britain over the weekend.

"There is an upsurge in momentum of the kind we have not seen before," said James Nixey, the head of the Russian program at the London-based think tank Chatham House. He is not sure it will last, however, with nations like Hungary following the Putin model, while the Baltics and the Scandinavian countries remain far more wary.

In Russia, the population can basically be broken down into three groups, said Vladislav L. Inozemtsev, a Russian scholar currently at the Polish Institute of Advanced Studies in Warsaw.

The circle around Putin and the bulk of the population are sure that Russia is doing everything right, while the urban elite, including a majority of the business community, thinks it has gone too far and needs to find a way to reset relations with the West, he said.

The latter group views growing Western consolidation with trepidation, he said, while the Putin court and the majority "believe that quite soon the Western unity will vanish."

They have a wild card in President Trump. He has long been reluctant to criticize Russia, but his attitude has proved more **volatile** of late. On Sunday, Nikki R. Haley, the American ambassador to the United Nations, said that Washington was about to impose yet more sanctions on Russia, but Mr. Trump rejected the idea on Monday.

There are those who believe that the Russians have some hold over Mr. Trump. That explanation does not have much public currency in Russia, where the attitude swings between humor and exasperation.

If the value of the ruble in relation to the dollar used to fluctuate according to the price of oil, it is now Trump tweets about Russia that send it swinging, goes one joke.

But economists are not laughing about the sanctions imposed by the United States last week. The hardest hit was Rusal, one of the world's largest manufacturers of aluminum, which appeared on the sanctions list and saw its value plummet. Japan just became the latest country to announce that it would halt purchases from the company.

The Russian Parliament expedited a draft of proposed countersanctions last week that ranged from halting the import of medicine from the United States, to cutting off titanium and uranium sales, to allowing the open theft of American intellectual property. A statement by one legislator, Pyotr O. Tolstoy -- a descendant of the writer -- that Russians would happily drink brewed tree bark instead of using American medicine provoked widespread derision.

On social media, the idea of imposing countersanctions has become known as "bombing Voronezh," a provincial Russian city, the idea being that such measures invariably hurt Russians.

"We all see that the sanctions standoff is strengthening," said Mr. Nikolaev, the economist, and the Russian response "might in fact harm us."

Boeing, for example, buys about 35 percent of its titanium, which is used extensively in the 787 Dreamliner, from VSMPO-Avisma, the state monopoly that controls titanium production. The company warned in a statement that such a measure could adversely affect 20,000 employees and the economy as a whole.

The outcry from businesses over the potential countersanctions was such that Russian Parliament postponed discussion of the measures until May 15 to allow for consultations.

Ultimately, the path is clear, with the upshot of actions from both the West and Russia driving the "deglobalization" of Russia, said Evsey Gurvich, the head of the Expert Economic Group, an independent analytic center. As the West shuns Russia, the country will withdraw more and more to try to protect itself from further sanctions, he said.

This year economic growth will be lower than the 2 percent anticipated, with expert predictions ranging from 1.7 percent to none.

The result, some experts noted, is the state's taking control over more of the economy as it tries to protect jobs and industries from the fallout from sanctions, driving Russia back toward the Soviet model. In addition, when a big company like Rusal gets hit with sanctions and its revenues plunge, there is less tax revenue for the budget so social services like medicine and education suffer cuts.

It is unclear that there will be domestic political problems for Mr. Putin, however. Real incomes have been falling over the last few years, but he still received overwhelming support in the March presidential election.

No one expects economic issues to change Mr. Putin's mind about confronting the West either. The upshot is that the Kremlin elite who are winning the internal struggle value geopolitical goals far more than the country's economic development, experts said.

''When we say that we are not successful and quote economic numbers, they say that they do not care about this,'' said Leonid Gozman, a political commentator and former politician.

Follow Neil MacFarquhar on Twitter: @NeilMacFarquhar.

A currency exchange office in Moscow on April 11. Exasperated Russians now joke that President Trump's Twitter posts, instead of **oil prices**, cause the ruble to swing wildly against the dollar. (PHOTOGRAPH BY PAVEL GOLOVKIN/ASSOCIATED PRESS)

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THE WALL STREET JOURNAL.

Economy

Fed Report Finds Steel Prices Rising After Tariffs Imposed; Beige book says prices increased at a moderate pace in different parts of U.S. and dramatically in some instances

By Sharon Nunn
491 words
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Businesses across the U.S. reported rising steel prices in recent weeks due to recently implemented tariffs, according to a Federal Reserve report released Wednesday.

Although prices generally increased at a moderate pace in different parts of the U.S., there were widespread reports that steel prices rose, dramatically in some instances, because of the tariffs on steel and aluminum imports the Trump administration implemented in March.

The price-growth evidence comes from the central bank's latest roundup of anecdotal information about regional economic conditions known as the beige book. It is one of the first snapshots of the economic impact the trade actions are having on domestic businesses. The report was based on information collected through April 9.

All of the Fed's 12 regional districts reported expanding economic output in recent weeks, and businesses' economic outlook remained positive. But firms in multiple sectors, including manufacturing and transportation, expressed concern about the tariffs' potential impact, with worries ranging from declining freight volumes to unsustainable price growth.

Businesses in much of the U.S. reported significant price increases for steel and aluminum products, in some instances "double-digit" growth, according to the report.

Steel-futures prices were up 29% on the year through Wednesday, while aluminum futures were up 12%.

One firm in the Boston district said "thin gauge foil" is produced only in China, and tariffs raised the price threefold for that business. The contact said "these tariffs are now killing high-paying American manufacturing jobs and businesses."

In the Chicago area, manufacturers facing higher steel and aluminum costs said they expected to pass on about half of the increased prices to their customers. Meanwhile, a tractor-trailer manufacturer in the Minneapolis district said the business "can't raise prices as fast as material costs."

Firms generally expected further price growth in the coming months, with some manufacturers stockpiling steel in anticipation of higher prices.

Firms in the primary metals and electrical- and industrial-products manufacturing industries in the Cleveland district reported that "pro-business" fiscal policy and a corporate-tax overhaul spurred capital expenditures and drove up demand, according to the Fed's Wednesday report.

Fed officials will consider the beige book ahead of their May 1-2 meeting. Officials raised the central bank's benchmark interest rate at their March meeting and have indicated they plan to continue to gradually raise rates in the coming months.

Overall, the report showed the U.S. economy expanding at a healthy clip. Widespread employment growth continued, with many businesses describing the labor market as "tight."

Write to Sharon Nunn at sharon.nunn@wsj.com

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WSJ PRO CENTRAL BANKING

Economy
Quick Hits: Canada Plans Change in How It Reports Trade Data; Bank of Canada Gov. Stephen Poloz says statistics agency plans to release services trade data monthly

By WSJ Staff
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Bank of Canada Gov. Stephen Poloz revealed a change in how Canada's statistics agency will report trade data, Morgan Stanley's CEO said this year's Comprehensive Capital Analysis and Review by the Federal Reserve was "more severe than prior years," and Dallas Fed chief Robert Kaplan said Texas' economy is booming. Here are quick hits on central banking and related market views from around the world.

Statistics Canada Preparing Monthly Services Trade Figures

Bank of Canada Gov. Stephen Poloz revealed a significant change is in the works on how Canada's main data-gathering agency will report on trade. Mr. Poloz said Statistics Canada, some time later this year, is expected to begin issuing monthly figures on trade of services. At present, Statistics Canada issues monthly data on the trade of goods, and services trade comes out separately on a quarterly basis. Officials from Statistics Canada weren't immediately available for comment. Canada's official merchandise trade data suggests Canada is running a trade surplus with the U.S. But Canadian officials have pointed out when trade in services is incorporated, the U.S. runs a slight trade surplus with Canada.

Paul Vieira

Poloz Stumps Markets Again on What BOC Meant

Two stark views emerged among Bank of Canada watchers about what message the central bank was trying to relay in its policy decision, updated economic outlook and press conference by Gov. Stephen Poloz. The BOC's tone "was fairly positive," said economists at Montreal-based Desjardins Group, expressing confidence in two more rate rises before end-2018. HSBC Bank's Canada economist, David Watt, remarked on the BOC's "unexpectedly dovish" message, and how the bank "seemed to express some concern about the underlying pace of growth in exports and business investment." All told, par for the course for Mr. Poloz, who refrains from proving explicit rate guidance and has a knack for surprising markets.

Paul Vieira

Bank of Canada Strikes ‘Balanced' Tone in Rate Decision

The Bank of Canada struck a "fairly balanced" tone Wednesday in its statement, CIBC Capital Markets says, leaving the firm comfortable with its call for a July rate increase. While keeping the key interest rate at 1.25%, the BOC said rising inflation points to an economy operating close to its capacity. However, the central bank also emphasized the temporary factors helping to push inflation up, such as higher gasoline prices and minimum wages. That is a sign policy makers are "in no rush regarding the pace of future rate increases," CIBC's Andrew Grantham said. He said some of the more subtle changes to the BOC's inflation outlook suggest a July move.

Kim Mackrael

Poloz Steers Clear of Pipeline Clash

Bank of Canada Gov. Stephen Poloz declined to weigh in on the heightened political battle under way to save Kinder Morgan's expansion of the Trans Mountain pipeline. The pipeline operator has threatened to scrap the project unless there is certainty construction can proceed amid fierce British Columbia opposition, and has given lawmakers until May 31 to find a solution. Mr. Poloz said "it is a very fraught situation, but it's not our job to comment on that per se." He said the BOC's outlook indicates investment in the energy sector is lower than it otherwise would be due to transportation bottlenecks. Those bottlenecks are causing Western Canadian crude to trade at a discount versus other benchmarks. "If that situation changes, we would go through and change our assumptions in our models," he added.

Paul Vieira

Morgan Stanley Softens Ground for CCAR Surprise

Morgan Stanley Chief Executive James Gorman seemed to soften the ground with investors for a potential surprise in this year's capital-return approval plan from the Federal Reserve. The 2018 Comprehensive Capital Analysis and Review, or CCAR, was "more severe than prior years," Mr. Gorman said on a first-quarter earnings call. "We are prepared for a range of outcomes this year." That follows March comments from President Colm Kelleher, who said it was "a very hard test [that] will have implications for people's buyback programs" and that the Fed's assumptions about an economic downturn, including 10% unemployment and a 65% decline in the **stock market**, were "not credible." Morgan Stanley was forced to resubmit its CCAR plan in 2016, but sailed through last year with an increased buyback and dividend.

Liz Hoffman

Oil-Rich Texas Is ‘Booming,' Says Fed's Kaplan

The economy of oil-rich Texas keeps getting better as crude prices hit their highest since 2014 at $68 a barrel, global demand rises and U.S. oil production surges. "Texas is booming," Dallas Fed President Robert Kaplan told Fox Business. "Energy has gone from being a headwind to a tailwind." Texas job growth will surpass 3% this year, which he says means state gross domestic product growth will be even higher. And while Texas' economy has become diversified helped by migration of people and companies, he says energy jobs are key. "It's our estimate that the U.S. will produce—net—an increase of [1 million barrels per day] this year, and 70% of that will come from the Permian Basin."

Dan Molinski

U.K. May Rate Rise Safe Bet, but Brexit Noise May Hinder November Hike: ING

The U.K.'s March inflation data "is unlikely to get in the way of a May rate hike," but what comes thereafter is "far less clear," says James Smith, developed markets economist at ING. Another increase in November "certainly shouldn't be ruled out," he says, but Brexit noise could still pick up around the time of the European Union's October summit, while the economy is struggling to get up to speed.

Emese Bartha

Swiss Franc's Loss Is the Swiss Central Bank's Gain

The euro-franc exchange rate came close to 1.20 on Wednesday but didn't quite break through. It hasn't been there since the Swiss National Bank abandoned the 1.20 floor on the euro-franc in January 2015, which sent the franc soaring. The SNB wins twice from a weaker franc. For one, it might generate some imported inflation, boosting Switzerland's ultralow inflation rate of 0.8%. It also makes the SNB's massive foreign reserves worth more in franc terms, since a large share are in euro assets.

Brian Blackstone

Lira Risk Premium Could Trigger Turkish Central Bank to Raise Rates: UniCredit

The levels the Turkish lira is trading at shows high risk premium, and in the past these levels have triggered "bolder" central bank response, says UniCredit. "Combined with recent more conciliatory rhetoric from important Turkish government officials, the odds of a sizable hike, and, as a result, some [lira] relief, have risen," according to the bank. On Wednesday, Turkish President Recep Tayyip Erdogan announced snap elections on June 24, more than a year earlier than planned, which boosted the Turkish lira.

Olga Cotaga

China PBOC March Net Forex Purchases at 7.84 Billion Yuan

China's central bank bought a net 7.84 billion yuan ($1.25 billion) worth of foreign exchange in March, following net purchases of 4.05 billion yuan in February, according to official data released Wednesday. The People's Bank of China said its total foreign-exchange purchase position stood at 21.495 billion yuan at the end of March, the third consecutive month it has increased. China's foreign-exchange reserves rose slightly in March after a drop in February, according to central bank data released earlier.

Grace Zhu

PBOC Ratio Cut Seen as Policy Fine-Tuning, Not Easing

The People's Bank of China's move to reduce banks' reserve-requirement ratio helps to lower lenders' borrowing costs but shouldn't be seen as an aggressive easing measure, says UBS. It says the central bank has been preparing markets for the resumption of reserve-ratio cuts as a more-regular liquidity-operation tool, following the earlier targeted reductions that came into effect in January.

Liyan Qi

Hong Kong Needs to Stick to a Currency Peg

Hong Kong can't dump its currency peg to the greenback given the city's very externalized economy and 373% trade/GDP ratio, says Smartkarma's David Blennerhassett as the Hong Kong Monetary Authority continues to prop up the Hong Kong dollar. The de facto central bank bought more than HK$14 billion ($1.78 billion) on Tuesday, putting the total since the start of interventions Thursday at HK$34 billion.

John Wu

(Most of the items in this column come from Market Talk, a feature of Dow Jones Newswires that provides real-time analysis of news developments and market activity.)

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THE WALL STREET JOURNAL.
U.S. EDITION

Sanctions, Syria Fuel Commodities' Rise --- Aluminum soars to 6 1/2-year high, while nickel and palladium also log hefty gains

By Amrith Ramkumar
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18 April 2018
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English

Rising global tensions, including U.S. sanctions against Russia and the continuing conflict in Syria, have sparked a rally in commodities, sending materials from aluminum to oil to fresh multiyear highs.

The S&P GSCI Index of 24 commodities has climbed 5.1% this year, compared with a 1.2% gain for the **S&P 500**, the equities benchmark. The raw-materials gauge has advanced in six of the past seven sessions.

Russia is a key producer of a wide range of commodities from oil to palladium. And with supplies already tight, analysts say, the April 6 announcement of sanctions against more than three dozen Russian individuals and entities has jolted raw-materials markets.

Since then, aluminum for delivery in three months on the London Metal Exchange has soared 19% to its highest in 6 1/2 years. The premium U.S. buyers pay to have LME aluminum delivered to the Midwest has rocketed to its highest since February 2015, while other metals, including nickel and palladium, have surged.

Meanwhile, U.S.-led military strikes in Syria have stoked fears of a wider conflict in the Mideast. The worries, along with uncertainty surrounding the Iran nuclear deal, have propelled gains in oil, a large component of commodities indexes. U.S. crude on Friday hit its highest level since December 2014 and has rallied 10.1% this year.

The run-up in commodities is a shift from March, when global tensions between the U.S. and China over trade hurt prices of many resources amid fears that rising manufacturing costs would slow global growth.

"Now we're kind of thinking that was maybe an overreaction," said Bart Melek, head of commodity strategy at TD Securities. Instead, with the Russia sanctions, "you've got all this geopolitical stuff serving as an added bonus" to thinning inventories, he said.

The sanctions hit Russian metals tycoon Oleg Deripaska, who controls the world's second-largest aluminum producer, United Co. Rusal PLC. While China is the world's dominant supplier, analysts estimate that as much as 13% of the remaining supply could be disrupted.

Russia is an even more prominent producer of palladium, a metal used to scrub emissions in diesel engines, accounting for roughly 40% of global supply. Prices have climbed 12% since the sanctions were announced after tumbling at the start of the year.

And because Rusal owns 28% of Norilsk Nickel Mining & Metallurgical Co., nickel has also gotten a boost. One of the best-performing commodities this year, it has extended its year-to-date gains to 13% on the LME.

"Supply had been tight already, and then you've got these geopolitical issues that are overlaying that," said Nitesh Shah, commodities strategist at asset-management firm ETF Securities. "I'm quite optimistic for the metals."

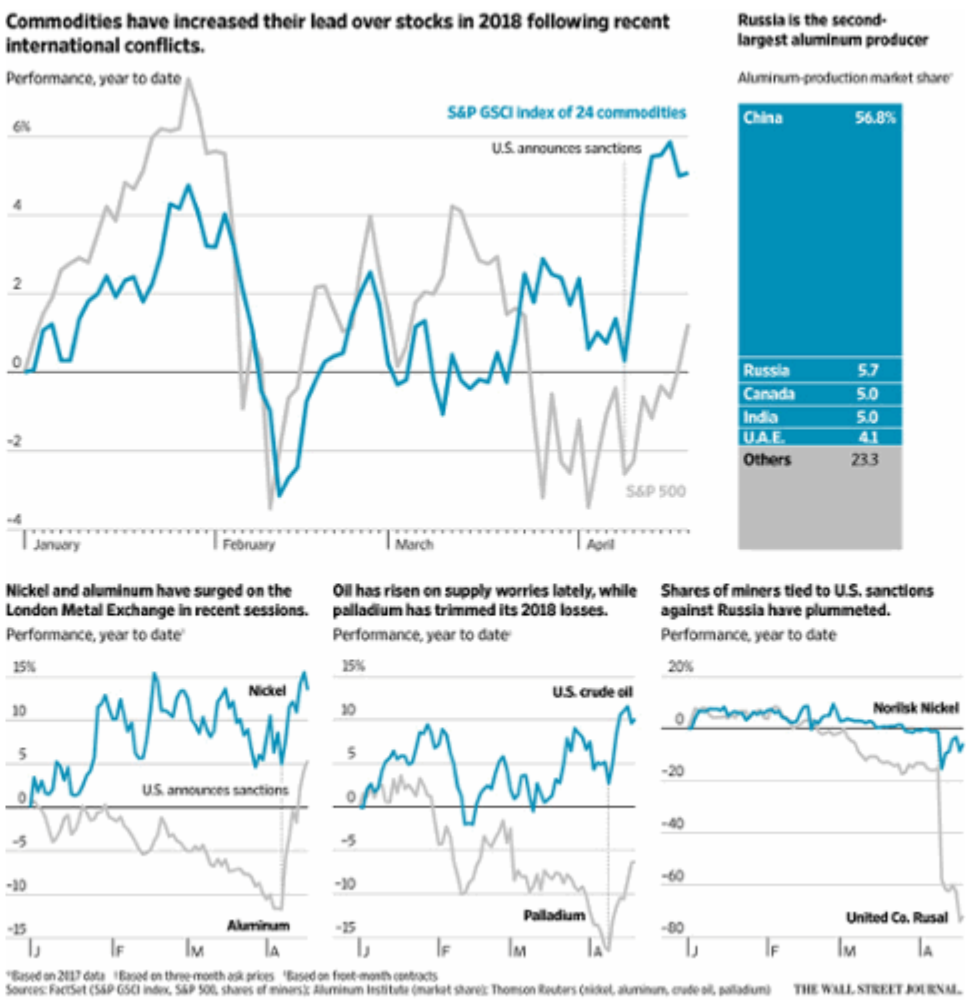
Traders rushed to close out any deals involving Russian metals before an LME ban on Rusal took effect Tuesday. CME Group's Comex also announced a ban on Rusal products, leading to huge swings in global aluminum stockpiles as traders speculate on how Russian supply will be replaced.

The supply disruptions could prove critical for commodities because they come when lukewarm global economic data and trade disputes have clouded the demand picture for many materials. The International Monetary Fund's latest forecast Tuesday showed the global economy is on course to grow 3.9% this year -- the fastest pace since 2011 -- despite trade tensions.

Some think the recent price gains could be short-lived if a slowdown in China materializes. One worrying sign that the demand picture could be weakening: Copper prices have largely missed out on the materials rally, dropping 6.2% this year. China accounts for nearly half of the world's copper demand and is the biggest consumer of commodities in general.

But others project that commodities can continue outperforming stocks and other assets this late in the economic cycle. More than $11 billion flowed into commodities exchange-traded and index funds in the first quarter, according to Citigroup estimates, up from nearly $8 billion in the year-earlier period.

"The strategic case for owning commodities has rarely been stronger," Goldman Sachs analysts said in a recent note.



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THE WALL STREET JOURNAL.
U.S. EDITION

The Property Report
Koreans Crave U.S. Debt --- Commercial property is seen as a safe wager; 'this is cautious money'

By Esther Fung and Kwanwoo Jun
609 words
18 April 2018
The Wall Street Journal
J
B6
English

U.S. commercial real-estate owners are raking in cash from South Korean debt investors hunting for higher returns and better asset diversification.

Investors based in South Korea accounted for 21% of foreign investment in U.S. real-estate debt as of mid-April, the largest proportion among foreign investors, according to data firm Preqin. Canada and Australia were second and third, at 12% and 11%, respectively. Global fundraising for U.S.-focused real-estate debt reached $17.8 billion in 2017, up from $10.8 billion in 2016, Preqin said.

In New York City, KTB Asset Management Co. recently agreed to provide a five-year, fixed-rate loan to RFR Holding LLC for the refinancing of 285 Madison Ave., while IGIS Asset Management lent $220 million to the owner of 787 7th Ave., the California Public Employees' Retirement System, according to a report by JLL Global Capital Markets.

Many institutional investors in the U.S. already have been pouring money into real-estate debt, despite widespread expectations the real-estate cycle is near a peak and property prices might decline. Debt is seen as a safer bet and provides some cushion for lenders depending on the loan-to-value ratio. Generally, if a property has an 80% loan-to-value ratio, it implies that property prices have to fall more than 20% before the lenders take a loss.

In particular, brokers said investors from South Korea, including insurers and asset managers, have been stepping up their search for commercial mortgage-backed securities and debt funds in the U.S. to join with. South Korean investors are more interested in real-estate debt than equity, said Stella Hsu, a director dealing with alternative investment overseas for Seoul-based KTB Asset Management.

Part of the attraction is the expectation of higher yields in the U.S. compared with back home. The 10-year government **bond yield** in South Korea is 2.6%, while the 10-year U.S. Treasury, up sharply in the past few months, now yields about 2.8%.

"With U.S. interest rates still rising and property prices having gone pretty high, real-estate purchases for now may risk incurring a loss. We're interested in stable [interest payments]," Ms. Hsu said. She declined to elaborate on deals KTB is working on. IGIS Asset Management didn't respond to requests to comment.

Investing in real-estate development could deliver higher returns, but South Koreans tend to view the risk as being too high, analysts said.

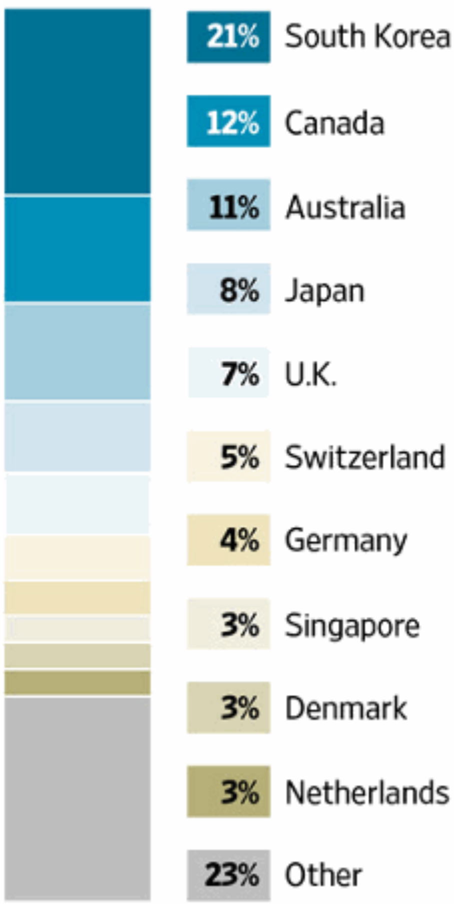
"Despite all the troubles in the U.S., it's still seen as a safe harbor for their money," said Jim Costello, senior vice president at data firm Real Capital Analytics Inc. "They are not speculators. They're not coming here thinking they'd beat the market. This is cautious money."

Apart from directly extending loans to owners of big buildings, other investors are looking to invest in debt funds that invest in a pool of mortgages backing smaller properties.

M360 Advisors, a commercial real-estate debt fund based in Ladera Ranch, Calif., said it has raised $150 million from an institutional investor in South Korea over the past year. Evan Gentry, chief executive of M360 Advisors, said the South Korean institutional investor flew in with its own team of auditors before making its first investment in the fund. "They think favorably about the U.S., and they're entrepreneurial and willing to act quickly," Mr. Gentry said.

Outsize Appetite

South Korean investors hold the largest proportion of foreign investment in U.S. real-estate debt.



Note: As of April 16
Source: Preqin
THE WALL STREET JOURNAL.

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WSJ PRO PRIVATE EQUITY

Pro Private Markets
Garcia's Take: Firms Find It Easier to Make Deals in Oil-Field Services

540 words
18 April 2018
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English

Firms Find It Easier to Make Deals in Oil-Field Services

Oil-field services companies continue to recover from the **oil-price** downturn, a trend that is likely to spur more private-equity investment in the sector as firms find it easier to identify strong businesses and close deals.

Four energy-services providers filed for bankruptcy during the first quarter of this year, compared with 13 and 14 for the same period of 2017 and 2016, respectively, according to a bankruptcy report released last week by law firm Haynes and Boone LLP.

The drop in the number of bankruptcy filings is one more sign of an overall improvement in the financial health of U.S. oil-field companies, which are seeing demand for their services rise as higher **oil prices** encourage producers to drill and hydraulically fracture more wells, industry executives said.

The **oil-price** downturn that began in mid-2014 caused most service providers to operate with negative earnings before interest, taxes, depreciation and amortization, particularly in 2015 and 2016, making it difficult for private-equity buyers to separate winners from losers, the executives said.

In fact, private-equity firms were by far net sellers of oil-field services companies in 2017, when the sector began to recover, according to research and data provider 1Derrick Ltd.

As energy-services companies go back to more robust profitability levels, energy-focused private-equity firms are gaining more clarity in evaluating potential investment targets and striking deals, the executives said.

Recent deals in the sector include Blue Wolf Capital Partners' purchase of a majority stake in Petrosmith LLC and Quantum Energy Partners' acquisition of Premium Oilfield Technologies LLC.

The ongoing recovery is lifting asset prices in the space, but these prices also are more reasonable in terms of Ebitda multiples because they are based on more realistic estimates of profitability, said Brian Williams, a partner at Carl Marks Advisors who specializes in the oil-field services sector.

"You're seeing valuations coming to a point where sellers and the buyers can reach a conclusion," he said.

Oil-field services companies also are getting better access to credit after being largely shunned by banks during the downturn, another favorable factor for private-equity investing, Mr. Williams added.

"The ability to attract leverage is back," he said.

Private-equity firms likely will take advantage of the sector's momentum to sell more of the energy-services companies they couldn't exit from during the downturn. With the deal-making environment in the sector improving, they may well find more buyers among their private-equity investors brethren.

THURSDAY, APR 19 — Los Angeles Fire and Police Pensions

THURSDAY, APR 19 — New Mexico Educational Retirement Board

WEDNESDAY, APR 25 — New York State Teachers Retirement System

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THE WALL STREET JOURNAL.

CN-Economy

中美貿易摩擦之下 經濟決策者為何仍看好全球增長？

Josh Zumbrun / Chuin-Wei Yap / Paul Hannon
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Chinese - Traditional

在中美貿易摩擦導致全球股市動蕩不安之際，出席國際貨幣基金組織(International Monetary Fund, 簡稱IMF)與世界銀行(World Bank)華盛頓春季會議的經濟決策者們仍堅持對全球經濟增長的樂觀預期。

據IMF周二公佈的預測報告，2018年全球經濟有望增長3.9%，為2011年以來最快增幅，各主要經濟體料連續第二年實現增長。

IMF首席經濟學家Maurice Obstfeld周二向記者表示，主要經濟體在全球經濟普遍擴張時期揚言要打貿易戰，這也許顯得自相矛盾，尤其是考慮到當前的經濟增長如此依賴投資和貿易。

美國聯邦儲備委員會（簡稱：美聯儲）和歐洲央行公佈的最新預期也保持樂觀態度。美國聯邦公開市場委員會在3月份上調了今明兩年的經濟增長預期，但上周公佈的3月份政策會議紀要顯示，多數參會者提到貿易政策是經濟形勢不確定或經濟下行風險的一個來源。

歐洲央行3月份表示，非常有利的指標預示短期內實際產出將進一步強勁增長。該央行預計今年經濟增長2.4%，足以推動歐元區失業率降至8%以下。進入21世紀以來，歐元區失業率只在全球金融危機爆發之前短暫低于這一水平。

即便股市波動性增大，官方樂觀看法依然升溫。第一季度標普500指數出現三年來的首次季度下跌。該指數較其1月份高點低約7%，並且近來幾次較其高點下挫逾10%。追蹤全球150家領先公司的基準指數The Global Dow較其1月份高點跌約8%。

1月初至2月份期間，芝加哥期權交易所波動性指數(Cboe Volatility Index, 簡稱VIX)、也就是所謂的恐慌指數上昇超過3倍，升破30，此前自2011年歐元區債務危機爆發以來該指數僅有一次升破過這一水平。2月份以來VIX雖有所回落，但仍維持在年初水平的兩倍左右。

國際金融協會(Institute for International Finance)副首席經濟學家Sergi Lanau稱，市場反應反映出了貿易緊張關係升級並影響經濟增長的可能性。Lanau表示，其基本情形預測是貿易摩擦保持克制，全球經濟得以強勁增長，但同步增長的狀況將有所弱化，因為一些國家面臨的風險明顯比其他國家大。

全球近期出爐的數據發出的信號指向不一。

美國就業情況和公司業績第一季度表現強勁。但美國零售銷售連續三個月下滑，直到3月份才反彈。亞特蘭大聯邦儲備銀行預計，第一季度美國經濟折合成年率增長1.9%，不及去年後三個季度3%的增幅。不少分析人士預計，未來幾個月美國經濟增長料加強，部分原因是稅改措施有望在短期進一步刺激消費支出和投資。

歐元區經濟在2017年創出10年來最快增速，但2018年第一季度似乎有所放緩。工業產出在2月份連續第三個月下滑，為自2012年起持續時間最長的連續下滑，另有多個指標意外出現疲弱跡象，包括製造業和服務業採購經理人指數(PMI)、零售銷售指標以及家庭和企業信心指數。歐元區最大經濟體德國2月份工業產出意外環比下降1.6%。

造成放緩的某些因素似乎是暫時的，包括異常寒冷的天氣和德國金屬及電力行業工人罷工。

歐洲另一大經濟體英國將于2019年3月脫離歐盟，目前來看今年英國的經濟增長勢將再度疲弱。英國國家經濟與社會研究所(The National Institute for Economic and

Social
Research)估計，英國第一季度GDP折合成年率料僅增長0.8%，不過放緩也和壞天氣有關，
增速有望在今年餘下時間回升。英國經濟面臨的最大風險是未能與歐盟其他27個成員國達成退出協議，
造成無序脫歐局面。

對歐洲央行決策者及歐元區企業來說，
歐元區復甦的最大威脅是貿易戰。出口上昇是去年下半年增速加快的主要推動因素，
儘管歐元兌美元和其他貨幣昇值讓歐元區的出口變貴。

儘管存在這些擔憂，但全球貿易表現強勁，很多國家和行業基本未受影響。

巴拉圭央行行長Carlos Fernandez
Valdovinos在提到今年最近被威脅征收或已征收關稅的商品數量時表示："現在他們在談論貿易戰，
但你查一查數據就會發現，所有這些關稅在全球貿易中的比重不到1%。我們必須小心，避免過分強調這些風險。"

IMF數據顯示，貿易也為全球復甦提供支持，2017年貿易總量上昇4.9%，相比之下2016年的升幅為2.3%。IMF
預計，2018年的升幅將達到5.1%。

即使沒有爆發全面貿易戰，
貿易衝突升級的風險不斷上昇正助長有關亞洲經濟體受到附帶損失的擔憂。不過到目前為止，
中美之間的大部分關稅威脅仍在談判之中，影響仍然有限。

法國巴黎銀行資產管理(BNP Paribas Asset Management)駐香港高級經濟學家羅念慈(Chi
Lo)表示，這不是一場貿易戰，但兵力肯定已經部署到位，子彈已經上膛。

中國公佈第一季度經濟產出增長6.8%，超出預期，但3月份出口增長放緩。中國央行
周二宣佈將下調商業銀行存款準備金率，
此舉可能是一個表明中國金融領域存在脆弱性的信號。降准旨在促進銀行放貸並幫助金融企業償還短期貸款。

對一些亞洲產業來說，破壞性的貿易行為已經從潛在因素轉變為現實。美國上月宣佈對進口鋼材征收25%
的關稅。山東鋼鐵集團有限公司(Shandong Iron & Steel
Group)董事長侯軍表示，為應對美國的關稅舉措，
中國鋼廠將下調鋼價。該公司是中國最大的鋼鐵企業之一。中國的鋼價已經因高產量和污染治理政策的影響而承壓
，目前的價格已較去年12月份下跌10%。

作為中國鋼鐵主要貿易中心的越南鋼廠則表示，國內鋼鐵庫存可能會大幅增加，
因為以前以美國為出口目的地的鋼材現在等待尋找新的買家。

越南鋼鐵企業Ton Dong A Corp.的董事長Nguyen Thanh
Trung稱："我們的出口銷售將遭嚴重干擾，不得不先將出口鋼材轉回國內，然後再努力逐步向新的全球市場出口。

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THE WALL STREET JOURNAL.

CT-Economy
中美貿易摩擦之下 經濟決策者為何仍看好全球增長？

Josh Zumbrun / Chuin-Wei Yap / Paul Hannon
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18 April 2018
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WSJCT
Chinese - Traditional

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歐元區經濟在2017年創出10年來最快增速，但2018年第一季度似乎有所放緩。工業產出在2月份連續第三個月下滑，為自2012年起持續時間最長的連續下滑，另有多個指標意外出現疲弱跡象，包括製造業和服務業採購經理人指數(PMI)、零售銷售指標以及家庭和企業信心指數。歐元區最大經濟體德國2月份工業產出意外環比下降1.6%。

造成放緩的某些因素似乎是暫時的，包括異常寒冷的天氣和德國金屬及電力行業工人罷工。

歐洲另一大經濟體英國將於2019年3月脫離歐盟，目前來看今年英國的經濟增長勢將再度疲弱。英國國家經濟與社會研究所(The National Institute for Economic and

Social
Research)估計，英國第一季度GDP摺合成年率料僅增長0.8%，不過放緩也和壞天氣有關，
增速有望在今年餘下時間回升。英國經濟面臨的最大風險是未能與歐盟其他27個成員國達成退出協議，
造成無序脫歐局面。

對歐洲央行決策者及歐元區企業來說，
歐元區復蘇的最大威脅是貿易戰。出口上升是去年下半年增速加快的主要推動因素，
儘管歐元兌美元和其他貨幣升值讓歐元區的出口變貴。

儘管存在這些擔憂，但全球貿易表現強勁，很多國家和行業基本未受影響。

巴拉圭央行行長Carlos Fernandez
Valdovinos在提到今年最近被威脅徵收或已徵收關稅的商品數量時表示："現在他們在談論貿易戰，
但你查一查數據就會發現，所有這些關稅在全球貿易中的比重不到1%。我們必須小心，避免過分強調這些風險。"

IMF數據显示，貿易也為全球復蘇提供支持，2017年貿易總量上升4.9%，相比之下2016年的升幅為2.3%。IMF
預計，2018年的升幅將達到5.1%。

即使沒有爆發全面貿易戰，
貿易衝突升級的風險不斷上升正助長有關亞洲經濟體受到附帶損失的擔憂。不過到目前為止，
中美之間的大部分關稅威脅仍在談判之中，影響仍然有限。

法國巴黎銀行資產管理(BNP Paribas Asset Management)駐香港高級經濟學家羅念慈(Chi
Lo)表示，這不是一場貿易戰，但兵力肯定已經部署到位，子彈已經上膛。

中國公布第一季度經濟產出增長6.8%，超出預期，但3月份出口增長放緩。中國央行
周二宣布將下調商業銀行存款準備金率，
此舉可能是一個表明中國金融領域存在脆弱性的信號。降准旨在促進銀行放貸並幫助金融企業償還短期貸款。

對一些亞洲產業來說，破壞性的貿易行為已經從潛在因素轉變為現實。美國上月宣布對進口鋼材徵收25%
的關稅。山東鋼鐵集團有限公司(Shandong Iron & Steel
Group)董事長侯軍表示，為應對美國的關稅舉措，
中國鋼廠將下調鋼價。該公司是中國最大的鋼鐵企業之一。中國的鋼價已經因高產量和污染治理政策的影響而承壓
，目前的價格已較去年12月份下跌10%。

作為中國鋼鐵主要貿易中心的越南鋼廠則表示，國內鋼鐵庫存可能會大幅增加，
因為以前以美國為出口目的地的鋼材現在等待尋找新的買家。

Document WSJCT00020180418ee4i00209

The New York Times

Business/Financial Desk; SECTB
Technology Stocks Fuel a Market Rally

By THE ASSOCIATED PRESS
701 words
18 April 2018
The New York Times
NYTF
Late Edition - Final
2
English

Technology companies led stocks in the United States solidly higher Tuesday, giving the market its second straight gain.

Consumer-services companies, retailers and health care stocks accounted for a big slice of the rally. Banks declined. **Oil prices** recovered from an early slide.

Strong company earnings and outlooks, as well as some encouraging economic data, helped put investors in a buying mood.

''Even though we're early in the earnings season, the fact that we continue to see good earnings and earnings growth come out is really what's driving the market,'' said Nana Adae, global investment specialist at J. P. Morgan Private Bank. ''Earnings growth ties to fundamentals and fundamentals are key.''

The **S**.**&P**. **500 index** rose 28.55 points, or 1.1 percent, to 2,706.39. The **Dow Jonesindustrial average** gained 213.59 points, or 0.9 percent, to 24,786.63. The latest gain nudged the blue-chip average into positive territory for the year.

The **Nasdaq composite** climbed 124.81 points, or 1.7 percent, to 7,281.10. The Russell 2000 index of smaller-company stocks picked up 16.77 points, or 1.1 percent, to 1,579.80.

While the market has been preoccupied with concern over geopolitical and trade tensions, Wall Street has something else to focus on over the next few weeks: company earnings.

Financial analysts are forecasting the strongest growth in seven years for **S**.**&P**. **500** companies, partly because of a resurgent global economy, but also because of expectations that last year's corporate tax cut will have on corporate balance sheets.

''There's no doubt that corporate tax reform is a tail wind for earnings, but organic growth is really what is driving a lot of these earnings,'' Ms. Adae said.

The video streaming service Netflix jumped 9.2 percent to $336.06 after it said it gained 7.4 million subscribers in the first quarter, more than analysts expected. Other technology companies also posted gains. Microsoft rose 2 percent to $96.07, while Amazon added 4.3 percent to $1,503.83.

UnitedHealth, the nation's largest health insurer, climbed 3.6 percent to $238.55 after it reported a 31 percent jump in first-quarter profit and said it gained Medicare Advantage and Medicaid customers. UnitedHealth also raised its forecast for 2018.

Some companies failed to impress traders. Johnson & Johnson fell 0.9 percent to $130.54 after much higher spending and one-time charges offset a jump in the company's first-quarter revenue.

Tesla Motors slid 1.2 percent to $287.69 following reports that the carmaker shut down production of its Model 3 mass-market electric car again to solve manufacturing bottlenecks.

Investors received some encouraging economic data Tuesday. The International Monetary Fund upgraded its economic outlook for the United States in 2018, forecasting that the U.S. economy will grow 2.9 percent this year, up from the 2.7 percent it had forecast in January and from the 2.3 percent growth the economy achieved last year. The Federal Reserve said that U.S. factory output rose slightly last month.

Meanwhile, the Commerce Department said that housing starts rose in March to a seasonally adjusted annual rate of 1.32 million. That helped send homebuilder stocks higher. Hovnanian Enterprises led the pack, climbing 4.7 percent to $2.02.

Bond prices rose. The yield on the **10**-**year Treasury** slipped to 2.82 percent from 2.83 percent late Monday. The decline in bond yields, which influence interest rates on mortgages and other loans, weighed on some bank shares. Comerica fell 3.5 percent to $92.74 and SunTrust Banks fell 2.2 percent to $65.95.

Benchmark U.S. crude rose 30 cents to settle at $66.52 a barrel on the New York Mercantile Exchange. Brent crude gained 16 cents to close at $71.58 per barrel.

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

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

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THE WALL STREET JOURNAL.
U.S. EDITION

Banking & Finance: Crypto Exchanges Pushed for Greater Clarity

By Paul Vigna
549 words
18 April 2018
The Wall Street Journal
J
B12
English

New York Attorney General Eric Schneiderman is ramping up pressure on cryptocurrency exchanges to increase transparency in an industry that prizes anonymity and light regulation.

The attorney general office's on Tuesday sent a letter -- part of an initiative by Mr. Schneiderman to bring clarity to these highly speculative and **volatile** markets -- requesting information from 13 exchanges specializing in bitcoin and other cryptocurrencies, saying investors often don't have the basic facts needed to protect themselves.

Mr. Schneiderman's office said the program, called Virtual Markets Integrity Initiative,is part of its responsibility to protect consumers and ensure the integrity of **financial markets**, and its goal is to ensure that investors can have a better understanding of the risks and protections afforded them on these sites.

The letter and questionnaire were sent to companies including New York-based Gemini Trust Co. and itBit Trust Co., as well as Coinbase Inc.'s GDAX and BitFlyer USA Inc.

Transparency is "something we deeply believe in," said Charles Cascarilla, the CEO of itBit, which operates as a registered trust company. "It's the best way to make sure markets operate as they should."

"We look forward to cooperating with and submitting our responses to the questionnaire," Gemini said. The company, which also operates under a trust charter, said it already provides information about fees, trading requirements, and trading programs on its website. Coinbase and BitFlyer weren't immediately available for comment.

Cryptocurrencies such as bitcoin, ripple and ether exploded in popularity in 2017, driving an investment boom that pushed bitcoin up 1,375%. As investors poured into the sector, however, the exchanges themselves sometimes proved to be unreliable.

Service disruptions were common, and hacks and thefts also cost investors about $1.4 billion since 2014, according to a Wall Street Journal review of hacks.

The market has "captured the imagination of millions of people world-wide," according to a draft of Mr. Schneiderman's letter, but is also a "highly speculative sector, featuring significant **volatility**, instability, and risk."

The letter requests information on basic trading rules, fee structures, policies and safeguards to prevent conflicts of interest and fraud, protection of customer assets, and the use of automated programs, or "bots" on the exchanges. The letter acknowledges that some of the questions may have answers the exchanges already provide on their websites.

It asked for the exchanges to respond to its questionnaire in full by May 1. The attorney general's office plans to publish the information "in a publicly accessible format."

The attorney general isn't the first New York regulator to address the issue of transparency in cryptocurrencies. The state's Department of Financial Services began looking into regulation of cryptocurrency exchanges in 2014, an effort that culminated in a bitcoin-license program implemented by the state.

Despite that effort and others like it, many exchanges are still a high risk for investors. In February, an Italian exchange called BitGrail had about $170 million of a cryptocurrency called nano stolen in a hack. In January, hackers stole $530 million in assets from Japanese exchange Coincheck, though the company later compensated customers and this month was bought by internet brokerage Monex Group Inc.

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THE WALL STREET JOURNAL.
U.S. EDITION

Banking & Finance: Fed Signals Rethink of Bank Regulation

By Ryan Tracy
496 words
18 April 2018
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B8
English

WASHINGTON -- The Federal Reserve's new regulatory czar committed to revisiting a series of banking regulations in his first appearance before Congress, though he faced pressure from Republicans to further pull back oversight of banks' boards of directors.

Fed Vice Chairman for Supervision Randal Quarles promised to consider changes to big-bank capital rules, annual "stress tests," the Volcker rule ban on speculative trading and rules on lending to the poor in a three-hour hearing before the House Financial Services Committee.

Mr. Quarles is the first person to hold the vice chairman post leading the Fed's regulatory agenda since Congress created it in 2010, and Tuesday was the first time he fulfilled the obligation to testify twice a year about the Fed's regulatory activities.

Regulation of the financial system "should support and promote the system's efficiency just as it supports its safety," Mr. Quarles said at the outset of the hearing. He said he broadly felt the government's response to the 2008 financial crisis has been effective, but expressed openness to rolling back rules in areas where the Fed decides they are imposing too much of a burden.

He agreed with Rep. Trey Hollingsworth (R., Ind.), who suggested the Fed should revisit how it calculates a key big-bank capital requirement known as the "GSIB surcharge" for global systemically important banks, given other regulatory actions in recent years that have made banks more resilient.

It's "unarguable," Mr. Quarles said, that the Volcker rule is affecting liquidity in **financial markets**. "There's a lot we can do to manage the certainty of application [of the rule], to reduce the burden of application," he added, saying regulators' continuing discussions about the rule should yield a clearer definition of banned "proprietary trading."

Asked whether stress tests of the largest U.S. banks should be modified so that banks would no longer fail the exams solely for subjective reasons, he said "I think that's something we should consider."

Republicans were broadly supportive of Mr. Quarles. One notable exception came when several senior GOP lawmakers pressed him on the Fed's posture toward bank boards.

Fed officials say their August 2017 proposal affecting bank boards was designed to reduce the number of regulatory requirements that directors are responsible for -- a goal GOP lawmakers might be inclined to support. But at the hearing Rep. Jeb Hensarling (R., Texas) and others pressed Mr. Quarles to take another look, citing stories they had heard about Fed officials sitting in on board meetings or pressuring firms to fire directors.

Mr. Quarles said he would get back to lawmakers about the extent of the Fed's legal authority, though he did say regulators ought to be able to press for removal of board members under rare circumstances.

The lawmakers didn't name any banks where Fed pressure may have occurred.

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WSJ PRO CENTRAL BANKING

World

Economic Officials Optimistic on World Growth, Despite Trade Tensions; Markets are nervous but policy makers gathering for IMF, World Bank meetings stick with strong forecasts

By Josh Zumbrun,Chuin-Wei Yap and Paul Hannon
1,315 words
17 April 2018
04:35 PM
WSJ Pro Central Banking
RSTPROCB
English

Economic policy makers gathering in Washington for the spring meetings of the International Monetary Fund and World Bank are sticking to optimistic global growth forecasts even though trade tensions between the world's two largest economies have unsettled global stock markets.

Global economic output is on course to grow 3.9% in 2018, the best year since 2011, with every major economy poised to grow for the second year in a row, according to the International Monetary Fund's forecasts released Tuesday.

"That major economies are flirting with trade war at a time of widespread economic expansion may seem paradoxical—especially when the expansion is so reliant on investment and trade," Maurice Obstfeld, the IMF's chief economist told reporters Tuesday.

In their most recently published forecasts, the Federal Reserve and European Central Bank also remained optimistic. In March, the Federal Open Market Committee raised forecasts for growth in 2018 and 2019, though the minutes of that meeting, released last week, revealed that "most participants also cited trade policy as a source of either uncertainty or downside risk."

The ECB said in March that "very favorable indicators suggest further robust real [output] growth in the short term." The ECB projects 2.4% growth this year, strong enough to push the eurozone's unemployment rate below 8%. Since the turn of the millennium, eurozone unemployment has only been as low for a brief period before the global financial crisis.

Official optimism is mounting even though stock markets have grown turbulent. The **S&P 500 index** posted its first quarterly loss in three years, to begin 2018. The index is about 7% below its January peak, and at a few points in recent months has traded more than 10% below its peak. The Global Dow, a benchmark index tracking 150 leading companies around the world, is down about 8% since its January peak.

Between early January and February, the Cboe **Volatility** Index, more commonly known as the Vix or "fear index," more than quadrupled, soaring above a reading of 30, a level that has only been breached one other time since the last major flare up in the euro crisis in 2011. Though the Vix has settled down since February, it remains about double its readings at the start of the year.

"The market reaction reflects the potential for trade tensions to escalate, and become something that would matter for growth," said Sergi Lanau, deputy chief economist of the Institute for International Finance. "Our baseline is for trade tensions to remain contained, which gives you strong global growth, but there will be some desynchronization because obviously some countries are more at risk than others."

Global indicators have turned up mixed results of late.

U.S. hiring and corporate earnings were strong in the first quarter. But U.S. retail sales dropped for three straight months before bouncing in March. The Federal Reserve Bank of Atlanta estimates U.S. economic output grew at a 1.9% annual rate in the first quarter, less than the 3% rate it recorded in the final nine months of 2017. Many analysts expect stronger growth in the months ahead, in part because U.S. tax cuts are expected to spur more consumer spending and investment in the near-term.

The eurozone's economy grew at the fastest pace in a decade during 2017, but appeared to slow in the first quarter of 2018. Industrial production fell for the third straight month in February, its longest slide since 2012, and there have also been signs of unexpected weakness in surveys of purchasing managers at manufacturers and service providers, measures of retail sales, and barometers of confidence among households and businesses. The region's biggest economy, Germany, recorded a surprising 1.6% drop in industrial output in February compared with January.

Some of the factors contributing to the slowdown appear temporary, including a spell of unusually cold weather, and strikes among German metal and electrical workers.

The U.K., Europe's other major economy, appears poised for another year of weak growth as it prepares to leave the European Union in March 2019. The National Institute for Economic and Social Research estimates that U.K. gross domestic product grew at an annual rate of just 0.8% in the first quarter, although bad weather also played a role in that slowdown and some pickup is expected over the rest of the year. The biggest risk to the U.K. economy is that the government fails to secure a withdrawal agreement with the rest of the EU's 27 members, and leaves the bloc in a disorderly fashion.

For policy makers at the European Central Bank and eurozone businesses, the biggest threat to the eurozone's recovery is a trade war. Rising exports were the main factor driving the pickup in growth during the second half of last year, even though the euro appreciated against the U.S. dollar and other currencies, making exports more costly.

Despite the worries, global trade has been robust and many countries and industries have been largely unaffected.

"Right now they're talking about trade wars, but you check the numbers and all the tariffs amount to less than 1% of global trade," said Carlos Fernández Valdovinos, president of Paraguay's central bank, referring to the amount of goods to which tariffs have been newly threatened or applied this year. "We have to be careful not to overemphasize the risks."

Trade underpinned the recovery globally as well, with trade volumes up 4.9% in 2017, an improvement from 2.3% in 2016, according to the IMF. It projects further strengthening to 5.1% in 2018.

The rising risks from an escalating trade conflict, even if it falls short of a full-scale trade war, are fueling worries of collateral damage to Asian economies. so far, though, with much of the tariff threats between the U.S. and China still under negotiation, the impact remains limited.

"It's not a trade war, but the troops are certainly in the trenches, locked and loaded," said Chi Lo, senior economist with BNP Paribas Asset Management in Hong Kong.

China reported economic output expanded at a 6.8% annual rate in the first-quarter, beating expectations, though export growth slowed in March. In a potential sign of financial fragility in the world's second-largest economy, the People's Bank of China announced Tuesday it would reduce the amount of reserves commercial banks are required to hold. That is meant to pump up bank lending and help financial firms repay short-term loans.

For some Asian industries, disruptive trade actions have moved from potential to reality. The U.S. imposed 25% tariffs last month on imports of steel. Hou Jun, chairman of Shandong Iron & Steel Group, one of China's largest steelmakers, said Chinese mills would cut prices in response to the tariff move. Steel prices in China, already under pressure from high production and anti-pollution policies, are down 10% from December.

Vietnamese mills, a major trade hub for Chinese steel, say domestic inventories might swell as steel, once bound for the U.S., instead lingers in search of new buyers.

"We will face great disruption in our export sales and have to divert that volume back to Vietnam first, and then gradually try to export to new global markets," said Nguyen Thanh Trung, chairman of Vietnamese steel mill Ton Dong A Corp.

Write to Josh Zumbrun at Josh.Zumbrun@wsj.com, Chuin-Wei Yap at chuin-wei.yap@wsj.com and Paul Hannon at paul.hannon@wsj.com

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THE WALL STREET JOURNAL.

Markets

Steven Cohen Targets High-Frequency Trading With 'Dark Pool' Venture; Billionaire invests venture capital through his Point72 firm in new trading platform designed to counter impact of high-speed trading

By Alexander Osipovich
952 words
17 April 2018
03:45 PM
The Wall Street Journal Online
WSJO
English

Billionaire Steven A. Cohen is backing a startup that aims to prevent high-frequency traders from eating away at the profits of stock-pickers like himself.

The venture-capital arm of Mr. Cohen's firm, Point72 Asset Management LP, was the first investor in Imperative Execution Inc., said representatives of the two firms. They didn't specify the investment size. The startup is set to launch a new "dark pool" trading platform designed to counter the impact of certain high-speed trading strategies.

High-frequency trading, or HFT, firms use computers to buy and sell stocks in the blink of an eye. They seek to profit from fleeting price moves or inefficiencies in the machinery of **financial markets**, rather than analysis of companies' financials or economic trends.

Many big investors say HFT erodes their profits. That's because prices often drop when a large player is selling, or rise when the large player is buying—a phenomenon called "slippage" that's often blamed on speedy traders.

Slippage is "a multibillion-dollar-a-year problem" for the hedge-fund industry, said Matthew Granade, managing partner of Point72 Ventures.

Advocates of HFT say criticism of electronic trading is overblown. They say it has actually reduced costs for investors by reducing the so-called "bid-ask spread," or the difference between the buying and selling price of stocks.

Imperative founder and Chief Executive Roman Ginis previously worked as a quantitative trader for Mr. Cohen's firm, applying statistical models to trade stocks. He said he waged a daily battle to prevent slippage from hurting his profits.

Imperative's trading venue, called IntelligentCross, will be a dark pool—a type of trading platform subject to lighter regulation than exchanges.

Dark pools, unlike exchanges, generally don't broadcast the prices at which traders are willing to buy or sell stocks. That makes them attractive for big investors looking to execute large trades without signaling their intentions to the market. For startups like Imperative, it's also much easier to launch a new dark pool than a new exchange, due to the simpler approval process.

The Imperative platform won approval from the Securities and Exchange Commission earlier this year. The Stamford, Conn.-based firm, which has 10 employees, aims to launch the platform in May.

The launch comes as Mr. Cohen has been working to clean up his image. His prior company, SAC Capital Advisors LP, pleaded guilty to insider trading in 2013. Mr. Cohen was never criminally charged. He later reached a deal with regulators that barred him from managing outside money for two years.

After that ban expired earlier this year, Point72 opened to outside investors. But Mr. Cohen's return was roiled by a February lawsuit by a female employee accusing Point72 of discrimination. The firm has said it "emphatically denies" the allegations. The lawsuit is pending.

The venture arm of Point72 has invested in other financial-technology companies such as Quantopian, a do-it-yourself online platform for quants, and SAY, which aims to help smaller shareholders use their proxy voting rights.

IntelligentCross could undermine IEX Group Inc., an exchange that has also battled HFT on behalf of traditional investors. Founded in 2012, IEX has struggled to be more than a niche player, handling 2.3% of U.S. stock volume in March, data shows.

"IEX has not fulfilled its vision of solving the slippage problem for stocks," said Ian Sigalow, a partner at Greycroft LLC, a venture-capital firm that has also invested in Imperative.

An IEX spokesman responded: "Public data and industry reports continue to verify IEX's success in combating predatory HFT, and we welcome others to join us in the fight to protect investors." He pointed to an October report from Jefferies that showed IEX beats other exchanges on measures of slippage.

Imperative is entering a crowded market with about a dozen exchanges and more than 30 other dark pools. To win business, it must convince brokers to route their customers' orders to IntelligentCross. Imperative says it has already convinced some big investment banks to connect. It didn't name them, but said it would list them on its website once it got their permission.

The new venue will use a variety of tricks to foil fast traders. A key feature is that it only executes trades at discrete points in time, rather than continuously, the way exchanges work. The length of the intervals varies randomly, which Imperative says will keep the speedy traders from figuring out a pattern and gaming the platform's design.

The idea of "non-continuous" trading venues isn't new. But Imperative says it has added a new element by using artificial intelligence, or AI. Its systems will monitor for whether trades on IntelligentCross are causing stock prices to move, and adjust the length of its intervals to minimize such slippage, using AI-powered software.

Mr. Ginis, who has a PhD in computer science from the California Institute of Technology, previously worked for Cubist Systematic Strategies, the quant-trading business of Point72. He said he got the idea for IntelligentCross while working for Cubist as a "medium-frequency" trader—with algorithms that involved holding stocks for a day or two.

Like for many traders, slippage was a day-to-day headache for him.

"No one's found the silver bullet to solve this problem," Mr. Ginis said. "We've found a new approach that we believe will work better over time."

Write to Alexander Osipovich at alexander.osipovich@dowjones.com

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THE WALL STREET JOURNAL.

Markets
Goldman Profit Surges but Investors Lament Buyback Pause; Bank's results, like those of its rivals, were boosted by the tax overhaul and volatile markets

By Liz Hoffman
836 words
17 April 2018
01:59 PM
The Wall Street Journal Online
WSJO
English

Goldman Sachs Group Inc. reported sharply higher profit, looking more like the balanced business Chief Executive Lloyd Blankfein has been working to build in the wake of the financial crisis.

The Wall Street firm's profit rose 26% from a year ago, one of the strongest showings among the five big U.S. banks to have reported quarterly earnings so far. Morgan Stanley reports Wednesday.

Shares fell, however, after Goldman said it wouldn't buy back stock in the second quarter.

Goldman's traders broke out of their funk, riding renewed **volatility** in the markets to a three-year revenue high. A lower firmwide tax rate helped results, too.

Gains came from nearly every one of the firm's businesses, including lending and asset management, two steadier, higher-return businesses that are far from Goldman's roots as a Wall Street powerhouse. Debt underwriting, an area Mr. Blankfein has specifically targeted for growth, had its second-best quarter on record.

Overall, the firm's return on equity, a closely watched measure of profitability, stood at 15.4% in the quarter, its highest since late 2012.

"All this positivity is driving me crazy," Mr. Blankfein joked in a Tuesday morning call with managing directors, according to attendees. "We've seen false dawns before."

Shares rose initially but closed down 1.7% after Chief Financial Officer Martin Chavez said on the firm's earnings call that Goldman wouldn't buy back any stock in the second quarter. Instead, it would plow its capital back into its business. The firm in September outlined a plan to add $5 billion in annual revenue by 2020. Supporting new initiatives, many of which won't be profitable for years, requires funding.

Goldman has spent more than $500 million on its new retail bank, hiring coders and making Silicon Valley acquisitions. It is exploring building a suite of commercial-banking and cash-management products, The Wall Street Journal reported this month.

It is also offering more capital to its trading clients. One common measure of risk-taking, known as value-at-risk, rose sharply in the quarter.

The lack of buybacks went over poorly among investors who would rather have their returns in the form of cash than wait to see if Goldman's executives can succeed on new initiatives, many of them in unfamiliar terrain.

"We've been transparent about our growth plans," Mr. Chavez said. "There is a clear demand from clients for our balance sheet, which provides an opportunity to deliver attractive returns."

Trading revenue rose 31% to its highest level in three years.

Goldman's fixed-income division, which stumbled badly in 2017, reversed course in the first quarter as markets came alive, up 23%. Stock-trading revenue rose 38% as fears of a trade war and the tumult in technology stocks sent the **Dow Jones Industrial Average** swinging wildly in March.

Investment banking, the business of arranging mergers and helping companies raise money, reported a 5% increase in revenue from a year ago. A rise in underwriting compensated for a decline in merger fees.

The firm also slipped from its No. 1 perch in announced M&A, potentially worrisome given the importance of the business to Goldman's revenue and reputation. Executives said its pipeline of unannounced deals had increased from year-end.

Goldman is hiring rainmakers and chasing after deals it once deemed small-time in an effort to expand its already dominant M&A franchise. Mr. Chavez said Tuesday that Goldman has added 500 new investment-banking clients, halfway to its goal of 1,000.

A surprise bump came from the firm's portfolio of principal investments, which includes stakes in richly valued startups including ride-sharing app Uber Technologies Inc. and music-streaming service Spotify Technology SA.

Revenue rose 34% as Goldman sold or marked up the carrying value of investments, including credit-bureau TransUnion, artificial-intelligence firm Kensho Technologies Inc. and Spotify.

Investors tend to discount this revenue because it can swing from quarter to quarter. And Goldman's asset-management arm relied heavily on incentive fees, which typically are tied to profits in the firm's private-equity arm. That raises concerns about whether Goldman can repeat its first-quarter results.

"Obviously it won't always be this good, but sure is cool to see a good old Goldman beat in a quarter that was far from the perfect backdrop," analyst Glenn Schorr wrote in a note to clients.

Write to Liz Hoffman at liz.hoffman@wsj.com

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THE WALL STREET JOURNAL.

Heard on the Street
Markets
U.S. Tech Caught in Crossfire of China Trade Fight

By Jacky Wong
573 words
17 April 2018
05:19 AM
The Wall Street Journal Online
WSJO
English

If you think the rising economic tensions between the U.S. and China are all to do with commodities like steel and soybeans, think again. The tech sector is very much in the crossfire.

That truth lies behind the heavy blow dealt to one of China's few genuinely global companies, telecom-equipment maker ZTE Corp. Overnight, the U.S. Commerce Departmentbanned American firms from selling products to ZTE for seven years, saying the company had breached an agreement made last year following allegations of sanctions-busting activity in Iran and North Korea.

Perhaps not coincidentally, British cybersecurity officials Monday also warned the country's phone carriers to stay away from ZTE's equipment and services because of concerns that Beijing could use them to infiltrate or sabotage crucial telecom infrastructure.

The dual announcements will squeeze ZTE on both the cost and revenue side. The company counts a number of U.S. firms among its key suppliers, including Intel and Qualcomm: It will find it hard to replace some of the components it needs, like the chips and filters used in radio towers. Crimping ZTE's overseas business will hurt too: It made around 43% of its sales outside China in 2017.

For sure, ZTE faced similar a similar ban on dealing with American suppliers two years ago, but that was suspended as it and the U.S. government negotiated a settlement. It seems unlikely to receive a pass this time.

Besides the generally negative tone of U.S.-China trade relations, the Trump administration is also worried about ZTE and Huawei's growing technological edge: The two companies led the world in patent applications in 2017, according to the World Intellectual Property Organization. A specific concern is that their massive investment in next-generation mobile-network technology, known as 5G, could leave American wireless carriers with no choice but to use Chinese technology in future. The move against ZTE is consistent with the U.S. government's decision last month to block Singapore-based Broadcom's proposed takeover of Qualcomm, on the grounds it would undermine U.S. strength in 5G technology.

What does this all mean for investors? One clear message is that whatever the current problems between the U.S. and China are called—Trade war? Tensions?—they are serious and can have long-lasting effects. Careful consideration of which companies may be in the firing line is required.

A second message is that policy makers are increasingly willing to act even if it means harm for domestic companies. While ZTE suspended its Shenzhen and Hong Kong-listed shares from trading on Tuesday, the main stocks to suffer so far have been its U.S. suppliers: **Nasdaq**-listed optical-component maker Acacia Communications, which makes around a third of its revenue from ZTE, plunged 36% on Monday, while peer Oclaro's shares fell 15%.

Apart from losing orders from ZTE, Qualcomm may also be hurt if Beijing scuttles the company's proposed $44 billion acquisition of Dutch rival NXP Semiconductors—a deal widely seen as vital to the U.S. chip maker's future. China is the only country that hasn't signed off on the deal yet.

In times of economic conflict, it's not just those on the front line that get hurt.

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

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The New York Times

Business Day; Economy

Divides Over Trade Scramble Midterm Election Messaging

By Ben Casselman and Jim Tankersley
1,192 words
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President Trump's trade policies enjoy the strong backing of his supporters but are less popular among independents, moderate Republicans and others whose votes could decide control of Congress in the midterm election this fall. That could complicate Republicans' plans to make their economic record a central argument in their case for re-election.

Over all, Americans are about evenly split on the steel and aluminum tariffs that Mr. Trump announced early last month, according to a survey conducted in early April for The New York Times by the online polling firm SurveyMonkey. Support split mostly along predictable partisan lines, with 78 percent of Republicans supporting Mr. Trump's tariffs and 74 percent of Democrats opposing them.

Only 68 percent of self-described moderate Republicans said they supported the tariffs, however, and only 42 percent of independents did so. Support for the measure was also softer among better-educated and wealthier Americans of both political parties, echoing other evidence that backing for Mr. Trump's agenda is weaker in the affluent suburbs that were once a Republican stronghold.

Jeffrey Campbell, a 49-year-old lawyer in Minneapolis, said he liked the tax bill that Republicans passed late last year, and he gave Mr. Trump credit for moving to reduce regulation. But he opposes Mr. Trump's tariffs, saying they will benefit a few favored industries while hurting the economy over all.

“A few people benefit from the protection,” Mr. Campbell said. “But when prices rise as a result, the net effect, I think, is harmful to the economy.”

Minnesota is a key political battleground this year, with several competitive House seats and two Senate elections because of the resignation of Al Franken after a sexual-misconduct scandal last year. Mr. Campbell said that he was still likely to support Republican candidates, but that he was frustrated by the party's shift toward protectionism and support for increased government spending.

“I blame Republicans for that,” Mr. Campbell said. “A very significant portion of Republicans in Congress are not really conservative when it comes to spending.”

The re-emergence of trade as a central political issue has scrambled traditional partisan alignments in ways that carry risks for both parties. Mr. Trump won the presidency partly by tapping into voters' concerns about the impact of globalization on jobs and wages, particularly in the industrial Midwest.

But free trade still receives strong support among business groups, which have historically backed Republican candidates, and among big-dollar conservative political donors such as the Koch network. As recently as 2015, three-quarters of House Republicans voted for a measure meant to open trade even further — so-called “fast track” negotiating authority for President Barack Obama.

Reflecting those tensions, congressional Republican leaders have criticized Mr. Trump's tariffs as potentially harmful to businesses and consumers while also praising the president's broader goals on trade.

Representative Kevin Brady of Texas, the chairman of the Ways and Means Committee, opened a hearing on the effects of tariffs on the economy last week by saying the measures “curtail economic growth, discourage new investment, delay new hiring, and put American workers at a huge disadvantage to foreign competitors.”

But he added, "I remain committed to working with President Trump and the White House on strong, enforceable trade policies that will target bad actors and encourage economic growth here at home."

Democrats face their own challenges on the issue. As Republicans have shifted away from supporting free-trade agreements, Democrats have embraced them: In the Times poll, 73 percent of Democrats said they thought free-trade agreements helped the United States, compared with 51 percent of Republicans. But union members, long a key source of mobilization and support for Democrats, retain the party's longtime skepticism of free trade.

"It's not an ideal issue for either party," said Robert J. Blendon, who directs the Harvard Opinion Research Program at the Harvard School of Public Health. "It makes the issue slightly more complex because their voters' views don't correspond to their interest groups."

For Republicans, Mr. Trump's trade battles pose an additional risk of undermining the party's core economic message. Republicans have tried to emphasize the tax law they passed in December, which cut taxes on businesses and most households. But trade has largely pushed the tax law from the headlines, and support for the law, which rose early in the year, now seems to be ebbing.

"You're starting to certainly complicate the message," said Jon Cohen, chief research officer for SurveyMonkey.

The trade fight has also roiled **financial markets**, which had risen steadily during Mr. Trump's first year in office. If that **volatility** continues, it could erode consumers' confidence in the economic recovery. There are hints that could already be happening: The University of Michigan's measure of consumer sentiment dipped slightly in April, with many respondents citing trade as a source of concern. SurveyMonkey's consumer confidence index also ticked down in April, with the largest declines coming among higher-earning households, which are much more likely to own stocks.

"It's possible the war of words over trade, tariffs and sanctions, and the **financial market** turmoil we had has led to some setback in consumer confidence," said Chris Rupkey, chief financial economist at MUFG Union Bank.

Consumer confidence remains high over all, however, and there is little evidence that the tariffs have hurt the economy so far. Retail sales rose in March, according to data released by the Commerce Department on Monday, and the job market continues to make steady progress. Economists say an outright trade war could derail the economy, but the tariffs announced so far fall well short of that.

Ethan Brackenbury, a cost estimator for the federal Department of Energy in southeastern Washington State, said that he didn't like the idea of a trade war, and that he hadn't noticed any gain from the tax cut in his paycheck. But the economy seems strong in his area, he said, and he views any declines in the **stock market** as an opportunity to buy, not a signal to sell.

"I'm certainly not worried, nor am I excited," Mr. Brackenbury said. "I don't see long lines of unemployment or those kinds of things. Everyone seems to be gainfully employed."

Follow Ben Casselman on Twitter: @bencasselman.

* 'How Long Can We Last?' Trump's Tariffs Hit Home in the U.S.

* To Bannon, Tariffs on China Will Be Ultimate Test of Trump's Beliefs

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Production at a Chinese steel plant. Americans are about evenly split on the steel and aluminum tariffs that President Trump announced last month, according to a survey for The New York Times. | China Network/Reuters | Jeffrey Campbell, a Minneapolis lawyer, said he liked the Republican tax bill but not President Trump's tariffs, saying they may hurt the economy over all. | Jenn Ackerman for The New York Times

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WSJ PRO CENTRAL BANKING

Economy

Trump's Establishment Picks Show Support for Fed Status Quo; The president has tapped Republicans viewed as pragmatists to fill Federal Reserve positions

By Nick Timiraos
1,106 words
17 April 2018
01:21 PM
WSJ Pro Central Banking
RSTPROCB
English

President Donald Trump sharply criticized the Federal Reserve during his 2016 campaign, but his picks to run the central bank point toward policy continuity and stability rather than disruption.

His selections of mostly establishment Republicans who are viewed as pragmatists and not ideologues show how he has opted in favor of more incremental monetary and regulatory policy changes rather than any radical rethink during a period of steady economic growth.

Mr. Trump's choice for Fed chairman, Jerome Powell, served in President George H.W. Bush's Treasury Department. Mr. Powell was originally tapped for the Fed's board by President Barack Obama and backed Ben Bernanke and Janet Yellen during their tenures as Fed chiefs.

The White House said Monday that Mr. Trump would nominate Columbia University economist Richard Clarida to become Fed vice chairman.

Mr. Clarida, who worked at the Treasury under President George W. Bush, has quibbled with some Fed communications in recent years but generally has backed the Fed's policies of slowly raising interest rates from historic lows after an aggressive postcrisis campaign to stimulate growth.

The White House said Mr. Trump also plans to nominate Michelle Bowman, the banking commissioner of Kansas who held several posts in the George W. Bush administration, to the Fed's seven-member board of governors.

Mr. Trump's first Fed nominee, Randal Quarles, who became vice chairman for supervision in October, is a veteran of both Bush administrations.

With the latest Fed selections, "the place looks pretty establishment. It looks very Bush administration-like," said Sarah Binder, a political scientist at George Washington University and author of a book on the Fed.

The Fed personnel decisions have been managed by the White House National Economic Council, which until this month was led by Gary Cohn. The new director is Lawrence Kudlow, who said, "The president has chosen a slate of unquestionably qualified nominees for the Federal Reserve."

Elsewhere in the government, Mr. Trump has tapped outspoken adversaries to head various agencies.

At the Fed, Mr. Trump "has been more mindful of conventional ways of thinking about expertise for these positions than almost anything else in his administration, with the possible exception of the military," said Lewis Alexander, chief U.S. economist at Nomura Securities.

Mr. Trump was critical of the Fed and its chairwoman at the time, Janet Yellen, during the presidential campaign, saying her low-rate policies aimed to help the incumbent Democratic Party. Once he became president, he took to complimenting her and declared her, like himself, a "low-interest-rate person."

The White House and many Republican lawmakers now don't want the Fed to sharply raise borrowing costs for businesses and households.

While Mr. Trump decided not to offer Ms. Yellen a second term as chairwoman, he elevated one of her allies in Mr. Powell rather than pick someone more popular with conservative Republicans and who had promised a break with current leadership, such as Stanford economist John Taylor or former Fed governor Kevin Warsh.

The Fed held short-term rates near zero for seven years after the financial crisis, and has raised them gradually since late 2015 as the economy healed and then strengthened. Mr. Powell has indicated he plans to continue along that path unless the economic outlook changes.

"Despite the campaign rhetoric, it doesn't make any sense that Trump, whose mantra is 'jobs, jobs, jobs,' would want some conservative hawks sitting in those seats," said Ms. Binder.

A senior administration official said the White House had opted for candidates who might be less aggressive in raising interest rates than textbooks could dictate. That view is at odds with some conservative economists who have said the Fed wasn't moving fast enough to raise interest rates in recent years.

The official also said the administration was drawn to candidates who might be more skeptical of Fed staff models that show a strong correlation between low unemployment and strong inflation pressures.

Given the high premium Mr. Trump has placed on the **stock market**'s performance, and the Fed's importance to investors, Mr. Trump's more conventional picks are less surprising. "You have continuity with a recipe that's been working pretty well," said Peter Hooper, chief economist for Deutsche Bank Securities.

Nominees to the Fed board are subject to Senate confirmation, which could be a hurdle for candidates who favor higher rates or more congressional involvement in monetary policy.

"There are people who I would rather see on the list, but the truth is it's very difficult to identify people who are in a position to be somewhat reformist" and to get through the confirmation process, said George Selgin, director of the Center for Monetary and Financial Alternatives at the Cato Institute, a libertarian think tank in Washington.

For example, one of Mr. Trump's nominees who has been more critical of the Fed's crisis-era policies, Carnegie Mellon University economist Marvin Goodfriend, has met resistance in the Senate. He has yet to gain any Democratic backers and may be unable to win confirmation if Sen. Rand Paul (R., Ky.) continues to oppose his nomination.

Mr. Clarida will fill the third leg of the traditional leadership triumvirate at the central bank after the New York Fed announced earlier this month that San Francisco Fed President John Williams would succeed its retiring leader, William Dudley.

Messrs. Powell, Williams and Clarida represent a "formidable troika…with an impressive mix of private- and public-sector experience," said Michael Gapen, chief U.S. economist at Barclays.

With the selections of Messrs. Clarida and Williams, the White House and the New York Fed's board of directors, respectively, shared Mr. Powell's desire to find leaders who would provide the Fed with considerable monetary policy expertise. Mr. Powell is the first Fed leader without a Ph.D. in economics in more than 30 years.

While it isn't clear exactly how much input Mr. Powell had in both picks, the selections hint at his strong bureaucratic and political skills, analysts said. "These appointments sure seem like people he would be comfortable having around the table," said Ms. Binder.

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

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Document RSTPROCB20180417ee4h0015p

THE WALL STREET JOURNAL.

Best of the Web
Opinion
Trump's Tax Triumph; The IRS becomes a less burdensome beast.

By James Freeman
735 words
17 April 2018
05:20 PM
The Wall Street Journal Online
WSJO
English

If historians should puzzle over this oddball presidency for a thousand years, they may one day conclude that firingJames Comey was Donald Trump's finest hour. But it's hard to argue against the historic tax reform he enacted in December. As Americans face today's deadline for filing their federal returns with the Internal Revenue Service, it's a moment to consider the initial results and the potential impact of a less burdensome IRS.

Given how many companies have reported positive news resulting from the tax law, it's almost becoming an old story, though the reform is barely four months old. Corporate earnings season is bringing another slew of encouraging dispatches from American business. Today the Journal

calculates that the four giants of U.S. banking—JPMorgan, Wells Fargo, Citigroup and Bank of America—saved a total of $2.3 billion in the first quarter thanks to the new federal corporate tax rate of 21%, down from 35%.

As for JPMorgan, the Associated Press recently noted:

Soon after President Donald Trump signed the law into place, the bank announced higher salaries for most of its retail bank employees, and said it would open branches in a handful of new markets. It also announced an expansion of small business lending.

The optimism is not confined to the financial sector. The AP reported last week:

Analysts expect companies in the **S&P 500** to report a 17 percent jump in earnings per share for the first three months of the year, thanks in large part to lower tax rates and the strong global economy. That would mark the best quarter of growth in seven years, according to FactSet.

Wages have also been growing. "Kroger, Walmart, Target Corp. and other food retailers are investing savings from the federal tax law to boost worker pay and benefits," according to a recent Journal report.

John Kartch at the influential advocacy group Americans for Tax Reform has been keeping a running tally of businesses responding to lower tax bills by rewarding employees or customers. As of Monday, he counts 507 companies announcing pay raises, bonuses, 401(k) match Increases, or other positive results of the new tax law.

This column figured that the benefits of corporate tax reform would show up over time as new incentives for business investment ultimately resulted in more productive employees commanding higher wages. But the good news began to arrive almost from the moment the President signed the legislation.

The flood of salary and bonus announcements shows that the benefits of corporate tax reform are not confined to the shareholders and pensioners who directly or indirectly benefit from rising profits at public companies. It's still too early to declare Trumponomics a success, but after last month's Labor Department report showed that this is officially the best job market for those seeking work in the history of U.S. government statistics, Friday's report on job openings once again beat expectations.

And starting with the returns due next year, individuals will also enjoy filing under a simplified system with the doubling of the standard deduction—as well as lower rates up and down the income ladder.

Few people in politics or the press want to give Mr. Trump credit for much of anything. But eventually they'll have to acknowledge that tax reform works.

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Hai-kuiz

The third, fourth and third,

Summed, are the seventh member:

Riddle me the set.

-- Myles C. Pollin

***

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(Carol Muller and Lisa Rossi help compile Best of the Web. Thanks to Tony Lima, Irene DeBlasio and M. Whiting.)

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THE WALL STREET JOURNAL.

Economy

IMF Forecasts Global Growth of 3.9% This Year, Strongest Since 2011; Investment spending and an acceleration in global trade seen driving global economy; warns of fallout from risk of trade disputes

By Josh Zumbrun
534 words
17 April 2018
09:00 AM
The Wall Street Journal Online
WSJO
English

The global economy is on course to grow 3.9% this year, the fastest pace since 2011, with every major economy poised to grow for the second year in a row, according to the International Monetary Fund's latest forecast.

The upswing in global growth will be "supported by strong momentum, favorable market sentiment, accommodative financial conditions, and the domestic and international repercussions of expansionary fiscal policy in the United States," the IMF said Tuesday in releasing its flagship economic forecasts, known as the World Economic Outlook.

The IMF sees the global economy continuing to gather strength despite a decline in global stock markets this year and trade tensions between the U.S., China and others.

Despite those tensions, trade volumes are expected to grow. Overall world trade volumes rose 4.9% in 2017, up from 2.3% in 2016. The forecasts call for trade to strengthen again by 5.1% in 2018.

During 2017, global economic output grew 3.8% from the year earlier. It was an expansion that was remarkable in its breadth, with more than two-thirds of all countries accelerating, the IMF said.

With only three months under way, 2018 is shaping up to be stronger than estimated in the round of IMF forecasts released in January. Growth in the eurozone and U.S. will be 0.2 percentage point stronger than previously estimated.

The U.S. and eurozone both grew 2.3% in 2017 from the year earlier and the IMF forecasts growth to strengthen for both in 2018, to 2.9% and 2.4%, respectively.

The IMF raised its 2018 forecasts 0.1 percentage point higher for the U.K. and other advanced economies, 0.3 point higher for Europe's emerging-market nations and 0.4 point higher for Brazil.

Of the world's 20 largest economies, only Saudi Arabia's is estimated to have shrunk last year, in part from the fallout from low **oil prices**. None appear to be shrinking so far in 2018.

Helping drive growth higher have been an increase in investment spending and an acceleration in global trade.

Precisely because the global economy has been buoyed by international commerce, the current trade tensions between Washington and Beijing represent a major risk to the international outlook, the IMF said, noting that the dispute appears to have caused an increase in **financial-market volatility** and a correction in equity prices.

The IMF said that overall risks to the economy are balanced, but warned of the consequences of the nations hitting each other with trade penalties.

"An increase in tariffs and nontariff trade barriers could harm market sentiment, disrupt global supply chains, and slow the spread of new technologies, reducing global productivity and investment," the IMF said.

The IMF forecasts the economy will grow 3.9% again in 2019, before declining to 3.7% over the medium term, although the forecasts become less accurate further out into the future.

Write to Josh Zumbrun at Josh.Zumbrun@wsj.com

Document WSJO000020180417ee4h002jp

Economy

Transcript: Media Q&A With San Francisco Fed's John Williams in Madrid; Official talks about global economic risks, demographic trends, trade and other issues

3,417 words
17 April 2018
04:48 PM
WSJ Pro Central Banking
RSTPROCB
English

John Williams, president of the Federal Reserve Bank of San Francisco, took reporters' questions after delivering a speech in Madrid on Tuesday, April 17, 2018. He discussed global economic risks, demographic trends, trade and other issues. Here is a transcript of the exchange, lightly edited for length and clarity.

Q: Is there a ceiling for the Fed in how far you raise rates? Or are you finding that in the near term you need to move?

JOHN WILLIAMS: So the question was about the yield curve, and the potential or the risk of inverting the yield curve. And basically, how do we move in that, in thinking about, you know, raising interest rates. And would we – and your last question, would we be – would we be willing to invert the yield curve. OK, so I'll tackle that whole thing.

So, first of all, it's – in the U.S., it's typical, as the Federal Reserve is in a tightening cycle, raising interest rates, then the yield curve will flatten, meaning that short rates will move – short-term interest rates will move up more than long-term interest rates move up during that cycle. Obviously, long-term interest rates are affected by lots of factors. Not just short-term interest rates, but global, you know, developments, factors like (quantitative easing) or asset-purchase programs, and things. So what we've seen so far are the fact that as we move short-term interest rates and long rates have not picked up a lot, I mean, I view that as not surprising given that, you know, where we in the economy.

So what do I expect going forward? Well, as the Federal Reserve continues to raise interest rates gradually over the next couple years, short-term interest rates, if you look at our projections, will move up to three or over 3 percent in the next few years, based on the median projection from March. So my expectation is during that time long-term interest rates will also be moving up, for two reasons. One is, with short-term interest rates higher, investors will therefore be demanding a higher return on longer-term interest rates which, of course, is, you know, the thing you're comparing it to. So I expect with higher short-term interest rates, investors will expect higher interest rates out of longer-term yields.

The second is, over the next few years the Fed – we've already started – but the Fed will continue the process of normalizing our balance sheet, shrinking the balance sheet. And according to our analysis, that's going to also put some upward pressure pushing up long-term interest rates, specifically the term premium of long-term interest rates. So I see – as short-term rates go up, I expect long-term rates to also move up because of these two factors. The short-term rates going up directly affects it, but also this term premium. So in my forecast, I do not anticipate an inversion of the yield curve, an inversion meaning literally that short-term interest rates are higher than long-term interest rates.

The research in the United States – and I've written a paper on this, but many people say this – shows that an inverted yield curve – a period of time where short-term interest rates are higher than the long-term rates – is a very clear symbol that the economy's about to go into a recession. And so the way I interpret that evidence is that the Fed is raising interest rates because the economy is strong, and then something changes in the market, an understanding of where the economy's going – you think about the housing crash or something – and as the market sentiment shifts, we find ourselves in a situation where long rates are now falling, short rates are going – they're still high. And that's a sign of a – that the economy's going to slow.

So I personally don't anticipate having an inverted yield curve over the next few years. I would see an inversion of the yield curve of a warning sign that, at least the sentiment, is that the growth is going to slow markedly. And I would take that seriously, along with my analysis of everything else that's happening. The answer to your question is I don't think that we should, you know, I cannot say that we should not raise short term interest rates above long rates. I don't think that there's any reason not to do that. But you'd really be taking into account all the things that are happening, and really understanding why long rates were low.

I mean, one of the – I mean, to give you an example – I know that we don't have a huge amount of time. To give you an example. One of the reason long rates were low in the U.S. is because the European Central Bank is buying lots of assets, and that's pushing U.S. long-term rates low. That's not bad. That's not a bad sign for the economy, right? That's a sign that monetary policy is loose and in Europe it's stronger. So you have to be careful in interpreting the inverted yield curve. And you'd want to, you know, really understand what's happening and what's driving it.

Q: We saw in January a sharp rise in T-note yields, and we saw that the **stock market** fell. And you mentioned valuations are somehow related to the yield in T-note. If we were to see right now – imagine that something happened just in January and the T-note goes up. Which level do you expect to – (inaudible) – **stock market**?

MR. WILLIAMS: So I think that if – you know, it really depends on why, right? I mean, I think this is kind of – whenever you look at financial conditions, you can't just say, you know, bond yields or the **stock market**. It really depends on what's driving that. So I think that if the market – as we saw earlier, as you mentioned – we've seen times when the market is maybe more confident about the U.S. economy, maybe thinking, you know, with fiscal stimulus the economy's going to go faster, there may be some more inflation. I would not take it – and that's higher yields, like you said, on Treasury notes – I wouldn't take that as a negative sign for the economy. It's more of a reflection that a strong economy gives you high yields.

I do think that higher yields, which I expect to have happen over the next few years, is going to have a dampening effect on further increases in the **stock market**, housing market. So I'm not – I don't predict the **stock market** will decline, but I do think this is going to be one of the factors keeping the **stock market** from continuing to rise. As long-term yields go up, the return – you know, investors are trying to equate risk-adjusted returns. So I think that, you know, higher interest rates overall will be one of the factors that keeps the housing market, the real estate markets, and the **stock market** continuing to go up and up.

Q: I would like to ask you about demography and the effect it could have on the economy, because here is a big issue. I mean, it could even have an effect on productivity growth. So I don't know, what's your vision? Will it affect a lot on the economy over the next years, or?

MR. WILLIAMS: So it's interesting you ask that, because I'm a macroeconomist. And in studying the – you know, the macroeconomy for decades. And, you know, the first time someone mentioned demography as an important factor to understand the overall economy's performance – beyond the obvious point of, you know, population growth and so forth, was in Japan and my visits there maybe 10 years ago, or seven years ago, where they – Japan, as you may know, is well ahead of the rest of us in terms of their demographic ways. They're aging – they live a very long time. But they also, you know, a much earlier wave of retirements. And they've seen a movement ahead of us. And they have emphasized over and over to me, and others, the importance – the centrality of demographic change. And I think we are now all starting to understand this better.

So first of all, the labor-force growth – the population growth is slowing. But importantly, labor-force growth is shrinking in the United States. It's down to a half a percent. Japan, labor-force growth is negative. I don't know what it is in Spain, but in Europe labor-force growth is shrinking to very low levels. Obviously, it creates political challenges also, not just economic challenges, because more and more people are older who have particular views on government programs, taxes, interest rates and things, and relative to the number of people in the working ages. It creates a lot of tension in the fiscal situation. But it also does something important for the macroeconomy. And we'll come back to the macro.

So, first of all, with slower – what we're seeing in the U.S. is people – or, around the world, people are living longer. That's a good thing, generally. But they're having far fewer babies, to use the technical term. So the growth – the population growth is shrinking. So economists have been studying this for a couple of factors. One is, clearly this is slowing growth of (gross domestic product) around the world, just slower labor-force growth. But it also changes people's views in saving and investment. If you're going to live longer, you're more likely to save more in order to pay for a longer time of – after your working life. We see it around the world, that people even though they live longer they're not working much longer mostly. Just longer after work. I've seen people go to school longer, so that's shrinking it from the other side.

So this is one of the major factors, I believe, of keeping interest rates low around the world is a big, if you will, savings glut of its own, where people around the world are saving more, they're not investing as much. And that's causing –

Q: And if they withdraw the money? The money they are saving, if they start using it up, that will have an effect on interest rates.

MR. WILLIAMS: Right. So right now, according to the research that a number of people have done, this is a net extra supply of savings. That pushes interest rates down very low. And it's one of the factors keeping interest rates around the globe – not just here, not just the U.S. – but around the globe lower. Later on, there will be some reversal of that, because those people, like the baby boomers, will retire, and then they'll start consuming their saving. That switches it. But the fact that people are generally living longer, that still causes interest rates to stay relative to the past level. So I think there are a lot of challenges. I mean, there are positives too, from the environment, from – you know, a lot of things that lower population growth are good.

But from the – for our nations, we really need to think about how do we get our social programs on a fiscally sustainable basis? How do we, as a society – societies, you know, continue with a forward or future-looking approach to things, when, you know, a higher percentage of people are kind of in their retirement years and, like you said, low interest rates. So there's a lot of factors around demographics that are – I think are very much front and center in thinking about macroeconomics. And, again, looking at my friends in Japan and South Korea, where they're way ahead of us on this, they have found this to be a very challenging environment in many ways, especially with the – kind of the politics of this.

Q: You spoke before about trade policy and fiscal policy, and possible downsides. Do you see those two policy areas as the biggest risks to growth in the coming years?

MR. WILLIAMS: So I'm still going to put in global economic financial conditions as still a risk. So I've tended in the United States – I'll be honest with you all – when people ask me what are the biggest risks to the U.S. economy I would say they're probably outside the U.S. borders. And the reason I say that is because I feel, despite – you know, we have these trade issues, fiscal issues. But before that, there's still a lot of uncertainty here in Europe about how Brexit plays out, the European Union, you know, does that situation stabilize or, you know, does that kind of reignite in terms of the ability of the European Union to stay together? Obviously, there are risks around China and other areas around the world.

I will tell you, in the U.S. we follow the European elections much more closely than you'd probably expect because of the concerns around a breakup, whether it's a breakup of the euro, a breakup of the European Union, or other some kind of negative development. That doesn't seem to be front and center right now. I understand that. But I think we can all say with confidence that the political developments of the last few years have brought us a lot of surprises. And so definitely, you know, the potential risks of economic downturn or developments around the world are always in the wings.

Q: When you said the political developments, did you mean in Europe or did you also include the U.S.?

MR. WILLIAMS: Well, I just mean in terms of – I was mostly focused on – in Europe, but I mean around the world you're thinking about things. Again, on a global front, you're thinking – well, Brexit was an example, I guess. And obviously Brexit is not huge factor in the economic situation today. But at the time there's no question that it was viewed as – when it occurred – to be potentially a pretty big risk to the – especially around financial conditions. And in the U.S., just to be clear, sometimes these play out in different ways.

So with Brexit, you could imagine different scenarios where – or any, you know, a big issue to the EU. Where it could just be bad for the European economy, which is, of course, going to spillover to us. It could also mean that there's a big flight to safety where, like, investors start bringing money to the U.S. and that causes the dollar to come up. So that's why it matters, because it's not – these kind of events – especially kind of abrupt political changes – tend to cause **financial markets** to go to a risk-off kind of approach. And then they bring all their money to the U.S. and push up the dollar. And those kind of things can have, obviously, poorer effects on the U.S.

Q: So my question was – one is about trade. And I think the language has become more important. You know, whereas people tell you we're not in a trade war. And I think the word "war" here needs to be clarified. So in terms of how you see it, how would you describe the situation? Is it a trade spat? And what would it take for it to be a trade war?

MR. WILLIAMS: So I think what I've seen so far, and what's actually happened as opposed to perhaps what's been, you know, said by different markets. I'm not – you know, obviously everyone's responding to each other. But so far, what's actually happened is not, to me, a major – it doesn't have a major effect on the economic outlook or worry me even that much, from the point of view of the overall economy. So what would worry me more would be something that would be detrimental. It would have to be much broader-based, significant rise in tariffs, broad-based across many countries, and also kind of a broad-based pullback from, you know, trade, international financial, you know, connections and things like that.

So right now, you know, I think what we've seen so far in actions is not that unusual. I think that if we can – if watching what's happening – I'm not involved in this. I'm just an observer. But, you know, the negotiation around the South Korean trade agreement, the negotiation around (the North American Free Trade Agreement), the possibility of, again, finding a, you know, compromise around this, this would not be that worrisome. But what worries you – or, what worries me is if this were to move into a much broader based and much larger set of pullback from international trade. Because I think that would reduce productivity, could reduce growth, it would obviously create a higher cost of living for American consumers, increased inflation. So all of those are things that would be detrimental.

Q: So if you look at the two big tantrums that we've seen in special – (inaudible) – markets have been pegged mostly to **volatility**, right? People have forgotten about it, and now it's back and they got pretty scared. So I'm just wondering, do you think it's just a matter that people are just not used to it, or they're not used to training with **volatility**, or against a backdrop of **volatility**? Or would you be concerned that if we see those peaks again it could have an impact on growth?

MR. WILLIAMS: So I think – it's interesting. You know, I'm not only focused on the market reaction, but I think there's also how are business people thinking about this. So there's been research in the literature that shows – there's been a lot of research showing the policy uncertainty. With an uncertainty about taxes, about regulations, about, you know, any kind of policies rises, the businesspeople pull back. They delay investment, or put off, or cancel investments, hiring, expansion. Consumers get nervous and maybe won't buy that car or that house. It makes sense, right? If you're uncertain about what the future is, I'm not going to take on some risk right now.

So what worries me about this – the trade discussions, beyond, you know, what's already happened, is if we have this continued uncertainty about trade policy, what – you know, what's going to happen over the next couple years. I think that uncertainty alone, even without actions, can have a detrimental effect on businesses and people – especially businesses who are very involved in exporting today – to make those investments and that. So there's a literature about that. I think that that, again, would be something that I think is a negative – or a potential negative consequence if we – you know, if this discussion and these actions around trade become – you know, continuing to become, you know, broader and leading to more serious actions, because just even the uncertainty can have a negative impact.

Q: Right. Are you happy about Richard Clarida, by the way, the newest person who is going to be joining the Fed? I mean, do you think he's going to be good colleague, looking forward to working with him?

MR. WILLIAMS: I know – I know Rich Clarida very – this is still on the record. I know Rich Clarida really well. He's a terrific economist, a great guy, expert on monetary policy, and also brings a very strong perspective as an international economist. I look forward to when he joins the board. He'll be a terrific colleague.

Related Article

* Williams Cautions on Trade Policy Uncertainty

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THE WALL STREET JOURNAL.

Markets
Oil Settles Higher; Investors weigh ongoing geopolitical risks to supply

By Christopher Alessi and Alison Sider
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17 April 2018
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The Wall Street Journal Online
WSJO
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Oil rose Tuesday, as investors weighed ongoing geopolitical risks to supply in an increasingly tight market.

U.S. crude futures wavered between gains and losses throughout the day and ended the day higher, settling up 30 cents, or 0.45%, at $66.52 a barrel on the New York Mercantile Exchange. Brent, the global benchmark rose 16 cents, or 0.22%, to $71.56 a barrel on ICE Futures Europe.

Crude prices climbed to more than three-year highs at the end of last week in advance of U.S.-led strikes on the Syrian regime. But prices retreated Monday after tensions in Syria appeared to subside in the wake of the relatively restrained Western airstrikes. Russia—a key Syrian ally—failed to retaliate to the attacks as promised.

On the geopolitical front, oil market participants are eyeing the situation in Syria as well as Trump administration moves to reimpose economic sanctions on Iran next month. Such a move could frustrate the oil output of one of the Organization of the Petroleum Exporting Countries' largest crude producers and reduce global supply.

"The political noise is as loud as it gets. Middle East tensions support the **bullish** market mood and push oil to new highs," Norbert Ruecker, head of macro and commodity research at Julius Baer, wrote in a note Tuesday.

And the tensions are ratcheting up at a time when the oil glut has been dramatically whittled down. Analysts and traders surveyed by The Wall Street Journal are expecting data due out Wednesday to show stockpiles of oil and refined products fell last week. Market participants are also looking to weekly data out later Tuesday from the American Petroleum Institute, an industry group, on U.S. crude inventory levels.

"Lower inventories mean less room for error in terms of supply shocks," analysts at Schneider Electric said Tuesday.

The American Petroleum Institute, an industry group, said late Tuesday that its own data for the week showed a 1-million-barrel decrease in crude supplies, a 2.5-million-barrel fall in gasoline stocks and an 854,000-barrel decrease in distillate inventories, according to a market participant.

Meanwhile, analysts and investors are looking ahead to the next joint ministerial monitoring meeting of OPEC and non-OPEC countries that have joined forces to hold back crude oil production. The ministers are set to discuss options for further cuts into next year when they meet in Jeddah on Friday.

But extension of their agreement could be a double-edged sword.

"While the prospect of extended OPEC efforts continues to offer support at a time when global stocks have essentially normalized, the IEA has joined a growing chorus of concerns that OPEC's actions could bring pain for producers at a later date," Schneider Electric analysts said.

OPEC and 10 producers outside the cartel, including Russia, have been holding back crude output by 1.8 million barrels a day since the start of last year. The agreement, meant to rein in a global supply glut that has weighed on prices for over three years, is set to expire at the end of 2018.

Gasoline futures rose 0.06%, to $2.0412 a gallon. Diesel futures fell 0.64%, to $2.0571 a gallon.

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WSJ PRO CENTRAL BANKING

Economy
Transcript: Media Q&A With St. Louis Fed President James Bullard; Central banker talks about his outlook for interest rates and the economy

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James Bullard, president of the Federal Reserve Bank of St. Louis, took reporters' questions Friday, April 13, 2018, after delivering a presentation in St. Louis. He discussed his views on the economy and monetary policy. Here is a transcript of the exchange, lightly edited for length and clarity.

Q: There was an item in the minutes that said with regard to the medium-term outlook for monetary policy all participants saw some further firming of the stance of monetary policy is likely to be warranted, which was a little bit of a surprise to me because I thought your view was that no additional firming would be necessary in the forecast horizon. And I'm just kind of interested in your view. Do you believe that additional firming, additional rate hikes over the next several years, based on what you put in the (Summary of Economic Projections), is warranted or not? Or maybe it's just a close call.

JAMES BULLARD: No, the St. Louis Fed's position remains that the outlook for the policy rate is flat and that we're quite close to neutral right now. And because of that, you know, I'm not quite sure the source of the statement all members supported additional firming over the horizon. I mean, those are the numbers that we submitted.

Q: And just to follow up, there was a discussion in the minutes about whether and when to change – I think there was a reference to the policy rate now being accommodative and some discussion saying, well, maybe it should be described as being either neutral or restrictive. Do you have a view on that?

MR. BULLARD: I am an advocate of updating the statement so that it more accurately reflects that we're either at neutral right now or close to neutral right now, and that in my opinion the statement is still reflecting language that was adopted when we were at the zero bound or near a zero policy rate. And, obviously, we've made a lot of moves since then, and so now the rate is higher so we must be closer to neutral. Obviously, the committee would have to make a judgment on where they think neutral is, and so that would be up to the committee. But I think our language is a little bit outdated on that.

Q: You said last week during an appearance that if trade tensions between the U.S. and China escalate, then it would certainly have a negative impact on the U.S. economy. Can you detail how you think that impact would play out in various parts of the economy if these tariffs are implemented?

MR. BULLARD: I think it's – there's too much uncertainty around that right now to make any definitive statements about how it will play out. There have been threats and counterthreats made, but if you wanted to do an economic analysis a lot would depend on how long the tariffs were in place and many other factors. So I think we're going to have to wait and see.

The worst-case outcome would be blanket tariffs of a Smoot-Hawley type that simply get put in place with no prospect of removal in the future. That kind of situation would be very dangerous for the U.S. economy, but I don't think that we're close to that today.

I think what we're doing today is more of a story about trying to renegotiate trade patterns in a way that the Trump administration feels is closer to U.S. interests, and all negotiations involve some give and take on both sides. So hopefully we can get to a good outcome on this eventually, but the nature of negotiations is that they can be **volatile** and can lead to **volatility** in the economy.

Q: If the Fed does follow through on the current SEP outlook for interest rates, what are the risks that you see happening from that? And, you know, is it possible that if the Fed does deliver the rate rises that it has penciled in right now that it might push the economy into recession?

MR. BULLARD: Well, it's a great question, and I think this is one reason why I've tried to stir up a debate on the yield curve. I think the yield curve is fine where it is today. But if the Fed goes ahead and raises the policy rate aggressively and the 10-year does not cooperate, then we could have an inverted yield curve later this year or early in 2019. I would see that as a **bearish** signal for the U.S. economy. Historically, an inverted yield curve has signaled recession ahead, although not necessarily immediately ahead. It can be as long as a year or two after the inversion occurs.

So I take that seriously. I wanted to have that debate before we get to the point of having an inverted yield curve so that we're at least taking that into account as we go ahead. But again, my basic point would be that the yield curve is fine where it is today, but the risk is that we get later this year or early next year and we're in an inverted yield-curve situation.

Q: Some Fed officials have said to me that if the yield curve is a concern that the Fed has tools to kind of raise the long end of the yield curve through the balance sheet, maybe I guess accelerating the selling or the shrinking of it. What would be your reaction to that comment?

MR. BULLARD: It's true that we have a very large balance sheet. We are shrinking the size of the balance sheet very slowly. My sense is that we put that policy in place and it won't fully take effect until later this year. And I can't speak for the committee, but comments by my colleagues and me have been that we want to see how that program works once it's fully implemented later this year. So I think there wouldn't be any revisiting of that in the near term.

Whether we could get to, you know, farther out, two years out or something, and then leave it, I suppose that's possible. But I think the – most of the sentiment expressed has been that we would simply allow passive runoff of the balance sheet and use the policy rate as our primary instrument. So that's why I think the yield curve issue is not something that can be fixed easily by changing our balance-sheet policy.

Q: What's your view of the recent inflation data? And how confident are you that we get to the 2 percent target by, say, later this year?

MR. BULLARD: The inflation data was unsurprising. It did – the (consumer-price index) data did move up, but that was expected because the way the year-over-year comparisons are working and the dropping out of the – you know, the one-time decline in cellphone prices from last year. So it was not surprising. Year-over-year CPI, core CPI, is now above 2 percent, but it was also above 2 percent all during 2016. And so it's really only come back to the level that it was in that earlier period when interest rates were much lower. So I think – I think these developments so far have been unsurprising.

Q: I'm wondering do you feel anything needs to be done at all to prop up the dollar?

MR. BULLARD: I think – you know, at the Fed we used to never comment on the dollar, so – (laughter) – maybe that's what I should say here. It's not the Fed's policy, so – but it is an input to our policy-making.

So I think the dollar has been somewhat surprising in the last year or so. I think there are good reasons for that. The global growth surprise partly occurred in the U.S., but partly occurred outside the U.S., and the surprise outside the U.S. was bigger than the surprise for the U.S. And so that's why I think foreign currencies did better than the dollar over this period, even though the Fed's been on a – on a path toward higher interest rates and policy normalization, which you would normally think would strengthen the dollar. But I think that was all priced in ahead of time. What wasn't priced in was the global growth surprise, and especially the European growth surprise in 2017.

So, generally speaking, I would say that that explains why the dollar's been weaker than expected. But, as always, in foreign currencies it's much easier to explain after the fact than it is to predict what's going to happen.

Q: Do you get any sense that the committee will proceed with a review of its inflation framework this year? Because, you know, you said you're open to it. Several other policy makers have actually been pushing for one. But it doesn't appear that Chairman (Jerome) Powell is that enthused.

MR. BULLARD: I don't know what the chairman is going to do on this issue. I do think that it is best practice to have a regular review process, as the Bank of Canada does, and that this should be carried out on a calendar basis, not on the basis of current policy considerations, and it should be done with an eye toward medium- and long-term outcomes for monetary policy. The reason I think it's best practice is that even though inflation targeting has become standard around the world and having an inflation target of 2 percent has become standard around the world also changes over time and it's not always clear, you know, that that's going to be, you know, the best policy forever.

And so therefore I think you should have regular review every five years or so to be able to reassess the arguments that were put in place in the first place, and then, you know, confirm that you still think you've got the right policy framework. And there are other rival policy frameworks, including nominal (gross domestic product) targeting, price-level targeting, range or the target instead of a fixed point for the target. All those are burbling issues in the central-banking community globally. I think if we did a review it would likely reaffirm the current framework, but I think it's nevertheless good to have such a review.

Q: Do you have a view on the current economy? It seems like the first quarter looks like it came in maybe around 2 percent.

MR. BULLARD: We've looked at the tracking estimates. They actually had wide dispersion for the first quarter. So I think there's this uncertainty about the first quarter. Some of the – some have been below 2 percent some of the time. Some of the consumption numbers looked a little bit weaker. I think even if the first-quarter GDP comes in weaker than expected, most people will attribute that to residual seasonality, and therefore it won't affect medium-term policy projections. Also, you've got – you have on the whole relatively strong jobs reports, even though the last jobs number was weaker. The stronger jobs reports tend to give people confidence that the economy is still growing at the projected pace.

Q: What do you think the unemployment rate's going to be by the end of the year?

MR. BULLARD: We think it's going to be only slightly lower than what it is right now. You know, I think you're drawing some in from the sidelines with a very strong labor market. And so we're not seeing major change there.

Q: I'm getting a sense that, you know, the committee – the median thing, they're going to raise rates maybe two more times this year, three more times next year. I'm wondering, what are they missing that you're saying that we're so close to neutral?

MR. BULLARD: Yeah, I think the real – the real funds rate, the so-called R-star, is quite low. And forget about my estimates, just take a lot of the Laubach-Williams estimates. It's quite low. And it's not really showing much sign of changing. So it seems to me that the best projection over the forecast horizon is that that R-star will just stay about where it is, because it's partly driven by global factors. And then on top of that, you've got maybe some cyclical elements, fiscal policy, things like that. But that should not – even fiscal policy will dissipate after a while. So I wouldn't want to have a permanent moving rate to handle a temporary fiscal impulse. So I think that's one area where I'm somewhat different from other members of the committee.

Also, I think the fiscal impulse, in my mind, would be more on the supply side. If it works, it'll be more on the supply side. It'll drive productivity higher and potentially lead to more investment. You know, if those things happen, those will be very positive. But those are not things that the Fed has to necessarily respond to.

Q: R-star is about half a percentage point, according to Laubach-Williams? Is that right?

MR. BULLARD: Right. And I'd be lower – I would even go lower than that. So – and I don't think it's going to mean revert. I think it's going to stay about where it is. At least for the purposes of making policy, we shouldn't assume it's going to mean revert. That's my point. We should assume it's going to be about where it is. It's been falling for 30 years. Why would think all of a sudden we're at an inflection point? So I think the most prudent thing to do, policy-wise, is to assume that R-star will stay about where it is, and inflation will be about 2 percent. And that'll give you a pretty low neutral rate – policy rate.

No, I would just add one thing. This is the first time we've tried the call-in method. So if you have feedback let us know. We thought too about trying Skype. I think we're trying to be modern. (Laughter.) So we'll continue to experiment and try to use the best technology we can for these interactions.

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The New York Times

Business Day
Goldman Sachs May Be Getting Its Groove Back

By Emily Flitter
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English

Goldman Sachs has gotten its groove back — for the first three months of 2018, at least.

After a year of uncharacteristic struggles, the bank benefited from wild swings in prices for stocks and other assets to rake in cash in the first quarter, according to an earnings report released on Tuesday.

Accustomed to dominating its rivals in the trading business, Goldman spent the past year trying to figure out how to rev up an operation feeling the pressure of new regulations and facing competition from non-bank trading platforms. As a result, it lagged its closest competitors last year.

No longer. Goldman booked $10 billion in revenue for the quarter, its highest total in three years and a 25 percent increase over the same period in 2017. It reported profits of $2.8 billion, compared with $2.3 billion a year earlier.

Investors were unimpressed. After rallying in early trading on Tuesday, Goldman shares fell more than 1 percent. Its competitors' shares had followed a similar trajectory, falling or barely moving after they reported quarterly earnings on Friday and Monday.

The **stock market**'s roller-coaster ride in the year's first quarter enlivened Wall Street. It was a welcome change after a period of steady gains and muted trading activity that depressed bank profits, which are typically driven by frequent changes in the markets.

While other big banks, including Bank of America, Citigroup and JPMorgan Chase, reported only modest improvements in trading revenue for the quarter compared with the same period last year, Goldman's haul jumped 23 percent. The surge came not just from an increase in stock trading, but also from growth in Goldman's trading in bonds, currencies, commodities and other assets.

"It's good to see a big recovery from last year," said Devin Ryan, an analyst at the investment bank JMP Securities.

Goldman needed the boost. Last month, as widespread concerns about the vitality of its core businesses appeared to confound the bank's leaders, Lloyd Blankfein, the longtime chief executive, suggested he was willing to step aside within the next two years. Positive momentum this year could help smooth the transition for Mr. Blankfein's heir apparent, David Solomon.

The upturn in trading was not the only good news for Goldman. The bank has been bulking up its lending business, which Mr. Blankfein has said the bank would rely on to maintain steady growth the next time **financial markets** start to skid. Goldman said on Sunday that it had bought Clarity Money, a lending app with more than one million users.

The increase in lending appeared to pay dividends in the first quarter. Revenue from loans and other debt products rose more than 50 percent compared with last year. The push also helped Goldman take advantage of rising interest rates, which contributed to the business's $550 million in interest income for the quarter.

Investors apparently want something more. The hedge fund manager Douglas Kass said in a message posted on Twitter early Tuesday that he expected Goldman's stock to drop. "All the gain relative to expectations came from lower tax rate," he said.

Those in the market for bank stocks have mostly shown little enthusiasm for the biggest institutions' first-quarter performances, despite their apparent strength.

Mr. Ryan of JPM Securities said he was not surprised that banks were recording healthy results because they had gotten plenty of help from the Trump administration's tax cuts and a general improvement in the United States economy. Investors, he said, wanted to know that the banks could continue their stellar performances after the initial stimulus from the tax cuts fades.

"People are looking for signs of sustainability," Mr. Ryan said. "I don't think we're getting indications thus far on the earnings calls that the outlook is much better than what's already been anticipated."

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* What's $27 Billion to Wall Street? An Alarming Drop in Revenue

* Bank Earnings Boom as Regulators Relax Rules

Goldman Sachs, after struggling uncharacteristically last year, reported robust first-quarter results on Tuesday. | Michael Nagle/Bloomberg

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THE WALL STREET JOURNAL.

Economy

Housing Starts Edge Higher as Apartment Construction Surges; Starts for buildings with five units or more jumped 16.1% from a month earlier

By Laura Kusisto
713 words
17 April 2018
11:10 AM
The Wall Street Journal Online
WSJO
English

WASHINGTON—U.S. housing starts increased in March but single-family home construction pulled back, which could spell continued inventory shortages and rapid price increases for buyers in the coming months.

Total housing starts increased 1.9% in March from the previous month to a seasonally adjusted annual rate of 1.319 million, the Commerce Department said Tuesday.

The increase was driven by a ramp up in construction of multifamily housing. Starts for buildings with five units or more jumped 16.1% from a month earlier, even as starts for single-family homes declined 3.7%.

"It is a step back for single family and a surge forward for multifamily," said Danielle Hale, chief economist for Realtor.com. "For single family, it's the opposite of what we need to see."

Housing-starts data are **volatile** from month to month and can be subject to large revisions. Multifamily activity is subject to especially large swings. March's 1.9% rise in starts came with a margin of error of 12.4 percentage points.

Residential building permits, which signal how much construction is in the pipeline and tend to be more reliable month-to-month, increased 2.5% to an annual pace of 1.354 million last month. Single-family permits were down 5.5% compared with February.

After a five-year boom in apartment construction, builders have been pulling back on new projects in the past year due to an excess of supply in many major urban markets. Economists expect new multifamily starts to be essentially flat this year compared with last year, while they are expecting a near three-decade high in the number of units completed as projects work their way through the pipeline.

"If there is one surprise, it's just the length of this multifamily cycle," said Jay Parsons, a vice president at real estate software and analytics firm RealPage. "While supply is outpacing demand, there's still an awful lot of demand."

If the acceleration in multifamily starts continues it could signal that developers are shifting back to building rental properties as single-family demand faces headwinds. Rising interest rates and a tax code that is less favorable to homeownership have emerged in recent months as possible challenges.

Single-family starts are down nearly 5% so far this year in the northeast, the region of the country likely to be the most impacted by tax changes that kicked in this year.

"The change toward multifamily could be the initial signs that affordability is starting to impact the mix of construction," said Tendayi Kapfidze, chief economist at LendingTree. "Notably, single-family starts are particularly weak in the high-cost northeast, which is also the most exposed region to the negative impacts of the tax plan." Among other things, the tax bill passed in December limits deductions for property taxes, which tend to be higher in the northeast.

Still, housing demand is outstripping supply. Single-family construction is about half of what it was at the peak of the last housing market in 2006 and 30% below normal levels, which is helping to drive up prices and creating bidding wars in many markets, according to Ms. Hale of Realtor.com. Economists expect single-family starts to increase 5% to 10% this year, not enough to meet demand.

Builder confidence slipped in April, according to the National Association of Home Builders' monthly survey. Builders indicated that the unusually long winter in many parts of the country dampened demand and held back construction.

Builders also cite soaring lumber prices and labor shortages as major obstacles to ramping up construction. That could especially affect builders targeting young buyers.

"If you think about an entry-level home builder who is now entering that space, that's going to be a big factor," said Rob Dietz, chief economist at the National Association of Home Builders.

Longer-term, housing construction is still strengthening. Overall starts increased by 8% in the first three months of 2018 compared with the same period a year earlier.

Sharon Nunn contributed to this article.

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WSJ PRO CENTRAL BANKING

Economy

Industrial Capacity Utilization Hits Three-Year High; The increases in industrial output and a measure of potential capacity signal underlying strength in the economy

By Harriet Torry
500 words
17 April 2018
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English

WASHINGTON—U.S. industrial output rose in March and a measure of industry slack diminished, signs of underlying strength in the economy as factories increased production of business equipment and autos.

Industrial production—including output at factories, mines and utilities—rose a seasonally adjusted 0.5% in March from the prior month, the Federal Reserve said Tuesday. That exceeded economists' expectations for a 0.4% increase. February industrial production was revised to a 1% gain.

Capacity utilization, a measure of slack in the industrial economy, increased 0.3 percentage point to 78%, the highest level in three years. Higher utilization rates mean diminished slack in the sector; diminished slack, in turn, could lead to inflation pressure.

Economists had expected capacity utilization of 77.9% in March.

Production of durable consumer goods increased 0.9% from the prior month, driven by a 2.7% increase in automotive production. In a sign that companies are continuing to invest in new equipment in the wake of last year's tax law, production of business equipment rose 0.5% from February.

Larry Patterson, owner of two Dallas-Fort Worth, Texas-based locations under Dwyer Group's Glass Doctor franchise, expects the tax cuts passed in late 2017 to reduce his tax bill this year by $70,000 to $100,000.

"Instead of reserving that, I'm able to take that and deploy it" toward a new showroom and machinery, he said.

Overall manufacturing output, the biggest component of industrial production, rose 0.1% in March from the prior month, softening from February when it increased 1.5%. U.S. manufacturing activity picked up steam over the past year because of a weaker dollar and stronger global economic growth. From March 2017, manufacturing output rose 3%.

"The monthly numbers have been choppy so far this year, but the underlying picture seems fine," Stephen Stanley, chief economist at Amherst Pierpont Securities, said in a note to clients.

A separate gauge of U.S. manufacturing activity produced by the Institute for Supply Management was 59.3 in March, pulling back after hitting its highest level since 2004 the prior month, the group said in early April. Most components of the factory-activity report moved lower, though raw-material prices continued to climb.

Utility output aided March's increase in industrial production, rising 3% from the prior month after it declined 5% in February due to unseasonably warm temperatures that reduced demand for heating.

Tuesday's report from the Fed showed output in the **volatile** mining sector increased for the second-straight month in March. The mining index, which includes oil and natural gas extraction, rose 1% on the month and was up 10.8% from a year earlier.

From a year earlier, industrial production rose 4.3% in March.

Write to Harriet Torry at harriet.torry@wsj.com

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THE WALL STREET JOURNAL.
U.S. EDITION

Streetwise: Russia's Stocks Show Flaw in Chasing 'Value'

By James Mackintosh
691 words
17 April 2018
The Wall Street Journal
J
B1
English

Russian stocks are dirt cheap. Should you buy them?

The question is likely to provoke a hollow laugh from many investors as they ponder the prospect of a renewed Cold War between East and West. Send capital there? Are you mad?

It is true that Russia looks like a terrible place to invest based on both politics and long-term fundamentals: It is run by a kleptocracy that diverts shareholder cash into its own pockets. It has a nationalist leader happy to use foreign military adventures to distract from deep economic and health problems at home. Its economy is reliant on oil and gas at a time when shale extraction and renewable energy cap the price. And this month, America pushed back with new sanctions and an attack on Russian ally Syria.

Yet everything has a price. Russian stocks are cheap on every measure. Even before last week's selloff, Russia was one of the two cheapest significant countries in the world on each of price/earnings, price-to-book, price-to-cash-flow, dividend yield and cyclically adjusted price/earnings, according to Germany's Star Capital AG. Gazprom, Russia's third-largest company by value, trades at just four times earnings.

Russia's cheapness shows up the trouble with simple "value" strategies. The simplest approach would buy Russia purely because it is cheap, just as it would buy stocks in U.S. department stores because they trade more cheaply than the **S&P 500**. But the risk of more serious sanctions or confiscation justify a lower price than before, and Russia's terrible governance already justified a low price.

The Russian market closed at six times estimated operating earnings on Friday, compared with above 16 times for the **S&P 500**. Some investors think that represents value. Boston-based value investor Grantham, Mayo, Van Otterloo & Co. is adding to its already large holding of Russian stocks, arguing that the bad news is fully priced in.

"We've always said you make more money when things go from truly awful to merely bad than when they go from good to great," said Arjun Divecha, GMO's head of emerging-market equities. "Russia's relationship with the world is now approaching truly awful."

Still, the Russian market is usually much more sensitive to **oil price** than it is to sanctions. When Russia sent troops into Crimea in February 2014 and the U.S. and Europe responded with sanctions, Russian stocks tumbled more than 10% in two weeks. By June investors had shrugged off the effects and focused instead on the price of crude. Unfortunately for them, the **oil price** crashed.

Plunging oil made the Russian market truly cheap. In January 2015 it reached a nadir of just 3.5 times that year's estimated earnings, with Gazprom at two times. The rise in oil since then has pushed the market's valuation back above the average of the past five or past 10 years.

Reaching back further, Russia provides one of history's great examples of why politics is sometimes the only thing that matters to investors. In 1917, the Bolshevik Revolution entirely destroyed what had been a significant **stock market**. Marxist-Leninist ideology no longer has a place in the Kremlin, and it would be an enormous escalation for Russia to expropriate foreign shareholders. But the chance of investors losing out to Russian confiscation or being frozen by Western sanctions has clearly risen.

To think Russia is cheaper than it should be requires two assumptions: First, company management and the state will siphon off less than shareholders assume. Second, the U.S. pushback against Russia over the past two weeks isn't the start of a more concerted attempt to ruin the Russian economy.

Both might well be true. After all, both the most recent sanctions and the Syrian strike were carefully targeted. But as Mr. Divecha says, the assessment takes human judgment. Don't be fooled into thinking that purely because Russian stocks are cheap, they must be a bargain.

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WSJ PRO CENTRAL BANKING

Economy

Trump to Nominate Clarida and Bowman | Trump Comments on Currency Values, Fed | Dudley Isn't Worried About Stock Market | Quarles Weighs Letting Banks Comment on 'Stress Tests' | Wessel's Take: The Three Ts; The Wall Street Journal's central banking newsletter for Tuesday, April 17, 2018

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Wessel's Take: The Three Ts

Trump to Nominate Clarida and Bowman to Fed Board

Trump Breaches Precedent by Commenting on Currency Values, Stocks, Fed

Fed's Dudley Says Isn't Worried About Stock Market--CNBC

Fed's Quarles Weighs Letting Banks Comment on 'Stress Tests'

The Three Ts

When central bankers and finance ministers from around the world convene in Washington this week for the spring meetings of the International Monetary Fund and World Bank, there'll be three big themes in the air: Trade, technology and trust.

Trade, of course, is on everyone's mind for obvious reasons. For central bankers, the question is whether President Donald Trump's tough talk on trade will lead to actions here and abroad that'll disrupt an otherwise promising global economic outlook – and, if so, whether that should influence monetary policy. A "strong majority" of Federal Reserve officials viewed "the prospect of retaliatory trade actions by other countries, as well as other issues and uncertainties associated with trade policies, as downside risks for the U.S. economy," according to the minutes of the Fed's March policy meeting. Meanwhile, the president's latest tweets suggest that he may suddenly have realized that higher U.S. interest rates may lead to an appreciation of the U.S. dollar.

Technology poses two big questions for central bankers. First, how should they regard fintech and cryptocurrencies? Do they threaten financial stability? Are current regulatory regimes suited for these new technologies? And do the changes in the technology of finance change the way monetary policy is transmitted to the economy? The second question is even bigger: How will artificial intelligence and related technologies change the economy? Will they increase productivity? Will they produce a golden age of growth or a dysfunctional era of displaced workers? How does AI influence projections of the long-term natural equilibrium interest rate?

And then there is trust. The latest survey data from the Organization for Economic Cooperation and Development documents the decline in public trust in government around the world.

International Monetary Fund Managing Director Christine Lagardewarns that the multilateral "system of rules and shared responsibility is now in danger of being torn apart." Respect for technocrats who make policy based on facts and analysis is eroding, a challenge to central bankers whose independence from the political process depends on public confidence that they are both competent and are acting in the interests of the whole economy.

The economic weather right now is sunny – and that is surely welcome. But there are some dark clouds on the horizon.

David Wessel is a contributing correspondent for The Wall Street Journal and director of the Hutchins Center on Fiscal and Monetary Policy at the Brookings Institution. www.brookings.edu/hutchinscenter

Key Developments Around the World

Trump to Nominate Clarida and Bowman to Fed Board

President Donald Trump said Monday he plans to make two nominations to the Federal Reserve Board, including Columbia University economist Richard Clarida as vice chairman. Mr. Clarida is a Republican economist and monetary policy specialist. If confirmed by the Senate, he would serve as the No. 2 to Fed Chairman Jerome Powell, who began a four-year term in February. The second nominee is Michelle Bowman, who has been Kansas' bank commissioner since January 2017. She would fill a spot on the seven-member Fed board reserved for a community banker or regulator of community banks. Congress designated the community banker seat in 2014.

Trump Breaches Precedent by Commenting on Currency Values, Stocks, Fed

The Trump administration has veered away from a rule of thumb in place at the White House and U.S. Treasury for roughly a quarter-century: Avoid commenting on the dollar, the Federal Reserve or daily moves in stock markets. President Donald Trump illustrated the departure on Monday with a tweet taking note of recent currency **volatility**. "Russia and China are playing the Currency Devaluation game as the U.S. keeps raising interest rates," he said. "Not acceptable!"

Fed's Dudley Says Isn't Worried About **Stock Market**--CNBC

New York Fed President William Dudley sounded unperturbed about recent **stock-market** moves in a television interview Monday, while reaffirming his belief that the U.S. central bank is on track for more rate rises this year. "I'm not going to opine on the proper value of the **stock market**," Mr. Dudley said in an interview on CNBC. "But it seems to me if you look at the **stock market** in the context of an economy that is growing, and is expected to grow over the next few years, the **stock market** valuations don't look, you know, unreasonable." He also shrugged off big daily moves in stocks, saying: "We are back to a more normal regime" when it comes to **volatility**. "As long as market function is good…it's not a problem" from the Fed's point of view, he said.

WSJ Pro Transcript: CNBC Interview With New York Fed President William Dudley

WSJ Pro Transcript: Audience Q&A with St. Louis Fed's Bullard

Fed's Quarles Weighs Letting Banks Comment on ‘Stress Tests'

The Fed's regulatory czar wants to consider letting banks publicly comment on the scenarios in the Fed's annual "stress tests," a shift from previous leadership that could open up the crucial exams to more industry criticism. Fed Vice Chairman for Supervision Randal Quarles made the suggestion in written testimony submitted Monday to the House Financial Services Committee. He is scheduled to appear before that panel on Tuesday and to testify in the Senate on Thursday. "I personally believe that our stress testing disclosures can go further, and that we should consider additional measures, such as putting our stress scenarios out for comment," Mr. Quarles says in the testimony.

Bank of Canada Likely to Hold Rates Steady

Canada's central bank is expected to leave its benchmark interest rate unchanged Wednesday as officials wait for more certainty on the outcome of North American Free Trade Agreement negotiations. Economists from 10 of the 11 primary dealers of Canadian government securities told The Wall Street Journal they anticipate the Bank of Canada will keep its key rate at 1.25% this week. A majority of those surveyed said they expect at least one more interest rate increase during the second half of 2018, though many said the timing could depend on when a Nafta deal is reached.

RBA Remains Cautiously Optimistic On Economy

Australia's central bankremains cautiously optimistic on the economic outlook, saying the next move in interest rates is likely to be up, but it will take time before the case to tap on the brakes becomes clear. n minutes of its April 3 policy meeting published Tuesday, the Reserve Bank of Australia maintained a steady course saying it expects GDP growth to be above trends (trend is around 2.75%) in late 2018, with inflation edging back into the lower end of its 2-3% target band in the same period.

Bank Indonesia Expected to Keep Rates on Hold

Bank Indonesiawill likely keep borrowing costs unchanged Thursday, a policy that may continue through the first half of the year as inflation remains in check. All 10 economists polled by The Wall Street Journal predicted the central bank will keep its benchmark 7-day reverse repo rate at 4.25% as tightening at this time may clip growth in the Southeast Asia's largest economy. In September it cut the rate by a quarter of a percentage point.

Tuesday

9:15 a.m. EDT

San Francisco Fed's Williams speaks

10 a.m. EDT

Fed's Quarles testifies before House Financial Services Committee

11 a.m. EST

Philadelphia Fed's Harker speaks

1:10 p.m. EDT

Chicago Fed's Evans speaks

Wednesday

8:30 a.m. EDT

New York Fed's Dudley speaks

10 a.m. EDT

Bank of Canada releases rate announcement, monetary policy report

11:15 a.m. EDT

Bank of Canada's Poloz and Wilkins hold press conference in Ottawa

2 p.m. EDT

U.S. Federal Reserve releases beige book report on U.S. economic conditions

3 p.m. EDT

New York Fed's Dudley speaks

4:15 p.m. EDT

Fed's Quarles speaks

It May Get Worse Before it Gets Better: The Short-Term Employment Consequences of Structural Reforms

"Structural reforms can trigger and sustain economic growth, but they can also present transitory costs that policymakers seek to avoid during economic downturns," Andrea Bassanini and Federico Cingano write in a VoxEU column. They analyze "the short-term response of employment levels to product and labor market reforms" and find while "reforms entail non-negligible transitory employment losses on average, the losses are smaller for reforms implemented during economic upswings and in countries with significant [labor] market dualism."

How Regulation Affects Bank Competition

Riccardo De Bonis, Giuseppe Marinelli and Francesco Vercelli study the impact of regulatory changes on competition in the Italian banking system and find "the evolution of regulation itself has been an important driver of competition," confirming, "the financial sector does not change monotonically over time." Their estimates show a "yo-yo pattern, linked to regulatory changes" in history, ranging from extremely high competition in the 1920s when "barriers to entry were negligible" to competition declining during the 1990s and then remaining stable "during the long Italian recession of 2008–2014."

Long-Term Real Rates Have Fallen Only Modestly

Long-term real interest rates have fallen only slightly over recent decades, while additional monetary easing during the financial crisis would have provided more stimulus than at other times, according to an analysis by Benjamin K. Johannsen and Elmar Mertens that accounts for the effective lower bound on nominal interest rates. "Since the globalfinancial crisis of 2008, real interest rates have been historically low, prompting some — for example, Summers (2014) and Rachel and Smith (2015) — to argue that the long-run level of the real interest rate has fallen," they write in paper published by the Bank for International Settlements. "However, trend-cycle decompositions hinge on estimates of the relative size of shocks to trend and cycle, which has likely changed between the Great Moderation period that began in the 1980s and the last recession and its aftermath. We embed estimation of trend real rates in a stochastic **volatility** model whose estimates see recent declines in real rates as largely cyclical in nature. As a result, our estimates of the trend real rate are less variable than those reported, for example, by Laubach and Williams (2003, 2015) having edged down only modestly in recent decades."

Investors Watch Cut: U.S. Fed May Be More Hawkish Than Markets Realize

Nicholas Spiro says the Fed is signaling that it expects inflation to pick up and will push ahead with raising rates, undeterred by market **volatility**. Investors should question whether buoyant markets are pricing in the risks of a more aggressive Fed. "While the flattening of the U.S. yield curve – and the possibility that it may soon invert – could reflect a variety of factors, it is more indicative of investor complacency about rising inflation and tighter monetary policy than concerns about a sharp downturn in the U.S. economy," which is "proving more resilient and is benefiting from a huge fiscal stimulus following the recent enactment of aggressive corporate tax cuts," he writes in the South China Morning Post's The View. "In the minutes of last month's Fed meeting, policymakers stressed that the stimulus was likely to provide a "significant boost" to output, helping drive up inflation...Yet markets still doubt whether consumer prices will rise significantly...Investors would be well advised to position themselves for a more hawkish-than-expected Fed."

No Need to Panic About International Trade

"There has been an increase in the number of articles about the end of globalization, declining world trade, and what that means for everybody. The actual data suggests, however, that panic may be premature," William A. Reinsch writes for the Center for Strategic & International Studies. In a recent speech, World Trade Organization (WTO) director general Roberto Azevedo "noted that global trade grew 4.7 percent last year, which was the largest increase in six years, and that it is predicted to grow at the rate of 4.4 percent this year and 4 percent next year," he writes. "The report also noted that these numbers are below the average annual growth rate since 1990, which is 4.8 percent. So, the news is not spectacular, but it also is not panic inducing... World trade is not declining—yet—it is growing, and growing at a still-respectable rate. The question the United States faces is to what extent we will continue to be a part of it."

Weidmann is the Best Candidate for Eurozone Reform

Of the potential candidates to succeed Mario Draghi as head of the European Central Bank, Bundesbank President Jens Weidmann is best placed to secure needed changes in the eurozone's basic architecture, writes Mervyn King for Bloomberg View. "The crucial thing will be to overcome resistance in Germany to higher inflation and fiscal transfers," writes the former governor of the Bank of England. "Up to now, this resistance has been led by the Bundesbank and its allies in the German community of monetary scholars. What better way to stifle this opposition than to have as the ECB's president a highly respected German central banker -- one who would in the end be compelled to do "whatever it takes" to save the euro system, but who could never be suspected of willingly accepting higher inflation and bigger fiscal transfers?"

Spending at U.S. retailers bounced back in March, but the broader trend in consumer spending shows only moderate growth despite a solid labor market and growing worker paychecks... Part of the rise in retail sales was an expected bounceback after three consecutive months of weak readings. In February, sales dropped 0.1% after a 0.2% drop in January and a 0.1% decline in December.

China's economy expanded at a faster-than-expected 6.8% in the first quarter, bucking expectations for a slowdown, though flagging exports and factory output may prove a drag in the coming months.

The unemployment rate in the U.K. declined in February to its lowest level in more than 40 years, while wage growth strengthened, signs that the labor market remained healthy despite weak growth at the start of the year.

Send us your tips, suggestions and feedback. Write to:

Jon Hilsenrath; Katy Burne; Michael Derby; Nell Henderson; Jason Douglas; Paul Hannon; Harriet Torry; Kate Davidson; David Harrison; Kim Mackrael; Tom Fairless; Michael Maloney.

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The New York Times

Business/Financial Desk; SECTB

Glimmers of Earnings Help Investors Shake Off Gloom

By THE ASSOCIATED PRESS
858 words
17 April 2018
The New York Times
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4
English

Investors shrugged off geopolitical jitters on Monday, sending stocks broadly higher in the United States and extending the market's gains from last week.

Technology companies, health care stocks and industrial companies accounted for much of the rally as traders focused on the latest corporate earnings and deal news. **Oil prices** fell after surging last week ahead of the United States-led missile attack on Syria's chemical weapons program.

''It's some relief from the global political situation over the weekend,'' said Willie Delwiche, an investment strategist at Robert W. Baird & Company. ''The other thing is, we've had, over the last few weeks particularly, this buildup in pessimism, and that provided some opportunity for stocks to rally once the news of this event was out of the way.''

The **Standard & Poor's 500**-**stockindex** rose 21.54 points, or 0.8 percent, to 2,677.84. The **Dow Jonesindustrial average** gained 212.90 points, or 0.9 percent, to 24,573.04. The **Nasdaq composite** index added 49.63 points, or 0.7 percent, to 7,156.29. The Russell 2000 index of smaller-company stocks picked up 13.52 points, or 0.9 percent, to 1,563.03.

The market was in rally mode from the start of trading on Monday, despite a sell-off on major indexes in Europe.

Investors seemed to put aside concerns over the tensions that led to Friday night's missile attack by the United States, Britain and France on Syria's chemical weapons program. On Monday, the White House said it was considering imposing additional sanctions on Russia, a major ally of the Syrian president, Bashar al-Assad.

Instead, the market shifted its focus to corporate America. Wall Street is forecasting the strongest growth in seven years for **S**.**&P**. **500** companies, and the hope has been that healthy profit reports will steady the market after a rough couple of months. Over the long term, stock prices tend to track the progress of corporate profits.

Investors welcomed J. B. Hunt Transport Services' latest quarterly results on Monday. The company said shipping volumes grew in the first quarter and rates increased. Its shares climbed 6.2 percent to $119.75.

Bank of America also got a post-earnings lift after it posted a larger profit, helped by corporate tax cuts and rising interest rates. Its shares rose 0.4 percent to $29.93.

A couple of gambling companies were among the big movers on Monday.

Icahn Enterprises, the company controlled by the billionaire investor Carl Icahn, struck a roughly $1.85 billion deal that would fuse the gambling and hotel operations of Tropicana Entertainment to Eldorado Resorts. Tropicana vaulted 26.8 percent to $69.75. Eldorado jumped 16.3 percent to $41.50.

The truck and engine maker Navistar International jumped 9.9 percent to $40.71 after Reuters reported that Volkswagen might buy it.

Traders sold shares in WPP, the world's largest ad agency, after its chief executive, Martin Sorrell, resigned over an investigation into personal misconduct. Analysts say his departure could leave the company he founded three decades ago rudderless, but could also lead to parts being sold off for higher value. The stock fell 4.7 percent to $80.56.

Oil prices fell back from spikes last week on fears over an escalation of strife in the Middle East. Benchmark United States crude declined $1.13 to settle at $66.20 a barrel on the New York Mercantile Exchange. Brent crude, which is used to price international oils, slid $1.16 to close at $71.42 a barrel.

Bond prices held steady at 9910/32, and the yield on the **10**-**year Treasury** ticked down slightly to 2.83 percent.

The dollar fell to 107.13 yen from 107.36 yen on Friday. The euro strengthened to $1.2375 from $1.2335.

Gold rose $2.70 to $1,347.50 an ounce. Silver added 2 cents to close at $16.68 an ounce. Copper gained 2 cents to $3.10 a pound.

In other energy futures trading, heating oil dropped 3 cents to $2.07 a gallon, while wholesale gasoline slid 3 cents to $2.04 a gallon. Natural gas rose 2 cents to $2.75 per 1,000 cubic feet.

Major indexes in Europe finished mostly lower. The German DAX lost 0.4 percent, while the CAC 40 in France ended essentially flat. The FTSE 100 in Britain dropped 0.9 percent.

In Asia, the Japanese Nikkei 225 index rose 0.3 percent, while in Hong Kong, the Hang Seng Index dropped 1.6 percent. In South Korea, the Kospi edged 0.1 percent higher. The Australian S&P ASX 200 index picked up 0.2 percent.

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

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

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The New York Times

Business/Financial Desk; SECTB
Trump Nominates Monetary Expert for No. 2 Job at Federal Reserve

By JIM TANKERSLEY
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WASHINGTON -- President Trump continued a sweeping remake of the Federal Reserve's leadership on Monday by nominating Richard Clarida, a Treasury official in the administration of President George W. Bush, for the Fed's second-ranking job.

Mr. Clarida, a Columbia University economist, is a scholar in monetary policy whose expertise would complement the background of the Fed chairman, Jerome H. Powell, who is not an academically trained economist.

In addition to the nomination of Mr. Clarida, which was widely expected, the White House announced that Mr. Trump would nominate Michelle Bowman, the Kansas bank commissioner, for a seat on the Fed board to represent community banks. Ms. Bowman is a former vice president at Farmers & Drovers Bank in Council Grove, Kan.

The Fed's seven-seat Board of Governors is currently functioning with three members, and the vacancies give Mr. Trump the opportunity to put his own stamp on monetary policy.

If confirmed by the Senate, Mr. Clarida would be part of the Fed's leadership troika, along with Mr. Powell and John C. Williams, who will have a seat on the central bank's policymaking board as the incoming president of the Federal Reserve Bank of New York.

Mr. Powell, who succeeded Janet L. Yellen, has been a Fed governor, a partner at the Carlyle Group and a Treasury official under President George Bush. Mr. Williams, an academic economist, currently leads the Federal Reserve Bank of San Francisco.

Mr. Clarida, 60, served as assistant Treasury secretary for economic policy from 2002 to 2003. For more than a decade, he has been a global strategic adviser for the investment giant Pimco. His academic work includes research papers on exchange rates, inflation and optimal monetary policy.

His nomination won quick applause from Fed watchers and some economists, who cast him as a serious thinker unlikely to radically pull the central bank away from its gradual approach to raising interest rates as the economy continues to heal from the financial crisis.

''Rich Clarida is an outstanding monetary economist whose knowledge of monetary policy and international finance will add greatly to the Fed in this most interesting time,'' said R. Glenn Hubbard, the dean of Columbia's business school and a former chairman of the second President Bush's Council of Economic Advisers. ''In addition, Rich's knowledge of and experience in **financial markets** will make him a valuable colleague for Chairman Powell.''

Tim Duy, a University of Oregon economist and the writer of the Fed Watch blog, said in an email that Mr. Clarida was ''a solid pick -- a respected academic economist plus market experience via Pimco plus government experience.''

''I don't think every position needs to be filled by a trained macroeconomist, but given the nature of the job, I think there needs to be a heavy dominance of trained macroeconomists,'' Mr. Duy said. ''I think he fits within the current consensus as well so, like the elevation of Williams, represents largely a maintenance of the status quo, at least for now.''

Tony Fratto, a former colleague of Mr. Clarida's at the Treasury Department, said the nominee's positions were always driven by data.

''He's a traditional conservative Republican economist,'' Mr. Fratto said. ''You're not going to find a lot of controversial positions from him. You're not going to find him saying things that are particularly ideological. He's just a strong policy guy.''

The post to which Mr. Clarida was nominated had been vacant since Stanley Fischer, an appointee of President Barack Obama, stepped down in October.

One thing his nomination will not do is bring diversity to the Fed's leadership team, which is all-male and all-white -- a complaint liberal groups made about the New York Fed's selection of Mr. Williams. But the reaction to Mr. Clarida's selection among Fed critics was reserved.

''Like all nominees, Clarida should be vetted thoroughly for his commitment to the full-employment mandate and to regulating banks to avoid another financial crash,'' said Shawn Sebastian, the director of the Fed Up campaign, a coalition of labor and other liberal groups that have pushed the Fed to keep interest rates low to aid job creation.

Ms. Bowman, 46, would increase gender diversity on a board that includes only one other woman, Lael Brainard, along with Mr. Powell and Randal K. Quarles, the Fed's vice chairman for supervision. Mr. Trump has also nominated Marvin Goodfriend, an economist at Carnegie Mellon University, to the board -- although his confirmation is in question in the Senate.

Like Mr. Clarida, Ms. Bowman is a veteran of the second Bush administration, where she worked for the Federal Emergency Management Agency and the Department of Homeland Security. Before returning to her native Kansas in 2010, she led a government and public affairs consulting company in London.

Senator Sherrod Brown of Ohio, the top Democrat on the Senate Banking Committee, said he looked forward to hearing more from the nominees, but suggested that he would want assurances that neither would participate in the Trump administration's rollback of financial regulations established after the 2008 financial crisis.

''I hope Mr. Clarida and Ms. Bowman don't have the same collective amnesia that plagues many in this administration,'' he said.

Richard Clarida is ''a traditional conservative Republican economist,'' said one former colleague at the Treasury Department. (PHOTOGRAPH BY PIMCO, VIA REUTERS)

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THE WALL STREET JOURNAL.
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U.S. News: Despite Tax Cuts, Consumers Shy From Spending

By Harriet Torry and Sarah Chaney
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Spending at U.S. retailers bounced back in March, but the broader trend in consumer spending shows moderate growth despite a solid labor market and growing worker paychecks.

The Commerce Department reported that retail sales reversed three straight months of declines in March, rising 0.6% from the prior month thanks largely to a bump in auto sales.

While March's gain exceeded economists' expectations, it offered little evidence of a breakout in household outlays. Overall retail sales edged up 0.2% in the first quarter from the fourth quarter. In the fourth quarter, a holiday-sales period, they rose a more robust 2.5% from the prior quarter.

Sales data are watched closely as an indicator of trends in consumer spending, which drives more than two-thirds of economic output. The sales pace in recent months suggest the economy expanded modestly in the first quarter. The Federal Reserve Bank of Atlanta estimates output grew at a 1.9% annual rate in the first quarter, slower than a 3% annual rate in the final nine months of 2017.

"It's disappointing that we didn't get a bit more momentum as the quarter ended," said Jim O'Sullivan, chief U.S. economist at consultancy High Frequency Economics. He said a strong labor market and the tax overhaul should nonetheless provide a robust backdrop for the second quarter.

Data on retail sales can be **volatile** from month to month, aren't adjusted for inflation, and don't include spending on most services such as housing and health care. That makes them an incomplete reading on the overall economy.

The first quarter is traditionally the weakest of the year as consumers hunker down after the holidays, though seasonal adjustments in federal statistics should account for that in monthly reports.

The first quarter this year was complicated by tax developments. Annual tax refunds were delayed, which might have prompted households to put off spending early in the year. Separately, tax withholding was reduced to account for last year's tax cuts, which could lead to more spending down the road.

Michael Pavalock, a 48-year-old Louisiana resident, said he has been traveling more and has purchased four guns and a Harley-Davidson motorcycle, in part because of the additional disposable income he gets from tax cuts.

Still, some analysts saw signs that consumer spending could disappoint. "It's an old recovery, people just don't need as much," said Susan Sterne, president of Economic Analysis Associates, an advisory firm specializing in tracking consumer behavior.

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THE WALL STREET JOURNAL.
U.S. EDITION

America Needs Federal 'Baby Bonds'

By David M. Smick
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The Wall Street Journal
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Speaker Paul Ryan has announced his retirement, but he still has time to pass legacy-defining legislation. He should focus his final months in office on alleviating the poverty trap, wherein people who try to leave welfare become cornered as they face a loss of benefits and unduly high marginal tax rates.

Previous efforts at reform have been halted by demagoguery, but a bipartisan plan that also addresses the U.S. economy's means of wealth distribution has a chance of success. Call it the Escape From Poverty Plan.

A large portion of wealth creation today is distributed through equity markets. Since it hit bottom in 2009, the **S&P 500 stock index** has nearly quadrupled, but tens of millions of Americans don't own stocks. For those at the bottom, stock ownership is largely nonexistent. Meanwhile, wages have remained relatively flat.

In coming decades, an increasing portion of the world's economic dynamism will be powered by the tech revolution, much of which will occur outside the U.S. Many of the fastest-growing economies are in Africa. India could become a 21st century juggernaut.

Affluent Americans whose stock portfolios include a global component will tap directly into this wealth creation. Mere wage earners and those at the bottom economic rungs will not. The challenge is to enable more Americans to own securities.

Less than a decade ago, Congress was close to taking a modest first step. A remarkable bipartisan coalition in the Senate -- from Jeff Sessions to Chuck Schumer -- backed legislation that would have established "American Birthright Accounts." These accounts would have given newborn Americans a $500 "baby bond." But the proposal fell to the wayside.

Congress should consider a revamped version of this initiative that offers future Americans the opportunity to become stockholding capitalists. The federal government could set up a tax-free stock-investment account for each child born in the U.S. It would begin with, say, a $5,000 low-interest loan as seed capital, to be paid back in 50 years. The loan would include a modest interest rate, with the interest balloon payment due at the end of the loan period. (A lot of details would need to be established to prevent abuse of the program and to protect participants.)

The plan should offer a small selection of diversified U.S. and global index fund investment choices, all overseen by the U.S. Treasury. Within strict limits, an account holder could use some of the profits for education after turning 18. On the government's books, the transaction would be a loan, not an expenditure.

Big Wall Street banks were offered massive amounts of low-interest loans to repair their balance sheets during the financial crisis. Why not do the same for children of working-class families? Those families earning less than $60,000 in joint income should also pay no federal tax on any stock or bond investment income. And Congress should explore better ways to encourage companies, large and small, to initiate or expand employee investment programs.

There are no guarantees here. Equity markets correct and sometimes collapse. Birthright accounts alone are no magic formula for ending poverty. Still, since 1930 the U.S. **stock market** -- even factoring in the Depression-ridden 1930s and stagflation-plagued 1970s -- increased by an average annual rate of about 7% after inflation. In the future Warren Buffett predicts average annual long-term **equity market** returns, including reinvested dividends, of up to 7%. It would be reasonable to expect that a global, indexed birthright investment account could, after decades of compounding, become a sizable nest egg.

Can index funds capture global, tech-driven wealth creation? Mr. Buffett's recent public bet showed the return on index funds to be superior to those achieved by the best, most specialized traders. And the **bull market** of recent years has demonstrated one thing: A relatively few tech stocks can drive the broader indexes.

Some conservatives may object, but there is a precedent for this approach. The Homestead Act of 1862, signed by President Lincoln, gave out public land grants at little or no cost, setting the stage for mass property ownership that underpins American democracy. It may be the most important piece of economic legislation in U.S. history.

To expand opportunity, average Americans must have better access to the **financial-market** growth wave. In a global economy in which digitization and artificial intelligence could produce significant economic disruption, families on the lower rungs need a user-friendly way to tap into the world's future wealth generation. They need to become more familiar with the investment economy.

Combining welfare and entitlement reform with some form of birthright accounts could be a first step toward a policy that brings that economic security to all Americans -- while eliminating poverty traps.

Mr. Smick, chairman and CEO of Johnson Smick International, is author of "The Great Equalizer: How Main Street Capitalism Can Create an Economy for Everyone" (PublicAffairs, 2017).

(See related letters: "Letters to the Editor: American Babies Already Have Enough Debt" -- WSJ April 24, 2018)

(See related letter: "Letters to the Editor: The Many Advantages of U.S. 'Baby Bonds'" -- WSJ May 1, 2018)

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THE WALL STREET JOURNAL.

Markets

Russia's Cheap Stocks Show What 'Value' Misses; The country's stock market is at six times forward earnings compared with above 16 times for the S&P 500

By James Mackintosh
850 words
16 April 2018
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The Wall Street Journal Online
WSJO
English

Russian stocks are dirt cheap. Should you buy them?

The question is likely to provoke a hollow laugh from many investors as they ponder the prospect of a renewed Cold War between east and west. Send capital there? Are you mad?

It is true that Russia looks like a terrible place to invest based on both politics and long-term fundamentals: It is run by a kleptocracy that diverts shareholder cash into its own pockets. It has a nationalist leader happy to use foreign military adventures to distract from deep economic and health problems at home. Its economy is reliant on oil and gas, at a time when shale extraction and renewable energy cap the price. And this month, America pushed back with new sanctions and an attack on Russian ally Syria.

Yet, everything has a price. Russian stocks are cheap on every measure. Even before last week's selloff, it was one of the two cheapest significant countries in the world on each of price-to-earnings, price-to-book, price-to-cashflow, dividend yield and cyclically-adjusted price-to-earnings, according to Germany's Star Capital AG. Gazprom, Russia's third-largest company by value, trades at just four times earnings.

Russia's cheapness shows up the trouble with simple "value" strategies. The simplest approach would buy Russia purely because it is cheap, just as it would buy stocks in U.S. department stores because they trade more cheaply than the **S&P 500**. But the risk of more serious sanctions or confiscation justify a lower price than before, and Russia's terrible governance already justified a low price. In the same way, the threat from Amazon.com Inc. justifies a lower price for department stores.

The question is how low. The Russian market trades below book value, implying that investors think some past investments will have to be written off. The market closed at six times estimated operating earnings on Friday, compared with above 16 times for the **S&P 500**.

Some investors think that represents value. The handful of Russia-dedicated equity funds outside the country attracted inflows last week, suggesting contrarians were busy buying. Boston-based value investor Grantham, Mayo, Van Otterloo & Co. is among those adding to its already large holding of Russian stocks, arguing that the bad news is fully priced in.

"We've always said you make more money when things go from truly awful to merely bad than when they go from good to great," said Arjun Divecha, GMO's head of emerging-market equities. "Russia's relationship with the world is now approaching truly awful."

That relationship can always get worse. Russian stocks fell further on Monday as more U.S. sanctions were discussed, and could fall far more if the U.S. was drawn into a military confrontation with Russia in Syria.

Still, the Russian market is usually much more sensitive to **oil price** than it is to sanctions. When Russia sent troops into Crimea in February 2014 and the U.S. and Europe responded with sanctions, Russian stocks tumbled more than 10% in two weeks. Investors were spooked—and quickly calmed down again. By June investors had shrugged off the effects, and focused instead on the price of crude. Unfortunately for them, the **oil price** then crashed.

Plunging oil made the Russian market truly cheap. In January 2015 it reached a nadir of just 3.5 times that year's estimated earnings, with Gazprom at two times. The rise in oil since then has pushed the market's valuation back above the average of the past five or past ten years.

Reaching back further into the past, Russia provides one of history's great examples of why politics is sometimes the only thing that matters to investors. In 1917, the Bolshevik Revolution entirely destroyed what had been a significant **stock market**. Marxist-Leninist ideology no longer has a place in the Kremlin, and it would be an enormous escalation for Russia to expropriate foreign shareholders. But the chance of investors losing out to Russian confiscation or being frozen by western sanctions has clearly risen.

To think Russia is cheaper than it should be requires two assumptions. First, company management and the state will siphon off less than shareholders assume, so stocks were cheap even before this month's selloff. Second, the U.S. pushback against Russia of the past two weeks isn't the start of a more concerted attempt to ruin the Russian economy, so the share price fall is overdone, just as it was in 2014.

Both might well be true. After all, both the most recent sanctions and the Syrian strike were carefully targeted. But as Mr. Divecha says, the assessment takes human judgment. Don't be fooled into thinking that purely because Russian stocks are cheap, they must be a bargain.

Write to James Mackintosh at James.Mackintosh@wsj.com

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The New York Times

Business Day; Economy

Trump Picks Monetary Expert for No. 2 Job at Federal Reserve

By Jim Tankersley
533 words
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English

WASHINGTON — President Trump will nominate Richard Clarida, a Columbia University economist and former Treasury official in the George W. Bush administration, for the second-ranking job at the Federal Reserve, the White House said on Monday.

Mr. Clarida is a monetary policy scholar whose expertise would complement the background of the Fed chairman, Jerome H. Powell, who is not an academically trained economist. His nomination was widely expected. If confirmed by the Senate, he would join Mr. Powell and John C. Williams, the incoming president of the Federal Reserve Bank of New York, in the leadership troika for America's central bank.

The White House also said on Monday that Mr. Trump would nominate Michelle Bowman, the Kansas bank commissioner, for a seat on the Fed board that represents community banks. Ms. Bowman is a former vice president at Farmers & Drovers Bank in Council Grove, Kan.

Mr. Clarida served as assistant Treasury secretary for economic policy from 2002 to 2003. For more than a decade, he has been a global strategic adviser for the investment giant Pimco. His academic work includes research papers on exchange rates, inflation and optimal monetary policy.

His nomination won quick applause from Fed watchers and some economists, who cast him as a serious thinker who is unlikely to pull the central bank radically away from its gradual approach to raising interest rates as the economy continues to heal from the financial crisis.

"Rich Clarida is an outstanding monetary economist whose knowledge of monetary policy and international finance will add greatly to the Fed in this most interesting time," said R. Glenn Hubbard, the dean of Columbia's business school and a former chairman of Mr. Bush's Council of Economic Advisers. "In addition, Rich's knowledge of and experience in **financial markets** will make him a valuable colleague for Chairman Powell."

Tim Duy, a University of Oregon economist who writes the Fed Watch blog, said Mr. Clarida was "a solid pick — a respected academic economist plus market experience via Pimco plus government experience."

"I don't think every position needs to be filled by a trained macroeconomist, but given the nature of the job, I think there needs to be a heavy dominance of trained macroeconomists," Mr. Duy said. "I think he fits within the current consensus as well so, like the elevation of Williams, represents largely a maintenance of the status quo, at least for now."

Ms. Bowman is also a veteran of the George W. Bush administration, where she worked for the Federal Emergency Management Agency and the Department of Homeland Security. Before returning to her native Kansas in 2010, she led a government and public affairs consulting company in London.

* Fed Officials Have Concerns About Trade, March Meeting Minutes Show

* The Big Question for Markets: Is There a Kudlow or Powell 'Put'?

* More Jobs, Faster Growth and Now, the Threat of a Trade War

* New York Fed Names John Williams President, Bucking Calls for Diversity

Richard Clarida, a former Treasury official and a monetary expert, is President Trump’s nominee for the No. 2 post at the Federal Reserve. | Reuters

Document NYTFEED020180416ee4g005bp

WSJ PRO CENTRAL BANKING

Economy

Transcript: CNBC Interview With New York Fed President William Dudley; Central banker talks about financial markets, trade tensions, likely monetary policy the rest of the year

2,392 words
16 April 2018
02:22 PM
WSJ Pro Central Banking
RSTPROCB
English

William C. Dudley, president of the Federal Reserve Bank of New York, was interviewed on CNBC Monday, April 16, 2018, by Steve Liesman. The interview touched on Mr. Dudley's views on the state of **financial markets**, trade tensions and what is likely for monetary policy over the rest of the year.

Here is a transcript of the exchange, lightly edited for length and clarity.

MR. LIESMAN: It wasn't my intention, but I really want to pick up right where they left off, the Nick Burns conversation there talking about China. They don't seem to be devaluing their currency. It seems like the Chinese yuan is appreciating versus the dollar.

MR. DUDLEY: Well, it's been moving in line with what the dollar's been doing. The dollar's been weaker over the last year. And so, as a consequence of that, China is basically managing their currency relative to a basket that includes other currencies, so the Chinese currency has actually, I think, appreciated a little bit over the last year or so.

But the big issue isn't really the currency. The issue for the U.S. is really intellectual property rights and access to Chinese markets. Those are legitimate issues that the U.S. has with China, and those are—those are the issues that we should be pressing them on.

MR. LIESMAN: Is the currency a way that we can solve that trade balance problem?

MR. DUDLEY: I don't—the currency would have to move a lot to really solve the trade balance problem, and I don't think that's in the cards. Also, if the Chinese currency appreciated a lot, what would happen is a lot of the activity would just move to other lower-cost countries.

MR. LIESMAN: And as their currency appreciates they actually become less competitive, so that would tend to help our trade balance, or at least help the U.S. side of it.

MR. DUDLEY: At the margin.

MR. LIESMAN: Right.

MR. DUDLEY: You know, but the Chinese economy is more complementary to us than sort of competing directly with us. So if China—it became more expensive to do business in China, things would move to Vietnam, Malaysia, the Philippines, other—Bangladesh, other countries.

MR. LIESMAN: In a recent speech you gave a pretty full-throated defense of free trade. Are you concerned? Is that a risk, for you, to the U.S. economy, what seems to be coming out of the administration, this threat of tariffs, even large-scale tariffs when it comes to our trade with China?

MR. DUDLEY: There is a risk here. I mean, you could imagine that we push very hard on trade and that leads to lower trade barriers, better access to their markets, better protection of intellectual property rights. That's a good outcome. Or you can imagine we push very hard on trade, they—we raise trade—tariff barriers, they retaliate, trade becomes less open. That's very bad for us. I don't think we know yet exactly which course we're going down.

MR. LIESMAN: When you game this out—I'm having a lot of trouble with this because I can see an inflationary outcome from higher tariffs, but also a lower-growth outcome from higher tariffs. Where do you put the risk?

MR. DUDLEY: Well, if trade barriers go up, which is bad for the U.S. economy, you're going to have more inflation, you're going to have less growth, lower productivity—just a bad, bad outcome.

MR. LIESMAN: I'm going to now start the conversation where I originally wanted to start it, which is on market valuations. Another day we have these triple-digit gains and we've had 500 down, so there's two issues to me that I'm wondering what you think about. The first is market valuations. There's been some talk that they're excessive at this point. Do you think they're so? And what about the issue of **volatility**? So valuation and **volatility** are the two questions I have.

MR. DUDLEY: Well, I'm not going to opine on the proper value of the **stock market**. But it seems to me, if you look at the **stock market** in the context of an economy that's growing and expected to continue to grow over the next few years, the **stock market** valuations don't look, you know, unreasonable.

I think the **volatility** is sort of—we're back to a more normal regime. I mean, what was unusual was the very low **volatility** that we saw in 2015, '16, and '17. So I think we're back to a more reasonable level of **volatility** in the **stock market**.

MR. LIESMAN: So you don't get worried when you see things like 500-point swings in the last hour of the trading day?

MR. DUDLEY: Well, I mean, as long as market function is good—in other words, people can actually execute as prices close to the last price—it is not a problem.

MR. LIESMAN: And what about concern about systemic risk, which is I know the thing that really animates the Federal Reserve and especially yourself doing—regulating these money-center banks here? Do you have concern at these market valuations, when it comes to both stocks and, say, corporate bonds or other fixed-income instruments create risk for these big banks?

MR. DUDLEY: Well, we stress-test the banks every year through the (Comprehensive Capital Analysis and Review) process, and the stress test is pretty severe. We've also raised the capital requirements for the big banks significantly. We have increased the liquidity requirements. So we think the banks are well-positioned to handle a lot more stress than we've seen in markets to date.

MR. LIESMAN: A conversation that's come up around the table at CNBC quite a bit is this question of if there a "Powell put," and is it different from the "Yellen put." And I don't know if it's come up just because of the alliteration or some other reason, but is—does the Federal Reserve and especially, specifically, Chairman [Jerome] Powell have kind of a level where they would come in with concern about a drop in the **stock market**?

MR. DUDLEY: The Fed's mandate is maximum sustainable employment and price stability. There's nothing in there about the level of the **stock market**. That said, if the **stock market** went down dramatically and stayed down for a long period of time, that would tighten financial conditions. If financial conditions were much tighter, that would have implications for the economic outlook and we'd have to take that into consideration in terms of how we set monetary policy. So a very large decline in the **stock market** that persisted for a long period of time, of course that would be part of the environment that the Fed would have to take on board in terms of thinking about what's the appropriate policy. But the **stock market** level per se, that's not our concern.

MR. LIESMAN: Has that level changed, though, between—as we've changed chairmen at the Federal Reserve? Is, for example, Chairman Powell going to be less sensitive to a decline in the **stock market**?

MR. DUDLEY: I can't speak for, you know, Chairman Powell versus [former Fed Chairwoman Janet] Yellen. The **stock market** is still at a high level of valuation. Financial conditions are still very accommodative. So when I look at what's happened over the last few months, has it really changed the outlook in a meaningful way? No, because financial conditions still are very accommodative.

MR. LIESMAN: You said "very accommodative," but there's talk in the last minutes about moving to a neutral language. Are you closer to neutral now? Do you need to signal that the Federal Reserve is going to a neutral policy?

MR. DUDLEY: Well, I think we've signaled that that's what we're planning to do over the next year or two, that we're gradually going to remove monetary policy accommodation. And if you look at the Summary of Economic

Projections that we published at the most recent meeting, they basically show a very gradual pattern of further interest rate hikes that gradually take the federal-funds rate up to 3 percent or just north of 3 percent.

MR. LIESMAN: Is that neutral, 3 percent?

MR. DUDLEY: Well, different people have different views.

MR. LIESMAN: What's yours?

MR. DUDLEY: I don't know what neutral is precisely, but I think 3 percent's a reasonable starting point in terms of thinking about what neutral might be over the long run. But it depends on so many other factors: what's happening to the **stock market**, what's happening to the bond market, what's happening to the dollar. So this idea that there's this magic neutral rate that's sort of constant for all time I think is not a good way of looking at these.

MR. LIESMAN: Let's talk about what's more in front of us here, which is the rate hikes this year. One is done already. It looks like two more are on the table, but you've talked about three or four still being—backing this idea that it's still gradual if you did four this year for—an additional three.

MR. DUDLEY: Look, I don't think we know exactly how many more rate hikes we're going to do this year. If you look at the Summary of Economic Projections, which represent the [Federal Open Market Committee] participants' expectations at the last meeting, the median was three hikes this year but there were a number of people that were expecting four. So three or four seem like a reasonable expectation this year.

As long as inflation is relatively low, the Fed's going to be gradual. Now, if inflation were to go above 2 percent by an appreciable margin, then I think the gradual path might be—might have to be altered.

MR. LIESMAN: What's your best guess? Is it three or is it four? And with the proviso that the market has not really priced in four to almost any extent at all.

MR. DUDLEY: Well, I think that what's happened is the market understands that more than four is quite unlikely, right, because that would no longer be a gradual path of monetary policy tightening. It would also imply that the Fed was either going to tighten by 50 basis points at a—at a press conference meeting or go meeting to meeting. So I think that the market sort of sees three as possible, four as possible, but five or six seems to be quite unlikely.

MR. LIESMAN: I have a bunch of areas and only three minutes left, so let's see if we can do these quickly. John Williams, your successor, was named recently.

Ahead of that appointment there was a lot of discussion about diversity and the search for diverse candidates. Was this a disappointment to you that it was John Williams? Or how do you square that with the effort to find a diverse candidate?

MR. DUDLEY: Well, I think the search committee made a tremendous effort to make sure that they had a diverse slate of candidates, so they did their job in that respect. And then they picked what they thought was the best candidate. I think John is extremely well-qualified to be the next president of the New York Fed. I have a lot of respect for him.

MR. LIESMAN: I'm going to leave it there for time reasons. What about—Puerto Rico most people don't know, and the U.S. Virgin Islands, are in the New York Fed's territory for some strange reason. That area was really devastated. Is there more that you should be doing, more the federal government should be doing right now to bring back Puerto Rico and the economy there?

MR. DUDLEY: Well, there's a lot that needs to be done in Puerto Rico, some of it government aid but also some of it on the ground in Puerto Rico, coming together and coming forward with a fiscal program that's credible and that extends for many years forward. What we can do at the New York Fed is we can offer information; we can convene, you know, parties. We've had some workshops with small business and others to help them navigate the different places where they can turn for aid to help in the rebuilding effort. So we're definitely going to be involved there. But, you know, unfortunately, the Federal Reserve's powers with respect to fiscal policy are extremely limited.

MR. LIESMAN: And just the last thing. You had a specific job the Lehman weekend. You were planning for Lehman not to be saved that weekend. That's what you were doing. Looking back now, there's a new book out by

Laurence Ball that says it should have and could have been saved. I know we're sort of in the lightning round and a very difficult topic here.

MR. DUDLEY: (Laughs.)

MR. LIESMAN: Do you regret that Lehman was not saved that weekend?

MR. DUDLEY: You know, hindsight's 20/20, and I think, you know, people are going to be arguing about whether Lehman should have been saved or not. The problem was if the Federal Reserve had lent to Lehman Brothers, then what happens? What happens next? We would be lending into a run. The clients would still be leaving Lehman because they wouldn't view Lehman as viable. So I'm not sure that, you know, there was a better—you know, a better—a better—a better course.

MR. LIESMAN: Bill Dudley, New York Fed president, maybe the last interview as New York Fed president, but I'm sure we'll see you again.

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* Dudley Says He Isn't Worried About **Stock Market**

Document RSTPROCB20180416ee4g000b5

WSJ PRO CENTRAL BANKING

Economy

New York Fed's Dudley Says He Isn't Worried About Stock Market; Official tells CNBC ‘we are back to a more normal regime' when it comes to market volatility

By Michael S. Derby
610 words
16 April 2018
12:14 PM
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English

Federal Reserve Bank of New York President William Dudley sounded unworried about recent **stock-market** moves in a television interview Monday, while reaffirming his belief that the U.S. central bank is on track for more rate rises this year.

"I'm not going to opine on the proper value of the **stock market**," Mr. Dudley said in an interview on CNBC television. "But it seems to me if you look at the **stock market** in the context of an economy that's growing, and is expected to grow over the next few years, the **stock market** valuations don't look, you know, unreasonable."

The official also shrugged off big daily moves in stocks, saying: "We are back to a more normal regime" when it comes to **volatility**. "As long as market function is good…it's not a problem" from the Fed's point of view, he said.

Mr. Dudley also denied that the central bank would intervene when the **stock market** falls a lot, addressing what markets have referred to as a Fed "put."

"The **stock market** level per se, that's not our concern," Mr. Dudley said, stressing that central bank policy is aimed at real economic activity. But he added that there are times when markets can affect central bank policy.

"If the **stock market** went down dramatically, and stayed down for a long period of time, it would tighten financial conditions," he said. "If financial conditions were much tighter, that would have implications for the economic outlook, and we'd have to take that under consideration in terms of how we set monetary policy."

Mr. Dudley, who also serves as vice chairman of the monetary-policy-setting Federal Open Market Committee, is set to retire in June. He will be succeeded by John Williams, currently the leader of the San Francisco Fed. Mr. Dudley in Monday's interview said the path of rate rises laid out at the March FOMC meeting is still in place.

"I don't think we know exactly how many more rate hikes we're going to do this year," Mr. Dudley said, adding "three or four seemed like a reasonable expectation" for 2018 based on what the Fed said in March.

"As long as inflation is relatively low, the Fed is going to be gradual" with the pace of rate rises, Mr. Dudley said. "Now, if inflation were to go above 2% by an appreciable margin, then I think a gradual path might have to be altered."

Mr. Dudley said markets aren't expecting the Fed to do more, because participants in the financial sector recognize that more than four increases would break from current Fed guidance. The Fed's overnight target rate range now stands between 1.5% and 1.75% after last month's increase, and the central bank has penciled in about two more increases for the year.

Mr. Dudley also said the outlook for trade is uncertain because it is unclear how protectionist saber-rattling by the Trump administration will play out. Mr. Dudley said the U.S. has "legitimate issues" with China over market access and intellectual property. But he added that the U.S. and China have "complementary" economies, while noting China's currency has largely been moving in line with the dollar.

Write to Michael S. Derby at michael.derby@wsj.com

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WSJ PRO CENTRAL BANKING

Economy
Transcript: WSJ Interview With Minneapolis Fed President Neel Kashkari; Official discusses his outlook for rate increases and concerns about U.S. trade and fiscal policy

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Federal Reserve Bank of Minneapolis President Neel Kashkari spoke with Wall Street Journal reporter Nick Timiraos on Thursday, April 12, in Minneapolis. He discussed his outlook on employment, inflation and the prospect of additional interest-rate increases this year, as well as his concerns about U.S. trade and fiscal policy. Here is a partial transcript of the interview, lightly edited for clarity and length.

WSJ: How do you see your view of the economy having changed at all in the last three months or so?

NEEL KASHKARI: I think in the last three months there's—we're hearing more optimism as I travel around my district from businesses. People generally are feeling optimistic about the tax cut. They're feeling optimistic about their own economic outlook. And I think that's an improvement.

But more recently than the last three months we're hearing about trade now all the time, especially in our region. It's an export-heavy region. People are just very observant about what the future is for trade. So that's definitely new.

WSJ: I guess it's hard to build the trade story into your outlook because it could go in so many different directions, right?

MR. KASHKARI: Absolutely. The way I think about it is there are at least three different possibilities. One possibility is this is just a bunch of bluster and posturing on both sides; it's not going to lead to much actual action that will impact the economy. Another outcome is it leads to a trade war, which is the worst possible outcome. A middle outcome is it's mostly bluster, but it's enough bluster that it scares people and it scares investors. And that itself, the reduction in optimism, could lead to an impact on the economy. But we'd have no way of weighting those three different paths.

WSJ: And are you hearing that the uncertainty is having some sort of chilling effect on investment decisions?

MR. KASHKARI: Not yet, but I also didn't hear much that the optimism from the tax cut was actually leading to more investment. So that's what I keep asking people. I say, "You tell me you're optimistic; are you changing your investment decisions because of it?" Very rarely would somebody say yes. And so I'm not sure that the trade scares have reduced investment, either.

WSJ: So you're more optimistic since the start of the year because of some of the policy changes we've seen. How would that translate to supporting the kind of median path of projected rate increases? Right now I guess it's either two or three more this year on the [summary of economic projections, or SEP, from the March Fed meeting].

MR. KASHKARI: Right. I think it's likely that the fiscal actions that have been taken are going to on the margin help us achieve our inflation target. I was much more skeptical of whether we were on track to hitting 2% over the medium term. It now seems much more likely that we are going to actually achieve our inflation target in the near future, which would be a good thing. And I do think that the fiscal packages have probably helped somewhat. And so that's why I think that that does lend support for, you know, the path that the SEP is forecasting.

WSJ: Are you two more increases, three more increases?

MR. KASHKARI: Well, I want to see it. I haven't revealed what my specific dots are, but I have brought forward some of my dots as a result of the packages. And if we do achieve our inflation target, then I'm going to be looking for where are we relative to neutral. It isn't going to be obvious to me once we achieve our inflation target that we need to now put the brakes on the economy, but I would argue once we achieve our inflation target, you know, we should try to get to neutral in a reasonable period of time. But where is neutral? And it isn't obvious to me that the tax package and the budget package have done anything to R-star. It isn't obvious to me that R-star has come up.

WSJ: So where do you see neutral, roughly?

MR. KASHKARI: We might not be far away from neutral right now. There are a wide range of estimates. I could argue R-star is zero, and zero plus 2 is 2%; zero plus 1.75 is 1.75%. So we might be near neutral now. We might be one hike away from achieving neutral. There are some people who think R-star is 50 basis points, some think R-star is 1%. But I think that's where I'm going to focus my attention and try to come up with a stronger view of where neutral is.

And I'm also going to look at the bond market and look at the flattening yield curve. I think the flattening yield curve is also providing us the market's perspective on where neutral is. And the fact that the yield curve is flattening gives me some more reinforcement that we're probably not—the market is telling us we're not—far away from neutral today.

WSJ: So the March FOMC [Federal Open Market Committee] minutes revealed that there had been some discussion about policy potentially having to turn restrictive at some point down the road. Where is your head on that—on that urgency?

MR. KASHKARI: I'm not feeling the urgency at all because we say we have a symmetric 2% target. And so we've been, you know, ballpark 1.5% for the last five years. That means in theory we should be comfortable being at 2.5% for the next five years. That's not a goal that I'm setting. I'm not treating this as a price-level target to make up for past shortfalls. But we shouldn't be in a rush. If inflation ticks up to 2.1% or 2.2% or 2.3%, that to me does not call for some dramatic increase in interest rates to get it back down to 2%. I think we should let things play out.

WSJ: So symmetry would be—what we had over the past few years in the other direction would be tolerable?

MR. KASHKARI: Tolerable, correct.

WSJ: So the other thing interesting in the minutes was that the balance of risks on the projections around core PCE [personal-consumption expenditures price index], there was no participant who had the risk on their forecast weighted to the downside. Have you been one of those in December or September that saw inflation risks tilted to the downside, and —

MR. KASHKARI: I would need to go back and check my specific submission, but probably. That sounds about right.

If you look at the first half of the year, for the last several years the FOMC keeps saying, "Oh, it's about to revert back to 2%," and then it turns around. And so I took the inflation moves the first half of the year—I mean, we all know that the March number was a big low number in PCE. So even if you would take that out, the first half of last year still had low inflation, even normalizing for that one low number. And so I took signal from that, and I do think the last six, nine months now inflation does seem to be moving back up towards our target. And so, for me, that does—I take signal from that too, that we are—it probably is—there probably are inflationary pressures that are building. And so I do think it's more a balanced risk now.

You know, on one hand people are worried about some nonlinearity in the Phillips curve leading to very high inflation. But at the same time, you couldn't completely dismiss the notion that we were following a path of Japan, of perpetually low inflation, right?

And so I think the Japan risk has probably relieved itself a little bit. But I don't want to completely declare victory because we've been fooled before.

WSJ: The broader discussions that people have been having around revisiting the inflation target, a framework, where do you fall on that?

MR. KASHKARI: I understand the theoretical arguments for all of the above as it relates to the zero lower bound and the problems that that presents. I don't think any of these alternatives are credible based on our current behavior.

So why have we been raising rates when inflation has been below target? We've been raising rates because people are worried about some nonlinearity in the Phillips curve, they're worried about asset prices. Imagine that we adopted a price-level target, and we come out of a recession and we have a big inflation shortfall to make up. Now, instead of inflation being at 1.7% or 1.8%, imagine we're at 2.2% and we have a 2% annual price-level target. The price-level target will call for us to keep rates low even though inflation is above 2%. If we're not comfortable keeping rates low when inflation is at 1.8 percent, why in the world would we be comfortable doing it at 2.2%? Won't we be just as worried about nonlinearity in the Phillips curve? Won't we be just as worried about asset prices?

So there are all sorts of very clever constructs that we can come up with but that are not credible based on our current behavior.

And what I would like just to see is to actually live our words—live a symmetric 2% target instead of calling it a symmetric 2% target and then acting as though it's a ceiling. If we could actually live the 2% target, I think that that would be progress.

WSJ: Given what's happened now with inflation, have you rethought whether it was a mistake to dissent on the rate increases last year?

MR. KASHKARI: No, because my dissents were just based on the data. I simply said let's just allow—we've been wrong for several years in a row on calling that inflation's going to return; let's just let it come to us, and when it comes to us we can always raise rates. This is not a philosophical opposition to tightening monetary policy. It's just saying let's be data dependent.

WSJ: Do you see evidence that wages are picking up?

MR. KASHKARI: Just the same data that you look at. The staff here did some analysis looking at the prime-age employment-to-population ratio, and average hourly earnings, the 2.7% number. And they're quite strongly correlated. So when we look at the wage growth that we're seeing, it feels about what we should expect given how employment-to-population has been slowly recovering. So we're not seeing signs of a big acceleration in wages, but we are seeing signs that wage pressure is slowly building as slack is being used up. But none of that is alarming to me that we're somehow behind the curve.

WSJ: And the view of a nonlinear Phillips curve, where do you fall on that?

MR. KASHKARI: I see no evidence for that.

WSJ: Why?

MR. KASHKARI: When I got here, I went back with our researchers through every economic cycle from 1960 on. I wanted to look at what was happening in inflation, what was happening—how did the committee respond, what data were they looking at. And I saw no evidence—the experience of the '60s and '70s, the committee had high inflation, and instead of raising rates they cut rates over a multiyear period. The experience of the '60s and '70s happened because the committee lost its political independence and were doing the bidding of the Nixon administration, not making economic decisions. So I'm not worried about that at all. Nobody on this committee will allow that to happen.

But this notion that there's some kink and some nonlinearity, there's just simply no evidence for that. I've been asking everybody to show it to me.

WSJ: Is there a level of unemployment you would regard as just too low?

MR. KASHKARI: I would need to see it not by itself. I would need to see it with strong wage growth. If we saw very low unemployment and very strong wage growth, then I would take that as a signal of likely inflation to come, saying, "OK, we need to respond to that." But just this 4.1% number getting low when inflation expectations are anchored, wage growth is muted, that by itself I don't think would be enough to scare me.

WSJ: Do you see imbalances along either a 2000-style or 2008-style crackup on the horizon?

MR. KASHKARI: Nothing that we're seeing. But these are things that are so devilishly hard to see. The closest scare that we've had recently is just this—all these vol funds and the **volatility** spike, and I've had asset managers telling me, hey, these vol trades, they're sprinkled in all sorts of different places…So the worst-case scenario is something like that is still sprinkling out there, and if **volatility** keeps increasing that maybe there are going to be some investors who are really hurt by that. I don't know.

WSJ: So, turning back to fiscal policy for a second, so you said you think these are macroeconomically significant. No one seems to argue that the spending boost is going to be mostly to the demand side of the economy, but there is a debate over how much the tax cut will boost the productive capacity of the economy. Do you have a view there as to the supply-side versus demand-side benefits?

MR. KASHKARI: I think the supply side benefits are completely uncertain right now. Again, when I talk to businesses, I've asked them do they feel optimistic about the tax cuts. Is it leading you to make more investments? Generally speaking, the answers are, "No, but we feel better about things." So it's just too hard to know right now.

WSJ: How does that change your outlook on the rate path, given the potential boost to output?

MR. KASHKARI: All it has done so far is brought some of the—my path forward a little bit. But it hasn't changed my long-term neutral destination.

WSJ: Treasury supply is going to get pretty juiced up here over the next couple of years…I wonder if you're concerned at all that demand and supply dynamics could get a little dicey here for Treasurys.

MR. KASHKARI: Honestly, that's the Treasury's problem. It's not our job. We're not here to fund the government. It's up to Congress and the administration to decide how to fund themselves. So, number one, that's the most important.

Number two, I am surprised at how the long end of the curve has been flattening out in recent months, even with all of these tax packages and spending packages and the Fed reducing our balance sheet. And so, to me, I am taking some signal from that. It's not giving me concern that all of a sudden there's going to be too much supply. But in light of the fact there's going to be all this supply coming in, the fact that the Treasury market's responding how it is is telling me markets are not that optimistic about growth.

WSJ: And do you worry at all about the potential for those deficit challenges to weigh on growth? Not this year or next year or the year after that, but five or 10 years?

MR. KASHKARI: Absolutely. I mean, longer term there's no question we have to get our fiscal house in order. We cannot keep running ever-larger deficits. I don't see a fiscal crisis in the near future. I don't want us to become Japan where you have 200% debt to GDP [gross domestic product]. But I do think the U.S. economy is imperfect, but it is the strongest economy in the world. It is the economy that investors around the world have the most confidence in. I don't think that's going to change in the near future. But long term, we have to do something.

WSJ: The New York Fed presidency was announced last week. And there's been some blowback…over the process. And you've been through the process. What would you say to people who think the process of selecting these—the Fed, even though it's a public-private structure, it has more of a public mission than it maybe used to. And so is it ripe for a rethinking on how to do that?

MR. KASHKARI: I understand people's concerns. I have not heard a better alternative. I mean, imagine in the worst-case scenario that we were all U.S. attorneys, and every time a new president comes in, all the U.S. attorneys get fired, and then the president gets to put in all new U.S. attorneys. That would bring the central bank much closer to the executive branch.

And 105 years ago when Congress designed this, they specifically wanted independence. It's part of what motivated this federated structure that we have. And so I think Congress showed a lot of wisdom when they came up with this structure 105 years ago. I think it's not perfect, but I have not heard a better suggestion.

Related Article

* Kashkari Says Fiscal Stimulus Supports Fed's Rate-Raising Plans

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WSJ PRO CENTRAL BANKING

Economy

Kashkari Says Fiscal Stimulus Supports Fed's Rate-Raising Plans; Minneapolis Fed chief says ‘it now seems much more likely' inflation will reach the central bank's 2% target

By Nick Timiraos
919 words
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MINNEAPOLIS—Minneapolis Federal Reserve President Neel Kashkari said recent steps by the federal government to stimulate economic growth have made him more confident the Fed will achieve its 2% inflation objective soon, allowing the central bank to press ahead with planned interest-rate increases.

Mr. Kashkari had been outspoken last year against rate increases because of concerns they would hobble the economic expansion in the face of subdued inflation.

Congress and the White House approved tax cuts last December and federal spending increases in February that are "macroeconomically significant, and they are big enough to have an effect on the trajectory of the economy…that could change things in a meaningful way," Mr. Kashkari said in an interview at the Minneapolis Fed's headquarters Thursday.

Mr. Kashkari voted against all three rate increases approved by the Fed last year during his first turn as a voting member of the central bank's rate-setting committee. He had warned as recently as December the Fed's rate increases could crimp the economic expansion.

"I was much more skeptical of whether we were on track to hitting 2% over the medium term," he said in last week's interview. "It now seems much more likely that we are going to actually achieve our inflation target in the near future, which would be a good thing."

Fed officials voted unanimously last month to raise their benchmark federal-funds rate by a quarter percentage point to a range between 1.5% and 1.75%, and they penciled in two more such increases for this year.

Consumer prices excluding **volatile** food and energy items rose 2.1% in March from a year earlier, according to the so-called core consumer-price index released by the Labor Department last week. That was the strongest reading since February 2017.

Economists at JPMorgan Chase estimate the Fed's preferred inflation gauge, produced by the Commerce Department, will show annual core inflation of 1.9% in March when it is released later this month. In February, it was 1.6%.

Mr. Kashkari, who isn't a voting member of the rate-setting committee this year, wouldn't say how many more rate increases he thought would be needed this year. He said he largely agreed with the path projected by 15 Fed officials at their meeting last month.

In the interview, Mr. Kashkari said the fiscal stimulus had prompted him to project that more of the rate increases he had thought would be needed in the coming years would be needed sooner.

He said he also would spend more time trying to assess the so-called neutral rate of interest, an unobservable rate at which the Fed is neither trying to push on the gas or the brake pedals for the economy.

"It isn't going to be obvious to me once we achieve our inflation target that we need to now put the brakes on the economy, but I would argue once we achieve our inflation target, we should try to get to neutral in a reasonable period of time," he said.

Mr. Kashkari said it was possible rates weren't far from neutral right now. "We might be one hike away from achieving neutral," he said.

Mr. Kashkari also said the spread between short-term and long-term government borrowing rates, what is known as the yield curve, could help policy makers determine whether rates are close to neutral. The yield curve flattens when short-term rates converge toward long-term rates.

"The fact that the yield curve is flattening gives me some more reinforcement that we're probably not—the market is telling us we're not—far away from neutral today," he said.

The Minneapolis Fed leader said he is willing to tolerate a period in which inflation rises above the central bank's 2% target after many years in which it has fallen short.

"We shouldn't be in a rush" to raise rates once inflation reaches the target, he said. "If inflation ticks up to 2.1% or 2.2% or 2.3%, that to me does not call for some dramatic increase in interest rates to get it back down to 2%."

While business contacts have reported more optimism about the economy after Washington approved tax cuts late last year, worries about a trade war are creating more uncertainty, said Mr. Kashkari.

"We're hearing about trade all the time, especially in our region. It's an export-heavy region," he said.

Mr. Kashkari outlined three possible outcomes on trade. One possibility is that "this is just a bunch of bluster and posturing" that leaves no lasting effect on the economy, he said. A second possibility is "a trade war, which is the worst possible outcome," he said.

The third possibility, he said, is somewhere in between the two, enough to chill consumer and business confidence. But right now, Mr. Kashkari added, "we have no way of weighting those three different paths."

Mr. Kashkari said he hasn't yet heard of businesses postponing investment decisions because of their concerns on trade, but by the same token, he said he hasn't heard that optimism from the tax cut "was actually leading to more investment."

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

Transcript

* WSJ Interview With Neel Kashkari

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Economy

Kashkari: Fiscal Stimulus Supports Fed's Rate-Raising Plans | Rosengren Worried Fiscal Stimulus Unavailable for Next Downturn | Bullard: Minutes Didn't Reflect His View | Fed Dispels Specter of Deflation | Hannon's Take: Fighting the Last War; The Wall Street Journal's central banking newsletter for Monday, April 16, 2018

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Hannon's Take: Fighting the Last War

Kashkari Says Fiscal Stimulus Supports Fed's Rate-Raising Plans

Fed's Rosengren Worried Fiscal Stimulus Won't Be There for Next Downturn

Fed's Bullard Says March Minutes Didn't Reflect His Policy View

Fed Officials Dispel Specter of Deflation

Fighting the Last War

How might central banks respond to a tariff-driven jump in inflation?

The Bank of England's response to the U.K.'s planned departure from the European Union suggests policy interest rates would likely rise, but by how much would depend on the degree of bargaining power workers recover as globalization reverses.

As my colleague Richard Barley has pointed out, a series of tit-for-tat hikes in tariffs would raise consumer prices around the world. Central bankers would view that jump in inflation as a supply, as opposed to a demand, shock. Over recent years, central bankers have "looked through"—central banker speak for "ignored"—the spikes in inflation caused by surges in **oil prices** and similar supply shocks, reasoning that they likely wouldn't lead to a second round of inflation.

The BOE's response to Brexit has been an exception. It raised its key interest rate in November for the first time in a decade, and has signaled a follow-up move for May. Policy makers fear that weak investment spending and a decline in immigration are weakening the economy's ability to produce additional goods and services. Other central banks are likely to take a similar view if governments erect new barriers to trade.

The size and durability of an inflation spike would depend on whether workers were able to negotiate larger pay deals to preserve their real incomes, thus generating the feared second round of price increases. They haven't been doing very well on that front for the past three decades, a period that not coincidentally saw globalization at its most intense. That process made it easier for businesses to relocate production virtually anywhere on the planet, leaving workers in developed economies with little leverage in pay talks.

To the extent that placing barriers against the movement of goods across national borders "brings jobs home," it restores some of that lost bargaining power, although it is unlikely to ever reach the heights touched in the 1950s through the 1970s, when workers were much more scarce than they were after the entry of China and then other large developing countries into the global marketplace.

Modern central banking is essentially designed to prevent a recurrence of the inflation surge that followed the **oil-price** shocks of the 1970s. But over the past quarter-century, policy makers haven't had to confront the constellation of factors that created that surge, including powerful organized labor groups. In a deglobalizing world, they may finally get a chance to fight the last war.

Key Developments Around the World

Kashkari Says Fiscal Stimulus Supports Fed's Rate-Raising Plans

Minneapolis Federal Reserve President Neel Kashkari said recent steps by the federal government to stimulate economic growth have made him more confident the Fed will achieve its 2% inflation objective soon, allowing the central bank to press ahead with planned interest-rate increases. Mr. Kashkari had been outspoken last year against rate increases because of concerns they would hobble the economic expansion in the face of subdued inflation.

Transcript: WSJ Interview With Minneapolis Fed President Neel Kashkari

Fed's Rosengren Worried Fiscal Stimulus Won't Be There for Next Downturn

Federal Reserve Bank of Boston President Eric Rosengren warned Friday that recently passed tax cuts and spending increases are raising risks that authorities won't have a full tool kit to counter the next downturn. Despite that caution, Mr. Rosengren said he is optimistic about the outlook in general, in a speech in Boston. He expects the economy to perform slightly better than many of his Fed colleagues, which points to more rate rises than what most officials have penciled in. "By using up so much fiscal capacity now—by which I mean the ability to lower tax rates or boost federal spending to offset economic weakness—the country risks not having sufficient fiscal capacity in the future when it might be needed," Mr. Rosengren said.

Fed's Bullard Says March Minutes Didn't Reflect His Policy View

Federal Reserve Bank of St. Louis President James Bullard took issue Friday with the minutes of the central bank's March meeting for their characterization of the interest-rate outlook. The minutes released Wednesday said "with regard to the medium-term outlook for monetary policy, all participants saw some further firming of the stance of monetary policy as likely to be warranted." Mr. Bullard on Friday said he isn't sure where that assessment came from given his belief that economic conditions don't call for raising the Fed's short-term rate target. "The outlook for the policy rate is flat and that we are quite close to neutral right now," Mr. Bullard told reporters in a conference call after giving a speech in St. Louis. "I'm not quite sure the source of the statement," he said when asked about the minutes' take on officials' outlook.

Fed Officials Dispel Specter of Deflation

When Federal Reserve officials gathered last month for Jerome Powell's first meeting as central bank chairman, not a single official among 15 saw a downside risk to inflation. It marked a milestone. The Fed's mind-set has been shaped during the entire post-financial crisis era by a fear of Japan-like deflation, a downward drift in consumer prices that brings with it debilitating economic anemia. Deflation fears led to giant Fed bond-purchase programs and near-zero interest rates, then glacial interest-rate increases when the expansion became entrenched. The inflation risk assessment, released last week in the minutes of the Fed's March meeting, showed deflation fear at the Fed is now effectively gone.

U.S. Again Declines to Designate China as a Currency Manipulator

The U.S. Treasurypassed up a formal opportunity to designate China a currency manipulator, though it faulted Beijing for doing too little to open its economy and retained China on a formal monitoring list for possibly receiving the designation in the future. "The increasingly non-market direction of China's economic development poses growing risks to its major trading partners and the long-term global growth outlook," the department said of China in its semiannual report on international exchange rates. "Treasury is strongly concerned by the lack of progress by China in correcting the bilateral trade imbalance."

Sharp Drops in Currencies Hint at Spreading **Volatility**

The currencies of places as diverse as Russia, Hong Kong and Kazakhstan slid last week, an alarming sign to some investors who worry that the geopolitical **volatility** affecting U.S. stocks is spreading to other markets. Hong Kong's dollar hit the lowest level allowed under a more than three-decade-old U.S. dollar-peg agreement, forcing the de facto central bank to step in to defend the currency and stabilize it. Russia's ruble fell amid increased U.S. sanctions against the country and concern about a U.S. strike on Syria, a decline that also contributed to a fall in Kazakhstan's tenge. Those moves came alongside a relatively calm week elsewhere, in which the **Dow Jones Industrial Average** rose nearly 2% and the U.S. dollar was little changed against a basket of currencies.

Monday

8:30 a.m. EDT

U.S. Commerce Department releases March retail sales

12 p.m. EDT

Minneapolis Fed's Kashkari speaks

12:30 p.m. EDT

ECB's Praet speaks

1:15 p.m. EDT

Atlanta Fed's Bostic speaks

Tuesday

8:30 a.m. EDT

U.S. Commerce Department releases March housing starts

9:15 a.m. EDT

Federal Reserve releases March U.S. industrial production

9:15 a.m. EDT

San Francisco Fed's Williams speaks

10 a.m. EDT

Fed's Quarles gives supervision and regulation testimony before House Financial Services Committee in Washington

11 a.m. EST

Philadelphia Fed's Harker speaks

1:10 p.m. EDT

Chicago Fed's Evans speaks

Stress Tests and Small Business Lending

Although postcrisis "stress tests have altered banks' credit supply to small business," the stress tests don't "reduce aggregate credit," Kristle Cortés, Yuliya Demyanyk, Lei Li, Elena Loutskina and Philip E. Strahan find in a National Bureau of Economic Research working paper. "Banks affected by stress tests reduce credit supply and raise interest rates on small business loans. Banks price the implied increase in capital requirements from stress tests where they have local knowledge, and exit markets where they do not, as quantities fall most in markets where stress-tested banks do not own branches near borrowers, and prices rise mainly where they do," they write. But, these "reductions in supply are concentrated among risky borrowers…Small banks increase their share in geographies formerly reliant on stress-tested lenders."

So Many Jobs, So Few Workers

"If every jobless worker in the U.S. could be matched with every available job, the unemployment rate would fall to near zero. That will never happen in reality, but the jobs are there…It seems like a recipe for higher wages—and indeed, there is plenty of anecdotal and survey evidence that wages are rising. But the increase, with average hourly earnings up 2.7% in March from a year earlier, is surprisingly low," Justin Lahart writes for The Wall Street Journal. "One view is that there are lots of potential workers who aren't looking for work, and therefore aren't counted in the unemployment rate. This hidden labor market slack is acting as a sort of pressure valve on wages. Over the past two years, there has been an uptick in the share of so-called prime-age people—those aged 25 to 54—who are working or looking for work…But an analysis of job flows conducted by JPMorgan economist Jesse Edgerton suggests this increase in participation has come from people staying in the workforce longer rather than workers coming into the labor market. That has kept the job market from getting so tight that wages take off. But without that vast pool, companies will have to do something to fill those available jobs. Paying people more almost always works."

Orban's Economic Model Is Trump's Dream

"Can Donald Trump's dream of beating back globalization and lifting the fortunes of its victims actually work? With a third landslide election victory since 2010, Hungarian Prime Minister Viktor Orban proved that it can—at least for a while. Orban has been accused of creating an authoritarian government, setting up a Russian-style propaganda machine and playing to citizens' basest xenophobic instincts. But Hungary remains a functioning democracy, and his party, Fidesz, owes its success to an economic policy that grew wages and lowered unemployment," Leonid Bershidsky writes for Bloomberg View. "Orban's experience is relevant to Trump's U.S., too: Some of his methods might just work there if the Republicans get up the courage to try them."

Worries about how the Trump administration's trade policies will affect the U.S. economy prompted a dip in consumer confidence this month, although sentiment remained at a historically high level. The University of Michigan on Friday said the preliminary result of its consumer-sentiment index was 97.8 in April, down from a 14-year high of 101.4 in March. The preliminary April reading fell short of the 100.0 that economists surveyed by The Wall Street Journal expected.

Lawrence Kudlow, President Donald Trump's top economic adviser, said Friday he is optimistic the U.S. can avoid a broader trade fight with China and said the White House was close to securing a renegotiation of the North American Free Trade Agreement with Canada and Mexico.

Send us your tips, suggestions and feedback. Write to:

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THE WALL STREET JOURNAL.
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U.S. News --- THE OUTLOOK: Fed Officials Dispel Deflation, for Now

By Nick Timiraos
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16 April 2018
The Wall Street Journal
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English

When Federal Reserve officials gathered last month for Jerome Powell's first meeting as central-bank chairman, not a single official among 15 saw a downside risk to inflation.

It marked a milestone.

The Fed's mind-set has been shaped during the entire postfinancial-crisis era by a fear of Japan-like deflation, a downward drift in consumer prices that brings with it debilitating economic anemia. Deflation fears led to giant Fed bond-purchase programs and near-zero interest rates, then glacial interest-rate increases when the expansion became entrenched.

The inflation risk assessment, released last week in the minutes of the Fed's March meeting, showed deflation fear at the Fed is now effectively gone.

A Fed less fearful of deflation is also one more prone to raise short-term interest rates more aggressively than planned, and that is the debate that is likely to dominate Fed discussions in the months ahead -- whether three planned rate increases in 2018 are enough.

Most officials see inflation not only returning to the central bank's 2% target but also exceeding it, using the less **volatile** measure of so-called core inflation that excludes food and energy items.

The Fed seeks to keep inflation at 2% because it views that level as consistent with an economy with healthy demand for goods and services.

Last year, inflation pressures softened, bolstering arguments in favor of slowing the pace of rate rises. Inflation pressures have firmed in recent months. Economists at JPMorgan Chase & Co. estimate the Fed's preferred inflation gauge, produced by the Commerce Department, will show annual core inflation of 1.9% in March when it is released this month. In February, it was 1.6%.

Investors, too, appear to be anticipating higher inflation. The yield on the benchmark 10-year U.S. Treasury note has moved above 2.8% since February, up from near 1.5% a couple of years ago. The 10-year break-even inflation rate, derived from Treasury inflation-protected securities, has climbed since late November to four-year highs.

In many of the past few years, Fed officials projected inflation returning to 2% only to find some unexpected development to upend those forecasts. This year looks different. Tax cuts and government-spending increases are likely to boost consumer and business spending.

The people at the Fed most worried about deflation over the last year are less so today.

Even before the changes in fiscal policy, recent data showed "there probably are inflationary pressures that are building," Minneapolis Fed President Neel Kashkari told The Wall Street Journal in an interview. He voted against all three of the Fed's rate increases last year because of concerns they would hobble the economic expansion in the face of subdued inflation.

Now, Mr. Kashkari says, "the Japan risk has probably relieved itself a little bit," though he isn't ready to "completely declare victory."

Fed governor Lael Brainard, one of the Fed's leading voices for raising rates slowly last year, also shifted her tone.

Deflation fears are receding around the globe, too. In Europe, consumer prices were last lower on the year in May 2016. Annual inflation was 1.4% in March. Though still below the ECB's target of just below 2%, European Central Bank President Mario Draghi said at a December news conference, "We can safely say that deflation risks have disappeared."

In Japan consumer prices excluding food rose 1% in February for the first time in 3 1/2 years. Half the gains came from higher energy prices. Should energy prices fall again, as they did four years ago, the deflation risk would return. BOJ Governor Haruhiko Kuroda says it is too soon to talk about tapering his radical monetary easing program for that reason.

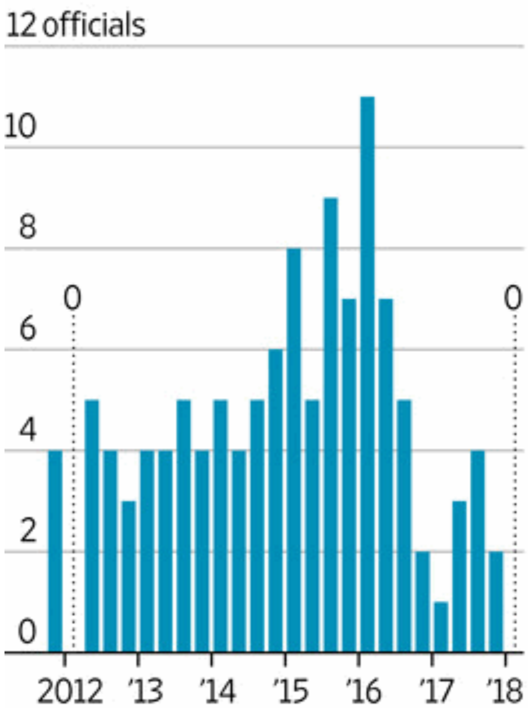
The BOJ's lingering worries might be an apt warning to the rest of the world. There have been moments in the past quarter-century when Japanese officials thought they had beaten deflation, only to find themselves right back in an old fight to defeat it. Typically that happened when the economy faced a shock.

What could send the U.S. back into a deflationary mind-set? Simple: another recession. Interest rates are still very low, meaning the Fed doesn't have room to cut them much to counteract another downturn. There's also little space for Congress to cut taxes or boost spending because budget deficits are rapidly expanding.

Another recession could sap demand from the economy. This time, however, the government might not have much ability to do anything about it.

Deflation Fears Recede

The number of Fed officials who see downside risk to inflation



Source: Federal Reserve

THE WALL STREET JOURNAL.

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THE WALL STREET JOURNAL.
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Futures-Exchange Collusion Suit Nears Trial

By Alexander Osipovich
882 words
16 April 2018
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English

Exchange giant CME Group Inc. faces scrutiny over its political clout and hardball tactics as a 14-year-old lawsuit nears trial.

The suit contends that two big Chicago futures exchanges -- now both part of CME Group -- illegally colluded to prevent a foreign rival, Eurex, from intruding on their home turf. Eurex's U.S. exchange filed the suit in October 2003 against the Chicago Board of Trade and Chicago Mercantile Exchange. It later revised the suit to accuse CME and CBOT of manipulating regulators and politicians to sabotage Eurex's bid.

CME denies the allegations and is making a last-ditch effort to have the suit thrown out. It says Eurex's U.S. venture -- called U.S. Futures Exchange and now fully owned by Deutsche Borse AG -- failed because of its own missteps.

"After more than a decade, this lawsuit is still no substitute for USFE's lack of a compelling business strategy," a CME spokeswoman said. "This case is simply USFE's and Eurex's attempt to shift blame for their own failure."

Rivals have grumbled for years that CME routinely uses its heft in the markets and influence in Washington to shield itself from competition. The Eurex case offers a rare glimpse into such behind-the-scenes maneuvering by the Chicago giant.

It could also reignite complaints about whether CME engages in anticompetitive behavior, which the company denies. CME handles the vast majority of trading in markets such as U.S. **stock-index** and interest-rate futures. That is largely because futures are a winner-take-all business: Once a market is established, it is hard for a rival to persuade traders to switch exchanges.

The case is scheduled to go to trial before a jury in Chicago on June 4, following years of wrangling over the complex legal issues at stake.

A trial could result in top CME brass being called to testify, including Chairman and Chief Executive Terrence Duffy, the mastermind of a series of deals that turned CME into the world's largest exchange operator by market capitalization.

CME, which has a market cap of $56 billion, can weather the costs of the case. If it loses, it could be forced to pay as much as $1.5 billion, based on estimates in court filings that Eurex suffered $512 million in damages and provisions of antitrust law that allow it to seek triple that sum.

A trial could dredge up embarrassing details about a long-ago chapter of CME's history.

Internal documents disclosed in court filings this month shed light on CME's response to the Eurex threat. In a 2003 memo titled "CME/CBOT Washington Strategy," two CME lobbyists detailed a plan to delay the approval of Eurex's U.S. exchange by the Commodity Futures Trading Commission.

Part of their proposal was enlisting then-House Speaker Dennis Hastert to add a provision to a spending bill that would have forced the CFTC to prolong the process.

"This strategy would need to be carried out in an extremely discrete manner and we believe the only person who can get this accomplished is Speaker Hastert," said the memo, sent to Mr. Duffy and other CME executives.

It is unclear whether CME approached Mr. Hastert, who declined to comment through his lawyer. In the 2002 election cycle, CME's political-action committee and people affiliated with the company donated more than $40,000 to Mr. Hastert, a Republican from Illinois, according to OpenSecrets.org. Mr. Hastert joined CME's board after leaving Congress and was a member from 2008 to 2015.

Delays in winning CFTC approval caused Eurex to miss a planned launch in February 2004 by a week. USFE's suit says uncertainties over the process scared off traders. CME says the delay was insignificant and that its lobbying activities were appropriate, focused on issues of market fairness and shouldn't be considered violations of antitrust law.

The all-electronic Eurex was the world's largest derivatives exchange by volume in 2003 when it took on Chicago, setting up its U.S. offices in the Sears Tower. Its plans to launch a suite of U.S. Treasury futures were a direct threat to CBOT, the dominant player in that market.

Eurex -- then a joint venture of Deutsche Borse and what is now called the SIX Swiss Exchange -- had grown rapidly by embracing technology. Meanwhile, CME and CBOT ran old-fashioned trading floors alongside computerized platforms and had been criticized for being slow to adapt to the rise of electronic trading.

But the Chicago exchanges reacted quickly to the threat. CBOT severed ties with its clearinghouse -- the entity that runs the financial plumbing for a futures exchange -- and agreed to use CME's clearinghouse. That undermined Eurex, which hoped to clear trades through the same clearinghouse as CBOT. Such an arrangement would have made it easier for traders at CBOT to jump ship for Eurex.

CBOT also slashed fees days before the Eurex launch. The upstart exchange foundered and eventually closed in 2008.

The suit also alleges that CME and CBOT intimidated traders seen as supportive of Eurex. CME says there is no evidence to support such claims.

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THE WALL STREET JOURNAL.

Opinion
America Needs Federal 'Baby Bonds'; Every person should have a stake in the equity markets that create real wealth.

By David M. Smick
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WSJO
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Speaker Paul Ryan has announced his retirement, but he still has time to pass legacy-defining legislation. He should focus his final months in office on alleviating the poverty trap, wherein people who try to leave welfare become cornered as they face a loss of benefits and unduly high marginal tax rates.

Previous efforts at reform have been halted by demagoguery, but a bipartisan plan that also addresses the U.S. economy's means of wealth distribution has a chance of success. Call it the Escape From Poverty Plan.

A large portion of wealth creation today is distributed through equity markets. Since it hit bottom in 2009, the **S&P 500 stock index** has nearly quadrupled, but tens of millions of Americans don't own stocks. For those at the bottom, stock ownership is largely nonexistent. Meanwhile, wages have remained relatively flat.

In coming decades, an increasing portion of the world's economic dynamism will be powered by the tech revolution, much of which will occur outside the U.S. Many of the fastest-growing economies are in Africa. India could become a 21st century juggernaut.

Affluent Americans whose stock portfolios include a global component will tap directly into this wealth creation. Mere wage earners and those at the bottom economic rungs will not. The challenge is to enable more Americans to own securities.

Less than a decade ago, Congress was close to taking a modest first step. A remarkable bipartisan coalition in the Senate—from Jeff Sessions to Chuck Schumer—backed legislation that would have established "American Birthright Accounts." These accounts would have given newborn Americans a $500 "baby bond." But the proposal fell to the wayside.

Congress should consider a revamped version of this initiative that offers future Americans the opportunity to become stockholding capitalists. The federal government could set up a tax-free stock-investment account for each child born in the U.S. It would begin with, say, a $5,000 low-interest loan as seed capital, to be paid back in 50 years. The loan would include a modest interest rate, with the interest balloon payment due at the end of the loan period. (A lot of details would need to be established to prevent abuse of the program and to protect participants.)

The plan should offer a small selection of diversified U.S. and global index fund investment choices, all overseen by the U.S. Treasury. Within strict limits, an account holder could use some of the profits for education after turning 18. On the government's books, the transaction would be a loan, not an expenditure.

Big Wall Street banks were offered massive amounts of low-interest loans to repair their balance sheets during the financial crisis. Why not do the same for children of working-class families? Those families earning less than $60,000 in joint income should also pay no federal tax on any stock or bond investment income. And Congress should explore better ways to encourage companies, large and small, to initiate or expand employee investment programs.

There are no guarantees here. Equity markets correct and sometimes collapse. Birthright accounts alone are no magic formula for ending poverty. Still, since 1930 the U.S. **stock market**—even factoring in the Depression-ridden 1930s and stagflation-plagued 1970s—increased by an average annual rate of about 7% after inflation. In the future Warren Buffett predicts average annual long-term **equity market** returns, including reinvested dividends, of up to 7%. It would be reasonable to expect that a global, indexed birthright investment account could, after decades of compounding, become a sizable nest egg.

Can index funds capture global, tech-driven wealth creation? Mr. Buffett's recent public bet showed the return on index funds to be superior to those achieved by the best, most specialized traders. And the **bull market** of recent years has demonstrated one thing: A relatively few tech stocks can drive the broader indexes.

Some conservatives may object, but there is a precedent for this approach. The Homestead Act of 1862, signed by President Lincoln, gave out public land grants at little or no cost, setting the stage for mass property ownership that underpins American democracy. It may be the most important piece of economic legislation in U.S. history.

To expand opportunity, average Americans must have better access to the **financial-market** growth wave. In a global economy in which digitization and artificial intelligence could produce significant economic disruption, families on the lower rungs need a user-friendly way to tap into the world's future wealth generation. They need to become more familiar with the investment economy.

Combining welfare and entitlement reform with some form of birthright accounts could be a first step toward a policy that brings that economic security to all Americans—while eliminating poverty traps.

Mr. Smick, chairman and CEO of Johnson Smick International, is author of "The Great Equalizer: How Main Street Capitalism Can Create an Economy for Everyone" (PublicAffairs, 2017).

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THE WALL STREET JOURNAL.

Markets

What's Sucking the Air Out of Gold's Rallies? Gold futures have been locked in a range despite turbulent stock markets and geopolitical tensions

By Amrith Ramkumar
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Gold prices are locked in a tug of war, with investors piling in during periods of political stress only to pull out when interest rates look poised to rise.

Bullion has stayed between $1,303 and $1,362 a troy ounce this year, based on front-month futures prices. And while the **S&P 500** entered correction territory in February and is down 7.5% from its Jan. 26 all-time high, gold is down 0.5% during that time.

That is a stark reversal from past periods. Gold has tended to rally during past U.S. **stock-market** corrections—a decline of at least 10% from a recent high. Most notably, it climbed 16% in early 2016, when a selloff in Chinese stocks rippled across markets world-wide.

The yellow metal is considered to be a haven that holds its value when stocks and other assets wobble. Yet this year, investors haven't sought shelter in the metal even amid trade tensions between the U.S. and China and fears of a clash between American and Russian military forces in Syria. Late Friday night, U.S., U.K. and French forces launched missile strikes targeting sites associated with Syria's chemical-weapons capabilities.

Some analysts and investors say the prospect of higher interest rates, which tend to buoy Treasury yields and make gold less attractive, has sucked the air out of the metal's rallies this year. The recent geopolitical worries also don't pose a fundamental threat to the global economy, they say, keeping central banks on track to raise borrowing costs and putting a lid on gold prices.

Minutes from the Federal Reserve's March meeting, released Wednesday, showed it still plans to raise interest rates two or three more times this year.

"There is still a lot of focus on global synchronized growth and higher rates as the year unfolds," said Suki Cooper, precious metals analyst at Standard Chartered Bank.

She expects prices to fall before the Fed's June meeting. "We haven't seen the broad investment demand turn supportive."

Every time gold has threatened to climb above $1,360, economic data or central-bank signals have dragged the metal back down.

On Jan. 25, after a weaker dollar pushed gold to its highest level since August 2016, prices fell for three straight sessions as Treasury yields climbed.

Last week, prices surged 1.1% Wednesday and looked poised to breach $1,360 again, but fears receded that threats from President Donald Trump would lead to a clash with Russian forces in Syria. Gold fell 1.3% Thursday and inched up 0.5% Friday.

The lackluster start this year has come even as cryptocurrencies that were partially blamed for weak investor interest in gold last year have fallen sharply. Bitcoin is down more than 40% this year.

"The price action has been really disappointing," said Tai Wong, head of metals trading at BMO Capital Markets. "The gold market remains unconvinced that we're really going to have a serious global dislocation."

Gold investors have turned cautious. Net bets on higher gold prices by hedge funds and other speculative investors have fallen 36% since the start of February to well below their 2017 highs, Commodity Futures Trading Commission data show.

And monthly sales of American Eagles, a popular gold coin that is a proxy for retail sales of physical gold, hit their lowest level since 2015 in March following a strong start to the year, U.S. Mint data show.

Meanwhile, fund flows have been mixed. More than $1 billion went into gold-backed exchange-traded funds in March, after money flowed out in February, data compiled by the World Gold Council show.

Some analysts say gold has been influenced by muted moves in the dollar. When the U.S. currency rises, it makes dollar-denominated commodities more expensive. The WSJ Dollar Index, which tracks the dollar against a basket of 16 other currencies, has been range bound.

A wild card for gold investors could be an unexpected pickup in inflation. Investors often use gold to hedge against a rise in consumer prices. Recent data have shown underlying inflation steadily gathering steam.

George Milling-Stanley, head of gold strategy at State Street Global Advisors, forecasts gold will trade between $1,350 and $1,400 moving forward.

"We have been in times of great uncertainty for 18 months now," he said. "And this is uncertainty in macroeconomic terms and geopolitical terms."

Write to Amrith Ramkumar at amrith.ramkumar@wsj.com

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The Week Ahead
Business Day
AT&T and Time Warner Chiefs to Testify, and New China Tariffs Brew

By The New York Times
837 words
15 April 2018
02:22 PM
NYTimes.com Feed
NYTFEED
English

Here's what to expect in the week ahead:

CABLE TELEVISION

AT&T and Time Warner C.E.O.s will take the stand.

As the Justice Department's suit to block AT&T's merger with Time Warner enters its fifth week, the top executives of both companies will take the stand in federal court. Jeff Bewkes, the chief executive of Time Warner, will go first, followed by Randall Stephenson, the chief executive of AT&T. They are both expected to testify early in the week. The executives will vigorously defend the $85 billion merger, which they say will create a stronger competitor to ascendant streaming video services. The Justice Department is expected to pose tough questions to the executives on how the combined companies could try to raise prices on rival cable and satellite firms — increases that would trickle down to consumers. Cecilia Kang

FINANCE

The I.M.F. and the World Bank discuss the economy.

World leaders will travel to Washington, D.C., for the spring meetings of the International Monetary Fund and the World Bank, which run from Monday through Sunday. The organizations are likely to repeat their message of recent months, cautioning governments to make tough reforms to increase their economic productivity now, while global growth remains strong. They have also urged countries to avoid trade protectionism. Ana Swanson

ECONOMY

Bad weather may have cooled sales in March.

The Census Bureau is scheduled to release data on Monday on retail sales in March, providing another marker of the economy's health and stability. Cold weather across much of the country may have led to a decline in discretionary shopping in March. Sales fell slightly in February, a typically quiet time for shoppers after the holiday rush. Michael Corkery

BANKING

More big banks will report first-quarter earnings.

Bank earnings reports continue next week, with Bank of America reporting first quarter results on Monday, followed by Goldman Sachs on Tuesday and Morgan Stanley on Wednesday. Each could see a boost from recent **stock market volatility**, but a breakout performance on loan or deposit growth would be a surprise. Emily Flitter

RETAIL

High court hears arguments on taxing online retailers.

Internet retailers will face a reckoning at the Supreme Court on Tuesday, when the justices hear arguments about whether to reconsider a 1992 ruling that helped spur the rise of online shopping. That decision barred states from forcing companies to collect sales taxes if they do not have a local physical presence. Some justices have signaled that they are ready to overrule the decision, which costs states billions in tax revenues and puts brick-and-mortar stores at a competitive disadvantage. Adam Liptak

TRADE

President Trump and Prime Minister Abe meet at Mar-a-Lago.

President Trump will host Prime Minister Shinzo Abe of Japan for two days at Mr. Trump's Florida estate starting Tuesday. While Mr. Abe has spoken with Mr. Trump more than any other foreign leader, the president's decision not to exclude Japan from tariffs on steel and aluminum has strained their relationship. Both American and Japanese officials expect Mr. Abe to confront the president on trade, which may include a conversation about Mr. Trump's recent announcement that he would consider rejoining the Trans-Pacific Partnership. Also on the table are Mr. Trump's plans to meet with North Korea's leader, Kim Jong-un, a decision that stunned Mr. Abe. Will Dudding

PERSONAL FINANCE

Tax Day arrives later than usual, but arrives nonetheless.

Tuesday is the deadline to file your 2017 income tax returns, so there isn't much time left. The good news: Because of a local holiday in Washington, taxpayers have had an extra 48 hours to file this year — traditionally, Tax Day is on April 15.

Tuesday is also the deadline to contribute to your Individual Retirement Account or your Health Savings Account. Although you technically have until 11:59 p.m. on Tuesday to file electronically, it's probably best to finish your returns before the absolute last minute. And if you still file by mail, your post office is less likely to stay open late than it once was. Zach Wichter

TRADE

Another round of tariffs could be coming for Chinese products.

Sometime this week, the White House may release a list of roughly $100 billion in Chinese products that could be hit with additional tariffs in the coming months. That measure is the latest threat in an escalating series of trade measures between the United States and China, as the Trump administration tries to push Chinese leaders into abandoning what he has described as unfair trade practices. Ana Swanson

Randall Stephenson, chief executive of AT&T, left, and Jeffrey Bewkes, chief executive of Time Warner, in 2016. Both men are expected to testify in support of the proposed merger of their two companies, which has been challenged by the Justice Department. | Patrick T. Fallon/Bloomberg

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The New York Times

Technology
Silicon Valley Venture Capitalists Prepare for an I.P.O. Wave

By Jack Nicas
1,437 words
15 April 2018
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NYTimes.com Feed
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English

SAN FRANCISCO — Jason Pressman spent Thursday morning cheering from the balcony of the New York Stock Exchange as shares of the software firm Zuora, which he backed in 2008, began trading.

By the market's close, Zuora's stock had soared 43 percent, making his venture capital firm's $17 million investment in the company worth roughly $150 million.

"Not bad at all," Mr. Pressman said by phone on Thursday night, before heading to a celebratory dinner with about 60 people at a pricey Italian restaurant in Chelsea. Mr. Pressman, a venture capitalist at Shasta Ventures, said he had been up much of the night before but still expected to raise a few glasses. "I'm running a little bit on adrenaline."

Mr. Pressman and many other Silicon Valley venture capitalists expect the windfalls to continue. Many of these investors, who back tiny start-ups with the hope that they will someday go public or be sold for nine- or 10-figure sums, have enjoyed enormous paper gains in recent years. But few have cashed in, because their fast-rising companies, like Uber and Airbnb, have remained private.

That finally may change. Investors, bankers and analysts said they expected a wave of initial public offerings to bring some of the most highly valued and recognizable start-ups to the public market over the next 18 to 24 months — and billions of dollars in returns to their executives and investors. The potential bonanza would follow years of waiting as a few dozen companies amassed valuations without precedent in the private market.

Already, 2018 has gotten off to a fast start. Two of the biggest start-ups still sitting on the sidelines — Dropbox, an online file storage company, and Spotify, the streaming music service based in Sweden — successfully went public over the past month. Tech I.P.O.s have already raised more than $7 billion this year — more than all of 2015 and 2016, and more than half the $13 billion they raised last year, according to the market-data firm Dealogic.

The bullishness is a far cry from 2017, when Snap, the maker of Snapchat, went public — and then promptly fizzled. Blue Apron, which delivers meal kits, also saw its share price collapse after its I.P.O. last year.

The tide has turned, venture capitalists said. "I talk to bankers all the time and they're like: 'Dude, we have stuff coming down the pike. There's a bunch of offerings teed up,'" said Rob Hayes, a general partner at First Round Capital, who led a $1.5 million funding round in Uber in 2010 that valued the company at $4 million. Uber is now worth $68 billion.

Some of the biggest-name privately held tech companies have recently made moves that position them to go public in the next year or two. Dara Khosrowshahi, Uber's chief executive, has said he plans to take the company public next year. Lyft has held talks with investment banks to explore going public. And Airbnb has begun bringing independent directors onto its board, a move that is typically part of the preparations for becoming a public company.

A wave of tech I.P.O.s would have implications for Silicon Valley's start-up ecosystem. Once start-ups go public and their employees pocket some of the wealth, executives and engineers may leave with more resources to begin their own start-ups. That gives venture capitalists a fresh set of companies to invest in, renewing the cycles of innovation and experimentation that sit at the heart of Silicon Valley.

The I.P.O.s will also earn the venture capitalists big returns — and bragging rights. According to an annual ranking of venture capitalists by CB Insights, a research firm that follows start-ups and venture capital, many of the top-ranked investors backed companies with 2017 I.P.O.s, including the software maker MuleSoft; Stitch Fix, a mail-order clothing service; and Snap. (While Snap has struggled on the **stock market**, investors bought in at far lower valuations.)

At the top of the CB Insights list for the second straight year was Bill Gurley, a general partner at Benchmark, which was a Stitch Fix backer and one of the biggest investors in Uber. (Mr. Gurley became embroiled in plenty of drama with Uber last year, including filing a fraud lawsuit against its former chief executive, Travis Kalanick. Benchmark recently sold some shares of Uber to SoftBank, the Japanese conglomerate.)

Steve Anderson of Baseline Ventures, No. 2 on the list, also backed Stitch Fix. And Jeremy Liew of Lightspeed Ventures, who was No. 10, funded Snap, while his colleague Ravi Mhatre, No. 8, backed MuleSoft and Stitch Fix. (The list of top 20 venture capitalists is below.)

“Even though most firms have had fairly record numbers over the past four or five years, they’ve been paper numbers,” Mr. Gurley said. “At the end of day, cash-on-cash returns is what matters.”

While private capital has been so accessible that start-ups have been able to get ample funding without the headaches of an I.P.O., several factors are encouraging companies to go public now, investors and bankers said. Public investors are hungry to buy shares of fast-growing companies. Early employees are getting antsy to cash in their stakes. And some start-up executives are eager to prove themselves as public company chief executives after founders like Facebook’s Mark Zuckerberg and Twitter’s Jack Dorsey have said going public improved their discipline and focus on profits.

“At all levels, there are more and more companies who are thinking about should we go public this year or next?” said Noah Wintroub, JPMorgan Chase’s vice chairman of investment banking. “You’ve got an environment now that’s conducive to asking that question, and also a lot of companies that have scaled up to the point where they can go now.”

Matthew Kennedy, an I.P.O. analyst at Renaissance Capital, said nearly all private companies valued at more than $1 billion were strong candidates to go public in the next two years. He said he expected more immediate activity among midsize start-ups, such as Slack, the maker of corporate messaging software, which is valued at $5.1 billion, and DocuSign, an e-signature company valued at $3 billion that filed I.P.O. paperwork last month.

Large private Chinese firms may also be nearing I.P.O.s, Mr. Kennedy said, including Xiaomi, a smartphone maker valued at $46 billion, and Meituan Dianping, an e-commerce firm valued at $30 billion.

Once this generation of start-ups goes public, investors said, it will ease the anxiety of the wealthy families, pension funds and university endowments that finance the venture capitalists’ investment funds. Those so-called limited partners have been itching for their returns, venture capitalists said.

“They’re certainly eager for cash back,” said Mr. Pressman, the Zuora investor. An I.P.O. boon would be good for the venture capitalists, too.

“For sure,” he said. “We’re in the business to make money for our investors, but we make money when our investors do.”

The Top 20 Venture Capitalists

CB Insights analyzed investors’ exits (I.P.O.s, stock sales and acquisitions) the value of their current holdings and other factors to rank the top 100 venture capitalists. The analysis spanned 2009 through March 2018. The New York Times presents the top 20 here:

Follow Jack Nicas on Twitter: @jacknicas.

* Spotify’s Wall Street Debut Is a Success

* Dropbox Shares Leap in I.P.O., and Silicon Valley Smiles

* As Uber Eyes I.P.O., Its Losses are Slowing. But They’re Still Big.

* Airbnb, Edging Toward Possible I.P.O, Names Ken Chenault to Board

Dropbox, which made its initial public offering in March, and Spotify may be at the start of a wave of I.P.O.s for highly valued and recognizable start-ups. | Drew Angerer/Getty Images | Dara Khosrowshahi, the chief executive of Uber. Uber, Lyft and Airbnb are among the popular picks to go public in the near future. | Brendan Smialowski/Agence France-Presse — Getty Images | The venture capitalist Bill Gurley has demonstrated a knack for backing companies that make big money once they go public. He is one of the biggest investors in Uber. | Peter Earl McCollough for The New York Times | The venture capitalist Steve Anderson. Like Mr. Gurley, he back Stitch Fix. | Peter DaSilva for The New York Times

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The New York Times

Money and Business/Financial Desk; SECTBU
A Bull Under Pressure

By CONRAD DE AENLLE
1,801 words
15 April 2018
The New York Times
NYTF
Late Edition - Final
11
English

The long calm in the **stock market** has been broken by confirmation that the Federal Reserve intends to combat inflation aggressively and by signs of a trade war that could threaten global economic integration and the prosperity it has helped engender.

What happens from here may hinge on the speed and severity of Fed interest rate increases and the speed and severity with which the United States and China impose tariffs on each other's goods.

At their most extreme, investment advisers warn, each factor could subdue growth, and protectionist policies could do much worse. Until signs emerge that economic damage will be limited, they say, stocks could remain under pressure.

''We're dealing with a more toxic issue than we've had to deal with in this **bull market**,'' said Edward Yardeni, president of Yardeni Research. ''There's the potential for causing a global recession, and that's something investors are worrying about.''

They seemed not to have a care in the world as 2018 began. Stocks recorded a string of record highs as Wall Street contemplated the benefits from reduced corporate and personal income tax rates that had just been enacted. But Treasury bond yields rose steadily through January as indicators of economic strength, particularly the persistently low unemployment rate, raised the prospect of rising inflation.

Around the same time, President Trump began to impose tariffs intended to protect American industries from foreign competition. Solar panels and washing machines were his first targets. Then came steel and aluminum.

Tariffs may or may not help the targeted industries, which in these cases are not significant segments of the economy, anyway, and the taxes are almost universally viewed as harmful to consumers, who have to pay more for the affected goods. And then there's the impact of tariffs imposed by foreign governments in retaliation, which came swiftly from China, the main target of the trade war that Mr. Trump has threatened to wage.

The potential impact of the back-and-forth trade moves, and the ones that yet may come, helped send stocks on one of the swiftest plunges on record starting in late January -- 11.8 percent in less than 10 trading days for the **Standard & Poor's 500**-**stockindex**.

That was followed by a rally that recouped most of the loss, and then another decline that took the index close to a fresh low, leaving it down 1.2 percent in the first three months of the year, the first quarterly decline since 2015. The early days of April have been rocky as well.

If a trade war really has begun, some household names in corporate America could become casualties, Andy Rothman, an investment strategist at Matthews Asia, warned.

''There are already a lot of U.S. companies doing really well in China,'' he said. ''G.M. sells more cars in China than in the U.S., Boeing sells more planes in China than in any other market, and Apple derives 20 percent of its revenues in China. Those are big listed names.''

The impact would go beyond sales in China, he added. American companies that obtain parts and supplies there could see that conduit disrupted.

As for the Chinese economy and **stock market**, Mr. Rothman said, they are mostly immune.

"Very few listed Chinese companies export stuff to the United States," he said. "Even if Trump disrupts U.S.-China trade, the impact should be negligible."

A trade war, therefore, "will hurt us more than them," he said. That's why he expects the president's protectionist tendencies to be reined in.

"The odds of a full-blown trade war are extremely low," Mr. Rothman said. Not only is the Chinese leadership eager to avoid one, but "Trump must be coming under a lot of pressure not to do this for the damage it will do to the U.S. **equity market**."

Tobias Levkovich, chief United States equity strategist at Citi Research, also foresees limited damage to the economy and stocks from an unraveling in trade relations. He pointed to the exemptions on steel and aluminum tariffs offered to big trading partners like Canada and Mexico, and he expressed hope that Mr. Trump's words and actions merely reflected his penchant for eccentric deal making.

"Trump has a unique negotiating style," Mr. Levkovich said. But "if he takes it further, it could be a problem and hurt growth in a more meaningful way." As for the impact of the president's tactics on investments, he added, "it doesn't help."

Mr. Yardeni said he thought a trade war could be forestalled, although the mere prospect of one could depress the **stock market**. He agreed that "this could be Trump's art of the deal -- take an extreme negotiating position and wait for people on the other side to say, 'Let's talk about this.'"

Tighter monetary policy is a more run-of-the-mill concern. But investors should not underestimate the potential it has to harm their portfolios with valuations elevated across the board and inflation threatening to return.

"Prices across just about every asset class look high historically," said Ben Inker, head of asset allocation for the asset management firm GMO. "What they all have in common is that when you squint, they make sense if you assume cash rates are going to stay low for some time. If inflation is up, then you need significantly tight monetary policy. That's bad for bonds and also stocks."

Mr. Inker is concerned about a trade war, like many other investors, but he emphasizes the risk of higher prices on goods -- inflation -- that it might cause.

"The nightmare scenario is a general rise of economic nationalism and the mercantilist view that trade has winners and losers," he said. "Then you get a retreat from globalization, which has helped the economy grow without experiencing significant inflation."

When stocks fall, so usually do yields on high-quality bonds, sending prices higher in a so-called flight to safety. But one ominous development during the first leg of the decline in stocks, from Jan. 26 to Feb. 8, was that the yield on **10**-**year Treasury** securities rose to 2.85 percent from 2.66 percent. Yields were steady during the second wave of selling in stocks, but they rose overall during the first quarter, to 2.74 percent from 2.4 percent.

That means that **bond prices**, as well as stock prices, fell.

Terri Spath, chief investment officer of Sierra Investment Management, warned in a note to clients that the traditional balanced portfolio, split 60/40 between stocks and bonds, might not provide the protection through diversification that it used to if the bond **bull market** that began in the early 1980s is over, as she believes.

"Tightening Fed policy, inflation, rapidly growing deficits and their impact on rates can sometimes move **bond prices** violently," Ms. Spath wrote. "July 2016 marked the lowest level in rates I will likely see in my lifetime," with the **10**-**year Treasury** yield reaching 1.33 percent. "If interest rates continue the climb up from that level, traditional bonds and the 60/40 will continue to die, as foreshadowed during the first correction of 2018."

Ms. Spath is not alone in disdaining bonds. The latest Bank of America Merrill Lynch survey of global fund managers, released in late March, showed bonds to be the second-least-favorite of 22 asset classes -- behind only British stocks -- relative to how managers have rated them throughout the survey's 17-year history.

Bond funds and domestic and international stock funds all fell in the first quarter, though not by that much. The average taxable bond fund declined 0.5 percent, according to Morningstar, led lower by portfolios specializing in longer-term issues.

The average domestic stock fund fell 0.4 percent, with consumer defensive and natural resources groups faring worse than most and technology being one of the few clear winners, up 6 percent. International funds declined 0.3 percent, although specialists in China and Latin America recorded gains.

With interest rates rising, **stock market** valuations still high and protectionist impulses threatening to ignite a full-blown trade war, advisers encourage investors to indulge protectionist impulses of a different sort when it comes to their portfolios. They recommend keeping less money in stocks or being more selective about the ones investors own.

''You're better off investing pretty much anywhere other than the U.S.,'' Mr. Inker said about stocks, although he prefers Treasury bonds to foreign bonds.

The only type of investment he recommends outright, rather than in comparison to others that he deems even worse, is ''the cheap half of emerging'' markets, in particular technology stocks in places like Taiwan and elsewhere in Asia.

''Other than emerging market value, we don't see assets that deserve to go up a lot,'' he said.

Citi's analysts prefer emerging markets and Europe, where stocks are cheaper and central banks are doing more to prop up the markets. Mr. Levkovich counters that stocks are cheaper abroad for good reasons: American businesses have higher returns on equity, and American benchmark stock indexes are heavier in technology and lighter in the financial industry.

Mr. Levkovich recommended that investors prune their portfolios to enhance return prospects. In particular, he would be cautious on tech and usually defensive areas like utilities, consumer staples and telecoms, and emphasize traditional industrial companies and the materials industry, including chemical producers.

Mr. Yardeni remains optimistic about stocks, but he's in no hurry to buy.

''You have to recognize that if you're thinking of buying stocks, you're not exactly getting in early,'' he said. ''We could have a shakeout here until we get clarity on protectionism.''

His advice is to be patient in the likelihood that stocks can be bought at lower prices. When the time feels right, he said, he would look at exporters and other companies that would be on the front lines in a trade war, which he expects to be averted.

''You're probably going to find some good opportunities in blue-chip stocks with exposure to tariff issues,'' Mr. Yardeni said. But for now, he cautioned, risks in the market have risen.

''This probably will turn out to be a panic attack, like before,'' he said, ''but it has the potential to be a more serious correction than we've had in some time.''

The year started very well for Wall Street, thanks in part to lower tax rates. Then a roller-coaster ride began. (PHOTOGRAPH BY SAM HODGSON FOR THE NEW YORK TIMES) (BU18) DRAWING (DRAWING BY COREY BRICKLEY); CHARTS: FIRST-QUARTER MUTUAL FUND RETURNS JAN. 1-MARCH 31, 2018 (Source: Morningstar)

Document NYTF000020180415ee4f0007w

THE WALL STREET JOURNAL.
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World News: China Slows Down U.S. Chip Deals --- Reviews of Qualcomm , Bain transactions are stalled by Beijing amid trade tensions

802 words
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The Wall Street Journal
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A7
English

BEIJING -- China is slowing reviews of multibillion-dollar takeover deals pursued by Qualcomm Inc . and Bain Capital , people familiar with the matter say, as U.S.-China trade tensions escalate.

The delay could end up quashing Qualcomm 's planned $44 billion purchase of Dutch semiconductor company NXP Semiconductors NV -- a deal widely seen as critical to Qualcomm 's future -- according to a person familiar with the matter.

China is the only country that hasn't yet signed off on the Qualcomm deal and on Toshiba Corp .'s planned $19 billion sale of its chip unit to a consortium led by U.S. private-equity firm Bain Capital .

Neither deal is likely to move forward amid the looming trade war, the people said.

"The review process is basically on pause because of the trade tension," a senior Toshiba official said.

Stalling is a possible leverage point for China as it seeks to fend off the Trump administration's plans to impose tariffs on up to $150 billion in Chinese goods in response to what the administration says are unfair trade practices.

China has denied acting improperly and responded with threats of "teeth-to-teeth" retaliatory measures, including higher levies on $50 billion in U.S. imports.

China has a say on the Qualcomm -NXP deal as one of several countries where the companies have substantial sales or assets. The deal is considered critical for Qualcomm 's competitiveness, by broadening its reach beyond its stronghold in the handset business, which has reached a plateau.

Qualcomm has said adding NXP would help it reach combined markets, such as connected cars, that it expects to be worth $77 billion by 2020.

Worried that Beijing might scuttle the deal, Qualcomm Chief Executive Steve Mollenkopf raised the issue with China's vice president, Wang Qishan, in a March 27 meeting, people with knowledge of the event said.

Mr. Wang sought to offer some assurances, the people said. He told Mr. Mollenkopf that regulators would review the deal through a "science-based process" and that politics would have nothing to do with it.

People familiar with the matter say the deal is still facing resistance from China's commerce ministry , which has indicated it is likely to seek more information from San Diego-based Qualcomm . The ministry faces a deadline next week to make a decision, according to one of the people. To keep the review alive, Qualcomm and NXP could withdraw the current application and refile for an extension.

Qualcomm faces its own deadline to complete the NXP deal. The companies' merger agreement provides for two automatic extensions of the deal's deadline, and the second was triggered in January, extending it to April 25. The companies could still negotiate more extensions, however.

Qualcomm declined to comment. NXP referred any questions to Qualcomm , its acquirer. A Bain representative declined to comment on the Toshiba deal. China's Commerce Ministry didn't respond to a request to comment.

A Qualcomm deal is an important part of the company's plan for revenue growth, after the Trump administration last month quashed a $120 billion proposed acquisition of Qualcomm by Broadcom Ltd . -- an outcome Qualcomm wanted.

Qualcomm also faces a long-shot attempt by its former chairman and CEO, Paul Jacobs , to marshal support to buy Qualcomm , which he has said would be better off under private ownership.

As for Toshiba , the longer it holds on to its chip business, the greater its risk of losing its technological edge: To remain competitive in chips, it would have to make frequent multibillion-dollar investments, which would be a challenge for Toshiba with its unsteady finances.

As of April 1, Toshiba gained the right to cancel the deal with the Bain-led consortium under the original sale contract. Toshiba executives have said they want the deal to go through, but some shareholders have said it should be scrapped. A lengthy delay in China would increase that likelihood.

Washington and Beijing have been embroiled in a trade spat that has become a source of **financial-market** turmoil in recent weeks and raised concerns that a full-bore trade war could drag down the global economy.

So far, China has threatened to impose stiff levies on U.S.-made soybeans, sorghum and other products. And it is looking for retaliatory options beyond tariffs, government advisers and China analysts say, such as stepped-up regulation of U.S. companies in China.

"Merger reviews and decisions should be based on consistent, scientific, market-based calculations and never the politics of U.S.-China relations," said Jacob Parker, vice president of China operations at the U.S.-China Business Council.

Kosaku Narioka in Tokyo contributed to this article.

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THE WALL STREET JOURNAL.
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Banking & Finance: 'Dr. Doom' Is Still Basking in His Fame

By Amrith Ramkumar
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The Wall Street Journal
J
B10
English

A decade after the financial crisis, The Wall Street Journal has checked in on dozens of the bankers, government officials, chief executives, hedge-fund managers and others from that period to find out what they are doing now. Today, we spotlight economist Nouriel Roubini and analyst Meredith Whitney.

Nouriel Roubini continues to delight in the celebrity status he achieved as a rare voice warning of a housing-market collapse before the 2008 financial meltdown.

He wrote a well-received book, titled "Crisis Economics." He has been in high demand on the lecture circuit. And he has amassed nearly 450,000 Twitter followers; a total, he says, that is second only to Paul Krugman among economists.

"Every day, someone on the street stops and says, 'Can I take a picture with you?'" the 60-year-old said in an interview.

Before the financial crisis, the New York University professor was little known outside academic circles. Nearly always clad in a black suit, Mr. Roubini was dubbed "Dr. Doom" after an International Monetary Fund event in September 2006, where he said a slowdown in the U.S. housing market could lead to a global recession. At a 2007 panel in Davos, he argued that a rosy "Goldilocks" economic environment was "threatened by three ugly bears" -- a meltdown in the subprime-mortgage market, rising **oil prices**, and an end to cheap credit.

As the credit crisis unfolded in 2008, the Harvard Ph.D. won sudden acclaim as a financial soothsayer. Global investors began looking to his forecasts for clues about the direction of the **stock market**, and tabloids luxuriated in his social gatherings.

After the crisis, Mr. Roubini stuck with his **bearish** views, failing to foresee the economic rebound and the **stock-market** rally that followed. In August 2011, he told The Wall Street Journal that the risk of a global recession was at least 50%. By 2014, he was more **bullish**.

Despite his sunnier view on the economy, he still frets that a slowdown in China or faster-than-expected rise in inflation could change his outlook. "If there will be another crisis, I would be the first one to warn about it," Mr. Roubini said.

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THE WALL STREET JOURNAL.
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Markets Flash Caution for Stocks --- Stability in other assets suggests there is more than trade unease rattling shares

By Riva Gold and Mike Bird
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14 April 2018
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J
B1
English

U.S. stocks have been on a roller coaster since trade tensions between Washington and Beijing began to escalate in early March. But plenty of other markets have been placid, suggesting there is more to the recent stock **volatility** than worries over tariffs alone.

Currencies of high-export countries, stock markets of developing nations that rely on trade, and government bonds have barely moved in the past few weeks. That's unexpected if a global trade war really was widely anticipated by investors, some observers say.

An alternative explanation for the **stock market**'s weakness could be crowded positioning, elevated valuations and fears that growth may be losing momentum, they say.

"It's not a uniform message from markets that everything is about trade," said Valentijn van Nieuwenhuijzen, chief investment officer at NN Investment Partners. With recent signs of waning momentum in leading indicators of economic growth, "a crucial support which helped equity markets rally through political uncertainty is fading," he said.

The **S&P 500** has fallen roughly 3% since President Donald Trump signed steel and aluminum tariffs on March 8, while the Cboe **Volatility** Index -- known as Wall Street's fear gauge, which measures the expected **volatility** of the **S&P 500** based on options prices -- is up 5% since then after rising as much as 58% in late March.

Currencies, meanwhile, have been comparatively unmoved. The Deutsche Bank Currency **Volatility** Index, a benchmark for expected future swings in foreign-exchange markets, fell below 7 on Monday, its lowest level in three months. That leaves it about two points below its average over the past five years.

Likewise, the Merrill Lynch Option **Volatility** Estimate Index -- the bond **volatility** gauge known as the Move Index -- has declined since the tariffs were signed, while the 10-year **U**.**S**. **Treasuryyield** has barely moved, edging down to 2.8% from 2.9%.

Recent excitement over a period of synchronized global growth helped to buoy markets late in 2017 and early this year, but that perception has dimmed. Disappointing economic data in Japan and the eurozone more recently has sent the Citigroup developed markets economic surprise index into negative territory, from its highest levels in over seven years as recently as December.

Stock markets may also be more sensitive to headline news on trade because investor positioning in stocks is closer to extreme levels than in other markets, according to some investors.

Bank of America Merrill Lynch's regular fund manager survey showed investors in January were positioned most heavily in favor of stocks compared with bonds since 2014, and hedge-fund **stock market** exposure was at its highest level since 2006.

"This is headline risk and **volatility**-driven removal of positions rather than a rational increase in the probability of trade wars," said James Athey, senior investment manager at Aberdeen Standard Investments.

Crude-**oil prices** have seen a greater increase in **volatility** over the past month than stocks or bonds, but analysts attribute the swings to rising geopolitical tension in the Middle East, rather than the trade dispute.

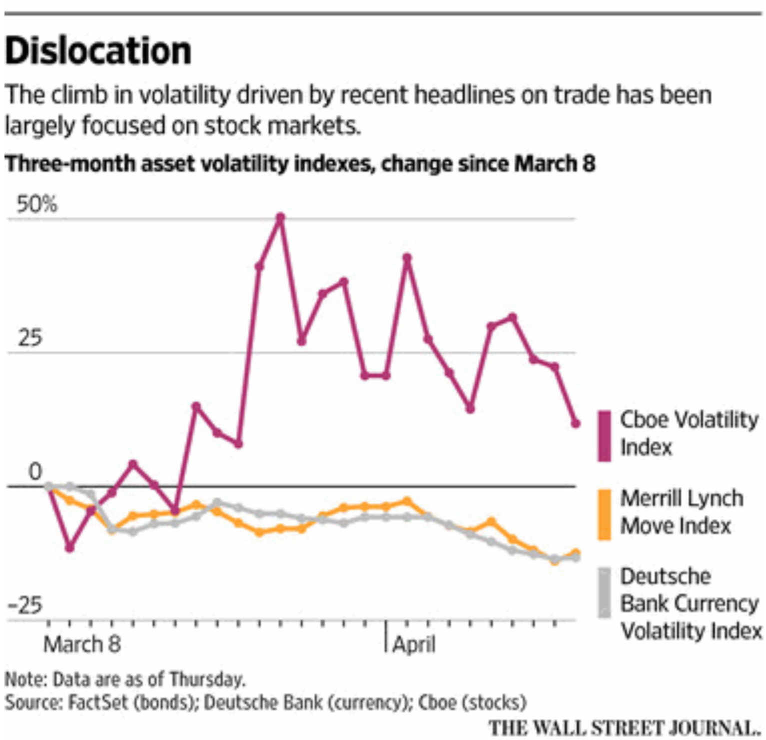
Unlike in stock markets, in which many analysts and investors have fretted about steep valuations, the fact that some major currencies are now closer to fair-value estimates may have been a factor in their relative stability.

"The most traded currency pairs drive the overall **volatility**, which means euro-dollar and dollar-yen," said Kit Juckes, global macro strategist at Societe Generale SA. "What we've seen in both is a move much closer to long-term fair value."

Meanwhile, for the government-bond market, the implications of a trade war on asset prices are less clear, some investors say. "There's a tension between the negative growth effects [which should suppress bond yields] and the inflation boosting effect [which should make them rise]," said Abi Oladimeji, chief investment officer at Thomas Miller Investment. "Balancing those two has been difficult."

Emerging-market stocks and bonds, which analysts have long argued would be particularly at risk in the event of a trade war due to their ties to the Chinese economy and sensitivity to global growth, have shown resilience during the recent turbulence.

As trade tensions mounted in March, emerging-market stocks drew inflows of $7 billion, equivalent to 70% of total inflows to global stock funds, according to Institute of International Finance data. Meanwhile, cumulative flows into emerging-market stocks and bonds reached a high last week, according to Bank of America Merrill Lynch.



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THE WALL STREET JOURNAL.
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World News: Top U.S. Adviser Hopeful On China

By Nick Timiraos and Michael C. Bender
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14 April 2018
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English

WASHINGTON -- President Donald Trump's top economic adviser said he is optimistic the U.S. can avoid a broader trade fight with China and said the White House was close to securing a renegotiation of the North American Free Trade Agreement with Canada and Mexico.

Lawrence Kudlow, the director of the White House National Economic Council, said Mr. Trump's trade dispute with China is "high risk, high return," in an interview. He acknowledged he wasn't sure how the standoff would end, but said he believed "calmer heads would prevail."

"I'm going to stay **bullish** on this," he said. "I hope it works out. I believe it can work out."

Mr. Kudlow said he was disappointed the White House's trade actions had been criticized by policy makers and business leaders in the U.S. and abroad because a more aggressive stance against China was long overdue.

He accused Beijing of stealing U.S. technology and intellectual property and said those practices needed to stop. But he said he had turned optimistic in part because Chinese President Xi Jinping in a speech this week promised greater access for foreign companies to China's financial and manufacturing sectors.

On renegotiation of Nafta, Mr. Kudlow said, "hopefully, we'll have some positive announcements in the near future."

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THE WALL STREET JOURNAL.
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Banking & Finance: Finance Watch

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ANT FINANCIAL

Investors From U.S.

Pile Into Company

Investors outside China are helping to drive up the valuation of billionaire Jack Ma's financial-technology business.

U.S.-based private-equity firms General Atlantic and Silver Lake are planning to invest in Hangzhou-based Ant Financial Services Group, according to people familiar with the matter.

Ant, one of China's most valuable closely held companies, is in the process of raising at least $9 billion from domestic and foreign investors, The Wall Street Journal reported this past week.

A capital raising of that magnitude would represent one of the single-largest private fundraisings by any company in years.

Other global investors in talks to buy shares of Ant or considering investments include hedge fund Tiger Global Management LLC and private-equity firm Warburg Pincus LLC, people familiar with the discussions said.

It isn't clear how much capital the firms are likely to commit. Some investors are looking to buy at least $200 million of the shares, according to a person familiar with the talks.

Private-equity firms have increasingly been taking stakes in late-stage startups as companies wait longer to go public.

The latest funding round could value Ant -- a business carved out of Mr. Ma's e-commerce company Alibaba Group Holding Ltd. seven years ago -- at close to $150 billion, the Journal has reported. That would make Ant the world's most valuable closely held company.

-- Julie Steinberg and Miriam Gottfried

LSE GROUP

Goldman Veteran

To Become CEO

London Stock Exchange Group PLC appointed a 20-year veteran of Goldman Sachs Group Inc. as its new chief executive, filling a crucial leadership gap following the abrupt departure of former CEO Xavier Rolet.

David Schwimmer, who most recently headed the U.S. investment bank's market-structure group and global metals and mining investment-banking operation, is set to join LSE on Aug. 1, when he will also join the board.

The 49-year-old American takes the reins at a position of strength for LSE. Its **stock price** has risen steadily over the past five years, as earnings benefited from Mr. Rolet's bets on derivatives clearing and the growth of index investing. The challenge now is to prove he can maintain that momentum following disappointment among some major shareholders over his predecessor's departure.

The hiring of a seasoned investment banker signals that deal making could be a priority. Mr. Schwimmer is identified as one of the architects of the 2005 merger between New York Stock Exchange and Archipelago Group.

LSE recently missed out on a big opportunity to expand into the vast market for trading U.S. government debt after Chicago-based CME Group Inc. agreed last month to buy NEX Group PLC for about $5.4 billion.

Mr. Schwimmer said LSE "has multiple opportunities for further attractive growth across its market leading capital formation, information services and post-trade business."

-- Ben Dummett

BITCOIN

Exchange Accuses

Executive of Theft

Indian cryptocurrency exchange Coinsecure said some $3 million in bitcoin has gone missing from a digital wallet that held its users' funds, and accused a top company official of involvement in the disappearance.

Coinsecure said its system hadn't been hacked, but that the losses had occurred as the company was extracting bitcoin to distribute to customers. "We regret to inform you that our bitcoin funds have been exposed and seem to have been siphoned out to an address that is outside our control," read a statement on Coinsecure's website.

In a letter posted on the website and addressed to police, Coinsecure Chief Executive Mohit Kalra accused chief scientific officer Amitabh Saxena of having a "role to play" in the incident, without giving further details. Mr. Kalra and Mr. Saxena were the only holders of keys to the company's wallet, the letter said. Attempts to contact Mr. Saxena were unsuccessful.

-- Corinne Abrams

Document J000000020180414ee4e0002s

The New York Times

Foreign Desk; SECTA
Trump Weighs Rejoining Accord With Pacific Rim in About-Face

By ANA SWANSON; Maggie Haberman contributed reporting.
1,567 words
13 April 2018
The New York Times
NYTF
Late Edition - Final
1
English

WASHINGTON -- President Trump, in a sharp reversal, told a gathering of farm-state lawmakers and governors on Thursday morning that the United States was looking into rejoining a multicountry trade agreement known as the Trans-Pacific Partnership, a deal he pulled out of days after assuming the presidency.

Mr. Trump's reconsideration of an agreement he once denounced as a ''rape of our country'' caught even his closest advisers by surprise and came as his administration faces stiff pushback from Republican lawmakers, farmers and other businesses concerned that the president's threat of tariffs and other trade barriers will hurt them economically.

Larry Kudlow , Mr. Trump's top economic adviser, said in an interview on Thursday with The New York Times that the request to revisit the deal was somewhat spontaneous. ''This whole trade thing has exploded,'' Mr. Kudlow said. ''There's no deadline. We'll pull a team together, but we haven't even done -- I mean, it just happened a couple hours ago.''

Mr. Trump's decision to throw out the Trans-Pacific Partnership and his pledge to tear up the North American Free Trade Agreement were bedrock promises of his populist campaign, which centered heavily on unfair trade practices that he said had robbed American manufacturers and workers.

As he often does, the president started to change gears after hearing complaints from important constituents -- in this case, Republican lawmakers who said farmers and other businesses in their states would suffer from his trade approach since they send many of their products abroad.

Then late Thursday, Mr. Trump appeared to shift gears again, saying in a Twitter post at 11:15 p.m. that he would consider re-entering the agreement only if it were ''substantially better'' than the deal offered to President Barack Obama . ''We already have BILATERAL deals with six of the eleven nations in TPP,'' he wrote, ''and are working to make a deal with the biggest of those nations, Japan, who has hit us hard on trade for years!''

The discussion on the trade deal began at the White House meeting earlier on Thursday, when Senator John Thune , Republican of South Dakota, questioned Mr. Trump about returning to the pact, arguing that the Trans-Pacific Partnership was the best way to put pressure on China.

Mr. Trump, who has put China's ''unfair'' trade practices in his cross hairs, turned to Mr. Kudlow and Robert Lighthizer , his trade negotiator, and asked them to look into re-entering the agreement.

Rejoining the pact could be a significant change in fortune for many American industries that stood to benefit from the trade accord and for Republican lawmakers who supported it. The deal, which was negotiated by the Obama administration, was largely intended as a tool to prod China into making the type of economic changes that the United States and others have long wanted. Many economists say the best way to combat a rising China and pressure it to open its market is through multilateral trade deals like the Trans-Pacific Partnership, which create favorable trading terms for participants.

''The idea was to set a framework that eventually China would have to accommodate,'' said David Autor , an economist at M.I.T.

Farmers would stand to benefit from new access to markets, especially Japan, if Mr. Trump rejoins the pact. For instance, ranchers in Australia can currently send beef to Japan more cheaply than ranchers in the United States.

Michael Miller, the chairman of U.S. Wheat Associates and a farmer in Washington, said rejoining the deal would allow his industry to compete on a level playing field with competitors in Australia and Canada, which both remained in the accord.

But rejoining it could be a complex task. The remaining countries, like Japan, moved ahead without the United States, and spent months renegotiating a pact before finally agreeing to a sweeping multinational deal this year. Mr. Trump, who has demanded that any such deal benefit the United States, is unlikely to rejoin the Trans-Pacific Partnership without further concessions for what he has criticized as a terrible agreement. That could complicate talks, since Japan maintains that it has already given all the concessions it could, said William A. Reinsch , a trade expert at the Center for Strategic and International Studies .

Yoshihide Suga , Japan's chief cabinet secretary, on Friday cautioned against any efforts to change the agreement to accommodate Mr. Trump, calling it a ''well-balanced pact'' that addressed the needs of the 11 nations that signed the deal.

It is also unclear how serious Mr. Trump is about rejoining. In the past, the president has floated policies that appeared to run counter to his earlier positions, like cooperating with Democrats on legislation governing immigration and gun rights, then quickly abandoned them.

''What he tells people in a room to make them happy does not always translate into administration policy,'' said Phil Levy , a senior fellow at the Chicago Council on Global Affairs .

In a statement, a deputy White House press secretary, Lindsay Walters, pushed back on the notion that Mr. Trump was reversing his promises.

The president had ''kept his promise to end the TPP deal negotiated by the Obama administration because it was unfair to American workers and farmers,'' she said. ''The president has consistently said he would be open to a substantially better deal.''

But the White House is in somewhat of a box when it comes to prodding China to fall in line with global trade rules. The administration is trying to use tariffs to force Beijing to open its markets, but many of his supporters, including business groups and farmers, fear the fallout from an escalating trade war will be even more damaging. China has responded to Mr. Trump's threat of tariffs on as much as $150 billion worth of its goods by placing its own tariffs on American pork, and threatening taxes on soybeans, sorghum, corn and beef.

Some advisers, including Mr. Kudlow, have indicated that those tariffs may never go into effect, and that they are mainly a prelude to negotiations with the Chinese, statements that have helped calm **volatile** stock markets. In a recent note to clients, the ratings agency Fitch said that the most likely outcome to the conflict remained a ''negotiated solution'' and that it was therefore not changing its primary economic forecast.

Mr. Kudlow, in the interview, said that farmers had ''a legitimate concern'' but added that it would be ''at least two months before final decisions will be made.''

''I'm not here to say we won't use tariffs -- everything's on the table in these negotiations -- but I am here to say we don't know yet,'' he said.

Still, White House officials suggest that little to no progress has yet been made in bridging contentious gaps with the Chinese. Administration officials say that back-channel talks have occurred, but they would not characterize them as official negotiations. The Chinese appear impassable on some of the issues that the White House is most concerned about, including their subsidies to cutting-edge industries like robotics, aerospace and artificial intelligence.

The Trump administration says it has ordered the Agriculture Department to create a program to help farmers should the two nations find themselves in a trade war. Trade advisers say the department could draw on the financial resources of a program known as the Commodity Credit Corporation , which provides up to $30 billion to help shore up American farmers by buying their crops.

''Stay with us while we go through this difficult process,'' Mr. Kudlow told farm-state representatives during the meeting, according to a White House transcript. He added, ''And at the end, if the worst case has come out as the president said, you will be helped. That's a promise.''

But such a program would be time-consuming and costly and would come as the budget deficit continues to increase. Farmers say that Mr. Trump's threats have already hurt them by causing the price of futures contracts to fall. They maintain that the easiest way to help them is to avoid a trade war with China in the first place.

Senator Joni Ernst , Republican of Iowa, described the meeting with the president as ''productive'' and said that she had urged him to re-engage in discussions with countries in the Trans-Pacific Partnership. ''Iowa farmers aren't looking for another subsidy program; rather they want new and improved market access,'' she said.

''The best thing the United States can do to push back against Chinese cheating now is to lead the other 11 Pacific nations that believe in free trade and the rule of law,'' Senator Ben Sasse , Republican of Nebraska, who attended the meeting, said in a statement. ''It is good news that today the president directed Larry Kudlow and Ambassador Lighthizer to negotiate U.S. entry into TPP.''

Get politics and Washington news updates via Facebook , Twitter and the Morning Briefing newsletter.

President Trump spoke of a possible reversal for the United States on the Trans-Pacific Partnership at the White House on Thursday. (A1); President Trump in the Cabinet Room of the White House on Thursday. He met with farm-state governors and lawmakers. (PHOTOGRAPHS BY DOUG MILLS/THE NEW YORK TIMES) (A11)

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Business Day; DealBook
The Redstones' Voting Power Leave Moonves, CBS Few Options: DealBook Briefing

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Good Friday. Here's what we're watching:

• Lending in the first quarter is set to disappoint.

• JPMorgan reported record revenue and profit.

• Why is President Trump considering rejoining the TPP?

• What the U.S.P.S. inquiry means for Amazon .

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Why CBS 's Moonves is in his current predicament.

Leslie Moonves , the head of CBS , is among the most-lauded media chiefs of the past decade. CBS 's stock has nearly doubled since the company was split off from Viacom in 2005 .

But now he's being prodded into a deal with Viacom , a transaction he seems reluctant to do. He is also being pushed to pay more than he wants and install an executive team that is not of his choosing. If Mr. Moonves resists, he reportedly risks being shown the door .

Chief executives with Mr. Moonves's record don't often find themselves in this position, but he is there because of CBS and Viacom 's unique corporate governance structure: namely, the super-voting powers of the Redstone family's vehicle, National Amusements .

Let's recap the kind of power that National Amusements has over the corporate siblings, thanks to its dual classes of stock:

• Despite owning just over 10 percent of the outstanding shares at CBS and just under 10 percent at Viacom , the Redstones have about 80 percent of the voting power at both companies.

• With that kind of power, National Amusements could replace the board at either company at any point in time.

It is that power that allows Shari Redstone to compel CBS and Viacom to explore a merger for the second time.

At the moment, CBS and Viacom are at loggerheads over both the price of a deal — the two proposals are roughly $2.8 billion apart — and the management of the combined company . CBS wants its C.O.O., Joe Ianniello , to continue in his position at the merged business, while Viacom wants its C.E.O., Bob Bakish , to have that spot. (Ms. Redstone also wants Mr. Bakish to have a high-level position, according to people close to both companies.)

A person briefed on Ms. Redstone's thinking, who was not authorized to speak publicly about private negotiations, told DealBook that Ms. Redstone isn't preparing to oust Mr. Moonves, at least at the moment. And a public statement by National Amusements Wednesday suggested that it isn't ready for such a drastic move yet : "National Amusements has tremendous respect for Les Moonves and it has always been our intention that he run a combined company."

CBS said in a statement Wednesday: "The industry and the marketplace know Leslie Moonves ' record and we think it speaks for itself." Viacom declined to comment.

Thanks to the dual-class stock structure — something CBS and Viacom share with the likes of Facebook , Alphabet and The New York Times Company — there's little that regular shareholders, or management of either company, can do.

Legal experts say that National Amusements has fiduciary duties to shareholders of each company, but that the Redstones unquestionably have the power to replace board members.

"You can stack the board," said John Coffee of Columbia Law School, though he added that "it might be poor form to stuff the board" before pushing through a merger or C.E.O. change.

Charles Elson, director of the John L. Weinberg Center for Corporate Governance at the University of Delaware , said that companies controlled by a dual-class structure can sometimes opt for other shareholders to have a voice. But that isn't a requirement.

Professor Elson said that Ms. Redstone has the ability to force through a deal or a board change. But, he added, "that doesn't mean that these things go without litigation."

— Michael J. de la Merced

So, about that lending boom…

Tax cuts, bank deregulation and a recovering global economy were expected to unleash a surge of bank lending that could stoke an even stronger expansion. But lending in the first quarter is set to disappoint, at least going by the results of the four big banks that reported Friday.

JPMorgan Chase , Citigroup , Wells Fargo and PNC Financial had a combined $2.78 trillion of loans at the end of the first quarter, up 3 percent from $2.7 billion at the end of the same period a year ago. How does that growth rate stack up? It's more or less in line with the 2.9 percent increase in loans the banks notched up last year, but it is well below the 4.6 percent and the 4.4 percent rates that they together achieved in 2016 and 2015.

Each quarter, much attention is paid to the performance of the big banks' Wall Street operations. But activities like trading are only remotely related to the real economy. As a result, to assess whether banks are assisting the wider economy, it makes more sense to look at trends in their lending, which directly finances consumer spending, home purchases and corporate investments.

Investors may have been disappointed at the first-quarter lending numbers. Despite the four banks' strong profits, their stock prices on Friday slid.

The unexceptional first-quarter loan growth may, of course, give way to bigger increases later this year as confidence builds. And beneath the aggregated loan totals are some numbers that suggest things could improve. Citigroup 's loans grew 7.1 percent in the first quarter, compared with the year-ago period. The increase was driven by a 13 percent surge in corporate lending, much of which took place in Europe and Asia. And the first-quarter total for the four banks was held back by a 1.1 percent decline at Wells Fargo , which is operating under a strict regulatory edict.

Still, the obstacles to a bigger expansion are clear. Interest rates are going up, making the cost of borrowing higher. Why, for instance, would large companies take on more debt, at a higher cost, when there is a good chance that the current trade tensions could dampen global growth? And individuals may be reluctant to take on mortgage debt when wage growth is tepid, and higher house prices have left them paying out an increasing portion of their income to service the mortgages. This may explain the dip in mortgage lending in the first quarter. In the period, the four banks made $65 billion of new mortgages, down 9.6 percent from the $72.1 billion they made in the same period a year ago.

— Peter Eavis

Has Trump changed his mind about the TPP?

He once denounced the trade pact as "a rape of our country." But his decision yesterday to reconsider joining — which surprised his own advisers — could hearten U.S. businesses and Republican lawmakers who supported it as one of the best ways to box in China.

Senator John Thune , Republican of South Dakota, told Politico , "If you want to send a message to China, the best way to do that is to start doing business with their competitors."

Free-trade backers may point to this reversal, as well as attempts to revise Nafta, as a change of heart by a protectionist president. Then again :

And Japan's chief cabinet secretary cautioned this morning that it'd be hard to rewrite a "well-balanced pact" that already met the needs of 11 signatories.

"We've got a deal" already, said Steven Ciobo , Australia's trade minister, who added, "I can't see that all being thrown open to appease the United States."

The president's decisions on economic matters are now the purview of Larry Kudlow , who's casting himself as a "happy warrior" even as he described the TPP decision as coming "out of the dark, navy blue."

Meanwhile, China is not-so-subtly threatening to scale back its purchases of U.S. debt , though that would be a risky maneuver.

Bank stocks fall

Shares of the biggest banks are faring worse than the broader stock indexes.

The KBW Bank Index, made up of 24 of the largest banks, is off nearly 1 percent while the **S**.**&P**. **500** is essentially flat in early trading.

JPMorgan was down 1.1 percent, Citigroup was off 1.5 percent, and Wells Fargo fell 2.3 percent.

The declines come despite JPMorgan announcing record profits and Citi reporting its highest earnings since 2015.

The slide in bank stocks is "a sign that many of the upbeat earnings numbers have already been priced into share prices," as MoneyBeat's Ben Eisen points out .

Are the Federal Reserve 's shackles holding Wells Fargo back?

Following widespread missteps at the bank, the Fed in February told Wells Fargo that, until sufficient improvements were made, it could not increase the amount of assets it holds. Some analysts said the cap need not stop the bank from making more loans, because it could sell securities and then use that money to do more lending. But loans did not grow in the first quarter. At the end of March, Wells Fargo had $947 billion of loans, down from $958 billion a year earlier, and also down from $957 billion at the end of 2017.

But the decline is not large, and it's not clear how much the Fed's cap is to blame. Wells Fargo 's loans had not been growing strongly in recent quarters.

And here are Wells Fargo 's numbers:

• Wells Fargo 's profit rose to $5.94 billion.

• Earnings per share came in at $1.12 a share. Analysts had expected earnings of $1.06 a share, according to Thomson Reuters .

• Revenues fell to $21.9 billion from $22.3 billion in the first-quarter 2017.

• Costs rose 3% to $14.24 billion from $13.79 billion a year ago.

— Peter Eavis

Volatility and taxes lift JPMorgan 's results

JPMorgan reported record revenue and profit for the first three months of this year.

Here are the numbers:

• The bank reported earnings of $8.71 billion, up 35 percent from a year ago.

• That comes to $2.37 a share. Analysts had expected earnings of $2.28 a share, according to Thomson Reuters .

• Revenue increased to $28.5 billion, up 10 percent.

• Return on equity, a measure of profitability, hit 15 percent, up from 11 percent a year ago.

• Trading revenues rose to $6.57 billion, up 13 percent from the first quarter of 2017.

• Equities trading revenue rose 26 percent to $2.02 billion.

• Bond-trading revenue rose 8 percent to $4.55 billion.

• Fees from investment banking fell 10 percent to $1.7 billion.

• Costs climbed to $16.1 billion , 5 percent higher than a year ago.

Citi also reports higher revenue and profits.

• Earnings rose to $4.6 billion, up from $4.1 billion a year ago.

• Earnings per share came in at $1.68. Analysts expected $1.61 a share, according to Thomson Reuters .

• Revenue increased to $18.9 billion for the quarter, up 3% from a year earlier.

• Return on equity, a measure of profitability, hit 9.7 percent, up 7.4 percent a year ago. While that's the highest level in years, it is just shy of the all-important 10 percent level .

• Revenue from fixed-income trading fell 7 percent to $3.4 billion.

• Equity trading revenue jumped 38% to $1.1 billion.

• Fees from investment banking fell 10 percent to $1.1 billion.

The hidden messages in today's bank earnings

One way to gauge the crosswinds blowing through **financial markets** and the global economy is by examining the results of JPMorgan Chase , Citigroup and Wells Fargo , which report their first-quarter earnings today.

Here's what to consider , according to Peter Eavis:

• Are trade tensions reducing demand for credit?

• How concerned should we be with the **volatility** in the stock and bond markets?

• Are regular Americans borrowing more, potentially boosting the U.S. economy?

• How much will deregulation help the banks?

In related economic news: Larry Fink of BlackRock told our Landon Thomas Jr. that while his optimism has dimmed a bit, he believed that "economically, the world is in good shape."

Trump's U.S.P.S. inquiry turns up heat on Amazon

The president's late-night ordering of a review of the Postal Service's finances has a clear target: the online retail giant and its chief, Jeff Bezos . That's despite postal experts and White House advisers telling him that Amazon helps the service's bottom line.

It's unclear when a commission to conduct the review will be assembled — if it ever is — but it marks an escalation by President Trump against companies that he doesn't like. Our question: What else could the White House do to companies out of his favor?

The political flyaround

• In his new memoir, "A Higher Loyalty," James Comeycriticized President Trump as "untethered to truth" and compared his leadership to the Mafia. He added that his firing from the F.B.I. reportedly made John Kelly want to quit . Michiko Kakutani calls the memoir "absorbing." . Michiko Kakutani calls

• As director of the Office of Management and Budget, Mick Mulvaneywon some power over how the Republican tax cuts will be rolled out. As acting director of the Consumer Financial Protection Bureau, he sparred with

Senator Elizabeth Warren over financial regulations. A federal appeals court has questioned whether he can do both jobs .

• White House allies worry that Michael Cohen regularly taped conversations — and that the F.B.I. has them . Shortly before the raids on Mr. Cohen's office and hotel room, Mr. Trump's legal team had convened to discuss how to let Robert Mueller interview the president. And here's a look at what could happen if Mr. Trump fires Rod Rosenstein .

• Mr. Trump plans to pardon Scooter Libby. (NYT)

• How Scott Pruitt's security chief clashed with critics over spending at the E.P.A. (NYT)

• Meet two billionaire big spenders on the 2018 elections: Tom Steyer of California on the left, Richard Uihlein of Illinois on the right. (NYT)

• A constitutional amendment requiring balanced budgets has failed in the House. (NYT)

How serious was Bob Iger about a presidential run?

Very, judging by what he says in a profile in Vogue :

Alas, his company agreed to buy most of 21st Century Fox for $52.4 billion, and that was that.

What Mark Zuckerberg didn't say

Despite two days of congressional testimony, the Facebook chief didn't address some issues, including the tech giant's role in violence worldwide . Shira Ovide of Gadfly thinks that his evasiveness about how the company works shows that it's embarrassed . (Oh, and the European Parliament . (Oh, and the wants Mr. Zuckerberg to testify , too.)

U.S. lawmakers seem to agree regulation is needed, but doubt that it's coming . Senator John Cornyn , Republican of Texas, told the NYT , "I think we need to be careful." Representative Frank Pallone Jr ., Democrat of New York, said, "I don't believe the Republicans will end up doing anything."

The latest Facebook scandal has finally put a spotlight on data privacy , experts say. One, Doc Searls, told the NYT , "They're saying, 'O.K., it's barn-raising time.' " (Facebook still isn't expecting a hit to sales .)

Elsewhere in tech: The National Transportation Safety Board revoked Tesla's status as an official party to its investigation of the fatal crash of a Model X after the company publicized information from the inquiry. Uber will expand the scope of a proposed data breach settlement with the F.T.C. Asia's venture capital community is growing to match the U.S. one. A cybersecurity firm backed by SoftBank said that its onetime H.R. chief was a fraud .

What Elliott may want from Micro Focus

Amid operational troubles and a steep price drop, perhaps it was only a matter of time before the software maker Micro Focus drew an activist investor. Now a logical candidate, Elliott Management , has taken a stake . Michael hears it could push the company to consider going private, or selling SUSE Linux, a popular operating system brand that it acquired as part of its takeover of Attachmate.

One intriguing possibility: Elliott pushing to be involved in a sale of some or all of the business through its private equity team, Evergreen Coast Capital.

The deals flyaround

• Xiaomi of China is reportedly considering bidding for GoPro . (The Information)

• G.E. is said to be planning to slim down through a series of sell-offs and joint ventures. (WSJ)

• Anbang and China's financial regulator are auditioning advisers to help dismantle the embattled insurer's portfolio of assets, like the Waldorf Astoria. (Bloomberg)

• Broadcom plans to buy back to $12 billion worth of stock, though that's no Qualcomm . (WSJ)

• Warren Buffett plans to oppose USG 's board nominees as the company fights a takeover bid by Knauf. (Reuters)

• Norwegian Air Shuttle 's C.E.O. isn't interested in selling to the owner of British Airways , IAG. But a deal could make sense for both sides.

• A Colorado civic group wants to buy The Denver Post from Alden Global Capital . (NYT)

• SpaceX is expected to achieve a valuation of about $24 billion in a forthcoming round of fund-raising, behind only Uber and Airbnb among U.S. start-ups. (Recode)

Revolving door

• Volkswagen formally named Herbert Diess as its next C.E.O. (NYT)

• The London Stock Exchange has hired David Schwimmer, a former Goldman Sachs investment banker and not the other one, as its C.E.O. (Bloomberg)

• Perella Weinberg Partners reportedly plans to open an office in Paris, its first in continental Europe. (Bloomberg)

• Lewis D'Vorkin, who briefly edited the L.A. Times, was fired as Tribune Interactive's chief content officer in a round of layoffs by Tronc . (LAT)

• Hometeam's C.E.O., Josh Bruno, and president, Matt Marcotte, have stepped down as the senior-care start-up reorganizes itself. (Recode)

The speed read

• Victims of Bernie Madoff's Ponzi scheme will receive another $504 million from seized assets. (NYT)

• Carl Ferrer, the C.E.O. of sex advertising site Backpage.com, pleaded guilty to conspiracy and money laundering, while the company pleaded guilty to human trafficking. (NYT)

• Britain has become the largest book exporter in the world; Brexit could change that. (NYT)

• New Zealand will stop issuing permits for offshore oil and gas exploration, to combat climate change. (NYT)

• International banks are reportedly hurrying to shed ties to Oleg Deripaska 's EN+ Group , after the U.S. listed it in new sanctions against Russia. (WSJ)

• Steve Schwarzman has dropped his stipulation that his high school be renamed after him as a condition of a $25 million gift. (WSJ)

• The known unknowns about A.I. in banking. (FT)

We'd love your feedback. Please email thoughts and suggestions to bizday@nytimes.com .

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WSJ PRO PRIVATE EQUITY

Tech

China Delays Deal Reviews as U.S. Trade Frictions Build; Qualcomm and Bain Capital are most at risk if the delays scuttle their respective deals

By Lingling Wei and Yoko Kubota in Beijing, and Takashi Mochizuki in Tokyo
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English

BEIJING—China is slowing reviews of multibillion-dollar takeover deals being pursued by Qualcomm Inc . and Bain Capital , people familiar with the matter say, as U.S.-China trade tensions escalate.

The delay could end up quashing Qualcomm 's planned $44 billion purchase of Dutch semiconductor company NXP Semiconductors NV —a deal widely seen as critical to Qualcomm 's future—according to a person familiar with the matter.

China is the only country that hasn't yet signed off on the Qualcomm deal and on Toshiba Corp .'s planned $19 billion sale of its chip unit to a consortium led by U.S. private-equity firm Bain Capital .

Neither deal is likely to move forward amid the looming trade war, the people said.

"The review process is basically on pause because of the trade tension," a senior Toshiba official said. "We've been afraid of that."

Stalling these deals is another possible leverage point for China as it seeks to fend off the Trump administration's plans to impose tariffs on up to $150 billion in Chinese goods in response to what the administration says are unfair trade practices.

China has denied acting improperly and responded with threats of what it calls "teeth-to-teeth" retaliatory measures, including higher levies on $50 billion in U.S. imports.

China has a say on the Qualcomm -NXP deal as one of several countries where the companies have substantial sales or assets. The deal is considered critical for Qualcomm 's competitiveness, by broadening its reach beyond its stronghold in the handset business, which has reached a plateau.

Qualcomm has said adding NXP would help it reach combined markets, such as connected cars, that it expects to be worth $77 billion by 2020.

These are areas where Qualcomm believes its investments in fifth-generation cellular technology, or 5G, are likely to yield a big payoff. It also expects the merger to add immediately to its adjusted per-share earnings. If the deal falls through, it has said it will buy back shares to boost earnings by an equivalent amount.

Worried that Beijing might scuttle the deal, Qualcomm Chief Executive Steve Mollenkopf raised the issue with China's vice president, Wang Qishan, in a March 27 meeting, people with knowledge of the event said.

Mr. Wang sought to offer some assurances, the people said. He told Mr. Mollenkopf regulators would review the deal through a "science-based process" and that politics would have nothing to do with it.

People familiar with the matter say the deal is still facing resistance from China's commerce ministry , which has indicated it is likely to seek more information from San Diego-based Qualcomm . The ministry faces a deadline next week to make a decision, according to one of the people. To keep the review alive, Qualcomm and NXP could withdraw the current application and refile for an extension.

Qualcomm faces its own deadline to complete the NXP deal. The companies' merger agreement provides for two automatic extensions of the deal's deadline, and the second was triggered in January, extending it to April 25. The companies could still negotiate more extensions, however.

Qualcomm declined to comment. NXP referred any questions to Qualcomm , its acquirer. A Bain representative declined to comment on the Toshiba deal. China's Commerce Ministry didn't respond to a request for comment.

A Qualcomm deal is an important part of the company's plan for revenue growth, after the Trump administration last month quashed a $120 billion proposed acquisition of Qualcomm by Broadcom Ltd .—an outcome Qualcomm wanted.

Qualcomm also faces a long-shot attempt by its former chairman and CEO, Paul Jacobs , to marshal support to buy Qualcomm , which he has said would be better off under private ownership.

As for Toshiba , the longer it holds onto its chip business, the greater its risk of losing its technological edge: To remain competitive in chips, it would have to make frequent multibillion-dollar investments, which would be a challenge for Toshiba with its unsteady finances.

As of April 1, Toshiba gained the right to cancel the deal with the Bain-led consortium under the original sale contract. Toshiba executives have said they want the deal to go through, but some shareholders have said it should be scrapped. A lengthy delay in China would increase that likelihood.

Toshiba 's financial situation has improved since getting hammered last year by the bankruptcy of U.S. subsidiary Westinghouse Electric Co . A delay in the sale might even give Toshiba a chance to negotiate a higher price reflecting the latest market values. But further delay also means it will take longer for Toshiba to again compete against other rivals, including Samsung Electronics Co .

Washington and Beijing have been embroiled in a trade spat that has become a source of **financial-market** turmoil in recent weeks and raised concerns that a full-bore trade war could drag down the global economy.

Having already tightened scrutiny of inbound deals from China, U.S. officials are also crafting sharp prohibitions on Chinese investment in advanced U.S. technology, taking aim at China's practice of using state subsidies to foster Chinese dominance of future frontiers of manufacturing.

Beijing, for its part, has blamed the U.S. for wrecking the global trade order and is campaigning to line up support from other countries, especially in Europe, whose companies could be given better access to China's markets should China react to stepped-up pressure from Washington by retaliating against the U.S.

So far, China has threatened to impose stiff levies on U.S.-made soybeans, sorghum and other products, mainly from Farm Belt states that helped Mr. Trump win the 2016 election. And it is looking for retaliatory options beyond tariffs, government advisers and China analysts say, such as stepped-up regulation of U.S. companies in China.

Putting off approvals of cross-border deals that could benefit U.S. firms is bound to further rattle policy makers in Washington as the two sides enter the next phase of high-stakes dance.

"Merger reviews and decisions should be based on consistent, scientific, market-based calculations and never the politics of U.S.-China relations," said Jacob Parker, vice president of China operations at the U.S.-China Business Council.

Kosaku Narioka in Tokyo contributed to this article

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WSJ PRO CENTRAL BANKING

Economy

Fed's Bullard Says March Minutes Didn't Reflect His Policy View; St. Louis Fed president says, 'The outlook for the policy rate is flat'

By Michael S. Derby
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Federal Reserve Bank of St. Louis President James Bullard took issue Friday with the minutes of the central bank's March meeting for their characterization of the interest-rate outlook.

The minutes released Wednesday said "with regard to the medium-term outlook for monetary policy, all participants saw some further firming of the stance of monetary policy as likely to be warranted."

Mr. Bullard on Friday said he isn't sure where that assessment came from given his belief that economic conditions don't call for raising the Fed's short-term rate target.

"The outlook for the policy rate is flat and that we are quite close to neutral right now," Mr. Bullard told reporters in a conference call after giving a speech in St. Louis. "I'm not quite sure the source of the statement," he said when asked about the minutes' take on officials' outlook.

Mr. Bullard, who this year isn't a voting member of the interest-rate-setting Federal Open Market Committee, has long wanted the central bank to refrain from the rate rises most of his colleagues deem necessary.

Earlier Friday, Boston Fed leader Eric Rosengren said he supports doing more than the three increases officials collectively expect for 2018. Last month, the Fed implemented one of those moves when it boosted its short-term interest rate target to between 1.5% and 1.75%. Most central bankers expect to see inflation rise as unemployment declines further, and hope rate rises will keep the economy in balance and the expansion moving forward.

Mr. Bullard, however, is worried more rate rises could end the expansion. He pointed to the bond market as a source of worry. He was referencing the yield curve for Treasurys, where the difference between short- and long-dated securities has gotten smaller. Yields for short-term Treasurys have risen above long-term yields—an inversion in market lingo—ahead of previous recessions.

Yield-curve inversion worries have been around for several months as Fed rate rises have pushed up short-dated yields, while long-dated securities haven't moved much. That means more rate rises could be the force that pushes short-dated yields over that of long-dated ones.

"I think the yield curve is fine where it is today, but the if the Fed goes ahead and raises the policy rate aggressively and the 10-year does not cooperate then we could have an inverted yield curve later this year or in early 2019," Mr. Bullard said. "I would see that as a **bearish** signal for the U.S. economy" and a possible warning of recession, he added.

Write to Michael S. Derby at michael.derby@wsj.com

Transcripts

* Audience Q&A With James Bullard

* Media Q&A With James Bullard

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THE WALL STREET JOURNAL.

Politics

Trump Adviser Kudlow Says 'Calmer Heads' Can Prevail in China Trade Dispute; The president's top economic adviser also says he supports a currency policy that keeps the U.S. dollar stable

By Nick Timiraos and Michael C. Bender
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WASHINGTON—President Donald Trump's top economic adviser said Friday he is optimistic the U.S. can avoid a broader trade fight with China and said the White House was close to securing a renegotiation of the North American Free Trade Agreement with Canada and Mexico.

Lawrence Kudlow, the director of the White House National Economic Council, said Mr. Trump's trade dispute with China is "high risk, high return," in an interview. He acknowledged he wasn't sure how the standoff would end, but said he believed "calmer heads would prevail."

"I'm going to stay **bullish** on this," he said. "I hope it works out. I believe it can work out."

Mr. Kudlow is a former Wall Street economist and television commentator who has completed his second week in the job. He developed close ties with President Donald Trump during the 2016 presidential campaign, though the two don't always see eye-to-eye. Mr. Kudlow has long been a free trade supporter, while Mr. Trump has vowed to crack down on trading partners that he says treat the U.S. unfairly.

Mr. Kudlow said he was disappointed the White House's trade actions had been criticized by policy makers and business leaders in the U.S. and abroad because a more aggressive stance against China was long overdue. He accused Beijing of stealing U.S. technology and intellectual property and said those practices needed to stop.

"We cannot let them keep doing this. They're stealing stuff over there, and they're trying to steal stuff over here. It cannot go on," he said.

China's trade surplus with the U.S. reached $58.25 billion in the first quarter, up 19.4% compared with the same period a year ago, according to data released by China on Friday. The rising imbalance could add fuel to the trade dispute amid Trump administration criticism of Beijing for what it says are policies that hinder access to China's market.

But Mr. Kudlow said he had turned optimistic in part because Chinese President Xi Jinping in a speech earlier this week promised greater access for foreign companies to China's financial and manufacturing sectors.

Even though Mr. Xi has made similar conciliatory overtures in the past, Mr. Kudlow said, "he never said them in this context" of increasing trade tensions. The speech "was a very important event because they had been trashing us mercilessly," he said.

"It kind of cleared the air, it looks like," he added.

Mr. Kudlow also said he supported a currency policy that keeps the U.S. dollar stable. The dollar could be a trade weapon for the U.S., which could seek to weaken it to make exports less expensive. But Mr. Kudlow, long a supporter of a strong currency, wasn't behind such a policy. "Keep the currency steady. Keep the dollar steady. It doesn't have to go up 20% or down 20%," he said.

International affairs are dominating the agenda early in his tenure.

Mr. Trump tasked Mr. Kudlow on Thursday with revisiting U.S. participation in the Trans-Pacific Partnership. In January 2017, Mr. Trump withdrew the U.S. from the 11-nation trade pact that Washington had forged over the prior two presidential administrations.

Mr. Kudlow said it was too soon to say how long that process would take and what might come out of it. "I just got the assignment yesterday. He hasn't indicated yes, no, nothing. He just wants to take a look at it," said Mr. Kudlow.

On renegotiation of Nafta, Mr. Kudlow said the administration is "making progress" and added, "hopefully, we'll have some positive announcements in the near future."

Mr. Kudlow said he wasn't concerned about the so-called twin deficits the U.S. is running in trade and on the federal budget. Many economists argue the two are linked—as budget deficits rise, the U.S. becomes more dependent on foreign capital. Mr. Trump's economic adviser didn't see a link. "I'd be prepared to argue there's not much of an impact," he said. "The correlation between the two is very weak."

The economic adviser also said he wasn't worried recent changes to boost government spending and to cut taxes could lead the economy into a boom-bust cycle that wasn't sustainable.

Some officials at the Federal Reserve, for example, have said they are watching to make sure that, with the unemployment rate falling to a historically low level, inflation pressures or financial imbalances don't threaten the economic expansion.

Mr. Kudlow played down the risk that the economy might overheat. "Actually, that'd be a great problem to have…I don't believe in overheating, but we've been underheating now for 20 years," he said.

Mr. Kudlow worked as a top budget aide in the Reagan administration in between stints as a Wall Street economist in the 1980s and 1990s. He has been an economic commentator for the past two decades on various television and radio programs.

He said he was still adjusting to his new role in the government. "I've learned this is a larger job than I thought," he said in an interview in his West Wing office Friday. "Almost all the jobs I've had down through the years I never really was prepared. I had to grow into them."

Mr. Kudlow said he met earlier this month with Fed Chairman Jerome Powell but declined to elaborate on their discussion.

Mr. Kudlow said he has already been a part of several "healthy arguments" inside the White House and joked that he had outlasted Anthony Scaramucci, who was fired as White House communications director after just 10 days.

"You read this stuff about how he likes disagreement—it's true," Mr. Kudlow said of the president. "A lot of presidents don't in either party."

Mr. Kudlow said he has been struck by what he said was the president's efficient decision-making process, saying Mr. Trump encouraged debates but then made quick verdicts.

"He'll hear all the arguments, and it may take a little while, but then—boom—that's it," Mr. Kudlow said about Mr. Trump's decision-making. "Once the decision is made, it's made."

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THE WALL STREET JOURNAL.

Markets

China-U.S. Trade Dispute Could Knock Oil Demand, Says IEA; Potential tariffs pose a 'downward risk' to agency's demand forecast

By Christopher Alessi
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LONDON—The world's robust appetite for oil could be significantly dented by the escalating trade dispute between the U.S. and China, the International Energy Agency warned Friday.

In its closely watched monthly oil market report, the IEA said it continued to expect global oil demand to grow by 1.5 million barrels a day in 2018, but cautioned that potential U.S. and Chinese trade tariffs posed a "downward risk" to the forecast.

The Trump administration's planned tariffs on Chinese imports and retaliatory measures announced by Beijing would weigh on the global economy, with "strong consequences for oil demand," the agency said. The IEA estimated that a reduction of 1% in world gross domestic product growth would reduce oil demand growth by around 690,000 barrels a day.

"Oil demand would suffer the direct impact of lower bunker consumption and lower inland transportation of traded goods, reducing fuel oil and diesel use," the report noted.

The IEA, a Paris-based organization that advises governments and corporations on energy trends, raised its forecast in March for global oil demand, saying it would reach 99.3 million barrels a day in 2018 and help keep the market in balance by partly offsetting a surge in U.S. shale production.

On Friday, the agency said that the world's oil supply fell in March by 120,000 barrels a day to 97.8 million barrels a day, mainly as a result of efforts led by the Organization of the Petroleum Exporting Countries to hold back crude production.

OPEC and 10 oil-producing nations outside the cartel, including Russia, have been holding back crude output by roughly 1.8 million barrels a day since the start of 2017. The agreement, part of a coordinated plan to rein in a supply glut that has weighed on **oil prices** for over three years, is set to expire at the end of 2018.

The OPEC-led deal helped boost crude prices by more than 50% in the second half of 2017. Prices have also been bolstered by rising geopolitical risk to supply—particularly in the Middle East—reaching three-year highs this week. Brent crude, the global benchmark was up 0.9% at $72.66 a barrel in midmorning trade Friday.

However, it "remains to be seen if recently elevated prices are sustained," the IEA said Friday.

Higher prices have incentivized U.S. shale oil producers to ramp up production over the past year. While global oil supply was down on-the-month in March, it was up 1.34 million barrels a day from the same time a year ago, largely due to U.S. output, according to the IEA. The steady uptick in U.S. crude production could weigh on prices again, as it did when the oil market crashed in late 2014, analysts have cautioned.

The IEA said that commercial oil inventories in the Organization for Economic Cooperation and Development—a group of industrialized, oil-consuming nations that includes the U.S.—declined by 25.6 million barrels in February to 2.841 billion barrels, the lowest level since April 2015. Oil stocks at the end of February stood at just 30 million barrels above OPEC's target of the last five-year average.

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The New York Times

Business Day
Three Funds Find Routes to Top Performance in a Rough Market

By Tim Gray
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In the first quarter, as the **S**.**&P**. **500** sputtered to a 1.2 percent loss and many sectors sagged, the managers of three of the top-performing mutual funds scooted ahead by betting on growth stocks and Latin America.

Christopher J. Bonavico, of the Jackson Square SMID-Cap Growth Fund, said he and his co-manager, Kenneth F. Broad, are growth-stock Sherlocks who investigate companies with a value-investor mind-set.

“We’re looking for growth in the intrinsic value of the business,” Mr. Bonavico said. “A lot of traditional growth investors just want high-revenue growth and earnings-per-share growth. But that’s not enough to tell you whether something is a good business. We want to see a good return on invested capital and good free cash flow.”

They sleuth among small- and mid-cap outfits and shy from the tech giants, like Alphabet and Amazon, that have felt so much investor ardor over the past several years. Instead, they’ve toted up gains in holdings as diverse as Dunkin’ Brands Group and Wix.com.

Many people misunderstand the investment case for Dunkin’, associating the company with its doughnuts and its omnipresence in the Northeast, particularly New England, Mr. Bonavico said. Its promise instead lies in caffeinated beverages and in the company’s potential for growth in the rest of the United States.

“Coffee is the major driver — it’s a daily purchase, it’s habit-forming, and it’s got a 90 percent margin,” he said. “And there’s an enormous opportunity for them to add franchisees west of the Mississippi.”

Wix, for its part, is known as a website builder for small businesses. Mr. Bonavico said he and Mr. Broad believe the company has a better strategy than competitors like Squarespace and GoDaddy.

“Wix has zero salespeople — they compete only on the quality of the product,” he said. “And they’re the only one using the freemium model.” Wix customers can pay nothing for basic service or pay up for more features.

The Jackson Square fund officially began in 2016, two years after Mr. Bonavico and Mr. Broad and several colleagues formed their own firm, Jackson Square Partners. Mr. Bonavico and Mr. Broad previously managed the Delaware Smid Cap Growth fund, starting in 2005 and continuing through 2016.

Jackson Square Partners is also an adviser to the Vanguard U.S. Growth Fund, a large-cap offering.

In the first quarter, the Jackson Square SMID-Cap Growth Fund returned 8.73 percent. Its investor shares carry a net expense ratio of 1.23 percent.

Betting on Big Themes

Michael A. Lippert, manager of Baron Opportunity Fund, runs a go-anywhere growth offering — he’ll snap up shares, regardless of a company’s market value, if he likes its prospects. Mr. Lippert said he and his Baron colleagues try to identify major ideas — “big generational shifts in society” — and bet on the companies that are positioned to exploit them.

Among those themes are cloud computing, big data and sustainable energy. To winnow the many outfits clambering in these fields, Mr. Lippert will assess the durability of a company’s competitive advantage and the quality of its management, in addition to its fundamentals.

That led him to a stock that some investors might dismiss as a laggard — Microsoft. Mr. Lippert said Microsoft's chief executive, Satya Nadella, who took over in 2014, has reoriented the company by focusing on cloud computing and artificial intelligence. "Microsoft used to just sell you Office," he said. Today, thanks to its software-as-a-service approach, the company knows how customers are using its products and can continuously update and personalize them.

Another of his top holdings, Tesla, has lately stumbled. The company fell behind on the production of its latest electric car, the Model 3, and was punished with a sliding share price for much of the first quarter. Mr. Lippert said he saw the company's woes as more of a stall than a breakdown.

Tesla is trying to optimize and control every phase of its electric-car production, he said, and that's both potentially revolutionary and extremely challenging, Mr. Lippert said. "People understand that, but they aren't giving them room to do it."

Mr. Lippert's fund, with an expense ratio of 1.41 percent for its retail shares, returned 9.2 percent in the first quarter.

Bulking up with Brazil

Growth also matters to Will R. Pruett, manager of the Fidelity Latin America Fund. But for him, it can be the expansion of national economies, not of corporate earnings, that ends up determining his fund's fate. He hunts mainly in some of the emerging economies of North and South America — Brazil, Mexico, Colombia, Chile and Peru. While Mr. Pruett says he is a bottom-up stock picker, his portfolio can be buffeted by the political and economic vagaries of **volatile** regions.

Lately, he has found value in Brazil, wagering nearly a fifth of the fund's assets on two affiliated companies — Itaúsa, a Brazilian conglomerate doing everything from banking to manufacturing, and Itaú Unibanco Holding, a financial subsidiary of Itaúsa.

"What's interesting about Brazil is, when you compare it to any other major market in the world, it's the only one on its own economic cycle," he said. "They went through their own depression, and they've just emerged from that. All economic data is signaling they're past the worst."

Brazil, a major oil producer, had been sapped by low **oil prices** and walloped by a political scandal that originated with its state-owned oil company, Petrobras. The upheaval culminated with the criminal conviction of a former president and the impeachment of his successor. Mr. Pruett said the scandal has been painful but "the institutions in Brazil are working and are going to be a lot stronger coming out of this."

Brazil's economy is one of the world's largest, and its stocks represent about 60 percent of the leading Latin America benchmark index — MSCI Emerging Markets Latin America.

Throughout Latin America, Mr. Pruett said, banks tend to be family-controlled and operated, which typically aligns their interests with those of outside shareholders. On top of that, "Markets are concentrated, and the penetration of financial services is low," he said.

Consider Peru, home to one of his top holdings, Credicorp, a major bank in a country with 31 million people and an economy growing at 6 percent a year. It is one of four banks that dominate the country's financial system.

"They each have about a quarter of the market," Mr. Pruett said. "Margins are high."

Investors have noticed, pushing Credicorp's stock up nearly 50 percent over the last year. "The banks in Latin America are long-term winners."

Mr. Pruett's fund, with an expense ratio of 1.09 percent, returned 10.5 percent in the first quarter.

Chris Bonavico, a manager of the Jackson Square SMID-Cap Growth Fund in San Francisco, Calif. | Jason Henry for The New York Times

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THE WALL STREET JOURNAL.

Markets

Dr. Doom Still Basking in His Fame After Warning of Housing Collapse; Nouriel Roubini, one of the first voices to predict the financial crisis, has been in high demand on the lecture circuit

By Amrith Ramkumar
572 words
13 April 2018
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A decade after the financial crisis, The Wall Street Journal has checked in on dozens of the bankers, government officials, chief executives, hedge-fund managers and others who left a mark on that period to find out what they are doing now. Today, we spotlight analyst Meredith Whitney and economist Nouriel Roubini.

Nouriel Roubini continues to delight in the celebrity status he achieved as a rare voice warning of a housing-market collapse before the 2008 financial meltdown.

He wrote a well-received book, titled "Crisis Economics." He has been in high demand on the lecture circuit. And he has amassed nearly 450,000 Twitter followers; a total, he says, that is second only to Paul Krugman among economists.

"Every day, someone on the street stops and says, 'Can I take a picture with you?'" the 60-year old said in a recent interview.

Before the financial crisis, the New York University professor was little known outside of academic circles. Nearly always clad in a black suit, Mr. Roubini was dubbed "Dr. Doom" after an International Monetary Fund event in September 2006, where he said a slowdown in the U.S. housing market could lead to a global recession.

At a 2007 panel in Davos, he argued that a rosy "Goldilocks" economic environment was "threatened by three ugly bears"—a meltdown in the subprime-mortgage market, rising **oil prices** and an end to cheap credit.

For his gloomy outlook while the markets and economy kept humming along, he became the butt of jokes. The moderator of the IMF event quipped, "I think perhaps we will need a stiff drink after that." But as the credit crisis unfolded in 2008, the Harvard Ph.D. won sudden acclaim as a financial soothsayer.

Global investors began looking to his forecasts for clues about the direction of the **stock market**, and tabloids luxuriated in his social gatherings. He was "equally known for his model-packed hot tub parties at his Manhattan apartment as for his market predictions," a New York Post item said.

"Nouriel has never shied away from the spotlight," said Brad Setser, who co-wrote a book with Mr. Roubini and is currently a senior fellow at the Council on Foreign Relations. "And when the spotlight was shining at its brightest, he was happy to step into it."

After the crisis, Mr. Roubini stuck with his **bearish** views, failing to foresee the economic rebound and powerful **stock market** rally that followed. In August 2011, he told The Wall Street Journal that the risk of a global recession was at least 50%. By 2014, he had turned more **bullish**.

Despite his sunnier view on the economy, he still frets that a slowdown in China or faster-than-expected increase in inflation could change his outlook.

"If there will be another crisis, I would be the first one to warn about it," Mr. Roubini said.

Write to Amrith Ramkumar at amrith.ramkumar@wsj.com

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The New York Times

Business Day
Warren Buffett Isn't a Fan of Bonds. But They May Be Good for You.

By Carla Fried
1,406 words
13 April 2018
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It was a rough first quarter for bonds, which fell in value amid fears that inflation, the archnemesis of fixed-income investors, was coming back into the picture.

The Vanguard Total Bond Market Index fund and the iShares Core U.S. Aggregate Bond fund each lost 1.5 percent in the quarter. Much of the loss occurred at exactly the wrong time.

Instead of rallying when stocks were falling — typically the case for the last three decades — bonds merely managed to lose less than stocks. When the **Standard & Poor**'**s 500**-**stockindex** lost 10 percent from late January to early February, the Bloomberg Barclays Aggregate U.S. Bond index fell more than 1 percent.

And then there was the latest bond-bashing from Warren E. Buffett, the chairman of Berkshire Hathaway. In his annual shareholder letter in early March, Mr. Buffett said the assumption that bonds were a worthy risk damper for long-term investors was "a terrible mistake." In 2012, he wrote: "Today's bond portfolios are, in effect, wasting assets." And in 2011, the message was: "Right now bonds should come with a warning label."

It's not profitable to argue with Mr. Buffett about the markets. He is right, of course. The return prospects for bonds aren't particularly appealing today. That's because low bond yields reduce the odds that you will earn a return that keeps pace with inflation in coming years. And with the Federal Reserve pushing its target interest rate higher, **bond prices** are likely to suffer. (When rates rise, **bond prices** fall. A bond fund's total return is the sum of the interest paid plus changes in **bond prices**.)

But Mr. Buffett is a singular investor, one with deep pockets and an extremely long-term perspective, and he has an excellent track record of exploiting market sell-offs. Most people aren't like that.

"While Warren Buffett might be able to be greedy when others are fearful and fearful when others are greedy, most of us just follow the herd," said Allan Roth, founder of the Wealth Logic financial advisory firm. "Bonds provide liquidity and courage when stocks are falling."

Bonds can be a boon for any investor who needs help in the courage department. "You own bonds to reduce **volatility**, not to earn a return," says Gregg Fisher, chief investment officer at the Gerstein Fisher financial advisory firm.

Moreover, what concerns Mr. Buffett are the poor prospects for long-term bonds, especially given their current low yields. He routinely points out that a **30**-**year Treasury bond** is the wrong place to be when rates are rising, as they have been lately.

"Pensions and institutions that need to match their long-term liabilities with an asset use 30-year bonds. But most investors don't have that problem. Nobody owns them," said Kathy Jones, chief fixed income strategist at the Schwab Center for Financial Research.

According to Morningstar Direct, $59 billion is invested in long-term bond funds and exchange-traded funds (defined as portfolios with average durations above six years). But that total is dwarfed by the more than $1.5 trillion invested in intermediate-term portfolios (3.5- to six-year average duration), which include core bond funds hewing to the Bloomberg Barclays U.S. Aggregate index. Another $431 billion is invested in short-term portfolios (one- to 3.5-year average duration).

Duration is a measure of sensitivity to changing interest rates; the longer the duration, the more the price of a bond will fall when rates rise. For example, Dodge & Cox Income fund, with a duration of around four years, lost 0.9 percent in the first quarter. Vanguard Long-Term Bond Index fund, with a duration of more than 15 years, lost 3.75 percent.

Ms. Jones points out that from a low yield of 1.38 percent in July 2016, the **10-year Treasury** note now yields nearly 3 percent. “We are in a bond **bear market**,” she said. But that’s nothing like a stock **bear market**.

Since July 2016, the average intermediate bond fund has managed to post flat performance as higher yields have offset price declines. Shorter-term portfolios have eked out a small gain. On an inflation-adjusted basis, bond funds have negative returns over that stretch. A stock **bear market**, by contrast, doesn’t begin until stocks have fallen at least 20 percent.

Still, core bond funds’ struggles have been unsettling. And with a strong-enough economy spurring the Federal Reserve to raise short-term interest rates, bond investors may need to reduce expectations.

Last quarter may well have been the start of bad times for bonds. Peter Chiappinelli, a member of the asset allocation team at GMO, points out that bonds moving in the same downward direction as stocks “has happened before and will happen again. That bonds are a dampener is not preordained by God,” Mr. Chiappinelli said. “As we saw in the ’70s and ’80s, there are times when stocks and bonds can have a positive correlation,” he said, meaning those assets can move in the same direction.

At the same time, the benchmark Bloomberg Barclays Aggregate is ratcheting up its risk. The duration of the index has increased from around 3.5 years in 2008 to six years today as the composition of the index shifted in response to the Federal Reserve’s monetary policy. Treasury bonds, which tend to have longer durations, now represent more than one-third of the index compared with 22 percent in 2007. And corporations have spent the last decade issuing longer-term bonds to take advantage of low interest rates.

Mr. Chiappinelli said investing in a portfolio that is increasing its duration when interest rates “were at historic lows is the exact opposite of prudence.”

Moreover, Treasuries are quite sensitive to rate increases, and Ms. Jones found that the credit quality of the corporate bonds in the index had decreased since the financial crisis.

“We tend to talk about owning the aggregate index as a core, and then adding some risk around it. Well, now might be a time to keep your core but add some less risky bonds,” Ms. Jones said.

Funds that own high-quality bonds with shorter durations, such as Fidelity Short-Term Bond, can help reduce your portfolio’s sensitivity to rising rates. Or you might want to consider a wholesale shift to shorter duration funds.

“Shorten up your entire bond portfolio to two or three years and you could probably afford to own fewer bonds and increase your stocks,” Mr. Fisher said. His expectation is that the overall **volatility** of a portfolio 30 percent in short-term bonds and 70 percent in stocks is going to be on par with one that is 40 percent invested in a fund tracking the Bloomberg Barclays U.S. Aggregate index and 60 percent in stocks.

Mr. Roth recommends owning a laddered series of federally insured five-year certificates of deposit as a bond proxy. Online banks now offer five-year C.D.s yielding 2.5 percent or more.

Ms. Jones favors funds that hold floating-rate bonds — whose yields adjust when interest rates change — as a way of coping with the current environment. Ms. Jones suggests sticking with floating-rate funds that invest in high-quality bonds, such as the iShares Floating Rate Bond E.T.F. It has an average duration of less than one year and yields nearly 2 percent.

To combat inflation, you might want to add a fund that invests in Treasury Inflation-Protected Securities, or TIPS, such as Vanguard Inflation Protected Securities.

“I don’t know what the return of bonds will be, and I am not suggesting it will be as good as the past 17 years, but I do expect the **volatility** of bonds relative to stocks to stay the same,” Mr. Roth said.

Unless you are as patient and prescient as Mr. Buffett, owning a slug of less-**volatile** bonds can help you stick to a long-term investing strategy when stocks fall.

* For Bond Investors, Low Expectations in a Low-Yield World

* Warren Buffett’s Succession Plan Is Down to Two

* The Tax Law Gives Municipal Bonds a New Allure

* Buffett’s Annual Letter: Berkshire Records $29 Billion Gain From Tax Law

Leonardo Santamaria

Document NYTFEED020180413ee4d002s6

THE WALL STREET JOURNAL.

Markets

Big Banks Post Strong Results but Investors Want More; Shares of JPMorgan and others fell as their earnings met or exceeded forecasts

By Peter Rudegeair and Telis Demos
1,073 words
13 April 2018
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Lower taxes, a boost in lending income and a flurry of trading activity sparked by market **volatility** propelled profits higher at three of the U.S.'s biggest banks in the first quarter.

JPMorgan Chase & Co. led the charge, reporting net income of $8.7 billion—up 35% from a year earlier and a record for the largest U.S. bank by assets. While the performance benefited from a quarter-billion dollars in savings from a lower tax rate, Chief Executive James Dimon said the results also reflected a brightening economic and business environment.

"The global economy continues to do well, and we remain optimistic about the positive impact of tax reform in the U.S. as business sentiment remains upbeat, and consumers benefit from job and wage growth," he said in the bank's earnings release.

Despite the strong earnings, investors sent shares lower on signs of tepid loan growth, particularly from businesses, and a lack of new earnings drivers after a run-up in valuations.

The brighter economic conditions also helped Citigroup Inc. It reported that net income rose 13% from a year earlier to $4.62 billion, while its return on equity, a closely watched measure of bank profitability, was at its highest level in five years.

Wells Fargo & Co. said its first-quarter profit rose 5% to $5.9 billion, although it cautioned that it might need to restate those results because of a looming regulatory settlement that could be as high as $1 billion.

PNC Financial Services Group Inc., the nation's eighth-largest bank by assets, reported a 16% rise in earnings thanks to rising interest rates and commercial-lending growth.

While the banks largely met, or in some cases exceeded expectations, shares of JPMorgan fell more than 2% and Wells Fargo was down by more than 3%.

Bank stocks have outperformed the broader market since the November 2016 presidential election. Now, investors are looking for reasons for them to rise further, something that was lacking in the most-recent results.

"Bank stocks are at a point now where valuations are similar to 2007," said James Shanahan, senior equity research analyst at retail brokerage Edward Jones. "It feels like there needs to be a really strong catalyst to propel them higher from here."

Investors, for instance, are anticipating an acceleration in industry loan growth as the year progresses, said Jason Benowitz, senior portfolio manager at Roosevelt Investment Group Inc. and an investor in JPMorgan. "But this was not the tone" on bank earnings calls, he added.

Loan volume, especially for businesses, was on the rise at JPMorgan, Citigroup and PNC. But growth remained below levels of a few years ago. Bank executives said the tax overhaul passed late last year hasn't yet had a pronounced effect on companies' willingness to borrow.

"I think we have to recognize that tax reform is in its early stages," Marianne Lake, JPMorgan's finance chief, said on a call with reporters.

PNC CEO William Demchak said the lower tax rate may also crimp some areas of commercial lending. Companies will have more money on hand, which could reduce their need for bank loans, he added in an interview.

For the banks themselves, the tax overhaul is already flowing through to their bottom lines. JPMorgan reported an effective tax rate of 18% in the first quarter, down from 23% a year earlier. Citigroup's effective tax rate fell to 24% from 31%, and Wells Fargo's dropped to 19% from 27%.

The lower taxes helped boost banks' return on equity. At JPMorgan, this measure of profitability hit 15% in the quarter, its highest level in years. Citigroup's return of 9.7% was within striking distance of 10%, a psychologically important level for investors.

The gauge of profitability also was bolstered by banks' continued return of capital to investors. JPMorgan said it returned $6.7 billion during the quarter through share buybacks and dividend payments. Combined, it, Citi and Wells Fargo have returned nearly $60 billion to investors over the past four quarters.

Besides the boost from taxes, banks' businesses mostly remained solid, even if growth isn't spectacular.

Rising interest rates have helped bolster net interest margins, which measure how profitably banks put depositors' money into loans and securities. They expanded at JPMorgan and Citigroup, reversing years of declines.

Yet analysts expect banks will soon have to pay more for deposits to keep customers from shifting funds elsewhere, especially if the Federal Reserve continues to increase rates. That could pressure those margins.

The prospect of sharply higher interest rates also sparked market gyrations during the first quarter. The ensuing **volatility** in stock markets was a boon for bank trading desks. Equities-trading revenue rose 38% to $1.1 billion at Citigroup, the best in seven years, and 26% to a record $2 billion at JPMorgan.

In bond markets, however, **volatility** kept money managers on the sidelines. JPMorgan's revenue for that unit was flat, excluding accounting adjustments, while Citigroup's was down 7% versus a year earlier.

Market upheaval also depressed investment-banking activity as companies were spooked by the prospect of issuing additional bonds in choppy markets. Debt-underwriting fees fell 18% at JPMorgan and 8% at Citigroup. "Significant **volatility** isn't helpful," Citigroup CFO John Gerspach said on a conference call with reporters.

While markets were unsettled during the quarter, the political atmosphere was particularly tumultuous. Citigroup said, though, that things like the threat of a U.S.-China trade war hadn't so far crimped global activity. Rather, the bank has experienced higher revenue in both consumer and corporate banking, especially in Asia and Latin America.

"The **volatility** we see from morning tweets, or stances that vary from time to time—I won't say the world is numb or numbing to that, but the positive things happening are overwhelming that," CEO Michael Corbat told analysts.

Christina Rexrode contributed to this article.

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THE WALL STREET JOURNAL.

U.S. Markets
Markets

U.S. Stocks Wobble but Post Weekly Gains; Energy shares rise as oil prices rally on worries over Mideast tensions

By Akane Otani and Jon Sindreu
726 words
13 April 2018
05:15 PM
The Wall Street Journal Online
WSJO
English

U.S. stocks slipped Friday but notched gains for the week, buoyed by rallying energy shares and signs that a trade spat between the world's top economies was easing.

Trading was quiet for much of the day, with just 5.7 billion shares changing hands on exchanges owned by the New York Stock Exchange and **Nasdaq**. It was the quietest full trading session so far in 2018.

Despite the day's losses, the **S&P 500**, **Dow Jones Industrial Average** and **Nasdaq Composite** each rose more than 1% for the week, thanks to a rebound in technology shares that had been hit hard in March, as well as a jump in energy shares.

Another factor helping boost investors' optimism: a string of solid earnings reports. In the second half of the week, BlackRock, JPMorgan Chase, Wells Fargo and Citigroup posted results that beat analysts' expectations, marking an upbeat start to the first-quarter earnings season.

While bank shares fell Friday, a move some attributed to investors largely pricing in robust results ahead of the earnings reports as well as concerns over continuing investigations at Wells Fargo, the KBW **Nasdaq** Bank Index of large U.S. lenders ended the week up 1.2%.

Solid results should help give the **stock market** a lift, analysts say, even as investors contend with such risks as shifts in trade policy, questions over the pace of inflation and the potential for escalating conflict around the world.

"If you look at what's been driving the **bull market** since the beginning, it's been that earnings have been performing quite well consistently, and we still think that trend is very much intact," said David Lefkowitz, senior equity strategist for the Americas at UBS Global Wealth Management.

The Dow industrials fell 122.91 points, or 0.5%, to 24360.14, while the **S&P 500** lost 7.69 points, or 0.3%, to 2656.30 and the **Nasdaq Composite** declined 33.60 points, or 0.5%, to 7106.65.

One of the best-performing sectors in the **S&P 500** for the week was technology, where shares took a hit last month as backlash over Facebook's handling of user data raised fears among investors of tighter regulations.

Facebook, whose chief executive, Mark Zuckerberg, testified before Congress Tuesday and Wednesday, rose 65 cents, or 0.4%, to $164.52 on Friday and notched its biggest one-week percentage gain since March.

Meanwhile, energy shares in the **S&P 500** gained 1.1% Friday, boosted by a rally in **oil prices**.

Worries that an escalation of conflict in the Middle East could disrupt supply sent **oil prices** higher five trading days in a row, with U.S. crude for May delivery settling at $67.39 a barrel for a weekly gain of 8.6%, its biggest one-week gain since December 2016.

The International Energy Agency said that commercial oil inventories for advanced nations were at their lowest levels since April 2015, a sign that demand is increasing. Still, the agency warned, an uptick in trade disputes could dent the world's appetite for crude.

Growing trade tensions had driven investors out of stocks last month and into assets considered havens, such as government bonds and the yen, though those moves largely reversed this week on signs that the Trump administration could be amenable to softening its stance.

President Donald Trump told a group of lawmakers Thursday that he had asked his top economic advisers to study re-entering talks on the Trans-Pacific Partnership, which he withdrew from last year.

As for tariffs on Chinese imports, "there's a good probability that the [trade] barriers are not going to be put in place," said Chris Hiorns, a fund manager at EdenTree Investment Management, who has used recent selloffs to buy shares in companies he likes. "We see this more as an opportunity than a threat."

Elsewhere, the Stoxx Europe 600 edged up 0.1% Friday, while Japan's Nikkei Stock Average rose 0.5%, and Hong Kong's Hang Seng Index fell less than 0.1%.

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THE WALL STREET JOURNAL.

Heard on the Street
Markets
Banks Still Waiting for Tax-Overhaul Borrowing Boost; Solid first-quarter earnings aren't enough to breathe new life into bank rally

By Aaron Back
473 words
13 April 2018
04:27 PM
The Wall Street Journal Online
WSJO
English

Major U.S. banks saw a solid first quarter, but for their shares to keep moving higher, they need economic optimism to translate into real loan growth.

JPMorgan Chase and Citigroup both beat analyst estimates for first quarter earnings on Friday, aided by lower taxes, higher interest rates and strong equity trading. JPMorgan's net profit rose 35% from a year earlier, while Citigroup's rose 13%.

Equities were the highlight, as **volatile** stock markets during the first quarter juiced trading commissions. Equity trading revenue rose 26% from a year earlier at JPMorgan to a record $2 billion, and rose 38% at Citigroup to $1.1 billion. Yet, shares of both banks fell sharply Friday.

Fixed-income trading was a slight disappointment, falling 7% from a year earlier at Citigroup and basically flat after adjusting for tax effects at JPMorgan. But those figures are stacked against an especially strong quarter a year ago, so the absolute level of trading activity remains healthy.

A bigger concern for bank earnings is slow loan growth. At JPMorgan, total loans were up 4% from a year earlier but flat from the prior quarter. At Citigroup, they rose 7% from a year earlier but were up just 1% from the prior quarter.

Bank executives have generally been **bullish** on the recent tax reform, expecting it to boost corporate demand for loans. The chief financial officers of JPMorgan and Citigroup said Friday they haven't yet seen much impact, but they both expect companies' loan demand to pick up later this year.

"As much as we're all eager to see the benefit," said JPMorgan CFO Marianne Lake, "we have to recognize that tax reform is still in its early stages."

In fact, by providing a cash windfall to companies, the tax changes may be reducing their near-term need for loans. But if tax cuts boost corporate investment and economic growth, they should be positive for loan demand. Future bank performance depends on it.

Citigroup posted a respectable return on equity of 9.7% during the quarter, while JPMorgan put up an outstanding 15%. These levels of profitability are enough to justify their current valuations of 1 and 1.7 times book value, respectively.

But for bank shares to keep rising from here, their rosy economic expectations need to start playing out on the ground.

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THE WALL STREET JOURNAL.

Markets
U.S. Government Bond Yields Up on Week; Investors regained some of their taste for stocks

By Sam Goldfarb
315 words
13 April 2018
04:59 PM
The Wall Street Journal Online
WSJO
English

The yield on the 10-year U.S. Treasury note edged down Friday but logged its second straight weekly gain, reflecting improved risk-appetite among investors and signs the Federal Reserve is confident about reaching its inflation target.

The yield on the 10-year note settled at 2.828%, down from 2.831% Thursday but up from 2.779% the previous Friday.

Yields, which rise when **bond prices** fall, climbed this week as investors regained some of their taste for stocks following a rough patch highlighted by rising trade tensions and concerns about potential regulation of technology companies.

Investors often buy Treasurys during times of political or economic uncertainty because they offer steady interest payments with essentially no credit risk. Easing concerns, though, can hurt demand for bonds.

Meanwhile, minutes from the central bank's March 20-21 meeting released Wednesday showed officials gaining confidence inflation will hit their 2% target over the coming year. Officials also unanimously agreed that the economic outlook had strengthened in recent months.

Expectations the Fed will tighten monetary policy at a steady clip have taken a heavy toll on short-term Treasurys, which are especially sensitive to rising interest rates.

The yield on the two-year Treasury note settled at 2.368% Friday, its highest level since August 2008.

"We're clearly in a **bear market** here in the front end" as more investors bet the Fed could raise rates as many as three more times this year, said Ray Remy, head of fixed-income trading in New York at Daiwa Capital Markets America Inc.

At its March meeting, the central bank raised its benchmark federal-funds rate by a quarter-percentage point to a range between 1.5% and 1.75%.

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THE WALL STREET JOURNAL.

Markets

Trade Tensions Have Hit Stocks Hard—Why Is the Rest of the Market So Calm? Stability in other markets suggest there is more to the decline in equities than uncertainty over trade

By Riva Gold and Mike Bird
1,037 words
13 April 2018
05:06 AM
The Wall Street Journal Online
WSJO
English

Stock markets have been on a roller coaster since trade tensions between the U.S. and China began to escalate in early March. But export-facing currencies, trade-sensitive emerging markets and government bonds have barely moved, suggesting there is more to the recent stock gyrations than trade bluster.

The disconnect may signal investors have yet to price in the chance of an all-out trade war that could derail global markets—and that recent moves are much more about stock markets' crowded positioning, elevated valuations and fears that growth may be losing momentum.

The **S&P 500** has fallen roughly 2.7% since President Donald Trump signed steel and aluminum tariffs on March 8, while the CBOE**volatility** index, or "Wall Street's fear gauge," which measures the expected **volatility** of the **S&P 500** based on options prices, has climbed around 12%.

Currencies, meanwhile, have been comparatively unmoved. The Deutsche Bank Currency **Volatility** Index, a benchmark for expected future swings in foreign-exchange markets, fell below 7 on Monday, its lowest level in three months. That leaves it about two points below its average over the past five years.

Likewise, the three-month Merrill Lynch Bond **Volatility** Index has declined since the tariffs were signed, while the 10-year **U**.**S**. **Treasuryyield** has barely moved, edging down to 2.8% from 2.9%.

"It's not a uniform message from markets that everything is about trade," said Valentijn van Nieuwenhuijzen, chief investment officer at NN Investment Partners. With recent signs of waning momentum in leading indicators of economic growth, "a crucial support which helped equity markets rally through political uncertainty is fading," he said.

Recent excitement over a period of synchronized global growth helped to buoy markets late last year and early this year, but that perception has dimmed. Disappointing economic data in Japan and the eurozone more recently has sent the Citi developed markets economic surprise index into negative territory, from its highest levels in over seven years as recently as December.

Equity markets may also be more sensitive to headline news on trade because investor positioning in stocks is closer to extreme levels than in other markets, according to some investors.

Bank of America Merrill Lynch's regular fund manager survey showed investors in January were positioned most heavily in favor of stocks compared with bonds since 2014, and hedge-fund **equity market** exposure at its highest level since 2006.

"This is headline risk and **volatility**-driven removal of positions rather than a rational increase in the probability of trade wars," said James Athey, senior investment manager at Aberdeen Standard Investments, pointing to the **equity market**'s higher share of news-driven, short-term market participants.

Crude **oil prices** have seen a greater increase in **volatility** over the past month than stocks or bonds, but analysts attribute the swings to rising geopolitical tension in the Middle East, rather than the trade dispute.

Unlike in stock markets, where many analysts and investors have fretted about steep valuations, the fact that some major currencies are now closer to so-called fair value estimates may have been a factor in their relative stability.

"The most traded currency pairs drive the overall **volatility**, which means euro-dollar and dollar-yen," said Kit Juckes, global macro strategist at Société Générale. "What we've seen in both is a move much closer to long-term fair value."

When the dollar rose above 120 against the yen and the euro was close to parity with the greenback there was more scope for wild swings, according to Mr. Juckes. The Peterson Institute for International Economics suggests the yen and euro are around 6% undervalued and 3% overvalued, respectively, closer to fair-value estimates than in the recent past.

The lack of obvious benefactors from escalated trade disputes may also be behind the calm trading in foreign-exchange and bond markets.

"At the country level, there's no winner" in a trade war, Mr. Juckes said. "Currencies are relatively priced, they can't all sell off at the same time."

Meanwhile, for the government-bond market, the implications of a trade war on asset prices are less clear, some investors say. "There's a tension between the negative growth effects [which should suppress bond yields] and the inflation boosting effect [which should make them rise]," said Abi Oladimeji, chief investment officer at Thomas Miller Investment. "Balancing those two has been difficult."

Even among individual currencies which should be exposed to trade, the impact has been unclear. South Korea's exports are high relative to other countries, at around 42% of gross domestic product in 2016, compared with around 12% for the U.S.

But despite its relative sensitivity to global trade the Korean won is roughly flat against the U.S. dollar for the year to date.

Emerging-market stocks and bonds, which analysts have long argued would be particularly at risk in the event of a trade war due to their ties to the Chinese economy and sensitivity to global growth and risk appetite, have shown resilience during the recent turbulence. The MSCI Emerging Market index has outperformed the **S&P 500** since the U.S. tariff measures were signed.

As trade tensions mounted in March, emerging-market equities drew inflows of $7 billion, equivalent to 70% of total inflows to global equity funds, according to Institute of International Finance data. Cumulative flows into emerging-market stocks and bonds meanwhile reached an all-time high last week, according to Bank of America Merrill Lynch.

Still, not all market watchers are reassured by the disconnect in **volatility** between asset classes.

"Most of what is passing for explanations are little more than post-facto rationalizations of price action," said JPMorgan currency strategists in a research note last week. "Our sense is that market participants are as perplexed about comatose [FX **volatility**] as we are."

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THE WALL STREET JOURNAL.

Markets

Oil Closes at Three-Year High; Light, sweet crude for May delivery settled up 32 cents, or 0.5%, to $67.39 a barrel

By Christopher Alessi and Stephanie Yang
582 words
13 April 2018
04:58 PM
The Wall Street Journal Online
WSJO
English

Oil prices closed at a fresh three-year high on Friday as the International Energy Agency predicted robust oil demand for the full year and as geopolitical risks to supply remained.

Light, sweet crude for May delivery settled up 32 cents, or 0.5%, to $67.39 a barrel on the New York Mercantile Exchange, the highest level since December 2014. Brent, the global benchmark, advanced 56 cents, or 0.8%, to $72.58 a barrel.

Prices have climbed as supply cuts from major oil exporters and strong global demand have helped ease a longstanding glut. Increased geopolitical risk has also put a premium on crude, as production from countries like Iran and Syria has been threatened.

Most recently, the prospect of potential military action by Western countries in Syria has elevated concerns over available supply. Around two-thirds of the world's oil reserves are in the Middle East.

"The excess inventory of oil around the world is no longer there to act as a buffer when these flare-ups in the Middle East happen," said analysts at TAC Energy.

In its closely watched monthly oil-market report Friday, the IEA said it still expects the world's appetite for oil to grow by 1.5 million barrels a day in 2018, helping to partly offset surging U.S. shale-oil growth.

Meanwhile, the Organization of the Petroleum Exporting Countries on Thursday said its crude output had declined last month by 201,000 barrels a day amid ongoing compliance with the oil cartel's agreement to cut production.

"Mercifully for oil bulls, output from the oil cartel continues to trend lower. OPEC has done well to negate the explosion in non-OPEC supply and the group's production maintained its downward trajectory in March," Stephen Brennock, an analyst at brokerage PVM Oil Associates Ltd., wrote in a note Friday.

OPEC and 10 producers outside the cartel, including Russia, have been holding back crude output by roughly 1.8 million barrels a day since the start of last year, part of a coordinated effort to rein in a supply glut that has weighed on prices for over three years.

"The strategic case for owning commodities has rarely been stronger," said Goldman Sachs analysts in a Thursday note.

The IEA also warned that escalating trade tensions between the U.S. and China could weigh on global demand.

Thomas Pugh, a commodities economist at consultancy Capital Economics, said a global trade war ignited by U.S. and Chinese tariffs would hit global economic growth and be negative for oil demand.

However, Mr. Pugh said prospects of a trade war had eased and that prices continued to be bolstered by geopolitical risks to supply due to conflict in the Middle East.

"Everyone's completely focused on what's going on in the Middle East and seemingly ignoring everything else," he added.

Oil-market observers were looking ahead to weekly data Friday from Baker Hughes on the number of rigs drilling for oil in the U.S., a key metric for activity in the sector.

Gasoline futures rose 0.5% to $2.0654 a gallon, and diesel futures gained 0.8% to $2.1002 a gallon.

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THE WALL STREET JOURNAL.

Markets
JPMorgan Reports Record Earnings, Boosted by Tax Law; Return on equity, a key measure of profitability, hits highest level in at least a decade

By Peter Rudegeair and Emily Glazer
737 words
13 April 2018
11:45 AM
The Wall Street Journal Online
WSJO
English

JPMorgan Chase & Co. said Friday that its quarterly profit surged 35% to an all-time high, as a strong economy and nearly a quarter-billion dollars in tax savings boosted results.

The first-quarter results were punctuated by big gains in profitability and trading, especially for desks that specialize in stocks. The bank's total revenue rose 12% to 27.91 billion.

The New York firm, the largest U.S. bank by assets, reported a profit of $8.71 billion, or $2.37 a share, up from $6.45 billion, or $1.65 a share. Analysts polled by Thomson Reuters had expected earnings of $2.28 a share. Shares, though, fell 2.7% to $110.37 in midday trading as investors took profits after a mini-rally for bank stocks over the past week.

JPMorgan's trading revenue increased 13% to $6.57 billion from $5.82 billion a year earlier. Fixed-income trading revenue rose 8.0% to $4.55 billion, while stock-trading revenue grew 26% to a record $2.02 billion. Excluding accounting adjustments, bond-trading revenue was flat.

Chief Financial Officer Marianne Lake said on a conference call with reporters that the **volatility** that characterized stock markets and fueled trading revenue there didn't carry over into fixed-income markets. She added that better results in trading emerging-market bonds and commodities didn't override weakness in other businesses or the higher-than-usual performance in last year's first quarter.

Volatility also helped suppress results in JPMorgan's investment bank, spooking companies from issuing new debt. Fees there fell 10% to $1.7 billion, mainly because of an 18% drop in revenue from underwriting bonds.

JPMorgan's return on equity, a closely watched measure of profitability, rose to 15% in the first quarter, compared with 11% a year ago. It is now at the highest level in at least a decade.

A lower tax bill thanks to last year's policy changes was a big contributor to that milestone. JPMorgan paid an effective income-tax rate of 18.3% in the first quarter, compared with 48.7% in the fourth quarter of 2017 and 22.7% in last year's first quarter.

Many commercial and corporate clients, while also likely helped by the tax law, don't seem to be overly eager to expand just yet. Ms. Lake said it is too early to broadly see higher earnings or cash flow as a result of the overhaul, although she expects that to change in coming quarters.

"We have to recognize that tax reform is in its early stages," Ms. Lake said on the conference call with reporters.

The boost from still low—but rising—interest rates has been a major focus for investors, as an increase in rates can help the profitability of big consumer lenders like JPMorgan. Net interest income rose 10% to $13.3 billion, and the bank's loan book expanded by 4% to $934 billion.

The bank also is investing more in its own business. Costs increased 5% to $16.1 billion from $15.3 billion a year earlier. The bank said in late February that total costs are expected to rise to around $62 billion in 2018 from $58.5 billion in 2017.

JPMorgan set aside $1.17 billion in the first quarter to cover loans that could potentially turn bad in the future. That compares with $1.31 billion in the fourth quarter of 2017 and $1.32 billion in the first quarter of 2017. The bank lost $1.34 billion to loan defaults, or 0.61% of its overall portfolio, compared with a 0.79% charge-off rate in the first quarter of 2017.

Legal costs totaled $70 million in the first quarter, compared with a benefit of $207 million in the fourth quarter of 2017 and $218 million a year earlier.

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The New York Times

Business Day
Finding Emerging Markets Stocks With Social Consciences

By Tim Gray
1,469 words
13 April 2018
07:00 AM
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NYTFEED
English

Until recently, investors interested in emerging market funds had few ways of singling out companies with standout environmental, social and governance records.

That has begun to change over the last several years, as the popularity of investing with an eye to these issues has surged. There are now 10 mutual funds and exchange-traded-funds that invest in stocks in emerging markets while making environmental, social and governance performance an explicit part of their mission, according to Morningstar.

And early evidence suggests that these feel-good funds have been able to outkick their conventional kin. In 2016, Chris Varco, a managing director at Cambridge Associates, an investment consultant, conducted a study comparing the returns of MSCI's standard emerging markets index to what's now known as its Emerging Markets E.S.G. Leaders Index. (The latter is made up of companies with higher scores for environmental, social and governance performance, as ranked by MSCI.)

For its first several years, the E.S.G. index outperformed its peer benchmark. Mr. Varco wanted to determine whether that was luck. He crunched the data and concluded that selecting companies based on nonfinancial factors had helped. Simply put, the E.S.G. index did better because the companies within it appeared, on average, to be better run. "There's yet to be a year where the standard index did better," he said.

Within this niche, there are actively managed options, like the Calvert Emerging Markets Equity and JPMorgan Emerging Markets Equity funds, and indexed ones, like the Nushares E.S.G. Emerging Markets Equity E.T.F., SPDR MSCI Emerging Markets Fossil Fuel Reserves Free E.T.F. and the iShares MSCI E.M. E.S.G. Optimized E.T.F. The iShares offering is built around the MSCI Emerging Markets E.S.G. Focus Index, which resembles the index that Mr. Varco studied but contains fewer stocks.

People who opt for funds of this sort should understand that their performance will diverge from that of well-known emerging-markets benchmarks, said Todd L. Rosenbluth, director of E.T.F. and mutual fund research at CFRA, an investment research firm.

"Because the holdings and the weightings differ, the performance is likely to differ," he said. "E.S.G. strategies tend to have hefty weightings in technology stocks. So when tech is in favor, as it was in 2017, that will help them. If we hit a time when energy or old-line industrials shine, they won't perform as well."

Some investors may be happy to occasionally sacrifice a tincture of return for the sake of ditching polluters. That's the sort of thinking that undergirds the SPDR MSCI Emerging Markets Fossil Fuel Reserves Free E.T.F.

"Energy conservation and lowering their carbon footprint is something that a lot of people are trying to do," including in their portfolios, said Matthew J. Bartolini, head of SPDR Americas Research for State Street Global Advisors in Boston. So the exchange-traded fund is composed of companies in the MSCI Emerging Markets Index minus those that own fossil-fuel reserves, such as oil producers and coal miners, he said.

Nuveen, sponsor of the Nushares E.S.G. Emerging Markets Equity E.T.F., constructs its index differently, but it, too, aims to cut the number of air polluters in the portfolio by favoring companies with lower carbon-dioxide emissions. "E.S.G. investors expect low carbon, and standard E.S.G. screens won't necessarily give you that," said Martin Y. G. Kremenstein, head exchange-traded funds for Nuveen.

Over the last five years, emerging markets have chugged upward, with MSCI's conventional index gaining an annualized average of 4.99 percent. In the first quarter, the index gained 1.42 percent. MSCI's Emerging Markets E.S.G. Leaders Index has outpaced its peer — rising an annualized average of 8.6 percent over the last five years, though only 1.01 percent in the first quarter.

When Mr. Varco, of Cambridge Associates, did his study, he didn't dig into precisely why companies in the E.S.G. index might excel or, conversely, why ones in the conventional index might lag. But he said one reason might be that state-owned enterprises, like Brazil's Petrobras, where a prominent bribery scandal has implicated dozens of government officials, loom large in the standard index. These outfits are often not run as well as their nonstate kin, he said.

Managers of actively managed funds echoed his assessment.

"The MSCI index includes a lot of energy" state-owned enterprises, said Elena Tedesco, a portfolio manager of the Calvert Emerging Markets Equity Fund. "Those companies tend to have very poor governance — they allocate capital to fulfill political goals. The Russian gas companies, for example, don't have a strong reputation for creating value for shareholders. They'd rather build a pipeline to fulfill a political need." Gazprom, the giant Russian natural-gas producer, is majority state-owned and a part of the standard index.

Leon Eidelman, the lead manager of the JPMorgan Emerging Markets Equity Fund, is even more broadly skeptical of state-owned companies and their aims.

"The Chinese state doesn't work for you," he said. "It works for itself. Its goals and incentives aren't aligned with those of minority shareholders." Two Chinese state-owned enterprises — China Mobile and China Construction Bank — are among the top 10 constituents of the standard index.

Put differently, the problem with state-run companies, besides potential political agendas, is governance. They don't have procedures in place, as developed-world public companies typically do, to ensure that minority investors are treated fairly and have access to all the information they need about company operations, investments and finances.

Philippe Langham, senior portfolio manager for the RBC Emerging Markets Fund, said concerns about governance in the emerging world extend beyond state-owned ventures. Plenty of emerging-market outfits without state ties don't hew to developed-world standards, he said. Assessing environmental, social and governance performance, he added, isn't just a matter of ethics when investing in emerging markets.

"For me, the emphasis is sustainability," he said. "Companies that plan for the future, with adequate infrastructure and R.&D., and look to build long-term relationships with all their stakeholders, I believe they'll ultimately have higher returns."

And governance isn't the only nonfinancial factor that aids in these sorts of assessments, said Thomas Wilson, co-manager of the Hartford Schroders Emerging Markets Equity Fund. Environmental and social performance also "relate to the integrity and quality of management," he said. "They provide a window into whether management is good at their jobs."

The case for investing in the emerging world can be boiled down to a word: growth. Compared with developed countries, emerging ones are, on average, growing faster, and they are pulling hundreds of millions of people into the middle class for the first time. That's giving rise to new companies and creating huge new markets for existing ones, said Binu George, portfolio strategist for the emerging markets team at GMO, an asset management firm. "There are 24 emerging-market countries," he said. "In those countries and their stocks, there's a massive opportunity for you to make money."

With that faster growth comes greater risk: On average, the returns of emerging markets stocks roller coaster more than those of developed market ones.

"The asset class is incredibly **volatile**, and yet there are still many great businesses in the emerging world," said Mr. Eidelman of the JPMorgan fund. Over time, patience — and attention to environmental, social and governance factors — can pay off, leading to superior performance, he said.

"The time frame really matters. If you're looking to own a business for a long time — not just trade a stock — then factors around how that business interacts with all of its stakeholders become much more important. If you're just trading monthly, the fact that you think the management is dodgy might not matter."

For someone committed to so-called socially responsible investing, including a relatively small allocation — say 5 or 10 percent of a diversified portfolio — to this niche can make sense, added Mr. Rosenbluth of CFRA.

“E.S.G. factors are perhaps even more relevant outside the U.S., especially governance,” he said. “This sounds obvious, but in less developed countries, the companies have less developed governance. By investing in ones that are providing better governance, you’re encouraging other companies to act more responsibly.”

Elena Tedesco, a portfolio manager of the Calvert Emerging Markets Equity Fund, says that state-owned energy companies often have political agendas that are not in private shareholders’ interests. | Tom Jamieson for The New York Times

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THE WALL STREET JOURNAL.

Markets
Gold Inches Higher as Range-Bound Trading Continues; Copper edges up

By Amrith Ramkumar and David Hodari
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The Wall Street Journal Online
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Gold prices swung between small gains and losses Friday, with markets slightly calmer despite recent worries about trade and possible clashes between U.S. and Russian forces in Syria.

Front-month gold for April delivery closed up 0.5% at 1,344.80 a troy ounce on the Comex division of the New York Mercantile Exchange. Prices have stayed between about $1,305 and $1,360 this year, moving within that range based on safe-haven buying, swings in the dollar and worries about the prospect of higher interest rates.

Anxiety over protectionist trade policies and tensions between the U.S. and Russia pushed gold back to around $1,360 Wednesday, but some analysts have said they don't expect conflicts to fully escalate and disrupt the global economy. Gold erased its Wednesday gains a day later, continuing a frustrating trend for **bullish** investors.

A stable dollar has limited gold's gains in recent weeks, as a more expensive U.S. currency makes gold and other dollar-denominated commodities more expensive for overseas buyers. On Friday, the WSJ Dollar Index, which tracks the dollar against a basket of 16 other currencies, was down less than 0.1%.

Investors are also eyeing economic data and signals from central-bank officials with apprehension, as higher interest rates tend to boost Treasury yields and make gold less attractive by comparison. On Wednesday, minutes from the Federal Reserve's March meeting showed the central bank plans to raise rates two or three more times this year as the economy picks up steam.

"Until we get that clarity on how many rate hikes there are going to be, gold continues to stay range bound," said Walter Pehowich, senior vice president at Dillon Gage Metals.

Among base metals, front-month copper for April delivery edged up 0.2% to $3.0675 a pound. The supply disruptions from mining labor contract renegotiations that some investors expected to buoy prices haven't materialized yet in 2018, and worries about an economic slowdown in China, the world's largest copper consumer, have also hurt sentiment. Copper is down 6.5% this year after hitting a nearly four-year high in late December.

Analysts have also been paying close attention to metals that have surged recently following sanctions against Russia, a major supplier of palladium and aluminum. Palladium futures added 2.3% in New York, while aluminum for delivery in three months on the London Metal Exchange edged down 1.7% following its biggest four-day rally in 30 years earlier in the week.

Prices have turned positive for the year and hit their highest level since 2012, with some traders scrambling following an LME trading suspension on metal from the world's second-largest aluminum producer, United Co. Rusal. U.S. premiums to have the metal delivered have also climbed.

Despite the short-term supply shock, some analysts say the long-term market impact remains murky.

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The New York Times

U.S.

Oklahoma Teachers End Walkout After Winning Raises and Additional Funding

By Dana Goldstein and Elizabeth Dias
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Saying it had achieved all that it could with a walkout, Oklahoma's largest teachers' union on Thursday called for educators to return to the classroom and to shift their efforts to supporting candidates in the fall elections who favor increased education spending.

At a news conference, Alicia Priest, president of the Oklahoma Education Association, characterized the nine-day walkout as "a victory for teachers," even as it fell short of its goals.

In a deep-red state that has pursued tax and service cuts for years, teachers won a raise of about $6,000, depending on experience, while members of schools' support staff will see a raise of $1,250.

But the biggest pieces of legislation passed before the walkout, not during it, and Ms. Priest acknowledged that many of the protesters' demands for more schools funding would not be met, because, she said, Republicans in the State Senate would not consider additional revenue sources.

"We got here by electing the wrong people to office," Ms. Priest said. "We have the opportunity to make our voices heard at the ballot box."

Teachers had initially demanded the repeal of a capital-gains tax exemption, which applies to wealthy individuals. Instead, many of the new taxes will be paid by average Oklahomans.

To fund the measures, as well as some limited new revenues for schools, the Republican-controlled Legislature and Gov. Mary Fallin instituted new or higher taxes on oil and gas production, tobacco, motor fuels, and online sales. The state will also allow ball and dice gambling, which will be taxed.

"The big win happened before the walkout started," said Brent Bushey, executive director of the Oklahoma Public School Resource Center, which provides administrative services for small school districts. "It is a short-term win, but my focus is how do we turn this into a long-term focus on education."

Gregg Garn, the dean of the college of education at the University of Oklahoma, said that who won or lost is yet to be determined. "The teachers clearly were able to make some good strides," he said. "In the long run, if candidates that support education get elected, that's what will determine who won or lost."

Some teachers seemed ambivalent about ending the walkout.

"I don't want to say I agree 100 percent with us stopping this walkout, but I do understand," said Cory Williams, a teacher at George Washington Carver Middle School in Tulsa, who participated in days of protests at the Capitol. "We are going to get to the point where it is an unstoppable force meets an unmovable object. It is hard to fight against that without changing your tactics."

The recent wave of teacher protests, which has rocked several conservative states, began this year in West Virginia, where teachers won a $2,000 raise from lawmakers. The outcome of the struggle in Oklahoma was being watched carefully in Kentucky, where some school districts will be closed on Friday as teachers demonstrate in favor of education funding, as well as in Arizona, where a teacher movement calling itself #RedforEd is demanding raises and more money for schools.

[Read more on how teacher walkouts in conservative states are threatening Republican control at the state level.]

In Arizona, Gov. Doug Ducey, under pressure from teachers who have threatened a walkout, announced on Thursday a plan to provide teachers with a raise by 2020, which he said could be accomplished without raising taxes.

In Oklahoma, some rank-and-file educators expressed displeasure on social media that the union was calling off the walkout, and were discussing whether teachers could continue the work stoppage on their own.

Nevertheless, the new taxes in Oklahoma represent a victory for teachers in a state that, over the last decade, has pursued some of the deepest tax and public-service cuts in the nation.

The oil and gas industry, long favored in the state, was among the groups disappointed by the new taxes.

Chad Warmington, president of the Oklahoma Oil & Gas Association, said the industry supported an increase in education funding, but should not have been made to shoulder the burden. He said that because oil and gas prices are **volatile**, the new production tax was "a raw deal for teachers" and pointed to other areas where taxes could have been raised.

"Oklahoma has eliminated $1 billion in personal income tax," he said, referring to some estimates of lost state revenue from cuts in recent years. But he added, "I don't think there's political will to do a personal income tax hike."

Allies of the industry may try to introduce a ballot referendum to reverse the increase in production taxes.

As in West Virginia, rank-and-file teachers started the walkout movement by organizing on Facebook, at first without much help from unions. The Oklahoma Education Association gave legislators until late April to provide new revenues or face a walkout, but teachers protested and pushed the union to adopt an April 1 deadline. In Oklahoma, union membership is optional for teachers. Still, the large rallies, marches and lobbying that developed around the walkout would not have been possible without the muscle of state and national labor organizations.

Parents, too, participated in protests. Lanae DeArman of Sulphur, Okla., joined picketing teachers at the Capitol, lobbying her representatives to raise taxes to fund education. She had never been involved in politics before, she said, but the condition of her three children's schools — aging textbooks, broken furniture — drove her to act.

"It has gone too far," she said of the state's tax cuts. "You want to be able to keep what you make, but where's the line? I myself, personally, would be willing to pay a little more if it meant adequate funding for our schools."

Ms. DeArman said she planned to vote this year and would be carefully considering candidates' education platforms.

Randi Weingarten, president of the American Federation of Teachers, which represents educators in Oklahoma City, said the movement could shake up national politics. "A lot of people in these states, including some of our teachers, voted for Trump," she said. Now, she added, unions hope to spread the message that conservative policies lead to the school budget cuts that teachers and parents have been protesting.

"The not-so-sleeper issue in this next election is public education," Ms. Weingarten said.

* Teacher Walkouts Threaten Republican Grip on Conservative States

* Why Teachers in Oklahoma and Kentucky Are Walking Out and What to Expect

* Their Pay Has Stood Still. Now Oklahoma Teachers Could Be the Next to Walk.

Oklahoma teachers (above, protesting in the Capitol last week) plan to return to the classroom, though they acknowledge that their walkout fell short of its goals. | Nick Oxford/Reuters

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THE WALL STREET JOURNAL.

Economy

Consumer Sentiment Slips on Trade Fears; University of Michigan's preliminary April reading of consumer-sentiment index was 97.8, down from 101.4 in March

By Harriet Torry
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Worries about how the Trump administration's trade policies will impact the U.S. economy prompted a dip in consumer confidence this month, although sentiment remained at a historically high level.

The University of Michigan on Friday said the preliminary result of its consumer-sentiment index was 97.8 in April, down from a 14-year high of 101.4 in March. The preliminary April reading fell short of the 100.0 that economists surveyed by The Wall Street Journal expected.

The reading "disappointed relative to expectations, but some softening in sentiment is not too shocking given the weakening in equity markets over the past few months as well as what seems to be a string of negative headlines in the news," JPMorgan Chase economist Daniel Silver said in a note to clients.

The **S&P 500**has fallen roughly 2.7% since President Donald Trump signed steel and aluminum tariffs on March 8.

The consumer sentiment index rose 0.8% in April from a year earlier. A final reading for the month will be released April 27.

"The small decline was widely shared by all age and income subgroups and across all regions of the country," said Richard Curtin, the survey's chief economist. He said that an expected rise in interest rates also slightly slowed the anticipated pace of economic growth.

The index of current economic conditions tumbled more than 5% on the month to 115.0. According to Ian Shepherdson, chief economist of Pantheon Macroeconomics, "the current conditions index spiked in March, presumably as people saw the tax cuts coming through, so a correction in April was always a decent bet."

Friday's report showed households' expectations about inflation ticked slightly lower in April.

Consumers this month expected a 2.7% rise in inflation over the next year, down slightly from 2.8% in March. They expected an 2.4% rise in inflation over the next five years, down from 2.5% in the prior three months.

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THE WALL STREET JOURNAL.

Markets
Goldman Sachs Veteran Joins London Stock Exchange as Chief Executive; David Schwimmer fills the vacancy left after the departure of CEO Xavier Rolet

By Ben Dummett
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LONDON—London Stock Exchange Group PLC on Friday appointed a 20-year veteran of Goldman Sachs Group Inc. as its new chief executive, filling a crucial leadership gap following the abrupt departure of former CEOXavier Rolet.

David Schwimmer, who most recently headed the U.S. investment bank's market-structure group and global metals and mining investment-banking operation, is set to join LSE on Aug. 1, when he will also join the board.

The 49-year-old American takes the reins at a position of strength for LSE: Its **stock price** has risen steadily over the past five years, as earnings benefited from Mr. Rolet's bets on derivatives clearing and the growth of index investing. The challenge now is to prove he can maintain that momentum following disappointment among some major shareholders over his predecessor's departure.

The hiring of a seasoned investment banker signals that deal making could be a priority. Named a Goldman Sachs partner in 2012, Mr. Schwimmer, is identified as one of the architects of the 2005 merger betweenNew York Stock Exchange and Archipelago Group.

"I have worked closely with David over his career at Goldman Sachs," Goldman Chief Executive Lloyd Blankfein said in an emailed statement. "He has great expertise as an advisor to large companies."

That said, LSE recently missed out on a big opportunity to expand into the vast market for trading U.S. government debt after Chicago-based CME Group Inc. agreed last month to buyNEX Group PLC for about $5.4 billion. The London-based company owns the biggest electronic trading platform for U.S. Treasury bonds, BrokerTec.

An LSE spokesman said that Mr. Schwimmer wasn't immediately available for comment. In a statement, Mr. Schwimmer said LSE "has multiple opportunities for further attractive growth across its market leading capital formation, information services and post trade business."

The challenges Mr. Schwimmer faces are made more difficult by the uncertain political and economic environment resulting from Britain's prolonged divorce from the European Union. At the same time, LSE's lucrative business clearing trades in derivatives and other securities faces new competition. Last year, clearinghouse Eurex, which is owned by Germany's Deutsche Börse AG, announced plans to set up a profit-sharing system to try to win market share from LSE's majority-owned LCH Group Ltd.

LSE announced in October that Mr. Rolet, 58 years old, would leave the London-based exchange operator by the end of this year, capping off a tenure of close to 10 years, while providing for a smooth transition for leadership change. However, TCI Fund Management Ltd., a U.K. activist investor, upended that plan by calling in November for a shareholder vote to keep Mr. Rolet in place beyond 2018 and replace LSE Chairman Donald Brydon. To try to diffuse the battle, Mr. Rolet left that month, and Mr. Brydon said he wouldn't seek re-election at LSE's annual meeting in 2019.

TCI, which owns about 5% of LSE and is headed by Sir Christopher Hohn, argued that LSE had effectively fired Mr. Rolet under the "guise of succession planning." LSE defended its actions saying it had followed proper governance procedures.

Mr. Hohn declined to comment Friday.

LSE said it would pay Mr. Schwimmer an annual salary of £775,000 ($1.1 million), plus bonuses and incentive pay based on performance.

Liz Hoffman contributed to this article.

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* LSE CEO Steps Down as Exchange Battles With Activist Investor (Nov. 29, 2017)

* Heard on the Street: Heads Roll at London Stock Exchange and the Timing Is Terrible (Nov. 29, 2017)

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The New York Times

Business Day
Focusing on a Manager's Best Stock Ideas May Not Be a Good Idea

By Conrad De Aenlle
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Stock funds with concentrated portfolios — 30 or 40 holdings, tops — are supposed to contain only the managers' best investment ideas.

It turns out, though, that those ideas generally haven't been good enough to help the funds beat more diversified rivals.

In the first quarter, and in the one, three and five years that ended on March 31, the average such stock fund, known as a focus fund, failed to beat at least half of the funds with the same objective — large-company growth, Asian smaller companies, whatever — according to Morningstar.

At our request, Morningstar examined all actively managed stock funds that had no sales load, a minimum investment of $10,000 or less and at least $100 million in assets. A focus fund was defined as being in the 10 percent of funds with the fewest portfolio holdings, meaning it owned fewer stocks than any of the other 90 percent.

Despite the so-so performance of focus funds as a group, some did exceptionally well, and that reveals the good and bad news about them: Their portfolio concentration can accentuate the gap between the best and worst.

"Concentration can propel you to greater heights and drive you to greater depths," said Christopher Davis, a senior analyst specializing in equity strategy for Morningstar. "A concentrated fund is harder to own."

Amid the ordinariness, or worse, there were many apparent standouts. A greater number of concentrated funds performed in the top 10 percent within their respective investment objectives in each period than would be expected by chance, the Morningstar data reveals.

In the year through March, for instance, in a universe of 1,938 funds, 19 or 20 in the group with the 10 percent fewest holdings should be in the top 10 percent of returns, strictly by chance, but 26 were.

Todd Rosenbluth, director of exchange-traded fund and mutual fund research at CFRA, views the wide performance range among focus funds as a silver lining.

"Concentrated funds put only their best ideas into the portfolio and tend to stick with them," he said. "They can be more **volatile**, as they are driven by a smaller number of stocks and tend to be more concentrated in certain sectors."

That may give any of them a chance to beat the market. Diversified portfolios, in contrast, may not deviate much from benchmark stock indexes, he said, and so "are more likely to lag a considerably cheaper Vanguard index mutual fund."

The potential to substantially outperform allows providers of focus funds to charge more money. The average focus fund has annual expenses of 1.06 percent, compared with 0.98 percent for the average actively managed stock fund, according to Morningstar. Focus funds also typically have smaller asset bases, providing fewer economies of scale.

"Concentrated funds start off deeper in the expense hole and have a deeper expense gap to traverse," Mr. Davis said. "If you bet on the right one, your upside potential is all that much greater. Investors choose to make that bet.

If they choose well, the expense ratio doesn't really matter. If they don't, the additional expenses will add insult to injury."

There have been clear, consistent winners among focus funds, even if their inherent **volatility** can cause periodic weakness. Many names appear on several lists of top concentrated portfolios this year and over one, three and five years, with seven funds on all four.

One of those, Guinness Atkinson Global Innovators, maintains a portfolio of about 30 stocks. They are often the same ones because the managers like to hold positions for many years.

As the fund's name suggests, its managers "try to identify companies that use innovation to drive their growth," said Matthew Page, one of those managers. "We believe that, ultimately, companies like that should outperform because they're smarter and better than their average peers. That means higher growth prospects and profits."

Among the themes that appeal to him are big data and machine learning. The first refers to the storage, processing and analysis of immense sets of related data. The second involves developing programs that allow computers to learn from and make predictions about data almost instantaneously, a skill that will be needed for technologies such as self-driving cars.

It's hard to invest in these areas directly, Mr. Page said, so the portfolio holds stocks in related ones, including Nvidia, which makes graphics processing units, Fanuc, a Japanese robotics business, and Infineon, a German maker of semiconductors for the automotive industry that is expanding into chips for electric and self-driving vehicles.

The Baron Fifth Avenue Growth fund, another that appears on all four lists of top-performing focus funds, favors large companies that sell for less than their intrinsic worth because investors misunderstand their businesses, Alex Umansky, the fund's manager, says. He adds that there are so few mispricings among these well-researched companies that the fund usually holds just 30 to 35 stocks.

He keeps most of them for long periods — "our time horizon is forever," he said — and accepts fund price swings that other managers try to avoid by maintaining bigger portfolios.

"We think overdiversification has been massively value-destructive over the last decade because people are worried about managing **volatility**," Mr. Umansky said.

The fund's largest constituent, accounting for 15 percent of its assets, is hardly obscure — Amazon — but Mr. Umansky contends that its price is too cheap, even at 235 times its earnings for the last four quarters. That extravagant valuation is misleading, he said, because Amazon has a history of forgoing earnings today by investing in new business lines that will pay off tomorrow.

Other portfolio holdings include Alibaba, a Chinese company that in some respects is similar to Amazon; and Mastercard and Visa, which dominate the credit card business. Mr. Umansky called Mastercard "the digital railroad" taking financial transactions from paper to the electronic world, a process that he expects to be larger and more lucrative than investors anticipate.

Mr. Rosenbluth recommends the Guinness Atkinson and Baron funds. Others that he likes and that appear on at least one of the lists of top-performing focus funds include Columbia Select Large-Cap Value, Axa Loomis Sayles Growth and Parnassus Endeavor.

Mr. Davis is a fan of the Baron and Parnassus funds, though he is agnostic about focus funds generally.

"We haven't been able to discern a real advantage investing in concentrated portfolios, but there's not a big disadvantage, either," he said. "You should expect to have a range of outcomes the more concentrated the portfolio is," he added. "Even some of the best performers over the last five years underperform their peers sometimes."

Matthew Page, a manager at Guinness Atkinson Global Innovators, whose group tries "to identify companies that use innovation to drive their growth." | Tom Jamieson for The New York Times

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The New York Times

Business Day

The Falling Dollar Means Investors Should Look Abroad — Carefully

By Paul J. Lim
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Since the start of last year, the dollar has lost more than 12 percent of its value against a basket of foreign currencies. During that same stretch, stock funds that invest abroad have gone from being laggards to leaders.

“Foreign investments tend to do better when the dollar is weak,” said Jack A. Ablin, chief investment officer for Cresset Wealth Advisors. That’s because “when you invest in foreign stocks, you’re actually buying two things — the foreign equities, but also the foreign currencies needed to buy them,” he said.

And as those foreign currencies strengthen against a weak dollar, the returns on foreign investments held by Americans get a lift.

Over the last year, European equities have largely been flat when measured in their local currencies. But when translated into dollars, European equities have returned nearly 18 percent over the last 12 months for Americans.

Many market observers think the dollar could weaken further, especially as inflationary fears build in the United States. “The dollar is still fundamentally overvalued against a number of currencies, particularly in the emerging markets,” said Thomas Clarke, a portfolio manager of the William Blair Macro Allocation Fund.

Does that mean investors should continue to look overseas? The short answer is yes, market strategists say. But it’s complicated.

The falling dollar is a double-edged sword for Americans investing abroad, said Harry W. Hartford, president of Causeway Capital Management.

“On the one hand, if the dollar is weakening versus the euro or the yen or the Swiss franc, the value of your foreign investments is going to go up just on the currency alone,” he said. “But there’s another impact you cannot ignore.”

While the foreign funds held by American investors benefit from a currency tailwind, the international companies held within those funds face headwinds as they try to compete against United States businesses whose goods are cheaper because they’re priced in dollars.

Mr. Hartford notes that companies in the Morgan Stanley Capital International Europe, Australasia and Far East Index (known as the MSCI EAFE) generate roughly 15 percent of their revenue in the United States and an additional 10 percent in emerging markets, where many currencies are at least partially linked to the dollar.

“The benefits investors will have seen from the decline in the U.S. dollar could be offset by the translation effect on company revenues,” he said.

This doesn’t imply that American stock investors should avoid foreign exposure, however.

Regardless of how the dollar trades from here, shares of foreign companies are more attractively priced, on average, than domestic stocks.

Domestic blue-chip equities, for example, are trading at a price-to-earnings ratio of 32, based on 10 years of averaged profits. That’s twice as expensive as they’ve historically been, according to Research Affiliates.

By contrast, shares of foreign stocks based in developed economies such as Europe and Japan have a P/E of 17.5, which is a 30 percent discount from their historic median. Emerging market stocks are trading at a P/E of 15.

“I look on Europe as a bargain and the emerging markets as a bargain,” said Robert D. Arnott, chairman and chief executive of Research Affiliates. “I’m perfectly happy about nondollar investments because they are cheap and the U.S. stock and bond markets are not.”

Still, to benefit from the gains a weak dollar produces while avoiding potential problems, investors may want to focus on specific types of companies — those domiciled abroad but whose profits are not going to be affected by any further decline in the currency.

“One place to look is international small caps,” said Mr. Ablin said, referring to shares of small companies domiciled abroad with a market value of around $3 billion or less. “These companies are denominated in foreign currencies. But because they are smaller, they tend to transact most of their business in their home markets.”

The MSCI EAFE small-cap index tracks such stocks, and an investor can buy an exchange-traded fund that mirrors the index, like the iShares MSCI EAFE Small-Cap E.T.F.

One company included in the index is Orpea, which has nursing homes, rehabilitation hospitals and home-care operations throughout Europe.

Last year, 93 percent of the health care company’s revenue was generated in the eurozone and 99 percent in Western Europe, with a majority of sales based in its home country of France.

Another example is the German real estate company LEG Immobilien. It owns more than 130,000 residential apartments, nearly all of which are in the German state of North Rhine-Westphalia.

Beyond smaller names, investors can also turn to foreign companies with commodity-based businesses.

One important factor is inflation, which has bolstered commodity prices and is a big part of the explanation for the dollar’s fall in the first place, said James Paulsen, chief investment strategist at the Leuthold Group.

Mr. Paulsen points out that the dollar fell last year even though the Federal Reserve had been raising rates. Higher rates typically tend to attract more cash flows and lift a currency’s value, but rising “inflation destroys the value of the U.S. dollar,” Mr. Paulsen said.

Commodities, as well as other “real assets” like real estate, are viewed as an inflation hedge and tend to outperform in periods of dollar weakness. “They’re joined at the hip,” Mr. Paulsen said.

One good example of a foreign commodity play: Royal Dutch Shell, the multinational oil and energy giant.

Though headquartered in the Netherlands and incorporated in the United Kingdom, Royal Dutch Shell reports its earnings in dollars, because oil is priced in that currency.

“Because they are reporting in U.S. dollars, then you as a U.S.-based investor should be indifferent to what the exchange rate does, whether it goes up or down,” said Mr. Hartford of Causeway Capital Management, whose fund, Causeway International Opportunities, counts Royal Dutch Shell among its top holdings.

If the dollar is falling because inflation is picking up in the United States earlier than in other parts of the world, then emerging market stocks ought to benefit. Many parts of the emerging world — such as Latin America — are dependent on commodities. Moreover, emerging economies are more tied to manufacturing than consumption compared with the developed world, and rising inflation often squeezes consumer companies first.

Since the dollar began to sink in January 2017, emerging market equity funds are up 37 percent, nearly twice the gains of the **Standard & Poor**'**s 500**-**stockindex** during that time. And in an earlier stretch in which the dollar was weak — from 2002 to 2008 — emerging market funds trounced those focused on the United States by nearly 20 percentage points a year for six years.

“A weaker dollar is beneficial to international investments relative to the U.S.,” said Mr. Paulsen. “And that’s more true for the emerging markets.”

* Bargain Hunters Turn to Emerging Market Stocks

* Should Dollar Rise or Fall? The Trump Team's Message Is Garbled

* What the Decline of the Dollar Means

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

A currency exchange office in Istanbul on Nov. 22, 2017. Since the start of 2017, the dollar has lost value against many foreign currencies. | Chris McGrath/Getty Images

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THE WALL STREET JOURNAL.
U.S. EDITION

Emerging-Markets Stocks Retain Appeal --- Index's 1.5% gain this year outpaces losses in developed countries; economies look strong

By Akane Otani and Ben Eisen
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13 April 2018
The Wall Street Journal
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English

Emerging-markets stocks are outperforming their U.S. counterparts this year, the latest sign that investors' appetite for risk remains robust despite rising trade tensions.

Although the **bull-market** run in U.S. stocks has stalled since peaking in late January as investors piled out of highflying names, many more **volatile** investments have continued to climb. The MSCI Emerging Markets Index, which tracks stock markets' performance across 24 countries, including China, Brazil and India, has risen 1.5% this year, cruising past the **S&P 500**'s 0.4% loss and the Stoxx Europe 600's 2.7% decline.

The gains extend a rally from last year, when emerging-markets stocks rose 28% while the **S&P 500** finished the year up 19% and the Stoxx Europe 600 added 7.7%.

The moves come as a surprise to those who had expected shares in emerging-markets countries -- which tend to be highly sensitive to the outlook for global growth and investment -- to take a hit as the Trump administration ratcheted up rhetoric against trade partners around the world. In recent weeks, President Donald Trump has signed tariffs on steel and aluminum imports and threatened to impose tariffs on $100 billion of goods imported from China, which would come on top of announced penalties on $50 billion in goods.

Yet shares of export-dependent countries have mostly shrugged off the heightened trade tensions, something analysts say reflects the strong economic outlook in many emerging markets.

Growth in emerging-markets and developing economies is expected to accelerate to 4.9% this year and 5% next year, up from 4.7% last year and 4.4% the year before, according to International Monetary Fund estimates. That comes even as growth in advanced economies is expected to stagnate, coming in at 2.3% this year and 2.2% next year.

Analysts also expect emerging-markets companies to report solid earnings growth for the first quarter, which should help boost their attractiveness to investors. Companies in the MSCI EM Index are forecast to post earnings growth of 14.5% for the first three months of 2018 from the year-earlier period, according to FactSet. That would mark the fourth quarter in five in which those companies have posted a double-digit percentage growth.

"I think people are surprised how well EM has held up this year," said Chuck Knudsen, T. Rowe Price's emerging-markets equities portfolio specialist. "Going into this **volatility**, we think these countries were in much better shape" than they had been in prior years, he said.

Emerging-markets companies typically grow faster than their developed-market counterparts and can deliver outsize returns as a result. But they are also susceptible to sharp selloffs if the flow of investors' money reverses, currencies or commodities prices weaken, or political strife takes hold. At the moment, though, all of those risks appear to be fairly benign.

As a result, investors poured $45 billion into emerging-markets stock funds during the first three months of the year, the most in records going back to 1996, according to EPFR Global, a fund tracker.

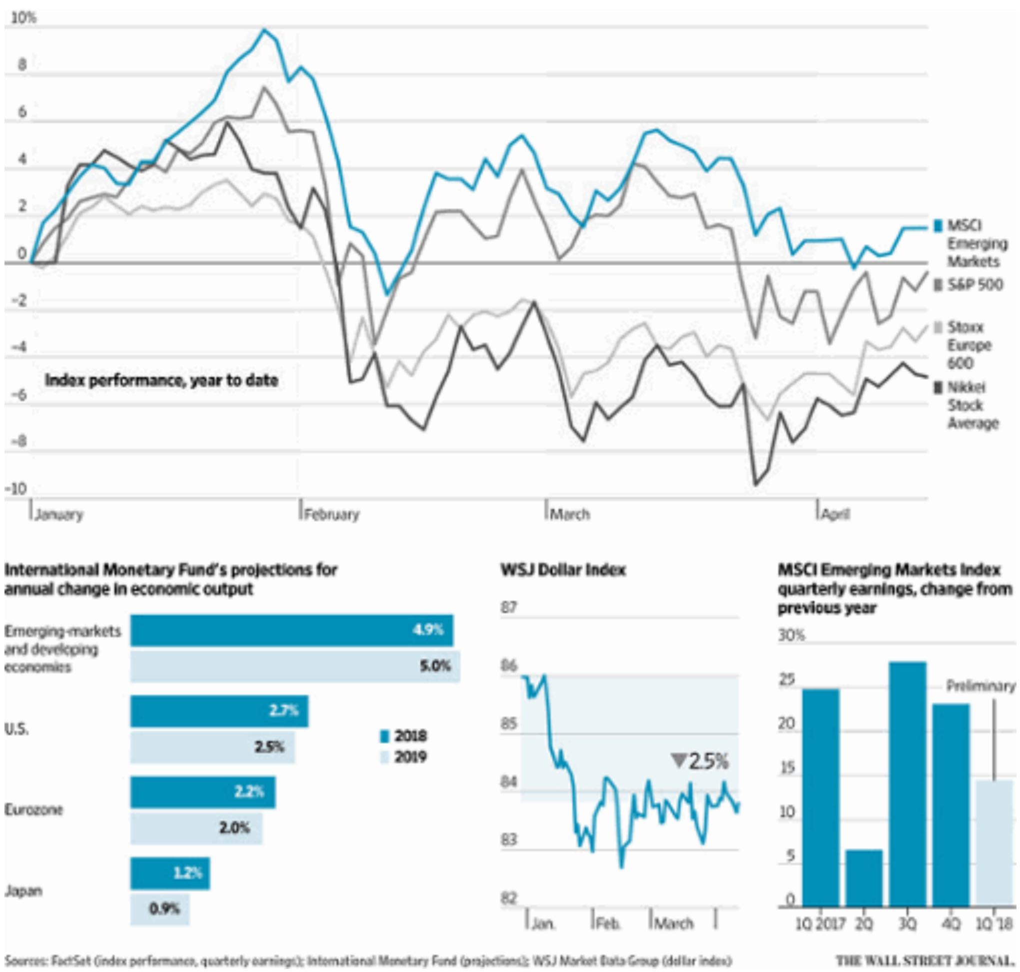
One factor boosting the allure of emerging-markets stocks: the continued rebound in commodities prices. **Oil prices** have extended their recovery this year as investors have bet on production cuts easing a global supply glut, sending U.S. crude up 11% and helping commodities-heavy exporters.

The dollar's decline has also helped emerging markets by making their dollar-denominated debt cheaper to pay back. The WSJ Dollar Index is down 2.5% this year so far, following its biggest one-year percentage decline since 2003.

Additionally, emerging-markets investors have cheered government reforms in some countries they track. New South African President Cyril Ramaphosa, for example, who took over from Jacob Zuma earlier this year, has pledged to create jobs and lift economic growth. The country's currency, the rand, is up 2.6% against the dollar since the start of the year.

Not all countries have been spared from geopolitical concerns. Stocks in Russia slid after the White House rolled out sanctions targeting more than three dozen Russian individuals and entities, sending the benchmark Micex **stock index** down 3.3% so far in April. Still, for the year, the Micex remains up 3.8%.

"There's still a question mark as to whether or not we are going into a new global environment where protectionism is much more rife," said Eamon Aghdasi, emerging-markets strategist at State Street Global Markets.



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THE WALL STREET JOURNAL.
U.S. EDITION

World News: West's Curbs on Russia Don't Deter Trade -- Surge in business with Germany, France, U.S. illustrates limits on efficacy of sanctions

By Andrea Thomas
692 words
13 April 2018
The Wall Street Journal
J
A6
English

BERLIN -- Trade has surged between Russia and its main Western antagonists even as relations have deteriorated, raising questions about the long-term impact of economic sanctions on Moscow.

The U.S. and Europe's largest nations, including France and Germany, saw exports to and imports from Russia skyrocket in 2017 after three years of decline. Both now stand at their highest levels since 2014, the year Russia invaded Ukraine and annexed Crimea, prompting the U.S. and its European allies to impose curbs.

The turnaround could be short-lived. After Washington this month unveiled fresh sanctions against senior Russian government officials and companies in the latest U.S. retaliation against Moscow's election meddling, markets tanked in Russia and several Western companies with operations there began reconsidering their investments.

As Russia emerged from recession to post 1.6% growth in gross domestic product last year, total trade between the EU and Russia rose 17.9% from 2016, to $285.8 billion. The U.S. saw its trade with Russia rise by 12.5% that year. Investment from some European countries has also risen sharply.

But last year's renaissance still poses serious questions about the effectiveness of such punitive measures. While sanctions can inflict much damage in the short term, their potency wanes as businesses, and in some cases governments, work to circumvent the barriers and rebuild economic ties.

In the wake of the Ukraine crisis, the U.S. and the European Union imposed sanctions on Russia that targeted the defense, energy and financial sectors, as well as specific individuals involved in or benefiting from Crimea's annexation. Russia reacted with a ban on Western food imports.

There are three types of Western sanctions: The first ones restrict access to Western **financial markets** and services for Russian state-owned companies in the banking, defense and energy sectors. The second type bans exports to Russia of special high-technology oil-exploration and -production goods. The third forbids the exports of special military and dual-use goods to Russia.

Initially, the sanctions worked, compounding the effect of weak **oil prices** and accelerating a sharp drop in the ruble's exchange rate. In 2015, trade between the EU and Russia fell more than 25%.

The rebound in commercial activity is particularly jarring because political relations between the two sides markedly deteriorated last year. Accusations of Russian meddling in the 2016 U.S. presidential election have been poisoning the rapport between Washington and Moscow. European countries and the U.S. recently expelled scores of Russian diplomats after the U.K. blamed Moscow for the attempted killing of a former Russian double agent using nerve gas.

Relations could worsen even more after Western criticism of Russian policy in Syria intensified following the latest chemical-weapon attack there this week. President Donald Trump on Wednesday warned Russia of reprisals for shooting down missiles fired at Syria, but adding in another tweet that "Russia needs us to help with their economy."

But Burkhard Dahmen, chief executive of German plant-construction and mechanical-engineering company SMS Group GmbH, said "our business hasn't suffered from the sanctions." SMS has closed more than a dozen deals there since 2017.

In one example of how the sanctions' potency seemed to wane, China briefly overtook Germany as Russia's top supplier of machinery and capital goods in 2016 but lost its position again a year later, Germany's VDMA engineering association said.

Trade is only the most visible aspect of the economic links between Europe and Russia. Another one is investment, which doesn't appear in import-export statistics. German direct investment in Russia surged to $1.08 billion in the first three quarters of 2017 from $274 million in all of 2016, according to Bank of Russia statistics. France's investments in Russia rose to $524 million during the period from $438 million.

James Marson in Moscow and Stefan Lange in Berlin contributed to this article.

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WSJ PRO PRIVATE EQUITY

Heard on the Street
Markets

Proof That Multi-Billion Tech IPOs Aren't Just for the U.S. Antivirus software group Avast plans to bring listing trend to London

By Paul J. Davies
588 words
13 April 2018
06:48 AM
WSJ Pro Private Equity
RSTPROPE
English

Every company that gives away its product free is getting something in return.

This is true of Avast, a consumer cybersecurity company that plans to sell shares in London in May, joining the healthy wave of mainly U.S.-based technology initial public offerings, such as cloud-storage outfit Dropbox in March.

Avast could be valued at upward of $4 billion and sell about $1 billion of stock. That would make it about half the size of Dropbox's valuation at listing, a company with which Avast would like to be compared.

Tech IPOs have sold well this year even though bigger companies like Alphabet and Facebook have underperformed the **S&P 500**. Dropbox's IPO was launched at a hefty discount to an earlier $10 billion private valuation, but its price range was lifted during marketing and it has risen nearly 60% to be valued at $12.7 billion. One big risk for Avast is that investor appetite runs out of steam before it gets away.

Avast bases its business on giving away antivirus software to consumers then trying to sell subscriptions to other security or performance-boosting utility products. But the giveaway is just as important as the subscriptions.

The reason? A larger base of active users of its free software gives Avast more data on the kinds of viruses and other attacks targeting consumers. This information helps it to keep developing its security products so that they can compete with bigger groups such as Norton and McAfee.

Its base should grow in new ways with an internet-of-things home security product coming later in 2018. Internet-connected devices are a hot topic and security specialists at Thursday's WSJ CEO Council in London warned that even sophisticated companies are being hacked through hardware as simple as an internet-linked thermostat in a casino's fish tank.

Only a fraction of Avast's 435 million antivirus software customers pay for its premium products, which include extra security for online shopping or banking and a virtual-private-network product for people worried about regularly using public Wi-Fi.

So Avast has plenty of nonpaying customers that could be converted to subscribers, but it already generates revenues of nearly $800 million mainly from subscriptions. Financial details are limited until the full prospectus is out in a couple of weeks, but in 2017, the group made an operating profit of $300 million before one-time costs and acquisition-related amortizations. Earnings before interest, tax, depreciation and amortization were $451 million, if earnings from its most recent acquisition are included for all of 2017.

Using these numbers and a similar valuation as U.K.-listed Sophos, a cybersecurity company that sells to companies rather than consumers, Avast could be worth as much as $6 billion.

Avast will mainly sell existing shares held by its founders and financial backers, including private-equity firm CVC Partners. But it aims to raise $200 million in new money to pay down some debt. It also plans to start paying a dividend straight away, a novelty among technology floats.

More financial details will be needed to properly assess valuation, but it could be the right sort of company at the right sort of time—so long as tech doesn't suddenly fall from fashion.

Write to Paul J. Davies at paul.davies@wsj.com

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WSJ PRO CENTRAL BANKING

Economy

Fiscal Policy Seen Leading to More Aggressive Rate Rises | ECB Officials Worried | Singapore Tightens Policy | HKMA Defends Currency Peg | Fairless's Take: ECB Officials Try to Pin Down Output Gap; The Wall Street Journal's central banking newsletter for Friday, April 13, 2018

2,217 words
13 April 2018
06:15 AM
WSJ Pro Central Banking
RSTPROCB
English

Fairless's Take: ECB Officials Try to Pin Down Output Gap

Some Economists See Fiscal Policy Leading to More Aggressive Fed Rate Rises

ECB Officials Worried About Trade Wars, Euro's Strength at March Meeting

Singapore Central Bank Tightens Policy

Hong Kong Monetary Authority Defends Currency's Dollar Peg for Second Time This Week

ECB Officials Try to Pin Down Output Gap

How much further can the eurozone's $10 trillion economy grow without stoking inflation?

European Central Bank officials wrestled with that question at their March policy meeting, debating the size of the bloc's "output gap" - the difference between what the economy is producing and what it could produce if all its resources were deployed efficiently, according to the minutes of the meeting, published on Thursday.

The output gap is an important, if un-observable, concept for the ECB because it helps to determine when the bank should phase out its easy-money policies and start raising interest rates, to prevent the economy from overheating and pushing inflation too high.

The eurozone's output gap has been negative for years as workers sat idle and consumers and companies remained cautious. But it appears to be closing rapidly as unemployment falls, and economists at the European Union and the Organization for Economic Cooperation and Development suggest it might already have closed.

The problem is, it may be a moving target. ECB officials suggested at their March meeting that reforms in some eurozone countries might have boosted their long-run growth rates, meaning that the economy lies further below its potential than expected. The strong economic recovery is also drawing new workers into the labor force, such as women and older people, who help to keep wages and inflation in check.

The ECB has argued recently that the region's unemployment rate is higher than it appears due to a large share of part-time workers and people who had stopped looking for a job but would return to the workforce if one was available.

Officials also debated at their March meeting whether the crisis might also have raised the "natural rate" of unemployment, below which inflation would be expected to accelerate. That might happen if workers' skills are eroded or become less relevant because they have sat on the sidelines for so long. Some officials argued that a strong economic recovery might reverse that effect, known as hysteresis.

But Benoît Coeuré, who sits on the ECB's six-member executive board, suggested Thursday that another factor may have a bearing on the size of the output gap: The adoption of new technology. Firms might have delayed technology upgrades during the crisis, but may be ready to invest now that growth is accelerating, Mr. Coeuré argued.

Key Developments Around the World

Some Economists See Fiscal Policy Leading to More Aggressive Fed Rate Rises

About a quarter of economists surveyed by The Wall Street Journal now expect Federal Reserve Chairman Jerome Powell to pursue a more aggressive pace of interest-rate increases than his predecessor, Janet Yellen, following U.S. moves to cut taxes and boost government spending. Most economists surveyed by the Journal this month maintained their belief that Mr. Powell's policy path would be about the same as Ms. Yellen's, but about 24% said they thought he would be more "hawkish" than Ms. Yellen would have been. In a November survey, before the tax and spending measures were approved, only 12% thought he would be inclined to pick up the pace of rate increases. "The recent fiscal stimulus adds fuel for a more hawkish outlook," said Amy Crews Cutts, chief economist at Equifax.

Powerful Forces Seen Restraining U.S. Pay Growth

ECB Officials Worried About Trade Wars, Euro's Strength at March Meeting

The European Central Bankis fretting about the risk of trade wars and a stronger euro just as data suggest the eurozone's long-awaited economic recovery is losing speed. ECB officials warned at their March policy meeting of multiple threats to the region's export-focused economy, including possible trade conflicts triggered by the U.S. administration, **volatile financial markets** and the U.K.'s withdrawal from the European Union, according to minutes of the meeting published Thursday. The ECB's warnings, together with unexpectedly weak factory output data released Thursday, suggest the central bank will move only cautiously to phase out its giant bond-buying program and follow the Federal Reserve in raising interest rates.

Singapore Central Bank Tightens Policy

Singapore's central bank Friday tightened monetary policy for the first time since 2012, scaling back its support for an economy that is enjoying its strongest spell of growth in the past four years. The decision by the Monetary Authority of Singapore showed that its desire to normalize policy outweighed concerns about the possible impact of trade tensions between the U.S. and China.

Bank of Mexico Leaves Interest Rates Unchanged

The Bank of Mexicoleft interest rates unchanged Thursday after inflation slowed sharply in the first quarter and the peso strengthened on optimism over the outcome of talks to renegotiate the North American Free Trade Agreement. The central bank's board of governors voted unanimously to keep the overnight interest-rate target at 7.5%, pausing after making quarter-point increases at its previous two meetings in December and February. The decision to stay on hold was in line with market expectations following the recent slowdown in inflation to 5.04% in March from a 17-year-high 6.77% in December, and the peso's move to a six-month high against the U.S. dollar.

Hong Kong Monetary Authority Defends Currency's Dollar Peg for Second Time This Week

The Hong Kong Monetary Authority said Friday that it bought Hong Kong dollars for the second time this week, as it continues to defend the currency's nearly 35-year old link to the U.S. dollar. Hong Kong's de facto central bank said it bought 2.44 billion Hong Kong dollars and sold US$311 million early in the day, in order to prevent the financial hub's currency from weakening beyond its permitted trading range.

RBA Welcomes Cooler Housing Sector

Risks of a damaging housing crunch in Australia have eased as the property market cools following a crack down on loose mortgage lending in recent years, the country's central bank said Friday. Still, in its latest report card on the stability of the financial system, the Reserve Bank of Australia said it remains fearful of a build up of risks around corporate and housing debt in China, by far Australia's biggest trading partner.

Friday

7:30 a.m. EDT

Boston Fed's Rosengren speaks

9 a.m. EDT

St. Louis Fed's Bullard speaks

10 a.m. EDT

University of Michigan releases preliminary April U.S. consumer sentiment

10 a.m. EDT

U.S. Labor Department releases February Job Openings and Labor Turnover Survey

1 p.m. EDT

Dallas Fed's Kaplan speaks

Temperature and Growth: A Panel Analysis of the U.S.

Riccardo Colacito, Bridget Hoffman and Toan Phan study the impact of temperatures on economic indicators. They find in a Federal Reserve Bank of Richmond working paper, "that seasonal temperatures have significant and systematic effects on the U.S. economy, both at the aggregate level and across a wide cross-section of economic sectors. This effect is particularly strong for the summer: a 1 degree F increase in the average summer temperature is associated with a reduction in the annual growth rate of state-level output of 0.15 to 0.25 percentage points. We combine our estimates with projected increases in seasonal temperatures and find that rising temperatures could reduce U.S. economic growth by up to one-third over the next century."

Low Interest Rates Don't Hurt Bank Profits

Fewer bad loans and a better economic environment help offset any declines in net interest income that banks may suffer when policy rates are low, according to research by Carlo Altavilla, Miguel Boucinha and José-Luis Peydró. "The main components of bank profitability are asymmetrically affected by accommodative monetary policies with a positive impact on loan loss provisions and non-interest income, offsetting a negative one on net interest income, a robust result stemming from our both micro and macro approaches," they write. "while monetary policy easing does not compress bank profits, we find that being exposed o a low interest rate environment for a protracted period might exert downward pressure on bank profitability."

The Yield Curve Is Sending a Message About the Fed

"The 'flattening yield curve' is back," Tim Duy writes for Bloomberg View. "The story took a breather when longer-term interest rates jumped during the first quarter. A more turbulent **stock market**, however, has driven investors back into bonds, putting the flatter yield curve in the news again and raising ominous concerns about a looming recession. Those worries are so far unfounded, but they indicate the Federal Reserve is further along in the tightening cycle than its latest projections suggest. The difference between short- and long-term bond yields curve could remain relatively narrow for years, as it did in the late 1990s, while the economy continues to grow. As a result, the resumption of flattening, which has shrunk the difference between two- and **10**-**year Treasury** note yields to less than half a percent for the first time since 2007, should not raise concerns of imminent recession. It is an inverted curve—when short-term interest rates exceed long-term ones—that has foreshadowed previous U.S. recessions."

Could the Fed Set Off a Debt Bomb?

"Rising rates seem like a valedictory return to 'normality'—a marker of how successful the central banks' heroic actions to counter the Great Recession were. What the celebration misses, though, is how swelling levels of debt will amplify the effect of any rate rises," Satyajit Das writes for Bloomberg View. "The idea that higher interest rates don't matter because they will simply reallocate cash between borrowers and lenders is misleading. It assumes that the easy money of the past decade was spent productively and is generating the earnings required to service the borrowing. In fact, to a substantial degree, borrowings simply financed consumption and leveraged purchases of existing assets rather than new investment. At higher interest rates, many borrowers won't be able to service the debt they've incurred. The Fed and others had better be prepared for a return to 'normal' that's anything but."

Central Banks Shouldn't Promote Green Investment

Central bankers are right to worry about the impact of climate change on financial stability, but would be wrong if they were to assign lower risk weights to "green" loans, writes Ferdinando Giugliano for Bloomberg View. "In "promoting green investment" a central bank would risk overstepping its mandate," he writes. "By choosing to treat bank loans differently depending on their green credentials, a central bank could also be accused of distorting competition in the economy. This accusation would be particularly dangerous given the backlash central banks are facing. Over the last decade, monetary authorities have pushed their toolkits to the extreme. As a result, they have come under closer scrutiny from voters and politicians, who have questioned their independence and demanded greater accountability. The last thing central bankers need now is to suggest they are seeking to influence policy that should rightly be the preserve of elected officials."

The number of Americans claiming new unemployment benefits has never been so low for so long. Initial jobless claims, a proxy for layoffs across the U.S., decreased by 9,000 to a seasonally adjusted 233,000 in the week ended April 7, the Labor Department said Thursday. This means claims have now held below 300,000 for 162 consecutive weeks, cementing the longest streak for weekly records dating back to 1967.

Japan plans to create a new program for foreign workers to counteract a labor shortage, the government said Thursday, in what would be another crack in the island nation's longstanding resistance to immigrant labor. Chief government spokesman Yoshihide Suga said a decision would be reached by summer on a "new framework that will make possible the acceptance of foreigners with a certain level of specialization or skill."

China's trade imbalance with the U.S. worsened sharply in the first three months of the year, potentially adding fuel to the countries' already heated trade dispute.

The eurozone's trade surplus with the rest of the world widened in February as a sharp drop in imports chimed with other recent signs of weakening domestic demand.

Send us your tips, suggestions and feedback. Write to:

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THE WALL STREET JOURNAL.
U.S. EDITION

Banking & Finance: Bitcoin Hype Is Withering on the Blockchain

By Steven Russolillo
615 words
13 April 2018
The Wall Street Journal
J
B10
English

While vacationing with friends in Buenos Aires last month, Alex Beene, a Tennessee government worker, said the topic of cryptocurrencies briefly came up during a dinner conversation.

The 30-year-old from Nashville told them he had bought bitcoin and litecoin last fall but recently sold most of his holdings. The discussion quickly shifted to another subject.

"Months ago, they would've been genuinely interested in how to invest in [cryptocurrencies], how it works, and where I [thought] the price was going," he said. "Now, it's something that's the brunt of jokes, like I had invested in comic books or baseball cards."

After bitcoin's frenzied rally last year, prices have lost about two-thirds of their value from a high in December. The cryptocurrency had been trading at about $7,000 in recent days, although a sharp jump lifted the price to $7,730 late Thursday, according to CoinDesk.

Nonetheless, in the past few months, bitcoin has faded off the front pages of newspapers, and it no longer dominates people's social-media feeds. Global internet searches for the word "bitcoin" have fallen by over 80% from December, according to Google Trends.

Bitcoin's average daily trading volume this month is about 70% lower than on the most active days at the end of last year, according to bitcoinity.org. That includes steep declines on some of the biggest U.S. platforms, including Gemini, an exchange founded by Cameron and Tyler Winklevoss, and San Francisco-based Coinbase. At one point in December, Coinbase was the most-downloaded free app in Apple Inc.'s App Store. Now, it doesn't make the top 200.

J.C. Parets, a technical markets analyst in New York, remembers getting multiple phone calls a day about cryptocurrencies late last year. Clients, old high school friends, strangers and even his 88-year-old grandmother were intrigued.

"It wasn't even like 'should I buy crypto' but instead it was 'which one?'" he said. "Everyone was in on it."

Four months later, those calls stopped coming.

"Nobody cares anymore," Mr. Parets said.

To be sure, crypto die-hards are still passionate about digital currencies. But many first-time bitcoin buyers who came into the market in December and January are sitting on losses. Mainstream interest in the cryptocurrency market has diminished.

Regulators in the U.S., South Korea, and India are trying to curb speculative activity. Facebook Inc., Google and Twitter Inc. are banning advertising related to cryptocurrencies to stop scammers from promoting fraudulent schemes on these platforms.

"All the hype is gone," said Vijay Boyapati, a software engineer in Seattle who previously worked at Google and a food-delivery startup, and is nevertheless preparing to take a job in the cryptocurrency industry. "I think right now we're in the boring phase."

Mr. Boyapati, who bought his first bitcoin in 2012, has been through the market's boom-and-bust cycles. "Once the crescendo happens, it usually doesn't come back immediately," he said.

When the investor frenzy dies down, "that's when the most value is created," he added, referring to the industry's ability to innovate and implement new technological advancements that "will fuel the next boom."

Bitcoin's nearly four-month **bear market** has coincided with slowing growth in the number of people opening new wallets online to store their cryptocurrencies, according to Blockchain.info. That isn't a positive indicator for cryptocurrency prices, said Nicholas Colas, an analyst and co-founder of DataTrek Research, a new research firm that analyzes **financial markets**, including cryptocurrencies.

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THE WALL STREET JOURNAL.
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Heard on the Street
Hong Kong's Dollar Peg Isn't Going Away

By Jacky Wong
402 words
13 April 2018
The Wall Street Journal
J
B12
English

[Financial Analysis and Commentary]

Hong Kong's currency peg with the U.S. dollar has many problems. It is still the city's least worst option.

The Hong Kong dollar on Thursday briefly touched the bottom of its permitted trading band against the U.S. dollar for the first time since the peg took its current form in 2005. The city's de facto central bank later stepped in to drain some of the money sloshing around in the banking system -- money that has fueled gains in the city's stock and property markets -- by selling $104 million from its reserves.

The Hong Kong Monetary Authority stands ready to step in when the Hong Kong dollar falls to 7.85 to the U.S. dollar -- as it did Thursday -- or rises to 7.75.

It isn't the first time Hong Kong's 35-year-old dollar peg has come under strain.

Linking to the U.S. dollar effectively hands over monetary policy making to the Federal Reserve. Since the financial crisis, that has meant rock-bottom interest rates, robbing Hong Kong of a tool to tame a property market that grows ever more unaffordable.

But scrapping the peg would have major drawbacks for a small, open economy like Hong Kong. The city doesn't manufacture much these days, but it has thrived as a financial and trading center, especially as a conduit between China and the outside world. The **volatility** of a freely floating Hong Kong dollar would add to the cost of doing business for local and international firms.

A peg to the Chinese yuan seems like a reasonable alternative. After all, Hong Kong's economic fortunes are influenced far more by China now than by the U.S. China accounts for half of Hong Kong's trade, and Chinese companies and investors are a mainstay of the city's markets.

The trouble is the yuan isn't freely convertible, given mainland China's continuing capital controls, so any peg would be hard to maintain technically. Explicitly linking to China's currency would also risk some local political blowback.

The Hong Kong-U.S. dollar peg may become a thing of the past if China's economy ever opens up sufficiently. For now, it is here to stay.

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THE WALL STREET JOURNAL.
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Heard on the Street
Overheard

140 words
13 April 2018
The Wall Street Journal
J
B12
English

[Financial Analysis and Commentary]

When it comes to company securities filings, investors want clarity. When companies discuss taxes, investors should hope for the opposite.

When investors want to dig into a company's tax position, they know where to go: the tax footnote that appears in its annual report.

But the Internal Revenue Service knows that is the place to go, too. That creates a dilemma for companies trying to avoid taxes.

For companies that engage heavily in tax-avoidance efforts, obfuscation is the way to go, according to a new paper from a group of accounting professors in the Journal of the American Taxation Association.

The research finds that among these companies, the more opaque the tax footnote language, the higher their **stock-market** valuation tends to be.

page,5043
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The New York Times

U.S.; Politics
Trump Proposes Rejoining Trans-Pacific Partnership

By Ana Swanson
1,555 words
12 April 2018
01:51 PM
NYTimes.com Feed
NYTFEED
English

WASHINGTON — President Trump, in a sharp reversal, told a gathering of farm-state lawmakers and governors on Thursday morning that the United States was looking into rejoining a multicountry trade agreement known as the Trans-Pacific Partnership, a deal he pulled out of days after assuming the presidency.

Mr. Trump's reconsideration of an agreement he once denounced as a "rape of our country" caught even his closest advisers by surprise and came as his administration faces stiff pushback from Republican lawmakers, farmers and other businesses concerned that the president's threat of tariffs and other trade barriers will hurt them economically.

Larry Kudlow , Mr. Trump's top economic adviser, said in an interview on Thursday with The New York Times that the request to revisit the deal was somewhat spontaneous. "This whole trade thing has exploded," Mr. Kudlow said. "There's no deadline. We'll pull a team together, but we haven't even done — I mean, it just happened a couple hours ago."

Mr. Trump's decision to throw out the Trans-Pacific Partnership and his pledge to tear up the North American Free Trade Agreement were bedrock promises of his populist campaign, which centered heavily on unfair trade practices that he said had robbed American manufacturers and workers.

As he often does, the president started to change gears after hearing complaints from important constituents — in this case, Republican lawmakers who said farmers and other businesses in their states would suffer from his trade approach since they send many of their products abroad.

Then late Thursday, Mr. Trump appeared to shift gears again , saying in a Twitter post at 11:15 p.m. that he would consider re-entering the agreement only if it were "substantially better" than the deal offered to President Barack Obama . "We already have BILATERAL deals with six of the eleven nations in TPP," he wrote, "and are working to make a deal with the biggest of those nations, Japan, who has hit us hard on trade for years!"

The discussion on the trade deal began at the White House meeting earlier on Thursday, when Senator John Thune , Republican of South Dakota, questioned Mr. Trump about returning to the pact, arguing that the Trans-Pacific Partnership was the best way to put pressure on China.

Mr. Trump, who has put China's "unfair" trade practices in his cross hairs, turned to Mr. Kudlow and Robert Lighthizer , his trade negotiator, and asked them to look into re-entering the agreement.

Rejoining the pact could be a significant change in fortune for many American industries that stood to benefit from the trade accord and for Republican lawmakers who supported it. The deal, which was negotiated by the Obama administration, was largely intended as a tool to prod China into making the type of economic changes that the United States and others have long wanted. Many economists say the best way to combat a rising China and pressure it to open its market is through multilateral trade deals like the Trans-Pacific Partnership, which create favorable trading terms for participants.

"The idea was to set a framework that eventually China would have to accommodate," said David Autor , an economist at M.I.T.

Farmers would stand to benefit from new access to markets, especially Japan, if Mr. Trump rejoins the pact. For instance, ranchers in Australia can currently send beef to Japan more cheaply than ranchers in the United States.

Michael Miller, the chairman of U.S. Wheat Associates and a farmer in Washington, said rejoining the deal would allow his industry to compete on a level playing field with competitors in Australia and Canada, which both remained in the accord.

But rejoining it could be a complex task. The remaining countries, like Japan, moved ahead without the United States, and spent months renegotiating a pact before finally agreeing to a sweeping multinational deal this year . Mr. Trump, who has demanded that any such deal benefit the United States, is unlikely to rejoin the Trans-Pacific Partnership without further concessions for what he has criticized as a terrible agreement. That could complicate talks, since Japan maintains that it has already given all the concessions it could, said William A. Reinsch , a trade expert at the Center for Strategic and International Studies .

Yoshihide Suga , Japan's chief cabinet secretary, on Friday cautioned against any efforts to change the agreement to accommodate Mr. Trump, calling it a "well-balanced pact" that addressed the needs of the 11 nations that signed the deal.

It is also unclear how serious Mr. Trump is about rejoining. In the past, the president has floated policies that appeared to run counter to his earlier positions, like cooperating with Democrats on legislation governing immigration and gun rights, then quickly abandoned them.

"What he tells people in a room to make them happy does not always translate into administration policy," said Phil Levy , a senior fellow at the Chicago Council on Global Affairs .

In a statement, a deputy White House press secretary, Lindsay Walters, pushed back on the notion that Mr. Trump was reversing his promises.

The president had "kept his promise to end the TPP deal negotiated by the Obama administration because it was unfair to American workers and farmers," she said. "The president has consistently said he would be open to a substantially better deal."

But the White House is in somewhat of a box when it comes to prodding China to fall in line with global trade rules. The administration is trying to use tariffs to force Beijing to open its markets, but many of his supporters, including business groups and farmers, fear the fallout from an escalating trade war will be even more damaging. China has responded to Mr. Trump's threat of tariffs on as much as $150 billion worth of its goods by placing its own tariffs on American pork, and threatening taxes on soybeans, sorghum, corn and beef.

Some advisers, including Mr. Kudlow, have indicated that those tariffs may never go into effect, and that they are mainly a prelude to negotiations with the Chinese, statements that have helped calm **volatile** stock markets . In a recent note to clients, the ratings agency Fitch said that the most likely outcome to the conflict remained a "negotiated solution" and that it was therefore not changing its primary economic forecast.

Mr. Kudlow, in the interview, said that farmers had "a legitimate concern" but added that it would be "at least two months before final decisions will be made."

"I'm not here to say we won't use tariffs — everything's on the table in these negotiations — but I am here to say we don't know yet," he said.

Still, White House officials suggest that little to no progress has yet been made in bridging contentious gaps with the Chinese. Administration officials say that back-channel talks have occurred, but they would not characterize them as official negotiations. The Chinese appear impassable on some of the issues that the White House is most concerned about, including their subsidies to cutting-edge industries like robotics, aerospace and artificial intelligence.

The Trump administration says it has ordered the Agriculture Department to create a program to help farmers should the two nations find themselves in a trade war. Trade advisers say the department could draw on the financial resources of a program known as the Commodity Credit Corporation , which provides up to $30 billion to help shore up American farmers by buying their crops.

"Stay with us while we go through this difficult process," Mr. Kudlow told farm-state representatives during the meeting, according to a White House transcript. He added, "And at the end, if the worst case has come out as the president said, you will be helped. That's a promise."

But such a program would be time-consuming and costly and would come as the budget deficit continues to increase. Farmers say that Mr. Trump's threats have already hurt them by causing the price of futures contracts to fall. They maintain that the easiest way to help them is to avoid a trade war with China in the first place.

Senator Joni Ernst , Republican of Iowa, described the meeting with the president as "productive" and said that she had urged him to re-engage in discussions with countries in the Trans-Pacific Partnership. "Iowa farmers aren't looking for another subsidy program; rather they want new and improved market access," she said.

"The best thing the United States can do to push back against Chinese cheating now is to lead the other 11 Pacific nations that believe in free trade and the rule of law," Senator Ben Sasse , Republican of Nebraska, who attended the meeting, said in a statement. "It is good news that today the president directed Larry Kudlow and Ambassador Lighthizer to negotiate U.S. entry into TPP."

Maggie Haberman contributed reporting.

* U.S. Seeks Quick Nafta Deal, but Allies Balk as It Gives Little Ground

* Trump Doubles Down on Potential Trade War With China

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President Trump made the comments during a meeting on Thursday with farm-state lawmakers and governors at the White House. | Doug Mills/The New York Times

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THE WALL STREET JOURNAL.

World
Russia's Trade With the West Surges Even as Sanctions Mount; Last year's increase, three years after penalties tied to annexation of Crimea, shows limits of curbs in longer term

By Andrea Thomas
1,291 words
12 April 2018
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The Wall Street Journal Online
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BERLIN—Trade has surged between Russia and its main Western antagonists even as relations have deteriorated, raising questions about the long-term impact of economic sanctions on Moscow.

The U.S. and Europe's largest nations, including France and Germany, saw exports to and imports from Russia skyrocket in 2017 after three years of decline. Both now stand at their highest levels since 2014, the year Russia invaded Ukraine and annexed Crimea, prompting the U.S. and its European allies to impose curbs.

The turnaround could be short-lived. After Washington this month unveiled fresh sanctions against senior Russian government officials and companies in the latest U.S. retaliation against Moscow's election meddling, markets tanked in Russia and several Western companies with operations there began reconsidering their investments .

As Russia emerged from recession to post 1.6% growth in gross domestic product last year, total trade between the EU and Russia rose 17.9% from 2016, to $285.8 billion. The U.S. saw its trade with Russia rise by 12.5% that year.

Investment from some European countries has also risen sharply.

But last year's renaissance still poses serious questions about the effectiveness of such punitive measures. While sanctions can inflict much damage in the short term, their potency wanes as businesses, and in some cases governments, work to circumvent the barriers and rebuild economic ties.

In the wake of the Ukraine crisis, the U.S. and the European Union imposed sanctions on Russia that targeted the defense, energy and financial sectors, as well as specific individuals involved in or benefiting from Crimea's annexation. Russia reacted with a ban on Western food imports.

There are three types of Western sanctions: The first ones restrict access to Western **financial markets** and services for Russian state-owned companies in the banking, defense and energy sectors. The second type bans exports to Russia of special high-technology oil-exploration and -production goods. The third forbids the exports of special military and dual-use goods to Russia.

Initially, the sanctions worked, compounding the effect of weak **oil prices** and accelerating a sharp drop in the ruble's exchange rate. In 2015, trade between the EU and Russia fell more than 25%.

The rebound in commercial activity is particularly jarring because political relations between the two sides markedly deteriorated last year. Accusations of Russian meddling in the 2016 U.S. presidential election have been poisoning the rapport between Washington and Moscow. European countries and the U.S. recently expelled scores of Russian diplomats after the U.K. blamed Moscow for the attempted killing of a former Russian double agent using nerve gas.

Relations could worsen even more after Western criticism of Russian policy in Syria intensified following the latest chemical-weapon attack there this week. President Donald Trumpon Wednesday warned Russia of reprisals for shooting down missiles fired at Syria, but adding in another tweet that "Russia needs us to help with their economy."

But Burkhard Dahmen, chief executive of Germany's plant-construction and mechanical-engineering company SMS Group GmbH, said "our business hasn't suffered from the sanctions." SMS has closed more than a dozen deals there since 2017.

France, Germany and Italy registered the sharpest increases in trade with Russia last year at 26.5%, 19.5% and 17.3%, respectively.

In one example of how the sanctions' potency seemed to wane over time, China briefly overtook Germany as Russia's top supplier of machinery and capital goods in 2016 but lost its position again a year later, Germany's VDMA engineering association said.

"The dust has settled," said VDMA's Monika Hollacher. "Businesses can now better assess which export license they should apply for and which ones don't stand a chance."

This is particularly true in such countries as Germany and Italy, which have a long history of trading with—and investing in—Russia as well as decades-old institutions dedicated to promoting the relationship.

Founded in 2000, the German-Russian Strategic Working Group for Businesses and Finances brings together business and government representatives. Disbanded in 2014, the group met again for the first time in June 2016, when companies and institutions signed 10 contracts.

The group met again in September and another meeting is scheduled for this year.

"There's no contradiction to Germany's foreign policy," said Beate Baron, spokeswoman for the German economics ministry. "The dialogue with Russia should continue. Part of the German-Russian Strategic Working Group's purpose is to achieve this even in difficult times."

In France, the Franco-Russian Economic, Financial, Industrial and Trade Council was suspended in 2015 but was reinstated a year later by Emmanuel Macron, France's economy minister at the time and current president. Further south, an Italian-Russia task force of government and business figures created in 2002 met in Yekaterinburg in October to discuss joint opportunities in the construction, engineering and energy sectors.

Trade is only the most visible aspect of the economic links between Europe and Russia. Another one is investment, which doesn't appear in import-export statistics. German direct investment in Russia surged to $1.08 billion in the first three quarters of 2017 from $274 million in all of 2016, according to Bank of Russia statistics. France's investments in Russia rose to $524 million during the same period from $438 million.

This partly reflects an improvement in the business climate in Russia, with **oil prices** normalizing, local labor costs dropping and the ruble recovering. In the World Bank's 2018 Doing Business Index, Russia climbed to 35 out of 190, up from 92 in 2014.

German auto maker Daimler AG is currently building a €250 million assembly plant in the Moscow region, while rival BMW AG is expected to announce next year that it will build a new Russian plant near Kaliningrad. Volkswagen AG, Germany's largest car maker, and Russian partner GAZ PJSC last year extended their cooperation until 2025.

Some European companies have taken on Russian business even when those ties threatened established relationships with U.S. partners. Last year, Germany's PSI AG, which provides enterprise software, received an order from Gazprom that had one condition attached to it: That PSI's software should no longer depend on the presence of databases by U.S. giant Oracle Corp. PSI duly obliged and brought forward its own plans to become independent from Oracle by three to five years because of this specific request, PSI said.

French car maker Renault SA, the largest foreign investor in Russia, saw sales there rise by 12% in 2017 and said it expected the Russian car market to grow by close to 10% this year—10 times faster than the French and European markets. Renault produces more than 80% of its cars sold in Russia locally.

French oil giant Total SA has major interests in Russia, including a flagship liquefied natural gas export project. The company said the sanctions imposed by the EU and the U.S. hadn't materially affected its activities in Russia.

James Marson in Moscow and Stefan Lange in Berlin contributed to this article.

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THE WALL STREET JOURNAL.

U.S. Markets
Markets
Stocks Bounce Back, Led by Banks; With earnings season approaching, BlackRock's results raise investor optimism for strong quarterly numbers from financial firms

By Michael Wursthorn and Jon Sindreu
716 words
12 April 2018
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The Wall Street Journal Online
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Corrections & Amplifications

David Lafferty is chief strategist at Natixis Investment Managers. An earlier version of this article incorrectly named the firm.

Bank shares surged Thursday, helping major U.S. indexes rebound, as a momentary cool-down in geopolitical tensions helped investors reset their focus on the start of earnings season.

The **Dow Jones Industrial Average** rose nearly 300 points, recouping Wednesday's losses that were triggered by concerns of possible U.S. military intervention in Syria, as well as simmering fears around whether global synchronized growth will be disrupted by a trade war. Some of those fears eased Thursday after President Donald Trump appeared to tone down the rhetoric on Syria.

Without any significant update on how the U.S. plans to proceed with its trade tariffs, investors turned their attention toward the optimistic profit projections analysts have set for first-quarter results. Investors got one of their first glimpses into how this earnings season could play out after asset-management giant BlackRock beat expectations Thursday morning.

"We've gone back and forth, up and down" over the past two months, said Ed Keon, chief investment strategist and portfolio manager with QMA. "We should see a turn more consistently positive as a result of what is expected to be an exceptionally strong earnings season."

The **Dow Jones Industrial Average** gained 293.60 points, or 1.2%, to 24483.05, while the **S&P 500** added 21.80 points, or 0.8%, to 2663.99. The **Nasdaq Composite** rose 71.22 points, or 1%, to 7140.25. All three indexes are up three of the past four days, pushing the Dow and the **S&P 500** more than 2% higher for the week.

The **Nasdaq** has gained 3.3% this week, as shares of tech companies showed signs of stabilizing since Facebook revealed last month that tens of millions of users' data were compromised.

Shares of banks were the clear market mover Thursday, though, as those financial companies in the **S&P 500** rose 1.8% to lead the broad index higher.

BlackRock said revenue and earnings exceeded analysts' expectations for the first quarter. The asset manager's shares gained $7.70, or 1.5%, to $533.01.

Financial companies are among the first to report earnings each quarter, and investors expect the recent surge in **volatility**, along with higher interest rates, to boost trading and net interest revenue among banks, asset managers and other firms. Financial stocks in the **S&P 500** are expected to see a 20% bump in earnings growth from the year-earlier period, according to FactSet, while the broader index is projected to expand earnings by 17%.

JPMorgan Chase shares added 2.75, or 2.5%, to 113.37, while Citigroup rose 2.24, or 3.2%, to 72.13. Shares of Wells Fargo gained 77 cents, or 1.5%, to 52.70. All three banks report earnings on Friday.

Financial stocks were also getting a boost from a rise in bond yields since higher interest rates typically widen the spread between what banks charge on loans and what they pay on deposits. The yield on the benchmark **10**-**year** **Treasury** note rose to 2.832% from 2.790% a day earlier.

These moves are a reversal from the previous day's trends, which were more downbeat after Mr. Trump warned on Twitter of potential preparations to attack Syria. The U.S. had previously announced sanctions against more than three dozen Russian individuals and entities, which also increased concerns about geopolitical conflicts.

Money managers are now trying to weigh the importance of these concerns against a broadly positive backdrop for corporations. However, many are also growing cautious because they believe that the U.S. economy's expansion is set for a slowdown and they fear the Federal Reserve will increase borrowing costs too much to battle inflation.

"There has been a palpable increase in **volatility** and to us it coincides with what you might typically see toward the end of [the economic] cycle," said Wasif Latif, head of global multiasset investing at USAA Asset Management.

Write to Michael Wursthorn at Michael.Wursthorn@wsj.com and Jon Sindreu at jon.sindreu@wsj.com

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Heard on the Street
Markets

Zuckerberg's Time in Washington Well-Enough Spent; Facebook CEO survives grilling as fractious lawmakers seem unlikely to take harsh action

By Dan Gallagher
397 words
12 April 2018
05:30 AM
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English

Everyone seems to be angry at Facebook these days, though for wildly different reasons. That, in turn, may work out just fine for the social network—and its investors.

Such was apparent after Mark Zuckerberg spent two days under sometimes tough questioning before Congress this week. The Facebook CEO made his apology pilgrimage following a scandal involving Cambridge Analytica's use of Facebook user data in the 2016 U.S. election and other campaigns across the globe.

This has proven to be the most serious scandal Facebook has faced, raising the risk of users fleeing and governments intervening. Up to last week, the company had shed nearly $80 billion in market value since the Cambridge news broke in mid-March. In that light, Mr. Zuckerberg's main job this week was to calm both lawmakers and his own investors. He appeared to succeed at the latter; Facebook's **stock price** rose more than 5% over the two days he was in Washington.

As for the former, while there is no shortage of pique directed at the social network, Congress seems hardly of one mind about what actions—if any—to actually take. The questions ranged widely, but most lawmakers seemed more interested in grandstanding than eliciting constructive answers from one of the world's youngest multibillionaires. This allowed Mr. Zuckerberg to largely stick to his talking points, and made the possibility of onerous regulations that could upend the company's advertising-driven business model seem somewhat less likely.

But investors shouldn't be too sanguine. New privacy regulations take effect in Europe next month, and efforts to reform privacy laws are also under way in the U.S. These could impact the social network's usage and, thus, the growth of its advertising business. The scandal also has made clear Facebook's need to keep tighter control over activity on its platform, which will raise its costs and thus crimp its legendary bottom line.

As for Mr. Zuckerberg, he needs to lead the company through those coming changes with a more deft hand than he has shown to date. And that will make his two days in Washington look easy by comparison.

Write to Dan Gallagher at dan.gallagher@wsj.com

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Heard on the Street
Markets

How Big Biotech Can Win Back Investors; Biotech companies need to get creative to combat falling valuations

By Charley Grant
470 words
12 April 2018
01:34 PM
The Wall Street Journal Online
WSJO
English

Big biotech stocks are trading at their lowest valuations in years, but don't underestimate their ability to turn things around quickly.

The first-quarter earnings season, which starts next week, will highlight the struggles of the big players—weak growth and few new products. That contrasts with the industry's smaller, more speculative players. The **Nasdaq** Biotechnology Index, which is weighted by market value, has returned about 9% over the past 12 months. An equal weight biotech index, which places greater emphasis on the performance of smaller stocks, has returned about 30%.

That lagging performance has led to low valuations. Gilead Sciences, Amgen, Celgene and Biogen trade at an average of less than 11 times adjusted forward earnings projections, according to FactSet. The **S&P 500**, meanwhile, trades at about 17 times. Even fast-growers like Regeneron Pharmaceuticals and Alexion Pharmaceuticals are trading in line with the market, significantly cheaper than they were a year ago.

Most analysts don't expect meaningful sales growth from the majority of the sector this year. The pace of scientific innovation isn't steady, and the industry is churning out fewer drugs with blockbuster potential opportunities than it has in the recent past.

All is not dire. Despite years of tough talk in Washington, drug companies can still raise list prices at will, but with consolidation among payers, less of that cash ends up back in their coffers. More importantly, companies still have ways to win back investors.

The drug drought will end at some point. The big players can also get new drugs by paying up for smaller biotechs with potential to generate blockbuster sales in the future. Gilead was trading at about nine times forward earnings last August, when it purchased cell therapy startupKite Pharma for nearly $12 billion in cash. While the deal won't boost Gilead's profits this year or next, Gilead shares now trade at 11 times adjusted forward earnings projections. Other recent multibillion dollar deals, like Celgene's acquisition of Juno Therapeutics or Novartis' purchase of AveXis, could still pay off.

Slimming down is another way to generate value for shareholders. Biogen's decision to spin out its hemophilia division in 2016 paid off in a big way for its shareholders earlier this year, when a French pharma giant bought Bioverativ at a 63% premium. At current valuations, other companies have solid assets that could be attractive to investors or a buyer if they choose. For instance, Gilead could choose to separate its waning hepatitis C franchises from its HIV and oncology units.

Big biotech is out of favor, but hardly out of options.

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THE WALL STREET JOURNAL.

NewsPlus
Natural Gas Edges Higher on Inventory Draw; Stockpiles declined by 19 bcf; draw of 14 bcf was expected

By Stephanie Yang
196 words
12 April 2018
04:19 PM
The Wall Street Journal Online
WSJO
English

Natural gas prices rose Thursday after government data showed a larger-than-expected decline in natural gas stockpiles.

Futures for May delivery rose 1.1 cents, or 0.4%, to $2.686 a million British thermal units on the New York Mercantile Exchange.

On Thursday, the U.S. Energy Information Administration reported that the amount of natural gas in storage fell by 19 billion cubic feet in the week ended April 6, exceeding analyst expectations on average for a 14 bcf draw.

The data helped support prices as colder-than-average temperatures have faded and production levels have climbed. Strong export demand contributed to the overall decline in supply, analysts at Gelber & Associates said.

"This relatively **bullish** storage report serves as a counterbalance to the **bearish**, overwhelming production indicated by the last few withdrawals," the analysts wrote in a Thursday report.

As of April 6, natural gas stockpiles are 35% below levels from one year ago and about 22% below the five-year average.

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THE WALL STREET JOURNAL.

Markets
The Weakest Link: Hong Kong Dollar Hits Trading-Band Floor; The move to the weakest level allowed against the U.S. dollar triggered market intervention by the city's de facto central bank

By Saumya Vaishampayan
895 words
12 April 2018
09:35 AM
The Wall Street Journal Online
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English

One of the longest-running relationships in global currency markets is under threat.

The Hong Kong dollar hit the weakest level against its U.S. counterpart that is permitted under the rules of a peg between the two currencies first implemented in 1983. The U.S. dollar traded as high as 7.85 Hong Kong dollars shortly before 5 a.m. in Hong Kong and continued to trade near that level through Hong Kong's evening, according to Thomson Reuters data.

The Hong Kong dollar's move to the limit of its trading band triggered market intervention by the city's de facto central bank in Hong Kong's evening. The Hong Kong Monetary Authority sold US$104 million at the rate of one U.S. dollar to 7.85 Hong Kong dollars, according to a spokesman, its first direct foreign-exchange action since 2015.

HKMA Chief Executive Norman Chan said it could have to intervene again. "The HKMA is fully capable of maintaining the stability of the Hong Kong dollar and managing large scale capital flows," Mr. Chan said in a statement. "There is no need to be concerned."

Thursday's move was the latest milestone in the Hong Kong dollar's slide, which began in early 2017 and has continued—apart from a two-month rebound last fall—thanks to a widening gap between U.S. and local market interest rates.

Market participants expect the depreciation to continue, with the Federal Reserveset to keep tightening monetary policy this year while ample liquidity keeps interest rates in Hong Kong subdued.

"There should be enough momentum to test 7.85 consistently," said Kevin Lai, an economist at Daiwa Capital Markets in Hong Kong.

Despite the Hong Kong dollar's doldrums, few expect the city to drop the currency's long-running dollar link. The peg was originally used to buttress confidence in the local economy at a time when the U.K. had begun the negotiations that would lead to Hong Kong's return to Chinese sovereignty in 1997.

Hong Kong's authorities say that as a small, open financial center, it needs the stability in exchange rates that the peg provides, and that **volatile** swings could hurt trade or cross-border capital flows. A handful of other countries, such as Saudi Arabia and Qatar, maintain similar pegs to the U.S. dollar.

The link between the Hong Kong and U.S. dollars has been tweaked a few times since 1983, with the current trading band implemented in 2005.

Speaking in Hong Kong on Wednesday, International Monetary Fund Managing Director Christine Lagarde reiterated the fund's approval of the local dollar's tight link to the greenback.

"The pegging system that we still have in place is actually consistent with the fundamentals of the economy," she said.

Despite such official support, the link has some drawbacks. To keep the exchange rate stable, the HKMA sets local benchmark interest rates in line with those in the U.S. The fact that those benchmark rates have been at record low levels in recent years has contributed to sharply rising property prices in Hong Kong—one of the world's most expensive cities in which to live.

With the Chinese economy holding ever more influence over Hong Kong, and floods of Chinese cash pouring into Hong Kong asset markets, some have questioned whether the local dollar's link to its U.S. counterpart can survive in the longer-term.

"The peg system is out of date," said Iris Pang, Greater China economist at ING Bank in Hong Kong. Still, she said she sees few alternatives: The HKMA can't link the Hong Kong dollar to the Chinese yuan since the latter isn't fully convertible, and tweaking the currency's trading band against the U.S. dollar could lead to a loss of credibility for the de facto central bank.

The Hong Kong dollar's recent decline already stands out in global markets, with most currencies having risen against the U.S. dollar since the start of last year. The euro has surged more than 16% against the U.S. dollar in the past 12 months, and even the tightly controlled Chinese yuan has advanced nearly 10%.

The city's de facto central bank last acted to protect the Hong Kong dollar's trading band in 2015, though at the opposite end. Back then, the monetary authority bought a combined $29.3 billion worth of U.S. dollars from banks over the course of the year to prevent the Hong Kong dollar from strengthening beyond its permitted trading range, according to its 2015 annual report.

The monetary authority's foreign-exchange reserves totaled US$440.3 billion at the end of March, giving it plenty of firepower to sell U.S. dollars and buy Hong Kong dollars if needed, analysts said.

"The bottom line is that the HKMA has ample ability to defend the linked exchange-rate system," said Sue Trinh, head of Asia foreign-exchange strategy at RBC Capital Markets in Hong Kong.

Chester Yung contributed to this article.

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WSJ PRO VENTURE CAPITAL

Markets

Tech IPO Market Shows Signs of Warming; Eventbrite and Upwork's IPO plans are part of a recent shift toward raising public capital

By Maureen Farrell
790 words
12 April 2018
06:18 PM
WSJ Pro Venture Capital
RSTPROVC
English

A recent burst of successful technology IPOs has led some richly valued companies that were content to dwell in the private markets to take steps toward going public.

The solid debuts of firms such as Spotify Technology SA, Dropbox Inc. and Zscaler Inc. have helped catalyze a shift among private-company CEOs and senior executives toward viewing public markets as a hospitable place to raise capital, said bankers, lawyers and investors in interviews. That comes after years of relatively weak issuance, particularly among tech companies.

For instance, tech companies Eventbrite and Upwork have taken steps toward initial public offerings, according to people familiar with their plans. Both of the California companies are expected to debut on the public markets in the second half of this year, these people said.

"Our pipeline is larger than I've seen it in at least a few years," said Richard Truesdell, a partner at law firm Davis Polk & Wardwell LLP. Companies from a wide range of industries are seeking to list this year, he said, calling it a "good sign for the robustness of the IPO market."

In a sign of investors' eagerness for IPOs, Zuora Inc., a software company that manages subscription services for corporate clients, priced its IPO at $14 a share Wednesday, above its already boosted expected pricing range, and then traded up 43% on Thursday to close at $20. Zuora's founder and chief executive, Tien Tzuo, said in an interview that in addition to raising capital—the firm generated $154 million in the offering—the public markets offer a sign to clients that the company will be around for the long term, particularly for its large corporate customers. "Our customers are the biggest companies in the world, and they're public companies," he said.

In recent weeks, bankers say there has been a steady drumbeat of "bake-offs," in which companies interview potential underwriters to help them prepare for an IPO. Because of this activity, bankers and other market participants now expect a busy second half of 2018 for IPOs.

This year through Wednesday's close, 51 companies have gone public on U.S. exchanges, raising $17.2 billion, according to data provider Dealogic. One of those companies—Spotify, which was one of the largest to debut this year by market value—did so without raising any capital. Still, this year's issuance is up slightly from this time last year when 37 companies had raised $16.2 billion. It is well above 2016's weak issuance market, when just 10 companies had raised $1.25 billion at this point in the year, Dealogic data show; 2016 wound up being the slowest year for new offerings in more than a decade, measured by the amount of money raised.

Some bankers and lawyers say recent **stock-market volatility** and a selloff in technology stocks has induced companies and their boards to consider moving more quickly to the public markets, fearful of a broader selloff that could make it more difficult to get out next year.

Over the past several years, despite the backdrop of a **stock market** that was reaching fresh highs, many entrepreneurs were wary of the IPO market and were much more interested in tapping the deep pockets of the private markets for capital.

Companies have been waiting much longer to go public. Venture-capital-backed startups in 2018 waited an average of more than seven years from their first financing until an IPO, up from an average of about four years in 2011, according to startup-data provider PitchBook.

Eventbrite, a technology platform for events, and Upwork, a web-based platform that connects freelancers with job leads, have waited even longer, as they have been in operation for more than a decade. Upwork was formed of the merger of two freelancing websites, Elance and oDesk.

Digital signature company DocuSign Inc., which was founded in 2003 and has raised more than $500 million in funding, is publicly on file for an initial public offering that is expected to start trading in coming weeks, according to people familiar with the deal.

While the most closely watched technology companies have had successful debuts, performance of overall IPOs is weaker than in recent years. On average, this year's class of U.S.-listed IPOs is up just 4%, while technology IPOs are up 16%. Last year's U.S.-listed IPOs are trading 27% above their IPO prices and technology IPOs 47%.

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Next Up: The Forgotten Earnings Season; Wall Street's favorite valuation measure has fallen at a speed usually only seen in a crisis

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Only once before have U.S. earnings expectations risen so far, or so fast, as they have this year. Yet, investors couldn't care less as shares are down. The result is that Wall Street's favorite valuation measure has fallen at a speed usually only seen in a crisis.

That doesn't mean stocks are a screaming bargain. But the 12-month forward price/earnings ratio on the **S&P 500** has fallen from a 16-year high of 18.6 times adjusted earnings at the end of January to 16.4 times at Tuesday's close, putting it back to where it stood in 2014, according to Thomson Reuters IBES. Stocks are less obviously expensive—although still above their average since 1985.

Such a combination of falling share prices and fast-rising earnings estimates is rarely seen outside of crises, because typically the prospect of higher profits attracts investors. The last two times the forward PE ratio tumbled this far, this fast, were the 2010 Greek crisis and the aftermath of the Lehman Brothers failure in 2008; other notable occasions include the dot-com bust, the 1998 collapse of hedge fund Long-Term Capital Management and the 1987 **stock-market** crash.

Yet rarely have investors shown so little regard for an earnings season than for the one starting in earnest on Friday.

Earnings are set to be spectacular, even without the boost from the Trump tax cut. **S&P 500** companies are predicted to report earnings per share up 18% in total from a year ago, according to Howard Silverblatt at S&P Dow Jones Indices. The rolling forecast for 12-month ahead adjusted earnings has risen more than 11% since the start of the year—an acceleration surpassed only during the rebound from recession in 2009.

Even better, overall sales are predicted to be up 7%, continuing a rise last year that is the fastest since 2011. Part of the growth is expected to come from the recovery in **oil prices**, but unlike most of the past decade, there is also a decent chunk from economic growth. We may finally have corporate results that are good not just for investors but for Main Street too: earnings that come from rising revenue and a better economy can in principle be sustained even as higher wages threaten fat profit margins.

So why don't shareholders care?

Perhaps they just dismiss the forecasts. It is easy to conclude that Wall Street estimates are hopeless. Analysts tend to follow the market, and falling stock prices mean analysts will soon start to cut their profit predictions, as they did shortly after the market peaked in 2007 and in 2000. The fall in shares since late January has already been accompanied by a sharp drop in optimism among analysts, with earnings upgrades now making up only 55% of new forecasts, from a high of 82%. The market has spotted the signs that the synchronized global recovery is no longer in sync, and analysts are reluctantly following.

Those friendlier to Wall Street can point out that analysts forecast only a single most-likely outcome, not its probability. It is possible to accept the central prediction, but think it is less likely than it was because of the rising risk of something bad—government action against technology companies, a trade war or an actual war—derailing profits. That risk justifies lower share prices, even if the core case is still that everything turns out fine and earnings rise as predicted.

Of course, investors might just be undervaluing earnings. Goldman Sachs chief U.S. equity strategist David Kostin points out that much of the fall in share prices since January came during periods when companies were blocked from buybacks. Since corporate buybacks have for years been the biggest source of demand for shares, their absence might leave the market more vulnerable to the selling that comes with bad news.

A final explanation is that it is just down to timing. Stocks had a huge run-up, with the S&P rising 24% in the year to the end of January. Shareholders quickly priced in the benefits of lower corporate taxes, while analysts waited for company guidance before raising their forecasts.

This earnings season might provide some insight both into whether the wage pressure is serious, and how much sales can rise to offset it. In a quarter when tax cuts make earnings comparisons trickier, surprises on sales or pretax margins could wrest the attention of investors away from politics—for a few days, at least.

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