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Markets Tumble Again On Report of More Tariffs

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Fear that the Trump administration will announce tariffs on all remaining imports from China helped knock stocks in the United States from a strong early gain to another sharp loss Monday.

Technology companies sank again after Bloomberg News reported that the United States is planning new tariffs if the two sides do not make progress in trade talks next month.

Technology and internet companies, industrials and retailers took steep losses as Wall Street's recent bout of **volatility** continued. The **Standard & Poor's 500**-**stockindex** has dropped 9.4 percent in October and is on track for its worst monthly loss since February 2009. That was right before the market hit its lowest point during the 2008-09 financial crisis.

Bloomberg News reported that the Trump administration will put tariffs on the rest of the country's imports from China if President Trump and Xi Jinping do not make substantial progress in easing the trade dispute next month.

The **S**.**&P**. **500** fell 17.44 points, or 0.7 percent, to 2,641.25. The **Dow Jonesindustrial average** gained as much as 352 points Monday morning but closed down 245.39 points, or 1 percent, to 24,442.92. It fell as much as 566 during the day.

The **Nasdaq composite**, which is heavily weighted with technology stocks, lost 116.92 points, or 1.6 percent, to 7,050.29.

Stocks have plunged since early October, breaking a long period of relative calm over the summer, and trading has been especially **volatile** the last few days.

Among industrials, Boeing sank 6.6 percent to $335.59. Some early gains for tech and internet stocks also faded. Microsoft shed 2.9 percent to $103.85. Alphabet, Google's parent company, lost 4.5 percent to $1,034.73.

Amazon.com dropped another 6.3 percent to $1,538.88. The online retailer tumbled Friday after it reported weak sales and gave a lower-than-expected revenue estimate for the quarter that includes the holiday shopping season. Its stock traded above $2,000 a share in early September and has fallen 24.5 percent since then.

The **S**.**&P**. **500** has fallen 9.9 percent from its latest record high on Sept. 20. The Nasdaq has plunged 13 percent from its record high reached Aug. 29.

For most of this year investors have remained hopeful that the United States and China would work out their disagreements on trade policy and that many of the tariffs would be reduced or eliminated. But in recent weeks they have lost some of their confidence, and that has contributed to the markets' tumble

The effects of higher tariffs could be especially severe for technology companies, which make many of their products in China, and for industrial companies, which are already paying higher prices for metals. The United

States and China are the world's largest economies and their trade relationship is the world's largest, so the higher taxes on imports could also slow global economic growth and increase inflation.

While most technology companies fell, open-source software company Red Hat jumped after IBM agreed to buy it for $34 billion in stock. IBM's chairman and chief executive, Ginni Rometty, said the deal will make IBM the world's biggest hybrid cloud provider, meaning it will offer companies a mix of on-site, private and third-party public cloud services.

Red Hat soared 45.4 percent to $169.63, reversing its losses from earlier this year. IBM fell 4.1 percent to $119.64.

The prospect of reduced barriers to trade helped automakers on Monday. Car companies rose after Bloomberg News reported that regulators in China intend to propose cutting the tax on imported cars to 5 percent from 10 percent. The trade fight between the United States and China has hurt sales, and that slowdown is one of several factors that have damaged car company stocks this year.

Ford climbed 3.3 percent to $9.28 and auto parts retailer BorgWarner advanced 4 percent to $39.56. After Cooper Tire & Rubber reported a bigger third-quarter profit than analysts expected, its stock surged 21.4 percent to $30.89.

Bond prices dipped. The yield on the **10**-**year Treasury** note rose to 3.09 percent from 3.08 percent.

The price of United States crude oil dropped 0.8 percent to $67.04 per barrel in New York.

Gold lost $8.00 to $1,224.50 an ounce.

The dollar rose to 112.35 yen from 111.85 yen. The euro fell to $1.1383 from $1.1407.

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

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

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The New York Times

Business/Financial Desk; SECTB
S.&P. 500 Skids for 4th Straight Loss As a Gloomy Month Only Gets Worse

By THE ASSOCIATED PRESS
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Banks led a broad slide in shares on Monday as an early rally faded, giving the benchmark **Standard & Poor's 500-stockindex** its fourth straight loss.

Health care and energy stocks also helped pull the market lower, outweighing gains by technology and consumer-focused stocks. Crude **oil prices** eked out a small gain after spending most of the day in the red.

The latest losses came as traders geared up for a busy week of company earnings reports.

''The earnings results have the potential to stabilize the market, but what investors are really keen on hearing from companies is what the sustainability of the earnings outlook is, especially in light of the concerns of the potential impact from tariffs,'' said Laura Kane, head of Investment Themes Americas at UBS Wealth Management Research.

The **S.&P. 500** fell 11.90 points, or 0.4 percent, to 2,755.88. The index is on course for its worst month in more than three years. The **Dow Jonesindustrial average** lost 126.93 points, or 0.5 percent, to 25,317.41. The tech-heavy **Nasdaq composite** index recovered from an early tumble, gaining 19.60 points, or 0.3 percent, to 7,468.63.

The Russell 2000 index of smaller-company stocks gave up 2.54 points, or 0.2 percent, to 1,539.50. That is the lowest close for the index since April. It is now up just 0.3 percent for the year.

Decliners outnumbered gainers on the New York Stock Exchange.

Major American stock indexes initially headed higher early Monday, riding a strong wave of buying in Chinese markets as traders brushed off potential concerns about slower growth in China and a downgrade in Italy's credit rating.

That early rally vanished after a few minutes as trading turned **volatile**. At its extremes, the Dow swung from a gain of more than 100 points to a loss of more than 200.

Investors have been worried in recent weeks about potential threats to corporate growth, including rising interest rates, trade tensions between the United States and China -- the world's second largest economy -- and sluggish reports about housing construction and sales.

This week is the busiest stretch of the quarterly earnings calendar as many big-name companies report their latest results, including Caterpillar, Amazon and Google's parent company, Alphabet.

Nearly 17 percent of companies in the **S.&P. 500** had served up third-quarter results as of Monday. Of those, 54 percent delivered earnings and revenue that topped Wall Street's forecasts, according to S&P Global Market Intelligence.

The main concerns cited by those companies are higher labor costs and the price of commodities, transportation and shipping, among others.

Banks and other financial companies took the heaviest losses on Monday. Synchrony Financial fell 6 percent to $29.47.

Energy stocks also fell as the price of crude oil spent most of the day lower. Newfield Exploration fell 3 percent to $22.91.

After a sluggish start, technology stocks rebounded in morning trading. Advanced Micro Devices climbed 5.8 percent to $25.03.

The toy maker Hasbro slid 3.1 percent to $95.01 after it reported disappointing third-quarter results, partly as a result of lost sales after the demise of Toys ''R'' Us. Hasbro also said it would cut jobs as it dealt with the effects of the Toys ''R'' Us bankruptcy. Its rival Mattel also declined, shedding 0.8 percent to $14.10.

Bond prices did not move much. The yield on the **10**-**year Treasury** held steady at 3.2 percent.

Benchmark American crude recovered from an early skid. It gained 0.4 percent to settle at $69.36 a barrel in New York. Brent crude, used to price international oils, added 0.1 percent to close at $79.83 a barrel in London.

Wholesale gasoline fell 0.4 percent to $1.91 a gallon. Heating oil rose 0.7 percent to $2.32 a gallon. Natural gas slid 3.4 percent to $3.14 per 1,000 cubic feet.

Gold dipped 0.3 percent to $1,221.20 an ounce. Silver fell 0.4 percent to $14.59 an ounce. Copper gained 0.3 percent to $2.79 a pound.

The dollar strengthened to 112.81 yen from 112.55 yen on Friday. The euro fell to $1.1463 from $1.1506.

Major stock indexes in Europe also gave up early gains Monday. In Germany, the DAX slipped 0.3 percent, and in Paris, the CAC 40 lost 0.6 percent. The British FTSE 100 fell 0.1 percent.

The Hang Seng index in Hong Kong surged 2.3 percent, while in Japan, the Nikkei 225 index reversed early losses, gaining 0.4 percent. The Kospi in South Korea added 0.3 percent.

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

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A Choppy Week for Markets Ends in Mixed Results

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United States markets gave up an early rally on Friday and struggled to another mixed finish as investors continued to withdraw from former stock favorites like retailers. Shares of household goods makers rose again as a week of choppy trading concluded.

Stocks surged in early trading after better than expected reports from companies including Procter & Gamble, American Express and PayPal. Procter & Gamble, the world's largest consumer products maker, had its biggest rally in 10 years. But the gains for indexes faded after a report showed that home sales fell for the sixth month in a row.

The market settled back into its usual pattern from the last two weeks, as companies that depend on economic growth struggled and those with more ''defensive'' qualities such as high dividends did better, a sign investors are worried about a few threats to growth: rising interest rates, trade tensions between the United States and China, and this week, some sluggish reports about housing construction and sales.

The **Standard & Poor's 500-stockindex** lost 1 point to 2,767.78. The **Dow Jonesindustrial average** gave up most of an early gain. It jumped as much as 229 points early on but finished 64.89 points higher, or 0.3 percent, at 25,444.34.

Tuesday was the best gain in six months for stocks, but the **S.&P. 500** fell every other day this week and ended the week up just 0.02 percent. That was good enough to end a three-week run of losses, but most of the market's recent gains have been swiftly followed by declines.

The **S.&P. 500** hasn't risen two days in a row since Sept. 20. It finished at a record high that day, which was the last in a three-day string of gains. The benchmark index is down 5.6 percent since then.

The **Nasdaq composite** sagged 36.11 points, or 0.5 percent, to 7,449.03. The Russell 2000 index of smaller-company stocks lost 18.71 points, or 1.2 percent, to 1,542.04. The Russell 2000 is at its lowest in almost six months as investors worry that the economy could slow and interest rates could rise, a bigger challenge for smaller companies.

Shares of Procter & Gamble, which makes Tide, Pampers and Gillette razors, soared 8.8 percent to $87.30 after the company reported that sales of fabric and home care products rose in its latest quarter while beauty products revenue jumped 20 percent.

Stocks of other household goods companies also rose. Pepsi shares gained 2.2 percent to $110.29 and Coca-Cola shares added 1.6 percent to $46.33. Shares of the electric utility Duke Energy rose 1.8 percent to $82.75.

The aerospace and building components maker Honeywell posted a bigger profit than analysts expected, but said it is seeing more signs of inflation in its business as a result of the tariffs the United States and China have placed on imported goods. Honeywell stock slid 1.1 percent to $153.47. Industrial companies have skidded recently as investors worried about the results of those trade tensions.

Bond prices slipped. The yield on the **10-year Treasury** note rose to 3.20 percent from 3.18 percent.

China said its economic growth sank to a post-financial crisis low of 6.5 percent in the third quarter. Chinese finance officials launched a media blitz to shore up confidence in the country's sagging **stock market**. China's economy has gradually slowed for years, even before a trade dispute between Beijing and President Trump led to higher tariffs. The Chinese government tightened controls on lending last year to rein in a debt boom, but that, too, has affected the economy.

The Hang Seng index in Hong Kong rose 0.4 percent. The Kospi in Seoul added 0.4 percent. In Tokyo, the Nikkei 225 shed 0.6 percent.

The DAX in Germany lost 0.3 percent and in France, the CAC-40 sank 0.6 percent. In London, the FTSE 100 gained 0.3 percent. Tensions between European Union officials and Italy's new government sent Italian stocks and government **bond prices** lower Thursday. Italian **bond prices** turned higher Friday and yields slipped.

Benchmark United States crude rose 0.7 percent to $69.28 a barrel in New York. Brent crude, used to price international oils, gained 0.6 percent to $79.78 a barrel in London.

Wholesale gasoline rose 1.2 percent to $1.91 a gallon. Heating oil inched up 0.3 percent to $2.30 a gallon. Natural gas added 1.6 percent to $3.25 per 1,000 cubic feet.

Gold dipped 0.1 percent to $1,226.50 an ounce. Silver rose 0.3 percent to $14.65 an ounce. Copper gained 1.1 percent to $2.78 a pound.

The dollar rose to 112.55 yen from 112.20 yen. The euro rose to $1.1506 from $1.1454.

CHARTS: The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Friday. (Source: Refinitiv); Existing-Home Sales: Annual pace of existing singlefamily homes sold during the month, seasonally adjusted. (Source: National Association of Realtors)

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Earnings Lift Big Companies

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Stocks in the United States climbed Tuesday on another **volatile** day of trading as solid earnings reports from several big companies buoyed investors.

Many of the best-performing stocks came from parts of the market that have fared the worst in the October plunge. Those included smaller and more domestically focused companies; energy, internet and media companies, and basic materials makers.

The benchmark **Standard & Poor's 500**-**stockindex** jumped 41.38 points, or 1.6 percent, to 2,682.63, a day after closing at a five-month low. But the index is still 8.5 percent below the all-time high set on Sept. 20. The index is on track for its worst monthly performance since the current **bull market** started in March 2009. Stocks have had a few solid gains in this stretch but failed to maintain the momentum.

The **Dow Jonesindustrial average** gained 431.72 points, or 1.8 percent, to 24,874.64. The **Nasdaq composite** advanced 111.36 points, or 1.6 percent, to 7,161.65. The Russell 2000 index of smaller-company stocks rose 29.33 points, or 2 percent, to 1,506.64.

Mondelez, which makes Oreos, Cadbury chocolates and Trident gum, gained 5 percent to $42.12 after its quarterly profit surpassed analysts' projections. Walmart rose 2.6 percent to $102.42.

Comcast jumped 4.8 percent. Facebook rose 2.9 percent to $146.22, then went up another 1.4 percent in aftermarket trading after its third-quarter profit exceeded expectations. Intel rose 5.2 percent to $47.76.

General Electric said the Justice Department had opened a criminal investigation into a $22 billion charge it booked to its power business this year. Securities regulators were also conducting a civil inquiry. The stock sank 8.8 percent to $10.18, its lowest price since April 2009.

Bond prices fell. The yield on the **10**-**year Treasury** note rose to 3.12 percent from 3.09 percent.

Benchmark United States crude shed 1.3 percent to $66.18 per barrel in New York. Gold lost $2.10 to $1,222.60 an ounce.

The dollar rose to 113.12 yen from 112.38. The euro fell to $1.1344 from $1.1383.

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: Refinitiv)

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Business/Financial Desk; SECTB
Markets Touch Correction Territory Before Clawing Back Ground

By MATT PHILLIPS
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Disappointing earnings reports from the tech giants Amazon and Alphabet set off another turbulent day on Wall Street on Friday, and the benchmark **stock-market** index briefly dipped into a correction.

Amazon ended down nearly 8 percent and Alphabet, the parent company of the search giant Google, fell 1.8 percent after they reported quarterly results on Thursday evening.

Their reports did little to calm jittery investors who have focused on quarterly corporate updates in search of clues to the economic outlook for 2019. Amazon's sales forecast for the coming holiday season fell short of investor hopes. And Alphabet's revenue fell short of analyst expectations.

''The poor earnings are reflecting a slowdown in growth, not a disastrous slowdown, but enough to take stocks down,'' said Ilya Feygin, managing director at the institutional brokerage firm WallachBeth.

The **Standard & Poor's 500**-**stockindex**, the broad measure of the United States **stock market**, tumbled throughout the morning, falling as much as 2.8 percent before clawing back some losses to finish down 1.7 percent. At one point, the early-day losses had the index down more than 10 percent below its recent peak on Sept. 20.

By the close of trading Friday, the S.&.P. was down more 9 percent from that late-September high, and is now in negative territory for the year.

In **financial markets**, a drop of 10 percent or more is typically referred to as a correction -- a term that describes a market sell-off that is more serious than a garden-variety slump. Such stumbles are not uncommon: Earlier this year markets fell more than 10 percent in a violent sell-off that ended in early February.

There was some indication on Friday that the sharp downturn in stocks had some investors reconsidering whether the Federal Reserve will go through with an interest rate hike at its next meeting in December. Analysis of interest rate futures suggested that there was less certainty about that rate hike than there had been even a few days ago, according to Ian Lyngen, head of U.S. interest rate strategy at BMO Capital Markets.

Some pockets of the market sensitive to interest rates actually rallied, helping to cut losses. Shares of homebuilders, which have been hit hard this year rose more than 2 percent.

Including this recent slide, six sell-offs have earned the correction designation since the current **bull market** for stocks began in March 2009. The nearly decade-long rise in stocks is one of the longest such runs on record.

But given the length of the current **bull market** -- in which stocks have risen nearly 300 percent -- investors have been uneasy.

''The question is: Is this the top of a **bull market**? And is the recession going to start?'' said Julian Emanuel, chief equity strategist at institutional brokerage BTIG.

But those worries are not necessarily justified, Mr. Emanuel said.

''From our point of view, everything that we see tells us that a recession is not imminent,'' he said.

Fresh economic data supports that view. Government numbers released on Friday showed that gross domestic product rose at a robust 3.5 percent annual pace during the third quarter. Third-quarter corporate profits -- which public companies are currently releasing -- are on pace to be up more than 20 percent.

Even so, there are factors that have dampened investor enthusiasm, including rising interest rates, slowing growth in China -- the world's second-largest economy -- and cost increases tied to the tariffs imposed by the Trump administration.

On Friday, the waves of selling, and the odd bit of buying, churned through the markets in a **volatile** session. Alphabet's share price was down as much as 5.5 percent and up as much as 1 percent before settling lower by 1.8 percent.

Investors continued to pound the share prices of companies that offered less optimistic outlooks for the coming year. Mohawk Industries, which makes carpet, hardwood flooring and vinyl tiling, plunged 23.9 percent after its earnings report on Friday fell short of expectations. The computer-drive maker Western Digital, which delivered disappointing results in its report after the market closed on Thursday, dove by 18 percent.

Not all corporate results have depressed the market. The information technology services firm Roper Technologies rose 7.6 percent on a solid earnings report on Friday, making it the best performing stock in the **S**.**&P**. **500**. But on the whole, the technology sector continued its recent slump, as large and small companies alike continued to slide.

The tech-heavy **Nasdaq Composite** index dropped 2.1 percent, pulled lower by Facebook, which fell 3.7 percent, and Apple, which declined 1.6 percent. Both companies are scheduled to report earnings next week.

The Nasdaq is down nearly 11 percent this month, in a brutal reversal for the tech and software shares that had been a favorite for mutual funds, hedge funds and other institutional investors this year.

"We think that institutional money kind of got crowded into those kinds of names," said Kevin Dennean, Americas I.T. sector strategist at UBS Global Wealth Management. "For whatever reason, you're seeing money come out of those high-growth software names."

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

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National Desk; SECTA
Worries Add Up As Stocks Plunge

By MATT PHILLIPS
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Another wave of selling hit the nearly decade-long **bull market** as investors worried that the ideal climate they have long enjoyed -- a surging economy, low interest rates and fast-growing corporate profits -- would soon be behind them.

The benchmark **Standard & Poor's 500-stockindex** shed 3 percent on Wednesday, wiping out its gains for the year. The tech-heavy **Nasdaq composite** index was down 4.4 percent, and has fallen more than 12 percent since early September.

Markets in Japan, China and Hong Kong matched Wall Street's drop on Thursday morning trading. It one potentially positive sign, futures markets that track the performance of stocks in the United States rose, suggesting investor attitudes might brighten when Wall Street opens.

Just over a month ago, the **S.&P. 500** was up nearly 10 percent for 2018, with expectations that coming quarterly corporate earnings reports -- juiced by a generous tax cut and strong economic growth -- would keep sending stock prices upward.

It hasn't worked out that way.

Instead of celebrating quarterly profit and sales numbers that have largely lived up to expectations, investors have zeroed in on potential risks to the economic and corporate profit outlook for the coming year. Rising commodity costs tied to tariffs on imports, expectations that the Federal Reserve will keep raising interest rates, and an economic slowdown in China could all start to bite. And that's on top of investors' anxiety about what the midterm elections could mean for their portfolios.

''It was kind of a market that was looking for a reason to have some money come out of it,'' said Tony Dwyer, chief market strategist with the brokerage firm Canaccord Genuity in New York. ''And it found it.''

The **Dow Jonesindustrial average** fell 608 points, or 2.4 percent, on Wednesday. And the Nasdaq has now fallen into correction territory -- a decline of more than 10 percent from an earlier peak, which indicates a drop that's more serious than a garden-variety slump. The **S.&P. 500** is down to 2,656.10, more than 9 percent off its recent peak on Sept. 20, meaning it, too, is nearing a correction.

The sell-off has come as political discord has jumped with Election Day less than two weeks away. On Wednesday, the discovery of explosive packages sent to prominent Democrats, including former President Barack Obama and Hillary Clinton, the former secretary of state, as well as CNN, added to an already tense environment.

Some market observers think that investors may be moving to the sidelines before what could be a very close and bitter election.

''I think people just want to clear the decks and get the heck out before the midterm elections, frankly,'' said Chris Rupkey, chief financial economist at MUFG Union Bank.

President Trump has repeatedly cited the strong performance of the **stock market** as evidence of the success of his administration's business-friendly approach. And as the market has slid lately, he has ratcheted up his criticism of the Federal Reserve's plan to raise interest rates as economic growth remains strong.

Low interest rates have helped support economic growth and the **stock market** since the financial crisis 10 years ago. But with unemployment at a 49-year-low, the Fed is now raising interest rates, saying it wants to keep the economy from overheating, which could set off inflation. The Fed is expected to raise interest rates again at its next meeting in December.

The rise in interest rates has been particularly painful for some pockets of the markets. Shares of homebuilders are down more than 16 percent this month, as rising mortgage rates have made houses less affordable. Smaller companies -- which are heavily exposed to floating-rate debt -- have also been hurt by rising rates, which increases the cost of their debt payments. The Russell 2000 index of small-capitalization stocks has fallen more than 13 percent in October.

And the president's trade war with China has increasingly preoccupied the markets, analysts said. Official numbers released by Beijing last week showed China's economic growth has slowed to 6.5 percent, its lowest level since 2009.

The slowdown in China, the world's second-largest economy, could mean falling sales for American companies that export to that market. As large consumers of metal who have invested heavily to gain access to the Chinese auto market -- the world's largest -- carmakers are particularly vulnerable to such risks. On Wednesday, Ford cited weak sales in China for falling profits. Company officials said issues surrounding trade disputes -- including tariffs on imported steel and aluminum -- could cost Ford $1 billion this year.

''What is really happening here is that people are saying, 'We just don't know about trade. We don't know how that's going to hit the margins or the earnings streams next year,''' said Michael Purves, chief global strategist at the brokerage firm Weeden & Company.

Mr. Purves said investors were eager for a resolution to the trade dispute and nervous that it could escalate further.

''I think there is a game of chicken going on between Trump and the markets right now,'' he added.

On Wednesday, the market tumble snowballed over the course of the day. Technology companies that have driven big market gains were badly battered. Shares in the tech heavyweights Amazon, Microsoft and Facebook all fell more than 5 percent. Netflix fell more than 9 percent after a media report that Apple planned to announce a subscription television service that would go head-to-head with its streaming service.

The news wasn't all bad for tech. Later Wednesday, Microsoft reported results that exceeded analyst expectations, sending its shares higher in after-hours trading. And Tesla shares also rose in after-hours trading after the electric-car maker reported its first profit in two years.

More high-profile results from tech companies are due in the coming days. Google's parent company, Alphabet; Amazon; and Twitter are scheduled to report results on Thursday. And Facebook's earnings report on Tuesday will be of intense interest: The company's report last quarter sent its **stock price** diving, erasing more than $100 billion in shareholder wealth.

CHARTS: The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Wednesday. (Source: Refinitiv); 5-Year Treasury Notes: High yields at auction. (Source: Treasury Department) (A19)

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Investor Fears Drive Up Hedging Costs

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Investors are bracing for greater turmoil across markets, increasing hedges on their stock positions after months of calm.

They are snapping up options that pay out if the **S&P 500** takes a drastic fall, driving up the cost of hedging stock portfolios to the most in months.

The yield on the benchmark **10**-**year Treasury** note, which rises as **bond prices** fall, recently surged to its highest level in more than seven years, stoking **volatility** across asset classes and igniting demand for protection, analysts say.

An options-based measure of stock **volatility** has risen for six straight days and on Thursday hit its highest level since February.

Meanwhile, the **Dow Jones Industrial Average** and **S&P 500** on Wednesday recorded their biggest one-day falls since February and continued to fall on Thursday.

"It really seems to be the anticipation of looming danger through rising rates," said Stefan Wintner, vice president of **volatility** strategies at Florida-based Dunn Capital Management.

An options measure that gauges how expensive it is to hedge against stock declines, dubbed skew, recently hit its highest level since March for the **S&P 500**, according to data provider OptionMetrics. A higher skew indicates heightened investor anxiety because investors are paying up for **bearish** options that safeguard against declines.

The pickup in hedging comes as stocks have fallen after an extended spell of optimism about U.S. equities, when people largely turned to **bullish** options to chase the continuing rally rather than spend money protecting against a downturn.

Rising Treasury yields can make government bonds more attractive to investors, reducing the appeal of riskier assets.

Higher yields could also make it costlier for U.S. corporations to issue and pay their debt, eventually dragging down the price of shares, analysts say.

The jolt of recent turbulence stemming from the bond market has been amplified by impending U.S. midterm elections, which investors expect to spur market swings, some analysts said.

Mr. Wintner said investors don't appear to be paying up for protection against minor dips in the market. Instead, they are hedging potentially large falls.

Hedging stock bets can be costly, and some investors may be turning to protect against only "catastrophic events" rather than minor downturns, he said.

For example, some of most actively traded options on Wednesday were tied to the **S&P 500 index** falling at least 5% from that day's level, Trade Alert data show.

On Thursday, a popular bet was one that would pay out if the **stock index** dove almost 20%, the data show. Traders can tap options to hedge portfolios or make directional bets. The equity index is down 6.4% this month.

Others are scooping up options tied directly to the future path of Treasury yields. Jerry Lucas, senior strategist at UBS Global Wealth Management, said he has noticed investors buying **bearish** put options on the **S&P 500** that are contingent on a widening difference between 10-year and two-year Treasury yields.

The gap between the two yields has been historically thin in recent months, and investors are wagering that if this difference widens, stocks may decline along with bonds, he said.

Still, some metrics show that investors haven't been shaken from their **bullish** posture on U.S. stocks, which analysts attribute to reluctance to continuously pay out to hedge portfolios.

For example, leveraged funds such as hedge funds have ramped up bets against futures tracking the Cboe **Volatility** Index in recent weeks, wagering that market **volatility** will recede.

Other asset managers pared positions that would pay out if **volatility** increased, Commodity Futures Trading Commission data as of Oct. 2 show.

A **bearish** bet on **volatility** is akin to a **bullish** bet on equities, since turbulence tends to recede when stocks rise.

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The New York Times

Business/Financial Desk; SECTB

Interest Rates On the Rise Send Stocks Into a Skid

By THE ASSOCIATED PRESS
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Global stocks fell Thursday as interest rates in the United States continued to rise. Technology and internet companies skidded and the **Nasdaq composite** took its biggest loss in three months.

Strong reports on job gains and the service industry have sent **bond prices** tumbling over the last two days as traders bet the United States economy will keep growing at about its current clip.

But the big drop in **bond prices** is sending interest rates sharply higher, a development that worries investors because it can eventually slow economic growth by making borrowing more expensive for consumers and businesses. It also makes bonds a more intriguing investment compared to stocks.

Sameer Samana, strategist for the Wells Fargo Investment Institute, said that after months of positive economic data, traders in the bond market are selling because they have decided yields are too low for them to get a good return on their investments.

"Economic data for months has been strengthening," he said. "The bond market has completely ignored it until recently."

The **Standard & Poor's 500**-**stockindex** skidded 23.90 points, or 0.8 percent, to 2,901.61. The **Dow Jonesindustrial average** lost 200.91 points, or 0.7 percent, to 26,627.48. The **Nasdaq composite** fell 145.57 points, or 1.8 percent, to 7,879.51.

Bond prices fell again. The yield on the **10**-**year Treasury** note climbed to 3.19 percent from 3.18 percent. Yields began climbing Wednesday following encouraging signs on hiring by private companies and growth for services companies.

That data suggests the economy should keep growing at a solid pace. That translates to bigger profits for American companies and continued increases in interest rates by the Federal Reserve, as it tries to check inflation. But after an early rally on Wednesday, investors have been considering the negative aspects of that increase in yields.

The health of the economy and the pace of inflation will both be in focus Friday morning after the Labor Department makes its monthly jobs report. That will include hiring by governments and private companies in September and will also include data on wage increases.

Alphabet, Google's parent company, fell 2.8 percent to $1,177.07. That was its worst loss in five months. Apple slid 1.8 percent to $227.99 and Microsoft lost 2.1 percent to $112.79. Facebook shed 2.2 percent to $158.85 and Amazon declined 2.2 percent to $1,909.42.

Industrial and energy companies have both lagged the broader **S**.**&P**. **500** in 2018. Those stocks fell Thursday, but they did better than the rest of the market.

The same pattern played out in Europe as stocks and **bond prices** fell.

Hopes of deals also boosted shares of some companies. Barnes & Noble climbed 21.8 percent to $6.65 after the bookseller said it will review offers from potential buyers, including one from founder and chairman Leonard

Riggio, the company's biggest shareholder. Even after Thursday's gain, Barnes & Noble stock is slightly lower in 2018 and has lost almost two-thirds of its value since July 2015.

Benchmark United States crude slid 2.7 percent to $74.33 per barrel in New York. It hit four-year highs this week.

Gold fell $1.10 to $1,197.20 an ounce.

The dollar fell to 113.86 yen from 114.34. The euro slipped to $1.1513 from $1.1514.

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

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Business/Financial Desk; SECTB
Tech Shares Fall Again, Leading Market Lower

By THE ASSOCIATED PRESS
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After a wobbly day of trading in the United States, stocks fell for the seventh time in eight days Monday as technology companies continued to slide. Industrial and high-dividend companies rose, and the market's losses were limited compared with the steep losses last week.

Stocks opened lower and repeatedly switched between small gains and losses before falling in the last hour of trading. Along with technology companies, health care and energy stocks and retailers also fell as the companies that have led the American markets higher this year continued to struggle.

Defense contractors L3 and Harris made the biggest gains on the **Standard & Poor's 500-stockindex** after announcing a deal to combine. Smaller companies fared better than the rest of the market and finished broadly higher.

Jason Pride, chief investment officer for private clients at Glenmede, said that investors expect many years of powerful profit growth from technology-oriented companies like Apple, Amazon and Netflix. Over the last two weeks, Wall Street has started considering the possibility that interest rates will rise more quickly, taking a bigger chunk out of those critical future profits.

''The more the company's valuation is dependent on some profit way ahead in time as opposed to the profits coming today, the more rate hikes should impact the valuation of that company,'' he said. Mr. Pride said the recent downturn is a healthy development for stocks.

''A 5 to 10 percent pullback of that magnitude is very normal and very reasonable for this market to go through,'' he said.

The **S.&P. 500** lost 16.34 points, or 0.6 percent, to 2,750.79. The **Dow Jonesindustrial average** retreated 89.44 points, or 0.4 percent, to 25,250.55. The **Nasdaq composite** skidded 66.15 points, or 0.9 percent, to 7,430.74.

The **S.&P. 500** lost 4.1 percent last week, its third weekly loss in a row and its biggest since late March, as investors worried about rising interest rates and trade tensions between the United States and China.

Bank of America's third-quarter profit and revenue were better than analysts expected, but Wall Street was disappointed with the company's loan growth. ts stock slipped 1.9 percent to $27.92.

Bond prices edged lower. The yield on the **10-year Treasury** note fell to 3.16 percent from 3.17 percent late Friday.

United States crude rose 43 cents to $71.61 a barrel.

In another sign investors were nervous about stocks, gold rose 0.7 percent to $1,226.40 an ounce.

The dollar fell to 111.88 yen from 112.01 yen. The euro rose to $1.1577 from $1.1555.

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

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

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Tech Earnings Help Markets Rebound From Sell-Off

By MATT PHILLIPS and AMIE TSANG
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Stocks rebounded on Thursday as strong earnings from major tech companies seemed to ease some of the worries driving a recent wave of selling that had wiped out the market's gains for the year.

The **Standard & Poor's 500**-**stockindex** rose by 1.9 percent, to close at 2,705.57. The rise pulled the **stock market** back into positive territory for 2018 a day after a turbulent session had erased the last of the year's gains. Stocks are now up 1.2 percent this year.

The rally on Thursday was a rare upward jolt in what has been a rough run for stocks. Investors have dumped shares over the past month, worried about factors that could threaten the economic and profit outlook for 2019, including the trade war with China, the Fed's plans to keep raising interest rates and the midterm elections.

Those worries have largely outweighed the strong third-quarter sales and profit numbers that companies have reported since earnings season began this month. Thanks to a strong economy and corporate tax cuts, third-quarter profits for **S**.**&P**. **500** companies were on track to be up more than 22 percent, according to an analysis of reported results and projections by the market data firm Refinitiv.

Instead, investors are scanning results for any indication -- either in the profit guidance companies offer to analysts or in commentary from executives -- that their fears of a rocky time ahead are warranted.

''It's all about the guidance,'' said Maneesh Deshpande, head of United States equity strategy at Barclays. ''That's what's really driving stock movements.''

On Thursday, stock in International Paper rose 10.3 percent after it posted better-than-expected results. Executives said they expected strong sales and profit performance ''to continue into the fourth quarter and into 2019.'' The chip giant Intel rose 4.5 percent after it raised its profit guidance for next year. Xilinx, a maker of programmable chips used in large data centers, shot up more than 15 percent after it increased full-year profit guidance.

And Xilinx was only the **S**.**&P**. **500**'s second-best performer.

Twitter posted its results, with revenue and profit topping forecasts, before the start of trading on Thursday, and its stock jumped 15.5 percent. Large tech companies also climbed. Shares of Microsoft, which reported positive results after the close of trading on Wednesday, rose 5.8 percent.

The tech-heavy **Nasdaq composite** index rose nearly 3 percent and is now up 6 percent for the year, but is nonetheless down 9.8 percent from its peak in early September.

If investors were hoping that Thursday's rise means the latest period of **volatility** is at an end, they'll most likely be disappointed.

Amazon, which rose more than 7 percent during the day, promptly tumbled in after-hours trading, after the release of its earnings report, which included a holiday forecast investors found underwhelming. And Google's parent company, Alphabet, whose shares had risen, dropped sharply when its results likewise disappointed.

As long as investors feel that they don't have a good sense of what next year will look like, such **volatility** will almost certainly continue. More market swings could leave it ultimately treading water until conditions become more clear, Mr. Deshpande said.

''Until we get through this we're just going to have this range-bound and very choppy market,'' he said.

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

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Sell-Off In Tech Resumes Downtrend

By MATT PHILLIPS
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Stocks in the United States resumed their October tumble on Thursday, led by a drop in technology stocks that tracked a sell-off in China.

Tech firms led the Wall Street sell-off, with the tech-heavy **Nasdaq composite** index and a closely watched index of semiconductor stocks slumping more than 2 percent. The **Standard & Poor's 500**-**stockindex** fell 1.4 percent, leaving the broad **stock market** index down nearly 5 percent this month.

A sharp decline in Chinese stocks on Thursday set the tone for the tech-driven drop. China's currency, the yuan, hit a 21-month low, amid the tariff fight between China and the United States, the world's largest economies.

''Perceptions in markets are evolving, and more people are nervous that this is going to be a long, drawn-out affair,'' said Robin Brooks, chief economist at the Institute of International Finance, a trade group and research provider.

China's government on Friday reported that the economy grew by 6.5 percent over the three months that ended in September compared with a year ago. But growing concerns about the health of its economy, along with rising interest rates that could slow the American economy, have made investors jumpy and worried that a near-perfect investing environment -- low inflation, strong growth and relatively low interest rates -- is becoming tougher to navigate.

Here's a rundown of what has been happening in the **stock market**.

Trading was **volatile**

The benchmark S.&P. was down as much as 1.9 percent. It ended the day down 1.4 percent.

Stocks started the day slightly lower after a big sell-off in China, but the drop picked up pace after the Treasury secretary, Steven Mnuchin, said he would not attend a financial conference in Saudi Arabia amid the investigation into the disappearance of a dissident Saudi journalist.

Why has October been so lousy

The selling on Thursday came amid a bout of big swings for stocks. On Tuesday, shares posted their biggest gains in seven months. That was just a few days after they suffered their steepest drop in eight months.

All month, worries about relations with China have weighed on technology stocks. The Nasdaq is down 7 percent this month. The Philadelphia semiconductor index is down nearly 9 percent.

Interest rates are another worry. Yields fell Thursday, but the yield on the 10-year note is higher than 3.15 percent, up from less than 2.5 percent a year ago.

Investors are concerned that rising borrowing costs could crimp domestic growth. Small stocks, which are particularly susceptible to higher borrowing costs, fell 1.8 percent. And other interest-rate sensitive areas of the **stock market** have been beaten up in recent weeks. The S.&P. home-building index is down 10 percent this month, as mortgage rates have pushed above 5 percent.

What are investors going to look to next?

We're in the middle of earnings season -- and results from companies could help assuage the worst concerns. On the whole, results should be good. When they're tallied in a few weeks, profits for **S**.**&P**. **500** companies are expected to be up more than 20 percent, compared with last year. That's largely thanks to strong economic growth in the United States and deep corporate tax cuts.

But on Thursday, investors seemed to find gloom even in good earnings news. United Rentals -- a company that rents out construction and industrial equipment -- tumbled 15 percent after reporting earnings that were better than expected. Investors did not like the look of softer-than-expected rental price growth, which can be a leading indicator of a slowdown in the highly cyclical rental industry.

''Investors look at slowing rate growth and say, 'Well that's a negative signal,''' said Steven Fisher, who covers United Rentals as an equity analyst at UBS.

In the weeks ahead, the biggest technology companies will report results. Given the focus on China, a report by Apple could be particularly important. Apple manufactures its products there, but China is also a significant market for the company.

Apple, which is down 4 percent this month, will report its results on Nov. 1.

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

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Treasury Yields Surge As Markets Sink Again

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United States markets fell again on Friday after the Labor Department said the economy continued to add jobs at a strong pace, and investors worried about a three-day surge in bond yields.

The Department of Labor said employers added significantly more jobs in July and August than it previously thought, which made up for a slightly disappointing gain in September. That was another sign economic growth was likely to continue.

While that is usually good news for stocks, the market stumbled this week as investors sold government bonds at a rapid pace. That pushed yields to their highest levels in more than seven years, a sign that investors are unsure how high and fast interest rates will rise.

Kate Nixon, the chief investment strategist for Northern Trust Wealth Management, said the decline in stock and **bond prices** started with comments by Federal Reserve Chairman Jerome Powell on Wednesday.

In a moderated discussion, Mr. Powell expressed confidence in the economy and said rising interest rates were a ''long way'' from holding back growth. Ms. Nixon said that meant the Fed intended to raise rates further, and investors have not been sure when it intended to stop.

''The Fed is clearly no longer in the business of being accommodative and now the burden of proof is on the data to prove them wrong,'' she said. Until last month, the Fed had described its policies as ''accommodative,'' or encouraging faster growth, since the Great Recession.

The **Standard & Poor's 500**-**stockindex** lost 16.04 points, or 0.6 percent, to 2,885.57. The **Dow Jonesindustrial average** dipped 180.43 points, or 0.7 percent, to 26,447.05.

Technology and internet companies and smaller, more domestic-focused companies continued to suffer steep losses. The **Nasdaq composite** skidded 91.06 points, or 1.2 percent, to 7,788.45. The Russell 2000 index lost 14.80 points, or 0.9 percent, to 1,632.11.

The Nasdaq dropped 3.2 percent this week and the Russell tumbled 3.8 percent. That was the worst weekly loss in more than six months for both indexes.

The yield on the **10**-**year Treasury** note rose to 3.23 percent, its highest since May 2011, from 3.19 percent.

''It's so unusual to see these kinds of dramatic moves in the U.S. Treasury market without there being some kind of Big Bang event,'' said Ms. Nixon. ''We haven't seen anything like it since the election'' in 2016.

While shares of technology companies and retailers have been the biggest gainers on the S.&P. this year, they took steep losses this week. Shares of banks and industrial and energy companies, which have struggled for most of 2018, changed place and finished with strong gains.

Shares of the wholesale club operator Costco gave up 5.6 percent to $218.82 after it said it discovered technology problems related to its financial reporting processes. Costco said it had not found any mistakes in its earnings reports so far.

European stocks fell for the second day in a row. In Germany, the DAX lost 1.1 percent and in France, the CAC-40 dropped 1 percent. The FTSE 100 in Britain fell 1.3 percent.

Benchmark United States crude oil was little changed at $74.34 a barrel in New York and Brent crude, the standard for international oil futures, fell 0.5 percent to $84.16 a barrel in London.

Gold rose 0.3 percent to $1,202.50 an ounce. The dollar slipped to 113.64 yen from 113.84 yen. The euro rose to $1.1521 from $1.1513.

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

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Business/Financial Desk; SECTB
Markets Struggle Back, but the Damage Is Done

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Stocks rebounded on Friday, clawing back some of the week's steep losses, but the turbulent trading of the last few days left no doubt that the relative calm the markets enjoyed all summer had been shattered.

Major United States indexes ended the week down about 4 percent, their worst weekly loss in six months. An index measuring the performance of small-company stocks had its worst week since early 2016.

Big technology and consumer-focused companies led the recovery on Friday. Longtime favorites of many investors, they had plunged in the last few days.

A major factor cited by market watchers for the pullback was a sharp increase in interest rates, which can slow the economy and make bonds more attractive to investors relative to stocks.

Apple stock climbed 3.6 percent to $222.11 and Microsoft stock gained 3.5 percent to $109.57. Amazon shares rose 4 percent to $1,788.41. Those are the three most valuable companies in the United States, and they suffered startling declines the last few days: On Wednesday each took its biggest loss in more than two years.

The **Standard & Poor's 500-stockindex** rose 38.76 points, or 1.4 percent, to 2,767.13 to end a six-day losing streak. The benchmark index tumbled 4.1 percent this week. Thanks in part to the big gain for technology companies, the **Nasdaq composite** gained 167.83 points, or 2.3 percent, to 7,496.89.

The **Dow Jonesindustrial average** rose as much as 414 points early on, then gave it all up and turned slightly lower. It rebounded and finished with a gain of 287.16 points, or 1.1 percent, at 25,339.99.

The market's recent skid started last week, when strong economic data and positive comments from Jerome Powell, the Federal Reserve chairman, helped set off a wave of selling in the bond market as investors bet that the economy would keep growing at a healthy pace. That pushed **bond prices** lower and sent yields up to seven-year highs.

That drove interest rates sharply higher, which worried stock investors, who felt that a big increase could stifle economic growth. The big swings in the market on Friday suggested those fears had not gone away.

''What seems to have driven this is a fear interest rates were going to rise more quickly because the Fed was being too aggressive or the economy was going to overheat,'' said David Kelly, chief global strategist for JPMorgan Funds. Mr. Kelly said he did not think either of those fears was justified.

Shares of Ford and General Motors continued to slump. GM stock shed 1.6 percent to $31.79, its lowest in almost two years. Ford stock, trading at its lowest in almost nine years, dipped 1.9 percent to $8.64. Both automakers have lost value this year as they deal with slowing sales and the Trump administration's tariffs on steel and aluminum, which are sending their manufacturing costs higher.

Investors are also growing more concerned that trade tensions with China are impairing global economic growth. The International Monetary Fund cut its forecast for global economic growth this week because of trade issues and increased interest rates.

Bond prices edged lower. The yield on the **10-year Treasury** note rose to 3.17 percent from 3.15 percent. At the beginning of the year it stood at 2.46 percent.

U.S. crude oil added 0.4 percent to $71.18 a barrel in New York. Brent crude, the international standard, picked up 0.2 percent to $80.43 a barrel in London.

Wholesale gasoline rose 0.5 percent to $1.94 a gallon. Heating oil fell 0.5 percent to $2.32 a gallon. Natural gas lost 1.9 percent to $3.16 per 1,000 cubic feet.

Asian stocks also rebounded. In Japan, the Nikkei 225 index gained 0.5 percent after sinking early in the day and following a nearly 4 percent loss on Thursday. In Hong Kong, the Hang Seng surged 2.1 percent and the Kospi in South Korea rose 1.5 percent.

European stocks finished mostly lower. The CAC-40 in France dipped 0.2 percent and so did the FTSE 100 in Britain. The DAX in Germany slipped 0.1 percent.

After a big jump Thursday, gold lost 0.5 percent to $1,219.40 an ounce. Silver rose 0.2 percent to $14.64 an ounce. Copper slipped 0.1 percent to $2.80 a pound.

The dollar rose to 112.21 yen from 112.04 yen. The euro fell to $1.1555 from $1.1591.

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

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Awful October: Stock Plunge Hits Day 6

By MATT PHILLIPS, ALEXANDRA STEVENSON and JACK EWING
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October is living up to its ominous reputation among stock investors.

Stocks on Wall Street tumbled again on Thursday, as choppy early trading gave way to another bout of broad-based selling. The declines were widespread, touching everything from previously high-flying tech shares to usually insulated sectors like consumer staples and utilities.

When the dust settled, every sector of the **Standard & Poor's 500-stockindex** had dropped, leaving the **stock market** benchmark down an additional 2.1 percent. That slump followed Wednesday's 3.3 percent decline, which was the market's biggest dive in eight months.

So far in October -- which looms large in the minds of investors as the month of the 1929 and 1987 crashes -- stocks are down 6.4 percent. That puts the month on a pace to be the worst October for stocks since 2008, when they fell nearly 17 percent.

''Today it feels a lot more like there's just money coming out of the market,'' said John Linehan, chief investment officer for equities at T. Rowe Price in Baltimore. ''I think there's a level of anxiety about the market, especially given how far we've come.''

Early Friday, markets in Asia suggested the damage could be moderating, as Chinese shares matched Wall Street's drop but stocks in Japan, Hong Kong and elsewhere in the region were largely flat.

Investors who have ridden the nearly decade-long **bull market** in stocks are now contending with a growing crop of concerns, including rising borrowing costs that could dampen economic growth and growing tensions between the United States and China. Worries about rising interest rates eased briefly early in the day after a report showing muted inflation helped send yields on government bonds lower. The yield on the **10-year Treasury** note ended the day just below 3.15 percent, lower than it had been in several days.

But the easing of rates did little to comfort investors who are also worrying about deteriorating relations between Washington and Beijing. On Wednesday, United States officials said they had charged a Chinese intelligence official with espionage after he was extradited from Belgium. On Thursday, the Department of Energy said it would tighten controls on Chinese imports of civil nuclear technology.

Christine Lagarde, managing director of the International Monetary Fund, warned on Thursday that if the tensions between the United States and China continued to escalate, ''the global economy would take a significant hit.''

''Our strong recommendation,'' Ms. Lagarde said at a meeting in Bali, Indonesia, ''is to de-escalate those tensions and to work toward a global trade system that is stronger, that is fairer, and that is fit for purpose and fit for the future.''

Reflecting concerns about the global economy, commodity prices also tumbled on Thursday, with the decline in **oil prices**, for example, weighing on shares of energy producers.

Earlier in the day, stocks were hit particularly hard in Asia, where no market was spared in the sweeping sell-off. Stocks in Shanghai, Tokyo, Hong Kong and Seoul, South Korea, dropped 4 percent or more.

Stocks in China have been declining for months amid signs of economic softness and worries about the impact of President Trump's trade war. Over the weekend, the People's Bank of China pumped $175 billion into the economy to help shore it up. Worried about the impact of negative information on its citizens, China has censored negative economic news.

Shares also fell in Europe on Thursday, though the declines were less extreme than in the United States or Asia. The region is also vulnerable to a long list of economic risks, including the possibility of a disorderly exit by Britain from the European Union and the potential for Italy to provoke a new eurozone debt crisis.

Italy's populist government has drafted a spending plan that would defy European budget rules to fulfill election promises. The market interest rates on Italian bonds have spiked as investors worry that the country may not be able to service its debt, which is equivalent to more than 130 percent of annual economic output.

While geopolitical issues have sprung to the fore, subtler shifts in the backdrop of the **stock market** might be producing outsize reactions. With the bulk of the earnings season about to start on Friday, many American companies have paused their share repurchase programs to comply with blackout periods, potentially worsening **stock market** swings.

''That's another level of support that's sort of gone in this period,'' said Marina Severinovsky, an investment strategist at the asset manager Schroders.

More broadly, investors are readjusting to the slow withdrawal of support from central banks -- such as the Federal Reserve -- which has acted as a tailwind for stocks since the market rally began in March 2009.

The Fed says it will continue to lift interest rates in the face of robust economic growth, despite direct criticism of the policy from Mr. Trump in recent days.

The Fed is also starting to significantly shrink its balance sheet, effectively withdrawing some of the money it pumped into the financial system during and after the financial crisis a decade ago.

''I think these are kind of the teething pains for asset markets as we kind of get away from super-easy money,'' said Michael Feroli, chief United States economist at JPMorgan Chase.

Stocks in Tokyo, above, and other Asian markets dropped by 4 percent or more in a punishing session of trading on Thursday morning. (PHOTOGRAPH BY FRANCK ROBICHON/EPA, VIA SHUTTERSTOCK) CHARTS: The Market From Three Perspectives: Though the S.&P. has fallen from its most recent peaks in January and September, it is still up more than 20 percent since President Trump's inauguration on Jan. 20, 2017. (Source: Refinitiv); The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Thursday. (Source: Refinitiv) (B3)

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Canada Deal Rally Fades, Leaving Markets Jumbled

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Stocks barreled higher in the early going Monday after the United States and Canada agreed to a new trade deal, but the rally ran out of momentum later in the day, leaving major indexes mixed.

Oil prices neared four-year highs and smaller companies suffered their worst losses in three months.

Large industrial and basic materials stocks made big gains, and energy companies rose as crude oil and natural gas reached their highest prices in years. Car companies also rose as investors anticipated that tariffs on imported cars are less likely now.

Many investors saw the new trade deal, the United States-Mexico-Canada Agreement, as an update of the 1994 North American Free Trade Agreement, not a major overhaul.

''Most investors thought the Nafta deal would end somewhat peacefully,'' said Mark Hackett, chief of investment research at Nationwide Investment Management. ''It's an incremental positive to get it out of the news, but it's not transformational.''

General Electric soared after it ousted its chairman and chief executive, John Flannery, while Tesla reversed a big loss Friday and made its largest gain in five years after founder Elon Musk settled a lawsuit brought by securities regulators, allowing him to remain chief executive.

The **Standard & Poor's 500-stockindex** rose as much as 23 points during the day, then finished with a gain of 10.61 points, or 0.4 percent, at 2,924.59. The **Dow Jonesindustrial average** jumped 192.90 points, or 0.7 percent, to 26,651.21. The **Nasdaq composite** lost 9.05 points, or 0.1 percent, at 8,037.30.

Mexico's main **stock index** rose 0.8 percent and while Canada's added 0.2 percent. Mexico and the United States announced a trade agreement in late August and despite a few harsh remarks by President Trump and Prime Minister Justin Trudeau, experts expected Canada would join the pact, as Canada is the United States' second-largest trade partner, and a deal without Canada would have affected the supply lines of companies in numerous industries.

The agreement gives American dairy farmers more access to the Canadian market, and keeps a Nafta dispute-resolution process that the United States wanted to eliminate. It offers Canada protection if the United States goes ahead with plans to impose tariffs on cars, trucks and auto parts imported into the United States. General Motors climbed 1.6 percent to $34.20.

Among industrial companies, Boeing rose 2.8 percent to $382.29 and Honeywell gained 1.1 percent to $166.44. General Electric jumped 7.1 percent after it said Mr. Flannery will be replaced by H. Lawrence Culp, the former chief executive of industrial and medical device company Danaher.

Tesla soared 17.3 percent to $310.70 after Mr. Musk agreed to give up the chairman's role for at least three years, while Tesla will appoint two new, independent directors to its board. The stock plunged 14 percent Friday after the Securities and Exchange Commission said Mr. Musk misled investors in August with a tweet saying he had secured the funding to take Tesla private.

In a court filing, the S.E.C. said it wanted to bar Mr. Musk from serving as an officer or director of a publicly traded company and called his actions securities fraud. Mr. Musk and Tesla are each paying $20 million to resolve the lawsuit.

Benchmark United States crude climbed 2.8 percent to $75.30 a barrel in New York, its highest closing price since November 2014.

Bond prices fell. The yield on the **10**-**year Treasury** note rose to 3.09 percent from 3.07 percent.

Gold fell $4.40 to $1,187.10 an ounce.

The dollar rose to 113.99 yen from 113.58 yen. The euro dipped to $1.1576 from $1.1608.

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

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

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The New York Times

Business Day
Tech Drove Stocks Skyward. It's a Different Story on the Way Down.

By Matt Phillips
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The world's largest technology companies drove the **stock market** to record highs earlier this year. As stocks have tumbled, though, it's more like they're just along for the ride.

Unlike the rally, the rout that started in late September and dominated trading in October was a broad-based affair. That suggests that investors are less concerned that the tech giants' shares rose too far too fast, and are instead worried about the fundamentals of the United States economy and the continuing profitability of companies of all kinds.

October was particularly painful for investors. At its worst, the **Standard & Poor**'**s 500**-**stockindex** was down more than 9 percent during the month. A late charge took some of the sharp edge off: The **S**.**&P**. **500** was up around 1 percent on Wednesday, its second straight gain, helping to cut losses for the month to around 7 percent.

"I think there's something that's bothering the markets and I think it's fears about earnings estimates," said Randy Watts, chief investment strategist with the investment advisory firm William O'Neil & Company.

After a nearly decade-long **bull market**, investors have been increasingly skittish about how long the push higher could extend. And sweeping declines like the one that roiled stocks during October have prompted some to consider whether the rally that began in March 2009 is indeed under threat.

The **S**.**&P**. **500** topped out on Sept. 20, up 9.6 percent for the year, and roughly half of the increase was fed by the performance of five huge tech companies: Apple, Amazon, Microsoft, Netflix and Google's parent company, Alphabet. But in the weeks since that peak, the gains experienced by the benchmark **stock index** over the previous nine months were largely wiped out.

And only about 20 percent of the slump can be tied to the tech giants, compared with the 50 percent of the gain they were responsible for earlier in the year.

The **S**.**&P**. **500** has been dragged down disproportionately by smaller, domestically focused companies, cyclically sensitive industrial firms and global manufacturers like Caterpillar. And companies like the fertilizer and chemical giant DowDupont and the home-improvement retailer Home Depot have pulled the **S**.**&P**. **500** down by more than they ought to have, based on their size.

There are plenty of factors worrying investors: President Trump's trade war with China; the Federal Reserve's stated plans to keep raising interest rates; signs that labor and other costs could climb; and slowing growth in Europe and China. And the tax cuts that increased growth in profits this year will not have the same year-over-year effect in 2019.

Chemical and materials companies have experienced steep declines faced with mounting concerns over global trade. DowDupont is still waiting for Beijing to approve one of its bioengineered soybeans to be imported into China, the world's largest soybean market. The approval process may be more complicated now that soybean exports from the United States to China are subject to a 25 percent tariff imposed by Beijing over the summer in response to Mr. Trump's tariffs on Chinese-made goods.

DowDupont is only the 39th largest company in the **S**.**&P**. **500**, but its nearly 16 percent drop in October made it among the larger contributors to the index's downturn, according to the market data firm FactSet.

Home Depot is the 23rd largest company in the **S**.**&P**. **500**, but it played the ninth-largest role in the October sell-off through Monday. Its shares were down about 15 percent in October as climbing interest rates slowed the housing market, a key factor in home improvement spending. Bank of America, JPMorgan Chase, Mastercard and Visa — financial firms whose fortunes are closely linked to the economy's overall health and are sensitive to rising interest rates — have also helped pull down the market.

“Despite the fact that earnings are exceptional by any objective measure, investors are concerned that they will slow more dramatically than expected next year,” said Jason DeSena Trennert, managing partner at Strategas Research Partners, a markets and economic analysis firm.

The biggest tech companies have also played a part in the broad decline, of course. The **stock market** benchmarks, such as the **S**.**&P**. **500**, are weighted by market value, meaning the vast size of Apple, Amazon, Alphabet and Microsoft give them significant influence over how the index moves. Amazon's 20 percent drop in October — much of it coming after an earnings report that contained a disappointing outlook for the holiday season — helped make it the single biggest drag on the **S**.**&P**. **500** during the recent sell-off.

Microsoft shares dropped more than 6 percent in October. Alphabet fell around 9 percent. Facebook was down more than 7 percent for the month after rebounding on Wednesday upon the release of its quarterly earnings report.

The only big tech company left to report for the quarter is Apple, which is scheduled to release its results on Thursday. The company's **stock price** was off about 3 percent in October, faring far better than the overall market.

The tech companies' declines are not minor, but they are not big enough to signal that investors are overly concerned about the health of the stocks that fueled so much of the gains of the past decade.

Even with companies like Amazon, Microsoft and Alphabet having outsize sway over market benchmarks, the losses in other sectors suggest that when it comes to the falling indexes, the tech giants' tumbles have been more of a symptom than a cause.

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Business/Financial Desk; SECTB
Strong Economic Signs Lift Markets

By THE ASSOCIATED PRESS
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Encouraging reports on hiring and growth in the United States service sector sent small companies and banks higher Wednesday and knocked **bond prices** into a tailspin. The yield on the benchmark **10**-**year Treasury** note spiked to its highest level in more than seven years.

Both reports were stronger than analysts expected and suggest the economy is in good shape in spite of rising interest rates and **oil prices**, and the ongoing trade dispute between the United States and China.

''This is evidence of strong economic growth and the likelihood earnings will continue to be good,'' said Ameriprise Chief Market Strategist David Joy. While some experts think the economy will slow somewhat in the third and fourth quarter, Mr. Joy's view is that ''we're not going to get much of a slowdown.''

The **Standard & Poor**'**s 500**-**stockindex** added 2.08 points, or 0.1 percent, to 2,925.51. The **Dow Jonesindustrial average** gained 54.45 points, or 0.2 percent, to 26,828.39, another all-time high. It was up as much as 177 points earlier. The **Nasdaq composite** picked up 25.54 points, or 0.3 percent, to 8,025.09.

The survey on private company hiring by ADP raised expectations for the government's broader jobs report due out on Friday, which tends to have an even bigger effect on markets. The Institute for Supply Management, the trade group, said its index measuring the service sector reached the highest level in a decade.

The solid reports helped companies that do better when businesses and consumers spend more money, like technology and industrial stocks. Apple rose 1.2 percent to $232.07 and Caterpillar rose 2.2 percent to $158.22.

Investors were willing to bet on continued economic growth, and that meant **bond prices** dropped sharply, sending yields soaring. The yield on the **10**-**year Treasury** note rose to 3.18 percent, its highest since July 2011 and up from 3.06 percent a day earlier.

That helped banks, which are able to charge higher interest rates on long-term loans when bond yields rise. Comerica rose 2.6 percent to $92.09 and Bank of America added 1.4 percent to $30.

High-dividend stocks like utilities and household goods makers took sharp losses. Procter & Gamble fell 1.6 percent to $83.03 and Walmart lost 1.1 percent to $94.07. Investors often treat those stocks as alternatives to bonds, and they tend to fall when bond yields rise.

General Motors rose 2.1 percent to $34 after Honda agreed to invest $2.75 billion in GM's autonomous vehicle business over the next 12 years. Honda lost 3.6 percent to $29.37. Japanese technology firm SoftBank said in May that it would pay $2.25 billion for a 20 percent stake in the GM business, which is called Cruise. It's been trying to catch up to Google's autonomous car division, Waymo.

Century Aluminum tumbled after Norsk Hydro said it is shutting down its Alunorte plant in Brazil. Alunorte is the world's largest alumina refinery, and that could leave Century Aluminum without enough of a critical material used in making aluminum. Century Aluminum fell 11.6 percent to $10.52, and shares of Norsk Hydro lost 11.8 percent in Norway.

Rival aluminum company Alcoa, which produces its own alumina, rose 3.2 percent to $42.89.

Benchmark United States crude jumped 1.6 percent to settle at $76.41 a barrel in New York. It has hit four-year highs this week.

Gold fell $4.10 to $1,198.30 an ounce.

The dollar rose to 114.34 yen from 113.69 yen. The euro fell to $1.1514 from $1.155.

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

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

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The New York Times

National Desk; SECTA
Stocks Plummet, Signaling Anxiety on Wall Street

By MATT PHILLIPS
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Stocks suffered their steepest drop in eight months on Wednesday, as rising interest rates gnawed at investors and as previously high-flying technology shares tumbled in the face of growing tensions with China.

The **Standard & Poor's 500-stockindex** fell 3.3 percent, registering its fifth consecutive daily decline. That's the longest string of down days for the **S.&P. 500**, the market's benchmark, since November 2016. The damage continued on Thursday in Asia, as markets in China, Japan and Hong Kong fell about 3 percent in morning trading.

The decline signaled a change in mood on Wall Street. For months, it had seemed as though nothing could spook stock investors in the United States. Growing corporate profits and surging shares of technology giants pushed major benchmarks to a string of record highs.

But concerns about nascent inflation, rising interest rates and the potential for the Federal Reserve to tighten monetary policy came together into a wave of selling Wednesday. In addition, President Trump's policies toward Beijing have become a drag on technology companies, which rely heavily on China as a manufacturing base. Shares of the companies that make components like semiconductors have been particularly hard hit in the recent selling. Apple shares, for example, slid over 4.5 percent on Wednesday.

''It looks as though Trump is settling most of the trade skirmishes around the world that he started earlier this year with one important exception,'' said Ed Yardeni, president of the **stock market** research firm Yardeni Research. ''It looks like China is going to be a long-term issue.''

In recent days, interest rates on government bonds -- which serve as a baseline for mortgages and other loans -- have climbed to levels last seen in 2011, and that's making them a key concern for **stock market** investors.

Rising interest rates are something of a double-edged sword. They reflect the strength of the American economy, where unemployment is at 49-year lows, but they also mean borrowers looking to buy a home or a car, or invest in a business, will have to pay more to do so. Conventional 30-year mortgage rates are about 5 percent, for example, hurting both home affordability and the share price of home builders.

''Stock markets like rising interest rates because they tend to signal a strong economic backdrop,'' said Jonathan Golub, chief United States equity strategist for Credit Suisse. ''That said, stock markets do not like very abrupt, large moves.''

President Trump, who has boasted about the **stock market** rally as shares climbed, took Wednesday's sell-off as an opportunity to criticize the Federal Reserve, which has also been raising the short-term interest rates under its control. Mr. Trump had previously expressed his displeasure with that policy.

''The Fed is making a mistake,'' he said when asked by reporters about the market drop, shortly after landing in Erie, Pa., before a campaign rally. ''I think the Fed has gone crazy.'' He described the recent selling as ''a correction that we've been waiting for, for a long time.''

But some policies put into place under Mr. Trump, like tax cuts and increased government spending that have widened the federal deficit, are also a factor in the rise in borrowing costs.

The worsening tensions between the Trump administration and China also drew blame for the drop on Wednesday.

Earlier in the day, the Treasury Department imposed new rules making it easier to block foreign investment in technology companies on national security grounds, outlining a rigorous review system that is aimed primarily at preventing China from gaining access to sensitive American technology.

"There's an increasing realization in the market that this is not just about the trade deficit. This is about security concerns. This is about geopolitical strength," said Evan Brown, director of asset allocation at UBS Asset Management. "It's about encouraging U.S. companies to move their supply chains out of China. And so there are questions about a broader disruption and potential legislation or scrutiny in these markets."

Despite the tumble on Wednesday, many market observers expect strong third-quarter earnings will be enough to help stocks recover their recent losses. Those reports will start to flow in earnest this Friday, when some of the largest United States banks, JPMorgan Chase, Wells Fargo and Citigroup, will post results.

Thanks to the strength of the economy and steep cuts in corporate tax rates, corporate earnings are expected to rise more than 20 percent from the third quarter of 2017, according to John Butters, an earnings analyst with FactSet. That would be the third consecutive quarter of earnings growth of more than 20 percent.

But that outlook isn't without risks. As the economy heats up, costs are climbing and starting to eat into relatively fat profit margins.

On Wednesday, Fastenal, a company that makes products like industrial supplies used on factory floors, reported better-than-expected profit and sales numbers. But its profit margin was something of a disappointment and the stock fell more than 7 percent.

"We are starting to see some margin pressure from higher raw materials and energy and labor costs," said Savita Subramanian, equity strategist with Bank of America Merrill Lynch. Still, she stressed that strong economic demand should support corporate profits, even if margins contract.

That's one reason she thinks the **stock market** remains an attractive place for investors, even with rising inflation and interest rates.

"I would stick with equities for the time being," she said.

Traders at the New York Stock Exchange. Stocks recorded their steepest drop since February. (PHOTOGRAPH BY JUSTIN LANE/EPA, VIA SHUTTERSTOCK) (A16) CHARTS: **10**-**Year Treasury** Notes: High yield in monthly refunding auction. (Source: Treasury Department); The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Wednesday. (Source: Refinitiv) (A16)

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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
Indexes Finish Mixed as Interest Rates Take a Breather

By THE ASSOCIATED PRESS
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U.S. stock indexes ended Tuesday nearly where they began, as interest rates let off the accelerator following their sharp rise last week. But the modest moves for indexes masked some roiling underneath.

Raw-material producers plunged on worries that inflation and weaker demand are eating into their profits. On the opposite end were technology stocks and other sectors, which recovered some of the sharp losses caused by last week's rapid rise in interest rates.

Altogether, the crosscurrents left the **S&P 500** down 4.09 points, or 0.1 percent, at 2,880.34. It had waffled between small gains and losses for most of the day, and roughly three stocks fell in the index for every two that rose.

The **Dow Jonesindustrial average** fell 56.21, or 0.2 percent, to 26,430.57, and the **Nasdaq composite** added 2.07, or less than 0.1 percent, to 7,738.02.

At the center of the movements were interest rates, which sway how quickly the economy grows, how expensive it is for companies and households to borrow and how high a price investors are willing to pay for stocks. The yield on the **10**-**year Treasury** dipped to 3.20 percent from 3.22 late Friday in the first day of trading after bond markets were closed for a holiday on Monday.

The pause came after bond yields surged last week following several encouraging reports on the economy. The **10**-**year Treasury** yield was just 3.05 percent last Tuesday, and the speed of the recent rise has been more concerning to investors than the level. If rates go high enough, they can hurt profits for companies and drive investors away from stocks and into bonds.

Tuesday's ease in rates helped technology stocks, which have been leading the market, both on the way up for most of the past year and on the way down over the last week. Technology companies are producing some of the biggest profit growth in the market, but their stocks are also trading at relatively high prices relative to those earnings.

Tech stocks in the **S&P 500** are down 3 percent so far this month, versus a 1.2 percent loss for the overall index. But the group rose 0.4 percent Tuesday as interest rates dropped.

Energy stocks did even better, benefiting from another rise in the price of oil. Energy stocks in the **S&P 500** climbed 1 percent, led by a 3.3 percent rise for Pioneer Natural Resources and a 2.7 percent climb for Apache.

"We like energy right now, and we think prices aren't likely to come down anytime soon," said Barry James, president and portfolio manager of James Advantage Funds. "The explorers have been left behind a little bit by the refiners, and now's their time to catch up."

On the losing end were raw-material producers, which tumbled 3.4 percent for the sharpest loss among the 11 sectors that make up the **S&P 500**.

PPG, which sells paints and coatings, sank 10.1 percent to $98.56 for the biggest loss in the **S&P 500** after it warned that higher costs for oil and other materials will weigh on its third-quarter results. It also said that demand is weakening in China, as well as in the United States and Europe for automotive refinish products.

Companies across the economy are scheduled to report their earnings results for the summer in the coming weeks, and expectations along Wall Street are for another strong quarter of growth. Lower taxes and a strong U.S. economy are helping profits, but investors also want to hear what companies say about their costs and how the global trade war is affecting their business.

The International Monetary Fund downgraded its forecast for global economic growth late Monday, citing higher interest rates and ongoing trade battles. The IMF said the global economy will grow 3.7 percent this year, the same as in 2017, but down from its earlier forecast of 3.9 percent. The IMF also cut its forecast for Chinese economic growth in 2019 to 6.2 percent, which would be its slowest since 1990.

In markets abroad, Japan's Nikkei 225 fell 1.3 percent, Hong Kong's Hang Seng fell 0.1 percent and the Shanghai Composite index rose 0.2 percent. In Europe, the CAC 40 in France rose 0.3 percent, and the German DAX gained 0.3 percent. The FTSE 100 in London edged up 0.1 percent.

In the commodities markets, benchmark U.S. crude rose 0.9 percent to $74.94 a barrel. Brent crude, the international standard, rose 1.3 percent to $85 a barrel.

Gold rose 0.2 percent to settle at $1,191.50 per ounce, silver gained 0.5 percent to $14.40 per ounce and copper rose 1.4 percent to $2.81 per pound.

The dollar rose to 113.05 Japanese yen from 112.98 yen late Monday. The euro rose to $1.1496 from $1.1488, and the British pound rose to $1.3146 from $1.3090.

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AP Writer Annabelle Liang contributed from Singapore.

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: Refinitiv)

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Business/Financial Desk; SECTB
Markets Claw Their Way Back Amid Global Worries

By MATT PHILLIPS
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Stock investors were whipsawed on Tuesday, as earnings from a pair of industrial firms initially added to concerns about the global economy, but a tumble in **oil prices** later propped up consumer companies.

The **Standard & Poor's 500**-**stockindex** ended the day down 0.55 percent, at 2,740.69, after falling more than 2 percent.

Stock markets in China, Japan and Germany -- among the countries most heavily exposed to a slowdown in global trade -- set the tone with overnight trading declines, before high-profile earnings reports in the United States added to the dour mood.

After reporting weaker-than-expected third-quarter sales and profits, 3M fell 4.4 percent. The company cut its full-year estimates for profits, citing, in part, signs of a slowing Chinese economy.

Executives at 3M noted that they were seeing lower demand for the respiratory masks that Chinese consumers often wear at times of high air pollution. They also pointed out that auto production rates were "down significantly" in China and affecting demand for products like tapes, adhesives and acoustic material used to build cars.

Caterpillar, meanwhile, fell 7.6 percent even after the heavy-machinery maker's quarterly results beat expectations. Analysts cited continuing headwinds for the company, which include rising freight costs as well as increases in the cost of steel as a result of the Trump administration's imposition of tariffs on imports.

Rising commodity costs, and their potential to crimp profit margins that have been fattened by corporate tax cuts this year, have become a key concern for stock investors recently.

"The market is quickly changing its focus toward whether the best news from tax cuts is already reflected in earnings," said Ed Clissold, chief United States strategist at the **stock market** research firm Ned Davis Research. "Earnings are very unlikely to decline, but the growth rate is going to slow. So any sign that that inflection point is here is going to be viewed negatively by the market."

The economic backdrop did little to buoy investors' spirits. In Europe, a dormant debt-based political crisis seems on the verge of reawakening after the European Union sent Italy's budget back to its populist government on Tuesday. The bloc's administrative body told Rome that it had to rewrite its proposed 2019 budget to reduce deficits, or face heavy fines.

And benchmark American crude **oil prices** tumbled 4.7 percent Tuesday, to $66.09, over concerns about both the growth slowdown in China and comments from Saudi Arabia's energy minister that the kingdom would lift production.

The drop in **oil prices** rippled through stock markets, sending American energy stocks down more than 2.5 percent.

But falling energy prices also seemed to lift shares of companies that rely on consumer spending and could benefit as consumers spend less on gasoline. Companies selling consumer staples, such as groceries, rose slightly Tuesday.

Even beyond staples, the picture wasn't all bad in the United States. Shares of the Pulte Group, a homebuilder, rose 7.3 percent after it reported stronger earnings on higher home prices, helping to pull its fellow homebuilder Lennar higher. That's a welcome sign for the industry, which has been hammered this year as rising mortgage rates have hurt affordability.

McDonald's reported better-than-expected third-quarter profits and revenue, and its shares jumped 6.3 percent. And shares of Verizon rose more than 4 percent after its results exceed expectations.

The electric-car maker Tesla surged more than 12.5 percent after the company announced late Monday that it would move up its third-quarter earnings announcement to Wednesday. Some analysts interpreted the move as an indication that good results were on the way. Tesla shares were also helped when a high-profile Tesla critic and short-seller, Andrew Left of Citron Research, made an about face and announced that he was now betting on a rise in the price.

Such isolated bright spots have been swamped out by the overall gloom in the stock markets this earnings season as investors scour results for indications that earnings growth will slow. The **S**.**&P**. **500** is down more than 6 percent since peaking on Sept. 20. Back then, the benchmark **stock market** index was up nearly 10 percent for the year. The tumble in stocks has cut that gain to less than 3 percent.

''People have been assuming that both fourth-quarter and, more importantly, 2019 growth, in terms of G.D.P. growth and earnings, will continue along the path that it was on this year,'' said Matt Maley, an equity strategist at the brokerage firm Miller Tabak. ''And now we're hearing otherwise.''

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: Refinitiv)

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The New York Times

STOCKS & BONDS
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Solid Earnings Help Market Bounce Back

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U.S. stocks rocketed to their biggest gain in six months Tuesday following strong earnings from major financial and health care companies as well as encouraging reports on the economy. The **Dow Jones Industrial Average** jumped 547 points.

Morgan Stanley, Goldman Sachs and UnitedHealth led a parade of companies that reported profits for the third quarter that surpassed analysts' expectations. Technology companies also jumped after taking steep losses during the market's rout last week.

The **S&P 500 index** jumped 59.13 points, or 2.1 percent, its largest gain since March 26, and finished at 2,809.92. Stocks have bounced around over the last three days, and the **S&P 500** is down 4.1 from its record high on Sept. 20. The Dow gained 547.87 points, or 2.2 percent, to 25,798.42.

The **Nasdaq composite** climbed 214.75 points, or 2.9 percent, to 7,645.49 as technology companies reversed some of their outsize losses from the last few days. The Russell 2000 index of smaller-company stocks had its biggest rally in almost two years as it surged 43.74 points, or 2.8 percent, to 1,596.84.

Investors were encouraged by some good news on the economy. The Labor Department said U.S. employers posted the most jobs in two decades in August while hiring continued to increase and the Federal Reserve said output by U.S. factories, mines and utilities climbed in September despite the effects of Hurricane Florence.

Even with the big gains, major indexes are still broadly lower for the month following a two-day rout last week. The Dow slumped nearly 1,400 points as bond yields jumped and investors worried that a rapid increase in interest rates would slow economic growth.

Scott Wren, senior global equity strategist for the Wells Fargo Investment Institute, said stocks jumped because the industrial production report suggests inflation isn't speeding up, and that investors took that as a sign the Fed won't accelerate the pace of its interest rate increases.

"Anything that helps the market think that the Fed won't make a mistake is good," Wren said.

While investors' fears about rising rates and inflation seem to have eased, trading in October has been very **volatile**. Before that, the third quarter was marked by the type of calm, steady gains seen throughout 2017.

The last time U.S. stocks suffered a notable slide was in March, and strong corporate earnings helped start a turnaround after that.

Netflix soared 12 percent to $387 in aftermarket trading after reporting surprisingly strong subscriber growth during the summer. That was a welcome change from the big losses it took after its second-quarter report, when it posted disappointing subscriber totals and gave a weak forecast. Netflix is up 80.5 percent this year, the fourth-best of any **S&P 500** stock.

UnitedHealth, the largest U.S. health insurer and provider of privately-run Medicare Advantage plans, once again topped Wall Street forecasts and raised its projections for the year. The stock climbed 4.7 percent to $272.57. That suggests other health insurers are likely to report strong results in the next few weeks. Cigna advanced 3.9 percent to $211.96.

Health care products giant Johnson & Johnson added 1.9 percent to $136.56 after it said prescription sales jumped.

Morgan Stanley rose 5.7 percent to $45.94 and Goldman Sachs added 3 percent to $221.70 after the two investment banks did better than expected in the third quarter, helped by strong performance in their trading operations and better-than-expected revenue from stock underwriting. Morgan Stanley's stock has fallen 12 percent this year and Goldman has lost 13 percent.

Technology companies rose. Microsoft jumped 3.2 percent to $110.65 and Adobe rallied 9.5 percent to $260.67 after it backed its fourth-quarter profit and revenue forecasts. The stock has jumped 49 percent this year, but had slumped in recent days. Internet companies also advanced. Alphabet, Google's parent company, rose 2.8 percent to $1,133.08.

On Wednesday Canada will legalize marijuana nationwide. While cannabis companies mostly traded lower Tuesday, the stocks have made huge gains this year in highly **volatile** trading. Tilray fell 4.4 percent to $158.38 while Canopy Growth shed 6.8 percent to $53.01.

Benchmark Capital analyst Mike Hickey started coverage of Tilray with a $200 price target Tuesday, saying its supply deals with pharmacies and a partnership with drugmaker Novartis will help make it an early leader in the market. Hickey valued the Canadian cannabis market at about $3.2 billion in 2019 and said it will climb to $8.1 billion by 2023.

Tilray's market value stands at almost $15 billion, up ninefold since it went public in mid-July. Canopy Growth, which recently announced a big investment from Corona beer maker Constellation Brands, has more than doubled in value to $12.2 billion.

The huge gains reflect investors' view that that other countries will legalize marijuana in the years to come.

U.S. benchmark crude oil added 0.2 percent to $71.92 per barrel in New York. Brent crude, the international standard, rose 0.8 percent to $81.41 per barrel in London.

Wholesale gasoline rose 1.7 percent to $1.98 a gallon and heating oil picked up 0.6 percent to $2.34 a gallon. Natural gas lost 0.1 percent to $3.24 per 1,000 cubic feet.

Bond prices edged lower. The yield on the **10**-**year Treasury** note rose to 3.17 percent from 3.16 percent.

Gold rose 0.1 percent to $1,231 an ounce. Silver lost 0.2 percent to $14.70 an ounce. Copper slipped 0.3 percent to $2.78 a pound.

The dollar rose to 112.18 yen from 111.88 yen. The euro fell to $1.1578 from $1.1584.

France's CAC 40 added 1.5 percent while the DAX in Germany jumped 1.4 percent. Britain's FTSE 100 rose 0.4 percent. Italy's FTSE MIB jumped 2.2 percent after the government avoided last-minute delays in presenting a budget plan.

Japan's benchmark Nikkei 225 rallied 1.2 percent and the Kospi in South Korea was little changed. Hong Kong's Hang Seng index finished 0.1 percent higher.

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

CHARTS: Industrial Production: Index of total industrial production, 2012 = 100, seasonally adjusted. (Source: Federal Reserve); The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Tuesday (Source: Refinitiv)

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The New York Times

Business/Financial Desk; SECTB

A Favorite Boast of President Trump May Soon Be Nothing to Brag About

By PETER EAVIS
614 words
23 October 2018
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If the **stock market** keeps dropping, President Trump could lose one of his favorite bragging rights.

Concerns about higher interest rates, Mr. Trump's trade policies and slower economic growth outside the United States have weighed heavily on stocks this month. The **Standard & Poor's 500-stockindex** is down 5 percent in October and sits 5.6 percent below its record high in September.

Still the **stock market** remains up a lot since Election Day in 2016, something Mr. Trump has often trumpeted. And with the economy solid and unemployment low, the recent **volatility** in the **stock market** is unlikely to have much effect on the midterm elections next month.

But the **stock market** is one of the most prominent indicators of confidence, and recent weakness suggests investors have some doubts about Mr. Trump's leadership. If the **S**. **& P**. **500** falls further, Mr. Trump will struggle to compare himself favorably with other presidents. Here's how he compares with his predecessors in the nearly two-year period after they were each elected.

The **S**. **& P**. **500** is up 29.4 percent in the 710 days since Nov. 8, 2016. Over the same number of days after Barack Obama was re-elected in 2012, the benchmark posted a gain of 32.1 percent.

The performance of stocks under Mr. Trump and Mr. Obama fall far short of the rally that took place after Bill Clinton was re-elected in 1996. The **S**. **& P**. **500** soared 48 percent over the equivalent period.

It's fun to debate how much credit presidents deserve for strong **stock market** performance, but it's hard to know for sure. Investors take cues primarily from corporate earnings, forecasts of economic growth and whether stocks are expensive or cheap. Presidents typically have little direct influence over any of those. It's hard, for instance, to tie Mr. Clinton's policies to the innovation in the technology sector that helped stocks soar during his second term.

With Mr. Trump, there is some clear causality. The tax cuts that he enacted last year have lifted corporate earnings, which helped push the **S**. **& P**. **500** higher.

The rally since 2016 also stands out because it started when stocks were already quite highly valued. The price-to-earnings ratio of the **S**. **& P**. **500**, which compares stock prices with the earnings of companies in the index, was 14 when Mr. Obama was re-elected. When Mr. Trump won, it was 18.

But some of Mr. Trump's policies seem to have weighed on stocks and could continue to do so. His tax cuts that bolstered profits are causing the budget deficit to balloon, which is a growing source of concern among investors. The trade frictions that he has created have hurt the earnings of some companies. And if Mr. Trump's tariffs on China weigh on that country's economy, the effects could be felt around the world.

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

Presidents' influence on **stock market** performance is debatable, but there is some clear causality in President Trump's case. (PHOTOGRAPH BY BRYAN R. SMITH/AGENCE FRANCE-PRESSE -- GETTY IMAGES) CHART: Presidential Returns: Change in the **S**.**&P**. **500**-**stock index** 710 days after the election of a president. (Source: FactSet)

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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
Retailers Sink as Amazon Raises Hourly Pay

By THE ASSOCIATED PRESS
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Retailers sank Tuesday after Amazon said it will raise hourly wages for U.S. employees, and smaller companies continued to stumble. Several big industrial companies rose, pushing the **Dow Jones Industrial Average** to a record high.

Amazon, one of the largest private employers in the U.S., said it will raise the minimum wage for its U.S. workers to $15 an hour in November. Amazon also said it will advocate for an increase in the federal minimum wage, which has been $7.25 an hour since July 2009. Its stock fell, but other retailers suffered bigger losses.

"The question is, do other companies have to follow suit?" said Quincy Krosby, chief market strategist at Prudential Financial. "This is the argument that what's good for Main Street is not necessarily good for Wall Street."

The bad news for retailers didn't end there. Stitch Fix, an online clothing company, plunged 35.2 percent $28.94. Stitch Fix had almost tripled since its IPO in November.

Pepsi fell after it said the strong dollar will take a bigger chunk out of its annual profit. General Motors and Ford both fell after they reported their sales.

The **S&P 500 index** fell 1.16 points to 2,923.43. The Dow added 122.73 points, or 0.5 percent, to 26,773.94. The biggest gains came from industrial companies Boeing, 3M and Caterpillar.

The **Nasdaq composite** lost 37.75 points, or 0.5 percent, to 7,999.55. Three stocks fell for every two that rose on the New York Stock Exchange.

Amazon lost 1.6 percent to $1,971.31 while Nike lost 2 percent to $82.77 and Gap sank 4.9 percent to $27.31. Smaller consumer-focused companies fared even worse. Crocs dropped 6.8 percent to $19.59 and Guess skidded 6.7 percent to $20.69.

The Russell 2000 index of smaller-company stocks fell 16.95 points, or 1 percent, to 1,656.04, its lowest close since July 30. Earlier this year investors bought up smaller companies as tensions with trading partners flared up. Smaller companies tend to be less exposed to trade conflicts since they do more business in the U.S. than larger companies.

Investors aren't as worried about trade tensions recently, so they are shifting money out of smaller companies and into large multinationals. In the last three months the **S&P 500** has climbed 7.2 percent and the Russell is essentially flat.

Krosby said rising oil and gas prices are also a problem for retailers because they could leave consumers feeling like they have less money to spend over the holiday shopping season.

Automakers fell following their sales updates. GM dipped 2.6 percent to $33.30 and Ford fell 1.3 percent to $9.20, but Toyota added 0.7 percent to $125.71. Auto parts retailers AutoZone fell 1 percent to $762.82.

Automakers had risen Monday as the trade deal with Canada appeared to reduce the chances that the industry will be harmed by tariffs on imported cars. The pact offers protection to Canada if the U.S. does impose tariffs.

Pepsi fell 1.8 percent to $108.72 after it said the stronger dollar will have a bigger effect on its earnings this year. The company is now forecasting a profit of about $5.65 per share in 2018, down from an earlier estimate of $5.70 a share.

Airlines fell after Delta's projections for the third quarter disappointed Wall Street, and the airline said it lost $30 million due to Hurricane Florence. Delta gave up 3.4 percent to $54.69 while American fell 2.8 percent to $38.50.

Italy's leaders refused to budge from new spending plans that have been worried investors, pushing the eurozone's third-largest economy on a collision course with its EU partners. Deputy Prime Minister Luigi Di Maio said Tuesday that the government won't change its plan to increase its deficit to 2.4 percent of GDP.

Italy's FTSE MIB fell 0.2 percent for its fifth loss in a row, and Italian government **bond prices** continued to fall, a sign investors are concerned about the country's debts. Germany's DAX lost 0.4 percent and the CAC 40 in France dropped 0.7 percent. Britain's FTSE 100 fell 0.3 percent.

Separately, the credit ratings agency Moody's warned that Europe remains highly vulnerable to another economic downturn despite all its fire-fighting efforts over the past few years.

Oil prices declined slightly after reaching four-year highs on Monday. Benchmark U.S. crude fell 0.1 percent to $75.23 in New York. Brent crude, used to price international oils, slipped 0.2 percent to $84.80 a barrel in London.

Wholesale gasoline was little changed at $2.13 a gallon and heating oil remained at $2.41 a gallon. Natural gas rose 2.3 percent to $3.17 per 1,000 cubic feet.

Gold jumped 1.3 percent to $1,207 an ounce and silver rose 1.3 percent to $14.69 an ounce. Copper gained 0.7 percent to $2.81 a pound.

The dollar fell to 113.69 yen from 113.99 yen. The euro fell to $1.1545 from $1.1575.

Bond prices edged higher. The yield on the **10**-**year Treasury** note fell to 3.06 percent from 3.08 percent.

Hong Kong's Hang Seng tumbled 2.4 percent after it reopened following a national holiday. South Korea's Kospi lost 1.3 percent and the benchmark Nikkei 225 in Tokyo added 0.1 percent.

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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.

Markets

October's Market Rout Leaves Investors With No Place to Hide; Dual breakdown in stock and bond prices has upended investors' traditional safety tool kit, leaving many with losses

By Michael Wursthorn
1,200 words
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A brutal October selloff across stocks and bonds has tested investors' resolve and the durability of the more than nine-year-old **bull market**.

Even after the **S&P 500**rallied nearly 3% over the final two days of the month, the index in October still notched its most violent pullback in more than seven years. Stocks around the world lost about $5 trillion in value, according to S&P Dow Jones Indices, as shares in Europe and Asia also tumbled.

The tumult left the **Dow Jones Industrial Average** and **S&P 500** clinging to slim gains for the year as a whole. The indexes finished the month down 5.1% and 6.9%, respectively. It was the worst October for the **S&P 500** since 2008.

Adding to the **stock market**'s anxieties has been a rare simultaneous drop in **bond prices** that has pushed yields near their highest levels in years. The dual breakdown in stock and **bond prices** has upended investors' traditional safety tool kit of buying Treasurys during periods of **volatility**, leaving many with losses.

Traditional investment portfolios of 60% equities and 40% bonds lost more than 3% in October and are down 1.2% this year, on pace for a rare annual loss that was last seen in 2008, as well as during **volatile** periods in 1990, 2001 and 2002, said Luca Paolini, chief strategist at Pictet Asset Management, which manages $191 billion. Even investors who are heavier on fixed income would still be in the red, with allocations of 75% bonds and 25% equities falling more than 2% this month to drag their performance down 1.1% for the year.

"There's no real place where investors can hide," Mr. Paolini said. "This is one of the worst years in a long time for diversification."

A laundry list of problems sent stocks reeling in October, erasing the hefty gains major indexes notched over the summer. Concerns that the U.S. economy is on the verge of overheating sent bond yields up, inducing the **stock market**'s first bout of **volatility** earlier this month as investors were forced to re-evaluate the rich valuations in some pockets of the market.

Then signs of slowing corporate growth among highflying companies like Amazon.com Inc. and Google parent Alphabet Inc., along with ongoing trade tensions between the U.S. and China, extended losses in stocks and bonds around the world.

Shares in Europe didn't fare much better during the month, with the Stoxx Europe 600 declining 5.6%, its biggest drop in more than two years. Major indexes in Asia also notched steep losses, one of the worst being Hong Kong's Hang Seng, which suffered its biggest percentage decline since January 2016.

With losses mounting, the MSCI world equal-weighted index, which gives the stocks of 23 countries the same amount of clout regardless of market value, is down 14% from its closing high in late January.

Declines in **bond prices**, meanwhile, have exacerbated investors' pain. Annualized losses among U.S. Treasurys and investment-grade bonds are at 9.7% and 4%, respectively, the third-steepest declines since 1970, according to a recent Bank of America Merrill Lynch report.

"The market is convinced we're at the end of the cycle," said Steve Chiavarone, who runs Federated Investments' global allocation fund. "Investors think fiscal policy is going to be less accommodative; therefore that's going to lead to inflation picking up and the [Federal Reserve] is going to be more aggressive."

The Federated fund, which owns stock and bonds in developed and emerging markets, has fallen 7.7% so far this month. Although that slide knocked Mr. Chiavarone's fund into negative territory for the year, the fund manager remains **bullish** on equities and bought depressed shares of growth companies during October's harsh selloff.

"We would be more concerned if equity **volatility** was confirmed elsewhere, such as with rising jobless claims or inflation surging," he added.

Some investors have been unwilling to wade into the **volatility** to buy depressed assets, whether they be stocks or bonds, several money managers said. Instead, October's rough patch has pushed some investors to load up on cash.

Cash allocations among Bank of America's wealth-management clients rose to 10.4% of assets in the most recent week, up from 10% at the end of September. Meanwhile, 174 fund managers overseeing $518 billion are, on average, holding cash balances of 5.1%, well above the 10-year average of 4.5%, according to recent reports from the bank.

Others have shifted toward gold and other assets, such as shares of utility companies and consumer staples that pay rich dividends and tend to hold up better during times of economic distress. Still, the sliver of gains among those assets hasn't been enough to buoy diversified portfolios.

"We've been moving to be a little more defensive," said Mike Balkin, a William Blair & Co. portfolio manager, who has pared back his fund's exposure to technology and other growth stocks that had extreme valuations. He has shifted some of that money into shares of consumer and health-care companies. "In a downdraft like this, you're not going to escape the carnage," he said.

Even with the losses among bonds, several money managers have moved to increase their exposure to fixed income, willing to bear the declines over the short term for greater stability in their investment portfolio. Of the past seven bear markets, only two caused portfolios split 60/40 between equities and bonds to fall more than 20%, UBS Group AG said in a recent note.

The Swiss bank's investment strategists has said to increase exposure to Treasurys and maintains a positive outlook on stocks. Mark Haefele, chief investment officer of the bank's global-wealth arm, said in a recent note to investors that global growth will slow in 2019 as the Federal Reserve and other central banks unwind their balance sheets and the benefit of last year's corporate tax cut fades. Wells Fargo Investment Institute has been also recommending investors stay diversified and continue to carry bonds despite short-term pain.

"This isn't going to end tomorrow. If an investor can stomach another 5% to 10% drawdown, hang tight," said Liz Young, a senior investment strategist at BNY Mellon Investment Management, which oversees $1.8 trillion. "If someone's skittish and can't handle it, rotate into those safe-haven assets where you can try to hide out."

Write to Michael Wursthorn at Michael.Wursthorn@wsj.com

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The New York Times

Business/Financial Desk; SECT
Investors' Big New Worry Is Hitting Small Stocks Hard

By MATT PHILLIPS
510 words
18 October 2018
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The New York Times on the Web
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Earlier this year, small stocks were a big trade.

Among investors, the bet was that smaller American businesses had less to lose in the global trade fight than big multinationals, and more to gain from the Trump administration's tax cuts. With this backdrop, small stocks surged ahead of the giants that make up the **Standard & Poor's 500-stockindex**, beating them for much of the year.

That's over now. Instead of being insulated, small companies are actually more likely than larger ones to be affected by investors' new worry: rising interest rates.

After peaking in August, the benchmark for so-called small caps, the Russell 2,000-**stock index**, is down 8.7 percent. The **S**.**&P**. **500**, by comparison, is down about 3.2 percent.

Rising interest rates are problematic for smaller firms because they tend to have a much higher proportion of debt tied to a floating interest rate than larger companies do, and more debt in general. As rates climb, so will the interest on loans that small businesses carry.

''They're more exposed to the rising rate environment,'' said Marc Pouey, United States equity strategist with Bank of America Merrill Lynch.

Since late August, when small caps peaked, interest rates have marched higher. The yield on the **10**-**year Treasury** note climbed to nearly 3.25 percent this month from less than 3 percent. And the Federal Reserve -- which exerts control over short-term interest rates -- has signaled that it will stick to its plans to keep raising rates in the face of strong economic conditions.

Roughly half the debt owed by Russell 2,000 companies is floating rate, which means interest payments will rise along with rates, according to research from Bank of America Merrill Lynch. That compares with just over 25 percent floating rate debt for **S**.**&P**. **500** companies.

And starting in January, the aid to earnings growth that is attributable to the tax cut will fade. It's another factor that could hit smaller companies harder than the bigger ones.

Companies in another small-cap index, the Standard & Poor's 600-**stock index**, paid an averaged effective tax rate of 36.5 percent in 2017, compared with 27.1 percent for large-cap stocks, according to research from JPMorgan Chase. That higher rate means smaller companies received a steeper cut in their tax rate under the tax overhaul, which lowered the corporate tax rate to 21 percent from 35 percent.

''You've got cost and margin pressure coming from a lot of different angles,'' said George Pearkes, a strategist at Bespoke Investment Group.

Other issues, such as climbing labor costs, will also weigh disproportionately on companies with domestic operations. All of those elements are probably contributing to a flattening of earnings expectations among analysts who follow small-cap shares.

Add it all up and there's a simple conclusion, said Mr. Pouey of Bank of America.

''We prefer large caps at this point.''

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The New York Times

Common Sense
Business Day
Markets Just Dived. Democrats Shouldn't Get Too Excited.

By James B. Stewart
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Until markets plunged on Wednesday, the economic news couldn't have been much better for Republicans heading into the midterm elections. Two weeks ago the **Dow Jonesindustrial average** hit a record. Last week the unemployment rate fell to 3.7 percent. Economic growth estimates were just upgraded to 4.2 percent for the second quarter.

President Trump hasn't been shy about taking credit: "As large as we are, we're the fastest-growing economy in the world, up $10 trillion," he told the United Nations in late September, grossly exaggerating both the order and magnitude of the gains. (The United States is nowhere near the fastest-growing economy in the world, and last year it grew by $1.3 trillion, not $10 trillion.)

As the White House adviser Larry Kudlow recently put it, "The single biggest story this year is an economic boom that is durable and lasting."

The problem for Republicans: If history is any guide, neither record stock prices nor a booming economy will stem the incumbent party's losses in a congressional election.

Nor should Democrats take much comfort from the possibility that the recent drop in stock prices will hurt Republicans' standing with voters.

Keith Parker, chief equity strategist at UBS, recently completed an in-depth study of all midterm-election years between 1950 and 2014. "In nearly all instances the party of a sitting president loses seats," he concluded. "We sliced the data every way possible. A strong market going into the election doesn't necessarily help the incumbent's party." Nor does a bad **stock market** seem to hurt it.

The same was true for the health of the economy: It had no discernible impact on the political outcome.

Consider 2006, the middle of President George W. Bush's second term. Heading into the congressional elections that year, the **stock market** was up 11 percent. The economy grew that year at a 2.7 percent clip.

Yet Democrats achieved a sweeping victory, gaining a majority in the House (which made Nancy Pelosi the first female speaker) and control of the Senate (where Bernie Sanders and Joe Lieberman joined 49 Democratic senators for an effective Democratic majority).

Polls that year suggested that voter frustration over the Iraq war, Mr. Bush's proposal to privatize Social Security and the Republican-controlled Congress's scant achievements outweighed the positive economic backdrop.

Many investors feared that the loss of Republican majorities would hurt **financial markets**. But the **Standard & Poor's 500-stockindex** ended 2006 with an impressive gain of nearly 16 percent.

In 2010, during President Barack Obama's first term, the economy was growing at a respectable 2.5 percent rate, and the **stock market** was up nearly 7 percent.

Yet Democrats suffered widespread midterm losses. Republicans captured 63 seats in the House, regaining the majority, and gained six seats in the Senate. With the Tea Party wing of the Republican Party whipping up resentment about Wall Street bailouts and high unemployment, Democrats weren't able to capitalize on either rising stock prices or the economy's return to growth.

Neither do plunging stock prices seem to have much impact on the electorate. In 2002, when the bursting technology bubble caused the **S**. **& P**. **500** to drop 22 percent, the president's party — in this case the Republicans during Mr. Bush's first term — gained seats in the House and Senate.

Heading into the 1966 midterms, with Lyndon B. Johnson in the White House, stocks were in a **bear market**, having fallen 22 percent that year from peak to trough.

Yet, the incumbent Democrats fared relatively well, losing only three seats in the Senate and 46 seats in the House and maintaining control of both chambers.

The good news for investors is that just as stock prices and the economy appear to have little impact on midterm results, the converse is also true: The outcome of congressional elections has little or no impact on stock prices and the economy. "Whatever the momentum there is going into the elections tends to continue," Mr. Parker said. "Politics don't seem to have much impact."

He found that, on average, stocks gained 14.5 percent from the end of August to the end of March in the year after midterm elections. That compares with average gains of 6.1 percent over the same period in non-midterm years.

Of the 17 midterm election periods Mr. Parker analyzed, only two — 1978 and 2002 — were followed by market drops.

There have been six midterms where one or both houses of Congress experienced a change in control. That had no impact on stocks: The average gains in those years were the same as in years when there was no change in control.

The reason stocks do so well around midterm elections, Mr. Parker theorized, is that valuations before the elections tend to be lower than fair value, perhaps because investors are overly concerned about the risk of political change. (That doesn't appear to have been much of a factor in this week's drop, which was fueled in large part by concerns about rising interest rates and a trade war with China.)

Mr. Parker's reasoning suggests that any pre-election weakness is a buying opportunity.

Mr. Parker cautioned that the period he studied provides too few midterm elections, and thus too little data, to draw any firm conclusions. Still, the market's outsize gains around midterms are "a significant statistical anomaly," he said.

This year, the **S**. **& P**. **500** is down more than 5 percent since the end of August. That means there will have to be a big rally by next spring if Mr. Parker's pattern is to continue.

* Wall St. Extends Drop Into Sixth Day After Global Sell-Off

* Stocks Plunge, as Fresh Tensions With China Batter Tech Shares

* Interest Rates Are Rising for All the Right Reasons

The New York Stock Exchange on Thursday. "A strong market going into the election doesn't necessarily help the incumbent's party," said Keith Parker, chief equity strategist at UBS. | Spencer Platt/Getty Images

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THE WALL STREET JOURNAL.

Markets
Upstart Exchange Looks to Profit From Wall Street Fear; MIAX to launch options on index for volatility traders, competing with Cboe's VIX

By Gunjan Banerji
594 words
15 October 2018
07:32 AM
The Wall Street Journal Online
WSJO
English
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Just after the stormiest week for U.S. markets in months, investors may get a new way to bet on Wall Street fear.

Miami International Holdings Inc., a small but rapidly growing exchange operator, won regulatory approval on Friday for options on an index that tracks expectations for U.S. stock **volatility**. The measure, called SPIKES, competes head-to-head with the already established Cboe **Volatility** Index, known as the VIX.

The approval comes after investors were reminded last week of how quickly market turbulence can snap back. On Friday, both the **S&P 500** and **Dow Jones Industrial Average** capped their worst weeks since March as investor anxiety bubbled up over how much longer the nine-year **bull market** in U.S. equities can go on.

The VIX has also been beset by controversies and problems in 2018. The index shot up in popularity over the last decade, enticing everyone from mom-and-pop investors to multibillion-dollar pensions to get into **volatility** trading. But unusual activity and manipulation claims have dogged it this year, leading to lawsuits against its operator, Cboe Global Markets Inc. The company has taken steps to change VIX derivatives trading.

Six-year-old MIAX says SPIKES is a more efficient and transparent way to track expected stock **volatility**. A key difference will be that trading options on SPIKES will be completely electronic. The VIX remains heavily reliant on an old-school trading floor at Cboe's headquarters in Chicago. SPIKES is also designed to disseminate a level every 100 milliseconds. A level for the VIX is generated every 15 seconds.

Another big difference is that SPIKES is based on options prices on the biggest **S&P 500** exchange-traded fund, the SPDR **S&P 500** ETF Trust, known as SPY. The VIX is determined by prices of options on the **S&P 500 index** itself—contracts that can only be traded on Cboe.

MIAX Options, the exchange that plans to list the options, will also likely undercut Cboe on trading fees—which have long been a gripe of traders using Cboe's proprietary products. Data from a monthly auction that establishes derivatives prices for SPIKES will also be publicly available, the company said, tackling an area that has plagued the VIX this year.

SPIKES "is not the first attempt by a competitor to launch a VIX-like product," said a Cboe spokesman in an email. "As seen last week, the marketplace turns to VIX options and futures for opportunities to manage uncertainty and risk."

Princeton, N.J.-based MIAX says there is interest from a number of options trading firms. Chief Executive Thomas Gallagher said the new SPIKES options will inject "healthy competition into the market."

Still, while SPIKES options could be launched this quarter, there is no guarantee they will be successful. Cboe has nurtured the VIX and the products linked to it for years, turning the gauge into a lucrative franchise. More than a third of Cboe's revenue growth in the two years through 2017 came from VIX derivatives trading, according to Goldman Sachs.

MIAX is also not the only exchange vying for a slice of the **volatility** trading universe. The Wall Street Journal reported last year that Nasdaq Inc. has been working to launch futures and options linked to another index that measures U.S. stock **volatility**.

Write to Gunjan Banerji at Gunjan.Banerji@wsj.com

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WSJ PRO CENTRAL BANKING

Economy

U.S. Economy Grew at 3.5% Rate in Third Quarter; But warnings signs, such as a modest rise in business investment, are emerging

By Harriet Torry
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26 October 2018
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Corrections & Amplifications

Final sales to private domestic purchasers, which strip out trade, inventories and government spending, rose at a seasonally adjusted annual rate of 3.1% in the third quarter. An earlier version of this article incorrectly called the measure "final sales of domestic product" and gave a rate of 1.4%. (Oct. 26, 2018)

WASHINGTON—The economy powered ahead in the third quarter, driven by robust consumer and government spending, though Friday's report included warning signs that the business sector faces turbulence that could hold back the expansion in the months ahead.

Gross domestic product—a measure of how much the U.S. produces in goods and services—grew at a 3.5% annual rate from July through September to $18.7 trillion, adjusted for inflation, the Commerce Department said Friday. That came after a 4.2% growth rate in the second quarter and stands as fresh evidence that growth has picked up from subpar levels closer to 2% that had prevailed for much of the long-running U.S. expansion since 2009.

However, signaling unease about the emerging outlook, stocks fell Friday, with the **Dow Jones Industrial Average** shedding 1.19% and the **Standard & Poor's 500-stockindex** dropping 1.73%.

Third-quarter corporate earnings have been largely positive, with some 80% of reporting **S&P 500** firms posting profits that exceeded Wall Street's expectations. But sales performance has been more mixed, with more than a third of firms so far missing revenue projections. It is a trend that amplifies some investors' concern that U.S. economic growth may have peaked earlier this year.

Consumer spending is being powered by plentiful jobs. The unemployment rate fell in September to its lowest level since 1969, meaning more income in household pocketbooks, and tax cuts have added to purchasing power. That showed up in the report in the form of additional spending on everything from restaurants to recreational goods.

"I'm 75 and this is one of the best times I've seen in a long, long time," said Thomas Thompson, a retired power-plant engineer from Plymouth, Wis. He and his wife bought a new Cadillac Escalade SUV this summer and recently began a two-week vacation to Washington, D.C., and the Blue Ridge Mountains, thanks in part to the strong economy and **stock-market** gains in recent years.

Government spending is also being unleashed on the economy, after contracting earlier in the expansion due to agreements between the Democratic Obama administration and congressional Republicans to rein in budget deficits that soared after the 2007-2009 financial crisis.

Defense outlays grew at a 4.6% annual rate in the third quarter, adjusted for inflation, thanks in part to a bipartisan budget agreement reached in February to boost government spending this year and next by nearly $300 billion above limits set in a 2011 law. That included $165 billion more for the military. For the six months between April and September, defense spending rose at its fastest pace since 2009.

Despite those engines of growth, many analysts believe the expansion will slow in the months ahead. The Federal Reserve, for example, projects a growth rate of 2.5% in 2019, 2% in 2020 and 1.8% in 2021.

The GDP report pointed to pockets of unexpected weakness, particularly in the business sector. Business investment grew at a modest 0.8% annual rate. That included a contraction in investment in business structures, which had been running strong for months, thanks to spending on oil and gas rigs driven by rising energy prices.

Republicans cut the corporate tax rate from 35% to 21%, hoping to spur a business-investment boom that lifts the economy's potential to grow for years. Business-investment data can be **volatile** from one quarter to another, but the weak number in the latest report suggests other factors—including uncertainty about the outlook for trade tariffs—could be starting to weigh on business decisions to spend on new equipment and plants.

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The recreational boat industry, which faces retaliatory tariffs ranging from about 10% to 25% on exports to a range of countries, is one example of a sector caught in the crosscurrents.

Correct Craft Inc., a recreational boat maker based in Orlando, Fla., is "getting squeezed on both ends," Chief Executive Bill Yeargin said in an interview. Alongside tariffs on exports that pose "significant headwinds" to its international business, tariffs on components imported from China have given domestic suppliers cover to raise prices, too, he said.

"Fortunately, the domestic market's been very strong," Mr. Yeargin said.

Doug Smoker, CEO of New Paris, Ind., boat maker Smoker Craft Inc., echoed that "tariffs are definitely taking a toll on us."

"We are a bit nervous" about the rising cost of component parts, Mr. Smoker said, adding he is "hoping the economy stays in the same situation as now and we don't get bogged down with political unrest and keep rolling."

President Trump has set out to close large U.S. trade deficits, but a widening trade deficit was a drag on growth in the third quarter. Earlier in the year, trade boosted growth as farmers accelerated sales of soybeans to get ahead of anticipated tariffs on U.S. exports to China.

Sectors sensitive to interest rates also face some strain as the Fed raises short-term rates. Home-building has contracted in five of the last six quarters. The pace of car purchases also slowed in the last three months.

The Fed is widely expected to raise short-term rates again in December and then through 2019. That is meant to prevent the economy from overheating and stirring inflation or financial excesses that can lead to bubbles in asset prices. The rate increases have sparked anger from Mr. Trump, who says the central bank is undermining his efforts to further spur growth.

The **stock market** is another wild card for the economy. Rising stock prices produce something economists call a "wealth effect," meaning that when people see their investment portfolios rise, they spend more money because they feel wealthier.

The wealth effect likely prompted more consumer spending as stock prices rose, but could weigh on spending if stocks keep falling, as they have in recent weeks.

The latest report on the economy included one hint that the Fed might not need to push rates significantly higher, which could help stocks. The central bank's preferred measure of inflation—a price index tracking the costs of goods and services purchased by consumers—rose at a 1.6% annual rate in the third quarter, less than the Fed's 2% target.

Fed officials believe inflation will keep rising because the economy is running strong, but if price measures remain modest, officials might decide they don't need to push rates significantly higher.

A Fed report released earlier this week said businesses were still optimistic about the economy's trajectory, but indicated concerns that tariffs would continue to push up costs.

Many businesses have passed along tariff-related price increases to customers, or expect to, the Fed said in its latest roundup of anecdotal information about regional economic conditions known as the beige book. But in some cases, businesses are unable to.

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

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* Analysis: Are Price Increases Painting Companies Into a Corner?

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THE WALL STREET JOURNAL.

Markets

Jittery Investors Deepen Stock Fall; Dow is down 5.2% after second day of rout; anxiety rises as tech shares fall

By Corrie Driebusch, Akane Otani and Jessica Menton
1,140 words
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A gloomy October on Wall Street turned darker Thursday, as heavy selling overseas and failed intraday rallies in the U.S. sent major stock indexes to another stinging retreat.

The **Dow Jones Industrial Average** tumbled 546 points, leaving the blue-chip index down 5.2% after two days of **volatile** trading that has been marked by sharp declines in the last hours of the day. The cost of hedging against **stock-price** declines soared Thursday in a sign of rising anxiety, with the Cboe **Volatility** Index, or VIX, soaring to its highest level since the February rout that set the Dow's intraday point-decline record.

Analysts and portfolio managers scrambled Thursday to put concerned clients at ease, though many admitted they struggled to figure out what drove the two-day tumble—and fretted it might not be over.

Rising U.S. interest rates, stretched share valuations and concerns about U.S. trade relations with China and other major nations have weighed on trading throughout 2018, and few investors said they believed economic and market conditions had turned negative enough recently to justify the across-the-board selling.

The most vicious action Thursday took place at midafternoon New York time, when the Dow briefly was down as many as 699 points in a pullback that hit energy and financial stocks hardest.

At WallachBeth Capital's offices in Jersey City, N.J., traders watched the Dow industrials drop more than 400 points in less than 20 minutes. "People don't know what to make of this," said Mohit Bajaj, director of the firm's exchange-traded funds operations.

While the Dow remains just 6.6% below its Oct. 3 record, Thursday's action disappointed investors who had hoped the carnage could be contained after a sharply lower opening gave way to a midday rebound that briefly took the index into positive territory.

The U.S. selling mirrored deep losses overseas, and the sharpness of the pullback unsettled corporate plans. Tencent Music Entertainment Group postponed its highly anticipated initial public offering until at least November, The Wall Street Journal reported, citing people familiar with the Chinese tech company's plans. The decision hit pause on what would be one of the largest IPOs in the U.S. this year.

Yet even after Thursday's selloff, many portfolio managers and analysts remained optimistic about U.S. stocks, reasoning that the conditions for strong equity performance—including economic growth, low interest rates and contained inflation—remain in the U.S. and many markets around the world.

Many said they doubted a reckoning was at hand for a **bull market** that has taken the Dow, **S&P 500** and Nasdaq to dozens of records this year. "Is this the next 2008? It's very difficult for me to believe it is while the economy is this good," said Rebecca Patterson, chief investment officer at Bessemer Trust.

The Dow industrials swung nearly 784 points from its high to its low Thursday. All 11 sectors in the **S&P 500** fell for the second straight session, but the industries that led Wednesday's rout, like technology and communications, saw more modest losses. Energy stocks led the declines, tumbling along with **oil prices**.

The selloff took with it some of the best-performing stocks in the **S&P 500** this year, sending Netflix down 9.7% over two days, Amazon.com off 8.1% and Apple 5.5% lower.

Investors had been fixated for most of the past week on a steep rise in government bond yields—something that had challenged a longstanding dynamic of low yields making relatively risky stocks attractive in comparison. But even as **bond prices** rallied Thursday, sending yields lower, the stock selloff continued.

At Oppenheimer & Co., traders spoke to dozens of clients looking for assurances that the long-running market rally wasn't at its end. Some needed to raise capital, said Doron Barness, global head of trading at Oppenheimer & Co., but most were more interested in getting the reactions of other investors.

"I spoke to roughly 25 clients today, some as early as 9:30 last night as they were deciding what the next catalyst would be," Mr. Barness said. "We knew that we would have to be prepared to navigate the choppy markets."

The **S&P 500** tumbled 2.1%, and the technology-heavy **Nasdaq Composite** lost 1.3%, closing down nearly 10% from its Aug. 29 record close of 8109.69. Those indexes are on track for their worst week since March—though the **S&P 500** is still up more than 2% for the year.

Stocks overseas also fell, with the Stoxx Europe 600 posting its biggest one-day slide since June and Hong Kong's Hang Seng suffering its biggest one-day loss since February.

Traders braced for further **volatility**. The Cboe **Volatility** Index, which measures investors' expectations for stock swings, jumped 8.8% to 24.98—extending a recent climb that has brought it to its highest level since February.

The stock declines left many investors anxious heading into the third-quarter corporate earnings season, which kicks off in earnest Friday with big banks including JPMorgan Chase & Co. and Citigroup Inc. Financial stocks were among the worst performers Thursday, which some traders attributed to hesitancy to hold the shares ahead of the earnings reports.

"It's a tough time," said R.J. Grant, director of equity trading at financial firm Keefe, Bruyette & Woods. Few wanted to buy shares Thursday, he said, because "investors are waiting to see earnings from the banks.…Earnings season can't come soon enough."

Corporate profits are widely expected to rise in the third quarter, and many investors said that could help provide a bottom for the stock pullback. But these investors say earnings season doesn't guarantee good news: Earlier this week, tools distributor Fastenal Co. reported a stronger-than-expected profit, but its shares fell as executives spoke of higher costs due in part to tariffs.

Joseph Amato, chief investment officer of equities at asset manager Neuberger Berman, said he wasn't surprised to see a pullback after the long rally, but "whenever markets move that hard in that short a time it can feel like a surprise."

Michael Wursthorn contributed to this article.

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What Is Ailing the Stock Markets? A WSJ Conversation

The **stock market** stumbled hard this week. Is it the fault of interest rates? A stretched technology sector? Hear from WSJ journalists in a member-exclusive call at noon Friday, Oct. 12, and ask them questions live. Register now.

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THE WALL STREET JOURNAL.
U.S. EDITION

Solid Earnings Give Stock Investors Hope

By Amrith Ramkumar
522 words
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Investors bruised by recent punishing losses in stocks have something to look forward to: corporate earnings.

The benchmark **S&P 500 index** has risen in seven of the past nine earnings seasons, climbing 1.7% on average during the four weeks after big banks kick off the reporting period, according to Dow Jones Market Data.

Even more encouraging is that in three of those periods, the **S&P 500** had fallen in the four weeks leading up to earnings season. In other words, it isn't unusual for the **equity market** to go through a period of weakness before corporations report earnings.

That is one reason some analysts remain confident that solid company results can power the **stock market** higher after last week's 4.1% drop. Wall Street analysts estimate **S&P 500** profits rose by 21% in the third quarter from a year earlier, according to a Goldman Sachs report. Still, that is smaller than the 25% increases during the first two quarters of the year, and some analysts expect a slower pace of profit growth in coming quarters.

While unease about higher interest rates lingers, dozens of large companies will be reporting soon, which could lure investors back to stocks, analysts say.

U.S. equities already have steadied in the past three sessions, and results from large financial institutions like JPMorgan Chase and Citigroup generally exceeded expectations.

Morgan Stanley and Goldman Sachs Group lifted financial stocks Tuesday following their third-quarter earnings, and positive figures in other sectors helped push the **S&P 500** to a 2.1% advance -- just its second one-day climb above 2% this year.

Reporting in other areas of the market will pick up in the coming days, potentially providing a further boost. Shares of health-care companies UnitedHealth Group and Johnson & Johnson rose Tuesday after the firms posted their latest figures.

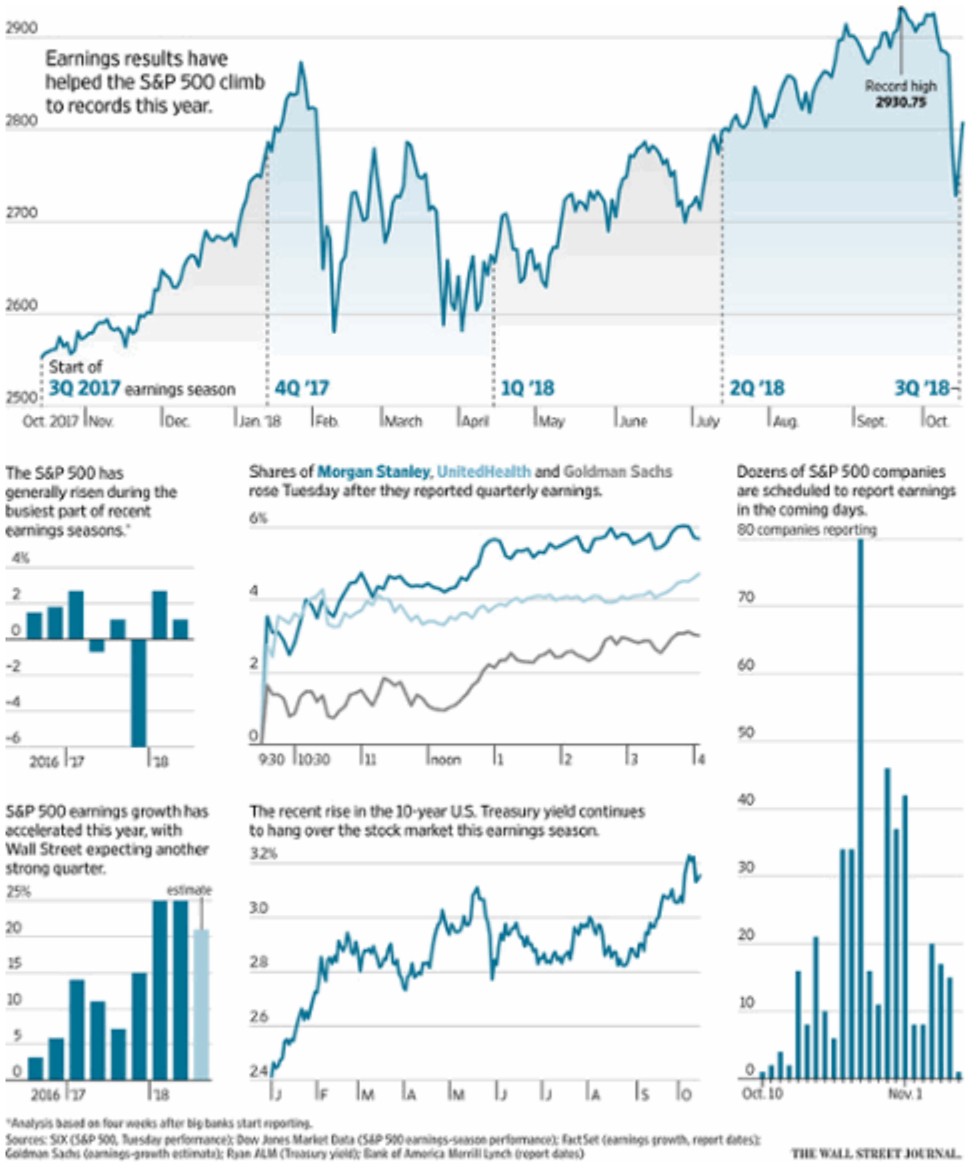
Video-streaming company Netflix surged in after-hours trading following the release of its latest subscriber figures. And semiconductor-equipment maker Lam Research also climbed in late trading after its results from the most recent quarter.

Some analysts have said a higher level of stock buybacks also could underpin the market. Share repurchases by many companies slowed in the month leading up to earnings. Companies in the health-care and technology sectors -- the market's leaders this year -- are particularly poised to benefit from buybacks, Bank of America analysts said in a note to clients.

Although stocks have tended to climb during earnings seasons recently, there have been exceptions: During the busiest part of the reporting season in January and February, the **S&P 500** fell 6%, marking the first rout for the **equity market** in months.

Some investors still warn the market could suffer this time around if company executives give cautious outlooks on earnings calls or if comments about the U.S.-China trade dispute lead to more **volatility**.

But Tuesday's market rebound, with all 11 **S&P 500** sectors climbing, already has some analysts feeling optimistic with more earnings reports ahead.



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THE WALL STREET JOURNAL.
U.S. EDITION

Economy Grows, So Does Unease

By Harriet Torry
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27 October 2018
The Wall Street Journal
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WASHINGTON -- The economy powered ahead in the third quarter, driven by robust consumer and government spending, though Friday's report also included warning signs that the business sector faces turbulence that could hold back the expansion in the months ahead.

Gross domestic product -- a measure of how much the U.S. produces in goods and services -- grew at a 3.5% annual rate from July through September to $18.7 trillion, adjusted for inflation, the Commerce Department said Friday. That came after a 4.2% growth rate in the second quarter and stands as fresh evidence that growth has picked up from subpar levels closer to 2% that had prevailed for much of the long-running U.S. expansion since 2009.

However, signaling unease about the emerging outlook, stocks fell Friday, with the **Dow Jones Industrial Average** shedding 1.19% and the **Standard & Poor's 500-stockindex** dropping 1.73%.

Third-quarter corporate earnings have been largely positive, with some 80% of reporting **S&P 500** firms posting profits that exceeded Wall Street's expectations. But sales performance has been more mixed, with more than a third of firms so far missing revenue projections. It is a trend that amplifies some investors' concern that U.S. economic growth may have peaked earlier this year.

Consumer spending is being powered by plentiful jobs. The unemployment rate fell in September to its lowest level since 1969, meaning more income in household pocketbooks, and tax cuts have added to purchasing power. That showed up in the report in the form of additional spending on everything from restaurants to recreational goods.

"I'm 75 and this is one of the best times I've seen in a long, long time," said Thomas Thompson, a retired power-plant engineer from Plymouth, Wis. He and his wife bought a new Cadillac Escalade SUV this summer and recently began a two-week vacation to Washington, D.C., and the Blue Ridge Mountains, thanks in part to the strong economy and **stock-market** gains.

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Despite those engines of growth, many analysts believe the expansion will slow in the months ahead. The Federal Reserve, for example, projects a growth rate of 2.5% in 2019, 2% in 2020 and 1.8% in 2021.

The GDP report pointed to pockets of unexpected weakness, particularly in the business sector. Business investment grew at a modest 0.8% annual rate. That included a contraction in investment in business structures, which had been running strong for months, thanks to spending on oil and gas rigs driven by rising energy prices.

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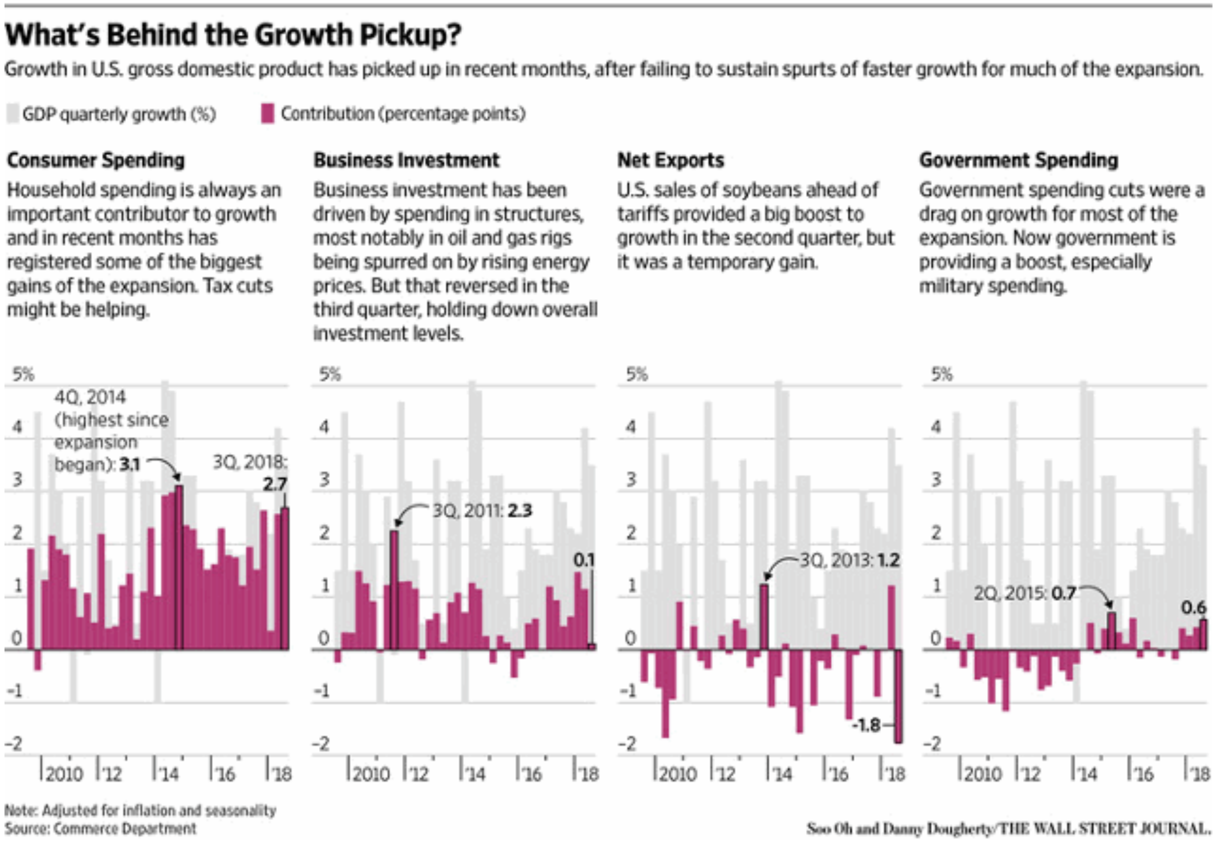

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Business Day
U.S. Stocks Became Expensive. Are Other Countries Better Bets?

By Conrad De Aenlle
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Just weeks after Wall Street celebrated what by some yardsticks became the longest **bull market** in history, stocks dropped so sharply that it may have seemed prudent to wonder whether the newest **bear market** has begun.

A 6.7 percent decline in the **Standard & Poor's 500-stockindex** in six trading sessions through Thursday nearly erased the 7.2 percent gain the index recorded in the third quarter. The market rebounded a bit on Friday. But even before the six-day plunge, the narrowness of the quarter's advance hinted that the market was on shakier ground than the peak reached in the period might have suggested.

The strong performance during the quarter was concentrated in American stocks, primarily of a handful of big-name technology companies, such as Amazon, Netflix, Apple and Alphabet, the parent company of Google. Markets fell almost everywhere else.

The gap between stock returns in the United States and elsewhere has led some — but definitely not all — strategists to conclude that for American investors, there are better prospects abroad.

"The U.S. is an expensive, frothy market priced to give you terrible forward returns," said Robert Arnott, chairman of the investment advisory service Research Affiliates, who is seeking opportunities in foreign markets.

On the other hand, Jonathan Golub, chief United States equity strategist at Credit Suisse, said the outperformance of the American market was justified — and may well continue. "There's a huge difference between the U.S. economy and the rest of the world, and between the U.S. market and the rest of the world," he said. "The rest of the developed world has half as much growth, and it's the same with profits. It's a legitimate divergence. It's not solely a matter of sentiment."

Legitimate or not, the divergence between foreign and domestic markets — and how much they cost — accelerated in recent months. The Vanguard FTSE All-World ex-U.S. exchange-traded fund was down 4.9 percent in the year through September, while the SPDR **S**.**&P**. **500** E.T.F. rose 8.9 percent, helped by a 7.2 percent increase in the underlying index in the third quarter. Based on the ratio of share prices to book value, American stocks were more than twice as expensive in September as stocks in the rest of the world, according to Bank of America, a record premium.

Leading the laggards downward were emerging markets, several of which have plunged because of heavy amounts of foreign debt, and Europe, where indexes are heavily weighted in banks that are owed a lot of that money.

The comparative strength of domestic stocks has been justified by the superior performance of the American economy and the presence of so many high-quality, high-growth companies, investment advisers like Mr. Golub say. Others, like Mr. Arnott, counter that American business prospects cannot be marvelous enough to justify such a cavernous valuation discrepancy, especially over the medium-to-long haul. Foreign markets, especially in the developing world, are bound to bounce back and reward the patience of investors who take a chance on them, they say.

Mr. Arnott, for example, highlighted an array of measures showing that American stocks are expensive when compared with their own history or with foreign alternatives, especially in the developing world.

“Emerging market stocks are cheap,” he said. “They have been whacked because of fears that a trade war will do these economies great damage.” With valuations at half the levels of American stocks’, he said, “they’re reflecting the worst case, not the most likely case.”

Bonds issued in the developing world also offer good value, in his view. Debt denominated in local currencies yields 6 percent or more, double what long-term Treasury issues offer.

Yet emerging market assets may not seem like bargains to anyone familiar with the currency collapses and economic difficulties besetting countries like Turkey and Argentina. Lower stock prices or an extra three or four points of yield may be small compensation for the possibility of further currency losses or the added risk of default.

But those countries account for a minuscule fraction of emerging stock and bond markets. Other places are on more solid economic and financial footing, although it might take a while before recognition sets in that they’re still moving in the right direction.

“The emerging market story is intact, but you have to have a longer-term focus; emerging markets are still not for the faint of heart,” said Elizabeth Morrissey, managing partner of Kleiman International Consultants. “The best bets in these markets continue to be the ones growing strongly.”

Strong, persistent economic growth, propelled in part by young, rising populations, can overcome occasional bouts of weakness in mature economies, policy errors at home, large foreign debts and other unfavorable conditions, she said.

Indonesia, for instance, one of her favorite markets, runs large fiscal and current-account deficits, Ms. Morrissey said. The country owes a lot of money to foreign lenders, and its currency, the rupiah, is trading near where it was during the Asian financial crisis of the late 1990s, but economic growth is at a five-year high.

India, another favorite, also runs large deficits and has a weak currency. On top of that, India is “massively oil reliant,” she said. But its economy grew at an 8.2 percent annual rate in the second quarter, driven by the country’s dynamic private sector.

“There are still significant portions of the populations in these countries striving for an iPhone,” Ms. Morrissey said. “There’s still a significant growth story.”

The arguments for investing in the United States are strong, too. Measures of consumer and business sentiment are close to all-time highs. The September reading of the Conference Board index of consumer confidence, for example, was the highest since 2000.

If Americans have felt pleased with life and expressed their satisfaction by buying domestic stocks, the last several days notwithstanding, it’s with good reason, Mr. Golub said.

He pointed out that the United States has more dynamic businesses than places like Europe. American stock indexes are heavily weighted toward technology companies, while European indexes have a larger proportion of banks, which have been struggling in part because of their extensive exposure to lenders in the developing world.

Fund returns in the third quarter confirmed the outperformance but not by as much as you might expect from the moves in the underlying assets. The average domestic stock fund rose 5 percent, according to Morningstar, led by portfolios specializing in health care, energy and technology. The average international fund gained 0.1 percent, depressed by losses in India and China funds.

The average taxable bond fund returned 0.7 percent in the period.

Rebecca Patterson, chief investment officer of Bessemer Trust, also finds the discrepancy in investment returns justified.

“The U.S. leadership this year is a reflection of diverging fundamentals in different parts of the world,” she said. “Significant stimulus” — from the Federal Reserve until recently and then from a big round of tax cuts — “has helped lift corporate earnings. I’m not surprised that the U.S. is outperforming by so much this year. I guess the question is: Can the outperformance last?”

It’s a tough one to answer in a world of interconnected economies. Some developments that would worsen conditions at home might cause even greater damage abroad, Ms. Patterson said, while favorable domestic developments might provide a greater lift elsewhere.

If the Fed has second thoughts about monetary tightening and turns more dovish, for instance, it could depress the dollar, easing pressures on foreign economies with large debts denominated in dollars. “The rest of the world could catch up,” she said.

By contrast, an acceleration of the slow-motion trade war that has been worrying investors all year — although not enough to put much of a crimp in market returns — would hurt the domestic economy, but it could damp growth to a much greater extent in places like China, she said. A slowdown in China, in turn, would have a more serious impact on Europe than the United States.

Another potential impediment to European markets, Ms. Patterson said, is the imminent start of a monetary tightening cycle by the European Central Bank. The Fed has been far more hawkish on inflation, but its European counterpart may soon join it in raising interest rates and selling assets acquired in its quantitative easing program.

With such prospects, she prefers to maintain a particularly high allocation to domestic stocks. But favorable moves on the trade front would persuade her to put more into emerging markets, particularly China.

Mr. Golub contends that investors have “almost an obsession with what could go wrong” for American stocks, although he acknowledged that “if people were really cautious, the market wouldn’t be going up” as it did in the third quarter.

He also highlighted a number of factors that are “a risk but not a problem,” including inflation, the elections next month and the trade backdrop. He said that valuations are not cheap and that long-term returns could suffer for that.

“There is an unbelievable number of potential threats to the **stock market**, but none of them are derailing the market yet,” Mr. Golub said.

The last word in that quote might worry some investors, especially lately, but he recommends owning some of the highest of fliers, including technology stocks that focus on consumer services, such as Priceline and Amazon, and on communication services, including Netflix, Alphabet and Facebook. He also favors financial companies.

If there are risks but not problems in the United States, as Mr. Golub put it, Nick Kaiser, manager of the Sextant International fund, finds problems but not as much risk overseas.

“There are more opportunities in foreign markets than domestic,” Mr. Kaiser said. Even a country like Argentina “is a great place to invest,” he said, as long as the money is put to work in stocks when they trade at low valuations, and not bonds, which are far more susceptible to inflation.

His strategy is to look for high-quality companies, even if the quality of the economy in places where they do business may be suspect. An example in Argentina is MercadoLibre, an online retailer that operates across South America.

Other portfolio holdings that Mr. Kaiser mentioned include Dassault Systèmes, a French engineering company; Nice, an Israeli cybersecurity concern; and two Dutch businesses: the consumer electronics company Philips, and ASML Holding, a maker of semiconductor manufacturing equipment.

“We see a lot of opportunities in Europe,” he said, “but there may be more in Argentina and Brazil.”

Mr. Arnott likewise sees a world full of healthy investment prospects. He finds it easier to list what he would avoid than what he would buy.

“There’s a richer spread of opportunity than usual, just not in the U.S.,” he said. “You just need a little upside surprise and you’ve got a **bull market**.”

Tim Cook

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The New York Times

Business Day; DealBook
Making Sense of the Selling in the Stock Market

By Peter Eavis
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Some stock declines are more foreboding than others.

The selling that has driven down the markets continued on Friday. The **Standard & Poor's 500-stockindex** is down 9 percent from its peak in September, and on pace for its worst month since the 2008 financial crisis. Swoons like this one can be unnerving, in part because they suggest all is not well with the broader economy.

But some of the selling may not augur much.

Take technology stocks, whose recent declines have played a big role in dragging down the overall market. Shares of big tech companies have soared this year. The tech-heavy **Nasdaq composite** index was up more than 17 percent at its peak this year and 55 percent since Donald J. Trump was elected president.

That left tech stocks vulnerable to a sharp sell-off.

That's why the declines in shares of companies like Netflix and Amazon this month say more about their **stock market** valuations than the state of the wider economy.

Earlier this year, Netflix was trading at 110 times the earnings Wall Street analysts expected the company to make over the next 12 months, according to FactSet. That multiple is many times that of the wider market and suggests that investors were confident Netflix would deliver on its ambitious goals. But big questions, including its ability to finance its growth and rising competition, hang over the company. The drop in Netflix's stock is thus evidence of healthy skepticism, rather than kneejerk bearishness about its future.

But other selling cannot be so easily shrugged off.

Bank stocks are down a lot this year. That's despite a strong economy, which typically leads to increased lending activity; rising interest rates, which have bolstered the profitability of banks' core lending business; the tax cuts enacted last year, which had an outsize effect on bank profits; and hopes for deregulation. Yet the shares of Citigroup, the nation's third largest bank, are down nearly 20 percent from their high earlier this year. Goldman Sachs, Morgan Stanley and Wells Fargo are all down about 15 percent this year.

If bank stocks are a barometer for the economy, their poor performance points to some of the questions that keep investors up at night. Will President Trump's trade war soon start to do real damage to corporate earnings and the global economy? Will the Federal Reserve's interest rate increases crimp economic activity by depriving companies and households of the loans they need to finance purchases?

A rout helps investors decide what's worth really worrying about. With the United States economy growing strongly, they may soon decide they've been freaking out too much. A sustained upturn in bank stocks may show that their optimism is returning. But if they remain in the doldrums, real trouble may lie ahead.

The Standard & Poor's 500-**stock index** is on pace for its worst month since the 2008 financial crisis. | Justin Lane/Epa-Efe, via Rex

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THE WALL STREET JOURNAL.

U.S. Markets
Markets

U.S. Stocks Finish Slightly Lower; Bank shares help the market recover from most of its early declines, with the financials sector up 0.9%

By Amrith Ramkumar and Will Horner
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U.S. stocks edged lower in another **volatile** session Wednesday as investors parsed the latest economic and earnings signals amid continuing jitters about higher interest rates.

The latest swings came after major indexes had their best day in six months on Tuesday, with worries about rates and whether the U.S. economy might be peaking continuing to stoke **volatility**. The **S&P 500** and Dow industrials are about 4% off their recent records.

Lingering concerns about tariffs weakening the global economy and lukewarm data outside the U.S. also continue to hang over**financial markets**.

With some investors increasingly wary that higher interest rates could crimp profit growth, the Federal Reserve released minutes from its most recent meeting showing it plans to continue gradually tightening financial conditions. Many analysts expect another rate increase in December, and some think further signs that the trend will continue in 2019 could cause stocks to swing again.

Although the U.S. economy is growing at a faster pace than it has in years, some investors are anxious that steadily rising U.S. Treasury yields will make stocks less attractive and stoke further **volatility**.

"Even if this doesn't lead to any economic accident, people start to get worried and say, 'Oh, this could lead to a **stock-market** accident,'" said John Toohey, head of equities at USAA Asset Management.

The **S&P 500** closed down 0.71 point, or less than 0.1%, at 2809.21 after falling as much as 1% earlier in the day and briefly turning positive several times in afternoon trading. The **Dow Jones Industrial Average** fell 91.74 points, or 0.4%, to 25706.68. The tech-heavy **Nasdaq Composite** slipped 2.79 points, or less than 0.1%, to 7642.70.

The yield on the benchmark **10**-**year Treasury** note climbed to 3.178% from 3.158% Tuesday. Bond yields rise as prices fall. The WSJ Dollar Index, which tracks the dollar against a basket of 16 other currencies, added 0.4%.

Investors are increasingly wagering that the Fed will raise interest rates at least two more times by the middle of next year, with more than 75% late Wednesday anticipating at least that many increases by June 2019, CME Group data show.

Despite anxiety about monetary policy, some analysts remain confident that another strong quarter of earnings will help the market stabilize moving forward.

Bank stocks helped the market recover from most of its early declines Wednesday, with the **S&P 500** financials sector rising 0.9% as earnings season for lenders continued.

Shares of U.S. Bancorp added $1.93, or 3.8%, to $52.90 after the company reported a 16% increase in profit from a year earlier. Morgan Stanley and Goldman Sachs each were among the **S&P 500**'s best performers for a second straight session following their Tuesday earnings reports.

Among technology and internet stocks, Netflix climbed 18.30, or 5.3%, to 364.70 after the streaming-video company reported stronger-than-expected subscriber growth.

But computing giant International Business Machines was among the sector's laggards, falling 11.07, or 7.6%, to 134.05 and dragging down the Dow industrials as a streak of revenue growth ended after three quarters.

Travel, manufacturing and materials companies more sensitive to global economic growth have been among the market's laggards in 2018. Home-improvement retailer Home Depot shed 8.41, or 4.3%,to 185.17, slicing 57 points from the Dow industrials. The drop followed an analyst downgrade by Credit Suisse and data showing housing construction fell last month, extending a weak stretch for the housing market.

United Continental Holdings lifted transportation stocks, rising 4.97, or 6%, to 88.49 following a boost to the airline operator's full-year profit targets.

A recent slump in energy stocks also continued Wednesday, with **oil prices**dropping 3% following data showing a larger-than-expected increase in U.S. crude stockpiles.

Elsewhere, the Stoxx Europe 600 fell 0.4%, as gains in real estate and technology stocks were offset by declines in travel-and-leisure shares and other sectors.

Asian stocks rallied following the surge in U.S. markets a day earlier. Japan's Nikkei 225 climbed 1.3% and the Shanghai Composite closed up 0.6%.

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The New York Times

Business Day; DealBook
The Gloom Encroaching on Trump's Stock Boom

By Peter Eavis
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The good times President Trump brought to the **stock market** may be ending.

The **Standard & Poor**'**s 500**-**stockindex** is down nearly 7 percent from its peak in late September, and the Nasdaq index, which includes many hot technology stocks, has fallen nearly 10 percent from its high.

Doubts appear to be overwhelming investors' bullishness. They are concerned that Mr. Trump's bellicose trade policy will disrupt corporate America's supply chains and push up costs. Mr. Trump's tax cuts have contributed to a ballooning fiscal deficit. Borrowing costs have also risen this year, which could dampen investment.

"Donald Trump has made uncertainty great again," said David Rosenberg, chief economist of Gluskin Sheff. "His policies are doing more harm than good."

The market reaction is a stark reversal. Investors had piled into stocks with abandon for much of Mr. Trump's presidency. Taxes and regulations were being slashed, earnings were surging and the United States economy was performing better than many of its rivals. The **S**.**&P**. **500** is up 28 percent since Election Day 2016.

Crucially, to investors, it is not clear when the threats to the **stock market** will lift. But until they do, stocks could remain weak.

The market plunge does not seem to fit with the strong economic data. Unemployment is at a multi-decade low, the economy grew at a 4.2 percent clip last quarter and corporate earnings, the biggest driver of stock prices, are expected to rise more than 20 percent this year.

But this good news, according to some analysts, had caused investors to underestimate a number of concerns.

"There was this great sense of complacency," said Jim Paulsen, chief investment strategist at the Leuthold Group.

This could be seen in the **stock market**'s stretched valuations. Earlier this year, the **S**.**&**.**P 500**'s price-to-earnings ratio, a yardstick that compares stock prices to past earnings, hit its highest level in over 15 years. But investors kept buying stocks in the expectation that the strong earnings growth would continue. Much of the growth this year came from the tax cuts enacted at the end of 2017. As a result, investors expect slower earnings growth in 2019.

Not even Mr. Trump's hard-edge trade policies could shake investor faith in stocks. After the Trump administration forged a trade truce with the European Union over the summer, Wall Street seemed to grow comfortable with the trade war, and stocks resumed their climb.

But in recent weeks, investors became newly worried about the trade tensions with China, which the United States has targeted with tariffs on $250 billion of its goods. The battle could now have an outsize effect on the **stock market**. Technology companies, whose stocks have risen strongly, may be among those most harmed. The tariffs along with China's retaliatory measures make it harder for them to operate and expand their finely honed supply chains.

Investors have also grown concerned about the Federal Reserve. For much of the year, they seemed to believe that the central bank would continue to gradually raise interest rates without significantly slowing the economy and disrupting **financial markets**. But with a strong United States economy, it's not clear when the Fed will stop raising interest rates.

The growing fiscal deficit illustrates how investors suddenly had to grapple with the flip side of a policy — Mr. Trump's tax cuts — that they had favored. The lower taxes immediately bolstered companies' bottom lines, but the federal government's revenues fell short, forcing the government to sell more debt. The interest payments on Treasury securities are now higher than they were during the Great Recession.

In any sell-off, it's important to keep things in perspective. Even after the past week's drop, the **S**.**&P**. **500** is still up 2 percent this year. Retail investors appear to be well ahead. Households' holdings of mutual funds have risen by $1.9 trillion since the third quarter of 2016, according to figures from the Federal Reserve.

Long-term rallies in stocks are often punctuated with corrections, or declines of 10 percent or more from their most recent high. If another occurred this year, the **S**.**&P**. **500** would be down only 1 percent this year. Investors can most likely stomach that. The Fed can always choose to hold off on raising interest rates.

Larry Kudlow, President Trump's economic adviser, on Thursday sought to calm nerves. "If you have a strong economy, that will provide confidence for stocks, but corrections come and go," he told CNBC.

The big question now is whether the **stock market** rout is a signal that the economy is set to slow markedly. Analysts are looking at trading patterns to determine whether that is the case. They note that so-called defensive stocks, like utilities, have outperformed companies in other sectors.

Bank stocks, which usually do well when the Fed raises interest rates gently, have lagged the wider market for months. Investors may be betting that banks will have less business because the economy is about to slow. A handful of large banks, including JPMorgan Chase and Citigroup, are scheduled to report third-quarter earnings early Friday.

Mr. Paulsen predicts that the economy's growth rate will fall back toward 2 percent. "If it does, how will Trump act?" he said.

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THE WALL STREET JOURNAL.

Markets

Rising Rates Threaten a Bull-Market Mantra; 'Buy the dip' has been an investor refrain for years, but such immediate bargain hunting has been absent during the recent slump in global stocks

By Mike Bird
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"Buy the dip" has been an investor refrain for years. But such immediate bargain hunting has been absent during the recent slump in global stocks, suggesting a potential shift in market psychology.

That rallying cry, often shortened to BTD, rested on a couple of other **bullish** ideas that merited their own shorthand: ZIRP and TINA. That is the idea that zero-interest-rate policy from central banks means "there is no alternative" to buying stocks. Investors are starting to question those mantras as safer alternatives emerge, some analysts say.

"We've seen a shift from buying on dips to selling into strength," said Witold Bahrke, chief strategist at Nordea Asset Management. "We're increasingly moving from glass half full to glass half empty; that's the narrative here."

To be sure, many investors are standing by the technology companies that have fueled the U.S. equity rally. And the **S&P 500** is less than 10% from a record closing high hit in late September, making it premature to pronounce BTD dead.

Still, in the past two months, in which U.S. equities have hit record highs and seen one of their worst days in recent years, the **S&P 500** has closed below its opening level 26 times, or 65% of the time. The index hasn't done that since at least 2009, when the recent **bull market** began. So dips are no longer routinely erased during a day's trading.

Nor are bulls reliably bidding stocks back up the next day. On days after the **S&P 500** has dropped in 2018, the index has fallen an additional 0.05% on average. That strategy would have provided positive returns for the previous five years, before trading costs.

For some investors, the failure of U.S. equities to climb back fully in the days after sharp falls is worrying. "The balance of risks has shifted to the negative side," said Guillermo Felices, a fund manager at BNP Paribas Asset Management, pointing to the fragile sentiment implied by a series of selloffs and brief rallies. "We're making new lows quite quickly."

A decline of more than 9% this month has left the U.S. equity benchmark barely positive for the year, while South Korea's main index recently fell more than 20% from its recent highs, joining Chinese benchmarks in **bear-market** territory. German equities aren't far behind, with the DAX index down around 16% since its January high.

"Buy the dip" was once a slogan of investors—retail and institutional alike. StockTwits, a popular financial forum, noted the first use of the more profane "BTFD" on its site in 2011. Its use became popular, particularly during brief **equity-market** selloffs. The website sells BTFD hats, phone cases and posters.

Dip buyers have been rewarded during brief downturns in U.S. equities during recent years. But that was thanks partly to the supportive role played by central bankers.

"The difference between now and this time last year is the central banks," said Tai Hui, chief Asia market strategist at J.P. Morgan Asset Management.

Interest-rate increases have driven the yield on three-month U.S. Treasury bills to 2.3%, meaning investors who hold such ultrasafe debt are no longer losing money after accounting for inflation. That has provided an alternative for investors who are fretful about the **equity market**, which was previously not an option, according to Mr. Hui.

The Federal Reserve is shrinking its balance sheet, and policy makers have said repeatedly that the path for U.S. interest rates is still higher, while the European Central Bank is tiptoeing toward an exit from its bond-purchase program.

The shift in interest rates and market sentiment also changes which sectors are leading the market: Stocks with reliable cash flows such as utilities are outperforming the **S&P 500** for the year, while the technology stocks that boomed in 2017 are underperforming.

Another enduring support for global stocks has been solid growth in earnings—and the widespread belief it will continue or even improve. But that may be under threat, according to analysts at Citi. The bank's earnings-revision index, which measures whether more analysts are upgrading or downgrading profit forecasts, turned negative in September and is at its most negative in over two years.

Long-term growth forecasts for the **S&P 500** are also retreating. Earlier this year, analysts expected earnings to grow 14% annually over the next three-five years. according to FactSet, the highest since 2001. That rate has since dropped to around 12.9%, though it remains well above its 15-year average of 11.4%.

"We've passed peak earnings enthusiasm; at the same time you have key monetary factors which become too much of a headwind," said Mr. Bahrke at Nordea.

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The New York Times

Business/Financial Desk; SECTB
After Bad Week, Stock Investors Look for Clues In U.S. Earnings

By MATT PHILLIPS
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Last week was all about fear. This week, investors could turn to greed.

After the **stock market** was rocked by its worst week in seven months, investors will now start to contend with the quarterly parade of updates on profits and losses from corporate America.

These reports, and the executive pronouncements that come with them, will either give credence to investors' fears -- that rising borrowing and operating costs, along with trade tensions, could hurt growth -- or ease them.

Strong economic growth and steep cuts to corporate tax rates produced jumps in corporate profits of 27 percent in the first quarter and 25 percent in the second. That growth helped push stock benchmarks to record levels as recently as September.

For the third quarter, analysts at the financial data firm Refinitiv, formerly the financial and risk business of Thomson Reuters, expect third-quarter profit to rise 21.5 percent for the large companies included in the **Standard & Poor's 500-stockindex**.

''Earnings are the driver, and the earnings are there,'' said Byron Wien, vice chairman of the private wealth group at Blackstone, the private equity and alternative investment firm. ''And although they may increase at a slower rate, they're going to be higher next year.''

There are risks to that profit outlook. And they mirror the worries that have dogged the markets in recent weeks, leaving the **S. & P. 500** down 5 percent so far in October.

Foremost among them was a relatively sudden rise in interest rates. In recent weeks, the yield on the benchmark **10-year Treasury** note rose almost to 3.25 percent -- a seven-year high. It fell off that level by Friday, but not before stock investors had panicked about it.

Higher interest rates can make it more attractive to pull money out of stocks and sock it away in the bond market. They can also weigh on crucial sectors of the economy by making it more expensive for companies and consumers to take on debt.

The rise in interest rates has pushed the cost of conventional 30-year fixed-rate mortgages to a seven-year high, according to the Mortgage Bankers Association. And on Friday, Citigroup said revenue from mortgage origination was lower. That suggests, in part, that higher rates are starting to discourage borrowers. (Home builders, incidentally, are getting pummeled in the **stock market**.)

Still, Citigroup's overall results were better than expected, and its shares rose. Reports from JPMorgan Chase and Wells Fargo also helped reassure investors on Friday.

''The sell-offs took place in the two days before the bellwether financials reported,'' said Richard Nackenson, an **equity market** portfolio manager with the asset manager Neuberger Berman. ''They took place in the absence of facts, actual earnings and forward-looking statements. So we're now starting to replace unknown concerns with real evidence.''

The outlook for banks -- which have been significant beneficiaries of the Trump administration's tax overhaul -- is strong. Once the third-quarter numbers are in, financial-sector earnings are expected to rise 41 percent, according to numbers from Refinitiv.

Another sector where earnings are set to rise significantly is energy. **Oil prices** have jumped more than 40 percent in the last year, and companies are expected to say profits have more than doubled from a year ago.

It won't be as rosy for industrial companies, which include large exporters like Boeing. Already some manufacturers have noted that their profit margins have been hurt by rising costs. Investors will be eager to hear any guidance about the impact of the trade war between the United States and China because tariffs on imports from the two countries took effect mostly during the third quarter.

The relations between the countries are also a primary concern for investors in large technology companies. Chip-maker stocks have been hit particularly hard by the rise in tensions, as their manufacturing base in Asia risks disruption. The Philadelphia semiconductor index is down more than 8 percent this month.

As always, what executives have to say about the state of their business and the outlook in the months head could also be a decisive factor for stock investors. Even as his bank reported results that were better than expected, JPMorgan Chase's chief executive, Jamie Dimon, sounded a warning about the long-term impact of rising "economic and geopolitical uncertainties."

In a conference call with reporters on Friday, he rattled off a list of worrisome events around the world, including weakness in the Turkish and Argentine economies, political trouble in Italy and Saudi Arabia, the Trump administration's trade tariffs, Britain's pending exit from the European Union and the Federal Reserve's reversal of quantitative easing.

"It just seems to be deteriorating a little bit, that's it," Mr. Dimon said. "I'm just pointing it out."

Emily Flitter contributed reporting.

The **stock market** took a hit last week, but the numbers may turn around as earnings are released. (PHOTOGRAPH BY DREW ANGERER/GETTY IMAGES) (B2)

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THE WALL STREET JOURNAL.
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Finance & Markets: A New Exchange Looks to Profit From Fear

By Gunjan Banerji
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Just after the stormiest week for U.S. markets in months, investors may get a new way to bet on Wall Street fear.

Miami International Holdings Inc., a small but rapidly growing exchange operator, won regulatory approval on Friday for options on an index that tracks expectations for U.S. stock **volatility**. The measure, called SPIKES, competes head-to-head with the already established Cboe **Volatility** Index, known as the VIX.

The approval comes after both the **S&P 500** and **Dow Jones Industrial Average** capped their worst weeks since March.

The VIX shot up in popularity over the past decade. But unusual activity and manipulation claims have dogged it this year, leading to lawsuits against its operator, Cboe Global Markets Inc. The company has taken steps to change VIX derivatives trading.

Six-year-old MIAX says SPIKES is a more efficient and transparent way to track expected stock **volatility**. A key difference will be that trading options on SPIKES will be completely electronic. The VIX remains heavily reliant on an old-school trading floor at Cboe's headquarters in Chicago. SPIKES also is designed to disseminate a level every 100 milliseconds. A level for the VIX is generated every 15 seconds.

Another big difference is that SPIKES is based on options prices on the biggest **S&P 500** exchange-traded fund, the SPDR **S&P 500** ETF Trust, known as SPY. The VIX is determined by prices of options on the **S&P 500 index** itself -- contracts that can only be traded on Cboe.

SPIKES "is not the first attempt by a competitor to launch a VIX-like product," said a Cboe spokesman in an email. "As seen last week, the marketplace turns to VIX options and futures for opportunities to manage uncertainty and risk."

Princeton, N.J.-based MIAX says there is interest in its exchange, Miax Options, from a number of options-trading firms.

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THE WALL STREET JOURNAL.

U.S. Markets
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U.S. Stocks Bounce Back After Wednesday's Rout; Upbeat earnings reports calm investor nerves; Nasdaq jumps nearly 3%, Dow rises 400 points.

By Jessica Menton, Riva Gold and Saumya Vaishampayan
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U.S. stocks rebounded sharply Thursday after a bruising start to the week, pushing the **S&P 500** and **Dow Jones Industrial Average** back into the black for the year.

The **Nasdaq Composite** rallied 3%, following the worst day for U.S. tech stocks since 2011. **Volatility** has returned in force to the **stock market** this month, with bigger-than-normal intraday price swings.

The move of at least 2% was the tech-heavy index's sixth of that size this month, the most since January 2016, according to Dow Jones Market Data.

A handful of upbeat corporate reports helped calm investors' nerves, with shares of Microsoft, Twitter, Tesla, Ford and Visa climbing after releasing stronger-than-expected results. Thursday seemed more like a relief rally following Wednesday's big selloff, traders said.

"It's been a wild ride this week," said Paul Brigandi, managing director and head of trading at Direxion. "It's positive that the market bounced back today, but we need to see some follow-through."

The Dow industrials surged 401.13 points, or 1.6%, to 24984.55, after tumbling more than 600 points Wednesday. The **S&P 500** rose 1.9%.

Thursday's bounceback was led by the consumer-discretionary and technology sectors in the **S&P 500**, with each climbing more than 3%.

Of the 11 groups in the broad market index, utilities were the only sector in the red, sliding 1.5%. Those shares are still the best performers this month, though, as investors have piled into traditional defensive sectors. Utilities are considered to be bondlike because of their relatively hefty dividends.

Wednesday's selloff was driven by the tech sector but accelerated into a rout that sent industrials, financials and materials shares sprawling. It pulled the **Nasdaq Composite** Index down more than 10% from its recent high, while both the **S&P 500** and Dow industrials gave up all of their 2018 gains.

Investors have been grappling with a range of uncertainties that have unsettled markets, including rising interest rates, concerns that earnings might have peaked and the possibility that trade tensions have weakened Chinese and global economic growth.

More **volatility** could be on the horizon. Google parent Alphabet and Amazon.com tumbled in after-hours trading on their latest quarterly results, sparking another slide in other tech stocks like Facebook and Netflix.

The sustained swings this month have signaled that sentiment has changed, according to JJ Kinahan, managing director and chief markets strategist at TD Ameritrade.

"Tech has been the great hero on earnings over the past year, but the temperament has changed in the market overall," Mr. Kinahan said. "We're resetting our expectations and think these valuations are a bit high."

Twitter shares jumped 15% Thursday after the social-media company said it swung to a quarterly profit, while Microsoft's stock added 5.8% after the software giant topped Wall Street expectations for the most recent period.

Tesla shares rallied 9.1% after the electric-car maker ended a seven-quarter stretch of red ink.

Retail is one area during earnings season that could bode well in the coming weeks. Optimistic outlooks for the holiday season from retailers and department stores such as Walmart, Target and Macy's could provide some hope. Recent data have showed strong consumer spending, which powers the U.S. economy.

Wall Street will get a snapshot into U.S. growth at the end of the week, as global expansion concerns have weighed on the markets. The Commerce Department will release third-quarter gross domestic product data Friday. Economists surveyed by The Wall Street Journal forecast GDP growth of 3.4% at a seasonally adjusted annual rate, compared with the second quarter, when GDP rose 4.2%.

Economists will be looking for signs of whether the U.S.-China trade battle is beginning to affect the U.S. economy after data last week showed China's economic growth slowed to its weakest pace in nearly a decade.

The U.S. and China have imposed tariffs on billions of dollars of each other's goods, dimming the outlook for several economies heavily involved in global supply chains, including Taiwan and South Korea.

Some investors have also apparently lost conviction that a strong economy in the U.S. was enough to insulate it from gloom elsewhere.

"It seems like people are finally coming to a point where they are questioning if the U.S. is very different from global markets," said Felix Lam, a portfolio manager at BNP Paribas Asset Management. "We are still quite globally linked," he said, adding that trade tensions will ultimately affect the U.S. as well.

Still, many investors remain confident that a solid corporate outlook will allow stocks to stabilize in the weeks ahead. Roughly 82% of **S&P 500** companies have reported third-quarter earnings above analysts' expectations, putting companies in the index on track to increase their earnings approximately 22%, according to Refinitiv.

Elsewhere, the Stoxx Europe 600 fell 0.5% Thursday after the European Central Bank said it would move ahead with plans to phase out easy money policies this year, while Japan's Nikkei dropped 3.7% and South Korea's Kospi retreated 1.6% into a **bear market**, catching up with Wednesday's late-session decline on Wall Street.

Ben Eisen contributed to this article.

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U.S. Stocks Near a Pressure Point --- Rising Treasury yields increase likelihood investors will pull back from shares

By Michael Wursthorn and Sam Goldfarb
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Yields on long-term U.S. government debt abruptly moved higher last week, calling into question the durability of the more-than-nine-year-old **bull market** for stocks.

A booming U.S. economy and investors' desire to put their money in riskier assets, such as stocks and corporate bonds, have sent **bond prices** tumbling. That in turn has pushed the yield on the benchmark 10-year U.S. Treasury note, the backbone of borrowing costs for consumers, corporations and governments, to 3.23%.

A strong economy is generally good for stocks. But if yields continue to march higher, investors may start to pull back from riskier assets since they are being better compensated for holding risk-free ones. Higher borrowing costs also could cool the pace of the economic expansion.

The challenge for stock investors is gauging the point at which higher yields will cause a significant reversal.

Last week's jump in the yield on the 10-year U.S. Treasury dashed a five-day run of gains for the **Dow Jones Industrial Average**, its longest streak since mid-July. Tech stocks that have propelled markets higher this year were hit particularly hard.

Even so, major U.S. stock indexes still have solid year-to-date gains; the Dow industrials are up 7%, while the tech-heavy **Nasdaq Composite** Index has risen 13%.

Stock indexes have defied rising yields for some time. In little more than two years, the yield on the **10**-**year Treasury** has more than doubled, climbing to today's level from a trough of 1.36% in summer of 2016. During that time, the Dow industrials gained more than 8,000 points.

"The market has been able to withstand yields in the low-3% range because the economy has been solid and earnings have been strong," said Leo Grohowski, chief investment officer at BNY Mellon Wealth Management.

During previous cycles of interest-rate increases, a 5% yield on the **10**-**year Treasury** usually was the inflection point for stocks, according to Credit Suisse data analyzing **stock-market** returns over the past 54 years. But after a decade of near-zero interest rates and other easy-money policies, this rate cycle has been unlike any other, forcing investors to reset expectations.

The closer the yield gets to 3.5%, the bigger the risk to "investors' ability to call this **stock market** reasonably valued," said BNY's Mr. Grohowski.

Many analysts and money managers agree that 3.5% would mark a turning point this time. Credit Suisse's analysis showed that stock valuations start running into trouble once yields breach 3%, with pressure mounting at 3.5%.

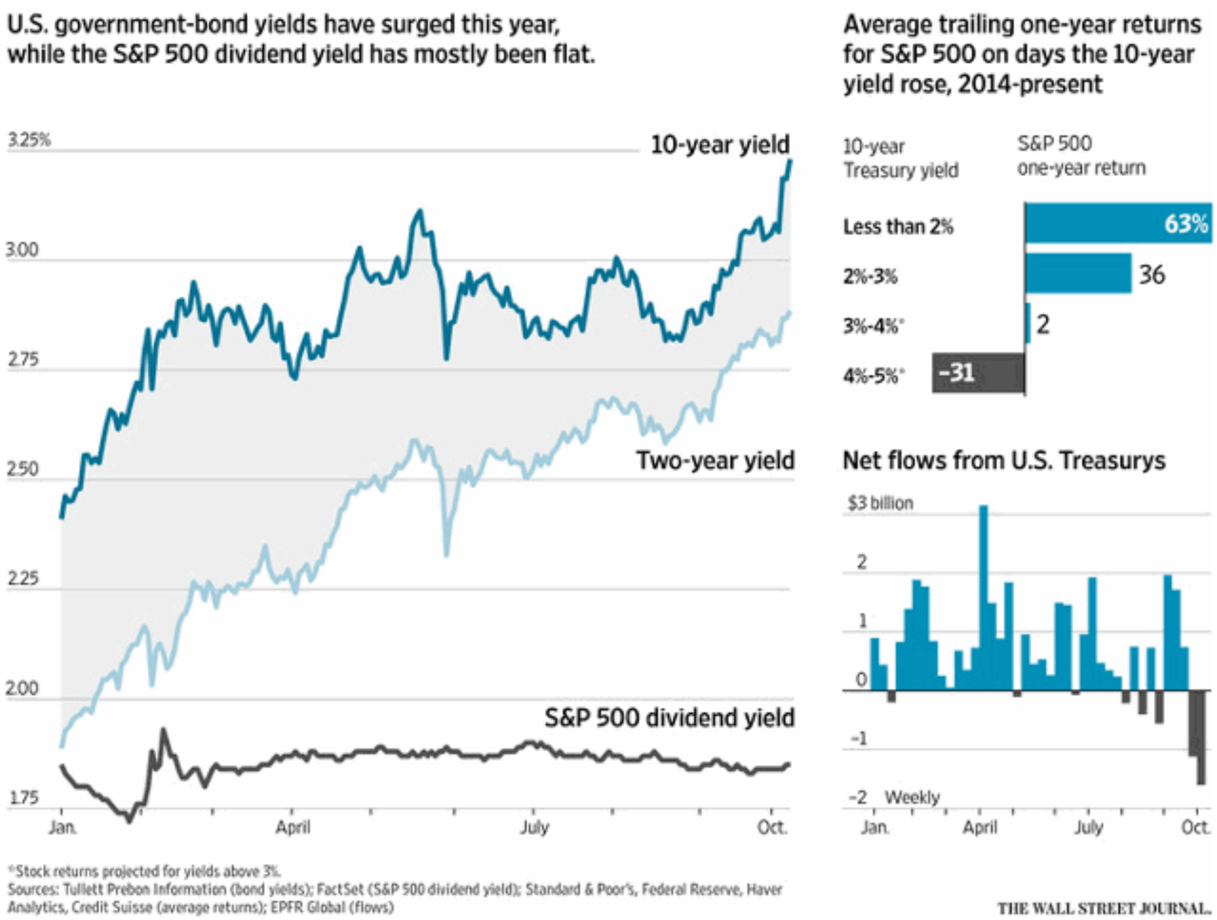
At the same time, the explosive profit growth that has factored heavily into the **stock market**'s run-up this year is expected to cool. Companies in the **S&P 500** are projected to post 10% earnings growth in 2019, about half the growth rate projected for this year, according to FactSet.

The combination of higher interest rates and slowing profit growth is factoring heavily into investors' portfolio makeup. Some are opting to pare back risk in stocks and take advantage of safe, higher-yielding debt.

So far, rising yields have had a muted impact on the corporate-debt market. Since the 10-year yield rose above 3% in mid-September, strong investor demand has supported the ninth-largest-ever sale of speculative-grade debt. That was a $13.5 billion bond-and-loan package funding the leveraged buyout of the financial-data provider Refinitiv. The fourth-largest investment-grade bond issuance, a $27 billion deal backing Comcast Corp.'s purchase of Sky PLC, also took place.

"Generally people can handle rising rates," said Andrew Karp, co-head of global debt capital markets at Bank of America Corp. At this point, investors haven't been affected too much by falling corporate-**bond prices** and have benefited from the ability to reinvest money at higher yields.

Still, that could change, Mr. Karp said. If the 10-year yield rises quickly to around 3.5%, he said, investors could soon feel enough pain that their appetite for bonds could diminish, thus making it harder for companies to borrow.



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THE WALL STREET JOURNAL.

U.S. Markets
Markets
U.S. Stocks Slip, Dragged Lower by Materials Sector; Investors pull back from the sector on concerns of rising costs and slowing global growth

By Michael Wursthorn and Georgi Kantchev
851 words
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Corrections & Amplifications

Twitter Inc.'s shares on Tuesday rose 82 cents, or 2.9%, to $29.27. An earlier version of this article incorrectly said Twitter rose 82 cents, or 2.9%, to $47.79. (Oct. 11)

A broad selloff among materials firms sent the **S&P 500** lower, handing the index its fourth consecutive session of losses.

Inflationary pressures spooked **stock-market** investors and sent shares of all of the chemical, mining and packaging companies within the **S&P 500**'s materials sector reeling after paint and coating maker PPG Industries warned that higher raw-material costs and lower demand in China would crimp profit in the third and fourth quarters.

It was the materials sector's worst day of trading since February and deepened its losses for the year to 7.9%, making it the **S&P 500**'s worst-performing industry group.

Rising costs have been a major concern for **stock-market** investors this year. While companies are reporting their best profits in years, many executives have also said material and commodity costs, along with wages, have also risen, eating into profit margins.

The threat of a trade war between the world's two largest economies hasn't helped. The International Monetary Fundpared global growth expectations for next year, saying the rise of protectionist policies, along with instability in emerging markets, will eat into economic growth around the world.

The warnings dashed some of the **stock market**'s highflying expectations for companies' third-quarter results and extended the latest rough patch for stocks, which were already struggling with a recent sharp rise in bond yields.

Still, deeper losses on Tuesday were held off. Investors re-embraced some fast-growing stocks, sending up shares of digital-streaming service Netflix, social-networking firm Twitter and online auction house eBay, among others, while energy companies, benefiting from the continuing rally in **oil prices**, also rose.

"The earnings growth this year has been nothing short of spectacular," said Craig Callahan, president of investment firm Icon Advisers. "Those who forecast earnings aren't seeing much of an impact from rising costs."

The **S&P 500** declined 4.09 points, or 0.1%, to 2880.34 after falling as much as 0.4% earlier in the session, while the **Dow Jones Industrial Average** gave up 56.21 points, or 0.2%, to 26430.57. The **Nasdaq Composite**, meanwhile, edged higher, gaining 2.07 points, or less than 0.1%, to 7738.02 to snap a three-day run of losses.

The **S&P 500**'s materials sector fell 3.4%, with PPG dropping $11.02, or 10%, to $98.56, the most of any other company in the group.

Industrial firms, another sector that has complained of rising costs this year, fell 1.5%, with steep declines among aerospace companies, industrial conglomerates and machinery makers.

Those losses were partly offset by a rise in tech and energy shares. Shares of eBay added 70 cents, or 2.2%, to 46.99, while Twitter rose 82 cents, or 2.9%, to $29.27. Netflix, one of the market's best performers this year, added 6.61, or 1.9%, to 355.71.

Analysts still expect companies in the **S&P 500** to increase third-quarter earnings by 19% from a year earlier, one of the fastest rates of growth during the 9½-year **bull market**, according to FactSet.

Mr. Callahan said the higher costs that companies are reporting are due to one-time price increases and not a sign of a broader upswing in inflation. So far, 21 **S&P 500** companies have reported results, and 86% of those firms beat analysts' expectations, according to FactSet.

With banks like Wells Fargo set to kick off the bulk of the earnings-reporting season Friday, investors will look for further signs from executives whether mounting inflationary pressures are curtailing profits. The latest consumer-price index data due Thursday will also be watched, analysts added.

Any surprise in inflation is meaningful since it could push the Federal Reserve to hasten its pace of interest-rate increases. Such a move could upend the **stock market** since investors would have to discount companies' future cash flows to account for higher interest rates.

Fears of how rising rates will affect stocks contributed to the **S&P 500**'s selloff over the past three sessions. For now, the climb in bond yields appears to have stalled. The yield on the 10-year U.S. Treasury note fell to 3.208% after hitting a 7½-year high earlier Tuesday.

"The rise in rates—whether or not it continues—is putting pressure on ultra-high growth stocks, and has investors thinking twice about their very high valuations," Andrew Acheson, director of U.S. growth at Amundi Pioneer, wrote in a recent note.

Elsewhere, the Stoxx Europe 600 added 0.2%, while Asian markets were mixed. Japan's Nikkei Stock Average fell 1.3%, while Hong Kong's Hang Seng dropped 0.1%. China's benchmark Shanghai Composite Index rose 0.2%.

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THE WALL STREET JOURNAL.
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Stocks Advance Despite Risks

By Corrie Driebusch
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U.S. stocks are entering the fourth quarter near records even as risks abound, prompting some investors to question how much further stocks can increase following a nine-year rally.

Most agree the general economic outlook looks bright, but stocks face a number of obstacles in the next three months: The Federal Reserve is expected to raise interest rates again in December; the U.S. has yet to resolve its trade disputes with China, Canada and other partners; and the coming midterm election cycle is anticipated to be contentious.

Many investors, though, are quick to point to robust corporate earnings, high business and consumer confidence and an unemployment rate at its lowest level in nearly two decades as catalysts that can keep driving stocks higher.

"There are lots of reasons investors are worried," said Erik Davidson, chief investment officer for Wells Fargo Private Bank. "There are a lot of things that could go wrong, but the risk of things going right is equally as likely."

The **S&P 500** climbed 7.2% in the third quarter, its best performance since the fourth quarter of 2013.

The index is within 1% of its Sept. 20 record and up 9% for the year.

One of the prime reasons some investors are cautious is the longevity of the current **bull market**, which by some measures in August became the longest in history. But Mr. Davidson and others believe that as long as U.S. companies can continue posting strong profit growth, stocks can keep rising.

Corporate earnings, while still robust, are projected to slow in the third quarter from the breakneck pace of the previous two periods.

Companies in the **S&P 500 index** are expected to report a 19% jump in profit when earnings season kicks off in mid-October, according to FactSet.

That is down slightly from the 25% increase they posted for the first and second quarters, which were driven partly by last year's big tax overhaul.

The streak of strong profit growth has made valuations much more attractive than they were in January at the market's previous peak, easing concerns among investors that stocks were far too pricey.

"Markets are at records, but valuations are reasonable because earnings have been incredibly strong," said Richard Nackenson, portfolio manager of the Neuberger Berman Multi-Cap Opportunities Fund.

Many investors are also cautiously optimistic that stocks will be able to continue weathering the dual threat of trade tensions and higher interest rates.

As the U.S. has continued sparring with key trading partners in recent weeks, tariff threats have roiled individual stocks -- particularly auto, machinery and semiconductor makers -- but they have had only a marginal impact on the broader **stock market**.

In fact, the **Dow Jones Industrial Average**, which is home to big multinational conglomerates and therefore more sensitive to trade talks, outperformed other U.S. indexes in the third quarter, logging a 9% gain.

"The results of tariffs just implemented haven't found their way into the market yet," said Jurrien Timmer, director of Global Macro at Fidelity Investments. "If there is an impact, we will see it in the earnings in the fourth quarter."

So far, the trade spat has made a bigger splash in China: The benchmark Shanghai Composite is down 15% this year, while Hong Kong's Hang Seng has dropped 7.1%.

Other political bickering in Washington, along with the coming midterm elections, has largely been dismissed as "noise" by investors who are more interested in data showing a robust pace of job creation and economic expansion.

Although investors overwhelmingly expect the Fed to raise short-term interest rates in December for the fourth time this year, there have been few signs inflation is spiraling out of control or that the U.S. central bank will abandon its commitment to a course of gradual rate increases.

Rate-sensitive sectors of the **S&P 500**, like utilities and consumer staples that pay steady dividends, have underperformed this year as higher rates have made other asset classes, such as government bonds, more attractive.

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THE WALL STREET JOURNAL.

U.S. Markets
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U.S. Stocks Bounce Back From Monday Rout; The S&P 500, Dow industrials and Nasdaq Composite are on track for their worst month in over three years

By Jessica Menton and Christopher Whittall
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U.S. stocks surged Tuesday to cap another wild session in what has been a bruising October on Wall Street.

Major indexes wobbled shortly after the opening bell before finding their footing and notching modest gains. In what has been a typical pattern this month, stocks gave up most of those gains shortly after midday but then charged steadily higher again in the final two hours of the session.

All 11 sectors in the S&P 500 climbed, led by gains in communications and energy shares. Those groups added 2.5% and 2.3%, respectively.

Stocks markets have whipsawed in recent weeks, with investors focusing on earnings and the health of the global economy. All three major indexes are on track for their worst month in more than three years.

The Dow Jones Industrial Average rose 431.72 points, or 1.8%, to 24874.64 on Tuesday. The S&P 500 added 41.38 points, or 1.6%, to 2682.63. Both indexes teetered on the brink of correction territory a day earlier and have tumbled 7.3% and 8.5%, respectively, from their recent records.

The Nasdaq Composite climbed 111.36 points, or 1.6%, to 7161.65, but the technology-heavy index is still down 12% from its late August high.

Chris Bertelsen, chief executive and senior portfolio manager at Aviance Capital Management, said he likes the defensive and bondlike nature of real-estate stocks, which were among the big gainers in the S&P 500 on Tuesday. He said he recently bought shares of American Tower, which owns wireless, radio and other towers and has surged 11% this month.

But Mr. Bertelsen said he doesn't think the recent turbulence in the tech sector is over just yet.

"If you live dangerously and buy stocks like technology that must have fantastic growth to meet these high estimates, at some point you'll skin your knees," he said. "We'll likely see more blood."

Technology stocks, the companies that led the market rally earlier in the year, have been at the forefront of the October selloff. Amazon.com fell into bear-market territory Monday—commonly defined as a 20% decline from a recent peak—erasing $127 billion from its market value in the space of two sessions. That came after the e-commerce company reported record quarterly profit last week but revenue that fell short of analysts' expectations. Its shares slipped $8.46, or 0.6%, to $1,530.42 Tuesday.

Technology stocks "were priced beyond perfection," said Ollie Brennan, a senior macro strategist at T.S. Lombard. He said losses in the tech sector represent a healthy adjustment of expectations, even if the size and duration of the recent market decline have been surprising.

"The selloff was warranted in the bigger picture," said Mr. Brennan. "There's still impetus for equities to rise. But it's not going to be a 15%-per-year rise."

Apple, which is scheduled to report earnings Thursday, unveiled new versions of its gadgets, including a new iPad Pro that includes facial recognition. The company's shares, which have recently held up better than those of its big-tech peers, edged up 1.06, or 0.5%, to 213.30, cutting their October losses to 5.5%.

After markets closed, Facebook shares tumbled more than 3% as the social-media company followed Amazon and Google parent Alphabet in posting slower-than-expected revenue growth.

Investors had hoped corporate-earnings season would offer a leg of support to the wobbly **stock market**. But so far, that hasn't been the case.

With results in from 279 of the companies in the **S&P 500**, profits are expected to have increased 23% from a year earlier, according to FactSet. That marks one of the highest growth rates since 2011 but a slight slowdown from the first and second quarters of the year. That pace is expected to continue easing in 2019.

In Tuesday's action, shares of General Electric sank 98 cents, or 8.8%, to 10.18 after the company said federal regulators had opened a criminal probe of its accounting practices. The conglomerate also cut its quarterly dividend to 1 cent a share and said it planned to split up its power unit.

Dow component Intel led the blue-chip index higher, adding 2.36, or 5.2%, to 47.76. Coca-Cola rose 1.17, or 2.5%, to 47.63 after the beverage company reported stronger-than-expected revenue, boosted by demand for sparkling soft drinks and diet sodas. But Pfizer dropped 34 cents, or 0.8%, to 42.89 after the drugmaker narrowed its revenue and profit targets for the year.

More broadly, investors are struggling to put a firm value on companies amid concerns over the effect of trade tensions, rising interest rates, the fading tailwind of corporate tax cuts and broader questions over the duration of the second-longest economic expansion in U.S. history.

"We're 9½ years into the economic cycle. You've got to feel we're fairly long in the tooth," said Simon Derrick, chief currency strategist at BNY Mellon, adding he thinks global growth will peak in 2019.

Elsewhere, the Stoxx Europe 600 added less than 0.1%. The pan-European index had missed the late reversal in U.S. stocks Monday, notching a rise of 0.9% to start the week.

Most markets in the Asia-Pacific region were higher. Japan's Nikkei Stock Average rose 1.5%, China's Shanghai Composite Index climbed 1% and Australia's S&P/ASX 200 gained 1.3%. Hong Kong's Hang Seng Index bucked the trend, falling 0.9%.

Riva Gold and Saumya Vaishampayan contributed to this article.

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THE WALL STREET JOURNAL.

U.S. Markets
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Stock Market Whiplash Rattles Investors; The S&P 500, Dow industrials and Nasdaq all drop at least 1% before recovering in another bout of volatility

By Akane Otani
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Volatility returned in force to the stock markets Tuesday, sending the Dow Jones Industrial Average tumbling almost 550 points before it erased nearly all of those losses in the final hours of the trading day.

Tuesday's swings were only the latest to buffet markets in October, a month that has shaken not just stocks but government bonds, currencies and commodities.

The selling began early Tuesday after industrial giants Caterpillar Inc. and 3M Co. released tepid quarterly results and forecasts, adding to recent doubts among investors about the strength of corporate earnings. Then crude oil posted its biggest one-day loss since July, hurt by fears that Saudi Arabia could ramp up production as well as questions about whether global petroleum demand could be faltering.

Some of investors' fears eased later in the day as Caterpillar executives sought on their earnings call to reassure analysts that tariffs remained a limited drag on results, helping send stocks and bonds back toward the flatline.

Still, the whiplash that has battered markets this month left many money managers, analysts and traders struggling to gauge when the brunt of the selling will end. Many also were perplexed by how quickly—and unexpectedly—stocks recovered from the worst of their losses Tuesday.

When Matt Forester, chief investment officer of BNY Mellon's Lockwood Advisors in King of Prussia, Pa., woke up early Tuesday, U.S. stock futures were tanking. He took a flight to Seattle and was surprised what he found when he got off the plane.

"I landed an hour ago and now we've almost completely rebounded," Mr. Forester said. "I have no idea what happened."

The recent flare-up in market volatility has prompted Thomas di Galoma, managing director and head of Treasury trading at Seaport Global Holdings, to arrive at his New York office before sunrise every day.

"I get in at 4 a.m. just so I can focus myself on what's going on," he said.

Few believe the economy, particularly in the U.S., is on the precipice of a recession. Yet many said that the synchronized growth that drove stocks globally to records last year appears to have passed its peak.

Major indexes in Shanghai, Japan and Hong Kong slumped Tuesday after Chinese officials moved to ramp up financing for private businesses, the latest step to try to stabilize the country's financial markets.

Tepid outlooks from Caterpillar and 3M added to the dark mood. Caterpillar said it would need to raise prices for most of its machines and engines next year to offset rising materials costs, as well as tariffs, while 3M lowered its earnings forecast for the year.

Some money managers said they have been fielding more questions than usual from clients asking what they should do with their portfolios. "Clients are needing a little bit more reassuring," said Chris Cordaro, chief investment officer of wealth management firm RegentAtlantic in Morristown, N.J., who said the tone of the conversations has become more worried in recent weeks.

Meanwhile, some investment firms took to social media to encourage people not to make any impulsive moves. "When #markets are choppy, have a plan for #**volatility**," Fidelity Investments tweeted around noon.

To be sure, many experts believe the U.S. economic expansion—the second longest on record—still has room to run. Corporate earnings reports are expected to rise at a healthy clip in the third quarter, with analysts projecting **S&P 500** companies to post growth of 20% from the year-earlier period, according to FactSet.

But some investors have viewed recent warnings from companies such as construction-goods supplier Fastenal Co., paints and coatings maker PPG Industries Inc. and now Caterpillar and 3M as signs that profits could take a hit from the tariff standoff between the U.S. and China.

Others have grown increasingly worried about weakness in the housing and auto markets, which have come under pressure as rising borrowing costs have crimped the affordability of big-ticket items.

"All of a sudden, markets have a whole host of things to worry about," Mr. Forester said. "The global synchronized recovery has started to morph into a synchronized slowdown."

The **Dow Jones Industrial Average** slid 125.98 points, or 0.5%, to 25191.43. Tuesday's losses put the blue-chip average closer to erasing all of its gains for the year and on course to notch its biggest one-month slide since August 2015, when fears about China's growth stalling drove stocks around the world lower.

The **S&P 500** fell 0.6% to 2740.69, extending its losing streak to five straight trading sessions, while the **Nasdaq Composite** shed 0.4% to 7437.54.

Meanwhile, commodities plunged on a dimmer global growth outlook, sending U.S. crude oil and copper prices sliding. U.S. crude for December delivery slumped 4.2% to $66.43 a barrel. Copper—widely considered a barometer for global growth—tumbled 1% for October delivery, logging its sixth loss in eight trading sessions.

Investors poured money into government bonds and other assets that tend to perform well during **volatile** stretches. The yield on the benchmark 10-year U.S. Treasury note settled at 3.166%, down from 3.196% Monday but well off its low for the day. Yields fall as **bond prices** rise.

"I'm not putting a lot of faith in this [bond] rally, but I'm certainly paying attention to it," said Gary Pollack, head of bond trading at Deutsche Bank Private Wealth Management in New York. While company guidance on earnings recently has been disappointing, "I need to see more evidence that economic growth is slowing into 2019" to expect bond yields to continue their decline, he said.

Shares outside the U.S. took another hit, with the Stoxx Europe 600 falling 1.6% to a fresh 52-week low. In Asia, indexes across the region suffered heavy losses, with major benchmarks in Shanghai, Japan, South Korea and Taiwan each down 2% or more.

"If China is slowing, and Europe is slowing, does that mean that the U.S.—the one strong engine of growth this year—slows more than expected next year?" asked Kate Warne, investment strategist at Edward Jones in Des Peres, Mo.

Daniel Kruger and Corrie Driebusch contributed to this article.

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* Tariffs, China Weigh on Caterpillar, 3M

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THE WALL STREET JOURNAL.
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Streetwise: Stocks Bounce Back From Monday Rout --- Investors must decide if this month's selloff is a healthy correction or a bear waking up

By James Mackintosh
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When the stock selloff began in earnest at the start of this month, it looked like a simple loss of momentum for a bunch of high-growth disruptive stocks that had risen too fast. Now it is morphing into broader concerns about the economy, and investors are factoring in less chance of the Federal Reserve raising interest rates aggressively next year.

The question on which investors need to take a stand: Is this a healthy correction in a **bull market** with further to run, a reset lower in belated recognition of this year's geopolitical risks or the start of a new **bear market** ahead of recession as soon as next year?

A healthy correction is a classic case of the **stock market** holding a sale. As market pessimism feeds on itself, take the advice of the father of value investing, Benjamin Graham, and buy from the pessimists. This is usually the right advice in a big market fall, although since the fall has left the market only about where it started the year, it isn't -- yet -- that big.

Market moves tell us what the market is anticipating. Since the stock decline began in earnest on Oct. 3, the message has changed to suggest growing concern about both geopolitics and the economy. Investors who accept the market narrative will worry about slower growth or higher risk of recession justifying lower prices.

Almost all major stock markets have fallen as much or more than the U.S., in dollar terms, as Italian politics roiled Europe, trade concerns hung over China, and indebted emerging markets continued to suffer from the strong dollar. This isn't merely a correction in highflying U.S. technology stocks, as it seemed at first.

The sectors most exposed to economic growth have been hit hardest, while defensive sectors have withstood the selloff. **S&P 500** energy, materials, industrials, technology and consumer-discretionary sectors all lost more than 10% from Oct. 3 to Tuesday's close, and financials and communications services were close behind. By contrast, the defensive utilities, consumer staples and real estate were slightly up. Investors have switched from betting on growth to buying safety -- reflected also in rising Treasury prices (so lower yields), as the stock selloff continued.

Meanwhile, growth-sensitive commodities have tumbled, with U.S. **oil prices** down 12% and industrial metals off 5%. Weaker U.S. and global growth would mean less demand for such basics, and markets are pricing that in.

Additionally, junk bonds have joined the selloff. The extra yield above Treasurys demanded by investors to cover the risk of U.S. junk bonds has risen more than half a percentage point since hitting a 10-year low of 3.16 points on Oct. 3, according to ICE's benchmark index. The scale of the rise is similar to that amid February's **volatility** but takes the actual yield to the highest since shortly after President Trump's election, demonstrating concern beyond just a rotation out of growth stocks.

And there is always the risk that the selloff becomes self-fulfilling. Falling shares make people feel poorer, and they tend to spend less as a result. Similarly, companies whose shares are tumbling are less likely to invest in new projects. Goldman Sachs quantifies this by including stocks in its financial-conditions index designed to provide a broader measure than interest rates of the effect of tight money on economic growth.

The index has tightened the most this month since the China panic in early 2016, thanks mainly to the stock selloff, implying a weaker economic outlook.

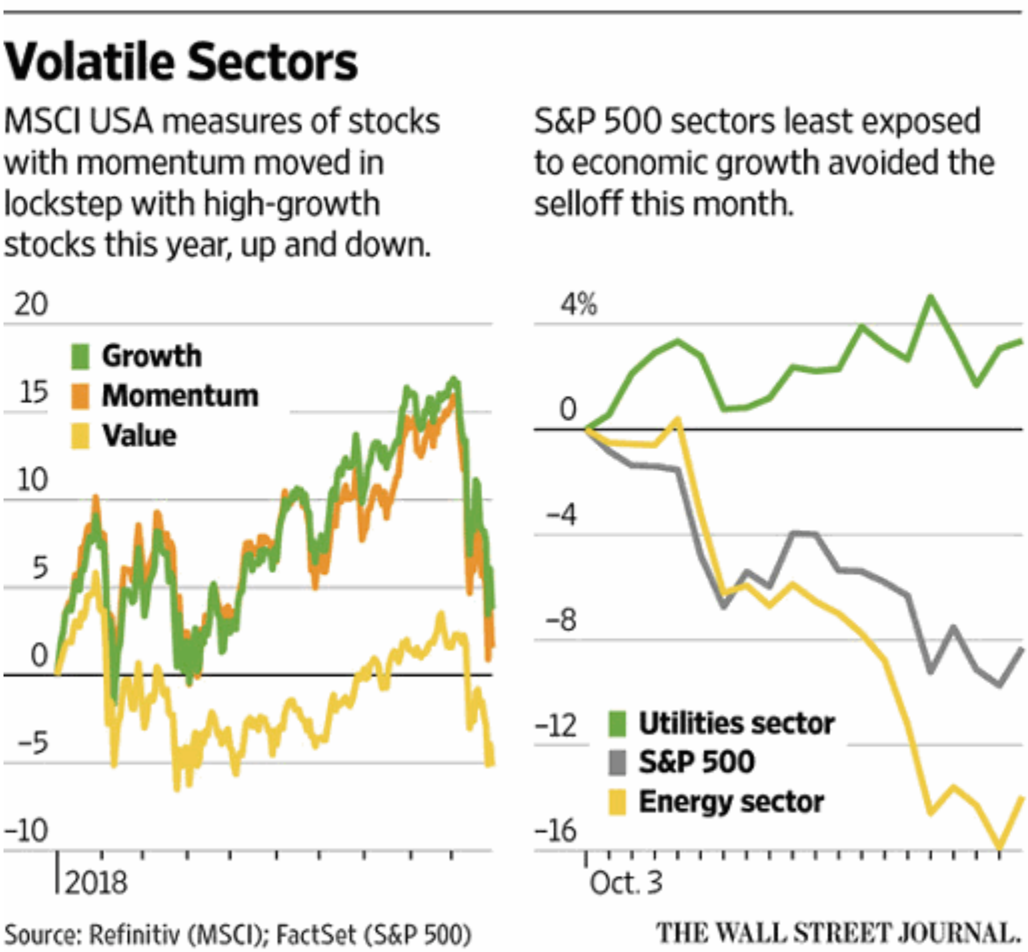
"What we've seen since the start of October would shave about half a percentage point off [GDP] growth," says Sven Jari Stehn, senior global economist at Goldman, assuming it lasts.

I'm inclined toward the view that this is a healthy correction, as I started out thinking that this year's rapid rise in the FANGs and other acronym stocks was overdone. A rotation away from overpriced tech into cheaper companies makes sense and is still under way, as Monday's 6% drop in Amazon.com shares showed. It doesn't mean the economy is weak.

True, Friday's gross-domestic-product figures weren't as good as the overall 3.5% growth suggested. True also that there is still no sign of accelerating inflation, raising doubts about the pass-through from low unemployment to higher wages. But the **bull market** has raged for the past nine years, while the U.S. economy produced annualized growth of only 2.3% a year. Even if this year's tax-cut-driven growth were to halve, it doesn't mean recession or the **bear market** that almost always accompanies an economic slump.

The inevitable recession might come next year, or later. But aside from a historically unremarkable **stock market** fall, little else has changed from a month ago. Investors who have turned from optimists to pessimists may get more fearful yet, but as long as they keep selling, this is an opportunity for anyone who remains positive to pick up solid companies for less.

(See related article: "Another **volatile** day; indexes still on course for their worst month in over three years" -- WSJ Oct. 31, 2018)



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THE WALL STREET JOURNAL.

Heard on the Street
Markets

Has the Bear Market Arrived? History Says Not; Bear markets have a record of starting with a whimper, not a roar

By Jon Sindreu
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Sudden **stock-market** selloffs have wrong-footed investors twice in a single month. Yet the violence of the rout may counterintuitively be good news for stocks.

The **S&P 500** is down 9.1% over the past month, and the broader MSCI All Country World has lost 8.5%. There is no clear explanation: Investors have blamed tighter monetary policy, trade tensions and weakening economic indicators outside of the U.S., but these factors have been present all year.

At the core of investors' fears lies the question of how much longer the **stock market** can keep powering ahead after a remarkable 10-year run. From this angle, a **bear market**—defined as an equity drawdown of 20% or more—seems likely to be lurking around the corner.

But an analysis by U.S. investment bank Morgan Stanley, surveying the past 65 years of the **S&P 500** and the past 27 years of the MSCI All Country World, finds that sharp initial drops are hallmarks of run-of-the-mill corrections, defined by declines of between 10% and 20% in equity prices.

On average, recovery follows within six months, and a rally within a year.

By contrast, bear markets typically start with deceptively gentle drops.

From its last peak on Sept. 20 until the market close on Thursday—35 days—the **S&P 500** fell 7.8%. Judging by history, this looks like a correction. These have started with a median 6% fall over the same length of time, compared with 4% for bear markets.

In fact, following the 10 largest 35-day selloffs, stocks ended up bouncing back in nine cases. Only one eventually turned into a more-sinister **bear market**. The current rout falls in seventh place, whereas the 2007 selloff that heralded the global financial crisis—and a 36% **stock-market** loss within a year—doesn't even enter the ranking: It started with a 5% fall.

A likely explanation is that markets don't become smarter overnight: Useful information that shows the end of the economic cycle drips in over time. Sudden changes of heart on how to interpret the available data are more often just irrational.

To be sure, the cycle will eventually turn, and more frequent corrections may be another sign that the end is nearer. Other indicators, like increases in **oil prices** and inflation-adjusted bond yields, may herald trouble. On the other hand, corporate-bond spreads, a classic crisis bellwether, aren't flashing red just yet.

If history is any guide, the **bear market**, when it finally comes, will arrive with a whimper, not a roar.

Write to Jon Sindreu at jon.sindreu@wsj.com

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Small Caps Hit By Rising Yields --- Shares of U.S.-focused firms are slumping, forcing investors to reassess their longstanding bets

By Akane Otani
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Corrections & Amplifications

Through Oct. 15, the **S&P 500 index** was up 2.9% for the year. A graphic with an Oct. 16 Business & Finance article about the **stock market** incorrectly said 2.8%.

(WSJ Nov. 2, 2018)

(END)

Shares of small, U.S.-focused firms are suffering their worst rout in years, removing another pillar of support for the nine-year **bull market** as it faces heightened turmoil.

As government-bond yields have climbed to multiyear highs, investors are being forced to reassess longstanding bets -- including in small caps, emerging markets and technology stocks -- that are faltering after thriving for years in a low-rate environment.

That has resulted in an unusual situation where both large and small caps are falling in tandem. After hitting records throughout August, the Russell 2000 index of small-capitalization stocks has slumped, last week entering correction territory -- a drop of at least 10% from a previous high -- for the first time since 2016.

The index, which rose 0.4% on Monday, is down 8.5% in October alone, on course for its biggest one-month decline since January 2016. In comparison, the **S&P 500** has lost 5.6% and the tech-heavy **Nasdaq Composite** has shed 7.7%, on course for its worst one-month stretch since January 2016.

The widespread drops across shares of varying industries and market capitalizations showed that, as the global rout accelerated, there were few places for stock investors to hide.

Investors poured money into small caps in the second half, pushing them past their larger counterparts, as escalating trade tensions exacerbated fears about a potential slowdown in growth. To many investors, small caps looked better poised to withstand trade threats than multinationals, whose profits are far more driven by the ebb and flow of global trade.

But the U.S.'s recent trade agreements with Canada, Mexico and the European Union have reassured many investors that the White House may be more amenable than it earlier seemed to negotiating trade deals, undermining small caps' appeal. At the same time, worries about tightening monetary policy have kept the broader **stock market** under pressure.

"Fiscal stimulus is still out there and we're still going to have one or two quarters where that helps earnings, but it's waning, and it's definitely not going to stay for a long time," said Omar Aguilar, chief investment officer for equities and multiasset strategies at Charles Schwab Investment Management.

In the past few months, analysts at Morgan Stanley, Bank of America Merrill Lynch and Pimco have warned that the small-cap rally looked vulnerable to a reversal.

One reason why: Small caps have often struggled for traction as economic expansions have neared their end, partially because they get hit hard by pressures like rising wages and borrowing costs. Some analysts worry the latter may prove to be a big pressure point for small caps.

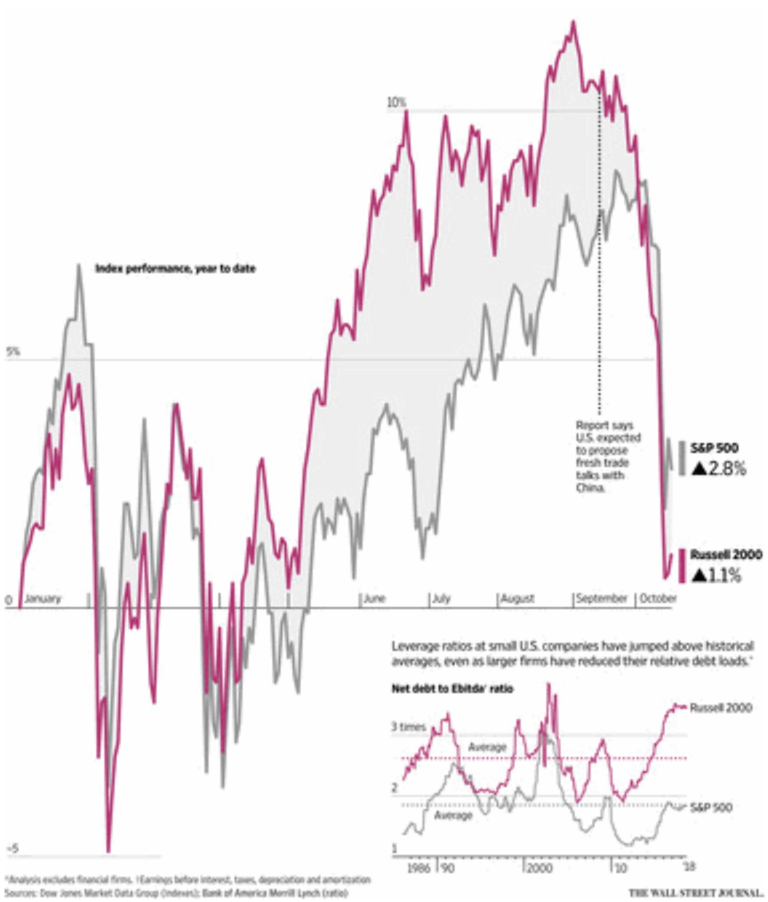
Excluding financial companies, the Russell 2000's corporate debt amounts to roughly 3.5 times earnings before interest, taxes, depreciation and amortization, according to Bank of America Merrill Lynch. That is close to highs hit in the early 2000s and above the 1.8 times Ebitda ratio for the **S&P 500**.

Relatively high leverage ratios make small caps look vulnerable to an unraveling, since as interest rates rise, it will become more difficult for companies to borrow and repay debt, said Jill Carey Hall, U.S. equity strategist at Bank of America Merrill Lynch.

Leverage is "one of the biggest risks" small caps face over the medium term, Ms. Hall said.

Toward the end of the summer, Morgan Stanley removed its preference for small caps over their larger counterparts and downgraded technology stocks at the same time, citing the belief that good news like strong earnings and tailwinds from tax cuts had already been priced in.

One thing investors say could help spark a revival in the group: a renewal of trade tensions. Although the U.S.'s trade agreement with Canada and Mexico reassured some investors that the White House would move forward with negotiations with China, others are less sure a resolution is in the works.



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THE WALL STREET JOURNAL.

U.S. Markets
Markets
U.S. Stocks Slump on Tech Worries; Declines in major U.S. benchmarks follow disappointing sales from major tech firms

By Amrith Ramkumar
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A tumultuous week for markets around the world ended with a rocky Friday session, putting the **S&P 500** on the cusp of correction territory as investors continued an October retreat from risky assets.

As stocks tumbled in early trading, the benchmark **stock index** fell nearly 3% to breach the level that would place it 10% below last month's record. But as was the case for much of a whirlwind week marked by intraday dips and sharp rebounds, stocks stabilized—before slipping again in the final hour of trading.

Although stocks recovered some of their early declines, all three major U.S. stock indexes head into the last three sessions of October on track for their worst month in more than eight years.

Worries about corporate revenue peaking and a slowdown in China and Europe potentially spilling over into the U.S. economy have sent stocks into a tailspin. Fast-growing internet firms have been some of the hardest hit during the turmoil, leading analysts to question whether companies that previously seemed immune to global growth fears can continue surging ahead.

Quarterly sales from Amazon.com and Google parent Alphabet disappointed investors, sending the two stocks sharply lower Friday and pushing the tech-heavy **Nasdaq Composite** to its worst week since March.

"Once you start seeing a slowdown in revenue, it makes sense that those stocks could fall, but what's been upsetting is you see everything coming down," said Craig Hodges, portfolio manager for Hodges Funds. "I'm really amazed at some of the prices I see."

Mr. Hodges said he has been buying shares of materials stocks and home builders that have been engulfed by this week's selling and are among the market's worst performers this year.

The **S&P 500** dropped 46.88 points, or 1.7%, to 2658.69 on Friday. A dip of 0.8% next week would put it in correction territory for the first time since February. The **Dow Jones Industrial Average** declined 296.24 points, or 1.2%, to 24688.31.

The **S&P 500** and the blue chips again turned negative for the year with Friday's declines, and narrowly avoided their worst week since March following severe declines two weeks ago.

The **Nasdaq Composite** fell 151.12 points, or 2.1%, to 7167.21, paring much of Thursday's rebound and putting it down 11% for the month.

Shares of Amazon slumped $139.36, or 7.8%, to $1,642.81 to approach a **bear market**—characterized by a decline of at least 20% from a recent high—while Alphabet fell nearly 2%. Netflix slumped to bring its October declines to 20%, and Facebook and Apple, which both report earnings next week, also slipped.

With Amazon's drop, the e-commerce company's market value fell to roughly $800 billion, putting it behind Microsoft as the second-largest U.S. company after Apple.

After Amazonhit a $1 trillion market cap in early September, some analysts had anticipated it would soon overtake Apple as the world's largest publicly traded company. But investors have said weaker-than-expected revenue has stoked fears about softening global demand.

This month's selloff in the so-called FANG stocks—Facebook, Amazon, Netflix and Google parent Alphabet—has taken nearly $350 billion off the group's market value, according to Dow Jones Market Data.

In addition to Amazon and Alphabet, lackluster results and forecasts from executives at a wide swath of companies swung stocks. Disappointing reports from Caterpillar and 3M battered major indexes earlier in the week, while poor sales targets from chip maker Texas Instruments hurt the semiconductor group. Nearly half the companies in the **S&P 500** have posted third-quarter results, with almost 60% exceeding sales expectations, below the one-year average of 73%, according to FactSet.

The trend of pockets of weakness widening to engulf the broader market has some analysts predicting more turbulence ahead, as reports of weaker-than-expected consumption and higher input costs have surprised some investors.

"It has brought people to wonder, 'Are these fantastic fundamentals fading?'" Jim Paulsen, chief investment strategist at Leuthold Group, who has recommended this year reducing stock positions and buying beaten-down commodities and emerging-market assets. Mr. Paulsen predicts U.S. stocks will fall further in the coming weeks.

Data Friday showed strong spending powered a 3.5% increase in U.S. gross domestic product in the third quarter, although a warning sign about the outlook emerged in the form of weak business investment. Tepid housing and auto sales also continue to hang over corners of the market ahead of next week's jobs report.

Just 28% of individuals think stocks will be higher six months from now, down 6 percentage points from last week and the lowest level since the start of July, according to the American Association of Individual Investors.

Victoria Fernandez, chief market strategist at Crossmark Global Investments, said she started receiving more client calls later in the week as the selloff deepened.

"We've had a couple of days of pullbacks, and now we're getting calls asking, 'Is this the time to go to cash?'" she said. "We're trying to walk them through why they need to sit tight."

Some analysts said they are waiting until after next month's midterm elections, typically a boon for stocks, to decide how to react to the recent **volatility**. Many companies will resume sizable stock buybacks following corporate earnings reports, and trade discussions between the U.S. and China are continuing.

But other investors' anxieties have already reached a fever pitch, as the swiftness of this week's pullback has rekindled fears of the 2008 financial crisis and the dot-com bubble in 2000.

"There are the less rational, significantly more emotional" investors, said Hugh Johnson, chairman of Hugh Johnson Advisors LLC, a wealth-management firm in Albany, N.Y. Mr. Johnson added that more of his clients have been pushing to sell stocks than buy. "They simply want to reduce equities, period. They worry about a repeat."

Daniel Kruger and Michael Wursthorn contributed to this article.

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The New York Times

Business Day
On Wall Street, the Bond Market Sets the Tone

By Matt Phillips
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The bond market dominated the conversation on Wall Street this week as yields on benchmark Treasury bonds, which help determine interest rates for borrowers ranging from first-time home buyers to international corporations, steadily rose to seven-year highs.

The increase is something of a double-edged sword. On the one hand, a rise in yields reflects the strength of the economy. At the end of Friday, after a report showed unemployment is at its lowest since 1969, the yield on the 10-year note — or what the United States government will pay to borrow money for a decade — was 3.23 percent. It hadn't been that high since May 2011.

But as rates rise, borrowing will also become more expensive for consumers and companies, potentially slowing growth. Higher rates also change the balance of risk and reward for investors in other markets. Reflecting this, stocks fell, with the **Standard & Poor**'**s 500**-**stockindex** ending the week down more than 1 percent.

The idea that growth will push interest rates higher, only for higher rates to slow things down again, reflects the cyclical nature of the economy. Right now, rates are somewhere in between — not high enough to hurt growth, but rising and making some investors wary as they do. Here's what to make of it all.

Bond investors are betting on expansion

Government bonds are known as safe haven investments. People buy them, instead of riskier investments like stocks, corporate debt and commodities, because they're worried about something: the economy, war, politics, you name it.

Bond yields move in the opposite direction of prices, so yields fall during such rough patches.

Since the financial crisis hit a decade ago, yields have been pretty low. The yield on the 10-year note has spent much of the past decade below 3 percent. (The low point was under 1.4 percent in July 2016.)

Those yields prevailed even as the American economy recovered. That's partly because the Federal Reserve took extraordinary steps to try to nurse the economy back to health. But it also reflected lingering doubts among investors about the expansion. Even recently, plenty of investors have doubted whether the economy could grow as a trade war erupted.

But grow it has, with gross domestic product expanding at an annual rate of 4.2 percent in the second quarter, and even some glass-half-empty types are becoming convinced that a recession isn't in the cards any time soon. So yields are rising.

"Big picture, the economy is very strong," said Tim High, an interest rate strategist at BNP Paribas in New York. "The employment market remains very strong."

In fact, the worry has now switched to whether that growth will start to run too hot, leading to faster inflation and pushing the Fed to raise interest rates faster than it would like.

For now, High said, that isn't something to worry about — which means investors should be spared any nasty economic surprises.

But everything will get more expensive

In the United States, we rely on a lot of debt to fuel the economy. And when the cost of that debt rises, it can drag on growth.

We're about to find out how heavy that weight will be.

As we've said, for much of the last decade, long-term interest rates — which are essentially set by the Treasury market — have been quite low. Now rising rates are pulling other key borrowing costs higher.

Rates on conventional 30-year fixed-rate mortgages are above 4.7 percent, the highest level since 2011. Likewise, interest rates on 48-month new car loans have risen to more than 5 percent. They hadn't been that high since 2012, according to the most recent data from the Fed.

Traditionally, cars and houses play a big role in the consumption-driven American economy. And if there's a weak spot in the otherwise strong economy, it could be in these interest-sensitive sectors.

Sales of existing homes have slipped in recent months. They were flat in August, and are down 1.5 percent from the previous year.

Automakers have reported steep declines in sales in September. Part of that decline reflected hurricanes that caused flooding in the Carolinas. But higher interest rates and rising car prices are also pushing some buyers toward the used car market.

And stocks will start to look less attractive

We often talk about **financial markets** — stocks, corporate debt, government bonds, commodities — as if they existed in complete isolation from one another.

They don't.

Changes in one can often have large effects on another. If **oil prices** fall, for example, that's obviously going to pinch the earnings of the companies that pump oil and refine gasoline. That will affect the stock prices of those companies, and the **stock market** as a whole.

Likewise, higher yields on government bonds can have a subtle, but important, impact on the **stock market**. As rates move higher, they can persuade more and more people who've ridden the nearly decade-long **bull market** in stocks to take some of their winnings off the table and sock them away in government bonds.

Eventually, that could start to take the wind out of the **stock market**'s sails.

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Markets

Investor Shift Triggers Stock Market's Wild Ride; Share prices rebound but end the week lower as a long-awaited rise in rates spurs a revaluation

By Corrie Driebusch and Sam Goldfarb
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A Friday bounceback couldn't save U.S. stocks from their worst week since March, as investors reassessed the value of American companies in the face of a long-awaited rise in interest rates.

Broad-based selling on Wednesday and Thursday sent the Dow Jones Industrial Average down more than 1,300 points in two sessions, shattering months of steady rises in major indexes. On Friday, the Dow recovered some territory, rising 287.16 points, or 1.1%, to 25339.99.

Helping to fuel the week's drop was a swift rise in U.S. government bond yields. Those reached seven-year highs in the days before the stock swoon sent investors back to the safety of bonds.

The action upended a market dynamic in place since the financial crisis. Hundreds of billions of dollars have flowed into U.S. stocks as interest rates plumbed all-time lows. Investors, thirsting for higher-yielding assets, found themselves flooding the stock market in search of returns, and rationalizing their embrace of risk by reasoning that inflation and bond yields wouldn't stay near zero forever.

The reversal has been long in the making, but it hit stocks with force this past week. As a campaign of Federal Reserve interest-rate increases and signs of inflation pressure sent long-term interest rates past 3%, 3.1% and then 3.2%, safer, yield-paying investments such as CDs and government bonds came to offer a decent payout.

The shift has significant implications for a stock market whose dependence on low interest rates has been hotly debated for years. At the very least, it complicates an investment-allocation decision that only recently meant stocks were the easiest place to seek out returns. More ominously, it could foretell a steeper decline in markets, though many investors say they don't believe a deep selloff lies ahead.

"It feels like a revaluation is under way," said Michael Farr, president of money-management firm Farr, Miller & Washington. "We used to say there is no alternative to stocks, and suddenly there is an alternative, and suddenly it's getting better."

Short-term Treasury yields have been rising steadily since late 2015, when the Fed raised interest rates for the first time after the financial crisis.

In late 2017, the yield on the two-year Treasury note edged higher than the S&P 500 dividend yield for the first time in nearly a decade, meaning holding these government bonds provided more income than holding stocks—and without the risk of share prices depreciating. As the two-year yield climbed to 2.8% this year, its lead over the stock index's dividend yield reached roughly a percentage point, cementing the attractiveness of bonds for some risk-averse investors.

The result has been a sharp reversal for the stock market's biggest winners of the past several years. Technology stocks, beloved for their reliably strong returns, were the best performers among the S&P 500's 11 sectors last year, rising more than 35%, and were up 20% heading into the fourth quarter. Since the start of October, they have fallen more than 6%.

Over the past couple of weeks, investors have confronted the possibility that Treasury yields may again march a sustained, upward path after trading within a narrow range for most of the year.

Before this month, yields, which rise when bond prices fall, had climbed from record lows reached in the summer of 2016 mostly in two short bursts—once at the end of 2016 and again a year later, when Republicans passed tax cuts that promised both to expand the supply of government debt and stimulate the economy.

A similar wave of bond selling now would easily put the 10-year Treasury yield, which settled Friday at 3.14%, in the neighborhood of 3.5%, a level some analysts believe could provide a major threat to stock valuations.

Years of strong demand for risky assets, propelled in part by a desperate search for returns in a low-interest-rate environment, has had repercussions beyond the stock market.

David Albrycht, chief investment officer at Newfleet Asset Management, said his team has generally shifted money from riskier debt, like speculative-grade corporate bonds, to safer assets, like loans, in their fixed-income portfolios in recent months. That is because the reward for taking risks—in the form of the extra yield—has shrunk so much in recent years.

Earlier this month, the average gap in yield between U.S. speculative-grade corporate bonds and Treasurys had fallen to 3.03 percentage points, according to Bloomberg Barclays data, its lowest level since July 2007. By Thursday, it was 3.48 percentage points but still below its highest level of the year.

"Spreads are so compressed," Mr. Albrycht said. "You're not giving up a lot of yield" to buy more senior debt that offers greater protection in a downside scenario.

Over the coming week, investors say focus will shift from interest rates to corporate earnings, which have this year supported stocks. Corporate profits are expected to have grown in the third quarter, though that growth is anticipated to start slowing from prior quarters.

Kristina Hooper, chief global market strategist for Invesco, said strong quarterly results should boost stocks in the near term, but what matters more to investors is commentary on how tariffs, trade tensions and shifts in other markets will affect the companies..

"Yes, earnings matter. But earnings outlooks matter even more," Ms. Hooper said.

Traders will also look to data on retail sales Monday and industrial production Tuesday. Though not usually major market movers, the reports could get added scrutiny because of the unease among investors that the economy might be heating up to a point where it could force the Fed to accelerate its interest-rate increases, said Larry Milstein, head of government and agency trading at R.W. Pressprich & Co.

In the month and a half that investors have been selling government bonds, U.S. Treasurys suffered their worst day on Oct. 3. That is when a typically-overlooked report showed U.S. service-sector activity climbing to its highest level on record. A day later, U.S. stocks began to slide.

Investors are "sensitive to an upside surprise" in economic data because of fears that the Fed might "be behind the eight ball" in controlling inflation, Mr. Milstein said.

Still, actual inflation data have yet to show much cause for concern. Somewhat lost amid the volatility over the past several days was a report on Thursday showing that the consumer-price index rose less than expected in September, both including and excluding volatile food and energy categories.

Investors' expectations for interest-rate increases fell following the report. Federal-funds futures, used by investors to place bets on the direction of interest rates, on Friday showed a 34% chance that the Fed will raise rates at least three more times by its June 2019 policy meeting, down from 42% a week earlier, according to CME Group data.

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Business

Bull Market's Latest Hurdle: Slowing Sales Growth; Many S&P 500 companies point to cautious customers, rising costs and a stronger dollar as reasons for weaker quarterly performance

By Michael Wursthorn
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Revenue growth at U.S. companies is slowing, stirring concern that a corporate-profit boom that has driven the **Dow Jones Industrial Average** and other major stock indexes to dozens of records in 2018 is in jeopardy.

Firms from asset manager BlackRock Inc. to computing giant International Business Machines Corp. this month have reported disappointing quarterly sales, citing such factors as cautious customers, rising costs and a stronger dollar. So far this quarter, 35% of the 85 reporting **S&P 500** companies have missed Wall Street analysts' sales forecasts, according to FactSet. If sustained, that quarterly sales-miss ratio would mark the highest this year.

The misses are contributing to the latest bout of **stock-market volatility**. The **S&P 500** has shed 4.8% over the past month, driven by concerns about rising interest rates and trade disputes that pushed investors to dump technology stocks and shares of other fast-growing companies.

The fundamentals of the U.S. **stock market** remain mostly strong. Rising earnings, boosted by last year's corporate tax cuts, have helped justify rich multiples and in some cases brought price-earnings ratios down. Sales growth remains solidly positive even if it is now falling back from the heady pace reached earlier this year.

Many analysts are now focusing on what the numbers might look like next year. If sales continue to slow in coming quarters, earnings growth will become more difficult to come by and a crucial pillar of support for markets will weaken, analysts said.

"We had a strong first half in the U.S. for growth and corporate earnings," said Talley Leger, an equity strategist at OppenheimerFunds. "Right now, we're staring at a softer second half heading into next year. That is the challenge for equity markets."

S&P 500 companies are on pace to grow third-quarter sales by 7.3% from the same period a year earlier, according to FactSet. Though a far cry from the tepid, low-single-digit figures sometimes seen earlier in this cycle, it is the lowest growth rate for the broad index in four quarters.

While hardly anyone expects a recession soon, investors are worried about how the **stock market** will react to slowing profit growth. With the immediate boost from tax cuts in the past, profit growth among **S&P 500** companies next year is expected to decline by half, while sales growth is projected to contract to 5.4% from 8.2%, according to FactSet.

For now, companies continue to benefit from the tax overhaul passed late last year, which has helped bolster a domestic economy already characterized by soaring consumer confidence and the lowest level of unemployment in nearly 50 years.

Those consumer benefits have filtered down to companies like Netflix, which said this past week that it added nearly 7 million new users in the third quarter and brought in $4 billion in sales, in line with analyst' estimates. Shares initially rose, but investors' waning optimism sapped Netflix of all of its gains for the week. Still, the stock remains up 73% for the year.

But the economy's strength and the Federal Reserve's interest-rate increases have helped drive up the value of the U.S. dollar, which tends to weigh on U.S. exports and the earnings of multinational companies by making goods produced here costlier overseas.

IBM, for instance, said this past week that its third-quarter revenue fell 2.1% from a year earlier to $18.8 billion, snapping the computing giant's brief return to growth, even as profit topped expectations. James Kavanaugh, IBM's chief financial officer, said the dollar's rise dashed what would have been an otherwise flat sales quarter.

"The strengthening of the dollar is actually hurting our product-based businesses in hardware and software," Mr. Kavanaugh told analysts on a conference call on Tuesday. Shares of IBM fell 8.3% this past week, extending its loss for the year to 16%.

There are signs that effect is washing through the system more broadly. U.S. manufacturing activity decelerated last month, as the Institute for Supply Management's new orders gauge and its supplier delivery index both declined. In August, the Philadelphia Fed's manufacturing survey hit its lowest reading in 21 months, while the Empire State manufacturing index fell in September.

While the **S&P 500** remains up 3.5% this year, some money managers are urging investors to focus on more durable companies that have strong balance sheets, better pricing power and higher profit margins—businesses that are expected to better withstand an eventual economic slowdown.

Unilever PLC and Nestlé SA, for example, recently reported stronger sales after using the bump in inflation to raise prices. Shares of both companies rose more than 4% this past week, paring losses for the year.

But sentiment clearly is under pressure. The American Association of Individual Investors' weekly survey indicated that the percentage of investors who expect stocks to fall over the next six months rose to its highest level in three months.

"Investors should be asking themselves at this stage how much better can things really get," said OppenheimerFunds' Mr. Leger. "Investors need to curb their enthusiasm."

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Markets

Dow Falls More Than 300 Points Amid Concerns Over Global Growth; Stocks fell sharply after Treasury Secretary's statement about skipping Saudi Arabia conference

By Jessica Menton and Michael Wursthorn
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The **Dow Jones Industrial Average** tumbled more than 300 points as geopolitical tensions and worries about the state of the global expansion renewed concerns over the durability of the longest **bull market** rally ever.

Losses accelerated throughout Thursday's session, pulling the Dow industrials down as much as 471 points at one point, as investors confronted several more threats to the market, including companies struggling with rising costs, further instability in the European Union and increasing pressure between the U.S. and Saudi Arabia.

While the selloff was broad, investors culled risky stocks from their portfolios, punishing shares of fast-growing companies that have led the market higher this year. Nearly all 30 stocks in the blue-chip index fell, with shares of Caterpillar, often considered a proxy of investors' views on global trade, and widely held Apple suffering the biggest declines.

After months of muted moves in the market, **volatility** has come roaring back, dashing investors' hopes that a fresh round of earnings would help rejuvenate stocks and get major indexes back into record-setting territory.

A measure of expected market swings, the Cboe **Volatility** Index, or VIX, jumped 15% after rising as much as 24% earlier in the day, a sign investors expect the market to suffer further gyrations in the days ahead.

While both the Dow and the broader **S&P 500** are holding onto meager gains for the week, a continuation of the selloff on Friday would threaten to extend those indexes' losing streaks to four consecutive weeks.

"Strong earnings and economic data haven't been able to overpower geopolitical concerns," said Michael Arone, chief investment strategist for State Street Global Advisors. "Until we receive some clarity on trade, monetary policy and the midterm elections, we're likely going to see this **volatility** continue."

The Dow fell 327.23 points, or 1.3%, to 25379.45. The **S&P 500** lost 40.43 points, or 1.4%, to 2768.78.

Major indexes overseas also suffered: The Stoxx Europe 600 fell 0.5%, its second consecutive decline. Investors were watching for any further signs of political strife after Italian bonds sold off amid the country's budget standoff with European lawmakers.

In the U.S., investors were most concerned with several lackluster earnings reports from industrial companies, including conglomerate Textron, whose shares shed $7.29, or 11%, to $57.49.

Shares of American companies fell more broadly later in the session after Treasury Secretary Steven Mnuchin said he wouldn't participate in an investment conference in Saudi Arabia.

Highflying tech stocks were hit particularly hard, sending the **Nasdaq Composite** down 157.56 points, or 2.1%, to 7485.14. Investors resumed their flight from widely owned, pricey stocks like Netflix and Amazon.com. Netflix fell 17.99, or 4.9%, to 346.71, and Amazon lost 61.01, or 3.3%, 1,770.72.

Economists said the Saudi situation added to concerns about whether the U.S. would impose economic sanctions on the country, which in turn could result in reprisals that would affect oil markets.

"If Saudi Arabia retaliates and uses oil as a weapon, they're shooting themselves in the leg," said Peter Cardillo, chief market economist at Spartan Capital Securities. "If oil jumps above $100 a barrel, that would slow down the global economy and result in less demand for oil."

Brent crude, the global benchmark, fell 0.9% Thursday to $79.29 a barrel and U.S. oil futures on the New York Mercantile Exchange shed 1.6% to $68.65 per barrel, while energy stocks in the **S&P 500** suffered a modest decline, shedding 0.5%.

Indexes fell across the Asia-Pacific region, led by sharp declines in China. While there was no obvious catalyst for Thursday's selloff in China, the continued slowdown in the country's credit growth was the biggest driver of weakness in its **equity market**, Macquarie economists said in a note. The Shanghai Composite fell 2.9% to reach its lowest closing value since November 2014, while indexes in Japan and Hong Kong suffered more modest losses.

"People are worried that China's slowing is more real than in 2015," said Shawn Snyder, head of investment strategy at Citi Personal Wealth Management. "Some companies, like Apple and Louis Vuitton, are also talking about Chinese demand slowing."

David Hodari and Mike Bird contributed to this article.

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Markets

Asset Managers Have Led Market Decline, a Bad Sign for Stocks; Investors shift toward lower-risk assets, suggesting concern about a broader market swoon

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The shares of many publicly traded asset managers and banks with related businesses have tumbled in October as firms from BlackRock Inc. to State Street Corp. reported lackluster third-quarter results. Franklin Resources Inc., parent of Franklin Templeton Investments, joined those firms Thursday in reporting quarterly revenue that fell short of Wall Street's expectations.

These declines represent an ominous signal that money managers are sending to their fellow investors, suggesting recent hiccups in the **stock market** could be early symptoms of a deeper ailment.

The broader market has also tumbled. Even with a bounce Thursday, the **S&P 500 index** has dropped over 7.2% in October, putting the benchmark on pace for its worst month since September 2011.

The declines in asset-management stocks have been greater than the market's, but they have a common culprit: cautious investors. Some money-management shareholders worry that investors will continue to shift away from stocks. And these asset managers' performance will suffer when they cease to be buoyed by a market rally now closing in on its 10th anniversary.

"What's the incentive for people to buy stock in an asset manager?" said Loren Starr, finance chief at money manager Invesco Ltd. "It has a lot to do with your expectations—or fears—on the market going forward, and if we're going to see a further decline."

U.S. stocks rose Thursday, rebounding somewhat from a day-earlier selloff that had wiped out this year's gains in both the **S&P 500** and **Dow Jones Industrial Average**. Those benchmarks are still down by more than 2% for the week.

Shares of BlackRock, the world's largest asset manager, are down nearly 17% in October, while State Street, a custody bank that caters to investment firms, has dropped about 19%. T. Rowe Price Group Inc. has fallen 13%.

"On the back of a nine-year bull run, we're starting to see investors take risk off the table," said Joseph Hooley, chairman and chief executive of State Street. "When investors do that, they move to lower-risk assets."

Such assets include cash and short-term bond funds. Notably, U.S. money-market funds had their biggest net inflow during the third quarter since the last three months of 2014, according to Morningstar.

This rotation is particularly bad for most asset managers and the custody banks charged with keeping those firms' books. Managers tend to charge higher fees on funds that focus on riskier assets, like emerging-market stocks. When investors push more of their money into safer—and lower-cost—investments, it cuts into the fees they pay managers.

BlackRock, Invesco, State Street, Bank of New York Mellon Corp. and Franklin were among the asset managers and custodians to post quarterly revenue that missed analysts' average estimates, according to S&P Global Market Intelligence.

The current swoon for asset managers isn't limited to stock pickers and other so-called active funds. Those firms were already under pressure from the surging popularity of exchange-traded funds and other low-cost, index-linked investments.

But BlackRock, the top ETF seller, reported last week that client withdrawals in the third quarter had exceeded new money for the first time in three years.

"We're seeing more and more clients just pausing," BlackRock CEO Laurence Fink said in an interview.

The end of a market's bull run will lead to even harder days ahead for many asset managers, which derive their fees from the amount of assets they manage. When markets fall, the value of the assets—and the amount of revenue they produce from fees—declines, too.

"It's a tough thing for an asset manager when revenues are going down with the market and expenses just don't move as quickly," Mr. Starr said.

Lazard Ltd. reported a 4% decline in quarterly revenue from the investment bank's asset-management arm on Thursday. The division's assets under management had fallen by $10 billion, to about $230 billion, in less than three weeks since the start of October, said finance chief Evan Russo.

Some managers are preparing for worse, according to analysts.

When Invesco unveiled its $5.7 billion acquisition of rival OppenheimerFunds Inc. last week, the firm's executives said they expected to slash annual expenses by $475 million as a result of the deal. The figure seemed high to analysts, and several pressed Invesco investors on the matter during a conference call.

"To me, what they were saying was, 'We're going to use this as an opportunity to clean house'" before conditions worsen, said UBS Group AG analyst Brennan Hawken.

Mr. Starr said that wasn't the case, noting the number includes some cost cuts Oppenheimer had already planned to make before its deal with Invesco.

He said investment firms—and the market itself—may have hit a rough patch. But more **volatile** markets should make it easier for active managers to outperform major indexes—and the passive funds that track them. If they do, they might win back some of the client money that defected to index funds and ETFs during the rally.

"The dynamic is negative in the short-term, but in the long term it has a positive, silver lining," said Mr. Starr, whose firm has both active and passive businesses. "It really does feel like a transition is setting up."

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THE WALL STREET JOURNAL.
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Stocks Poised to Win on Election Day

By Allison Prang and Akane Otani
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As U.S. stocks trade near records, some investors are betting the nine-year **bull market** will get its next jolt from an unexpected catalyst: the midterm elections.

With the Federal Reserve's latest interest-rate increase and the U.S. and Canada's trade negotiations in the rearview mirror, investors are turning their attention to the Nov. 6 elections, which will pit Republicans against Democrats in a fight to retain control of Congress.

A scenario in which Republicans lose their majority could trigger short-term **volatility** for the **stock market**, introducing uncertainty over the future of policies ranging from tax cuts to immigration, analysts say. Yet many are expecting stocks to march onward, regardless of which party claims victory in November.

A robust economy and **stock market** tend to bode well for the president's party hanging on to control of Congress, minimizing the chances of an abrupt shift in policy. But even when the president's party loses seats in Congress, history shows stocks have tended to rise. Many analysts note that the year after the midterms has historically been the best of the four-year cycle for stocks, in part because the president's party typically loses seats in Congress and then tries to introduce legislation to boost the economy.

The **S&P 500** hasn't declined in the year after midterm elections since the 1946 cycle -- and has climbed 15% on average -- regardless of which party won or lost control of Congress, Strategas Securities found in an analysis. In comparison, the index's average annual gain in every year going back to 1946 is 8.8%, and it has slumped in 20 of those years, according to Dow Jones Market Data.

Michael O'Keeffe, chief investment officer at Stifel Nicolaus & Co., said he expects the **bull market** to keep churning higher and for the breadth of the market's leadership to widen beyond the technology sector.

"It's time for the rest of the market to step up a little bit," Mr. O'Keeffe said. "Large-cap value -- think quality companies, dividend-paying companies -- are going to come back into favor relative to what has been sort of a growth-dominated and to some degree FANG-dominated market."

Politics has already helped steer the **stock market** higher this year, even as many investors have lamented the gridlock that has gripped Washington.

Many say the U.S. tax overhaul passed late last year has helped boost corporate earnings, which had already been on the upswing for several quarters. **S&P 500** firms reported their second-fastest pace of earnings growth since 2010 in the second quarter and are expected to post double-digit growth again in the third and fourth quarters, according to FactSet.

The steady growth has been key, investors say, in helping offset headwinds ranging from tariffs to turbulent emerging markets to tightening monetary policy. The **S&P 500** is up 8.5% this year and hovering near records, well outpacing the Stoxx Europe 600, Japan's Nikkei Stock Average and the Shanghai Composite.

"Markets like Trump. They may not embrace his style, but they like his results," said Michael Farr, president of money-management firm Farr, Miller & Washington, citing tax cuts and the recent deal to revise the North American Free Trade Agreement.

Because stocks are already strong heading into the midterms, some analysts believe that political shifts that occur in November are likely to create small winners and losers within the market, as opposed to upending the bull run.

Democrats taking control of both the House of Representatives and the Senate could help de-escalate the trade rift between the U.S. and the rest of the world, Morgan Stanley analysts wrote in a research note, something that should broadly help the **stock market**, as well as farmers and manufacturers.

That could offset the headwinds that pharmaceutical stocks could face again should Democrats ramp up scrutiny on drug pricing, Morgan Stanley said. Drugmaker stocks tumbled in September 2015 when Hillary Clinton, then seeking the Democratic nomination for president, said on Twitter that she would propose a plan to counteract "price gouging" in the specialty drug market.

On the other hand, a scenario in which Republicans retain control of Congress could lift pharmaceutical stocks and shares of managed-care organizations, according to Morgan Stanley. The firm's analysts added that a Republican sweep would help ease investor fears around drug-pricing legislation and diminish the chance of the U.S. shifting to a single-payer health-care system.

Either way, many believe that stocks will get a boost after the midterm elections as investors will be contending with one less uncertainty.

In a survey of roughly 300 institutional investors, Strategas found 8.1% of respondents identified the midterms as the greatest risk to the market.

"There can be that midterm lull," said Ryan Detrick, senior market strategist at LPL Financial. "It absolutely is something that people should pay attention to and be aware of, but don't panic if we get that **volatility** because again, those underlying fundamentals are so strong."

Data have shown the U.S. economy continued to grow in the second quarter, supported by gains in consumer spending and business investment. Measures of consumer confidence are tracking at 18-year highs and retailers are **bullish** ahead of the holiday season.

That bodes well for the **bull market** as it heads into a historically strong period for stocks. October of midterm election years has been the best month of the four-year cycle for the **S&P 500**, according to Strategas. For the fourth quarter, the **S&P 500** has climbed an average of 7.5% in midterm election years.

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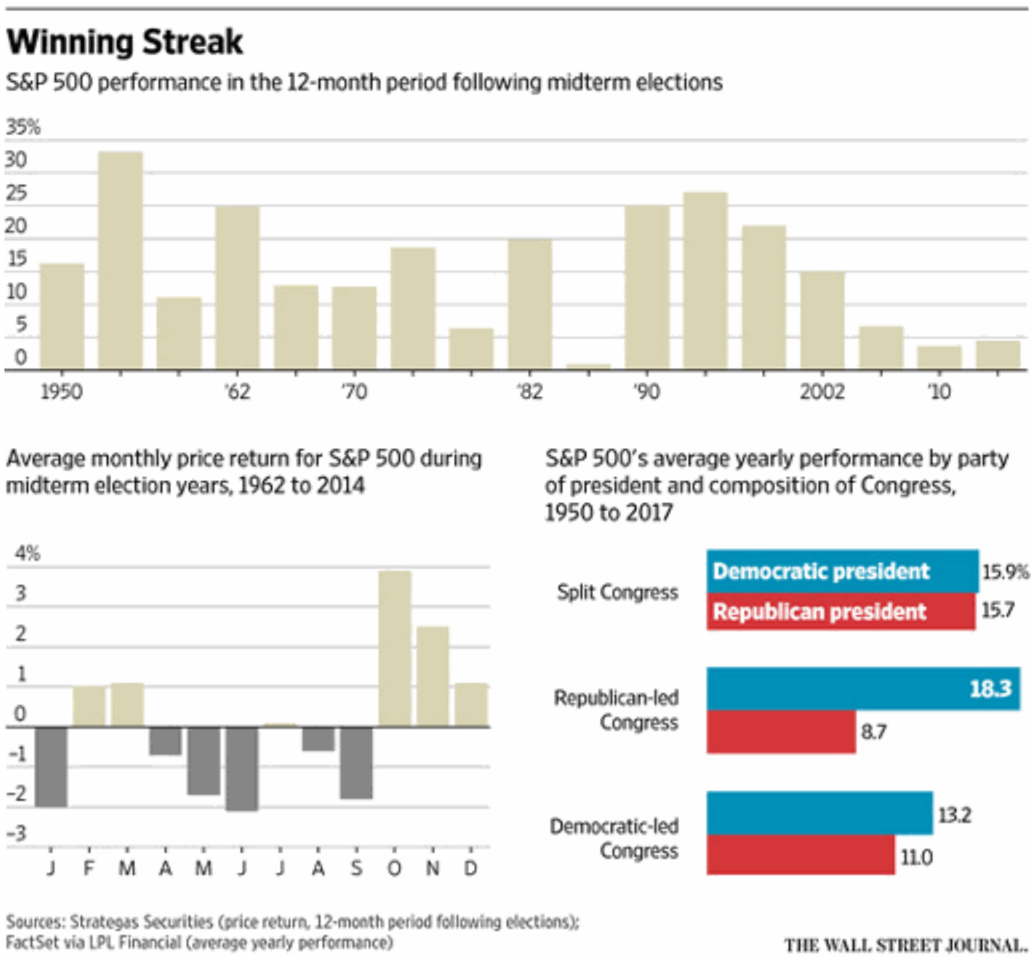

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THE WALL STREET JOURNAL.

U.S. Markets
Markets
Growth Stocks Lead U.S. Indexes Lower; Fast-rising bond yields and continuing trade fears spur investors to trim riskier stocks

By Michael Wursthorn
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Shares of Netflix, Amazon.com and other rapidly growing companies fell Monday, resuming a **stock-market** pullback that has shaved billions of dollars of value from one of investors' most popular trades.

Growth and momentum stocks, the linchpin of the 9½-year **bull market**, led the broad index lower, as investors moved into sectors of the **stock market** that have more attractive valuations and tend to be more durable in challenging economic conditions, such as consumer-staples and real-estate companies.

A combination of sharply rising bond yields and continuing trade fears has stirred investors to cut riskier stocks from their portfolios amid worries that the huge profit margins among many of them will fall.

The losses extended a rout last week that had sent the **S&P 500** down 4%, its biggest weekly loss since March, raising further questions as to whether pricey tech stocks can continue to dominate a **stock market** that has been grappling with rising interest rates and the effects of trade tariffs.

"Cost pressures emerged, there's trouble in the emerging markets such as China and rates have had a huge move in a very short period of time," said Lew Piantedosi, director of growth investing at Eaton Vance. "The names getting hurt the worst have been the names that have done the best" this year, he added.

The **S&P 500** fell about 16 points, or 0.6%, to 2751, extending its losses for the month to 5.6%. The **Dow Jones Industrial Average** slipped roughly 89 points, or 0.4%, to 25251. The tech-heavy **Nasdaq Composite** fell further, shedding 66 points, or 0.9%, to 7431.

Tech stocks fell 1.6%, the most of any major **S&P 500** sector, while other bastions of growth and momentum companies in the broad index, including consumer-discretionary stocks, also logged declines.

Shares of Amazon.com slid 1.6%, extending the online retailer's losses in October to 12%, putting it on pace for its biggest monthly loss in eight years. Netflix, one of the best-performing stocks in the **S&P 500**, fell 1.9% Monday and is down 11% so far this month.

Those losses have contributed to one of the most punishing stretches for growth companies in years. The Russell 1000 index of the biggest growth companies fell 0.9% Monday and is down more than 7% since the end of September, on pace to notch its first quarterly loss in 13 quarters.

Meanwhile, consumer-staples and real-estate stocks each rose more than 1%.

Still, several investors said they are maintaining their **bullish** views of growth stocks, especially amid expectations of another quarter of blockbuster earnings.

Tech, consumer-discretionary and communications companies in the **S&P 500** are expected to post double-digit profit growth, according to FactSet, and investors are hoping better-than-expected profits lead those stocks higher.

Netflix is due to report earnings after the market's close on Tuesday, while other growth companies are expected to release results later this month.

--Avantika Chilkoti contributed to this article.

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The New York Times

The Upshot

Why Has the Stock Market Been Dropping? The Expansion Heads Toward a New Phase

By Neil Irwin
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The **stock market** drop in October has been unsettling for anyone with a portfolio, particularly after a 3 percent plunge Wednesday that wiped out the year's gains. Could this be the beginning of a larger crash, or a recession?

Well sure, it could. But even before accounting for the moderate rebound in markets Thursday morning, it makes more sense to view this sell-off differently. This isn't a crash, it's a reset. The economy is shifting in ways that aren't **bullish** for stock prices in the years ahead, but signal mostly good news for the economy and for ordinary people trying to make a living.

The **bull market** that will turn 10 years old early next year has, for most of its run, been a total dream for stock investors.

Economic growth in the United States has been steady, but growth worldwide has been slow — which has kept interest rates low, making stocks a more compelling investment than cash or bonds in comparison.

Weak growth and high unemployment meant companies faced little pressure to pay more for their inputs, including both labor and raw materials. If a worker demanded a raise or a supplier threatened a price increase, there were plenty of alternatives.

Late in this **bull market**, the Trump administration made its signature domestic policy initiative a steep cut in corporate tax rates, which flows through directly into higher after-tax profits for shareholders.

Those three factors together were enough to propel the Standard & Poor's 500 up more than 300 percent from its March 2009 low to its recent high in September. But now, all three are shifting.

The economy is now heating up enough that interest rates are rising to more normal levels. Part of that is a result of Federal Reserve rate increases aimed at preventing the economy from overheating and from having excess inflation break out, a policy that President Trump has attacked.

But it's not just the Fed. Even longer-term interest rates that the Fed does not directly control have risen substantially in the last year, as have longer-term rates in other countries. British, German and Japanese bond yields are all up over the same span.

If you look at the **stock market** only in terms of its valuation — how much you have to spend to buy shares for each dollar of corporate earnings you are capturing — the **stock market** drop in recent weeks can be explained in significant part by the rise in longer-term rates in the same period.

If you look at the price-earnings ratio of the **S**.**&P**. **500** stocks, for example, and invert it to view it as the earnings-to-price ratio, it was 4.77 percent on Sept 1, meaning buying $100 bought you $4.77 worth of corporate profits. After the stock drop, that had risen to 5.23 percent.

The jump closely parallels the rise in longer-term bond yields, which, again, are mostly driven by an improving growth outlook. The yield on **10**-**year Treasury** bonds has risen to 3.13 percent from 2.85 percent in that same span.

Higher interest rates have made bonds more attractive, and it makes perfect sense that investors would demand a more favorable valuation from stocks given that alternative.

The story might be different if investors believed that higher growth would feed disproportionately into higher corporate profits. But the current economic moment offers plenty of reason to think it won't.

Earlier in the expansion, there might have been lots of workers on the sidelines, and companies had leverage with their suppliers. But there are signs that is changing, like recent comments by 3M and Caterpillar that their input costs were rising, which helped kick off the recent bout of market weakness.

This is bad news for stocks and for the bottom lines of the largest companies, but good news for American workers. When you hear a phrase on a corporate call like "input costs are rising," keep in mind that the wages you receive are one of those costs.

Finally, while the first big economic initiative of the Trump administration, the tax cuts, was an unquestionable boon for stocks, the focus this year has been on a trade war, especially with China.

So far, the scale of the tariffs hasn't been big enough to have much impact on overall economic growth. But there has been a direct bottom-line impact for particular blue-chip companies that make goods using steel or aluminum (prices of which have spiked because of tariffs) or that import key parts from China.

As companies try to re-route supply chains or absorb higher costs to avoid raising prices on consumers, the trade war may have a much larger effect on the bottom lines of major industrial companies, and hence on their stock prices, than it does for ordinary consumers.

Put it together, and the **stock market** tumble of the last few weeks is not a mystery to be solved, nor a warning of horrible things to come, so much as an inevitable result of the economic expansion reaching a more mature stage.

The **stock market** looks forward, not back — share prices are determined by what investors think the future looks like. And the economic future is starting to look quite different from the past.

A man checking stock prices at a securities firm in Taipei on Thursday. | Sam Yeh/Agence France-Presse — Getty Images

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THE WALL STREET JOURNAL.

Markets

Quickening Retreat From Tech Sinks Market; Dow Industrials plunge more than 800 points, Nasdaq loses 4% in biggest decline in months

By Corrie Driebusch
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The Dow industrials extended their steepest October retreat since the financial crisis Wednesday, posting an 832-point decline that raises fresh concern about the health of the nine-year-old **bull market** for stocks.

The selling was led by the technology shares that have fueled much of the 2018 advance in U.S. stocks, with Netflix Inc. dropping 8.4%, Amazon.com Inc. declining 6.2% and Apple Inc. off 4.6%. Combined the three companies shed nearly $120 billion in market value on Wednesday.

Selling accelerated toward the end of the day and losses spread well beyond tech stocks; bank stocks were pummeled along with companies exposed to global trade such as Caterpillar Inc.

Investors turned to shares deemed likely to do better in tougher economic times, such as utilities companies. That rotation out of tech and other growth stocks has been sparked in part by the recent jump in government bond yields and the Federal Reserve's interest rate increases.

When asked about Wednesday's market decline, President Trump said "the Fed has gone crazy."

The Fed's more-restrictive stance has joined with other signals to unsettle investors even as major U.S. indexes rose to new highs. The market's worries aren't all aligned—some investors are worried a strong economy will lead the Fed to rate increases that hurt stocks, while others on Wednesday pointed to recent indicators in housing and autos that suggested the economy is losing steam. A shared concern, however, is that trade tensions between the U.S. and China appear to be worsening and that a slowdown in the Chinese economy could spill over into global markets.

Chinese authorities have stepped up their efforts to keep money flowing in the world's second-largest economy amid concerns about the ramifications of a yearslong increase in Chinese debt issuance.

The result: A simultaneous selling of 2018's biggest **stock-market** winners in the U.S.

Heading into the fourth quarter, investors were piling into many of the same trades, particularly in large U.S. tech stocks, said Andrew Slimmon, senior portfolio manager with Morgan Stanley Investment Management. "If everyone is on one side of the boat and they suddenly realize this, everyone would scramble."

The shift has come as the yield on the benchmark U.S. Treasury note has risen to seven-year highs. It settled at 3.221% Wednesday, up from 3.055% at the end of September.

The **S&P 500** tumbled 3.3% Wednesday, its fifth consecutive session of declines and longest losing streak in nearly two years. The **Dow Jones Industrial Average** dropped 3.1% to 25599, falling 4.6% from its all-time high notched Oct. 3. Both indexes registered their biggest losses on a percentage basis since Feb. 8.

All sectors in the **S&P 500** slumped Wednesday, with technology stocks down nearly 5%. Other growth sectors including consumer-discretionary and communications shares posted big declines as well. The tech-heavy **Nasdaq Composite** dropped 4.1%, extending its declines for the month to 7.8%. The index is suffering its worst start to a fourth quarter since 2008, when it fell 21%.

Traders and portfolio managers said trading during Wednesday's declines was largely orderly and that phones weren't ringing off the hook with upset clients. Even so, some on trading floors were struggling to reconcile the strong financial results of large tech firms with the day's heavy selling.

"It really doesn't make any sense to me that some of these stocks are getting beaten up as much as they are," said Mark Stoeckle, chief executive of Adams Funds.

Some Vanguard customers had problems logging on to their accounts online and by phone, and some took to Twitter to complain about the technical issues.

"Vanguard today experienced periodic network connectivity issues," a spokeswoman said in a statement, adding the technical issues weren't a result of more customers trying to log on.

Possibly exacerbating the decline for tech stocks is the absence of one of their biggest buyers: the companies themselves. In the weeks leading up to reporting their corporate results, companies typically don't repurchase their own shares due to regulations. Analysts have said record stock buybacks have underpinned the **stock market**'s recent gains, and some traders said the elimination of this support could be worsening the selloff.

Investors' bet on tech companies with strong earnings growth has been a crowded one in 2018, according to Ann Larson, managing director of global quantitative research at AllianceBernstein. Her firm identifies crowded trades by looking at the top positions of active managers, which stakes they have been building over the past several quarters, and which names have a high proportion of "buy" ratings from bank analysts who cover the companies. The model also considers how well an investment has done compared with the rest of the market.

On Wednesday, just 17 stocks in the **S&P 500** rose, or about 3% of the broad index. Some of the buying centered on consumer-staple companies, which investors tend to favor for their durability during tough economic conditions and the generous dividends they pay. General Mills Inc. and J.M. Smucker Co. both added 1.5%, Wednesday, while Campbell Soup Co. rose 0.5%, leaving consumer-staple stocks in the **S&P 500** off 1.3% for the day.

Utilities, which also generate hefty dividends, fell only 0.5%, the least of all other **S&P 500** sectors.

For most of 2018, the bets on tech and growth stocks served investors well. Even with the recent drawdowns, Amazon shares are up 50% so far this year, while Netflix has risen roughly 70% and Apple is up nearly 30%. Of the so-called FAANG group of big U.S. tech names, only Facebook Inc. shares are down for the year.

"Crowded trades are popular for a reason. They're good stocks. There's just risk attached to them," said Ms. Larson.

The risks have borne out in the past when other popular trades have unraveled. Bets against **volatility** fed the **stock market**'s tumble in February after the implosion of a number of exchange-traded products that had risen in value when gauges of **volatility** declined. Similarly, bitcoin investments tumbled at the beginning of the year on doubts about the practical utility of cryptocurrencies. And stocks with high dividends sold off following the 2016 presidential election as investors bet big on growth stocks.

This time around, some investors say such a pullback—so long as it's not prolonged—is a good thing after tech's seemingly unceasing climb higher for so many months.

"As much as it's painful short term, it's actually really healthy longer term that they're pulling back," said Mr. Slimmon, who added that after a reset in these momentum stocks, he could see these company shares rising again into the end of the year.

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Investors Change Tack as Rates Rise

By Akane Otani and Michael Wursthorn
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The wild swings in stock and bond markets this month are another sign that investors are struggling to adapt to a world where central banks are curbing the flow of easy money.

Even after a sharp rally Tuesday, the **Dow Jones Industrial Average** has fallen 2.8% this month, on course for its worst start to a quarter since 2016. Treasury bond yields, meanwhile, have shot to multiyear highs, pressuring stocks from New York to Hong Kong to London by making their yields less attractive.

Many professional investors say the turbulence reflects the early stages of what they call a rotation, a pragmatic decision to reallocate money away from assets whose gains now appear at risk -- in this case, the most highly valued stocks such as technology-company shares -- to safer sectors such as bonds.

Minutes released Wednesday from the Federal Reserve's September meeting showed officials believe the economy is strong enough to absorb additional rate increases, heightening investor expectations that the central bank will continue on its course of increases. That could drive Treasury bond yields even higher.

Stocks of big U.S. companies once appeared immune to the appeal of other assets because of record-low interest rates around the world. Now rising yields are driving a retreat from previous winners such as technology darlings Amazon.com Inc. and Google parent Alphabet Inc.

It is the strongest sign yet that investors' faith in the postcrisis "risk-on" dynamic driven by central-bank stimulus is splintering.

Still, the broad swings in markets this month highlighted investors' struggle to discern just how much to rotate out of longtime winners and into underloved industry sectors. Even with many investors believing that valuations of tech companies and other fast-growing stocks are overextended, few are willing to pull out of those companies altogether.

"We're still meeting folks heavily concentrated in the U.S. and tech," said Darrell Riley, a portfolio strategist at money manager T. Rowe Price Group, which has been encouraging clients to pare back holdings of U.S. equities and diversify with stocks in Europe and Japan. The recent pullback has "been a wake-up call," he added.

The itch to diversify is being driven by the rise this month in the yield on the 10-year U.S. Treasury note to a seven-year high of 3.227%, a gain that reflects the impact of repeated Federal Reserve interest-rate increases and a healthy U.S. economy. The benchmark yield trailed the dividend yield on large-cap U.S. stocks for much of the post-financial crisis era, but now dwarfs the **S&P 500**'s dividend yield of 1.9%, according to FactSet.

Investors' outlook for next year is growing more pessimistic. About 38% of the 174 fund managers overseeing $518 billion in assets surveyed by Bank of America expect the world economy to decelerate over the next year, the worst global growth outlook in a decade.

Attractive investments are getting harder to identify, said Michael Scanlon, a Manulife Investments portfolio manager. Over the past year, his fund has shed 10 of its holdings, concentrating its assets in some of its bigger positions. Those include Alphabet, Microsoft Corp., JPMorgan Chase & Co. and Berkshire Hathaway Inc.

"We own fewer stocks and we're more top heavy," Mr. Scanlon said. "There's fewer great investment opportunities out there."

Investors' optimism was punctured this month when Fed Chairman Jerome Powell, touting the economy's strength, said the U.S. remained "a long way from neutral" -- the point where interest rates would cease to become either restrictive or accommodative of growth -- even after a series of rate increases.

Many investors said their fears were further stoked ahead of last week's selloff after several companies, including paints and coatings maker PPG Industries Inc. and industrial- and construction-goods supplier Fastenal Co., warned that rising commodity costs, higher wages and trade tariffs were eating into their profit margins.

While materials and industrials companies in the **S&P 500** both shed more than 6% last week, investors' inflation fears also pressured the **stock market**'s most expensive, best-performing sectors of the year.

Amazon.com shares have fallen 8.6% in October, on pace for their worst month since January 2016, while Alphabet shares have lost 6.6%. Those losses contributed to the **Nasdaq Composite**'s 5% pullback this month, its harshest selloff in more than two years.

"They've become victims of their own success," said Michael LaBella, a portfolio manager at QS Investors.

In response, some money managers are trying to build portfolios that can withstand more economic turbulence. Lazard Asset Management, for example, has identified more than 200 companies throughout the world that have high returns on capital and relatively predictable earnings growth, characteristics that better insulate businesses from a slowdown in global growth, said Matthew Landy, a portfolio manager of the Lazard Global Equity Franchise Fund.

While a number of actively managed funds carry a significant exposure to tech, Mr. Landy's fund owns fewer tech stocks relative to its benchmark and more industrial companies, with TV-ratings company Nielsen Holdings PLC and waste-management services provider Stericycle Inc. among its biggest holdings.

To be sure, few believe that rates are at levels that would justify pulling out of stocks altogether. Yet the tumult in the markets has encouraged investors to push money into sectors that have been overlooked and are expected to be more durable in a slowing economy.

Utility-company stocks in the **S&P 500** have risen 1.9% in October, the only sector in the broad index to notch a gain for the month so far, as investors sought to take advantage of valuations that they say are attractive, hefty dividends and the relative stability of such shares during an economic pullback.

With data continuing to point to strength in the U.S. economy, few are calling for an end to the nine-year **bull market**. But with interest rates widely expected to keep climbing, many experts said investors should prepare for further **volatility**.

For years, investors had "almost a false sense of security in the markets, apart from just a few short-lived situations," said Yousef Abbasi, global market strategist at INTL FCStone. As the Fed continues to raise rates, investors should expect more swings of the likes they have seen in October, he said.

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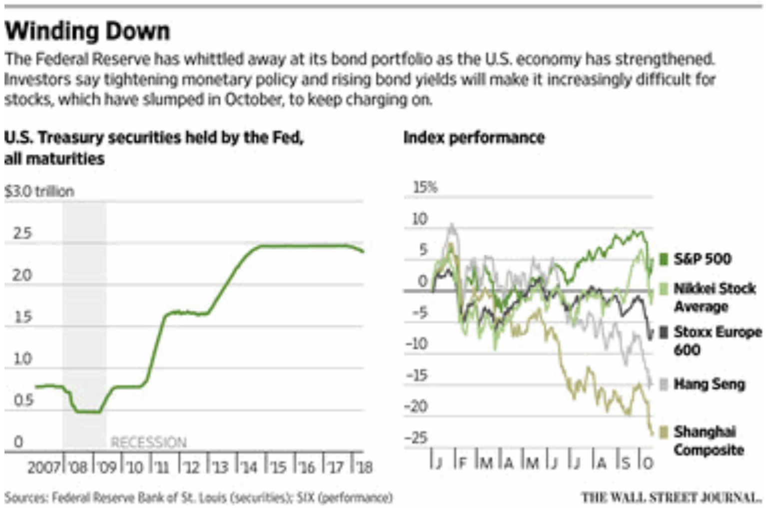

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The New York Times

Business/Financial Desk; SECT
Stocks Slip Again, and Automakers Continue a Long Decline

By MATT PHILLIPS
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The Trading Day

Another day of selling adds to an already lousy month for stocks

Stocks slipped Monday, with the benchmark **Standard & Poor's 500-stockindex** ending down 0.4 percent, adding to an already steep decline in October. Financial shares led the declines, falling 2 percent. Energy shares also slumped more than 1 percent, as Halliburton warned of slowing demand for its hydraulic fracturing services in the fourth quarter.

Halliburton itself dropped 3 percent. Also down Monday was the toymaker Hasbro, which fell more than 3 percent after its earnings showed it was still feeling the pinch from the bankruptcy of Toys ''R'' Us.

The Big Picture

The ideal climate for stock investing could be history

The near-perfect investing environment that prevailed in recent years -- low inflation, low interest rates and solid to strong growth -- is gradually going away. Interest rates are rising. Global growth is showing signs of slipping, especially in China. And investors are worried that profit margins might shrink because of higher wages and commodity costs driven up by tariffs. Stocks are finding it all hard to take. The **S.&P. 500** is down 5.4 percent this month.

The Chart

All the major market concerns are at play in auto stocks

Shares of automakers have struggled all year, but they began to drop sharply in June as concerns about the trade war mounted ahead of a wave of tariffs on imports to the United States and China.

So far in 2018, auto and auto-parts makers -- as measured by the S.&P. index tracking the sector -- are down more than 25 percent, vastly underperforming the broad **stock market**. On Monday, they fell 0.3 percent.

Investors in the sector are looking at a weaker Chinese economy, rising interest rates, and steel and aluminum import tariffs and worrying about what they mean for the car business.

â– China, the world's largest auto market, has ''slowed down quite a bit,'' said Itay Michaeli, United States auto industry analyst with Citi.

â– Back in the United States, auto sales, which had been a bright spot for the American economy, are also slowing. Through September, American auto sales were on track to be 4 percent lower than last year.

â– Rising interest rates could make matters worse. Rates on new four-year auto loans are above 5 percent for the first time since 2012, for example, which will make monthly payments on cars less affordable.

Investors will get more data points to consider soon: Ford is scheduled to report earnings on Wednesday morning. Its stock is down more than 30 percent this year as the company has announced a work-force reorganization in the face of stagnant sales.

General Motors, the largest American automaker by sales, will report its results on Oct. 31.

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THE WALL STREET JOURNAL.

Markets

U.S. Stocks Drop as Bond Yields Keep Climbing; Treasurys pull Dow industrials down more than 800 points and put the S&P 500 on pace for its longest losing streak in nearly two years

By Michael Wursthorn
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The **Dow Jones Industrial Average** plunged more than 800 points Wednesday, as a continuing surge in Treasury yields prompted the blue-chip index's biggest pullback since February.

Fast-rising bond yields and signs of inflation have led investors to worry that profit margins could narrow, sparking one of the biggest downturns of the year among shares of fast-growing companies that have benefited from a decade of near-zero interest rates.

All 11 **S&P 500** sectors tumbled, as the broad index fell for a fifth straight session, its worst stretch of trading in nearly two years. Each of the 30 stocks that make up the Dow industrials also notched losses. A measure of **stock-market volatility**, the Cboe **Volatility** Index, surged to its highest level since February, causing several investors to compare the **stock market**'s latest turn to the selloff earlier this year that sent major indexes into correction territory.

While the losses were broad, the selling undercut the strong gains that companies such as Amazon.com Inc., Netflix Inc. and Salesforce.com Inc. have contributed to the **stock market** this year and left some investors who hold those shares flat-footed.

"Investors are selling the winners and where the momentum has been," said Mark Stoeckle, chief executive of Adams Funds, whose funds own stocks like Netflix and Salesforce. "But when we look at the reason we own them and whether there's any news, there's nothing" about those companies, he added. "We still believe earnings are going to come through and that's where you'll get paid."

Technology stocks have been a major contributor to the 9½-year rally. Investors savored their massive profit margins and exponential sales growth, and many showed a willingness to test the upper limits of **stock-market** valuations.

But the combination of rising interest rates and surging bond yields has upended the **stock market**'s status quo, several analysts said. With the Federal Reserve's easy-money policies coming to an end, several analysts and investors are more willing to call for an investment shift that favors shares of more durable companies, such as health-care firms, over the highflying tech stocks that powered the long-running rally.

As stocks fell further from their record highs, bond yields resumed their climb higher. The yield on the 10-year U.S. Treasury note rose to 3.211% from 3.208% a day earlier, further building on September's gain, which was the biggest in a month since January.

The **Dow Jones Industrial Average** tumbled 831.83 points, or 3.1%, to 25598.74. The **S&P 500** shed 94.66 points, or 3.3%, to 2785.68 to notch its longest losing streak since November 2016. The **Nasdaq Composite**, meanwhile, fell 315.97 points, or 4.1%, to 7422, its biggest one-day decline since June 2016.

Tech stocks in the **S&P 500** fell 4.8% to lead the broad index lower, the sector's worst day of trading since 2011. The communications and consumer discretionary sectors, which include a handful of other tech stocks, also suffered steep declines, falling 3.9% and 3.7%, respectively.

Tech—especially internet and social-media stocks—remains one of the most popular positions among big money managers and retail investors, analysts said, and further drawdowns are expected to come in a fast-rising-rate environment.

"There's a tug of war in the market," said Quincy Krosby, a market strategist at Prudential Financial. "Is the business cycle slowing down to the point it's looking like a recession at some point, or not?"

Industrial and material stocks were also knocked back 3.5% and 2.5%, respectively, as investors worried that rising rates would eat into their profits at a time when many of those companies are already coping with higher commodity costs and rising wages.

More defensive stocks fared better Wednesday. Utilities, which investors tend to like for their attractive dividends and relative stability, fell just 0.5%, while consumer-staples companies, another rich dividend payer, declined 1.3%.

If bond yields continue their torrid climb, several money managers and analysts predicted further pain for the **stock market**, even with the **S&P 500** on the cusp of reporting its third straight quarter of double-digit profit growth.

"The speed of the move has made equity markets wobbly and rising rates on bonds and cash make for increased competition with stocks," said Ed Campbell, a senior portfolio manager at QMA, the $128 billion quant-equity arm of PGIM, Prudential Financial's investment-management business.

Donato Paolo Mancini contributed to this article.

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THE WALL STREET JOURNAL.

Markets

U.S. Government Bonds Edge Higher as Stocks Rise; U.S. government-bond prices edged higher Tuesday as stocks advanced, signaling a renewed comfort with risk-taking among investors

By Daniel Kruger
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U.S. government**bond prices** edged higher Tuesday, snapping a two-session streak of declines as stocks advanced.

The yield on the benchmark **10**-**year Treasury** note settled at 3.158%, compared with 3.163% Monday.

Tuesday's muted move reflects investors' caution after bond yields recently surged to multiyear highs, sparking **volatility** in major U.S. indexes, some analysts said.

"Deep down, people are still concerned about stocks, and that concern is reflected in the lower yields," said Brian Edmonds, head of Treasury trading at Cantor Fitzgerald LP. The recent weakness in equities suggest that people are "sellers of stocks on the bounce rather than buyers on the dip," he said.

Investors also remain cautious about the course of U.S. fiscal and monetary policy. Yields have climbed in recent weeks, propelled by expectations for economic growth and interest-rate increases from the Federal Reserve. Yields rose Monday after the Treasury Department said the U.S. budget deficit rose 17% to $779 billion and government debt climbed this year by about $800 billion through September.

The rise in the deficit stems from 2017's tax cuts, which analysts said helped boost growth as well as corporate profits. The pace of the economic expansion has led some to speculate that the Fed may need to raise interest rates at a faster pace than policy makers have forecast. Investors and analysts remain divided about whether a rising supply of Treasury debt will lead to higher yields.

The climb in U.S. government debt yields since late August has fueled this month's rise in **volatility** in the **stock market**, analysts said. The yield on the two-year Treasury note, which is close to 2.9%, is about 1 percentage point higher than the dividend yield on the **S&P 500 index**. For many investors, the safe income of government debt that comes without credit risk can be more attractive than dividends if they are tied to equities with the potential to lose value.

The increase in the supply of new debt could come back to hurt stocks if it pushes yields much higher, analysts said. The additional issuance could also undermine shares by drawing investment capital out of the **stock market** and into the safety of government debt.

"That's really the central question," said James Camp, a bond fund manager with Eagle Asset Management. "We do have a supply wave coming."

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Business Day; Economy
U.S. Economy Charged Ahead in the Third Quarter

By Nelson D. Schwartz
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The American economy barreled ahead in the third quarter as consumers stepped up and spent more, keeping it on track for the best annual performance since 2005.

The government said on Friday that the economy expanded at an annualized rate of 3.5 percent between July and September after the 4.2 percent pace in the previous quarter. But there were signs that the growth could cool in the coming months.

Businesses remain hesitant to increase spending, despite the large corporate tax cut enacted late last year. Some of the gains were also one-offs that could fade quickly, like the restocking of shelves at stores and warehouses, which contributed more than half of the overall growth.

If there is a slowdown in the economy, it could further unsettle the markets, which have slumped in recent weeks. The **Standard & Poor**'**s 500**-**stockindex** fell 1.7 percent on Friday and is down nearly 9 percent for the month.

“Clearly a strong headline, but the details are a little less robust,” said Michelle Meyer, who leads United States economics at Bank of America Merrill Lynch.

Still, with 10 days to go before the midterm election, the headline number will be a valuable talking point for Republicans on the campaign trail. The second and third quarters represented the strongest back-to-back growth since 2014, and Republican leaders were quick to claim credit.

“Americans have more opportunity and more money in their pockets today than they did two years ago, and that’s in large part due to the reforms we’ve pushed forward,” said Representative Erik Paulsen, a Minnesota Republican who is chairman of the Joint Economic Committee and is in a tight race for re-election, according to recent polls.

Tax cuts for individuals and the budget deal early this year, which raised federal spending, helped elevate growth in the third quarter. Consumer spending increased 4 percent, and federal outlays rose 3.3 percent.

“There will come a day of reckoning for the economy after the money from the tax cuts is all gone,” said Chris Rupkey, chief financial economist at MUFG Union Bank, “but for today Washington really has something to crow about.”

The effect of the corporate tax cut was less evident. Businesses did not ramp up investment in equipment and factories — the kinds of things executives do when they anticipate the good times to continue.

“You really lean back in your chair and wonder whether this enormous tax cut that was given to corporations only lasted three months,” said Torsten Slok, chief international economist at Deutsche Bank. “The economics textbook would say that if you give a tax cut that lasts several years, you should see the effects for several years.”

Looking ahead, Michael Gapen, chief United States economist at Barclays, said that he was not expecting a big rebound in business spending and that “if you’re banking on strong G.D.P. growth, you need business investment.”

Another wild card is the effect from one of President Trump’s signature economic moves: increasing tariffs on $250 billion in Chinese imports. The president has also raised tariffs on imports from around the world, including on steel, aluminum and solar panels. So far, there is little evidence that those trade policies have hurt growth much.

A surge in soybean purchases by buyers seeking to act before retaliatory Chinese tariffs kicked in helped lift gross domestic product in the second quarter. But that uptick reversed itself in the third quarter.

“One interpretation of the data is that the trade war is not having the intended effect of boosting exports and lowering imports,” Mr. Slok said. “Another interpretation is that the trade war can’t do much about that. If the consumer spends more, you will have more imports.”

Trip Tollison, chief executive of the Savannah Economic Development Authority in Georgia, said that shipping volume at the Port of Savannah was up 12 percent from a year ago and that there were almost no vacancies in the industrial real estate market. Warehouses and logistics companies have been among the most active businesses in the area.

“We’re in a great spot, no complaints for sure,” Mr. Tollison said. “We’ve got a very strong economy right now.”

The latest data could increase the likelihood that policymakers at the Federal Reserve will continue to gradually raise interest rates, in order to prevent the economy from overheating and to head off inflation. The Fed is expected to raise rates one more time this year, in December, and several times in 2019.

That has irked Mr. Trump, who criticized the chairman of the Fed, Jerome H. Powell, on Tuesday. “Every time we do something great, he raises the interest rates,” the president said.

Officials at the Fed, who do not report to the president, consider themselves above politics. Mr. Trump’s attack is highly unusual.

The steady increase in borrowing costs is already being felt in the housing market. Residential investment slid 4 percent in the third quarter, and has fallen in five of the last six quarters.

Rising interest rates also put downward pressure on stocks. The yield on the **10**-**year Treasury** note has been climbing, which makes riskier stocks less appealing to investors than safer bonds.

“We can only think investors are already looking ahead to economic conditions next year when the fiscal stimulus boost starts to fade,” Mr. Rupkey of MUFG Union Bank said. “For the **stock market**, the economy’s as good as it gets, and after buying the rumors, they are selling the fact.”

Wall Street’s recent decline, which began in early October, came too late to affect sentiment or spending in the third quarter. But on Main Street, consumers do have plenty to cheer. Unemployment in September stood at 3.7 percent, the lowest in nearly half a century, and wages are finally rising.

In Chicago, Avant, an online consumer lender with 600 employees, is planning to hire 400 more people by the end of 2019. The company specializes in lending to families earning between $40,000 and $100,000 for things like debt consolidation, auto repairs and medical bills. It also sells online lending technology to banks.

“Consumers today are in great shape,” said Al Goldstein, Avant’s chief executive. Injecting a note of caution, he added that “if interest rates continue to rise, that may change.”

* Why Has the **Stock Market** Been Dropping? The Expansion Heads Toward a New Phase

* What Could Kill Booming U.S. Economy? ‘Socialists,’ White House Warns

* Fed Plans to Continue Raising Rates, Despite Trump’s Ire

* No, Trump’s Tax Cut Isn’t Paying for Itself (at Least Not Yet)

A construction site in Philadelphia. The Trump administration has raised tariffs on steel and aluminum imports, but so far, there is little evidence that the administration’s trade policies have reduced growth much. | Matt Rourke/Associated Press

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THE WALL STREET JOURNAL.

U.S. Markets
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Investors Flee Tech Stocks, Dragging Down U.S. Indexes; Shares of technology-driven companies such as Amazon, Netflix and Alphabet tumble

By Akane Otani
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The October technology-sector slump turned into a stampede Monday, with Amazon.com Inc. falling into **bear-market** territory after a two-day decline that wiped $127 billion from its market value.

Traders continued to flee the shares that were the strongest performers earlier this year, citing unease over valuations and deteriorating sentiment. Amazon slumped 6.3% and video-streaming service Netflix Inc. fell 5%. Shares of both are down more than 20% for the month.

The selling helped turn what looked like a positive day on Wall Street into another broad retreat, with the Dow industrials shedding 245 points, or 1%, to 24442.92 and the **Nasdaq Composite** down 1.6% to 7050.29. Stock trading was **volatile**: The Dow swung more than 900 points between its high and low, only to pare hundreds of points of losses in the last 15 minutes of the trading day with no obvious catalyst.

With Monday's pullback, Wall Street now has slashed $824 billion from the market worth of five of its tech favorites—the "FAANG" quintet of Facebook Inc., Amazon, Apple Inc., Netflix and Google parent Alphabet Inc.—based on their peaks earlier this year, according to FactSet.

Portfolio managers said the autumn misery reflects a market in which traders are struggling to evaluate firms' prospects as the outlook for U.S. economic growth is under threat from trade tensions, rising interest rates and the weakening U.S. fiscal position. Dow component Boeing Co. ended 6.6% lower, logging its biggest one-day fall since February 2016, after earlier being down more than 8%.

Although Amazon last week posted record quarterly profits, the firm's revenue fell short of analysts' expectations. Investors have scrambled to pare their exposure after a long run for the shares, which are still up 30% for the year.

"This break in Amazon, it's really toxic for the market right now," said Michael Antonelli, managing director of institutional sales trading at Robert W. Baird & Co. He said Amazon and Apple, which dropped 1.9% Monday, are "two of the most crowded trades in the world. The pain of today is all about Amazon just because of how crowded it is."

To be sure, many analysts and investors continue to expect the market to bounce back soon. U.S. growth remains solid: Data Monday showed Americans' personal spending and incomes picked up in September, and a report Friday showed the U.S. economy grew at a faster pace than economists expected in the third quarter. The bond market is showing few signs that concern has spread more deeply through the economy.

Wall Street analysts are still overwhelmingly **bullish** on the prospects of companies such as Amazon. FactSet puts the average price target issued by 47 analysts for Amazon at $2,170.43 a share, a 41% premium to where the stock closed Monday.

Still, major indexes are on course to end October with their biggest one-month loss in several years. And many remain wary about how much longer stocks' yearslong **bull market** can continue, especially with interest rates on the rise and tailwinds from tax cuts passed in late 2017 expected to fade in the coming years.

"I think in order to actually renew leadership and faith in the market, you've got to see more strength in growth stocks," said Patrick Spencer, vice chairman of equities at Baird.

Still, if there is "no [sign of] recession, and maybe a slightly more dovish Fed, you could light a fire under this market," he added. "Bear markets are almost always associated with recession, and I just don't see it on the horizon," he said.

Monday's technology downturn hit everything from software makers to social media firms to e-commerce companies, dragging the Nasdaq further into correction territory, off 13% from its August high. The tech-heavy index has now fallen 15 days in October, putting it on the verge of posting its most one-day declines in a single month since November 2000, when it ended lower on 16 days, according to Dow Jones Market Data.

The **S&P 500** and Dow industrials, meanwhile, are teetering on the cusp of corrections, marked by declines of at least 10% from their recent highs. The broad **stock-market** index is off 9.9% from its September high, while the blue chips are down 8.9% from their Oct. 3 record.

Software-and-services company Red Hat Inc. managed to escape the selling. The firm's shares rose 45% and logged their biggest-ever one-day gain after International Business Machines Corp. agreed to buy it for about $33 billion in its biggest acquisition ever. IBM shares fell 4.1%.

Elsewhere, the Stoxx Europe 600 added 0.9% from its lowest close since December 2016. Italian stocks led gains in Europe, with the benchmark FTSE MIB Index rising 2.1% after S&P Global Ratings on Friday left Italy's debt rating unchanged but cut its outlook to negative. Some investors had expected a downgrade.

The Shanghai Composite Index fell 2.2%, led by declines in liquor stocks after downbeat quarterly sales and earnings from Kweichow Moutai, China's biggest liquor maker. Mainland Chinese markets also moved lower after weekend official data showed China's large industrial companies reported much slower profit growth last month.

Riva Gold contributed to this article.

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U.S. Markets
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Selloff in Tech Shares Deepens, Drags Down Market; Monday's declines extended a period of weakness for U.S. stocks

By Akane Otani and Georgi Kantchev
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U.S. stocks stalled as a rout in the technology sector dragged down everything from chip makers to social-media companies to software developers.

Major indexes have been under pressure since last week, when a bond selloff sent Treasury yields to multiyear highs. The recent run in bond yields has made some wary that the market could be headed toward a rotation where investors are encouraged to pull back from riskier assets as holding risk-free ones become more attractive.

Adding to those worries, technology stocks—a major driver of the **bull market** in the past few years—have shown signs of faltering. Amazon.com, Microsoft, Alphabet and Advanced Micro Devices each lost at least 1%.

As traders geared up for more swings, the Cboe **Volatility** Index advanced for a third consecutive day. Based on options prices on the **S&P 500**, the VIX tends to rise when stocks fall.

"What has always been perceived as the leadership of the market has started to show weakness, and you just haven't had something else step up and take its place," said Art Hogan, chief market strategist at B. Riley Financial.

The **S&P 500** fell 1.14 point, or less than 0.1%, to 2884.43 after posting its biggest one-week slide since September. The tech-heavy **Nasdaq Composite** slipped 52.50 points, or 0.7%, to 7735.95, while the **Dow Jones Industrial Average** erased earlier losses to settle up 39.73 points, or 0.2%, to 26486.78.

Many investors believe stocks still have room to run, thanks to strong economic data and buoyant confidence among businesses and consumers. Yet they are also cognizant that, as interest rates continue rising, investors will increasingly question how much risk they are willing to take on in their portfolios.

"The overall economy is going well and the bond market is reflecting it," said Terry Sandven, strategist at U.S. Bank Wealth Management. "That, though, also means more pressure for stocks."

As technology stocks slipped, bond proxies—groups that tend to pay hefty dividends and perform well during **volatile** periods—were among the best performers in the **S&P 500**.

The **S&P 500** consumer-staples sector rose 1.3%, with Conagra Brands and Coty adding more than 2% apiece, while the utilities sector rose 0.8%. The U.S. bond market was closed for a holiday.

European stocks tumbled as investors contended with fresh worries about Italy's budget.

The European Commission on Friday said Italy's budget plans are a "significant deviation" from the recommended fiscal policies and a "source of serious concern," raising the prospect of a clash between Rome and Brussels.

The Stoxx Europe 600 fell 1.1% and posted its biggest one-day decline since August, while Italy's FTSE MIB shed 2.4%.

In China, stocks suffered their worst day in more than three months as traders and investors returned after a weeklong national holiday.

The Shanghai Composite Index lost 3.7%. The declines came after China's central bank moved to free up nearly $175 billion to get commercial banks to boost their lending and pay off short-term borrowings, the latest effort by Beijing to boost growth in a slowing economy as its trade fight with the U.S. escalates.

Elsewhere in Asia, Hong Kong's Hang Seng Index fell 1.4% and notched its fifth consecutive daily decline.

Later this week, investors will be looking at the start of the third-quarter earnings season. Big U.S. banks including JPMorgan Chase, Wells Fargo and Citigroup will report.

Analysts expect **S&P 500** firms to report earnings growth of 19% from a year earlier, according to FactSet estimates.

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Heard on the Street
Markets
Tech Coming Back to Near-Earth Orbit; Investors' hopes for technology stocks were running too hot, even given strong fundamentals

By Dan Gallagher and Justin Lahart
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The past few weeks have offered clear proof that tech investors' hopes had gotten ahead of reality. The next few may not get much better.

A tough October for the **stock market** has been especially hard on technology stocks. Another harsh selloff on Friday added to what has been a brutal month for the sector.

The tech-stuffed **Nasdaq Composite** has fallen 11% so far this month, outstripping the 7% drop in the **Dow Jones Industrial Average** and the 9% drop in the **S&P 500**. Certain groups such as chips, cloud software and internet companies have fared even worse. The PHLX Semiconductor Index has shed nearly 16% this month and is now off 8% for the full year.

That created a climate of fear heading into third-quarter earnings, which some tech reports seemed to justify. Amazon.com sank 8% Friday after the high-flying e-commerce giant issued a fourth-quarter outlook that suggests its breakneck pace of growth is finally slowing. Alphabet Inc., the parent company of Google, saw its own shares slip as advertising revenue growth for the third quarter decelerated from the period before. Earlier this week, large-cap chipmaker Texas Instruments Inc. warned of slowing demand across its highly diversified business, sparking one of the sharpest selloffs that stock has seen in five years.

Reports slated for the coming week may also exacerbate the tensions—particularly Facebook Inc., which posts results on Wednesday. Smaller peers Twitter Inc. and Snap Inc. already reported notable declines in user metrics for the third quarter, and Facebook has been working frantically to clean up its own network following a series of scandals. And an unusual launch schedule may skew reported iPhone sales for Apple Inc., which posts its results Thursday.

However, most technology companies' earnings reports have been just fine, and some were better than fine. Companies like Microsoft Corp., Intel Corp. and even Twitter have managed to report strong growth in both sales and earnings. Even Google and Amazon posted stronger-than-expected profits. Indeed, overall third-quarter earnings in the sector are now on track for a gain of 25.7% versus a year ago, according to Refinitiv—better than the 20.3% analysts were forecasting at the start of this month. Fourth-quarter earnings estimates have crept up over the month as well.

But good isn't always good enough. The long-running **bull market** has fueled tech stocks in particular. That pushed the **Nasdaq Composite** beyond the 8000 mark by late August—less than two years after the index eclipsed its previous record of 5,000 hit at the peak of tech fever 18 years ago. But at 8000, the Nasdaq was also reflecting an average of nearly 23 times forward earnings, a 29% premium to the **S&P 500**'s average. Over the last three years, the Nasdaq has averaged a 21% premium to the S&P.

With the selloff, the Nasdaq's price-to-earnings ratio has fallen to 20. That may still be too rich for worried investors. Consider that when the last major tech selloff began in 2016: the Nasdaq's P/E was around 20 and subsequently slipped to 17.

Investors might therefore want to remain cautious on tech for now, even if the sharp pullback this month has created what looks like a buying opportunity. Besides next week's uncertain reports, the prospect of a trade war with China and contentious midterm elections will likely add to nerves rather than settle them. Red October isn't over quite yet.

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WSJ PRO CENTRAL BANKING

Markets

U.S. Stocks Fall as Government-Bond Selloff Ripples; Market reverberations highlight a recurring theme of 2018: the rest of the world is struggling to keep up with the U.S. economy

By Saumya Vaishampayan, Christopher Whittall and Akane Otani
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U.S. stocks tumbled Thursday, dragging major indexes to their biggest declines in months, as a selloff in government bonds reverberated around the world.

The **S&P 500** shed 0.8% and notched its biggest loss since June, while the yield on the 10-year U.S. Treasury note—a bedrock for global **financial markets**—hit its highest level in more than seven years.

The rout was a fresh reminder to investors of the nine-year **bull market**'s vulnerability to interest-rate shocks.

Rising bond yields can signal investors are optimistic about future prospects for growth. Yet they can also have a dark side: the recent rout in Treasurys has renewed investors' fears that the Federal Reserve may have to raise interest rates more quickly than anticipated to keep the economy from overheating. The Fed also could tip the economy into recession if it moves too quickly.

That raises the stakes for investors as they await the Labor Department's employment report Friday. Unexpectedly strong data could send stocks and **bond prices** tumbling again, investors say, raising the prospect of a deeper reckoning. That is especially true with many believing that after hitting a series of records in quick succession, U.S. stocks looked overdue for a pullback.

"A bunch of different data is suggesting we're in a hot economy right now," said Mike Bailey, director of research at $1 billion wealth manager FBB Capital Partners. A sudden spike in wage growth, similar to earlier this year, as well as a big jump in the consumer-price index due later this month will factor heavily into where bonds and stocks go from here, Mr. Bailey said.

"If there are higher wages, the Fed is likely to raise rates faster. In some ways, it's worse than a trade war," he added.

Investors retreated from risk Thursday, pushing nine of the 11 major **S&P 500** sectors lower. Technology stocks and shares of other highflying growth companies were among the hardest hit in the broad index, as investors were forced to rethink the value of future earnings in a rising-rate environment.

So-called value stocks fared better, with shares of financial companies in the **S&P 500** adding 0.6%.

Meanwhile, a measure of **stock-market volatility**, the Cboe **Volatility** Index, leapt 30% to its highest level since July, suggesting traders were bracing for further swings in the market.

Stocks elsewhere around the world slumped, too. The Stoxx Europe 600 shed 1.1% in its biggest one-day percentage decline since Sept. 5, while major indexes in Hong Kong and South Korea deepened their losses for the year.

Thursday's market reverberations highlighted a recurring theme of 2018: the outperformance of the U.S. economy. That has allowed U.S. stocks to march higher this year even as concerns over trade tensions and less robust growth have weighed down European and Asian markets.

One of the starkest examples of the divergence is that even though 10-year German bond yields climbed Thursday, their gap with Treasurys still widened to around 2.7 percentage points, an increase of about 0.7 percentage point this year, according to Refinitiv.

The spread is a sign of "the growth-trajectory divergence," said Robert Tipp, chief investment strategist at PGIM Fixed Income. Markets are digesting a "modest acceleration in U.S. growth and deceleration in Europe in what is already a big gap in [economic] fundamentals."

Higher U.S. rates and optimism about the U.S. economy also pushed the dollar higher against emerging-markets currencies, which have been under pressure this year. Indonesia's currency, the rupiah, dropped to a 20-year low Thursday, while the Indian rupee hit the latest in a string of record lows. The Turkish lira slumped 1.9% against the dollar and the Russian ruble fell 1.7%.

"The dollar has free rein now to stretch its legs and push higher," said Gareth Berry, a foreign-exchange and rates strategist at Macquarie Bank in Singapore.

This points to further difficulties for emerging markets, analysts say. A stronger greenback makes it more expensive for countries and companies to service and repay dollar debt. Central banks have been forced to raise rates to defend currencies, making domestic borrowings costlier, too. And higher U.S. rates reduce the relative appeal of riskier assets elsewhere.

Yield-hungry investors who had proved eager to jump in and buy stocks and bonds in developing economies after previous bouts of stress have been more hesitant to do so recently, citing uncertainty about the outlook for global trade and economic turmoil in countries such as Turkey and Argentina.

Bank Indonesia said it intervened to stabilize the rupiah by selling dollars on Wednesday. It already has lifted its benchmark rate five times since May in a bid to attract foreign cash.

Michael Wursthorn contributed to this article.

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More

* Treasury Yields Set New Multiyear Highs

* Stocks Fall as Rising Yields Reverberate

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The New York Times

Business Day
Offering Inspiration and Advice, Real Vision Is HGTV for Hedge Fund Hopefuls

By Landon Thomas Jr.
1,645 words
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Kieran O'Dea rises at 5 a.m. to begin his daily routine, shuffling to his desk to eye his portfolio: a cluster of biotechnology stocks and a bet that Tesla will go bust.

Then he pulls up the latest video on Real Vision, the start-up financial video service that promotes the trading ideas and insights of hedge fund managers large and small. On this morning, the play is buying beaten-down Chinese stocks. He studies the clip carefully, as he has done with all 1,200 videos shown on Real Vision since it went live in June 2014.

Mr. O'Dea, 29, is the chief investment officer of Hedge Knight Capital, which manages mostly family money in the low seven figures. He is wearing swim shorts and a wrinkled T-shirt; his feet are bare and tan.

His office consists of an unmade bed, two computer screens and a stunning view of Long Island Sound. Mr. O'Dea may be master of his own hedge fund, but he could not be more disconnected from the Wall Street machine. No sell-side research clogs his inbox. He does not own a Bloomberg terminal. And there is no TV tuned to CNBC, the financial news hub ubiquitous on trading floors.

"I hardly watch it — and I don't have access to any of that other stuff, either," Mr. O'Dea said. "I get all my market access from Twitter and Real Vision."

Real Vision offers a way to skip the traditional hedge fund path: slog away at an investment bank or a mutual fund, then settle down in Midtown Manhattan or Greenwich, Conn. For a modest fee, Real Vision will connect investors to a network of elite Wall Street analysts, traders and hedge fund managers, making it easier for novices like Mr. O'Dea to jump the line.

Raoul Pal, a former hedge fund executive who also worked at Goldman Sachs and runs an investment strategy service called Global Macro Investor, co-founded Real Vision. Since then, 20,000 people have signed up, paying $180 a year to hear directly from financial insiders.

It is a vibrant community with an average age of 38, which distinguishes it from CNBC and its more mature audience. Mixing the Netflix payment model with a cozy interview style, Real Vision offers to help upstart investors decode the mysteries of today's markets. It features those insiders presenting their views in lengthy, explanatory videos: How to short China, the long-term opportunities in emerging markets and the best way to play Bitcoin, among others.

A nearly hourlong interview with the billionaire Mark Cuban is among the free videos on the site. And last week, Stanley F. Druckenmiller, an industry star, gave a long interview warning of a debt bubble in the market.

Real Vision also celebrates the hedge fund life — the outsize trades, houses and swagger — and tempts aspirants like Mr. O'Dea into thinking that they, too, might join the club.

It is a world that Mr. Pal, who earlier in his career pitched ideas to luminaries like Paul Tudor Jones and George Soros, knows well. He said he was motivated to start Real Vision after watching CNBC's coverage of the financial crisis and thinking there was an opening for deep dives into finance's most arcane areas.

"The media was too busy treating finance as entertainment and sound bites," he said. "If you are going to cheerlead while this thing is going up, you have to warn them of the risks. It is a moral obligation."

But there's still an element of theater to Real Vision. Recently, Mr. Pal interviewed Michael Novogratz, a billionaire investor specializing in cryptocurrencies, in his office. During the discussion on the ups and downs of Bitcoin, Mr. Novogratz wore pink jeans that matched his sneakers and took a seat in front of an original leather jumpsuit worn by the motorcycle daredevil Evel Knievel, standing in a glass case under neon lights.

Mr. Pal had flown in from his home in the Cayman Islands, and he displayed an untucked shirt, sneakers without socks and a stubble beard. It could well have been a scene from "Billions," the television show about the machinations and appetites of hedge fund titans.

"I used to think that these guys were gods," Mr. O'Dea said. "But if you spend enough time watching them, you can figure out what they are up to."

And if his formative experience was being a world-ranked video game player — in both World of Warcraft and Smite, he said — not a striving investment banker, so what? Mr. O'Dea watched the best gamers as he honed his craft once before. How hard could it be?

"It has been my total school — I mean, I had no idea what a **bear market** or a **bull market** was when I started," Mr. O'Dea said. "It was like watching people play video games."

Currently, 9,790 hedge funds are plying their trade, according to HFR, an industry tracker. With so many options, the pressure to perform has never been greater.

The last time hedge funds collectively beat the **Standard & Poor's 500-stockindex** was 2008. So far this year, Hedge Knight is up 37 percent Mr. O'Dea said, soundly beating the index's 9 percent increase and thrashing the near-flat return the fund's peer group has delivered.

Mr. O'Dea's grandfather Leonard E. Baum was Hedge Knight's main financial backer until his death. Propped up against Mr. O'Dea's window is a faded photograph of Mr. Baum, a mathematician who put in place the trading framework that James H. Simons, the founder of Renaissance Technologies, employed to make his $84 billion Medallion Fund one of the world's most successful hedge funds. Sitting in a lawn chair, Mr. Baum has his toddler grandson in a tight hug.

If his grandfather was Mr. O'Dea's main source of capital, Real Vision is his source of inspiration.

Part of the service's allure is the glimpse it gives of life in the bubble. One interviewee holds forth by his swimming pool in St. Barts; another contemplates his career while strolling through his cavernous horse barn.

Mr. O'Dea's favorite video — one that he has watched countless times — marked Real Vision's beginning in 2014: an hourlong interview with Mark Hart, a hedge fund manager in Dallas.

In the video, Mr. Hart wears his hair slicked back and spins tales of accumulating art, becoming an expert in Brazilian jujitsu and living in the moment — what he refers to as "chasing flow."

"I wanted to be that guy," Mr. O'Dea recalled.

He made a pilgrimage to Texas to meet Mr. Hart, and they bonded over biotechnology companies. Mr. O'Dea was curious about the science of disease: His grandfather suffered from cone-rod dystrophy, a condition that erodes vision, and his younger brother Brennan — the only other employee at Hedge Knight — is afflicted with over a half-dozen autoimmune illnesses. Brennan O'Dea spends nine months a year in a small cabin in Idaho, studying biology and scanning the market for cutting-edge companies. He has selected all 12 biotech stocks in Hedge Knight's portfolio.

Real Vision has plenty of believers.

"I have been a subscriber since they were two months old," said Chase Taylor, 35, an Air Force officer whose dream is to sell investment research to hedge funds.

He has not worked in the industry, nor did he go to business school. "I figured if these guys are doing it, I can too," he said.

When Mr. Pal told subscribers in early 2017 that he was raising $7 million from outside investors, 1,700 offered to invest. He ultimately increased the sum to $10 million, and 50 subscribers became shareholders, although neither Mr. O'Dea nor Mr. Taylor is among them.

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But Real Vision's contributors can also promote some of Wall Street's edgiest trades, like betting on **volatility** or loading up on emerging market bonds.

Take Mr. O'Dea's fund: a dozen biotechnology stocks, some with values below $50 million, and a bet that Tesla goes bankrupt. It is a very risky portfolio, especially for a manager with such limited experience.

Real Vision is careful to present its strategies as trading ideas — not recommendations. At the end of each video, an employee warns investors to weigh their risk appetite before jumping in.

Ultimately, Mr. O'Dea's contention that in finance — as with video games — you can ascend to an elite level by scrutinizing what the best players do remains unproven.

Which does not mean he won't give it a shot.

"Now, I know what I am doing," Mr. O'Dea said. "And guess what: I am a 29-year-old hedge fund manager."

* Tesla Chief Elon Musk Is Sued by S.E.C. in Move That Could Oust Him

* Argentina's Peso Tumbles as Turbulence in Emerging Markets Spreads

* A Bitcoin Hedge Fund's Return: 25,004% (That Wasn't a Typo)

Raoul Pal, a co-founder of Real Vision, interviewing Mike Novogratz, left, a former hedge fund manager, for a video in Manhattan. Real Vision's videos dive deeply into arcane areas of finance, with a taste of the hedge fund lifestyle. | Jeenah Moon for The New York Times | Kieran O’Dea, 29, uses what he has learned from Real Vision to run a hedge fund from his home on Long Island. | Joe Carrotta for The New York Times | “The media was too busy treating finance as entertainment and sound bites,” Mr. Pal said, describing the inspiration for Real Vision. | Jeenah Moon for The New York Times

Document NYTFEED020181002eea2006el

The New York Times

Business Day
The Biggest Buyers of American Stocks Are on the Sidelines Right Now

By Matt Phillips
600 words
11 October 2018
06:16 PM
NYTimes.com Feed
NYTFEED
English
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There are plenty of potential catalysts for the **stock market** sell-off that has swept through the markets this week. They include rising interest rates, growing tensions with China, expanding federal deficits and increasing regulatory risks for technology companies.

Another element worth considering? The biggest buyers probably aren't buying.

It may seem counterintuitive, but the largest single source of demand for American stocks is the American companies that issue them. Companies are on track to repurchase more than $770 billion in their own stock this year, according to research from Goldman Sachs. That's more than twice the size of the next largest source of demand, exchange-traded funds, which last year bought $347 billion in shares.

But those companies are getting ready to report earnings, an event that is preceded by a regular slowdown in buyback activity. Some large market dips in the past year have coincided with these quarterly slowdowns.

Keith Parker, head of United States equity research at UBS Investment Research, said the market has been weaker when buybacks have slowed. "When that dries up or slows significantly, you're having outsized market effects," he said.

The **Standard & Poor**'**s 500**-**stockindex**fell 2.1 percent on Thursday, its sixth straight day of declines. It had tumbled 3.3 percent — the worst drop in eight months — on Wednesday. The sell-off this week comes as earnings season begins in earnest this Friday, when giant banks including JPMorgan Chase, Citigroup and Wells Fargo are scheduled to report.

When companies have more cash than they believe they can use productively, they typically return it to shareholders either with cash payments — known as dividends — or by repurchasing shares in the market. Buybacks raise demand, putting upward pressure on share prices.

Such repurchases have boomed this year as the strong economy — and steep cuts in corporate tax rates — have left American companies flush with profits. Companies including Apple, Cisco Systems and Amgen have returned billions in cash to shareholders by buying back shares. Apple is responsible for the largest sum, spending nearly $64 billion on buybacks in the 12 months ending in June 2018, the last period for which full data is available, according to data from S&P Dow Jones Indices.

But corporate buybacks regularly slow around the start of the earnings reporting season, because companies want to avoid any potential legal risks from buying stock ahead of publishing their financial results.

"You shouldn't be out there buying stock if you know good news is about to come out and the market doesn't know it," said Charles Elson, a professor of finance and corporate governance at the University of Delaware.

This year, periods of reduced buyback activity have, at times, been accompanied by sharp sell-offs in stock markets. Around the time when buybacks dried up in late January, according to UBS data, the **S**.**&P**. **500** suffered an ugly drop, falling more than 10 percent from a record high. The market stabilized alongside corporate buying in early February. Likewise, a buyback slowdown in April was accompanied by a tumble in stocks.

The **stock market**'s capricious behavior cannot be traced to a single factor, of course. But a slowdown in buybacks effectively removes a lot of motivated buyers from the American exchanges, which might have been a stabilizing force.

“No one else buys back share proportionately anything like the U.S.,” said Ben Laidler, global equity strategist at HSBC. “It’s sort of a uniquely U.S. phenomenon.”

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THE WALL STREET JOURNAL.

Markets
Bond Yields Surge, Signaling Growth Hopes; Investors propelled bond yields to multiyear highs Wednesday as robust economic data and an easing of trade tensions across North America sparked fresh optimism about the global growth outlook

By Akane Otani
970 words
3 October 2018
05:42 PM
The Wall Street Journal Online
WSJO
English
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Corrections & Amplifications

U.S. crude **oil prices** are measured in dollars a barrel. An earlier graphic accompanying this article incorrectly described the price as dollars a gallon. (Oct. 4, 2018)

Investors propelled bond yields to multiyear highs Wednesday as robust economic data and an easing of trade tensions across North America sparked fresh optimism about the global growth outlook.

Wednesday's bond rout sent the yield on the 10-year U.S. Treasury note, a closely watched barometer of investors' sentiment toward growth and inflation, to its highest level since July 2011. Risky assets rallied, pushing the **Dow Jones Industrial Average** to a record and crude-**oil prices** to multiyear highs.

Together, the moves suggested investors are once again growing ebullient about future growth, a shift from the more cautious outlook that many held for much of the year.

Fractious negotiations and tariffs imposed between the U.S. and its trade partners had damped investors' optimism about the global economy, keeping a lid on stock gains and Treasury yields. Investors also cited risks ranging from tumbling emerging markets to geopolitical tensions in the eurozone as reasons to stay cautious.

Yet many said the deal between the U.S. and Canada late Sunday to revise the North American Free Trade Agreementremoved one source of anxiety for the markets, showing the White House was more amenable to negotiating with its trade partners than some had thought.

Adding to the upbeat mood, data Wednesday showed U.S. services-sector activity hit a record in September and private payrolls expanded far more than expected.

Investors expect more strong data Friday, when the Labor Department is scheduled to release its monthly employment report.

"Whether it's job creation, unemployment, wage growth…just across the board on the various measures of growth, it's strong," said Dan Miller, director of equities at GW&K Investment Management.

Investors are cognizant that risks remain, particularly outside of the U.S. International Monetary Fund Managing Director Christine Lagarde warned Monday that the group's official economic forecasts have "become less bright."

Yet so far, many believe the U.S. is on strong enough footing to power on—a contrast to 2015, when investors had worried that signs of a slowdown in China were possibly a prelude to a U.S. recession.

Combined with investors' hopes that the U.S. will ultimately reach a trade agreement with China, and "you can now look to 2019 with some greater confidence in both the growth of the economy, the growth in profits and the sustainability of those profits," Mr. Miller said.

The **S&P 500** rose 0.1% to 2925.51 Wednesday, while the Dow industrials added 0.2% to 26828.39, boosted by shares of banks and manufacturers. U.S. crude oil for November delivery jumped 1.6% to $76.41 a barrel, settling at its highest level since November 2014 and driving up inflation expectations.

Treasurys weakened as investors bet on stronger growth and inflation, which could spur a faster pace of interest-rate increases from the Federal Reserve. The yield on the benchmark 10-year U.S. Treasury note climbed to 3.159% from 3.056% Tuesday, settling at its highest level since July 2011 and notching its biggest one-day rise in more than a year. Yields rise as **bond prices** fall.

Yields on shorter-term debt also climbed, showing investors' growing expectations for interest-rate increases. The yield on the two-year Treasury note, which is often sensitive to changes in expectations for Federal Reserve interest-rate policy, rose to a 2018 high of 2.860% from 2.815% Tuesday.

"We've seen the economy able to beat some pretty impressive expectations at every measure," said Michael Lorizio, senior trader at Manulife Asset Management. That has helped drive up inflation expectations, as well as distill a higher degree of confidence that the Fed will be able to keep raising interest rates at its current slow but steady pace, Mr. Lorizio said.

So far, analysts have largely regarded the gradual uptick in inflation and interest rates as a testament to the strength of the U.S. economy, not as an imminent threat.

"There's no reason to think that the probability of a recession in the next year or two is at all elevated," Fed Chairman Jerome Powell said last week at a conference of business leaders.

Yet many remain wary, saying the Fed raising rates too quickly is the largest threat to the nine-year-old **bull market** in stocks.

The yield on the **10**-**year Treasury** is used as a reference for everything from auto loans to mortgages. As borrowing costs continue to climb, some investors worry key areas of consumer spending will falter—something that could accelerate the end of the cycle.

Data already have shown some fault lines in the housing and auto sectors. Sales of existing homes fell in August for a sixth consecutive month, pressured by a combination of rising mortgages and a lack of inventory.

Major auto makers ranging from Ford Motor Co. to Nissan Motor Co. reported on Tuesday that U.S. sales slid in September.

Still, the strength of the broader economy has helped offset investors' concerns about areas that have stumbled. And some believe that bond yields, which are now approaching the upper range of where many analysts had forecast they would end the year, may struggle to keep rising at their current pace.

Higher bond yields can draw buyers back into the market, especially with yields in other developed markets remaining relatively low.

"The [U.S.] data is broad, deep and sustainable," Mr. Miller said, adding that he believes the economic cycle has shown it has plenty of room to run.

Sam Goldfarb contributed to this article.

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THE WALL STREET JOURNAL.
U.S. EDITION

Tech Rout Sends Stocks Tumbling --- Trump blames central bank for raising interest rates, declaring 'the Fed has gone crazy'

By Corrie Driebusch
895 words
11 October 2018
The Wall Street Journal
J
A1
English
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The Dow industrials extended their steepest October retreat since the financial crisis Wednesday, posting an 832-point decline that raises fresh concern about the health of the nine-year-old **bull market** for stocks.

The selling was led by the technology shares that have fueled much of the 2018 advance in U.S. stocks, with Netflix Inc. dropping 8.4%, Amazon.com Inc. declining 6.2% and Apple Inc. off 4.6%. Combined the three companies shed nearly $120 billion in market value on Wednesday.

Selling accelerated toward the end of the day and losses spread well beyond tech stocks; bank stocks were pummeled along with companies exposed to global trade such as Caterpillar Inc.

Investors turned to shares deemed likely to do better in tougher economic times, such as utilities companies. That rotation out of tech and other growth stocks has been sparked in part by the recent jump in government bond yields and the Federal Reserve's interest rate increases.

When asked about Wednesday's market decline, President Trump said "the Fed has gone crazy."

The Fed's more-restrictive stance has joined with other signals to unsettle investors even as major U.S. indexes rose to new highs. The market's worries aren't all aligned -- some investors are worried a strong economy will lead the Fed to rate increases that hurt stocks, while others on Wednesday pointed to recent indicators in housing and autos that suggested the economy is losing steam. A shared concern, however, is that trade tensions between the U.S. and China appear to be worsening, and that a slowdown in the Chinese economy could spill over into global markets.

Chinese authorities have stepped up their efforts to keep money flowing in the world's second-largest economy amid concerns about the ramifications of a yearslong increase in Chinese debt issuance.

The result: A simultaneous selling of 2018's biggest **stock-market** winners in the U.S.

Heading into the fourth quarter, investors were piling into many of the same trades, particularly in large U.S. tech stocks, said Andrew Slimmon, senior portfolio manager with Morgan Stanley Investment Management. "If everyone is on one side of the boat and they suddenly realize this, everyone would scramble."

The shift has come as the yield on the benchmark U.S. Treasury note has risen to seven-year highs. It settled at 3.221% Wednesday, up from 3.055% at the end of September.

The **S&P 500** tumbled 3.3% Wednesday, its fifth consecutive session of declines and longest losing streak in nearly two years. The **Dow Jones Industrial Average** dropped 3.1% to 25599, falling 4.6% from its all-time high notched Oct. 3. Both indexes registered their biggest losses on a percentage basis since Feb. 8.

All sectors in the **S&P 500** slumped Wednesday, with technology stocks down nearly 5%. Other growth sectors including consumer-discretionary and communications shares posted big declines as well.

The tech-heavy **Nasdaq Composite** dropped 4.1%, extending its declines for the month to 7.8%. The index is suffering its worst start to a fourth quarter since 2008, when it fell 21%.

Traders and portfolio managers said trading during Wednesday's declines was largely orderly and that phones weren't ringing off the hook with upset clients. Even so, some on trading floors were struggling to reconcile the strong financial results of large tech firms with the day's heavy selling.

"It really doesn't make any sense to me that some of these stocks are getting beaten up as much as they are," said Mark Stoeckle, chief executive of Adams Funds.

Some Vanguard customers, though, had problems logging on to their accounts online and by phone. Some took to Twitter to complain about the technical issues.

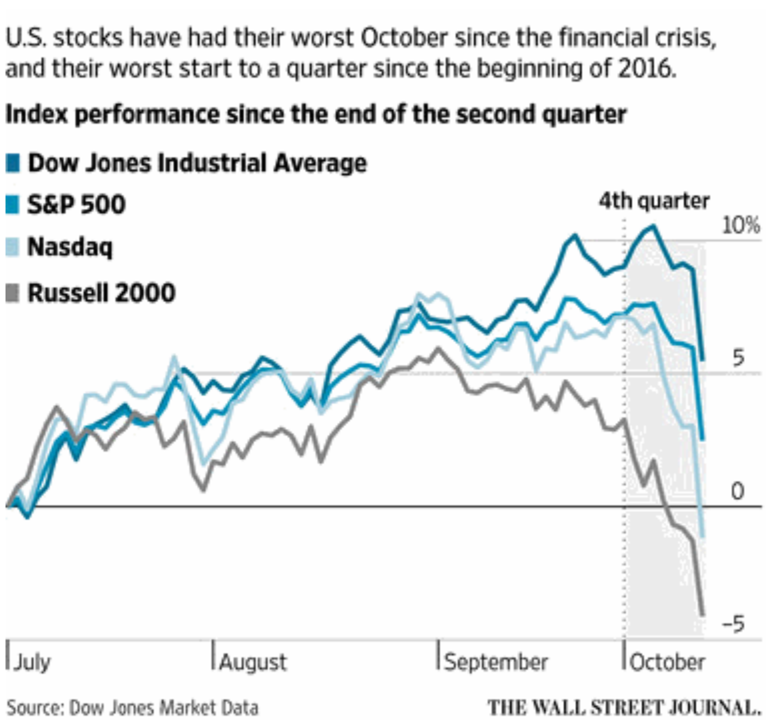
"Vanguard today experienced periodic network connectivity issues," a spokeswoman said in a statement, adding the technical issues weren't a result of more people trying to log on to their accounts.

Possibly exacerbating the decline for tech stocks is the absence of one of their biggest buyers: the companies themselves. In the weeks leading up to reporting their corporate results, companies typically don't repurchase their own shares due to regulations. Analysts have said record stock buybacks have underpinned the **stock market**'s recent gains, and some traders said the elimination of this support could be worsening the selloff.

On Wednesday, just 17 stocks in the **S&P 500** rose, or about 3% of the broad index. Some of the buying centered on consumer-staple companies, which investors tend to favor for their durability during tough economic conditions and the generous dividends they pay. General Mills Inc. and J.M. Smucker Co. both added 1.5%, while Campbell Soup Co. rose 0.5%.

For most of 2018, the bet on tech and growth stocks bets served investors well. Even with the recent drawdowns, Amazon shares are up 50% so far this year, while Netflix has risen roughly 70% and Apple is up nearly 30%.

"Crowded trades are popular for a reason. They're good stocks. There's just risk attached to them," said Ann Larson, managing director of global quantitative research at AllianceBernstein.



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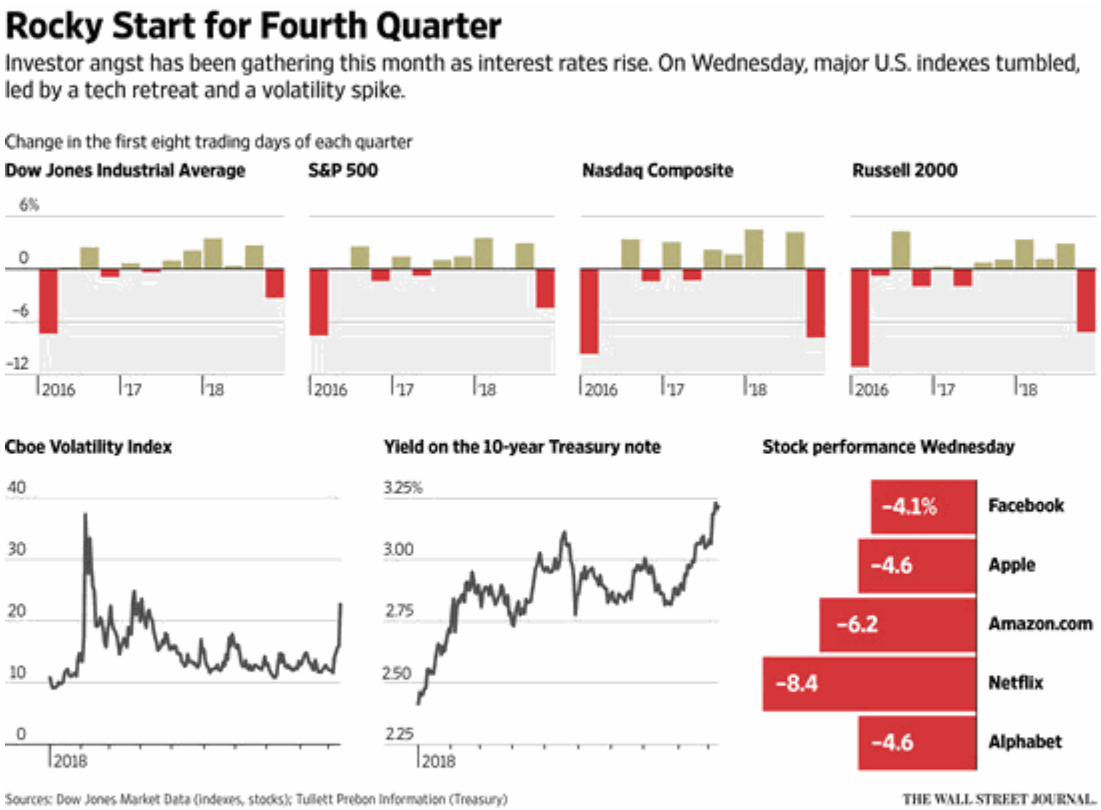

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The New York Times

Business/Financial Desk; SECT
Stocks Appear Set to Fall Further as Bond Yields Stay High

By MICHAEL J. de la MERCED
356 words
9 October 2018
The New York Times
NYTF
The New York Times on the Web
English
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Get the DealBook newsletter to make sense of major business and policy headlines -- and the power-brokers who shape them.

DealBook's one thing to watch today

Major stock indexes appear set to fall again on Monday, continuing a decline that started last week, and many people on Wall Street are blaming rising bond yields.

A primer: Government bonds are considered to be safe investments, so people buy them instead of making riskier bets when they're nervous about something. A bond's yield of moves in the opposite direction of its price, so yields increase when things are going well.

Back story: The yield on United States government bonds has been climbing recently, reaching levels unseen since 2011. As of Friday, the yield on the 10-year note was 3.23 percent. That's been spurred on by an American economy that continues to grow. Friday's low unemployment numbers added to that momentum.

What's happening: The strong economy appears to be tempting investors into selling stock holdings and buying Treasury bonds, so that they can collect respectable returns with lower risk. Our colleague Matt Phillips puts it this way:

As rates move higher, they can persuade more and more people who've ridden the nearly decade-long **bull market** in stocks to take some of their winnings off the table and sock them away in government bonds.

What to watch: The bond market is closed on Monday for Columbus Day, but stocks appear set to decline further. The **Standard & Poor**'**s 500**-**stockindex** fell 0.25 percent in early trading. If Treasury bond yields continue to rise, more investors could cash in their stock holdings. The Wall Street Journal said that a yield of 3.5 percent, if it were reached, could prove to be a tipping point. If that happens, it could endanger the nine-year **bull-market**'s run.

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The New York Times

Business Day
Stocks Bounce Back Around the World After a Week of Selling

By Alexandra Stevenson and Matt Phillips
415 words
12 October 2018
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NYTFEED
English
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Stocks snapped a six-day losing streak Friday, as the unofficial start of the quarterly corporate earnings season offered a crucial crutch for a limping market.

After a shaky week — including the steepest drop in eight months on Wednesday — the **Standard & Poor**'**s 500**-**stockindex** rose 1.4 percent on Friday The tech-heavy **Nasdaq Composite** index climbed 2.3 percent, on strong gains from tech giants such as Apple, Amazon.com and Microsoft.

Friday's rally repaired some of the damage done by a tumultuous week of trading. But the benchmark **S**. **& P**. **500** still lost 4 percent for the week.

The gains in the United States on Friday followed rebounds in Asian and European markets. Stocks in China and Japan finished modestly higher, and markets in Hong Kong and Taiwan rose more than 2 percent. Major indexes in Britain, France and Germany fell slightly.

Trade data from China appeared to be calming investors' anxiety. On Friday, China said exports rose more than expected in September as a result of increases in shipments to Europe and stable trading with the United States despite escalating tensions.

The data was a reminder that global demand remains strong even amid broad concerns about rising interest rates and the strain between Washington and Beijing.

"The trade-oriented industries are still vulnerable to further escalation," Julia Wang, an economist with HSBC, said in a research note.

In the United States, JPMorgan Chase and Citigroup — the country's largest and third-largest banks by assets — reported better-than-expected third-quarter profits.

Investors have also been concerned about the strength of corporate earnings and the effect of United States sanctions on Iran, which could push up the price of oil.

"We all know that markets react emotionally sometimes, and there is plenty to be emotional about," Christopher Smart, head of macroeconomic and geopolitical research at Barings, wrote in a note to investors.

Alexandra Stevenson reported from Hong Kong and Matt Phillips from New York.

* Trump Attacks the Fed as Stocks Fall and the Midterms Loom

* Wall St. Extends Drop Into Sixth Day, Setting Stage for Another Awful October

* The Biggest Buyers of American Stocks Are on the Sidelines Right Now

A stock board in Tokyo on Friday. Stocks in China and Japan finished modestly higher, while markets in Hong Kong and Taiwan rose more than 2 percent. | Toru Hanai/Reuters

Document NYTFEED020181012eeac001b9

THE WALL STREET JOURNAL.

Markets

Why High Consumer Confidence May Be Bad News for Stocks; When the consumer-confidence index has been especially high—as it is now—a stock slump has usually followed

By Mark Hulbert
932 words
7 October 2018
10:08 PM
The Wall Street Journal Online
WSJO
English
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The latest reading of U.S. consumer confidence from the Conference Board—the highest in 18 years, and within shouting distance of a record—would certainly appear to be good news for both the economy in general and the **stock market** in particular.

Upon digging more deeply, however, a more troubling picture emerges.

The notion that high levels of consumer confidence are a good thing hardly seems objectionable, of course, since the consumer is widely recognized as the linchpin of the U.S. economy. William R. Emmons, lead economist at the Federal Reserve Bank of St. Louis's Center for Household Financial Stability, estimates that 83% of total economic growth since 2009 has been fueled by household spending.

Lynn Franco, the Conference Board's director of economic indicators, said when the latest figure was released that the high level of consumer confidence "should continue to support healthy consumer spending, and should be welcome news for retailers as they begin gearing up for the holiday season."

So far, so good.

Troubling history

Our first indication that this good-news story may be a silver lining within a dark cloud is realizing that the consumer-confidence index hit its all-time high—144.7—in early 2000, just as the internet-stock bubble was about to burst. Far from signaling continued improvement in the economy and more **stock-market** gains, that high reading was followed in short order by an economic recession and a severe **bear market**.

While the current reading—138.4—isn't quite as high as it was in early 2000, it is still higher than 98% of all monthly readings since 1967, when the index was created.

The index's reaching a record high just before a recession and **bear market** is just one data point, of course. But it is consistent with the general pattern that emerges from my analysis of the historical data: High consumer-confidence readings more often than not have been followed by below-average **stock-market** returns, and low readings have tended to be followed by above-average market gains.

Consider, for example, the **S&P 500**'s return following the 5% of confidence readings that were the highest: Over the subsequent three months, its average return was a loss of 1.1%; over the full year following these high readings, the **S&P 500** lost an average of 3.7%.

That contrasts with average three-month and 12-month gains of 3% and 15.5% following the 5% of readings that were the lowest.

The upside-down

Meir Statman, a professor of finance at Santa Clara University, told me in an interview that he isn't surprised by this result. That's because as long as two decades ago he noted an inverse correlation between consumer confidence and the **stock market**'s subsequent return.

To be sure, he quickly hastened to point out, the statistics underlying this inverse correlation aren't so strong as to amount to a guarantee that the **stock market** will perform poorly in coming months. He said we shouldn't base any asset-allocation decision solely on this one statistical pattern (or any one pattern, for that matter). Nevertheless, he said, "to the extent one draws a conclusion from the current CCI reading, it would be negative for the **stock market**."

Prof. Statman added that the strongest statistical pattern he found in the consumer-confidence data is between a given month's reading and how the **stock market** had performed in the months and years prior. As the **stock market** goes up, in other words, so does consumer confidence, and as the market declines, so does confidence.

A high reading, therefore, tells you more about what has come before than about what is coming. And to the extent it does foretell the future, its message is just the opposite of what most think it would be.

Some investors who pay attention to consumer sentiment focus on the University of Michigan's consumer-sentiment index, another widely followed measure of consumer confidence. While its latest reading isn't quite at the same extreme as the CCI, its message is essentially the same: The University of Michigan index for September was higher than 90% of monthly readings since 1952.

In other words, consumer confidence is near record high levels no matter how you measure it.

One comforting thought

You may find some short-term solace, however, in discovering that, according to research conducted by Jack Schannep, editor of TheDowTheory.com, consumer confidence typically "reaches a peak some four to five months on average before the **stock market** peaks, and a recession follows 12 months on average after that."

So even if September's consumer-confidence index readings turn out to represent a peak for this market cycle, the **bull market** could very well last until the beginning of 2019, with a recession not starting until the latter part of next year.

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

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THE WALL STREET JOURNAL.
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Investing in Funds & ETFs (A Special Report) -- Fundamentals of Investing --- The Dark Side of High Consumer Confidence: The data suggest that when confidence readings move up, stocks may move down

By Mark Hulbert
878 words
8 October 2018
The Wall Street Journal
J
R12
English
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The latest reading of U.S. consumer confidence from the Conference Board -- the highest in 18 years, and within shouting distance of a record -- would certainly appear to be good news for both the economy in general and the **stock market** in particular.

Upon digging more deeply, however, a more troubling picture emerges.

The notion that high levels of consumer confidence are a good thing hardly seems objectionable, of course, since the consumer is widely recognized as the linchpin of the U.S. economy. William R. Emmons, lead economist at the Federal Reserve Bank of St. Louis's Center for Household Financial Stability, estimates that 83% of total economic growth since 2009 has been fueled by household spending.

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

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THE WALL STREET JOURNAL.

Markets

Technical Signals Suggest Market's Wild Ride Isn't Over Yet; Prices that once offered support for S&P 500 eMini futures have now become a ceiling for the contract

By Asjylyn Loder
497 words
26 October 2018
12:51 PM
The Wall Street Journal Online
WSJO
English
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Corrections & Amplifications

Wednesday's low in the S&P eMini futures contract was 2652. An earlier version of this article incorrectly stated it was 2562. (Oct. 26, 2018)

Big technology stocks have taken the brunt of the blame for October's market meltdown, but other factors have also been at play: **stock market** technicals.

These are psychologically important thresholds that often presage shifts in market sentiment. The first cracks appeared earlier this month and laid the foundation for this week's gyrations. And despite Thursday's rally, the technical signals predict more trouble ahead.

Certain prices, such as recent highs and lows and variations on the 50-day and 200-day moving averages, take on a symbolic importance to the market. Depending on market trends, those price levels can either establish a floor that supports falling prices, or impose a ceiling that resists a rally.

That's why it was an ominous sign when prices for **S&P 500** eMini futures contracts tumbled decisively below key support levels Wednesday. Those levels are no longer a floor from which prices will naturally bounce higher, but have become an upper boundary that stocks will struggle to push above.

"It's called a change in polarity, when the old support becomes new resistance," said Josh Lukeman, a managing director at Credit Suisse.

The thresholds might seem arbitrary to outsiders, but it isn't Hocus Pocus. Many market players believe in their significance, lending them real-world heft. For example, traders use them as stop-loss signals, which is why selling often accelerates after an important technical level is breached. That's what happened two weeks ago, and again on Wednesday.

The warning signs started flashing earlier this month. **S&P 500** eMini contracts kept slipping below their 50-day moving average as traders tested whether the floor would hold.

It didn't. On Oct. 10, the **S&P 500** broke below that barrier and plummeted 3.7%, stopping just short of its next key support at the 200-day moving average. Then that floor, too, gave way on Oct. 11.

Those breaches left the market vulnerable to a downdraft. On Wednesday, declines accelerated after the **S&P 500** contract crossed below the Oct. 11 low of 2712 and triggered stop-loss selling, Mr. Lukeman said. Markets were further spooked when the contracts slid below the psychologically important threshold of 2700, he said.

Stocks may bounce higher, but the ceiling is now around the 200-day moving average of 2770. On Friday, **S&P 500** eMinis broke through Wednesday's low of 2652, falling as low as 2627, according to FactSet. Below that, the next support is the 2018 low around 2530, he said.

"People are selling first and looking to ask questions later," Mr. Lukeman said. "It feels like **bear-market** action."

To receive our Markets newsletter every morning in your inbox, click here.

Write to Asjylyn Loder at asjylyn.loder@wsj.com

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U.S. Markets
Markets

U.S. Stocks Drop Amid Geopolitical Tensions; Losses in energy and financial shares drag down Dow industrials as tech stocks edge up

By Will Horner and Michael Wursthorn
748 words
22 October 2018
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The Wall Street Journal Online
WSJO
English
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Corrections & Amplifications

Several high-profile names have pulled out of the "Davos in the desert" due to the killing of Saudi journalist Jamal Khashoggi. An earlier version of this article spelled Mr. Khashoggi's name incorrectly.

Falling shares of financial and energy companies pulled the **Dow Jones Industrial Average** lower, resuming a **stock market** selloff that has knocked the broad index further from its highest levels of the year.

After initially opening higher, mounting losses among Goldman Sachs Group, Exxon Mobil and other financial and energy firms sapped the Dow industrials of an early gain, eventually pulling the blue-chip index down 208 points.

While some of those stocks pared deeper losses, the Dow industrials still closed down 126.93 points, or 0.5%, to 25317.41 on Monday, putting the closely watched index on poor footing to start the week.

For investors, Monday's losses have cast some doubt on whether another quarter of strong earnings are enough to get the Dow, the **S&P 500** and other major indexes back into record-setting territory. A combination of worries—from ongoing trade tensions to concerns about Italy and fresh geopolitical tensions between the U.S. and Saudi Arabia—have made October one of the most **volatile** months for stocks this year, knocking the Dow industrials off more than 5% from its early-October record high.

"There was hope we'd get a little more of a bounce from earnings," said Larry Peruzzi, a managing director at Mischler Financial Group. "But the market is more concerned with where fourth-quarter earnings might end up."

The Dow fell a third session out of the last four trading days, a stretch that has seen more than 450 points fall off the blue-chip index. The **S&P 500** fell 11.90 points, or 0.4%, to 2755.88.

The **Nasdaq Composite**, however, added 0.3%, as technology and other growth companies fared better, snapping the index's three-session losing streak.

While **S&P 500** companies are expected to report another quarter of double-digit profit growth, the earnings boom that helped power much of the broad index's 3.3% gain this year is showing signs of fading. After the third quarter, earnings and sales expansion across the index are set to come down, with growth decelerating even further in 2019, once companies lose the immediate benefits of the sweeping corporate tax cut, according to FactSet.

Take Halliburton, for example, which reported third-quarter revenue and profits ahead of analysts' expectations, while the company said demand for some of its services came in weaker than expected, weighing on its outlook for the rest of the year. Halliburton shares fell 3.2% in recent trading.

Investors took the warning as a sign of bigger problems throughout the energy sector, pulling the **S&P 500** sector down 1.1%.

Financial stocks also struggled, with many giving up some of their post-earnings gains from last week and as bond yields showed signs of stabilizing.

Shares of Synchrony Financial fell 6%, even though earnings had come ahead of expectations on Friday, while Goldman Sachs fell 2.4%.

Financial declines were broad enough to send the KBW Nasdaq Bank Index of large U.S. lenders down 2.7%.

Investors are expected to look more closely at the slate of earnings announcements due this week, analysts said. About 36% of the market capitalization of the **S&P 500** is expected to report earnings this week, according to BlackRock. Tech giants like Alphabet and Amazon.com are expected to report quarterly results later this week.

The losses followed mostly upbeat trading in Asia after proposed Chinese tax cuts drove bumper gains for Chinese equities. European equities, which had been trading higher following the news, also turned lower soon after trading began in the U.S.

The Shanghai Composite rose 4.1%, its biggest one-day percentage gain since March 2016, continuing a rally in Chinese stocks that began late last week. Hong Kong's Hang Seng added 2.3%, while Japan's Nikkei gained 0.4% to snap a two-day losing streak.

"When it comes to thinking about Chinese stimulus, the government is finally starting to get the message and is focusing on tax reform and away from investment," said Geoffrey Yu, head of the U.K. investment office at UBS Global Wealth Management. "If this can help the Chinese household it doesn't just help China, it helps the world."

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Moves in Lockstep Suggest Risk Ahead

By Amrith Ramkumar
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25 October 2018
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Riskier assets such as stocks and commodities are moving in unison as the market selloff deepens, a worrying sign for some analysts who think more turbulence lies ahead.

Lockstep moves are a worrying sign because they signal excessive optimism or fear in markets. They mean investors are largely buying or selling holdings all at once rather than weighing fundamental information like earnings or supply and demand. Rising correlations also often presage more drastic moves in either direction.

The rolling correlation between the **S&P 500** and MSCI All Country World ex U.S. index has increased to 0.95 for the first time since February's market selloff, according to Dow Jones Market Data, which looked at time spans of 20 days. The correlation between the **S&P 500** and S&P GSCI commodities index has climbed to 0.8.

Correlation is measured on a scale of minus-1 to 1. A reading of minus-1 means two assets are moving perfectly in opposite directions, while a correlation of 1 means they are moving perfectly in tandem.

"The setup is for a little bit more pain," said Francois Bourdon, global chief investment officer of Fiera Capital. "We think there's a little more downside, especially for the hot segments of the market."

Stocks in the U.S. and globally fell again on Wednesday, with highflying internet and technology shares among the worst performers. Some investors worry that the recent sales growth that boosted those stocks will be unsustainable as interest rates increase and the Chinese economy weakens.

Many commodities that are the building blocks of construction, such as copper and nickel, also dropped, though U.S. **oil prices** rebounded. U.S. crude had tumbled alongside stocks a session earlier, closing at a two-month low Tuesday on signs of rising supply and global growth fears.

The higher correlations recently mark a shift from earlier this year, when the link between U.S. stocks and other investments had essentially disappeared. Major equity benchmarks such as the **S&P 500** had surged ahead of many global stocks and commodities -- assets that are more sensitive to the growth outside the U.S.

Now, the sudden return of lockstep moves could indicate that tightening U.S. monetary policy and slower global growth will push riskier investments even lower.

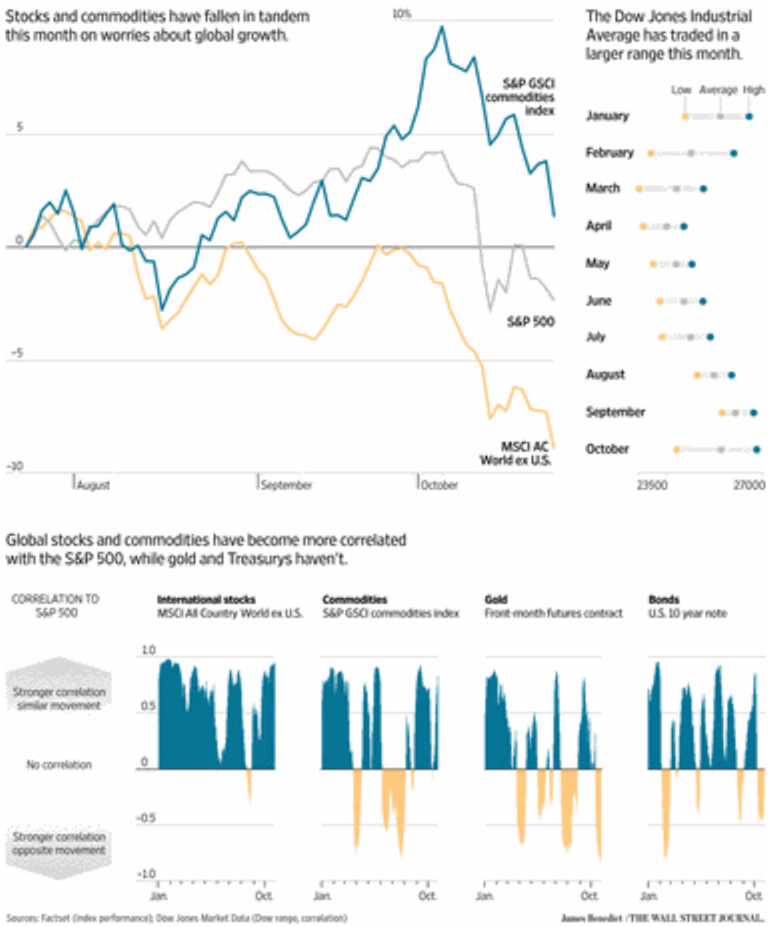
Risky assets and markets deemed safer are moving in opposite directions more frequently. The correlation between the **S&P 500** and gold has fallen to minus-0.8 in recent sessions for the first time in a year. The relationships between stocks and other safer assets such as Treasurys and the dollar have also been negative for much of October.

Bond prices and the WSJ Dollar Index jumped Wednesday, with analysts continuing to retreat from stocks and commodities.

That trend reinforces the view of some market watchers that investors will continue to favor so-called havens and dump riskier options.

Despite the recent **volatility**, **bullish** investors and analysts believe positive earnings and economic data will become the focal points of markets again. And a resolution in the trade fight between the U.S. and China could also help stabilize price swings.

Meanwhile, it is worthwhile for investors to continue watching the relationships across the different markets.



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THE WALL STREET JOURNAL.

U.S. Markets
Markets

U.S. Stocks Jump as Tough Month Sets to Wrap; S&P 500 jumps 1% on the day, but still finishes October down nearly 7%

By Amrith Ramkumar and David Hodari
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A surge in technology shares following Facebook's latest earnings lifted U.S. stocks Wednesday, helping major indexes trim some of their October declines following a punishing period for global investors.

The tech-heavy **Nasdaq Composite** climbed 2%, though it remained down 9.2% for October and posted its worst month since 2008.

The **S&P 500** added 1.1% to climb in consecutive sessions for the first time since Sept. 20 but still posted its largest one-month drop in more than seven years, off nearly 7% for October. The **Dow Jones Industrial Average** climbed 241 points, or 1%, to 25116, paring its monthly drop to 5.1%, its largest such fall since January 2016.

Highflying technology stocks have been among the most sharply sold sectors in October, but a rise in Facebook shares after the social-media company's

third-quarter earnings report lifted the group Wednesday. Facebook climbed 3.8%, and Netflix, Alphabet and Amazon.com each added at least 3.5% to rebound from some of their October drops.

Investors have been weighing whether the slump in internet stocks that have long powered the market signals broader worries about the global economy or merely a shift by investors in companies that had generated outsize returns.

Some analysts expect that debate, along with signals regarding global economic growth and central-bank policy, to spur further **volatility** in November.

"There is a hope that something will save us, whether it's Facebook, a good economic report" or a positive update on U.S.-China trade policies, said Jordi Visser, chief investment officer of Weiss Multi-Strategy Advisers. "I don't think one earnings report is going to be enough. We're just in a **volatile** period."

Mr. Visser added that he thinks growth stocks like technology will have a tougher time outperforming moving forward barring progress on trade policies.

Although corporate profits have continued to grow, anxiety about slower revenue growth has jolted some investors. Facebook's Wednesday climb came even though it posted weaker-than-expected sales and user figures. Some analysts said they were buying into Chief Executive Mark Zuckerberg's plan to transform the platform.

The rise in Facebook shares could be a boon for the broader technology sector, after Amazon and Alphabet slumped following results last week. The FANG stocks—Facebook, Amazon.com, Netflix and Alphabet, parent of Google—had lost more than $400 billion in market value for the month through Tuesday, on track for their largest monthly total ever going back to Facebook's 2012 initial public offering, according to Dow Jones Market Data.

General Motors, T-Mobile, Sprint and eBay also surged following their latest results Wednesday, adding to the market's momentum and easing some worries about slowing sales growth across sectors.

Apple is slated to report results after the market closes Thursday, a bellwether event for some investors given the company's reliance on global trade. Shares of the iPhone maker are down only about 3% this month and surged again Wednesday.

"If there's one company on the big tech side that probably has benefited the most from the global supply chain and also has a big presence in China, it's Apple," Mr. Visser said.

Investors have also been weighing how long stocks can withstand higher interest rates and a stronger dollar, with the Federal Reserve expected to continue gradually boosting short-term rates and the WSJ Dollar Index at its highest level since April 2017.

Although the U.S. economy has surged this year, some analysts expect its growth to moderate, potentially contributing to a drop in earnings increases.

"The market is asking whether the rest of the world will recouple up to U.S. growth or whether the U.S. will recouple downwards to the rest of the world. The narrative has certainly changed," said Neil Dwane, global strategist at Allianz Global Investors.

The U.S. private sector added 227,000 jobs in October, Wednesday data showed, a larger total than expected. Analysts were looking ahead to Friday's jobs report for the latest gauge of U.S. growth.

The yield on the benchmark 10-year U.S. Treasury note rose to 3.155% from 3.111%. Yields climb as prices fall and have dropped from their Oct. 5 multiyear high with investors seeking safety in Treasurys.

The WSJ Dollar Index, which tracks the dollar against a basket of 16 other currencies, rose 0.1%, continuing a recent surge.

Elsewhere, the Stoxx Europe 600 added 1.7% but still recorded its largest monthly decline since January 2016.

Asian stocks climbed to end the month despite weaker-than-expected manufacturing figures from China. Japan's Nikkei Stock Average rose 2.2%, and Hong Kong's Hang Seng added 1.6%, though both benchmarks also posted their worst month since 2016.

Write to Amrith Ramkumar at amrith.ramkumar@wsj.com and David Hodari at David.Hodari@dowjones.com

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us
Trump Attacks the Fed as Stocks Fall and the Midterms Loom

By Binyamin Appelbaum
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President Trump responded to falling stock prices on Thursday by continuing to throw rocks at the Federal Reserve, which he has described as "crazy," "loco," "going wild" and "out of control" for slowly raising interest rates against the backdrop of a booming economy.

No other modern president has publicly attacked the Fed with such venom or frequency. Indeed, some scholars said the only close historical parallel was with President Andrew Jackson, who campaigned successfully in the 1830s to close the Fed's predecessor, the Second Bank of the United States.

Mr. Trump's pointed remarks reflect the high political stakes less than a month before midterm elections that have been cast by his political opponents as a referendum on his presidency. Mr. Trump has been riding the economy hard, bragging about job creation, tax cuts and reduced federal regulation, and claiming credit for the rise of the **stock market**. Now that the market has lost 5 percent of its value in the last week, Mr. Trump is insisting someone else is to blame.

The **Standard & Poor**'**s500 stockindex** closed at 2,728.37 on Thursday, down 2.06 percent.

In fact, despite the **stock market**'s plunge, the American economy continues to grow, which is what is prompting the Fed to raise interest rates and drawing the president's ire. The Fed's chairman, Jerome H. Powell, has said that the economy is in a "particularly bright moment" and that he sees no clouds on the horizon.

The **stock market** sell-off instead appears to reflect the movement of money into bonds, a normal consequence of higher interest rates since those securities pay more as rates rise; concern about the health of the global economy; and hesitations about the value of tech stocks.

But after hitching his political fortunes to the rise of the **stock market**, Mr. Trump is now looking to decouple himself from its fall. Republicans are instead emphasizing continued economic growth and the lowest unemployment rate since 1969.

So far, the president's comments have made little impression on market expectations about Fed policy. Unlike Jackson's concerted campaign, Mr. Trump's attacks appear curiously unmoored from the policies of his own administration or the longstanding goals of the Republican Party. Mr. Trump's own aides have insisted that the president's remarks are personal musings, not an attempt to dictate policy.

The Fed has also brushed off the attacks; it still expected to raise rates in December for the fourth time this year.

Mr. Powell, selected for the job by Mr. Trump, said at a September news conference that Mr. Trump's views would not influence the Fed's decisions. "We don't consider political factors or things like that," Mr. Powell said. "That's who we are, that's what we do, and that's just the way it's always going to be for us."

Mr. Powell emphasized that the decision to raise rates to a range between 2 and 2.25 percent was not intended to get in the way of continued growth. "My colleagues and I are doing all we can to keep the economy strong, healthy and moving forward," he said.

A spokeswoman declined to comment on Thursday.

Some experts warned that a continued assault on the Fed could have long-lasting consequences.

Peter Conti-Brown, a professor of legal studies at the University of Pennsylvania and the author of a political history of the Fed, pointed to the example of the F.B.I., another institution Mr. Trump has repeatedly attacked by raising questions about the integrity of its decision making. Mr. Conti-Brown said technocratic institutions are insulated from political pressure by public confidence. If confidence erodes, it becomes harder for technocrats to resist the politicians.

The F.B.I. has seen a loss of leadership, an erosion of morale and an increase in congressional scrutiny.

"How long before the Fed is looking at its political context and saying, 'We can't stick our heads out as far as we need to,'" Mr. Conti-Brown asked rhetorically. "How long will people stay if the job itself becomes terrible, and there are protesters everywhere you go?"

Mr. Trump criticized the Fed when it raised interest rates in July, and again when it raised interest rates in September. But his attacks have sharply intensified in recent days, in tandem with the drop in the **stock market**.

"I think the Fed has gone crazy," he told reporters on Wednesday afternoon. Later in the day, speaking with Fox News, he continued to increase the heat. "The Fed is going wild," he said. "I don't know what their problem is. They are raising interest rates and it's ridiculous."

"It's not right," he said Thursday. "It's not necessary, and I think I know more about it than they do."

Mr. Trump added that he was "disappointed" with Mr. Powell but did not plan to fire him — an authority the president may not even have. While the president in theory has the power to remove a Fed chairman "for cause," courts have held that the permissible causes do not include policy disagreements.

For the moment, Mr. Trump's criticism of the Fed does not seem to be catching on with Republican candidates. Many Republicans have argued for years that the Fed was waiting too long to raise interest rates, and then that it was moving too slowly. The party is trying to hold on to majorities in the Senate and the House by running on a strong economy and using the heated liberal opposition to Justice Brett M. Kavanaugh's Supreme Court confirmation as an example of the threat Democrats pose if they control Congress. That dynamic could change, however, if the **stock market** continues to fall.

Modern presidents have always kept an uneasy eye on the Fed, because its decisions about monetary policy have a significant influence on the pace of economic growth.

Until the early 1950s, the Fed essentially operated as an arm of the Treasury Department. Even after the Fed gained operational independence, presidents often opined publicly about what the Fed should do and, if the Fed ignored their advice, they sometimes sought to bend its officials to their will.

President Lyndon B. Johnson protested a decision to raise interest rates in the late 1960s by summoning the Fed chairman at the time, William McChesney Martin, to his East Texas ranch and pinning the smaller man against a wall. President Richard M. Nixon instructed aides to blackmail Mr. Martin's successor, Arthur Burns. President George Bush declared in a State of the Union address that the Fed should keep rates low.

But the volume of public commentary greatly diminished in recent decades as politicians concluded that pressuring the Fed was counterproductive. The administrations of Presidents Bill Clinton, George W. Bush and Barack Obama all made a policy of silence on monetary policy.

Krishna Guha, the head of the central bank strategy team at Evercore ISI, said he did not expect Mr. Trump's remarks to influence the Fed, and he saw no evidence that markets were paying attention. But he added that if Mr. Trump did succeed, he would most likely regret doing so.

If Mr. Trump's attacks convince markets that the Fed may move more slowly, or show greater tolerance of inflation, bond yields would rise, which would put further downward pressure on equity prices.

Still, Mr. Guha — formerly a senior official at the Federal Reserve Bank of New York — said that the president's criticisms were not good for the central bank or the future conduct of economic policy.

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Mr. Kudlow added, "He knows the Fed is independent, and he respects that."

Mr. Trump's criticisms appear strangely at odds with the way he has handled the most powerful means at his disposal to influence monetary policy. Since taking office less than two years ago, he has had the unusual opportunity to fill six of the seven seats on the Fed's board of governors.

He filled the top three positions on the Fed's board, including the chairman's job, with members of the Republican policymaking establishment, which has long been committed to keeping inflation firmly under control. Three other nominees, still awaiting confirmation, are a more diverse group, but there is no indication any share Mr. Trump's stated opposition to raising interest rates.

"In most areas of administrative policy that have been highly politicized, his appointments have privileged politics over competence," Mr. Conti-Brown said. "The Fed has been an exception."

A looming question, he said, is whether Mr. Trump might begin to match his actions to his words.

PHOTO: Jerome H. Powell, selected by President Trump as Fed chairman, has said that Mr. Trump's views will not influence the central bank's decisions. (PHOTOGRAPH BY Al Drago for The New York Times FOR THE NEW YORK TIMES)

* Wall St. Extends Drop Into Sixth Day, Setting Stage for Another Awful October

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U.S.; Politics
Trump Attacks the Fed as Stocks Fall and the Midterms Loom

By Binyamin Appelbaum
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President Trump responded to falling stock prices on Thursday by continuing to throw rocks at the Federal Reserve, which he has described as “crazy,” “loco,” “going wild” and “out of control” for slowly raising interest rates against the backdrop of a booming economy.

No other modern president has publicly attacked the Fed with such venom or frequency. Indeed, some scholars said the only close historical parallel was with President Andrew Jackson, who campaigned successfully in the 1830s to close the Fed’s predecessor, the Second Bank of the United States.

Mr. Trump’s pointed remarks reflect the high political stakes less than a month before midterm elections that have been cast by his political opponents as a referendum on his presidency. Mr. Trump has been riding the economy hard, bragging about job creation, tax cuts and reduced federal regulation, and claiming credit for the rise of the **stock market**. Now that the market has lost 5 percent of its value in the last week, Mr. Trump is insisting someone else is to blame.

The **Standard & Poor**’**s500 stockindex** closed at 2,728.37 on Thursday, down 2.06 percent.

In fact, despite the **stock market**’s plunge, the American economy continues to grow, which is what is prompting the Fed to raise interest rates and drawing the president’s ire. The Fed’s chairman, Jerome H. Powell, has said that the economy is in a “particularly bright moment” and that he sees no clouds on the horizon.

The **stock market** sell-off instead appears to reflect the movement of money into bonds, a normal consequence of higher interest rates since those securities pay more as rates rise; concern about the health of the global economy; and hesitations about the value of tech stocks.

But after hitching his political fortunes to the rise of the **stock market**, Mr. Trump is now looking to decouple himself from its fall. Republicans are instead emphasizing continued economic growth and the lowest unemployment rate since 1969.

So far, the president’s comments have made little impression on market expectations about Fed policy. Unlike Jackson’s concerted campaign, Mr. Trump’s attacks appear curiously unmoored from the policies of his own administration or the longstanding goals of the Republican Party. Mr. Trump’s own aides have insisted that the president’s remarks are personal musings, not an attempt to dictate policy.

The Fed has also brushed off the attacks; it still expected to raise rates in December for the fourth time this year.

Mr. Powell, selected for the job by Mr. Trump, said at a September news conference that Mr. Trump’s views would not influence the Fed’s decisions. “We don’t consider political factors or things like that,” Mr. Powell said. “That’s who we are, that’s what we do, and that’s just the way it’s always going to be for us.”

Mr. Powell emphasized that the decision to raise rates to a range between 2 and 2.25 percent was not intended to get in the way of continued growth. “My colleagues and I are doing all we can to keep the economy strong, healthy and moving forward,” he said.

A spokeswoman declined to comment on Thursday.

Some experts warned that a continued assault on the Fed could have long-lasting consequences.

Peter Conti-Brown, a professor of legal studies at the University of Pennsylvania and the author of a political history of the Fed, pointed to the example of the F.B.I., another institution Mr. Trump has repeatedly attacked by raising questions about the integrity of its decision making. Mr. Conti-Brown said technocratic institutions are insulated from political pressure by public confidence. If confidence erodes, it becomes harder for technocrats to resist the politicians.

The F.B.I. has seen a loss of leadership, an erosion of morale and an increase in congressional scrutiny.

"How long before the Fed is looking at its political context and saying, 'We can't stick our heads out as far as we need to,'" Mr. Conti-Brown asked rhetorically. "How long will people stay if the job itself becomes terrible, and there are protesters everywhere you go?"

Mr. Trump criticized the Fed when it raised interest rates in July, and again when it raised interest rates in September. But his attacks have sharply intensified in recent days, in tandem with the drop in the **stock market**.

"I think the Fed has gone crazy," he told reporters on Wednesday afternoon. Later in the day, speaking with Fox News, he continued to increase the heat. "The Fed is going wild," he said. "I don't know what their problem is. They are raising interest rates and it's ridiculous."

"It's not right," he said Thursday. "It's not necessary, and I think I know more about it than they do."

Mr. Trump added that he was "disappointed" with Mr. Powell but did not plan to fire him — an authority the president may not even have. While the president in theory has the power to remove a Fed chairman "for cause," courts have held that the permissible causes do not include policy disagreements.

For the moment, Mr. Trump's criticism of the Fed does not seem to be catching on with Republican candidates. Many Republicans have argued for years that the Fed was waiting too long to raise interest rates, and then that it was moving too slowly. The party is trying to hold on to majorities in the Senate and the House by running on a strong economy and using the heated liberal opposition to Justice Brett M. Kavanaugh's Supreme Court confirmation as an example of the threat Democrats pose if they control Congress. That dynamic could change, however, if the **stock market** continues to fall.

Modern presidents have always kept an uneasy eye on the Fed, because its decisions about monetary policy have a significant influence on the pace of economic growth.

Until the early 1950s, the Fed essentially operated as an arm of the Treasury Department. Even after the Fed gained operational independence, presidents often opined publicly about what the Fed should do and, if the Fed ignored their advice, they sometimes sought to bend its officials to their will.

President Lyndon B. Johnson protested a decision to raise interest rates in the late 1960s by summoning the Fed chairman at the time, William McChesney Martin, to his East Texas ranch and pinning the smaller man against a wall. President Richard M. Nixon instructed aides to blackmail Mr. Martin's successor, Arthur Burns. President George Bush declared in a State of the Union address that the Fed should keep rates low.

But the volume of public commentary greatly diminished in recent decades as politicians concluded that pressuring the Fed was counterproductive. The administrations of Presidents Bill Clinton, George W. Bush and Barack Obama all made a policy of silence on monetary policy.

Krishna Guha, the head of the central bank strategy team at Evercore ISI, said he did not expect Mr. Trump's remarks to influence the Fed, and he saw no evidence that markets were paying attention. But he added that if Mr. Trump did succeed, he would most likely regret doing so.

If Mr. Trump's attacks convince markets that the Fed may move more slowly, or show greater tolerance of inflation, bond yields would rise, which would put further downward pressure on equity prices.

Still, Mr. Guha — formerly a senior official at the Federal Reserve Bank of New York — said that the president's criticisms were not good for the central bank or the future conduct of economic policy.

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Jerome H. Powell, selected by President Trump as Fed chairman, has said that Mr. Trump's views will not influence the central bank's decisions. | Al Drago for The New York Times

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THE WALL STREET JOURNAL.

Markets

Markets Moving in Lockstep Are Latest Warning Sign; Rising correlations between different markets often presage dramatic moves in either direction

By Amrith Ramkumar
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Riskier assets such as stocks and commodities are moving in unison as the market selloff deepens, a worrying sign for some analysts who think more turbulence lies ahead.

Lockstep moves are a worrying sign because they signal excessive optimism or fear in markets. They mean investors are largely buying or selling holdings all at once rather than weighing fundamental information like earnings or supply and demand. Rising correlations also often presage more drastic moves in either direction.

The rolling correlation between the **S&P 500** and MSCI All Country World ex U.S. index has increased to 0.95 for the first time since February's market selloff, according to Dow Jones Market Data, which looked at time spans of 20 days. The correlation between the **S&P 500** and S&P GSCI commodities index has climbed to 0.8.

Correlation is measured on a scale of minus-1 to 1. A reading of minus-1 means two assets are moving perfectly in opposite directions, while a correlation of 1 means they are moving perfectly in tandem.

"The setup is for a little bit more pain," said François Bourdon, global chief investment officer of Fiera Capital. "We think there's a little more downside, especially for the hot segments of the market."

Stocks in the U.S. and globally fell again on Wednesday, with highflying internet and technology shares among the worst performers. Some investors worry that the recent sales growth that boosted those stocks will be unsustainable as interest rates increase and the Chinese economy weakens.

Many commodities that are the building blocks of construction, such as copper and nickel, also dropped, though U.S. **oil prices** rebounded. U.S. crude had tumbled alongside stocks a session earlier, closing at a two-month low Tuesday on signs of rising supply and global growth fears.

The higher correlations recently mark a shift from earlier this year, when the link between U.S. stocks and other investments had essentially disappeared. Major equity benchmarks such as the **S&P 500**had surged ahead of many global stocks and commodities—assets that are more sensitive to the growth outside the U.S.

Now, the sudden return of lockstep moves could indicate that tightening U.S. monetary policy and slower global growth will push riskier investments even lower.

Risky assets and markets deemed safer are moving in opposite directions more frequently. The correlation between the **S&P 500** and gold has fallen to minus-0.8 in recent sessions for the first time in a year. The relationships between stocks and other safer assets such as Treasurys and the dollar have also been negative for much of October.

Bond prices and the WSJ Dollar Index jumped Wednesday, with analysts continuing to retreat from stocks and commodities.

That trend reinforces the view of some market watchers that investors will continue to favor so-called havens and dump riskier options.

Despite the recent **volatility**, **bullish** investors and analysts believe positive earnings and economic data will become the focal points of markets again. And a resolution in the trade fight between the U.S. and China could also help stabilize price swings.

Meanwhile, it is worthwhile for investors to continue watching the relationships across the different markets.

To receive our Markets newsletter every morning in your inbox, click here.

Write to Amrith Ramkumar at amrith.ramkumar@wsj.com

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THE WALL STREET JOURNAL.

Markets

Tech Stocks Rebound as Nasdaq Logs Best Day Since March; Earnings power technology stocks higher, helping the Nasdaq stabilize after its worst day in more than seven years

By Amrith Ramkumar
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25 October 2018
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A period of intense **volatility** for popular technology stocks continued Thursday, pushing the **Nasdaq Composite** to its best session in more than six months one day after it plunged into correction territory.

The tech-heavy index closed up 3%—its biggest one-day gain since March 26—coming off a 4.4% slide that marked its worst session since August 2011. A gain above 3.26% would have been the Nasdaq's best day since August 2015, and the index flirted with that level late in the afternoon before falling just before the close.

The moves highlight how the U.S. **stock market**'s best-performing group continues to lead major indexes on their way up and down this month.

The latest move of at least 2% was the Nasdaq's sixth of that size this month, the most since January 2016, according to Dow Jones Market Data.

Analysts said the latest batch of corporate earnings helped highflying internet and technology stocks stabilize, with Twitter climbing 15% and Tesla surging 9.1% following the companies' latest results.

Meanwhile, Microsoft added 5.8% after its latest earnings report, and Amazon.com, Alphabet and Netflix added at least 3.5% each.

But Amazon, Alphabet and Snap quickly slumped in after-hours trading following their most recent quarterly results, potentially setting the stage for a **volatile** Friday for technology stocks. Intel was among the biggest gainers after hours following its third-quarter report.

Investors have been weighing whether a period of outsize sales increases for the world's largest technology companies can continue, pushing many of the best performers of recent years down more than 10% this month entering Thursday.

But as has been the case lately, large intraday moves in those stocks spread to other sectors, with 10 of the **S&P 500**'s 11 groups posting gains in late afternoon trading.

The benchmark equity index closed up 1.9% and the **Dow Jones Industrial Average** rose 1.6%, putting both indexes back in the green for 2018 after they erased their year-to-date gains during Wednesday's selloff.

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THE WALL STREET JOURNAL.

U.S. Markets
Markets
Dow Industrials Close at New Record; Manufacturing and financial stocks boosted by U.S. and Canada's trade compromise, upbeat Fed comments

By Amrith Ramkumar and Donato Paolo Mancini
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The **Dow Jones Industrial Average** climbed to a fresh record Wednesday, boosted by shares of manufacturing and financial firms.

Stocks have gotten a lift this week after the U.S. and Canada reached a compromise on trade policy, leading some investors to anticipate further trade deals ahead with China. Despite worries that tariffs could slow the global economy, steady U.S. growth and earnings figures have boosted stock indexes throughout the year.

A number of Federal Reserve officials also have delivered upbeat comments about the U.S. economy this week, reinforcing the view that inflation remains steady but not so strong that the central bank needs to hasten its pace of interest-rate increases. Some investors expect that backdrop to continue lifting stocks in the fourth quarter.

"As long as you don't see clear evidence of the U.S. economy getting weaker, this momentum can continue," said Luca Paolini, chief strategist at Pictet Asset Management.

The Dow industrials added 54 points, or 0.2%, to 26828 in a fifth consecutive session of gains. The **S&P 500** climbed less than 0.1%. The tech-heavy **Nasdaq Composite** closed up 0.3% and, like the **S&P 500**, remains slightly below a recent record.

The yield on the benchmark 10-year U.S. Treasury note rose to 3.159%—its highest level since 2011—from 3.056%. Bond yields rise as prices fall. Rising Treasury yields lifted shares of banks, as higher long-term yields tend to boost lending profitability. The **S&P 500** financials sector added 0.8%.

Manufacturers also benefited from optimism about trade and domestic economic growth, with the **S&P 500** industrials sector rising for a third straight session.

Gains in those areas and in technology stocks neutralized losses in high-dividend-paying sectors that look less attractive when Treasury yields rise. The utilities, real-estate and consumer-staples groups each fell about 1%.

Analysts were awaiting Friday's jobs report for the latest update on U.S. hiring and wage growth.

Wednesday data showed the U.S. private sector added 230,000 jobs in September, more than economists expected, with midsize businesses and the service sector continuing to dominate those gains.

Additionally, investors were debating whether Amazon.com's recent decision to increase its minimum wage to $15 an hour next month could cause labor-cost pressure at other companies. Still, many analysts say rises in price pressures should remain gradual moving forward, barring an unexpected trade setback or spike in **oil prices**.

Meanwhile, the WSJ Dollar Index, which tracks the dollar against a basket of 16 other currencies, rose 0.4%, posting a sixth consecutive session of gains.

Although worries about tighter financial conditions have eased lately, some analysts remain worried about political tensions in Europe and stagnant growth outside the U.S., leading investors to favor assets considered safer such as the dollar.

But Wednesday's news that the Italian government was considering a lower deficit target after next year assuaged some fears that conflict between Italy and the European Union could stoke broader instability, analysts said.

The Stoxx Europe 600 added 0.5%, and Italian stocks and bonds rebounded.

The question now is whether the European Union will be satisfied by what Italy says on its planned deficits, said Mohammed Kazmi, a portfolio manager at Geneva-based bank Union Bancaire Privée.

"**Volatility** will remain high until we get the European Commission's decision, and the rating agency decisions [on Italy] that'll come later in October," he said.

Elsewhere, Japan's Nikkei Stock Average closed down 0.7% from a nearly three-decade high, while Hong Kong's Hang Seng inched down 0.1%.

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THE WALL STREET JOURNAL.

U.S. Markets
Markets
U.S. Stocks Fall Sharply as Markets Extend Rocky Stretch; Nasdaq loses 4.4%, Dow and S&P 500 indexes relinquish their gains for 2018 in late day selloff

By Amrith Ramkumar
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An October **stock-market** rout deepened Wednesday, with an intense late-day selloff sending the Dow industrials into the red for the year and putting the **Nasdaq Composite** Index down more than 10% from its recent high.

The tech-heavy index tumbled 4.4%, its biggest one-day loss since August 2011. Netflix Inc. fell 9.4%, its biggest one-day drop since July 2016. Amazon.com Inc., Google parent Alphabet Inc., Facebook Inc. and Microsoft Corp. all slumped at least 5%. All five stocks have posted double-digit declines in October after having risen dramatically earlier in 2018.

The U.S. session started relatively quietly, with the Dow swinging between modest gains and declines even after weaker-than-expected quarterly results from AT&T Inc. But a mild afternoon selloff in the technology sector soon accelerated into a market retreat that sent industrials, financials and materials shares sprawling. General Electric Co., Goldman Sachs Group Inc. and Deere & Co. all declined more than 4%.

After the second consecutive whipsaw session, following Tuesday's rebound after a sharp early decline, investors were left feeling unsettled.

"You don't leave the office on days like this," said Mark Grant, managing director and chief global strategist at B. Riley FBR Inc. in Fort Lauderdale, Fla. Mr. Grant said he has probably been getting three times as many phone calls from clients as usual.

"Clients from different places in the world are calling us asking, 'What is this? What should we do?'" Mr. Grant said.

The steepness of Wednesday's late-day tumble renews questions that have cropped up this month about the health of the global economy and leaves investors pondering whether the nine-year rally is at a turning point. Few investors are predicting a recession in the near term, but some are debating whether the market will withdraw further under pressure from higher interest rates, softening global growth expectations and continued political tumult.

The **Nasdaq Composite** tumbled 329.14 points to 7108.40, pushing it 12% below its Aug. 29 record and into correction territory for the first time since February 2016. The index, which is still up 3% for the year, joins transportation, small-capitalization, bank and biotechnology stocks in correction territory as investors have broadly sold riskier assets in recent weeks.

The Dow industrials fell 608.01 points, or 2.4%, to 24583.42, and the **S&P 500** declined 84.59 points, or 3.1%, to 2656.10. The Dow is 8.4% below its Oct. 3 record and down 0.5% for the year, while the **S&P 500** is off 9.4% from its Sept. 20 peak and down 0.7% for the year.

"It just really felt like people were throwing in the towel today," said Rob Bernstone, a managing director in equity trading at Credit Suisse Group. "It's going to be interesting to see what happens tomorrow."

Investors will be keeping an eye on the market response to Wednesday evening's major earnings releases. Shares of Tesla Inc., Microsoft and Ford Motor Co. rose in after-hours trading on their results, potentially boosting sentiment for Thursday's session. But Advanced Micro Devices Inc. slumped following its latest report, a setback that could add to recent pressure on the semiconductor sector.

Wednesday's session was the opposite of Tuesday's in many ways, with stocks opening little changed before tumbling in the afternoon. A day earlier, the Dow industrials had fallen nearly 550 points early in the day only to erase most of that decline by the close.

Analysts said the continued whipsaw trading reflects the unsettled condition of markets around the world, with pockets of weakness again morphing into a far-reaching selloff. While declines started in names such as AT&T, they eventually spread to companies like industrial conglomerates including GE, which slumped 4.1%.

"It just seemed like once we saw the intraday turn and it didn't trigger buying, it all unraveled," said Frank Cappelleri, executive director and senior equity sales trader at brokerage Instinet in New York

Worries about global growth and peaking corporate earnings have recently buffeted stocks around the world, along with commodities. Highflying internet and technology shares have been among the hardest hit. Investors have flocked toward the technology sector for years because of the group's ability to consistently expand sales regardless of global economic growth, but recent trade tensions between the U.S. and China and signs that earnings might be peaking have hurt the market's leaders.

While many of those technology shares are still sitting on sizable gains for the year, investors have said their protracted slump reflects heightened concern about whether their outsize sales increases can continue. The powerful drops are also a sign that some investors expect a slower rate of earnings and economic growth in the future to shuffle the market's leaders.

"Growth stocks like tech do really well when everything is accelerating and tend to not do so well when things decelerate," said Jerry Braakman, chief investment officer of First American Trust.

Weakness in the housing and auto sectors of the U.S. economy is increasingly worrying some analysts fearing a slowdown, and data Wednesday showed sales of new homes in the U.S. fell for the fourth month in a row in September.

Meanwhile, data from an index of preliminary eurozone purchasing managers suggested on Wednesday the regional economy grew at its slowest pace in over two years in October.

While some investors had hoped steady earnings data could stabilize major indexes, analysts said the market is increasingly finding sources of angst when given more information.

That could be a continued challenge on Thursday, which will be one of the busiest days of the third-quarter earnings season featuring 80 **S&P 500** companies.

"We just have a bunch of different uncertainties, and that raises the fear factor all around," Mr. Braakman said. "This kind of environment really starts stressing people."

The Stoxx Europe 600 erased early gains Wednesday, closing down 0.2% in a sixth consecutive session of declines. In Asia, Japan's Nikkei Stock Average rose 0.4%, while South Korea's Kospi benchmark and Hong Kong's Hang Seng fell 0.4%.

Akane Otani contributed to this article.

Write to Amrith Ramkumar at amrith.ramkumar@wsj.com

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The New York Times

Business Day
Income Investors Finally Have a Chance to Cash In

By Carla Fried
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For the first time since the financial crisis, playing it safe is paying off for income investors.

After a decade when conservative money market funds and similar short-term investments yielded close to zero, it is now possible to earn about 2 percent and even a bit more.

Vanguard Prime Money Market fund yields more than 2 percent. A six-month Treasury bill yields 2.4 percent, up from 0.6 percent at the beginning of 2017. Ally Bank pays a 3 percent annual yield on a five-year certificate of deposit, with an early withdrawal fee equal to five months of interest. Goldman Sachs's online consumer bank, Marcus, pays 1.95 percent on a savings account.

Money invested in savings and C.D. bank accounts is guaranteed to hold its value. Money market mutual funds lack an outright guarantee but are designed to deliver the same steady ride. In both instances, you've got no downside risk and your upside is the interest you earn.

Lately, pocketing a 2 percent to 3 percent return owning cash is better than the performance of popular core bond funds that track the Bloomberg Barclays U.S. Aggregate Bond Index.

That's because bond fund returns have two components: the interest paid by the bonds and changes in **bond prices**. When interest rates rise, prices fall. A bond statistic called duration estimates a portfolio's sensitivity to rate changes; the longer a portfolio's duration, the bigger its price loss when rates rise.

Core bond funds that track the aggregate index have a duration of around six years, considered intermediate-term in bond parlance. That means when interest rates rise one percentage point, the index's **bond prices** will fall 6 percent. Over the past year, rising interest rates lifted the yield on core bond funds above 3 percent, but that was not enough income to offset price declines.

The iShares Core U.S. Aggregate Bond ETF, which tracks the index, is down 1.9 percent over the last 12 months. IShares 0-5 Year Investment Grade Corporate Bond fund ETF, with a duration below three years, has a positive return of 0.2 percent.

"The boost in yield you get from owning intermediate- and longer-term bonds is very, very low, and you are taking a lot more risk," said Michael Fredericks, head of income investing for the BlackRock Multi-Asset Strategies group. That it's now possible to earn something on shorter-term investments "changes the calculus a lot in the way you think about things," Mr. Fredericks said.

Over the last year, the BlackRock Multi-Asset Income fund, which he helps manage, has shifted the portion of its portfolio that invests in traditional bonds from intermediate-term issues to shorter-term investment-grade bonds and cash. The fund's average duration is less than three years. That provides a defensive foundation yielding 3 percent or so, as the managers focus most of the $16 billion fund on investments that offer higher yields, such as preferred stocks, high-yield bonds and floating rate loans.

Kathy Jones, chief fixed-income strategist at the Schwab Center for Financial Research, says she is concerned that investors are becoming too defensive. "When I go out and talk to clients, all of a sudden everybody is sitting in T Bills or cash equivalents," said Ms. Jones, referring to short-term Treasury securities and bank investments that mature in less than one year.

Morningstar Direct reports that ultrashort-term bond funds — portfolios with durations below one year — have had the highest net inflows among all types of taxable bond funds for six consecutive months through August.

“Implicitly, that is trying to time the market,” Ms. Jones said, and such behavior can hurt investor returns.

Ms. Jones pointed out that intermediate-term bonds have historically been the better diversification counterweight when stocks fall. “T bills will hold their value, but a five-year bond will actually do pretty well” in such a situation, she said.

For example, in the 12 months through February 2009 — the heart of the last stock meltdown — intermediate-term bonds rallied 5 percent and Treasury bills gained 1.3 percent.

Moreover, if you’re worried about a bond **bear market**, it’s time to check your rearview mirror.

With inflation still in check, expectations are that longer-term interest rates may already be near a peak. The yield on the **10**-**year Treasury** note has risen to 3.1 percent recently from 1.4 percent in July 2016.

That means you and your core bond fund have probably already lived through what passes for a bond **bear market** in this economic cycle. The aggregate index has lost a grand total of less than two percentage points since July 2016.

Ms. Jones says the sweet spot for investors is a fixed-income portfolio with an average duration from two to five years. Yields in that range are about 90 percent of the **10**-**year Treasury** yield, with a lot less downside risk.

If your current fixed-income strategy is simply to own a core bond fund that tracks the aggregate index, you can reduce the duration by adding shorter-term mutual funds or exchange-traded funds, or even cash.

Shifting some money out of a core bond fund can also be an opportunity to add diversification in securities that are not included in the index.

“High-yield bonds, preferred stocks, floating rate debt, emerging markets are opportunities that can increase your fixed-income diversification,” said Terri Spath, chief investment officer at Sierra Investment Management.

Ms. Spath says she sees good value in municipal bonds today. New muni bond issuance is down significantly from last year, when there was a big rush to float new bonds at a time of fear that tax reform would strip away the tax deductibility of municipal bond interest. The new tax law did not affect the treatment of muni interest, as it turned out, and Ms. Spath now has nearly 30 percent of the Sierra Tactical Core Income Fund invested in high-yield municipal bonds.

She says that with no recession on the near-term horizon, strong corporate earnings, low unemployment and rising wage growth, she is comfortable seeking the higher yields in lower-rated issues as municipalities are raking in plenty of tax and fee revenue to cover their interest payments. The S&P Municipal Bond High Yield Index has a current yield of 4.3 percent, compared with 2.8 percent for the S&P Municipal Bond Investment Grade Index.

With the same outlook for the economy, Mr. Fredericks said he had placed nearly 30 percent of the BlackRock Multi-Asset Income fund’s assets in high-yield corporate bonds and floating rate loans, which are usually high-yield issues. That said, BlackRock is being careful, he said. “Our focus is on higher-quality high yield. Even if we find ourselves in recession, those companies are better positioned to weather it,” he said.

The resurrection of short-term yields merits two more portfolio considerations.

Anyone who has been using dividend-paying stocks as a bond substitute since the financial crisis might want to revisit that strategy. The 2.4 percent yield of the SPDR S&P Dividend ETF is about what you can earn on cash and short-term bonds these days, but the risk of holding stocks is higher, especially in Year 9 of a **bull market**. “It’s hard for us to envision double-digit returns from dividend-paying stocks, but if there was a growth scare, you could certainly envision double-digit downside,” said Mr. Fredericks.

And if you have money parked in a brokerage sweep account, you might want to reconsider how much is sitting there. According to Crane Data, such accounts yield just 0.22 percent, on average, as firms are moving the accounts from higher-yielding money market mutual funds — with an average yield of 1.8 percent — into bank accounts that pay a lot less to investors but generate nice fees for the brokerages.

Once you’ve got your tweaking done, you might relax. “The whole idea of fixed income is you don’t have to worry about it if you have it invested properly,” Ms. Jones said.

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Adriana Vawdrey

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THE WALL STREET JOURNAL.

Markets

U.S. Stocks Widen Lead Over Rest of the World; U.S. shares are trading at their highest premiums to international counterparts in years

By Akane Otani
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Corrections & Amplifications

For the year, the **S&P 500** is up 9.4%, while the Stoxx Europe 600 is down 1.3%, the Shanghai Composite has fallen 15% and Japan's Nikkei Stock Average rose 6.5%. Earlier versions of this article incorrectly stated the figures as 1.5% for the **S&P 500**; 15% and then 1.4% for the Stoxx Europe 600; and X% for the Shanghai Composite. (Oct. 4, 2018)

U.S. stocks are trading at their highest premiums to international shares in years, reflecting bets among investors that the domestic economy will keep powering past its peers around the world.

After a tepid first half of the year, the **S&P 500** surged 7.2% in the third quarter, its biggest gain since the end of 2013.

Investors credit the latest leg of the rally to faith in the U.S. economy, which has shown fresh vigor this year even as growth has cooled in the eurozone and emerging markets.

But the rally has come at a cost: U.S. stocks have become increasingly expensive compared with major indexes elsewhere, something that some analysts worry could leave the market vulnerable to a snapback heading into the final months of the year.

On a price/earnings basis, U.S. stocks are trading at a 12% premium to an MSCI index of 22 developed markets and 24 emerging markets. That is the biggest gap since 2009, according to Bank of America Merrill Lynch. For the year, the **S&P 500** is up 9.4%, while the Stoxx Europe 600 is down 1.3%, the Shanghai Composite has fallen 15% and Japan's Nikkei Stock Average rose 6.5%.

"It's hard to imagine that the divergence in valuation is sustainable," said Jack Ablin, chief investment officer of Cresset Wealth Advisors. "Good things are happening in the emerging world, but global investors are attracted to the U.S. at the moment."

Many investors were less worried about a U.S. stock reversal just a couple months ago. Then, surveys showed the eurozone economy stalling and emerging markets from Indonesia to Turkey to Brazil tumbling as the dollar strengthened. U.S. stocks, investors said, increasingly looked like the haven assets of the world.

But since then, the dollar has weakened as investors have taken the U.S.'s and China's latest trade skirmishes in stride, leading some market watchers to ask whether the yawning gap between stocks in the U.S. and the rest of the world is on borrowed time.

Nearly 50% of investors believe the divergence in the global economy will end with U.S. growth decelerating, according to a September Bank of America Merrill Lynch survey of global fund managers. In comparison, just 28% of investors believe the divergence will end because of growth in Asia and Europe accelerating.

"If you look at [U.S.] valuations, absolute performance…they are all extremely stretched," said Julian Emanuel, chief equity and derivatives strategist at BTIG. "We are very sympathetic to this idea that there's going to be a convergence between the U.S. and the rest of the world."

There are plenty of catalysts that investors say could put the U.S. rally at risk.

Technology stocks have faltered in September after a stunning run over the summer that included Amazon.com Inc. and Apple Inc. both topping $1 trillion in market capitalization. The **Nasdaq Composite** fell 0.8% in September, notching its biggest monthly decline since March, when revelations that Facebook had improperly handled its users' data sent tech stocks tumbling.

The group's drop has left some investors wondering whether the moves could be the start of a deeper downturn for the technology stocks—and if so, what other groups will be able to carry the market forward.

Rising interest rates are another potential threat: After languishing in the middle of the year, the yield on the **10**-**year Treasury** note has made a run above the 3% mark, pushing up borrowing costs for everything from homes to cars. Analysts worry that further weakness in the housing market in particular could bode poorly for the broader U.S. economy.

Yet few of the risks seem immediate enough for investors to call it quits on the U.S. rally. Flows into mutual funds and exchange-traded funds tracking U.S. equities jumped to 27-week highs in mid-September, according to fund tracker EPFR Global.

Moreover, there are few signs of the economic expansion stalling. Data have shown a measure of U.S. consumer confidence at 18-year highs, corporate earnings charging forward and the Federal Reserve Bank of Atlanta's GDPNow model estimating close to 4% growth for the U.S. economy in the third quarter.

At the same time, many still see reasons to be cautious outside of the U.S.

International Monetary Fund Managing Director Christine Lagarde warned Monday that emerging markets could suffer a flood of outflows if the turbulence that has hit Turkey and Argentina this year spreads beyond those borders.

That has made investors willing to avoid emerging-markets assets in favor of relatively expensive U.S. stocks.

"The U.S. is basically leading the rest of the world in growth, both economically and at the corporate level. Other areas of the world look more attractively priced, but it may just be a big value trap," said Robert Pavlik, senior portfolio manager and chief investment strategist at SlateStone Wealth.

Even those who believe that the divergence between the U.S. and the rest of the world looks stretched say it is difficult to time when the two will start to converge again.

Heading into the fourth quarter, portfolio managers are likely to put money into areas of the market that have outperformed while backing off trades that have underperformed, according to BTIG's Mr. Emanuel.

That is likely to inhibit market convergence in the short term, BTIG's Mr. Emanuel said.

"The tendency historically is for the things that have been working to continue to work," he said.

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Markets

Fund Managers Increasingly Wary on Global Growth; Survey finds over a third expect expansion to decelerate next year

By Jessica Menton
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Wall Street is getting even more worried about the global economic expansion.

Over a third of fund managers expect global growth to decelerate in the next year—the most pessimistic outlook since November 2008, according to a monthly survey by Bank of America Merrill Lynch.

A record 85% of investors believe that growth world-wide is in the late stages of an economic cycle, though it is unclear how long the stages might last.

The survey took place from Oct. 5 to Oct.11—a period marked by a selloff in equities, as investors worried that the Federal Reserve would keep raising interest rates that could dent corporate profits, a big driver of **stock-price** gains.

Fund managers aren't saying a recession is imminent. It is more of a question of how much longer they think the global growth story can continue.

"After an epic run of great returns this year, particularly in the U.S. from both the economy and earnings, investors are becoming more cautious going into 2019," said Michael Hartnett, BAML's chief investment strategist.

Trade tensions continued to be a top concern for fund managers, according to the survey, with 35% of investors saying a potential trade war poses the greatest risk to markets.

The monthly survey polls investors who collectively manage $646 billion in assets.

Still, fund managers don't see a continuing selloff in U.S. stocks just yet.

The survey indicated that the yield on the benchmark **10**-**year Treasury** note would need to hit 3.7%, up from roughly 3.18% Wednesday, for investors to sell equities and buy bonds.

Investors also think the **S&P 500** would need to fall to 2390—15% below its current level—to stop the Fed from continuing on its tightening path.

That level is lower than where the benchmark index has traded for the year.

One surprise from the survey was that cash levels haven't surged despite the recent turbulence in the **stock market**. This suggests that investors were already positioned for **volatility** to snap back in the months before October.

Fund managers typically increase cash positions during times of **volatility** if they are concerned about risk.

The average cash balance among fund managers remained steady at 5.1% in October, unchanged from September.

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THE WALL STREET JOURNAL.

Markets

A Frenzy of New Market Bets Is Fading; Investors have funneled trillions into passively managed funds since the financial crisis, but the flood of new money is slowing

By Justin Baer and Dawn Lim
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One sign that investors' doubts about the market are growing: the slowdown of new money into the investment world's most popular products.

Net inflows into U.S. mutual funds and exchange-traded funds are down 46% through the first three quarters of the year, according to new data tracked by Morningstar. They totaled $281.7 billion this year through September, compared with $517.2 billion during the same period in 2017, Morningstar said.

"It feels like investors are in the early stages of positioning themselves for a potential downturn," said Tyler Cloherty, research head at Casey Quirk, a consulting practice of Deloitte. They "are returning to cash and relatively defensive positions."

The **S&P 500 index** is up 4.2% for the year through Wednesday, extending one of the longest bull markets in **stock-market** history. The benchmark has more than quadrupled since March 2009, near the depths of the last financial crisis.

These days, though, some investors are looking past the record book and toward a list of concerns they think may crimp future returns or even end the rally. Those worries include rising interest rates and escalating trade wars.

The retreat was most pronounced among investors in actively managed funds that make specific bets on stocks and bonds of their own choosing. The $42.9 billion in outflows from these funds in the third quarter was the highest since the fourth quarter of 2016.

Clients have now pulled money from active funds for four of the past five quarters, reinforcing a trend in place for the last decade.

But the bigger surprise so far this year is a decline in the amount of new money being committed to passively managed investments that mimic indexes for a fraction of the cost of traditional mutual funds.

These funds have attracted trillions in new client money since the 2008 financial crisis as Americans looked for cheaper investment options, prompting sweeping changes throughout the financial world.

That torrent of cash is slowing this year. Clients added $329.4 billion to these ETFs and index funds in the first three quarters, down 35% from a $513.28-billion haul during the same period last year.

The cooling demand is evident at indexing firm Vanguard Group, which became the second-largest U.S. money manager largely because of enthusiasm for passive funds.

Vanguard's net inflows of $104.8 billion in the second and third quarters were down 36% from $163.6 billion collected in the same year-ago period, according to the firm. Vanguard reeled in $371.9 billion last year, exceeding a company record set the prior year.

"It was realistic to expect flows to moderate" after two record years of cash flows, a Vanguard spokeswoman said.

The larger industrywide pullback, she said, "reflects investor sentiment with respect to an aging **bull market**, concerns about **volatility** and geopolitical uncertainty."

Even though this year's inflows are down, they are still roughly in line with the average year in the last decade, said Kevin McDevitt, a Morningstar analyst.

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The New York Times

Business Day
Index Fund Investors' Simpler Approach May Enrich Returns

By Conrad De Aenlle
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People who put their money into index funds seem to make fewer decisions than other investors. And that leads to better performance.

That's the implication of a Morningstar study that helps to explain why fund investing often works better in theory than in practice. Just how much better is expressed by a measure called the return gap.

That's the difference between the reported return of a fund or a group of them and the return — almost always lower — that investors achieve with real dollars in the real world.

There's nothing nefarious going on; the managers aren't skimming off the top. It's just that investors have a habit of moving money into and out of funds at inopportune times, so that each dollar earns a lower rate of return than if it had been invested all the time.

In an extensive study of the phenomenon, Morningstar assessed return gaps in each of six mutual fund categories for the 10 years through March: domestic diversified equity, domestic sector equity, international equity, taxable bond, balanced and alternative.

Researchers found larger return gaps for actively managed portfolios than for index funds in all but one category: international equity. All told, the average annualized return gap was 2.48 percentage points for actively managed funds and 1.84 points for index funds.

Either way, that's a lot of money to be eaten away from returns year in and year out.

A $10,000 investment in the average index fund at the start of the study period would have grown to $20,076 a decade later, without taking the return gap into account, according to Morningstar. Factoring in the gap, the typical index investor would have been left with just $16,883.

If that $10,000 had been invested in actively managed funds, it would have grown to $18,231 without considering the return gap. With the gap, the figure would have been $14,395, or barely half the gain.

Morningstar calculated performance in each case by adding together the results of funds from the six investment niches in the study and weighting them based on the assets in each niche.

Investment advisers credit the smaller return gap in index funds not to the funds themselves, but to their shareholders. They contend that investors who are drawn to index funds usually have psychological traits that make them less susceptible to behaviors that increase return gaps.

Switching to index funds by itself is unlikely, therefore, to magically cut into the return gap you otherwise might suffer. But thinking and acting like an indexer could help reduce the gap and improve performance, they say, whatever kinds of funds you own.

"Index fund investors are better behaved than active fund investors," said Christopher Cordaro, chief investment officer of RegentAtlantic, a Morristown, N.J., financial-planning firm. Two helpful characteristics that he highlighted are humility and patience.

“Investors who favor index funds are likely to be more humble about their ability to time the market,” Mr. Cordaro said. Trying to hit market tops and bottoms accounts for much of the return gap, in his view, because investors “invariably get the timing wrong.”

As the only group for which index fund return gaps were larger, international equity may be the exception that proves the rule that the gaps generally result from poor market timing. Investors are notorious for making forays into foreign assets as a run of outperformance is nearly over. Index funds are an easy vehicle for making such tactical plays, while actively managed funds may be the preferred method for achieving overseas diversification for the long haul.

Beyond recognizing how hard it is to time market turns, indexers seem to display humility by keeping their goals modest. The smaller return gap, in part, “can be attributed to the expectations investors have on Day 1,” said Ben Johnson, the director of passive studies for Morningstar.

Indexers know “they will participate in the performance of the market come hell or high water,” he said. “That allows them to better manage their own behavior.”

Stock and bond market performance was close to heavenly for almost the entire period of the return gap study. Some question, though, how well index funds will do in a protracted **bear market** and whether shareholders will stick with them as faithfully as they did when prices nearly always went up.

“The results would be logical and widely expected, but are they reflective of a full market cycle? Probably not,” said James Stack, chief executive of Stack Financial Management.

For active managers, “sector allocation and stock selection are used to reduce the inherent risk in a portfolio,” he said. “That tends to work against active management in a prolonged **bull market**, but it works to their advantage in a **bear market**. Passive funds often look stellar after the end of a very-long-running **bull market**, but they often will lose more than actively managed funds in a **bear market**.”

Active managers can raise cash or move into more defensive holdings — utility or consumer staples stocks, higher-quality bonds — when market action turns ugly, while index vehicles are stuck being fully invested in the same portfolio. Given the knowledge that no one is at the controls, would owners of index funds still calmly hold on, or would they engage in the same behaviors that cause return gaps, creating gaps that are as big as, or perhaps bigger than, those for active funds?

Mr. Stack, who publishes investment advisory newsletters under the InvesTech Research brand, said a combination of worse returns and a tendency of shareholders to hold on longer could raise return gaps for index funds during extended market weakness.

Mr. Johnson is skeptical about that, mainly because he doubts the ability of active managers to be all that active in a helpful way during a decline.

“People tend to overlook the performance of active funds in a **bear market**,” he said. “Few are able to get out of the way. In any **bear market**, investors are going to get skittish in active or index funds.”

Perhaps you’re already a patient and humble investor (if you do say so yourself) and can avoid the sorts of mistakes that intensify return gaps. So much the better, but even if you’re not and are unlikely to change, you may have no choice but to behave more productively if you invest through your employer’s retirement plan.

The one category for which the return gap was positive in the Morningstar study, albeit by a thin 0.18 percentage points a year, was balanced index funds, which allocate assets between stocks and bonds. Mr. Johnson noted that these funds were likely to be owned through employer plans, many of which have safeguards to protect investors.

“The gap has been positive because, within those funds, we have seen money coming in at regular intervals,” he said. Penalties for early withdrawals are another impediment to plan participants making timing calls.

Regular contributions to retirement plans also compel investors to engage in dollar-cost averaging, said Peggy Ruhlin, chief executive of Budros, Ruhlin & Roe, a Columbus, Ohio, financial-planning firm. A practice universally regarded as a safe way to invest long term, dollar-cost averaging involves salting away the same dollar amount each period, ensuring that more assets are bought when prices are lower.

“A 401(k) plan is the best way to dollar-cost-average,” she said. But, she added: “You should follow the same path with money that’s not in a 401(k).”

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Ms. Ruhlin, like most advisers, also tells investors to diversify among different asset classes: stocks and bonds, foreign and domestic. When deciding on an appropriate mix, they should consider not just market-related factors, their age and personal financial circumstances, she said, but emotional and psychological factors, too.

“If you’re an investor who panics about everything, you should not have an allocation that’s 90 percent stocks,” Ms. Ruhlin said. “Take into account your own preferences and have an appropriate balance.”

Diversification helps cut the return gap by smoothing out performance, Mr. Cordaro said. That lower **volatility** limits the chance that purchases or sales will be made at an especially bad time by reducing any sense of urgency to buy or sell, and it reduces the consequences, even if an investor can’t resist.

He also recommends regular portfolio rebalancing: lightening up on funds that have risen substantially and buying more of what has declined.

“It’s a disciplined way of buying low and selling high,” Mr. Cordaro said. “The return gap exists because most investors do the opposite.”

Perhaps the best approach to your investments is to approach them less.

“Find yourself a hobby that isn’t checking your portfolio,” Mr. Johnson said. “The more often you look at what’s going on in the market and how it’s affecting your investments day to day, the more tempted you’ll be to tinker. Tinkering is rarely a positive thing for achieving long-term investment success.”

Laurent Hrybyk

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The New York Times

Business Day

These Funds Aim to Power Their Returns With Clean Energy

By Tim Gray
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If you worry about climate change and have some money to spare, it's natural to wonder whether investing in green energy might plump your returns while helping to stem rising temperatures.

A growing number of stock mutual funds and exchange-traded funds specialize in the so-called green- or clean-energy industry. They invest not only in the expected companies, like generators of solar and wind power and their suppliers, but also in less obvious ones, like makers of LED light bulbs, electric cars and automobile batteries.

Buying into one of these funds means betting on a burgeoning, if **volatile**, sector and pinning the green in your wallet to your hopes for a more verdant future.

Demand for renewable energy is surging, according to the International Energy Agency, a nongovernmental organization based in Paris. As a result, growth in solar- and wind-powered electricity generation is far outstripping that of coal- and natural-gas-fueled generation, the group said in its "Renewables 2017" report. China's embrace of solar power has been the main engine for this growth, but the United States is the second-strongest market for renewables, the agency said.

After a recent report by a United Nations scientific panel calling for immediate action to stem greenhouse-gas emissions, demand for green energy may well surge further.

Even the billionaire investor Warren E. Buffett has taken steps toward going green: MidAmerican Energy, one of the subsidiaries of his holding company, Berkshire Hathaway, is aiming to obtain 100 percent of its electricity from wind power by 2020.

"Decarbonization is a huge and enduring trend, and it's being led by the private sector now, like Facebook going 100 percent renewable," said Pavel S. Molchanov, a senior vice president and energy analyst with Raymond James, the financial services company. In August, Facebook, too, announced that it was striving to power its operations with renewables by the end of 2020.

But whether investors in mutual funds and E.T.F.s have any effect on the choices being made by companies like Facebook and the amount of carbon dioxide in the atmosphere is a subject of debate among investment experts and fund managers.

Mr. Molchanov counts himself among the skeptics. "If a person sells a coal stock, someone is going to buy it," he said. "Will that action lead to less coal being burned? No. For someone to contribute to decarbonization, the way they can do it is by putting solar on their rooftop."

Some managers of green-energy funds disagree, saying individual investments do help the energy transition, even if they don't lead to the shuttering of a coal-fired power plant tomorrow.

Edward B. M. Guinness, manager of the Guinness Atkinson Alternative Energy Fund, said that, all else equal, more investors should mean higher stock values for renewables companies, which would make it easier for those companies and new ventures to raise money. That should translate to further investment and expansion. "Every piece of investment in the sector matters," he said.

By signaling consumer interest, investment in these companies also can create a virtuous cycle, potentially pulling in even more money, said Jeff Waller, a principal in the global climate finance group at Rocky Mountain

Institute, a nonprofit organization based in Colorado. “You’re demonstrating there’s demand from the average investor,” he said. “Pension funds and 401(k) managers will want to meet that demand. That can create a larger pool of capital focused on this market, which can only help.”

Jon F. Hale, global head of sustainability research for Morningstar, likened an individual’s green energy bets to “voting with your money.” Those sorts of “votes” can embolden fund companies to offer more products and be more aggressive in supporting and even pushing for corporate environmental investments and initiatives.

Regardless of which view you take, an investment in green-energy companies can offer the chance to combine the possibility of profit with a commitment to environmental principles. It’s where stock sleuthing meets tree hugging. (Studies by Morningstar and others have shown that including nonfinancial factors, like environmental performance, in investment management need not hurt overall returns.)

The green-energy niche includes the usual mix of actively and passively managed funds — those that track indexes — and E.T.F.s. On the active side, these range from offerings from big fund companies, like the Fidelity Select Environment and Alternative Energy Portfolio, to the New Alternatives Fund, a little outfit that has been plugging away on Long Island since the early 1980s.

“We’ve always had the philosophy that the fund exists to build a green energy future,” said Murray D. Rosenblith, one of the portfolio managers of New Alternatives. Mr. Rosenblith said he joined his co-manager, David J. Schoenwald, who founded New Alternatives with his father, in the belief that the fund was contributing to the advancement of renewable energy. “I was a peace activist and had run a charitable foundation,” he said. “I wouldn’t have come here if I didn’t believe we were helping.”

Over the five years ending on Sept. 28, Fidelity’s fund returned an annualized average of 9.75 percent and New Alternatives 6.73 percent, compared with an annualized average of 13.95 percent for the **Standard & Poor**’**s 500**-**stockindex**.

Passively managed green energy funds track well-known indexes as well as obscure, proprietary ones. Invesco, for example, built its E.T.F. on the WilderHill Clean Energy index, while BlackRock’s iShares division used the S.&P. Global Clean Energy index for its offering. The Calvert Global Energy Solutions Fund is constructed upon an index that Calvert created, said one of the fund’s portfolio managers, Jade S. Huang.

Calvert opted to go its own way because it judged many of the existing indexes to be too concentrated, Ms. Huang said. The WilderHill index contains 39 stocks and the S.&P. index 29, compared with more than 150 for Calvert’s index. “So we’re offering a product that’s more diversified but still addresses the energy crisis,” she said.

No standard recipe exists for what a renewable energy fund should contain. Some funds broaden their potential pool of holdings by including a salmagundi of stocks.

Take Fidelity. Its fund can “look at any company out there trying to push for environmental change in its industry,” said its manager, Kevin G. Walenta. Only about half of its assets are dedicated to renewable energy and energy efficiency stocks. The fund also contains waste-management, water and agricultural holdings. That broad remit suits Mr. Walenta, who said he prefers to invest in longstanding companies and shies away from newer technologies.

Energy efficiency, in particular, is a favored theme. “The payback period for efficiency investments gets better every year,” he said. “And the companies have brand power and long histories of positive economic profits.” As an example, he pointed to Ingersoll Rand, a more-than-a-century-old manufacturer that makes efficient heating and air-conditioning systems. It has lately been one of the fund’s top holdings.

Mr. Hale, of Morningstar, said an investor shouldn’t let concern about climate change be all that determines the amount of an investment in renewable energy. A green-energy fund or E.T.F. can supplement a diversified portfolio, with, say, a 5 percent or 10 percent allocation, but it does not take the place of a core holding, he said.

A concern when considering such an investment might be the climate-change skepticism of the Trump administration. The solar- and wind-power industries are supported by federal tax credits. And the president likes to talk up coal, and he pulled the United States out of the Paris Climate Agreement, the international accord through which countries worldwide committed to goals for reducing greenhouse gas emissions. If the Trump administration were to push for further changes in federal energy policy, that might hurt renewables.

But Lucas White, manager of the GMO Climate Change Fund, said doings in Washington no longer bedevil wind and solar power all that much, as the industries are now mature enough that federal support isn’t crucial for their

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growth. (Mr. White's fund, with a minimum initial investment of $10 million, is intended for institutional investors, like pension funds.) "Costs have come down much faster than anyone thought was possible," he said.

Mr. White noted that James L. Robo, chief executive of NextEra Energy, one of the country's largest power generators, has predicted that solar and wind power will be cheaper than coal or nuclear generation by the beginning of the next decade. "When that happens, that's a massive change in the global energy landscape," Mr. White said.

He is also among those who say that fund and E.T.F. investments can help green energy producers and other companies involved in climate-change mitigation and adaptation.

"This may sound a little squishy, but if no one was willing to invest in these companies, they wouldn't exist," he said.

The Calvert Global Energy Solutions Fund is built around an index Calvert created, said Jade S. Huang, one of the fund’s portfolio managers. | Andrew Mangum for The New York Times

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THE WALL STREET JOURNAL.

U.S. Markets
Markets
Dow Closes Higher on Strong Earnings Reports; Encouraging quarterly results boost Dow industrials after turbulent recent sessions for U.S. stocks

By Corrie Driebusch and Will Horner
500 words
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The Wall Street Journal Online
WSJO
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Corrections & Amplifications

Global stocks edged up early Friday. An earlier version of this article incorrectly stated the day as Wednesday. (Oct. 19, 2018)

Strong quarterly earnings reports helped the **Dow Jones Industrial Average** eke out slight gains for the week after turbulent recent days for U.S. stocks.

Stocks have swung sharply in recent trading sessions. The Dow industrials rose more than 2% Tuesday after encouraging economic data and better-than-expected earnings from Goldman Sachs, before reversing course Thursday amid geopolitical tensions and ending 1.3% lower in a bruising trading session.

On Friday, Procter & Gamble's best quarterly sales growth in five years boosted shares of the consumer-products giant and helped lift the blue-chip index into positive territory. The Dow industrials ended the day up 64.89 points, or 0.3%, at 25444.34, notching a 0.4% weekly gain, its first after three weeks of declines.

The **S&P 500** slipped one point, or less than 0.1%, to 2767.78 on Friday, while the **Nasdaq Composite** fell 36.11 points, or 0.5%, to 7449.03, its third consecutive session of losses. The **S&P 500** ended the week up a fraction of a percent, while the Nasdaq lost 0.6%.

Losses among consumer-discretionary stocks offset some of those gains and contributed to the **S&P 500**'s underperformance Friday. EBay led the sector lower, shedding $2.80, or 8.9%, to $28.75 after an analyst cut the online marketplace's price target, citing PayPal's mention of slowing merchandise-sales volumes at its former parent.

Other quarterly results were more positive, with shares of PayPal rising after the company boosted its outlook for the fourth quarter. The financial sector rose after a round of encouraging earnings from regional banks, with shares of Citizens Financial Group, Synchrony Financial and SunTrust Banks all rising.

"Investors are faced with the good, the bad and the ugly," said Katie Nixon, chief investment officer of Northern Trust Wealth Management, referring to recent swings in major U.S. stock indexes. "On the 'good' front, we've had some very good momentum on earnings." The 'bad,' however, is rising interest rates, she said, and the 'ugly' includes continuing trade tensions with China, which could further rattle markets around the globe.

Trading in Asia has been choppy in recent sessions, and Friday was also an eventful day. The Shanghai Composite initially fell after data showed China's third-quarter gross domestic product was the weakest since the global financial crisis. Throughout the day, China's economic czar, central-bank governor and banking and securities regulators all called publicly for confidence in China's economic outlook. Shares rallied, with the Shanghai Composite ending the day up 2.6% after the intervention.

European stocks slipped Friday, with Italian assets under pressure from a confrontation between Italy and the European Union over the nation's proposed budget.

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THE WALL STREET JOURNAL.
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Options Imply Volatile Tech Stocks

By Gunjan Banerji
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Stock investors stung by **volatility** this earnings season are betting that the tumult in technology shares will continue.

Investors are pricing in outsize swings for Facebook Inc., Apple Inc. and Alibaba Group Holding Ltd., when the companies release their quarterly results this week.

Options prices forecast a swing of 9.3% in Facebook shares in the days after the social-media company posts earnings on Tuesday after the market close, data from Trade Alert shows. That is much bigger than the average move of 5.5% that Facebook has posted following its past eight quarterly releases, options data from Trade Alert show.

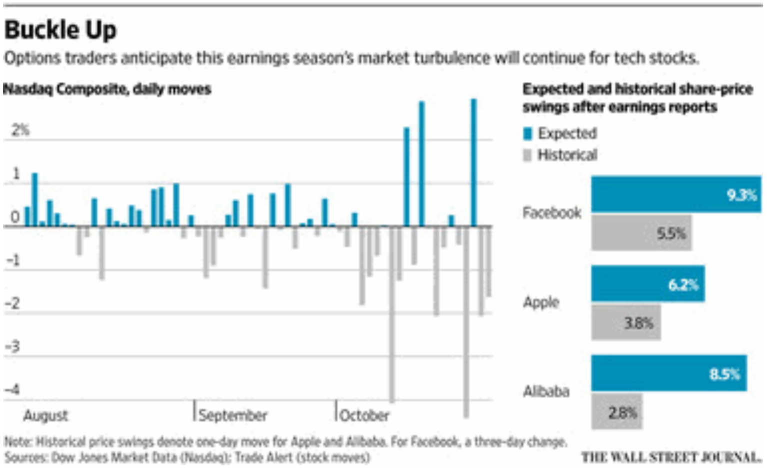
Facebook investors already have suffered this year as several controversies and fears over slowing growth have dogged the company. Its shares have slumped almost 20% in 2018, on track for their first down year ever.

Falling Facebook shares are part of a larger shift of investor sentiment souring on tech. After being the darling stock sector for years, technology names have roiled the broader market several times in 2018. Last week, they dragged benchmark indexes into negative territory for the year. The tech-heavy **Nasdaq Composite** tumbled 3.8% last week to enter a correction, while the benchmark **S&P 500** slid 3.9%.

Investors also are projecting a 6.2% one-day move after Apple's earnings report on Thursday, which compares with the iPhone maker's average swing of 3.8% in the past eight quarters. Investors also anticipate an 8.5% swing in Alibaba's U.S.-listed shares after its report this week, compared with the average move of 2.8%, according to Trade Alert data Friday.

The estimates don't indicate which direction shares might sway, just the magnitude of the move. The percentages are derived from an options trade known as a straddle, which entails buying both **bullish** and **bearish** contracts that can be exercised at the same price for the stock.

Some projections made by the options market have already largely come true. On Thursday afternoon, options investors priced in a 6.1% move in Amazon.com Inc. shares, well above the stock's historical average of 4.3%. The company after the market close on Thursday reported record profit but also noted slowing revenue growth. Its shares sank 7.8% Friday and declined again on Monday.



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THE WALL STREET JOURNAL.

Markets

Hedge Funds Lose Confidence in Once-Hot Oil Market; Crude prices have tumbled 13% this month from an almost four-year high

By Amrith Ramkumar
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Hedge funds have scaled back their bets on rising **oil prices** to the lowest level in a year, the latest case of investors growing wary of a once-hot market.

Bullish bets on U.S. crude outnumbered **bearish** ones by 4-to-1, Commodity Futures Trading Commission data as of Oct. 23 show. The ratio is the lowest since October 2017 and compares with a 26-to-1 ratio from early July.

Speculative investors have grown cautious this month, as crude prices have tumbled 13% from an almost four-year high. West Texas Intermediate, the U.S. oil benchmark, is at its lowest level since mid-August and on track for its largest one-month drop in more than two years.

Prices fell 1.3% to $66.18 a barrel on Tuesday, slipping for the second consecutive session, with analysts looking ahead to the next day's data on U.S. inventories.

Oil has also become more correlated with stocks and other commodities, as fears over slowing global growth spur investors to sell both asset groups. In the latest **stock-market** rout, technology shares have been particularly hard hit after driving markets higher earlier this year.

Some analysts say the reversal by oil speculators has exacerbated crude's price losses in October.

For much of 2018, robust demand world-wide and shrinking exports from Iran and Venezuela helped propel prices higher. Now, some investors and traders anticipate that higher output from Saudi Arabia and weaker global consumption will lead to supply surpluses, weighing on the market. Barclays projects that global supply will exceed demand in every quarter next year, after several consecutive quarters of deficits.

The International Energy Agency earlier this month lowered its forecasts for oil-demand growth in 2018 and 2019. It cited lingering trade concerns and worries that higher **oil prices** will dent consumer appetite.

Broad anxiety about a weaker global economy has battered stocks and other commodities this month, putting major U.S. stock indexes on track for their worst month in years and pushing investors toward the safety of the dollar. That has also hurt oil because a stronger U.S. currency makes commodities denominated in dollars more expensive for overseas buyers.

The WSJ Dollar Index, which tracks the dollar against a basket of 16 other currencies, has risen to its highest level since April 2017.

Speculators were cautious about crude even before this most recent selloff, according to some market observers, a signal that risk aversion had been building even before the recent **volatility** in markets.

The skepticism from hedge funds has been reinforced by another **bearish** signal in the oil market, analysts say. The price of oil to be delivered in the future is now higher than the spot price, a condition known as contango.

When the market is in contango, investors have to roll over their oil futures and buy the next month's more expensive contracts, incurring a "roll cost" that crimps their profits.

Under the opposite scenario, called backwardation, the difference is positive, boosting returns for investors. Analysts say the market flipping from backwardation to contango two weeks ago accelerated selling.

Despite this month's **volatility**, **oil prices** are still up 9.5% for the year. Some investors say the selling this month was driven more by momentum than supply-demand fundamentals, so crude prices could quickly jump higher if U.S. sanctions against Iran—set to take effect next week—and other disruptions lead to a supply shortfall.

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THE WALL STREET JOURNAL.

Markets
Small Caps Become Latest Winning Trade to Collapse; As government-bond yields have climbed to multiyear highs, investors are being forced to reassess longstanding bets

By Akane Otani
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Shares of small, U.S.-focused firms are suffering their worst rout in years, removing another pillar of support for the nine-year **bull market** as it faces heightened turmoil.

As government-bond yields have climbed to multiyear highs, investors are being forced to reassess longstanding bets—including in small caps, emerging markets and technology stocks—that are faltering after thriving for years in a low-rate environment.

That has resulted in an unusual situation where both large and small caps are falling in tandem. After hitting records throughout August, the Russell 2000 index of small-capitalization stocks has slumped, last week entering correction territory—a drop of at least 10% from a previous high—for the first time since 2016.

The index, which rose 0.4% on Monday, is down 8.5% in October alone, on course for its biggest one-month decline since January 2016. In comparison, the **S&P 500** has lost 5.6% and the tech-heavy **Nasdaq Composite** has shed 7.7%, on course for its worst one-month stretch since January 2016.

The widespread drops across shares of varying industries and market capitalizations showed that, as the global rout accelerated, there were few places for stock investors to hide.

Investors poured money into small caps in the second half, pushing them past their larger counterparts, as escalating trade tensions exacerbated fears about a potential slowdown in growth. To many investors, small caps looked better poised to withstand trade threats than multinationals, whose profits are far more driven by the ebb and flow of global trade.

But the U.S.'s recent trade agreements with Canada, Mexico and the European Union have reassured many investors that the White House may be more amenable than it earlier seemed to negotiating trade deals, undermining small caps' appeal. At the same time, worries about tightening monetary policy have kept the broader **stock market** under pressure.

"Fiscal stimulus is still out there and we're still going to have one or two quarters where that helps earnings, but it's waning, and it's definitely not going to stay for a long time," said Omar Aguilar, chief investment officer for equities and multiasset strategies at Charles Schwab Investment Management.

In the past few months, analysts at Morgan Stanley, Bank of America Merrill Lynch and Pimco have warned that the small-cap rally looked vulnerable to a reversal.

One reason why: Small caps have often struggled for traction as economic expansions have neared their end, partially because they get hit hard by pressures like rising wages and borrowing costs. Some analysts worry the latter may prove to be a particularly big pressure point for small caps in the next couple of years.

Excluding financial companies, the Russell 2000's corporate debt amounts to roughly 3.5 times earnings before interest, taxes, depreciation and amortization, according to Bank of America Merrill Lynch. That is close to highs hit in the early 2000s and above the 1.8 times Ebitda ratio for the **S&P 500**.

Relatively high leverage ratios make small caps look vulnerable to an unraveling, since as interest rates rise, it will become more difficult for companies to borrow and repay debt, said Jill Carey Hall, U.S. equity strategist at Bank of America Merrill Lynch.

Leverage is "one of the biggest risks" small caps face over the medium term, Ms. Hall said.

Others believe small caps, like other groups in the **stock market** that thrived earlier this year, simply look overdue for a pullback after a monthslong period of dominance.

Toward the end of the summer, Morgan Stanley removed its preference for small caps over their larger counterparts and downgraded technology stocks at the same time, citing the belief that good news like strong earnings and tailwinds from tax cuts had already been priced in. Moving forward, it was difficult to find additional reasons why small caps would outperform large caps, the firm's equity analysts said.

One thing investors say could help spark a revival in the group: a renewal of trade tensions. Although the U.S.'s trade agreement with Canada and Mexico reassured some investors that the White House would move forward with negotiations with China, others are less sure a resolution is in the works.

Further divergence between the U.S. economy and the rest of the world could also contribute to a recovery in small caps, analysts say.

The International Monetary Fund in October lowered its forecasts for global economic growth for 2018 to 3.7% from an April estimate of 3.9%, saying risks like "rising trade barriers and a reversal of capital flows to emerging-market economies…have become more pronounced or have partially materialized."

At the same time, economists are still relatively optimistic about the U.S., where data have shown the unemployment rate at multidecade lows, confidence among consumers and small businesses near records and corporate profits growing at a double-digit percentage pace.

That has helped even small firms in beleaguered sectors rebound this year.

Despite sliding with the broader market this month, teen retailer American Eagle Outfitters' shares remain up 15% this year, thanks to soaring sales in its jeans and Aerie intimates businesses. Fellow Russell 2000 constituent BJ's Restaurants has jumped 85%, supported by strong earnings.

Even if investors believe the U.S. will ultimately reach a trade deal with China, the strength of the domestic economy makes it difficult to argue that small caps—whose fates align closely with U.S. growth—have peaked this cycle, said Phil Orlando, head of client portfolio management and chief **equity market** strategist at Federated Investors.

Tightening monetary policy will pose an ever-bigger threat to the stock rally. But for now, "we have a strong economy, stronger dollar, tax cuts—those things all are continuing to work," said Mr. Orlando, who added that he believes the U.S. economy won't fall into recession until 2020 at the earliest.

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Unemployment Hits Lowest Rate in 49 Years --- Stocks sell off as rising bond yields raise fears about borrowing costs

By Daniel Kruger
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U.S. government bond yields rose to their highest level in years Friday, as investors reconsidered the strength of the U.S. economy while selling off stocks that could be hurt by higher borrowing costs.

The sharp move in yields was spurred by surprisingly strong economic data coupled with an easing of concerns about geopolitical turmoil. The U.S. economy's performance in the third quarter appears close to matching its robust 4.2% growth rate in the prior period, while Friday's jobs report showed the unemployment rate in September fell to the lowest since 1969.

The yield on the benchmark 10-year note, which rises when prices fall, rose to 3.23%, its highest since May 2011.

For stocks, the move poses a twin threat. The **10-year Treasury** serves as a benchmark for other loans, including mortgages, small business loans and state and local government bonds. Higher borrowing costs have the potential to slow economic activity.

Higher yields for risk-free assets like Treasurys could also cause investors to demand greater compensation for owning stocks, or push some to switch out of shares. The **Dow Jones Industrial Average** fell 180 points Friday deepening a slide that began Thursday, while the tech-heavy **Nasdaq Composite** Index dropped 1.2%.

The rapid rise in yields has confronted investors with a surprising possibility: economic growth could be both faster than expected and sustainable, allowing the Federal Reserve to maintain its gradual pace of interest-rate increases. The yield on the **10-year Treasury** started the week at 3.06%, making the past week's gain the biggest since February.

Investors and analysts are now asking where the current jump in yields may end. It's possible that the **10-year Treasury** yield could reach 3.5% this year, but a top in the area of 3.3% or 3.4% is "more probable," said Krishna Memani, chief investment officer at OppenheimerFunds Inc.

Although stocks were jarred by the bond-market moves, some investors took comfort in the fact that the rise in yields occurred without a significant increase in inflationary pressure throughout the economy. Inflation typically contributes to rising bond yields because it undermines the value of a bond's fixed coupon and principal payments.

Market measures of inflation expectations show it holding steady near the Federal Reserve's 2% target, while this year's rise in average hourly earnings remains below levels at the end of the last recession in 2009. These developments are at odds with early-year analyst forecasts that called for rising wages that would boost consumer activity and lead to inflation.

"We're seeing yields rise because of growth rather than a fear of inflation," said Katie Nixon, chief investment officer for the wealth management division at Northern Trust. Some investors had "legitimate fears that the economy was peaking" and were wondering, "Are we about to get the hangover after the sugar high? The data says no."

Evidence that the economy can maintain its pace without causing pressure for prices to rise has eased concerns among some investors that the strong second-quarter growth would represent a peak.

The Institute for Supply Management said Wednesday that its non-manufacturing index rose to the highest reading on record going back to 2008, while the Labor Department said Friday that the economy added 134,000 jobs in September, even amid the disruption of Hurricane Florence.

Although the rise in yields has been faster than many investors had expected, few foresee them climbing out of control.

Investor confidence in the durability of the expansion has been bolstered by comments from Federal Reserve Chairman Jerome Powell. The U.S. economy is experiencing "a remarkably positive set of economic circumstances," Mr. Powell said Wednesday in a moderated discussion, adding that "there's no reason to think this cycle can't continue for quite some time, effectively indefinitely."

Yields may jump higher still if inflation pressure becomes evident, said Matt Freund, co-chief investment officer for fixed income at Calamos Investments.

The current rise in yields comes in a period where credit availability is rising and financial stress is easing, even as the Fed is raising rates. "We know inflation pressures have built up, but we don't know what the impact will be," he said.

The recent rise in yields has occurred across all maturities, though it has been felt most in longer-term debt. That signals investors are becoming less concerned that Fed interest-rate increases pose an immediate threat to expansion.

Some investors are concerned that higher bond yields are weighing on interest-rate sensitive areas of the economy, such as housing and automobiles, which typically require consumer borrowing. Others are worried that higher yields could make bonds appear more attractive relative to stocks.

A decline in stocks when bond yields rise "is becoming predictable," said Daniela Mardarovici, who helps manage the BMO TCH Core Plus Bond Fund. "It's perfectly plausible to see 3.5% [10-year yields] without a complete collapse in the market."

The 10-year yield could rise as high as 3.75% by year-end, as investors bet both on rising stock prices and rising bond yields, said Andrew Brenner, head of global fixed income at NatAlliance Securities. Investors risk seeing both of these trades unwind, though, as "the dual punch" of the Fed's rate increases and its balance sheet reduction lead to a slowdown in growth, he said.

(See related article: "Jobless levels not seen since Vietnam War, retiring baby boomers leave fewer people to work" -- WSJ Oct. 6, 2018)

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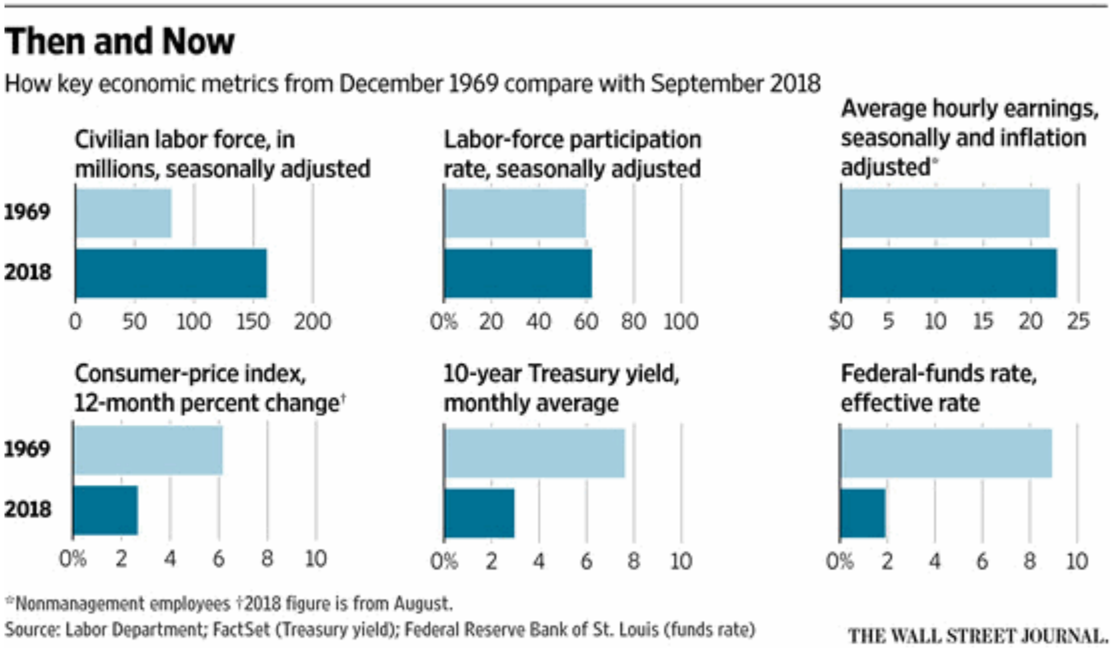

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THE WALL STREET JOURNAL.

Markets

Strong Earnings Haven't Cured the Stock Market's Blues; Investors are pulling back in a sign that confidence in future earnings is on the wane

By Akane Otani and Corrie Driebusch
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Investors are selling the shares of firms that hit quarterly earnings expectations at the highest rate since 2011, a sign of concern over how long the good times can last for American corporations.

Led by the likes of Amazon.com Inc., U.S. companies are on pace to extend a streak of double-digit earnings gains this quarter. The abundance has been widely shared, with energy conglomerates, manufacturers and technology concerns alike posting large increases.

Yet this robust corporate performance has been largely overshadowed by a monthlong market retreat that has shaved trillions of dollars off the value of major U.S. stock indexes. Among the firms hit have been those that posted earnings that matched or exceeded Wall Street estimates, often while offering soft sales results or mixed guidance for future periods.

It's a development that many analysts and portfolio managers take as signaling that confidence in future earnings is on the wane. Investors are pulling back from the highest-priced stocks as they weigh factors including rising labor and financing costs, questions about the continued longevity of a nine-year-old U.S. economic expansion and concerns that the financial boost from the 2017 tax cut will soon be behind many firms.

That sort of uncertainty was largely suppressed over the first part of 2018 as firms earned outsize profits and U.S. economic growth picked up, but many investors are now reassessing the outlook in earnest as earnings reports roll in.

"What's disconcerting is that companies are reporting good earnings with good guidance and they get a little pop, but then they sell off," said Lew Piantedosi, who leads Eaton Vance's growth-stocks team. "It's starting to feel like the market is pricing in a greater likelihood of a recession in 2019."

Take Amazon, the online retailer and web-services company that on Thursday posted a firm record with a third-quarter profit of $2.88 billion. It made 11 times more in the period than it did a year earlier, but its sales fell just short of expectations. Amazon shares tumbled 7.8% Friday, far steeper than the **S&P 500**'s 1.7% decline. Amazon is down 18% this month.

Other firms deemed similarly disappointing despite in-line quarterly earnings include online streaming service Netflix Inc. and asset manager BlackRock Inc.

Netflix shares rose 5.3% on Oct. 17, after it reported a bump in new subscribers. But the stock erased all of its post-earnings rally by the end of that week, finishing down 2%. The **S&P 500**, in comparison, rose less than 0.1% that week.

BlackRock reported a stronger profit for the third quarter on Oct. 16, but its stock still slumped 4.4% that day—in contrast to the **S&P 500**'s 2.1% gain—after the firm reported net outflows for the quarter.

Many investors say that while the sudden about-face in hot technology shares and other onetime market leaders has been jarring, they remain believers in the long-term promise of firms such as Amazon, Alphabet Inc. and Apple Inc. Some say they expect the market rout to blow over, given the continued strength of the economy and the paucity of signs in adjacent markets—such as high-yield bonds and other risky assets—that financial stress is rising markedly.

Even so, some say the poor response to firms with good earnings is worrisome. With results in from nearly half the companies in the **S&P 500**, shares of those that have reported stronger-than-expected earnings have fallen an average of 1.5% between the two days before the earnings report and the two days following it, according to FactSet data published Friday. That marks the biggest decline since 2011.

Those that miss estimates are getting punished more than usual. Shares of such companies have fallen an average of 3.8% over the four-day period, worse than the five-year average of 2.5%, according to FactSet.

Earnings are still expected to have grown at a healthy clip. For the third quarter, **S&P 500** firms are projected to post growth of about 20% from the year-earlier period, a slowdown from the first half of the year but still near the fastest pace in years, according to FactSet. The pace of growth, though, is expected to slow to the single-digits in the first half of 2019.

Perhaps more concerning, sales growth hasn't held up as well. About 41% of companies have posted sales that have missed analysts' estimates, far greater than the 23% of companies that have reported weaker-than-expected earnings and on track for the highest share of misses this year, according to FactSet.

Data suggest investors have grown increasingly pessimistic about the economic outlook.

JPMorgan Chase & Co., which models recession probabilities based on factors ranging from wages to consumer sentiment, said in October that the U.S. has a 28% chance of falling into recession in the next year. Looking at the next two years, that probability rises to around 60%.

"Earnings keep coming in phenomenally strong, but people are betting on whether that can stay," said Craig Birk, chief investment officer at financial advisory firm Personal Capital.

In part, the bets reflect trepidation about the longevity of the economic expansion, which earlier this year became the second-longest in U.S. history. Data on Wednesday showed sales of new homes in the U.S. fell for the fourth month in a row in September. Major auto makers also reported steep declines in U.S. sales for September.

That is adding to the sense among investors that factors that had once given stocks a boost—such as upbeat earnings reports or economic data—are becoming less important.

For instance, shares of Caterpillar Inc. slumped 7.6% on Tuesday, outpacing the **S&P 500**'s 0.6% decline, when it reported a stronger-than-expected profit for the third quarter.

"We had an outstanding quarter," Chief Executive Jim Umpleby said on a call with analysts around the time Caterpillar's stock was trading down 10% on the day. "We feel good about the fundamentals."

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World Stock Values Hit 2-Year Low

By Akane Otani
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Global stocks are trading at their lowest valuations in more than two years as pessimism grows over the growth outlook, dangling the prospect of opportunity to some bargain-minded investors.

After a punishing October, major indexes in Europe, Japan, Shanghai, Hong Kong, Argentina and Canada are languishing in correction territory -- a drop of at least 10% from a recent high. The U.S. is teetering on the edge of joining its peers there after a selloff last week wiped out all of the **S&P 500** and **Dow Jones Industrial Average**'s gains for the year.

The breadth of the declines shows a remarkable reversal from 2017, when optimism about the global economy sent shares around the world to multiyear highs.

"The expectation at the start of the year was this story of synchronized global growth," said Mark Heppenstall, chief investment officer at Penn Mutual Asset Management based in Horsham, Pa. "And it seems like that argument for investing in global equities faded pretty quickly out of the gates."

These days, investors say they are grappling with myriad anxieties: a slowing Chinese economy, geopolitical hot spots ranging from Italy to Saudi Arabia to Turkey and the still unresolved trade dispute between the U.S. and China. Adding to those concerns, data last week showed the eurozone economy grew at the slowest pace in two years. And technology firms that had helped fuel the U.S. stock rally are stumbling, with companies such as Amazon.com Inc., Alphabet Inc. and Netflix Inc. down more than 10% apiece in October.

The laundry list of issues has chipped away at investors' optimism, driving the share of fund managers who expect the global economy to decelerate over the next year to the highest level since November 2008, according to Bank of America Merrill Lynch. It has also pushed the forward price/earnings ratio of the MSCI All Country World Index -- which tracks performance across 23 developed and 24 emerging markets -- to around 18, its lowest since early 2016. That was when fears about a hard economic landing in China and a crash in the price of oil drove markets sharply lower.

So far in 2018, the index is down about 8%, on course for its biggest decline since 2011.

Few investors are ready to call it quits on stocks altogether. And most don't see the U.S., which until recently had led the global stock rally, tipping into recession in the near term. The Commerce Department on Friday said gross domestic product rose at a 3.5% seasonally and inflation-adjusted annual rate in the third quarter, buoyed by strong consumer spending that helped offset a drop in U.S. exports.

Still, many say the market's slide -- which has wiped out the 2018 gains of technology titans such as China's Tencent Holdings Ltd., Facebook Inc. and South Korea's Samsung Electronics Co. -- has forced them to take a second look at bets that had been winners.

Expectations that policy makers at the Federal Reserve will keep pressing ahead with plans to phase out stimulative policies have added to the sense that investors must search harder for growth that can fuel further price gains.

"For a while, just a couple of sectors were holding the whole market together," said Anwiti Bahuguna, senior portfolio manager and head of multiasset strategy at Columbia Threadneedle Investments. "And now we're finally seeing the beginnings of a rotation."

Some investors see glimmers of opportunity ahead.

UBS Global Wealth Management's chief investment officer, Mark Haefele, is recommending that clients put money in global equities, rather than focusing their portfolios in one region or another.

He notes that the Fed is moving further away from policy makers at the European Central Bank, who are still holding rates low; the Bank of Japan, which still has a huge stimulus plan in place, and the People's Bank of China, which is cutting some banks' reserve requirements in one effort to stimulate growth.

"All of these policies are going in different directions, and they're probably not all going to be winners," Mr. Haefele said. "You don't want to bet on just one of these central banks getting it right -- you want to diversify it."

Others say not to overlook emerging markets, which have been particularly hard hit in the recent global equity selloff.

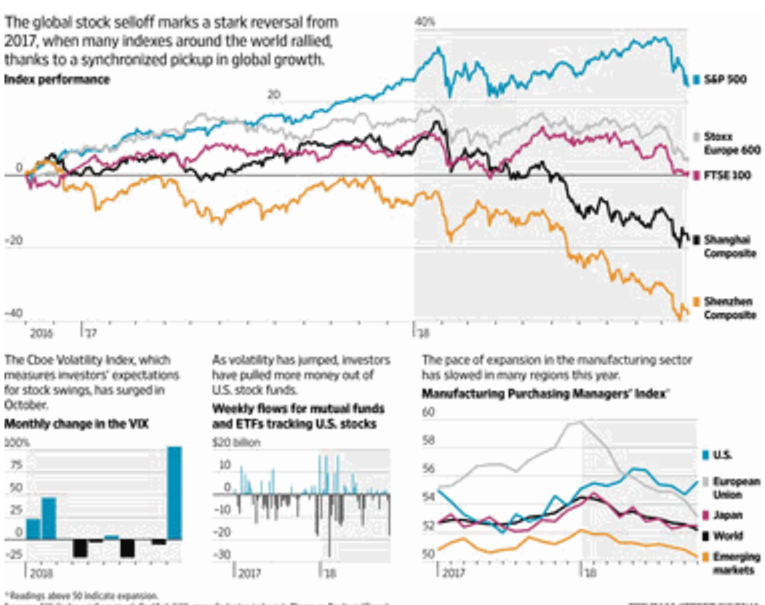
After their drawdown, emerging markets carry attractive valuations, said BlackRock Inc., which has issued positive ratings for stocks in the U.S., emerging markets and Asia excluding Japan.

The group could get a boost if economic data in the U.S. begin to show weakness, pushing the Fed to slow its pace of interest-rate increases, the firm added.

To these firms and other investors, the **volatility** that has upended markets hasn't amounted to a big enough threat to pull out of stocks altogether. Instead, the drawdowns have made shares in many regions of the world look less frothy than they did in January, when global stocks roared to records.

The **S&P 500** traded last week at about 15.6 times the next 12 months of earnings, down from 18.3 at the end of last year and below its five-year average of 16.5, according to FactSet.

After the drops of the past few weeks, 93% of markets in the MSCI All Country World Index are trading below both their 200-day and 50-day moving averages, according to BofA Merrill Lynch. The firm's analysts recommend buying stocks whenever that measure exceeds 88%.



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The New York Times

Business Day; DealBook
Is a Slowdown in Bank Lending a Bad Sign for the Economy?

By Peter Eavis
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Something is afoot in the world of banking that suggests the economy is not as strong as it looks.

Four of the United States' largest banks on Friday reported third-quarter results that, for the most part, exceeded Wall Street's expectations.

But a worrisome trend again showed up in their numbers: The banks were not lending at the same rate that they had in recent years. While the economy can grow without strong lending, it may struggle to maintain its strength if loan growth remains lackluster.

In the third quarter, the combined loans of JPMorgan Chase, Citigroup, Wells Fargo and PNC Financial Services increased just 2 percent from a year earlier, in line with the second-quarter rate. Last year, loans at the four banks grew 2.9 percent, and in 2016 and 2015 the rate was well above 4 percent.

Though third-quarter loan growth was subpar, the tax cuts enacted at the end of last year continued to lift bank profits, and rising interest rates are helping banks earn more on their loans. JPMorgan Chase's earnings surged 24 percent. Wells Fargo, still under regulatory scrutiny after a series of scandals, posted a 32 percent rise in net income, helped, in part, by a decline in costs. Citigroup's profits were up 12 percent.

Earnings at PNC were solidly higher, but its sluggish lending helped send its stock down over 5 percent on Friday. In the third quarter, its loans grew only 0.9 percent, and the banks said growth would be modest in the fourth quarter.

It's probably too early to get alarmed about the slowdown in lending.

One of the reasons growth has decelerated should not be a source of concern. Companies, enjoying stronger revenues and lower taxes, have less need to borrow and roll over existing debt when it comes due. William S. Demchak, chief executive of PNC, said Friday that borrowers were paying down their loans more than expected.

Another reason for the lower growth is sensible. Bank executives said they saw signs of the economy overheating and were holding back. At Wells Fargo, loans fell 1 percent in the third quarter. Loans to finance the purchase or construction of buildings used by businesses drove the decline. John Shrewsberry, Wells Fargo's chief financial officer, said Friday that the bank had stayed cautious in lending to the sector out of a desire to maintain "credit discipline."

Still, the weak lending growth could be a sign that the economy is losing momentum.

Take mortgages: Rising interest rates are pushing up the cost of mortgages at the same time housing prices in many parts of the country remain elevated. As a result, demand for mortgages has lessened. Wells Fargo's mortgage applications in the third quarter were lower than in the preceding four quarters.

Some companies may be less willing to borrow because their executives are starting to get nervous that President Trump's trade policies and other geopolitical developments could weigh on global growth. JPMorgan Chase's chief executive, Jamie Dimon, sounded a warning about global uncertainties in a statement accompanying the bank's third-quarter earnings report. JPMorgan's loan growth, at 4.4 percent, was the strongest of the four banks that reported, but it was still well below the rates it posted in 2016 and 2015.

Notably, there are signs outside of the banks' balance sheets of a weakening in credit growth. Companies borrow in the bond markets, and many loans also end up in special financial entities called collateralized loan obligations. But corporate bond issues were down 15.6 percent this year through September, compared with the same period last year, according to data from Sifma, a financial industry trade group. Debt issued by collateralized loan and debt obligations was down by 47 percent, according to Sifma.

Then there is the message that bank stocks are sending. Even with the economy doing well, interest rates rising and the Trump administration's promises of deregulation, shares in banks have lagged the broader market for months. It's a sign that investors are not particularly excited about the growth prospects for the core businesses of banking, like lending and trading. The **Standard & Poor**'**s 500**-**stockindex** is up 3.5 percent this year. Bank stocks, measured using the KBW Nasdaq Bank index, is down 5.9 percent.

Jamie Dimon, the chief executive of JPMorgan Chase. Loan growth at the bank was well below the rates it posted in 2016 and 2015. | Mike Cohen

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Europe Edition
Briefing
Stocks, Saudi Arabia, Hurricane Michael: Your Thursday Briefing

By Penn Bullock
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(Want to get this briefing by email? Here's the sign-up.)

Good morning. Turkey names names, a fearsome hurricane makes landfall, and millennials revive the dirndl.

Here's the latest:

• Queasiness on Wall Street.

U.S. stocks took their steepest drop in eight months as dyspeptic investors continued to digest trade tensions and rising interest rates. Above, the floor of the New York Stock Exchange.

Previously high-flying tech shares tumbled. And the **Standard & Poor**'**s 500**-**stockindex** fell 3.3 percent, bringing the broad equity benchmark down 4.4 percent for the month. The rout continued in Asia, suggesting trouble ahead for European markets.

Investors are worried above all about a growing trade war between the U.S. and China. The two powers threw off sparks again on Tuesday when Belgium arrested and extradited a Chinese intelligence official to the United States to face charges of espionage. The official is accused of soliciting business secrets in a U.S. sting operation.

• A top forensics expert. An air force lieutenant.

The men were among 15 Saudi operatives who the Turkish authorities said flew to Istanbul to pursue the dissident journalist Jamal Khashoggi and killed him at the Saudi Consulate there. Many on the list have close ties to Saudi leadership, including to Crown Prince Mohammed bin Salman.

Turkish officials say the men killed Mr. Khashoggi, pictured above entering the consulate, dismembered his body using a bone saw and carried it out of the building — all on the orders of the Saudi royal court. The Saudi government vehemently denies that.

Republican and Democratic senators invoked a human-rights law to set in motion a U.S. investigation.

The disappearance is a personal reckoning for President Trump's son-in-law and adviser, Jared Kushner, who has cultivated the crown prince as a top U.S. ally and as a friend.

• Hurricane Michael roared onto the Florida Panhandle as a Category 4 storm, with winds topping 155 miles an hour. It was one of the most powerful storms ever to hit the continental United States. Above, Tallahassee, Fla., before the worst came ashore.

White-sand coastline became a howling, wet hell. At least one person has died, but the extent of damage is far from clear. Our reporters in the region are providing live updates.

Downgraded to a tropical storm, the system is now churning through southern Georgia toward the Carolinas, still sodden from Hurricane Florence.

Though it's too soon to make any connection between the hurricane and global warming, the changing climate poses a long-term triple threat: more rain in larger storms on rising seas.

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• Lignite.

Also known as brown coal, it is one of the dirtiest fossil fuels. And Germany, though a leader in sustainable energy, also leads the world in the mining and burning of lignite.

A quarter of Germany's electricity comes from it, and roughly 22,500 jobs depend on coal. Many of those jobs are in the economically frail east.

If Germany is to meet its commitments under the Paris climate accord — to reduce carbon emissions by 80 to 95 percent by 2050 — it must address the impact on livelihoods that would come from gradually closing down the coal industry. A government commission will meet on Thursday to try to plot a way forward.

But time's running out. A U.N. report this week said solving global warming will require transforming the world economy at a speed and scale that have "no documented historic precedent."

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• "Last last we go dey alright."

That's teenage slang in Nigeria, roughly translating as "At the end of the day we will be all right."

Kochu, G.O.A.T. and Ne Ukalaixis were other bits of slang we picked up in an expansive multimedia project in which girls around the world — from Bushehr, Iran, to the Bronx — took us inside their lives.

Their assignment: Show us what it's like to turn 18 in 2018.

Business

• Howard Schultz, the retired Starbucks founder, is widely expected to challenge President Trump in 2020. So what does mean for the company's business?

• The U.S. Justice Department approved a $69 billion merger between the pharmacy CVS Health and the insurer Aetna.

• Volkswagen named a new head of U.S. operations, part of a bid to rehabilitate its brand with Americans three years after an emissions-cheating scandal.

• California is now the fifth-largest economy in the world. But here's why the state may be facing a financial reckoning.

• U.S. stocks were down. Here's a snapshot of global markets.

In the News

• Rebel forces in Syria pulled the last of their heavy weapons from front-line positions in Idlib Province, meeting the deadline for a truce negotiated by Russia and Turkey. [The New York Times]

• The police in Norway filed charges in the attempted murder 25 years ago of the publisher of the Norwegian edition of Salman Rushdie's "The Satanic Verses." [The New York Times]

• The Bulgarian authorities announced that a man had been arrested and charged with the rape and murder of the journalist Viktoria Marinova. They said there was no indication he had targeted her for her work, rebutting talk of a political motive. [The New York Times]

• A Belfast bakery had the right to refuse to bake a cake with a message supporting same-sex marriage, Britain's Supreme Court ruled. [The New York Times]

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• Ten people were killed on the Spanish island of Majorca as torrential rains caused flash floods that washed away vehicles and engulfed a town in muddy water. [The New York Times]

• Britain's minister of loneliness has a new companion: a minister of suicide prevention, a post created in a wide government campaign to tackle mental health issues. [The New York Times]

• German historians condemned an editorial by the leader of the Alternative for Germany party, saying his attacks on a "globalized class" echoed a speech by Hitler. [The Guardian]

Smarter Living

Tips for a more fulfilling life.

• Recipe of the day: Speedy dinners can have complex flavors, like pasta with fried lemons and chile flakes.

• It's never too late to hit your stride. Here's how to get started.

• Inexpensive improvements for any bathroom, even if you rent.

Noteworthy

• Head to a nightclub in Munich and you just might run into people in 19th-century Alpine peasant garb. Dirndls, lederhosen and the like are now all the rage with Bavarian millennials.

• It's difficult for plants to reproduce. So they've evolved clever advertising strategies to get specific animals to eat their fruits and spread their seeds.

• Oscar Wilde Temple, an art installation celebrating the playwright and poet, will open in a former chapel in London, shining a light on gay rights. And in Overlooked, we revisit the troubled life of Annemarie Schwarzenbach, a Swiss heiress and adventurous traveler whose writings, along with her androgynous glamour, made her a gay cult figure after her death.

Back Story

How does 19 hours on a plane sound?

Singapore Airlines is bringing back the longest flight in the world this week, nonstop from Singapore to Newark on a brand new kind of Airbus A350.

(From 2004 to 2013, Singapore flew the route with a less efficient A340. Rising fuel prices ultimately made that operation uneconomical.)

While it may be the longest flight now, 19 hours is nothing compared with some of its predecessors.

In 1936, Pan American Airways started the first passenger service between San Francisco and Manila — via Honolulu, Midway, Wake Island and Guam. The first leg of that trip alone was originally more than 21 hours.

Just eight days after mail service began on that route a year earlier, The Times ran a headline exclaiming, "CLIPPER TRIMMED SCHEDULED TIME; Reached Manila From Alameda in 59 Hours 47 Mins., Instead of 60 Set, Musick Says."

Even then, airlines wanted to provide as fast a trip as possible. Their passengers probably would have loved seat-back TVs with video on demand, too.

The ability of airlines to deliver fast, direct trips was — and is — constrained by fuel. As one analyst told The Times when Singapore retired its previous Newark-Singapore flights, "ultralong-haul flights like this are essentially flying jet fuel tankers."

Zach Wichter wrote today's Back Story.

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Your Morning Briefing is published weekday mornings and updated online.

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Heard on the Street
Market Divergence Spells Trouble

By Spencer Jakab
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[Financial Analysis and Commentary]

Is this the big one? Not even close, but there is something unusual and unsettling afoot in **financial markets**.

A loss of 831 Dow points just isn't what it used to be -- the 3.1% drop in the index was only the 80th biggest decline since the 1950s and not even the worst this year. But the way that other asset classes reacted is notable.

Despite the selloff in stocks, **financial markets** overall didn't exhibit a classic flight to safety. Two safe assets, gold and bonds, have had a horrible year and were essentially flat on Wednesday.

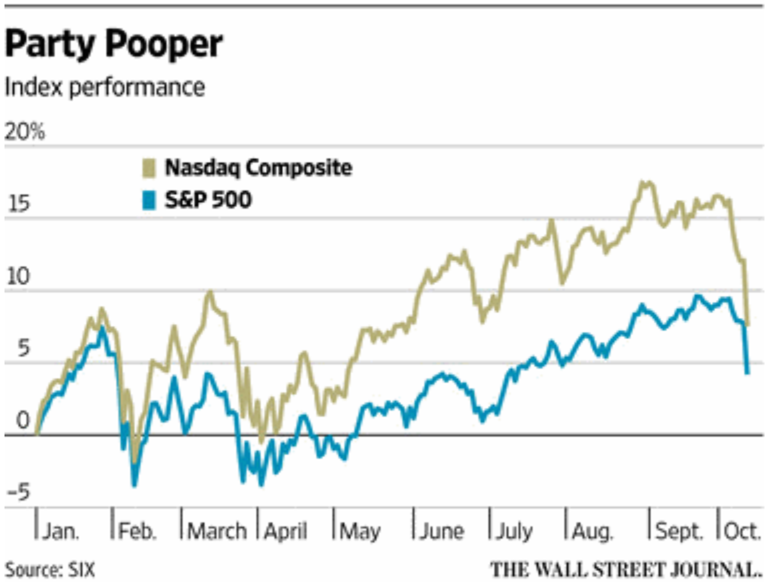
Treasurys have been the real "break glass in case of emergency" investment in recent years. Their weakness and corresponding rise in yields so far this year finally have taken a toll on risky assets. Since the end of 2017, yields on two-year Treasurys have risen by nearly a full percentage point and the 10-year note's yield has risen by eight-tenths of a point, even as stocks climbed until recently. It isn't unusual for bonds to suffer as stocks prosper.

But on days of sharp **stock-market** tumbles, it is almost unheard of for 10-year note yields not to rally. For example, during the biggest one-day **stock-market** decline in history, in 1987, the 10-year yield fell to 9.4% from 10.15%. One of the only exceptions was a particularly scary day in 2008 when stocks plunged on fears that the global financial system would unravel.

Such existential fears weren't behind Wednesday's flattish performance for bonds even as stocks melted down. Instead, it is a sign that the forces behind rising yields are at least as powerful as the traditional, knee-jerk flight to safety. That is in and of itself unsettling. With unemployment at a level last seen in the 1960s, the federal budget deficit headed toward an unprecedented trillion dollars during an economic expansion, inflation on the upswing and the Federal Reserve in rate-lifting mode even as it slowly unwinds years of quantitative easing, it may be hard to stop this train.

Investors are starting to realize how dependent the longest **bull market** in history has been on cheap money. That is particularly true for the riskiest segments of the market. While the Dow didn't even suffer its biggest loss of 2018, the tech-heavy **Nasdaq Composite** had its biggest drop since Brexit in 2016. Those stocks, traditionally more dependent on investor risk appetite and a lack of satisfactory income-producing alternatives, have been the drivers of the late stage of the **bull market**.

For a decade now, the Fed has been willing and able to keep a leash on yield breakouts, saving the day for stocks time and again. Wednesday's market action is a sign that neither may be the case any longer.



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