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Economic Steam Pits Trump Goal Against Wary Fed

By BINYAMIN APPELBAUM
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WASHINGTON -- For President Trump and his economic advisers, the strong February jobs report was a cause for celebration -- and a first step toward delivering on the president's promise of faster economic growth.

For the Federal Reserve, it was the final confirmation that the time had come to raise interest rates to prevent the United States economy from overheating.

Mr. Trump and Janet L. Yellen, the Fed's chairwoman, appear to be headed toward a collision, albeit in slow motion. Mr. Trump has said repeatedly that he is determined to stimulate faster growth while the central bank, for its part, is indicating that it will seek to restrain any acceleration in economic activity.

On Wednesday, the Fed plans to make a first move in the direction of restraint. The central bank has all but announced that it will raise its benchmark interest rate at the conclusion of a two-day meeting of its policy-making committee.

The move itself is minor. The rate is expected to remain below 1 percent, and interest rates on consumer and business loans will still be remarkably low by historical standards. But the Fed is moving months earlier than markets had expected at the beginning of the year, precisely because the economy appears to be gaining steam.

Both Fed officials and independent economists are quick to emphasize that the central bank is not trying to pre-empt the new administration's policies. The Fed is raising rates because economic conditions are improving. Winter did not chill the United States economy this year. The **stock market** keeps fizzing upward; employment and wages are growing; companies and consumers are optimistic.

''The thought that by tweaking the funds rate you could send some kind of political message is crazy, and they know that, and they're not going to do it,'' said Jon Faust, an economist at Johns Hopkins University and a former adviser to Ms. Yellen. ''On the other hand, this is the first first quarter in about six years that isn't looking scary, so it's not surprising they would be considering a rate increase.''

The essential point, however, is that the Fed does not want faster growth. Fed officials estimate that the economy is already growing at something like the maximum sustainable pace. Fed officials predicted in December that the economy would expand 2.1 percent this year, slightly faster than the 1.8 percent pace they regard as sustainable. The Fed will publish new projections on Wednesday.

Growth above the sustainable pace can lead to higher inflation. That, in turn, can force the Fed to raise rates more quickly, a course that often ends in a recession.

Representative Steve Pearce, a New Mexico Republican, asked Ms. Yellen rather incredulously at a congressional hearing in February whether the Fed would really try to offset faster growth by raising rates more quickly. Ms. Yellen's response was carefully couched, but it amounted to ''yes.''

She said the Fed was fine with faster growth so long as it reflected an improvement in economic fundamentals. On the other hand, she said, the Fed would try to offset faster growth ''if we think that it is demand-based and threatens our inflation objective'' -- a technical description of what would happen if Congress cut taxes or increased spending.

The White House and the Fed have very different economic outlooks.

Mr. Trump has repeatedly painted economic conditions in some of the bleakest language ever used by an American president, and he has described his fiscal policy agenda as necessary to revive growth and restore the nation's prosperity.

Gary Cohn, the head of the president's National Economic Council, told CNBC on Friday that he expected job growth to strengthen in the coming months.

''We're very excited about what's ahead of us,'' he said.

Fed officials, by contrast, see the pace of job growth as unsustainable. The unemployment rate fell below 5 percent last May. Since then, employment has continued to expand at an average of 215,000 jobs a month -- more than twice the job growth necessary to keep pace with population growth. The faster growth is good news for the economy, indicating that adults who gave up on finding jobs are returning to work. The question is how long that can continue.

There are already growing signs of a tighter labor market. The Federal Reserve Bank of Dallas recently reported that Texas employment in residential construction had nearly reached the level seen before the 2008 financial crisis and that skilled workers like framers, masons and bricklayers were in short supply. Average hourly earnings, adjusting for inflation, climbed 20.3 percent in the Texas construction sector from 2011 to 2016, compared with 5.9 percent for all Texans in private-sector jobs, the Dallas Fed reported. The National Association of Homebuilders reported that 82 percent of builders regarded the cost and availability of labor as their primary concern.

The Fed's slow march toward higher interest rates is gradually raising borrowing costs for businesses and consumers. The average rate on a 30-year mortgage loan was 4.21 percent last week, up about half a percentage point from the same time last year, according to Freddie Mac. Rates on credit cards and car loans have also ticked higher, although borrowing costs remain well below historical norms.

As for interest on saving accounts, banks tend to raise those rates more slowly than they raise rates on loans. But as the Fed pushes up rates, savings rates will eventually increase, too.

Ms. Yellen and other Fed officials have been careful to acknowledge the persistence of a range of economic problems. Labor force participation is low. Productivity growth remains weak. Middle-income families have seen little income growth.

But these problems, in the view of Fed officials, cannot be addressed by holding down the Fed's benchmark rate. ''Monetary policy cannot, for instance, generate technological breakthroughs or affect demographic factors that would boost real G.D.P. growth over the longer run,'' Ms. Yellen said in a speech this month in Chicago. ''And monetary policy cannot improve the productivity of American workers.''

She noted that the White House and Congress could adopt fiscal policies that would improve those fundamental factors, although doing so would take time.

The Fed, an institution whose mission was famously described by a former chairman as taking away the punch bowl just as the party gets going, has a long history of angering politicians who would prefer to let the good times roll.

But in this case there is no reason for the Fed to rush. The Fed has indicated what it will do. Now, it can afford to wait and see what fiscal policy makers do.

President Trump has promised ''massive tax relief for the middle class,'' and his Treasury secretary, Steven Mnuchin, said last month that he wanted to see a bill passed before Congress goes on summer vacation in August. That is an ambitious timetable, not least because health care legislation is first in line. But even if the deadline is met, more months will pass before the money accumulates in the pockets of businesses and consumers, and before the money is spent.

"The thing that makes it relatively easy for the Fed is that fiscal policy usually takes a long time," said James A. Wilcox, an economist at the University of California, Berkeley. "**Financial markets** don't wait for all of that to happen, of course, but the actual spending and employment effects -- they usually take a while to show up."

President Trump and his advisers, meanwhile, have shown little sign of the belligerence toward the Fed that characterized Mr. Trump's campaign pronouncements.

Mr. Trump has also not seized quickly on the opportunity to appoint his own people to the central bank. Two seats on the Fed's seven-person board have been vacant for almost three years because Senate Republicans refused to consider President Barack Obama's nominees. But Mr. Trump has not put forward his own.

Mark Calabria, the chief economist for Vice President Mike Pence, said last week that the White House planned to fill vacancies at the Fed and other regulatory agencies "in short order." But he added that the administration was still considering its options.

David Nason, a General Electric executive who was regarded as a leading candidate, recently withdrew his name from consideration.

Mr. Trump also has the opportunity to replace Ms. Yellen as chairwoman when her four-year term ends in February, although she could remain on the board.

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A vendor, left, and shoppers, above, did their part for the economy in Manhattan this month. The Federal Reserve Bank has indicated it will raise its benchmark interest rate on Wednesday, months earlier than markets expected at the start of the year. (PHOTOGRAPHS BY JOHN TAGGART FOR THE NEW YORK TIMES) (A15)

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Business/Financial Desk; SECTB
Small Businesses' Hopes Are Up

By LANDON THOMAS Jr.
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1
English

TOLEDO, Ohio -- The cream of the small-business community here tucked into their lunch on a top floor of a bank building and pondered the question put to them by their local lender's economist.

More than any other president since Ronald Reagan, President Trump is moving to strip away regulations and slash taxes, said Jeffrey Korzenik, an investment strategist with Fifth Third, a large regional bank in the Midwest and Southeast. In meetings with clients, Mr. Korzenik has been making the case that these policies will rouse the slumbering animal spirits in businesses across America.

''And now we have seen this huge spike in small-business confidence since the election,'' Mr. Korzenik said, pointing to a chart. ''So I have to ask you: Do you feel more confident now?''

There was a moment of silence, broken only by a howling northwestern Ohio wind that rattled the floor-to-ceiling windows in the bank's boardroom.

Then, with rapid-fire speed, came the responses.

The president of a trucking company spoke of a ''tremendous dark cloud'' lifting when he realized he would no longer be feeling the burden of rules and regulations imposed by the Obama administration.

The owner of an automotive parts assembler gave thanks that he would not be receiving visits from pesky environmental and workplace overseers.

And the head of a seating manufacturer expressed hope that, finally, his health care costs would come down when the Affordable Care Act was repealed.

''My gut just feels better,'' said Bob Fleisher, president of a local car dealership. ''With Obama, you felt it was personal -- like he just didn't want you to make money. Now we have a guy who is cutting regulations and taxes. And when I see my taxes going down every quarter -- well, that means I am going to start investing again.''

While much has been made about the **stock market**'s nearly 14 percent rally since the election, economists say that when it comes to assessing the genuine potential for the United States economy, confidence among small-business owners is a more grounded and forward-looking indicator.

Companies that employ several to a few hundred workers make up 99 percent of business in the United States and account for half of private sector employment. So for all that General Electric, Caterpillar or Ford Motor talks about building factories and hiring workers, the $18 trillion United States economy will not truly move until the burghers in Toledo and other parts of the country start to invest and add jobs.

The exuberance of small-city executives in Toledo, of course, represents just a small slice of the national economy -- an economy whose recovery had already been showing signs of gaining momentum. And their euphoria is being fed by promises, like a tax overhaul, that have not yet been kept.

Still, the views from the Toledo lunch are very much in tune with what business leaders, large and small, have been consistently saying in the months since the election.

Billed as a C.E.O. round table, the event felt more like a boisterous group therapy session as one businessman interrupted another with competing tales of Obama-era regulatory woes.

But all 11 executives agreed: Never in recent years had they been so **bullish** about their businesses as they were now under a president (and fellow small-business owner, albeit a very rich one) whom they see as one of their own.

Which is why Mr. Korzenik was so excited about the recent surge in the small-business confidence index, as measured by the National Federation of Independent Business, the industry's trade group.

In the month after Mr. Trump was elected, the gauge showed the largest monthly increase since 1986. And it has continued to reflect consistent gains as the president pushes for lower taxes, fewer regulations and a repeal of President Barack Obama's health care initiative.

Of course, the jump came off low levels. Since 2009, the index had been either on a downward trend or barely moving up as small businesses struggled to recover from the financial crisis. A heavier regulatory burden and uncertainty born of a weak economic recovery have kept small-business owners from making big bets in investments or hiring.

But in Toledo, this reluctance is changing -- and quickly.

Louis M. Soltis owns a small company that manufactures control panels for large factories and machines. After four years of not adding to his work force of 22, he has seen orders for panels jump in the last two months and is looking to take on as many as six new workers.

There may not be a direct correlation between his surging order book and the new president, but there is no doubting the psychological boost.

"That guy is a junkyard dog, doing his tweets at 3 a.m. and taking on the news media -- I just get strength from him," Mr. Soltis said over a wine-soaked dinner with a large group of his small-business friends and peers from around town. "And I have to say, it makes you feel gutsy -- ready to step up and start investing again."

The restaurant sits on the eastern bank of the Maumee River, offering up a view of the modest Toledo skyline. For years, many of the taller buildings have stood empty as this largely industrial city, a bit more than an hour's drive south of Detroit, suffered from the automotive industry's decline.

Of late, the local economy has been recovering as thriving industries like health care have picked up the slack, and the unemployment rate, at 4.7 percent, stands exactly at the national figure of 4.7 percent for February. The latest employment data, released on Friday, showed that 235,000 workers were added to payrolls nationwide last month.

Mr. Soltis is not the only small-business leader to report a sharp pickup in activity.

Barton S. Kulish, the president of MTS Seating, which makes seats and tables for restaurants and offices, said that his sales were up 38 percent after the election. Since the beginning of the year, he said he has had to bring on eight more workers (and plans to hire an additional 12) to his 418-employee company.

Bryan Keller, the chief executive of Keller Logistics, said a sharp rise in trucking orders since the election prompted him to recently increase his shipping rates.

And the local real estate market is still buzzing with news of a 300,000-square-foot industrial space, which, after drawing little interest for the better part of a year, suddenly became the target of a frantic bidding war among three local parties before finding a buyer.

Yet there is a downside to animal spirits that persist too long, especially in labor markets, like Toledo's, that are operating on the tight side.

And that is a sharp uptick in inflation.

In his presentation to Fifth Third's banking clients, Mr. Korzenik raised this issue, suggesting that the broader economy was in the "seventh inning" of what has been a pretty long business cycle.

He also noted how the opioid epidemic in the Midwest had made it harder for companies to find qualified young people ready to work -- a comment that elicited nods from around the table.

Still, no one in the room seemed overly concerned. As the group saw it, the party was just beginning.

''Most businesses I know are just taking a deep breath, happy that there is finally someone in the White House who understands what they do,'' said Mr. Fleisher, the owner of the Lincoln car dealership. ''So you say we are in the seventh inning -- well, I am not sure we are.''

Louis M. Soltis plans perhaps six hires in Toledo, Ohio, after not adding to his work force of 22 for four years. (B1); A view of Toledo. For years, many of the taller buildings have stood empty as the city suffered from the auto industry's decline. The local economy has been recovering as industries like health care have picked up the slack. Left, small-business owners attended an open forum this month. (PHOTOGRAPHS BY BRITTANY GREESON FOR THE NEW YORK TIMES) (B3)

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Markets & Finance: Rate, Oil Fears Spur Junk-Bond Exodus

By Chris Dieterich
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B8
English

Investors are pulling back from junk-bond funds at the fastest pace in four months.

Some $2.7 billion in assets exited from high-yield bond mutual and exchange-traded funds in the week ended March 8, only the second weekly outflow of 2017 and the biggest since November, according to EPFR Global and Bank of America Merrill Lynch.

Concerns about the stability of **oil prices** and rising expectations for central bankers to increase interest rates are dulling demand for high-risk bonds, which entered this month with the tightest yield spread versus Treasury bonds in over two years. Investors had plowed into corporate bond funds in tandem with stocks early this year, betting on a brightening economy and a prolonged backdrop of ultra-low government-bond yields.

Early-year inflows have quickly reversed ahead of what markets predict will be the first of several interest rate increases this year by the Federal Reserve.

Some $1.4 billion moved out of the iShares iBoxx $ High Yield Corporate Bond ETF in the week through Friday, according to research firm XTF. An additional $879 million was pulled from the similar SPDR Bloomberg Barclays High Yield Bond ETF.

Slumping **oil prices** this week are a prime culprit. Energy and mining companies represent a disproportionately large sliver of debt issuers rated below investment grade and outflows crescendoed as **oil prices**, after months of stability, came under fire on Wednesday amid concerns that fast-rising oil production in the U.S. could again disrupt the global balance between supply and demand.

U.S. crude futures on Friday settled down 1.6% $48.49 a barrel and fell 9.1% last week.

"Inventory levels [in oil] continued to climb all year, but crude didn't seem susceptible," said Yousef Abbasi, global market strategist, at Jones Trading Institutional Services. "That dam kind of broke this week and since crude inherently impacts assets like high-yield bonds, there's potential that this sets up for a more dramatic market unwind."

The reversal in junk-bond flows appears to reflect a shift in positioning that has left traders exposed to a weakness in crude. Traders in February boosted the net-long position in U.S. oil to a record in 10 years of data collected by the Commodity Futures Trading Commission.

"We did have the market leaning in one direction and that can lead to an unwinding of positions," said Henry Peabody, a portfolio manager at fund company Eaton Vance. Mr. Peabody said that he is keeping an eye on additional declines for high-yield bonds and said that he would consider stepping in to buy should they fall further.

Oil prices and high-yield bond funds have traded closely together during times of duress. The correlation between West Texas Intermediate crude and the iShares iBoxx $ High Yield Corporate Bond ETF over a rolling 30-day period rose as high as 97% a year ago, as the oil market bottomed. Correlation is measured on a scale of 100% to -100%, where 0 means there is no relationship and 100% means perfect unison.

The relationship between crude oil and junk broke down early this year but recently has marched higher, currently at 78%, compared with 0.02% a month ago.

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U.S. News -- Analysis: Rate Move Would Signal Return to a Normal World

By Greg Ip
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13 March 2017
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J
A2
English

A few months ago, virtually no one expected the Federal Reserve to raise interest rates this week. Now, almost everyone does.

The reason for the shift? The world is looking more normal. And in a normal world, interest rates need to rise. As yet, the path of increases still looks leisurely. Yet a normal world also implies a greater risk that the Fed will respond to good news by stepping up the pace of increases or starting to shrink its large bond portfolio.

In recent years, little seemed normal, and the Fed's behavior was decidedly asymmetric: bad news delayed rate increases, but good news didn't speed them up. Central bank officials began both 2015 and 2016 projecting three to four quarter-percentage point rate increases, and in both years delivered just one, in December.

When the Fed began 2017 projecting three rate increases, many investors assumed it would, once again, drag its feet. Two weeks ago officials put them right with a series of public comments that were the equivalent of slapping the market in the face and screaming, "Wake up!"

Two key factors explain why the increases didn't materialize as planned over the past two years.

The first was a significant rethink of some fundamental features of the economy. Officials long thought unemployment could comfortably sit between 5.2% and 5.5% without generating inflation. Then actual unemployment fell below that level in mid-2015 and stayed there with no sign of inflation and little of wages picking up. The Fed responded by revising down its estimate of the "natural rate" of unemployment to between 4.7% and 5%.

This meant officials thought the economy still had unused slack even as unemployment fell, weakening the case for higher rates.Now, withunemployment at the lower end of their new estimate of the natural unemployment rate and expected inflation perking up, there is less case for waiting.

Officials also thought two years ago they had to get started raising their benchmark federal-funds rate from near zero because they had a way to go to reach the 3.75% rate appropriate for containing inflation over the long run. As officials turned pessimistic on the economy's growth prospects, they cut their estimate of where rates are heading in the long run to 3%. That added a cushion in which to delay rate increases.

The second factor which had held back the Fed was a series of shocks: a collapse in the price of oil, starting in 2014; a bout of turmoil surrounding the stability of China's currency; and a vote in Britain to leave the European Union.

Those events didn't change where the Fed thought growth and inflation would end up. But officials set rates not just according to their forecast but to what will happen if they're wrong. Cheap oil, China turmoil and Brexit all raised the threat that growth, inflation or both could slide toward zero and the Fed had little ammunition with which to respond. By contrast, they had all the rate ammo they needed if growth and inflation took off. So they chose to err on the side of raising rates too slowly than too quickly.

They are no longer content with that trade-off. As **oil prices** stabilized and then rose, so did expected inflation. Officials haven't seen enoughevidenceto mark up their forecasts much. But as Bill Dudley, president of the Federal Reserve Bank of New York, said last month, "We do know that fiscal policy is going to move in a more stimulative direction. So . . . the risks to the outlook are now starting to tilt to the upside."

Officials seem buoyed by the same confidence that has washed over the market. In her speech on March 3 laying the groundwork for this week's move, Fed Chairwoman Janet Yellen used words "strength," "growth" and "confidence" more than any other Fed speech since 2010, according to Bianco Research, a financial research firm.

Still, now that Fed officials have put equal weight on upside and downside risks, the clear message for investors is that any good news they celebrate in coming months comes with an asterisk: it raises the odds of tighter money.

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Equities: Investment Banks Thrive

By Stephen Grocer
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B9
English

Fees are flowing into the coffers of investment banks at the fastest pace ever this year, thanks to the U.S. technology sector.

Through Friday, U.S. companies have paid investment banks $7.5 billion for work on mergers and acquisitions, debt and equity issuance and syndicated loans this year, according to Dealogic. That marks a 25% increase from the same period last year and is the highest total on record.

U.S. tech companies have continued to generate the most revenue for investment banks. Last year the sector paid a record $6.6 billion in fees, and that pace hasn't slowed during the first 10 weeks of 2017. U.S. tech companies have produced $1.3 billion in revenue for investment banks this year, up 7% from the same period in 2016 and at the highest level on record.

Part of the increase in investment-banking fees is attributable to the steady climb higher in U.S. stocks this year. The **S&P 500** is up 6%. A year ago, the index had tumbled 10% through the first six weeks of the year and was off 2.6% by March 10, 2016. The tumultuous start to last year caused many U.S. companies to put off selling shares to the public market.

This year's stock rally has helped lead to an 88% surge in equity issuance from U.S. companies and a 103% jump in fees for the investment banks working on those deals, including a nearly 500% increase in revenue from initial public offerings.

Nowhere has the turnaround in equity issuance been more evident than in the U.S. tech sector. At this time last year, no U.S. tech companies had gone public, and the sector had sold just $1.1 billion in equity, generating just $18 million in revenue. So far this year, tech companies have issued nearly $10 billion in equity and paid out $258 million in fees for those deals.

Snap Inc.'s $3.9 billion IPO is the biggest contributor to the uptick in investment-banking revenue from the sector.

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Individual Investors Wade In as Stocks Soar

By Aaron Kuriloff and Daisy Maxey
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J
A1
English

The **stock-market** rally presents a difficult choice for some individual investors: Miss out or risk getting in at the top.

The scars of the financial crisis have left many wary, even as the second-longest bull run in **S&P 500** history has added more than $14 trillion in value to the index since it bottomed in March 2009, according to S&P Dow Jones Indices. Yet there are signs that caution is dissipating.

Investors have poured money into stocks through mutual funds and exchange-traded funds in 2017, with global equity funds posting record net inflows in the week ended March 1 based on data going back to 2000, according to fund tracker EPFR Global. Inflows continued the following week, even as the rally slowed. The **S&P 500** shed 0.4% in the week ended Friday.

The investors' positioning suggests burgeoning optimism, with TD Ameritrade clients increasing their net exposure to stocks in February, buying bank shares and popular stocks such as Amazon.com Inc. and sending the retail brokerage's Investor Movement Index to a fresh high in data going back to 2010. The index tracks investors' exposure to stocks and bonds to gauge their sentiment.

"People went toe in the water, knee in the water and now many are probably above the waist for the first time," said JJ Kinahan, chief market strategist at TD Ameritrade.

That brings individual investors increasingly in line with Wall Street professionals. A February survey of fund managers by Bank of America Merrill Lynch found optimism about the global economy improving while investors were holding above-average levels of cash, leaving room for them to drive stocks still higher. Bullishness among Wall Street newsletter writers reached 63.1% -- the highest level since 1987 -- a week ago in a survey by Investors Intelligence, before falling to 57.7% this past week.

Overall investor sentiment is strong right now for the U.S. **stock market**, said Ann Gugle, principal at Alpha Financial Advisors LLC, in Charlotte, N.C. She pointed to a typical growth-and-income portfolio with 70% in stocks and 30% in bonds and alternatives. The 70% allocation to stocks, she said, would ordinarily be evenly split between U.S. and international stocks, but for the past three years it has shifted about 40% to U.S. stocks and 30% international.

One of Ms. Gugle's clients has increased his stock allocation to around 80% from 70% in recent months after cutting back on bonds amid concerns about low returns.

The client, George Bohmfalk, a 69-year-old retired neurosurgeon in Charlotte, said he has faith that remaining loyal to a low-cost passively managed portfolio is more productive than trying to pick winners and losers. But he is concerned about what the Trump administration may do, and he worries about U.S. stocks' lofty valuations.

"What do you do? If you take your investment out and stocks go up another 1,000 [points], you're going to be pretty miffed," he said. "I'm slightly concerned that there might be a pullback, but I'm not losing sleep over it."

A combination of factors has helped shake individual investors from their torpor, according to analysts and money managers. U.S. economic data have improved in fits and starts, boosting optimism among consumers and businesses. At the same time, stocks' persistent rise in the wake of the U.S. presidential election has pulled in investors who are fearful of missing out on big gains.

"It feels like this is a hated rally, because people are underinvested, and they're just catching up," said Matthew Peron, head of global equities at Northern Trust Asset Management.

The **S&P 500** trades at roughly 22 times its past 12 months of earnings, according to FactSet, above its 10-year average of around 16 times earnings. U.S. economic growth, while on the uptrend, has recently been sluggish in key areas such as wage growth -- despite data showing firming in Friday's jobs report -- and business investment.

The improving attitude isn't at the extremes that some analysts consider a warning sign that optimism has gone too far. About 38% of investors were **bullish** at the start of March, according to the American Association of Individual Investors, about average for the survey that polls roughly 350 people a week, and down from a postelection high of 50% hit on Nov. 24.

Another retiree, Peter Gallavin, 72, of Grand Rapids, Mich., said that while he is concerned about President Donald Trump and what his policies may do to the market, he is still investing in U.S. stocks through mutual funds.

"I can't imagine anyone who isn't concerned" about the **stock market**, said Mr. Gallavin. "Just the general uncertainty about what the new administration is going to do causes me concern."

But Mr. Gallavin, who previously worked for General Motors Co. and as regional personnel director at Delphi Corp., said those concerns haven't led him to alter his investments. Retired for 10 years, he has about 60% of his portfolio in mostly U.S. stock mutual funds. "I've been investing in the market for long enough to know that sooner or later after it comes up, it's going to go down, but when that may or may not happen none of us know," he said.

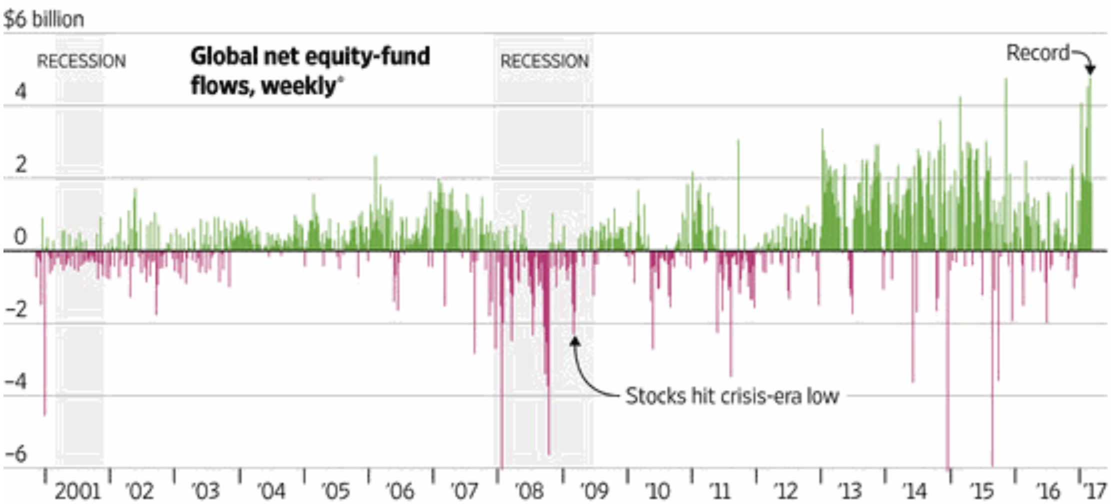
His adviser, David Kudla, founder, chief executive and chief investment strategist of Mainstay Capital Management LLC, of Grand Blanc, Mich., has been **bullish** on U.S. stocks since the election because he expects less regulation, plus tax cuts and infrastructure spending.

Still, said Mr. Kudla, whose firm oversees more than $2 billion in assets, investors should be prepared for a correction. "What we've seen in the last eight years is not going to continue," he said. "Remember diversification."

Akane Otani contributed to this article.

Piling In

Investors are returning to stocks, pushing flows into mutual funds and exchange-traded funds to the highest level on record.



*Through the week ended March 8

Source: EPFR Global

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Job Growth Clears the Way for Fed --- Robust U.S. hiring and rising wages make an interest-rate increase even likelier next week

By Ben Leubsdorf
1,062 words
11 March 2017
The Wall Street Journal
J
A1
English

The U.S. economic expansion is now the third-longest on record and showed no signs of letting up in February, with robust hiring, falling unemployment and firmer wage growth opening the way for the Federal Reserve to raise short-term interest rates.

Fed officials have signaled that their third post-financial crisis rate increase would be highly likely at their policy meeting next week. Friday's report from the Labor Department offered much to strengthen their resolve.

Nonfarm payrolls rose a seasonally adjusted 235,000 from January, exceeding forecasters' expectations, and the unemployment rate ticked down to 4.7%. Average hourly earnings in the private sector rose 2.8% from a year earlier, a sign that the tightening job market is pushing employers to raise pay.

"It would have taken a terrible report for them not to move, and this was not a terrible report," said Gus Faucher, deputy chief economist at PNC Financial Services Group.

Healthy job gains and buoyant **financial markets**, combined with strength in gauges of U.S. consumer and business sentiment, raise the possibility that rising optimism could lead to faster economic growth.

White House press secretary Sean Spicer said on Friday that President Donald Trump has "jump-started job creation, not only because of his executive actions, but through the surge of economic confidence and optimism that has been inspired since his election."

However, it would be premature to conclude a boom is imminent. The mild winter likely boosted the pace of hiring, especially in the weather-sensitive construction sector. The construction industry added 58,000 jobs last month after adding 40,000 in January, strong gains that some economists said could lead to weaker readings in the spring.

Meantime, there is little sign of acceleration in overall economic activity during the early months of 2017; many forecasters expect another quarter of sub-2% growth due to a wider trade deficit and moderate consumer spending.

"Animal spirits are all well and good, but we need some tangible proof, and I haven't seen that yet," Mr. Faucher said. "It'll take some time before it becomes apparent whether that is actually in place."

Still, there are hints of building momentum. The share of Americans in their prime working years, ages 25 to 54, who were employed in February, hit 78.3%, the highest level since October 2008. The labor-force participation rate ticked up to 63%, a sign that a healthier job market is stemming a tide of labor-force dropouts.

Richard Moody, chief economist at Regions Financial Corp., said data on the manufacturing sector and business investment have looked increasingly upbeat. "There's more going on here than people just feeling better," he said. Manufacturers added 28,000 jobs in February and 57,000 positions over the past three months.

For the Fed, a key signal in Friday's report was wage growth, which was stuck at 2% for years following the end of the 2007-2009 recession, partly due to slack in the labor market. Companies have felt increased pressure in recent years to raise pay as falling unemployment forced them to compete for a shrinking pool of available workers, and many states have raised minimum wages as well.

At 2.8%, February's annual growth for private-sector hourly earnings matched the second-highest reading of the current expansion. Some of the strongest wage growth has come at the bottom of the pay scale; the leisure and hospitality sector, for instance, saw earnings rise 4.2% on the year.

"We can feel it tightening," said Leanne Stapf, director of operations at the Cleaning Authority, a Columbia, Md., home-cleaning chain. The company is in the process of adding about 400 jobs this year, split between new locations and existing franchises that are expanding to handle growing demand.

Compared with a few years ago, she said, the Cleaning Authority is seeing "fewer applications, and fewer people are coming in for their interviews, and it's getting harder for them to stay." The company has raised pay across most of its locations, which she said has helped.

The overall pace of hiring has picked up a bit in early 2017, with payroll growth averaging 237,000 over the first two months of the year, compared with a monthly average of 187,000 for all of 2016. Although weather may have played a role, job gains last month were broad across most sectors of the economy.

Retailers shed 26,000 positions last month after adding about 40,000 in January. But Chewy Inc., a Florida-based online seller of pet supplies, is expanding. It is in the process of hiring an estimated 2,500 new employees over the next 12 months as it expands its operations, including three new warehouse facilities set to open this year.

"Our business is accelerating. We did $900 million in sales in 2016, and we'll do close to $2 billion this year," Chief Executive Ryan Cohen said. "We need to always be proactive in making sure we have the capacity."

Despite years of progress, pockets of distress persist across the economy, many of them hard to reverse quickly.

Some 23.8% of America's 7.5 million unemployed workers have been out of a job for longer than six months, an elevated rate of long-term unemployment, compared with the prerecession years. An additional 5.7 million people are working part-time because they can't find full-time jobs. And the pace of wage growth, while improved, remains below precrisis levels.

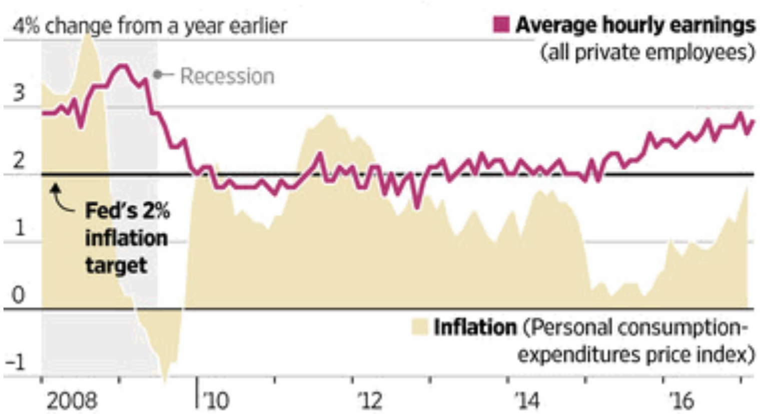
The health-care sector added 27,000 jobs in February, but uncertainty over government policies could cloud the outlook. Scripps Health, which operates hospitals and clinics in the San Diego area, hired about 2,200 employees last year and has brought on roughly 950 new employees so far in 2017. As congressional Republicans try to overhaul the Affordable Care Act, however, it may leave more positions open in the coming months.

"We're doing everything we can to restrain hiring," said Chief Executive Chris Van Gorder.

He said no layoffs are planned, but "if I can hold off hiring for a while, I will."

Lifting Off

Accelerating wage growth and inflation could strengthen the case at the Fed for raising interest rates next week.



Source: Labor Dept. (earnings); Commerce Dept. (inflation) THE WALL STREET JOURNAL.

Lifting Off

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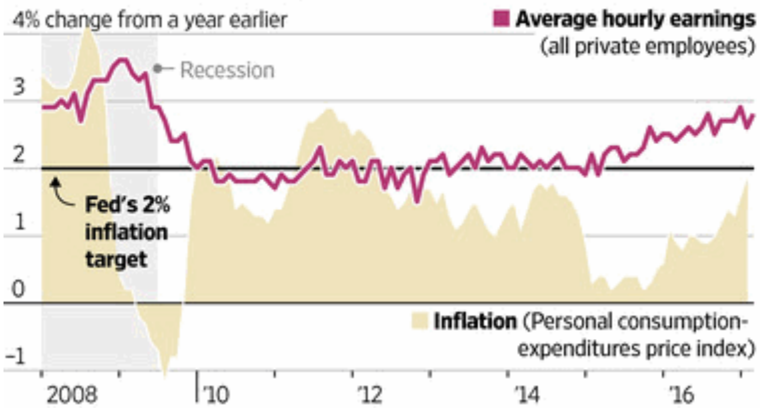
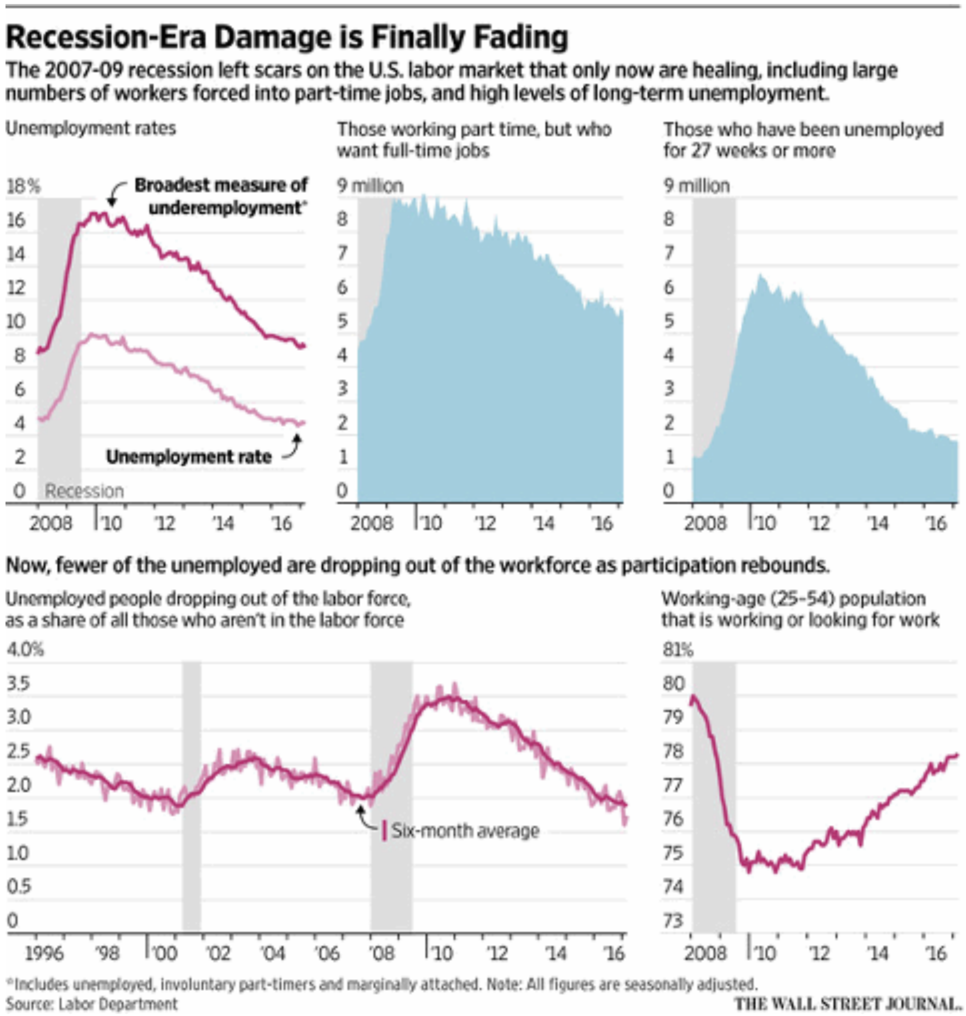


Source: Labor Dept. (earnings); Commerce Dept. (inflation) THE WALL STREET JOURNAL.



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The New York Times

ECONOMIC TRENDS
National Desk; SECTA
So, That Was Good News. Should the President Get the Credit?

By NEIL IRWIN
941 words
11 March 2017
The New York Times
NYTF
Late Edition - Final
15
English

The first monthly jobs report to reflect the state of the economy during the Trump presidency is quite good. There's not much to dislike about the 235,000 jobs added in February, nor an unemployment rate that ticked down to 4.7 percent, nor an average hourly earnings rise of 0.2 percent.

And it comes on the heels of mostly good data across a range of indicators, including retail sales, industrial output and the number of people filing for jobless benefits.

But it's not enough to enjoy some decent economic numbers. Invariably these things become politicized. The Drudge Report splashed "GREAT AGAIN: +235,000" on its landing page within seconds of the Labor Department release. President Trump retweeted, one presumes gleefully, a tweet making the same point.

So how much of the economic gains evident in the data does the Trump administration actually deserve credit for? The answer is more ambiguous than you might think -- and boils down to your philosophy of how the economy works.

There is a straightforward case for President Trump's having virtually nothing to do with the most recent economic statistics. While the newest jobs numbers reflect conditions from mid-Febuary, roughly three weeks into the Trump presidency, at that point he had not yet taken concrete actions that would have a direct impact on the economy.

No changes to the tax code or federal spending had been enacted at that point. Even the executive orders that have had economic implications have been more about direction than concrete actions, such as an order to find and eliminate regulations that may be outmoded.

President Trump has snagged good headlines out of things like negotiating for Carrier to keep some jobs in the United States, but those deals are trivial in the scheme of a nation with 146 million jobs.

Even when changes to fiscal and regulatory policies are enacted, it takes time for those changes to wend their way through the economy. Consider one example that has been a Trump hobby horse. If you believe, as the president does, that the Dodd-Frank Act regulating the financial sector has held back growth, consider all the steps that need to happen to change that.

You have to devise and pass legislation to undo the law, and appoint new regulators with a more hands-off stance. They then have to put the revised regulations through an elaborate comment process, which then might free banks to make more business loans, which in turn might lead businesses to hire and invest more.

It is a matter of years before an intended policy shift might affect the jobs numbers for good or ill, not weeks.

And it's worth a reminder that the recent numbers are entirely consistent with the economy's growth pattern for years. The 235,000 extra jobs that have Drudge and Mr. Trump so enthused are actually fewer than those in four of the 12 months of 2016. The unemployment rate has hovered between 4.6 percent and 5 percent for 18 consecutive months, since September 2015.

So if you look only at the direct ways the president affects the economy, there is not much of a case for giving President Trump the credit.

At the same time, we can't completely rule out some positive Trump effects on the economy, even as his policies have yet to take hold.

The corporate chiefs who decide whether to hire and invest are forward-looking, and the prospect of lower taxes and lighter regulation may indeed be making them more eager to deploy cash. ''It seems like he's woken up the animal spirits,'' said Jamie Dimon, the chief executive of JPMorgan Chase, in an interview on Bloomberg Television recently.

That observation is backed by both the buoyant **stock market**, which seems to be pricing in higher corporate earnings in the years ahead, and surveys of both consumers and C.E.O.s.

There's not a lot of solid evidence that general confidence is a major driver of economic results; surveys of consumer sentiment and executives' confidence tend to reflect current economic conditions rather than offer some good predictive information.

But it's hard to prove that this confidence doesn't matter either. It's entirely plausible that Mr. Trump's election in November and the ensuing market rally made business leaders a bit more inclined to move forward with hiring plans in January and February.

Gary Cohn, director of the White House National Economic Council, essentially conceded in a television interview Friday that warm February weather and the long-term trajectory of the economy were factors in the latest jobs numbers, while promising that bigger job gains were down the road, owing to the White House's embrace of C.E.O.s.

''Clearly a good February is part of the number,'' he said on CNBC. ''When you look at what's ahead of us, what's built into the system, we have a huge backlog of hiring that we already know about. We're very excited about what's ahead of us.''

So does Mr. Trump deserve any credit for solid economic results? If you think the economy is driven by concrete, specific policies around taxes, spending, monetary policy and regulation, the answer is no. If you think that what really matters is the mood in the executive suite, then just maybe.

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Document NYTF000020170311ed3b0006a

The New York Times

Business/Financial Desk; SECTB
Traders React to Sudden Drop in Oil Prices With a 'Herd Mentality' of Selling

By CLIFFORD KRAUSS
845 words
11 March 2017
The New York Times
NYTF
Late Edition - Final
2
English

HOUSTON -- Often turbulent, the oil market had become almost boring the past few months, with prices moving little and hovering around $51 to $56 a barrel.

No one is yawning anymore.

The American oil benchmark price has swooned by 9 percent since Tuesday, falling below $50 a barrel for the first time since the Organization of the Petroleum Exporting Countries decided to cut production in November to support the market.

The immediate impetus for the drop in prices was a report by the Energy Department that United States oil stockpiles had bulged by 8.2 million barrels over the past week.

Concerns about the glut grew after Harold Hamm, chief executive of Continental Resources, a major oil producer, said publicly that domestic production was growing so fast it could ''kill'' the market.

Most energy analysts, however, said that while the renewed selling by commodity traders might send **oil prices** below $45 a barrel for a time, the most likely outlook was for prices to bounce back and to continue to climb over the next few years.

''The herd mentality kicks in,'' said Joel H. Moser, chief executive of Aquamarine Investment Partners, a global energy investor, explaining the wave of selling by traders. ''The fundamentals have not shifted,'' he added. ''Demand continues to steadily rise and industrial players are moderately gearing up production.''

Traders who move the commodity markets from day to day had become overly complacent that **oil prices** would continue to climb from the lows of under $30 a barrel of a year ago, energy analysts said, as it appeared that the OPEC agreement would hold. When prices plateaued, traders became nervous.

OPEC members and a few other major oil producers have significantly cut production by nearly two million barrels a day, which is helping to balance the 96-million-barrel-a-day global market in much of the world.

In the past, such agreements had been spoiled by cheating. This time, political and technical problems are holding back production by those who have broken such agreements before, including Algeria, Nigeria and Venezuela.

Around the world, commercial oil inventories are about 300 million barrels above the average over the past five years, which is weighing on prices. A major cause is increased production in the United States.

A drilling frenzy in West Texas, a gradual recovery of production in shale fields in other states and the coming on line of a few offshore projects in the Gulf of Mexico has added several hundred thousand barrels a day of production in the United States in recent months. The timing, amid the doldrums of winter and before most Americans take their spring and summer vacations, has meant a buildup of supplies.

Daily domestic oil production averaged 8.9 million barrels last year, and the Energy Department is forecasting an average of 9.2 million barrels this year and 9.7 million barrels in 2018. The department projects the national average price for regular gasoline to be $2.40 a gallon this year and $2.44 next year, slightly above the current national average of $2.30.

One reason analysts do not expect a major decline in **oil prices** is the continuing turmoil in Libya, one of Africa's biggest producers, where fighting broke out in recent days at several ports from which oil is shipped. Production in the country is already down 80,000 barrels a day, and there is a rising danger that most exports will be interrupted. Reports of disruptions in Libya were one reason **oil prices** began trading on Friday higher before slumping again to below $49 a barrel.

Speaking at the annual CERAWeek energy conference here this week, the Saudi energy minister, Khalid A. al-Falih, said he was disappointed that global inventories had not declined more quickly, but he expressed cautious optimism about market prices.

Mr. Falih projected that global demand would increase by 1.5 million barrels a day this year, and that declines in production in China, Mexico and the North Sea would balance increased production in the Brazil, Canada and the United States.

''We see the green shoots of the recovery,'' he said, ''driven by a better outlook and fundamentals.''

Many analysts expect a rise in **oil prices** in the coming years, partly because investments in exploration have been cut sharply amid the downturn of the past two and half years and partly because political risks remain high in many producing countries like Iraq and Venezuela.

''If we don't see a substantial investment rebound, we may see the market tighten by 2020,'' said Fatih Birol, executive director of the International Energy Agency. ''We see a significant chance of prices rising sharply.''

Oil pipelines in January in Ras Lanuf, Libya. Turmoil in Libya has lowered the country's production. Khalid al-Falih, Saudi Arabia's energy minister, left, suggested **oil prices** would rebound. (PHOTOGRAPHS BY ESAM OMRAN AL-FETORI/REUTERS; MELISSA PHILLIP/HOUSTON CHRONICLE, VIA ASSOCIATED PRESS)

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The New York Times

Business/Financial Desk; SECTB

Markets Rise After Strong February Jobs Report

By THE ASSOCIATED PRESS
736 words
11 March 2017
The New York Times
NYTF
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2
English

Stocks rose on Friday after a strong February jobs report. Most parts of the market moved higher as investors waited for the Federal Reserve to meet next week, when it is expected to raise interest rates.

Technology, industrial and health care companies climbed while energy companies missed out on the rally as **oil prices** continued to fall.

The jobs report was a bit better than investors had expected. They have also anticipated since last week that the Fed would raise interest rates on Wednesday. The employment data did nothing to challenge that.

''It was a solid report all around that reinforces that the economy is on solid footing,'' said Sameer Samana, a strategist for the Wells Fargo Investment Institute. Mr. Samana said that investors were glad to see hiring continue and more people seeking work, and that they were also reassured that the economy was not overheating. That could force the Fed to raise interest rates faster, with uncertain effects on the economy.

''If they go too quickly or raise rates too many times, there's a risk we'll find ourselves in a downturn,'' he said.

The **Standard & Poor's 500**-**stockindex** rose 7.73 points, or 0.3 percent, to 2,372.60. The **Dow Jonesindustrial average** gained 44.79 points, or 0.2 percent, to 20,902.98. The **Nasdaq composite** added 22.92 points, or 0.4 percent, to 5,861.72.

Stocks had mostly fallen since March 1, the day indexes soared to their most recent record highs.

Over all, it was a slow week for stocks. The current **bull market** had its eighth anniversary, but six-week winning streaks for the **S**.**&P**. **500** and **Nasdaq** have ended, and the Russell 2000 index of small-company stocks took its biggest loss in three months.

Employers added 235,000 jobs in February, according to the Labor Department report on Friday. The gains in hiring and pay, along with higher consumer and business confidence since the November election, could lift spending and investment in coming months and accelerate economic growth.

Technology companies climbed in part to gains for chip makers. Applied Materials gained 74 cents, or 2 percent, to $38.12, and Broadcom rose $4.34, or 2 percent, to $226.35. Texas Instruments picked up $1.20, or 1.5 percent, to $80.33.

General Electric climbed 62 cents, or 2.1 percent, to $30.28 to lead industrial companies higher. Cummins, a maker of engines, added $2.66, or 1.8 percent, to $151.50, and the industrial equipment and software maker Rockwell Automation gained $2.13, or 1.4 percent, to $154.31.

Bond prices rose. The yield on the **10**-**year Treasury** note fell to 2.58 percent from 2.61 percent.

The dip in bond yields and interest rates pushed banks lower while big-dividend stocks went higher. Those included utilities, phone companies and makers of household goods. AT&T picked up 41 cents, or 1 percent, to $42.35 and Colgate-Palmolive rose 89 cents, or 1.2 percent, to $72.46.

The beauty products retailer Ulta climbed after it reported a bigger profit and stronger sales than analysts had expected. The stock gained $12.65, or 4.6 percent, to $286.42. It is up 75 percent over the last year.

Gold for the March contract fell $1.70 to $1,200.70 an ounce. That small decline was the ninth in a row for the precious metal.

Oil prices moved lower for the fifth day in a row. Benchmark oil dipped another 79 cents, or 1.6 percent, to $48.49 a barrel in New York. The price of crude has dropped 9 percent over the last three days after the government reported a big increase in stockpiles. Brent crude, the international standard, lost 82 cents, or 1.6 percent, to $51.37 a barrel in London.

The dollar inched down to 114.75 yen from 114.92 yen. The euro rose to $1.0686 from $1.0581.

The CAC 40 in France rose 0.24 percent and the FTSE 100 index in Britain picked up 0.4 percent. Germany's DAX dipped 0.1 percent.

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

Document NYTF000020170311ed3b0004x

The New York Times

National Desk; SECTA
Steady Job Gains Set Stage for Fed to Raise Key Rate

By PATRICIA COHEN
1,327 words
11 March 2017
The New York Times
NYTF
Late Edition - Final
1
English

A wave of hiring in February -- President Trump's first full month in office -- pointed to a strong foundation for the nation's economy, providing further evidence for the Federal Reserve that the moment to raise interest rates has come.

The Labor Department reported a gain of 235,000 jobs and healthy wage growth in a month when even the weather cooperated. It was the last major data release before Fed policy makers meet Tuesday and Wednesday, when they have signaled their intent to increase the benchmark interest rate.

''The economy is riding a wave of **bullish** sentiment postelection,'' said Andrew Chamberlain, chief economist at Glassdoor, a career website. ''We're seeing strong labor demand across the board and no sign of slowing right now.''

Republicans and Democrats quickly jostled for credit.

Sean Spicer, the White House press secretary, said Mr. Trump had ''jump-started job creation, not only through his executive action but because of the surge in economic confidence and optimism that has been inspired since his election.''

Mr. Trump, who, as a candidate, repeatedly dismissed the official jobs reports as ''phony,'' reposted a comment on Twitter from the conservative website Drudge Report that said, ''GREAT AGAIN: +235,000.'' Mr. Spicer later quoted Mr. Trump on his faith in the report, ''They may have been phony in the past, but it's very real now.''

The Labor Department repeated that it had not changed the way it collected and analyzed jobs data since Mr. Trump took office. ''It's business as usual,'' said Megan Kindelan, director of public affairs at the Bureau of Labor Statistics.

The Republican self-congratulation clearly irked Democrats. Tom Perez, labor secretary in the Obama administration and now chairman of the Democratic National Committee, countered that Mr. Trump had ''absolutely nothing'' to do with the job gains. ''Trump inherited an economy from Barack Obama with the longest streak of private sector job growth in history,'' he said.

Although the economic anxiety that helped put Mr. Trump in the White House remains, the official jobless rate is near what the Fed considers full employment -- a threshold where, in theory at least, everyone who wants a job at the going rate can find one. The official jobless rate fell to 4.7 percent, from 4.8 percent in January, even as the overall labor force grew.

At the same time, jobless claims are near a 44-year low, and the **stock market** is surging. Revisions to previous estimates raised the three-month average of monthly job gains to 209,000 and annual wage growth to 2.8 percent, further bolstering the case for those who argue the economy is strong enough to withstand a rate increase.

The overall economic momentum received a push from February's unusually warm weather, with almost a quarter of the jobs -- about 58,000 -- coming from construction. Manufacturing and mining rose too.

Also significant was the increase in the labor participation rate to 63 percent, a result of rising employment even among people without a high school diploma. "There's got to be some optimism that these people are feeling they finally have a chance," said Diane Swonk, founder and chief executive of DS economics in Chicago.

On the other end are employers who are seeing acute labor shortages. "They're offering training programs now," Ms. Swonk said. "They're complaining about it. But that's what tight labor markets do. It forces you to invest more to work with less."

Bigger paychecks are something that most Americans are particularly eager to see, after years of stagnant wage growth. The Fed, too, has been waiting for an increase, but it is also wary of wages rising too fast. Its members want to head off incipient inflation without putting the brakes on hiring, especially because the benefits of the eight-year-old recovery have been so unevenly distributed.

Balancing those two goals is tricky.

Lauren Griffin, senior vice president at Adecco Staffing USA, said the scarcity of qualified workers had compelled employers to raise wages, strengthen benefits and improve amenities at the office. "We've got people in orientation classes," Ms. Griffin said, "and they get up and leave because they're contacted about another job that might be more money."

At the same time, a broader measure of unemployment -- which includes the millions of Americans who have given up looking for work or who are working part time but would prefer full-time jobs -- dropped to 9.2 percent last month but is still high given how tight the labor market looks otherwise.

Cautioning the Fed against moving too quickly with a rate increase, Elise Gould, an economist at the left-leaning Economic Policy Institute, noted that, "Workers throughout the economy, including young workers, workers of color, and low-wage workers, need a chance to make up lost ground on wage growth."

Many Americans who live outside urban centers also have been excluded from most of the rewards of the recovery.

Large metropolitan counties have had more than twice the annual wage growth of nonmetropolitan areas, according to the latest figures from the Bureau of Labor Statistics.

"Higher-wage jobs might be following educated, young workers, who are increasingly living in dense, urban neighborhoods as other demographic groups move to the suburbs," said Jed Kolko, chief economist at Indeed, a job-search site. "Broader economic shifts also favor big cities: The occupations projected to grow tend to be more urban, while shrinking sectors like manufacturing and farming tend to be located outside large metros."

That is disappointing for people with longstanding ties to smaller, more rural communities. "A lot of this has to do with mobility," said Steven W. Rick, chief economist at CUNA Mutual Group, an insurance company. "People are going to have to move where the jobs are and not expect the jobs to come where they are."

Although the Trump administration has had little time to make any substantial policy changes, the expectation of a reduction in taxes and regulations and the possibility of vast infrastructure spending have created optimism among employers and blue-collar workers.

Mr. Trump has promised to expand the economy by 4 percent a year, create 25 million jobs in the next decade, revive manufacturing and reduce the trade deficit.

Achieving all that would be difficult in the best of circumstances, let alone with the potential headwinds facing the White House. Dissension among Republicans and the unpredictability of Mr. Trump's course in several policy areas could dampen job growth.

The future of the Affordable Care Act and a possible replacement is making hospitals and community health centers cautious about adding workers. A strong dollar and a potential backlash against the White House's travel ban could slow tourism and hiring in the sector. And Mr. Trump's across-the-board hiring freeze on federal government jobs, combined with declines at the state level, will probably reduce the total number of public sector employees.

The uncertainty extends to prospects for tax cuts. Some Wall Street analysts, expecting delays, have pared their growth forecasts for 2017, after recently raising them.

Certainly the snapshot of February's labor market is good. The question is, if the economy does slow, whether Mr. Trump will accept the legitimacy of weak reports as enthusiastically as he does good ones.

Mr. Spicer suggested the president would. ''Numbers are going to go up and down,'' he said. ''We recognize that.''

Follow Patricia Cohen on Twitter: @PatCohenNYT

A construction worker in Los Angeles. Construction accounted for about 58,000, or almost a quarter, of the new jobs in February. (PHOTOGRAPH BY MIKE BLAKE/REUTERS) (A15) CHARTS: The Labor Picture in February: UNEMPLOYMENT RATE; SHARE OF POPULATION; UNEMPLOYMENT DEMOGRAPHICS; 'HIDDEN' UNEMPLOYMENT; UNEMPLOYMENT BY EDUCATION LEVEL; DURATION OF UNEMPLOYMENT; TYPE OF WORK; EMPLOYMENT; AVERAGE WEEKLY EARNINGS (Source: Bureau of Labor Statisics) (A15)

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THE WALL STREET JOURNAL.
U.S. EDITION

Weekend Profile: Seeking the Latest Fear Trade --- Volatility pioneer Menachem Brenner has a new metric for investor unease -- ambiguity

By Ben Eisen
889 words
11 March 2017
The Wall Street Journal
J
B2
English

Investors these days are puzzling over the lack of **volatility** on Wall Street. Menachem Brenner hopes they will soon be buzzing about a new indicator: the heightened level of ambiguity.

The most prominent gauge of Wall Street uncertainty, the CBOE**Volatility** Index, or VIX, is near its lowest level on record, confounding those who believe uncertainty is only growing.

Mr. Brenner, a professor at New York University's Stern School of Business who helped develop the first **volatility** index, now is focused on what he believes will be an actionable gauge of the kind of fear pervading the markets.

"The VIX is low because it doesn't measure ambiguity. The uncertainty is much bigger than that," Mr. Brenner said. "I believe that's what ambiguity is going to capture."

Ambiguity is a measure of the degree of confidence investors have in the probabilities they use to make decisions. The concept has been around for ages, but Mr. Brenner and Yehuda Izhakian, a professor at Baruch College, are quantifying what has historically been an abstract theory, hoping to better explain the world's complexities. They intend for it to become a trading tool, like the VIX.

Mr. Brenner, a 72-year-old with a full head of gray hair and an Israeli accent, has completed two Ironman events and two races up the stairs of the Empire State Building. He spends 90 minutes or more a day working out at the NYU fitness center, flanked by students.

After a stint in academia, Mr. Brenner in 1985 decided to become a pit trader at an options exchange. The Black-Scholes options-pricing model had become widely accepted, and a printout of hypothetical prices derived from the model was always handy on the floor. But Mr. Brenner learned that trading prices sometimes have little relationship to what the model spits out.

Mr. Brenner's eyes light up when he recalls that period, when he said he turned a profit but didn't get rich. He left the floor for NYU in 1987, one week before the **stock market** crashed.

In 1986, Mr. Brenner and Dan Galai, then a professor at Israel's Hebrew University of Jerusalem, published a working paper that used options prices to derive an index of **stock-market volatility**. They called the index Sigma and pitched it to various stock exchanges, but ran into skepticism among the financial establishment.

"We were too early," Mr. Brenner said. It wasn't until 1993 that the Chicago Board Options Exchange would roll out the VIX, an index similar to Sigma but based on other academic work.

One constant in Mr. Brenner's career has been the class on derivatives that he has taught for three decades at NYU. The PowerPoint of the history of the VIX that he shows each class has grown longer over the years.

When describing ambiguity, Mr. Brenner borrows a line from Donald Rumsfeld, the former Defense Secretary: **Volatility** measures the "known unknowns," or the uncertainties about which one can measure probability. Ambiguity reflects the "unknown unknowns," where the probabilities themselves are a mystery.

Mr. Brenner became interested in the topic when considering the relationship between risk and return, which hasn't always been as strong as most people believe. Taking ambiguity into account, as well as **volatility**, might demonstrate a stronger risk-return relationship, the thinking went.

The economist Frank Knight discussed the difference between what he called risk and uncertainty as early as 1921, drawing a distinction similar to the one Mr. Brenner makes between **volatility** and ambiguity. But despite the mountain of research on ambiguity, there is no widely used measurement of it.

Mr. Izhakian, whose Ph.D. work focused on the topic of ambiguity, formulated a framework for quantifying it by analyzing market returns in five-minute increments. In that way, he and Mr. Brenner were able to conclude that risk and ambiguity together have a positive relationship with market returns.

The ambiguity measure was intriguing, showing spikes ahead of the U.S. financial crisis and European debt crisis. Now the two are working to turn it into a real-time gauge that offers a market signal to investors.

"I hope that it will become standard and this will be a measure that can be quoted in real time," Mr. Izhakian said.

One example of what an ambiguity gauge could turn into is the VIX, which has become so prominent that options, futures, and exchange-traded products are now linked to it.

To make that happen for an ambiguity index, the two men have their work cut out for them. The index is calculated on a monthly basis. To make it an intraday gauge, they will need more rapid-fire data and more computing power. Plus, Mr. Brenner thinks they will have to overcome early resistance from the financial industry just as the early **volatility** index encountered.

Colleagues agree that it will be challenging. Mr. Brenner said he doesn't think ambiguity will gain the mass audience the VIX has amassed. But he hopes eventually to see it in wide use by traders and investors. After all, he said, these times call for it.

Document J000000020170311ed3b0001s

The New York Times

Business Day; Economy
Steady U.S. Job Growth Sets Stage for Fed to Raise Interest Rates

By PATRICIA COHEN
1,280 words
10 March 2017
05:00 AM
NYTimes.com Feed
NYTFEED
English

Even the weather cooperated. Pretty much all the ingredients needed for a rousing display of labor market strength lined up in February, with gains in payrolls, wages and the size of the overall work force.

The strong monthly jobs report on Friday — representing President Trump's first full month in office — should sweep away any last-minute reservations harbored by Federal Reserve policy makers about raising the benchmark interest rate when they meet next week.

"The economy is riding a wave of **bullish** sentiment postelection," said Andrew Chamberlain, chief economist at Glassdoor, a career website. "We're seeing strong labor demand across the board and no sign of slowing right now."

With the Labor Department reporting a gain of 235,000 jobs for the month, Republicans and Democrats quickly jostled for credit.

Sean Spicer, the White House press secretary, said of Mr. Trump, "He's jump-started job creation, not only through his executive action but because of the surge in economic confidence and optimism that has been inspired since his election."

Mr. Trump, who, as a candidate, repeatedly dismissed the official jobs reports as phony, reposted a comment on Twitter from the conservative website Drudge Report that said, "GREAT AGAIN: +235,000." Mr. Spicer later quoted Mr. Trump on his faith in the report, "They may have been phony in the past, but it's very real now."

But Republican self-congratulation clearly irked Democrats. Tom Perez, labor secretary in the Obama administration and now chairman of the Democratic National Committee, countered that Mr. Trump had "absolutely nothing" to do with the job gains. "Trump inherited an economy from Barack Obama with the longest streak of private sector job growth in history," he said.

(The Labor Department repeated that it had not changed the way it collected and analyzed jobs data since Mr. Trump took office. "It's business as usual," said Megan Kindelan, director of public affairs at the Bureau of Labor Statistics.)

Although the economic anxiety that helped put Mr. Trump in the White House remains, the official jobless rate is near what the Fed considers full employment — a threshold where, in theory at least, everyone who wants a job at the going rate can find one. The official jobless rate fell to 4.7 percent, from 4.8 percent in January.

At the same time, jobless claims are near a 44-year low, and the **stock market** is surging. Revisions to January's estimates raised the three-month average of monthly job gains to 209,000 and annual wage growth to 2.8 percent, further bolstering the case for those who argue the economy is strong enough to withstand a rate increase.

The overall economic momentum received a push from February's unusually warm weather, with almost a quarter of the jobs — about 58,000 — coming from construction. Manufacturing and mining rose too.

Also significant was the increase in the labor participation rate to 63 percent, a result of rising employment even among people without a high school diploma. "There's got to be some optimism that these people are feeling they finally have a chance," said Diane Swonk, founder and chief executive of DS economics in Chicago.

On the other end are employers who are seeing acute labor shortages. “They’re offering training programs now,” Ms. Swonk said. “They’re complaining about it. But that’s what tight labor markets do. It forces you to invest more to work with less.”

Bigger paychecks are something that most Americans, after years of stagnant wage growth, are particularly eager to see. The Fed, too, has been waiting for an increase, but it is also wary of wages rising too fast. The board’s members want to head off incipient inflation without putting the brakes on hiring, especially because the benefits of the eight-year-old recovery have been so unevenly distributed.

Balancing those two goals is tricky.

Lauren Griffin, senior vice president at Adecco Staffing USA, said the scarcity of qualified workers had compelled employers to raise wages, strengthen benefits and improve amenities at the office. “We’ve got people in orientation classes,” Ms. Griffin said, “and they get up and leave because they’re contacted about another job that might be more money.”

At the same time, a broader measure of unemployment — which includes the millions of Americans who have given up looking for work altogether or are working part time but would prefer full-time jobs — dropped to 9.2 percent last month but is still high given how tight the labor market looks otherwise.

Cautioning the Fed against moving too quickly with a rate increase, Elise Gould, an economist at the left-leaning Economic Policy Institute, noted that, “Workers throughout the economy, including young workers, workers of color, and low-wage workers, need a chance to make up lost ground on wage growth.”

Many Americans who live outside urban centers also have been shut off from most of the recovery’s rewards.

Large metropolitan counties have had more than twice the annual wage growth of nonmetropolitan areas, according to the latest figures from the Bureau of Labor Statistics.

“Higher-wage jobs might be following educated, young workers, who are increasingly living in dense, urban neighborhoods as other demographic groups move to the suburbs,” said Jed Kolko, chief economist at Indeed, a job-search site. “Broader economic shifts also favor big cities: The occupations projected to grow tend to be more urban, while shrinking sectors like manufacturing and farming tend to be located outside large metros.”

That is disappointing for people with longstanding ties to smaller, more rural communities. “A lot of this has to do with mobility,” said Steven W. Rick, chief economist at CUNA Mutual Group, an insurance company. “People are going to have to move where the jobs are and not expect the jobs to come where they are.”

Although the Trump White House has had little time to make any substantial policy changes, anticipation of a rollback in taxes and regulations and the possibility of vast infrastructure spending has created optimism among employers and blue-collar workers.

Mr. Trump’s outsize promises of 4 percent economic growth and millions of new jobs face potential headwinds, though. Dissension among Republicans and the unpredictability of Mr. Trump’s course in several policy areas could dampen job growth.

The future of the Affordable Care Act and a possible replacement is making hospitals and community health centers cautious about adding workers. And a strong dollar and a potential backlash against the White House’s travel ban could slow tourism and hiring in the sector. Mr. Trump’s across-the-board hiring freeze on federal government jobs, combined with declines at the state level, is likely to contain the number of public sector employees.

The uncertainty extends to prospects for tax cuts. Some Wall Street analysts, expecting delays, have pared their growth forecasts for 2017, after recently raising them.

Certainly the snapshot of February’s jobs picture is good. The question is, if the economy does slow, whether Mr. Trump will accept the legitimacy of weak reports as enthusiastically as he does good ones.

Mr. Spicer suggested the president would. “Numbers are going to go up and down,” he said. “We recognize that.”

Follow Patricia Cohen on Twitter: @PatCohenNYT

* Sean Spicer’s Quick Twitter Reaction to Jobs Report May Break a Rule

* U.S. Starts Year With Job Surge, but Pay Gains Are Weak

* Texas Oil Fields Rebound From Price Lull, but Jobs Are Left Behind

* Set to Lift Interest Rate, Fed Embraces Investors' Optimism

Document NYTFEED020170310ed3a002uw

THE WALL STREET JOURNAL.
U.S. EDITION

Streetwise: When Should Bulls Pivot Into Bears?

By James Mackintosh
811 words
10 March 2017
The Wall Street Journal
J
B1
English

Bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria.

-- Sir John Templeton

Eight years ago, investors were more pessimistic than they had been in many decades. Stocks had crashed back to where they stood almost 13 years earlier, banks were failing and comparisons to the Great Depression were routine. It was a great time to buy.

Fast forward to 2017 and the **S&P 500** has stormed up 254% from the March 2009 low, money is pouring into shares, confidence is high and stocks expensive. On the model used by legendary British investor Sir John Templeton, the aging **bull market** is definitely sustained by optimism, and perhaps already becoming euphoric.

For investors this creates a dilemma: chase the returns a final blowout would bring or switch to cash now to survive the **bear market** that might follow?

The decision depends on the assessment of the risks and rewards of chasing a shift to euphoria. Bank of America Merrill Lynch recently upgraded its forecast for the **S&P 500** at the end of this year to 2450, after the index powered through its previous prediction of 2300. Strategist Dan Suzuki said that valuations look high, but noted the upgrade was driven by increasing investor optimism.

"It's euphoria taking hold," Mr. Suzuki says. "We're in the cautious camp [on valuations]. We're just trying to recognize that that's not what drives markets." Looking back over the past 80 years of market cycles, the minimum blowout in the final two years was 30%, with many bull markets ending in a much bigger splurge before the bust eventually arrived.

Put another way: The market's not really worth more, but exuberant buyers will chase shares higher anyway. As veteran strategist Ed Yardeni of Yardeni Research puts it, to make money from here "you're not making it as an investor, you're making it as a speculator."

The reason for caution is the high valuation of every dollar of earnings, even as profit margins are high compared with history and companies have a lot of leverage. A return to historically lower margins or valuations would hurt, while adding debt becomes harder the more companies have.

Still, valuations have been higher, notably in the 2000 bubble, when they went to levels never seen before on every widely used measure. There's little sign of dot-com-era excesses -- Snap's IPO pop excepted -- but the period has become the standard comparison for today's valuations. Doug Ramsey, chief investment officer of the Leuthold Group in Minneapolis, reckons there could be gains of 36% to more than 100% depending on the valuation tool used if dot-com peak levels were reached again (although he doesn't expect that).

But today's market is very different than the late 1990s, when gains were concentrated in big telecoms, media and technology stocks. Today, pretty much everything is expensive, and the valuation of the median stock is much closer to where it was at the turn of the century. Indeed, Mr. Ramsey calculates that even with what he calls an "outlandish and probably irresponsible" assumption that median valuations rise to match dot-com levels, the **S&P 500** would rise less than 12%.

He's still invested in stocks, expecting that gains will become more concentrated in popular stocks and sectors as the **bull market** ages, as happened in past cycles back to the 1920s. "Before the next major **bear market** you should have signs of internal deterioration in the market," he says.

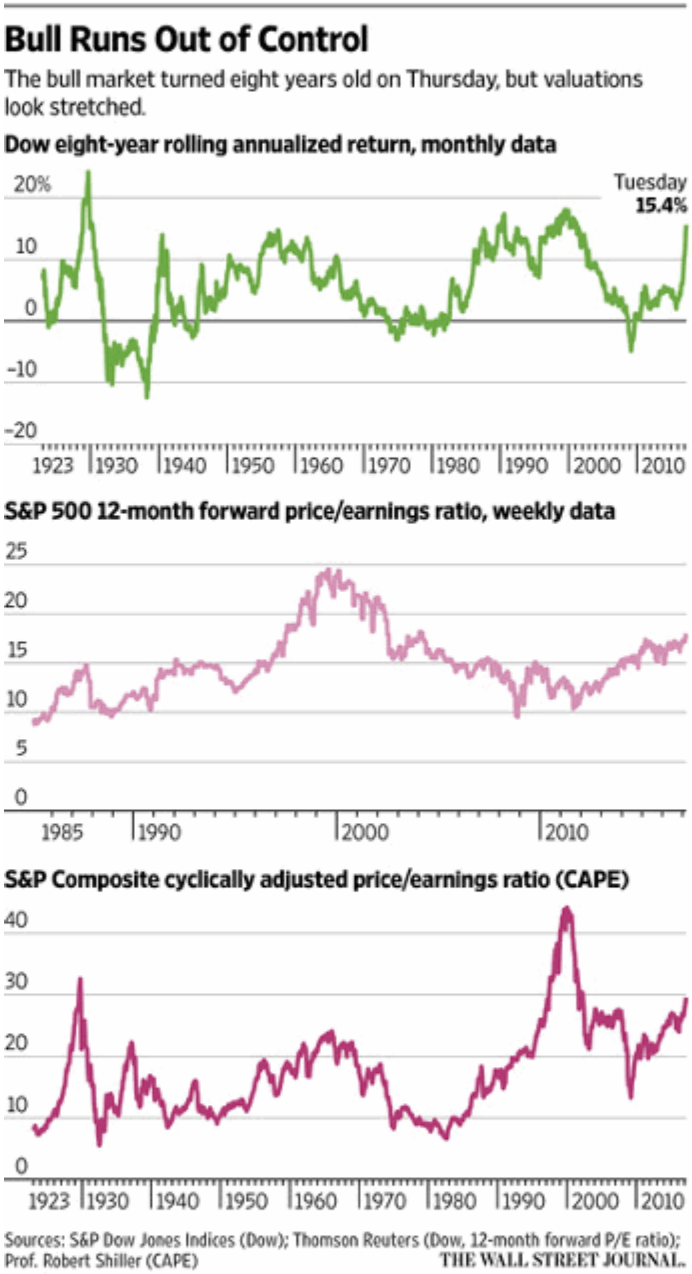
Value investors are finding fewer opportunities and holding more cash.

The flagship Benchmark-Free Allocation fund of GMO in Boston is more than a fifth in cash. "Largely that's for lack of something else to buy right now," says Catherine LeGraw, a member of the asset-allocation team.

Explaining to clients that it's worth missing out on a possible boom to buy more cheaply in the subsequent bust is hard. "Newer clients have a little bit of hand-wringing of 'why do you have so much cash, why am I paying you for so much cash,'" says Ms. LeGraw. Some have left.

Investors faced with the dilemma of whether to buy an already-expensive market in the hope that it gets even more expensive should examine their own motivations. Shifting to cash looks appealing, but if the market goes up another 20% from here, will you change your mind and buy back in? Another 30%? If so, better to stay invested now than buy in even closer to the top.

Value investing works in the long run, but only for those able to stay unruffled as their friends get rich in the final euphoria of bull markets.



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THE WALL STREET JOURNAL.
U.S. EDITION

Oil Glut Worries Resurface, Triggering Market Tumble

By Timothy Puko, Ben Eisen and Erin Ailworth
917 words
10 March 2017
The Wall Street Journal
J
A1
English

Global markets are once again fixating on the price of oil after U.S. crude fell below $50 a barrel for the first time this year, in the biggest two-day selloff since June.

Traders began selling after new data on Wednesday showed U.S. stockpiles have risen to record levels. U.S. oil futures fell another 2% to $49.28 a barrel on Thursday after tumbling 5.4% the day before.

Oil had been trading in a narrow $4 range for more than two months until Wednesday, as traders anticipated that the oversupplied market was returning to balance. This week's selloff abruptly halted what had been the calmest period for **oil prices** in more than two years.

Now there are signs that another wave of **volatility** from the oil market could spill over into stocks, bonds and other markets.

S&P 500 energy shares fell 2.5% on Wednesday, their worst session since September, and initially 1% on Thursday, making it the worst-performing sector in the **stock market** before a late-day rebound put the sector in the black. Oil driller Transocean Ltd. was among the five worst performers in the **S&P 500**, down 3.3%.

A large number of energy and mining companies are rated below investment grade, making the junk-bond market sensitive to commodity-price swings. The broader high-yield benchmark suggested a premium yield of 3.79 percentage point over Treasurys on Wednesday from 3.55 percentage point on March 2, according to Merrill Lynch data.

Fallout from the oil-market selloff echoes the period early last year when falling crude prices played a part in dragging the **S&P 500** down more than 10% and helped push the yields on junk bonds sharply higher. At the time, some economists worried that falling oil could be signaling a slowdown in the global economy, though prices later recovered.

Some analysts said they fear this week's declines could mark the beginning of a larger selloff if more evidence emerges that the global supply glut isn't shrinking as fast as the market is anticipating. Some industry executives also cautioned against ramping up production too fast.

Harold Hamm, the chairman and chief executive of Continental Resources Inc., said at a conference in Houston on Wednesday that there is a danger of oversupplying the market, which could cause **oil prices** to fall hard again.

U.S. producers, he said, "have the potential to oversupply the market and we have the great responsibility not to do so."

The Organization of the Petroleum Exporting Countries and other major producers agreed late last year to cut output by around 1.8 million barrels a day, the equivalent of about 2% of global production.

But the U.S. Energy Department said this week that it expects American oil production to rebound past 9.7 million barrels a day in 2018, breaking the record output level set in 1970.

"For the global rebalancing to work, we will need to see it in the U.S.," said Michael Wittner, global head of oil research at Societe Generale. "The markets are getting a little tired of waiting."

Hedge funds and other big money managers have also piled into **bullish** bets that prices would be heading higher, skewing the market in a way that can spark big selloffs.

In February, investors reached a record net-long position in U.S. oil for the 10 years of data collected by federal regulators. One week of surprisingly bearish data can scare traders out of the market, and that can cause other bullish traders to sell out of their positions before prices fall further.

"It's pretty vulnerable," said Tariq Zahir, who oversees $8 million as managing member of Tyche Capital Advisors LLC.

On Wednesday, he opened new options trades that would benefit from falling prices, expecting oversupply to weigh on near-term futures, he said.

"With the velocity we've come down in the last two sessions, yes I think we can easily be in the mid-40s," he said.

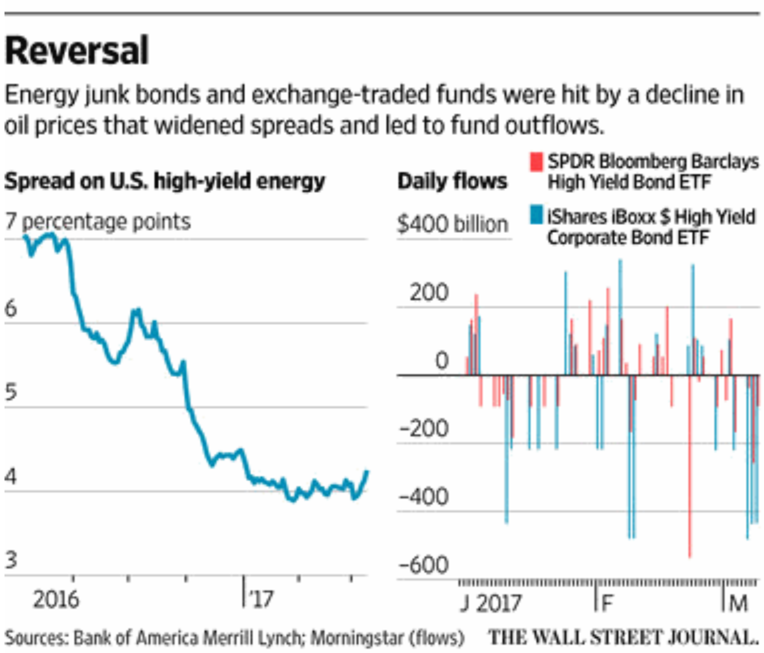
Zach Jonson, a portfolio manager at Icon Advisers Inc., said he was already taking a cautious approach to the high-yield-bond market, and oil's selloff introduces an additional risk.

"It's not even just energy, it's the whole space," he said. "If we do see a legitimate selloff in the high-yield space -- especially energy -- this will be just the beginning. We'll see it pick up steam."

Markets are susceptible to falling crude prices even though it usually means lower heating costs and cheaper gas for consumers. That is because the growing importance of the energy sector to the overall U.S. economy means weaker crude prices impact employment, business investment and inflation.

Oil volatility is likely to stay high and influence other markets through at least the rest of March, said Craig Bethune, senior portfolio manager at Manulife Asset Management, which manages $334 billion. Many investors are watching for cuts to global oil output to show up and influence the data on U.S. stockpiles the government releases every week.

"It's going to get swung around on a weekly basis," he added. "You do see on a weekly basis some uptick in U.S. production, and what you really haven't seen is visible impacts from the OPEC cuts on U.S. inventories."



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THE WALL STREET JOURNAL.
U.S. EDITION

World News: ECB Signals Need for Stimulus Is Waning --- Central bank largely maintains policy but says eurozone economy gains steam

By Tom Fairless
599 words
10 March 2017
The Wall Street Journal
J
A8
English

FRANKFURT -- The European Central Bank hinted at the beginning of the end of its massive monetary stimulus, but stopped short of a significant move to rein it in, brushing off concerns that its policies are excessive as the eurozone's 10 trillion euro ($10.542 trillion) economy picks up speed.

The ECB's decision on Thursday to keep its foot on the gas underscores the divergence between the world's two most powerful central banks. Federal Reserve officials have indicated recently that the U.S. central bank is ready to raise interest rates again as soon as next week. Investors will seek signs of the Fed's direction on Friday when the Labor Department issues its February jobs report.

The ECB stood pat ahead of elections in the Netherlands, France and Germany, eurozone countries where antieuro parties are expected to make gains.

ECB President Mario Draghi said bank governors hadn't discussed how they might wind down their 2.3 trillion euro bond-purchase program, known as quantitative easing. The central bank will continue to buy eurozone bonds valued at at least 60 billion euros a month through the end of this year, he said, and it could accelerate the pace of purchases or cut interest rates again if the economic outlook darkens.

In a small concession to critics of easy money, Mr. Draghi indicated that the ECB probably won't need to take any fresh action to support the economy.

That was enough to drive up the euro and push down **bond prices** because investors speculated the ECB had started down the road to ending its stimulus.

But the ECB's baby step toward a tighter monetary policy is unlikely to soothe its detractors in Germany, Europe's largest economy, where a recent jump in inflation has prompted calls for an early exit from easy money.

Retaining the pledge to expand stimulus if necessary is "out of kilter with the circumstances," said Ken Wattret, an economist with TS Lombard in London. "It's getting harder and harder to justify the current policy setting."

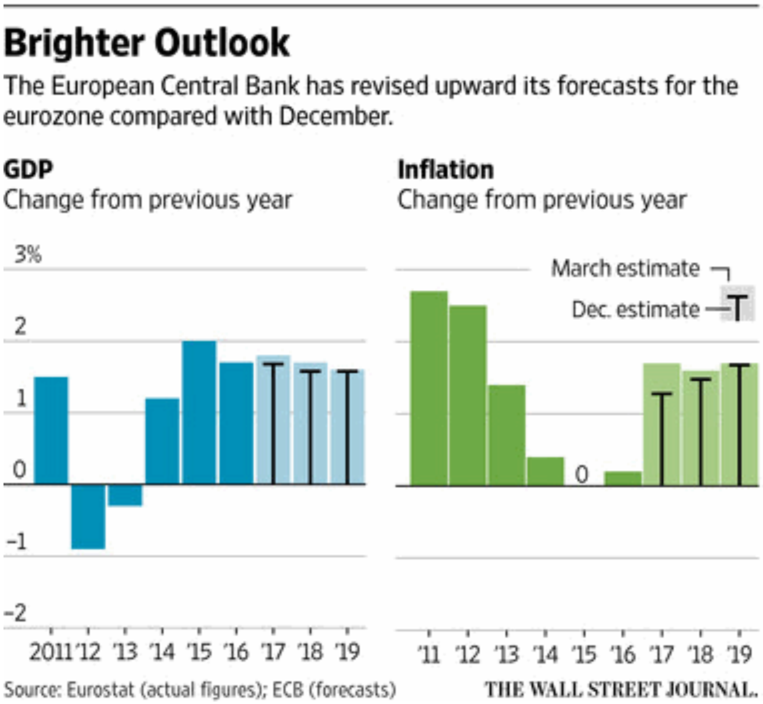
The eurozone is the fastest growing of any major developed economy, according to financial-data firm IHS Markit. The bloc's jobless rate is at its lowest level since 2009, and inflation jumped to 2% in February, slightly above the ECB's target.

German politicians, facing national elections in September, are concerned that low interest rates and rising inflation will squeeze the nation's conservative savers, and drive voters into the arms of antieuro parties.

German Finance Minister Wolfgang Schauble on Thursday called for a "timely start to the exit" from loose monetary policy, while his Bavarian counterpart, Markus Soder, told the mass-market Bild newspaper that Mr. Draghi was expropriating German savers. Also on Thursday, Germany's influential Ifo institute called on the ECB to start winding down QE from next month or risk overshooting on inflation. The ECB aims to keep inflation just below 2%.

While the ECB is keeping its stimulus intact despite positive economic news, the Fed looks set to raise rates aggressively this year even as recent data suggest slower growth. The U.S. economy is on track to grow at a 1.2% annualized pace in the first quarter, according to a forecast published on Wednesday by the Atlanta Federal Reserve, down from a 2.7% forecast a month ago.

Christopher Whittall in London contributed to this article.



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The New York Times

Business/Financial Desk; SECTB
A Sedate 8th Anniversary for the Bull Market

By THE ASSOCIATED PRESS
721 words
10 March 2017
The New York Times
NYTF
Late Edition - Final
2
English

Stocks meandered on Wall Street on Thursday as the eighth anniversary of the current **bull market** turned out to be a quiet one.

Large-company stocks finished mostly higher, but declines in smaller stocks across the board meant that more companies fell than rose on the New York Stock Exchange.

The **Standard & Poor's 500**-**stockindex** picked up 1.89 points, or 0.1 percent, to 2,364.87 on Thursday. The other major indexes closed virtually flat: The **Dow Jonesindustrial average** gained 2.46 points to 20,858.19, and the **Nasdaq composite** rose 1.26 points to 5,838.81.

The market started out with small gains, then dipped in early afternoon. Thanks to late gains for energy companies, major indexes turned higher near the end of trading.

Industrial companies fell as Caterpillar, the heavy-machinery maker, continued to slide. Health care companies climbed and banks rose along with bond yields. Trading was light following a three-day losing streak.

The **S**.**&P**. **500** is up 250 percent since March 9, 2009, when it bottomed out in the depths of the financial crisis. The current bull run is the second-longest since World War II, and it may have a while to go, as wages are growing and hiring appears to be rising.

''Bull markets typically don't die of old age,'' said David Lefkowitz, senior equity strategist at UBS Wealth Management Americas. ''They typically die because there's a downturn in the economy.''

Mr. Lefkowitz said there were few signs that such a fall would soon happen. While the Federal Reserve is likely to raise interest rates next week, inflation remains low, and he said the Fed's actions should not stifle economic growth.

''The key question is how quickly does inflation continue to rise from here, and how aggressive does the Fed need to get,'' Mr. Lefkowitz said.

Health care companies made the biggest gains. The leaders included Johnson & Johnson, which rose $1.85, or 1.5 percent, to $125.95. The cancer drug maker Celgene added $2.09, or 1.7 percent, to $125.13, while the medical device maker Edwards Lifesciences rose $3.53, or 3.9 percent, to $93.06.

Prices of crude oil continued to slip after the United States government reported a huge buildup in fuel stockpiles on Wednesday. Oil is trading at its lowest price since November, before OPEC countries agreed to cut production in an effort to shore up prices.

Benchmark oil fell 80 cents, or 2 percent, to $49.28 a barrel in New York. Brent crude, the international standard, lost 92 cents, or 1.7 percent, to $52.19 a barrel in London. Energy companies lost ground early in the day but jumped in the final hour of trading.

Bond prices fell further. The yield on the **10**-**year Treasury** note rose to 2.61 percent, near its highest level in the past year, from 2.56 percent.

Caterpillar fell an additional $1.84, or 2 percent, to $91.39 as the government investigates the company's taxes and accounting. The stock is down almost 8 percent since March 1.

Signet Jewelers said it will spend more money on technology as it closes mall-based stores, and its stock rose $5.62, or 8.7 percent, to $70.02.

The dollar rose to 114.92 yen, from 114.33 yen. The euro rose to $1.0581, from $1.0542.

Gold fell for the eighth day in a row. It lost $6.10 to $1,202.40 an ounce.

The British FTSE 100 index sank 0.3 percent while German DAX added 0.1 percent and the CAC 40 in France gained 0.4 percent. The CAC 40 has jumped 2.5 percent this month, far more than other major European indexes.

Japan's benchmark Nikkei 225 index climbed 0.3 percent as a weaker yen lifted shares of exporters. South Korea's Kospi dipped 0.2 percent, and the Hang Seng in Hong Kong lost 1.2 percent.

CHARTS: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Thursday. (Source: Reuters); **30**-**Year Treasury Bond**: High yield at auction. (Source: Treasury Department)

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THE WALL STREET JOURNAL.
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U.S. News: Stock Market Fuels a Boom in Household Wealth

By Josh Zumbrun
387 words
10 March 2017
The Wall Street Journal
J
A2
English

U.S. household net worth climbed to a record $92.8 trillion in the fourth quarter of 2016, as the end-of-year surge in stocks and a steady climb in home prices added more than $2 trillion of wealth to household balance sheets.

The biggest contributor to the increase was the **stock market**, which added $728 billion to household balance sheets in the fourth quarter, according to the Federal Reserve's quarterly financial accounts report.

The **stock market** rallied by about 8% in the fourth quarter of 2016, following the election of President Donald Trump, with many investors anticipating tax cuts, regulatory relief and fiscal stimulus. The market has climbed an additional 6% so far this year, which isn't captured in Thursday's report.

The figures are reported in nominal terms, but are also at a record if adjusted for inflation or for population.

U.S. households lost nearly $13 trillion during the 2007-09 recession. Since the first quarter of 2009, however, wealth has soared by $38 trillion, driven by an eight-year rally in stocks and eventually by a robust recovery in home prices.

Real-estate gains contributed to the quarter's rise. The value of real estate owned by households and nonprofit organizations climbed by $557 billion in the fourth quarter, reaching a record $26.5 trillion. That exceeds the housing bubble's peak by $1.6 trillion.

"The gusher of household wealth should be expected to increase consumer spending and depress saving rates," Michael Feroli, chief U.S. economist of J.P. Morgan Chase & Co., said in a note.

The propensity of families to spend more and stop socking money away, known as a "wealth effect," however, has been less pronounced in recent years than during the stock and housing bubbles.

The report provides no information on the distribution of wealth among households. Much stock ownership is highly concentrated in wealthy households, and the most valuable real estate in the U.S. is largely concentrated in coastal states. But the national rise in home prices benefits the majority of Americans who own homes, and rising equities benefit many middle-class households with savings in IRA and 401(k) accounts.

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THE WALL STREET JOURNAL.
U.S. EDITION

America Can't Escape the Debt Vortex

By George Melloan
942 words
10 March 2017
The Wall Street Journal
J
A15
English

The Federal Reserve's point man on banking regulation, Daniel Tarullo, will step down as a Fed governor on April 5, long before his term expires in 2022. He may be getting out just in time -- before President Trump enacts protectionist policies that would further roil the credit markets Mr. Tarullo and his fellow governors have already distorted.

During Mr. Tarullo's eight years at the Fed, the central bank has encouraged a massive accumulation of government, corporate and consumer debt. Credit bubbles usually pop at some point and the consequences aren't pretty. The **stock-market** crash of 1929 followed a credit boom, and so did the crash of 2008. In both cases, Washington overreacted, producing a 10-year depression in the 1930s and a weak recovery after the 2009 recession.

Most commentators, including me, have blamed this new debt balloon on the easy credit produced by the Fed's near-zero interest-rate targets since the 2008 crash. But we may have attributed too much power, and culpability, to the Fed.

Interest rates have also been held down by heavy global demand for U.S. dollar assets from big dollar earners like China and Japan. Foreign central banks boosted their holdings of Treasury bonds to $3 trillion in 2013, up from $1.2 trillion at the beginning of 2008, before leveling off in subsequent years. The rollover of those holdings has sustained steady foreign demand for Treasurys, keeping prices high and interest rates low.

But the Fed helped. Its three rounds of "quantitative easing" -- effusions of newly created dollars -- in roughly the same period (QE3 ended in October 2014) added a further $3.5 trillion in demand for Treasurys and for the troubled mortgage-backed securities issued by Fannie Mae and Freddie Mac. Cheap credit, and miserly yields on savings, pervaded the U.S. economy.

Through its bond purchases the Fed ballooned its holdings to the present $4.4 trillion. By law, the interest return on those securities goes back to the Treasury after the Fed deducts the considerable amount it spends on itself. With almost free credit, Washington nearly doubled the national debt in seven years. The annual federal deficit continues to hover between $500 billion and $1 trillion.

To avoid rampant inflation after putting all that new money into circulation, the Fed cleverly arranged for banks to lock up some $2 trillion in their reserve accounts at the central bank, paying them modest interest (now 0.5%) for their trouble. That has prevented the excess reserves from flooding into the economy in the form of cheap loans.

Lacy Hunt, an economist with Hoisington Investment, estimated at a recent conference held by Grant's Interest Rate Observer that debt of all kinds in the U.S. now totals more than $69 trillion. That's more than double the $30 trillion recorded by Fed statisticians as recently as 2000. If the Hunt figure is correct, then total debt is now about 370% of GDP, up from 294% in 2000.

But foreign demand for American debt is showing signs of weakness. China has traditionally used most of the dollars from its large trade surplus with the U.S. to buy Treasurys. But Beijing's foreign-currency reserves are declining as business slows, the financial system grows more unstable, and capital flees the country. In January China's reserves dropped below $3 trillion for the first time since 2011. Total dollar holdings by foreign central banks have fallen to around $2.8 trillion today from $3 trillion in late 2013.

Domestically, consumer credit outstanding fell sharply after the 2008 crash but began rising again in 2013. It is now up 29% from five years ago -- and 16% not counting the blowout in government loans to students. The Fed's latest survey of senior loan officers indicates that demand for mortgages is slackening and that the "quality" of auto and credit-card debt is shakier. This suggests that many consumers have maxed out their ability to borrow. The report also notes that banks are tightening their lending standards on credit cards and auto loans.

The famed 1930s economist Irving Fisher taught that a credit cycle ends when both lenders and borrowers pull in their horns, which is what may be happening now. He wrote that the end of a credit cycle signals a downward turn in the business cycle. If so, the current **bull market** in stocks is also at risk.

There isn't much the Fed can do about this except make it worse. More direct bond buying -- a fourth round of quantitative easing -- would send the debt load up faster. Conversely, selling from the central bank's bond portfolio would likely raise interest rates by causing the debt supply to exceed demand. The Fed's monthly striptease about interest-rate targets, watched so excitedly by reporters and traders, is pretty much irrelevant to all this.

Nor is there much that Mr. Trump can do except make it worse. But he seems intent on that -- threatening trade wars against America's biggest trading partners. If the president blocks their ability to earn dollars, he diminishes their ability to bail us, and themselves, out of the global debt slough. The past decade of government and Fed profligacy is not his fault, but that still isn't an argument for recklessness. If this ends in tears, Mr. Trump will get the blame.

Mr. Melloan, a former deputy editor of the Journal editorial page, is author of "When the New Deal Came to Town" (Threshold Editions, 2016).

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THE WALL STREET JOURNAL.
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What Should the Fed Do Next? Follow the Leader

By Jason Furman
797 words
9 March 2017
The Wall Street Journal
J
A19
English

The Federal Reserve gets faulted from all sides. In recent years, some hawks predicted runaway inflation, financial instability and the collapse of the dollar. Economic performance decisively refuted them. On the other end of the spectrum, some doves predicted deflation. Their biggest fears have not materialized either, in part because the Fed took some of their advice.

During my eight years in the Obama administration, I was constrained from commenting on actions by the Federal Open Market Committee. But now I am free to weigh in. How would I vote if I sat on the committee? Simple: I would follow the leader. Fed Chair Janet Yellen has proved wiser than her many detractors.

Some criticism is fair. For years much of the Fed's forward guidance has been systematically wrong, particularly its "dot plots" for the future path of the funds rate. The most dramatic consequence of this miscommunication was the 2013 "taper tantrum," when long rates abruptly rose about 100 basis points. Meanwhile, the unexpectedly large and sustained increase in the Fed's balance sheet has heightened the **financial market**'s preoccupation with the Fed's influence on prices in a range of markets.

But these critiques mistake instruments for goals. In 1977 Congress amended the Federal Reserve Act to set clear objectives for future Fed actions: "maximum employment, stable prices, and moderate long-term interest rates." The best way to judge the Fed is to compare its performance against these goals.

How has the central bank fared on employment? The unemployment rate has fallen from its peak of 10% in October 2009 to only 4.8% at the start of this year. This puts the economy at or around what most economists consider maximum employment. In contrast, the unemployment rate in the eurozone was 9.6% in January, well above the 7.5% pre-crisis rate.

As for price stability, the personal consumption expenditures inflation rate is 1.9%, effectively matching the Federal Open Market Committee's definition of "stable prices," which is 2% inflation. Compare that with Europe's core inflation rate of 0.9% or Japan's current near-zero-inflation environment. And the Fed achieved these goals with moderate long-term interest rates.

The Fed outperforms its peer institutions largely by ignoring the critics. It was the first central bank to cut interest rates to zero in the wake of the global financial crisis, keeping them there consistently for eight years before beginning gradual increases. The Fed was also among the first central banks to adopt large-scale asset purchases.

Rather than sticking to a simple rule or a predetermined, time-dependent strategy, the Fed remained flexible. It was able to respond to events like the eurozone crisis, as well as broader economic developments such as the mounting evidence for a lower neutral rate of interest.

Nobody is bragging about GDP growth. But the disappointing growth rate of about 2% in part reflects factors like the global productivity slowdown and slower expansion of the U.S. working-age population. Congress also bears some responsibility for the suboptimal recovery -- for failing to invest more in research and infrastructure, to reform the corporate tax system, or to liberalize international trade. All this is outside the purview of the Fed.

Criticism is healthy. Fed decisions are partly informed by the public debate over monetary policy, but ultimately the Fed should be judged by its results. It would be a mistake to limit the Fed's flexibility and independence by passing legislation that would subject monetary policy to more political interference or increase the use of rules instead of discretion. Smaller changes -- like switching to a lower target for inflation or ending data-dependent monetary policy -- are also unwarranted.

In its next meeting, the Federal Open Market Committee appears likely to vote for a 25-point rate hike. I believe it's appropriate for the Fed to set goals of running the economy a little hotter, driving up wage growth and bringing more people back into the workforce.

Americans have benefited from inflation being less responsive to low unemployment rates than usual. But there is a limit, because the same relationship could make it even more costly to reduce above-target inflation. Regardless, the likely higher central target of 0.875% would still be expansionary. I'm glad that Ms. Yellen and her committee colleagues are making independent, data-dependent, discretionary decisions.

Mr. Furman, a senior fellow at the Peterson Institute for International Economics, was chairman of the White House Council of Economic Advisers (2013-17).

(See related letters: "Letters to the Editor: Fed's Sole Policy Should Be a Stable Dollar" -- WSJ March 18, 2017)

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THE WALL STREET JOURNAL.
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Retirees Get Squeezed by Low Rates

By Corrie Driebusch and Aaron Kuriloff
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9 March 2017
The Wall Street Journal
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A1
English

MELVILLE, N.Y. -- Stocks are hitting record after record, the **Dow Jones Industrial Average** tripling since it bottomed out during the financial crisis exactly eight years ago.

For many retirees who've been riding that wave, these are risky and confusing times.

Take Steve Stein, a retired dentist here on New York's Long Island. At 82, Dr. Stein said his nest egg of roughly half a million dollars is 95% invested in stocks. As a rule of thumb, financial planners suggest subtracting an investor's age from 100 to determine what proportion of savings to allocate to stocks.

"My dad used to put his money in CDs, getting 15%," said Dr. Stein, whose father, a dental technician, encouraged him to become a dentist as a way to build a stable, successful life. "If interest rates were high, I would've invested in fixed income," he said.

The average one-year CD hasn't paid more than 1% since 2009, according to Bankrate.com.

The drop in interest rates since the financial crisis cost U.S. savers almost $1 trillion in lost income from savings accounts, CDs and bonds from the start of 2008 through 2015, taking into account money saved on debt costs, according to April 2016 research by insurer Swiss Re.

There are few signs of imminent improvement. The yield on the benchmark **10**-**year Treasury** note has risen since the election to nearly 2.6%, but it is still below the 2.9% it yielded when U.S. stocks hit their low on March 9, 2009.

The Federal Reserve is signaling it will raise short-term interest rates more aggressively this year. Over more than a decade, the central bank has approved two increases in the federal-funds rate. Yet even with markets pricing in a faster pace of rate increases in 2017, few investors expect yields to approach any time soon the levels they routinely achieved during the decade leading up to the financial crisis. Then, long-term U.S. rates were often 5% or higher, a level they haven't achieved since 2007.

Lawmakers such as House Speaker Paul Ryan (R., Wis.) have criticized the Fed's low-rate policy as harmful to savers. Sen. Bob Corker (R., Tenn.) in 2013 said it amounted to "throwing seniors under the bus."

Some financial advisers have said worries about declining income are overblown. While investment income has fallen, inflation has been low, meaning investors are better off now than they may feel.

Dr. Stein opened his first solo dental practice in 1963, following his discharge from the Army. In 2007, he sold the practice and settled into retirement. That didn't last long. Interest rates fell to near zero during the financial crisis as the Fed unleashed unprecedented stimulus to shore up lending and revive a moribund economy. Dr. Stein turned to a temporary staffing agency to find part-time work.

Now fully retired since 2013, Dr. Stein is increasingly nervous about making his savings last -- not only for himself, but also for his wife, who is 16 years his junior. They receive Social Security, and it covers most basic needs, but he still fears running out of money because health issues would keep him from working to make up the difference.

"If I don't take risks, I won't have the money, and I need the money," he said.

Shares have been soaring since Election Day, but Dr. Stein said that is just "one more thing to worry about" because it might mean stocks are due for another fall.

Nearly all of Dr. Stein's savings is in exchange-traded funds, a type of stock-tracking product he mostly uses to invest in health-care companies. He doesn't hold bonds, which he views as providing too little yield. Instead, he has scooped up biotechnology stocks, which he has watched climb in the past decade.

He said he checks his portfolio's performance every day and worries about big swings. He has seen some. One of his holdings, the SPDR S&P Biotech ETF, fell 16% last year. It is up 19% so far this year. The only way to realize these gains, however, is by selling pieces of the portfolio, something Dr. Stein is wary to do for fear of mistiming the market by selling stocks near their lows or buying near their highs.

Dr. Stein and some fellow investors gather most months in a side room of Bertucci's, an Italian restaurant 35 miles east of Wall Street here on Long Island, for seminars sponsored by the American Association of Individual Investors. September's guest speaker was Marvin Appel, an anesthesiologist-turned-financial adviser. His pitch: Invest in dividend-growth stocks, emerging-market funds, junk bonds and mortgage real-estate investment trust preferred stocks, vehicles that can offer higher returns than plain-vanilla, fixed-income investments but typically come with more risk.

Wayne Roth, a 68-year-old dentist who lives in Roslyn, N.Y., also on Long Island, told his tablemates over pizza and salad that he had 65% in stocks, most of which pay out dividends.He said he knew the allocation was high for his age, but he was "comfortable psychologically with that. If I bought bonds I wouldn't be comfortable."

Dr. Roth hasn't stopped working. He said he had amassed a healthy nest egg, was frugal and avoided extravagances. Yet he was worried about how long the low-rate environment would last, and about trying to increase his wealth as much as possible through his stockholdings.

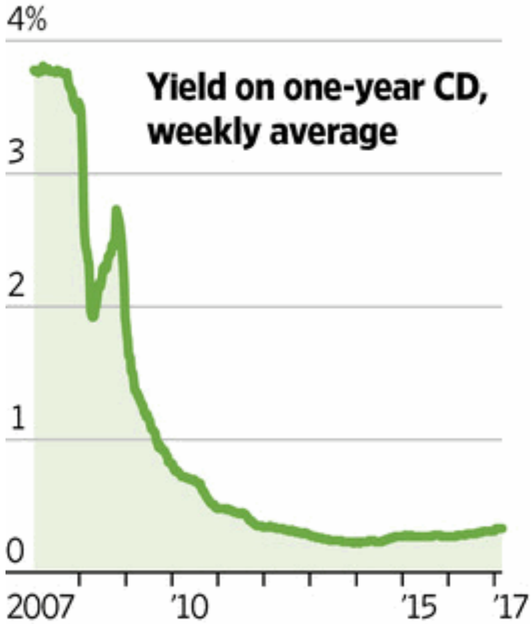
The mortgage on Dr. Stein's Huntington, N.Y., home is paid off, but other fixed living costs continue to climb. Medical costs are making up a bigger chunk of his monthly budget than he expected. Food costs also have to be kept in check. He is happy when he can buy Perdue chicken from the grocery store for 99 cents a pound compared with the usual $1.50.

Dr. Stein wasn't sold on the speaker's pitch, which included a company that pays hefty dividends yet has still fallen more than 20% in **stock-market** value in the past decade. Although Dr. Stein still shows up to meetings one Wednesday evening a month, he worries about market timing and about putting money into the new "it" investments.

"I go to those meetings now for the pizza," he said.

Unyielding

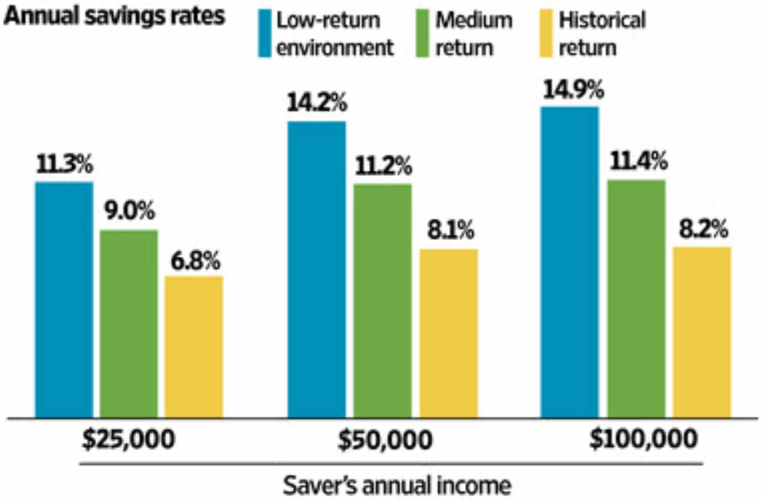
Rates on certificates of deposit have tumbled since the financial crisis.



Note: Data through March 1
Source: Bankrate.com
THE WALL STREET JOURNAL.

Savers Still Squeezed by Low Rates

The current low-return environment means savers have to put away more if they want to maintain their standard of living through retirement. **B1**



Note: Returns are modeled on the moderate risk category of the Morningstar Lifetime Allocation Index, which increases exposure to bonds as investors approach retirement. The low-return environment is based on current returns, moderate assumes current returns will increase toward the historical average, and historical is based on average annual returns dating back to 1926.

Source: Research from "Planning for a More Expensive Retirement" in the Journal of Financial Planning

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Equities -- Ahead of the Tape: A Rising Market Doesn't Enrich Everyone

By Steven Russolillo
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9 March 2017
The Wall Street Journal
J
B11
English

The wealth of the nation is poised to hit another record. Unfortunately, that is small solace to a majority of Americans.

The Federal Reserve is set Thursday to release its update on net worth of U.S. households and nonprofits for the fourth quarter and full year of 2016. This is a sum of all assets, such as homes, stocks, bonds, vehicles and cash, minus all debts, including mortgages, credit cards and student and auto loans.

As of the third quarter, American households had roughly $105 trillion in assets and $15 trillion of debt. This $90.2 trillion in net worth has risen by about two-thirds since the depths of the financial crisis in 2009. And as home values kept rising and stock prices surged following the election, it likely only increased. Jim O'Sullivan of High Frequency Economics estimates total net worth to have risen by $2 trillion in the fourth quarter, which would be the biggest jump in a year.

But this only tells part of the story: A rising market benefits a small percentage of U.S. households because stock ownership is concentrated among the wealthy. Many individuals who might have been invested have also missed the eight-year **bull market**. Cash flowed out of U.S. equity mutual funds and exchange traded funds in six of the past eight years through 2016, according to data provider Morningstar Inc.

Rising home values are more important because the value of houses far exceeds the value of stocks held by individuals.

Even so, the homeownership rate hovers near a five-decade low and well below its precrisis peak. Those who do own homes aren't as able or willing to borrow against them to fuel spending binges like they did during the housing bubble.

This explains why the so-called wealth effect isn't having as much of an impact on overall consumer spending and economic growth as it used to.

"Wealth effects may have been smaller than usual due to lingering caution after the financial crisis," suggests Mr. O'Sullivan.

Whatever the explanation, rising asset values aren't producing the same boost in spending that they once did. The personal saving rate at 5.5% as of January is twice as high as a decade ago. It is also higher than the average rate during the technology bubble, measured from December 1996 through March 2000.

Rising incomes matter much more to economic activity and, in that regard, wages have grown surprisingly slowly for much of the economic recovery.

Bulging portfolios are nice, but fatter paychecks will be needed to kick the U.S. economy into the next gear.

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The New York Times

Business/Financial Desk; SECTB
Stocks Slide Amid Crude Oil's Steepest Drop in More Than a Year

By THE ASSOCIATED PRESS
722 words
9 March 2017
The New York Times
NYTF
Late Edition - Final
8
English

Stocks on Wall Street fell for the third day in a row on Wednesday as energy companies tumbled along with the price of crude oil. Investors also sold high-dividend stocks as bond yields rose, giving investors other alternatives.

Crude **oil prices** fell 5 percent, their biggest drop in more than a year, after the government reported a big buildup in fuel stockpiles.

The **Standard & Poor's 500**-**stockindex** dipped 5.41 points, or 0.2 percent, to 2,362.98. The **Dow Jonesindustrial average** lost 69.03 points, or 0.3 percent, to 20,855.73. The **Nasdaq composite** rose 3.62 points, or 0.1 percent, to 5,837.55, as health care and technology companies moved higher.

Private businesses added 298,000 jobs last month, according to the payroll processor ADP, the most in three years. That helped send **bond prices** lower and yields higher: The yield on the **10**-**year Treasury** note jumped to 2.56 percent, from 2.53 percent.

The report also showed big increases in construction and manufacturing hiring.

According to industry measurements and government data, manufacturing and business investment have improved in the last few months after a steep slump. However, investors have longed for evidence that manufacturing and construction companies were bringing on more workers, and there was not much of that until Wednesday.

''It's not surprising that you would start to see the hiring improve in that sector,'' said Katie Nixon, chief investment officer for Northern Trust. ''It's been a drag on economic growth the last couple of years.''

Federal Reserve policy makers will meet next week, and investors expect the central bank to raise interest rates for the first time since December.

Stocks that pay big dividends such as utilities and real estate investment trusts are often compared to bonds because of their hefty payments to shareholders. When bond yields rise, investors often sell those stocks so they can buy bonds instead. Shares of the utility holding company PG&E fell $1.10, or 1.7 percent, to $65.16, and Realty Income dropped $2.14, or 3.6 percent, to $57.70.

The Energy Information Administration said oil reserves grew by eight million barrels last week, far more than analysts expected. Benchmark United States crude sagged $2.86, or 5.4 percent, to $50.28 a barrel in New York, its lowest price since late November. Brent crude, used to price international oils, fell $2.81, or 5 percent, to $53.11 a barrel in London.

Energy stocks are already lagging the market in 2017, and on Wednesday, the 13 biggest losers among **S**.**&P**. **500** companies all came from the energy industry. Marathon Oil lost $1.40, or 8.6 percent, to $14.87, and Devon Energy sank $2.83, or 6.5 percent, to $40.72.

Banks, which have skyrocketed since the election, finished little changed despite the jump in bond yields. Industrial companies declined. Caterpillar lost $2.69, or 2.8 percent, to $93.23 as a government inquiry into its taxes and accounting remained in the news.

Medical device and equipment makers moved slightly higher, and biotechnology companies bounced partway back after sharp losses a day earlier. Investors worried about price limits or cuts after President Trump wrote on Twitter that he was working on a plan to reduce prices.

The dollar rose to 114.33 yen, from 113.98 yen. The euro slipped to $1.0548, from $1.0568.

Gold fell $6.60, to $1,208.50 an ounce. Silver lost 24 cents, or 1.4 percent, to $17.30 an ounce. Copper gave up 2 cents, to $2.60 a pound.

The CAC 40 in France rose 0.1 percent, and the DAX in German was little changed. The FTSE 100 in Britain lost 0.1 percent. The Nikkei 225 index in Tokyo shed 0.5 percent, and in Hong Kong, the Hang Seng advanced 0.4 percent. The Kospi in South Korea was unchanged.

CHARTS: **10**-**Year Treasury** Notes: High yield in monthly refunding auction. (Source: Treasury Department); The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Wednesday. (Source: Reuters)

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THE WALL STREET JOURNAL.
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Central Banks Ratchet Up Reserves

By Carolyn Cui and Brian Blackstone
1,008 words
8 March 2017
The Wall Street Journal
J
A1
English

Corrections & Amplifications

The change in Israel's foreign-currency reserves was shown with a blue line in a chart that accompanied a Page One article on March 8 about central banks increasing their reserves. The key incorrectly included light green for Israel rather than blue.

(WSJ March 16, 2017)

(END)

Central banks around the world are increasing foreign-currency reserves, highlighting the fragile underpinnings of the global economic recovery despite a **bullish** mood in **financial markets**.

In emerging economies, reserve levels have stabilized after two years of big declines. Two-thirds of the 30 biggest emerging markets increased reserves last year, according to Fitch Ratings. Foreign-currency holdings in Israel, Vietnam and the Czech Republic recently reached new records, their central banks have reported.

China's foreign reserves rose by $6.9 billion in February compared with the previous month, rebounding for the first time in eight months and pushing the reserve total back above the $3 trillion mark.

Some central banks in Europe also have been padding their coffers. Switzerland's holdings of foreign assets jumped last month at their fastest pace in more than two years, while Denmark has also stepped up its foreign-currency purchases.

There are likely several reasons for the concurrent increases.

Reserves rise when central banks buy foreign currencies to keep their own currencies from appreciating too fast, which can hurt their exporters and undermine economic growth.

In Europe, big increases in reserves are often associated with periods of intense global stress. Some analysts suggested that elections this year in France and Germany, as well as political uncertainty in the U.S. and U.K., may be prompting investors to seek safety in currencies like the Swiss franc, putting upward pressure on the currency. That has led the Swiss central bank to buy foreign currencies to keep the franc from strengthening too much.

Emerging-market countries also stockpile reserves in an effort to fortify their markets and economies against sudden shocks that could cause foreigners to pull out money.

"External reserves are a form of insurance for sovereigns against crisis and defaults," said Chia-Liang Lian, head of emerging-market debt at Western Asset Management.

Rising reserve balances can be a reassuring sign for investors, because they show individual nations have some capacity to deal with market shocks or economic downturns. The value of many nations' reserves has risen recently as the U.S. dollar has declined.

But many investors and analysts worry that underlying the reserve buildup are global trade and capital imbalances that could make the world vulnerable to a fresh crisis should the flow of capital be disrupted by political or economic unrest.

Another period of U.S. dollar strength, which some analysts are predicting if the Federal Reserve keeps pushing interest rates higher, is one potential shock. During the global market selloff early last year, a strong dollar and rising dollar-denominated debt levels in the developing world prompted a rout in emerging-market assets.

The rising reserve totals also suggest that bank officials are accumulating dollars because they have concerns about the global economy, despite a rally that has lifted the **Dow Jones Industrial Average** to records this year.

The pace of economic growth is picking up in the U.S. and Europe, and analysts said that if President Donald Trump pushes through his corporate tax overhaul and deregulation plan, the U.S. economy could expand faster. That could lead the Fed to raise interest rates more aggressively, triggering a reversal of capital flows from emerging markets back to the U.S.

The increase in emerging-market reserves reflects in part a rally in commodities prices, which rose about 28% last year, according to the S&P GSCI Index, and comprise a big part of the developing world's exports. Capital inflows, which in emerging markets, excluding China, were up nearly 60% last year to $192 billion, have also bolstered reserve levels.

Globally, total reserves rose in last year's third quarter to $11.01 trillion, up from $10.97 trillion a quarter earlier, according to the latest data available from the International Monetary Fund. The level was below the peak of $12 trillion in mid-2014.

Reserve levels for emerging markets peaked at $8 trillion in 2014, according to the IMF. Then they fell sharply after central banks churned through about $1 trillion of reserves to support faltering currencies, a process by which they buy their currency using U.S. dollars or other major currencies.

But that cash drain stopped last year. Excluding China's holdings, reserves in the 30 biggest emerging markets held steady at $3.9 trillion in 2016, Fitch Ratings estimated.

Despite the fact that two-thirds of the countries increased reserves, the broad number was unchanged largely because several governments in the Middle East dipped into foreign-currency holdings to meet budget needs during the **oil-price** rout.

China had been another major exception before reserves rose again last month. Economists attributed the increase to the government's broad measures to stem the flow of money moving out of the country, prop up a yuan weakening against the U.S. dollar and bolster sagging confidence in the economy.

In much of the rest of the developing world, reserves were already on the rise. They increased substantially in Egypt, Nigeria and Thailand in recent months. In January, Russia added $13 billion to its $390.6 billion in reserves, its largest monthly increase in more than four years.

Many central banks also accumulate foreign reserves when they purchase assets denominated in dollars and other hard currencies. They do this to slow down the appreciation of their currencies, protecting exports and giving a boost to inflation. The Czech central bank intervened in January on a large scale to maintain its currency target against the euro.

The Swiss National Bank said Tuesday that its foreign-exchange reserves swelled nearly 25 billion Swiss francs ($24.7 billion) last month to 668 billion francs, the biggest rise since December 2014, the month before the Swiss abandoned a cap on the franc's value against the euro. The pile of foreign reserves is greater than Switzerland's entire gross domestic product.

Liyan Qi and Grace Zhu contributed to this article.

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THE WALL STREET JOURNAL.
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Investors Bet on Less Postvote Turmoil --- A slide in volatility around key global elections may create opportunities for money managers

By Jon Sindreu
994 words
8 March 2017
The Wall Street Journal
J
B14
English

It took markets four days to recover from Brexit, around four hours to recover from Donald Trump's election victory and some four minutes to spring back from the Italian referendum.

Over the past year, every new bout of political-inspired drama in the markets has corrected more swiftly than the last.

Some investors believe that is because funds are increasingly holding back from making big political bets ahead of important votes, and are then moving in quickly to buy afterward. This could explain why market **volatility** has been subdued for months, defying the typical pattern of spiking around elections.

Knowing that investors will return in this way postvote, some money managers are taking the risk and making the call that whatever the outcome, market turmoil won't be as bad as expected.

Ahead of this spring's French presidential election, investors again face an election that could trigger a dramatic outcome. A victory by populist candidate Marine Le Pen could sound the death knell for the euro, some investors say.

"We are not taking binary bets on France with our clients' money," said Vincent Juvyns, global market strategist at J.P. Morgan Asset Management.

The day after the June 23, 2016 Brexit vote, the FTSE World equity index fell 4.9%. In less than a month, the gyrations had subsided and markets bounced back.

Just ahead of the U.S. election on Nov. 8, there was a much smaller 1.5% reaction. Italy's Dec. 4 rejection of constitutional reform barely registered in markets.

It wasn't always this way. **Stock-market volatility** has typically shot up around national votes.

The last U.K. general election, in May 2015, spurred a 1.4% move -- close to that of the U.S. election, typically a far more important event for global investors.

Now, it seems to some investors that the more important the election, the less likely it will increasemarket **volatility**. Amid a series of polls with the potential to reshape the status quo, investors have become extremely reluctant to make a call.

"When people say they are not paid to take this risk, it means they are paid to take the risk after the event," said Richard Hodges, portfolio manager at Nomura Asset Management, a firm with 41.7 trillion yen ($366 billion) under supervision.

It may be that fund managers have decided to hold back more cash ahead of these events, waiting to see how they pan out.

Data certainly show that asset managers have been holding more money. In late 2016, the share of portfolios that investors held as cash increased to about 6%, its highest level in 15 years, according to a survey of fund managers by Bank of America Merrill Lynch. In February, it was down to 4.8%, but still above the average of the last decade.

"The mere disappearance of the uncertainty surrounding the outcome of the event could then become a trigger to put cash to work," said Patrick Moonen, a principal strategist at NN Investment Partners. At this stage, Mr. Moonen is unwilling to make a bet on the French election.

Investors also say central banks damp market swings, because they believe that the banks provide a safety net.Following the Brexit vote, Bank of England officials quickly reassured investors that they stood ready to help.

That makes the postelection dips all the more attractive for those willing to make a bet.

One-month realized **volatility** on the **S&P 500** and Euro Stoxx 50 indexes recently came close to all-time lows. As a result, the prices that investors pay for options that insure against future swings in stocks -- measured by the VIX and VStoxx indexes for U.S. and eurozone stocks, respectively -- have fallen. The cost of buying protection for the French election has only recently edged up. And that increase is much smaller than it was in the run-up to Brexit.

"We are all looking for the next spike in **volatility** as an opportunity," said Nomura's Mr. Hodges. He said he took more risk onto his portfolio before Brexit and the U.S. election, confident that investors would want to invest idle cash after each vote and that this would eventually lead to a rally.

Some money managers now see the French election as a similar opportunity.

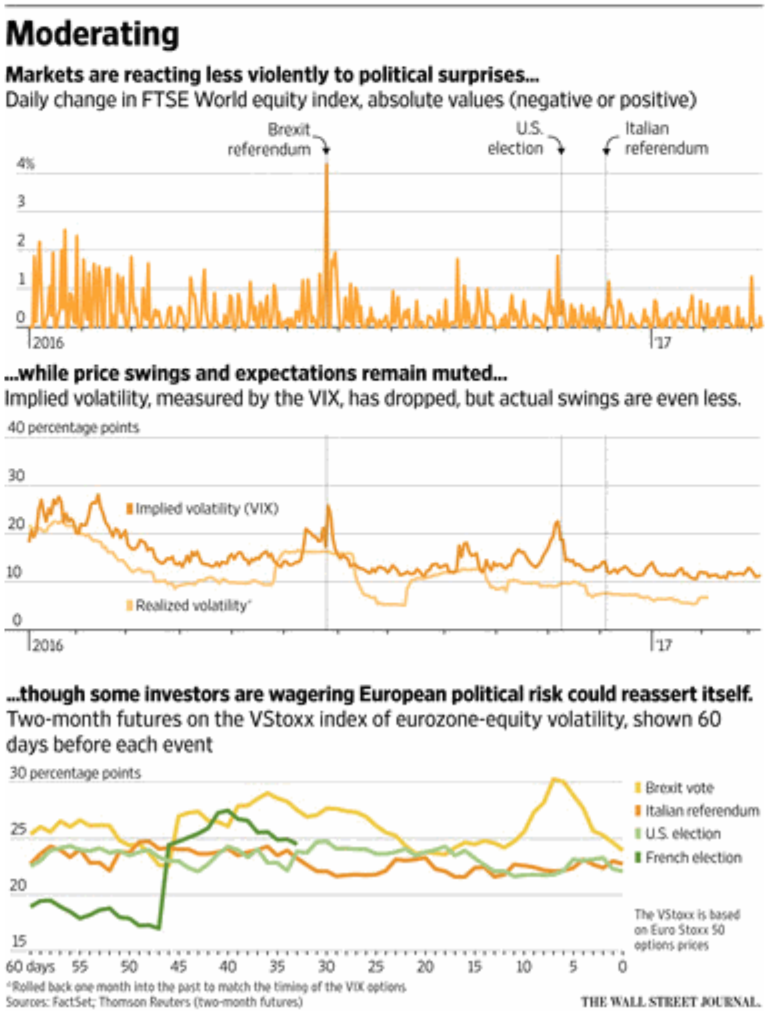
Last month, as jitters around the French vote settled down, investors at William Blair & Co. shed some exposure to eurozone sovereign bonds and bought cheap options that protect against falls by stocks. When uncertainty is at its highest right before the election, the fund aims to buy back French and Italian bonds, and sell the options just as, they believe, other investors will be looking to buy.

Ms. Le Pen is "the most highly compensated risk in the market," said Brian Singer, portfolio manager at the Chicago-based investment firm. "That's why you want to buy before the fact."

To be sure, investors may have good reasons to stay on the sidelines this time. While polls show that it is unlikely that Ms. Le Pen will win the second round of the May 7 election, the failure of pollsters to call recent votes, including Brexit and the U.S. election, has made money managers distrustful.

Mr. Trump's victory and Brexit also offered reasons for investors to feel positive, such as expectations of less red tape and more fiscal stimulus. Fund managers could even find solace in Italians voting "no" to electoral reform, as these changes may have made it easier for another antiestablishment party, the 5 Star Movement, to gain power.

But most investors believe that Ms. Le Pen, and the risk she brings to the common currency, has little upside for **financial markets**. That makes contrarian bets much riskier.



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THE WALL STREET JOURNAL.
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Futures Trader Goes on Sugar Binge

By Carolyn Cui and Serena Ng
940 words
8 March 2017
The Wall Street Journal
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B1
English

A new power in sugar trading is buying unprecedented amounts of the sweetener on the U.S. futures exchange, creating confusion in one of the world's most **volatile** commodity markets.

The power is Wilmar International Ltd., a Singapore-based agribusiness whose major shareholders include the family of Malaysian billionaire Robert Kuok and Chicago-based Archer Daniels Midland Co. Wilmar, founded 26 years ago, is one of the world's largest palm-oil producers but a relative newcomer in the sugar business.

Last week, Wilmar agreed to buy $512 million in raw sugar at the expiration of a popular futures contract on the ICE Futures U.S. exchange.

Wilmar has been scooping up sugar by physically settling tens of thousands of futures contracts and collecting the commodity from ports across South America and elsewhere. The company has bought more than 6 million tons of sugar in this manner since 2015, enough to fill roughly 3,000 Olympic-size swimming pools at a cost of some $2.3 billion.

The effects of Wilmar's moves have been the subject of debate among traders. At one point in 2015, when sugar prices were at multiyear lows because of a world-wide glut, Wilmar bought so much that traders said the company in effect mopped up that year's global oversupply. In the rally that followed, sugar prices more than doubled.

Then, as prices peaked in September last year, Wilmar changed course and delivered excess sugar it owned to other traders on the exchange. Sugar prices fell 24% in the ensuing months.

"Everybody was looking at them," said Bruno Lima, head of sugar and ethanol at brokerage INTL FCStone in Brazil. Last week, traders and analysts ruminated on Wilmar's latest purchaseand whether it was a positive sign for sugar demand.

Wilmar, which entered the sugar business in 2010, owns sugar-cane plantations, mills and refineries, mostly in Asia. It also trades sugar, buying raw sugar and selling it to refineries all over the world. Last year, the company handled 13.5 million tons of sugar, representing roughly 8% of the world's production. Some analysts said Wilmar is now possibly the world's biggest sugar trader.

The company's size and scale, however, are sowing concerns among some traders that it could control a large amount of the world's tradable sugar and influence prices.

"They are a market mover," Nick Gentile, head trader of New York commodities trading firm Nickjen Capital, said of Wilmar. About two-thirds of the world's sugar production is consumed in the countries that produce it, and the rest is traded internationally.

Jean-Luc Bohbot, the 48-year-old Frenchman who runs Wilmar's sugar business, said there is no evidence that the company's trades affect market prices. That is "very much an incorrect view," he said in a recent interview. "Sugar is an extremely fragmented commodity, with a very large number of players around the globe."

While Wilmar's sugar purchases and sales appear in some cases to have preceded rising and falling prices, Mr. Bohbot said, "There is no clear correlation" between the two. Over the past few decades, sugar prices have gone in both directions when there were large physical deliveries, he said.

Many producers, end users and speculators use commodity futures contracts to hedge price risks or make bets on prices. Futures are often used as a guide for pricing in the physical markets where actual commodities are exchanged.

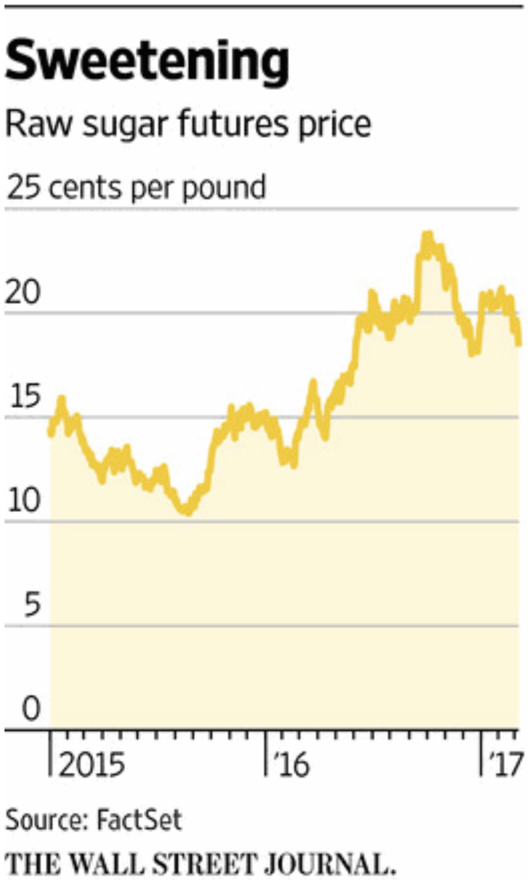
Physical settlements of futures trades, however, are rare. Exchange operator Intercontinental Exchange Inc. estimates that fewer than 0.5% of trades result in the actual delivery of commodities. The vast majority of futures contracts are unwound by traders before they expire because most firms want to avoid the hassle of transporting commodities to or from inconvenient locations. With sugar futures, buyers don't know where in the world they will have to pick up the sweetener until after the contracts expire.

That hasn't deterred Wilmar. Mr. Bohbot said the company has found it economical to purchase sugar in bulk using futures contracts, because the exchange's rules require sellers to deliver the sugar on board buyers' ships, which facilitates international trading. In other commodity markets, such as grains or metals, the handover usually happens inside warehouses in locations that often might not be easily accessible.

Mr. Bohbot said Wilmar ships and sells most of the raw sugar it buys to refineries in Asia and the Middle East, where consumption is increasing. This sort of trading, however, is often barely profitable when shipping and other costs are factored in, he said, noting, "There is very little margin, and sometimes no margin."

In 2016, Wilmar's sugar division posted a 33% year-over-year increase in revenue to $5.9 billion, "an outstanding set of results," according to the company, partly because of higher sugar prices. It earned $125 million from the sugar business last year, for a profit margin of 2.1%.

Wilmar entered the sugar market through a $1.5 billion takeover of Australia's largest sugar producer. It then hired Mr. Bohbot, who has had a long career in sugar trading, from a rival and tasked him with expanding the sugar business internationally. Wilmar made many acquisitions and entered into joint ventures with sugar producers and refineries in countries including Indonesia, Myanmar, India and Morocco. Last year, the company formed a new venture with a major Brazilian sugar producer, a move likely to increase the volume of sugar it handles.



Document J000000020170308ed380002h

THE WALL STREET JOURNAL.
U.S. EDITION

The Property Report
Bears Are Targeting Mall REITs

By Esther Fung
567 words
8 March 2017
The Wall Street Journal
J
B6
English

As U.S. retailers grapple with slumping sales, **bearish** investors are turning their attention to the struggling chains' landlords.

Shares of retail-focused real-estate investment trusts, which own malls and shopping centers, have slumped since August last year, when Macy's Inc. said it would close 100 stores. Sears Holdings Corp. and J.C. Penney Co. later said they would close more than 100 stores each.

A regional-mall REIT index plunged about 22% from late July until March 6, according to data from the National Association of Real Estate Investment Trusts.

Short sellers, who bet a stock's price will decline, have been especially active. The amount of short interest, a measure of short-selling activity, on retail-focused REITs increased to $7.6 billion as of March 6 from $5.6 billion as of the end of December, according to S3 Partners, a financial analytics firm.

In a short sale, investors borrow shares and quickly sell them, with the intention of buying shares later at lower prices to repay the loan, pocketing the difference.

Short sellers are betting landlords will face higher costs to spruce up their centers or struggle to replace stores that close, especially in weaker locations.

Short trades against REITs with more mid- to low-quality malls, known as class B and C properties, such as CBL & Associates Properties Inc., Pennsylvania Real Estate Investment Trust and Washington Prime Group, have been more profitable, according to data from S3 Partners.

But even shares of class A mall REITs, which own the most productive malls in the country, have faced pressure. Short interest on Simon Property Group Inc. jumped to $1.3 billion on March 3 from $916 million at the end of 2016, near its record. Over the same period, short interest trades in GGP Inc. increased to a record $689 million from $430 million.

"There has been a steady drumbeat of negative reports from anchor retailers in the mall," said James Sullivan, managing director at BTIG LLC, a financial-services firm. "As a result, when we keep hearing bad news it adds to the impression that there is a problem in the malls."

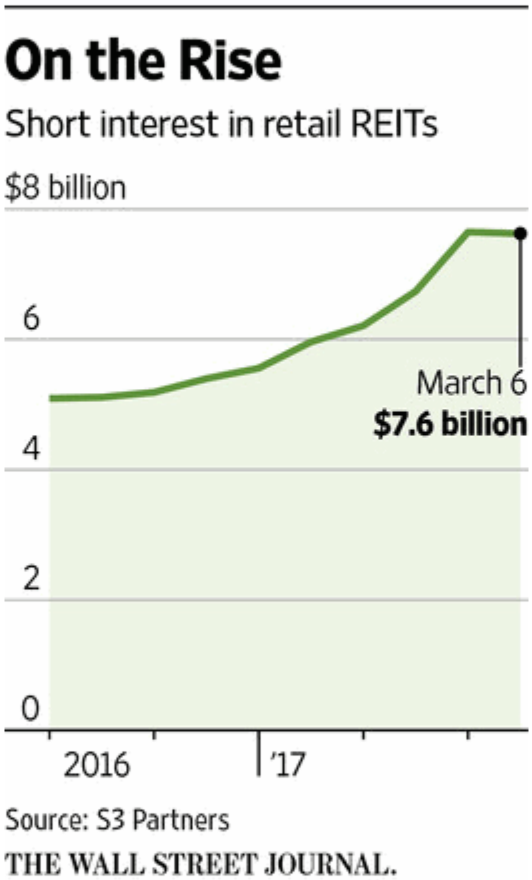
Other short sellers are focusing on mall debt. Losses on securitized mortgages tied to retail property rose to $1.7 billion last year from $1.3 billion in 2015, the only property segment that showed an increase in losses, according to Moody's Investors Service.

Yield spreads on BBB-rated commercial mortgage-backed securities that have more retail real-estate exposure are widening, according to Trepp LLC, a real-estate data service. Widening spreads -- the difference in yield between a Treasury bond and debt with the same maturity -- indicate the perceived risk of default is rising.

Some investors are wagering against mortgage-backed securities through the CMBX, a credit-default-swap index that tracks the values of bonds backed by mortgages on malls, office buildings and other commercial property. They are betting against securities backed by malls in weaker locations.

Still, some analysts, including BTIG's Mr. Sullivan, argue that some mall REITs, especially class A mall operators, have been oversold.

The department-store closures haven't hit REIT-owned malls much so far, and mall REITs have been able to fill other vacancies with new tenants, analysts said.



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THE WALL STREET JOURNAL.
U.S. EDITION

Ahead of the Tape
Too Early For Trump To Call This Rally a Win

By Steven Russolillo
529 words
8 March 2017
The Wall Street Journal
J
B13
English

The Trump administration hasn't been shy about taking credit for the market's postelection rally. Perhaps it should be.

The **S&P 500** is up 12% on a total-return basis since Nov. 8, the latest leg of a big **bull market** that has shown little evidence of slowing down.

In just the past few weeks, President Donald Trump has blasted four tweets mentioning the **stock market**'s gains. And Treasury Secretary Steven Mnuchin acknowledged late last month that the market was acting as the administration's economic report card. "This is a mark-to-market business, and you see what the market thinks," Mr. Mnuchin said on CNBC.

It is easy to say that when prices are going up. It is much more difficult when everything turns south.

This week marks the **bull market**'s eight-year anniversary, the second-longest on record. Since the March 2009 bottom, the **S&P 500** has surged more than 300% including dividends. Profits are higher, but valuations are far richer than eight years ago. The sheer magnitude of the gains and duration of the **bull market** alone warrant skepticism about what comes next. Maintaining similar momentum over the next four or eight years won't be easy.

The card Mr. Trump has been dealt is much different than that of his predecessor. That is precisely why appropriating the market's gains at this stage of the rally is risky.

When President Barack Obama was elected, markets were in free fall. It got worse before it got better -- a lot worse.

It is easy to forget, but the **S&P 500** fell 20% from the 2008 presidential election through Mr. Obama's inauguration. It dropped another 16% through the **bear-market** bottom less than seven weeks later.

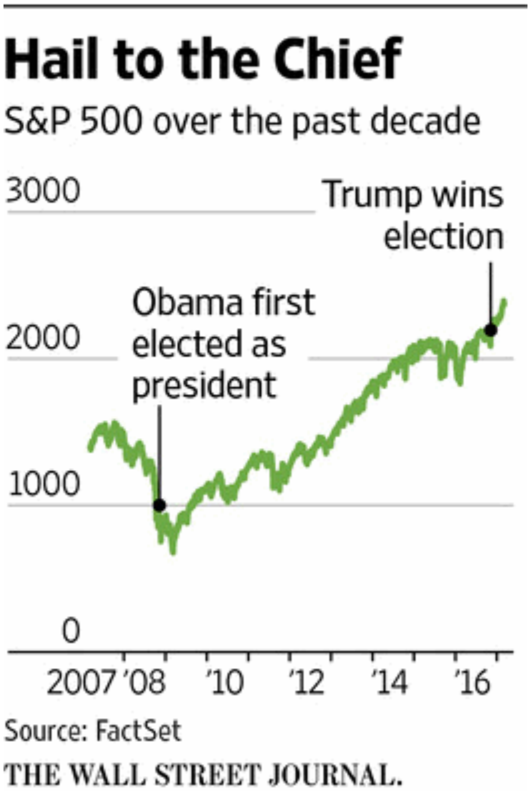
Today, Mr. Obama is remembered for heady gains, not presiding over the loss of one-third of the market's value within months of being elected. If Mr. Mnuchin is right and the **stock market** is how presidents are judged, then he had better hope the next 46 months don't also look like the opposite of Mr. Obama's first term.

Other presidents had misleading starts. Herbert Hoover presided over a nearly 44% total return in his first 10 months for the predecessor of the **S&P 500**. But the index dropped 31% on an annualized basis during his entire four years in office. Unsurprisingly, he wasn't re-elected.

Despite the fact that Ronald Reagan is fondly remembered by **stock-market** investors, stocks had barely budged between his election and this time during his first term. And the financial crisis at the end of President George W. Bush's second term ruined several years of gains.

Mr. Trump has inherited an extraordinarily long economic expansion. Even if the president can keep the economy growing, the market might only produce modest gains. If the economy slows, it will be nearly impossible for Mr. Trump to finish his term in the black.

It isn't about how you start, but how you finish.



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THE WALL STREET JOURNAL.
U.S. EDITION

Business News: Crude Producers Learn to Coexist --- Global energy meeting is mellower this year even as oil-price rise revives U.S. output

By Lynn Cook and Bradley Olson
858 words
8 March 2017
The Wall Street Journal
J
B3
English

HOUSTON -- U.S. shale producers won't quit pumping oil, and OPEC is learning to deal with that.

That is the message emerging from this year's CERAWeek energy conference, where the mood is markedly different from a year ago, when oil prices had just fallen under $30 and the Saudi oil minister suggested that shale producers and others would have to perish for the industry to recover. The annual meeting hosted by consulting firm IHS Markit draws thousands of energy executives and oil ministers from around the world.

While dozens of shale producers did go bankrupt during the slump, many proved resilient, and the Organization of the Petroleum Exporting Countries in November agreed to temporarily curtail production to help rebalance an oversupplied market. That in turn gave a shot in the arm to shale producers, which have roared back in recent months as prices have stabilized at more than $50 a barrel.

OPEC nations have been locked in an epic stare-down with American shale companies for more than two years since the resurgent U.S. producers helped create a global oil glut. But much in the same way that OPEC had to accept the discovery of new supplies from the North Sea in 1970, the group's members are growing reconciled to the idea that the U.S. will be a major source of oil for years to come, said energy scholar Daniel Yergin, who is vice chairman of energy research at IHS Markit.

"It's not so much 'us-versus-them' any more, but a watchful but peaceful coexistence," he said in an interview.

Saudi oil minister Khalid al-Falih, who helped broker the agreement by OPEC to slash output by 1.2 million barrels a day, told the conference Tuesday that he welcomed the rebirth of U.S. production as a good sign for the industry as a whole. But he warned that the oil-price recovery under way was fragile, and that "Saudi Arabia will not allow itself to be used by others."

Citing the recovery, he said, "the green shoots are here in the U.S. Maybe they're growing too fast." Mr. Falih left open the possibility that the production cuts would be extended in May, though he made no commitments.

"For the record, we didn't have any war" with shale producers, said OPEC Secretary-General Mohammed Barkindo.

OPEC will meet formally later this month to assess whether participants are respecting the production cut agreement, but so far compliance has been uneven. OPEC says the 24 countries that agreed to be part of the deal -- both in OPEC and outside -- have respected 86% of their promises so far. But while Saudi Arabia has cut more than it promised, Russia has only reduced one-third of what it promised to cut.

Last year at CERAWeek, the big question on executives' minds was whether U.S. shale could be among those left standing. This year, it is whether OPEC producers and American drillers can coexist. "I think the answer is very clearly yes," said John Hess, chief executive of Hess Corp., adding that U.S. shale survived by getting hyperefficient. When the price of crude began to fall in the summer of 2014, "American ingenuity went up," he said.

Still, the reckoning was painful. More than 300,000 energy workers were laid off around the globe, with the majority of cuts coming in the U.S. and Canada, according to Graves & Co., a Houston-based consulting firm.

Despite the bloodletting, U.S. shale drillers are now racing back into oil patches, redeploying rigs at breakneck speed. The result: U.S. oil output is up 600,000 barrels a day.

Benoit Faucon and Erin Ailworth contributed to this article.

'Fictitious' Divide

With Shale Drillers

HOUSTON -- Without the U.S. shale revolution, the global economy probably would have been mired in deep crisis, Mohammad Barkindo, secretary-general of the Organization of the Petroleum Exporting Countries, said on Tuesday.

When American drillers began using advanced technologies to tap new wells from Texas to North Dakota, a lot of global oil production was in peril, with output falling in Nigeria, Iran, Libya and other hot spots.

"We only wish it was done in an orderly fashion that did not trigger this severe cycle that we're still battling to come out of," Mr. Barkindo said of the surge in U.S. production.

Mr. Barkindo said U.S. shale drillers haven't been just surprised to the upside with better technology, but also proved resilient thanks to "financial engineering" that has propped up the industry during more than two years of relatively low prices for oil and gas.

Mr. Barkindo said he "learned a lot" from a meeting in Texas with shale producers. "We all found that the thin line that we thought separated us was probably fictitious. We all belong to the same industry."

-- Lynn Cook and Miguel Bustillo

Document J000000020170308ed380002l

The New York Times

GLOBAL BALANCE
National Desk; SECTA
Trade Deficit Is Big, but It's Not the Size That Matters

By NEIL IRWIN
977 words
8 March 2017
The New York Times
NYTF
Late Edition - Final
16
English

President Trump says that the United States' persistent trade deficit is a scourge that must be eliminated. But new data Tuesday shows the complexity of the costs and benefits of trade -- and how reducing the trade deficit, if not done right, could leave Americans worse off.

What really matters is not whether the trade deficit is rising or falling. What matters is why.

The trade deficit rose 9.6 percent in January, to the highest level since 2012 (though it remains lower as a share of the total economy). It's in the details of that $48.5 billion gap between what the United States exported and what it imported, though, that you see why the economy is more complex than the ''trade deficits are bad'' framing of the Trump administration.

Picking apart the January numbers, you see just how that way of looking at trade can be misleading. The challenge for the Trump administration, if it sticks to its guns of reducing the trade deficit as a top economic goal, will be to do so by focusing on what really matters for Americans' standards of living. The trade deficit fell a great deal during the 2008 recession, for example. No one would argue it made Americans (or pretty much anyone else) better off.

The Good News

The United States actually exported 0.9 percent more goods in January than it did in December (the numbers are adjusted for the usual seasonal variations). If your concern is that other countries haven't been buying enough goods made in U.S. factories, the January numbers pointed in a positive direction. The United States exported $1.3 billion more in automobiles and $2.1 billion more in industrial supplies in January than it did in December.

The details show the economic idea of specialization at work. The $1.3 billion rise in automotive exports was paired with a $900 million rise in automotive imports. The overall balance didn't shift much, but that suggests that the United States is shipping cars and trucks that it makes more efficiently while importing those that others make more efficiently.

The reason the trade deficit rose is that imports rose faster than exports. But even that isn't entirely a negative.

Imports of consumer goods rose by $2.4 billion in January, with a particularly strong rise in imported cellphones. That reflects the relative strength of the U.S. economy. American consumers have rising incomes, and inevitably they spend part of that income on imported goods.

In effect, the higher trade deficit in January is in significant part caused by U.S. economic strength. It is the inverse of what happened during the 2008 recession. Buying more imported consumer goods because you are making more money is generally a good thing, not a bad thing.

The Bad News

Some exports of products were down in a few sectors where the United States has important competitive advantages.

Exports of civilian aircraft -- think Boeing jets sold across the globe -- fell by $611 million, and shipments of other high-tech capital goods like aircraft engines and telecommunications equipment were also down.

Such sectors tend to be **volatile**, so these may turn out to be blips. But if global demand softened for these products made by skilled workers with advanced technology, it would be bad news for Americans.

Meanwhile, a persistent strength of the U.S. economy has been in services, but the balance of trade in services worsened by $5.3 billion.

This may reflect a rise in the value of the dollar. For example, when travelers from abroad visit the United States and spend money at hotels and restaurants, that counts as a services export. That number fell by $89 million in January. It is worth watching whether that falls further, as it might should the dollar keep rising and should the Trump administration's ban on travel from several countries dissuade would-be travelers.

Given the vast numbers of American jobs tied to service industries, it would be bad news if that trend continued.

It's Not Really About Trade

A big piece in the rise in imports was crude oil and other petroleum products. They were up by a combined $2.2 billion. (Exports of those products also rose, by $1.2 billion, but combined that means oil contributed to the widening of the trade deficit.)

But that seems less worrisome if you know that the price of crude oil rose 9 percent from the start of December until the start of January.

A rise in the price of oil or any other commodity benefits its producers and costs its consumers. It will affect, over time, patterns of imports and exports of that product. But when the trade deficit rises or falls because of those shifts, it's not really because of trade per se, but because of underlying shifts in supply and demand for the commodity in question.

Put it all together, and while the January trade report has some weak spots and areas for concern, it is not nearly the unabashed bad news that a simplistic reading of the trade deficit would suggest.

If the trade deficit falls during the Trump administration because sales of American-made automobiles, jet airliners or services overseas boom, that will be great news. If it falls because Americans' spending collapses, it will be bad news. If it falls because of commodity price swings, it will depend on which commodities exactly, and where they're made.

The trade deficit is important. But using it as a simplistic scorecard doesn't tell the full story.

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Document NYTF000020170308ed3800066

The New York Times

Business/Financial Desk; SECTB
Health Care Law Turmoil Helps Stall Share Prices

By THE ASSOCIATED PRESS
650 words
8 March 2017
The New York Times
NYTF
Late Edition - Final
4
English

Stocks on Wall Street declined for the third time in four days on Tuesday as health care companies took center stage.

Drug makers fell after President Trump said he wanted to bring drug prices down. Insurers rose and hospital companies dropped after Republicans in Congress introduced a bill intended to replace the 2010 Affordable Care Act.

The **Standard & Poor's 500-stockindex** lost 6.92 points, or 0.3 percent, to 2,368.39. The **Dow Jonesindustrial average** lost 29.58 points, or 0.1 percent, to 20,924.76. The **Nasdaq composite** sagged 15.25 points, or 0.3 percent, to 5,833.93. Two stocks fell for every one that rose on the New York Stock Exchange.

The president's health care proposal, expressed in a morning Twitter post, helped the shares of big health insurers, but hurt companies that do a lot of business with Medicaid.

It is not clear whether the health care bill will pass the Senate; several Republicans have already questioned it. Stocks turned lower at the end of the day as that criticism increased, leaving the fate of the bill, a key part of Mr. Trump's agenda, uncertain.

Elsewhere, energy companies continued to slip and technology companies made small gains. Stocks had not fallen for two consecutive days since the end of January, and set their latest record highs last Wednesday.

Companies that make high-price drugs took some of the largest losses. Biotechnology company Alexion Pharmaceuticals shed $4.15, or 3.1 percent, to $129.18. Alexion makes Soliris, a high-priced drug that treats two rare genetic disorders.

The Republican health care legislation would provide tax credits for people buying their own insurance and would scale back the government's role in helping people afford coverage. It would probably leave more Americans uninsured and would also overhaul Medicaid, a joint federal-state health program for low-income Americans.

Hospital operators tumbled. Community Health Systems lost 9.3 percent and Tenet Healthcare sank 7.1 percent. Insurers that do a lot of business with Medicaid, such as Molina Healthcare, also fell. But the largest national health insurers did better than the rest of the market. Humana added $5.21, or 2.4 percent, to $217.95, the largest gain among **S**.**&P**. **500** stocks.

Benchmark crude lost 6 cents to $53.14 a barrel in New York. Brent crude, used to price international oils, lost 9 cents to $55.92 a barrel in London. Energy companies continued to lag the market, however, continuing a pattern since late last year. Hess lost $1.52, or 3 percent, to $49.51 and Exxon Mobil slipped 31 cents, or 0.4 percent, to $82.52, while natural gas companies fell with the price of that fuel.

Technology companies did better than the rest of the market. Video game maker Electronic Arts rose $1.16, or 1.3 percent, to $88.30. Data storage company Nimble Storage soared after it agreed to be bought by Hewlett Packard Enterprise for $12.50 a share, or about $1 billion. Its stock rose $3.98, or 46.3 percent, to $12.58.

Bond prices fell. The yield on the **10-year Treasury** note rose to 2.53 percent from 2.49 percent.

Gold dropped $9.40 to $1,215.10 an ounce. Silver lost 24 cents, or 1.3 percent, to $17.54 an ounce. Copper fell 3 cents, or 1.3 percent, to $2.62 a pound.

The dollar bounced back to 113.98 yen from 113.88 yen. The euro fell to $1.0569 from $1.0579.

The CAC 40 in France traded 0.3 percent lower.

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

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THE WALL STREET JOURNAL.
U.S. EDITION

World News: Swift Cuts Off Banks In North Korea

By Jay Solomon
397 words
8 March 2017
The Wall Street Journal
J
A7
English

WASHINGTON -- Three North Korean state banks have been recently banned by the world's most important financial messaging service, amid growing calls in Washington and Europe for the complete isolation of Pyongyang from the international financial system.

The Society for Worldwide Interbank Financial Telecommunication, known as Swift, banned the North Korean banks in recent weeks, the Belgian company told The Wall Street Journal. The move came as United Nations investigators uncovered evidence that the banks had continued to use Swift's global services despite being on U.N. sanctions lists, according to a U.N. report published earlier this week.

The Swift network is the lifeblood for most international commerce and banking transactions. Although North Korea's access to global **financial markets** was already constricted by longstanding international sanctions, the country continued to access it either overtly or through front companies in China, Southeast Asia and Africa, the U.N. said in its report.

Members of Congress have suggested Swift could be in violation of U.S. law by conducting business with North Korean firms, according to congressional staffers. Last year, the Treasury Department designated North Korea's entire financial system as a primary money-laundering concern.

According to the U.N. report, seven blacklisted North Korean banks continued to use the Swift network in recent years. Four of the banks voluntarily exited, but three continued to be active on Swift throughout 2016, the report said. It wasn't clear how the three banks kept using Swift despite being blacklisted.

The U.N. named the banks as: Bank of East Land, Korea Daesong Bank and Korea Kwangson Banking Corp. Efforts to reach the banks in Pyongyang were unsuccessful.

Swift, in a statement provided to the Journal on Monday, said it stopped providing services to all U.N.-sanctioned North Korean banks after receiving instructions from the Belgian government earlier this year. The company didn't state how many nonsanctioned North Korean firms still have access to its system.

"As a global utility designated as a critical service provider, Swift has no authority to make sanctions decisions," the company said.

U.S. senators have called for Swift to completely ban North Korea in response to the string of nuclear and missile tests it has conducted in recent months.

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THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
A Taxing Problem Bedevils Investors

By Justin Lahart
530 words
8 March 2017
The Wall Street Journal
J
B1
English

[Financial Analysis and Commentary]

A corporate tax cut could provide a big boost to companies' profits. The boost might not be quite as big, or come as soon, as investors think, though.

Yes, the U.S. corporate tax rate, at 35%, is among the world's highest. President Donald Trump and the Republican-led Congress aim to change that. Mr. Trump has proposed dropping it to 15%, while the plan that House Republicans drew up last June would lower it to 20%.

Even with some of the offsets that the House plan would use to make up lost tax revenue, such as a tax on imports, it seems an enticing prospect for investors. Furthermore, stiff opposition from retailers and other groups raises the prospect that those offsets won't get included in an eventual plan.

So by how much would a tax cut juice corporate profits? The first thing to recognize is that few large public companies pay the statutory rate. By Goldman Sachs's reckoning, the effective tax rate for companies in the **S&P 500** -- which includes not just federal, but also state and local taxes -- is 28%. Under the House plan, Goldman figures it would drop to 24%, boosting after-tax earnings by about 10%.

That could make the **stock market** look significantly less rich. The **S&P 500** now trades at about 18 times analysts' expected earnings for 2016, according to FactSet. Raise earnings by 10% and that price/earnings ratio slips to a more reasonable but still expensive 16.4.

But when corporate taxes fall, all of the money companies save doesn't fall through to cash flows. One thing lowering taxes does is reduce companies' cost of capital, which makes investment more attractive. So some of the tax cut would end up going toward buying new equipment. Similarly, some would be spent on salaries. A recent study from economists Juan Carlos Suarez Serrato and Owen Zidar suggests that over time about one-third of the tax cut would end up going toward workers rather than shareholders.

A lower corporate tax rate also might convince some companies to reassess their use of tax havens, notes Tax Policy Center co-director Eric Toder. Any profits they redirect toward the U.S. would then be subjected to a higher tax rate, raising their tax rate. Thus, the effective rate might not fall as much as advertised.

For Goldman strategist David Kostin, the biggest sticking point on the tax cut is that investors seem to expect tax cuts to come into effect sooner than is likely. The brewing fight over House Republicans' health-care plan may take a big chunk out of the congressional calendar this year. Tackling health care first may not necessarily reduce the odds of an eventual corporate tax cut, but it does make it less likely to happen this fiscal year.

Stock prices are supposed to be a reflection of expected future earnings. If investors are expecting too much from a corporate tax cut and expect it to come too early, then prices will have to come down.

Document J000000020170308ed380001p

THE WALL STREET JOURNAL.
U.S. EDITION

Inflation Premises May Be, Ahem, Inflated

By Jon Sindreu
1,066 words
7 March 2017
The Wall Street Journal
J
B1
English

No number is more important for investors right now than inflation. The belief that it will continue to rise underpins the recent rally in financial stocks and the slump in government bonds. It is key to commodities, currencies and more.

Yet investors are in a quandary: Theories used to forecast it just don't seem to work.

"I don't think we know what inflation is. It takes so many different forms," said David Lafferty, chief strategist at Natixis Global Asset Management, which manages about $900 billion. Inflation is this year's "wild card," Mr. Lafferty said.

For decades, the assumption has been that central banks have the ultimate handle on inflation. When inflation goes up, they raise interest rates to quell it; when it goes down, they lower the rates.

Investors care a lot, because bond yields broadly track interest rates. They need to predict inflation levels as well as how central banks would react.

Neither is easy, and it just got more complicated: After years of postcrisis monetary experimentation, it's not even clear central bankers can do much about inflation at all.

On Friday, five top economists presented a paper at a monetary-policy conference saying the main gauges policy makers typically use to understand inflation -- such as "slack" in the labor market -- don't actually explain it.

What's more, the last several years of extraordinary monetary policy have shaken a theory that had held sway for decades in **financial markets**: American economist Milton Friedman's view that inflation is ultimately a function of how much money a central bank prints.

That theory posits that if the economy has only two apples and two dollars, each apple has to be worth $1. When the central bank issues two more dollars, there is suddenly $2 for every apple: inflation. And what people think inflation will be in the future is crucial: Workers will bargain harder for pay raises if they believe prices will rise faster in the years to come.

Yet, after the 2008 crisis hit, central banks in developed economies slashed interest rates and printed trillions of dollars, euros, pounds and yen. Many investors and policy makers believed inflation -- and a selloff of government bonds -- would soon follow.

"I thought we'd see inflation before authorities could respond," said James Athey, a fund manager at Aberdeen Asset Management. So confident was one former eurozone central-bank governor that, over dinner in late 2013, he made a 10 Hong Kong dollar bet (pegged by the government at US$1.29) with economics professor Ken Kuttner that money printing would cause inflation to soar.

It didn't. In fact, economists who study central-bank operations broadly believe that the amount of money created is a consequence of rising prices, not the cause. That is, if the price of apples goes from $1 to $2, the central bank will eventually need to issue more money to prevent money from getting scarce and interest rates from skyrocketing.

"I think I can count those 10 Hong Kong dollars as money in the bank," said Mr. Kuttner, of Williams College.

Mr. Athey laments not having bet heavily on U.S. Treasury bonds, which have been on a roll since 2008. "The bond investor community in aggregate for a long time got that wrong."

Friday's research also found little connection between people's expectations of future inflation and what prices actually turn out to be.

The reality check for economic theory goes further: Surveys show that lower interest rates aren't a key factor in the decisions of households and businesses to take on credit and spend more.

Before the 1980s, many economists described inflation as coming from a complex mix of sources. Companies nudged up prices when their input costs were higher -- "cost-push" inflation -- or when shelves were depleted by booming sales -- "demand-pull" inflation.

Indeed, some money managers today believe President Donald Trump's tax-cutting policies may spur demand and thus inflation. His protectionist policies may also push up domestic wages and make imported goods more expensive.

Yet, historically, a better guide to inflation has been prices of raw materials, largely commodities. Swings in oil markets and market expectations of long-term inflation have moved in lockstep. Arend Kapteyn, chief economist of UBS's investment bank, calculates that 84% of the variation in inflation since 2002 is explained by shifts in oil and food prices.

Demand may play a small role indeed in fueling inflation. Research finds that businesses rarely price their products based on how much they are able to sell. Rather, companies pass on to consumers as much of their costs as competition will allow. Throughout history, most sudden spikes in inflation were preceded by rising commodity prices.

But even costs are complicated to measure. Wages aren't negotiated in the smooth manner economists imagine, because power dynamics between employers and employees can shift. A globalized workforce, weaker unions and changing government policy likely play strong roles in keeping prices down.

Analysts and investors are paying closer attention to indicators like corporate margins and the amount of industry concentration. Fatter profits allow companies to respond to rising commodity and labor costs without increasing prices, but a position of monopoly can lead them to pass on costs to consumers regardless.

Mark Tinker, head of AXA IM Framlington Equities Asia, said the current rise in prices doesn't give him the information needed to forecast the future. "An indication of pricing power is much, much more relevant," Mr. Tinker said.

Central bankers' reactions have also changed. Economists believe that house prices and household debt loads now play a more important role in their decisions.

To be sure, many investors still fear the danger they see in all the money printed by central banks. " 'Too many dollars chasing too few goods' is easy to explain, and it's a theory that can almost fit on a bumper sticker," said Mr. Kuttner, who is still waiting for his opponent to concede the $1.29 bet. The former central banker declined to comment.

Adjusted for inflation, the prize is still worth $1.24 after more than three years.

(See related letter: "Letters to the Editor: It May Make the World Go Round, but What's Money?" -- WSJ March 25, 2017)

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THE WALL STREET JOURNAL.
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Debt Ceiling Adds to Rate Dynamics --- Impact of decline in bill sales on yields is increasingly being felt in Treasury market

By Min Zeng
694 words
7 March 2017
The Wall Street Journal
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B12
English

A long-running standoff in Congress is helping to push down short-term U.S. bond yields, while raising the prospect of more **volatility** ahead.

The yield gap between short-term U.S. Treasury debt and derivatives that track expected Federal Reserve interest-rate moves has ballooned to more than double its longer-term average, partly reflecting a sharp decline in routine sales of U.S. Treasury bills.

The sales decline, by making bills more scarce, has pushed up the price of U.S. debt maturing in a year or less. That in turn has lowered the yield of those bills since yields fall as prices rise.

This supply effect is often overlooked as investors assess the largely macroeconomic factors that typically drive Treasury trading. But the impact has become more prominent this year in the run-up to the March 15 sunset of a congressional agreement on the U.S. debt limit, partly offsetting factors that would tend to push up bill yields, such as the Fed's plan to continue raising short-term interest rates this year.

"It is a supply crunch," said Blake Gwinn, U.S. rates strategist at NatWest Markets.

On Monday, the yield on the one-month bill was 0.532%, up from 0.421% at the end of 2016. The yield on the three-month bill closed at 0.726%, the highest since 2008, reflecting expectations the Fed will raise rates at its meeting next week.

A popular way used by investors and analysts to measure the relative value of bills is to look at their spread with overnight index swaps. The OIS is an interest-rate derivative in which investors bet on the Fed's interest-rate policy. In essence, it measures investors' expectations of what level the effective federal-funds rate will be at on average during a given period.

On Monday, the one-month bill traded at about 0.29 percentage point below the one-month OIS, according to data from Mark Cabana, head of U.S. short-rates strategy at Bank of America Merrill Lynch. The bill yield, on average over the past five years, was 0.11 percentage point below the one-month OIS.

"It tells you bills are expensive due to the supply dynamics," Mr. Cabana said.

Lawmakers agreed to suspend the debt-ceiling debate in late 2015, which allowed the Treasury to raise bill issuance to meet funding needs amid robust demand from money- market funds. The agreement's expiration March 15 means the Treasury must bring its cash balance back to the level before the suspension.

The Treasury needs to shrink the cash balance to about $23 billion on March 15 from the more than $400 billion at the end of November, the highest since the 2008 financial crisis.

The task has led to falling net issuance of bills. The Treasury has paid down a net total of $195 billion in bills over the past three months and will retire at least an additional $93 billion between now and March 15, according to Lou Crandall, chief economist at Wrightson ICAP LLC.

Adding to the scramble for bills: an overhaul of the money-market industry that has spurred an increase in funds targeting Treasury debt.

In its recent quarterly refunding statement in February, the Treasury said that if Congress fails to increase or further suspend the debt limit by March 15, it can take certain extraordinary measures to continue to finance the government temporarily. The Treasury warned that it is "impossible to provide a precise forecast as to how long the extraordinary measures will last."

Bill yields could spike if political gridlock grows in coming months, a situation that has played out during the debt-limit showdown in recent years, some analysts warned.

A stalemate over the debt ceiling now appears unlikely, with Republicans controlling both houses of Congress. But when it comes to politics, the lesson is "who knows?" said Kam Poon, money manager at Aberdeen Asset Management.

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THE WALL STREET JOURNAL.
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Heard on the Street
Beijing Needs to Rethink Revamp

By Nathaniel Taplin
426 words
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English

[Financial Analysis and Commentary]

Reform is what makes China tick for investors. The more signs that Beijing is taking on tough problems, the more investors cling to the idea that the China miracle has room to run.

They are watching closely for signs of change at this week's annual meeting of China's National People's Congress, when the country's leaders map out the latest economic course. A more modest economic growth target of "around 6.5%" unveiled Sunday by premier Li Keqiang is another baby step toward acknowledging the need for change. But China's gradualist approach to change may have run its course.

As China's **financial markets** have grown larger and more complex, incremental reform has gotten tougher because lightning-fast market reactions speed the impact of reformers' decisions and create a strong temptation to backpedal, according to a National Bureau of Economic Research paper by economists Markus Brunnermeier, Michael Sockin and Wei Xiong.

China's struggle to reduce industrial overcapacity is an example. In years past, steel and coal capacity cuts were difficult, but the impact unfolded slowly over time. Yet since coal and iron-ore futures were introduced in 2013, when curbs are announced, markets react instantly.

Tough curbs on coal output were announced in April 2016 to try to curb overcapacity.

But when import and electricity data began hinting at higher demand last fall, coal and iron-ore futures flew through the roof.

As prices rose, regulators rapidly watered down output restrictions. Prices have now fallen back -- but in the future, capacity curbs may prove difficult to execute.

Another area of struggle is ballooning corporate and local government debt. In the past, financial problems at important state firms could be handled behind closed doors by banks and local governments, with Beijing coordinating as needed. Changes in debt policy would take time to affect the real economy.

But now, debt markets react instantly -- as they did in April 2016 when the central bank used tough language on cutting off "zombie enterprises."

After several weeks of hair-raising market **volatility**, the central bank stepped in with massive liquidity injections and tossed bonds back into a **bull market**.

That avoided a major blowup -- but the message that pressure to deleverage would be temporary was reinforced.

Deng Xiaoping famously abided by the reform philosophy of "crossing the river by touching the stones." These days, the river is running too fast and too deep for small steps.

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THE WALL STREET JOURNAL.
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Why the White House Worries About Trade Deficits

By Peter Navarro
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Do trade deficits matter? The question is important because America's trade deficit in goods is large and persistent, about $2 billion every day.

The economic argument that trade deficits matter begins with the observation that growth in real GDP depends on only four factors: consumption, government spending, business investment and net exports (the difference between exports and imports). Reducing a trade deficit through tough, smart negotiations is a way to increase net exports -- and boost the rate of economic growth.

Suppose America successfully negotiates a bilateral trade deal this year with Mexico in which Mexico agrees to buy more products from the U.S. that it now purchases from the rest of the world. This would show up in government data as an increase in U.S. exports, a lower trade deficit, and an increase in the growth of America's GDP.

Similarly, if the U.S. uses its leverage as the world's largest market to persuade India to reduce its notoriously high tariffs and Japan to lower its formidable nontariff barriers, America will surely sell more Washington apples, Florida oranges, California wine, Wisconsin cheese and Harley-Davidson motorcycles. Just as surely, the U.S. trade deficit would fall, economic growth would increase, and real wages would rise from Seattle and Orlando to Sonoma and Milwaukee.

Now, what about the investment term in the GDP equation? When U.S. companies offshore their production because of America's high taxes or burdensome regulations, that shows up in government data as reduced nonresidential fixed investment -- and a growth rate lower than it would be otherwise.

That isn't the end of the story. If such offshored production then generates products for export back into the U.S. -- say, an American consumer buys a Ford Focus imported from Mexico rather than assembled in Detroit -- the trade deficit rises, further reducing growth.

To better understand these complex adjustments, consider Carrier. Its management had announced the company would close its air-conditioner factory in Indianapolis and move to Mexico -- and then sell products back into the U.S. tariff-free. But President-elect Trump and Vice President-elect Pence negotiated a deal to keep Carrier in the U.S. and expand its facilities. How will this show up in government statistics? Fixed nonresidential investment will increase rather than decrease. Imports from Mexico will be lower than they would be otherwise, and U.S. exports will be higher. In today's parlance, that's "all good."

The national-security argument that trade deficits matter begins with this accounting identity: Any deficit in the current account caused by imbalanced trade must be offset by a surplus in the capital account, meaning foreign investment in the U.S.

In the short term, this balance-of-payments equilibrium may be benign, as foreigners return our trade-deficit dollars to American shores by investing in U.S. bonds and stocks and perhaps by building new production facilities. The extra capital keeps mortgage rates lower, the **stock market** abundantly capitalized, and Americans more fully employed.

But running large and persistent trade deficits also facilitates a pattern of wealth transfers offshore. Warren Buffett refers to this as "conquest by purchase" and warns that foreigners will eventually own so much of the U.S. that Americans will wind up working longer hours just to eat and to service the debt.

Dark though it is, Mr. Buffett's scenario may still be too rosy. Suppose the purchaser is a rapidly militarizing strategic rival intent on world hegemony. It buys up America's companies, technologies, farmland, food-supply chain -- and ultimately controls much of the U.S. defense-industrial base. How might that alternative version of conquest by purchase end for our sons and daughters? Might we lose a broader cold war for America's freedom and prosperity, not by shots fired but by cash registers ringing? Might we lose a broader hot war because America has sent its defense-industrial base abroad on the wings of a persistent trade deficit?

Today, after decades of trade deficits and a mass migration of factories offshore, there is only one American company that can repair Navy submarine propellers -- and not a single company that can make flat-panel displays for military aircraft or night-vision goggles. Meanwhile, America's steel industry is on the ropes, its aluminum industry is flat on its back, and its shipbuilding industry is gathering barnacles. The U.S. has begun to lose control of its food-supply chain, and foreign firms are eager to purchase large swaths of Silicon Valley's treasures.

Much of Wall Street and most economists simply don't care. But to paraphrase Mike Pence on the 2016 campaign trail, the people of Fort Wayne know better. The analysts at the Pentagon know better, too. That's why, for both economic and national-security reasons, it is important to bring America's trade back into balance -- through free, fair and reciprocal trade.

Mr. Navarro is director of the White House National Trade Council. This article is adapted from his March 6 address in Washington before the National Association of Business Economists.

(See related letters: "Letters to the Editor: Trade Deficit, GDP Rise and Fall Together" -- WSJ March 13, 2017)

(See related letter: "Letters to the Editor: Peter Navarro Responds to His Trade Critics" -- WSJ March 23, 2017)

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THE WALL STREET JOURNAL.
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Investing in Funds & ETFs: A Monthly Analysis --- WSJ Pro -- Financial Regulation: Here Come ETF Regulations (and Why the Industry Is Happy About It) --- New funds, but also new risks, are expected to flow

By Dave Michaels
1,692 words
6 March 2017
The Wall Street Journal
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R1
English

Fund companies are about to go on the regulatory offensive in Washington. And their chances for success are looking pretty good.

For the past five years, it has been a totally different game plan, with asset managers playing defense against the federal government, scrambling to deflect a barrage of new regulations and letting a few get into the goal.

But with Republicans now controlling the White House, Congress and the regulatory agencies, sponsors of mutual funds and exchange-traded funds are gearing up to fight for new regulations of their own -- regulations, they say, that would promote growth and innovation. And they expect the next leader of the Securities and Exchange Commission, breaking from Obama-era worries that funds could be a source of systemic financial risk, to favor these measures.

Among the proposals that may get a hearing: efforts to fast-track how most ETFs are approved, and a measure to change how shareholder reports are written and delivered to investors. Perhaps even more important, the industry hopes to alter -- or dump -- a number of rules proposed under the Obama administration that backers of both mutual funds and ETFs have complained about.

The result could provide a boost to the industry, easing the creation of new ETFs and easing requirements for existing ETFs and mutual funds. But a proliferation of new funds could mean heightened risks for investors, particularly regarding ETFs, because many of those funds don't trade frequently, making them more **volatile**.

Perhaps the biggest potential changes on the horizon involve ETFs. Introduced in 1993, ETFs have grown to become a formidable presence in the world of funds. There are now more than 1,800 of the investment vehicles -- which trade on an exchange like stocks -- and their holdings are valued at $2.7 trillion, according to research firm XTF. Newer funds have pursued ever-more-specialized strategies, such as smart-beta ETFs, which base their portfolios on an index but tweak the weightings based on attributes such as value, growth or **volatility**.

Yet the SEC has never written rules specifically governing ETFs. These funds have to piggyback off regulations and laws written for mutual funds, which operate much differently. Currently, every new ETF must go through a process to seek exemptions from mutual-fund rules, including one that allows ETF shares to trade freely at market prices, instead of being bought and sold directly from a fund at net asset value.

On average, approval for new ETF sponsors has taken about one year, although firms that mimic existing or established fund strategies get approval more quickly -- usually within a month or two.

The SEC takes longer to approve ETFs that are more complex or introduce features that the agency's staff hasn't seen before.

As a result, many fund companies want a comprehensive ETF rule that expedites approvals of more-routine strategies. The move could lower barriers to entry for newer firms trying to break into the market. Just three firms -- BlackRock Inc., State Street Corp.'s State Street Global Advisors and Vanguard Group -- manage 80% of ETF assets, according to XTF.

If the proposal is accepted, "it will be a much faster process," says Amy Doberman, a partner at law firm Wilmer Cutler Pickering Hale & Dorr LLP, whose work focuses on mutual funds and ETFs.

The rule would also allow the SEC to more closely examine -- and possibly clear -- more novel and risky products, says Dalia Blass, a lawyer at Ropes & Gray LLP who previously oversaw ETFs at the SEC.

For instance, a group of asset managers led by Precidian Investments wants to sell a new type of ETF that keeps its investments secret. Getting the SEC's blessing would probably allow a range of mutual-fund managers to repackage their products into ETFs without giving away their proprietary trading strategies to copycats.

The SEC has rejected the idea, saying it isn't convinced the product -- dubbed "nontransparent" by the industry -- can be effectively priced without disclosing its portfolio. Precidian declined to comment.

"There are more-esoteric applications where perhaps time is better spent, than on those routine applications that could easily be codified" by a regulation, Ms. Blass says.

The SEC examined changes to streamline the approval process in 2008, but shelved the plan in the wake of the financial crisis. Now those changes may have a powerful advocate in acting SEC chairman Michael Piwowar.

Two years ago, when he was a commissioner, Mr. Piwowar argued that the SEC "long ago should have adopted a rule that would have allowed most ETFs to operate without the need for an exemptive order." The rule, he added, "would advance the commission's core mission, is sensible, would be a good use of commission resources and could be adopted in a short period of time."

The Investment Company Institute, a trade group of fund companies, prodded the SEC in August 2015 to reconsider the proposal, saying it would create a level playing field for all ETFs. The SEC hasn't disclosed if it plans to revisit the proposal.

One question is how strongly big ETF sponsors will back such an effort. The biggest firms, which already have approval for their products, would benefit less from a rule that makes it easier for competitors to launch.

"There is no reason for large ETF sponsors to be pressing for a rule like this," says John McGuire, a partner at Morgan, Lewis & Bockius LLP who specializes in ETFs.

A new proposal could also irk critics who believe there are already too many ETFs that can't recruit a big enough investor base. An SEC analysis following a wild trading session on Aug. 24, 2015, showed that ETFs that trade less often were more prone to extreme price swings that forced hundreds of trade halts on that day (see the analysis at sec.gov/marketstructure/research/**equity_market**_**volatility**.pdf). SEC Commissioner Kara Stein, a Democrat, has said the agency hasn't focused enough on the downside of introducing so many new and complex products to exchanges that were designed for trading individual stocks.

Asset managers have other policy goals in their sights that apply to mutual funds as well as ETFs.

Last year, it failed to persuade regulators to allow funds to email annual reports to shareholders by default instead of sending booklets through the mail. The proposal sparked a lobbying war with paper manufacturers and some consumer groups, and the SEC maintained the status quo to avoid holding up a broader effort to increase the amount of information that funds provide to shareholders. The commission could vote on the measure again after it is back to its full slate of five commissioners, up from two currently.

"It ought to be the model for the way we deliver information to shareholders," says Paul Schott Stevens, the ICI's chief executive. The group says moving to default electronic delivery would save $2 billion over a decade and allow fund sponsors to create a more-interactive document that could capture the attention of ordinary investors.

Another regulatory issue the industry is looking to resolve: rules that were written during the Obama administration but not approved.

The rules stem from an investigation by the Financial Stability Oversight Council, an umbrella group of regulators that can designate financial firms for stricter oversight by the Federal Reserve. The group studied whether big money managers at mutual funds could pose a risk to financial stability by stampeding into popular asset classes, reaching for yield or trying to boost returns with leverage or derivatives.

The council's focus on asset managers influenced a suite of rules that the SEC announced in 2014, such as one that requires managers to maintain a minimum percentage of easy-to-sell assets. The agency completed several of the rules, but some were left unfinished as a result of the November election and the departure of Mary Jo White as SEC chairman. The SEC's next permanent chairman could drop the unfinished rules, or alter them before approval.

One of them, a proposal that would codify an array of complex legal interpretations that govern how mutual funds and ETFs use derivatives, includes a controversial measure opposed by the fund industry. It would cap a fund's exposure to derivatives, setting the limit at 1 1/2 times a fund's net assets. Fund companies say derivatives can provide the same exposure to price or interest-rate moves as bonds, so a fixed limit is arbitrary and biased against funds that use products such as futures and swaps.

Mr. Piwowar, the acting SEC chief, voted against the plan when it was proposed in December 2015, saying the agency failed to justify the need for the limit.

The proposal appears unlikely to get final approval unless the agency removes the cap and simply focuses on providing more clarity around how funds should manage the risk posed by derivatives positions.

"I personally think a well-drawn-up rule on derivatives would be a good one," says Mr. Stevens of the ICI. "There has been so much talk about derivatives for so long. It would tie up a loose end, finish an agenda item and allow them to go on to something else."

Mutual funds and ETFs still have to implement other rules passed by the SEC last year, including the liquidity-management rule, intended to ensure funds can meet a surge of investor withdrawals. That measure also forces them to classify how long it would take to sell their holdings and requires them to disclose some of those metrics to shareholders.

"The pace of additional regulation on the industry was absolutely relentless," Mr. Stevens says. "One priority would be to say, 'Let's think carefully about the need for and the nature of any further rules.' "

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THE WALL STREET JOURNAL.
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Investing in Funds & ETFs: A Monthly Analysis --- 30 Years to Here: How the Market Grew 'Passive'

By Ari I. Weinberg
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6 March 2017
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R8
English

The growth of "passive" investing through index funds and quantitative strategies over fundamental analysis and stock picking isn't something that just happened overnight. In fact, with indexing as we know it today in its formative years, the **stock-market** crash of 1987 was actually the event that precipitated the exchange-traded fund, now the fast-growing way that investors bet on the overall market or sectors without a stock manager at the wheel.

After the 1987 crash, regulators challenged the market to design a mechanism for index portfolio trades. Introduced in 1993 as essentially a stock warehouse, ETFs grew steadily for the next several years as institutions capitalized on the ease of moving in and out of sectors and making tactical bets.

Twenty years later, another market-moving event -- the quant-fund crash of August 2007 that exposed the risk in opaque strategies -- helped spark a piling into index mutual funds and ETFs that exploded in the years following the financial crisis.

Now, 30 years on, index funds are taking heat -- for distorting market prices; for limiting companies' abilities to raise capital; for shirking on corporate governance; for leading investors on a passive-investing path that is "worse than Marxism," as an Alliance Bernstein paper warned last year.

No matter friend or foe, indexing and ETFs have been a destabilizing force (which is what disruptive technologies do: forcing incumbents to adapt or die). So where are we going from here?

(See accompanying illustration -- WSJ March 6, 2017)

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THE WALL STREET JOURNAL.
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Equities -- Ahead of the Tape: Short Sellers Stand to Gain as Rally Matures

By Steven Russolillo
433 words
6 March 2017
The Wall Street Journal
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B9
English

Even in the **stock market**'s prolonged rally, there is still hope for those who traffic in **bearish** bets.

The **bull market** in stocks is celebrating its eighth anniversary this week, the second-longest on record behind the one in the 1990s. That alone would suggest that since 2009, betting against stocks probably hasn't been such a good idea.

But much has changed in the latter stretch of this **bull market**. Individual stocks are no longer rising in unison, and **volatility** has diminished since the presidential election. That is an opportunity to shine for short sellers -- traders who borrow stock and immediately sell it with the hope of buying it back cheaper at a later date, profiting from the difference.

Last month, the 25 most heavily shorted stocks in the S&P Composite 1500 index, which contains a broader array of companies than the large-capitalization **S&P 500**, rose 2.1% on average, according to the research firm Bespoke Investment Group. That performance fell short of both the **S&P 500** and the S&P 1500, which each gained 3.7% in February.

And since January 2014, a basket of the most-shorted stocks underperformed a grouping of the least-shorted ones by 52 percentage points.

The firm measured the most and least heavily shorted stocks based on short interest as a percentage of shares outstanding. It rebalanced both baskets twice a month to reflect changing short-interest levels. Some of the more heavily shorted stocks currently are restaurant operators and retailers, including Shake Shack Inc., J.C. Penney Co. and Under Armour Inc.

When stocks are moving independently and markets are driven by more than responses to outside shocks, as they are now, short sellers have better odds of differentiating themselves.

Correlation among **S&P 500** stocks relative to one another fell in February to the lowest point since 2001, according to S&P Dow Jones Indices. And daily **S&P 500 volatility** in February was the second lowest since 2008.

While the most-shorted stocks are underperforming, creating an opportunity for short sellers, the least-shorted S&P 1500 stocks are also beating everything. Bespoke's Paul Hickey views that as a positive sign for the rally's durability, particularly as stronger companies with little debt and higher earnings power are outperforming the rest of the pack.

If this eight-year **bull market** still has legs, both the shorts and the longs stand to gain.

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THE WALL STREET JOURNAL.
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Investing in Funds & ETFs: A Monthly Analysis --- Portfolio Strategy: A Skeptic's Guide to the Active-Management Revival --- Left for dead, stock pickers are luring investors again

By Jonathan Burton
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6 March 2017
The Wall Street Journal
J
R8
English

Active mutual-fund managers are enjoying a moment in the sunshine, after a long period of darkness.

Consider that 50% of large-cap blend funds topped the **S&P 500 index** over the six months through February, and 57% of large-growth funds beat the **S&P 500** Growth Index, according to research from Leuthold Group, using data from investment researcher Morningstar. Meanwhile, active has also stood out among small-cap blend funds, where 52% beat the Russell 2000 benchmark.

Still, an array of experts say investors and advisers who have embraced index funds should be wary of switching sides, despite active management's current enticing call.

Investors favoring indexed products for the stock portion of their portfolio should keep in mind their good reasons for doing so, these experts say. The majority of mutual-fund managers routinely lag behind their benchmark stock indexes and the corresponding index funds and index-tracking exchange-traded funds they are paid to beat.

This performance gap, due largely to active management's higher fees, is particularly evident over the multidecade horizon that defines most individual investors' experience.

Even Warren Buffett, a paragon of active investing, praises indexing and its patron saint, Vanguard Group founder John Bogle. "Both large and small investors should stick with low-cost index funds," he advised in his latest annual letter to Berkshire Hathaway shareholders, published in late February.

Here are two points to consider about the recent optimism for active management, and why so many experts believe most investors should stick to indexing.

1. 'Active' has its moments. But they are just moments.

Active managers do rise to the challenge at times. The November 2016 election ushered in a rally in some sectors -- for instance, small stocks -- boosting hopes that independent-minded stock pickers could break from the Wall Street herd.

"We're optimistic about active management," says Andrew Folsom, investment analyst for the global manager research team at Wells Fargo Investment Institute. He cites the coming end to the Federal Reserve's "easy money" approach that penalized active managers seeking to invest in higher-quality companies; widening dispersion in stock returns; and a new crop of market winners and losers as a result of Trump administration policies that appear to favor value-priced, economically cyclical businesses.

Moreover, he predicts, the influx of money into indexed investing will slow, giving active managers their best chance in years to compete: "The headwind that once was a fire hose will be a garden hose."

Leuthold Group also sees the tide turning for active management. The firm cites currently "favorable to active" market conditions, including small-cap stocks beating large-cap; value-stock strategies outdueling growth; and the 25 biggest stocks in the **S&P 500** collectively lagging behind their 475 less-pricey peers.

"This all favors the active investor who doesn't chase those megacap growth stocks," says Scott Opsal, Leuthold's director of research. "When that top-heavy group is winning, the index is winning. When the other 475 is winning, that's where active managers tend to fish."

Still, shifting to active management based on short-term performance isn't a long-term plan. If investors change anything now, they should consider adjusting their portfolio allocation, not their investment strategy. If small-cap is attractive, for instance, they can add small-cap index funds.

The impact of this advice becomes clearer when active funds' results are considered beyond a year or two. Morningstar's semiannual "Active/Passive Barometer" study, for example, shows active management's strength erodes over time. A case in point is the one-year period through June 2016, the most recent report available, where 46% of small-cap blend funds beat their indexed peers. Yet over a five-year span, 32% of small-cap funds outperformed, and 26% over 10 years.

Mitch Tuchman, managing director at Rebalance IRA, which uses indexing to oversee retirement investments, observes: "How much extra do you really think you're going to make with active management, versus how much you can lose if you're wrong? It's too much risk, not enough possible return -- and likely, less return."

Indexing isn't for all investors, of course, but it has changed their playing field. The popularity of inexpensive mutual funds and ETFs that track benchmark indexes has compelled active managers to lower fees in many cases.

"Over long periods of time, keeping costs as low as possible is probably the only winning strategy," says Ben Johnson, director of Morningstar's global ETF research.

Indexing also brings peace of mind for many investors. There is no crystal-ball guesswork to divine the best and brightest fund managers, and, accordingly, less reason for trading and worry.

2. If you're 'active,' be smart

Investors who still choose active management should always remember that not all active managers are equal. Steer clear of firms charging standard retail for index-like returns, and instead support firms with upper-tier performance year after year, backed by a clear investment philosophy and process.

Going light on the most popular (i.e., expensive) stocks, or avoiding them, is one way a manager shows divergence from the pack, especially in a **bull market**. Holding an above-average amount of cash in a portfolio is another. When stocks are rising, cash will drag on performance, but also can cushion a downturn and give a manager trading flexibility and a war chest to buy stocks at cheaper prices.

"Active managers like to look far and wide for the best deals," Leuthold's Mr. Opsal says. "As long as these conditions stay, with a broad, economically driven value market, then active could win because value should win. If you've got active funds, don't pitch them out," Mr. Opsal advises. "The cycle will turn. Active will have its day again."

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Investing in Funds & ETFs: A Monthly Analysis --- Fundamentals of Investing: Three Ways to Value Gold; Three Conclusions --- Gold is selling at a huge discount; or it's really pricey; it all depends on how you look at it

By Mark Hulbert
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R13
English

Where is the price of gold headed? Well, consider this: One closely followed statistical model concludes that bullion is 46% overvalued, while another says gold is 35% undervalued.

Which is closer to the truth? It's impossible to say.

Gold poses more difficulty than almost any other financial asset when it comes to determining fair value. The reason that there can be such a divergence of forecasts, according to Campbell Harvey, a finance professor at Duke University's Fuqua School of Business: "Gold is poorly understood. There are many forces driving the price of gold, and the importance of those forces changes through time . . . . This is very hard to model."

Prof. Harvey says that when it comes to valuing a company, "we can look at the fundamentals, the sales, the margins, new investments, debt and dividends, and build a bottom-up valuation." Or when looking at a country, he says, "we can do a similar exercise looking at GDP growth, indebtedness, consumer behavior, and get a sense of the value of sovereign debt or stock markets."

But for gold, he says, "there is not much to work with."

Analysts often disagree as well on valuations of particular stocks or industries, he adds. "But the range of disagreement is [relatively] small. With gold, reasonable people can have sharply different views of the value."

To see how sharply those views differ, consider three different ways to value gold: as an inflation hedge, as a hedge against political uncertainty and as a way to get portfolio diversification.

First, gold's relationship to inflation has been anything but stable since the early 1970s, when it became legal for U.S. citizens to invest in gold. The ratio of gold's U.S. dollar price to the consumer-price index has been as low as 1.5 and as high as 8.7, according to Claude Erb, a former commodities manager at mutual-fund firm TCW Group.

Only over the very long term -- many decades, if not longer -- does gold do a creditable job as an inflation hedge, according to a study of gold over the past 2,000 years by Mr. Erb and Prof. Harvey. Over any period of relevance to individual investors, relating gold's price to inflation proves profoundly unhelpful.

If an investor nevertheless should insist on basing gold-trading decisions on inflation, he or she currently should be out of gold, according to Mr. Erb. That's because bullion currently is 46% higher than its inflation-based fair value of $860, according to his and Prof. Harvey's research.

Next, consider geopolitical uncertainty. This also makes at least some intuitive sense. But until recently it couldn't be confirmed statistically, because no one had come up with a way to quantify uncertainty. Then three economics and finance professors -- Scott Baker of Northwestern University, Nick Bloom of Stanford University and Steven Davis of the University of Chicago -- created a series of Economic Policy Uncertainty, or EPU, indexes. And sure enough, according to Prof. Harvey, gold shows a modest historical correlation with the global version of the EPU.

That modest correlation translates into a **bullish** forecast for gold currently, since the global EPU index is at an all-time high, while gold is trading 35% below its record $1,925 an ounce. But don't forget that gold's inflation-based valuation model is painting a **bearish** picture.

A different argument for gold comes from financial planners. They say that owning gold promotes portfolio diversification, on the grounds that it zigs when other assets zag, and vice versa. But Mr. Erb cautions against overconfidence on this score. He says on those occasions over the past three decades in which the **financial markets** suffered their worst returns, gold was more or less evenly divided between rising and falling.

If you want to invest in gold, exchange-traded funds are probably the least expensive way. To invest in the physical metal itself, the largest ETF is SPDR Gold Trust (GLD), with $33.9 billion in assets and an expense ratio of 0.40% (or $40 per $10,000 invested). To invest in gold mining companies, the largest ETF is VanEck Vectors Gold Miners ETF (GDX), with $11.5 billion in assets and a 0.52% expense ratio.

If you're looking for the least expensive way to hedge against inflation, however, you might want to look elsewhere altogether. Treasury inflation-protected securities, or TIPS, guarantee a return over inflation. A low-cost ETF that invests in TIPS is Schwab U.S. TIPS ETF (SCHP), with an expense ratio of just 0.07%.

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THE WALL STREET JOURNAL.
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Down But Not Out, Texas Oilmen Pray For Next Boom --- The Schillers of Houston plot a comeback; 'What other choice is there?'

By Bradley Olson
2,130 words
6 March 2017
The Wall Street Journal
J
A1
English

Just 2 2 1/2 years ago, when a barrel of oil sold for about $100, John and Kristi Schiller were living luxuriantly in Houston high society.

Mr. Schiller, the founder and chief executive of Energy XXI Ltd., had just closed a $1.5 billion deal to buy rival EPL Oil & Gas Inc. and create the largest publicly traded oil producer in the shallow waters of the Gulf of Mexico.

Mrs. Schiller, a former Playboy model, was featured in People magazine for her work with K9s4COPS, which gives trained police dogs to law enforcement. The nonprofit ran a float in California's Rose Parade, and the Schillers waved to crowds as they stood beneath a 20-foot statue of their German shepherd, Johnny Cash.

Today, the Schillers are trying to avoid going broke. What many in the oil industry hoped would be a brief season of pain after prices began plunging in 2014 has turned into an arduously long recovery with oil stuck around $50 a barrel, affecting not only the bottom lines of companies but the personal finances of once-prosperous families.

Much of the couple's net worth was wiped out when Mr. Schiller bet big that prices would quickly rebound -- and lost. He'd used his Energy XXI shares as collateral for personal loans, and when their price fell along with the price of crude, he faced a series of devastating margin calls, documents show.

To cover his debts, he borrowed money from vendors to the company, and an investor who became a board member, according to company securities filings. After the board learned of the loans from the Securities and Exchange Commission and its own internal investigation, it stripped Mr. Schiller of his chairman title in 2015.

Energy XXI declared bankruptcy last April, and on Feb. 2, a new board ousted Mr. Schiller, just after he'd steered the company out of Chapter 11. They let Mr. Schiller retrieve his belongings from the $2,000-a-month Jaguar the company had leased for him, then called him a car ride home, according to people familiar with the matter.

Mr. Schiller was on the host committee for this year's Super Bowl, held in Houston, but he didn't get to go to the game. Energy XXI sold its tickets.

The couple say they believe the worst of the crash is over -- for them and for the industry. While the Schillers lament what they lost, they are keeping hope alive with a vow made familiar by risk-taking oil prospectors: They say they're going to win it all back.

In an interview, Mr. Schiller says he has surveyed the landscape of companies drilling for oil and gas in the Gulf of Mexico and feels now could be one of the best times in decades to go on a buying spree.

Friends and associates say they expect Mr. Schiller to quickly line up financial backers for a new venture and strike a flurry of deals to wage a comeback.

"Your two choices are to quit and put a gun to your head or to go out, make some sacrifices and say, I've done this once, I've done it twice, I'll do it again," says Mr. Schiller, who is 57 years old.

Mrs. Schiller, 46, is promising to make the best of things, regardless of what happens.

"If John and I have to move to a Mickey Gilley double-wide trailer, by God, I will have the first one ever photographed for Architectural Digest," she says.

Michael Reddin, the interim chief executive of the company, now formally Energy XXI Gulf Coast, Inc., declined to comment through a spokesman. A spokesman for the SEC, which bankruptcy documents show had learned of Mr. Schiller's loans as part of a separate investigation into a matter unrelated to Energy XXI, also declined comment.

The Schillers' story is a testament to the roller-coaster nature of oil money, the latest example of a tale that has many prior versions, especially in Texas.

"Diamond Glenn" McCarthy, the gun-toting wildcatter who spent $21 million to build Houston's opulent Shamrock Hotel in the 1940s, overextended himself and had to sell out. The Hilton family acquired it in the 1950s. Sid W. Richardson, who was recognized by Fortune Magazine as one of the richest Americans in 1957, had to pay workers in food for a time during the Great Depression before recovering and leaving his inheritance to his nephew, the father of the billionaire Bass brothers of Fort Worth.

The latest bust has taken a heavy toll on an oil archetype: the big-living, big-dreaming wildcatter. Several of Mr. Schiller's counterparts -- self-made company founders who lived lavishly in the days of $100 prices -- have been brought down.

Former billionaire

Last March, fracking pioneer Aubrey McClendon died in a fiery car crash in Oklahoma City, a day after he was indicted on criminal charges of conspiring to rig the price of oil and gas leases. Tracy Krohn, once identified as a billionaire by Forbes magazine, has seen the value of his shares in W&T Offshore Inc. fall from more than $2.3 billion in 2008 to about $127 million today.

Boards have increasingly sought to move beyond wildcatter founders and their friends to lead companies. Recently minted energy CEOs are far more likely to be pragmatists than the risk-takers whose bets created the boom.

"A lot of the swagger has gone to Silicon Valley," says Les Csorba, an executive recruiter at Heidrick & Struggles International Inc. "The downturn has created a humbling."

Mr. Schiller proudly remains an old-school oil man. Standing about 6'3" with a swath of gray curly hair, he often wears soft kangaroo leather or alligator-skin boots. His gold Texas A&M University class ring constantly adorns his right fist.

He carries a thick wad of $100 bills in a silver clip emblazoned with the name of his homestead, Schiller Ranch. When times were good a few years ago, he'd take one of the bills and hand it to a stranger, seeking to "brighten someone's day," a colleague recalled.

His spending occasionally worried associates who wondered whether he could become overextended, according to two friends. Although his compensation was on the higher end for Houston executives -- he was set to earn as much as $14 million from Energy XXI in 2014 -- Mr. Schiller was no billionaire.

Around the time the deal for EPL closed in June 2014, Mr. Schiller was one of the largest shareholders of Energy XXI. His stake was worth about $30 million. When **oil prices** started falling that year, Mr. Schiller initially reasoned they would soon bounce back.

One associate remembers Mr. Schiller saying he was going to double down and that oil would be back over $100 in a year. He was so confident he cashed out of derivative contracts that locked in a higher price for the coming year.

From July to October, oil fell from about $105 a barrel to $80, and Energy XXI shares fell along with it. Mr. Schiller began to receive emails from a bank that had given him a loan backed in part by his company stock. Because the share prices had fallen, he would need to post more collateral.

Not wanting to sell his shares, he turned for loans to friends, some of whom did work for Energy XXI. In all, he borrowed $13 million from individuals with ties to the company, according to securities and bankruptcy filings.

An internal investigation led by outside law firm Sidley Austin LLP found his actions weren't illegal and that there was no evidence he directed business to those who had provided loans. It did find that he violated the company's code of conduct in not disclosing the loans.

By late November, the bottom was falling out of the oil market. As the Schillers attended a Texas A&M football game against Louisiana State University on Thanksgiving Day, they took in some bad news: Saudi Arabia announced it wouldn't prop up flagging prices by cutting its oil production. LSU wound up beating A&M, 23-17. The next day, Energy XXI fell 37% to $4.01, a 90% decline from just a few years before.

"It was like watching your house burn down, but the water from the fire hose couldn't quite reach it to put out the flames," Mrs. Schiller recalled.

Mr. Schiller took an opulent 29th-floor conference room -- it was once used to entertain employees and guests with cigars and tequila -- and turned it into a "war room" where he renegotiated with company creditors. Within a few months, Mr. Schiller brokered a lifeline that would allow Energy XXI to survive for 18 months, as long as oil held at $45 a barrel.

Prices dropped below $30 a barrel in 2016. The company declared bankruptcy last April, and Mr. Schiller's 1.1 million shares were rendered almost worthless.

Even though he could have sold them before the rest of the carnage took hold, Mr. Schiller declined. Always a believer in Energy XXI, he says he didn't sell because he couldn't bear to think of missing out on a potential upswing. He also didn't want to send the wrong message to investors, he added.

When he finally sold shares that had once been worth more than $50 million, they fetched about $60,000.

"He was putting his personal wherewithal behind the company," says Hugh Ray, a Houston bankruptcy attorney at McKool Smith who followed the drama. "It would have been a lot easier for him to just cut and run and throw the thing in the tank long before it went under."

Bankruptcy wave

Mr. Ray says he expects a wave of personal bankruptcies in Houston. Such filings usually trail those of companies by 18 months to two years.

The Schillers haven't been forced to declare bankruptcy, and they still have their 350-acre Texas ranch. But they put their 7,502 square-foot mansion in the exclusive River Oaks neighborhood on the market in August for about $5.4 million and have since cut the price by $500,000. Among other amenities, it features a two-story, air-conditioned playhouse used by their daughter, who is in elementary school.

The new board installed by Energy XXI's former creditors decided to part ways with Mr. Schiller, believing the aggressive deal maker wasn't the right fit for the more conservative strategy they would need to pursue, according to people familiar with the matter.

From April to December, Mr. Schiller says he received about 20% of his prebankruptcy compensation package. He is set to get a $2 million payment in April, as well as $50,000 a month in consulting fees for up to six months, according to company filings. He is prohibited from disparaging new Energy XXI leaders. He declined to discuss the contract or the reasons for his departure, saying only that he resigned.

Mrs. Schiller, who breeds and sells race horses at the couple's ranch and once had more than 150 on site, is now down to around 40. Her nonprofit, once run out of donated office space in a posh seventh-floor suite near the Galleria mall, now has its offices in one of the larger barns at the ranch. In 2016, her charity donated more dogs than in any previous year.

"It's been a time to readjust, to step back and say, 'Do I really need that? Does that really make my life better?' " Mrs. Schiller says. "A house is just a house."

In a recent interview at his ranch, Mr. Schiller declines to say exactly what he will do next. He said he is enjoying time off after a grueling few years. Then he smiles.

"I've taken a few calls," he says. "I'm not retiring at 57, I'll say that."

If he fails to rebound, Mr. Schiller said, he will merely go back to the life he had in his mid-30s, when he made $250,000-a-year as an engineer and lived in a suburban Houston neighborhood. His children lacked for nothing, and he knew his neighbors well, he jokes. It wasn't so bad.

"The toughest thing in the world, don't kid yourself, is getting back in the saddle and drilling a ninth well when you've drilled eight straight dry holes," he says. "But what other choice is there?"

Katy Stech contributed to this article.

Down, But Not Out

A timeline of the past five years for John and Kristi Schiller, an oil-and-philanthropy power couple who lost much of their wealth when oil prices fell

1 February 2012: Energy XXI shares reach all-time high of about $39. CEO John Schiller's stake is worth more than $50 million.

2 March 2014: Energy XXI announces deal to buy EPL Oil & Gas Inc. for $1.5 billion, becoming the largest producer on the Gulf of Mexico shelf.

3 November 2014: Energy XXI falls 37% a day after OPEC decides not to cut oil output.

4 In 2014, Mr. Schiller is hit by devastating margin calls as the value of his Energy XXI shares falls with oil prices. He turns to friends for loans.

5 October 2015: Mr. Schiller is removed as chairman of Energy XXI. Six months later, the company files for bankruptcy.

6 December 2016: Energy XXI emerges from bankruptcy, eliminating $3.6 billion in debt—a week after Mr. Schiller sells almost 1 million shares for about $60,000.

7 February 2017: John Schiller leaves Energy XXI.

Sources: U.S. Energy Information Administration; Energy XXI securities filings and interviews
THE WALL STREET JOURNAL.

Document J000000020170306ed3600025

THE WALL STREET JOURNAL.
U.S. EDITION

Equities: European Stocks Are Left Behind

By Riva Gold and Christopher Whittall
727 words
6 March 2017
The Wall Street Journal
J
B9
English

European shares are lagging behind the global equity rally despite recovering regional growth and corporate profits, highlighting international anxiety over the Continent's fractious politics.

Last year, the eurozone economy kept pace with the U.S. for the first time since 2008, while the region's companies outperformed in the last earnings season. European shares are far cheaper on many valuation measures than those in the U.S.

Yet the Euro Stoxx 50, the eurozone's blue-chip index, is up 2.7% in dollar terms this year, compared with a 6.3% increase for the **Dow Jones Industrial Average** and a 6% gain for MSCI's gauge of world stocks.

Eurozone stocks last week climbed to their highest levels since late 2015 but remain 38% below their peak, even as U.S. indexes have notched records.

Some investors cite economic challenges in the currency bloc, including aging populations and strict labor laws. But the risk of an election that renews existential fears about the eurozone is what is keeping many investors, particularly those outside Europe, on the sidelines, analysts and traders say.

"What's hanging over all our heads is the political uncertainty," said Jim Smigiel, chief investment officer at SEI Investments Co. in Oaks, Pa., who has yet to buy into European shares.

Investors face a run of European elections, including in France, Italy and the Netherlands, in which euroskeptic candidates enjoy a strong showing in polls.

Investors are particularly concerned about France, and the prospect that far-right candidate Marine Le Pen could win presidential elections this spring. Ms. Le Pen has promised to call a referendum on the country's membership in the eurozone.

Most analysts believe that Ms. Le Pen won't win and that even if she does, she would face many hurdles in triggering a Frexit. But after surprise votes for the U.K. to exit from the European Union and for U.S. President Donald Trump, many investors outside of Europe are unwilling to take any chances.

This year, global fund managers view European "disintegration" as the biggest tail risk for markets, according to a recent survey by Bank of America Merrill Lynch. Investors fret that should one country drop out of the euro, others will follow.

There is evidence that U.S. investors started to sell European equities at the start of the year, according to an analysis from Morgan Stanley. Over the first several weeks of the year, European stocks tended to decline more during their afternoon trading session, when U.S. investors are more active, the bank said.

There have been recent signs, including around the Brexit vote and Mr. Trump's election, that suggest investors prefer to stick to more-familiar markets in times of political uncertainty.

Fund-flow data suggest that in recent months funds have been more reluctant to invest in Europe than elsewhere. Cumulative flows into U.S. equity funds since early November equate to 8.4% of these funds' total assets, according to BNP Paribas. That has happened as investors plowed money into equities following Mr. Trump's election victory on hopes of higher economic growth. Cumulative flows to European equities came to 2.7% over the same period.

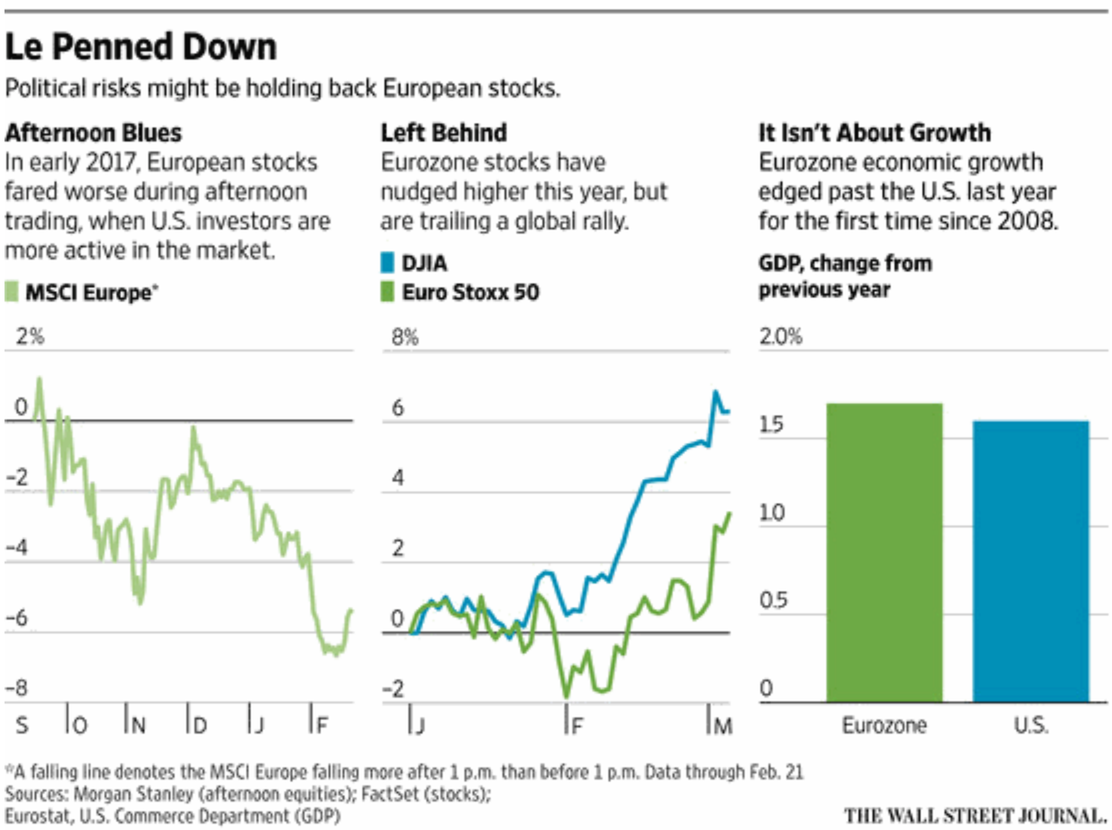
Retail redemptions from Europe equity funds hit their highest level since early November in the last week of February, according to fund-tracker EPFR Global.

In some cases, "people think they don't understand [the French election] enough to take a strong view, and are going to get out," said Isabelle Mateos y Lago, London-based chief multiasset strategist at BlackRock Inc., who doesn't believe that France will ditch the euro.

Accordingly, some say the shares could rise if those fears don't come to pass.

BNP Paribas's Love-Panic index, which weighs investor sentiment, economic data and market data, suggests there is too much pessimism about European stocks and too much optimism about U.S. stocks, said Ankit Gheedia, a strategist at the bank.

The last time sentiment was so skewed toward the U.S. was in December 2014, Mr. Gheedia said, when the eurozone economy entered deflation. That preceded a period of strong market outperformance for European stocks after the European Central Bank announced large-scale asset purchases.



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The New York Times

Business/Financial Desk; SECTB
Trump Has Stocks Up. Some Funds Are Leery.

By KATE KELLY
1,017 words
6 March 2017
The New York Times
NYTF
Late Edition - Final
1
English

Stocks have marched higher and higher -- up 5 percent since President Trump took office six weeks ago -- and the rally has become one of his favorite boasts. And there is plenty of economic data to justify the ebullience.

So why are some hedge fund managers bracing for a sell-off?

It's all in the details.

The economic indicators are certainly heartening, the managers say, and Mr. Trump's ambitious policy agenda -- which includes a market-friendly triad of top priorities in rolling back regulations on businesses, overhauling corporate taxes and spending $1 trillion in infrastructure projects -- looks encouraging, too.

That is, if the policies come to pass as they have been described.

If deep cuts to regulations and a tax overhaul are pushed off to next year, for instance, or if no clear plan emerges anytime soon to rebuild the nation's physical structures, there is plenty of room for disappointment.

''The **stock market** may be currently expecting a best-case scenario for policy implementation,'' Alan Fournier, the founder of the multibillion-dollar hedge fund Pennant Capital Management in Summit, N.J., said in an interview shortly before the **Dow Jonesindustrial average** closed above 21,000 for the first time, on Wednesday.

A closer examination of what it would take to put into effect Mr. Trump's initiatives, like a proposal to impose new import taxes, suggests that market participants might be overly excited, Mr. Fournier added.

''A lot more skepticism'' exists in currency and bond markets, said Mr. Fournier, who looks at the prices of those assets, rather than at stocks, when he needs a powerful gut check. He declined to discuss his current investments in detail.

The market chatter in recent days has been similarly skeptical.

In interviews with more than a dozen money managers in the past week, nine senior investment managers or hedge fund executives predicted that a market decline of at least modest size was likely to occur in the near future.

Protecting the stocks, bonds and other positions that money managers hold from unexpected market moves in either direction is their business. It is the very essence of hedging and is critical to preserving investor capital.

Some of those money managers are using options -- trades that give their initiator the right, but not the requirement, to buy or sell stocks in the future -- to bet that the benchmark **Standard & Poor**'**s500 index** will fall 1 to 2 percent in the coming weeks. Such positions can be cheap to build and can lock in favorable prices if the market declines.

Others, like the Chicago investment firm Citadel, which is known for its aggressive risk management, are adding the effects of Trump policy implementation to their lists of factors that could create market **volatility**, company officials say. (One example: a meaningful rollback of the 2010 Dodd-Frank financial regulation overhaul that would improve the share prices of banks and related companies.)

A number of the money managers interviewed are looking at online betting websites that allow participants to place wagers -- offbeat as they may be -- on whether Mr. Trump will be impeached before the end of his current term as one indicator of popular perception that could depress stocks in the coming months or years.

Ladbrokes, a British gambling company, offers a market for bets that the president will resign or be impeached before the end of his first term. On Sunday, that market implied that the chance of such an outcome was 55 percent.

At Paddy Power, an Irish competitor running hundreds of markets related to the Trump presidency, the implied probability of impeachment was 40 percent. Other betting opportunities ranged from the likelihood of a third Trump divorce before the end of his presidency to the chance that Mr. Trump and President Vladimir V. Putin of Russia would share a Nobel Peace Prize.

''Our customers are so interested in Trump that we've created, basically, a microsite dedicated to him,'' said Lee Price, a Paddy Power spokesman.

Of course, some are dubious about those markets, too.

The idea of using a theoretical Trump impeachment as a reason to hedge investments is ''the stupidest theory I've ever heard in my life,'' said Peter DeCaprio, a founder of the $900 million hedge fund company Crow Point Partners in Hingham, Mass., ''because the odds of it happening are next to zero.''

He added: ''This is why people hate Wall Street. We're paid to evaluate risk and make investments in risky markets. That's it.''

Some funds have made hedging against risk their primary aim. Known as tail risk investment vehicles because they are on the lookout for highly unlikely market moves, they buy instruments like options and other insurance policies that can pay out when prices move in unexpected directions.

''Historic valuations and record complacency in today's markets make them extremely vulnerable to shocks, regardless of who is in office,'' Mark Spitznagel, the chief investment officer of the Miami-based Universa Investments, one of the best-known tail risk funds, said in an emailed statement. ''The current low cost of protection makes a tail hedge an easy decision for asset holders, who are all exposed to the inevitable and increasingly dangerous unwind.''

Mr. Spitznagel recommended the use of S.&P. options known as puts, which are the right to sell that index at a future point in time at previously determined prices.

Other investors, like Citadel, are awaiting further details on events, like a possible government crackdown on drug prices that could hurt pharmaceutical stocks or the lifting of portions of Dodd-Frank that could help financial stocks, that could affect specific sectors.

But without knowing more about how such policy measures will look, many hedge fund managers say it is hard to do more than simply wait until they can read the fine print.

Richard Cohen, a trader on the New York Stock Exchange floor, wore a cap on Wednesday marking a Dow Jones milestone. (PHOTOGRAPH BY RICHARD DREW/ASSOCIATED PRESS) (B4)

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THE WALL STREET JOURNAL.
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Equities -- MoneyBeat: Winning Streak Ages Well

By Kevin Kingsbury
255 words
6 March 2017
The Wall Street Journal
J
B9
English

The **bull market** in U.S. stocks enters its ninth year this week with plenty of momentum.

The **S&P 500** is up more than 11% since the election and is working on a 98-session run without a 1% decline, its longest since 1995.

That streak has drawn plenty of attention as a sign that the recent rally has been so one-sided that it now is stretched and ripe for reversal.

Jonathan Krinsky, chief market technician at MKM Partners, finds that, looking beyond single trading days, the rally's velocity is even more eye-watering.

He points to the 78-session run during which the index hasn't closed at least 1.5% below its 52-week high. That is the longest such streak since 1964's 126-session run and tops 72-day streaks logged in 1995 and 2014.

Analyzing such historical streaks isn't necessarily predictive, but "a market that ignores overbought conditions is one that must be respected. Until and unless there are signs of selling pressure, betting against the trend remains extremely difficult," said Mr. Krinsky.

Many have argued that the speed, magnitude and persistency of the postelection rally signal an aging **bull market** in its final throes. But then many have doubted the staying power of this **bull market** for much of its life, and following years of record highs, the **S&P 500** has nearly quadrupled from its postcrisis low.

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THE WALL STREET JOURNAL.
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Investing in Funds & ETFs: A Monthly Analysis --- News Challenge: The Month in Funds and Investing: Test Your Smarts on Kraft, Bitcoin and Buffett

By Joseph Adinolfi
874 words
6 March 2017
The Wall Street Journal
J
R14
English

Markets sent investors mixed signals in February.

U.S. stocks' record run continued, with the **Dow Jones Industrial Average** completing its longest streak of record closes in three decades. Meanwhile, Treasury yields declined as investors second-guessed the expectation, fostered in the aftermath of President Donald Trump's electoral victory, that his administration would swiftly implement a bevy of pro-growth policies.

How much do you know about last month's news in fund investing and markets? Here's a quiz to test your knowledge.

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1. Restaurant Brands International, the owner of fast-food chains Burger King and Tim Horton's, agreed to buy this popular chain of fried-chicken restaurants.

A. Kentucky Fried Chicken

B. Church's Chicken

C. Popeyes Louisiana Kitchen

D. Bojangles'

ANSWER: C. Restaurant Brands executives see an opportunity to increase revenue by expanding Popeyes's presence in Asia, a strategy that succeeded for rival KFC.

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2. Kraft Heinz Co. dropped its bid for prominent European rival Unilever PLC shortly after unveiling its plans. How long did it take?

A. A week

B. Three days

C. One day

D. Two days

ANSWER: D. From the beginning, Kraft's odds of success were slim: Not only did Unilever's executives swiftly reject Kraft's bid, but also the deal would have faced scrutiny from regulators around the world.

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3. Hedge funds have had trouble generating ________, an industry term for market-beating returns, partly -- they say -- because ultraloose monetary policy has caused stocks to rise in unison.

A. Alpha

B. Beta

C. Gamma

D. Delta

ANSWER: A. The ability to generate alpha supposedly distinguishes hedge funds from cheaper passive funds that seek to track the market.

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4. The price of a single bitcoin hit a record high in February after recovering from a selloff that was triggered, in part, by fears of a crackdown by regulators at which central bank?

A. The Bank of Japan

B. The Federal Reserve

C. The Bank of England

D. The People's Bank of China

ANSWER: D. Bitcoin broke to a record high north of $1,200 as the Chinese central bank asked local digital-currency exchanges to strengthen money-laundering controls and take steps to prevent market manipulation.

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5. A bond issued by the Greek government shortly after the country regained access to capital markets has been **volatile** lately. In what year did it issue the bond?

A. 2013

B. 2010

C. 2014

D. 2015

ANSWER: C. The yield on the $2 billion short-term bond has swung in a range of more than 10 percentage points as the International Monetary Fund threatened to pull out of the Greek bailout.

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6. The Federal Reserve decided at its most recent meeting to leave its interest-rate target on hold in part because of uncertainty surrounding the fiscal-policy outlook. What is the Fed's target range?

A. Between 0.25% and 0.50%

B. Between 0.50% and 0.75%

C. Between 0.75% and 1%

D. Between 0.0% and 0.25%

ANSWER: B. In a statement accompanying the decision, the central bank noted some signs of improvement in the economy, such as rising consumer confidence. On Friday, Fed officials indicated a rate increase could happen at their March meeting.

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7. Over the past decade, passive investment funds have outperformed hedge funds by a substantial margin, leaving billionaire investor Warren Buffett on track to win a $1 million bet with what asset-management firm?

A. Protege Partners

B. Odey Asset Management

C. Appaloosa Wealth Management

D. Greenlight Capital

ANSWER: A. To help fund the wager, the two parties invested in bonds and Berkshire Hathaway stock, expecting them to appreciate over the term of the bet, as they have.

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8. Many pension funds and endowments have pulled money from hedge funds in recent years. But the industry still has a friend in the largest pension fund from which G-10 country?

A. Belgium

B. Sweden

C. Canada

D. Germany

ANSWER: C. CPP Investment Board, one of the world's 10 largest pension funds, still has around 10% of its 298 billion Canadian dollars (US$223 billion) invested in hedge funds.

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9. Over the past year, the four leading robo advisers, Betterment, Schwab Intelligent Portfolios, Vanguard Personal Advisory Services and Wealthfront, have increased their assets under management by roughly how much?

A. 80%

B. 100%

C. 50%

D. 75%

ANSWER: B. The increasing popularity of passive funds that blindly follow the market has Wall Street Journal columnist Jason Zweig wondering if investors are turning into automatons.

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10. These two health insurers filed lawsuits against each other after a judge blocked their proposed $48 billion merger.

A. UnitedHealth Group and Aetna

B. Aetna and Humana

C. Anthem and Cigna

D. UnitedHealth Group and Anthem

ANSWER: C. Cigna filed suit, seeking a breakup fee of nearly $2 billion. Anthem sought to force its would-be partner to adhere to the deal terms while also requesting damages.

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THE WALL STREET JOURNAL.
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Investing in Funds & ETFs: A Monthly Analysis --- Investing for Retirement: Target-Date Funds: What Happens After Retirement --- These investments are supposed to operate on autopilot, but retirees have crucial choices to make

By Jeff Brown
1,411 words
6 March 2017
The Wall Street Journal
J
R4
English

Target-date funds make investing for retirement easy by automatically adjusting a mix of stocks, bonds and cash to become more conservative as a "target" date -- usually an investor's retirement year -- approaches.

But what should an investor do with these funds after retirement begins?

It is a question millions of individuals will face, as target-date investments have become an increasingly popular option in 401(k) plans. Although target-date funds are designed to operate on autopilot, financial experts say people in or near retirement need to lift the hood and evaluate asset allocation and fees (both available in the prospectus) to determine if they should simply stay the course after the target date arrives or reinvest the assets in some other way.

Target-date "funds should not be selected [solely] because of investor laziness, as the closer the investor gets to retirement the greater impact their laziness can have on the outcome of their retirement funds," says Keith Clark, adjunct professor at the University of Minnesota Carlson School of Management and partner at DWC Erisa Consultants, a St. Paul, Minn., firm that advises employers.

One problem, Mr. Clark says, is that target-date funds don't take into consideration factors other than an investor's age and thus can be an "overly simplistic" strategy. One investor may reach a realistic retirement goal "a year or two before the target date, while another is far short," meaning the individual may have to keep working or cut back spending in retirement. The fund is most likely no longer appropriate" for either investor, with the postretirement allocation too risky in the first case, and too conservative in the second, he says.

Target-date funds don't factor in "whether the investor has a pension, is delaying Social Security, is supporting adult children, is planning on buying or selling a house or any other personal goal," says Benjamin Sullivan, a planner with Palisades Hudson Financial Group in Austin, Texas.

So while the ability to leave investment selection and asset allocation to the pros is what attracts many individuals to target-date funds, experts say it is still important for investors to look at whether the asset mix during retirement is going to suit their life expectancy, or any changes in marital status, finances, health and willingness to take risk.

Target-date funds have taken off in recent years as the federally approved "default" option in 401(k)s for investors who don't choose other investments.

The products, which have been around since the early 1990s, typically hold an assortment of stock and bond funds, sometimes more than 20, with a high allocation to stocks for younger investors that gradually gives way to more bonds and cash as the target date approaches. Target-date funds rebalance at least annually to keep the mix of stocks, bonds and cash promised for that point in the cycle.

There are essentially two types of target-date funds. First, there are "to" funds, which reach their final allocation at the target date, and can work well for investors planning to cash out at that point, says Robin Solomon, who advises firms on 401(k) plan design as a partner in the Washington, D.C., law firm of Ivins, Phillips & Barker. Then there are "through" funds, which become ever more conservative after the target date, best serving investors who gradually draw funds for living expenses, she says.

It's important to know that the "glide path" to a safer mix can vary considerably among target-date funds, with some continuing to hold more than half of assets in stocks years after the target date passes, while others have just 20% at the same point, a Morningstar study found. The allocation to equities, which is meant to provide growth to keep up with inflation during a retirement that could last decades, can include risky foreign and small-cap stocks, not just blue chips. During the financial crisis, many investors were shocked by losses in funds with a 2010 target date, though those funds didn't fall as far as the **stock market** due to their bondholdings.

"This was a big problem during the last **bear market**, when many 'conservative' funds geared for people nearing retirement loaded up on equities and high-yield bonds, only to be slaughtered during the downturn," says David Twibell, president of Custom Portfolio Group in Englewood, Colo. "And while many funds have restricted their asset-allocation guidelines as a result, we really won't know if this will be enough to protect potential retirees until the next **bear market** hits."

The shift toward bonds carries risks, too, as bond funds could lose value if interest rates rise in coming years, as many predict. Cash is safe but earns virtually nothing. So even a sensible-sounding conservative allocation poses risks -- the chance of falling short if the investor lives a long time or if personal expenses or inflation pick up.

Jennifer E. Myers, president of SageVest Wealth Management in McLean, Va., says studies have shown that the standard practice of withdrawing 4% a year from retirement accounts succeeds for a long retirement only if the account is at least 75% stocks when withdrawals start, making many target-date funds too conservative.

Another danger with relying on target-date funds for living expenses: Withdrawals mean liquidating all types of holdings in line with their allocation in the fund, defeating part of the purpose of having eggs in multiple baskets.

"Most investment advisers prefer to sell bonds to cover withdrawal needs during market downturns, opting to let stocks recover rather than locking in losses," she says. "This choice is not available when you sell shares of a [target-date] fund."

For individuals who own target-date funds through 401(k)s and other employer plans, retirement presents several options.

Investors generally can remain in the target-date fund in the former employer's 401(k), or move the money into other investments within the plan. Alternatively, they could roll the assets into an individual retirement account, which would allow them to invest in virtually anything.

If they are 59 1/2 or older, they can cash out of the fund without penalty to reduce debts, buy an investment property or reinvest in another product that may be a better fit with their goals and risk tolerance.

"It can be a good idea to look at alternatives such as immediate or deferred annuities or individual fixed-income holdings that align income to the individual's needs," says Colin B. Exelby, president of Celestial Wealth Management of Towson, Md. "They can often be used to reduce the [late-life] risk of running out of retirement income and can be laddered, as well, to reduce interest-rate risk. Of course, the trade-off is that they often reduce the potential upside and often don't provide inflation protection. For a portion of client assets they can serve a very important purpose."

In addition to a fund's investment mix and risk, another variable target-date investors need to consider is the price of the fund.

"Watch out for fund of funds [with] two layers of fees as the investment company may be using their own funds as the underlying investment," Mr. Clark says.

Target-date funds typically charge an overall expense ratio on top of the expenses of the funds they contain. As the portfolio becomes more conservative near and after retirement, fees may chew up a larger share of returns.

"Some funds have expense ratios topping 1.5%, and it isn't unusual for funds to have expenses in the 0.70% to 0.80% range," says Mr. Twibell. "That's a lot to pay for a target-date fund, which at its core is simply a diversified mix of other publicly available mutual funds."

An investor might replicate the mix in the target-date fund by choosing index funds or exchange-traded funds charging 0.2% or less.

"Pair a diversified, low-cost equity ETF with a similar bond ETF and you are well on your way," he says.

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Investing in Funds & ETFs: A Monthly Analysis --- Spotlight / American Customer Satisfaction Core Alpha: An ETF Tracks Happy Customers

By Gerrard Cowan
471 words
6 March 2017
The Wall Street Journal
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R6
English

Want to predict a stock's performance? Look for happy customers.

That's the thinking behind American Customer Satisfaction Core Alpha ETF (ACSI), a $17 million fund launched in November.

The company that runs the ETF, ACSI Funds, takes data from the American Customer Satisfaction Index -- a measure of customer satisfaction based on surveys with more than 100,000 U.S. consumers annually. It then uses this raw data to form the American Customer Satisfaction Investable Index, which the ETF tracks.

The ETF has a total return of 4.3% year to date, trailing the S&P's 6.8% return. However, the fund's managers expect ACSI to outperform the broader index over the long term, says Phil Bak, the company's chief executive officer, noting that the fund has outperformed the S&P since its inception in November. A significant change in customer satisfaction levels typically hits a company's earnings after three to 11 months, he says.

"Ultimately the driver of a company's earnings are the customers," Mr. Bak says. "You need customers to come back, and you need to attract new customers. If you can't do that, it's going to show up in your earnings."

The index is designed to match the risk parameters of the **S&P 500**. It invests in companies in 10 sectors, ranging from information technology to industrials. The weighting of one sector will never be more than 10 percentage points above or below its weight in the benchmark, and an individual company's weighting is restricted to 5% of the index, which rebalances quarterly.

There are a number of factors driving the relationship between satisfaction and performance, Mr. Bak says. Satisfied customers are often repeat customers, and the companies benefit from good word-of-mouth. Additionally, when a company has a loyal following, it has significant pricing power and is able to charge more than rivals offering a similar product or service.

"Their customers love their company, they love doing business with them, so they're able to charge a premium," he says.

ACSI needs a significant sample size of actual customers, so it has a natural tilt toward large, well-known companies. As of early March, Apple Inc., HP Inc. and Johnson & Johnson were among its top 10 holdings.

The ETF is designed for people who would otherwise be investing in more traditional large-cap funds, Mr. Bak says. However, the focus on customer satisfaction is forward-looking, where metrics such as market capitalization, dividends, or even momentum are based on historical performance, Mr. Bak argues.

"We're trying to anticipate changes and events that haven't yet occurred."

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THE WALL STREET JOURNAL.
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Investing in Funds & ETFs: A Monthly Analysis --- Q&A: Against the Tide, Adviser Wins With Vanguard's Active Funds

By Chuck Jaffe
713 words
6 March 2017
The Wall Street Journal
J
R12
English

Dan Wiener understands the conventional wisdom that the average mutual-fund manager can't beat an index. He doesn't quarrel with the math.

He just avoids "average" managers.

The editor of the Independent Adviser for Vanguard Investors newsletter -- which opened in 1991 -- and co-founder of Adviser Investments in Newton, Mass., Mr. Wiener has long told investors to "buy the manager, not the fund." His message hasn't wavered, despite the now-standard thinking that active management as a group inevitably lags behind the indexes they are benchmarked against.

Mr. Wiener's portfolios of active funds routinely top the **S&P 500 index**; his growth model of Vanguard-only funds has beaten the index by an average of 1.9 percentage points a year, compounded annually for 26 years, "a pretty good indication," he says, "that you can use active management and outperform, particularly with a diversified portfolio."

Adviser Investments, which opened in 1994, today has roughly $4.7 billion in assets under management. More than 90% of that is in actively managed funds.

Here are excerpts from a recent interview:

WSJ: What is it that separates the great managers from the average guys?

MR. WIENER: The bottom line on active management is that it's all about costs. There are good managers and bad managers, but what really kills most managers is costs. So when you find a manager with a superior track record of outperformance against appropriate benchmarks, you start looking at costs.

WSJ: But if costs matter that much, why not just go with index funds?

MR. WIENER: Because active managers can add 20, 30, 40, 100 basis points [hundredths of a percentage point] over time after costs are figured in. We start with the premise that a strong manager with a low-cost fund at Vanguard may be where we end up -- because we know that is the right basic structure. But I want to buy the manager, not the fund and not the fund company.

WSJ: So if Vanguard is the default, what takes one of its active funds off your list?

MR. WIENER: The problem with active management at Vanguard is that they have emasculated so many of their great managers by adding layer upon layer of other active managers onto funds. They strip out the strong performance of their best managers by diversifying management teams, adding more people or firms to run a fund.

When too many managers have been added to a fund, we're not interested at all. Vanguard Windsor II was a fantastic fund for years and years, and Jim Barrow was a terrific manager, but every time they added a manager, they made it less attractive." [Note: Mr. Barrow was lead Windsor II manager from inception in 1985 until the start of 2016.]

WSJ: Has it become harder to find great managers?

MR. WIENER: The industry has not made it easy to measure individual managers against their benchmarks -- and more managers are running different types of funds with different styles getting lumped in together. But there are ways to do it, especially if a manager runs a hedge fund or private accounts and we can get their track record against a benchmark. We only need one or two managers in any particular strategy that we can rely upon, one as our core holding in a space and one as a taxable alternative in case we want to make trades for tax reasons.

WSJ: So do you buy new funds with no record, but where you know the manager?

MR. WIENER: We're looking for managers with a spectacular track record, and if they bring it to a new fund, that's great. One manager we bought with a new fund was Bryan Krug, who had a spectacular record, but the fund he was with was too big. Then almost three years ago he opened a fund with Artisan [Artisan High Income] and we were right there. I think we owned half the fund at one point.

Mr. Jaffe is a writer in Boston. He can be reached at reports@wsj.com.

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The New York Times

National Desk; SECTA
Set to Lift Rate, Fed Adopts Hope Felt by Investors

By BINYAMIN APPELBAUM
1,360 words
4 March 2017
The New York Times
NYTF
Late Edition - Final
1
English

CORRECTION APPENDEDThe Federal Reserve is poised to raise its benchmark interest rate in mid-March, significantly sooner than investors had expected, as it moves to keep pace with a wave of economic optimism that started with the election of President Trump.

In an unusually clear statement about a pending decision, the Fed chairwoman, Janet L. Yellen, said on Friday in Chicago that the central bank was likely to act at its next policy-making meeting -- barring any unpleasant economic surprises.

Ms. Yellen added that the Fed still expected to raise rates twice more later in the year, which she said would bring the benchmark rate close to a level that the Fed regards as neutral, with low rates no longer providing an inducement for borrowing and risk-taking. That outlook signals that an end is finally in sight for the Fed's economic stimulus campaign, devised during the depths of the financial crisis more than eight years ago.

Stanley Fischer, the Fed's vice chairman, delivered the same message at the same time at a conference in New York. ''We've seen a lot of substantial change in a relatively short time,'' Mr. Fischer said of the postelection shift in economic conditions. ''There is almost no economic indicator that has come in badly in the last three months.''

Asked whether Fed officials were delivering a coordinated message, Mr. Fischer responded wryly, ''If there has been a conscious effort, I'm about to join it.''

The impending rate increase could heighten tensions with the White House, which wants to stimulate growth by cutting taxes, reducing regulation and increasing defense and infrastructure spending. Fed officials have concluded the economy is already growing at something close to the maximum sustainable pace, meaning faster growth should be offset by faster rate increases.

Financial markets, however, are taking the prospect of higher rates in stride. The **Standard & Poor's 500**-**stockindex**, which is up more than 11 percent since Election Day, ended trading on Friday mostly flat.

The prospective Fed move has modest short-term implications for consumers. Interest rates on car loans and some kinds of credit card debt will tick upward, but remain at low levels by historical standards. Rates on 30-year mortgages are up by about half a percentage point over the past year.

The broader consequences depend on the Fed's ability to raise interest rates without slowing economic growth. The Fed's goal is to return rates to a level that neither encourages nor impedes economic activity. Over the past century, however, most of the central bank's attempts to strike that balance have ended in economic recessions.

The American economy is in the midst of one of the longest expansions in the nation's history, but it is also one of the weakest. The economy expanded by 1.6 percent in 2016, compared with 2.6 percent in 2015, according to the government's most recent estimate.

Fed officials have concluded, however, that monetary policy cannot deliver faster growth. The Fed's job is to minimize unemployment and moderate inflation. The unemployment rate, at 4.8 percent in January, is in a range Fed officials regard as healthy, and prices rose 1.9 percent in the 12 months ending in January, the closest the Fed has come since 2012 to hitting its target of 2 percent annual inflation.

In December, the Fed raised its benchmark rate for just the second time since the financial crisis, to a range of 0.5 percent to 0.75 percent, and predicted three increases in 2017.

At the beginning of the week, however, Wall Street analysts and investors did not expect the Fed to raise rates again any earlier than June. The Fed issued a measured statement after its policy meeting in early February, and the meeting minutes, published three weeks later, conveyed little sense of urgency.

Now, after a week of discussions, analysts regard a March increase as highly likely.

Michael Feroli, the chief United States economist at JPMorgan Chase, described the shift in Fed language as ''remarkably swift and decisive.'' Investors put the chances at almost 80 percent in trading on Friday, according to an analysis of asset prices by CME Group.

Some Fed officials appear particularly focused on the rise of the **stock market**. William C. Dudley, the president of the Federal Reserve Bank of New York, who described markets as ''very buoyant'' on Tuesday, has said in the past that if markets did not respond to rate increases, the Fed might need to act more forcefully to tighten financial conditions.

It is also getting harder to dismiss the market's reaction to Mr. Trump's victory as a bout of temporary euphoria. Mr. Fischer noted on Friday that the **stock market** boom was creating wealth that people would begin to spend.

Ms. Yellen pointed to an improvement in the global context. ''The prospects for further moderate economic growth look encouraging, particularly as risks emanating from abroad appear to have receded somewhat,'' she said.

The shift in the Fed's language over the last week also may reflect a recognition that market expectations were not keeping pace with the Fed's evolving view of the economy. Ms. Yellen, in a February appearance before Congress, hinted that the Fed might be providing a little too much stimulus, describing the Fed's policy as ''accommodative.'' But at the start of this week, investors still put a low probability on a March increase.

Markets are wary of the Fed's flirtations with interest rate increases, as the central bank in recent years has often found reasons for last-minute postponements.

This time, the Fed chose to overwhelm any lingering doubts.

On Tuesday, Mr. Dudley told CNBC that the case for a rate increase ''has become a lot more compelling.''

On Wednesday, Lael Brainard, a Fed governor who has been one of the most consistent supporters of raising interest rates slowly, suggested that she too was ready to act.

''We are closing in on full employment, inflation is moving gradually toward our target, foreign growth is on more solid footing, and risks to the outlook are as close to balanced as they have been in some time,'' Ms. Brainard said at Harvard's Kennedy School of Government. ''Assuming continued progress, it will likely be appropriate soon to remove additional accommodation, continuing on a gradual path.''

Fed officials often bury their latest views on monetary policy at the end of their speeches. Ms. Brainard's remarks came at the beginning, so that no one missed the point.

On Thursday, another Fed governor, Jerome H. Powell, issued a similarly blunt notice of intent in an interview with CNBC. ''I think the case for a rate increase for March has come together, and I think it's on the table for discussion,'' he said.

Then came Friday, the last day on which Fed rules allowed officials to comment on monetary policy before the March meeting, and Ms. Yellen delivered the last word.

''At our meeting later this month,'' she said, ''the committee will evaluate whether employment and inflation are continuing to evolve in line with our expectations, in which case a further adjustment of the federal funds rate would likely be appropriate.''

The committee is scheduled to meet in Washington on March 14 and 15.

Follow Binyamin Appelbaum on Twitter @bcappelbaum.

Correction: March 7, 2017, Tuesday

This article has been revised to reflect the following correction: A subheading on Saturday with an article about the Federal Reserve's plans to increase interest rates misstated the cause of prospective tensions between the Fed and President Trump. As the article correctly noted, it is the Fed's efforts to curb inflation -- not inflation and joblessness -- that may frustrate Mr. Trump.

Janet L. Yellen, the Federal Reserve's chairwoman, and other Fed officials have spoken plainly about a plan to raise rates soon. (PHOTOGRAPH BY KAMIL KRZACZYNSKI) (A13) CHART: Rising Rate: The Federal Reserve has raised its target rate only two times in more than a decade. (Source: Federal Reserve) (A13)

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U.S. EDITION

Inflation Returns World-Wide, but Forecasts Split

By Rachel Rosenthal and Takashi Nakamichi
780 words
4 March 2017
The Wall Street Journal
J
B4
English

Inflation is back around the globe -- even in Japan, the poster child of an economy long beset by falling prices. The big question now is whether it will stick around.

A major factor in higher global prices has been oil, which hit a 13-year low in January 2016 and has nearly doubled since. When that is fed into annual inflation-rate data, it helps drive up the year-over-year comparisons.

But that effect should start to abate by the second quarter, absent another run-up in **oil prices** this year. At that point, global inflation trends could start to diverge.

In developed markets like the U.S., Europe and Japan, the impact of tightening labor markets will step in to pick up where oil has left off, economists say. In emerging markets, though, inflation may moderate thanks to weak underlying economic growth.

That could lead to differing policy paths for global central banks, "with less accommodation or even outright tightening needed in developed markets but continued accommodation, if not outright easing, needed to cushion growth in emerging markets" said Frederic Neumann, co-head of Asia economic research at HSBC Holdings PLC in Hong Kong.

On Friday, Japan reported that core consumer prices, which exclude fresh food but include energy, rose for the first time in more than a year in January, up 0.1% from a year earlier. Petroleum inflation accelerated 9.2% from a year earlier, compared with 0.5% in December, according to Capital Economics.

Eurozone consumer prices, meanwhile, rose 2% in February, the highest annual rate of inflation since January 2013, largely thanks to a 9.2% rise in energy costs, according to Eurostat. In the U.S., a 10.8% rise in energy costs drove annual inflation to 2.5% in January, according to the Bureau of Labor Statistics.

The trend marks a turnaround from a year ago, when the word "deflation" was closer to economists' lips. The specter of falling prices pushed Japan's central bank into new policy experiments, from setting negative interest rates to setting a target rate for 10-year government bonds.

The European Central Bank started buying corporate bonds in June, and the Federal Reserve kept interest rates on hold throughout last year.

In Japan, policy makers are growing confident that the inflation rate will accelerate to more than 1% within a year or so -- even as **oil prices** stabilize -- as the country rides the tailwinds of a stronger U.S. economy and a weaker yen, according to people close to the central bank. A lower yen would drive up import prices, underpinning higher inflation.

Historically, it has taken nine months for currency weakness to show up in inflation readings, said Shuichi Ohsaki, Japan rates strategist at Bank of America Merrill Lynch in Tokyo. He expects the impact of the weakening yen to kick in by April. The yen was recently trading at about 114 per U.S. dollar.

Bank of Japan officials are also gaining confidence that wages will rise this year. While companies remain cautious about giving base-wage increases to full-time workers, they are seen as more willing to raise their bonuses while increasing hourly wages for part-time or temporary workers, who are in short supply.

In a speech last month, BOJ Deputy Gov. Hiroshi Nakaso pointed to tightening labor market conditions as evidence of Japan's improving "output gap" -- which measures the difference between an economy's actual and potential output.

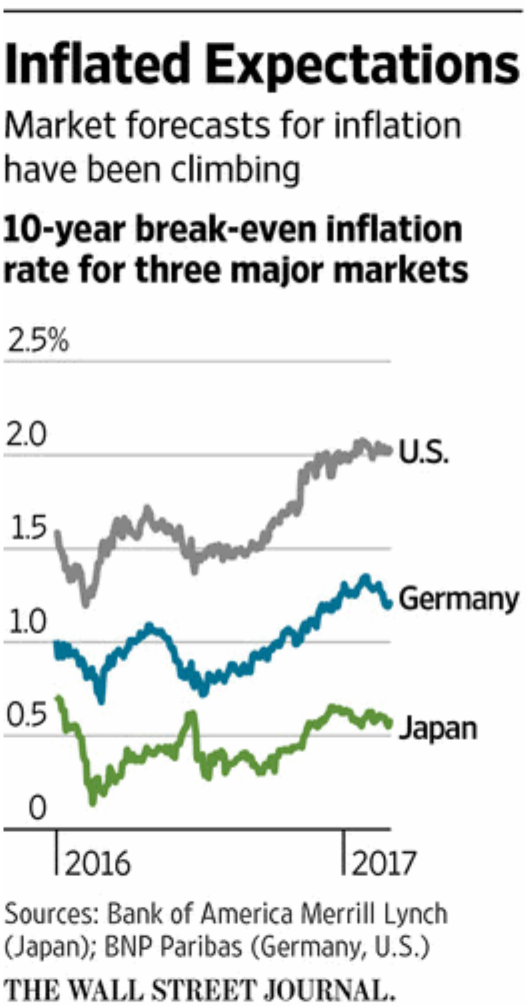
This week, the U.S. reported that the number of Americans applying for unemployment benefits fell to the lowest level in nearly half a century. While unemployment is still high in Europe, the figure fell to a seven-year low of 9.6% in December and held steady in January, the latest data available.

Tightening labor markets could lead to "second-round effects," as workers with higher wages spend more and businesses raise prices to cover their costs, giving inflation an extra boost, said HSBC's Mr. Neumann.

In Asia's emerging markets, meanwhile, there are few price pressures beyond fuel. Food prices, which tend to make up a larger share of inflation baskets than energy, have been stable. Moreover, "relatively subdued economic growth will also help keep inflation in check," wrote Capital Economics in a note.

In China, where the consumer-price index rose 2.5% in January from a year earlier -- the fastest pace in more than 2 1/2 years -- many economists believe that inflation will moderate this year.

Lucy Craymer and Liyan Qi contributed to this article.



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Dollar Rise Muddles Currency Bet

By Rachel Pannett
569 words
4 March 2017
The Wall Street Journal
J
B9
English

For most of this year, investors piled into currencies of commodities exporters like Australia or Brazil, as prices rose for everything from copper to wheat.

Now, many of those rallies are slowing or reversing on renewed signs of U.S. dollar strength. The New Zealand dollar and Australian dollar -- the most heavily traded and liquid of the commodities-linked currencies -- each fell about 1.5% against the U.S. dollar over the past two days. Prices of many metals and agricultural products sank as well.

Many currency investors are shifting to more creative trades. A current favorite: Betting on industrial demand over agricultural by buying the currency of Australia, the world's biggest shipper of iron ore, and shorting that of New Zealand, which exports more dairy than any other country.

Because global growth is likely to be driven by investments in infrastructure, such as those promised by U.S. President Donald Trump, Australia "will be a stronger beneficiary . . . compared to New Zealand," said Nader Naeimi, a Sydney-based portfolio manager at AMP Capital, which manages more than 165 billion Australian dollars (US$124.95 billion). Mr. Naeimi said the long Australian dollar-short New Zealand dollar trade is one of his favorites.

Many commodities and their associated currencies have had a strong run over the past few months, boosted by hopes for better growth in the giant economies of China, where a number of economic indicators have ticked up, and the U.S., whose new president has floated a $1 trillion infrastructure-spending plan.

The Australian dollar rose as much as 7.3% against the U.S. dollar this year, as iron-ore prices climbed to their highest level in 2 1/2 years, and is now up around 5%. Wheat and oil exporter Russia and soybean, beef and iron-ore exporter Brazil have seen their currencies rise a respective 4.2% and 3.1% since the beginning of the year. New Zealand's dollar is up 1.2% this year, although dairy prices, which shot up over the past 12 months, have fallen slightly this year. Oil-rich Canada's currency is up around 0.2% this year, while **oil prices** stayed roughly flat.

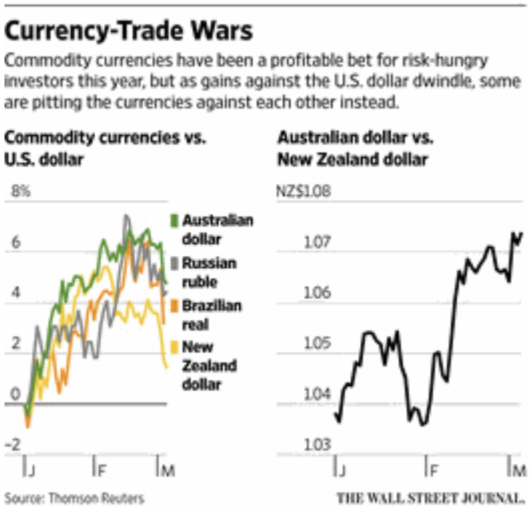
In recent weeks, however, some of that commodities-price surge has slowed. And during the past few days, a flurry of hawkish statements from Federal Reserve officials has increased investors' confidence that U.S. interest rates will rise soon, fueling strength in the U.S. dollar. With further upside against the U.S. dollar likely capped, traders are trying to pick winners among the commodity currencies.

Many traders say prices for industrial commodities -- from coal to copper to iron ore -- are more likely to stay strong due to robust demand from China and the U.S. than prices for agricultural exports.

Daniel S. Janis, who manages $35 billion for Manulife Asset Management, is a fan of the long Australian dollar-short New Zealand dollar trade. Mr. Janis said he bought into the trade when one Australian dollar bought 1.05 New Zealand dollars, and plans to hold a position in it until the Australian dollar hits NZ$1.10.

Some analysts see the Australian dollar as the best commodity currency to bet on, bolstered by exports of coal and iron ore.

Lucy Craymer contributed to this article.



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THE WALL STREET JOURNAL.
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Fed Sees Rate Rise As Soon As March

By Nick Timiraos and Harriet Torry
902 words
4 March 2017
The Wall Street Journal
J
A1
English

Federal Reserve Chairwoman Janet Yellen and her top deputy signaled the central bank is on course to raise short-term interest rates as soon as this month and will seek to pick up the pace as the year wears on.

Boosting the benchmark federal-funds rate at the Fed's mid-March meeting would signal greater confidence in the global economic backdrop and give officials a chance to space out increases evenly over the course of the year, officials' long-stated preference, rather than pack them in later in the year.

If inflation and employment data continue to meet the central bank's expectations, "a further adjustment of the federal-funds rate would likely be appropriate" at this month's gathering, Ms. Yellen said Friday in Chicago.

Fed officials don't want to wait too long to move and risk letting the economy overheat, which could require them to raise rates more rapidly later, possibly causing a recession, Ms. Yellen said. She added that she didn't see any evidence the bank was "behind the curve" or moving so slowly that it risked letting the economy overheat.

Fed officials in December nudged up the federal-funds rate by a quarter percentage point, to between 0.50% and 0.75%, and said they expected to raise rates this year by another 0.75 percentage point, likely in three quarter-point moves. Ms. Yellen on Friday described that projection as "consistent" with the bank's expectation for a gradual pace of rate increases.

Since then, the economic outlook has unfolded largely in line with Fed expectations. "There is almost no economic indicator that has come in badly in the last three months," Fed Vice Chairman Stanley Fischer said Friday at a conference in New York.

The Fed's preferred inflation measure in January rose 1.9% from a year earlier, putting the gauge closer to the central bank's long-run objective of 2% than at any time since 2012.

The U.S. labor market has notched steady gains. Employers added 227,000 jobs in January, and the unemployment rate stood at 4.8%.

Optimism about President Donald Trump's plans to slash taxes and regulations has pushed stock markets to new records, even amid a drumbeat of commentary from Fed officials this week signaling a higher likelihood they might raise rates this month.

"If there has been a conscious effort" to boost expectations of a rate rise, "I'm about to join it," Mr. Fischer said. "I think the advice that has been given by a large number of members of the Fed . . . is correct, and I strongly support it."

Financial conditions have also eased, providing an opportunity to tighten policy without jarring bond markets. Spreads on investment-grade and high-yield corporate bonds have narrowed to their lowest levels since 2014, according to Bloomberg Barclays.

U.S. stocks were little changed on Friday after setting new highs earlier this week. The **10-year Treasury** yield climbed to 2.492%, up from 2.317% at the end of last week.

The Fed has for some time signaled the March meeting was a possible time to boost borrowing costs. But markets only appeared to have taken the message seriously in recent days. On Monday, federal-fund futures tracked by CME Group implied investors saw a roughly 35% chance of an interest-rate increase this month. That jumped to around 80% on Friday.

Interest-rate futures suggest markets now expect the Fed to raise rates 2 1/2 times this year, moving closer to the Fed's projections of three increases.

In recent years, officials faced a recurring predicament where they signaled a desire to tighten policy only to hold off after watching the U.S. economy underperform and face threats from abroad.

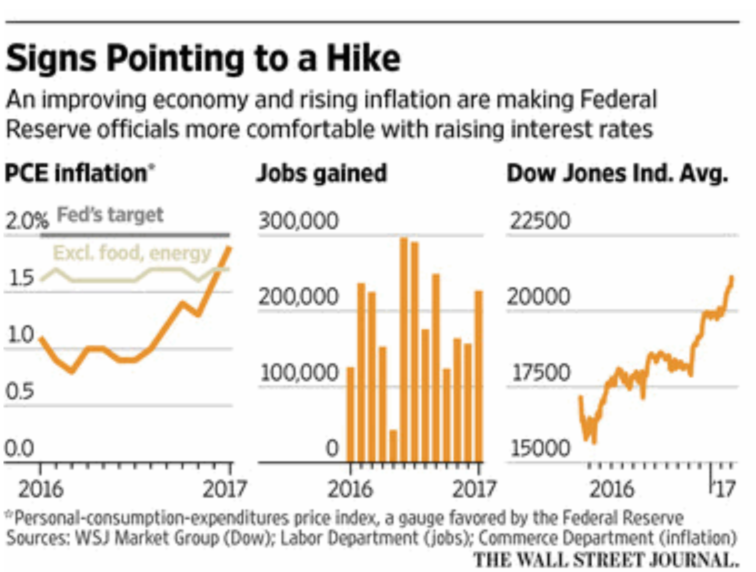
At the start of last year, for example, officials projected the economy would strengthen enough to allow four quarter-point increases. The economy didn't cooperate. Growth slowed in the first quarter amid market **volatility** in China. Then in June, the U.K. decision to leave the European Union fueled market **volatility** and again sapped the urgency for rate increases. The central bank ultimately raised rates just once last year, in December, after raising them just once in 2015.

This year so far has been different because the economic outlook hasn't dimmed. The economy has "essentially met" the Fed's mandate to achieve full employment "and inflation is moving closer to our 2% objective," Ms. Yellen saidFriday. As a result, the process of raising rates "likely will not be as slow as it was during the past couple of years," she said.

More than one quarter-point rate increase this year would push the federal-funds rate over 1% and give the central bank more room to cut rates if it wants to provide more economic support in a downturn.

Spacing out rate increases could also tamp down the urgency to address the Fed's $4.5 trillion holdings of bonds and other assets, or its balance sheet. While the meeting this month is likely to include discussions on how to manage the balance sheet, top officials have signaled they are nowhere near ready to begin winding it down.

Michael S. Derby and Min Zeng contributed to this article.



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The New York Times

Strategies
Your Money
The Stock Market Has Gone So High, It's a Problem

By JEFF SOMMER
1,405 words
4 March 2017
09:00 AM
NYTimes.com Feed
NYTFEED
English

It's a nice problem to have, but it's still a problem.

Stocks have soared so high that a cautious person might start worrying about oxygen supply.

In January, the **Dow Jonesindustrial average** reached 20,000 for the first time. It crossed the 21,000 mark on March 1, and while it slipped on Thursday and then had a late surge on Friday, it still seems to have plenty of power left in it.

That means that if you've been in the market for a while, you are likely to be perching on a mountain of profits. Should you stay where you are and hope for further gains, or is it time to declare victory and move your money to safer ground? That's an eternal question, one that returns whenever the market rises spectacularly. The answer depends, of course, on your analysis of two very different issues: the current situation in the markets, and the one in your own life.

The raw numbers for the **stock market** are astonishing: Even without counting dividends, the Standard & Poor's index has risen more than 6 percent since New Year's Day, nearly 20 percent in the last 12 months and roughly 250 percent since the start of the **bull market** in March 2009.

Market history shows how remarkable that performance is.

The current bull run is now the second longest since 1928, according to Bespoke Investment Group, a research firm. It is surpassed in duration only by one that ran from December 1987 to March 2000.

In terms of strength, it ranks third, well behind that 1987-2000 **bull market**, which had an eye-popping gain of 582 percent, but not very far from one that lasted from June 1949 until August 1956, in which the market rose 267 percent.

The current rally has lasted so long and has gone so far that precedents from past markets may not be very helpful in understanding it. "My attitude is, the market is likely to continue to do better, though I can't point to historic metrics to prove my case the way I usually can," said Laszlo Birinyi, president of Birinyi Associates, a **stock market** research and money management firm in Westport, Conn.

Mr. Birinyi is a veteran strategist and a longtime bull. Back in 2009, he told me that we were at the very start of a classic **bull market**, and he reiterated his **bullish** view periodically, particularly in 2013, when many investors were growing pessimistic about the prospects for stocks.

In a telephone conversation, he said that while some of the market's recent action has been very strong — "a huge move" upward on Wednesday after President Trump's speech to Congress, for example — the **stock market**'s path since 2009 has generally "been a series of slow, grinding moves" with little evidence of irrational exuberance.

Clearly, though, market fundamentals are less auspicious than they were eight years ago, when stocks had been battered in the ferocious downturn of the great financial crisis, and investors with foresight and audacity could buy at rock-bottom prices.

For example, one widely followed metric, the price-to-earnings ratio of the **Standard & Poor's 500-stockindex** — which tells you how much money is being paid, on average, for $1 of corporate earnings — has become much less favorable. It has climbed to 22, well above its five-year average of 18.2, according to data from Bloomberg. Consider that in February 2009, the ratio plummeted to 12.1, a paltry level reflecting widespread fear that both corporate earnings and stock prices would plunge. That moment was a turning point for the market, which has surged upward ever since. It may not be at a peak now, but investors are inhaling rarefied air, whether they know it or not.

Yet it can be argued, as Mr. Birinyi does, that corporate earnings are rising, the economy is expanding nicely, and investors have been reacting fairly cautiously, keeping valuations within reasonable, if not optimal, bounds.

On the other hand, prices have certainly leapt since Election Day in response to the possibility that the Trump administration and Congress will agree on legislation that could enrich American companies: corporate tax cuts, defense and infrastructure buildups, and changes in the Affordable Care Act. But, Mr. Birinyi says, the market hasn't risen all that much, and if earnings keep rising, stock prices probably will, too. "It makes sense to stay involved in the **stock market** and to be positioned for the possibility that it will rise a lot further," he said.

The increasing likelihood of a Federal Reserve interest rate increase would have been a problem a year ago, Mr. Birinyi said, but it is a positive portent at this stage, because it signals that the central bank is convinced that the economy is in good shape and will keep expanding.

That said, he also warned that in the current market, restraint and agility are important. "I wouldn't go all in on stocks," he said. "I'd be careful."

Mr. Birinyi sits in front of a terminal all day, trading individual stocks whenever the prices tell him it makes sense to do so, which most people couldn't and shouldn't attempt. "We get out of a stock if the price is no longer right," he said, "and we will buy it again when it's better. We're ready for whatever happens."

Most of us aren't steady stock traders, and need to be prepared for downturns in other ways. And if little is accomplished in Washington to fulfill investor expectations — or if there is an external shock, such as an international crisis — the market could fall sharply, Mr. Birinyi acknowledged. Furthermore, if the economy falters in such situations, the long rally in stocks could end violently.

One way to deal with this is to try to take a cosmic view, as I suggested in a recent column, ignoring the market's ups and downs entirely and remaining a consistent investor for a horizon that lasts decades. That can be accomplished by allocating your portfolio appropriately between stocks and bonds, depending on age and tolerance for risk, perhaps using diversified, low-cost mutual funds or exchange-traded funds, in which professional managers do the work for you, merely by tracking broad indexes or by picking a variety of individual securities. If you don't need the money for a long while and are able to retain your equanimity in a protracted crisis, you may be able to avoid paying attention to the stock and bond markets.

But even if you're a very long-term investor, it's smart to take inventory. If, for example, you will need a chunk of your portfolio for a down payment on a house or to pay a tuition bill or to replace a roof or buy a car, you may want to liquidate some of it now, congratulating yourself on your gains. In addition, even if you don't need to use the money, selling securities that have incurred losses may be a good move, Mr. Birinyi said. Losses will offset gains when it's time to pay your taxes, and many investors these days are fortunate in having plenty of gains.

In any case, it is surely wise to make sure, after a remarkable run in the **stock market**, that you will be able to handle a sharp downturn when it eventually comes. Personally, I've salted away my savings in broad stock and bond indexes with money that I don't expect to need for years, and I'm careful to limit my own stock allocation. I don't ignore the market. I examine it daily, and if I become convinced that it is shaky, I will reduce my own holdings — and say so — but haven't taken much off the table lately. We all have to live with our own choices. I'm choosing to celebrate but also to be very careful.

Follow Jeff Sommer on Twitter@jeffsommer.

* How to Take a Cosmic View on a Trump **Stock Market**

* The Trump Stock Rally: Calamity Averted With a Little Charm

* Is the Recent Rally Irrational Exuberance?

* Jumping Aboard the Train, as if There Won't Be Another

Minh Uong/The New York Times
Document NYTFEED020170304ed34003jw

The New York Times

Business/Financial Desk; SECTB
Predictions of Rising Interest Rates Propel Bank Shares

By THE ASSOCIATED PRESS
661 words
4 March 2017
The New York Times
NYTF
Late Edition - Final
2
English

A late wave of buying helped nudge stock indexes slightly higher on Friday after a day of mostly listless trading.

Banks and health care stocks climbed the most as investors priced in an increasing likelihood that interest rates would rise.

The Federal Reserve chairwoman, Janet L. Yellen, helped stoke those expectations in a speech on Friday in which she said an improving job market and rising inflation would probably prompt the central bank to increase borrowing costs.

''The real takeaway here is if the Fed is willing to start moving, they see the economy as not only doing better but likely to do better going forward,'' said Brad McMillan, chief investment officer at Commonwealth Financial Network. ''The Fed is notorious for waiting until the evidence of growth is absolutely undeniable.''

The **Dow Jonesindustrial average** rose 2.74 points, or 0.01 percent, to 21,005.71. The **Standard & Poor's 500-stockindex** gained 1.20 points, or 0.1 percent, to 2,383.12. The **Nasdaq composite** index added 9.53 points, or 0.2 percent, to 5,870.75.

Speaking in Chicago, Ms. Yellen said the Fed would probably resume raising interest rates later this month to reflect a strengthening job market and inflation edging toward the central bank's 2 percent target rate.

She added that the central bank expected steady economic improvement to justify additional rate increases. While not specifying how many rate changes could occur this year, Ms. Yellen reiterated that Fed officials in December had estimated that there would be three this year.

Investors' expectations of a rate increase this month had been building in recent days as remarks by other Fed officials signaled the central bank is ready to resume raising rates as soon as its next two-day meeting on March 14-15.

Still, the increased likelihood of higher interest rates gave several stocks a modest lift, including banks, which stand to make healthier profits from lending as rates rise.

Real estate, utilities and phone company stocks tend to lose favor among yield-seeking investors when interest rates rise.

''If yields are going up you don't need to buy those stocks to get your yield, you just buy **10-Year Treasury** notes,'' said John Canally, chief economic strategist for LPL Financial.

Bond prices were little changed after pulling back from an early climb. The **10-year Treasury** yield held steady at 2.48 percent.

Energy futures rose. Benchmark crude gained 72 cents, or 1.4 percent, to close at $53.33 a barrel in New York. Brent crude, used to price international oil, added 82 cents, or 1.5 percent, to close at $55.90 a barrel in London.

Gold fell $6.40 to $1,225.50 an ounce. Silver slipped a penny to $17.70 an ounce. Copper rose a penny to $2.69 a pound.

Wall Street's slight gains on Friday left the **stock market** hovering near its latest record highs set on Wednesday.

Airlines were among the stocks that notched solid gains Friday.

American Airlines Group rose $1.10, or 2.4 percent, to $46.82, while Alaska Air Group added $2.58, or 2.7 percent, to $98.94. United Continental picked up $2.31, or 3.2 percent, to $75.59.

Disappointing company earnings and outlooks pulled down several stocks.

Costco fell $7.72, or 4.3 percent, to $170.26. The firearms manufacturer American Outdoor Brands, formerly called Smith & Wesson, declined 55 cents, or 2.8 percent, to $18.83.

Macy's also fell sharply, one of several retailers that closed lower Friday. The department store chain declined the most among stocks in the **S**.**&P**. **500**, dropping $1.45, or 4.4 percent, to $31.77.

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

Document NYTF000020170304ed3400050

THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
Investors Still Not on Same Page as Fed

By Justin Lahart
295 words
4 March 2017
The Wall Street Journal
J
B10
English

[Financial Analysis and Commentary]

The Federal Reserve is thinking about policy a bit differently this year. Investors have yet to catch on.

On Friday, Fed Chairwoman Janet Yellen made clear that the central bank aims to raise rates when it meets later this month. After a series of speeches from other Fed policy makers had paved the ground, markets just shrugged.

What is odd is that even as they acknowledge the Fed will move more quickly, investors still doubt it will raise rates as much as it has signaled. Projections policy makers released in December centered on an expectation they would raise rates three times in 2017, but interest-rate futures imply only about a 50% chance of a third increase.

Investors ought to think about the possibility of a fourth rate increase. The Fed probably accepts its employment and inflation goals are in sight and, if President Donald Trump and congressional Republicans follow through with spending and tax-cut plans, it may have to shift to ensuring the economy doesn't run too hot.

Furthermore, the Fed will be weighing the shift in **financial-market** sentiment. The risk-on, risk-off behavior of the past several years, where trading in all sorts of assets was highly correlated, has broken down lately -- an indication global economic worries have receded. The surge in stock valuations and narrowing of corporate-bond spreads may also have convinced some at the Fed that markets are a little too exuberant.

Investors took the news that the Fed will likely raise rates this month remarkably well. News that the Fed is quickening the pace on rate increases could be tougher to swallow.

Document J000000020170304ed340001b

THE WALL STREET JOURNAL.
U.S. EDITION

The Intelligent Investor: Disturbing New Facts About Winner-Take-All Capitalism in U.S.

By Jason Zweig
711 words
4 March 2017
The Wall Street Journal
J
B1
English

"Let your winners run" is one of the oldest adages in investing. One of the newest ideas is that the winners may be running away with everything.

Modern capitalism is built on the idea that as companies get big, they become fat and happy, opening themselves up to lean and hungry competitors that can underprice and overtake them. That cycle of creative destruction may be changing in ways that help explain the seemingly unstoppable rise of the **stock market**.

New research by economists Gustavo Grullon of Rice University, Yelena Larkin of York University and Roni Michaely of Cornell University argues that U.S. companies are moving toward a winner-take-all system in which giants get stronger, not weaker, as they expand.

That's the latest among several recent studies by economists working independently, all arriving at similar findings: A few "superstar firms" have grown to dominate their industries, crowding out competitors and controlling markets to a degree not seen in many decades.

Let's look beyond such obvious winner-take-all examples as Apple or Alphabet, the parent of Google.

Consider real-estate services. In 1997, according to Profs. Grullon, Larkin and Michaely, that sector had 42 publicly traded companies; the four largest generated 49% of the group's total revenue. By 2014, only 20 public firms were left, and the top four -- CBRE Group, Jones Lang LaSalle, Realogy Holdings and Wyndham Worldwide -- commanded 78% of the group's combined revenue.

Or look at supermarkets. In 1997, there were 36 publicly traded companies in that industry, with the top four accounting for more than half of total sales. By 2014, only 11 were left. The top four -- Kroger, Supervalu, Whole Foods Market and Roundy's (since acquired by Kroger) -- held 89% of the pie.

The U.S. had more than 7,000 public companies 20 years ago, the professors say; nowadays, it's fewer than 4,000.

The winners are also grabbing most of the profits, according to the Leuthold Group, an investment-research and asset-management firm in Minneapolis.

At the end of 1996, the 25 companies in the **S&P 500** with the highest net profit margins -- income as a percentage of revenue -- earned a median of just under 21 cents on every dollar of sales. Last year, the top 25 such companies earned a median of 39 cents on the dollar.

Among the 25 companies with the highest margins last year were eBay, Altria Group, Baxter International, Gilead Sciences, Corning, Visa, Mastercard, Facebook, and Biogen.

Why might it be easier now for winners to take all? Prof. Michaely suggests two theories. Declining enforcement of antitrust rules has led to bigger mergers, less competition and higher profits.

The other is technology. "If you want to compete with Google or Amazon," he says, "you'll have to invest not just billions, but tens of billions of dollars."

He and his colleagues have found that if you had invested in industries in which the top companies were becoming more dominant, while betting against sectors whose top firms were becoming weaker, you would have outperformed the overall **stock market** by an average of roughly 9 percentage points annually between 2001 and 2014.

To do that, you would count the public companies in a given industry each year and use the sales figures from their annual reports to calculate what's known as a Herfindahl-Hirschman Index.

If the number of companies is trending down, and the HHI is going up, then the winners are taking all, and you should buy.

Maybe that's what many stock investors have been doing lately, even if they're going on their gut rather than statistical evidence.

Still, history offers a warning. Many times in the past, winners have taken all but seldom for long.

Perhaps the laws of creative destruction finally have been repealed once and for all. But sooner or later, capitalism has always been able to turn yesterday's unstoppable winners into the also-rans of today and tomorrow.

You could look it up, preferably on a BlackBerry, if you can find someone who still uses one.

Document J000000020170304ed340000y

The New York Times

Business Day; Economy
Set to Lift Interest Rate, Fed Embraces Investors' Optimism

By BINYAMIN APPELBAUM
1,379 words
3 March 2017
01:00 PM
NYTimes.com Feed
NYTFEED
English

Correction Appended

The Federal Reserve is poised to raise its benchmark interest rate in mid-March, significantly sooner than investors had expected, as it moves to keep pace with a wave of economic optimism that started with the election of President Trump.

In an unusually clear statement about a pending decision, the Fed chairwoman, Janet L. Yellen, said on Friday in Chicago that the central bank was likely to act at its next policy-making meeting — barring any unpleasant economic surprises.

Ms. Yellen added that the Fed still expected to raise rates twice more later in the year, which she said would bring the benchmark rate close to a level that the Fed regards as neutral, with low rates no longer providing an inducement for borrowing and risk-taking. That outlook signals that an end is finally in sight for the Fed's economic stimulus campaign, devised during the depths of the financial crisis more than eight years ago.

Stanley Fischer, the Fed's vice chairman, delivered the same message at the same time at a conference in New York. "We've seen a lot of substantial change in a relatively short time," Mr. Fischer said of the postelection shift in economic conditions. "There is almost no economic indicator that has come in badly in the last three months."

Asked whether Fed officials were delivering a coordinated message, Mr. Fischer responded wryly, "If there has been a conscious effort, I'm about to join it."

The impending rate increase could heighten tensions with the White House, which wants to stimulate growth by cutting taxes, reducing regulation and increasing defense and infrastructure spending. Fed officials have concluded the economy is already growing at something close to the maximum sustainable pace, meaning faster growth should be offset by faster rate increases.

Financial markets, however, are taking the prospect of higher rates in stride. The **Standard & Poor**'**s 500**-**stockindex**, which is up more than 11 percent since Election Day, ended trading on Friday mostly flat.

The prospective Fed move has modest short-term implications for consumers. Interest rates on car loans and some kinds of credit card debt will tick upward, but remain at low levels by historical standards. Rates on 30-year mortgages are up by about half a percentage point over the past year.

The broader consequences depend on the Fed's ability to raise interest rates without slowing economic growth. The Fed's goal is to return rates to a level that neither encourages nor impedes economic activity. Over the past century, however, most of the central bank's attempts to strike that balance have ended in economic recessions.

The American economy is in the midst of one of the longest expansions in the nation's history, but it is also one of the weakest. The economy expanded by 1.6 percent in 2016, compared with 2.6 percent in 2015, according to the government's most recent estimate.

Fed officials have concluded, however, that monetary policy cannot deliver faster growth. The Fed's job is to minimize unemployment and moderate inflation. The unemployment rate, at 4.8 percent in January, is in a range Fed officials regard as healthy, and prices rose 1.9 percent in the 12 months ending in January, the closest the Fed has come since 2012 to hitting its target of 2 percent annual inflation.

In December, the Fed raised its benchmark rate for just the second time since the financial crisis, to a range of 0.5 percent to 0.75 percent, and predicted three increases in 2017.

At the beginning of the week, however, Wall Street analysts and investors did not expect the Fed to raise rates again any earlier than June. The Fed issued a measured statement after its policy meeting in early February, and the meeting minutes, published three weeks later, conveyed little sense of urgency.

Now, after a week of discussions, analysts regard a March increase as highly likely.

Michael Feroli, the chief United States economist at JPMorgan Chase, described the shift in Fed language as “remarkably swift and decisive.” Investors put the chances at almost 80 percent in trading on Friday, according to an analysis of asset prices by CME Group.

Some Fed officials appear particularly focused on the rise of the **stock market**. William C. Dudley, the president of the Federal Reserve Bank of New York, who described markets as “very buoyant” on Tuesday, has said in the past that if markets did not respond to rate increases, the Fed might need to act more forcefully to tighten financial conditions.

It is also getting harder to dismiss the market’s reaction to Mr. Trump’s victory as a bout of temporary euphoria. Mr. Fischer noted on Friday that the **stock market** boom was creating wealth that people would begin to spend.

Ms. Yellen pointed to an improvement in the global context. “The prospects for further moderate economic growth look encouraging, particularly as risks emanating from abroad appear to have receded somewhat,” she said.

The shift in the Fed’s language over the last week also may reflect a recognition that market expectations were not keeping pace with the Fed’s evolving view of the economy. Ms. Yellen, in a February appearance before Congress, hinted that the Fed might be providing a little too much stimulus, describing the Fed’s policy as “accommodative.” But at the start of this week, investors still put a low probability on a March increase.

Markets are wary of the Fed’s flirtations with interest rate increases, as the central bank in recent years has often found reasons for last-minute postponements.

This time, the Fed chose to overwhelm any lingering doubts.

On Tuesday, Mr. Dudley told CNBC that the case for a rate increase “has become a lot more compelling.”

On Wednesday, Lael Brainard, a Fed governor who has been one of the most consistent supporters of raising interest rates slowly, suggested that she too was ready to act.

“We are closing in on full employment, inflation is moving gradually toward our target, foreign growth is on more solid footing, and risks to the outlook are as close to balanced as they have been in some time,” Ms. Brainard said at Harvard’s Kennedy School of Government. “Assuming continued progress, it will likely be appropriate soon to remove additional accommodation, continuing on a gradual path.”

Fed officials often bury their latest views on monetary policy at the end of their speeches. Ms. Brainard’s remarks came at the beginning, so that no one missed the point.

On Thursday, another Fed governor, Jerome H. Powell, issued a similarly blunt notice of intent in an interview with CNBC. “I think the case for a rate increase for March has come together, and I think it’s on the table for discussion,” he said.

Then came Friday, the last day on which Fed rules allowed officials to comment on monetary policy before the March meeting, and Ms. Yellen delivered the last word.

“At our meeting later this month,” she said, “the committee will evaluate whether employment and inflation are continuing to evolve in line with our expectations, in which case a further adjustment of the federal funds rate would likely be appropriate.”

The committee is scheduled to meet in Washington on March 14 and 15.

Follow Binyamin Appelbaum on Twitter @bcappelbaum.

Correction: March 7, 2017, Tuesday

This article has been revised to reflect the following correction: A subheading on Saturday with an article about the Federal Reserve's plans to increase interest rates misstated the cause of prospective tensions between the Fed and President Trump. As the article correctly noted, it is the Fed's efforts to curb inflation — not inflation and joblessness — that may frustrate Mr. Trump.

* What Booming Markets Are Telling Us About the Global Economy

* Some Fed Officials Support Moving Faster to Raise Interest Rate

* Janet Yellen and House Republicans Clash Over Fed's Performance

* With Steady Gains in Economic Outlook, Fed Leaves Interest Rate Unchanged

Janet L. Yellen, the chairwoman of the Federal Reserve, said that the Fed plans to raise its benchmark interest rates this month if conditions are favorable. | By REUTERS

Document NYTFEED020170303ed33005v5

THE WALL STREET JOURNAL.
U.S. EDITION

There's Plenty of Hope for Tax Reform

By David M. Smick and John D. Mueller
992 words
3 March 2017
The Wall Street Journal
J
A17
English

Correction

J.P. Morgan CEO James Dimon said that tax reform is unlikely to pass Congress in 2017. His view was overstated in the March 3 op-ed "There's Plenty of Hope for Tax Reform."

(WSJ March 7, 2017)

(END)

J.P. Morgan chief James Dimon said this week that tax reform is doomed, at least for this year. Last week Sen. Tom Cotton, an Arkansas Republican, took to the Senate floor to attack a pillar of House Speaker Paul Ryan's tax reform plan, the border-adjustment tax, as "stupid." Politico described the House tax reform's prospects as "ominous."

To which Ronald Reagan might have said, "Well, there you go again."

Tax-reform plans are always attacked viciously at first. When the president ultimately signs the bill, however, those who once declared it "dead on arrival" often end up next to him on the platform, trying to score a pen. It is tough for Republicans to vote against a plan that helps both labor and capital -- or, as Nobel economics laureate Theodore Schultz called them, "human and nonhuman capital."

We were involved in the successful 1981 and 1986 tax-reform efforts. In both cases, designing tax policy was not pretty. Elbows flew. Yet in both instances, the pessimistic conventional wisdom proved incorrect.

Consider how events unfolded. In the year leading up to the enactment of the 1981 Reagan tax program, GOP tax-policy makers, like today, were at each other's throats. President Reagan and Rep. Jack Kemp (R., N.Y.) presented the outward image of a close father-son team. Actually, on tax policy, Kemp was a constant thorn in Reagan's side.

As for 1986, people forget that tax reform came about as a kind of fluke. GOP negotiators shrewdly took advantage of what seemed initially a disastrous development. In the two years leading up to its enactment, the conventional wisdom was that tax reform was dead. On Capitol Hill, a House controlled by Democrats and a Senate controlled by Republicans, each with intraparty divisions, had reached a stalemate on tax reform. But something unexpected happened that turned out to be a positive catalytic force.

At the time, former Merrill Lynch chairman Donald Regan was Reagan's (sometimes politically deaf) Treasury secretary. At Treasury a group of mostly nonpolitical tax strategists cobbled together a radical tax-reform plan that skewered special interests and reduced the top personal income-tax rate to 35% from 50%.

Both the corporate lobbying community and the Reagan White House were furious. Adding to the confusion, around that time White House Chief of Staff James Baker and Regan switched jobs. It was now Mr. Baker's responsibility as Treasury secretary to sell Regan's controversial plan.

Sounds like a recipe for disaster. It wasn't. Republican tax strategists used the new radical plan as a wedge to break the ideological and partisan logjam. After a fair amount of jockeying for position, a bipartisan group of congressional tax writers hammered out a compromise, which knocked off the Regan plan's rough edges, cut the top tax rate to 28% from 50%, and taxed investment income the same as wages (eliminating what some now call the "Warren Buffett's Secretary Problem" -- taxing Main Street at much higher rates than Wall Street).

If history is any guide, it would be wise for the pessimists to hold off on signing tax reform's death notice. That's because Republicans risk dire consequences if they don't achieve the promised 3% to 4% economic growth by fall 2018.

It is unlikely that deregulation alone can accomplish this goal. The huge gains in the U.S. **stock market** since the election are based largely on investors' anticipation that bold tax reform is coming -- and soon. If the GOP can't deliver on tax reform, ObamaCare replacement and economic growth, there's the real definition of "stupid."

True, the border-adjustment tax is complicated. The proposal, which would eliminate the corporate income tax and place a 20% tax on imports, assumes that a stronger dollar will counter any effect of rising consumer prices. Executives of Wal-Mart and other retailers hate the tax because of the risk that the cost of imports could rise. But if you don't have a job, you can't buy much. And no one denies that the structure of the U.S. corporate tax code has put American companies at a global disadvantage.

The border-adjustment tax has its pros and cons. One downside is that the world could retaliate if the U.S. taxes imports. Its upside is that the new tax would allow the broader rate-cutting tax-reform package to be revenue neutral, like the successful 1986 reform.

The border-adjustment tax would raise more than $1 trillion in revenue over 10 years, according to the Tax Foundation. If rejected, what will replace it to assure revenue neutrality? Without a substitute, any incentive from cutting marginal income-tax rates would be tiny. And remember, there is no free lunch if the Republican Congress and the administration expand the deficit. Because the current account balance equals the excess of national saving over investment, a tax-reform stimulus that busts the budget deficit would make the president's promise to reduce the trade deficit impossible.

Successful tax reform often begins with a catalyst, even a controversial one, which stirs up debate and brings the relevant parties to the table. House Republicans should insist on the border-adjustment tax until opponents offer an acceptable alternative. In Washington, rhetoric is cheap, but a plan beats no plan. And a continuation of the tax status quo would be bad news for congressional Republicans, the Trump administration and Main Street.

Mr. Smick, the author of "The Great Equalizer: How Main Street Capitalism Can Create an Economy for Everyone" (PublicAffairs, 2017), was Rep. Jack Kemp's chief of staff from 1979-84. Mr. Mueller, a fellow at the Ethics and Public Policy Center in Washington, D.C., was Kemp's staff economist from 1979-88.

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THE WALL STREET JOURNAL.
U.S. EDITION

Goldman's ETF Strategy Pays Off --- Recent entrant to the niche quickly attracts $3 billion with prices that undercut rivals

By Asjylyn Loder
779 words
3 March 2017
The Wall Street Journal
J
B11
English

Goldman Sachs Group Inc. has amassed $3 billion in its exchange-traded funds in just 18 months, one of the most successful debuts in the industry.

Few have noticed, illustrating the conundrum for banks that have come late to the U.S. ETF market. While banks have decided the sector's significant growth potential is too good to miss, ETFs remain a tiny niche relative to the core businesses of investing and lending at banks such as Goldman Sachs and J.P. Morgan Chase & Co., another recent entrant.

It is also getting harder for new issuers to set themselves apart in an increasingly crowded market. More than 40 new issuers have launched ETFs since the start of 2014, according to ETF.com. Most have raised less than $500 million. Goldman's growth is a standout.

Still, $3 billion is tiny for a bank with an asset-management business that oversees almost $1.4 trillion. And Goldman sells its ETFs at bargain-basement prices. At current assets and fund fees, Goldman would reap $7.2 million a year on its ETFs, compared with the bank's $30.6 billion in net revenue last year.

So why did Goldman bother? At least in part, Goldman's offense is defense. ETFs have grown rapidly as investors forsake active money management for low-cost passive products.

"Banks don't want their clients to get lured away," said Marc Pinto, a managing director at Moody's Investors Service.

More importantly, the bank's clients asked the bank to repackage some of its strategies as ETFs, said Mike Crinieri, who runs Goldman's ETF business.

"These clients value many of the benefits an ETF provides, such as intraday trading, transparency and tax efficiency," said Mr. Crinieri.

New data from BlackRock Inc. show investors poured $62.9 billion into ETFs in February, pushing the year-to-date worldwide tally to $124 billion, the fastest start of any year in the history of the ETF industry. U.S. ETFs accounted for $44 billion of that, pushing assets in US funds to almost $2.8 trillion.

Goldman, like many of its banking peers, has expanded in asset management, which provides steady revenue that offsets **volatile** earnings in trading and investment banking. ETFs are part of that effort. Investment management now accounts for 19% of Goldman's annual revenue, up from 11% in 2008, according to FactSet.

"It's never been all that big a part of Goldman Sachs, but it's becoming a bigger part now," said Jeffery Harte, a bank analyst with Sandler O'Neill Partners.

Goldman's first ETFs, launched in September 2015, followed the industry fad for "smart beta," which picks stocks based on factors such as **volatility**, value and momentum rather than market size. The bank launched with a bang, undercutting the price of comparable ETFs from low-cost giants like State Street Corp., Vanguard Group and BlackRock Inc.

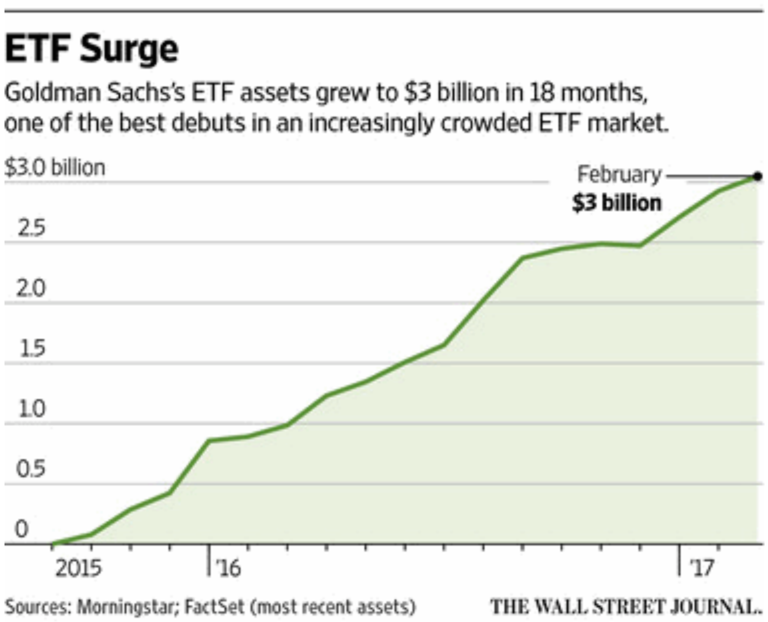
An investor with $100,000 in Goldman's ActiveBeta U.S. Large Cap Equity ETF, the bank's cheapest offering, would pay $90 a year in fees, the same price as State Street's SPDR **S&P 500** ETF Trust, one of the simplest index funds on the market. Goldman's most expensive ETF, the ActiveBeta Emerging Markets Equity fund, would cost $500 a year, less than iShares MSCI Emerging Markets ETF.

Goldman is able to offer the funds cheaply because its ETF business piggybacks on expertise the bank already has, including its quantitative strategists, traders, portfolio managers and sales force. While there is $3 billion in the ETFs, the bank has another $29 billion in other accounts following similar strategies.

The ETF team itself includes just 11 people, including Mr. Crinieri. "Our ETF business at scale is higher margin because we can manage a lot of ETFs with a smaller team," Mr. Crinieri said.

Before launching the first ETF, Mr. Crinieri and his team participated in the bank's sales calls and meetings to win the backing of Goldman's existing distribution team, something that has been a hurdle for many ETF issuers.

Other asset managers, long reliant on the lucrative commissions paid for selling traditional mutual funds, have struggled to adapt to ETFs, which lack those sales incentives. ETF sales are also hard to track since they are bought on exchanges instead of directly from the fund provider, which is how mutual funds are sold. This presents a problem for distributors because their compensation is directly tied to how much they sell.



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THE WALL STREET JOURNAL.
U.S. EDITION

Bond Market Buckles Up for Rate Boost --- Short-term Treasury yields spike as traders bet Federal Reserve makes a March move

By Min Zeng
943 words
3 March 2017
The Wall Street Journal
J
B12
English

Short-term U.S. interest rates surged to their highest level since the financial crisis, the latest sign that investors expect upbeat economic data to lead the Federal Reserve to tighten policy at its meeting this month.

The yield on the three-month U.S. Treasury bill rose to 0.66%, the yield on the six-month bill climbed to 0.83% and the two-year note's yield settled at 1.322%. Those were the highest levels since October 2008, November 2008 and June 2009, respectively.

Together with a near tripling over the past week in the probability the futures market assigns to a March rate increase, the yields point to growing belief on Wall Street that the Fed at its meeting March 14-15 will raise the fed-funds rate for the first time since December.

Fed-funds futures on Thursday showed the chances of a rate increase this month at 78%, up from 27% at the end of last week, according to CME Group. The Fed rarely, if ever, raises rates with the futures pointing to uncertainty over a policy meeting's outcome, traders said.

"The bond market is giving the Fed an opportunity to hike and I think the Fed should grab it," said Gene Tannuzzo, senior portfolio manager at Columbia Threadneedle.

Like many other investors, Mr. Tannuzzo now expects a rate increase at the March meeting. Before this week, he had expected the Fed to wait until June to act.

The rethink came after some Fed officials who typically are more cautious about raising rates signaled willingness to act, including New York Fed chief William Dudley Tuesday and Federal Reserve Governor Lael Brainard late Wednesday.

Federal Reserve governor Jerome Powell said in a CNBC interview Thursday the case for a rate increase in March "has come together." Fed Chairwoman Janet Yellen is scheduled to speak Friday.

At the same time, many investors say the market is sending signals that there are room for further rate increases, particularly if the Fed continues to move deliberately and gradually, as expected.

The "real" fed-funds rate, reflecting the policy rate minus realized inflation, was minus-1.75% last month, the lowest since the summer of 2014. That is a sign that central-bank policy is still accommodative even as the Fed prepares for what would be its third rate increase since the financial crisis.

Negative real rates encourage spending and investment by reducing the returns on cash.

The Goldman Sachs Financial Conditions Index, a gauge that amalgamates various market and economic measures of the ease of raising money, turned negative earlier this year after a run in positive territory during 2016. Like the negative real fed-funds rate, the low reading on the financial conditions index shows that money is easy to come by, at least for well qualified borrowers.

At the same time, many investors remain attuned to any signs that the tightening cycle is proceeding too quickly. Many are watching the premium of long-term yields over shorter-term ones in Treasurys. That is partly because a sharp increase in that figure in recent months reflected a steepening in the yield curve that is good for bank profits and therefore a **bullish** predictor of broader economic activity.

The yield premium on the **30-year Treasury bond** relative to the five-year note fell to 1.05 percentage point Thursday. That is the smallest since September 2016, before the bond market selloff that accompanied the November election of Donald Trump as U.S. president.

Analysts and investors say the decline in that figure largely reflects the normal ebb and flow of markets. But some warn that anxiety could rise if the Fed steps up the pace of tightening, a development that many investors would expect to be accompanied by a flatter yield curve, rising risk spreads on assets such as corporate bonds and declines in U.S. stock indexes, which on Wednesday hit fresh highs.

Rising expectations of a rate increase also pushed up the value of the dollar again, hurting U.S. exports and American firms' earnings from overseas operations and making it more difficult for the Fed to meet its target of 2% inflation.

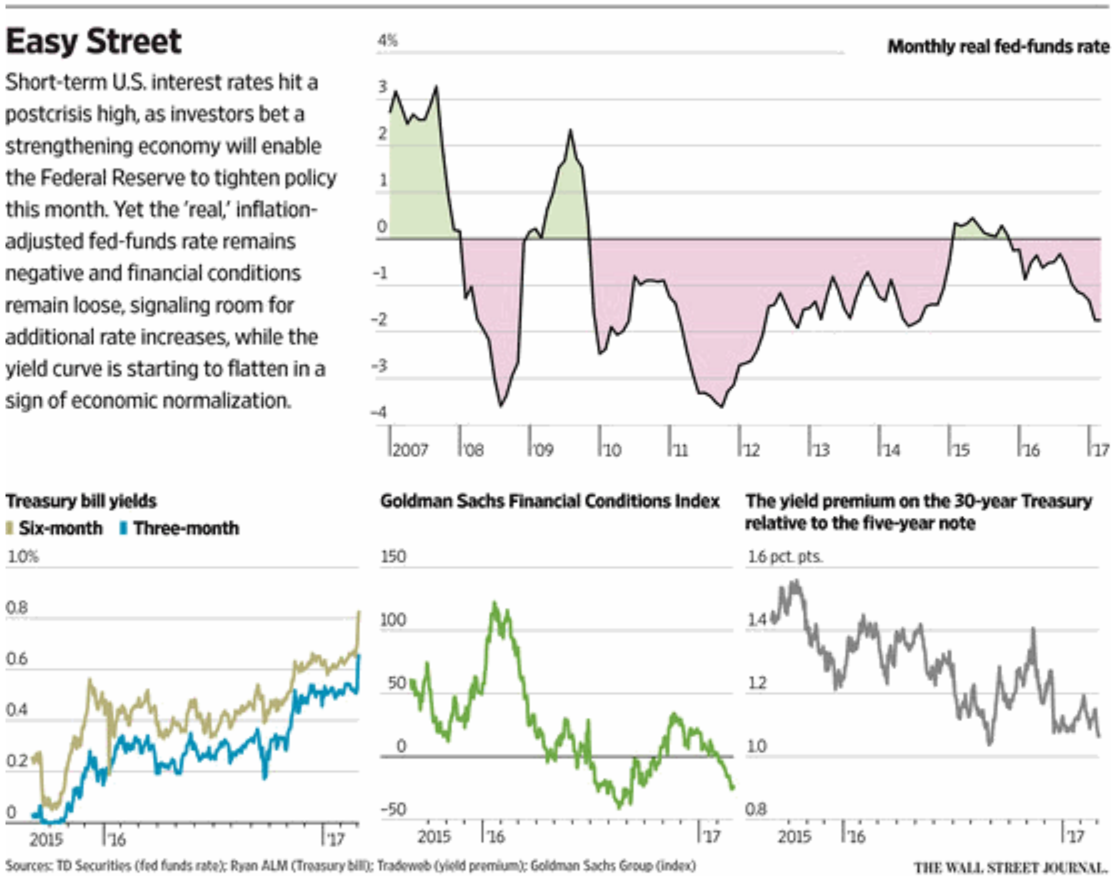
The ICE U.S. Dollar Index, measuring the greenback's value against a number of its peers including the euro and the yen, reached the highest since January and traded near the highest since 2002.

"The risk is that an overly aggressive tightening path in the face of sub-2% growth could work against the Fed, deter credit creation, restrain growth and lay conditions for the next recession," said Christopher Sullivan, chief investment officer at the United Nations Federal Credit Union.

Analysts say other factors have been distorting the yield curve and retarding the process of "normalizing" rates, which remain lower than many analysts have forecast. Among them are lower government-bond yields in Germany, the U.K. and Japan driving money into long-term Treasury bonds.

The **10-year Treasury** yield settled at 2.489% Thursday, highest since Feb. 15. It rose to 2.6% in mid-December, the highest since September 2014.

St. Louis Fed President James Bullard on Tuesday said the central bank's likely move to raise the fed-funds rate is pushing up the shorter end of the yield curve, while its decision to keep more than $4 trillion of securities on its balance sheet is pushing down the longer end, by reducing the supply of long-term debt.



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THE WALL STREET JOURNAL.
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Equities -- Ahead of the Tape: Skeptics Undone by Stock Rally

By Steven Russolillo
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3 March 2017
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B11
English

Wall Street strategists rarely get their annual **stock-market** predictions right. For the second year in a row, it only took two months for the market to prove them wrong.

The collective brain trust that predicts where the market is headed entered the year with more skepticism than usual. Hefty valuations, slow growth and the uncertainty of Donald Trump as president justified the caution. At the time, they anticipated the **S&P 500** would rise 5% and finish the year at 2356, the lowest expected gain since 2005.

Much has changed in just a few months. The **S&P 500** already has blown past that target. At least two strategists have since raised their projections. Others might be forced go back on their predictions. The consensus forecast among 19 strategists is now 2385, right around where the index trades today.

Playing catchup isn't anything new for these prognosticators. Frequently, they don't want their projections to deviate too far from the market. But it is a lesson in caution for investors who follow them for clues on what stocks will do next.

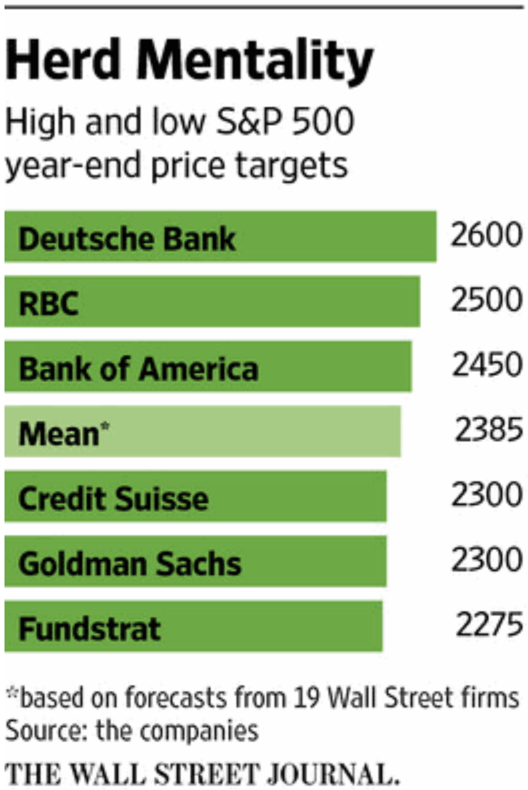
Consider what transpired around this time a year ago: Stocks started 2016 in a deep rut, with the **S&P 500** falling more than 10% through the first six weeks of the year. From the beginning of that year through Feb. 12, the day after stocks bottomed, the consensus year-end forecast had fallen to 2158 from 2200. Savita Subramanian at Bank of America Merrill Lynch at the time slashed her target by 200 points to 2000. As we know, the **S&P 500** rebounded to finish last year at 2238.

Are strategists zigging when they should zag again this year? Stifel Nicolaus's Barry Bannister recently boosted his target to 2400 from 2300. Ms. Subramanian earlier this week raised her year-end forecast to 2450 from 2300. The most **bullish** is Deutsche Bank's Binky Chadha, who is looking for the **S&P 500** to finish the year at 2600.

As many strategists have oscillated, FundStrat's Thomas Lee has stayed relatively steady. At the market bottom last year, Mr. Lee was the most optimistic of the bunch, expecting the **S&P 500** to close the year at 2325. That overshot where it finished, but not by much. Mr. Lee is now Wall Street's biggest bear. With the lowest forecast of the group, he expects the **S&P 500** to finish the year at 2275.

This all comes as stocks have risen on signs of growing confidence in the economy and hopes that Mr. Trump will deliver on promises to cut taxes, loosen regulations and boost infrastructure spending. Another Federal Reserve rate increase as soon as later this month doesn't appear to have investors overly concerned. Neither does rising valuations. The **S&P 500** trades at about 18 times projected earnings, the highest since 2004.

The rally is showing few signs of slowing down. The only problem is that is what most people expect -- precisely when the opposite tends to play out.



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The New York Times

Business/Financial Desk; SECTB
Markets Pull Back After a Record Day

By THE ASSOCIATED PRESS
678 words
3 March 2017
The New York Times
NYTF
Late Edition - Final
2
English

Stocks on Thursday erased some of the record gains from a day earlier as banks and other financial companies led the pullback.

Materials and industrial companies also fell sharply. Caterpillar, whose stock fell 4.3 percent, was the biggest drag on the **Dow Jonesindustrial average** after news that federal agents had raided three locations.

The Dow lost 112.58 points, or 0.5 percent, to 21,002.97. The **Standard & Poor's 500-stockindex** fell 14.04 points, or 0.6 percent, to 2,381.92. The **Nasdaq composite** index slid 42.81 points, or 0.7 percent, to 5,861.22.

It was a turnaround from Wednesday, when investors were buoyed by optimism of corporate tax cuts and deregulation under the Trump administration. That had sent the Dow soaring more than 300 points on Wednesday to close above 21,000 for the first time.

Several Federal Reserve officials, including the chairwoman, Janet L. Yellen, are scheduled to speak ahead of their next policy meeting. Earlier this week, the New York Fed president, William C. Dudley, said the case for raising interest rates had become stronger. That had helped fuel speculation that the central bank would raise interest rates again this month.

''While it's plausible the Fed lets the U.S. economy run hot before acting, the economic backdrop, in our view, warrants a Fed hike in March,'' said Terry Sandven, chief equity strategist at U.S. Bank Wealth Management. ''In a slow-growth, improving environment we think that's favorable for equities.''

Banks, which investors bid sharply higher Wednesday on hopes that higher interest rates would help them earn more from lending, were the biggest losers on Thursday.

Citizens Financial Group fell $1.54, or 3.9 percent, to $38.05, while Regions Financial slid 59 cents, or 3.7 percent, to $15.32. Zions Bancorporation gave up $1.57, or 3.4 percent, to $44.96.

Bond prices fell, pushing yields higher. The **10-year Treasury** yield rose to 2.48 percent, from 2.46 percent late Wednesday.

The major stock indexes headed lower from the outset on Thursday as investors considered some companies' disappointing earnings or forecasts.

Kroger slid 4.3 percent after the supermarket operator said business conditions in the first half of 2017 will remain difficult as a result of low food prices. The stock fell $1.39 to $30.67 a share.

The bookseller Barnes & Noble tumbled 8.6 percent to $9.05 a share after it reported weaker-than-expected earnings and sales of its Nook e-book reader. The company also said business worsened in late January and into the current quarter and forecast a bigger decline in sales at established locations.

Some companies reported positive earnings results. Shares of the clothing retailer Abercrombie & Fitch jumped 13.9 percent after it said its Hollister brand did well in its most recent quarter. The stock added $1.62 to $13.32.

Best Buy climbed 6.4 percent after a rival, hhgregg, announced plans to close 88 stores and three distribution centers. Best Buy gained $2.71 to $44.85 a share.

The strong debut of Snap, the parent company of the Snapchat messaging app, also helped offset market losses. Its stock soared 44 percent to close at $24.48, far above its initial price of $17.

Energy stocks fell with the price of crude oil. The price of crude fell $1.22, or 2.3 percent, to close at $52.61 a barrel in New York.

Utilities and phone company stocks bucked the broader market slide.

Small-company stocks fell more than the rest of the market. The Russell 2000 index gave up 17.97 points, or 1.3 percent, to 1,395.67.

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

Document NYTF000020170303ed330006b

THE WALL STREET JOURNAL.
U.S. EDITION

World News: World Watch

683 words
3 March 2017
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A8
English

EUROZONE

Consumer Prices Rise

Above ECB Target

The annual rate of inflation in the eurozone rose above the European Central Bank's target for the first time in four years during February, driven by another rise in energy prices.

The move above the ECB's target of close to, but below, 2% completes a turnaround for the inflation measure. As recently as last May, consumer prices were below their levels of a year earlier, and the 1% level was breached for the first time in more than three years as recently as December.

However, the surge in inflation is unlikely to prompt a big change soon in ECB policy. Policy makers including ECB President Mario Draghi have stressed in recent weeks that they have yet to be convinced that the current rate of inflation will be sustained when the rise in energy prices comes to a halt.

"If **oil prices** stay at the current levels, February should mark the peak in inflation for this year," said Fabio Balboni, an economist at HSBC.

The European Union's statistics agency said consumer prices were 2% higher in February than the same month a year earlier, the highest rate of inflation since January 2013 and a pickup from 1.8% in January 2017.

-- Paul Hannon

JAPAN

Inflation Returns,

Fueled by **Oil Prices**

Japan's consumer prices rose for the first time in more than a year in January as higher **oil prices** world-wide gave Prime Minister Shinzo Abe and the Bank of Japan a helping hand in their campaign to overcome deflation.

The core consumer price index rose 0.1% from a year earlier in January after falling 0.2% the previous month, according to data released Friday by the Ministry of Internal Affairs and Communications.

The rise was the first since December 2015. The core index excludes fresh food but includes energy. The reading matched a forecast from economists.

The return to rising prices in Japan is the latest sign of an uptick in inflation rates around the world, as more expensive fuel and commodities push up consumer-price indexes, relieving some of the pressure on central banks to drive price growth. Some leading central banks have already tightened policy to prevent any overrun of inflation targets, including the Federal Reserve.

Still, the small increase in Japan's prices for January still leaves the central bank far from its 2% goal. Domestic consumption has yet to show a sign of the strength needed to keep feeding inflation, despite solid job growth.

-- Takashi Nakamichi

EUROPEAN PARLIAMENT

Visa-Free Travel for

Americans Debated

The European Union's parliament on Thursday asked for the bloc to scrap visa-free travel for U.S. citizens within two months in retaliation for the U.S. continuing to exclude five EU countries from its no-visa regime.

While the request is nonbinding and unlikely to change EU policy, it reflects hostility among some European politicians to the Trump administration.

Under EU visa-reciprocity rules, countries allowed visa-free travel to the EU must replicate the no-visa regime to all EU countries. However, the U.S. Visa Waiver program allowing visa-free travel to citizens from 38 countries is based on a country-by-country analysis of how many of their citizens overstay or are declined visas.

In the EU, Bulgaria, Croatia, Cyprus, Poland and Romania continue to be outside the Visa Waiver program, years after joining the EU. Cyprus and Poland became members of the EU in 2004, Romania and Bulgaria 10 years ago, and Croatia in 2013.

A two-year deadline that lapsed in April 2016 obliging the EU executive to scrap visa-free travel for U.S. citizens was pushed back last year, as the departing Obama administration didn't commit on the issue before the November election.

Imposing visas on U.S. travelers could have a negative impact on the European economy, as 27.4 million U.S. citizens visited the continent last year, an 8% increase compared with the year before.

-- Valentina Pop

Document J000000020170303ed3300023

The New York Times

Business Day; DealBook
Snap Shares Leap 44% in Debut as Investors Doubt Value Will Vanish

By MICHAEL J. de la MERCED
1,199 words
2 March 2017
11:39 AM
NYTimes.com Feed
NYTFEED
English

Snapchat is a business built in large part on disappearing messages and adding animated dog ears and flower crowns to users' selfies.

As of Thursday, that business is worth about $34 billion — more than the market value of the old-line media company CBS, and about three times the size of another social media company, Twitter.

Snapchat has made paper billionaires of its 20-something founders five times over.

In making its **stock market** debut in spectacular fashion — its shares rising 44 percent on their first day of trading — Snapchat's parent, Snap Inc., has blazed a trail for other technology darlings like Uber and Spotify that remain privately held. It elated Wall Street institutions eager for a prominent initial public offering when few had surfaced for months.

The company has entranced investors despite a litany of red flags, like enormous losses that are expected to persist for years, a slowdown in its once-vaunted user growth rates, and an ownership structure that gives Snapchat's founders control for decades to come.

Then there are the shadows of onetime tech highfliers that have since crashed to earth. Twitter was valued at nearly $32 billion at the end of its first day of trading; Wall Street now values it at roughly $11 billion and has called for the company to sell itself. An earlier force in social media, Myspace, sold itself to Rupert Murdoch's News Corporation for $580 million in 2005; six years later, it was sold to Justin Timberlake and other investors for $35 million.

Some analysts have already shown skepticism about the newest publicly traded tech giant. One, Brian Wieser of Pivotal Research Group, says the share price should be $10, far below the company's offering price of $17, which itself was above the initial range predicted. Snap faces competition from larger companies and the challenge of a slow-growing user base, he said.

Boosters of Snap's prospects argue instead that Snap has the potential to become less like Twitter and more like its biggest rival, the $395 billion Facebook. These supporters point to some of the company's obvious strengths: the 158 million people on average who used Snapchat each day by the end of 2016; the roughly 18 times a day that those users opened the app on average; the $404 million in sales that it collected last year, up from nothing three years ago.

For now, investors appeared to focus on the positive. Snap raised $3.4 billion in its market debut, the most by an American tech company since Facebook's initial offering in 2012, according to data from Renaissance Capital. It was the first significant tech stock sale since at least December. And the 44 percent pop in its **stock price** was the biggest enjoyed by a company of a billion-dollar I.P.O. since Twitter's debut in 2013. More than 217 million shares traded on Thursday, as some investors bought and others cashed in, exceeding the number of shares Snap sold in the I.P.O.

For investors in other still-private unicorns — a term for start-ups valued at more than $1 billion — the immense success of Snap's deal highlights the appetite for a tech darling, even if the company still bleeds money. Count Uber, Spotify and Airbnb within that group.

“The sound you’re hearing today after the Snap I.P.O. is the happy snapping of fingers of money-losing unicorns and their investors,” said Kathleen Smith, a principal at Renaissance Capital. “It looks like Snap has set the path to monetization.”

In countless meetings during a two-week roadshow with investors, Snap executives sought to rebut some of the biggest concerns about the company’s prospects. Slowing growth toward the end of last year stemmed from problems with the service’s Android app. Competition from Facebook, which openly copied some of Snapchat’s signature features at Instagram, would do little to dent user enthusiasm.

And the company would continue to press innovations, such as the branded lens filters that transform users into monsters, fairies or Taco Bell tacos, and that have become new forms of advertising beloved by brands. Potential new ideas include drones and 360-degree cameras.

By Wednesday night, Snap’s bankers had drawn up their list of the investors who would get the first shares, largely big mutual funds and some hedge funds, all with the aim of picking firms that are most likely to stick around for the long term. The I.P.O. minted wealth for others that invested when it was a younger company, including big venture capital firms like Benchmark Capital and a high school in the Bay Area.

Unlike newly public companies that seek to celebrate their first day of trading on the stock markets, Snap kept its festivities largely confined to the New York Stock Exchange. The company’s top executives and board members gathered there for a closed-door breakfast, where guests were presented with pins in the shape of Snapchat’s ghost mascot.

Evan Spiegel, 26, and Bobby Murphy, 28, Snap’s founders, briefly addressed the crowd, uncharacteristically clad in suits and ties rather than their customary T-shirts. They also presented exchange officials with their version of the customary gift given by market debutants: one of the vending machines that sell the company’s Spectacles, camera-equipped sunglasses that send 10-second videos to the app. (The machine won’t be refilled once it sells out of Spectacles.)

Then the founders walked through the floor of an exchange bedecked in the company’s signature yellow — the color splayed on electronic boards, wrapped around water bottles and leaping off some executives’ ties. One Snap employee had ducked into the Hermès store down the street to pick up a yellow tie days before just for the occasion.

Mr. Spiegel’s fiancée, the supermodel Miranda Kerr, enthusiastically documented the day on her own Snapchat Story and posed for selfies. Attendees on the floor could unlock a special filter that placed the company’s ghost mascot in their videos, holding virtual Snapchat balloons and ejecting a rainbow from its mouth.

At 9:30 a.m., Mr. Spiegel and Mr. Murphy rang the Big Board’s opening bell and then briefly basked in the adulation. Snap’s chief strategy officer, Imran Khan, escorted his family around the exchange and posed for pictures with fellow employees.

But by the time Snap’s shares opened for trading at $24 each — which was later in the morning — the company’s top executives had disappeared from the floor, heading to the nearby offices of one of the banks involved in the public offering, Goldman Sachs, to watch the opening. Then many staff members trekked to Snap’s Midtown Manhattan offices to head back to work.

* How a Money-Losing Snap Could Be Worth So Much

* Snap Prices I.P.O. at $17 a Share, Valuing Company at $24 Billion

* In Snap’s I.P.O., Evidence of Bankers’ Strategy

* Snap Is Said to Have Worked on a Drone

Document NYTFEED020170302ed320060q

THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
U.S. Exports Offer Clues on Oil Outlook

By Spencer Jakab
591 words
2 March 2017
The Wall Street Journal
J
B13
English

[Financial Analysis and Commentary]

The doubling in oil prices over the past year, aided by OPEC's output deal, has revived U.S. drilling and production. Now, the energy world is abuzz about a recent surge in American crude exports that would be unprecedented if sustained.

The boost makes the U.S. a bigger exporter than even some members of OPEC and a close second to Saudi Arabia in overall production. The rising output of nimble U.S. shale oil producers is cited as evidence that the production cuts agreed to in November by the Organization of the Petroleum Exporting Countries and Russia will fail because the higher prices will bring on new supply.

But such analysis may be too simple. Instead, some sophisticated oil hands are watching the U.S. closely for a signal that the cuts are really working. Rather than looking just at supply, one has to look at where the crude is going.

The boost in U.S. production would have been stranded were it not for the lifting of an export ban by the Obama administration a little over a year ago, which has given extra barrels a place to go. In economist-speak, the U.S. is acting as an economic free rider on OPEC's efforts to drive up prices. That is aided by another economic concept, fungibility, when a good is capable of mutual substitution. One less Saudi barrel plus one more U.S. barrel equals no change to supply.

But oil isn't perfectly substitutable, and that is why where the oil goes says a lot about whether the OPEC production cuts will work and whether oil prices will rise or fall. Asia's thirst for light, sweet barrels from the Middle East that its refineries are best equipped to process has led it to Africa to replace the crude it was getting from the Middle East. That has led to a surge in long-distance shipments from the Atlantic Basin area that normally supplies Europe.

U.S. Gulf Coast refineries, meanwhile, mostly optimized for heavy, sour crudes, don't desire more of the rising supply of U.S. light crude. Instead of flowing into storage, a substantial amount is now being shipped abroad.

The U.S. exports aren't going to end users like refineries. Instead, according to Michael Tran, director of global energy strategy at RBC Capital Markets, the shipments of U.S. light crude largely are steaming toward global oil-trading hubs such as Rotterdam and Singapore. The traders are hoping to take advantage of the roughly $2.60-a-barrel spread between the main U.S. benchmark crude and more expensive Brent.

"Watching U.S. exports is really key," says Mr. Tran. "We still think the Atlantic Basin is oversupplied."

He is waiting for the moment when U.S. oil is sought by end users, not traders. That would be a sign that the extra supply is being soaked up and a signal that the impact of OPEC's cuts is being felt worldwide.

In that situation, OPEC exporters would have greater pricing power and the price gap between U.S. and international benchmarks probably would narrow. That, in turn, would be a sign for higher oil prices globally.

The process may take a while. Far from being a sign that OPEC is losing, though, rising U.S. exports should be watched closely for clues that it is succeeding.

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Stocks Surge as Optimism Rises --- Dow closes over 21000 for first time as inflation nears target, global outlook brightens

By Ben Leubsdorf and Aaron Kuriloff
882 words
2 March 2017
The Wall Street Journal
J
A1
English

The Dow industrials surged more than 300 points to their first-ever close above 21000, underpinned by the Federal Reserve's growing confidence in the U.S. economic outlook and by investor hopes that President Donald Trump will deliver policies that boost growth.

The point gains in the Dow match the epic 1999 stock rally for the fastest-ever thousand-point milestone, and set a new standard for the fastest-ever 2,000-point milestone. Stocks were powered in part by new signals from the Federal Reserve that officials are growing confident enough in the economic outlook to raise short-term interest rates as early as a meeting later this month, traders said, as well as by solid data and the generally positive reaction to President Donald Trump's speech to Congress on Tuesday evening.

The market action harked back to the days immediately after the election in November, a period in which investors sharply bid up the prices of U.S. and global stocks while selling bonds and sending yields higher. On Wednesday, the yield on the benchmark **10**-**year Treasury** note rose to 2.462% from 2.358% the previous day.

In reviving the so-called reflation trade, which reflects expectations that global growth will pick up again this year after several years of subpar expansion, investors are renewing a trend that many spotted in the middle of last year. Since then, signs of expansion around the world have encouraged investors about the prospects for higher inflation, sparking selling in government bonds and records in many global stock indexes.

Investors welcomed Mr. Trump's remarks to Congress, which they saw as even-keeled and setting out deliverable goals.

"The less bombastic Trump is, the more you have to believe he can pull off what he is trying to achieve," said Christopher Stanton, portfolio manager at Sunrise Capital Partners LLC.

The Fed has been trying for nearly five years to lift subpar inflation -- seen as a sign of anemic economic activity -- to its long-run objective of 2%. On Wednesday, the Commerce Department reported the Fed's preferred inflation measure nearly hit that goal in January, rising 1.9% from a year earlier, the highest level since 2012.

Fed officials have signaled they are set to raise short-term interest rates again as soon as the middle of this month.

"We are closing in on full employment, inflation is moving gradually toward our target, foreign growth is on more solid footing and risks to the outlook are as close to balanced as they have been in some time," Fed governor Lael Brainard said Wednesday in a speech at Harvard University. "Assuming continued progress, it will likely be appropriate soon to remove additional accommodation, continuing on a gradual path."

Ms. Brainard's comments were striking because she has been among the Fed governors most resistant to raising rates in recent years. That she now appears on board with another move suggests Fed Chairwoman Janet Yellen has a growing consensus behind her. Fed-funds futures on Wednesday showed investors saw the chances of a March 15 rate increase at about two in three, according to CME Group.

The **Dow Jones Industrial Average** rose 303.31 points, or 1.5%, to a record high of 21115.55 Wednesday. Though the Dow's gains matched the speed of the 1999 milestone, the latest rally was smaller in percentage terms.

The economic backdrop now is different than it was then, when annual growth in economic output exceeded 4.5%, powered by a technology boom. Since the 2007-2009 financial crisis, growth has been stuck near 2%, held back by lingering effects from the crisis, as well as an aging population and slow productivity growth.

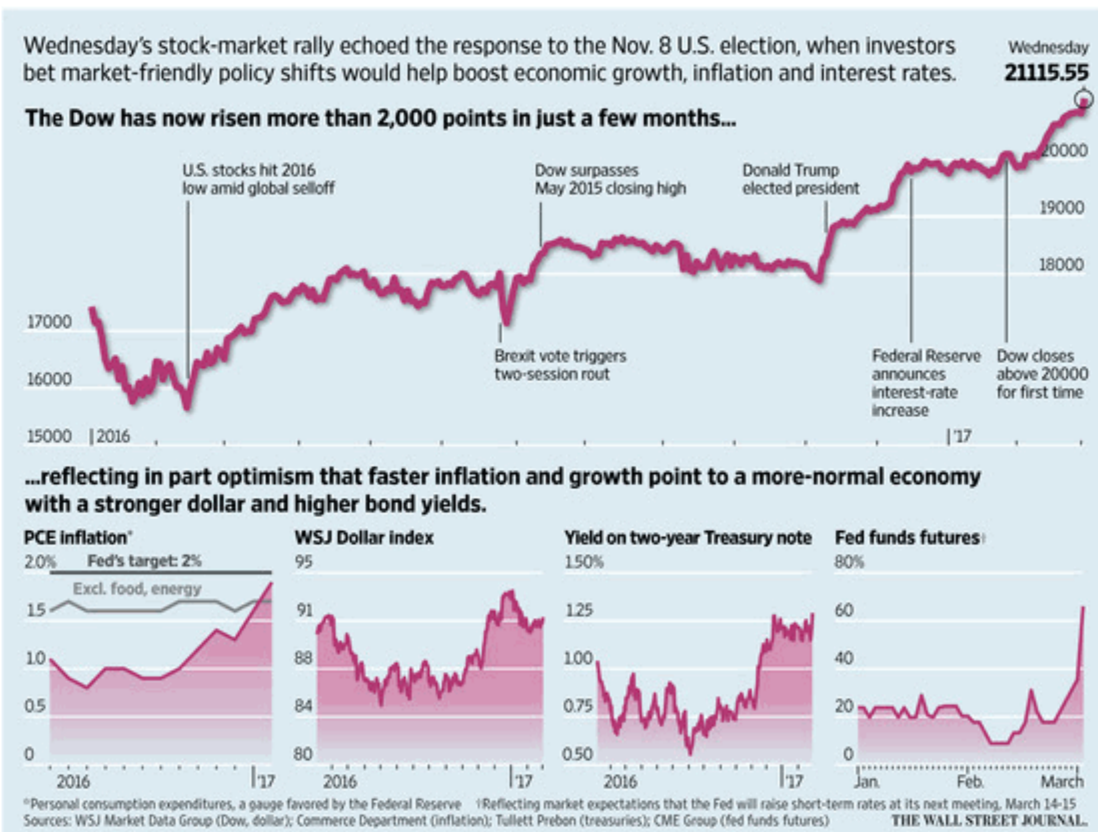
One risk for Mr. Trump is a market selloff if he proves unable to deliver the tax cuts and regulatory reform he has promised, or if the economy doesn't respond to the programs he is able to advance.

Still, signs are building that the global economy is emerging from a long period of deflationary pressure. On Wednesday, German annual inflation was reported at 2.2% in February, its highest level in 4 1/2 years. Annual inflation across the 19-nation eurozone is expected to rise above 2% when February data are reported Thursday. In Japan, data due Friday are expected to show the primary inflation gauge -- consumer prices except fresh food -- rose in January from a year ago, turning positive for the first time in 13 months.

Inflation isn't a good thing in itself; it eats away at the purchasing power of take-home pay and savings. But for years, central bankers have fretted that low inflation was a sign of weak global demand and underused resources.

John Augustine, chief investment officer at Huntington Bank, said his firm added positions in gold and Treasury inflation-protected securities at the end of last year, as economic data from Europe and the U.S., along with increased demand for commodities such as copper from China, suggested increasingly widespread growth.

Ira Iosebashvili and Tom Fairless contributed to this article.



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The New York Times

ECONOMIC TRENDS
National Desk; SECTA
Why the Markets Are Defying Forecasts of Gloom and Doom

By NEIL IRWIN
1,030 words
2 March 2017
The New York Times
NYTF
Late Edition - Final
1
English

The **stock market** reached yet another new high on Wednesday, the latest development to make a mockery of what savvy economic commentators thought they knew about the world.

Consider how things looked one year ago. The world economy seemed hopelessly trapped in a cycle of low growth and inflation. Markets recoiled at the mere possibility that the Federal Reserve would raise interest rates. Populist political insurgencies seemed to threaten yet more **financial market** chaos.

Now, interest rates and inflation forecasts have risen substantially from last winter's lows; **financial markets** are shrugging off -- or even rallying at the possibility of -- imminent Fed rate increases; and it is all taking place during Donald J. Trump's presidency.

An economy that seemed locked in some form of "secular stagnation" or "new normal" is at long last showing some signs of being in something closer to an "old normal." The United States manufacturing sector is showing strength, and the broader mix of market and economic data from around the world in the last few months also points to a world where a vicious economic cycle isn't looking quite as scary and may even be ending.

There can be no assurance that this pattern will continue, and there are some things to worry about on the horizon, not least that the Trump administration could follow through on some of its threats to disrupt global trade and diplomatic relations. Long-term interest rates remain low by historical standards across most of the world, suggesting that global bond investors aren't fully buying into a return to stronger, more consistent growth.

But the pivot since Election Day is huge. The **Standard & Poor**'**s500 index** is up 12 percent since Nov. 8, the London FTSE 100 index reached a new high Wednesday, and other global markets have grown nicely in that span. Ten-year Treasury bonds now yield 2.45 percent, up from 1.85 percent on Election Day, suggesting investors believe higher growth and inflation are more probable than had seemed likely just four months ago.

Much of the buoyant optimism on Wall Street is driven by investors' expectations of corporate tax cuts and deregulation under the Trump administration. But there is also some real improvement in the economic data underneath the shifts, reflecting economic forces that have been underway for years. And this resetting of expectations is evident in market data beyond the always erratic **stock market**.

On Wednesday, that took the form of a new survey of manufacturing supply managers that showed the factory sector is expanding at a breakneck pace. As recently as August, that same index from the Institute for Supply Management was contracting. Those numbers followed positive readings on retail sales, industrial production and the job market.

For years, a theory that the major world economies were stuck in a pit of "secular stagnation" had gained hold -- the idea that low economic growth, low inflation, low interest rates and weak productivity growth were all reinforcing one another in a vicious cycle.

There's hardly enough evidence to toss that theory aside, but there are many reasons to think things are now looking up.

For example, bond market prices now suggest that investors foresee consumer price inflation in the United States at 2.03 percent a year over the coming decade -- consistent with the 2 percent inflation the Fed aims for. It only recently reached that level, however, after being as low as 1.2 percent in February 2016. And it's not just the United States. Similar measures of inflation expectations have risen in Germany, Britain and other advanced economies.

For a window into the changing mind-set of investors, consider some news around the Fed this week. Tuesday afternoon, William C. Dudley, the president of the New York Fed, said in an interview that it would be fair to assume that the central bank would raise interest rates sooner rather than later, given the improving economy.

''There's no question that animal spirits have been unleashed a bit post the election,'' Mr. Dudley told CNN.

Fed watchers interpreted that to mean that an interest-rate increase could be on the way in mid-March, just three months after the last increase in December. Yet that did nothing to slow the 1.4 percent gain in the Standard & Poor's 500 on Wednesday, and may even have contributed to it, as a sign of the Fed's confidence in the economy.

A year ago, hints that the Fed would move quickly with rates would have sent markets into a tailspin. As 2016 began, Fed leaders were expecting to raise rates four times in that year, plans that helped send the **stock market** plummeting and measures of economic pessimism soaring. Then they backed off and only raised rates once.

Since a **stock market** rally began on Election Day, there has been plenty of discussion about a Trump effect. And no doubt a big part of the improvement has resulted from expectations that the new president's policies will help corporate bottom lines (and that some of the risks of his trade agenda won't materialize).

But it's worth keeping in mind that a so-called Trump bump arrives as the economy is closing in on its full productive capacity. It is getting to the point where a cycle of rising wages and higher inflation necessitates higher interest rates. That, in turn, reflects policies from the Obama administration and the Fed that long predate Mr. Trump's election.

Conventional economic theory predicts that if a government tries to increase deficits at a time of full employment, the results will be some mix of higher inflation and higher interest rates, crowding out investment.

So if tax cuts, more military spending and other Trumpian policies add to deficits at a time the economy is already running at full blast, rising prices and rising rates are exactly what we would expect to see.

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The New York Times

Business/Financial Desk; SECTB
Bank Shares Lift Indexes to Records as Dollar Rises

By THE ASSOCIATED PRESS
512 words
2 March 2017
The New York Times
NYTF
Late Edition - Final
3
English

Investors bet big on United States stocks Wednesday, giving Wall Street its biggest single-day gain in about four months and pushing the major indexes to record highs.

The **Dow Jonesindustrial average** rose above 21,000 points for the first time in what was the greatest gain for the blue-chip index so far this year.

The Dow jumped 303.31 points, or 1.5 percent, to 21,115.55. At one point, the 30-company average was up more than 356 points. The Dow had not risen by more than 300 points in one day since November.

The **Standard & Poor's 500**-**stockindex** gained 32.32 points, or 1.4 percent, to 2,395.96 -- the largest single-day gain for the index, the benchmark favored by professional investors, since early November.

The **Nasdaq composite** index added 78.59 points, or 1.4 percent, to 5,904.03. Small-company stocks continued to outpace the rest of the market, a **bullish** signal on the economy. The Russell 2000 index rose 26.95 points, or 1.9 percent, to 1,413.64.

All four indexes closed at record highs. Each had set new highs last month.

Banks were the biggest gainers amid heightened expectations that an improving economy will lead to higher interest rates. Energy stocks also notched big gains. Utilities and real estate stocks lagged. The dollar strengthened against the yen and euro and other major currencies.

Bond prices fell and yields rose after a key Federal Reserve official, William C. Dudley, president of the Federal Reserve Bank of New York, said the case for raising interest rates had gotten stronger. The **10**-**year Treasury** yield rose to 2.45 percent, from 2.39 percent on Tuesday.

Financials led all other sectors in the **S**.**&P**. **500**, climbing 2.8 percent. The sector is up 8.1 percent this year. JPMorgan Chase climbed $2.98, or 3.3 percent, to $93.60. Goldman Sachs rose $4.60, or 1.9 percent, to $252.71.

Markets overseas posted solid gains.

In Europe, the German DAX rose 2 percent while the CAC 40 in France gained 2.1 percent. The FTSE 100 in Britain picked up 1.6 percent. In Japan, the benchmark Nikkei 225 gained 1.4 percent, and in Hong Kong, the Hang Seng added 0.2 percent.

Benchmark crude fell 18 cents to $53.83 a barrel in New York. Brent crude, used to price international oils, lost 15 cents to close at $56.36 a barrel in London.

The dollar rose to 113.63 yen, from 112.31 yen. The euro slipped to $1.0544, from $1.0593.

The price of gold fell $3.70, to $1,248.90 an ounce. Silver added 2 cents, to $18.44 an ounce. Copper rose 2 cents, to $2.73 a pound.

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

Document NYTF000020170302ed320005a

International New York Times

opinion
Tony Blair's Lesson for President Trump; Op-Ed Columnist

By THOMAS L. FRIEDMAN
1,399 words
1 March 2017
International New York Times
INHT
English

It's too bad Democrats wouldn't enlist a foreigner to deliver their rebuttal to President Trump's address to Congress. They could have just replayed the speech given 11 days earlier by Tony Blair, the former British prime minister.

It was a passionate appeal to his country to reject its version of Trumpism. Blair said the U.K. must reconsider Brexit, the narrowly won 2016 vote to withdraw from the European Union.

It is a speech worth reading because the parallels between Brexit and Trumpism are profound. At their core, both seek to undermine the big systems that have stabilized the globe and spread prosperity, security, rule of law, democracy and openness after two world wars: the European Union, the global trading system, Nafta, NATO, the United Nations and the proposed Trans-Pacific Partnership trade deal.

Brexit and Trumpism argue for abandoning or diminishing all of these in favor of an economic nationalism that will — supposedly painlessly — make Britain and America better off.

Playing with these big systems is dangerous, not because they don't need improving — they do — but because many of the prescriptions — let's just put up a wall or exit — will make things so much worse for so many more people. The critics are great at pointing out the flaws of these systems, but they always forget to mention the hundreds of millions of people they lifted from poverty to prosperity and the extraordinary 70 years of peace they maintained since the end of World War II.

In their place, the Brexiters and Trumpsters want to return us to a globe of everyone-for-themselves nationalisms that helped to foster two world wars. They speak of leading grand "movements." Their vow is "rip it, don't fix it." As Blair noted, "The one incontrovertible characteristic of politics today is its propensity for revolt."

It's dangerous nonsense. In the Cold War era the world was glued together by these global institutions and by the fear and the discipline of two superpowers. In the post-Cold War era the world was glued together by these big global systems and a U.S. hegemon. We're now in the post-post Cold War world, when U.S. leadership and the glue of these big global systems areneeded more than ever — because the simultaneous accelerations in technology, globalization and climate change are weakening states everywhere, spawning super-empowered angry people and creating vast zones of disorder.

If we choose at this time to diminish America's global leadership and these big stabilizing systems — and just put America first, thereby prompting every other country to put its own economic nationalism first — we will be making the gravest mistake we possibly could make.

That was a big part of Blair's speech. Blair is unpopular in the U.K. — but that's precisely what liberated him to say what many in British politics know to be true but won't say: Brexit was a stupid idea, based on an old political fantasy of a minority of conservatives; it was sold with bogus data; and following through on it will make Britain poorer, weaker and more isolated — and Europe more unstable.

"The British pound is down around 12 percent against the euro and 20 percent against the dollar since the Brexit referendum," he noted. "This is the international **financial market**'s assessment of our future prosperity: We will be poorer. The price of imported goods in supermarkets is up, and thus so is the cost of living."

The way Blair described Prime Minister Theresa May's commitment to executing Brexit — no matter what — sounded just like G.O.P. leaders' support for Trump's ideas after they had denounced them as utterly crackpot during the presidential campaign. "Nine months ago," Blair said of May, "she was telling us that leaving would be bad for the country, its economy, its security, and its place in the world. Today, it is apparently a 'once-in-a-generation opportunity' for greatness."

Blair added: "May says that she wants Britain to be a great, open trading nation. Our first step in this endeavor? To leave the largest free-trade bloc in the world. She wants Britain to be a bridge between the E.U. and the U.S. Is having no foothold in Europe really the way to do that?

"We are told that it is high time that our capitalism became fairer. How do we start laying the foundation for such a noble cause? By threatening Europe with a move to a low-tax, lightly regulated economy, which is the very antithesis of that cause."

And what will future historians say about all those immigrants who came to the U.K. and were a key reason for the pro-Brexit vote, Blair asked? "That the migrants were terrible people who threatened the country's stability? No, they will find that, on the whole, the migrants were well behaved, worked hard, paid their taxes and were a net economic benefit to the country."

Blair recalled other bogus arguments that were used by Brexit advocates and that have already evaporated — like the notions that leaving the E.U. would save Britain some $440 million a week for its national health care service and that there was a danger — most effectively exploited in a fear-inducing poster — that Syrian refugees would overwhelm the U.K., but there was no Syrian refugee flood.

"None of this," concluded Blair, "ignores the challenges that stoked the anger fueling the Brexit vote: those left behind by globalization; the aftermath of the financial crisis; stagnant incomes for some families; and the pressures posed by big increases in migration, which make perfectly reasonable people anxious and then feel unheard in their anxiety."

That is true in America, too. Donald Trump is not wrong about everything. We do need to fix our trading relationship with China, which has taken advantage of some of our openness. NATO members should pay their fair share for the alliance. We can't let in every immigrant who wants to come to America. We do need to rebuild our infrastructure and enact sensible deregulation.

It's what Trump believes — but is provably wrong — that scares me.

Like that imports from Mexico and China — not robots, software and automation — are the big culprit in taking middle-class jobs; that we are being swamped by immigrants from Mexico, when immigration from Mexico today is really net zero (most migrants are coming from failed states in Central America, which Mexico, the second-largest source of paying tourists to our country, plays a key role in preventing); that climate change is a hoax and we should lower emission rules on coal-fired power plants to restore coal jobs and ignore the long-term health implications and the impact on better-paying clean-power jobs; that the key to restoring middle-class jobs is not by investing in people, health care, infrastructure and lifelong learning, but rather by imposing a border tax. And that the E.U., NATO, the Trans-Pacific Partnership and Nafta are just outdated pillars of a global, oppressive "administrative state" that needs deconstructing — rather than pillars of a liberal democratic order that have globalized our values and our rules and our standards to our great benefit.

As Blair said of the E.U.: "In the long term, this is essentially an alliance of values: liberty, democracy and the rule of law. As the world changes and opens up across boundaries of nation and culture, which values will govern the 21st century? Today, for the first time in my adult life, it is not clear that the resolution of this question will be benign. Britain, because of its history, alliances and character, has a unique role to play in ensuring that it is."

So does America. But the spread of those values doesn't animate Trump. The world is a win-lose real estate market for him. In the short term, he may rack up some discreet wins. But America became as prosperous and secure as it is today by building a world in our image — not just a world where we're the only winners.

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International New York Times

upshot
What Booming Markets Are Telling Us About the Global Economy; Economic Trends

By NEIL IRWIN
1,083 words
1 March 2017
International New York Times
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English

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There can be no assurance that this pattern will continue, and there are some things to worry about on the horizon, not least that the Trump administration could follow through on some of its threats to disrupt global trade and diplomatic relations. Long-term interest rates remain low by historical standards across most of the world, suggesting that global bond investors aren't fully buying into a return to stronger, more consistent growth.

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* The Big Question for the U.S. Economy: How Much Room Is There to Grow?

* While We’re Distracted by the Drama, the Economy Seems to Be Taking Off

* Is the U.S. Economy Too Dynamic, or Not Dynamic Enough?

* Want to Rev Up the Economy? Don’t Worry About the Trade Deficit

Document INHT000020170303ed310000z

The New York Times

Business Day; DealBook
Snap Prices I.P.O. at $17 a Share, Valuing Company at $24 Billion

By MICHAEL J. de la MERCED
1,192 words
1 March 2017
10:38 AM
NYTimes.com Feed
NYTFEED
English

Millennials, those 14 to 35 years old, may be as exuberantly hyped a demographic as any in recent memory.

That generation has now helped power one of the biggest and most eagerly awaited **stock market** debuts in recent memory, making billionaires of the founders of the disappearing-message service Snapchat.

Investors, attracted by Snapchat's hold on its millennial users — who check the app on average more than 18 times a day — flocked to the initial public offering, pushing the parent company, Snap Inc., to a valuation of nearly $24 billion.

The stock sale sets Snap up as the most valuable American technology company to go public since Facebook nearly five years ago. And it may herald a coming wave of unicorns — technology start-ups valued at more than $1 billion by private investors — that are expected to hit the public markets in the next few years.

Snap's offering was priced on Wednesday at $17 a share — a dollar more than the previously expected pricing range. The pricing came on a day when the **stock market** surged to another high, fed by raised expectations of tax cuts, looser regulations and higher interest rates under the Trump administration. Shares of the social media companies Facebook and Twitter also rose.

Those buying into Snap's offering did so even as warning signs have flashed over the company, based in California. It lost more than $500 million last year, and its explosive user growth appears to have hit a speed bump. And in a decision that has angered some large investors, the shares will have no voting rights, leaving control in the hands of the company's founders, who can retain that power for years even after leaving Snap.

Yet when Snap begins trading on the New York Stock Exchange on Thursday, under the ticker "SNAP," it will command a lofty valuation multiple even richer than that of Facebook, which earned $10 billion last year.

The question beyond this week is whether Snap will prove to be like mighty Facebook or embattled Twitter.

Much has been riding on Snap's offering, including expectations that it will lift a moribund market in new stocks. In going public, Snap has leapt ahead of other technology darlings like Uber, Airbnb and the data-analysis provider Palantir.

After a nearly two-week road show for investors that spanned the country and stretched to London, demand for Snap shares proved robust. Bankers for the company received orders totaling more than 10 times the number of shares up for sale.

With a market value of almost $24 billion, including unvested stock options and grants, the company is now setting itself up with little room for error.

Throughout the presentations to investors, Snap executives and their advisers kept the emphasis squarely on the promise of what first seemed like a technological lark. Instead of focusing on the core product of disappearing messages, Snapchat instead represents a new way of consuming content, largely produced by its users — laid alongside a fast-growing advertising business.

At the end of 2016, Snap reported an average of 158 million active daily users. Revenue totaled about $404 million for the year, up from zero in sales three years ago. The company believes sales could reach $1 billion this year.

Those sales have come primarily from advertisers who covet both millennial users and a service that has figured out creative ways to reach them. Big-name brands from Gatorade to Tiffany have run campaigns on the social network, and the advertising titan WPP said at an industry conference on Wednesday that it spent $90 million on Snapchat ads last year.

Snap has come a long way from its beginnings in a Stanford dorm room as a service used largely by young people enamored with sending their friends pictures and video that self-destructed after seconds.

Based in the fashionable Los Angeles neighborhood of Venice, the company has since introduced ways for users to broadcast “stories” about their days to wider audiences and pioneered the use of computer-generated lenses that transform those users into dogs or Taco Bell tacos.

Now, Snap is trying to convey even greater ambitions.

In the prospectus for its stock sale, the service declared itself a “camera company.” So far that has included selling Spectacles, camera-equipped sunglasses that let users upload 10-second videos directly to Snapchat, which briefly captured the fancy of the tech cognoscenti. And Snap has worked on prototypes for products like drone-mounted cameras.

Evan Spiegel, 26, a Snap founder and its chief executive, has played down comparisons to the Facebook billionaire Mark Zuckerberg and has assiduously painted an image of himself — a fashion aficionado with a supermodel fiancée — that is different from Mr. Zuckerberg.

But Mr. Spiegel and his fellow shareholders are still hoping that investors will help lift their company to Facebook-type heights. Since Mr. Zuckerberg took his business public just under five years ago, Facebook’s shares have climbed more than 254 percent.

The cautionary tale is that of Twitter, which celebrated a lofty **stock market** debut in 2013, only to have its share price tumble amid questions about its ability to grow. Twitter’s stock is down about 62 percent from its initial public offering, and the company has had to fend off questions about whether it can remain an independent and publicly traded business.

Analysts also raised the specter of lower growth with Snap, given that the company’s user growth slowed last year.

Then there is the copycatting of Snapchat’s most recognizable features, from its Stories to its animated lenses and filters. Chief among the imitators is Facebook, whose Instagram service has forthrightly adopted those elements. Even smaller social networks like Medium, a blog-posting service, have rolled out similar offerings.

Executives contended during the investor presentations that Snapchat’s slowdown was largely due to technical issues with its Android app. And they argued that the bigger issue to look at was engagement, or, put another way, how much its audience loves the app.

And Snap, under Mr. Spiegel, has argued that it will continue to roll out new innovations.

Regardless of whether Snap soars or sinks, its offering will significantly enrich its earliest investors, notably Mr. Spiegel and the company’s other founder, Robert Murphy.

With 227 million shares each, the two men are each worth more than $3 billion on paper, well ahead of their 30th birthdays.

* How Snapchat Is Shaping Social Media

* Snap Is Said to Have Worked on a Drone

* Snapchat Founders’ Grip Tightened After a Spat With an Early Investor

* With Snap’s I.P.O., Los Angeles Prepares to Embrace New Tech Millionaires

* Snap Aims for Valuation of More Than $20 Billion in I.P.O.

A sign at the New York Stock Exchange in October directed passers-by to Snapchat, whose parent company, Snap, will begin trading on the exchange on Thursday. | Michael Nagle/Bloomberg | The Times’s Katie Benner and Talya Minsberg take a look at Snapchat’s features.

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THE WALL STREET JOURNAL.
U.S. EDITION

Exchanges: NYSE Considers Inverting Fees at A New Exchange

By Alexander Osipovich
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B16
English

The New York Stock Exchange is considering a time-honored move to boost market share: Copy an innovation from competitors.

NYSE has approached market participants about launching an inverted exchange, a move that would borrow from the playbook of rivals **Nasdaq** Inc. and Bats Global Markets Inc., people familiar with the situation said.

Inverted or "taker-maker" exchanges flip the standard fee model of U.S. equities trading on its head.

Most U.S. exchanges collect a "taker" fee for each incoming trade that immediately executes against a standing buy or sell order posted on the exchange, removing it from the exchange's order book. Meanwhile, the exchange pays a "maker" rebate to the firms that posted those orders in the first place. The idea of the model, called "maker-taker," is to encourage firms to quote more competitive prices for the securities traded on the exchange.

In contrast, an inverted exchange pays rebates for incoming trades that execute against standing orders, while charging the firms that posted those orders -- the opposite of maker-taker.

For instance, if an investor decides to buy 100 shares of General Electric Co. at the lowest price being quoted in markets, his or her broker could route that order to NYSE's flagship exchange, which has maker-taker pricing. NYSE would charge the broker about 30 cents. Meanwhile, the GE seller on the other side of the trade -- often an electronic trading firm that continually posts buy and sell orders, a "market maker" -- would collect a rebate of around 22 cents from NYSE.

Alternatively, the broker could send the investor's order to Bats's BYX exchange, an inverted venue. There, BYX would pay the broker a rebate of 10 cents for the order, while charging the market maker a fee of 18 cents.

Of the dozen U.S. exchanges in operation, Bats's BYX and EDGA and **Nasdaq**'s BX are inverted. Together they had 9.2% of U.S. equities trading volume in January, according to data from brokerage Rosenblatt Securities Inc.

Adding an inverted venue could help 224-year-old NYSE capture some trades that are now flowing to younger players in the competitive U.S. stock-exchange landscape.

NYSE is considering applying the taker-maker model to the former National Stock Exchange, or NSX, the most recent addition to its collection of four equities exchanges. NYSE's three other stock exchanges use maker-taker pricing.

Intercontinental Exchange Inc., the parent company of NYSE, agreed to buy NSX in December. NYSE has renamed the exchange "NYSE National" and halted its operations in preparation for a reboot. It hasn't yet announced its plans for NYSE National.

"NYSE will engage with NSX members, buy-side participants and retail brokerage firms before finalizing operational plans for the exchange's relaunch," NYSE said in a Jan. 31 news release.

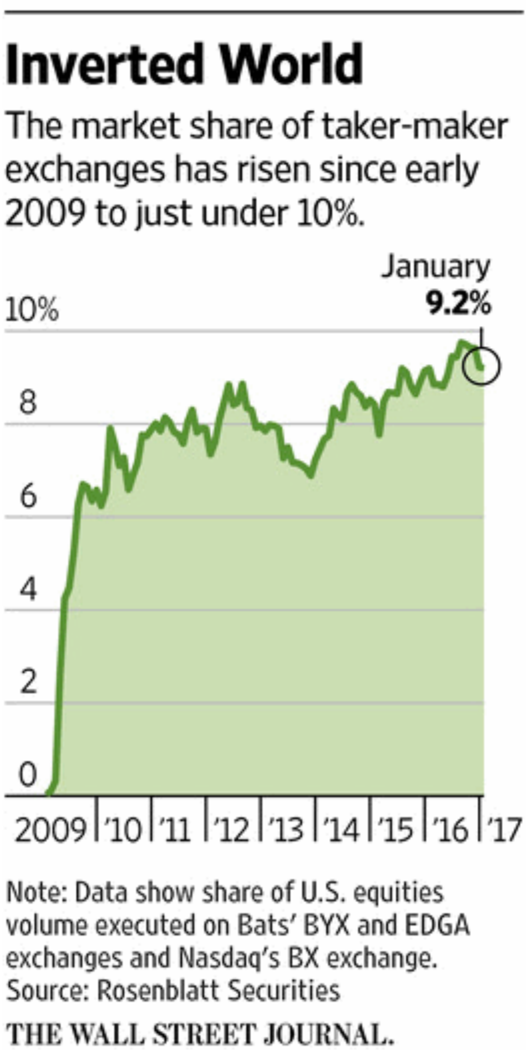
Inverted exchanges tend to be smaller than standard maker-taker exchanges, but they can be attractive to brokers who handle trades for institutional or retail investors. Such customers will often decide to buy or sell shares at the best price displayed in the markets rather than waiting for the price to improve. When investors submit such orders, brokers typically send them to inverted exchanges first, in hopes of capturing a rebate, before routing them to maker-taker exchanges that would charge the broker a fee, market experts say.

That has led some critics to complain that inverted exchanges skew brokers' incentives so they don't always send trades to the venue that offers the best result for the customer.

"You've got this hidden piping system in which brokers are able to take revenue out of orders that the customer doesn't know about," said Larry Harris, a finance professor at the University of Southern California's Marshall School of Business.

Others say big exchange groups are simply offering customers a variety of pricing schemes, and that the emergence of a complex, fragmented marketplace with maker-taker and taker-maker exchanges is the result of regulation.

While the maker-taker model dates to the late 1990s, its inverted cousin is a more recent development. **Nasdaq** introduced the first taker-maker pricing plan on an equities exchange in 2009, and Bats followed suit in 2010.



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THE WALL STREET JOURNAL.
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Equities: Stock-Volatility Wagers Pick Up --- Products used to bet on market churn log six-day winning streak amid unusual calm

By Gunjan Banerji
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Securities that allow investors to bet on turbulence or calm in the **stock market** are enjoying a resurgence, even during an unusual quiet period in which U.S. shares have set records daily.

The **Dow Jones Industrial Average** posted all-time highs for 12 consecutive days through Monday. The CBOE**Volatility** Index, or VIX, a gauge that measures investors' expectations for **volatility** in stocks, has been stuck near multiyear lows.

But in a sign that things aren't as serene as benchmark stock indexes may be indicating, three exchange-traded products that track market **volatility** climbed last week for six days in a row, before falling for two days and then rebounding on Tuesday. The ETPs have drawn more than $720 million in fresh money this year, FactSet data show, in a sign that some investors are taking measures to protect against violent price swings in stocks.

The iPath **S&P 500** VIX Short-Term Futures exchange-traded note is the most traded of these products that allow wagers on stock **volatility**. The note, called VXX, jumped 8.3% for the six days through Thursday in its longest winning streak since the days leading up to the U.S. presidential election. But in November, U.S. stocks were slumping in a more typical occurrence in which stock markets move in the opposite direction of **volatility** expectations.

"It is very unusual for VXX to rise in a stable or rising market," said Don Dale, managing principal at risk solutions group Derivaguard Advisors. "It usually happens in either big market selloffs or decent-sized selloffs."

Investors and options traders said the market had been gearing up for President Donald Trump's speech to Congress on Tuesday night, in which he was expected to update his plans for tax and health-care policies.

Goldman Sachs Group Inc.'s derivatives research team in a report last week said investors were underestimating the **volatility** that could emerge in health-care and retail stocks after Mr. Trump's speech. The retail sector tends to have high tax rates and might benefit if Mr. Trump is able to lower corporate taxes, but it might also be crimped if the White House puts in place a border-adjusted tax that burdens companies that source heavily overseas.

People may also be using U.S. **volatility** futures to hedge against events such as the French presidential election, Mr. Dale said. Global investors are watching the race because of candidate Marine Le Pen, who has proposed leaving the euro currency bloc.

"By extension, that's driving VXX higher," Mr. Dale said.

Market watchers say VXX's streak of gains in February was partly explained by a surge in VIX futures expiring in March and April, coinciding with the French election. The price gains in the March and April futures contracts are outweighing the price "decay" caused by the rebalancing, they said.

The VIX's cousin in Europe, called VSTOXX, has seen its futures curve veer from the normal shape, reflecting investors' jitters before the French vote and other elections in Europe this year.

Some investors are turning to even riskier VIX-based ETPs -- those that give double exposure to daily stock **volatility**. The VelocityShares Daily 2x VIX Short-term ETN and the ProShares Ultra VIX Short-Term Futures ETF surged 17% in the six days through Thursday. Each fell 94% in 2016. The VIX has jumped 13% so far this week. The Dow fell Tuesday, halting its streak of consecutive records.

Some investors said the record-setting run-up in U.S. stocks was bound to cause anxiety, especially given the heightened political uncertainty in the U.S. and Europe.

While markets still appear largely complacent, a hint of investor anxiety has crept in, with the traditional relationship between stocks and **volatility** expectations breaking down in February, said Gerald Lucas, a strategist at UBS Wealth Management. The VIX moved in tandem with the **S&P 500 index** seven times in February.

"At some point, if the rally continues, people get nervous," said Dominic Salvino, a designated primary market of the VIX at CBOE. "Now people start to price in some risk because the market went up so far."

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Heard on the Street
Stock Market's Crowded House

By Justin Lahart
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[Financial Analysis and Commentary]

Investors are making lopsided bets on stocks that benefit when the economy and inflation pick up, but the bond market is signaling that they could fizzle.

A big driver of the move in stocks since the U.S. election has been an expectation that President Donald Trump will push through a spending and tax-cut package that will stimulate an economy that is already in decent shape. If so, growth will turn up and inflation will burn warmer.

These expectations of reflation are also evident in the contours of the rally. Among the stocks that have done best are so-called cyclical issues such as the shares of technology, industrial and consumer-discretionary companies. These do better when growth gets stronger and can also can weather inflation, since higher prices get captured in those companies' sales. Defensive areas, such as consumer staples and utilities, which can better weather economic weakness, have done worse.

Expectations of a boost to growth and inflation also can be seen in investors' positioning. While some investors may simply be buying what has recently done well, flows into cyclical exchange-traded funds, such as those investing in industrial and materials companies, have been strong over the past three months, according to J.P. Morgan Chase. Utilities and consumer staples funds have suffered net outflows.

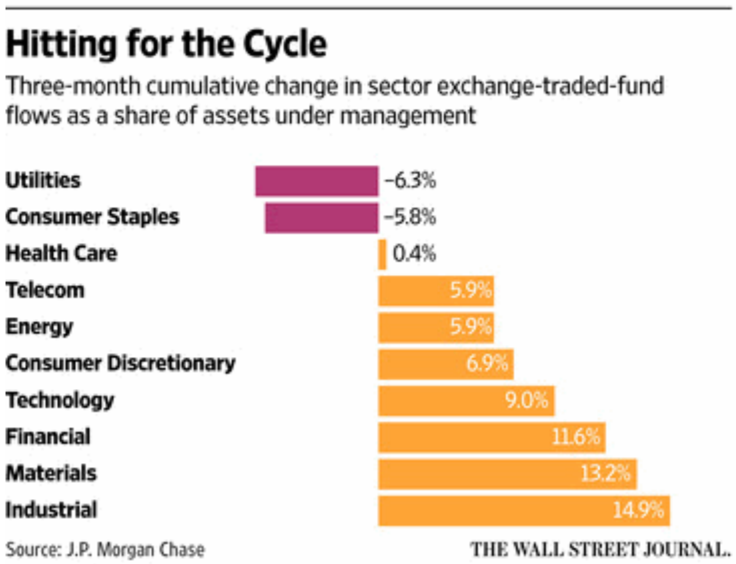
Active managers of large-capitalization mutual funds have similarly been building holdings of cyclical stocks.

But when too many investors start making the same wager, it is often a good time to start betting the other way. Indeed, Merrill has found that a strategy of buying active managers' most underweight stocks and selling their overweight stocks has been a good way to generate excess returns in the past. The rebound in utilities shares over the past week offers a case in point.

Furthermore, Treasury investors, who often pick up on shifts in the economy sooner than their **stock-market** counterparts, are beginning to signal skepticism on the reflation trade.

Treasury yields, which shot higher following the election, have retreated. That is notable, Cornerstone Macro strategists say, because yields reversed prior to the inflation peaks of 2011, 2014 and early 2016. The danger the Treasury market is sniffing out, as they see it, is that Americans once again respond to higher prices by buying less.

Even a hint of that happening might prompt investors to seriously reconsider their enthusiasm for cyclical stocks. And if Mr. Trump isn't able to push through as big a spending and tax-cut package as he hopes to, there could be a broad rethink. When everybody is on one side of the boat, it doesn't take much to rock it.



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The New York Times

Business/Financial Desk; SECTB
Retailers' Earnings and Turmoil Pull Markets Lower

By THE ASSOCIATED PRESS
712 words
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Late Edition - Final
2
English

A slide led by Target and other big retailers pulled Wall Street stock indexes lower Tuesday, snapping a 12-day winning streak for the **Dow Jonesindustrial average**.

Industrial stocks and phone companies also saw large declines. Energy companies fell as crude **oil prices** edged lower. Utilities stocks eked out a gain.

The Dow fell 25.20 points, or 0.1 percent, to 20,812.24. The **Standard & Poor's 500-stockindex** slid 6.11 points, or 0.3 percent, to 2,363.64. The **Nasdaq composite** index lost 36.46 points, or 0.6 percent, to 5,825.44.

Small-company stocks fell more than the rest of the market. The Russell 2000 index slumped 21.29 points, or 1.5 percent, to 1,386.68.

Bond prices fell. The **10-year Treasury** yield rose to 2.39 percent from 2.37 percent late Monday.

President Trump was to deliver his first speech to a joint session of Congress on Tuesday. On Monday, he told a group of governors that his budget would propose increasing military spending by $54 billion while cutting domestic programs and foreign aid by the same amount. He also said, ''We're going to start spending on infrastructure big.''

Since the election in November, expectations of tax reform, deregulation and higher spending on defense and infrastructure projects has pushed the **stock market** higher. Investors are looking for more clarity on business-friendly policies, but also on trade, immigration and other Trump administration initiatives that have made some investors nervous.

Traders weren't entirely focused on Washington on Tuesday. They continued to size up the latest company earnings and outlooks.

Target plunged 12.2 percent after the retail chain's quarterly profit fell short of Wall Street's forecasts. The company also issued a weak outlook. The stock was lost $8.14 to $58.77.

Perrigo, the Irish drug maker, slumped 11.7 percent after investors reacted to several disclosures by the company, including disappointing guidance for 2017 and the company's decision to sell its royalty rights to a multiple sclerosis drug for as much as $2.85 billion. The stock slid $9.91 to $74.77.

Improved earnings and outlooks gave weight loss company Nutrisystem a big boost. The stock vaulted $7.30, or 18.6 percent, to $46.50.

Signet Jewelers had the biggest loss in the **S.&P. 500** after an article about widespread sexual harassment and discrimination at a subsidiary. The Washington Post first reported the allegations on Monday, based on newly released class-action arbitration filings. The stock tumbled $9.29, or 12.8 percent, to $63.59.

Investors also weighed new data on the United States economy. The Commerce Department said that the economy grew at a 1.9 percent rate in the last three months of 2016, unchanged from an initial estimate. The increase in the gross domestic product, the broadest measure of economic health, represented a significant slowdown from 3.5 percent growth recorded in the third quarter.

The major indexes in Europe notched gains. The DAX in Germany rose 0.1 percent, while the CAC 40 in France gained 0.3 percent. The FTSE 100 index of leading British shares added 0.1 percent.

Earlier in Asia, Japan's benchmark Nikkei 225 index trimmed strong earlier gains to finish less than 0.1 percent higher. The Kospi in South Korea rose 0.3 percent. In Hong Kong, the Hang Seng lost 0.8 percent. Australia's S&P/ASX 200 shed 0.2 percent to 5,712.20.

Benchmark crude slipped 4 cents, or 0.1 percent, to close at $54.01 a barrel in New York. Brent crude, which is used to price international oils, fell 34 cents, or 0.6 percent, to close at $55.59 a barrel in London.

Among metals, the price of gold fell $4.80 to $1,252.60 an ounce.

In currency trading, the dollar fell to 112.31 yen from 112.70 on Monday. The euro strengthened to $1.0593 from $1.0588.

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

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The New York Times

OP-ED COLUMNIST
Editorial Desk; SECTA
Tony Blair's Lesson for Trump

By THOMAS L. FRIEDMAN
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1 March 2017
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English

It's too bad Democrats wouldn't enlist a foreigner to deliver their rebuttal to President Trump's address to Congress. They could have just replayed the speech given 11 days earlier by Tony Blair, the former British prime minister.

It was a passionate appeal to his country to reject its version of Trumpism. Blair said the U.K. must reconsider Brexit, the narrowly won 2016 vote to withdraw from the European Union.

It is a speech worth reading because the parallels between Brexit and Trumpism are profound. At their core, both seek to undermine the big systems that have stabilized the globe and spread prosperity, security, rule of law, democracy and openness after two world wars: the European Union, the global trading system, Nafta, NATO, the United Nations and the proposed Trans-Pacific Partnership trade deal.

Brexit and Trumpism argue for abandoning or diminishing all of these in favor of an economic nationalism that will -- supposedly painlessly -- make Britain and America better off.

Playing with these big systems is dangerous, not because they don't need improving -- they do -- but because many of the prescriptions -- let's just put up a wall or exit -- will make things so much worse for so many more people. The critics are great at pointing out the flaws of these systems, but they always forget to mention the hundreds of millions of people they lifted from poverty to prosperity and the extraordinary 70 years of peace they maintained since the end of World War II.

In their place, the Brexiters and Trumpsters want to return us to a globe of everyone-for-themselves nationalisms that helped to foster two world wars. They speak of leading grand ''movements.'' Their vow is ''rip it, don't fix it.'' As Blair noted, ''The one incontrovertible characteristic of politics today is its propensity for revolt.''

It's dangerous nonsense. In the Cold War era the world was glued together by these global institutions and by the fear and the discipline of two superpowers. In the post-Cold War era the world was glued together by these big global systems and a U.S. hegemon. We're now in the post-post Cold War world, when U.S. leadership and the glue of these big global systems are needed more than ever -- because the simultaneous accelerations in technology, globalization and climate change are weakening states everywhere, spawning super-empowered angry people and creating vast zones of disorder.

If we choose at this time to diminish America's global leadership and these big stabilizing systems -- and just put America first, thereby prompting every other country to put its own economic nationalism first -- we will be making the gravest mistake we possibly could make.

That was a big part of Blair's speech. Blair is unpopular in the U.K. -- but that's precisely what liberated him to say what many in British politics know to be true but won't say: Brexit was a stupid idea, based on an old political fantasy of a minority of conservatives; it was sold with bogus data; and following through on it will make Britain poorer, weaker and more isolated -- and Europe more unstable.

''The British pound is down around 12 percent against the euro and 20 percent against the dollar since the Brexit referendum,'' he noted. ''This is the international **financial market**'s assessment of our future prosperity: We will be poorer. The price of imported goods in supermarkets is up, and thus so is the cost of living.''

The way Blair described Prime Minister Theresa May's commitment to executing Brexit -- no matter what -- sounded just like G.O.P. leaders' support for Trump's ideas after they had denounced them as utterly crackpot during the presidential campaign. ''Nine months ago,'' Blair said of May, ''she was telling us that leaving would be bad for the country, its economy, its security, and its place in the world. Today, it is apparently a 'once-in-a-generation opportunity' for greatness.''

Blair added: ''May says that she wants Britain to be a great, open trading nation. Our first step in this endeavor? To leave the largest free-trade bloc in the world. She wants Britain to be a bridge between the E.U. and the U.S. Is having no foothold in Europe really the way to do that?

''We are told that it is high time that our capitalism became fairer. How do we start laying the foundation for such a noble cause? By threatening Europe with a move to a low-tax, lightly regulated economy, which is the very antithesis of that cause.''

And what will future historians say about all those immigrants who came to the U.K. and were a key reason for the pro-Brexit vote, Blair asked? ''That the migrants were terrible people who threatened the country's stability? No, they will find that, on the whole, the migrants were well behaved, worked hard, paid their taxes and were a net economic benefit to the country.''

Blair recalled other bogus arguments that were used by Brexit advocates and that have already evaporated -- like the notions that leaving the E.U. would save Britain some $440 million a week for its national health care service and that there was a danger -- most effectively exploited in a fear-inducing poster -- that Syrian refugees would overwhelm the U.K., but there was no Syrian refugee flood.

''None of this,'' concluded Blair, ''ignores the challenges that stoked the anger fueling the Brexit vote: those left behind by globalization; the aftermath of the financial crisis; stagnant incomes for some families; and the pressures posed by big increases in migration, which make perfectly reasonable people anxious and then feel unheard in their anxiety.''

That is true in America, too. Donald Trump is not wrong about everything. We do need to fix our trading relationship with China, which has taken advantage of some of our openness. NATO members should pay their fair share for the alliance. We can't let in every immigrant who wants to come to America. We do need to rebuild our infrastructure and enact sensible deregulation.

It's what Trump believes -- but is provably wrong -- that scares me.

Like that imports from Mexico and China -- not robots, software and automation -- are the big culprit in taking middle-class jobs; that we are being swamped by immigrants from Mexico, when immigration from Mexico today is really net zero (most migrants are coming from failed states in Central America, which Mexico, the second-largest source of paying tourists to our country, plays a key role in preventing); that climate change is a hoax and we should lower emission rules on coal-fired power plants to restore coal jobs and ignore the long-term health implications and the impact on better-paying clean-power jobs; that the key to restoring middle-class jobs is not by investing in people, health care, infrastructure and lifelong learning, but rather by imposing a border tax. And that the E.U., NATO, the Trans-Pacific Partnership and Nafta are just outdated pillars of a global, oppressive ''administrative state'' that needs deconstructing -- rather than pillars of a liberal democratic order that have globalized our values and our rules and our standards to our great benefit.

As Blair said of the E.U.: ''In the long term, this is essentially an alliance of values: liberty, democracy and the rule of law. As the world changes and opens up across boundaries of nation and culture, which values will govern the 21st century? Today, for the first time in my adult life, it is not clear that the resolution of this question will be benign. Britain, because of its history, alliances and character, has a unique role to play in ensuring that it is.''

So does America. But the spread of those values doesn't animate Trump. The world is a win-lose real estate market for him. In the short term, he may rack up some discreet wins. But America became as prosperous and secure as it is today by building a world in our image -- not just a world where we're the only winners.

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