THE WALL STREET JOURNAL.

Markets

**No Silver Lining: A Precious Metal Gets 'Hit From Two Sides'; Silver prices hit their lowest levels since early 2016 on Tuesday**

By Ira Iosebashvili
748 words
5 September 2018
03:30 PM
The Wall Street Journal Online
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English


A fall in the price of silver and other metals is troubling investors, who believe the drop may signal weakness in the global economy.

Silver prices hit their lowest levels since early 2016 earlier this week and are now off 17% for the year. Prices for the metal lost about 6.9% in August alone, even as the dollar declined that month.

Normally, a weaker dollar tends to buoy commodity prices, which are denominated in the U.S. currency. They typically become more expensive to foreign buyers when the dollar rises.

Silver prices rose 0.4% to $14.11 a troy ounce in New York on Wednesday.

The metal's slide is a worrying development for some market participants who are concerned it signals a weaker environment for global manufacturing. Although classified as a precious metal, silver is used in a range of industrial applications, from electronics to jet-engine manufacturing, which makes it especially sensitive to global economic currents.

Silver's decline is part of a broader metals selloff, with an intensifying trade conflict between the U.S. and China and turbulence in emerging markets in the background. Copper prices are down around 21% this year, while gold has lost 8.5%.

At the same time, silver has been shaken by a climb in the dollar that has pressured most commodity prices, with the exception of oil. The WSJ Dollar Index, which measures the U.S. currency against a basket of 16 others, is up 4.5% this year.

While investors often gravitate toward silver and gold when markets get rocky, the dollar's rally lately has discouraged them from buying metals. Instead, some have steered toward other popular havens, including the Swiss franc and Japanese yen.

"Silver prices are getting hit from two sides," said George Gero, managing director at RBC Capital Markets. "Buyers and bargain hunters are looking for lower prices to re-enter the market. But not at these levels."

Expectations that a robust U.S. economy will keep the Federal Reserve on pace to deliver two more rate increases this year also have weighed on prices. Silver and gold struggle to compete with yield-bearing investments when borrowing costs rise.

The latest sign of economic strength came Tuesday when data from the Institute for Supply Management showed that American factory activity accelerated in August. New orders, production and employment in the sector grew.

Federal-funds futures—which traders use to place bets on the course of interest rates—recently pointed to a 72% probability of the Fed raising interest rates two or more times by the end of the year, compared with nearly 67% a month ago, according to CME Group.

Signs that the trade conflict between the U.S. and China is taking a turn for the worse will likely push investors into the safety of the dollar, lifting the U.S. currency which will weigh more on gold, investors said.

Investors will keep a close eye on developments in this week's North American Free Trade Agreement talks between Canada and the U.S.—viewed by some as an indicator of how the U.S. will handle its trade friction with China.

A constructive outcome from those talks will likely take the pressure off metal prices, said Peter Hug, global trading director at Kitco Metals.

Still, Mr. Hug worries about risks in emerging markets, where currency crises have rocked Argentina and Turkey in recent months.

These nations are among a handful of developing countries that are finding it more difficult to service unwieldy amounts of dollar-denominated debt that they took on in past years, when U.S. rates were lower.

Worries in emerging markets are likely to mount—South Africa's economy slipped into a recession in the second quarter, data showed Tuesday, while Turkey has been shaken by soaring inflation.

Portfolio flows into emerging markets slowed sharply in August to $2.2 billion from $13.7 billion in July, the Institute of International Finance said.

Precious metals like gold and silver may finally get a boost if rising risks push nervous investors to diversify their haven holdings, Mr. Hug said.

"There are some serious risks of contagion in the **financial markets**," he said. "It feels to me like something is about to happen."

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THE WALL STREET JOURNAL.

Tech

**Tech Stocks Retreat as Senate Hearing Proceeds; A large chunk of the 73 companies in the S&P 500 technology sector show losses as Facebook and Twitter executives testify**

By Akane Otani
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5 September 2018
04:34 PM
The Wall Street Journal Online
WSJO
English


Technology stocks tumbled across the board Wednesday as executives from Facebook Inc. and Twitter Inc. defended before Congress their efforts to prevent election meddling, the latest episode showing the vulnerability of investors' bets on megacap technology companies.

What was unusual about Wednesday's selloff was how indiscriminate it appeared: hitting not just the social media titans that were the subject of the Capitol Hill hearing on foreign influence in the 2016 election but also chip makers, software developers, online streaming services and videogame makers.

Facebook fell 2.3% and Twitter dropped 6.1%, while Google parent Alphabet Inc., which didn't send a representative to the hearing, lost 1%. Streaming giant Netflix Inc. slumped 6.2%, while chip maker Nvidia Corp. and "Candy Crush Saga" owner Activision Blizzard Inc. each lost more than 1%.

In all, 59 of the 73 companies in the **S&P 500** technology sector posted losses on the day, a striking retreat for the best-performing group in the broad index this year. The tech-heavy **Nasdaq Composite** shed 1.2% and recorded its biggest decline in three weeks, while the broader **S&P 500** fell just 0.3% and the **Dow Jones Industrial Average** rose 0.1%.

"Social media, cybersecurity, cloud—all of these things have done exceptionally well this year," said Frank Cappelleri, executive director and technical analyst at Instinet. As a result, when even a handful of tech companies are swept up in controversy, there is the potential for "that much more fallout," he said.

Investors had already been skittish on the technology sector prior to Wednesday's rout.

The group tumbled in March as controversy over Facebook's handling of user data raised fears of a broader reckoning. Over the summer, disappointing earnings and forecasts for growth sent a number of stocks, including Facebook, Netflix and Intel Corp., sliding again.

Yet each time, the tech sector quickly rebounded, something investors say suggests a rally driven largely by so-called momentum trading—when investors pile into the stocks that have run up the most, regardless of fundamental factors like earnings and valuations. When the trend reverses, it can spark a broad pullback, as was the case Wednesday.

"There is an increasing sense by many that some of the more trendy tech names can only go up, which is putting some managers in a position where they feel they need to add to positions in the mega-tech stocks to keep up," said Craig Birk, chief investment officer of Personal Capital.

The prospect of a prolonged reversal has led global fund managers to rank bets on the so-called FAANG BAT group—which includes tech titans in the U.S., as well as Chinese firms Baidu Inc., Alibaba Group Holding Ltd. and Tencent Holdings Ltd.—as the most-crowded trade for seven consecutive months, according to Bank of America Merrill Lynch's monthly fund manager survey. That possibility has also pushed analysts at firms including RBC Capital Markets and Morgan Stanley to adopt a more cautious stance on technology stocks, citing the risk the rally has been overdone, as well as the recent shift among investors toward bond-like sectors of the **stock market**.

Yet growing wariness among investors has done little to dent the technology sector's rally.

Technology stocks in the **S&P 500** remain up 18% in 2018, by far the best-performing group in the broad index, which is up 8%. Amazon.com Inc., part of the **S&P 500** consumer discretionary sector, followed Apple Inc. on Tuesday to become one of two U.S. companies to reach $1 trillion in market value. The two, along with Facebook, Netflix and Google parent Alphabet, make up the FAANG group.

Wednesday's pullback was a reminder to investors of the fallibility of the tech trade, which has dominated the latest leg of the nine-year **bull market**. Amazon, Apple and Microsoft Corp. have accounted for more than 35% of the **S&P 500**'s total return this year, according to S&P Dow Jones Indices data through Aug. 28.

After a big run-up, "people are just looking for a reason to take profits," Mr. Cappelleri said.

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THE WALL STREET JOURNAL.

U.S. Markets
Markets

**Internet Stocks Pull Down S&P 500; Concerns about heavier regulation weigh on internet shares and trade uncertainties remain**

By Riva Gold and Amrith Ramkumar
790 words
5 September 2018
05:23 PM
The Wall Street Journal Online
WSJO
English


* Nafta talks resume

* Technology stocks fall

* Dollar falls as British pound climbs

Declines in internet stocks dragged down the S&P 500 Wednesday as investors awaited updates on key trading relationships.

The stumble for technology shares came as Twitter Chief Executive Jack Dorsey and Facebook Chief Operating Officer Sheryl Sandbergtestified in front of Congress about their platforms' handling of manipulation by foreign actors during the 2016 presidential election. Worries about heavier regulation have hung over the market's best-performing sector, and some investors are also anxious that tariffs will hurt trade-dependent internet firms.

Those broader concerns about trade and the outlook for emerging markets have hurt major indexes lately, with some analysts expecting the U.S. to escalate tariffs on China this week. Some investors fear a far-reaching global growth slowdown that could eventually spread to the U.S. economy, which has remained steady despite continuing trade threats.

"If the administration goes ahead with the threats that it's made…then we can see really major risks for risk assets like the stock market over the balance of the year," said Charles Dumas, chief economist at TS Lombard.

More tariffs on China could trigger further declines in growth-sensitive stock sectors, emerging markets and commodities, analysts have said.

The S&P 500 dropped 8.12 points, or 0.3%, to 2888.60 for its third decline in the past four sessions, though it remains near an all-time high. The Dow Jones Industrial Average closed up 22.51 points, or 0.1%, at 25974.99 to snap a three-session losing streak, while the tech-heavy Nasdaq Composite shed 96.07 points, or 1.2%, to 7995.17.

Twitter fell $2.11, or 6.1%, to $32.73, while Facebook and Google parent Alphabet each shed more than 1%. Other internet firms such as Amazon.com and Netflix also retreated, with the streaming firm tumbling 22.42, or 6.2%, to 341.18.

The U.S. and Canada have been working to resolve issues holding up a renegotiation of the North American Free Trade Agreement. President Trump reiterated over the Labor Day weekend that if the U.S. and Canada fail to reach a deal, his administration could move forward on a pact that excludes Canada.

Analysts said a deal last week with Mexico was a positive sign, but some investors remain worried about trade negotiations with Canada, the European Union and China.

"The Canadian situation appears to be a little bit more intractable at the moment," said Mark Travis, president of Intrepid Capital Management.

Investors have been debating how long the U.S. economy could continue performing well in the face of weakness in other parts of the world. Some remain anxious that export-dependent companies could face more challenges if trade tensions continue.

Weak economic data in China, in particular, have concerned some analysts. A private gauge Wednesday showed that growth in activity in China's service sector slowed in August, in contrast with official data that pointed to a faster expansion in the sector.

A new deal with Canada and Mexico "would be treated very favorably by markets, not because it provides new juice to the economy, but because it averts a worst-case scenario," said David Donabedian, chief investment officer of CIBC Private Wealth Management, pointing to a high degree of integration between U.S., Canadian and Mexican supply chains.

The Bank of Canadakept its benchmark interest rate unchanged Wednesday, in part to give officials time to see how the trade talks unfold.

The WSJ Dollar Index was down 0.3% after six straight sessions of advances. The South African rand fell sharply while Indonesia's rupiah was hovering around levels last seen during the Asian financial crisis two decades ago.

The British pound rose against the dollar after Bloomberg News reported that Britain and Germany have abandoned key Brexit demands, potentially easing the path to a deal.

The yield on the benchmark 10-year **U**.**S**. **Treasuryyield** was unchanged at 2.902%.

Elsewhere, the Stoxx Europe 600 declined 1.1%, and the weak Chinese economic data, recent declines in commodity prices and a typhoon in Japan added to the downbeat tone in Asian markets.

Hong Kong's Hang Seng dropped 2.6%, with internet firm Tencent Holdings among the worst performers, and Japan's Nikkei Stock Average shed 0.5%. Australia's S&P ASX/200 fell 1% in its biggest drop since March.

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THE WALL STREET JOURNAL.

World

**Canada Posts Biggest Monthly Trade Surplus With U.S. in Nearly a Decade; As country resumes Nafta talks, higher crude-oil prices and a jump in sales of auto parts and other goods widened Canada's trade surplus in July**

By Paul Vieira
701 words
5 September 2018
12:26 PM
The Wall Street Journal Online
WSJO
English


OTTAWA—Canada posted its biggest trade surplus with the U.S. in nearly a decade for July due to higher prices for crude-oil exports and a jump in sales of auto parts and other goods to its fast-growing southern neighbor.

The data, issued by Statistics Canada Wednesday, reinforces the importance of trade with the U.S. to the Canadian economy, and emerges as Ottawa and Washington negotiate updated terms to the North American Free Trade Agreement. President Trump has cited a U.S. trade deficit with Canada as a reason why Nafta must be recast. Canada argues when services are incorporated, trade between the U.S and Canada is roughly balanced.

Also Wednesday, the Bank of Canadakept its benchmark interest rate unchanged at 1.50%, signaling it that the outcome the Nafta talks would effect the pace of future rate increases.

Overall, Canada's trade deficit with the rest of the world in July was the smallest since December 2016, when Canada last posted a trade surplus. That July deficit was 114 million Canadian dollars ($86 million) on a seasonally adjusted basis, versus a revised C$743 million deficit the previous month. The July deficit wasn't as large as the C$1 billion that economists at Royal Bank of Canada expected.

Canada's trade surplus in goods with the U.S. widened to C$5.35 billion, or the largest in nearly a decade. Exports to the U.S. rose 3.3% in July from June, and 16% from a year earlier.

Negotiators from the U.S. and Canada resumed talks Wednesday in Washington on a revised Nafta, after talks broke off before a deadline last Friday imposed by Mr. Trump. The focus will be on Ottawa and Washington bridging differences to keep the U.S., Canada and Mexico signatories to an update of the quarter-century-old treaty. Canadian Foreign Minister Chrystia Freeland told reporters in Washington she was looking forward to "constructive conversations."

Nearly three-quarters of all Canadian exports are U.S. bound. An analysis from the Bank for International Settlements indicated Canada has to most to lose from Nafta's demise.

"Risks around Canada's trade relationship with the U.S. remain," said Nathan Janzen, economist at Royal Bank of Canada. Still, he said, it appears Canadian exports "are finally starting to get at least a modest lift from stronger global trade flows and an improved U.S. industrial sector."

Canadian exports in July rose 0.8% from the previous month to a record C$51.27 billion. Sales abroad of energy products climbed 5% to C$10.28 billion, or the highest level in nearly four years, and auto-related exports rose 3.4%. The data agency largely attributed the overall rise in exports to higher crude-**oil prices**, as they rose 9.4% in July. Nonenergy exports fell 0.2% in July. On a volume, or price-adjusted, basis, exports declined 0.8%.

Imports fell 0.4% from June, due to weaker demand for foreign aircraft, metal ores and concentrates. Also weighing on imports were Canadian tariffs on U.S. steel, imposed in July in retaliation for U.S. tariffs on Canadian metals, the data agency said. Steel imports from the U.S. fell nearly 40% in July, more than offsetting a roughly 33% climb in June when Canada warned retaliatory levies were coming.

On a volume basis, imports fell 1.1% from June, as prices from goods abroad rose 0.7%.

The Canadian trade data incorporates the trade of merchandise goods, and doesn't include the sale and purchase of services.

The U.S. also reported trade data Wednesday. The Commerce Department said the trade shortfall in goods and services widened by 9.5% from June to a seasonally adjusted $50.08 billion in July, as exports sank 1% from June, while imports rose 0.9%.

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WSJ PRO CENTRAL BANKING

Economy
**Bullard Says Fed Should Look More Closely at Market Data; 'Financial market information can provide the basis for a better forward-looking monetary policy strategy,' St. Louis Fed chief says**

By Michael S. Derby
294 words
5 September 2018
10:54 AM
WSJ Pro Central Banking
RSTPROCB
English


Federal Reserve Bank of St. Louis President James Bullard said Wednesday the U.S. central bank should take more account of **financial market** issues when setting monetary policy.

"U.S. monetary policy makers should put more weight than usual on **financial market** signals" now given that there seems to be a "breakdown" in the normal relationship between the strength of the job market and inflation, Mr. Bullard said.

"Handled properly, current **financial market** information can provide the basis for a better forward-looking monetary policy strategy," he said in material prepared for a conference in New York.

Mr. Bullard reiterated his view that the bond market and the narrow difference between short- and long-dated Treasury yields indicate the Fed needn't raise rates further. Mr. Bullard isn't a voting member of the interest-rate-setting Federal Open Market Committee, and has long opposed further interest rate rises.

"The yield curve information suggests that **financial markets** do not see excessive real growth or excessive inflationary pressure over the forecast horizon," Mr. Bullard said.

Mr. Bullard told reporters after the event he sees an "elevated risk" the Fed could be making a policy mistake by pressing forward with rate rises that could push short-dated yields above long-dated ones.

Such an inversion of the yield curve has often preceded a recession, and some worry Fed rate rises could be setting the stage for a downturn. Mr. Bullard said for an inversion to be meaningful, it would have to be sustained.

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WSJ PRO BANKRUPTCY

Pro Bankruptcy
**Clearing Houses: The New Too-Big-to-Fail Firms; The banks have been tamed, but in the derivatives markets, some allege that the systemic risk has just moved houses**

By Samuel Agini
1,365 words
5 September 2018
10:47 AM
WSJ Pro Bankruptcy
RSTPROBK
English


Since the financial crisis, regulators have aimed to make the system safer by making some derivatives less risky. Their efforts on that front, however, may have undermined their work on another - tackling the threat of institutions that are too big to fail.

The clearing houses that process many over-the-counter derivatives contracts have become behemoths, processing much larger chunks of the $532 trillion market than they did before. That has generated concern from within the industry all the way to the White House. In October, former Goldman Sachs president and then chief economic adviser to the president, Gary Cohn, warned that clearing houses may represent a "new systemic problem."

Bob Pickel, the former chief executive of the International Swaps and Derivatives Association, a lobby group, said clearing houses are "probably" too big to fail.

"That doesn't mean they're going to fail," he added.

Clearing houses such as those owned by the likes of Intercontinental Exchange, the parent of the New York Stock Exchange, and its European rival, the London Stock Exchange Group, the majority-owner of LCH, sit between banks to step in and guarantee derivatives in case one side defaults. They also collect cash from each trader as security in the event of one of them defaulting, or the prices of the assets underlying the derivative changing.

The worry is that, should a crisis cause **financial markets** to seize up, the clearing houses might also need to be bailed out — drawing their member banks into the storm.

One senior executive said people "should be buying bottled water" to survive if a clearing house were to go bust.

Before the crisis, privately negotiated and individually tailored derivatives were handled directly between banks and their counterparties. This was simpler and often cheaper than involving a clearing house, but it also meant disaster when a sea change in the values of the underlying assets – such as mortgages in the U.S. – left both sides to trillions in derivatives contracts panicked about the ability of their counterparty to pay.

Two companies became symbols during the crisis of the dangers of uncleared derivatives. American International Group shocked the world after insurance-like derivatives it had written, known as credit default swaps, on hundreds of billions of dollars of mortgage-backed securities and collateralized debt obligations forced the company into a $182 billion government bailout on September 16, 2008. The company survived the crisis – unlike Lehman Brothers, whose bankruptcy the day before had exposed its own unwieldy web of derivatives trades. The U.S. investment bank's $35 trillion derivatives portfolio equated to about 5% of the global derivatives market, and when Lehman was left to fail, unravelling its uncleared derivatives took years.

Banks had already started to move their OTC trades to clearing houses before 2008, though not quickly enough for some. In stark contrast with Lehman's uncleared derivatives, its $9 trillion interest-rate swap book at LCH, spanning 66,000 trades and five currencies, was closed out or transferred within three weeks.

Christian Lee, a partner at consulting firm Catalyst, remembers working as a risk manager at LCH during the Lehman bankruptcy: "Nothing really prepares you for the real thing. There was a lot of uncertainty about whether the plans would work when markets were dislocating."

The crash provided the impetus for tougher regulation. The G20 committed in 2009 to requiring derivatives adhering to certain standards had to be cleared. Swaps that remained outside of clearing houses would be subject to higher capital requirements, making them more expensive for banks not to clear.

The mandates have been a success in terms of encouraging central clearing. According to the Bank for International Settlements, 75% of interest-rate swaps and 55% of credit default swaps were cleared at the end of 2017.

One senior executive at a large bank said it is undeniable that clearing has been a good thing, introducing transparency and sounder risk management techniques. Many point out that regulators always intended for clearing houses to get bigger.

Michael Davie, the global head of rates at LCH, credited clearing with helping to restore confidence in the OTC derivatives market after the crisis: "I think clearing has helped that enormously."

Davie, who spent 20 years at JPMorgan before joining LCH in 2010, added that the risks inherent to the derivatives market have not gone away, but that clearing houses have added a layer of protection that did not exist before.

"We're more the shock absorber," he said.

But clearing houses' size and concentration worry other observers.

A study in August this year by the Financial Stability Board, the Committee on Payments and Market Infrastructures, the International Organization of Securities Commissions, and the Basel Committee on Banking Supervision highlighted the "interdependencies" between the houses and their members.

Colleen Baker, an assistant professor of legal studies at the University of Oklahoma who focuses on clearing and derivatives, said: "These institutions are not only undoubtedly too big to fail, but too interconnected to fail."

She drew parallels with companies such as AIG, which were deemed by regulators to be so central to parts of the financial system that allowing them to go bust would have spillover effects onto huge swaths of the global economy: "In some ways we have relocated the AIG problem to clearing houses. Again, we have a single point of failure."

However, Kevin McPartland, the head of market structure research at Greenwich Associates, said: "You can't understate how critical they [clearing houses] are to functioning of the markets. But putting them into the same bucket as a risk taking institution is just not the right way to examine the situation."

Much discussion centers on how to equip clearing houses to be resilient enough to avoid collapsing themselves. Regulators and the industry are working through rules for worst-case scenarios, to prevent a clearing house from having to turn to public funds in the event of a cataclysmic event that threatens the financial system at large.

The issue of who should be on the hook when a clearing house is in trouble, however, is contentious. A clearing house's members consist of the firms that use it, and members can be called upon to support the house financially once other buffers have been exhausted. Where the dispute lies is in just how much capital clearing houses should be required to hold, which can then be tapped to prevent members having to chip in.

BlackRock, the world's biggest asset manager, and Wall Street banking giant JPMorgan support the clearing mandates but have in the past called for clearing houses to have sufficient resources of their own to resolve such issues during a crisis.

One clearing member said clearing houses should have to incur greater losses in the event of a member's default than is currently required, before other member banks are called on.

"If you want to make money out of [clearing], then you should have greater capital at stake," the person said. Another warned, "These guys have incredible emergency powers. Before they go down, we feel incredible pain."

Some clearing executives counter that higher capital requirements for clearing houses would increase fees they charge for the service,and could encourage riskier trading behavior by banks.

More than one interviewee said central banks would ultimately be forced to "pony up" if a clearing house were to find itself in a fatal position. The issue is attracting fresh attention. Last year, Isda urged regulators to continue to work together to finalize and implement clear and predictable recovery and resolution strategies and ensure [central counterparty] resilience."

McPartland said: "The clearing mandates have been generally a positive thing. Everything has worked as expected.

"The caveat is that markets have been relatively calm for the last five years. We haven't seen a major, long-term disruption yet. That will be the real test."

To contact the author of this story with feedback or news, email Samuel Agini at sagini@efinancialnews.com

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THE WALL STREET JOURNAL.
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**Banking & Finance: Automated Trades Seen Worsening Swings**

By Stephanie Yang
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5 September 2018
The Wall Street Journal
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B12
English


On Feb. 5, the **Dow Jones Industrial Average** suffered its worst one-day point-decline in history amid a tumultuous week for global markets. Although the blue-chip index has since erased that loss, some investors are still trying to puzzle out what caused such a drop.

One possible culprit: a cascade of automated stop-loss sell orders by trend-following investment funds that started in London and then fed into the steep rout in U.S. stocks. In the following days, the downward lurch prompted selling to spread to other assets such as oil futures.

This was the conclusion of an analysis of that fraught week by Bridgeton Research Group LLC, which runs computer models predicting trading patterns of algorithmic strategies.

Stop-loss orders, or sell stops, are standing directives to sell a position -- say, a stock or exchange-traded fund -- once prices fall below a certain level. They have long been a tool for investors to automatically shut down a losing bet.

But the growing influence on markets of algorithmic traders and trend-following funds, which use such automatic directives, potentially makes markets more vulnerable to sharp swings if everyone starts to sell at once. Such strategies tend to have sell stops around the same levels across stock, bond and commodities futures.

"So many of these algorithms are doing the same thing. Their behavior becomes like human groupthink," said Peter Hahn, co-founder of Bridgeton.

Whether humans or machines tend to be the originators in major market declines is a longstanding debate on Wall Street.

Many analysts believe fundamental data, such as an economic release or news report, is what causes investors to run for the exits, while stop-losses add momentum and **volatility** to the move. Others believe a wave of automated selling can just as easily be what prompts investors to sell, absent any fundamental reason to bail.

Traders have pointed to stop-loss orders in previous market plunges, such as in August 2015, when a surprise devaluation of the Chinese yuan sent markets into free fall. The Securities and Exchange Commission listed stop-loss orders as a potential aggravator of market losses in the "flash crash" of May 2010.

There is no definitive answer in the debate. The estimate of the effect of stop-losses by Bridgeton -- which provides research on different algorithmic strategies, such as daily positioning and buy and sell levels -- was based on the firm's in-house models built to trade like major trend-following funds.

However, the exact prices at which large quantitative firms buy and sell is difficult to verify, and those levels frequently change based on the market and exact strategy each fund is running.

The use of stop losses by algorithmic traders has evolved as well to be more fluid and difficult to pinpoint. Instead of setting an explicit sell order, programs take data points from moving markets, such as **volatility** and momentum trends, to determine when to reduce positions.

For example, short-term and long-term funds will weigh market signals differently, traders say. That leads them to behave differently in terms of when and what to trade.

Also, rather than exiting from a position completely when a stop is hit, many algorithms are programmed to reduce their holdings gradually. Because of this, some trend-following funds dispute the idea that their actions are making market selloffs worse.

"They all don't want to be trying to get out of the position at the same time," said Jeff Malec, managing partner at RCM Alternatives. "They're going to use technology to mitigate that."

One thing is clear: Funds that chase trends and use algorithmic strategies have grown and can more easily program sell stops in the futures market, thanks to increasing automation.

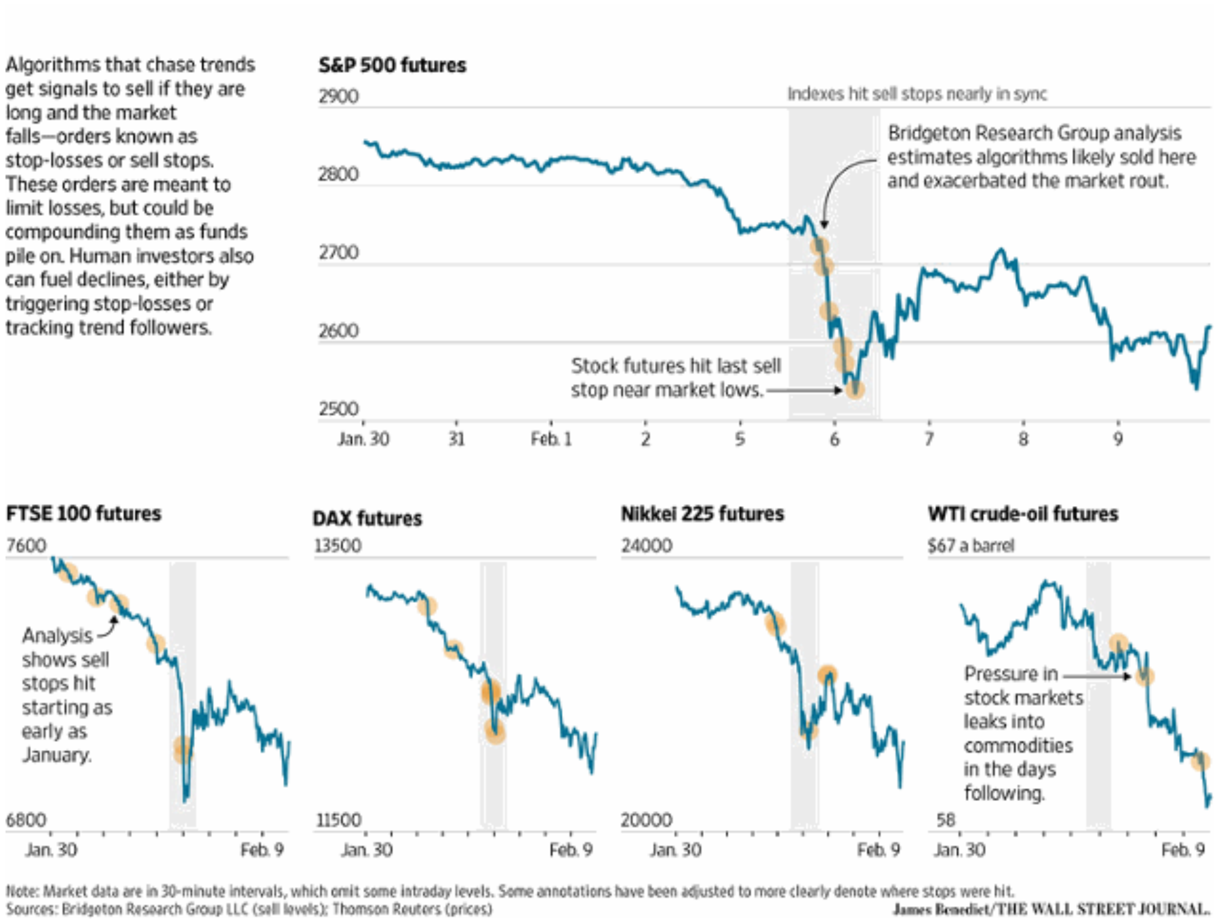
Trend-following funds are often synonymous with so-called commodity-trading advisers, or CTAs, though they can use a variety of strategies. In the past decade, the amount of money managed by CTAs has risen by 47% to roughly $367 billion, according to first-quarter data from BarclayHedge Ltd. Algorithmic strategies account for 88% of those assets.

Attempts by traditional investors to decipher trend-following funds' methodologies and figure out which levels they will trade at have also increased.

"People have always speculated, but there's better data now," said Kathryn Kaminski, chief research strategist and portfolio manager at AlphaSimplex Group LLC.

That, in turn, can amplify market moves as a wider range of institutional investors are trying to position for what the trend-following funds might do. Eric Armitage, chief executive of London-based East Alpha, started building models for BP PLC in 2001 to help the company understand what algorithmic strategies were doing.

"Having worked for some very large fundamental shops, they are all very cognizant of this activity," Mr. Armitage said.



Note: Market data are in 30-minute intervals, which omit some intraday levels. Some annotations have been adjusted to more clearly denote where stops were hit.
Sources: Bridgeton Research Group LLC (sell levels); Thomson Reuters (prices)

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WSJ PRO CENTRAL BANKING

Economy

**Central Banks Are at a Crossroads | Carney Open to Extended Tenure | Bullard: Shouldn't Raise Right Now | Europe Goes Harder on Laundering | Derby's Take: New Views on a Flattening Yield Curve; The Wall Street Journal's central banking newsletter for Wednesday, September 5, 2018**

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5 September 2018
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English


Derby's Take: New Views on a Flattening Yield Curve

Ten Years After Crisis, Central Banks Are at a Crossroads

Carney Open to Extending BOE Tenure for Post-Brexit Stability

Bullard Says Fed Shouldn't Raise Rates Right Now

Europe Goes Harder on Money Laundering With Record ING Fine

New Views on a Flattening Yield Curve

For economists and central bankers, the bond-market yield curve is one of the best predictors of whether the economy is, or isn't, on a collision course with a recession.

But there is no consensus whether the arrival of what's called an inversion—when short-dated securities yield more than long-dated bonds—causes a downturn, or merely correlates with it.

With that fundamental question still unanswered, yield-curve issues are looming large for the Federal Reserve. For much of this year, the difference between the short and long ends of the Treasury yield curve has been growing closer. The difference between the two- and 10-year note now stands at about 24 basis points.

That means one or two more Fed rate rises could cause an inversion. Fed Chairman Jerome Powell's speech on monetary policy in Jackson Hole last month suggested more rate rises are coming, but a number of central bankers have signaled they might be inclined to hold off on an increase if that action would cause the yield curve to invert.

Amid this fluid situation, new thinking has arrived on how to make sense of the yield curve's message.

Researchers at the Federal Reserve Bank of San Francisco recently said there is a better way to look at the yield curve. Instead of focusing on the spread between two- and 10-year yields, the difference between three-month and 10-year yields provides a better signal about the outlook.

And on that front, they find a still comfortable difference that suggests while recession risks are up, a downturn hasn't grown that much more likely.

In a recent blog posting, Bentley University economics professor Scott Sumner takes a step back and places yield-curve developments in a broader context. Yes, inversions tend to herald recessions, he writes. But it may be because the market is reflecting what's going on in the job market.

Mr. Sumner said inversions may be tied to the unemployment rate falling to its so-called natural level, where if it went lower would spark unwanted amounts of inflation.

"When unemployment has fallen close to the natural rate, it's no longer rational to expect lower unemployment in the future," Mr. Sumner writes. So the market adjusts to the idea the expansion can't go on. "Indeed it's quite likely that we'll soon enter a recession. That's why the yield curve gets flat, and sometimes inverts."

If Mr. Sumner is correct about the linkage between the job market and the yield curve, it could well suggest a recession is closer than most think. Many at the Fed and elsewhere believe the 3.9% jobless rate is below its natural level. While officials would like to keep the expansion humming and the jobless rate low, history has shown that is hard to do.

Mr. Sumner makes no predictions about the outlook, but he does say U.S. economic expansions never make it past their 10th birthday. The current expansion started in 2009.

Key Developments Around the World

Ten Years After Crisis, Central Banks Are at a Crossroads

The decade that followed the financial crisis brought huge amounts of easy money that propelled markets higher. In the decade to come, investors will have to reckon with a potentially rockier wind-down of those policies. Monetary policy makers are at a crossroads as the 10th anniversary of the Lehman Brothers collapse approaches this month. Central banks in the U.S., Europe, Japan and China still have balance sheets that add up to more than $20 trillion and that, in aggregate, continue to grow. But HSBC Holdings estimates these balance sheets are stabilizing relative to gross domestic product and are set to start shrinking by that measure later this year. The move to pull away that support for global markets would come as many assets are already trading at historically high prices and investors are wondering how much longer the **bull market** can last.

Carney Open to Extending BOE Tenure for Post-Brexit Stability

Bank of England Gov. Mark Carney signaled Tuesday that he is willing to stay on as head of the U.K. central bank beyond his planned departure date next year, offering a measure of stability in British policy-making as the country prepares to leave the European Union. In testimony to U.K. lawmakers, Mr. Carney said he had discussed the possibility of extending his tenure with Treasury chief Philip Hammond and a decision on his future should be made public soon. The central-bank chief said "a measure of continuity" might help the Brexit process, which is mired in uncertainty amid patchy progress in talks between London and Brussels and infighting in Parliament.

Bullard Says Fed Shouldn't Raise Rates Right Now

Federal Reserve Bank of St. Louis President James Bullard called for his colleagues to hold off on raising rates again, but appeared to acknowledge that a move higher this month is pretty much a done deal. Given where the economy is, "we've got a pretty good policy right now and we should stay where we are and see how the data come in," said Mr. Bullard on Monday, in a transcript of an interview on Fox Business Network. In the interview, Mr. Bullard reiterated his view on rate increases is different from most of his colleagues. When it comes to a September rate rise, "markets are putting a very high probability on it. And if you talk to my colleagues, most of them seem to be putting a high probability as well," he told the network.

Bank of Canada Seen as On Hold Until October

The Bank of Canadais widely expected to keep its benchmark interest rate on hold at a policy announcement Wednesday, in part to allow more time to see how last-ditch efforts to include Canada in a new North American Free Trade Agreement unfold. Economists from nine of 11 primary dealers of Canadian government securities told The Wall Street Journal they expect the Bank of Canada to keep the target for the overnight rate unchanged this week at 1.50%. A majority of those surveyed said the central bank would likely wait until October to raise its key rate.

Australia Rate Increase Still Seems to Be 'Way Off,' RBA Governor Says

An interest-rate increase in Australia still seems a "way off," Reserve Bank of Australia Gov. Philip Lowe told the central bank's board Tuesday at a dinner in Perth. Still, Mr. Lowe remained upbeat on the outlook for the resource-rich economy. Earlier Tuesday, the RBA kept its benchmark cash rate at a record low 1.5%, extending a record period of policy inaction at the central bank beyond two years.

Australia's Record-Beating Economic Growth Continues

How Argentina's Evolving Economic Crisis Unfolded

As rising U.S. interest rates and the dollar's resurgence ripple through emerging markets, Argentina has been among the countries most-punished by investors. The country's inflation rate has skyrocketed and stocks have been pummeled as foreign investors flee. Last week, the central bank raised its key interest rate to 60% from

45% at an unscheduled meeting in an effort to shore up the plunging peso. Here's a look at how the crisis unfolded.

Indonesian Shares on Track for Worst Day in Five Years

Indonesian shares were set to suffer their worst day in five years, as investors soured on Southeast Asia's biggest economy and authorities tried to defend a currency plumbing two-decade lows. Blowups in Turkey and Argentina, and a surge in the dollar, have dented investors' appetite for emerging markets. Among Asian countries, Indonesia is particularly vulnerable because it has borrowed heavily in dollars, and because foreigners own large chunks of its domestic bond market. During the day, Bank Indonesia said it had sold dollars and bought government bonds. The central bank has repeatedly intervened in currency and bond markets and raised interest rates by more than 1 percentage point since May to defend the currency. For the year, the rupiah has nonetheless slumped more than 9% against the dollar.

Malaysia's Central Bank Stands Pat

Malaysia's central bank left interest rates unchanged, bucking the trend among its regional counterparts to raise rates as their currencies hit multiyear lows. All 12 economists polled by The Wall Street Journal expected Bank Negara Malaysia to hold its overnight policy rate, or OPR, at 3.25%. The central bank raised interest rates by a quarter percentage point for the first time in 3½ years in January.

FINANCIAL REGULATION ROUNDUP

Europe Goes Harder on Money Laundering With Record ING Fine

Banking group ING Groep has agreed to pay a record European fine of €775 million ($899.8 million) to settle an investigation by Dutch prosecutors into money-laundering failings, as watchdogs scramble to staunch flows of illicit money after a spate of high-profile scandals. Also Tuesday, Danish lender Danske Bank saw its shares tumble following a report that local prosecutors had uncovered a higher than expected tally of allegedly illegal Russian money moving through its Estonian branch. Banks world-wide are under increasing pressure to clamp down on the trillions of dollars' worth of illegal money flowing through the global financial system.

Sanofi Pays $25 Million to Settle Bribery Charges

French pharmaceutical company Sanofiagreed to pay $25.2 million to resolve Securities and Exchange Commission allegations that its subsidiaries made bribery payments to win business. The alleged schemes spanned multiple countries and involved bribes to government procurement officials and health-care providers to receive tenders and increase prescriptions of the company's products, the SEC said. The alleged payments violated the Foreign Corrupt Practices Act, which bars bribes of foreign officials for business purposes, the SEC said. The SEC said Sanofi violated the books-and-records and internal-control provisions of the FCPA. The company neither admits nor denies the SEC's allegations.

Citigroup CFO, Longest-Serving Finance Chief on Wall Street, to Retire

Citigroup Inc. Chief Financial Officer John Gerspachwill retire next year, ending a nearly 10-year run as the bank's top finance executive, the company said Tuesday. Mr. Gerspach, 65 years old, will end his tenure as the bank's CFO on March 1, according to an email Chief Executive Michael Corbat sent to employees that was viewed by The Wall Street Journal. Mr. Gerspach has served as Citigroup's CFO since July 2009, making him the longest-serving finance chief currently at any major U.S. bank. He will be succeeded by Mark Mason, 47, the finance chief of Citigroup's Institutional Clients Group, the side of the bank that includes investment banking and trading.

Wednesday

8:30 a.m. EDT

U.S. Commerce Department releases July international trade

9:20 a.m. EDT

St. Louis Fed's Bullard speaks on economy and monetary policy in New York

10 a.m. EDT

 

Bank of Canada releases policy statement

4 p.m. EDT

Minneapolis Fed's Kashkari speaks at Montana State University in Bozeman, Mont.

6:30 p.m. EDT

Atlanta Fed's Bostic speaks on economy and monetary policy in Chicago

9:30 p.m. EDT

Bank of Japan's Kataoka speaks to business leaders in Yokohama

Thursday

3:30 a.m. EDT

Sweden's Riksbank releases policy statement

7:45 a.m. EDT

ECB's Lautenschläger speaks at Eurofi Financial Forum in Vienna

10 a.m. EDT

New York Fed's Williams speaks in Buffalo, N.Y.

2:45 p.m. EDT

Bank of Canada's Wilkins gives economic progress report in Regina, Saskatchewan

U.S. Corporations' Repatriation of Offshore Profits

A Federal Reserve FEDS Notes article studies how companies with large overseas cash holdings have used those funds after the 2017 U.S. Tax Cuts and Jobs Act eliminated tax disincentives on the repatriation of foreign earnings. It finds that funds repatriated in this year's first quarter "have been associated with a dramatic increase in share buybacks; evidence of an increase in investment is less clear at this stage, as it is likely too early to detect given that the effects may take time to materialize." Authors Michael Smolyansky, Gustavo Suarez and Alexandra Tabova also write that unlike buybacks, "dividends were little changed for the top 15 cash holders relative to the same period last year."

Economy Gives Fed No Reason for Pause

"Welcome back from summer vacation!" writes The Wall Street Journal's Justin Lahart. "As far as the Federal Reserve is concerned, not much happened while you were gone. That leaves them on track to keep tightening." He says that "the types of big worries that have rattled markets in summers past weren't there and the existing, mostly benign trends were…While there are some uncertainties hanging over the economy, the chances of it materially slowing down this year seem slim. Next year, when the tax-cut stimulus starts to fade, tariff effects become more pronounced and Brexit is scheduled to occur, could be a different matter. But that is next year."

American factory activity in August expanded at the strongest pace in more than 14 years, despite rising tensions with some of the U.S.'s largest trade partners. The Institute for Supply Management on Tuesday said its manufacturing index rose to 61.3 in August, the highest level since May 2004, from 58.1 in July.

U.S. manufacturing activity in August fell to a nine-month low despite an increase in output and new orders, according to a report released Tuesday. The final reading of the IHS Markit U.S. Manufacturing Purchasing Managers' Index for August was 54.7, down from the July reading of 55.3.

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Document RSTPROCB20180905ee950005l

WSJ PRO CENTRAL BANKING

Economy
**Malaysia's Central Bank Stands Pat; Overnight policy rate kept at 3.25%**

By Yantoultra Ngui
395 words
5 September 2018
05:00 AM
WSJ Pro Central Banking
RSTPROCB
English


KUALA LUMPUR, Malaysia—Malaysia's central bank left interest rates unchanged, bucking the trend among its regional counterparts to raise rates as their currencies hit multiyear lows.

All 12 economists polled by The Wall Street Journal expected Bank Negara Malaysia to hold its overnight policy rate, or OPR, at 3.25%. The central bank raised interest rates by a quarter percentage point for the first time in 3½ years in January.

"At the current level of the OPR, the degree of monetary accommodativeness is consistent with the intended policy stance," Bank Negara Malaysia said in a statement Wednesday.

Unlike Bank Negara Malaysia, central banks in Indonesia and the Philippines have been shaken by concerns about contagion following the Turkish lira's collapse. The ringgit has fared better than its counterparts, thanks to firmer **oil prices** and measures the central bank introduced in 2016 to reduce foreign-exchange **volatility**.

The ringgit has lost 2.4% against the dollar so far this year, compared with a 10% year-to-date slump in the Indonesian rupiah and a 7.1% year-to-date drop in the Philippine peso.

Still, economists say they don't expect Malaysia to be fully spared from the effects of rising U.S.-China trade tensions, given that both countries are among its major trading partners. Last month, Bank Negara Malaysia said it expects economic growth of about 5.0% in 2018, down from a previous forecast of 5.5%-6.0%.

The revised GDP growth forecast came after Malaysia's economy expanded 4.5% in the second quarter, the slowest pace since the fourth quarter of 2016, on what Bank Negara Malaysia said was "supply disruptions in the mining and agriculture sectors." The result also marked the Southeast Asian nation's third straight quarter of decelerating growth.

Inflation is expected to edge higher, Bank Negara Malaysia said, though the impact of the changes in the consumption-tax policy is likely to be "transitory," lapsing toward the end of 2019.

Malaysia reintroduced the sales and services tax on Sept. 1 to replace the unpopular goods and services tax. While the new tax could push consumer prices higher, most economists have subdued inflationary expectations, partly because of the reintroduction of fuel subsidies.

Write to Yantoultra Ngui at yantoultra.ngui@wsj.com

Document RSTPROCB20180905ee950002t

The New York Times

Business/Financial Desk; SECTB
**Health and Tech Shares Slump as Banks Rise**

By THE ASSOCIATED PRESS
498 words
5 September 2018
The New York Times
NYTF
Late Edition - Final
5
English


Stocks finished lower on Tuesday as losses for health care and technology companies canceled out gains for banks. Another gain for Amazon briefly brought its market value to $1 trillion.

Banks rose as interest rates climbed. Nike slumped after it gave a major endorsement deal to the former San Francisco 49ers quarterback Colin Kaepernick, known for his protests of police brutality and racial injustice.

Investors did not commit to many big moves as trading resumed after the Labor Day holiday. They are likely to focus on trade this week, as the United States is scheduled to resume trade talks with Canada on Wednesday and could announce new tariffs on $200 billion in Chinese imports later this week.

Mark Hackett, chief of investment research at financial services firm Nationwide, says investors are paying less attention to trade-related headlines recently because they are fairly certain they know how the talks will end. ''I'm still pretty confident that before midterms or by the end of the year we're going to have a handshake agreement with the NAFTA region and China,'' he said.

The **Standard & Poor**'**s 500**-**stockindex** gave up 4.80 points, or 0.2 percent, to 2,896.72. The **Dow Jonesindustrial average** dipped 12.34 points to 25,952.48. The **Nasdaq composite** fell 18.29 points, or 0.2 percent, to 8,091.25. The Russell 2000 index lost 7.38 points, or 0.4 percent, to 1,733.38.

The **S**.**&P**. **500** has risen in eight of the past nine weeks and closed at a record high on Wednesday.

Drugmakers and suppliers took some of the sharpest losses on Tuesday, and big technology companies including Facebook and Alphabet, Google's parent company, also slumped.

Nike stock fell 3.2 percent to $79.60 after it said Mr. Kaepernick would be one of the faces of its 30th anniversary ''Just Do It'' campaign. Investors feared a possible backlash from shoppers.

Amazon briefly traded above $1 trillion in market value, a milestone only Apple has surpassed among publicly traded American companies. Amazon finished with a gain of 1.3 percent to $2,039.51, which gave it a market value of $995 billion.

**Bond prices** dropped. The yield on the **10**-**year Treasury** note rose to 2.90 percent from 2.85 percent.

Benchmark U.S. crude rose 0.1 percent to $69.87 a barrel in New York. Brent Crude, used to price international oils, was little changed at $78.17 a barrel in London.

The dollar gained strength and metals prices fell. Gold lost 0.6 percent to $1,199.10 an ounce. The dollar rose to 111.48 yen from 111.01 yen. The euro fell to $1.1581 from $1.1597.

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

Document NYTF000020180905ee950005c

The New York Times

Business/Financial Desk; SECTB
**Shrugging Off Trade Wars May No Longer Be an Option**

By PETER EAVIS
658 words
5 September 2018
The New York Times
NYTF
Late Edition - Final
5
English


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This may be the point at which investors have to start taking President Trump's trade wars much more seriously.

Fears about trade have at times weighed on stocks since mid-February when the Trump administration announced tariffs on steel and aluminum. But the **Standard & Poor's 500-stockindex** is up nearly 9 percent this year, and much of those gains have come in the past two months, a move that took the **stock market** to a record high last week.

The trade conflict between the United States and China may be on the verge of a sharp escalation. Bloomberg reported on Thursday that Mr. Trump wanted to go ahead soon with tariffs on $200 billion of Chinese products, adding to those already imposed on $50 billion of goods.

Investors may have viewed Mr. Trump's threats since February as negotiating tactics, and believed that he would be content with limited gains. That appeared to be the case over the past week, in which the White House worked toward a trade deal with Mexico and Canada that does not appear to radically remake the North American Free Trade Agreement.

But there has been unease among many investors. Fund managers have ranked trade as their primary concern over the past few months, and as Mr. Trump's statements have turned into action, some have positioned their investments for slower economic growth.

Though last week's Nafta negotiations sparked a rally in stocks, investors might not want to draw too much from the talks. Mexico and Canada are predisposed to compromise, given their huge dependence on the United States market. And the European Union, which typically takes a hard line in trade negotiations, has not agreed to anything yet.

While China relies on the United States market, its leaders can offset the impact of $250 billion in tariffs, by measures like stimulating their economy and bolstering exports by letting China's currency slide.

China could also step up its retaliation against the United States, which may hurt American companies.

That could put the **stock market**'s gains this year at risk. This summer's rally has made stocks more expensive, which in turn makes them more vulnerable to negative news.

How far could stocks fall if the trade conflict intensifies?

Underlying **stock market** numbers give some guidance. The **S**. **& P**. **500** is now trading at 17 times earnings that analysts expect over the next 12 months, according to figures from FactSet. The lowest valuation on the index during the trade tensions this year was just over 16 times expected earnings. The benchmark would have to fall more than 5.5 percent to trade at that lower multiple.

A moderate market reaction to a stepped-up conflict with China may be justified given the uncertainty surrounding the negotiations. But any sign that the conflict could hit corporate earnings would deepen worries about future profits. If the great earnings boom that has recently driven stocks to new highs falters, the **S**. **& P**. **500** would be at risk of a steep decline.

Investors may comfort themselves with the thought that Mr. Trump may not want to risk a **stock market** rout ahead of the midterm elections in the United States. After all, he likes to trumpet the **stock market**'s nearly 30 percent ascent under his administration. On Thursday he tweeted, "For all of you that have made a fortune in the markets, or seen your 401k's rise beyond your wildest expectations, more good news is coming!"

Investors now have to decide whether a much nastier fight with China fits into that **bullish** narrative.

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THE WALL STREET JOURNAL.

Markets

**Norway's Trillion-Dollar Oil Fund Hitting Critical Mass in Property Deals; With properties in the U.S., U.K., France, Germany and Switzerland, Norges is now exploring possible deals in Singapore**

By Isobel Lee
948 words
4 September 2018
The Wall Street Journal Online
WSJO
English


Corrections & Amplifications

Some analysts say that capital from new sovereign funds is helping keep the **bull market** alive in global real-estate markets. An earlier version of this article incorrectly attributed this statement to Richard Bloxam, global head of capital markets at JLL.

When Norway's trillion-dollar oil fund decided to start buying commercial property in 2010, its managers figured that it would focus primarily on about a dozen of the world's top cities.

Eight years later, the fund's property arm, Norges Bank Real Estate Management, is nearing that goal. Last year, it paid $823 million for a majority stake in a set of five retail and office properties in Tokyo, adding that city to the list that now includes nine principal cities in the U.S., U.K., France, Germany and Switzerland.

Norges is now exploring possible deals in Singapore, but hasn't identified "many more important cities", according to Karsten Kallevig, chief executive of Norges Bank Real Estate Management.

"We've come to a conclusion that in order to invest this amount of capital in a significant way, there are really only a handful of cities globally where we can achieve that scale," Mr. Kallevig said in an interview with The Wall Street Journal. "We only have 140 people on the real-estate team so we have to focus."

Norges's real-estate strategy is of enormous interest to investors, sellers, brokers and other real estate industry officials throughout the world. The fund, which two years ago decided to increase its allocation to property to a maximum of 7% from 5%, has been involved in some of the world's most high profile deals in recent years.

There is no sign of its appetite ebbing, even with the current **bull market** in commercial property in its ninth year. Some investors who are very sensitive to market timing have moved to the sidelines, worried that the good times may come to an end soon.

But at Norges, "there wasn't really this clever debate about if this is the right time to go in," Mr. Kallevig said. "Quite frankly, if we're going to be in these kinds of markets for the next couple of decades then we're slightly less sensitive to market timing."

That doesn't mean that Norges isn't always trying to get the best price, Mr. Kallevig said. "Of course, we never want to pay more than we have to," he said. "But if we're a long-term owner then by definition we're going to go through cycles with the assets we own."

Norges is among a number of huge sovereign funds that are becoming more active in commercial property investment throughout the world. Japan's $1.5 trillion government pension fund has been selecting managers for real estate, as well as private equity and infrastructure investments. The Qatar Investment Authority and Australian Future Fund also have been more active.

Indeed, some analysts say the capital these funds are pumping into global real estate markets is helping keep the **bull market** alive. "Sovereign wealth funds have become a very meaningful part of the global investment community," said Richard Bloxam, global head of capital markets at JLL.

The Norges fund's investment approach to property investing has evolved over the last eight years, said Mr. Kallevig, a former head of Japan for Grove International Partners who joined Norges Bank in 2010 and became chief executive of real estate in January 2016.

The fund debuted in London real estate, taking a 25% share in the Crown Estate's Regent Street portfolio. Its other high-profile deals have included the billion euro acquisition of an office building in Paris at 9 Place Vendôme in 2016, plus a 44% minority stake in a portfolio of 11 office properties in New York City for $1.56 billion in 2015.

The fund is conservative when it comes to debt. "At a portfolio level, leverage is less than 10%," Mr. Kallevig said. We rarely go for it unless we have a partner that really needs financing, or if we buy an asset that already has debt in place."

And while asset classes were initially only offices and retail, that is changing too. "We've invested in logistics assets, but are unlikely to go down the alternatives route," Mr. Kallevig said, referring to niche asset classes like student housing or assisted living. "Residential and multifamily would offer some scale but most alternative asset classes are smaller, and I think focus for us is very important."

The fund has famously shunned the Nordics region to date. It doesn't invest in Norway in line with the management mandate laid down by the Ministry of Finance, the formal owner of the fund. The government stipulates that the fund's capital is to be invested abroad, to avoid overheating the Norwegian economy and to shield it from the effects of **oil-price** fluctuations.

Norges's real estate return for 2017 was 7.5%. Mr. Kallevig said it helps that there is not much competition when it comes to the large deals that the fund seeks. "If you're prepared to look at deals exceeding three quarters of a billion, you don't have that much competition for the asset—rarely more than two or three credible bidders." he said.

In Norges's second-quarter results, unveiled Aug. 23, the real-estate portfolio returned 1.9%. "That's marginally ahead of where we'd expect it to be," Mr. Kallevig said. "That translates into 3.5-4% income return and capital return slightly in excess of inflation, which is a pretty decent place to be over time particularly with a portfolio that has virtually no leverage."

Document WSJO000020180904ee940028m

 

THE WALL STREET JOURNAL.

Tech

**Amazon Hits $1 Trillion Valuation; It took online retailer just 165 trading days to grow from $600 billion in January to $1 trillion**

By Laura Stevens and Amrith Ramkumar
1,167 words
4 September 2018
04:11 PM
The Wall Street Journal Online
WSJO
English


Corrections & Amplifications

Shares of Amazon crossed the $2,050.27 needed to push the company's value above $1 trillion in midday trading Tuesday. An earlier version of this article incorrectly stated that it happened Monday. (Sept. 4, 2018)

Amazon.com Inc. followed Apple Inc. to become the second U.S. company to reach $1 trillion in market value, reflecting the online retailer's striking transformation from a profitless bookseller into a disruptive force of commerce.

Shares of Amazon climbed 1.9% in midday trading Tuesday, briefly topping the $2,050.27 needed to push the company's value above $1 trillion. The stock, which ended the day up 1.3%, has surged nearly 75% in 2018 and added roughly $430 billion to the company's market capitalization—about the size of Walmart Inc., Costco Wholesale Corp. and Target Corp. combined.

Investors have rewarded the Seattle-based company as it demonstrated better financial discipline in recent quarters, reporting record profits because of lucrative businesses such as cloud computing despite aggressively spending on industries from health care to grocery delivery.

"They've proven they can make it work," said Michael Lippert, who manages the Baron Capital Opportunity Fund that counts Amazon as its largest holding. "They're spending a lot on all these things to build and enforce their competitive advantages."

Amazon and Apple, which hit the trillion-dollar milestone on Aug. 2, symbolize the growing influence of tech companies on markets and the economy. The industry is amassing wealth and power, creating a new order in business where the most valuable resource is no longer oil, but data. Not far behind in market value are Google owner Alphabet Inc. and Microsoft Corp., both approaching $900 billion, while Facebook Inc.—which crossed $500 billion in July 2017, a day after Amazon—has stalled at those levels amid a data-privacy scandal and growth concerns.

The companies' increasing clout have prompted lawmakers to scrutinize the tech sector more closely. Amazon, which captures nearly half of all U.S. dollars spent online, is simultaneously drawing the ire of President Trump over its effect on traditional retail and its use of the U.S. Postal Service. Sen. Bernie Sanders has also criticized the company for the way it pays and treats its warehouse workers, something Amazon has said is an inaccurate portrayal.

Investors also worry about the tech companies' outsize impact on the **stock market**. Amazon, Apple and Microsoft have accounted for more than 35% of the **S&P 500**'s total return this year, according to S&P Dow Jones Indices data through Aug. 28.

One of the biggest beneficiaries of Amazon's growth is its 54-year-old leader, Jeff Bezos, who has surpassed Bill Gates to become the richest man in the world, according to multiple indices that track the world's wealthiest people. Mr. Bezos owned roughly 16% of Amazon, as of an August regulatory filing, and is worth about $166 billion, according to the Bloomberg Billionaires Index.

Amazon has expanded rapidly since its humble founding as an online bookstore in Mr. Bezos's garage in 1994. The internet then was just becoming a viable platform, and the most valuable companies at the time included industrial conglomerate General Electric Co., oil giant Exxon Inc. and telecommunications power AT&T Inc.

Amazon was valued at less than $500 million when it went public in 1997. A $1,000 investment in the IPO would be worth roughly $1.4 million today, adjusted for stock splits.

Tom Alberg, founding managing director for Madrona Venture Group, invested in Mr. Bezos's initial $1 million round of funding in 1995 and has served on the board since the beginning. At the time, "I don't think that any of us saw that [the internet] or Amazon would become as significant as they've become," Mr. Alberg said. He preferred to buy his books in stores, and many believed consumers would balk at paying with a credit card online.

Mr. Bezos and Amazon have been successful by staying intensely focused on customers, working to retain top talent, innovating and taking big risks on projects—even if they fail, Mr. Alberg said. "People have asked me, 'What's Amazon's secret to success?'" he said. "There are no secrets."

Mr. Bezos has built his business by keeping prices low and expanding quickly. Opening the company's site to millions of small businesses, retailers and manufacturers accelerated growth, helping capturing sales from other retail chains. Last year, the company's online store sales topped $108 billion, and the services it sold other merchants added to that total.

Amazon along the way has created popular electronic devices, produced award-winning films and shows, and built a cash cow by renting computer power on its servers to other companies. Amazon Web Services made more than $17 billion in revenue last year and has become the company's biggest profit driver.

In recent months, Amazonhas acquired grocery chain Whole Foods Market—giving it roughly 470 brick-and-mortar locations—and online pharmacy PillPack. It has enabled logistics drivers to deliver inside consumers' homes and cars, and is working on a delivery service expected to one day compete with FedEx Corp. and United Parcel Service Inc.

Amazon is also searching for a second headquarters, known as HQ2, where it is planning to create as many as 50,000 jobs and invest more than $5 billion dollars over nearly two decades. The search, which launched a year ago, has been narrowed down to 20 finalists and a decision is expected in the coming weeks.

It took Amazon just 165 trading days to grow its market value from $600 billion in January to $1 trillion, pushing it past the more established Microsoft and Alphabet. By comparison, Apple needed 183 sessions to hit $1 trillion after piercing $900 billion in November.

Amazon is more expensive than many of its peers. It trades at about 90 times projected earnings for the next 12 months, compared with valuations of roughly 25 for Alphabet and Microsoft and 17 for Apple and the broader **S&P 500**. Part of the discrepancy is because Amazon's record second-quarter earnings of $2.53 billion are still billions below the profits generated by Apple, Alphabet and Microsoft.

The higher market multiple is a reminder of how much investors have embraced Mr. Bezos' strategy of heavy spending in the past 20 years. Some analysts expect Amazon to soon overtake Apple as the largest U.S. company, which would mark the first such change since 2016, when Alphabet briefly passed the iPhone maker.

Mr. Bezos' initial shareholder letter in 1997—which he resends every year—touted the company's indifference to "short-term Wall Street reactions." At all-hands meetings with employees, Mr. Bezos has quoted legendary investor Benjamin Graham: "In the short run, the market is a voting machine, but in the long run, it is a weighing machine."

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THE WALL STREET JOURNAL.

U.S. Markets
Markets

**U.S. Stocks Slip as Materials and Industrials Sectors Fall; Dollar gains, while investors watch for U.S. data releases and trade talks**

By Riva Gold and Akane Otani
638 words
4 September 2018
05:41 PM
The Wall Street Journal Online
WSJO
English


* U.S. stocks lose ground

* Dollar on course for fifth straight advance

* Materials, industrials sectors decline

U.S. stocks began September with declines as investors looked ahead to a busy week of trade negotiations and economic data.

Stocks drifted lower shortly after the opening bell, then pared declines in the final hours of trading, with the **Dow Jones Industrial Average** erasing nearly all of its losses for the day.

The **Dow Jones Industrial Average** dropped 12.34 points, or less than 0.1%, to 25952.48, notching its third consecutive loss. The index earlier fell as much as 159 points. The **S&P 500** shed 4.80 points, or 0.2%, to 2896.72, and the **Nasdaq Composite** lost 18.29 points, or 0.2%, to 8091.25.

Activity was relatively muted as trading resumed following the Labor Day holiday.

Analysts said they expect trade to remain in focus this week, with talks over the North American Free Trade Agreementslated to resume Wednesday. President Trump's weekend threats to leave Canada out of a new Nafta kept stocks in Europe and Asia subdued on Monday.

The outcome of Nafta talks "will give us a hint of whether these trade conflicts are more and more concentrated [on China], or whether there is still a global element," said Witold Bahrke, a senior macro strategist at Nordea Asset Management, adding that if those tensions are limited to the U.S. and China, the impact on global growth will likely be smaller.

Shares of materials and industrials companies, which have struggled for ground this year amid investors' uncertainty over trade policies, were hit by fresh selling Tuesday.

Mining company Freeport-McMoRan lost 57 cents, or 4.1%, to $13.48 following metals prices lower, while aluminum-products maker Arconic declined 29 cents, or 1.3%, to 22.09, and farm- and construction-machinery maker Deere fell 2.10, or 1.5%, to 141.70.

Meanwhile, declines in Nike weighed on the Dow industrials. The sportswear giant's shares shed 2.60, or 3.2%, to 79.60 after the company said it would feature Colin Kaepernick, the National Football League quarterback who led player protests during the national anthem, in a new advertising campaign.

Amazon.com jumped 26.80, or 1.3%, to 2,039.51, briefly topping the level needed to push its market value above $1 trillion. The stock ended off its highs for the day but remains up 74% for the year.

In currency markets, the WSJ Dollar Index—which measures the dollar against a basket of 16 currencies—added 0.4%, notching its longest winning streak since December, when it rose for seven consecutive sessions.

The dollar has strengthened in recent months, putting pressure on emerging markets, amid signs of a strong U.S. economy. American factory activity accelerated faster than economists expected in August, data from the Institute for Supply Management showed Tuesday.

Investors will be closely watching other data releases this week, including Friday's monthly jobs report, as they try to assess the likelihood of another interest-rate rise from the Federal Reserve in September.

"The strength of the U.S. makes Fed tightening on autopilot, which feeds through to a stronger dollar," said Mr. Bahrke.

Elsewhere, the Stoxx Europe 600 fell 0.7%, notching its third decline in four sessions and finishing at its lowest level since mid-August.

Stocks in Asia were mixed, with Japan's Nikkei Stock Average down less than 0.1% and Hong Kong's Hang Seng up 0.9%.

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THE WALL STREET JOURNAL.

Markets

**Calpers' Bet on Sacramento's Planned Tallest Tower Splits Board; Dissent came after memo by an outside consultant raised concerns about risk, according to people familiar with matter**

By Heather Gillers and Dawn Lim
1,121 words
4 September 2018
05:30 AM
The Wall Street Journal Online
WSJO
English


Sacramento officials are cheering a decision by the California Public Employees' Retirement System to build what would be the tallest tower in its hometown. But some inside Calpers' boardroom are concerned the 550-foot project represents too much risk.

During a private meeting earlier this summer three Calpers directors voted against a new $550 million commitment to the proposed office-condominium-retail complex, according to people familiar with the situation. Calpers abandoned a previous development plan for the same site in 2007.

The dissent came after board members reviewed a memo from an outside consultant that raised some concerns about the project's return projections, these people said. The specific votes and memo haven't been previously reported. A majority of other members of the 13-person board agreed to support the project as long as it yielded a 5.8% return and 40% of the office space was pre-leased.

"Should this project go forward with development, we believe it will be a successful investment for the fund and an iconic building," Calpers said in a statement.

Competing pressures of local politics and investment often collide at the nation's largest public retirement systems, which are responsible for benefit obligations to firefighters, police officers, teachers and other public workers.

These funds across the U.S. are under increasing pressure to hit aggressive return targets as a way of closing widening funding gaps. They are also heavily dependent on local political support, relying on government contributions to supplement investment income. Their boards are typically staffed by political appointees, union officials and local business leaders.

In California Calpers hasn't always made decisions that were popular locally. It has resisted some calls from activists and state officials to divest from politically controversial investments. Cities in California have also complained about how much it costs them to participate in the Calpers system. When the fund elected to lower its investment return assumptions in 2016, it chose to phase in the change gradually to soften the impact of higher yearly pension costs on local governments.

But in the state's capital of Sacramento, Calpers' support for a new tower is winning lots of local praise. The site, 301 Capitol Mall, is one of the most prominent in the city, planted along the road that runs between the California State Capitol building and the city's iconic Tower Bridge.

"The development of 301 Capitol Mall would be transformative for our capital region," said Sacramento Metropolitan Chamber of Commerce CEO and President Amanda Blackwood. She said she looks forward to watching the tower go up from her window.

The office of Sacramento Mayor Darrell Steinberg is equally enthusiastic. "We're pleased to see Calpers moving forward with an ambitious project on this prominent piece of land at Sacramento's front door," said the mayor's spokeswoman. "We look forward to working with them to make it happen."

This isn't the first time Calpers has considered a fix for the empty, block-long parcel. During the last real-estate boom Calpers planned to build twin 53-story condominium towers in partnership with a local developer, pledging

$100 million for the project. That plan fell apart in 2007, and Calpers then asked the real-estate firm CIM Group to manage the project.

The following year the market cratered, and the fund's real estate holdings plummeted, costing the pension fund billions in losses.Calpers reorganized its real estate portfolio and focused on fully-leased buildings in big markets.

The investment in 301 Capitol Mall remained a part of its portfolio over the last decade even as the value of the site dropped, according to local records and documents from Calpers.

The assessed value of the downtown Sacramento property has dropped by 24% since 2007, according to the Sacramento County Assessor's Office. Investment returns for 301 Capitol Mall L.P. have been negative in six of the past seven years, according to Calpers' records.

The value of Calpers' investment in 301 Capitol Mall L.P. is $17 million, as of Dec. 31. That is a fraction of its total real estate portfolio, which is worth more than $30 billion. Calpers manages total assets of more than $361 billion.

Talk of a new tower at 301 Capitol Mall began in 2016 when CIM presented its plans amid a surge of interest in the Sacramento real-estate market. A sports arena for the Sacramento Kings had opened nearby that year, and another public pension fund, the California State Teachers' Retirement System, considered a new office tower alongside its West Sacramento headquarters. That fund, known as Calstrs, even allocated $8 million for design and estimating costs.

The plan that went before Calpers' board earlier this summer featured offices, condos, retail stores and an elevated public park, according to a person familiar with the situation. A real estate advisory firm, RCLCO, prepared a memo for board members saying that the 5.8% return target was an aggressive projection for the local market, according to people familiar with the matter. The memo stated that those returns were nonetheless too low to make up for the risk involved in the project, but nonfinancial factors could justify the investment, these people said.

The directors opposed to the idea had varying concerns, said people familiar with the matter, including worries that moving ahead after receiving mixed guidance from an outside consultant would open the board to scrutiny and that starting a big development project at this point in the economic cycle would expose Calpers to market **volatility**. Moreover, the directors were concerned that the pension fund would likely be able to find less risky and more attractive investments elsewhere, these people said.

Local real estate observers say risk can't be avoided on a development of this magnitude.

"There's no way to do a project of this size that wouldn't be speculative because we're talking at least 30 months before construction is complete," said Daniel Collins, president of Sacramento real estate adviser Collins Commercial. "That's why real-estate development isn't for the timid."

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Related

* Calpers Names Former California Finance Director as New CFO (Aug. 29)

* Public Pensions Are Earning More Than 8%—That's Unlikely to Go On Much Longer (July 22)

* Calpers Casts Net for Law Firms to Tackle Aging Illiquid Investments (July 13)

* Calpers Posts Preliminary 8.6% Investment Return for Fiscal 2018 (July 12)

Document WSJO000020180904ee94001p8

 

WSJ PRO CENTRAL BANKING

Economy
**Bullard Says Fed Shouldn't Raise Rates Right Now; The St. Louis Fed president was speaking on Fox Business Network**

By Michael S. Derby
343 words
4 September 2018
07:40 PM
WSJ Pro Central Banking
RSTPROCB
English


Corrections & Amplifications

Federal Reserve Bank of St. Louis President James Bullard held an interview with Fox Business Network on Tuesday. An earlier version of this article incorrectly said the interview was Monday. (Sept. 4, 2018)

Federal Reserve Bank of St. Louis President James Bullard called for his colleagues to hold off on raising rates again, but appeared to acknowledge that a move higher this month is pretty much a done deal.

Given where the economy is right now, "we've got a pretty good policy right now and we should stay where we are and see how the data come in," said Mr. Bullard on Tuesday, in a transcript of an interview on Fox Business Network. The transcript was provided by the network.

Mr. Bullard isn't currently a voting member of the interest-rate setting Federal Open Market Committee. That body meets later this month, and is expected to increase the current their target rate, which now stands between 1.75% and 2%.

In the interview, Mr. Bullard reiterated his view on rate increases is different from most of his colleagues. When it comes to a September rate rise, "markets are putting a very high probability on it. And if you talk to my colleagues, most of them seem to be putting a high probability as well," he told the network.

Mr. Bullard again noted that the bond market, where the difference between short- and long-dated yields has narrowed considerably, is arguing against raising rates. That is because more rate rises could well cause that relationship to turn negative, and if it did, that is a strong signal a recession may follow.

"We're in pretty good shape and I think what we could do is take signals from **financial markets** that are telling us that we're about where we need to be right now," Mr. Bullard said. "Yield curve, for instance, is very flat. I'd rather not see an inverted yield curve in the U.S. That's usually a harbinger of a slowdown ahead," he said.

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THE WALL STREET JOURNAL.
U.S. EDITION

**China's Selloff Stokes Foreign Bulls**

By Andrew Peaple and Shen Hong
734 words
4 September 2018
The Wall Street Journal
J
B1
English


A dismal year for China's stock markets has given rise to an unusual situation: Foreign institutions seem more optimistic about prospects for the country than local investors.

Overseas money has poured into Chinese equities this year via a trading link with Hong Kong, despite a 16% decline in Shanghai stocks that has made it one of the world's worst-performing major markets. But trading volumes in Shanghai, which are powered by an army of retail investors, last week fell to their lowest level since January 2016 when the market was in the midst of an unprecedented crash.

"There is a rare dynamic right now, with foreign investors more positive on Chinese stocks than local investors," said Kinger Lau, chief China equity strategist at Goldman Sachs in Hong Kong.

Mr. Lau said U.S.-based hedge funds are looking for opportunities to buy in China given that the market is cheap both by recent historical standards and relative to U.S. stocks. The Shanghai market is trading at 10.4 times expected earnings this year, according to Thomson Reuters, well below the **S&P 500** of 18 times.

While foreign buyers appear to be focused on potential bargains, local investors are worried by government attempts to rein in credit and a burgeoning trade dispute with the U.S. That has led to fragile confidence in stocks, despite official data showing the economy is still growing at more than 6% a year.

Foreign inflows were set to rise again last week when index provider MSCI was to increase the weighting of stocks listed in mainland China in its widely followed Emerging Markets Index. Passive funds which track the index will then automatically have to buy more of the roughly 230 Chinese companies that were first included in May.

Partly thanks to MSCI, foreign ownership of Chinese-listed stocks has risen to 3.5% of the market from 3% at the start of the year, according to BNP Paribas. Some $31 billion has flowed into China's two main markets -- in Shanghai and Shenzhen -- through the trading link with Hong Kong this year. That is tiny in the context of an $7.4 trillion market, but still more than flowed in during all of 2017.

Index inclusion isn't the only factor luring foreign institutions. "We're definitely looking at A-share companies more on the buy side now than six months ago," said Andrew Mattock, a San Francisco-based portfolio manager at Matthews Asia, using a term for yuan-denominated shares listed in Shanghai and Shenzhen.

"Valuations had become stretched at the end of last year, but now there are more opportunities," said Mr. Mattock, who manages the firm's China strategy. He said he is looking in particular at companies making consumer goods, as well as some industrial stocks and big Chinese banks.

The relative popularity of Chinese stocks with foreigners is a turnaround from prior years when some well-known U.S. money managers warned about the dangers facing China's economy.

It is also a contrast to the downbeat mood among Chinese individual investors. "Everyone can see that our economy is in pretty bad shape and the **stock market** is a barometer of that," said Wu Yunfeng, a retail investor in Shanghai.

Within China, the government's deleveraging campaign, in which it has tried to stem high levels of debt by curbing the country's shadow banking, intensified through the early months of the year. The move affected stocks in two ways: first, because of a fear that slower credit growth would cause the overall economy to falter; and second, because of a crackdown on popular investment products sold by banks that had helped drive equities purchases in recent years.

The U.S. government's April ban on U.S. firms selling components to telecom company ZTE Corp. also hammered market confidence as it demonstrated Washington's willingness, and ability, to hobble a leading Chinese company. That shock has hardly abated even though the Trump administration agreed to lift the ban and fine ZTE instead.

"We can't go back to the massive stimulus program of 2008 because leverage in the Chinese economy is already very high," said Deng Wenyuan, an analyst at Soochow Securities, adding that bolder reform was needed.


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THE WALL STREET JOURNAL.
U.S. EDITION

**Strong Stock Run Faces Fall Test --- Markets often turn volatile in September, traditionally a bad month for S&P 500**

By Akane Otani
1,099 words
4 September 2018
The Wall Street Journal
J
A1
English


U.S. stocks are back at all-time highs after a dizzying August rally, prompting some investors to fear a reckoning heading into what historically has been a weak stretch for markets.

Few would dispute that the general outlook looks bright. Inflation, which investors earlier in the year had feared would stall the economic expansion, has plodded along at a benign rate. Corporate earnings are growing at the second fastest pace since 2010. Even the threat of a trade war has appeared to dim in recent weeks, with the U.S. and Mexico reaching a trade agreement in late August after months of tense negotiations.

Yet many investors, burned by previous snapbacks, can't help but view September with a degree of apprehension.

Global-fund managers are holding higher-than-average levels of cash in their portfolios. Shares of utilities and real-estate firms, considered bondlike because of their dividend payouts, have started to rebound over the past couple of months. And firms including Morgan Stanley and RBC Capital Markets have recommended unloading technology stocks, the best-performing **S&P 500** sector in 2018.

Fall has often been a **volatile** stretch for global markets. Stocks tumbled in 2017 after North Korea-U.S. tensions ratcheted higher, lost ground in 2016 as investors questioned central-bank policy and fell in 2015 when the global economic expansion appeared to stall. The phenomenon is far from new: Going back to 1945, the **S&P 500** has notched its worst monthly return in September, followed by February and then August, according to investment research firm CFRA.

The prospect of a market jolt is keeping even optimistic investors and analysts guarded.

"Traditionally this is a season of a lot of **volatility** and uncertainty to begin with, and we certainly have the ingredients to experience that," said Katie Nixon, chief investment officer of Northern Trust's wealth-management business. "Things are getting a little bit tougher from a relative perspective as we get into 2019."

Few believe the U.S. is on the precipice of a recession. Data still show strong second-quarter economic growth, consumer confidence tracking at nearly 18-year highs and consumer spending ticking higher.

Analysts are heartened that measures of investor enthusiasm, while rising, have remained off the highs they hit at the start of the year. About 44% of individual investors expect the **stock market** to rise over the next six months, above the historical average of 39% but still below the 60% that said so when global stocks were catapulting to records in early January, according to the American Association of Individual Investors' weekly survey.

That is reassuring for those who believe that elevated levels of investor enthusiasm are a sign of a market "melt-up," a surge in prices driven by a fear of missing out on a rally, rather than optimism over corporate earnings, valuations or economic data.

"We're in a real sweet spot here of strong economic growth and really low inflation," Ms. Nixon said. "But in other markets it's less optimistic because there's a lot more uncertainty, and a lot of that is around trade."

Part of investors' uneasiness stems from the speed and scale of the **stock market**'s gains over the past few weeks.

After languishing in a narrow range for seven months, the **S&P 500** has broken out to fresh highs, climbing 3% in August and ending its longest streak without a record close in two years. The tech-heavy **Nasdaq Composite** has risen even faster, advancing 5.7% last month to post its biggest gain for August since 2000 -- the year when the dot-com era peaked before skidding to an end.

Many investors have also grown increasingly worried that much of the **stock market**'s gains have been driven by a handful of large technology companies, including Apple Inc., Google parent Alphabet Inc. and Amazon.com Inc.

"It's starting to hark back to the 2000s," said Mark Senseman, chief investment officer at Wealth Consulting Group, adding that, even with strong earnings, valuations on many technology companies "are getting frothy."

The pace of the gains -- and because much of it came on relatively low trading volumes -- have left some investors wary of a possible pullback.

"It makes you wonder what happens when summer vacation is over and volumes finally show up," Mr. Senseman said.

But he said he still thinks stocks can continue their run nine years into the **bull-market** rally.

"The economy's got a lot of power," Mr. Senseman said. "You keep your eye on the consumer, make sure they're generally healthy and having lower debt-to-income levels -- that for me at least for the time being would tell me we can go higher."

Others worry that, with global trade negotiations still in flux, investors may be caught off guard by an unexpected breakdown in talks. Even as trade fears have spurred selling in markets across Asia and Europe, the U.S. has held up relatively well -- something some analysts worry points to complacency among investors. The **S&P 500** is up 8.5% for the year, compared with the Shanghai Composite's 18% fall, the Stoxx Europe 600's 1.6% decline and the Hong Kong's Hang Seng Index's 7.4% fall.

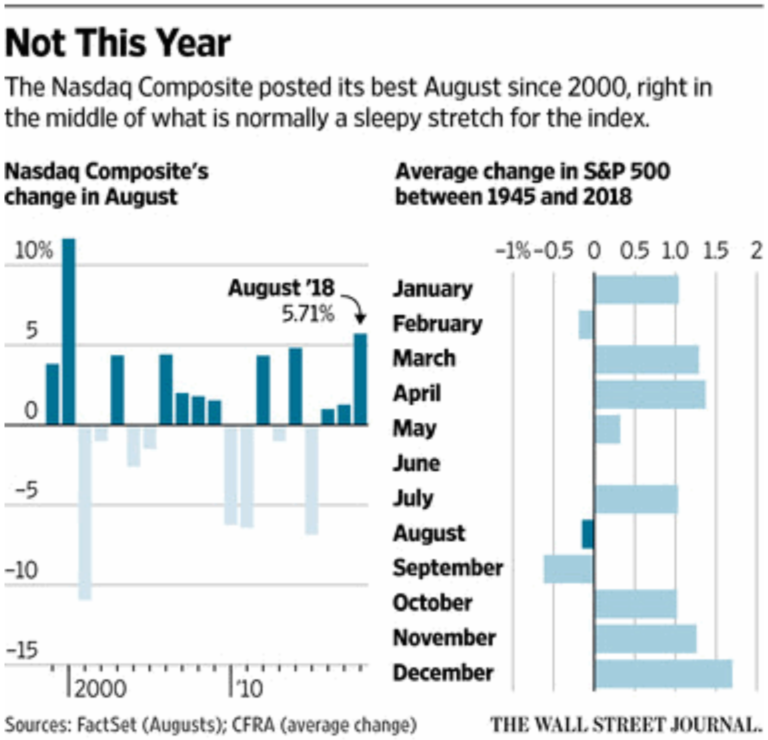
"For the most part, the U.S. has brushed aside trade concerns, which means if this escalates, we could see an asymmetric reaction to this," said Jason Draho, head of Americas asset allocation at UBS Global Wealth Management's chief investment office.

Then there is the recent softening in the U.S. housing market, which has cast a pall on an otherwise bright economic picture. Sales of existing homes have fallen for four consecutive months, the longest such streak in five years. The drop-off is a troubling sign to many analysts, especially because the housing market is considered an indicator of the U.S. economy's overall health.

With a number of potential risks on the docket -- including midterm elections, further trade negotiations between the U.S. and China and a Sept. 30 deadline for a new federal budget -- investors said they are mentally preparing for more market swings.

"Sometimes it feels like you have a handle on [market risks] in the morning, and then whether it's a tweet or a comment, you have to rethink your own base case," Ms. Nixon said.

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THE WALL STREET JOURNAL.
U.S. EDITION

**Streetwise: Emerging Markets Are No Bargains**

By James Mackintosh
802 words
4 September 2018
The Wall Street Journal
J
B1
English


Emerging markets look increasingly chaotic, with plummeting currencies, messy politics and the biggest-ever International Monetary Fund bailout capturing headlines. Emerging stocks appear far cheaper than those in developed countries, especially compared with the pricey U.S. market. So is now the time to close your eyes to the headlines, ignore the sick feeling in your gut and just buy?

Frankly, no. There are times when such a pure contrarian approach makes sense, but today isn't such a time. True, the MSCI Emerging Market Index trades at just 11 times estimated earnings for the next 12 months, against almost 17 times in the U.S. True, the falls of roughly half in the Turkish and Argentine currencies against the dollar this year have helped drag down the currencies of even countries such as India and Indonesia with better-balanced economies. True, the biggest emerging **equity market**, China, is back in a **bear market**, and so are emerging-stock indexes with big China exposure.

Yet, neither emerging equities nor the major emerging-bond indexes have even given back all of last year's gains and income, let alone dropped to true bargain prices. Valuations aren't especially low by historical standards. Worse, the index only looks inexpensive because it is weighted toward sectors few want to buy, even in developed markets.

The last point is perhaps the least understood. Emerging markets have far more banks and commodity producers, which trade at lower valuations than more fashionable areas. Adjust sector weights to match those of developed markets, and emerging-market indexes trade at the same price-to-forward-earnings ratio as the FTSE World index, according to Philip Lawlor, FTSE Russell head of global markets research.

Investors hoping to take advantage of the turmoil to buy into the emerging middle class at a discount through one of the plethora of emerging exchange-traded funds will be disappointed. Almost half of the cheapest 25% of decent-size emerging stocks -- those worth more than $1 billion -- are in the financial sector, including many Greek, Turkish and Chinese banks.

Many of the rest are in low-growth utilities or Russian oil. Only 8% of these low-valuation stocks, measured by price-to-book ratio, are in consumer sectors and none at all in health care.

The most-expensive emerging stocks look quite different. Half are in the consumer and health-care sectors, which have higher valuations than the same sectors in developed markets excluding the U.S.

By market value, the biggest stocks by some distance are the major Chinese technology firms, which are also expensive even after hefty falls this year.

"Looking at the [price/earnings ratio] of the emerging-markets index will lead you astray," said Christopher Smart, head of macroeconomic and geopolitical risk at Barings. "A lot of the index is global tech and global commodity cycle, much more than it is the emerging middle class."

The lack of widespread emerging-market bargains still leaves open the idea of searching for opportunities in the hardest-hit countries. The trouble is that Turkey and Argentina are both struggling with heavy dollar debts; devaluation helps deal with the problem of too many imports and too few exports but makes it even harder for the Argentine government and Turkish banks to pay their debts.

Investors who think the problems will be solved without defaults can find plenty of Turkish bank stocks trading at less than half book value, with four-year dollar bonds yielding 20%-plus.

The Argentine 100-year dollar bond yields more than 10%, again making the brave assumption of no default.

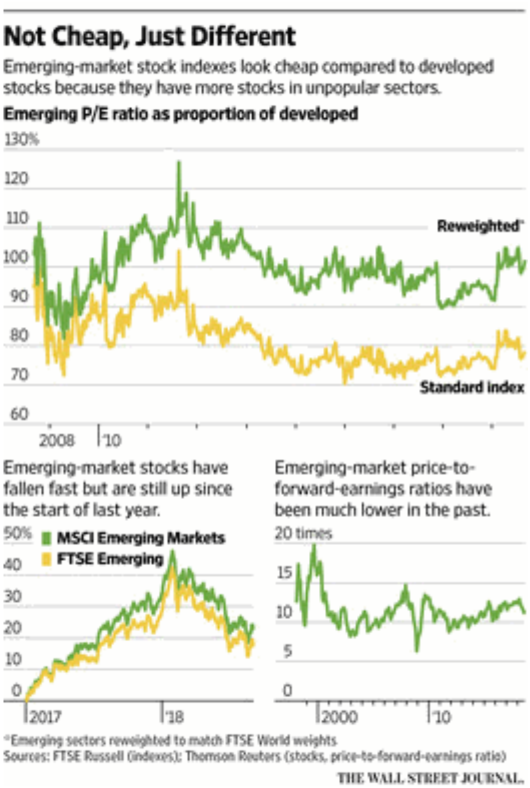
Recent history suggests that buying stocks after a big devaluation often works out, as it did after Mexico's 1994 Tequila crisis, the 1998 Russian default or even the Argentine default of 2001. But success depended on timing, much of which is luck.

An investor who put dollars into Argentine stocks at the start of 2002, immediately after the default, lost half of his money within six months. Those who waited until July tripled their money in dollar terms in the next 18 months.

Recent history might be misleading. Most big devaluations in the past came when pegged exchange rates were abandoned, so there are few examples of falls in floating currencies as big as Argentina's or Turkey's to use as a guide.

The political repercussions are tough to predict, but capital controls are entirely plausible and would make it hard to realize any gains.

Investors should accept that in emerging markets right now, where assets are cheap they are cheap for good reasons. Disagree with the reasons after hard analysis, sure, but this isn't the time for simple-minded contrarian buyers.

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WSJ PRO CENTRAL BANKING

Economy
**Turkey Promises Action on Inflation | Can You Say EGRRCPA? | Moody's Loses Hong Kong Appeal | SocGen Expects $1.4 Billion in Sanctions Penalties | Derby's Take: Shaking Off Summer Doldrums; The Wall Street Journal's central banking newsletter for Tuesday, September 4, 2018**

2,406 words
4 September 2018
05:37 AM
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English


Derby's Take: Shaking Off Summer Doldrums, Heavy Slate of Fed Speak Lies Ahead

Turkey Central Bank Vows to Take Action After Inflation Hits 18%

Can You Say EGRRCPA? Tongue-Twister Banking Law Confuses Washington

Moody's Loses Appeal Over Research Critical of Hong Kong

SocGen Expects to Pay About $1.4 Billion in Penalties Tied to U.S. Sanctions

Shaking Off Summer Doldrums, Heavy Slate of Fed Speak Lies Ahead

It's back to business for Federal Reserve officials and their public speechmaking.

After enjoying a traditionally quiet August, broken up by a quick barrage of commentary around the Kansas City Fed's Jackson Hole conference, this week will bring a hefty course of public appearances by regional Fed leaders.

The most important of the week's remarks comes from John Williams, the new Federal Reserve Bank of New York leader. He took control of the bank in June after a long tenure at the San Francisco Fed. While he has spoken publicly since landing in the Big Apple, he hasn't had much to say about the economy or monetary policy.

That may well change with his trip to Buffalo, N.Y. He will spend Wednesday on a series of public tours of that area before participating in a "fireside chat" at the University at Buffalo at 10 a.m. EDT Thursday.

The appearance will give him the opportunity to talk about the economic and monetary policy outlook should he choose to go there. And it might be a good idea if he did, given that it has been nearly two months since he last spoke in detail about matters that are core to the Fed's mission.

Mr. Williams is also vice chairman of the rate-setting Federal Open Market Committee, and central bank watchers would most likely welcome an update on the expected path of interest rates. The Fed is widely expected to raise rates in September, but there are still questions over whether it would follow up that rate move with another increase in 2018, as it contends with rising inflation and a strong job market.

The Fed's biggest policy doves also represent this week. St. Louis Fed leader James Bullard speaks in New York Wednesday morning, followed later that day by Minneapolis Fed leader Neel Kashkari. Both men have been steadfast opponents of raising rates further.

Wednesday also will bring an appearance by Atlanta Fed leader Raphael Bostic in Chicago. He's an FOMC voter who has favored rate rises. But he also has expressed discomfort with any increase that would push short-term bond yields higher than yields for longer-dated securities, given that such a situation frequently precedes recessions. He has said he wouldn't favor a rate rise that caused the bond market to move in this direction.

And finally, the week concludes with a Boston Fed conference Friday and Saturday titled "What Are the Consequences of Long Spells of Low Interest Rates?" It will feature appearances by Boston Fed leader Eric Rosengren and Cleveland Fed chief Loretta Mester.

Key Developments Around the World

Turkey Central Bank Vows to Take Action After Inflation Hits 18%

Soaring inflation is putting pressure on Turkey's central bank to raise interest rates next week, even as investors and analysts questioned whether the institution will defy President Recep Tayyip Erdogan's demand to keep cheap credit flowing to the Turkish economy. Turkish annual consumer-price inflation hit 17.9%, up from July's reading of 15.9%, as higher transport and energy costs were affected by a sharply weaker Turkish lira, the state statistics agency said Monday. Minutes later, the central bank said the August reading posed a serious risk to price stability. "We will take necessary actions," the central bank said in a statement. "Monetary stance will be adjusted," it added, bolstering expectations that it will increase rates when it meets Sept. 13.

Buy Turkey and Argentina? Emerging Markets Aren't Bargains They Seem

Argentina to Impose Temporary Tax on Exports

Can You Say EGRRCPA? Tongue-Twister Banking Law Confuses Washington

Supporters of the first major banking law in nearly a decade are excited about their accomplishment, but there is a problem: Its name is so unwieldy no one can figure out what to call it. The Economic Growth, Regulatory Relief, and Consumer Protection Act, signed by President Trump in May, is frustrating supporters who want to turn it into a talking point, but find themselves stymied by its dry title and unpronounceable seven-letter shorthand—EGRRCPA. "Turning to recent regulatory developments, the big news, of course, is…EE-GRR-sip-uh," Federal Reserve Vice Chairman for Supervision Randal Quarles said during a recent speech, sounding it out slowly. "The acronym police were on strike that day, I think," he added. Minutes later, Mr. Quarles touted the Fed's Bank Exams Tailored to Risk program, or BETR: "We have a much better acronym program at the Fed."

BOJ's Kuroda: Global **Financial Markets** Have Recovered to Precrisis Levels

The Bank of Japan governor said Monday that global markets have recovered to levels seen before the 2008 financial crisis but called for continuous risk assessments to protect the market's functions in case of another shock. "Against the background of the recovery of the global economy and solid corporate performance, global **financial markets** have rebounded to precrisis levels," Haruhiko Kuroda said at a symposium held in Tokyo commemorating the 30th anniversary of **stock-index** futures. While Mr. Kuroda didn't directly speak about his recent monetary policy steps, he said the bank obtains valuable information from futures markets, including the markets' views about the economy and corporate performance. --Dow Jones Newswires

Australia's RBA Does Nothing, Again

Australia's central bank Tuesday extended its record period of policy inaction beyond two years, keeping its benchmark interest rate unchanged in September. As expected by economists, the Reserve Bank of Australia held the official cash rate at a record low 1.50%, a threshold it has remained at since mid-2016. "The low level of interest rates is continuing to support the Australian economy. Further progress in reducing unemployment and having inflation return to target is expected, although this progress is likely to be gradual," RBA Gov. Philip Lowe said in a statement.

Malaysia's Central Bank Expected to Keep Rates Steady

Malaysia's central bank is expected to leave its benchmark interest rates unchanged Wednesday, even as neighbors like the Philippines and Indonesia raise rates to defend their currencies. All 12 economists surveyed by The Wall Street Journal expect Bank Negara Malaysia to hold its overnight policy rate at 3.25% at Wednesday's meeting. The bank raised interest rates by a quarter of a percentage point for the first time in 3½ years in January. Kenanga Research said Monday it believes Malaysia's "fundamentals would continue to support the ringgit" despite concerns over contagion brought about by the Turkish lira's sharp decline recently.

Indonesia to Keep Close Eye on Dollar Purchases as Rupiah Depreciates

Indonesia's government and central bank will step up their scrutiny of dollar purchases, the finance minister said Monday, as the rupiah fell to its weakest level in 20 years. Bank Indonesia, the central bank, allows customers to make dollar purchases of up to $25,000 a month without requiring certain underlying transactions. However, above that threshold purchases of the U.S. currency may be made only for approved, documented purposes such as payments for imports or offshore debts. "We will take stern action on the illegitimate dollar purchases," said Finance Minister Sri Mulyani Indrawati. --Dow Jones Newswires

 

FINANCIAL REGULATION ROUNDUP

New ‘Speed Bump' Planned for U.S. **Stock Market**

Cboe Global Markets Inc. is seeking to introduce a brief delay on one of its markets, becoming the latest U.S. stock-exchange group to attempt to hit the brakes on high-frequency traders, people familiar with the situation said. The plan shows how "speed bumps" have proliferated among U.S. exchanges in recent years, even at market operators that initially opposed them. IEX Group Inc., the upstart exchange featured in Michael Lewis's book "Flash Boys," kicked off the trend and has since been followed by the New York Stock Exchange and others. Cboe hopes to add a speed bump to EDGA, the smallest of its four equities exchanges, people familiar with the situation said. The company has presented its plans to major trading firms in recent months, these people said.

Moody's Loses Appeal Over Research Critical of Hong Kong

Moody's Investors Service Inc. lost its appeal of a penalty from Hong Kong's securities regulator, ending a case that critics have warned could discourage critical commentary about investment in the financial hub. The city's Court of Final Appeal dismissed the ratings giant's appeal, the Securities and Futures Commission said Monday. The regulator said the court would give its reasons later. Market commentators have followed the case closely, with some warning that an outcome like Monday's could chill free speech.

SocGen Expects to Pay About $1.4 Billion in Penalties Tied to U.S. Sanctions

Société Générale SAexpects to pay roughly 1.2 billion euros ($1.39 billion) in penalties to settle an outstanding dispute with U.S. authorities over transactions that involve countries subject to sanctions. The French bank said Monday that it "has entered into a phase of more active discussions" with U.S. authorities over the issue and that an agreement may come in the next weeks.

When Machines (and Humans) Decide to Sell at Once

On Feb. 5, the **Dow Jones Industrial Average** suffered its worst one-day point-decline in history amid a tumultuous week for global markets. Although the blue-chip index has since erased that loss, some investors are still trying to puzzle out what caused such a drop. One possible culprit: a cascade of automated stop-loss sell orders by trend-following investment funds that started in London and then fed into the steep rout in U.S. stocks. In the following days, the downward lurch prompted selling to spread to other assets like oil futures.

Tuesday

8:15 a.m. EDT

Bank of England's Carney, Haldane, Saunders and Tenreyro testify on inflation report at Treasury Select Committee hearing in Parliament

Wednesday

Time N/A

National Bank of Poland releases policy statement

4:30 a.m. EDT

ECB's Praet speaks at Eurofi Financial Forum in Vienna

8:30 a.m. EDT

U.S. Commerce Department releases July international trade

9:20 a.m. EDT

St. Louis Fed's Bullard speaks on economy and monetary policy in New York

10 a.m. EDT

Bank of Canada releases policy statement

 

4 p.m. EDT

Minneapolis Fed's Kashkari speaks at Montana State University in Bozeman, Mont.

6:30 p.m. EDT

Atlanta Fed's Bostic speaks on economy and monetary policy in Chicago

9:30 p.m. EDT

Bank of Japan's Kataoka speaks to business leaders in Yokohama

The Effect of House Prices on Household Borrowing: A New Approach

"The Great Recession reignited an important debate over whether house prices drive household borrowing," James Cloyne, Kilian Huber, Ethan Ilzetzki and Henrik Kleven write in a VoxEU post. "The first generation of academic papers studied this question using regional data in the U.S. and found strong borrowing responses. Our paper uses rich data and the unique features of the U.K. mortgage market, and finds a clear and robust effect of house prices on borrowing: a 10% rise in house prices led to a 2% rise in the amount of equity extracted. Much of this relationship can be explained by the collateral effect, in that higher house prices enable households to borrow more, because lenders accept the increased value of houses as collateral."

China's Steady Hand on Falling Yuan Bolsters Investor Confidence

According to a number of indicators, China's economy appears to be in a slowdown that suggest investors would want to hold fewer Chinese assets, Hannah Anderson writes for the South China Morning Post. "Yet, over the past week, the renminbi has risen almost 1 percent. Such a rally runs counter-intuitively to the way investors normally treat emerging market currencies, where the exchange rate acts as a release valve for the stress of a weakening domestic situation." The turnaround, she says, "came about for the simple reason that, as with many things in China, the actual level does not matter much, but the pace of change does. And the government has been successful in slowing the pace of depreciation. Slower depreciation alone may seem a poor reason for investors to start betting on outright appreciation. But the way Chinese policy makers adjusted the U.S. dollar-renminbi exchange rate, plus earlier administrative regulations to make selling the yuan more expensive, has reset investor expectations."

The Chicago Business Barometer fell in August due to softer supplier deliveries, order backlogs and unemployment.

India's economy grew more than 8% last quarter as strong domestic demand sheltered Asia's third-largest economy from the effects of rising global trade tensions and concerns about emerging markets.

Activity in China's factories expanded at a slower rate in August, a private gauge indicated, in contrast with official data that showed a slight improvement in manufacturing activity.

Brisk demand for memory chips drove South Korea's exports to strong growth for the second straight month in August despite headwinds from global trade tensions.

Activity in Italy's manufacturing sector stalled in August, according to a survey of businesses released Monday, as worries about the new government's economic plans and international trade relations thinned order books.

Brazil's gross domestic product expanded slowly in the second quarter, dragged down by a trucking strike that had widespread repercussions throughout the economy.

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

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

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THE WALL STREET JOURNAL.

Markets

**Stocks' Return to Records Paves Way for Volatile Autumn; Overall economic outlook bright, but markets have history of wobbling in September**

By Akane Otani
1,077 words
3 September 2018
07:00 AM
The Wall Street Journal Online
WSJO
English


U.S. stocks are back at all-time highs after a dizzying August rally, prompting some investors to fear a reckoning heading into what historically has been a weak stretch for markets.

Few would dispute that the general outlook looks bright. Inflation, which investors earlier in the year had feared would stall the economic expansion, has plodded along at a benign rate. Corporate earnings are growing at the second fastest pace since 2010. Even the threat of a trade war has appeared to dim in recent weeks, with the U.S. and Mexico reaching a trade agreement in late August after months of tense negotiations.

Yet many investors, burned by previous snapbacks, can't help but view September with a degree of apprehension.

Global-fund managers are holding higher-than-average levels of cash in their portfolios. Shares of utilities and real-estate firms, considered bond-like because of their dividend payouts, have started to rebound over the past couple of months. And firms including Morgan Stanley and RBC Capital Markets have recommended unloading technology stocks, the best-performing **S&P 500** sector in 2018.

Fall has often been a **volatile** stretch for global markets. Stocks tumbled in 2017 after North Korea-U.S. tensions ratcheted higher, lost ground in 2016 as investors questioned central bank-policy and fell in 2015 when the global economic expansion appeared to stall. The phenomenon is far from new: Going back to 1945, the **S&P 500** has notched its worst monthly return in September, followed by February and then August, according to investment research firm CFRA.

The prospect of a market jolt is keeping even optimistic investors and analysts guarded.

"Traditionally this is a season of a lot of **volatility** and uncertainty to begin with, and we certainly have the ingredients to experience that," said Katie Nixon, chief investment officer of Northern Trust's wealth management business. "Things are getting a little bit tougher from a relative perspective as we get into 2019."

Part of investors' uneasiness stems from the speed and scale of the **stock market**'s gains over the past few weeks.

After languishing in a narrow range for seven months, the **S&P 500** has broken out to fresh highs, climbing 3% in August and ending its longest streak without a record close in two years. The tech-heavy **Nasdaq Composite**has risen even faster, advancing 5.7% last month to post its biggest gain for August since 2000—the year when the dot-com era peaked before skidding to an end.

Many investors have also grown increasingly worried that much of the **stock market**'s gains have been driven by just a handful of large technology companies, including Apple Inc., Google parent Alphabet Inc. and Amazon.com Inc.

"It's starting to hark back to the 2000s," said Mark Senseman, chief investment officer at The Wealth Consulting Group, adding that, even with strong earnings, valuations on many technology companies "are getting frothy."

The pace of the gains, as well as that much of it came on relatively low trading volumes, has left some investors wary of a possible pullback.

"It makes you wonder what happens when summer vacation is over and volumes finally show up," Mr. Senseman said.

Others worry that, with global trade negotiations still in flux, investors may be caught off guard by an unexpected breakdown in talks. Even as trade fears have spurred selling in markets across Asia and Europe, the U.S. has held up relatively well—something some analysts worry points to complacency among investors. The **S&P 500** is up 8.5% for the year, compared with the Shanghai Composite's 18% fall, the Stoxx Europe 600's 1.8% decline and the Hong Kong's Hang Seng Index's 6.8% fall.

"For the most part, the U.S. has brushed aside trade concerns, which means if this escalates, we could see an asymmetric reaction to this," said Jason Draho, head of Americas asset allocation at UBS Global Wealth Management's chief investment office. "With emerging markets, China--more of it has been priced in."

Then there is the recent softening in the U.S. housing market, which has cast a pall on an otherwise bright economic picture. Sales of existing homes have fallen for four consecutive months, the longest such streak in five years. The dropoff is a troubling sign to many analysts, especially because the housing market is considered an indicator of the U.S. economy's overall health.

Meanwhile, global fund managers are holding an average of 5% of their portfolios in cash, the highest share since April, when a number of the year's best-performing technology stocks fell into a rout, according to Bank of America Merrill Lynch.

To be sure, few believe the U.S. is on the precipice of a recession. Data still show strong second-quarter economic growth, consumer confidence tracking at nearly 18-year highs and consumer spending ticking higher.

And analysts are heartened that measures of investor enthusiasm, while on the rise, have remained off the highs they hit at the start of the year. Roughly 44% of individual investors expect the **stock market** to rise over the next six months, above the historical average of 39% but still below the 60% that said so when global stocks were catapulting to records in early January, according to the American Association of Individual Investors' weekly survey.

That is reassuring for those who believe that elevated levels of investor enthusiasm are a sign of a market "melt-up," a surge in prices driven by a fear of missing out on a rally, rather than optimism over corporate earnings, valuations or economic data.

Yet with a number of potential risks on the docket—including midterm elections, further trade negotiations between the U.S. and China and a Sept. 30 deadline for a new federal budget—investors say they are mentally preparing for more market swings.

"Sometimes it feels like you have a handle on [market risks] in the morning, and then whether it's a tweet or a comment, you have to rethink your own base case," Ms. Nixon said. While she remains optimistic overall, Ms. Nixon added that she is bracing for a pickup in **volatility**.

Write to Akane Otani at akane.otani@wsj.com

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THE WALL STREET JOURNAL.

U.S. Markets
Markets

**Global Stocks Saddled as Nafta Rewrite Drags On; Trump's latest comments on trade weigh on markets**

By Jon Sindreu
788 words
3 September 2018
12:19 PM
The Wall Street Journal Online
WSJO
English


Corrections & Amplifications

Matteo Salvini is Italy's deputy prime minister. An earlier version of this article incorrectly stated he was prime minister. (Sept. 3, 2018)

* Shares of European car makers dip

* Turkish lira down but steadier after central bank pledges to act

* Italian bonds gain as concerns over budget ease

President Donald Trump's weekend threats to leave Canada out of the new North American Free Trade Agreement weighed on European and Asian stocks Monday.

Some investors were looking at the Nafta renegotiation as a bellwether for how far the U.S. is willing to take its trade spat with China.

Car makers in the Stoxx Europe 600 were the worst-performing sector in Europe and fell 1%, even as the broader index closed up 0.1%. Shares of Volkswagen, BMW and Daimler, which have car factories in the U.S. and Mexico, led the losses in Germany's export-heavy DAX, which fell 0.1%.

Stock markets in Asia-Pacific were also weaker, with Japan's Nikkei Stock Average closing down 0.8%, Hong Kong's Hang Seng falling 0.6% and Australia's S&P ASX 200 dropping 0.1%.

U.S. markets were closed for Labor Day.

"There is no political necessity to keep Canada in the new Nafta deal," Mr. Trump tweeted Saturday.

Some analysts interpreted the comments as reinforcing Mr. Trump's tough stance on trade and a sign that he could follow through with his threat to impose tariffs on a further $200 billion of imports from China as soon as a U.S. public consultation on the matter ends Thursday. They believe China is likely to retaliate.

Concerns about a global trade conflict have dented equity markets in Europe and Asia over the past few months, but also helped U.S. stocks to reach record highs, boosted by risk-averse money.

"U.S. markets are the place to be," said Sean Clark, chief investment officer at Clark Capital Management. "I think the market is taking views on who the winners and losers could be, with the U.S. coming up on top," he said, underscoring the strength of U.S. earnings data.

China's stock markets have had a dismal year, with the Shanghai Composite recently falling below its lowest closing level of 2016, when global stock markets trembled at the prospect of a large yuan devaluation.

The U.S. employment report for August, due Friday, will give further clues on the strength of the U.S. economy. The WSJ Dollar Index, which tracks the U.S. dollar against a basket of currencies, rose 0.1%.

Inflows into U.S. assets, however, have hurt emerging-market countries that are highly dependent on the dollar and foreign finance, chiefly Turkey and Argentina. Money managers are concerned about these issues spreading further.

On Monday, the Turkish lira was down 1.5% against the dollar, recovering from deeper falls earlier in day after the Turkish central bank said it would take action again in this month's policy meeting, adding that officials "will take the necessary actions to support price stability."

That came after fresh economic data showed that Turkish inflation in August rose to almost 18%, albeit lower than investors were expecting. The Argentine peso was broadly flat.

But many investors think it is unlikely that developing-market woes will grow large enough to affect U.S. growth through weaker demand for its exports.

"While the troubles in Turkey and Argentina are very real, we don't necessarily have the same kind of systemic weakness we've had in the past," said Brad McMillan, chief investment officer for Commonwealth Financial Network. "It's not going to hit us."

Elsewhere in Europe, a small rally in Italian government bonds narrowed the spread between Italian and German 10-year yields—a widely used measure of risk—after comments by Italy's Deputy Prime Minister Matteo Salvini suggested the government wouldn't seek to break European rules when passing this month's budget.

Italian spreads are still hovering near their widest since 2013, which suggests that markets remain jittery about the budget creating a rift with European officials.

"Even though Italy has sold off, [and] is cheap relative to where it has been over recent years, the risk is that there could be even more **volatility**," Chris Iggo, fixed-income chief investment officer at AXA Investment Managers, told clients late Friday.

Meanwhile, sterling fell 0.6% against the dollar, after the August survey of purchasing managers showed U.K. manufacturing output growth falling to its lowest in more than two years. A lower pound helped the shares of multinationals listed in the FTSE 100, which rose 1% on the day.

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THE WALL STREET JOURNAL.

Markets

**Oil Climbs as Market Eyes Iran Supply Risks; Speculative investment has been 'reignited' by 'concerns over Iranian supply,' say analysts**

By Christopher Alessi
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3 September 2018
06:47 AM
The Wall Street Journal Online
WSJO
English


LONDON—**Oil prices** started September higher Monday as investors refocused on looming risks to Iranian supply, despite signs of rising output from the U.S.

Brent crude, the global benchmark, was up 0.58% to $78.09 a barrel on London's Intercontinental Exchange. On the New York Mercantile Exchange, West Texas Intermediate futures were 0.19% higher at $69.93 a barrel.

"Underpinning the prevailing **bullish** sentiment is the increasingly supportive supply outlook—much of this is owed to the downswing in Iranian oil shipments," said Stephen Brennock, an analyst at brokerage PVM Oil Associates. "Exports from OPEC's third-biggest producer are falling faster than expected and worse is to come ahead of a looming second wave of U.S. sanctions."

Officials at Iran's state-run National Iranian Oil Co. provisionally expect crude shipments to drop to around 1.5 million barrels a day in September, down from around 2.3 million barrels a day in June, according to people familiar with the matter.

President Trump's decision in May to pull the U.S. out of a 2015 international agreement to curb Iran's nuclear program set the stage for the reimposition of economic sanctions, with measures targeting Iran's oil industry set to take effect in November.

Speculative investment in the oil market has been "reignited" by "concerns over Iranian supply," according to analysts at ING Bank.

Brent and WTI advanced by 4.3% and 1.5%, respectively, in August. The upswing followed weeks of declines in the wake of a late-June decision by OPEC and allies including Russia to begin ramping up crude production after more than a year of holding back output.

However, fresh data from the U.S. Energy Information Administration showed U.S. crude production rose by 230,000 barrels a day in June from May.

"This strong June reading gives us confidence that the production path for July/August, as implied by weekly EIA data, is pretty reasonable, with the prospect thus being that the U.S. should have surpassed the 11 million barrel a day at some point over the last few weeks," analysts at consultancy JBC Energy said in a note Monday.

The data, released Friday, attributed to prices closing down slightly on that day.

Market observers are looking ahead to weekly U.S. inventory data from the American Petroleum Institute, an industry group, and official figures from the EIA.

Among refined products Monday, Nymex reformulated gasoline blendstock—the benchmark gasoline contract—was up 1.44% at $2.02 a gallon. ICE gasoil, a benchmark for diesel fuel, changed hands at $697.25 a metric ton, up 0.76% from the previous settlement.

Write to Christopher Alessi at christopher.alessi@wsj.com

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WSJ PRO CENTRAL BANKING

Economy
**Malaysia's Central Bank Expected to Keep Rates Steady**

By Yantoultra Ngui
343 words
3 September 2018
06:36 AM
WSJ Pro Central Banking
RSTPROCB
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KUALA LUMPUR—Malaysia's central bank is expected to leave its benchmark interest rates unchanged on Wednesday, even as neighbors like the Philippines and Indonesia raise rates to defend their currencies.

All 12 economists surveyed by The Wall Street Journal expect Bank Negara Malaysia to hold its overnight policy rate at 3.25% at Wednesday's meeting. The bank raised interest rates by a quarter of a percentage point for the first time in 3½ years in January.

Kenanga Research said on Monday it believes Malaysia's "fundamentals would continue to support the ringgit" despite concerns over contagion brought about by the Turkish lira's sharp decline recently.

The ringgit depreciated to 4.127 per U.S. dollar on Monday, the weakest level since November. It has fallen about 2% year to date. Still, the currency fares better than its regional counterparts, partly thanks to measures introduced by Malaysia's central bank in 2016 to reduce the **volatility** of the ringgit.

Last month, the central bank took further steps to allow greater flexibility in managing export proceeds and wider access for nonresidents to the onshore **financial market**.

"To some degree, the excessive rate hike in Turkey and Argentina suggest that there are some pockets of vulnerability in the global economy which warrants for a cautious stance," Mohd Afzanizam Abdul Rashid, chief economist at Kuala Lumpur-based Bank Islam Malaysia, said Monday.

Malaysia's gross domestic product grew 4.5% on-year in the second quarter ended June, the slowest pace since the fourth quarter of 2016. Last month the central bank revised its 2018 GDP growth projection to about 5.0% from its previous forecast of 5.5% to 6.0%.

The reintroduction of the sales and services tax on Sept. 1 by the new Malaysian government could push consumer prices higher, but most economists projected subdued inflationary trends, partly due to lower retail fuel prices as a result of subsidies from the government.

Write to Yantoultra Ngui at yantoultra.ngui@wsj.com

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The New York Times

STRATEGIES
Money and Business/Financial Desk; SECTBU
**Could Markets and the Economy Grow Stronger?**

By JEFF SOMMER
1,215 words
2 September 2018
The New York Times
NYTF
Late Edition - Final
3
English


You won't lose much money if you're prepared for the worst.

While the **stock market** has been hot lately, warnings of trouble ahead have been multiplying. And the odds of a recession by 2020 are mounting, or so the warnings go.

But what if the good times that are evident in important sectors of the markets and the economy just keep rolling, at least for a while?

That **bullish** possibility has arguably been underplayed, given the strength of the current numbers. And there is a strong, contrarian case that failing to appreciate the power of the current economy and markets will have serious implications that transcend finance and affect politics, too, generally helping Republicans and hurting Democrats.

Consider, first, that after months of setbacks, the American **stock market** reached new highs repeatedly over the last few weeks. In fact, it was one of the best Augusts the **stock market** has had in years.

What's more, consumer confidence has soared to levels unseen since October 2000, according to the Conference Board. And the United States economy's annual growth rate -- 4.2 percent in the second quarter -- was the best in nearly four years, while the unemployment rate, 3.9 percent, hovers near its lowest level in decades.

That statistical snapshot depicts a **stock market** and an economy that are prospering. Barring an unexpected event, the simplest prediction is that we'll have more of the same. Why, then, are so many people worried that bad times are coming?

I'll confess that I'm a worrier myself, having written recently that Vanguard, the widely trusted $5 trillion money manager, says the risks of a recession by 2020 have risen while the prospects for **financial markets** over the next decade have declined.

The Vanguard arguments are compelling: Short-term interest rates are rising faster than longer-term ones, moving us closer to a critical threshold for a dreaded inflation predictor, a so-called inverted yield curve. And credit markets are heading in a direction that often presages economic stress.

Furthermore, the long rallies in both the stock and the bond markets, which have made investing look relatively easy since early 2009, are unlikely to be sustained for years to come. At some point, they will falter. It appears that the bond market may already have begun to do so. Vanguard projects reduced returns for stocks and bonds over the next decade.

In addition, the risk that the markets and economy will be derailed by a truly major political, constitutional, military or trade crisis during the Trump administration, while difficult to quantify, cannot be easily dismissed. There are many potential calamities to choose from. Any one of them could lead to an economic disaster.

But timing is everything. Even if you are convinced that disaster is coming, deciding exactly when to take risk out of your portfolio matters tremendously.

From a purely financial standpoint, staying on the sidelines in the current **bull market** has been excruciatingly costly. From the beginning of this year through Thursday, for example, the **Standard & Poor**'**s 500**-**stockindex** returned 9.9 percent. If the market keeps powering ahead, and you avoid stocks entirely because you are afraid of a crash, you will fall further behind.

There are political implications, too. There are already ample reasons to suspect that the current strength of the market and the economy is hurting Democrats in their efforts to regain control of Congress in the November midterm elections.

Ray C. Fair, the Yale professor who is a pioneer in demonstrating the predictive power -- and the limits -- of economics in election forecasting, has quantified that issue. He says that the surge in gross domestic product growth in the second quarter appears to have given the incumbent Republican Party a measurable boost.

His forecasts, made with an open-source program that he maintains as a teaching tool on his Yale website, are not always entirely on the mark, but they are always instructive. They disregard the specifics of campaigns and candidates, focusing only on shifts in the economy and a series of historical correlations, like the tendency of voters to become bored with incumbent politicians, counterbalanced by the tendency of a strong economy to favor the incumbent party.

Using only economic variables and data from elections over the last century, Professor Fair projects that the Democratic Party is likely to win 50.74 percent of the two-party popular vote for the House. ''It is probably less than what the Democrats need to gain control of the House, although I do not have an equation that translates the vote share into House seats,'' he said on his website.

In an interview, Professor Fair explained: ''I don't attempt to convert the popular vote into an actual forecast, state-by-state, with all the gerrymandering and other factors that are so important. I leave that to the political scientists.''

The second quarter G.D.P. growth -- a variable in his equation that captures the good feelings generated by the economy and the **stock market** -- had the effect of subtracting about 1 critical percentage point from the Democratic share in his projection. Another strong showing in the current quarter, which he defines as an annual growth rate of at least 3.2 percent, would move the Republicans ahead in the popular vote in November, according to his algorithm.

But he is the first to admit that his equations don't capture the inimical style of President Trump. For the last presidential election, for example, Professor Fair's algorithm indicated that economic as well as political factors strongly favored the Republican Party. His projections said Republicans would capture 56 percent of the popular vote, giving its presidential candidate a landslide victory. Professor Fair was off by 7.1 percentage points (though he did project a Trump victory, unlike most forecasters).

''Had the Republicans nominated a more mainstream candidate, they may have done much better -- much closer to what the equation was predicting,'' he wrote. Mr. Trump's ''personality'' and combative approach to politics could reduce the Republican tally again in the midterm elections, according to Professor Fair, and swing the vote to the Democrats. ''I just have no way of capturing that,'' he said.

Mr. Trump's unconventional approach to the presidency is undoubtedly making it more difficult, as well, to accurately assess the trajectory of the markets and the economy themselves.

Edward Yardeni, an independent **stock market** analyst, made that point in a series of reports in August. Mr. Yardeni, who describes himself as ''a conservative-leaning fellow,'' said that on contentious issues, from tax cuts to trade disputes to deregulation, **financial markets** have been ''giving quite a bit of weight to the possibility that this all will lead to less protectionism and greater global prosperity'' -- and to a rising **stock market**.

That's not my baseline assumption, but it could happen. What if the **stock market** keeps ascending, the economy continues to grow, and Mr. Trump and a flock of Republicans do their utmost to take credit for it?

I'm hedging my bets.

Follow Jeff Sommer on Twitter: @jeffsommer

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

Document NYTF000020180914ee920000j

 

THE WALL STREET JOURNAL.

Markets

**China Selloff Casts Foreigners in Unusual Role as Market Bulls; U.S. hedge funds look to buy in China, showing more interest in market than Chinese investors**

By Andrew Peaple and Shen Hong
957 words
2 September 2018
07:00 AM
The Wall Street Journal Online
WSJO
English


A dismal year for China's stock markets has given rise to an unusual situation: Foreign institutions seem more optimistic about prospects for the country than local investors.

Overseas money has poured into Chinese equities this year via a trading link with Hong Kong, despite a 16% decline in Shanghai stocks that has made it one of the world's worst-performing major markets. But trading volumes in Shanghai, which are powered by an army of retail investors, last week fell to their lowest level since January 2016 when the market was in the midst of an unprecedented crash.

"There is a rare dynamic right now, with foreign investors more positive on Chinese stocks than local investors," said Kinger Lau, chief China equity strategist at Goldman Sachs in Hong Kong.

Mr. Lau said U.S.-based hedge funds are looking for opportunities to buy in China given that the market is cheap both by recent historical standards and relative to U.S. stocks. The Shanghai market is trading at 10.4 times expected earnings this year, according to Thomson Reuters, well below the **S&P 500** of 18 times.

While foreign buyers appear to be focused on potential bargains, local investors are worried by government attempts to rein in credit and a burgeoning trade dispute with the U.S. That has led to fragile confidence in stocks, despite official data showing the economy is still growing at more than 6% a year.

Foreign inflows were set to rise again last week when index provider MSCI was to increase the weighting of stocks listed in mainland China in its widely followed Emerging Markets Index. Passive funds which track the index will then automatically have to buy more of the roughly 230 Chinese companies that were first included in May.

Partly thanks to MSCI, foreign ownership of Chinese-listed stocks has risen to 3.5% of the market, up from 3% at the start of the year, according to BNP Paribas. Some $31 billion has flowed into China's two main markets—in Shanghai and Shenzhen—through the trading link with Hong Kong this year. That is tiny in the context of an $7.4 trillion market, but still more than flowed in during all of 2017.

Index inclusion isn't the only factor luring foreign institutions. "We're definitely looking at A-share companies more on the buy side now than six months ago," said Andrew Mattock, a San Francisco-based portfolio manager at Matthews Asia, using a term for yuan-denominated shares listed in Shanghai and Shenzhen.

"Valuations had become stretched at the end of last year, but now there are more opportunities," said Mr. Mattock, who manages the firm's China strategy. He said he is looking in particular at companies making consumer goods, as well as some industrial stocks and big Chinese banks.

The relative popularity of Chinese stocks with foreigners is a turnaround from prior years when some well-known U.S. money managers warned about the dangers facing China's economy. Leading hedge-fund manager Kyle Bass was among those who bet big against China last year, only to suffer heavy losses when the yuan rallied.

It is also a contrast to the downbeat mood among Chinese individual investors. "Everyone can see that our economy is in pretty bad shape and the **stock market** is a barometer of that," said Wu Yunfeng, a retail investor in Shanghai. "The state media have been portraying our country as the strongest in the world for years and we have become so complacent."

Within China, the government's so-called deleveraging campaign, in which it has tried to stem high levels of debt by curbing the country's shadow banking, intensified through the early months of the year. The move affected stocks in two ways: First, because of a fear that slower credit growth would cause the overall economy to falter; and second, because of a crackdown on popular investment products sold by banks that had helped drive equities purchases in recent years.

The U.S. government's April ban on U.S. firms selling components to telecom company ZTE Corp. also hammered market confidence as it demonstrated Washington's willingness, and ability, to hobble a leading Chinese company. That shock has hardly abated even though the Trump administration subsequently agreed to lift the ban and fine ZTE $1 billion instead.

A growing realization that the U.S. government is willing to take on China over trade has since deepened investor concerns. One major worry is that employing Beijing's old playbook of borrowing and spending freely on infrastructure won't be enough to stem slowing growth—and that the government is unwilling to undertake deeper structural reforms that might give investors hope of a more vibrant economy.

"We can't go back to the massive stimulus program of 2008 because leverage in the Chinese economy is already very high," said Deng Wenyuan, an analyst at Soochow Securities based in the eastern city of Suzhou, adding that bolder reform was needed.

Mr. Wu, the retail investor, said he plans to stay out of the market for now. "We don't actually blame Donald Trump because we understand that he needs to serve the American people," he says, referring to the market downturn. "It's his job. It's our government's job to take care of us and we want to see more action."

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The New York Times

ON MONEY
Magazine Desk; SECTMM
**Can Vietnam Avoid Getting Hurt in the Crossfire When the Tariffs Are Flying?**

By BROOK LARMER
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Late Edition - Final
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English


When elephants fight, the ants perish: The Khmer proverb captures the sense of peril in the escalating trade war between the United States and China. The world's two superpowers have locked tusks over tariffs, and the rest of the world -- especially Asia -- seems in danger of being trampled. As the trade war heads into its third month, with the United States set to impose a new tranche of $200 billion in tariffs this fall, expanding the conflict fourfold, one truth is clearer than ever: In a globalized economy, nothing exists in isolation. There is no such thing as a trade war of surgical strikes, in which tariffs hit their targets and leave everything around them unscathed. In its attempt to punish China for unfair trade practices and to reduce a $375 billion trade deficit, the Trump administration is also inflicting harm on some of America's allies in Asia -- forcing them, like ants under the elephants' feet, to scramble in search of escape.

Consider the predicament of Vietnam. China and the United States, which each have their own violent histories in Vietnam, are now that country's most important trading partners. Together, the giants gobbled up roughly 35 percent of Vietnam's exports last year, furthering its transformation from sleepy purveyor of rice and coffee to manufacturing hub. When the trade war broke out, so did the ominous headlines in Hanoi. A rapid devaluation of the Chinese yuan sparked a brief run on Vietnam's currency and a drop in its **stock market**. Rumors spread about an influx of cheap Chinese consumer goods and the threat of American protectionism spreading in ways that would affect Vietnam's vital exports. And there was a tangible concern: Nearly $5 billion of Vietnamese exports are part of China's value-added supply chain, meaning they may feel the impact of being exposed to punitive American tariffs.

Soon another sort of reaction began taking place. Driven by the dangers of the trade war, many foreign companies with stakes in China -- those ants underfoot -- have started shifting production away from China to Southeast Asia. One sign of this development was on display in mid-July, when a group of visitors showed up on Vietnam's northern coast near Ha Long Bay. The men in white shirts and dark ties were not tourists. They represented 72 Japanese businesses, in industries ranging from textiles to electronics, and they were looking for economic refuge. ''Many of these Japanese firms have been operating in China,'' Nguyen Duc Tiep, an official from the local-investment promotion center, told a Vietnamese magazine. ''They want to expand their investment markets out of China to shun risks caused by the nation's rising production costs and by the U.S.-China trade war, which is making it hard for Japanese firms to export their products to the U.S. from China.''

The Japanese businessmen may be among the trade war's first economic victims. But the shift of manufacturing away from China is not a new phenomenon. Over the past few years, as wages in Chinese factories have risen sharply, many companies, foreign and Chinese alike, have begun moving at least some of their operations to Southeast Asia to take advantage of lower production costs. In Vietnam, where wages are barely a third of those in China, Adidas now makes twice as many shoes as it does in China, and Intel and Samsung Electronics have made billion-dollar investments there. The country's export-led growth depends on attracting foreign investment, and now American and Chinese policies may be hastening its arrival. ''For many companies, the trade conflict is a catalyst to explore changes they hadn't contemplated before,'' says Jon Cowley, a tax-and-trade partner at the law firm Baker McKenzie in Hong Kong. ''For others, it's an accelerant to a process they'd already started. The trade conflict is just pushing them over the finish line.''

It is still early in the trade war, only two months in, so many of these corporate moves are just taking shape. Still, the race is on to secure excess manufacturing capacity all around the region -- in Thailand, Indonesia and elsewhere. In late July, Delta Electronics, a Taiwanese producer of Apple power components, approved a $2.14

billion buyout of its Thai affiliate to cope with the growing trade risks. Also this summer, Hong Kong's Techtronic Industries (T.T.I.), the maker of Hoover vacuum cleaners and Milwaukee power tools, opened a new plant in Vietnam and another, its sixth, in the United States. Some 76 percent of T.T.I.'s revenue comes from North America. ''We have always said we won't want all our eggs in one basket,'' the company's chief executive, Joseph Galli, said in August, stressing the importance of ''a flexible supply chain.''

Supply chains, innocuous as they sound, are a locus of collateral pain in this trade war. The American exports that China is hitting with retaliatory tariffs are mostly simple goods sourced close to home: pork, soybeans, whiskey. But China's exports to the United States, especially in high-tech, are complex products assembled in China from a staggering array of foreign components and raw materials. A ''Made in China'' laptop shipped to America, for example, may have a South Korean screen, a Japanese hard drive and a memory chip from Taiwan. A tariff hurts every part of this international supply chain. Asia's most advanced economies, including Japan, South Korea and Taiwan, are so globalized that they can easily get caught in this protectionist crossfire.

Taiwan may stand to lose the most. It supplies 18 percent of China's total imports of intermediate goods, or nearly 14 percent of Taiwan's gross domestic product, according to the Stimson Center in Washington. As Tsai Ming-fang, an economist at Taipei's Tamkang University, told Bloomberg: ''Trump's tariffs are giving Taiwanese companies further incentives to move to Southeast Asia.''

The dust kicked up by the trade war obscures the fact that Asia is the world's most dynamic trading region. According to the World Trade Organization, Asia in 2017 had the world's fastest growth in trade volume for both imports and exports, 9.6 percent and 6.7 percent, respectively. Eighteen months ago, the leaders of Vietnam and 10 other Pacific Rim nations believed the economic outlook would be enhanced even further by the creation of the Trans-Pacific Partnership. The agreement, which included the United States and Japan but not China, also offered the chance to push back, as a group, against Beijing's unfair trade practices like intellectual-property theft and forcing companies that do business in China to share their technology.

President Trump rejected T.P.P. out of hand. Now, with diminished influence in the region, the United States wages its trade war alone, leaving many of its erstwhile Asian partners, and many American companies, too, stuck in the middle, seeking the safest way out.

To offset the conflict's negative impact, Beijing has slashed tariffs to Asian countries, a reminder, it seems, that China will remain the lone superpower in Asia long after the trade war is over. This appeal, however, may not stop the flow of manufacturers out of China to Southeast Asia. The American shoe-and-accessory maker Steve Madden, for example, is shifting its handbag production from China to Cambodia -- 15 percent this year, 30 percent in 2019. (A U.S. Fashion Industry Association study released in July showed that two-thirds of all textile companies are expected to lower production in China over the next two years, citing United States trade protectionism as the top challenge.) Moving production to a new location is expensive and complicated. Given the mercurial man behind the trade war, and the chaotic churn of American politics, some executives are holding fast in hopes that it will all go away. But as new tariffs loom for another $200 billion worth of Chinese imports, with 6,031 products on its target list, the trade war no longer looks like a short-term crisis.

As the battle escalates, there's a worry that Chinese companies may shift more operations southward, too, using ''tariff-jumping'' tactics to get their goods to the United States. The Vietnamese, at least, are vigilant against Chinese intrusions. Their antagonistic history with their northern neighbor -- the millennium under Chinese imperialism, the bloody 1979 border war, the ongoing disputes over the South China Sea -- has colored recent protests against Chinese businesses. It almost seems like karmic payback that Vietnam might benefit from China's conflict with the United States, a country that, despite its own protracted war here, has become one of Vietnam's strongest allies.

Nobody can predict all of the pain and permutations of the trade war. The Vietnamese government is cautious, even projecting negligible declines in growth over the next five years. Others are far more sanguine. In July, Standard Chartered raised its growth forecasts for Vietnam to 7 percent this year, based on the influx of foreign direct investment. In addition to attracting companies hedging their Chinese bets, Vietnam may also pull in American buyers eager to diversify their imports from outside China. ''The consensus before was that T.P.P. would be the catalyst,'' says Michael Kokalari, chief economist at the Vietnam-focused asset-management firm VinaCapital. ''But the trade war could be the thing that really opens the floodgates.'' In Vietnam, fighting elephants just might give the nimblest (or luckiest) ants a chance to thrive.



Brook Larmer is a contributing writer for the magazine. In two weeks: On Technology, by John Herrman

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**EXCHANGE --- U.S. Exchange Plans New 'Speed Bump'**

By Alexander Osipovich
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Cboe Global Markets Inc. is seeking to introduce a brief delay on one of its markets, becoming the latest U.S. stock-exchange group to attempt to hit the brakes on high-frequency traders, people familiar with the situation said.

The plan shows how "speed bumps" have proliferated among U.S. exchanges in recent years, even at market operators that initially opposed them. IEX Group Inc., the upstart exchange featured in Michael Lewis's book "Flash Boys," kicked off the trend and has since been followed by the New York Stock Exchange and others.

Speed bumps work by imposing a delay on orders to trade stocks, typically a fraction of a second. Proponents say that can foil high-tech traders that make money by forecasting tiny market moves and quickly buying or selling shares before others realize that prices are shifting.

Cboe hopes to add a speed bump to EDGA, the smallest of its four equities exchanges, people familiar with the situation said. The company has presented its plans to major trading firms in recent months, these people said.

"We discuss a range of innovative and flexible trading solutions with our customers on an ongoing basis," a Cboe spokeswoman said.

The plan would require approval from the Securities and Exchange Commission. Cboe has yet to file its proposal with the agency, and the company could still drop its plan.

Chicago-based Cboe is the third-largest U.S. stock-exchange operator after the NYSE and **Nasdaq** Inc., as measured by market share.

Cboe executives have previously criticized speed bumps. "It's about having a market further complicated by delays," Chris Concannon, who is now Cboe's president and chief operating officer, told The Wall Street Journal in a 2016 interview about IEX's plans to launch a speed-bump exchange.

The speed bump under discussion at Cboe would differ in several ways from IEX's, according to people briefed on the plan. IEX delays orders to trade stocks by 350 millionths of a second. Cboe's speed bump would be around 10 times longer in duration, lasting three to four milliseconds, these people said. A millisecond is a thousandth of a second.

The delay wouldn't apply to all orders equally: Instead, it would affect only orders seeking to hit unexecuted buy or sell orders already posted on EDGA, the people said. Traders posting new orders to be displayed on EDGA wouldn't be affected.

Such a design would benefit market makers, the firms that facilitate trading by continuously quoting prices for stocks. Market makers would be able to cancel or adjust their quotes without having to wait several milliseconds.

But the delay could hurt speedy traders that try to "pick off" slightly out-of-date quotes posted by slower-moving market makers -- in other words, buying just as the price is about to tick up a penny or selling just before the price drops. Effectively, market makers would gain a shield against such ultrafast strategies.

If approved, Cboe's plan could undermine one of the biggest plays in high-frequency trading, which involves zipping between markets centered in Chicago and New York at nearly the speed of light.

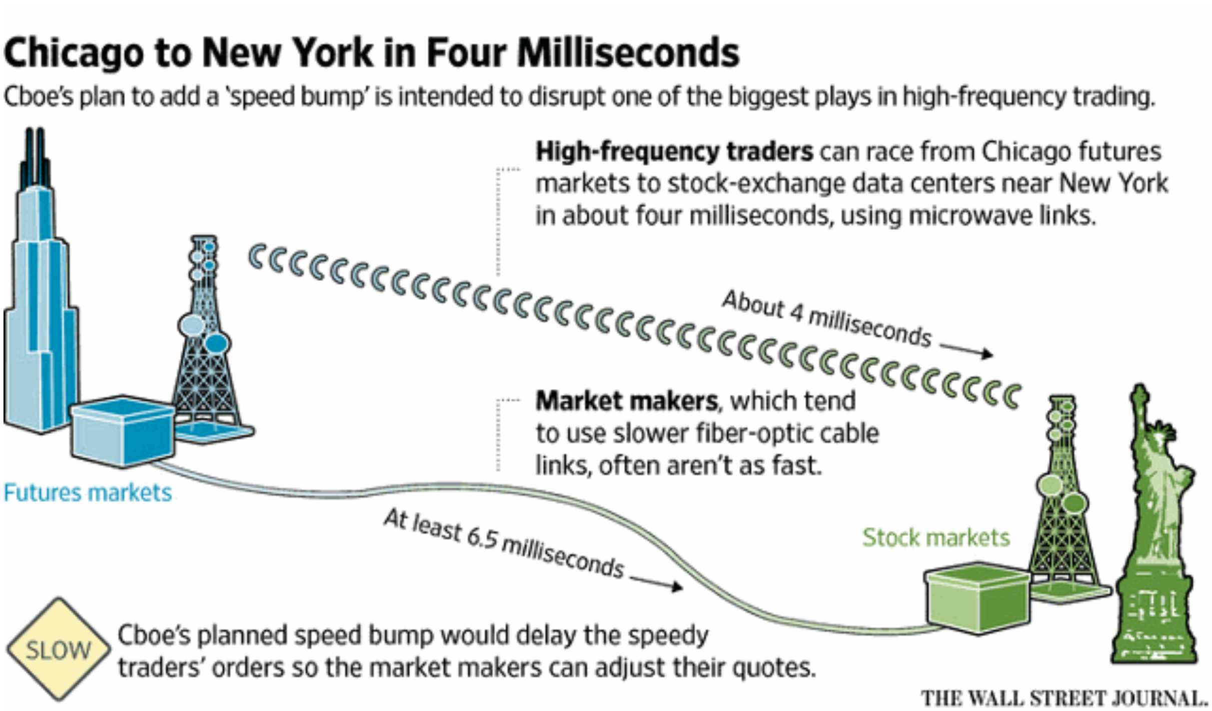
Ultrafast traders often monitor for price changes in **stock-market** futures listed on the Chicago Mercantile Exchange. If they detect a shift, they will fire off orders to buy or sell exchange-traded funds that track U.S. stocks, such as the popular SPDR **S&P 500** ETF Trust.

For the strategy to work, the speedy trader must send electronic messages as quickly as possible from CME's data center in Aurora, Ill., to northern New Jersey, where all of the major U.S. stock exchanges locate their systems.

It takes about four milliseconds to send such messages using one of the microwave networks favored by high-frequency traders. Sending a similar order by cheaper fiber-optic cable takes several milliseconds longer.

Cboe is considering a delay of three to four milliseconds because that would eliminate the advantage of microwave over cable along the Illinois-to-New Jersey corridor, according to people briefed on the company's plan.

Cboe's plan will likely be controversial. When the tiny Chicago Stock Exchange proposed a similar one-sided speed bump in 2016, critics said it would give market makers an unfair advantage. The Chicago exchange ultimately withdrew the proposal in July after being acquired by NYSE owner Intercontinental Exchange Inc.

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**The Weekend Interview with George Gilder: Sage Against the Machine**

By Tunku Varadarajan
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New York -- 'I rarely have an urge to whisper," says George Gilder -- loudly -- as he settles onto a divan by the window of his Times Square hotel room. I'd asked him to speak as audibly as possible into my recording device, and his response, while literal, could also serve as a metaphor: Nothing Mr. Gilder says or writes is ever delivered at anything less than the fullest philosophical decibel.

Mr. Gilder is one of a dwindling breed of polymath Americans who thrive in a society obsessed with intellectual silos. As academics know more and more about less and less, he opines brazenly on subjects whose range would keep several university faculties on their toes: marriage and family, money and economics, law and regulation, and the social role of technology, a subject that engrosses him at present and the topic of his latest book, "Life After Google: The Fall of Big Data and the Rise of the Blockchain Economy."

Mr. Gilder has published 20 books, the best-known of which, "Wealth and Poverty" (1981), sold more than a million copies and made him rich. It was an impassioned defense of the morality and compassion of the free market. Ronald Reagan acknowledged that the book bolstered his confidence in supply-side economics, and he was known to be particularly beguiled by its opening line, which reads: "The most important event in the recent history of ideas is the demise of the socialist dream."

Mr. Gilder also had a vast and avid following during the tech boom of the 1990s, when his Gilder Technology Report -- an idiosyncratic subscription newsletter -- shaped the investing habits of thousands around the world. Analysts spoke of a Gilder Effect, which had investors rushing to buy stock in any new company mentioned in the Report. The newsletter effectively ended, Mr. Gilder tells me, "in the months after the **stock market** crash of 2000, when I lost nearly all my 106,000 subscribers."

Mr. Gilder, 78, is still immersed in the world of tech, but he doesn't like all that he sees. Google makes him mad, as does Silicon Valley more broadly, and his ire is directed at the "new catastrophe theory" which holds "that artificial intelligence will make human minds obsolete, and that we'll soon produce machine-learning tools and robotics that excel the capabilities of human brains." He calls this attitude "Google Marxism" -- a phrase he utters with a certain salivary distaste -- "because Marx's essential theme was that the Industrial Revolution of the 19th century had overcome all the challenges of production." From that point on, Marx held, "human beings would focus on redistributing wealth among the classes rather than creating it."

Marx was convinced that the steam turbine, electrification and what William Blake called "dark satanic mills" were a final stage in social evolution -- "an eschaton." Mr. Gilder loves abstruse words, and this one, which signifies a kind of climax in human attainment, is a particular favorite. "Google and the Silicon Valley people also imagine that their artificial intelligence, their machine learning, their cloud computing, is an eschaton -- another 'end of history' moment. And it's just preposterous."

In truth, Mr. Gilder says, Google is at the end of its "paradigm," which he defines as "avoiding the challenge of security across the internet by giving away most of its products for free, and financing itself with an ingenious advertising strategy." Mr. Gilder also contends that Google believes capitalism is at an end -- that "this is the winner-take-all universe," as he puts it, "and the existing generation of capitalists are the final capitalists. That's their vision." And if you believe that "machines can re-create new machines in a steady cascade of greater capabilities that are beyond human comprehension and control, you really believe that's the end of the human race."

Mr. Gilder rejects the premise. "Machines can't be minds," he says. "Information theory shows that." Citing Claude Shannon, the American mathematician acknowledged as the father of information theory, Mr. Gilder says that "information is surprise. Creativity always comes as a surprise to us. If it wasn't surprising, we wouldn't need it." However useful they may be, "machines are not capable of creativity." Human minds can generate counterfactuals, imaginative flights, dreams. By contrast, "a surprise in a machine is a breakdown. You don't want your machines to have surprising outcomes!"

The narrative of human obsolescence, Mr. Gilder says, is giving rise to a belief that the only way forward is to provide redundant citizens with some sort of "guaranteed annual income," which would mean the end of the market economy: "If everyone gets supported without any kind of growing up and facing the challenges of life, then our capitalist culture would collapse."

Mr. Gilder worries deeply about the state of capitalism in America, and President Trump's adamant focus on the trade gap irks him. "To the extent that the U.S. is the world's leading capitalist power and welcomes foreign investment, it can't possibly run a trade surplus." Mr. Trump "is a politician, and his chief goal is to communicate to the unions in the Midwest that he's on their side. Besides, it's a lot easier to blame China than it is to really explain the widespread campaign in the colleges of this country to suppress manufacturing and industry in the United States."

As we talk of capitalism and America's universities, Mr. Gilder sits upright, unable to mask his indignation. "The point is that we didn't want manufacturing in this country, and we suppressed it. All of our colleges are devoted to stopping things rather than starting them." The "whole focus" of science in American higher education, he says, is on "the dangers and perils of technology rather than its promise."

America's university system, says Mr. Gilder, is "incredibly corrupt and ideological." How did it come to be like that? Surely, I observe, it wasn't that way when he graduated from Harvard in 1962. "It was beginning to get that way," he says, as he revs his engines for a fresh sortie. "The rise of affluence through the 1960s created this kind of amazing irresponsibility that resulted in a whole generation losing track of reality."

The pithy apercu is Mr. Gilder's forte. He tells me here that "human beings have a propensity to believe in leftism" -- in the idea that government can "answer all of their problems, guarantee their future, and relieve them of the challenges of life." The idea of a "completely providential government" arose in America, and a "whole generation of young people were given college loans in a fabulous national mistake, in which the Republicans participated." These loans were used by the university system to "increase perks and tenured luxuries and ideological distractions" -- all of which led to the "diversity campaigns and CO2 panics" that currently dominate university faculties.

The only way to undo this "vast blunder," says Mr. Gilder, is to forgive student loans across the board and "extract the money from all the college endowments and funds that were used to just create useless departments and political campaigns." More than $1.5 trillion in student-loan money is outstanding, according to the Federal Reserve. That money, Mr. Gilder says, "wasn't deployed to improve education. Not a scintilla of evidence has been adduced that learning has been improved. It was used entirely to lavish on bureaucracies that, in turn, paid tribute to government and leftist nihilism."

The impact of these loans, and of the academic ecosystem they engendered, has been catastrophic, in Mr. Gilder's view. "The result was to destroy the entrepreneurial optimism of a whole generation of young people, to drive them toward socialism, which they now tend to favor, and to even dissuade them from marriage." The last is a consequence of debt, "which cripples them for the future." Any benefit that education might confer on the young is, in Mr. Gilder's dark view, nullified by the economic burden inflicted on them, which "leaves these kids impotent in the world."

We turn to national politics, and Mr. Gilder reaffirms his view -- which he's expressed often -- that Reagan set the gold standard for the modern American presidency. "I hope Trump emulates him," Mr. Gilder says. "I don't know Trump, but he beat all my candidates, and he's got something going for him. He's a man of action, and I think too much stress is placed on his verbiage." He credits the president with having "rolled back the climate-change cult in government to some degree. He's appointing good justices, who can actually see through leftist claims, and he's dismantling the reach of the administrative state."

Although Mr. Gilder is a critic of Google, he disapproves of Mr. Trump's talk of regulating the search engine -- a prospect the president raised in a tweet describing its results as "rigged" against him and possibly "illegal." This is no time, Mr. Gilder says, "for American conservatives to advocate an expansion of the administrative state into social networks and search engines." If right-leaning content ranks low on Google, that shows that "conservatives still have a long way to go if they are to prevail in the opinion wars on social media. They cannot expect the government to do it for them."

For all the gloom about Silicon Valley that appears to suffuse his new book, Mr. Gilder insists that he's not a tech-pessimist. "I think technology has fabulous promise," he says, as he describes blockchain and cryptocurrency as "a new technological revolution that is rising up as we speak." He says it has generated "a huge efflorescence of peer-to-peer technology and creativity, and new companies." The decline of initial public offerings in the U.S., he adds, has been "redressed already by the rise of the ICO, the 'initial coin offering,' which has raised some $12 billion for several thousand companies in the last year."

It is clear that Mr. Gilder is smitten with what he calls "this cryptographic revolution," and believes that it will heal some of the damage to humanity that has been inflicted by the "machine obsessed" denizens of Silicon Valley. Blockchain "endows individuals with control of their data, their identity, the truths that they want to assert, their transactions, their visions, their content and their security." Here Mr. Gilder sounds less like a tech guru than a poet, and his words tumble out in a romantic cascade.

With the cryptographic revolution, he says, "we're now in charge of our own information. For the first time in history, really, you don't have to prove who you are, or what you are, before a transaction." A blockchain allows users "to be anonymous if they wish, while also letting them keep a time-stamped record of all their previous transactions. It allows us to establish unimpeachable facts on the internet."

That evokes trust in the internet, "without having to trust or rely on Sergey Brin, Larry Page, Mark Zuckerberg, or whoever the paladins of the new economy may be." In the age of the almighty machine, Mr. Gilder believes, this is a notable victory for mankind.

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Mr. Varadarajan is a fellow at Stanford University's Hoover Institution.



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The New York Times

Business/Financial Desk; SECTB
**Markets Tread Water at Month's End as Investors Await Trade Action**

By THE ASSOCIATED PRESS
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1 September 2018
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Stocks hardly budged on Friday as the United States and Canada were unable to complete a trade deal, but the two sides intend to continue negotiating next week.

Shares of energy companies slipped along with **oil prices** Friday and high-dividend stocks also fell. Shares of technology companies and retailers made some modest gains. Trading was very light ahead of the Labor Day holiday.

Investors had hoped the two countries would finish the outlines of a revamped NAFTA pact after the United States and Mexico announced a preliminary agreement Monday. Right before the markets closed, United States Trade Representative Robert Lighthizer said talks would resume on Wednesday.

President Trump has said he would be willing to make a deal with just Mexico, excluding Canada, but Wall Street is confident the final deal will include all three.

The **Standard & Poor's 500-stockindex** was down for most of the day but inched up 0.39 points to close at 2,901.52. The **Dow Jonesindustrial average** fell 22.10 points, or 0.1 percent, to 25,964.82.

The **Nasdaq composite** rose 21.17 points, or 0.3 percent, to 8,109.54. The Russell 2000 index of smaller-company stocks gained 8.40 points, or 0.5 percent, to a record high of 1,740.75.

Ford stock declined 2.3 percent to $9.48 after reports that the company canceled plans to import a version of the Ford Focus that is made in China, citing the tariffs proposed by the Trump administration.

Shares of the gun and hunting and camping gear maker American Outdoor Brands skyrocketed 43.6 percent to $14.03. The company said sales picked up and it cut costs while offering fewer discounts. The stock erased big losses from earlier in the year.

Lululemon Athletica shares jumped 13.1 percent to $154.93 after it raised its forecasts for the rest of the year following a strong second quarter. Shares in Lululemon, which makes yoga gear, have nearly doubled in value this year.

Shares of the discount retailer Big Lots sank 10.1 percent to $43.05 after its earnings and sales fell short of analysts' projections.

Ulta Beauty stock jumped 6.4 percent to $260 after the company announced a partnership with Kylie Jenner's Kylie Cosmetics. It said the brand would be available later this year.

The **S.&P. 500** rose 3 percent for the month and the **Nasdaq** jumped 5.7 percent.

Argentina's **stock index** jumped 9.7 percent after a spokesman for the International Monetary Fund said the country has the IMF's ''full support.'' The Merval index has climbed over the last two days after the government asked for the early release of $50 billion in rescue funds.

The Merval is still down 2.5 percent this year, and the Argentine peso has been trading at record lows.

Benchmark United States crude fell 0.6 percent to $69.88 a barrel in New York. Brent crude, used to price international oils, dipped 0.5 percent to $77.42 a barrel in London.

Wholesale gasoline was unchanged at $2.14 a gallon. Heating oil lost 0.3 percent to $2.24 a gallon. Natural gas gained 1.5 percent to $2.92 per 1,000 cubic feet.

**Bond prices** rose early, but faded late in the day. The yield on the **10**-**year Treasury** note remained at 2.86 percent.

Gold rose 0.1 percent to $1,200.40 an ounce. Silver dipped 0.3 percent to $14.56 an ounce. Copper skidded 1.7 percent to $2.67 a pound.

The dollar rose to 111.07 yen from 110.99 yen. The euro fell to $1.1605 from $1.1676.

The CAC-40 in France fell 1.3 percent and the DAX in Germany lost 1 percent. The FTSE 100 in Britain sank 1.1 percent.

In Japan, the benchmark Nikkei 225 recouped earlier losses to finish virtually unchanged. The Kospi in South Korea rose 0.7 percent and the Hang Seng in Hong Kong fell 1.1 percent.

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

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**Search Summary**

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| Text | S&P 500 index or Dow Jones index or Bond yield or oil price or stock index or stock market or DJIA or SPX or equity market or Dow Jones Industrial Average or S&P 500 or Standard & Poor's 500-stock index or U.S. treasury rates or U.S. treasury yield or stock price or earnings suprise or earnings surprises or oil prices or Nasdaq Composite or standard & poor's 500 index or 30-year Treasury bond or 10-year Treasury bond or 30-year Treasury or 10-year Treasury or Bond prices or bull market or bear market or bull market or bear market or bullish or bearish or financial markets or financial market or volatile or volatility or Nasdaq |
| Date | 09/01/2018 to 09/30/2018 |
| Source | The New York Times - All sources Or The Wall Street Journal - All sources |
| Author | All Authors |
| Company | All Companies |
| Subject | Commodity/Financial Market News Or Economic News |
| Industry | All Industries |
| Region | United States |
| Language | English |
| Results Found | 512 |
| Timestamp | 3 December 2018 1:18 PM |

 