THE WALL STREET JOURNAL.

Heard on the Street
Markets
Stock Markets Are Too Happy With the Election Outcome; A split Congress is more likely to cut the budget deficit

By Jon Sindreu
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The Wall Street Journal Online
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Corrections & Amplifications

Richard Nixon was a Republican. An earlier version of the chart with this article incorrectly colored his bar blue instead of red. (Nov. 7, 2018)

For investors, the midterm election has been mostly a sideshow. But if there is one takeaway, it is that it may become harder for Washington to goose stocks.

Wednesday's results confirmed polls' predictions: Democrats wrested control of the House, but Republicans held the Senate. Global stocks rose and futures pointed to opening gains in the U.S.

Investors shouldn't draw too many conclusions. It is still hard to predict the economic impact of President Trump's trade spat with China and there isn't much Congress can do about foreign policy anyway.

There is one fresh risk for the **stock market**: Everything else being equal, a split Congress is more likely to cut the budget deficit.

Not that long ago, many analysts had 2018 marked in their calendars as a candidate for a U.S. recession after years of nonstop economic expansion. Mr. Trump's large tax cuts after the 2016 election, which have increased the deficit, may explain why that hasn't happened.

A Democrat House won't dramatically slash the deficit, but it will make further tax cuts difficult. Tax cuts raise big political issues about who gains the most, yet official figures suggest that economic growth and corporate profits have benefited from them under President Trump.

The business cycle, and stocks, have received a fresh lease of life. Fears about stimulus creating too much inflation have proven unwarranted so far, in part because productivity growth has increased. Analysts often underestimate how higher demand can boost productivity—for example, by lowering companies' unit costs.

It is true that a louder voice for Democrats could help Mr. Trump deliver on his pledge to build more infrastructure, but the two sides differ strongly on how to do this. Democrats also may worry more about the bloated deficit. Since Ronald Reagan, Republicans have disregarded their own dire warnings about the national debt, once in power—notably in 2011—leaving Democrats to fret about fiscal discipline.

Right now, investors are happy, perhaps because the election was a source of uncertainty they have left behind. On balance, though, a divided Congress is probably worse for stocks.

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THE WALL STREET JOURNAL.

Markets

New Winners and Losers Emerge in Stock Market After Midterms; Winners include energy companies drilling in Colorado; losers include banks and aerospace companies

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The **Dow Jones Industrial Average** jumped nearly 550 points Wednesday, as investors bet a split Congress wouldn't impede economic growth. All but one of the 30 stocks in the blue-chip index notched advances, while the broader **S&P 500** cruised toward one of its biggest daily gains in months.

Ballot measures, from allowing recreational use of marijuana in Michigan to expansion in Medicaid spending, contributed to some of the **stock market**'s biggest gains. Still, some pockets of the market stumbled, with shares of banks and aerospace companies lagging behind, as investors and analysts worried that Republicans and Democrats' split control of Congress could hamper their paths.

WINNERS:

Energy companies that drill in Colorado

Several energy companies with operations in Colorado surged after voters rejected a measure to curb drilling in most of the U.S.'s seventh-largest oil-producing state. SRC Energy Inc. and Extraction Oil & Gas Inc. climbed 14% and 8.6%, respectively, while Anadarko Petroleum and Noble Energy surged about 5%, making them two of the **S&P 500**'s best performers.

"The favorable resolution removes a huge overhang that has persisted for months," Raymond James analysts said in a note to clients upgrading Noble to "outperform" from "market perform."

DaVita Inc.

Shares of the medical-care services company DaVita rose 9.9% Wednesday after the state of California voted against a proposal that would have limited how much clinics could ask customers to pay for dialysis treatment. Dialysis and similar lab patient services make up the bulk of DaVita's revenue.

Berkshire Hathaway's NV Energy

Berkshire Hathaway Inc.'s NV Energy is set to retain its monopoly as Nevada's utility provider after a measure to create a competitive energy market in the state failed.

Tilray Inc.

Shares of Canadian cannabis company Tilray, one of the few pot companies listed in the U.S., got a modest boost after voters in Michigan approved a ballot measure that allows recreational marijuana use. Shares then soared in afternoon trading after long-term cannabis opponent Jeff Sessions resigned as attorney general, closing 31% higher at $139.60. Shares have surged since going public in July at $17 a share but are off their September peak above $200.

American Outdoor Brands Corp.

Shares of the Smith & Wesson parent company rose 0.9% on expectations that the split control of Congress will prevent the enactment of meaningful legislation. Vista Outdoor Inc., another gun maker, was up 0.4%, while shares of Sturm Ruger & Co. slipped 0.9%.

Health-care stocks

The future looks brighter for many health-care stocks following the 2018 election, as the likelihood of rolling back the Affordable Care Act diminished following the Democrats winning the House. Insurers and hospital stocks rose, with UnitedHealth Group Inc. up 4.2%, Anthem Inc. up 6.6% and Cigna Corp. rising nearly 3%. WellCare Health Plans Inc., which provides services to families and individuals primarily through Medicaid and Medicare, jumped 7.3%.

Medicaid expansion proposals passed in Idaho and Nebraska, while in Montana and Utah the results were too close to call early Wednesday. The election of a Democratic governor in Maine also is positive for these companies, as the governor-elect has pledged to expand Medicaid. Medicaid stocks Centene Corp. and Molina Healthcare Inc. jumped more than 9% apiece, even as the defeats of Democratic governor candidates in Florida and Georgia seemed to quash the chances of Medicaid expansions in those states.

LOSERS:

Fifth Third Bancorp

Shares of Fifth Third Bancorp fell 0.8%, sliding along with a handful of other smaller lenders, including Regions Financial Corp., Comerica Inc. and U.S. Bancorp. Rising **bond prices**, spurred by the likelihood of political gridlock, weighed on banks since lower yields tends to crimp lenders' profitability.

Boeing Co.

Shares of aerospace giant Boeing and other defense cohorts gyrated in early-morning trading, suggesting investors were pricing in expectations for a budget impasse between Republicans and Democrats. Budget negotiations are likely to be fraught and could see a return of sequestration—across-the-board budget cuts to military spending that could eat into the revenue of companies that do business with the government, said Jason Draho, head of asset-allocation Americas at UBS Global Wealth Management. Boeing shares climbed 1.5%, while Northrop Grumman added 1.1%, both recouping earlier losses.

Michael Wursthorn, Amrith Ramkumar and Corrie Driebusch

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The New York Times

Business Day; Economy
What Democratic Control of the House Could Mean for Your Wallet

By Patricia Cohen
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The Democrats' success in winning back control of the House comes after an election in which economic issues were often overshadowed. Even so, the change on Capitol Hill is likely to make a difference on some spending priorities and tax policy.

House Democrats are in a position to block Republicans from extending the temporary tax cuts and provisions for individuals and small businesses that were enacted last year, and from pushing for further tax breaks for businesses. The momentum on health care has shifted toward shoring up and improving the Affordable Care Act and reining in prescription drug costs, an issue that has caught President Trump's attention as well. Republican efforts to shrink spending on what are known as entitlement programs — Medicare, Social Security and Medicaid — will also be shunted aside with Democrats pushing to patch up the safety net.

Still, the larger economic story line of the year ahead is unlikely to be shaped by initiatives from Capitol Hill.

The economy is strong, but growth is still expected to slow in 2019 as the extra juice injected through the tax cuts fades. Trade tensions are not going away. The jobless rate, already circling near a half-century low, will probably inch down even more. Swoops in the **stock market** will continue to be unpredictable, and anxieties about global growth remain. Moreover, as Janice Mays, managing director in the accounting firm PwC's Washington National Tax Services, said: "You're going to have the same president."

What kind of legislation can we expect?

With control of only one chamber, and an antagonist in the White House, the Democrats won't be able to reverse previous tax cuts and spending initiatives. Instead, they are likely to highlight their priorities for the future by passing a lot of bills — think of them more as billboards, designed to shape an agenda and deliver a message. An increase in the minimum wage, an expansion of health care coverage, and an infrastructure build-a-thon are obvious candidates.

Democrats will be able to block efforts to trim safety net programs like food stamps and Medicaid. They are also likely to focus on investigating the administration.

But prospects of any major legislative efforts look doubtful. Consider that a major tax overhaul was passed during the current congressional session, but much of the rest of the Republicans' legislative agenda stalled despite their control of both houses.

What about tax policy?

Aside from blocking further Republican tax-cutting initiatives, Democrats have their own wish list. Powerful Democrats (as well as some Republicans) from high-tax states like California, New York and New Jersey have a strong interest in reinstating the federal deduction for all state and local taxes. But they will encounter two obstacles. First, the decision to limit that deduction to no more than $10,000 kept the deficit from getting even larger. Second, an energized progressive Democratic wing might not be keen on prioritizing a tax proposal that predominantly helps higher-income residents.

The parties could find common ground on supporting increased tax incentives for retirement savings. And there is a long list of technical fixes and extensions on Congress's to-do list. The question is whether Democrats would go along with many of those without having one of their own priorities addressed — like more relief for the working class and higher taxes on the wealthy.

Are there areas of agreement between the parties?

You may remember that for the blink of an eye last year, it seemed possible that the Democratic leadership in Congress might make a deal with Mr. Trump to tie tax reform to a proposal to repair roads, bridges, waterways and airports.

Infrastructure has often been hospitable ground for bipartisan initiatives. Mr. Trump has always been enthusiastic about building on a grand scale, and in many ways, the Democrats are more willing partners than Republicans, who have consistently objected to the kind of spending required. Democrats have put together a trillion-dollar infrastructure proposal aimed at everything from broadband to waterways.

But financing remains a problem. Even if the president and Democrats were willing to make a deal, Senate Republicans would almost certainly object to any plan large enough to make it worth the Democrats' while, said Rick Lazio, a former Republican congressman who is now a senior vice president at Alliantgroup, a tax-credit consulting firm. "With the economy slowing and deficits climbing," he said, "I don't just see Republicans going for a trillion-dollar infrastructure bill."

Nor is the atmosphere in Washington particularly conducive to cross-the-aisle collaboration. "I just have a hard time believing that after the last two years, the parties are going to be able to get along and negotiate anything," said William G. Gale, co-director of the nonpartisan Urban-Brookings Tax Policy Center in Washington. Republicans and Democrats "can have overlapping positions," he said, "but any compromise requires trust, and I just don't think there's any trust available right now."

Democrats may also think twice about giving the president a victory before the 2020 election.

A significant slowdown in the economy could always change that calculus. With the effects of the stimulus fading, Mr. Trump has stepped up complaints that the Federal Reserve's plan to raise interest rates will slow the economy. "If somebody offers him the opportunity to offset that with a spending bill, he would sign it, with no regard for the deficit," said Jared Bernstein, a senior fellow at the liberal Center on Budget and Policy Priorities in Washington who was an adviser to former Vice President Joseph R. Biden Jr.

Will trade policy change?

Mr. Trump has paid little attention to critics in either party in pursuing a confrontational trade policy. The administration has the power to impose tariffs without congressional approval, and that is exactly what it has done. The 10 percent tariff the president put on $250 billion of Chinese goods in late September is scheduled to increase to 25 percent on Jan. 1. The White House has indicated that it will unveil tariffs on all other Chinese imports — worth an additional $257 billion — if talks between the United States and China at the G-20 summit this month fail to produce progress.

Restricting the president's power on trade would require the approval of the House and a 60-vote majority in the Senate. That is unlikely. The Democrats have traditionally been less enamored with free trade than Republicans. (Their views, however, may evolve as the Republican Party under Mr. Trump continues its shift from free-trade orthodoxy to protectionist measures.)

Congress will have the chance to weigh in on the United States-Mexico-Canada Agreement, which is to replace the North American Free Trade Agreement. The agreement has incorporated a number of provisions — like higher pay for autoworkers — that render it somewhat more palatable for the Democrats, Ms. Mays of PwC said. But the accord could come up for a vote before the Democrats take control, heading off any push by House Democrats for a tougher deal.

Will the government keep running?

There are two issues that Congress must confront next year: the debt ceiling and the legally mandated limits on spending approved annually by Congress. Failure to address the budget limits could prompt deep spending cuts and a partial government shutdown. And without an accord on the debt ceiling, the government would default on its payments and risk injuring its credit rating and causing a global panic.

After President Barack Obama signed a bill requiring across-the-board spending cuts if the budget exceeded set limits, Republicans and Democrats in Congress have patched together compromise budgets and agreed to raise the spending caps. In general, the deals have involved Republican agreement to greater spending on domestic programs and Democratic acceptance of bigger defense budgets. That has meant larger deficits.

“Both parties seem to care about the deficit when they’re out of the power, but not so much when they’re in power,” said Michael Strain, director of economic policy studies at the conservative American Enterprise Institute.

Since a shutdown can tar both parties, Democrats and Republicans are likely to strike some deal. “They’ll lurch from deadline to deadline and do the minimum to get by,” said Douglas Holtz-Eakin, a former director of the Congressional Budget Office and the president of the conservative American Action Forum.

The wild card is Mr. Trump. The president has said that “I would have no problem doing a shutdown” to force Congress to fund a wall along the Mexican border. He may have even less of a problem with it if he could more easily blame the Democrats.

“A shutdown is always a possibility, and the wall would mostly likely be the reason for that,” Mr. Lazio of Alliantgroup said. “But Senate Republicans are less likely to barrel into a confrontation.”

Contruction last year on the Tappan Zee Bridge north of New York City. Infrastructure spending may be an issue on which the two parties can make common cause in Congress. | Chang W. Lee/The New York Times

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THE WALL STREET JOURNAL.

Markets

Nasdaq to Delist MiMedx Amid Financial Probe; Formerly highflying maker of tissue grafts and biologic implants is wrestling with financial restatements

By Charley Grant and Gretchen Morgenson
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MiMedx Group Inc. said Wednesday that the **Nasdaq Stock Market** will delist its shares and suspend trading in the stock effective Thursday.

Shares fell more than 33% midday Wednesday to under $4. The stock peaked at almost $18 in January.

A formerly highflying maker of tissue grafts and biologic implants used in wound care and sports medicine, MiMedx had warned in July that a **Nasdaq** delisting was possible.

In June, MiMedx said an internal investigation had found that its reported financial results dating back to 2012 were no longer reliable and would have to be restated. The company fired its CEO and Chairman Parker "Pete" Petit for cause and recovered compensation it had previously paid to him over the years.

Neither Mr. Petit nor a company spokesman immediately responded to a request for comment. A **Nasdaq** spokesman declined to comment.

The restatement continues to be a challenge for the company. MiMedx informed **Nasdaq** last week that it would need to review revenue recognition practices on all company sales.

"As a result, MiMedx no longer believes that it is likely that it will be able to regain compliance with [Securities and Exchange Commission] reporting obligations and **Nasdaq** listing rules by February 25, 2019," the company said in a government filing.

Earlier this year, a Wall Street Journal investigation found that MiMedx, once one of the fastest-growing health-care companies, had fueled much of its growth by recording more product sales to facilities operated by the Veterans Health Administration than were actually used by those entities, a practice known as channel stuffing. The Journal also reported that MiMedx didn't offer certain lower-cost products to government-run hospitals, increasing taxpayers' costs.

MiMedx is under investigation by the Justice Department, the inspector general of the Department of Veterans Affairs and the SEC.

In the past, government-run medical facilities accounted for a significant part of MiMedx's sales. In 2015, the last year in which MiMedx broke out its revenues, the company said 26%, or almost $50 million, came from government entities.

MiMedx's relationship with government facilities appears now to be in flux. A $2.1 billion VA contract awarded to 21 makers of biologic implants announced in early October didn't include MiMedx. A spokesman for the VA said additional contracts may be awarded.

After Thursday, MiMedx shares will trade over the counter.

Separately, MiMedx announced Wednesday that it would issue new preferred stock to existing shareholders as part of a "shareholder rights" program, after the company determined it was "particularly vulnerable to a creeping acquisition" that could disadvantage shareholders.

The rights would become exercisable, the company said, if a person or investor group acquires 10% or more of MiMedx shares without approval by the company's board.

Mr. Petit may be the potential acquirer the rights offering aims to thwart. In September, after his firing by MiMedx, Mr. Petit said in a statement: "I now look forward to joining our shareholders in initiatives that will refocus the company and its fiduciaries on getting back to efficient and effective business management."

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THE WALL STREET JOURNAL.

Heard on the Street
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Market Boogeyman May Come for Bonds, Not Stocks; Risk-parity funds don't seem to be behind last month's equity rout, but are stocking up on bonds again

By Jon Sindreu
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Corrections & Amplifications

Risk-parity funds don't seem to be behind October's equity rout. An earlier version of the story said the stock rout had happened this month, instead of October. (Nov. 5, 2018)

Risk-parity funds are one of Wall Street's favorite boogeymen during stock selloffs like the recent one. In this case, though, the worry should be in bonds, not stocks.

The **S&P 500** was down 6.9% in October, its worst month since September 2011. Many investors were unsure why and blamed funds that follow rigid rules requiring them to sell into a downturn. Unlike in the February selloff, though, risk-parity funds didn't have many stocks to sell.

Instead, it is their large stash of bonds that investors should fear.

Risk-parity funds have grown to manage about $175 billion since their inception in 1996, according to the International Monetary Fund, and are championed by star investors like Ray Dalio and Clifford Asness. Unlike traditional investors who put a fixed allocation to stocks or bonds, they base allocations on the **volatility** of each asset class, often using debt to adjust risk. Since bonds are statistically less risky, that is where borrowed money is put to more use.

Critics say the model can create a dangerous feedback loop: If the market drops and is more **volatile**, these funds have to sell more. When that happens, they are joined by other funds that also are forced to sell when things go wrong, such as Commodity Trading Advisors, which use algorithms to follow market trends, and funds that bet on low **volatility**—February's main culprit.

According to a model built by U.S. bank Wells Fargo, which estimates positioning based on performance, risk-parity funds have kept their stash of equities very low after disposing of them earlier in the year, instead loading up on bonds. The fact that risk-parity funds and CTAs outperformed the market in October, and that funds haven't rushed to cover low-**volatility** bets, seems to confirm that these types of investors weren't to blame this time.

Yet it is bond **volatility** where investors may be caught unawares. The Cboe **Volatility** Index for stocks, commonly known as the Vix, has mainly been higher this year than in 2017. By contrast, the Vix's bond equivalent, the Merrill Lynch Move Index, was trending ever lower before its recent spike.

Risk-parity funds aren't automatons that act at the first sign of trouble, often using wider time windows to measure **volatility**, nor are they large enough to steer the market over long periods.

But if the Move settles at higher levels from now on—driven by doubts about central-bank policy—they may need to start running down their debt portfolios. And because regulations have reduced banks' ability to provide liquidity in the fixed-income market, corporate bonds are more likely to cave under a wave of selling.

As scare stories go, bond investors may end up being the ones who need to check under their beds.

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Finance & Markets -- Streetwise: Rising Prices Change the Investor Playbook

By James Mackintosh
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Soaring earnings, higher revenue and fewer profit warnings than usual -- on the face of it the third-quarter results show corporate America is thriving.

But under the surface, there are worrying signs both that cost increases are starting to bite into profits and that investors are growing more concerned about inflation.

First, the good news: **S&P 500** earnings are expected to be up 29% from a year ago by the end of the third-quarter reporting season, according to Refinitiv. That would be the biggest rise in eight years.

With three-quarters of companies having produced their numbers, earnings have come in far higher than Wall Street's already strong forecasts. The proportion of downgraded guidance for future earnings compared with upgrades also was lower than usual. Business is humming.

The bad news is that costs are rising, with low unemployment pushing up wages at the same time that President Trump's import tariffs feed through into higher input prices. Companies that can pass on higher costs to their customers will thrive and help to push up wider inflation. Those that can't will face squeezed profit margins and an unpleasant outlook.

The reports from some of the big consumer companies show the contrast. Both Kraft Heinz and Procter & Gamble were hit by sharp rises in trucking costs, as a shortage of drivers pushes up wages and fuel costs rise. But P&G managed to keep prices flat and increase sales, while Kraft had to cut prices to get about the same increase in volume.

P&G, like European rivals Nestle and Unilever, plans to jack up prices in the coming months. But the company's Chief Financial Officer Jon Moeller emphasized the uncertainty about whether consumers would accept higher prices. "We'll simply have to adjust as we go and as we learn," he told analysts.

Something similar happened with tariffs, with many companies reporting that they had passed through the costs of the early rounds of import taxes to customers -- costs that generally become higher input costs for other businesses. Illinois Tool Works is among those confident it can pass on the higher tariffs it will pay next year, too, amounting to $60 million, on top of price rises to catch up with higher raw-material costs. Bank of America Merrill Lynch analysts said on Monday that only around one-third of companies mentioning tariffs in earnings calls said they were hitting profits.

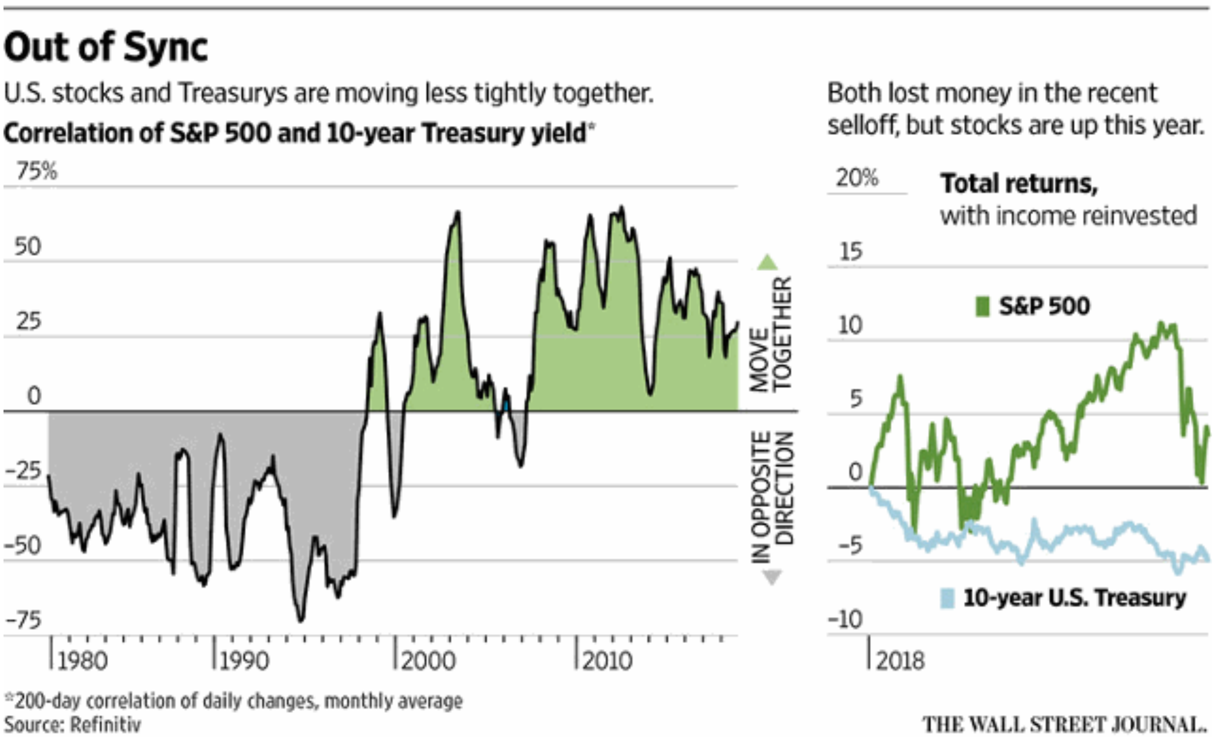
Wage rises aren't confined to truck drivers. Darden Restaurants, owner of the Olive Garden chain, said it had upped wages by 5% to retain hourly workers as opportunities elsewhere improved. Data on Friday showed average earnings up 3.1% year over year in October, the fastest pace in almost a decade, as unemployment held steady at 3.7%, the lowest since 1969.

The scale of investor worries about inflation shows up in stocks and bonds. For the best part of two decades shares and bond yields (which move inversely to prices) have tended to rise and fall together as the prospects for economic growth ebb and flow. Because inflation was low and under control, more inflation was usually seen as good for shares, while always bad for bonds, so Treasury yields and stock prices moved together.

For the past few days stocks and bond yields have moved in opposite directions, suggesting worries that inflation will start to hurt stocks. Worse, since the start of October bonds have failed in their usual job of cushioning a portfolio during a stock selloff. The danger is that we are shifting from an era in which rising inflation was good for stocks, because it showed the economy was doing better, to an era in which inflation is bad.

It is too early to be sure that "bad" inflation is on the way. We are nowhere near 1980s or even 1990s level of concern about inflation.

Still, Friday's wage data and numerous company reports show that the tight jobs market is pushing up wages, while tariffs are being passed on. To protect against an acceleration in inflation, pick businesses with pricing power, whose brands, monopoly positions or must-have products make consumers willing to accept higher prices.



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WSJ PRO CENTRAL BANKING

WSJ Pro

China Central Bank Chief Vows Support for Private Firms; Some 30 firms are gearing up to issue bonds through a financing-support facility

By Liyan Qi
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BEIJING—China's central bank Gov. Yi Gang said the government is trying to relieve financing difficulties for private companies with a combination of policy measures, including bond and equity financing, in an admission that there had been an overshooting of previous policies to rein in debt.

"Lack of considerations, coordination and deviating executions of previous policy measures, coupled with effects strengthening of financial supervision policies, lead to certain extent of credit tightening, which exacerbated financing difficulties of private firms," Mr. Yi said in an interview with official Xinhua News Agency published late Tuesday.

The authorities must learn lessons from this and strike a balance among structuring deleveraging, strengthening financial supervision and stabilizing economic growth, he said.

The central bank will expand a pilot program to encourage private firms' bond issuance, as 30 firms gear up to issue bonds through the financing-support facility. Three private firms, including Zhejiang Rongsheng Holding Group, a petrochemical firm based in Hangzhou, have already raised 1.9 billion yuan ($275 million) by issuing bonds under the trial program, he said.

The People's Bank of China will also promote equity financing for private companies by encouraging private equity funds, brokerage and commercial banks to lead in the efforts to help out private firms, the official said.

The central bank has injected a net 2.3 trillion yuan in liquidity into the **financial market** through four reductions in banks' reserve requirement ratio, he told Xinhua.

Support for private firms is not via aggressive monetary easing but rather targeted measures to ensure appropriate liquidity, Mr. Yi said in a separate interview with the People's Daily published Wednesday.

The current "prudent and neutral" monetary policy stance remains unchanged, the central bank chief said.

Separately, Mr. Yi said the central bank has sent out teams to inspect local implementation of relief efforts and will listen to suggestions from private firms, according to state broadcaster aired late Tuesday.

Chinese President Xi Jinping a week ago held a meeting with private entrepreneurs, reaffirming the leadership's support for private sector to relieve mounting concerns over the fate of the private economy.

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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
Market Rallies as Investors Take Election Day Breather

By THE ASSOCIATED PRESS
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NYTF
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U.S. stocks rose Tuesday as industrial and technology companies recovered some of the big losses they took over the last month. Strong company earnings also contributed to the gains, but stocks stayed calm as traders waited for results from the midterm elections in the U.S.

Industrial and basic materials companies made some of the biggest gains following reports from fertilizer maker Mosaic and granite, limestone, sand and gravel seller Martin Marietta Materials. **Bond prices** dipped, sending yields higher. **Oil prices** continued to fall, extending four weeks of losses. British stocks fell as negotiators from the U.K. and European Union as remained deadlocked over the issue of Ireland's borders.

The midterm elections will determine control of the House of Representatives and Senate, and 36 governorships are being contested along with other state and local positions. The vote could affect U.S. trade, economic and security policies.

Alicia Levine, chief market strategist at BNY Mellon Investment Management, said some of the most dramatic reactions to the elections might be seen in the health care sector, as Republicans could make another attempt to eliminate the 2010 Affordable Care Act if they keep control of the House and Senate.

"If the Democrats take the House, the Affordable Care Act is not under threat of being repealed," she said, which could help health insurers and hospitals. "If we see the Democrats take the governors houses, you could also see the expansion of Medicaid."

A Democratic House majority might work with the administration to try to reduce drug prices, and would take a more lenient approach on food stamp benefits. That could help big box stores and grocery chains, which get a lot of revenue from those programs.

If Republicans keep control of the House, Levine said, they might index capital gains taxes to inflation, which would effectively cut those taxes. While that could boost the economy, it would also encourage the Federal Reserve to keep raising interest rates at a faster pace, and investors are already concerned that rates could rise too fast.

The **S&P 500 index** rose 17.14 points, or 0.6 percent, to 2,755.45. The **Dow Jones Industrial Average** gained 173.31 points, or 0.7 percent, to 25,635.01. The **Nasdaq composite** picked up 47.11 points, or 0.6 percent, to 7,375.96. The Russell 2000 index of smaller-company stocks added 8.59 points, or 0.6 percent, to 1,556.10.

Stocks dropped in October and recovered a sliver of their gains during a three-day rally last week. They made smaller moves over the final few days before the polls closed. Stocks tend to fall before midterm elections and then rally once the voting is over. The **S&P 500** has generated an average price return of 16.7 percent in the 12 months after midterm elections since 1946, according to CFRA.

Drugstore and pharmacy benefits manager CVS Health rose 5.7 percent to $77.90 after its results topped Wall Street forecasts in the third quarter. It was helped by a large bump in prescriptions. CVS also said it expects to complete its purchase of health insurer Aetna before the Thanksgiving holiday.

Symantec rallied after the security software maker said it bought two smaller companies. It didn't disclose terms. Shares of Symantec rose further after Reuters reported that private equity firm Thoma Bravo is interested in buying the company. The stock jumped 12.6 percent to $22.54.

Among materials companies, Mosaic rose 10.6 percent to $35.64 after it raised its annual profit forecast, and Martin Marietta climbed 8.4 percent to $189.55. Construction materials company Vulcan gained 3.5 percent to $104.12.

Industrial companies also rose. Caterpillar climbed 2.3 percent to $129.33 and Boeing added 1.2 percent to $366.47.

Oil prices continued to slip after the U.S. said it would allow a group of allies to continue buying oil from Iran as long as they continued to try to reduce their imports from that nation. The U.S. reinstated sanctions on Iran this month after withdrawing from an international agreement intended to curb Iran's nuclear program, and analysts feared that **oil prices** would jump as supplies tightened.

Benchmark U.S. crude oil fell 1.4 percent to $62.21 a barrel in New York. In early October it traded above $76 a barrel. Brent crude dipped 1.4 percent to $72.13 a barrel in London.

Bond prices fell. The yield on the **10**-**year Treasury** note rose to 3.22 percent from 3.19 percent.

Britain's FTSE 100 shed 0.9 percent as Britain and the EU tried to resolve their differences over the Irish border. The two sides are trying to find a way to make sure there are no customs posts or other checks on the border between EU member Ireland and Northern Ireland, which will leave the group along with the rest of the U.K.

In France, the CAC 40 fell 0.5 percent. Germany's DAX dipped 0.1 percent.

In other commodities trading, wholesale gasoline was little changed at $1.69 a gallon and heating oil was also little changed at $2.19 a gallon. Natural gas remained at $3.56 per 1,000 cubic feet.

Gold shed 0.5 percent to $1,226.30 an ounce. Silver lost 1 percent to $14.50 an ounce. Copper fell 0.9 percent to $2.73 a pound.

The dollar rose to 113.40 yen from 113.21 yen. The euro slipped to $1.1413 from $1.1418.

Japan's Nikkei 225 index rose 1.1 percent and the Kospi in South Korea added 0.6 percent. Hong Kong's Hang Seng bounced gained 0.7 percent.

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

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

Document NYTF000020181107eeb70005p

THE WALL STREET JOURNAL.

Page One

What's News: Business & Finance

221 words
7 November 2018
The Wall Street Journal Online
WSJO
English

Oil prices are on the cusp of a **bear market** a month after hitting four-year highs, as a wave of supply has returned to hit crumbling confidence in global growth.

Foxconn is considering bringing in personnel from China to help staff a facility being built in Wisconsin, as it struggles to find engineers and other workers.

The largest share of U.S. manufacturers in at least a decade is spending to expand facilities.

Amazon's change of plans for its massive second headquarters leaves cities in a bind as they await a final announcement.

Dell has been contacting large shareholders of an affiliate about sweetening a roughly $22 billion bid to buy them out.

Boeing and U.S. aviation officials intend to issue safety warnings about potentially suspect flight-control software on the 737 Max 8, in response to the Lion Air crash.

U.S. stocks rose Tuesday. The Dow industrials gained 0.7%, while the **S&P 500** and the **Nasdaq** both climbed 0.6%.

Investors Bancorp is exploring a possible sale, as consolidation continues among smaller lenders.

Toyota may drop some underperforming models in the U.S., its head of North American operations said.

GE said it agreed to sell its Current lighting division to private-equity firm American Industrial Partners.

Document WSJO000020181107eeb7001e1

THE WALL STREET JOURNAL.

Markets

Supply Crunch Looms in Commodities Markets; Some investors expect dearth of investment to tighten supplies, pushing metal prices to new records

By Amrith Ramkumar and David Hodari
957 words
6 November 2018
07:00 AM
The Wall Street Journal Online
WSJO
English

A prolonged period of underinvestment by commodity producers is setting the stage for large price increases in raw-materials markets, say **bullish** investors who focus on the metals and energy industries.

Prices of copper, nickel and aluminum could soar past prior records—more than 40% above current levels—in the coming years, say the portfolio managers. Such a development would likely transform markets marked in recent years by soft prices and tepid investor interest.

Global miners are spending a third of what they did five years ago on new projects. They're on track to invest roughly $40 billion for the third straight year—down from more than $120 billion five years ago and $80 billion almost a decade ago, according to commodities consultancy Wood Mackenzie.

Worries that U.S.-China tariffs will slow growth and hurt demand for commodities have weighed on prices in recent weeks. Copper is poised for its third slump of at least 15% in the past five years. Zinc, aluminum and nickel are in a **bear market**.

But some investors still wager the current rate of investment will tighten supply, causing prices of metals like copper and aluminum to spike. Investors and analysts also expect the much-anticipated shift to electric vehicles to exacerbate any supply gaps.

"It's incredibly **bullish** and inflationary for metals on a long enough horizon," said Stephen Gill, managing partner of Pala Investments. He has been building up stakes in mining companies like Nevada Copper Corp. "You have a window of opportunity at these low prices."

Analysts say the lack of investment in metals echoes what happened in the oil market. A 25% drop in spending on new projects in 2015 and 2016 set the stage for a rally that sent crude prices to near four-year highs this year.

The potential supply crunch developed after a chorus of investors—burned by the commodity slump that lasted through 2016—demanded greater discipline from mining companies. Mining shares have lagged in recent years. The MSCI World Metals and Mining index has fallen 20% in the past five years, compared with a 3% drop in a broader measure.

Glencore PLC, known for its aggressive investment strategy, shrank annual spending on new projects from 2014 through 2016, according to FactSet. Chief executive Ivan Glasenberg, one of the mining industry's biggest deal mavens, has said rewarding investors is now the best use of the company's cash.

Other large miners such as Rio Tinto PLC and Vale SA have struck a similar tune, pushing capital expenditures to their lowest level in years and spending billions on shareholder returns.

"None of these mining companies have an appetite to increase supply by spending or acquiring someone," said Arthur Calavritinos, a portfolio manager at Boston-based ANC Capital, who trades copper futures and has held on to investments in Freeport McMoRan Inc. and Teck Resources Ltd.

Mining deals are on track to total about $40 billion for the fourth consecutive year, a fraction of the record $131 billion spent in 2011, according to Dealogic. Meanwhile, stock buybacks from the world's largest miners are set to more than double for the second straight year, FactSet data show.

Uncertainty over global trade this year has further deterred miners from commissioning new projects. Companies are also dealing with emerging-market governments increasingly seeking a larger share of profits and imposing stricter regulations.

U.S. copper miner Freeport reduced capital expenditures each year from 2014 to 2017. "We're not going to start investments until we have clarity about the ultimate outcome of all these current uncertainties," CEO Richard Adkerson said on an October earnings call. Freeport shares are down 36% this year.

Copper miners will need to spend an additional $50 billion in the next decade to balance the market, said Christopher LaFemina, a mining analyst at Jefferies. Such companies currently spend about $10 billion a year. Zinc is also set for a deficit of several hundred thousand tons, according to Mr. LaFemina, who has "buy" ratings on many industrial metals producers.

Historically, metals prices have responded quickly to tight market conditions. Copper more than doubled to $4 a pound in the one year through May 2006. Prices jumped about 50% to $4.50 in the year through February 2011. The metal currently trades at about $2.75.

"Those types of price spikes are in the future," said Leigh Goehring, managing partner of Goehring & Rozencwajg Associates, which has stuck with its investments in copper miners. "In a world where supply just doesn't grow, you're layering on top all this new demand."

A rising metals market would benefit countries that are big exporters of metals, such as Indonesia and Chile. But it would also likely drive up the prices of everything from smartphones to homes. Businesses reliant on metals like contractors and car manufacturers could also be hurt. Such developments could cause worries about inflation across the world.

Metals markets are also notorious for having boom and bust cycles, adding to the challenge for investors focused on more immediate profits.

"You're not going to have the mines that were recently approved [producing] until several years from now," said Marisa Hernandez, a metals and mining research analyst at Neuberger Berman, an investment firm that oversees $315 billion. Ms. Hernandez recommends buying copper producers with a time horizon of at least one year. "That can lead to a period of time when you don't have enough supply."

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Document WSJO000020181106eeb6002pc

THE WALL STREET JOURNAL.

Heard on the Street
Markets
How Iran Sanctions Wrongfooted Oil Bulls; Oil prices have plunged ahead of the reimposition of sanctions on Iran for a variety of reasons, but that situation could change next year

By Spencer Jakab
489 words
6 November 2018
01:01 PM
The Wall Street Journal Online
WSJO
English

No, the laws of supply and demand haven't been suspended when it comes to oil and Iran.

The 15% plunge in Brent crude futures in the past month, coming ahead of Monday's reimposition of sanctions on oil exports, makes sense. What comes next is a lot more complicated.

Iranian exports dropped by around 800,000 barrels a day between June and September and may fall further, but the market has been able to cope for now. Analysts at RBC Capital Markets think the decline could reach between 1.3 million and 1.7 million barrels a day by the first quarter of 2019.

The market didn't panic because Iranian production fell only about half as much as its exports, according to the Organization of the Petroleum Exporting Countries. Before its production is seriously curtailed, Iran can fill onshore and then more expensive floating storage with tens of millions of barrels. While exports probably fell sharply again in October, they should rebound this month because the Trump administration announced significant 180-day waivers for large buyers of Iranian crude, including India and China.

One reason prices spiked to a four-year high in early October was that it became clear rising output from Saudi Arabia and Russia wasn't going to be enough to plug the hole left by Iran. U.S. shale supply growth remains temporarily stymied by infrastructure bottlenecks. The International Energy Agency estimates that the market will be in a deficit of about 200,000 barrels a day this quarter compared with a surplus of 300,000 barrels a day during the second quarter, before sanctions were reimposed.

For now, it has helped that Iranian supply is falling during a typically slack period for oil consumption as many refineries enter turnarounds following the summer driving season. U.S. midterm elections also helped. Even as he planned far harsher sanctions on Iran than the Obama administration, President Trump complained over the summer that **oil prices** were too high—presumably with an eye on taming potential voter ire over pump prices. While cajoling OPEC could only go so far, hints in recent weeks that sanctions might be flexible have spooked speculators in the market, pressuring prices.

If global economic growth doesn't slow due to a trade war and if sanctions tighten considerably next spring, the first half of 2019 could see a significant rebound in prices. That might be short-lived, though, because U.S. output is expected to roar ahead by mid-2019.

Iranian output fell by 1 million barrels a day from peak to trough under the previous nuclear sanctions. Once global output can fully replace Iran's blocked exports—perhaps next summer—the sanctions could get far tougher.

Document WSJO000020181106eeb6005k1

THE WALL STREET JOURNAL.

U.S. Markets
Markets
U.S. Stocks Climb Ahead of Election Results; Investors are looking to midterm polls that could shift the power balance in Congress

By David Hodari and Corrie Driebusch
659 words
6 November 2018
04:48 PM
The Wall Street Journal Online
WSJO
English

U.S. stocks rose Tuesday as investors awaited the results of midterm elections that could change control of Congress and put a brake on much of the White House's agenda for the next two years.

Although the **stock market** remained fairly quiet, some corners were busier as traders placed bets on how the election could reshape the legislative branch of the U.S. government.

Gun makers, whose shares tend to jump along with gun sales when Democrats win office, rose sharply on fears that lawmakers could pass firearm legislation. Sturm Ruger gained $2.10, or 3.7%, to $58.36, American Outdoor Brands added 61 cents, or 4.7%, to 13.70, and Vista Outdoor rose 29 cents, or 2.1%, to 14.00.

Meanwhile, shares of some coal companies, which have risen as President Trump has repeatedly promised to support the industry and roll back restrictions, declined. Arch Coal's stock slumped 1.15, or 1.2%, to 93.90 and Cloud Peak Energy fell 7 cents, or 3.8%, to 1.77.

The **Dow Jones Industrial Average** added 173.31 points, or 0.7%, to 25635.01. The **S&P 500** added 17.14, or 0.6%, to 2755.45 and the **Nasdaq Composite** gained 47.11, or 0.6%, to 7375.96.

Stocks have been pushing higher in recent days, a slight bounceback after a punishing October. Concerns about the longevity of global economic growth and jitters about riskier stocks led to the worst month for major stock indexes in years.

That downturn helps set stocks up for gains following the U.S. midterm elections, some analysts say.

"Whatever the result, the markets are likely to rally," said Julian Emanuel, chief equity and derivatives strategist at BTIG, adding he believes investors will cheer the end of a bitter campaign. He also had a warning for investors headed into election night: Don't make any knee-jerk investment decisions based on voting results.

"You tend to think you can gauge what the market reaction will be, but remember 2016," he said. The night of the 2016 presidential election, stock futures tumbled as President Trump's victory became clear. By Wednesday morning, however, U.S. stocks bounced back and ended up closing the day sharply higher.

In the final pre-midterm election Wall Street Journal/NBC News poll released Sunday, Democrats held a seven-percentage-point lead on the question of which party should control the next Congress.

With the Republican party currently controlling the House of Representatives, the Senate and the White House, the Democrats capturing either chamber of Congress would raise the risk of legislative gridlock, making it more difficult for President Trump to pass his agenda unimpeded.

Unless the vote produces a shock result, however, the policy outlook for market participants is currently positive, according to Brian Jacobsen, a senior investment strategist at Wells Fargo Asset Management.

"We already have tax cuts, there may be some bipartisan support for an infrastructure bill, but the situation isn't currently too bad for investors," he said.

Cyclical stocks such as banks may rally in the event the Republicans keep control of the House, but if the branches of U.S. government become split between the Democrats and Republicans, "that makes a strong argument for continuing to be diversified and broadly favoring value over growth with a tilt toward defensive stocks," Mr. Jacobsen said.

The cautious mood in stocks was mirrored in Europe, where the Stoxx Europe 600 slipped 0.3%.

Trading was more mixed in Asia. While the Japanese Nikkei Stock Average rose 1.1%, partly buoyed by its banks, China's Shanghai Composite Index lost 0.2%.

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THE WALL STREET JOURNAL.

Heard on the Street
Markets
Madison Avenue's Unequal Fight With Google; As Silicon Valley takes a bigger share of ads, it gets easier for clients to cut out the middlemen

By Stephen Wilmot
639 words
6 November 2018
07:32 AM
The Wall Street Journal Online
WSJO
English

A battle is brewing between Madison Avenue and Silicon Valley as companies shake up the way they buy ads.

For years, agency groups like WPP, Omnicom and Publicis have made strong returns by combining advertisers' budgets and driving bargains with media owners such as CBS in TV or Google online. This media-buying machine is still churning out fat profits, but looks vulnerable.

On one flank, the once fragmented online ad world has consolidated in the hands of Google and Facebook, giving ad buyers less clout. The tech giants will capture 57% of all online ad spending in the U.S. this year, according to data provider eMarketer.

On the other flank, more advertisers are bringing digital ad buying in house. Vodafone, Philips and GlaxoSmithKline have all announced initiatives in recent months. The rapid growth of Google and Facebook makes cutting out the agency middlemen ever easier, says Matti Littunen, senior research analyst at Enders Analysis.

The ad giants' selling point is data on everything from internet searches to social-media "likes" and general internet browsing. These data give Google and Facebook a detailed picture of individual consumers, allowing them to show appropriately targeted ads. The tech giants guard this information closely in what have become known as "walled gardens." The more data fall in the walled gardens, the poorer the land outside that agencies farm.

Agencies' key selling point is independence: They give neutral advice on media spending to advertisers in a way a media platform like Google or Facebook cannot.

The problem with this pitch is that agencies have a credibility problem. Rumors about undisclosed kickbacks from media platforms in the U.S. have led to an FBI investigation. "Transparency" and cost are reasons, alongside better control over marketing data, why companies are bringing media spending in house, according to a recent survey of members by the Association of National Advertisers.

One hope for agency groups is that trustbusters force open the tech giants' walled gardens. So far, though, regulation—notably this year's European Union rules on data privacy—has only reinforced the walls.

Barring more aggressive regulation, the walled gardens seem likely to get bigger and richer as more ads go digital. TV, a bastion of traditional craft methods of selling ads based on broader demographic and ratings data, is now converging with the online world as consumers increasingly watch video through the internet. Further growth in targeted advertising looks inevitable.

Ad agency stocks have collapsed even as media-buying margins remain high. WPP and Publicis shares trade for 8 and 11 times earnings, respectively, a big discount to past levels and the wider **stock market**. Investors may be betting the margins can't last.

This fear seems justified on a long-term view, but the timing is open to question. For now, the digital-ad boom continues to lift all boats, and working directly with Google and Facebook is the exception rather than the rule for big advertisers. Third-quarter results from the agency groups were resilient, except for WPP's, despite a slump in creative work.

Middlemen will surely retain some role in media buying, but they will likely have to work harder for a slimmer cut. Bargain hunting in this kind of environment is a game for risk-hungry short-term investors. The disruption of ad agencies has only just begun.

Write to Stephen Wilmot at stephen.wilmot@wsj.com

REVOLUTION IN THE AD INDUSTRY

This column is part two of a Heard on the Street series chronicling how digital technology has gone from being the advertising industry's best friend to its worst foe.

Part One: Digital Disruption Snarls Madison Avenue

Document WSJO000020181106eeb6002ut

THE WALL STREET JOURNAL.

Markets

Chief Executive Departs Troubled GAM; Alexander Friedman will be replaced by board member David Jacob on a temporary basis

By Philip Georgiadis
313 words
6 November 2018
05:15 AM
The Wall Street Journal Online
WSJO
English

GAM Holding AG's chief executive has left the firm after a turbulent three months during which the Swiss money manager's share price plummeted and investors yanked billions from its funds following the suspension of a star fund manager.

Alexander Friedman will be replaced by board member David Jacob on a temporary basis while the search for a new boss takes place.

Shares rose more than 6% in early trade Tuesday before quickly giving up most of those gains after GAM said Mr. Friedman would step down immediately. GAM shares are down 61% this year.

The initial challenge for Mr. Jacobs will be to stabilize a company continuing to suffer investor withdrawals and **stock price** erosion since it announced the suspension in July of bond manager Tim Haywood as part of an investigation into his conduct. Investors have pulled more than 20% of assets from its funds since the suspension.

GAM is exploring options to maximize shareholder value, including the sale of all or part of its business. Shares rose in October following reports that the company has held early stage talks with potential buyers.

GAM Chairman Hugh Scott-Barrett said the company faced important decisions as it looked to recover from the turmoil.

"Alex and the board of directors jointly agreed that new leadership will better enable us to take the action necessary to support profitability and drive forward the group's strategy," he said.

GAM said in an earlier letter to investors that it took action after Mr. Haywood breached the firm's gifts and entertainment policy. He may also have failed to carry out due diligence on investments and used his personal email for work purposes.

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THE WALL STREET JOURNAL.

Real Estate
Tech Selloff Trips Up Data Center Stocks; Data center REITs appear more exposed to tech swings than some investors realized

By Esther Fung
637 words
6 November 2018
07:00 AM
The Wall Street Journal Online
WSJO
English

Data centers catering to heavyweight tech companies have been one of real estate's star performers, but their rout during October's tech selloff is raising questions about whether these usually defensive shares will remain **volatile**.

These companies build and operate often nondescript buildings that house generators, servers, racks and cooling systems for tenants such as Amazon.com Inc., Facebook Inc. and Microsoft Corp.

Data centers usually trade as real estate investment trusts. They have attracted infrastructure investors, tech-focused hedge funds and others that view these stocks as a tech-related investment but with less **volatility** than most technology shares.

One reason: data center REITs offer yields of around 2.4% to 4.4%, which appeal to longer-term investors. Facebook and Amazon don't offer dividends, instead allocating money to grow their businesses.

The average three year annualized total returns for data center REITs was 22% at the end of September, compared to the 8% recorded for the MSCI US REIT Index, according to Green Street Advisors, a real estate research firm.

But shares of some big data center companies, including Equinix Inc., Digital Realty Trust Inc., CyrusOne Inc., QTS Realty Trust and CoreSite Realty Corp., tumbled between 8.2% to 16% last month. The stocks generally bounced back a bit in early November.

Even as some analysts cautioned against reading too much into the recent declines, some investors say the selloff showed that these REITs are more exposed to the ups and downs of tech stocks than they realized.

"It felt like a 'throw the baby out with the bathwater' type of movement," said Lukas Hartwich, a senior analyst at Green Street Advisors, referring to the decline in data center shares.

One data company blamed the REIT selloff in part on short-term investors who fled once the tech rout began.

"There was a lot of irrationality in terms of what was going on in tech and how that relates to data centers," Gary Wojtaszek, chief executive officer at Dallas-based CyrusOne, said in an interview.

He said there was indiscriminate selling of data center stocks after shares of big tech stocks like Amazon sold off last month.

Some investors consider the recent stumble in data centers a buying opportunity, rather than the beginning of a prolonged decline. They say the sector's healthy leasing should help cushion any further pressure.

Data center REITs have reported that rental revenues in the third quarter rose 7% to 23% year-over-year, according to S&P Capital IQ. And while there were concerns about oversupply a few years ago, strong leasing activity more recently eased those fears.

"We have been buying more [data center stocks]. The thesis for why these data centers are necessary hasn't changed," said Matthew Werner, managing director at Chilton Capital Management LLC, whose mutual fund West Loop Realty Fund invests in CyrusOne and Equinix.

But some now worry that data center share prices could continue to move in step with the direction of technology shares.

Joel Beam of asset management firm Salient Partners LP, said he is in no rush to add to its data center holdings. These companies are more reliant on a handful of big tech companies as tenants than are office or apartment landlords, said Mr. Beam, a managing director and senior portfolio manager of real estate strategies.

"We know it's a good, sound business," he said. But he's also worried about how these stocks would perform if there's another tech selloff. "There's always that bird on your shoulder."

Write to Esther Fung at esther.fung@wsj.com

Related

* Investors Pour Money Into Data-Center Properties (March 20)

Document WSJO000020181106eeb6002pb

THE WALL STREET JOURNAL.

Markets

New Jersey Lender Explores Sale as Banks Consolidate; Investors Bancorp talks to investment bankers in step toward a possible merger

By Cara Lombardo and Rachel Louise Ensign
689 words
6 November 2018
05:36 PM
The Wall Street Journal Online
WSJO
English

Investors Bancorp Inc. is exploring a possible sale as consolidation continues among the thousands of smaller lenders across the U.S.

The Short Hills, N.J., regional bank, which has about 150 branches in the state and in New York, has hired deal adviser Keefe, Bruyette & Woods Inc., which could start reaching out to potential buyers soon, according to people familiar with the matter.

Bank deal making has slowed since the megamergers of the 1990s and 2000s that created several large national players, but smaller lenders continue to merge. They're turning to deals as they seek to compete with the biggest banks, which are increasingly popular with consumers for their technology and big branch networks.

So far in 2018, announced bank deals stand at $27 billion, according to Dealogic, slightly below the pace at the same point in the past three years but up from the period immediately following the financial crisis.

Investors have soured on bank stocks of late, with the KBW **Nasdaq** Bank Index down nearly 6% so far this year, even though smaller lenders like Investors Bank and its likely suitors have benefited from a rollback in banking rules.

For instance, lawmakers earlier this year raised the threshold at which banks must automatically undergo the Federal Reserve's "stress tests" from $50 billion in assets to $250 billion. Some banks under $50 billion were previously wary of acquisitions that could take them over that asset mark. Now that the limit has been raised significantly, it could widen the pool of potential buyers for Investors Bank, which has more than $25 billion in assets.

Investors Bank is in the early stages of exploring a sale and there is no guarantee it will move forward with one. After a sharp decline in its shares amid bank stocks' broader decline, the lender had a market value of about $3.3 billion Tuesday morning. A sale at a typical premium would make it the second-biggest bank deal announced in the past two years, after Fifth Third Bancorp's agreement this year to buy MB Financial Inc. for $4.7 billion.

Banks' fortunes have dimmed this year after a period following Donald Trump's election in which their shares rose on the prospects of deregulation, tax reform and higher interest rates. While the corporate tax cut has produced a financial windfall, many banks are now facing challenges. Across the industry, loan growth has been tepid for more than two years and deposit costs are quickly rising.

Investors Bank isn't immune: It paid customers a 1.39% rate on interest-bearing deposits as of the third quarter, causing its profit margin from lending to fall markedly. Bank of America Corp., by contrast, paid such customers 0.50%.

It is also still bound by an agreement with regulators to improve its anti-money-laundering controls, which often holds up deals. On its third quarter earnings call, the bank's Chief Executive Kevin Cummings said he was "cautiously optimistic" the order could be lifted soon.

Investors Bank stock had fallen 18% so far this year as of Tuesday morning to below where it was the day of the 2016 presidential election. After The Wall Street Journal broke the news it was seeking a potential sale, its stock shot up 9.9%--a jump, but only to levels seen earlier this fall.

Possibly helping propel a sale, Investors Bank has been a magnet for shareholder activists.

Its largest shareholder is Blue Harbour Group LP, a Greenwich, Conn., hedge fund that considers itself a "friendly" working alongside management. The firm has a 9.7% stake, according to FactSet. Last year, Investors Bank and Blue Harbour reached an agreement under which the fund's managing director, Peter Carlin, would join its board.

Fellow activists Scopia Capital Management LP and Elliott Management Corp. have also been shareholders.

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THE WALL STREET JOURNAL.

Heard on the Street
Markets

HSBC Gets Owned by Its Former Pupil; Chinese insurance giant Ping An is now HSBC's top shareholder, turning the two firms' former relationship on its head

By Andrew Peaple
420 words
6 November 2018
05:30 AM
The Wall Street Journal Online
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English

Sometimes things come full circle pretty quickly in **financial markets**. Just six years after HSBC sold its 15.6% stake in Ping An, the Chinese insurer has become the biggest shareholder in the Asia-focused British bank. Ping An's nearly $12 billion stake, held via its asset-management arm, has risen to just above 7% of HBSC, according to a regulatory filing, taking it past BlackRock Inc. into the top spot on the shareholder register.

Such news might once have fueled talk about Chinese expansionism. Ping An—which manages more than $400 billion, mostly on behalf of its insurance customers—is likely to have a simpler motive. Few stocks in local Chinese markets offer as healthy a dividend as HSBC, which currently yields over 6%. The Chinese firm has built its stake in the bank's Hong Kong-listed shares partly through trading links with mainland stock exchanges.

Still, some kind of closer cooperation between the two companies—first linked when HSBC bought 10% of Ping An back in 2002—could materialize. HSBC has made about three-quarters of its adjusted earnings in Asia so far this year, and is banking on China for growth; Ping An would surely appreciate HSBC's retail banking customer base in Hong Kong and elsewhere. HSBC's chairman, Mark Tucker, is an insurance industry veteran to boot. Rumors that Ping An is looking to expand overseas have been rife this year: It has been linked with potential bids for Commonwealth Bank of Australia's general insurance business, and U.K.-based Prudential's Asian life-insurance arm. The company has consistently played down such talk.

For HSBC, this is a bittersweet moment. The bank sold off its Ping An holding in late 2012, when it was to looking to exit noncore businesses and improve its capital ratios. Since then, Ping An's shares have risen by more than 250%, despite this year's slump, taking it above HSBC in the list of the world's top 10 most valuable financial institutions.

Ping An, meantime, will be hoping its HSBC investment works out better than its last major foray abroad. It had to write off nearly $3 billion after buying insurer Fortis's European assets in 2008—just in time for the global financial crisis.

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THE WALL STREET JOURNAL.

Markets

Group Tied to Foreign Investors Buys Record Share of 10-Year Treasury Auction; Indirect bidders win 73.8% of auction; group includes overseas investors and domestic mutual funds

By Daniel Kruger
378 words
6 November 2018
05:30 PM
The Wall Street Journal Online
WSJO
English

A group of bidders that has often served as a proxy for foreign investors bought a record share of Tuesday's auction of **10-year Treasury** notes.

The group, known as indirect bidders, won a record 73.8% of the Treasury Department's $27 billion auction of 10-year notes. That group typically includes foreign investors such as central banks, along with domestic mutual funds, and is closely watched because it can signal overseas demand for U.S. government debt. Indirect bidders have purchased 56% of the $2 trillion of notes and bonds auctioned this year.

Foreign demand at Treasury auctions has been a focus for investors and analysts because it has recently fallen to its lowest level since 2013. The decline is one factor pushing yields on government debt to multiyear highs, some analysts said.

Several analysts said the most likely sources of Tuesday's bids are foreign investors and U.S. mutual funds, which according to Treasury data have bought almost half of the U.S. government notes and bonds sold at auction this year. Foreign investors include individuals, insurance companies, pension funds and central banks.

More precise Treasury Department data on purchasers won't be available for about a month. But recently, most of the U.S. cash heading into bond mutual funds been directed to portfolios that invest in short-term securities, not 10-year notes, said Jim Vogel, head of interest-rate strategy at FTN Financial.

"That tends to make you think overseas investors may be a bigger factor," he said.

Some analysts said the increased demand could reflect this year's rise in yields, with the yield on the 10-year note ending Tuesday at 3.214%, just below the seven-year high it reached last month. Several said recent **stock-market** swings could have also boosted demand for government bonds.

"It could be an echo of the **volatility** in stocks that we saw last month," said Ian Lyngen, head of U.S. government bond strategy at BMO Capital Markets.

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THE WALL STREET JOURNAL.

Markets
Shares of Gun Makers Rally Ahead of Election Outcome; American Outdoor Brands, Vista Outdoor and Sturm, Ruger advance as investors attempt to anticipate the future makeup of Congress

By Gunjan Banerji
427 words
6 November 2018
04:47 PM
The Wall Street Journal Online
WSJO
English

Shares of gun makers rallied Tuesday ahead of the U.S. midterm elections, as investors tried to anticipate how the future makeup of Congress will reshape gun control laws.

As voters head to the polls, American Outdoor Brands Corp. closed up 4.7%, Sturm, Ruger & Co. rose 3.7%, and Vista Outdoor Inc. advanced 2.1%.

Gun makers' shares are heavily influenced by shifting political winds. The stocks have swung in the past after high-profile shootings. Shares of gun manufacturers jumped after the 2008 election when Democrats took control of Congress and Barack Obama won the presidency, as investors wagered that the events would lead to a crackdown on gun-ownership rights.

Holiday promotions and a "potential election-driven uptick" could push a proxy for gun sales—Federal Bureau of Investigation background checks—higher in the near-term, James Hardiman, a Wedbush Securities analyst, wrote on Friday. He predicts American Outdoor will rally about 20% from its current price to $16.50 a share.

Representatives for American Outdoor, Vista Outdoor and Sturm, Ruger couldn't immediately be reached for comment.

Recent polls indicate that Democrats are poised for a majority in the House, while Republicans will retain control of the Senate. A greater showing of Democrats in Congress could mean stricter gun control, analysts say.

These stocks are "definitely going to be **volatile**. They're going to react" to polls and the results Tuesday night, said Ilya Feygin, New York-based managing director at WallachBeth Capital.

In addition to the congressional races, voters around the country will decide on a number of ballot measures related to the national debate on mass shootings. The state of Washington is considering an initiative that would introduce enhanced background checks and increase the minimum age to buy a semiautomatic rifle to 21.

On an earnings call Thursday, an analyst asked how quickly Sturm, Ruger could ramp up production if Democrats take the House and gun control becomes a priority for Congress.

Chief Executive Chris Killoy said that the company is familiar with which types of gun models would be most likely impacted by tighter regulation. He said the company has made sure it has inventory for the potential sales.

"If there were an uptick in demand….we would be ready to capitalize on it," said Mr. Killoy on the call.

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THE WALL STREET JOURNAL.

Markets

Gold Edges Lower With Dollar, Treasury Yields Stable; Prices have trimmed some of their 2018 losses since mid-August but remain down 6.3% for the year

By David Hodari and Amrith Ramkumar
335 words
6 November 2018
02:56 PM
The Wall Street Journal Online
WSJO
English

Gold prices fell for the third consecutive session Tuesday, erasing early gains as the dollar steadied ahead of the U.S. midterm election results.

Front-month gold for November delivery declined 0.5% to $1,223.80 a troy ounce on the Comex division of the New York Mercantile Exchange. Prices have trimmed some of their 2018 losses since mid-August but remain down 6.3% for the year, hurt by strength in the dollar and higher Treasury yields.

A stronger U.S. currency makes gold and other commodities more expensive for overseas buyers, while the prospect of higher interest rates makes the metal less attractive for many investors because gold offers no yield.

On Tuesday, the WSJ Dollar Index, which tracks the dollar against a basket of 16 other currencies, erased early declines to get back to little changed on the day. The yield on the benchmark 10-year U.S. Treasury note edged higher. Bond yields rise as prices fall.

Analysts were also waiting to see whether changes to Congress spark broader market **volatility**, potentially pushing some investors toward the safety of gold.

Elsewhere in precious metals, most-active silver futures fell 1% to $14.50 a troy ounce. Platinum rose 0.2% to $871.50, while palladium dropped 2.3% to $1,095.30.

Among base metals, front-month copper for November delivery fell 0.9% to $2.7305 a pound. In London, aluminum for delivery in three months fell 1.1% to $1,954 a metric ton, zinc was down 0.8% at $2,501, tin dropped 0.1% to $19,050 and nickel was up 0.2% at $11,775. Lead declined 1.3% to $1,909.

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THE WALL STREET JOURNAL.
U.S. EDITION

Signs to Watch For in an Uncertain World

By Riva Gold
905 words
6 November 2018
The Wall Street Journal
J
B11
English

Nearly a decade into the current **bull market**, some investors are asking whether a bear is on the horizon.

The **S&P 500** is up 305% since the **bull market** began in 2009. Stock prices have powered forward, thanks to robust earnings growth. Investors have been willing to pay a higher premium for those earnings, as seen in expanding price/earnings ratios.

While there is no single indicator that can predict market turns on its own, here are six things analysts and investors are watching to see if the next **bear market**, typically defined as a 20% decline from a recent peak, is around the corner.

Currently, the **S&P 500** is 6.6% off its all-time high reached Sept. 20, 2018.

JUNK-BOND SPREADS

High-yield bond spreads, a measure of what riskier companies pay to borrow compared with what the government pays, have historically picked up signs of economic stress earlier than other assets. When spreads are tight, investors tend to think that even the weakest companies will be fine. When they are wider, it is harder for these companies to access loans, crimping profits and signaling that investors believe defaults are on the horizon.

What to watch: A steady trend higher in high-yield bond spreads accompanied the past two **stock-market** peaks.

"This tells me whether the most-stressed companies have the cash flow to pay their debts. If not, to me that's a signal that we're rolling over, and credit markets tend to tell you first," says Alicia Levine, chief market strategist at BNY Mellon Investment Management.

YIELD CURVE

The yield curve is one of the most closely watched indicators, measuring the interest rates paid on debt of various maturities. When the economy is strong, the yield on long-term government bonds is typically higher than on short-term debt, reflecting confidence in the long-term economic outlook. When the yield curve inverts and short-term yields surpass long ones, it is a sign investors are worried that inflation -- and growth -- will be low in the future. High short-term rates tend to crimp business and consumer spending, slowing the economy and putting pressure on corporate profits.

What to watch: Inversions often have preceded recessions and bear markets for stocks, but investors are divided over whether the curve has been distorted by years of unorthodox global monetary policy that keep yields on long-term debt low. "It's an incredibly useful forecasting tool for the peak in the **stock market**," says Jeffrey Kleintop, global chief investment strategist at Charles Schwab.

DEAL ACTIVITY

Deal activity is the total dollar value of mergers and acquisitions by month.

What to watch: A big pickup in deal activity has historically come toward the end of bull markets. A jump in mergers can signal that sentiment has turned excessively optimistic -- or that companies see it as the only way to grow as the economy decelerates.

"Enthusiasm for [deal] activity tends to reflect broader economic optimism and coincides with booms in stock prices and credit expansion. However, history shows that these M&A waves are late-cycle indicators," says Abi Oladimeji, chief investment officer at Thomas Miller Investment.

JOBLESS CLAIMS

Market participants view the weekly count of people filing to receive unemployment insurance benefits as a key indicator of the U.S. labor market, the health of the broader economy, and thus companies' ability to generate cash.

What to watch: When unemployment rises, consumers spend less money, which crimps what companies take in. Analysts suggest looking for a consistent rise in jobless claims after a steady period. If this happens at the same time as weakness in the monthly U.S. jobs report, it is an ominous sign for the economy.

"Jobless claims are clearly a leading indicator of recessions . . . They start to flash red on the economy when they start to rise on a four-week average basis, likely after a flattish period, and then continue to work gradually higher. That's just a sign that something is likely amiss in the job market," says Bob Baur, chief global economist at Principal Financial Group.

INVESTOR SENTIMENT

An American Association of Individual Investors survey is a barometer of American retail investor sentiment that asks participants to predict the direction of the **S&P 500** over the next six months.

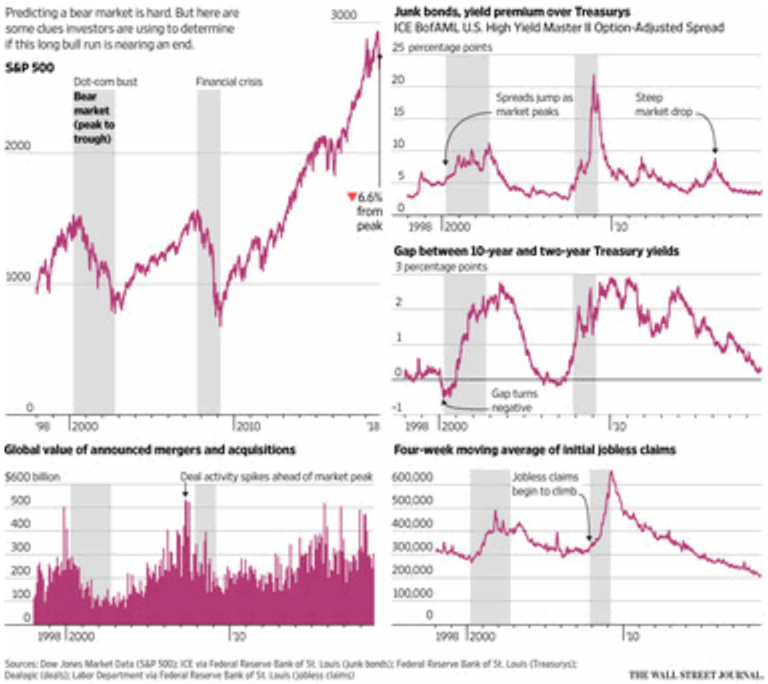
What to watch: Look for extreme highs and lows of bullishness, says Charles Rotblut at the AAII. When investors get too optimistic, they tend to run down their savings and overspend. There is typically less cushion to protect the market, allowing selloffs to gain momentum. This measure worked well just before the dot-com bubble burst and spiked just before selloffs in 2011 and 2018.

"When you've got confidence among players, they start engaging in bad behaviors. They create excesses and the bear has something to bite," says Jim Paulsen, Leuthold Group chief investment strategist.

OPTIONS MARKET

Think of this as the market crowdsourcing predictions of a **bear market**. As measured through options expiring in roughly six months, it is the estimated probability of a drop in the **S&P 500** of 20% or more.

What to watch: This chart spiked during the financial crisis and surged in other recent episodes of market stress, including the 2016 China growth scare that sent markets tumbling.



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The New York Times

Breakingviews
Business Day; DealBook

Shanghai Is Being Thrust Into the High-Stakes Tech I.P.O. Race

By Pete Sweeney
489 words
6 November 2018
11:27 AM
NYTimes.com Feed
NYTFEED
English

President Xi Jinping of China is opening up Shanghai to the world of technology public offerings.

Mr. Xi said that a new science and innovation equity bourse in the city would be used to host tech companies. It is supposed to test a new listing system, where companies would simply register their intention to conduct an initial public offering, as in the United States, instead of seeking regulatory approval.

It is an overdue reform, but officials may rue the **volatility** that it will probably bring.

The Shanghai Stock Exchange, with a market capitalization of over $4 trillion, aimed to become an international venue equivalent to New York's **Nasdaq** by 2020. But that goal has been quietly abandoned. It struggles to compete with the Shenzhen bourse, which attracts start-ups to its ChiNext market. Hong Kong, too, increasingly woos the likes of Xiaomi.

Shanghai, meanwhile, is an overweight state-owned dinosaur. But after years of lobbying Beijing for help attracting tech outfits, it finally got its wish.

A long-promised registration-based listing system will replace the tedious process of applying to the China Securities Regulatory Commission for permission to sell shares. Authorities closely manage the pace and pricing of initial public offerings, resulting in a backlog of hundreds of companies. When indexes correct, the commission also tends to freeze approvals because mom-and-pop investors tend to think new issues suck money away from existing stocks.

The system warps China's primary market. Price guidance, at 23 times earnings, has resulted in huge first-day trading jumps, with shares almost always rising by the maximum 44 percent. That, plus scarcity, turns I.P.O.s into one-way bets with double-digit returns. The difficulty of listing also makes tickers themselves valuable, so shares in dual-listed companies such as Bank of China cost an average 20 percent more on the mainland than in Hong Kong.

Letting companies decide when to list, and for how much, would eliminate such distortions — but not painlessly. Companies that are most likely to list on the new Shanghai board will be small and private, and those businesses are not prone to best-in-class corporate governance. The history of new markets in China also suggests there is a high chance for shareholder abuse in early the early days. Indexes could suffer if retail buyers react by selling.

The biggest risk, however, is that short-term pain causes officials to reverse this long-overdue liberalization, as they have done before. For now, that makes the Shanghai board itself less a more of a "hold" than a "buy."

A new science and innovation equity bourse will host tech companies in Shanghai. | Mark Schiefelbein/Associated Press

Document NYTFEED020181106eeb6005pm

THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
The Market Boogeyman May Come for Bonds, Not Stocks

By Jon Sindreu
452 words
6 November 2018
The Wall Street Journal
J
B11
English

[Financial Analysis and Commentary]

Risk-parity funds are one of Wall Street's favorite boogeymen during stock selloffs like the recent one. In this case, though, the worry should be in bonds, not stocks.

The **S&P 500** was down 6.9% in October, its worst month since September 2011. Many investors blamed funds that follow rigid rules requiring them to sell into a downturn. Unlike in the February selloff, though, risk-parity funds didn't have many stocks to sell. Instead, their large stash of bonds are a concern.

Risk-parity funds now manage about $175 billion and are championed by star investors including Ray Dalio and Clifford Asness. Unlike traditional investors with a fixed allocation to stocks or bonds, they base allocations on the **volatility** of each, often using debt to adjust risk. Since bonds are statistically less risky, that is where borrowed money is put to more use.

Critics say the model can create a dangerous feedback loop: If the market drops and is more **volatile**, these funds have to sell more. They are then joined by other funds that also are forced to sell when things go wrong, such as Commodity Trading Advisors, and funds that bet on low **volatility** -- February's main culprit.

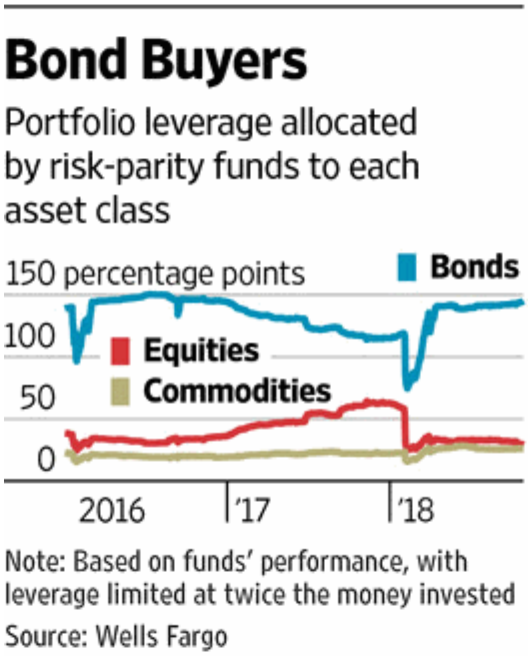
According to a model built by U.S. bank Wells Fargo, which estimates positioning based on performance, risk-parity funds have kept their stash of equities very low after disposing of them earlier in the year, instead loading up on bonds. The fact that risk-parity funds and CTAs outperformed the market in October, and that funds haven't rushed to cover low-**volatility** bets, seems to confirm that these types of investors weren't to blame this time.

Yet it is bond **volatility** where investors may be caught unaware. The Cboe **Volatility** Index for stocks, commonly known as the VIX, has mainly been higher this year than in 2017. By contrast, the VIX's bond equivalent, the Merrill Lynch Move Index, was trending lower before its recent spike.

Risk-parity funds aren't automatons that act at the first sign of trouble, often using wider time windows to measure **volatility**, nor are they large enough to steer the market over a long period.

But if the Move settles at higher levels from now on -- driven by doubts about central-bank policy -- they may need to start running down their debt portfolios. Meanwhile, banks can't provide as much bond liquidity as they once did.

As scare stories go, bond investors may be the ones who need to check under their beds.



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THE WALL STREET JOURNAL.
U.S. EDITION

Business & Technology: Refineries Boom on Cheap Oil

By Rebecca Elliott and Bradley Olson
706 words
6 November 2018
The Wall Street Journal
J
B4
English

From Exxon Mobil Corp. to Phillips 66, energy companies are reaping banner profits by taking cheap oil landlocked in North America and turning it into fuel.

Tremendous growth in oil output has overwhelmed pipelines and depressed crude prices in some regions of Texas and Canada. That has created a bonanza for companies in a position to take advantage by converting it into gasoline and diesel.

Nowhere has the opportunity been bigger than near Canada, where crude recently traded for $43 a barrel below U.S. benchmark prices due to bottlenecks. That is painful for producers there, but highly lucrative for companies with nearby refineries in Canada or the upper Midwest, from Exxon to smaller fuel makers like HollyFrontier Corp.

"U.S. refining has really gone from being a dog to being a fairly attractive business model," John Auers, an executive vice president at consultancy Turner, Mason & Co., said. "I don't think that's going to change any time soon."

Phillips 66, which says it is the largest industry buyer of heavy Canadian crude, operated its nearby refineries at 108% of capacity during the third quarter, earning an average $23.61 a barrel processed there. That helped lift quarterly profits to nearly $1.5 billion, an 81% increase from the same period last year.

Exxon Chief Executive Darren Woods cited the company's access to cheap crude from Canada and West Texas for its refineries as one of the advantages that helped spur it to $6.2 billion in third-quarter profits, its highest total in four years.

The company said it can process as much as 500,000 barrels a day of Canadian crude from seven refineries.

"We are seeing the benefits of integration as we capture value from advantaged feedstock from the Permian and Western Canada for our North American refineries," Mr. Woods said.

Much as John D. Rockefeller amassed his fortune by refining crude extracted in the first American oil boom, refiners are once again finding an advantage as the U.S. has become one of the world's largest crude producers.

North American oil production has soared as **oil prices** have risen over the past two years, increasing 24% to more than 15 million barrels a day in July, according to the U.S. Energy Information Administration.

The rapid growth has overwhelmed existing pipelines and made it difficult for producers to move all their oil to market in areas such as western Canada and the Permian Basin of West Texas and New Mexico. The oil subsequently trades for far less in those areas than oil shipped via pipelines to major selling hubs such as Cushing, Okla.

Fuel makers with access to the inexpensive crude have reaped the rewards.

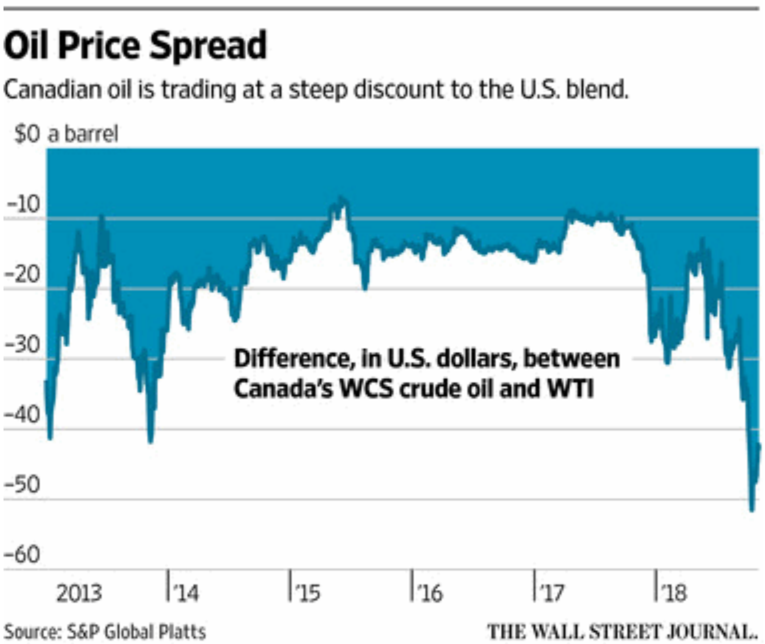
BP PLC's underlying quarterly profit soared to $3.8 billion, the highest level in five years, powered in part by the company's massive refinery in Whiting, Ind. The plant, first opened by Rockefeller's Standard Oil in 1889, is capable of running about 320,000 barrels a day of heavy crude from Canada.

Heavy Canadian crude traded for an average $28 a barrel below U.S. benchmark prices during the third quarter, according to S&P Global Platts, while oil sold in the Permian was discounted by an average $14 a barrel.

Permian, heavy Canadian and other similar crudes accounted for about 57% of the oil HollyFrontier processed during the third quarter, the company told investors Wednesday. The Dallas-based refiner posted profits of more than $340 million, its highest third-quarter income since 2012.

Refining companies that missed out on the Canadian trade showed it in their results. Marathon Petroleum Corp. saw quarterly profits decline 18% from the same period last year to $737 million, in part because some of its Midwest refineries were offline for maintenance. The company told investors it is now poised to process about 500,000 barrels of Canadian crude daily. It also expects to benefit in coming quarters from growing discounts on oil from North Dakota's Bakken Shale.

"We kind of see this as a perfect storm," said Rick Hessling, a senior vice president.



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The New York Times

Business/Financial Desk; SECTB
Iran Sanctions And Oil Prices: What Will Be The Fallout?

By CLIFFORD KRAUSS
1,110 words
6 November 2018
The New York Times
NYTF
Late Edition - Final
1
English

HOUSTON -- The world's oil producers and their customers entered a new period of uncertainty on Monday as renewed American economic sanctions against Iran took effect.

Having withdrawn from the seven-nation deal negotiated under his predecessor to curb Iranian nuclear efforts, President Trump is aiming to pressure Iran to curb its political and military activities across the Middle East. And the administration is betting that its policy will inflict pain on Tehran without causing a spike in **oil prices** or an aggressive reaction.

It is a gamble that could eventually cost American consumers at the gasoline pump. But the initial impact has been relatively benign. **Oil prices** have been declining in recent weeks, even with sanctions on the horizon.

What do the sanctions do?

The sanctions take aim not only at Iranian oil exports, but also at international shipping companies, banks, insurers and port operators doing business with Iran. United States trade with Iran is already tightly controlled, but the administration is threatening to exclude international companies from the American financial system if they trade, finance or otherwise serve the interest of Iranian oil exports.

Companies are effectively given the choice of doing business with Iran or with the United States, which has a much bigger economy and a more lucrative market.

"The new sanctions will deliver an unmistakable message to Tehran: Change your ways or suffer the consequences," Energy Secretary Rick Perry wrote in a commentary in The Wall Street Journal.

The Trump administration has given waivers to eight countries, including such major buyers of Iranian crude as China, India and Japan, permitting them to continue imports. American officials say the waivers are temporary and conditioned on steady reductions of imports.

How have the markets reacted?

The oil market has been surprisingly resilient, and prices ended a bit lower on Monday. Many energy experts had expected **oil prices** to soar, as they did when the Obama administration led an international sanctions effort in 2011 and 2012 to force Tehran to the nuclear bargaining table and pushed oil above $100 a barrel. This time, the international price is around $73 a barrel -- West Texas intermediate, the American benchmark, trades about $10 cheaper -- after falling by more than $10 over the last month.

The modest response is all the more remarkable given that Iranian oil exports have plummeted to around 1.3 million barrels a day, from 2.4 million last spring, as customers have sought other suppliers in anticipation of the sanctions. Matt Badiali, a senior analyst at Banyan Hill, a financial research and publishing firm, predicts that the sanctions will shave off another 900,000 barrels over the next year.

All told, the sanctions would then cut roughly 2 percent of global oil supplies.

Oil traders have been calmed by the administration's waivers, signaling a more gradual approach that allows European and Asian customers to find suppliers to replace the Iranian crude.

The prospects of a tightening oil market sent prices higher earlier in the year, which encouraged producers to pump more oil. As a result, the lost Iranian barrels have been replaced by oil from the United States, Russia and Saudi Arabia. The United States and Russia have both reached output records of over 11.3 million barrels a day, while members of the Organization of the Petroleum Exporting Countries have increased production to the highest levels in two years despite declines in Venezuela and Iran.

As more oil pipelines and export terminals are built in Texas and along the Gulf of Mexico, American exports could increase considerably. At the same time, demand for oil has slackened in China and around the developing world because those economies are slowing. Both developments are restraining prices.

What's the effect on consumers?

So far, drivers have been spared major pain.

The national average price for a gallon of regular gasoline on Monday was $2.76, according to the AAA auto club, 5 cents less than a week ago and 15 cents lower than a month ago. Still, the average is 24 cents higher than it was a year ago.

But some experts think that oil supplies could become tighter over time, especially during the driving season next summer, pushing prices higher.

More expensive oil also means higher prices for aviation fuel, which frequently are passed on to the traveling public. They also can mean higher prices for plastics -- and for natural gas, which can affect electricity rates.

What are the prospects?

Much will depend on how Iran responds to the sanctions, and how successful it is in smuggling oil through Kurdistan and Turkey. If Iran threatens to blockade the Strait of Hormuz, a crucial passage for Persian Gulf **oil, prices** would probably jump. Any military moves or cyberattacks against Saudi Arabia or Israel could have a similar effect. An escalation of hostilities in Yemen, where Iran backs a militia force in a proxy war with the Saudis, could threaten other oil-shipping choke points.

Some oil experts say world supplies are ample enough to keep the sanctions from driving prices higher.

''I think there will be no impact on **oil prices** that can be attributed to the sanctions on Iran,'' said Sadad Ibrahim al-Husseini, a former executive vice president at Saudi Aramco, ''because of an abundance of new supplies that have been made available from within OPEC and Russia as well as incremental offshore Brazil production and shale oil developments that can meet any level of oil demand over the next several years.''

Barclays analysts expect Brent crude, the global benchmark, to sell next year for an average of $72 a barrel, near the current level. But some Western experts foresee a much higher price.

''The market is overestimating the amount of oil that could come on,'' said Mr. Badiali of Banyan Hill. ''Can the world produce an extra 500,000 barrels a day? I don't see it.''

And Badr H. Jafar, president of Crescent Petroleum, a company in the United Arab Emirates, said Saudi Arabia might not be able to sustain its high output. ''With continuing production concerns in Nigeria, Venezuela, Angola and Libya, alongside Iranian curtailment, we could well see prices edging up again toward $80,'' he said.

An Iranian offshore oil platform. Exports have plummeted to around 1.3 million barrels a day, from 2.4 million last spring. (PHOTOGRAPH BY ALI MOHAMMEDI/BLOOMBERG); Filling up in Tehran. ''The market is overestimating the amount of oil that could come on,'' said one analyst, predicting soaring prices. (PHOTOGRAPH BY ATTA KENARE/AGENCE FRANCE-PRESSE -- GETTY IMAGES) (B5)

Document NYTF000020181106eeb600064

THE WALL STREET JOURNAL.

Corrections and Amplifications
Corrections & Amplifications

243 words
5 November 2018
09:45 PM
The Wall Street Journal Online
WSJO
English

S&P 500 earnings would be reduced if tariffs jump to 25% on $200 billion of Chinese imports currently subject to a 10% levy. In some editions Monday, a Page One article about tariffs' effects on U.S. companies incorrectly said $200 million.

Dreyfus Japan Womenomics is a mutual fund. A Journal Report article and headline Monday about the fund incorrectly called it an exchange-traded fund.

YouTube said Ethan Ralph deleted a video he posted about a shooting at a Pittsburgh synagogue. In some editions Saturday, a Page One article about YouTube Super Chats incorrectly said that YouTube deleted the video.

The Trump administration has imposed tariffs on around $250 billion in Chinese imports. A Page One article Friday about a discussion between President Trump and China's President Xi Jinping incorrectly said the tariffs totaled $250 billion.

XtendiMax, a version of the herbicide dicamba made by Bayer AG, isn't applied to crops aerially. In some editions Thursday, a U.S. News article about the herbicide incorrectly was accompanied by a photo of a crop duster spraying a field.

In a Friday article about the Hudson Valley congressional race between GOP Rep. John Faso and Democrat Antonio Delgado, the surname of Mr. Faso's pollster John McLaughlin was misspelled as McLoughlin.

Readers can alert The Wall Street Journal to any errors in news articles by emailing wsjcontact@wsj.com or by calling 888-410-2667.

Document WSJO000020181106eeb600105

WSJ PRO CENTRAL BANKING

WSJ Pro

RBA Holds Rates Steady, Revises Some Forecasts; Central bank is offering a more bullish outlook on the domestic economy as it leaves key rate at 1.5%

By David Winning and James Glynn
597 words
6 November 2018
12:34 AM
WSJ Pro Central Banking
RSTPROCB
English

SYDNEY—The Reserve Bank of Australia held interest rates steady Tuesday, while offering a more bullish view of the economic outlook.

The central bank's policy-setting board left the cash rate target at 1.5%—where it has been for more than two years—as the RBA waits for signs of gains in wages and the inflation rate.

"Taking account of the available information, the board judged that holding the stance of monetary policy unchanged at this meeting would be consistent with sustainable growth in the economy and achieving the inflation target over time," RBA Governor Philip Lowe said.

Still, the central bank has become more optimistic about Australia's economy. It raised its growth forecasts for gross domestic product and cut its projected unemployment rate.

The RBA said it sees Australia's GDP growing at an average rate of around 3.5% this year and next. That compares with prior forecasts of around 3.25% growth and comes despite concerns surrounding the outlook for consumption given high household debt levels.

The RBA said it also expects the unemployment rate to fall from its current six-year low of 5.0% to 4.75% in 2020 because the economy is growing above trend and there are skills shortages in some areas. That is lower than its previous expectation of 5.0% at the end of 2020.

The latest forecasts come three days before the central bank is scheduled to release its quarterly statement on monetary policy.

Capital Economics, a research firm, viewed those forecasts as too bullish, saying GDP growth of 2.5% in 2019 is more likely. "We still think that the RBA is underestimating the impact of the housing downturn on consumer spending," said Marcel Thieliant, the firm's senior economist for Australia and New Zealand.

The RBA needs wages and inflation to rise before it comes off the sidelines and raises interest rates, prompting some economists to argue that policy tightening is years away.

The third quarter's inflation rate came in below the central bank's 2%-3% year-over-year target band, while wage growth has been flat for about six years. The RBA said it sees the inflation rate coming in slightly above 2.25% in 2020.

However, more generally the domestic economy is doing well. Growth has accelerated this year, supported by a falling Australian dollar, solid commodity prices, infrastructure spending and a natural-gas-led export boom. The country has been posting record trade surpluses, showing a high level of resilience in the face of rising global trade tensions.

Still, house prices have been falling for more than a year and there are now signs that consumers are starting to worry about lost wealth, weak wage growth and the problem of record debt.

In a recent interview with The Wall Street Journal, Ian Harper, an RBA board member and dean of the Melbourne Business School, said a cloud continues to hang over consumers.

A deceleration of consumer spending would lead to slower economic growth, further frustrating hopes of even lower unemployment and a long-awaited increase in wages. The global trade tensions are also on the RBA's radar. Australia sends 30% of its exports to China, a higher share than any other country.

Write to David Winning at david.winning@wsj.com and James Glynn at james.glynn@wsj.com

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International New York Times

us

Trump Sweet-Talks Xi, Trying to Ease Trade Fears Before Midterms

By MARK LANDLER
1,402 words
5 November 2018
International New York Times
INHT
English

INDIANAPOLIS — When President Trump said Thursday he held a “long and very good conversation” on trade with President Xi Jinping of China, it kicked off a brief rally in **financial markets** and a flurry of questions about why the tensions between Washington and Beijing had suddenly eased.

The answer is, they haven’t really. The explanation for Mr. Trump’s newly soothing tone lies less in the state of trade negotiations — which remain on hold — than in the president’s domestic political calculations, particularly in states heavily dependent on trade, like Indiana.

Four days before a midterm election that features a nip-and-tuck Senate race in this state, Mr. Trump is trying to quell fears of a protracted trade war with China. His reassuring message may resonate in Indiana, the United States’ largest producer of steel but also home to soybean farmers who have been hurt by China’s retaliatory tariffs on American agriculture.

“We’ve had very good discussions with China,” Mr. Trump told reporters at the White House, as he left for a pair of political rallies in Indianapolis and Huntington, W.Va. “We’re getting much closer to doing something. They very much want to make a deal.”

The president’s enthusiasm was at odds with his advisers, who said nothing much had changed with Beijing. But it cheered investors in a market increasingly depressed by worries about a trade war. And analysts said it would pacify farmers and factory workers across the Midwest.

Mr. Trump came to Indiana to campaign for Mike Braun, a Republican who is trying to unseat the Democratic incumbent, Senator Joe Donnelly. Mr. Donnelly has a slim lead in the polls, but Mr. Braun has made inroads lately, in part by challenging his opponent on trade.

“I spoke to President Xi today,” Mr. Trump told a raucous crowd at a high school here. “They want to make a deal, but we have to have a fair deal. We have to have a deal that’s fair for the United States.”

The president took credit for the recently revised North American Free Trade Agreement with Canada and Mexico, which he called a “giant victory for Indiana farmers, manufacturers and dairy producers.”

The trade showdown with China, however, has whipsawed Indiana, benefiting it in some ways while hurting it in others. Steel mills in the industrial north are prospering because of Mr. Trump’s tariffs on China and other steel exporters. But soybean farmers are suffering because of the retaliatory tariffs China imposed on agricultural exports.

Companies that make auto parts are able to charge higher prices because of a loss of competition from China. But the recreational vehicle industry, one of Indiana’s manufacturing pillars, worries that sales will be hurt if it passes along those higher prices to customers.

“The R. V. industry could be in a period of transition,” said Richard Curtin, an economist at the University of Michigan, who studies the industry. A deal with China “would be widely welcomed,” he said. “The closer you are to these industries, the more it would be welcomed.”

Mr. Trump’s phone call to Mr. Xi, however, did not appear to be linked to any progress in trade negotiations. Those talks have been on hiatus for weeks, and officials said they did not expect any progress at least until the two presidents meet, which is likely to be at the Group of 20 meeting of industrialized nations in Buenos Aires early next month.

Mr. Trump's chief economic adviser, Larry Kudlow, dismissed reports that Mr. Trump asked his cabinet to draft a trade deal with China and said "there's no massive movement" to get something done quickly.

"We're doing a normal, routine run-through of things that we've already put together and normal preparation," Mr. Kudlow said on Friday on CNBC. "We're not on the cusp of a deal."

Still, after warning for weeks that China was not ready to negotiate on trade with the United States, Mr. Trump took an uncharacteristically conciliatory tone after his call with Mr. Xi, which was both unusually long — 56 minutes — and initiated by him.

"We talked about many subjects, with a heavy emphasis on Trade," Mr. Trump said on Twitter. "Those discussions are moving along nicely with meetings being scheduled at the G-20 in Argentina."

Mr. Xi issued a similarly warm statement on Friday, reaffirming the importance of his personal relationship with Mr. Trump and predicting that the two sides could reach a deal. Chinese officials have been taken aback by the vehemence of Mr. Trump's language against them, and Mr. Xi's response suggested he was eager to lower the temperature.

Administration officials caution that the gulf between the two countries remained wide over issues like market access and China's alleged purloining of technology from American companies. Any deal, they said, would require specific pledges on the part of the Chinese.

In a sign of the administration's determination to keep up the pressure, the Justice Department took legal action this week against two companies based in China and Taiwan, accusing them of stealing trade secrets from Micron Technology, an American technology company.

The Trump administration remains divided internally between officials who want to take an uncompromising approach toward China — allying the European Union and other trading partners in a united front — and those who favor cutting some kind of deal.

In recent months, Mr. Trump has sided with the hard-liners, though he remains unpredictable, particularly when there are other considerations at play, as his most recent about-face demonstrates.

Mr. Trump, people who know him said, was also motivated by a desire to give the markets a tonic, days before voters go to the polls. The president has regularly boasted about rising stock prices since he took office, but the markets have given up those gains in recent weeks.

The Chinese are also seeking to defuse the situation at a time when their own economy and currency are showing signs of weakening.

Still, they remain confounded by Mr. Trump — especially his recent claims that they are attempting to interfere in the midterm elections — and they still feel burned by the president's rejection of a steel deal negotiated last year by his commerce secretary, Wilbur L. Ross.

Craig Allen, the president of the U.S.-China Business Council, which represents 200 American companies that do business with China, said Chinese nationalism would make it "difficult for any Chinese leader to accept anything that is a less than equal agreement."

Trade concerns have dominated the Senate race in Indiana, with Mr. Donnelly and Mr. Braun, both of whom have business ties, accusing each other of selling out American workers.

"I voted against every bad trade deal that hurts Hoosiers," Mr. Donnelly said in one recent campaign ad, in which he stands next to a pickup truck loaded with boxes of auto parts sold by Mr. Braun's company — each bearing a sticker that says, "Made in China." "Mike Braun has used those same deals to outsource Hoosier jobs to China."

Some analysts here said they were dubious that Mr. Trump's shifting tone on trade would drastically change the outcome in Indiana, a state he won by 19 points in 2016 and in which he remains popular.

"I have been amazed by the steadfast support of farmers for the president," said Mike Yoder, a Republican who is the commissioner of Elkhart County. "They have been willing to stick by this president, and if there is some plan for an endgame on tariffs, it has escaped me."

But Mr. Yoder said he welcomed Mr. Trump's softer tone. Elkhart County is a manufacturing hub, with assembly lines that produce recreational vehicles, as well as trucks and buses. Tariffs on steel and aluminum are driving up the cost of parts for these manufacturers.

"It is a good message," Mr. Yoder said, "because for Indiana — and especially Elkhart County — these tariffs need to go away."

Glenn Thrush and Alan Rappeport contributed reporting from Washington.

PHOTO: A steel mill in Portage, Ind. President Trump has softened his tone on the trade war with China days before the midterms. (PHOTOGRAPH BY SCOTT OLSON/GETTY IMAGES)

* Trump Hits China With Tariffs on $200 Billion in Goods, Escalating Trade War

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International New York Times

us

Republicans Have a Humming Economy to Tout, but Trump Rhetoric Muddies the Message

By ASTEAD W. HERNDON and SYDNEY EMBER
1,509 words
5 November 2018
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INHT
English

In normal political times, a glowing report on the nation's economy just before Election Day would be a gift to the party in power and a uniform talking point for its candidates. But entering the final weekend before Tuesday's midterm vote, President Trump's blistering message of nativist fear has become the dominant theme of the campaign's last days, threatening to overshadow the good economic news.

This is a political bind Republicans did not envision. They spent the final months of 2017 working on a package of sweeping tax cuts they hoped could be the centerpiece of their 2018 campaign message, buttressed by a soaring **stock market** and a low unemployment rate. And they got what they wanted, passing a $1.5 trillion tax bill last December.

A new jobs report released Friday highlighted the continued strength of the economy, as employers added about 250,000 jobs in October while the unemployment rate remained at 3.7 percent, a nearly 50-year low.

But Mr. Trump, again, has upended the traditional political playbook. Candidates are frequently forced to answer for his inflammatory and baseless tweets. And at the political rallies that are becoming a daily event as the election draws closer, the president has waded into racially fraught waters, using a broad brush to paint immigrants as villainous and dangerous.

"They all say, 'Speak about the economy, speak about the economy," Mr. Trump said Friday, during a rally in West Virginia. "Well, we have the greatest economy in the history of our country. But sometimes it's not as exciting to talk about the economy."

On the campaign trail, Republican candidates have taken a split-screen approach to Mr. Trump's nationalist message; many, recognizing its political potency with the conservative base, are continuing to embrace it.

Democrats have "open borders psychosis," Kris Kobach, the hard-right Republican candidate for governor in Kansas, told a crowd in Kansas City, Mo., during a rally on Friday with Vice President Mike Pence. Earlier in the day, Senator Ted Cruz of Texas began a stump speech by boasting about the economy, but quickly shifted to a more foreboding theme closely aligned to Mr. Trump's warnings about a migrant "invasion."

"You mean the people of Texas want to stop the caravan?" bellowed Mr. Cruz, who is in a competitive, closely watched race against Beto O'Rourke, the Democratic challenger. The crowd responded with chants of "build the wall."

Other Republicans, however, are straining to avoid the president's strident language and focusing instead on an economy-first message.

In Winterset, Iowa, Representative David Young, a Republican in a very close race, spent the bulk of an address to voters talking about the strong economy and Republican job creation.

"Right now we're seeing a real economy renaissance going on in the country," he said. "Here in rural Iowa, the incredible things going on with our economy are quite spectacular. I just want to keep the federal government out of your way so people can work, small businesses can grow, larger businesses can hire more people, we can keep the economy growing like today."

In campaign appearances this week, two Illinois Republicans locked in tough races in Chicago's suburbs, downplayed the immigration issue. Randy Hultgren, the incumbent in the 14th Congressional District, appeared at a metal forging plant Friday and did not mention Mr. Trump's immigration speech at the White House the day before.

Peter Roskam, a Republican who is facing his own tough challenge, told McClatchy the immigration rhetoric was not important to his constituency.

That message "skips right past this district," Mr. Roskam said. "This district hears that and kind of shrugs."

A top aide to Paul D. Ryan, the retiring House Speaker, also pleaded with Republicans to tout the jobs report. "Were going to spend all day and weekend talking about the strong economy, right?" the aide, Brendan Buck, tweeted.

One problem for Republicans trying to extol the economy is that the tax cuts did not turn out to be the political windfall they envisioned. Polls showed the tax breaks enjoyed only middling popularity as many Americans came to see them as a gift to the richest Americans that did little to address the problem of wage stagnation.

Some Democrats have actually weaponized the tax package against their opponents, including Danny O'Connor, a Democrat running in a tight race against a Republican incumbent, Troy Balderson, in Ohio. In the run-up to a special election in August — they are squaring off again in Tuesday's general election — Mr. O'Connor and his backers spent more money attacking the tax cuts than Mr. Balderson and his allies spent defending it.

Traditional Republican pollsters and strategists said hewing too closely to Mr. Trump's incendiary strategy could contain more risk than reward for candidates in the campaign's final days. They warn of possible backlash among minority voters and college-educated whites, two groups that could be especially crucial in deciding congressional control.

Polling suggests that the same suburban independents who broke for Mr. Trump in the final days of the 2016 election could shift back to Democrats this time around. And Republican campaign veterans said that while Mr. Trump's fear-mongering is firing up his base, it could energize other voters who were previously apathetic to vote for a Democrat next Tuesday.

"The problem is Republicans have a good story to tell in the economy," said Mike Murphy, a former adviser to Jeb Bush, John McCain and Mitt Romney. "But the Republican with the largest microphone only wants to go on these rants about immigration."

Mr. Trump, he said, is "managing to offend every swing voter in the country."

That could prove particularly risky in competitive races for the House of Representatives. Republicans are defending many seats in diverse metropolitan regions where the president's heated language could prove a hindrance.

Mr. Trump even acknowledged at his rally Friday that Republicans could lose the House, saying, "it could happen, could happen."

In the Senate, both parties have clung to nervous optimism about the half-dozen most competitive races. But in Missouri, which has one of the most closely watched Senate races, officials in both parties said internal polling indicated Senator Claire McCaskill, a Democrat, had gained ground in her race against her Republican challenger, Josh Hawley, the state's attorney general.

Jeff Kaufmann, the chairman of the Iowa Republican Party, said he did not think Mr. Trump's closing message was harmful, even if it was not aligned with the economic arguments the state's Republican candidates were offering.

"As long as the noneconomic issues that he is talking about do not run counter to the core of what defines us as a state, I don't think he is a distraction," Mr. Kaufmann said. "I almost think his presence and his energy at this point in our midterms is more important than specifically what he is saying."

Still, some Republicans have expressed dismay that their party is offering an inflammatory closing argument.

Senator Jeff Flake of Arizona, a Republican who is retiring at the end of his term, called the party's tone "unseemly." Representative Ryan Costello of Pennsylvania, who is also retiring, said Mr. Trump's immigration stances have distracted from the party's best midterm message.

“We all know challenges of suburban” Republicans,” he tweeted. “So now POTUS, out of nowhere, brings birthright citizenship up. Besides being basic tenet of America, it’s political malpractice.”

But some Republicans — and the voters who support them — have said Mr. Trump’s explicit language mirrors their own beliefs.

“The radical left is on the move,” said Representative Kevin Yoder, a Kansas Republican facing a tough re-election campaign in a suburban swing district, who also appeared at the rally with Mr. Pence. “They’re on the march. And this radical left is based on socialism.”

At Mr. Cruz’s rally in Fort Worth, Bill Ranelle, 75, said that on a scale of one to 10, he rated his concerns about immigration an eight, and gave voice to some unfounded characterizations of migrants.

“My grandparents came through Ellis Island and their purpose was to live the American dream and become part of the American culture,” he said. “I don’t see the illegals wishing to do that.”

Lisa Lerer contributed reporting from Fort Worth. Michael D. Shear contributed from Huntington, W. Va., Jonathan Martin from Washington, Trip Gabriel from Des Moines and Mitch Smith from Kansas City, Mo.

PHOTO: Senator Ted Cruz began a speech Friday boasting about the economy, but shifted to immigration. (PHOTOGRAPH BY TAMIR KALIFA FOR THE NEW YORK TIMES) (A15)

* Trump’s Nationalism Is Breaking Point for Some Suburban Voters, Risking G.O.P. Coalition

* Trump and G.O.P. Candidates Escalate Race and Fear as Election Ploys

* U.S. Added 250,000 Jobs in October; Unemployment at 3.7%

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THE WALL STREET JOURNAL.

Markets
Your Fund Performance Is Even More About Luck Than You Thought; Thanks to volatility, investors often fail to beat the market with a proven strategy—even if they stick to it for as long as 10 years

By Mark Hulbert
888 words
4 November 2018
10:11 PM
The Wall Street Journal Online
WSJO
English

When deciding how to invest, many investors pursue a number of well-known strategies that have been shown to outperform the market over the long haul. They figure, reasonably, that if they follow these strategies through thick and thin, they, too, will beat the market.

Well, it turns out that this isn't necessarily the case. When an investor sticks with one of these strategies well beyond 10 years, the odds of its outperforming the market, or its benchmark, do improve, though there is still no guarantee. Meanwhile, for periods even as long as 10 years—and increasingly so, the shorter the period—the investor has a pretty good chance of falling short, simply because of bad luck in their timing.

The culprit is **volatility**

To show this, University of Chicago finance professor and Nobel laureate Eugene Fama and Dartmouth professor Ken French set up an experiment: What if an investment strategy's return in each of the next 120 months is equal to what it was in 120 randomly selected months from the past five decades? This is a generous assumption, of course, since it presumes that the distribution of possible future returns will be as good as actual past returns. They then ran this simulation 100,000 times, calculating the number of times a strategy lagged behind its benchmark.

Even with their generous assumption, they found that for each of the investment strategies they studied, there was a significant probability the strategy would lag behind its benchmark over a 10-year period. Consider value investing, a strategy that favors stocks that trade with the lowest price-to-book ratios over those with the highest ratios (the so-called growth stocks). Despite having one of the strongest historical pedigrees, the average value stock over the past decade has lagged significantly behind the average growth stock.

This should not have come as a complete surprise. Profs. Fama and French calculated there to be a 9% probability that the value strategy would lag over any given 10-year period.

'Statistical noise'

For this reason, Prof. French tells me in an interview, he is skeptical of all of the after-the-fact explanations that have cropped up in recent years for why value strategies have supposedly lost their touch.

"Statistical noise—luck, in other words—is always the first possibility to consider, especially when a compelling model says the expected premium is positive," he says. "Our tests don't rule out other explanations for the missing value effect, but they do say bad luck is a likely possibility."

Profs. Fama and French reached similar results when testing the strategy that favors small-cap stocks over larger caps. Even if small-caps over the long term live up to their impressive historical record over the past 50 years, the professors found there is a 24% probability that small-caps will nevertheless lag behind large-caps over any given decade.

In fact, Profs. Fama and French found that the same goes for an even more bedrock belief of **stock-market** investors: the notion that equities will outperform riskless T-bills for those who hold them long enough. Even if the holding period is 10 years, Profs. Fama and French calculated, there is still a 16% probability that you will have been better off holding T-bills. The chances of lagging come down as the holding period extends beyond 10 years, but even at 20 years, the odds are "nontrivial," according to the professors—8%, to be precise.

Note carefully that these not-insignificant probabilities of lagging behind a benchmark are for a 10-year investment horizon. To the extent that horizon is shorter—say three or five years—then the probability of lagging becomes correspondingly greater. (See chart.)

The long, long haul

The investment implication of the professors' finding is clear: You "cannot draw strong inferences" about a strategy's potential from three, five or even 10 years of returns. The corollary is that, once you start following a strategy with impressive historical returns, you need to give it the benefit of the doubt for at least 10 years, even in the face of significant market-lagging performance.

To use a noninvestment analogy: The relationship with your chosen strategy is more akin to a marriage than a date.

If you don't have the patience and discipline to ride out extended periods of market-lagging performance, then you should stick with an index fund that is benchmarked to the broad market. That way, of course, you will be guaranteed not to lag behind the market in each and every year.

Mr. Hulbert is the founder of the Hulbert Financial Digest and a senior columnist for MarketWatch. He can be reached at reports@wsj.com.

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THE WALL STREET JOURNAL.

Markets

Now May Be a Good Time for Stock Investors to Look Abroad; Underperformance for the past 10 years has created compelling valuations for foreign stocks, some advisers say

By Dan Weil
966 words
4 November 2018
10:06 PM
The Wall Street Journal Online
WSJO
English

It may be time for investors to increase their exposure to foreign stocks.

Thanks to years of underperformance relative to their U.S. brethren, foreign stocks are relatively cheap, some experts say. They point to the fact that while the **S&P 500 index** has risen an annualized 10.8% over the past 10 years, the MSCI EAFE Index, which measures developed countries outside the U.S. and Canada, has risen only 3.9%, and the MSCI Emerging Markets Index 5.3%. The foreign increases are in dollar terms.

"Stocks are significantly cheaper in other parts of the world," says Bill Stone, co-chief investment officer at wealth management firm Avalon Advisors in Houston.

As of Oct. 31, the forward-looking price-to-earnings ratio, based on earnings estimates for the 2018 calendar year, for the **S&P 500 stock index** was 16.43, compared with 13.39 for the MSCI Europe Index, 12.1 for the MSCI Japan Index and 10.87 for the MSCI Emerging Markets Index, according to Bloomberg.

Stagnant share prices abroad also have helped boost dividend yields. As of Oct. 31, MSCI Europe sported a yield of 3.98%, MSCI Japan stood at 2.45% and MSCI Emerging Markets at 3.21%, compared with 2.03% for the **S&P 500**.

"Based on current valuation levels, which help play a role in determining equity returns over the next several years, foreign markets appear more attractive than U.S. markets," says Michael Sheldon, chief investment officer at RDM Financial Group-HighTower Advisors in Westport, Conn.

Some caveats

Not everyone is **bullish** about foreign stocks. Some advisers see political and economic troubles brewing, particularly in the European Union. Some analysts are concerned about instability for the EU and the euro, pointing to Italy as a potential trouble spot because of concerns about the new populist government there and its economic policies. Others worry about Britain's planned exit from the EU, saying a hard exit would hurt the economies of the U.K. and continental Europe.

To be sure, concerns about Europe's economic problems are pushing down the euro, which is good for European stocks, says, Karim Ahamed, an investment adviser for wealth management firm HPM Partners in Chicago. Euro weakness boosts European companies that sell overseas, making their products less expensive in foreign-currency terms and making their foreign revenue worth more in euro terms.

"That may be the silver lining in the cloud," Mr. Ahamed says. The euro was at about $1.14 at the start of November, down from $1.25 on Feb. 1.

Mr. Ahamed also has concerns about Japan, where the **stock market** touched 27-year highs in September and the yen has become something of a safe-haven currency. A strong yen hurts Japan's stocks, because many of its companies are dependent on exports.

Avalon's Mr. Stone views the country more optimistically. "We are overweight Japan," he says. "It has high-quality companies holding lots of cash, and corporate governance has improved." While Japan's economic growth is slow, export-focused Japanese companies can benefit from a stronger economic expansion elsewhere in the world, he says.

Emerging markets' lure

Experts agree that the best long-term investment prospects lie in emerging markets, thanks to their strong economic growth. For the next 10 years, Ivan Hoffman, managing partner of Fi3 Financial Advisors in Indianapolis, and his colleagues forecast annualized **stock-market** returns of 8.9% for emerging markets, 6.9% for developed markets excluding the U.S., and 5.7% for the U.S.

Emerging markets, excluding their rally in 2017, have suffered in recent years amid weak commodity prices, slowing growth in China and tightening U.S. monetary policy. But the MSCI Emerging Markets Index's 14% drop so far this year provides an "attractive entry point," Mr. Hoffman says, despite persistent **volatility**.

Investing overseas entails currency risk. If foreign currencies fall, any holdings based in those currencies will be worth less in dollar terms. Some funds hedge against that exposure by using currency forward contracts. But given that currencies will fluctuate up and down over time, such contracts don't have much of an impact on the funds' long-term returns, says Dan Sotiroff, passive-strategies analyst at financial information firm Morningstar.

Specific overseas funds that Mr. Sotiroff recommends include Vanguard FTSE Developed Markets ETF (VEA) or its mutual-fund version Vanguard Developed Markets Index Admiral (VTMGX). "You're getting access to broadly diversified developed-market exposure," he says. And annual expenses are just 0.07% for both funds, putting them among cost leaders in the category.

The same factors—broad market exposure and low costs—lead him to favor iShares Core MSCI Emerging Markets ETF (IEMG) for emerging markets exposure and Vanguard Total International Stock ETF (VXUS) for total foreign-stock exposure.

Meanwhile, for a small slice of your foreign allocation, Mr. Ahamed recommends T. Rowe Price International Discovery Fund (PRIDX). It focuses on small-cap stocks, primarily in developed markets.

"Small-caps may be leaders in their local markets, but not globally, so they aren't picked up by multinational fund managers," he says.

Mr. Weil is a writer in West Palm Beach, Fla. He can be reached at reports@wsj.com.

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* Federal vs. Private Student Loans

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THE WALL STREET JOURNAL.

Heard on the Street
Markets

How Tesla Made a Record Profit; Tesla's record quarter doesn't look as good as its earnings release had suggested

By Charley Grant
564 words
5 November 2018
11:52 AM
The Wall Street Journal Online
WSJO
English

Tesla has produced a turnaround for the ages. Knowing how the company pulled it off is important for investors.

Last week, chief executive Elon Musk said the electric car maker was struggling for survival up until September. Turns out, Tesla produced its biggest profit ever that quarter.

A new regulatory filing from Tesla that came out on Friday should help investors reconcile these competing facts. There is no doubt that Tesla delivered a record number of cars, grew revenues by 70% from the second quarter and kept costs down. Tesla booked $271 million in pretax income in the quarter.

The biggest boost to profits came from the sale of government credits, which Tesla earns by producing clean energy products like electric cars and can be sold to other companies to satisfy regulatory requirements. Tesla booked $189.5 million in credit revenue in the quarter, an unusually high result. Tesla had booked a total of about $135 million in the first two quarters of the year. These credits are almost pure profit for Tesla.

Tesla's earnings press release only mentioned $52 million in revenue from credits. The total amount was only revealed in Tesla's 10Q regulatory filing on Friday, after a nearly 20% run in the stock.

Companies have wide latitude in some areas of financial reporting and one is reserves that they set aside for future expenses. Predicting costs of defective products or lawsuits is difficult but when companies change the amount they set aside and enjoy an earnings boost as a result, it is worth watching.

In the third quarter, Tesla set aside $187 million in estimated warranty expenses, or about $2,242 per vehicle delivered. In the second quarter, that expense was $2,910 per car. That quarter was the first period where the Model 3 was Tesla's best selling product. Net income would have been about $56 million lower using the same figure as in the second quarter, according to analysts at UBS.

Tesla said the UBS calculation is inaccurate and that the provision should be lower for cheaper cars like the Model 3, and it needed to account for the reserves for solar panels and batteries it sells. But Tesla's energy sales amounted to about 6% of sales in the third quarter. And cars have more ongoing service needs than batteries and solar panels do.

The car maker's strong quarter did calm concerns about its debt levels. Tesla has $3 billion in cash but that is dwarfed by $3.5 billion in accounts payable, which rose $500 million in the quarter, and about $10 billion in debt. Tesla said it in its regulatory filing that it plans to spend between $2.5 billion and $3 billion in 2019 and 2020. This is necessary for Tesla's plans to design and produce new models, build out its service infrastructure, and expand into China.

Tesla should make good use of the improved quarter and the rallying **stock price** to do what it has needed to do all year—raise money by selling stock. Investors may lose out but the extra cash is necessary for Tesla to succeed in its long-term goals.

Write to Charley Grant at charles.grant@wsj.com

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THE WALL STREET JOURNAL.

Markets
China Trade Talks Triggers Bets on Rebound; Options activity in exchange-traded funds shows some are betting on a turnaround in Chinese shares

By Gunjan Banerji
451 words
5 November 2018
05:25 PM
The Wall Street Journal Online
WSJO
English

After a crushing year for Chinese stocks, investors are turning to options to bet on a comeback.

Investor sentiment toward China's market soured in 2018, and the nation's factories took a hit as a trade spat with the U.S. dragged on. China's Shanghai Composite Index, for example, rallied last week but fell Monday. It is down about 19% year to date.

But investors have been wagering a rebound is on the horizon for the $7 trillion **equity market**. They've made the bets through options on U.S.-listed exchange-traded funds that invest in Chinese stocks.

Trading of **bullish** options on the iShares China Large-Cap ETF, among the most popular China ETFs, on Thursday reached the highest level in at least five years, data from Trade Alert show. The portfolio, known as FXI, climbed 4.2% as President Trump said the two countries were making progress on a trade agreement.

Among the most popular trades were options that pay out if FXI climbs almost 15% from its level Friday. Out of the top 10 options with the biggest positions, eight are contracts that pay out if shares go higher, Trade Alert data show.

"Some institutional players are positioning for an aggressive rebound over the next two months," said Fred Ruffy, analyst at Trade Alert.

Money flows into ETFs have also been robust. FXI has lured almost $2 billion in fresh cash this year, despite being down 11% in that time. The KraneShares CSI China Internet ETF has seen about $750 million in inflows, even as it has fallen about 25%, FactSet data show. The KraneShares fund tracks Chinese Internet companies like Tencent Holdings Ltd. and Baidu Inc.

While **bullish** trades have dominated options activity, events Friday showed sentiment can shift quickly. White House Economic Advisor Larry Kudlow said on CNBC that Mr. Trump's cabinet wasn't asked to draw a trade plan for China. The ETF ended the day up 0.3% after notching a gain as high as 2.5% during the day.

"The lesson to take away here is: don't trade on trade headlines," said Peter Cecchini, New York-based chief market strategist at Cantor Fitzgerald.

Mr. Cecchini also said it is an expensive time to use options to bet on China. FXI has been **volatile**, driving up options prices for the fund.

And there could be more **volatility** ahead: Expected swings for FXI are near a year-long high, Trade Alert data show.

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THE WALL STREET JOURNAL.

U.S. Markets
Markets
Dow, S&P Rise Despite Tech Sector Drop; Nasdaq Composite slips as Apple shares extend recent rout

By Riva Gold and Akane Otani
675 words
5 November 2018
04:17 PM
The Wall Street Journal Online
WSJO
English

The **S&P 500** and **Dow Jones Industrial Average** climbed Monday, as broad strength across sectors helped offset a slide in technology shares.

Major indexes started off the day mixed, then pared losses heading into the afternoon as shares of energy companies and banks rallied. The Dow industrials rose as many as 236.52 points, only to shed some of those gains in the last hour of the trading day.

Investors say the recent uptick in **volatility** reflects a number of worries clouding the global outlook. Technology shares, which led the **bull market** higher in the first half of the year, have struggled to regain their footing after a punishing October. Many have also been wary of risks like slowing growth in China and uncertainty surrounding a U.S.-China trade agreement.

One bright spot that has helped investors stay optimistic: corporate earnings. **S&P 500** companies are expected to report earnings growth of 24.9% in the third quarter, the second fastest pace of growth since 2010, according to FactSet.

The Dow industrials rose 191 points, or 0.8%, to 25462. The **S&P 500** climbed 0.6% and the **Nasdaq Composite** lost 0.4%, hurt by a slide in everything from social media companies to chip makers and software developers.

Apple Inc., whose guidance for the holiday quarter disappointed investors last week, extended a rout that has shaved tens of billions of dollars off its market capitalization. Shares fell 2.8% to $201.59. Based on Apple's latest share count reported Monday, the company's market capitalization has fallen below $1 trillion.

"The tone of some of the [earnings] conference calls has been maybe a little more cautious, especially about growth outside the United States," said Ed Keon, chief investment strategist at QMA.

Other technology firms also retreated, with Amazon.com Inc. down 2.3%, Alphabet Inc. losing 1.5% and Nvidia Corp. falling 1.5%.

Shares of financial companies rallied, with Class A shares of Berkshire Hathaway Inc. adding 5% after the firm said over the weekend that it had repurchased its own shares for the first time since 2012.

Energy companies also bounced higher, giving major indexes another boost. Chevron Corp., which reported its highest third-quarter profit in four years on Friday, jumped 3.7%.

As the week progresses, analysts say they will be keeping an eye on the midterm elections, which could spark fresh **volatility** as investors parse through the implications for U.S. fiscal and trade policy, as well as the Federal Reserve's meeting.

"You have plenty of good reasons to sell stocks, given the uncertainties related to China; some concerns about softening economic growth at least outside the U.S.; and the Italian budget, but for us the key element was the last Fed meeting," said Fabrizio Quirighetti, head of multiasset at SYZ Asset Management.

"Central banks will probably not be very supportive going forward," he added.

The Fed is expected at the end of its meeting Thursday to leave rates unchanged but perhaps hint at a policy course for 2019. Higher U.S. interest rates can make cash and short-term U.S. debt a more attractive alternative to stocks, investors say.

Elsewhere, the Stoxx Europe 600 edged down 0.2%, weighed down by a drop in shares of technology companies.

Stocks in Asia fell across the board after weekend data showed that growth in China's service sector slipped to a 13-month low in October, adding to concerns about the health of the Chinese economy.

Japan's Nikkei Stock Average dropped 1.5%, weighed down by declines in shares of auto and electronics companies. Hong Kong's Hang Seng shed 2.1%, snapping a three-day winning streak, while indexes in South Korea, Shanghai and Australia all edged lower.

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THE WALL STREET JOURNAL.

Markets
New Funds Take Pay Cut If They Can't Beat the Market; Money managers are offering new fulcrum funds where pay is based on performance

By Justin Baer
961 words
5 November 2018
07:00 AM
The Wall Street Journal Online
WSJO
English

A wave of stock-picking firms are stepping up their fight against cheap exchange-traded and index funds with new offerings that dial back fees if they can't beat the market.

AllianceBernstein Holding LP, Allianz Global Investors and a handful of other managers have debuted new funds in the past year featuring fees that rise with returns—and tumble to ETF levels when they fall short of their benchmarks.

While so-called fulcrum funds have been around for years, the new ones have other characteristics. For one, they start with a lower base fee that can rise and fall more sharply, depending on performance. Second, the fee structure is a central selling point of the fund itself.

The managers say the new fee structure more closely aligns their interests with those of their clients, and caters to cost-conscious investors who still crave funds that don't track indexes. The concept, and other new tactics, also offer hope for the industry's future; even some of the most ardent supporters of active managers have struggled to justify paying higher fees for funds that can't beat the market.

It is hard to tell if this new flavor of fulcrum funds will succeed in winning back skeptical investors. Would-be clients say their structures are more complicated than meets the eye.

Some of the new funds, including AllianceBernstein's offerings, reset to their starting-point fees after one year no matter how they've performed. And there is no high-water mark, which is a return hurdle many hedge funds must clear before they can start charging clients performance fees again after they've underperformed for a stretch.

These features might even tempt managers to take too many chances once they slip below their benchmarks, in a bid to chase higher returns—and higher fees.

"What are the unintended consequences?" asks David Bailin, global head of investments at Citigroup Inc.'s private bank. "Does the manager take on more risk seeking higher fees? You wouldn't want the manager to have a different incentive than investors."

Allianz executives said they sought to address this concern by basing their fulcrum funds' fees on a rolling, 12-month period. Hedge funds may have a high-water mark, but they also won't slash fees below their base cost when they underperform, they argue.

For decades, asset managers occupied one of the cushiest enclaves on Wall Street. Managing other people's money produced thick profit margins and came with few balance-sheet risks. That world is now under siege. Trillions of dollars have left stock- and bond-picking firms in the past decade, as investors have become more drawn to less-expensive and often better-performing ETFs and index funds.

As managers came to accept that the passive-investing wave was here to say, many initially turned toward businesses under less pressure from index funds and ETFs, like emerging-market stocks or privately held debt.

The new fulcrum funds are a bid to take on passive funds on their own turf: price competition. In addition to industry leaders, former AllianceBernstein Chief Executive Peter Kraus's recently launched management firm will also have a fulcrum-fee structure.

Financial advisers, the gatekeepers to individual investors, say they like the concept—even if they don't know quite what to make of the new funds yet.

"Creativity is necessary now," said Brian Johnson, chief investment officer of Viridian Advisors, a $500 million wealth-management firm. "The low-cost options aren't going away, and the math isn't in favor of the active managers. It is good that change is afoot, but you need to be convinced that the fee deal is meaningful enough."

While Mr. Johnson and other wealth advisers are intrigued, they say understanding how and when fees change, and then explaining those nuances to clients, takes time.

AllianceBernstein's AB FlexFee Large Cap Growth Advisor Fund, the largest of the firm's six fulcrum funds, has drawn $106 million in assets since its June 2017 launch. Fred Alger Management Inc.'s Alger 25 Fund, launched in December, now manages $11.4 million. Allianz's Structured U.S. Equity Fund, which started that same month, has $78 million.

By comparison, Fidelity's new zero-fee **stock-market** index fund has lured more than $1 billion since its Aug. 2 launch.

Persuading advisers and their clients will take time, said Chris Thompson, head of the Americas client group for AllianceBernstein. Mr. Thompson said that 10 large wealth-management firms had already added at least one AllianceBernstein FlexFee fund to their platforms.

"The big impact of this will be if we can take money from passive, or money that would've gone there," said Mr. Thompson. "That's the ultimate goal here."

That goal isn't lost on anyone in the industry.

A number of active managers are exploring the concept, industry executives said. Even BlackRock Inc., the biggest passive manager, is studying adding a performance-fee dial to ETFs, a person familiar with the firm's plans said.

Mr. Bailin, whose private bank serves wealthy individual investors, said fulcrum funds aren't an antidote for what ails active managers.

A variable fee, no matter how low it goes, is no substitute for good performance.

"We pay the manager all the fees we need to, and if they outperform, I'm thrilled," Mr. Bailin said. "If the fund underperforms, I'm not thrilled."

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* New Fund Firm Cuts Pay If Managers Don't Beat the Market (Sept. 20)

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THE WALL STREET JOURNAL.

Markets

D1 Capital Partners, a New Hedge Fund, Falters; Daniel Sundheim's D1 Capital Partners, which raised several billion dollars this year, is down about 5%

By Rachael Levy
414 words
5 November 2018
03:38 PM
The Wall Street Journal Online
WSJO
English

One of this year's largest hedge-fund launches is off to a rough start.

Daniel Sundheim's D1 Capital Partners lost money last month and is down about 5% on the year, according to a client update reviewed by The Wall Street Journal.

The New York-based firm raised several billion dollars, people familiar with the matter said, making it one of the largest hedge-fund launches this year. Mr. Sundheim previously was the chief investment officer at Viking Global Investors, a prominent hedge fund. D1 primarily makes bets for and against stocks, and also makes investments in private companies.

For October, D1 reported two losing numbers to clients, using two different methods. One showed losses of about 8.4% and the other showed a loss of about 5.9%. The difference is related to when D1 brought outside money into the fund, according to the client update.

The fund started to actively trade in July and currently manages about $5 billion, according to a person familiar with it.

Mr. Sundheim's multibillion-dollar launch stood in contrast to the travails of the rest of the hedge-fund industry. Hedge-fund liquidations outpaced launches from 2015 through 2017, according to data tracker HFR. Through the second quarter of this year, 306 hedge funds launched compared with 270 that closed.

A string of hedge funds have also recently announced their closures.

D1's October losses, however, aren't unusual. Several prominent hedge funds lost money last month, including billionaire Dan Loeb's Third Point and technology-focused Tiger Global Management, the Journal has reported.

Hedge funds betting on and against stocks lost 7.4% for October, Goldman Sachs said in a client report Friday. For the year through October, the funds on average were down 4.9%.

The broad declines for hedge funds in October occurred during one of the sharpest pullback in stocks in more than seven years. Stocks around the world lost about $5 trillion in value, according to S&P Dow Jones Indices, as shares in Europe and Asia also tumbled. The **S&P 500** lost nearly 7% last month, marking its worst October since 2008. The index has returned 3% for the year, including dividends, through October.

Juliet Chung contributed to this article.

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THE WALL STREET JOURNAL.

Markets

Once a 'Dog,' Refining Becomes Driver of Oil Profits; Hard-to-reach crude in Canada and Texas boosts companies that can turn it into fuel

By Rebecca Elliott and Bradley Olson
1,019 words
5 November 2018
05:30 AM
The Wall Street Journal Online
WSJO
English

From Exxon Mobil Corp. to Phillips 66, energy companies are reaping banner profits by taking cheap oil landlocked in North America and turning it into fuel.

Tremendous growth in oil output has overwhelmed pipelines and depressed crude prices in some regions of Texas and Canada. That has created a bonanza for companies in a position to take advantage by converting it into gasoline and diesel.

Nowhere has the opportunity been bigger than near Canada, where crude is trading for $43 a barrel below U.S. benchmark prices due to bottlenecks. That is painful for producers there, but highly lucrative for companies with nearby refineries in Canada or the upper Midwest, from Exxon to smaller fuel makers like HollyFrontier Corp.

"U.S. refining has really gone from being a dog to being a fairly attractive business model," John Auers, an executive vice president at consultancy Turner, Mason & Co., said. "I don't think that's going to change any time soon."

Phillips 66, which says it is the largest industry buyer of heavy Canadian crude, operated its nearby refineries at 108% of capacity during the third quarter, earning an average $23.61 a barrel processed there. That helped lift quarterly profits to nearly $1.5 billion, an 81% increase from the same period last year.

Exxon Chief Executive Darren Woods cited the company's access to cheap crude from Canada and West Texas for its refineries as one of the advantages that helped spur it to $6.2 billion in third-quarter profits, its highest total in four years. The company said it can process as much as 500,000 barrels a day of Canadian crude from seven refineries.

"We are seeing the benefits of integration as we capture value from advantaged feedstock from the Permian and Western Canada for our North American refineries," Mr. Woods said.

Much as John D. Rockefeller amassed his fortune by refining crude extracted in the first American oil boom, refiners are once again finding an advantage as the U.S. has become one of the world's largest crude producers.

North American oil production has soared as **oil prices** have risen over the past two years, increasing 24% to more than 15 million barrels a day in July, according to the U.S. Energy Information Administration.

The rapid growth has overwhelmed existing pipelines and made it difficult for producers to move all their oil to market in areas such as western Canada and the Permian Basin of West Texas and New Mexico. The landlocked oil subsequently trades for far less in those areas than oil shipped via pipelines to major selling hubs such as Cushing, Okla.

Fuel makers with access to the inexpensive crude have reaped the rewards.

BP PLC's underlying quarterly profit soared to $3.8 billion, the highest level in five years, powered in part by the company's massive refinery in Whiting, Ind. The plant, first opened by Rockefeller's Standard Oil in 1889, is capable of running about 320,000 barrels a day of heavy crude from Canada.

Heavy Canadian crude traded for an average $28 a barrel below U.S. benchmark prices during the third quarter, according to S&P Global Platts, while oil sold in the Permian was discounted by an average $14 a barrel. Oil in both regions is expected to remain relatively cheap for at least another year, when new pipelines are set to begin operating.

Permian, heavy Canadian and other similar crudes accounted for about 57% of the oil HollyFrontier processed during the third quarter, the company told investors Wednesday. The Dallas-based refiner posted profits of more than $340 million, its highest third-quarter income since 2012.

Refining companies that missed out on the Canadian trade showed it in their results. Marathon Petroleum Corp. saw quarterly profits decline 18% from the same period last year to $737 million, in part because some of its Midwest refineries were offline for maintenance. The company told investors it is now poised to process about 500,000 barrels of Canadian crude daily. It also expects to benefit in coming quarters from growing discounts on oil from North Dakota's Bakken Shale.

"We kind of see this as a perfect storm," said Rick Hessling, a senior vice president.

Oil in Clearbrook, Minn., one of the trading hubs for Bakken crude, was selling for nearly $13 below U.S. benchmark prices this week, according to S&P Global Platts.

Domestic demand for diesel and other fuel oils remains high, but data from the Energy Information Administration show gasoline demand has fallen off from a year ago as **oil prices** have risen and refiners have operated at full tilt, boosting stockpiles.

"The real surprise, especially on the gasoline side, is just the very high refinery utilization," said Gary Simmons, a senior vice president for Valero Energy Corp. "You've had about a 2-to-1 increase in production over demand, and it's caused a surplus in the inventory."

The export market has been a key release valve. U.S. exports of refined products topped 5.3 million barrels daily in October, a 33% increase from two years prior, according to the EIA. Top buyers include Mexico, Canada and Japan.

"If you can get your hands on discounted crude oil, you're incentivized to run it and then hope you can find a home for it," said Amy Kalt, a consultant for Baker & O'Brien Inc., an energy consultancy.

Write to Rebecca Elliott at rebecca.elliott@wsj.com and Bradley Olson at Bradley.Olson@wsj.com

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WSJ PRO CENTRAL BANKING

WSJ Pro

Bank of Canada Chief Warns on Undermining Central-Bank Independence; Stephen Poloz says such independence is ‘a bastion of the stability we live in'

By Paul Vieira
305 words
5 November 2018
01:58 PM
WSJ Pro Central Banking
RSTPROCB
English

Bank of Canada Gov. Stephen Poloz warned Monday that attempts by governments to undermine central-bank independence eventually translate into higher borrowing costs for households and businesses.

"Central-bank independence is not some theoretical concept. It is a bastion of the stability we live in," Mr. Poloz said at a press conference in London following a speech on recent market **volatility**.

His remarks were in response to a question about developments in the U.S., where President Trump has criticized the Federal Reserve over its decision to lift interest rates. Mr. Poloz said he wouldn't comment on cases in specific countries.

Mr. Trump has singled out Fed rate rises as a significant risk to growth, arguing they are going up too quickly.

Mr. Trump's chief economic adviser, Lawrence Kudlow, said last week that the president hasn't called Fed Chairman Jerome Powell to express his frustration, adding any criticism from the president is just an expression of opinion.

Mr. Poloz said attempts to chip away at central-bank independence eventually force lenders to incorporate a higher risk premium related to inflation. At present, the risk premium charged in economies where there is strict adherence to central-bank independence is limited, he said, because of central banks' success in keeping inflation in check. The Bank of Canada sets its rate policy to attain and maintain 2% annual inflation.

"If you chip away at the independence of central banks, [lenders] will charge more," Mr. Poloz said. "We all have a stake in central-bank independence. While it sounds abstract to people, in the end it's real arithmetic for ordinary people."

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THE WALL STREET JOURNAL.

World

Iranian President Promises to 'Break' New U.S. Sanctions; Sanctions threaten to reduce Iran's exports to the global oil supply and jolt a large regional economy that was already buckling

By Asa Fitch in Dubai and Aresu Eqbali in Tehran
944 words
5 November 2018
02:35 PM
The Wall Street Journal Online
WSJO
English

Iranian President Hassan Rouhani vowed that his country would resist tough new U.S. sanctions on Iran's oil and banks on Monday, as Tehran braced for a new era of political and economic isolation.

"Unfair sanctions are against the law, U.N. resolutions and international accords. Therefore, we will proudly break the sanctions," Mr. Rouhani said on national television after the sanctions took effect at the stroke of midnight in Washington, or 8:30 a.m. in Tehran.

The sanctions signaled the end of American involvement in a multinational nuclear accord and punctuated the political realignment in the Middle East, with the U.S. and allies like Saudi Arabia and Israel lining up against Iran. The sanctions threaten to reduce Iran's exports to the global oil supply and jolt a large regional economy that was already buckling.

Oil prices had risen in recent weeks in anticipation of the sanctions. Brent crude, the international benchmark, was up 0.91% to $73.52 on Monday.

The U.S. has scrambled to ensure a well-supplied oil market in the event of Iranian declines, and Saudi Arabia—the world's biggest crude exporter—has vowed to step up output to fill the gap.

Mr. Rouhani said Iran's oil industry had already shown its resilience, pointing to waivers that the U.S. granted last week to eight importers allowing them to continue importing Iranian crude and not be penalized. The U.S. had pushed importers to cut their purchases to zero by Sunday.

China, India, Italy, Greece, Japan, South Korea, Taiwan and Turkey all got waivers, U.S. Secretary of State Mike Pompeo said Monday.

With the new restrictions, companies and governments aren't allowed to buy Iranian oil or do deals with Iranian banks, insurers or shippers that facilitate the oil trade, unless they get permission from the U.S. Treasury Department. If they ignore the sanctions, they could face penalties including large fines and exclusion from the U.S. financial system.

Monday's sanctions were a milestone for President Donald Trump, who saw the nuclear deal, reached in 2015 under the Obama administration, as flawed from the start. By not curtailing Iran's ballistic missile program and not addressing its military activities in Syria, Yemen and elsewhere in the Middle East, Mr. Trump argued, it failed to allay a chief concern about Iran: that it seeks Israel's destruction.

Israeli Defense Minister Avigdor Lieberman on Monday called the decision to reinstate sanctions "the sea-change the Middle East has been waiting for."

The United Arab Emirates, a staunch U.S. ally, also praised the move, while Syria, an Iranian ally, said it would stand behind Tehran.

The sanctions could deepen the jeopardy that Iran's leaders already found themselves in amid a litany of economic woes.

This year, inflation has soared to near 30%, unemployment is in the double-digits, the currency has lost value rapidly against the dollar and economic growth is expected to be negative. A wave of popular unrest not seen in almost a decade swept the country in late December, focusing initially on economic problems before crescendoing into a critique of the ruling system.

Far from altering their regional military posture or getting rid of ballistic missiles, Iranian leaders have vowed to stand up to the U.S. After Mr. Trump tweeted an image of himself Friday on a Game of Thrones-themed poster captioned "Sanctions Are Coming," Gen. Qassem Soleimani, the leader of Iran's elite Quds Force, posted a similar picture of himself captioned, "I Will Stand Against You."

Mr. Rouhani said Monday that Iran would emerge victorious, and urged unspecified action to counter U.S. pressure.

"It's not going to work out only through words," he said. "Action means putting pressure on the U.S. so it doesn't dare to continue with its plots."

Mr. Rouhani, a relative moderate in Iran's system, staked his legacy on the 2015 nuclear deal with six world powers, including European countries, Russia, China and the U.S. The deal technically remains in place, as Tehran continues talks with European signatories to try to maintain some of the benefits under it. But with the U.S.'s withdrawal announced in May, Mr. Trump has in practice nullified the most significant benefits Iran received in exchange for curbs on its nuclear program.

Switzerland's economic affairs agency said Monday that it was in contact with authorities in the U.S. and Iran, as well as with Swiss companies in the pharmaceutical and food sectors, in order to develop a payment channel that would allow for the provision of medical care and food to Iran.

Iran has pledged to remain in the deal for now, but Iranian Foreign Minister Javad Zarif said in May that the country could quickly scale up its nuclear program beyond the limits prescribed if the accord falls apart. The country opened a new factory for uranium enrichment centrifuges in June.

Mr. Zarif tweeted Monday that the U.S.'s reimposition of sanctions defied the United Nations' top court and the Security Council. "The US—& not Iran—is isolated," he wrote.

Write to Asa Fitch at asa.fitch@wsj.com

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THE WALL STREET JOURNAL.

Markets

Apple's Got the iPhone XR's Number; A report of scaled back production plans follows muted comments from the company's earnings call

By Dan Gallagher
277 words
5 November 2018
01:48 PM
The Wall Street Journal Online
WSJO
English

In the stilted world of quarterly earnings calls, sometimes what you don't say can matter more.

Apple Inc. typically isn't shy in bragging about its devices—the first half of its calls are typically nothing but. However, the company's session last week following its fiscal fourth-quarter results had some noticeably muted language about the iPhone XR, which began shipping just a week before.

When asked how the device was doing, Apple Chief Executive Tim Cook said "we have very, very little data there," while also noting that the more expensive XS and XS Max models that launched a month earlier were "off to a really great start."

Those comments didn't bode well for what is expected to be the top-selling of Apple's iPhone lineup for the coming year. Nor did they come across as believable, as Apple had been taking preorders on the iPhone XR for two weeks by that point. Note that Apple boasted of "very strong" orders for its iPhone X in last year's fourth-quarter call, which took place just one day before the launch of that device.

In this case, Apple's lack of enthusiasm at least seems prescient.

The Nikkei Asian Review reported Monday that the company has asked its Asian manufacturers not to expand production lines for the XR. That sent Apple's already battered **stock price** down another 3% Monday morning, putting the shares on pace for their worst two-day loss in six years.

Document WSJO000020181105eeb5005h9

THE WALL STREET JOURNAL.

Markets

A Good Day for Traders to Hit Snooze Button; The end of daylight-saving time can be bad for stock market returns

By Spencer Jakab
190 words
5 November 2018
01:24 PM
The Wall Street Journal Online
WSJO
English

The factor weighing on stocks Monday morning: Tariffs? Elections? Interest rates? How about "desynchronosis?"

That last factor, which sounds like an SAT vocabulary word or a Police song, isn't top of mind for traders, but perhaps it should be. The confusion and irritability caused by sleep disruptions such as jet lag or a late night out, Monday is one of the two days of the year when it affects nearly everyone due to the end of daylight-saving time in the United States.

Studies have tied the clock shifts to more accidents, coronaries and even harsher criminal sentences on the Monday following the switch. Academic research by Mark Kamstra, Lisa Kramer and Maurice Levi shows that this also extends to investors, the result being that the **stock market** is more likely to fall and to fall sharply on such days.

Just don't let the market's swings give you a heart attack.

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Document WSJO000020181105eeb500565

THE WALL STREET JOURNAL.

Heard on the Street
Markets
Bulls' Eye Still Elusive for Stock Pros; The stock picks and pans from the Sohn Conference six months ago are still failing to beat Heard on the Street's dart-throwing monkeys or the S&P 500

By Spencer Jakab
363 words
5 November 2018
12:09 PM
The Wall Street Journal Online
WSJO
English

It has been half a year since the best and brightest gathered at the Sohn Conference in New York to make their closely watched investment recommendations. Heard on the Street's columnists, doing our best imitation of Burton Malkiel's dart-throwing monkeys, selected stocks by hurling darts at newspaper stock listings to see if the pros were any good.

The first three months of the faceoff could have been called "Schooled by Randomness" as the dart picks, 8 longs and 2 shorts, beat the **S&P 500** by 1.64 percentage points even as the masters of the universe's picks lagged by 6.25 points. The quarter was friendlier to people who do this for a living, but the relative performances were still negative 2.12 points versus positive 1.37 for the dart throwers.

Notable expert picks were Jeffrey Gundlach's timely short call on Facebook and a recommendation to go long Express Scripts by Larry Robbins. Mr. Robbins was less fortunate with his pick of McKesson Corp, the worst loser, while Mr. Gundlach's long on an oil exploration ETF also fell flat.

The dart throwers, meanwhile, hit a home run with a short of PagSeguro Digital, but an unfortunate long on Barrett Business Services, down over 30%, shows we still need to work on our throwing motion.

Just halfway to the next Sohn Conference, when this contest will be closed out, the experts still have time to catch up to the market and newspaper-writing primates. They were aided, of course, by the first-day move in the stocks they picked or panned as many mere mortals jumped on the bandwagon. Heard on the Street's dart throwers enjoyed no such boost, but we are considering inviting guests to take notes next time as a fundraiser for a worthy charity such as the one Sohn attendees support.

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WSJ PRO CENTRAL BANKING

World

Bank of Canada Chief Says Market Volatility a Sign Of Normalization; As interest rates rise, Stephen Poloz says, it is ‘only natural' to expect more volatility in stock markets

By Kim Mackrael and Paul Vieira
610 words
5 November 2018
10:37 AM
WSJ Pro Central Banking
RSTPROCB
English

OTTAWA—Higher bond yields and the return of **stock market volatility** are signs the global economy is normalizing after a decade of ultralow interest rates, Bank of Canada Governor Stephen Poloz said Monday.

Speaking before the Canada-UK Chamber of Commerce in London, Mr. Poloz said the longstanding trend toward lower bond yields appears to be over as interest rates rise and risks are shifted back to markets. The change is producing a recalibration in equity markets and leading to a more normal level of **volatility**, he said.

"These characteristics do not point to a gloomy economic outlook by any means," Mr. Poloz said. "Rather, they are welcome symptoms of normalization."

Mr. Poloz's speech comes less than two weeks after the central bank raised its benchmark overnight interest rate by a quarter-percentage point, to 1.75%. In raising the key rate, policy makers also opened the door to a faster pace for future increases and said rates would ultimately need to reach a neutral level of around 2.5% to 3.5% to keep inflation on track.

In his speech on Monday, Mr. Poloz noted that some economic commentators have questioned whether the Bank of Canada's forecast is too optimistic in light of recent **stock market** declines.

He expanded on this during a question-and-answer session with the London audience and then a press conference afterward.

"I don't think we are actually particularly optimistic," Mr. Poloz told the audience. He later told reporters that the central bank's outlook is positive because the global economy is on firm footing and growing at capacity. The economy "is bound to moderate slightly over the next year or two. That may be interpreted by markets as a major shift. That's incorrect. That's a normal moderation to a steady-state growth rate," Mr. Poloz said.

As interest rates rise, Mr. Poloz said in his speech, it is "only natural" to expect more **volatility** in stock markets. At the same time, he said, the stocks of those companies that are most exposed to trade actions are underperforming compared with other sectors.

Mr. Poloz said Canada's main **stock market**, the Toronto Stock Exchange, has declined by 7% this year because it is heavily weighted with companies that rely on trade.

The escalation of tariffs by the U.S. and China is of "particular concern," Mr. Poloz said, and is weakening investment and the overall growth outlook while putting downward pressure on commodity prices. However, he said trade risks are two-sided and the Bank of Canada must balance those risks when it makes decisions about monetary policy.

"If those risks are realized, it will be much worse than people are putting into their forecasts," Mr. Poloz said at his press conference. "If it all gets cleared up, the forecasts will be noticeably better."

Mr. Poloz reiterated his previous remarks that the Bank of Canada's policy rate will need to rise to a neutral stance. The Bank of Canada sets the key interest rate to achieve and maintain 2% inflation.

"In determining the appropriate pace of interest rate increases, we will continue to monitor the economy's adjustment to higher interest rates, given the elevated level of household debt," he said in the speech. "And we will pay close attention to new developments on the international trade front."

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THE WALL STREET JOURNAL.

Business

Companies Feel the Tariff Pinch; Months into the U.S.-China trade spat, large firms are flagging the costs, warning of future hit

By Theo Francis
1,243 words
4 November 2018
07:31 PM
The Wall Street Journal Online
WSJO
English

Corrections & Amplifications

If tariffs jump to 25% on the $200 billion of Chinese imports that currently face a 10% levy, as the Trump administration has threatened, earnings growth for the **S&P 500** could be reduced 2 to 3 percentage points, said David Lefkowitz, senior equity strategist for the Americas at UBS Global Wealth Management's chief investment office. An earlier version of this article incorrectly cited a $200 million figure. (10/4)

U.S. companies said they are tempering the effects of escalating tariffs with China through price increases or changes to their supply chains, but they warn investors that the picture could worsen next year.

Tariffs have slowed U.S. timber and grain exports, raised the cost of imported clothes hangers and heavy-equipment materials, and compressed profit margins for computer chip and tool makers, among other effects, according to an analysis of results and comments from the roughly 75% of **S&P 500** companies that have reported third-quarter earnings.

"The negative impact is pretty widespread across the **S&P 500**," said Binky Chadha, chief U.S. equity and global strategist at Deutsche Bank. Still, he said, the overall effect so far is mostly modest.

Timber giant Weyerhaeuser Co. said log exports to China fell after the country imposed retaliatory 5% tariffs on Sept. 24, despite solid construction activity there. Railroad operator Union Pacific Corp. said in October that the season's typical grain-shipment increase hadn't materialized, due in part to Chinese tariffs.

At heavy-equipment maker Caterpillar Inc., sales haven't suffered, and the fact it has assembly operations in both countries reduces its need for imports. Still, the company faces higher raw-material costs, though they are running toward the lower end of its earlier forecast of between $100 million and $200 million for the year's second half, company officials said in a September projection.

Some companies said they are turning the tariffs to their advantage. Warehouse-store chain Costco Wholesale Corp. is pitching its customers products such as nuts and pork; prices for these items have fallen as exports have slowed in the face of China's tariffs.

"Something like one third of the U.S. pork…is exported to China," Costco Chief Financial Officer Richard Galanti told investors on an early October conference call. "That's changed, and therefore pork prices are way down. There's great savings. That's creating some opportunities."

The tariff concerns come as the recent run of robust profit and sales growth shows signs of slowing. Analysts and economists warn of still-slower earnings growth next year.

Overall, third-quarter per-share earnings for **S&P 500** companies are on track to rise 27.1% over the same period in 2017, the third straight quarter with earnings gains near or above 25%, according to financial-data firm Refinitiv. Analysts said as much as a third of that quarterly gain stems from last year's U.S. corporate tax cut and is unlikely to continue next year.

S&P 500 revenues are expected to rise 8%, still above normal for recent years but slower than in the last three quarters, Refinitiv says. The figures reflect reported results, as adjusted by analysts, and analyst estimates for the rest.

Looking ahead, analysts and economists note that global growth has slowed, particularly in Europe and China. "Probably some of it is due to the tariffs and the trade war," Mr. Chadha said. "But some of it would pretty clearly happen anyway."

Executives or analysts have mentioned tariffs or the terms "China trade" or "trade war" about 600 times during earnings calls at about 130 **S&P 500** companies since mid-September, The Wall Street Journal found in an analysis of conference-call transcripts retrieved from Factiva. The terms arose at least a half-dozen times at about a quarter of the businesses.

If tariffs jump to 25% on the $200 billion of Chinese imports that currently face a 10% levy, as the Trump administration has threatened, earnings growth for the **S&P 500** could be reduced 2 to 3 percentage points, said David Lefkowitz, senior equity strategist for the Americas at UBS Global Wealth Management's chief investment office. He projects that would cut earnings growth to about 4%—a deceleration likely too small to derail the economic expansion on its own.

Already, the U.S. tariffs and China's retaliatory levies are hitting a diverse range of U.S. businesses.

Workplace uniform supplier Cintas Corp. said it is paying more for clothes hangers, while other direct effects are limited. "It is something that's starting to creep in," Chief Financial Officer J. Michael Hansen told investors in September.

Micron Technology Inc., which sells computer memory chips and storage, said tariffs could trim its first-quarter gross margin by 0.5 to 1 percentage point, contributing to projections for a year-over-year decline of at least 1.4 percentage points. Mitigation will take time, financial chief David Zinsner told investors in September.

Stanley Black & Decker Inc. said tariffs, combined with commodity-price and currency shifts, squeezed its operating margins. Two-thirds of the toolmaker's imports from China are subject to tariffs, primarily finished goods such as power-tool accessories, vacuums and some hand tools.

The additional costs are running $50 million this year, the company said in October, and could rise to $250 million next year, before mitigation efforts—and up to $150 million more if the U.S. follows through on other proposed tariff moves. The company said it plans to raise prices in January to adjust for tariffs imposed this fall and has sought exemptions for some imports.

"I want to make it very clear that it's not a doom-and-gloom story right now, and we don't expect it to be in the fourth quarter, because the bulk of the tariff increases really don't hit until January 1," Chief Executive James Loree told investors in October.

Some companies said raising prices, as many have done, takes time and isn't always possible.

BorgWarner Inc., which sells parts primarily to car and truck makers, said it expects $20 million in tariff and inflation costs this year, but has absorbed all of it so far.

"We've not passed anything through," CEO Frédéric Lissalde said. "Discussions take time and are happening."

Mohawk Industries Inc., which makes flooring and countertops, said it has announced price increases on its imports from China that cover both the tariffs and other rising costs. The company also has revamped supply chains.

Still, Mohawk CEO Jeffrey Lorberbaum urged patience and said in the short term that higher prices could drive customers to buy other products unaffected by the tariffs. "It won't happen like a light switch," Mr. Lorberbaum said.

Zoetis Inc., a veterinary pharmaceutical company, said it could recoup lost sales to U.S. livestock producers, which have seen demand from China slip due to tariffs, through rising demand elsewhere.

Fortune Brands Home & Security Inc., which sells cabinetry, doors and home-security products, said tariffs are expected to cost it $2 million to $3 million in the fourth quarter, and more in January if tariff rates increase.

Long term, it said, the levies may help the company as it relies more on production and assembly in locations unaffected by tariffs. It is moving more door-component production to a facility in Mexico, for example, executives said on a conference call with analysts in October.

"Tariffs are not trivial, but they are manageable," CEO Christopher Klein said. "Once we manage through the initial impact, we actually see potential upside for us from the tariffs given our competitive positions."

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Buffett Opts for Buyback Over Deals

By Nicole Friedman
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Berkshire Hathaway Inc. repurchased $928 million of its stock in the third quarter, a rare move that indicates Chairman Warren Buffett sees a dearth of appealing investment options for his company's large cash pile.

It is the first time Berkshire has bought back stock since 2012. The decision, announced in a quarterly filing Saturday, illustrates the scarcity of attractively priced projects and deals that can satiate yield-hungry investors and firms more than nine years into a **bull market**.

A legendary value investor best known for striking deals when prices are low, Mr. Buffett has struggled to find large investments that aren't overvalued. Berkshire hasn't made a major acquisition since it bought Precision Castparts Corp. for about $32 billion in 2016.

Mr. Buffett, whose moves are widely watched for what they could mean to broader markets, is the latest to join in the buyback boom: Stock repurchases by **S&P 500** companies hit a record in the second quarter, according to S&P Global Market Intelligence.

Berkshire has made small acquisitions in the past two years and poured billions of dollars into buying a stake in Apple Inc. But the company's many businesses, such as Duracell, Geico and BNSF Railway, have continued to generate cash at a fast pace.

The decision to repurchase shares came before stocks slumped in October, hit by concerns over interest rates and slowing growth among technology companies. Ahead of the October swoon, the **stock market** was near record highs, propelled by the tax overhaul passed last year.

Last week, stock indexes rebounded slightly from their October declines, with the **S&P 500** up 2.4%, its best weekly performance since March.

"What the buybacks signal, in a very big way, is that [Mr. Buffett's] short list of putting prospective billions to work, either in private businesses or equities, outside of Apple, are nil," said David Rolfe, chief investment officer of Wedgewood Partners Inc. in St. Louis, which owns Berkshire shares.

Though Berkshire's buybacks were small relative to its balance sheet, they represent a shift in the company's willingness to return cash to investors. In 2012, Berkshire bought back about $1.3 billion in stock, mostly from one longtime shareholder.

Mr. Buffett has long argued that he could better increase shareholder value through investments than through buybacks or dividends. But pressure to buy back more stock has mounted as Berkshire's cash pile has grown.

The Omaha, Neb., conglomerate held $103.6 billion in cash at the end of September, down from $111 billion at midyear, the company said Saturday.

"I wish they'd bought back a little bit more," said James Shanahan, senior equity-research analyst at Edward Jones. "It would appear that their stock is as good, or perhaps better, an investment than anything that's available for them in the market to buy."

U.S. companies are buying back record amounts of stock this year following the tax-law overhaul.

Berkshire said Saturday that its third-quarter net earnings soared, boosted by unrealized gains in its equity investments. Berkshire reported net earnings of $18.54 billion, or $11,280 per class A share equivalent, from $4.07 billion, or $2,473 a share, in the year-earlier period.

Berkshire's earnings are **volatile** due to an accounting rule that went into effect this year requiring companies to include unrealized investment gains or losses in their net income. Quarterly changes in the value of Berkshire's stock investments can have a big effect on its net income.

Operating earnings, which exclude some investment results, rose to $6.88 billion from $3.44 billion in the year prior. Mr. Buffett has said operating earnings are more reflective of Berkshire's performance.

Mr. Buffett, 88 years old, has grown Berkshire over more than 50 years from a New England textiles business into a massive conglomerate that sells candy, car insurance, encyclopedias and diamonds, among other products. Mr. Buffett acts as chief executive and oversees most of the company's investments. But a younger generation of executives handles many of the company's day-to-day operations. Mr. Buffett's eventual successor as chief executive hasn't been announced, but it is expected to be either Ajit Jain or Greg Abel, both of whom are vice chairmen of the company.

Berkshire changed its buyback policy in July. Previously the company could repurchase shares if the **stock price** was below 120% of book value. Under the new policy, Berkshire can buy back shares if Mr. Buffett and his business partner Charlie Munger believe that the **stock price** is below Berkshire's intrinsic value.

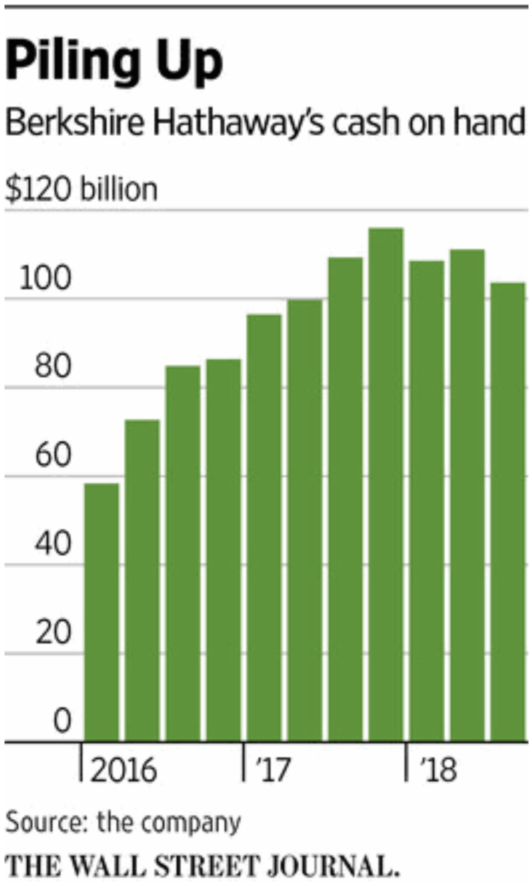
Messrs. Buffett and Munger don't tell shareholders their estimate of Berkshire's intrinsic value. Mr. Buffett has said the company's book value is a less helpful metric than it used to be because Berkshire has shifted its focus toward operating businesses rather than stock investments.

Mr. Buffett said on CNBC in August that Berkshire had bought back some shares "at what we know is a price where the continuing shareholders are going to be better off because we bought it."

Berkshire bought back shares at an average price of $312,806.74 per A share and $207.09 per B share.

Buybacks can be controversial, as critics have said the cash spent on repurchases can be better used on capital expenses or employee wages.

Mr. Buffett defended buybacks in his 2016 letter to shareholders. Buybacks are a plus for long-term shareholders as long as a company's shares are undervalued, he said. "The question of whether a repurchase action is value-enhancing or value-destroying for continuing shareholders is entirely purchase-price dependent," he said.



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THE WALL STREET JOURNAL.
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Investing In Funds & ETFs: A Monthly Analysis --- A Reality Check For Small-Stock Investors --- Small-cap shares, and funds that invest in them, had been drubbing the big guys since the 2016 election. Is the recent selloff the end or just a pause?

By Suzanne McGee
1,465 words
5 November 2018
The Wall Street Journal
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English

How the mighty have fallen.

For most of 2018, small stocks continued to deliver the kind of double-digit returns that other asset classes could only aspire to. While the **S&P 500 index** posted a gain of 8.5% in the first eight months of the year, the Russell 2000 small-**stock index** responded with a 13.4% advance.

Many small-cap-fund managers specializing in growth stocks fared far better still. Throughout 2018, the list of top-performing funds in The Wall Street Journal's quarterly Winners' Circle survey, measuring the best actively managed U.S.-stock funds, has been dominated by these small-cap-growth managers. sometimes boasting 12-month trailing returns of more than 50%.

Many of these managers eagerly predicted that the **bull market** that had raged until Labor Day would keep raging for much longer. With the benefit of hindsight, it seems that those predictions may have been made through rose-tinted spectacles.

During the market selloff that began immediately after Labor Day, small-cap stocks have plunged further than their larger counterparts on the way down just as they did on the upside. As of Oct. 31, the Russell 2000 had plunged 13.2% from its Aug. 31 peak, while the **S&P 500** had dropped 6.5%.

"Smaller stocks are now in correction territory, while large-caps are still approaching that point," says Christopher Franz, a senior analyst at Morningstar, the Chicago-based mutual-fund and markets analytical firm. "The Russell 2000 is now trading at levels last seen prior to the 2016 election." The election is when the small-cap sector accelerated, partly on a bet that the new Trump administration's policies would benefit small, U.S.-focused companies that are less exposed to trade disputes. And that happened -- for almost two years.

This leaves investors facing a quandary.

Chasing the **bull market** in small-caps, many eagerly sought out top performers and the funds that invest in them, sometimes accumulating overweight positions. Now they are facing outsize losses.

Should they hang on grimly, in hopes that this is just another of the typical 10%-plus selloffs that usually batter the small-cap universe? Or is it time to consider taking the loss and reallocating their capital? Meanwhile, investors putting their year-end 401(k) and IRA contributions into the market face a similar conundrum: Do they buy smaller stocks while at a relative discount, or shun what now seems to be a risky market segment?

The answers hinge on your ability to tolerate **volatility**.

"Small-caps weren't pricing in any downside with regard to trade or many other issues that investors simply brushed aside," says Jill Carey Hall, U.S. equity strategist at Bank of America Merrill Lynch in New York.

In theory, smaller companies should be less exposed to the economic and financial fallout from trade disputes, since they are less likely to rely on overseas deals for their revenue and profits, she notes. But many small companies may be suppliers to bigger ones vulnerable to trade conflicts with China and other nations.

"And they might not be as nimble as larger companies in their ability to shift their own supply chains, or possess the pricing power that would let them pass through the impact of higher tariffs," Ms. Carey Hall says.

To Francis Gannon, chief investment officer at Royce & Associates in New York, it is as if investors suddenly awoke to a cluster of risks tied to smaller stocks that already existed but had become more significant as valuations rose.

"We had been lulled to sleep until the end of August by the lack of **volatility**," he says. Beneath the surface, Mr. Gannon points out, worrying signs already existed. For instance, in the first eight months of the year, about 35% of companies in the Russell 2000 didn't generate any earnings, he calculates. Nevertheless, those stocks soared 22.8%, while companies that did produce profits got only a boost of 12.6%, he says.

The pattern was similar for dividend-paying companies, which rose only 8% in the first eight months of the year, while those that didn't pay dividends climbed an average of 20.8%, he says.

Then there is the problem of debt. Smaller companies tend to have more of it than their larger counterparts, it is of shorter duration and is more likely to be floating rate. So, as the Federal Reserve policy makers keep raising interest rates, these small businesses will pay higher rates to refinance.

"The ratio of this debt to Ebitda [earnings before interest, taxes, depreciation and amortization] is at an all-time record for Russell 2000 stocks," says Ms. Carey Hall. As valuations climbed, that became harder to ignore.

So, what's an investor to do? Be picky; be very, very picky, argues Mr. Gannon.

Already, it is clear that the market is favoring those companies that have earnings and that pay dividends, he says. While they aren't escaping the carnage, they are down less than lower-quality stocks.

That approach helped Amy Zhang's Alger Small Cap Focus Fund (AOFIX) become one of the top-performing funds in the Winners' Circle survey in the third quarter of 2018.

At the end of the quarter, the fund had a year-to-date gain of 44.8%. As of Oct. 31, according to Morningstar data, that had been pared to 25.7%. While that's a big change, and suggestive of the hit all small-caps have taken, the fund still outpaces large- and small-cap stocks alike, as well as the small-cap growth category of funds tracked by Morningstar.

"We don't invest in startups," says Ms. Zhang. "Many [of the fund's portfolio companies] have years of operating history, more than 10 years; some have more than 20 years."

While Ms. Zhang does want to own growth stocks, she wants high-quality growth -- and that means paying attention to questions such as financial strength. "I want to invest in companies that don't have to rely on **financial markets** for funding."

It is this kind of discrimination and selectiveness that analysts believe may spell the difference between outperformance and depressing returns in the small-cap arena going forward. Specifically, some experts -- such as Mr. Franz -- suggest that a **volatile**, downward-trending market may be the kind that favors active stock picking, despite higher fees that active managers levy. "If this were to become a more sustained downturn, I would feel more comfortable with an active manager," Mr. Franz says.

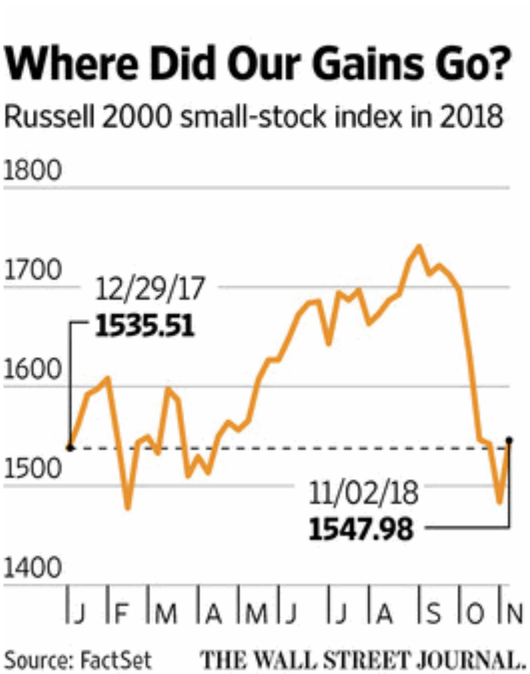
Other tips: Look for managers who have been through this before, says Lamar Villere, a small-cap and midcap portfolio manager for the funds overseen by Villere & Co. of New Orleans. That now usually will mean seeking out a fund whose management team has remained essentially unchanged for more than 10 years -- because they have managed a portfolio of small-caps through a full market cycle, and may be better at anticipating changes and navigating them. If a team has done well for only 10 years or so, he says, "you may be just the wrong kind of fund for the next decade."

Another key ingredient in the recipe for success is having a concentrated portfolio, Mr. Villere says. "The temptation now is to get defensive and to add some more names to the portfolio, but that will only result in the fund being overdiversified and looking like the index."

That is what Gary Bradshaw, co-manager of Hodges Small Cap Fund (HDPSX) in Dallas, is doing: concentrating the fund's portfolio into the team's highest-conviction ideas, just as they did during the financial crisis of 2008. "We've gone from 60 names to only 43: the companies whose earnings we feel good about, that we know could do well in a downturn and exceptionally well in an upturn," he says. The roster of survivors includes such eclectic names as Spirit Airlines, American Eagle Outfitters and Texas Roadhouse Inc.

But Mr. Bradshaw isn't ready to call time out on small-cap stocks just yet. He and his colleagues have most of their own retirement funds invested in their funds -- "We're eating our own cooking," he says -- and he points out that they've all "been through this before. We'll ride out this storm, too."

Ms. McGee is a writer in New England. She can be reached at reports@wsj.com.



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THE WALL STREET JOURNAL.
U.S. EDITION

Investing In Funds & ETFs: A Monthly Analysis --- International Investing: International Stocks Are Calling --- After years of lagging behind U.S. equities, foreign stocks look relatively cheap

By Dan Weil
910 words
5 November 2018
The Wall Street Journal
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English

It may be time for investors to increase their exposure to foreign stocks.

Thanks to years of underperformance relative to their U.S. brethren, foreign stocks are relatively cheap, some experts say. They point to the fact that while the **S&P 500 index** has risen an annualized 10.8% over the past 10 years, the MSCI EAFE Index, which measures developed countries outside the U.S. and Canada, has risen only 3.9%, and the MSCI Emerging Markets Index 5.3%. The foreign increases are in dollar terms.

"Stocks are significantly cheaper in other parts of the world," says Bill Stone, co-chief investment officer at wealth management firm Avalon Advisors in Houston.

As of Oct. 31, the forward-looking price-to-earnings ratio, based on earnings estimates for the 2018 calendar year, for the **S&P 500 stock index** was 16.43, compared with 13.39 for the MSCI Europe Index, 12.1 for the MSCI Japan Index and 10.87 for the MSCI Emerging Markets Index, according to Bloomberg.

Stagnant share prices abroad also have helped boost dividend yields. As of Oct. 31, MSCI Europe sported a yield of 3.98%, MSCI Japan stood at 2.45% and MSCI Emerging Markets at 3.21%, compared with 2.03% for the **S&P 500**.

"Based on current valuation levels, which help play a role in determining equity returns over the next several years, foreign markets appear more attractive than U.S. markets," says Michael Sheldon, chief investment officer at RDM Financial Group-HighTower Advisors in Westport, Conn.

Not everyone is **bullish** about foreign stocks. Some advisers see political and economic troubles brewing, particularly in the European Union. Some analysts are concerned about instability for the EU and the euro, pointing to Italy as a potential trouble spot because of concerns about the new populist government there and its economic policies. Others worry about Britain's planned exit from the EU, saying a hard exit would hurt the economies of the U.K. and continental Europe.

To be sure, concerns about Europe's economic problems are pushing down the euro, which is good for European stocks, says, Karim Ahamed, an investment adviser for wealth management firm HPM Partners in Chicago. Euro weakness boosts European companies that sell overseas, making their products less expensive in foreign-currency terms and making their foreign revenue worth more in euro terms.

"That may be the silver lining in the cloud," Mr. Ahamed says. The euro was at about $1.14 at the start of November, down from $1.25 on Feb. 1.

Mr. Ahamed also has concerns about Japan, where the **stock market** touched 27-year highs in September and the yen has become something of a safe-haven currency. A strong yen hurts Japan's stocks, because many of its companies are dependent on exports.

Avalon's Mr. Stone views the country more optimistically. "We are overweight Japan," he says. "It has high-quality companies holding lots of cash, and corporate governance has improved." While Japan's economic growth is slow, export-focused Japanese companies can benefit from a stronger economic expansion elsewhere in the world, he says.

Experts agree that the best long-term investment prospects lie in emerging markets, thanks to their strong economic growth. For the next 10 years, Ivan Hoffman, managing partner of Fi3 Financial Advisors in

Indianapolis, and his colleagues forecast annualized **stock-market** returns of 8.9% for emerging markets, 6.9% for developed markets excluding the U.S., and 5.7% for the U.S.

Emerging markets, excluding their rally in 2017, have suffered in recent years amid weak commodity prices, slowing growth in China and tightening U.S. monetary policy. But the MSCI Emerging Markets Index's 14% drop so far this year provides an "attractive entry point," Mr. Hoffman says, despite persistent **volatility**.

Investing overseas entails currency risk. If foreign currencies fall, any holdings based in those currencies will be worth less in dollar terms. Some funds hedge against that exposure by using currency forward contracts. But given that currencies will fluctuate up and down over time, such contracts don't have much of an impact on the funds' long-term returns, says Dan Sotiroff, passive-strategies analyst at financial information firm Morningstar.

Specific overseas funds that Mr. Sotiroff recommends include Vanguard FTSE Developed Markets ETF (VEA) or its mutual-fund version Vanguard Developed Markets Index Admiral (VTMGX). "You're getting access to broadly diversified developed-market exposure," he says. And annual expenses are just 0.07% for both funds, putting them among cost leaders in the category.

The same factors -- broad market exposure and low costs -- lead him to favor iShares Core MSCI Emerging Markets ETF (IEMG) for emerging markets exposure and Vanguard Total International Stock ETF (VXUS) for total foreign-stock exposure.

Meanwhile, for a small slice of your foreign allocation, Mr. Ahamed recommends T. Rowe Price International Discovery Fund (PRIDX). It focuses on small-cap stocks, primarily in developed markets.

"Small-caps may be leaders in their local markets, but not globally, so they aren't picked up by multinational fund managers," he says.

Mr. Weil is a writer in West Palm Beach, Fla. He can be reached at reports@wsj.com.

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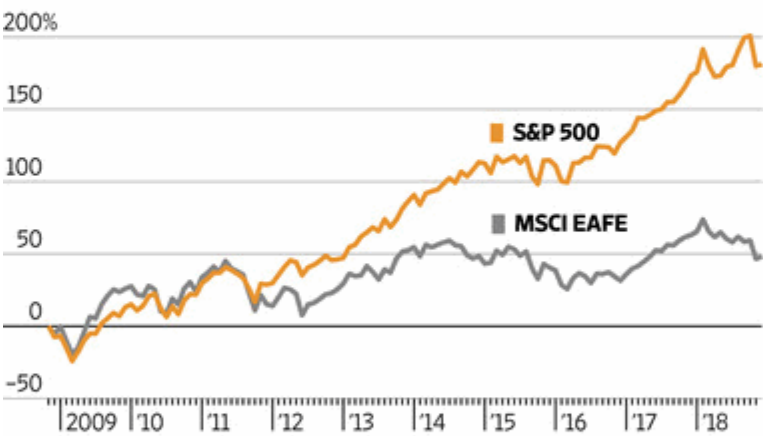
The S&P 500 versus the MSCI EAFE index of foreign stocks



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Midterm Votes Have Investors on Edge

By Akane Otani and Ira Iosebashvili
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5 November 2018
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English

Investors around the U.S. are bracing for the unexpected heading into the midterm elections, wary of being caught wrong-footed as many were after the 2016 presidential election, Brexit and other crucial votes over the years.

Few are predicting that the outcome widely seen as most likely -- Democrats winning the House and Republicans retaining control of the Senate -- will fuel the type of violent price swings that came on the heels of President Trump's election victory.

But many agree the elections could create fresh winners and losers in the market. Manufacturers and construction firms could get a boost if a divided Congress can come to an agreement on infrastructure spending, while banks stand to lose if a Democratic sweep leads to a halt in deregulation.

History suggests the **stock market** will fare well no matter who wins on Tuesday. The **S&P 500** has risen in the year after every midterm election since 1946, according to brokerage and advisory firm Strategas. Analysts attributed this to investors redeploying funds kept on the sidelines ahead of elections, as well as the market's tendency to climb throughout history.

Still, the potential for a shock has investors keeping a close eye on the results as they trickle in late Tuesday and early Wednesday.

"I have a feeling I'm not going to sleep that well that night," said Ben Phillips, chief investment officer of New York-based EventShares. "Maybe a catnap here and there."

About two weeks ago, EventShares added shares of Martin Marietta Materials Inc., Granite Construction Inc., United States Steel Corp. and other industrial firms to its U.S. Policy Alpha exchange-traded fund. The wager was that even if leadership in Congress is split, legislators may be able to come to an agreement about boosting infrastructure spending. The firm's fund also includes banks such as BB&T Corp. and Goldman Sachs Group Inc. that could benefit from a looser regulatory environment.

"Our base case is a split Congress," Mr. Phillips said, adding that the firm will be watching for the opportunity to add or trim positions after the election.

Investors have been less confident in strategies hinging on a pure Republican sweep.

An ETF trading under the ticker "MAGA," an acronym for Mr. Trump's "Make America Great Again" campaign slogan, has posted net outflows in six of the past seven months after attracting millions of dollars at the start of the year, according to Lipper.

The ETF, whose top holdings include cigarette makers Philip Morris International Inc. and Altria Group Inc., invests in companies whose employees and political-action committees have donated to Republican politicians. It is down 5.7% this year, while EventShares' fund -- which bets on policy, rather than on political party -- has fallen 0.9%. The **S&P 500** has risen 1.8%.

Some analysts are advising investors to be wary of fleeting gains.

Regardless of who wins the elections, stocks will likely rise, supported by some removal of uncertainty over the direction of domestic politics, said Lee Ferridge, head of macro strategy for North America at State Street Global Markets in Boston.

But those gains are likely to be short lived, Mr. Ferridge said, adding he has told investors to use any rally as an opportunity to sell stocks. He said he believes markets are likely to turn rocky again before year-end amid rising U.S. bond yields, pricey technology stocks and other issues that have weighed on equities in recent weeks.

"We will have a rally because everyone thinks we will have one," Mr. Ferridge said. Over the long term, however, "there's an awful lot of uncertainty out there."

Bank stocks are one group that could take a hit following the elections given a Democratic sweep. Analysts at UBS Global Wealth Management believe a Democratic-led Congress would work to impede recent White House efforts to roll back financial regulation such as the Dodd-Frank Act.

Nevertheless, the firm currently has an "overweight" rating on the sector, believing that low valuations and other factors will override political considerations over the long term.

Other investors say they plan to sit back and watch what unfolds in the following weeks, rather than trying to place bets on the market right away.

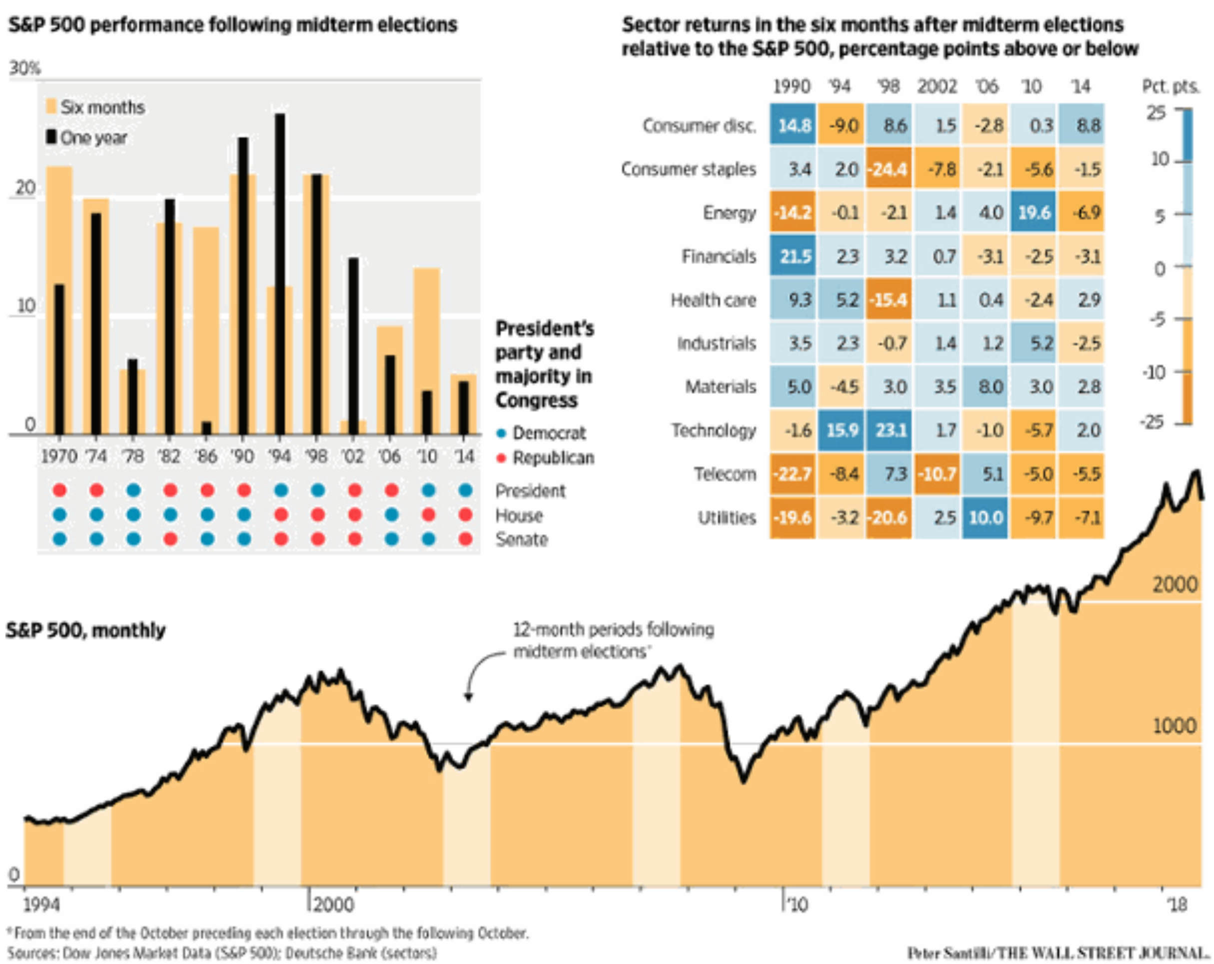
When Mr. Trump won the presidential election, U.S. stock futures plunged overnight, at one point hitting the 5% limit that exchanges set to prevent further drops. But by the end of the following day, the **Dow Jones Industrial Average** had rallied more than 200 points.

"The midterm effect on markets will be quick," said John Augustine, chief investment officer of Huntington Private Bank in Columbus, Ohio. "Things like the Fed and U.S.-China trade relations -- those to us are the focus, and those will be developing over longer periods of time."

If the Republicans end up holding on to their majority in both chambers, Mr. Augustine said he might consider taking on more shares of so-called cyclical sectors: companies whose fortunes tend to closely align with economic growth.

Experts' poor record of predicting key votes such as the referendum on Britain's membership in the European Union and the 2016 U.S. election have made many wary of committing to a particular outcome ahead of time.

"You can't position yourself for something like this," said James Bianco, head of Chicago-based advisory firm Bianco Research. "There's a consensus, but the results have confounded consensus again and again."



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THE WALL STREET JOURNAL.
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U.S. Firms Try to Blunt Bite of Tariffs From China

By Theo Francis
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English

U.S. companies said they are tempering the effects of escalating tariffs with China through price increases or changes to their supply chains, but they warn investors that the picture could worsen next year.

Tariffs have slowed U.S. timber and grain exports, raised the cost of imported clothes hangers and heavy-equipment materials, and compressed profit margins for computer chip and tool makers, among other effects, according to an analysis of results and comments from the roughly 75% of **S&P 500** companies that have reported third-quarter earnings.

"The negative impact is pretty widespread across the **S&P 500**," said Binky Chadha, chief U.S. equity and global strategist at Deutsche Bank. Still, he said, the overall effect so far is mostly modest.

Timber giant Weyerhaeuser Co. said log exports to China fell after the country imposed retaliatory 5% tariffs on Sept. 24, despite solid construction activity there. Railroad operator Union Pacific Corp. said in October that the season's typical grain-shipment increase hadn't materialized, due in part to Chinese tariffs.

At heavy-equipment maker Caterpillar Inc., sales haven't suffered, and the fact it has assembly operations in both countries reduces its need for imports. Still, the company faces higher raw-material costs, though they are running toward the lower end of its earlier forecast of between $100 million and $200 million for the year's second half, company officials said in a September projection.

Some companies said they are turning the tariffs to their advantage. Warehouse-store chain Costco Wholesale Corp. is pitching its customers products such as nuts and pork; prices for these items have fallen as exports have slowed in the face of China's tariffs.

"Something like one third of the U.S. pork. . .is exported to China," Costco Chief Financial Officer Richard Galanti told investors on an early October conference call. "That's changed, and therefore pork prices are way down. There's great savings. That's creating some opportunities."

The tariff concerns come as the recent run of robust profit and sales growth shows signs of slowing. Analysts and economists warn of still-slower earnings growth next year.

Overall, third-quarter per-share earnings for **S&P 500** companies are on track to rise 27.1% over the same period in 2017, the third straight quarter with earnings gains near or above 25%, according to financial-data firm Refinitiv. Analysts said as much as a third of that gain stems from last year's U.S. corporate tax cut and is unlikely to continue next year.

S&P 500 revenues are expected to rise 8%, still above normal for recent years but slower than in the last three quarters, Refinitiv says. The figures reflect reported results, as adjusted by analysts, and analyst estimates for the rest.

Looking ahead, analysts and economists note that global growth has slowed, particularly in Europe and China. "Probably some of it is due to the tariffs and the trade war," Mr. Chadha said. "But some of it would pretty clearly happen anyway."

Executives or analysts have mentioned tariffs or the terms "China trade" or "trade war" about 600 times during earnings calls at about 130 **S&P 500** companies since mid-September, The Wall Street Journal found in an analysis of conference-call transcripts retrieved from Factiva. The terms arose at least a half-dozen times at about a quarter of the businesses.

If tariffs jump to 25% on the $200 billion of Chinese imports that currently face a 10% levy, as the Trump administration has threatened, earnings growth for the **S&P 500** could be reduced 2 to 3 percentage points, said David Lefkowitz, senior equity strategist for the Americas at UBS Global Wealth Management's chief investment office. He projects that would cut earnings growth to about 4% -- a deceleration likely too small to derail the economic expansion on its own.

Already, the U.S. tariffs and China's retaliatory levies are hitting a diverse range of U.S. businesses.

Workplace uniform supplier Cintas Corp. said it is paying more for clothes hangers, while other direct effects are limited. "It is something that's starting to creep in," Chief Financial Officer J. Michael Hansen told investors in September.

Micron Technology Inc., which sells computer memory chips, said tariffs could trim its first-quarter gross margin by 0.5 to 1 percentage point, contributing to projections for a year-over-year decline of at least 1.4 percentage points. Mitigation will take time, financial chief David Zinsner told investors in September.

Stanley Black & Decker Inc. said tariffs, combined with commodity-price and currency shifts, squeezed its operating margins. Two-thirds of the toolmaker's imports from China are subject to tariffs, primarily finished goods such as power-tool accessories, vacuums and some hand tools.

The additional costs are running $50 million this year, the company said in October, and could rise to $250 million next year, before mitigation efforts -- and up to $150 million more if the U.S. follows through on other proposed tariff moves. The company said it plans to raise prices in January to adjust for tariffs imposed this fall and has sought exemptions for some imports.

Some companies said raising prices, as many have done, takes time and isn't always possible.

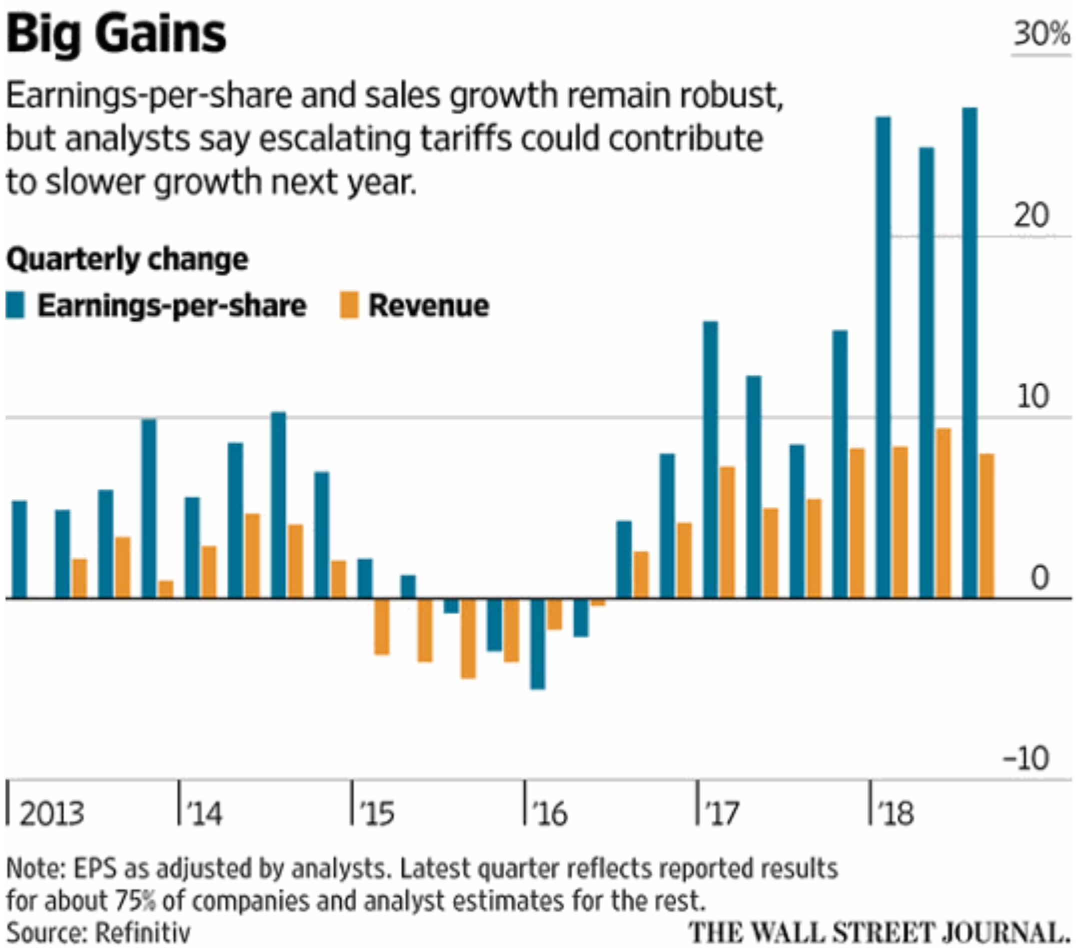
BorgWarner Inc., which sells parts primarily to car and truck makers, said it expects $20 million in tariff and inflation costs this year, but has absorbed all of it so far.

Mohawk Industries Inc., which makes flooring and countertops, said it has announced price increases on its imports from China that cover both the tariffs and other rising costs. The company also has revamped supply chains.

Still, Mohawk CEO Jeffrey Lorberbaum urged patience and said in the short term that higher prices could drive customers to buy other products unaffected by the tariffs. "It won't happen like a light switch," Mr. Lorberbaum said.

Fortune Brands Home & Security Inc., which sells cabinetry, doors and home-security products, said tariffs are expected to cost it $2 million to $3 million in the fourth quarter, and more in January if tariff rates increase.

Long term, it said, the levies may help the company as it relies more on production and assembly in locations unaffected by tariffs. It is moving more door-component production to Mexico, for example, executives said on a conference call with analysts in October. "Tariffs are not trivial, but they are manageable," CEO Christopher Klein said.



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THE WALL STREET JOURNAL.
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Investing In Funds & ETFs: A Monthly Analysis --- Monthly Monitor: Stock Funds' 7.9% Drop Wiped Out 2018 Gains

By William Power
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5 November 2018
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English

0.0%. That isn't a typo. It is the average return, according to Thomson Reuters Lipper data, for all U.S.-stock mutual funds and exchange-traded funds this year through Oct. 31.

But aside from the statistical quirk of a year-to-date 0.0%, the reality for fund investors is that what seemed like a likely full-year 2018 gain has gone up in smoke.

The October market rout is to blame, when stock funds fell an average of 7.9% -- wiping out all year-to-date gains. It was a brutal month, marked by pessimism about global growth and just how long the 9 1/2-year U.S. **bull market** can continue.

"Nothing really has changed economically. The biggest fear driving trading is Federal Reserve fears," says Brent Schutte, chief investment strategist at Northwestern Mutual Wealth Management Co., Milwaukee. In other words, how much will the Fed raise rates to keep the economy in check?

Mr. Schutte has described investors' outlook as "Goldilocks and the Three Fears" -- an economy that is just right but with lingering worries about trade spats, rate rises and a 2020 recession. He still says "the market cycle has further room to run -- albeit with moderate gains because valuations are still somewhat high."

Small-cap-focused funds -- the stars of the fund world since 2016 -- gave back a good chunk of gains in October. The small-cap growth fund category was off 11.8%, to trim the year-to-date gain to 6.5%.

International-stock funds had similar declines, on average, to the U.S. in October. The category was down 8.6%, according to the Lipper data, for a 10.8% year-to-date drop.

Bond funds showed more-muted declines. Funds focusing on intermediate-maturity, investment-grade debt (the most common type of bond fund) were down 0.8%, to push the year-to-date decline to 2.4%.

In times like these, the only solace for American investors is that their market isn't as weak as many others'. Mr. Schutte notes that the U.S. is still "one of the few [global] markets that could be up for the year."

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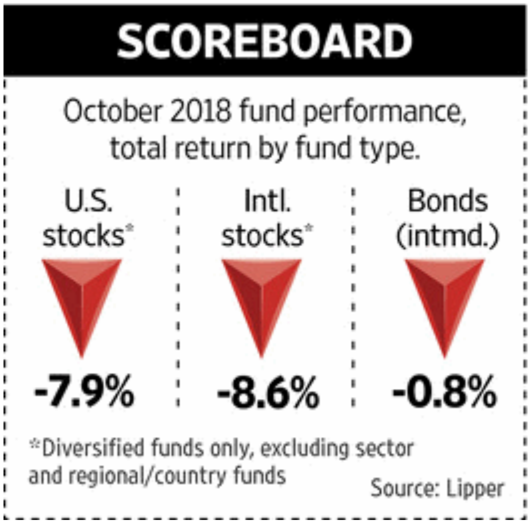

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After IPOs, Tech Firms Go Back for Seconds

By Corrie Driebusch and Maureen Farrell
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English

Tech entrepreneurs who for years were reluctant to wade into the public **stock market** have been jumping in lately with both feet.

As their shares outperform, newly public tech companies have been returning to the market to sell more stock at a nearly unprecedented clip. About 44% of the so-called follow-on offerings from U.S.-listed technology companies in the first 10 months of the yearhave come within 180 days of an initial public offering. That would be the second-highest yearly percentage since Dealogic began collecting data in 1995.

In a sign of the big pops tech companies have come to expect, they are selling just 17% of themselves on average in IPOs this year, the smallest proportion on record.

Technology shares that debuted on U.S. exchanges this yearare up 22% on average through the end of October. That compares with a 1.4% rise in the **S&P 500** and a 9.9% gain for tech shares in the index. New issues are outperforming even after tech shares were hit the hardest in the recent market turmoil. The **Nasdaq Composite** tumbled about 10% in October from a recent high and had its worst month in 10 years.

Overall, proceeds from share sales this year by already-public tech companies are the highest they have been since 2000. But the speed with which newly public companies have been able to return to the trough at higher prices shows how ravenous investors have been for new offerings from Silicon Valley.

"Even though there's been a shift among investors toward more defensive parts of the economy, people still believe in the tech sector, particularly in software, that growth will be strong," said Colin Stewart, managing director and vice chairman in global capital markets at Morgan Stanley.

Entrepreneurs spent years shunning the public markets in favor of a robust vein of cash available privately. But in 2018, for many companies the rewards of public ownership became too attractive to ignore. Driven by a torrent of tech offerings from the likes of Dropbox Inc. and Spotify Technology SA, it has been the busiest year for U.S.-listed IPOs by number of deals and proceeds since 2014, with 212 companies raising $57 billion -- including 50 tech companies that raised $19.7 billion.

Even as stocks have swooned, a number of companies have proceeded with IPO plans. Enterprise-software company Anaplan Inc. priced its IPO at the high end of expectations on Oct. 11 and the shares are up roughly 40% since then.

Next year could be even bigger for IPOs, as some of the largest startups that have been waiting in the wings, like ride-hailing service Uber Technologies Inc. and data-mining specialist Palantir Technologies Inc., gear up for their own debuts.

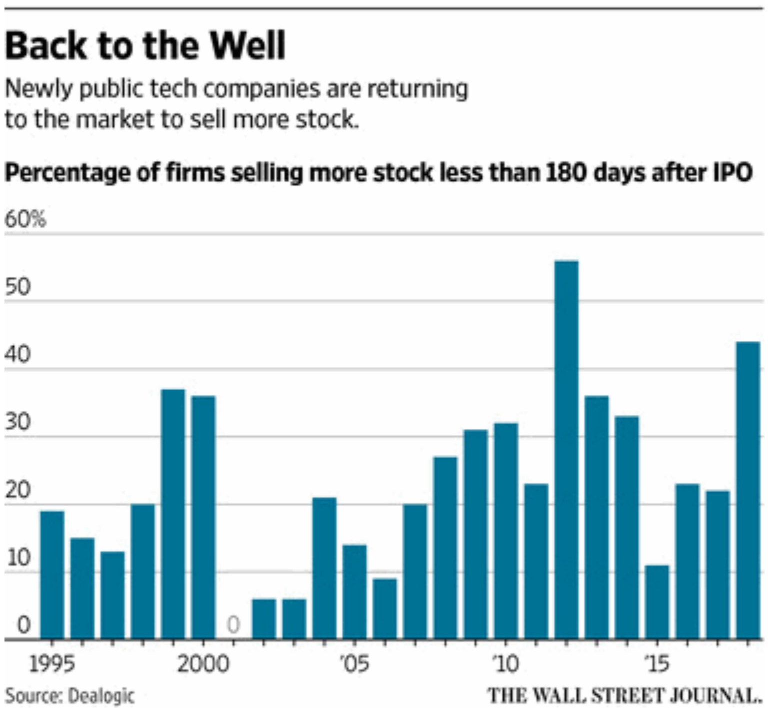
"Tech IPOs are still a scarce asset class," said Chris Cormier, head of technology equity capital markets for the Americas at UBS Group AG. "Investors are looking for the next-gen name to own for the next three-to-five years."

Should recent market declines continue, at some point it would likely take a bite out of the outperformance of tech-IPO shares and halt the parade of new issues and follow-ons. Some investors had already been warning that the IPO market, powered by money-losing tech startups, was due for a correction.

"We're making disciplined investment decisions," said Corey Shull, an analyst who looks at both private and public tech investments for fund manager T. Rowe Price Group Inc. Just because a company is selling more shares "doesn't mean we have to buy more."

The strong performance of newly public tech companies has made follow-on offerings and other deals like convertible-bond sales and mergers more attractive, said Byron Deeter, a partner at venture-capital firm Bessemer Venture Partners. "The going-public story has become more compelling all around," he said, adding: "The cool factor of staying private forever is diminishing."

Take DocuSign Inc. The electronic-signature-software company raised private capital at a valuation of $3 billion in 2015, and it was unclear if public markets would value it as high. But when DocuSign went public in April, the company sold shares at a better-than-expected price that valued it at $4.5 billion. By September, that had jumped to $8.7 billion, and key investors chose to sell another slug of stock for $443 million. The company, which sold just 16% of its shares in the IPO, now has a market capitalization of $6.7 billion.



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The New York Times

THE WEEK AHEAD
Business/Financial Desk; SECTB
Iran Oil Sanctions Restart; Fed Will Meet on Rates

By THE NEW YORK TIMES
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NYTF
Late Edition - Final
2
English

Here's what to expect in the week ahead:

TRADE

Exports of Iranian oil to drop as U.S. sanctions begin.

American sanctions on Iranian oil exports officially resume on Monday morning, the most important action the Trump administration has taken against Tehran since the United States withdrew from the Iran nuclear deal. Fearing reprisals, European and Asian companies have already cut back purchases of Iranian oil. Experts doubt that Washington can stop all Iranian oil exports -- and the administration announced on Friday that it was exempting eight countries from the sanctions. But shipments from Iran are expected to drop by as much as 1.7 million barrels a day. With Saudi, Russian and American production climbing and global economic growth slowing, **oil prices** have fallen in recent weeks.

-- Clifford Krauss

ECONOMY

Hiring is getting harder as the labor market tightens.

The jobs report on Friday showed that the labor market's record run continued in October, with employers adding 250,000 jobs and the unemployment rate staying at a nearly 50-year low. Separate data from the Labor Department on Tuesday will paint a more detailed picture of how hard it has gotten for companies to hire. In August, there were 114 job openings for every 100 unemployed workers, the most lopsided ratio on record, and the gap probably widened in September. Employees, meanwhile, are quitting their jobs at the highest rate since 2001, a sign they are gaining the confidence to shop around for better opportunities. Economists will be watching both measures for evidence that employers will be forced to offer bigger raises to attract and retain workers.

-- Ben Casselman

AUTO INDUSTRY

BMW, caught in middle of trade war, will report earnings.

BMW will publish its third-quarter earnings on Wednesday, and they are likely to provide more detail about how much damage it has suffered from President Trump's trade war. BMW's factory in Spartanburg, S.C., which produces sport utility vehicles popular in China, has been caught in the crossfire of tit-for-tat tariffs. BMW, based in Germany, already warned in September that profit would be less than earlier forecasts, in part because of trade tensions.

-- Jack Ewing

ECONOMY

Fed to meet, but a rate rise is not expected.

The Federal Reserve's policymaking committee meets this week, but changes in policy are not on the menu. The Fed raised its benchmark interest rate by a quarter-point at its last meeting, in September, and it is widely expected to raise rates by another quarter-point at its next meeting, in December. This week, the Fed is just passing time. The committee usually meets on Tuesday and Wednesday, but this week's meeting is on Wednesday and Thursday, avoiding a conflict with Election Day. One mildly interesting milestone: This will be the last committee meeting that is not followed by a news conference. The Fed's chairman, Jerome H. Powell, has announced that he will hold a news conference after each of the Fed's eight meetings next year, an increase from the current schedule of quarterly news conferences.

-- Binyamin Appelbaum

MEDIA INDUSTRY

Disney theme parks expected to contribute to strong earnings.

Disney shares climbed 12 percent from early July to the end of September, far outpacing growth by the **Standard & Poor's 500**-**stockindex**. When Disney reports earnings for that period on Thursday, investors are expecting the company's momentum to continue. Per-share earnings should total $1.33, a 24 percent increase from the same quarter a year earlier, according to analysts' estimates. Contributing will be Disney's vast theme park business, which has been white-hot -- the result of new attractions, higher prices and a strong economy in the United States. Television, which is Disney's largest business, should have a solid quarter (unlike a year ago), along with Walt Disney Studios, which released ''Ant-Man and the Wasp'' to blockbuster ticket sales in July.

One area of potential weakness: Disney Consumer Products, which has reported declines in profit for the last four quarters. The troubled division, Disney's smallest, has suffered from weakness in big franchises like ''Star Wars'' and broader tumult in the toy marketplace.

-- Brooks Barnes

TRADE

E.U. ministers to discuss trade relations and the W.T.O.

Foreign ministers of European Union countries will meet on Friday in Brussels to discuss trade relations with the United States and reform of the World Trade Organization. Many of the European leaders will be hoping that, with the midterm elections over, chances will improve for a deal that would ease tensions. Behind the scenes, officials from the United States and the European Union have been discussing ways to harmonize regulations of goods like pharmaceuticals and autos, which would lower costs for companies and consumers on both sides of the Atlantic.

-- Jack Ewing

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

Iran's oil exports may decline by up to 1.7 million barrels a day. (PHOTOGRAPH BY ALI MOHAMMEDI/BLOOMBERG); Disney's vast theme park business has been white-hot. (PHOTOGRAPH BY JAE C. HONG/ASSOCIATED PRESS)

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THE WALL STREET JOURNAL.

Markets

It's Now or Never for 'Hedged' Bond ETFs; These fixed-income funds were designed for just this type of market environment

By Ari I. Weinberg
1,191 words
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10:05 PM
The Wall Street Journal Online
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English

When interest rates rise, **bond prices** fall. The same is true for most bond ETFs, unless they have a hedge.

A number of fixed-income exchange-traded funds include hedges designed to mitigate the effects of rising rates. Many of these products, launched a few years ago for just this type of environment, have been performing as their builders intended.

Here's a starter guide to a barely scratched corner of the fixed-income ETF market.

Spot the hedge

In a rising-interest-rate environment, hedging can be key to keeping a bond ETF above water. According to research firm XTF Inc., 60% of fixed-income ETFs were down for the year through Oct. 29 as the target federal-funds rate moved higher over the course of the year. By contrast, the handful of hedged fixed-income ETFs are showing positive performance.

Several products from BlackRock Inc.'s iShares, WisdomTree Holdings, ProShare Advisors LLC and DWS Group's Xtrackers are achieving this performance—up between 2% and 6% year to date, and attracting assets—by hedging a variety of risks, including interest-rate moves and inflation expectations. Slightly more expensive and much less liquid than their plain-vanilla cousins, these ETFs can be used to reduce **volatility** while still delivering yield.

"Hedging was actually detrimental to performance for the first couple of years for many of these products," says Todd Rosenbluth, New York-based director of ETF and mutual-fund research for CFRA. "But now a few have developed a track record and more significant assets and volume," Mr. Rosenbluth says.

Employed effectively as part of a fixed-income portfolio, Mr. Rosenbluth says, several of these products have offered both reduced **volatility** and a greater risk-reward profile then their unhedged cousins. Yet of the $65 billion in net assets added this year to the $600 billion managed by fixed-income ETFs, most of the new money is going to short-term and floating-rate bond ETFs, traditional products less likely to get whipsawed by rising rates, and core offerings favored in diversified asset allocations. Hedged fixed-income ETFs collectively added $850 million this year through Oct. 24, according to ETF.com.

While many of the products have similar-sounding names, their underlying holdings or indexes and their hedging mechanisms can vary. The focus of each product tends to vary from the aggregate bond market to investment-grade corporate securities to high-yield debt to emerging markets.

Interest-rate hedging

To understand how interest-rate-hedging ETFs work, it helps first to understand the concept of duration, a measurement based on the timing of interest payments and return of principal for individual bonds. Expressed in years, duration can also be used to gauge sensitivity to interest-rate fluctuations. Generally, a one-percentage-point move in rates (up or down) will shift the price of the bond or bond portfolio in the opposite direction, multiplied by the duration. So, a rise in rates of 1 percentage point would sink the price of a five-year-duration bond or bond portfolio 5%.

Interest-rate-hedged ETFs are manufactured to have a duration of approximately zero. For example, ProShares Investment Grade Interest Rate Hedged ETF (IGHG) and Deutsche X-trackers Investment Grade Bond Interest Rate Hedged ETF (IGIH) attempt to do this by selling Treasury futures contracts that rise in value when Treasurys lose value—i.e. when interest rates rise. This gain (or potential gain) helps to offset the decline in price of the bonds held by the ETF.

Alternatively, an ETF could use a type of financial derivative known as an interest-rate swap to achieve the same effect. The actively managed iShares Interest Rate Hedged Corporate Bond ETF (LQDH) does this by holding shares of the $31.6 billion iShares iBoxx $ Investment Grade Corporate Bond ETF (LQD) and by selling derivatives that entitle the ETF to floating payments in return for fixed payments. If interest rates move higher, the ETF receives cash that can help to offset any price decline in its core holding, in this case LQD.

"The rates-hedging instruments can be seen in the disclosed holdings, and their effectiveness can be measured," says Raj Sharan, director of quantitative analytics and risk at Savos Investments, a division of AssetMark Inc.

Each of the issuers admonishes investors that these products are built mostly for quick, steep interest-rate moves, exactly like those experienced over the past several months.

"It's a way to reduce risk in a rising-rate environment," says Brad Krom, associate director of research at WisdomTree Investments, which launched a suite of hedged products five years ago on the day the Fed began tapering its bond purchases, including the $294 million WisdomTree Interest Rate Hedged High Yield Bond Fund (HYZD).

One catch, says Mr. Krom, is that the hedged products deliver a "net yield," which covers the cost of the hedging activity in the distributions made to investors, which means the yield will be less than it is for unhedged products.

Negative duration and more

While the interest-rate-hedged fixed-income ETFs simply seek to eliminate the risk of rising rates, WisdomTree also has hung a shingle for products that attempt to actually goose returns for those looking to take a more aggressive stance in a rising-rate environment.

With roughly $100 million collectively in Negative Duration High Yield Bond (HYND) and Negative Duration U.S. Aggregate Bond (AGND), the WisdomTree products target minus 7 and minus 5 duration, respectively. So a rate rise of 1 percentage point would send the price of HYND up 7%. Such exposure would supercharge fund returns in a period of aggressive rate increases—but also leaves it more vulnerable to losses if interest rates stay the same or fall. If rates fall one point, the price of HYND would fall 7%.

Other products, such as short-bond ETFs from ProShares and Direxion, reset their exposure daily and are built for active traders. And, of course, investors always have the option to carry out a short trade on their own, but will take on the associated carrying costs of borrowing an ETF.

Another possibility

iShares Inflation Hedged Corporate Bond ETF (LQDI), launched in May, takes a similar approach to LQDH but uses futures and swaps based on a measure of inflation. While only a few months into existence, this fund may not fare any better with investors than the $14 million ProShares Inflation Expectations ETF (RINF) launched in 2012 that is long U.S. Treasury inflation-protected securities and short conventional Treasurys.

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Journal Report

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* U.S.-Stock Funds Hit Exactly 0.0% for Year

* Federal vs. Private Student Loans

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WSJ PRO CENTRAL BANKING

Markets
BOJ's Kuroda: Local Economy Strong Enough That No More Shock Stimulus Needed

By Megumi Fujikawa
463 words
5 November 2018
02:05 AM
WSJ Pro Central Banking
RSTPROCB
English

NAGOYA, Japan--Bank of Japan Governor Haruhiko Kuroda on Monday expressed confidence that the domestic economy is now strong enough that it doesn't warrant another surprise stimulus action from the central bank along the lines of what was rolled out in 2013.

"Japan's economic activity and prices are no longer in a situation where decisively implementing a large-scale policy to overcome deflation was judged as the most appropriate policy conduct, as was the case before," Mr. Kuroda said Monday in a speech to business leaders in Nagoya.

While elaborating on the comment at a subsequent news conference, Mr. Kuroda said he didn't see the need to implement a new easing policy that would be drastically different from the one currently in place.

In 2013 the central bank governor implemented an aggressive asset-purchase program upon taking the job, in an effort to pull the country out of a 15-year rut marked by falling prices and a tepid economy.

Mr. Kuroda said that since 2013 the economy has "clearly improved," which is reflected in solid corporate earnings and a tight labor market. However, the core inflation rate excluding fresh food for September--the most recent data available--was 1%, still only half of the BOJ's target.

Given the divergence of Japan's economy and prices, the BOJ should persistently continue easing monetary policy, while considering the policy's positive and negative effects "in a balanced manner," Mr. Kuroda said. He acknowledged that continuing monetary easing could affect financial-system stability and the functioning of financial intermediation.

While pledging to pay attention to side effects of prolonged low rates on the banking sector, Mr. Kuroda also said lenders--as they face structural problems including declines in population and the number of companies--would have to cultivate new business ideas.

"If inflation reaches 2%, we will seek to exit from powerful easing. If so, the yield curve would steepen and interest rates would rise, but that alone wouldn't solve banks' troubles," he said, adding that raising interest rates now to help banks would cool the economy, leading to additional problems for lenders.

At its meeting last week, the BOJ maintained its main policies, including setting short-term interest rates at negative 0.1% and the target for the 10-year Japanese government **bond yield** at around zero. It also reiterated that it would keep "extremely low" interest rates for an extended period.

Write to Megumi Fujikawa at megumi.fujikawa@wsj.com

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Write to Megumi Fujikawa at megumi.fujikawa@wsj.com

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THE WALL STREET JOURNAL.
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REVIEW & OUTLOOK (Editorial)
The New Iran Sanctions

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5 November 2018
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The Trump Administration is reimposing sanctions on Iran on Monday, and some of our friends on the right are claiming it wimped out on Iran's oil exports and access to the world financial system. But it looks as if Treasury and State are trying to apply sanctions in a diplomatically clever way that still puts pressure on the regime -- assuming the U.S. follows through on enforcement.

One complaint is that the Administration has exempted eight countries from sanctions on oil exports from Iran. The U.S. isn't saying which countries, but sources say they include Japan, South Korea, China and India. This gives a reprieve to two allies -- South Korea and Japan -- that are trying to reduce their reliance on Iranian oil over time.

India and China are disappointments, but then the waivers serve the purpose of keeping some Iranian oil on the world market so **oil prices** don't spike. The U.S. can, and Secretary of State Mike Pompeo says it will, gradually squeeze further as American production continues to rise and replaces lost Iranian supply.

Even with the waivers, the expectation of sanctions has already taken 1.1 million barrels of Iranian oil a day off the market. That's a lot of lost income for the Iranian economy. Note, too, that the Administration didn't spare the European Union from the oil sanctions following its refusal to cooperate with helping the U.S. renegotiate Barack Obama's flawed nuclear deal with Tehran.

Another gripe from the right is that Treasury is not banning all Iranian financial transactions through the Swift system that ensures secure cross-border financial messaging. Instead, the Administration will allow Swift to process transactions for humanitarian purposes like trade in medicine and food.

But Treasury Secretary Steven Mnuchin also says Swift "must disconnect any Iranian financial institution that we designate as soon as technologically feasible to avoid sanctions exposure." This will help make the case that sanctions are targeting the regime, not the Iranian people, and it may deter Europe from seeking an alternative to Swift. The rub is that the U.S. will have to monitor and enforce the Swift humanitarian channel lest Tehran exploit it for other purposes.

The U.S. retains the flexibility to tighten sanctions further in coming months, but Monday's measures will deprive the rulers in Tehran of more cash for their foreign adventures. The U.S. should expect some retaliation, perhaps with terror proxies. As for the EU, its leaders should rethink their resistance and work with the U.S. to prod Iran to renegotiate the deal so it really would prevent an Iranian nuclear weapon.

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Investing In Funds & ETFs: A Monthly Analysis --- Don't Wait Until December to Take Tax Losses

By Meir Statman
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5 November 2018
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December seems to be a magical month in the tax calendar. This is when the fairy godmother of taxes transforms investment losses into tax deductions. Act fast to realize losses, she says, before the clock strikes midnight on Dec. 31, when those tax deductions revert to rotten losses.

I would argue, however, that December offers no tax magic. Indeed, investors who wait until December before realizing losses are likely to pay more taxes than those who realize losses when they occur, months earlier.

Blame it on investor psychology, and our deeply ingrained aversion to realizing losses.

First, though, a quick tax explanation relevant to taxable accounts. Short-term in the tax code is one year or less, and long-term is anything longer. The federal tax rate on short-term gains is a person's marginal tax rate, as high as 37%, and states with income taxes add to the bite. The federal tax rate on long-term gains is 20%, but 15% or even zero when total income is relatively low. People with relatively high income pay a 3.8% surcharge on investment income, including capital gains.

Tax laws are complicated, but one piece of good tax advice is clear. Whenever you can, realize losses as soon as they occur, and realize gains, if you must, only when they turn long-term.

Think of a stock, say that of Facebook. You bought 50 shares at $218 per share on July 24, 2018. Its price declined to $158 by Oct. 9, 2018. You might consider realizing the loss, selling the shares you bought, booking a $60 loss per share, and purchasing shares of another tech stock, say Apple, at $225 per share. (The tax deduction is postponed if you simply turned around within 30 days and bought the same number of Facebook shares as you sold.)

You will be able to count your realized losses on Facebook as capital losses when you complete your 2018 tax return in April 2019, perhaps offsetting capital gains on another stock or mutual fund, or offsetting tax on $3,000 of income, such as wages.

Why not wait until December? Because by December the price of the shares might increase to what you paid for them, or more, and the opportunity for a tax deduction would disappear.

But what if the price of Facebook shares continues to fall through November. Shouldn't you wait before selling your Facebook shares in October? The answer is no.

Suppose that you realized a loss on Facebook shares as you sold them for $158 on Oct. 9, 2018, and bought shares of Apple at $225 with the proceeds. Now suppose that by late November you find that the price of Apple shares declined, say to $200. You can now sell your Apple shares, realizing the loss, and buy shares of Facebook or some other stock. This way you book another capital loss, $25 on each Apple share, that can reduce your taxes further. Your purchase of Facebook shares will not trigger IRS objections because more than 30 days have passed since you sold them on Oct. 9.

Mind you, I'm not arguing that losses are joyful. Only that you can take some consolation in making tax lemonade out of loss lemons.

So why don't people do that? That's where the psychology comes in.

Buying a stock, say Facebook, marks a hopeful beginning. We place the shares into a Facebook mental account, record their $218 purchase price, and hope to close the account at a gain, perhaps selling the shares at $300. As stock fate has it, the stock's price plummets to $158 during the following months rather than increase. We don't need to acknowledge our loss fully because it is only a paper loss, we console ourselves. The shares would surely recover soon and their price would climb higher. Our hopes are alive.

Why not realize losses when they occur, before December? Because realizing losses inflicts the emotional pain of regret. Regret is painful enough when we face our paper losses, but the pain of regret is searing when we realize our losses because this is when we give up hope of getting even by recovering our losses. This is when you kiss your money goodbye.

Wait until December, though, and the year-end deadline gives you an excuse to confront those losses, turning them into tax deductions and alleviating regret.

How can we overcome the psychological obstacles to maximize tax benefits by realizing losses as soon as they occur?

The most important point to understand is that regret comes with responsibility. If you can reduce the responsibility you feel about your investment, the regret will also be reduced. One way to reduce responsibility is reflected in the common broker lament: "When a stock goes up, the investor says that he bought the stock. When it goes down, the investor says that the broker sold him the stock."

So how can investors reduce responsibility? One way that works for me is to recognize that the process by which stocks go up or down is random. So I shrug, deriving no pride when the **stock market** goes up and suffering no regret when it goes down. Sure, I'm disappointed by the losses, but at least I don't suffer regret on top of those.

But others may not be so inclined. For them, the best approach is to transfer responsibility for realizing losses to a third party -- a broker, adviser or a robo adviser. Responsibility and regret are diminished by the distance between an investor and the act of realizing losses.

Beware, though: Personally instructing your broker to realize your loss each time a loss happens doesn't create sufficient distance between you and the choice. You create greater distance and reduce more responsibility by a standing order to your broker, adviser or robo adviser to realize losses, say, once a month, without involving you.

Another approach is in the words we use. When talking to clients, brokers like to recommend that the clients "transfer" their assets, which can feel less like realizing a loss on losing stocks and more like they are simply "transferring" their money from one stock to another. The mere transfer of money obscures the realization of losses and alleviates the regret that comes with such realization.

The contemporary magic words for inducing investors to realize their losses are "harvest your losses." Harvesting losses brings to mind plucking juicy peaches while strolling in an orchard rather than realizing rotten losses while bent over our portfolios.

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WSJ PRO CENTRAL BANKING

Economy
Kuroda: Large-Scale Easing No Longer Most Appropriate Policy for Japan

By Megumi Fujikawa
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NAGOYA, Japan—Bank of Japan Gov. Haruhiko Kuroda said Monday it was still necessary to continue to ease monetary policy given sluggish inflation, but not exactly as it has done in the past five years.

"Japan's economic activity and prices are no longer in a situation where decisively implementing a large-scale policy to overcome deflation was judged as the most appropriate policy conduct, as was the case before," Mr. Kuroda said in a speech to business leaders in Nagoya, central Japan.

The central bank governor, who introduced an aggressive asset purchase program in 2013 when he took the job, said the economy has "clearly improved" on solid corporate earnings and a tight labor market. Meanwhile, core inflation excluding fresh food rose to 1%--half of the BOJ's target—in September for the first time since February.

Given the divergence between the economy and prices, BOJ should "persistently" continue to ease monetary policy, while considering both positive and negative effects of its policy "in a balanced manner," Mr. Kuroda said.

The central bank "fully recognizes" that continuing monetary easing could affect financial system stability and the functioning of financial intermediation, he said.

At its meeting last week, the BOJ maintained its main policies, including setting short-term interest rates at minus 0.1% and the target for the 10-year Japanese government **bond yield** at around zero. It also reiterated that it would keep "extremely" low interest rates "for an extended period."

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THE WALL STREET JOURNAL.

Markets

Signs of Profit Peak Put Global Stocks at a Crossroads; Surging earnings have been the major driver of the Dow industrials' run this year to 15 records. But many say they believe the profits bonanza is at an end

By Michael Wursthorn
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The postcrisis boom in U.S. corporate profits may be near its peak, investors and executives say, a potential threat to a nine-year rally that has taken the **Dow Jones Industrial Average** up more than threefold.

With more than half of **S&P 500** firms having reported results, third-quarter earnings have risen 24% from the same period a year earlier, driven by strong gains at firms from retail and web-services giant Amazon.com Inc. to manufacturers General Motors Co. and Boeing Co. That compares with 25% increases in each of the past two quarters and the 20% gain that Wall Street analysts were forecasting, according to FactSet.

Surging earnings have been the major driver of the Dow industrials' run this year to 15 records. Last year's corporate tax cut supercharged profits, easing stretched valuations and fueling an intense rally in some of the fastest-growing, most highly valued companies.

But executives and investors are now saying they believe the earnings bonanza is at an end. Analysts are forecasting 6% profit growth in each of the first two quarters of 2019, as the impact of the tax cut dwindles. That is down from the 7% analysts had been forecasting in early October.

The earnings slowdown stands to add to concerns swirling around U.S. stocks in the wake of an October rout that rattled many investors and sent the **S&P 500** to its deepest monthly decline since 2011. While analysts and portfolio managers remain largely **bullish**, contending that stocks only got more attractive relative to other investments in the wake of last month's selloff, many are starting to prepare for a more unpredictable period in both the U.S. and Europe, in which they won't be able to bank on windfall profits.

"This is a very classic end to the business cycle to me," said Dean Tenerelli, a T. Rowe Price portfolio manager in London. "Expectations are very high for companies, valuations are very high for companies and eventually things start to slow, along with the economy and earnings momentum."

Mr. Tenerelli's fund recently bought shares of some industrial companies, taking advantage of the lower valuations of what he considered to be oversold stocks that had strong earnings and stable profit margins.

While earnings growth over time tends to be the strongest driver of **stock-price** gains, analysts say, it is clear other factors can compensate in supporting share prices in the near term. Corporate buybacks will likely pick up in coming months, investors say, and foreign buyers who have been largely absent lately could pour more money into the U.S.

Accordingly, Wall Street expects stocks to rise, even if haltingly. Bank of America Merrill Lynch forecasts the **S&P 500** will rise to 3000 by the end of the year from 2723 Friday, implying a gain of 10%. That target is 2850 at Goldman Sachs Group Inc., implying a gain of less than 5%, while Morgan Stanley forecasts an **S&P 500** reading of 2750 by mid-2019, up just 1%.

But the threat to the market has been clear in this earnings season. The dollar's rise this year has hit multinational companies that convert overseas sales back into U.S. dollars. Companies from Apple Inc. to Kellogg Co. have said in recent earnings reports that the dollar's 4% rise this year has hit profit and sales in countries like Turkey, Brazil and India.

Even the world's most valuable company is showing signs of slowing down. Apple Inc. said Thursday that revenue for the final three-month period of the year would come in below analysts' estimates, with the stronger dollar pressuring results in emerging markets.

"These are markets where currencies have weakened over the recent period. In some cases, that resulted in us raising prices and those markets are not growing the way we would like to see," Chief Executive Tim Cook said Thursday on an earnings call with analysts.

Drugmaker Pfizer Inc. last week narrowed its full-year revenue and profit targets, saying that the rolloff of certain patents and pricing challenges will crimp sales.

Scotch tape and industrial adhesives maker 3M Co. also lowered its earnings forecast for the year and reported slower sales growth in the third quarter, citing currency troubles.

Adding to concerns about the future returns for U.S. stocks: the continuing trade spat between the U.S. and China, which threatens a new source of higher prices and narrowing demand for some companies.

The outlook for European stocks is similar. Companies in the Stoxx Europe 600 are on pace to expand profits by 14% from a year earlier, the highest growth rate since the end of the year, according to I/B/E/S data from Refinitiv. But analysts project that profits peaked in the third quarter, expecting earnings across European companies to come in lower through 2019.

SEB SA, a French household-appliance maker behind brands like Tefal, was among companies that cut revenue guidance, blaming foreign exchange and rising material costs on creating a "difficult environment." Shares have tumbled 15% this quarter.

"Investors are repricing assets across the market," said JJ Kinahan, chief market strategist at TD Ameritrade of brokerage TD Ameritrade Inc. "This is going to continue through the end of the year."

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The New York Times

Money and Business/Financial Desk; SECTBU
Weighing the Boom, on Election Eve

By NEIL IRWIN
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The United States economy is the strongest it has been in ages. Growth has been robust, and the unemployment rate is at generational lows, as new data Friday affirmed.

Yet the Republican Party, which controls the White House and Congress, trails Democrats substantially in polling on which party is preferred.

It helps to look beyond the overall economic data to understand this disconnect. After all, you can't eat G.D.P., and good jobs numbers aren't the same as a place to live.

If you look instead at the actual financial lives of average middle-income families from 2016 -- their incomes, spending, assets and debt -- and how shifts since Election Day in 2016 would have been likely to affect them, you get a more mixed picture.

Wages haven't risen much. Inflation has been low, helping keep the price of most staple goods down, though with gasoline prices a costly exception. The tax cut has left more money in most middle-class families' pockets, but only a bit.

In terms of assets, the typical middle-income family has either zero or minimal holdings in the **stock market**, meaning the surge since November 2016 hasn't paid direct benefits. But a majority of households in this income bracket do carry some credit card debt, which has become more expensive amid rising interest rates.

And in terms of housing costs, rents haven't risen much -- but a sharp rise in mortgage rates has made homes less affordable for anyone looking to buy.

Add it all up, and while the benefits of a surging economy, tax cuts and the rising **stock market** are real, they net out to a less favorable economic reality for a family in the middle of the income scale than the economic headlines might imply.

This math is oversimplified -- it doesn't reflect how families may have changed their spending and saving patterns in the last two years, and conflates different definitions of middle income. But the back-of-the-envelope results are revealing:

If you take the benefits of higher wages and the lower taxes, subtracting higher costs for consumer goods and higher interest rates on credit card debt -- it works out to a gain of $122 a month.

Slow wage growth, a boost from tax cuts, low inflation

A lower unemployment rate may benefit workers by making it easier for someone who loses a job to find a new one. But a defining feature of the expansion for years has been relatively tepid growth in wages.

The median pay for a full-time worker in the United States -- now $893 a week -- has risen enough since late 2016 to generate an extra $204 a month in pretax earnings for a household with a single earner, a 5.6 percent gain.

Subtract payroll taxes and federal income taxes on that raise, and that family is looking at $158 a month in additional earnings.

The tax cuts enacted at the start of 2018 should mean most middle-income Americans keep a bit more of their earnings. Analysis by the Tax Policy Center found that of the 91 percent of middle-income tax filers who received a tax cut, the reduction averages $910, or about $76 a month.

Wages may not be growing very fast for middle-income people, but the good news is that prices of most of the things they buy have been rising even more slowly.

The Consumer Price Index excluding housing costs is up only 3.2 percent since November 2016, adding about $101 to the monthly expenses of a family with spending patterns that match those of an average family in the middle 20 percent of the income distribution that year.

When you look at individual items that compose a large portion of family budgets, the relatively low inflation comes through.

Grocery prices -- "food at home" in the Labor Department's terminology -- are up only 1.1 percent in the nearly two years since November 2016, adding $3.33 to the monthly grocery bill for an average family in the middle 20 percent of income.

Outside of food, the pattern mostly recurs. Electricity bills are up 0.42 percent, a mere 50 cents a month of additional expense. Apparel is slightly less expensive than it was in November 2016, saving a middle-class family $1.22 a month. An 11 percent drop in the price of cellphone service saves that family $10.48 each month.

The big exception is gasoline; its price has been marching steadily higher since late 2016. The 23.5 percent run-up in the price of motor fuels adds $37.38 to the typical family's monthly expenses.

Fine time for renters, but higher rates hurt would-be buyers

When it comes to housing, it matters a lot whether you're renting and planning to continue renting; renting but seeking to buy a home; or already own one.

For renters who plan to stay renters, costs are rising modestly, just like overall inflation -- 3 percent since November 2016, tacking an extra $26.54 onto monthly costs for the average renter.

Homeowners typically have their monthly mortgage costs already set. Their wealth -- the value of their home -- has risen a bit in two years. The median sale price for a home in the United States was $214,000 in November 2016, according to data from Zillow, and the national appreciation rate since then implies such a house would now be worth $230,000.

Things are trickier for a renter looking to buy a home, because of rising mortgage rates. A side effect of the surging economy and deficit-increasing tax cuts has been higher rates, which means that even though home prices aren't up all that much in the last two years, the cost for a buyer needing credit is considerably higher.

The rate on a 30-year fixed-rate mortgage was 3.5 percent at election time two years ago, and is now 4.83 percent. Combined with the rise in the price of the median home, a middle-income American family looking to buy with 20 percent down would be looking at a monthly mortgage payment that is $196 a month higher now than in November 2016, wiping out gains from higher wages and lower taxes.

A market boom for a few, and higher interest rates for others

The Trump administration has pointed to the booming **stock market** as evidence of success: The **Standard & Poor**'**s500 index** has returned about 29 percent, including reinvested dividends, since November 2016.

But middle-income families typically have minimal direct exposure to the **stock market**. Their financial holdings tend to be modest at best, meaning that rising stock prices create only a small wealth increase.

Among middle-income families in 2016, only 52 percent held stocks either directly or indirectly, such as through a mutual fund. And of those 52 percent, median stock holdings were only $15,000. (That would be up to around $19,000 now if they left the money in an **S**.**&P**. **500 index** fund since then without making further contributions.)

Stock investments are much more a feature of upper-income brackets. The same survey showed that 94.7 percent of families in the top 10 percent of income held stocks, with a median value of $363,400.

Many middle-income Americans, 84.3 percent of them, do tend to hold some form of debt. And rising interest rates in the Trump economy -- a consequence of strong economic growth and Federal Reserve actions meant to prevent the economy from overheating -- are making that debt more costly.

In 2016, 53 percent of middle-income households had credit card debt, with an average debt balance of $4,400. The average rate on such debt has risen to 16.5 percent today from 13.6 percent in November 2016, implying an extra $10.50 a month in interest cost for a family carrying that balance.

In other words, debtors -- and the average middle-class American fits that description -- are paying a price for the surging economy even as they enjoy the benefits of higher pay and low inflation.

Given the limitations in the data on which these calculations are based, it's best to think of this analysis as an impressionistic painting rather than a high-resolution photograph of the economic lives of the middle class.

But it is a telling one, and helps explains the limits of a political message built on what seems to be a booming economy. It booms for some people more than others.

How we did the math

To develop this portrait, we started with two government surveys from 2016: the Labor Department's Consumer Expenditure Survey, which provides details of household spending patterns broken down by income bracket, and the Federal Reserve's Survey of Consumer Finances, which details assets and debt.

Then, we simply extrapolated forward to the fall of 2018. If those patterns among middle-class families held steady as they were buffeted by economywide forces, would they be better or worse off in the days before the midterms?

This is assuming that they had no radical changes to their financial lives like getting a lucrative new job or winning the lottery, and that their wages, costs and investment performances plugged along at average rates over the last 23 months.

Because of limitations in the data available for the recent past, we had to combine data sources that aren't really meant to be combined. We had to switch between different definitions of middle income, and we made some simplifying assumptions. (For example, we calculated how higher gasoline prices would increase people's spending without adjusting for how they might react to higher prices by driving less.)

CHART: The Simple Math of How Middle-Class Families Are Doing (Source: New York Times analysis of Labor Department and Federal Reserve data) (BU3)

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THE WALL STREET JOURNAL.

Markets

The New Retirement Plan: Save Almost Everything, Spend Virtually Nothing; A group of younger workers, devotees of the FIRE movement, are seeking ways to duck mistakes made by prior generations

By Anne Tergesen and Veronica Dagher
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Sylvia Hall wants to retire at age 40. Her dream has a price: brown bananas.

The 38-year-old Seattle lawyer is on a strict budget as she tries to hit her goal of amassing $2 million in assets by 2020. That means saving about 70% of her after-tax income and setting firm spending limits in every part of her life.

She looks for brown bananas and other soon-to-be discarded items from fruit and vegetable stands to help keep her grocery bills around $75 a month. She walks to work so she doesn't have to spend money on gas. She borrows Netflix passwords from friends so she doesn't have to spend much on entertainment.

"The idea of not having to wait to 65 to start living on my own terms appealed to me," she said.

For a new generation of Americans, the traditional retirement age of 65 is getting old. Some of the youngest members of the U.S. workforce are saving aggressively and spending little so they can leave work decades ahead of schedule, defying the career arc that typically defines adult life.

Their reasons for flouting conventional career norms and saving at high rates range from dissatisfaction with unfulfilling work to the decline of traditional social safety nets to a desire for more economic security in an era defined by events such as the 2008 financial crisis.

Even though they are better educated than their parents and grandparents, people between 25 and 35 have less wealth than prior recent generations, and "are behind in almost every economic dimension," said Alicia Munnell, director of the Boston College Center for Retirement Research, including earnings and debt.

They're also watching the generation entering retirement struggle with many of the same problems. About 10,000 people turn 65 every day and many are unprepared for the years ahead. Older Americans have high average debt. Their 401(k)-type retirement funds will bring in a median income of under $8,000 a year for a 65-year-old couple.

The younger generation's radical solution—dubbed Financial Independence, Retire Early—has spawned an ecosystem of podcasts, blogs, books, conferences and informal discussion groups. One online forum dedicated to the concept, known to its followers by the acronym "FIRE," has more than 450,000 subscribers.

FIRE adherents are often millennials and younger members of Generation X who have college degrees, above-average incomes and the discipline to adopt a strict do-it-yourself approach to retirement. Some say they are saving as much as three-quarters of their income, or five times the 15% savings rate conventional financial advisers often recommend, and growing their own food. Others are taking more modest measures such as living in smaller houses and driving older cars.

"It gives people more control over their lives and time," said Grant Sabatier, 33, who writes a blog about the topic called Millennial Money. "We live in uncertain times and financial empowerment provides a path out."

The downside of FIRE is its inherent paradox: For those seeking financial security, early retirement can be risky. Since many early retirees rely solely on income from stocks, bonds or real estate for living expenses, sudden market downturns can pose a threat to their plans. At the same time, these people have to forecast their cost of living for decades. This means prolonged periods of high inflation can wreck their forecasts and budgets.

The self-reliance and thrift embodied by FIRE have roots in American history. Elements of the philosophy can be found in Ben Franklin's 1758 classic "The Way to Wealth," Ralph Waldo Emerson's 1841 essay "Self-Reliance" and Henry David Thoreau's "Walden," an 1854 book about living simply in a cabin he built near Concord, Mass.

Many FIRE boosters cite a more recent work: the 1992 book "Your Money or Your Life" by Vicki Robin and Joe Dominguez. This paean to financial independence and anti-consumerism, a business best seller in the '90s, found a new audience after the 2008 financial crisis.

"Millennials understand the rules have changed," said Ms. Robin, now 73. "They understand that the system their parents built is coming apart."

[Vicki Robin explains how living below your means now will lead to financial independence later in the Journal's Secrets of Wealthy Women podcast.]

FIRE enthusiasts gather around the country to discuss ways to save more, spend less, and manage investments. A recent meet-up in Manhattan attracted close to 30 people to an office conference room. The attendees—mostly men in their 20s and 30s, several with backgrounds in engineering—discussed taxes, index funds and real-estate investing over beer and potato chips.

"We are surrounded by consumerism, advertisements and marketing, and there are a lot of easy ways to spend," said David Rodriguez, 33, a mechanical engineer who helped organize the meeting. "It is important to have a place to find like-minded people."

The interest in thrift is flourishing most visibly online where frugality evangelists amass large followings via podcasts, blogs and conferences. One of the most popular FIRE blogs, Mr. Money Mustache, started in 2011, has attracted about 2.5 million page views in the past 30 days, according to Google Analytics data. A podcast devoted to the topic, ChooseFI, has been downloaded 5.2 million times and been played in 190 countries since its inception in early 2017, according to podcast hosting service Liberated Syndication. This puts it in the top 2% of the more than 50,000 podcasts the service hosts.

Attendees at "FI Chautauqua," a week-long financial independence conference, spent up to $3,000 this year (not including airfare) to go to Greece and hear leaders in the FIRE community share tips.

Some who have tried the path of early retirement say it isn't always as idyllic as it sounds. Socializing with people who still have conventional jobs can be awkward, said Ed Ditto, 49, who retired at 36 as an energy trader and now writes the Early Retirement Dude blog. His solution is to invite friends and neighbors to backyard potlucks.

"I don't bring up the fact that I don't have a job," he said. "If someone is interested, I'll talk about it, but I don't want to run the risk of stirring up resentment."

Brandon Ganch, 36, who retired from his job as a software engineer in 2016, said his frugality became an obsession and he stressed over small purchases by his wife. He often got upset when visitors took long hot showers at his former Vermont home or his wife ordered a "$15 main course instead of a $10 sandwich" at a restaurant.

"It wasn't healthy," said Mr. Ganch, who now lives in Scotland.

"Frugalwoods" author Elizabeth Thames quit her nonprofit job so she could concentrate on a blog about life as a rural Vermont homesteader, a dream made possible by "extreme frugality" her website says. It says she has found "everything from coats to fondue pots to wine glasses" in the trash and that her husband learned to fix the plumbing.

One complaint from readers was that the 33-year-old author and her husband still earn sizable incomes. Nate Thames works for a nonprofit and was paid about $270,000 in 2016, according to his employer's most recent tax forms. Ms. Thames makes an undisclosed amount from her blog and a recently published book.

"Now I understand why even with cutting everything to the bone, that we haven't been able to save like they do," a reader posted in an online review of the book.

Ms. Thames says she is "transparent about the fact that my husband still works a conventional job from home and that I enjoy working for myself through Frugalwoods.com."

Mr. Sabatier, 33, says his Millennial Money website made $401,000 last year. Blogger Joe Udo, 44, recently disclosed he has made almost $350,000 since starting "Retire by 40" in 2010.

Tanja Hester, author of a blog called Our Next Life, called for FIRE bloggers to be more transparent about their financial lives in a post this year. She said she makes less than $1,000 a year on the blog, but declines to disclose her income from a book advance, saying "there's no need to share your actual numbers if you are honest with readers about your general financial situation."

Emma Pattee, 28, discovered she missed the social benefits of office life. She left a job in marketing two years ago with the goal of writing a novel. She had $150,000 in savings and more than $900,000 in real-estate equity, stemming from a $144,000 home she purchased in Portland, Ore., in 2012 that she says tripled in value, enabling her to purchase four other rental properties. Ms. Pattee, who married in 2015, says she and her husband, Andrew Hanna, 33, live off the rental income and save his salary in medical administration.

"It was hard to go from working every day in an office full of people to sitting in a tiny apartment by myself," she said. "It is very isolating."

Recently she began taking on more freelance work as a copywriter. "I got a lot more meaning from my work than I had realized," she said. "It is a lot harder to find meaning than to save 70% of your income."

Ms. Hall, the lawyer from Seattle, is hoping to retire with $2 million in assets at age 40. She currently has $1.5 million in assets and expects to hit her goal by 2020. Her plan then is to "Airbnb-it around the world" for 10 months on a retirement income of about $25,000 and visit friends and family the other two months.

She said she is aware of the problems that could trip her up, from unexpected health expenses to a prolonged **bear market**. But she said she has a detailed plan to secure health insurance abroad and if a market downturn dents her nest egg, she is confident she can adjust her lifestyle.

"The goal is to try to live in such a way that I won't be forced to go back to work."

FIRE proponents say they account for the danger of fluctuating markets by adhering to a rule-of-thumb pioneered by financial planner William Bengen, who concluded retirees should spend no more than 4.5% of their initial nest egg, adjusted annually for inflation, to ensure a high probability of supporting themselves over decades.

It isn't quite that simple, Mr. Bengen, 71, said in an interview. Younger retirees are more vulnerable to unexpected expenses, and his rule applies only to tax-advantaged 401(k)s and individual retirement accounts for as long as 30 years.

It took a Category 5 catastrophe for Sylvia Hall to start thinking of changing her approach to her finances. When Hurricane Katrina struck the Gulf Coast in 2005, Ms. Hall, then a New Orleans resident, temporarily lost a home and a paycheck as the first payments were due on $101,600 in law-school debt.

The uncertainty was so unsettling Ms. Hall instituted a strict budget. She started buying discounted meat on its expiration date, took a second job delivering pizzas and began saving half of her $50,000 salary after her law firm reopened in 2006.

After setting aside about $250 a month for discretionary expenses, Ms. Hall devoted the rest—over $2,000 a month—to student loans. By 2009, she had paid off all but $35,000, which she consolidated at 1.6%.

"Not having anything freed me up to not be beholden to stuff and status and to be comfortable and happy with less," Ms. Hall said. "There's something liberating about that."

She stumbled on the Mr. Money Mustache blog in 2012, after moving to Seattle. The idea of retiring early resonated. She increased her savings to about 70% of her after-tax proceeds, which are now about $100,000, and limited her spending to no more than $30,000 annually. That includes $2,400 a year on car and homeowners' insurance, $10,200 on mortgage payments and $75 a month on groceries.

Her grocery budget is so detailed she knows how much she will pay each month for oatmeal (a five-pound bag costs her $3), blueberries (a five-pound bag costs $10), popcorn (1 pound for $2) and rice (60 cents per pound). Now a vegan, she buys fruit at a stand that sells "a table of things that didn't sell" at steep discounts, including brown bananas she freezes and uses for smoothies.

An occasional splurge is a $5 bottle of wine, or a box for $15.

Ms. Hall, who is single, frequently has friends over for potluck dinners, travels using rewards points on her credit cards, and buys season tickets to the theater for a price that works out to about $15 a month.

"I have always lived on very little but never felt I was being deprived," she said. "If I made twice the money, I don't think anything would change. There is nothing I want that I don't have."

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Magazine
How Nonny de la Peña, the 'Godmother of VR,' Is Changing the Mediascape; Long considered a pioneer of virtual and augmented reality, de la Peña unveils her latest breakthrough

By Ryan Bradley
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WHEN NONNY de la Peña was in junior high, in West Los Angeles, her math teacher wrote a note home to her parents. "It was about something I'd rebelliously done," she says. It was something minor, like speaking up, or speaking too loudly. Her father read the note, then turned the paper over and looked at her. " 'This is what she says you do,' he said to me," de la Peña recalls. " 'Tell me about her. What does she do?' " De la Peña listed some of her own unflattering observations about the teacher, and her father wrote them down on the back of the note, so that now the piece of paper contained two notes, two different perspectives. Then her father signed it. "So what does that make you do? Of course, it makes you think about the structure of things.... Of how situations are multidimensional."

It's not simply that observations are two-sided, but as multisided as there are individual witnesses, as infinitely sided as the world in all its depths and dimensions. The problem with the world, with reality, is that each of us is trapped within our own version of it (never, perhaps, has this been more true than in our present moment). So how do we shake ourselves out of our extremely personalized versions of reality? For de la Peña, the answer begins not just by flipping the paper over, but by changing the entire room.

De la Peña, 55, is the founder and CEO of Emblematic, a virtual reality (VR) and augmented reality (AR) studio based in Santa Monica, California. What de la Peña and her 15-person team do is relatively simple in concept and not at all simple in execution. The idea is to put people in places they wouldn't normally find themselves, experiencing situations they would not normally experience. Often, these are related to urgent issues, issues that are, in their sprawling complexity, seemingly difficult to grasp or even care about. But suddenly, there you are, standing in a cell in solitary confinement, or at the foot of a melting glacier, or before a protest line outside an abortion clinic. When you are in these places—hearing the anguish of a prisoner, the calving of a glacier, the vitriol of the protesters—the issues no longer seem like issues, with vague names attached, like prison reform or global warming or women's health. Rather, they seem like lived experience, like people you've met and places you've been—like memory.

Though it is still early days, study after study has shown how our minds categorize VR far differently than other, flatter mediums. All of the VR experiences de la Peña creates are grounded in reality. They are reported documentaries, in a sense. And so they become all the more memorable. De la Peña calls VR an "empathy machine," because by putting you in places with people you may never have otherwise interacted with, you come to understand them far better than you did before.

But VR is still quite a young form, so de la Peña and her team must invent new methods—lines of code or means of motion capture—in order to build these environments. They must digitally reconstruct the spaces and the experiences, brick by brick, or byte by byte, innovating as they go.

In 2012, for example, the World Economic Forum commissioned de la Peña and Emblematic to create a piece on the Syrian refugee crisis. Part of the resulting work, Project Syria, involved meticulously reconstructing streets in Aleppo. You walk down a road and encounter a singing girl and then a mortar shell explodes and chaos ensues. A huge element of the impact of this experience was to allow the viewer to walk the streets freely. But this element was an advancement of de la Peña's work. Nearly all VR experiences outside a lab up to that point had been stationary, like putting a fishbowl over your head that you could look around in but couldn't swim through.

Just a few months before she was to present her work at the World Economic Forum in 2014, de la Peña realized she would have to invent a new headset, because the headset she was using didn't allow for as much freedom of movement as she wanted. The headset is the essential piece of hardware in VR, the thing that allows the entire magic trick to work. It's not just the movie screen, but also the projector, the seat, the popcorn, the ticket booth—the gateway to the entire experience.

The particular headset she had on hand, the one that wasn't doing all that de la Peña wanted it to do, was rather famous, as VR headsets go. Before she moved Emblematic to its Santa Monica offices, de la Peña had worked at the Mixed Reality Lab at the University of Southern California Institute for Creative Technologies. While there, one of her interns had helped build her this headset. That intern, Palmer Luckey, eventually launched a Kickstarter project off of a similar design to help fund his company, Oculus, which Facebook later bought for $3 billion. But in the ever-evolving world of VR, the headset Luckey had worked on for de la Peña had become, after a few years, ancient.

So de la Peña went about building herself an entirely new one. First, she tracked down a company that constructed lenses for NASA and used those lenses for the stereoscopic, depth-producing screens placed mere inches from your eyes. Then she purchased a 3-D printer so she could print and test parts for the rig. She set it up in her mom's garage, and her brother, Stephen Brown, and Thai Phan—another engineer—took over the prototyping. She found a motion-tracking system at a bankruptcy sale and bought it for $7,000. They spent hours, then days, then weeks, building and dismantling existing headsets to figure out how to construct their own. "It was such hubris to think that I could do this, that we could do this," she says, but she did it anyway. "This is what we want to do. I want to walk the streets in Aleppo. How do we reverse-engineer things to make this possible?" Within a month, they had built two headsets you could walk around in.

The same year she was commissioned to make the Syrian refugee piece by the World Economic Forum, the director Alejandro G. Iñárritu met with de la Peña. He'd sought her out because she was a pioneer in VR, and he was just getting interested in the possibilities of the form and thinking about doing a work of his own. Later, this would turn into the U.S.-Mexico border crossing experience called Carne y Arena (Virtually Present, Physically Invisible), a piece that won him a special achievement Academy Award.

"The great challenge is to discover or to understand the visual grammar of this new medium," Iñárritu says, and with her expertise, de la Peña acts as a kind of translator. He continues, "This is another art, and we haven't yet discovered the grammatical language." Others working in VR readily lean on the tricks—the language—of mediums they understand (movies and videogames, mostly), but according to Iñárritu, de la Peña understands that "at the heart of the form is still a reality, a reality lived by somebody else. What I discovered is the genius of Nonny is the way she knows how to balance fact against the limitations [of the form]." As an example, he brings up Hunger in Los Angeles, an experience that was a special selection at the Sundance Film Festival.

In it, you stand in line at a food bank, and while you wait, the man in front of you collapses and begins convulsing. An ambulance arrives and you overhear paramedics say that the man is experiencing seizures resulting from his diabetes. It's an older piece, from 2012. The technology has changed considerably since then, and it shows. The renderings are simple and strange. Yet it is hugely affecting to be standing there looking down at a man—even a poorly rendered one—struggling to survive, right at your feet.

The reason Hunger in Los Angeles works so well is simple: The audio is a recording of the lived experience as it happened in line at a food bank in downtown Los Angeles in 2010, captured by one of de la Peña's interns as her team researched and reported on the topic of hunger and food access across the city. "You don't care about how it looks so much," Iñárritu says, "because you recognize that it is true."

WHEN DE LA PEÑA left Los Angeles for Harvard in 1980, she thought she would go into international politics. But she quickly fell in with documentary filmmakers, both students and professors, and received a university grant that allowed her to photograph and report on Chicano gangs in L.A.'s Mar Vista Gardens housing projects. After she graduated, de la Peña returned to L.A. full time to work for the Associated Press during the 1984 Olympics. Soon after she relocated to Mexico to freelance as a journalist and then moved to New York City, joining Time as a stringer and, in 1987, Newsweek as a correspondent. (Meanwhile, determined to be a freelance photographer, she had converted a closet in her tiny apartment into a darkroom.)

Her favorite reporting was similar to what she'd done in Mar Vista Gardens: enough hanging out to impart a sense of being there, either through writing or photography. But she was increasingly attracted to documentary film and, beyond that, the possibilities of newer forms. She was an early evangelist of the internet and taught herself HTML and other computer languages. Also in the early 1990s, she read Virtual Reality, by Howard Rheingold, and somehow knew that this was what she'd been waiting for.

Virtual reality, as an idea in art, is ancient. A huge canvas depicting a battle, the foreground life-size—that's early VR. So are mid-19th-century stereoscopic photos and viewers. So is an early-20th-century flight simulator. And so are the 1960s prototypes for what we now consider modern VR, chunky headsets attached to room-size computers that ran images that took up your entire field of vision. Virtual reality as a phrase didn't take hold until the 1980s, and virtual reality as a marketing tool arrived in the early 1990s (remember The Lawnmower Man or Nintendo's Virtual Boy?). But VR, until very recently, was extremely niche, usually expensive and often very bad. Only in the past five years has it become anything resembling mainstream—Samsung, for example, advertised its VR headsets during the 2017 Super Bowl. But even so, VR headsets are found in very few households (6 percent of U.S. internet users ages 16 to 64 own a VR device, according to market-research firm GlobalWebIndex). Of these, the vast majority are using their headsets to play videogames.

De la Peña is both an early innovator in the form and an outlier, more concerned with capturing and bringing people into areas of our world than allowing them to leave our world behind. To get inspired, she says, "I close my eyes and think about my body in the space. What's the best way to understand it if I were there?"

Later, she mentions a persistent worry she's had about this interview, that she would sound overly head-in-the-clouds, ungrounded, like "a silly, dreamy woman." Part of the trouble is that because VR is a new form, the technical hurdles are worked out mostly on a computer screen. Talking about it, one can't help but sound a little dreamy, because we don't have the words yet.

But the bigger challenge is the fact of her gender in a male-dominated field. Once, when she was ticking through all the ways she scraped together the business and made payroll—the grants and the pitches and the client work (including a historic re-creation of the Cartier mansion and an AR data visualization of the U.S. **stock market** for The Wall Street Journal's iPhone and Android apps) and the licensing fees for the technologies they had developed—she indicated that Emblematic hadn't taken much outside investment. Was this a result of some principled stance? "Why haven't I taken [more] investment?" She raises her eyebrows. "I think you mean: Why haven't I gotten investment? Something like 98 percent of VC funding goes to guys. So. You see?"

The Emblematic offices are in a squat two-story stucco building on the quiet, inland side of Santa Monica, near enough to de la Peña's home—which she shares with her husband and kids—that it takes her about 10 minutes on her electric bike to get to work. One hot, hazy August afternoon, de la Peña and her team—which now includes New York City–based co-founder Jamie Pallot—are readying the rollout of a new project, Reach, an entirely original way to bring VR to the masses (a prototype was released earlier this year).

Reach is both a platform for WebVR content and a distributor of that content. It's also a set of tools for making WebVR experiences a bit more streamlined and accessible. The idea for Reach is many years old, and a lot of what Emblematic has been building for the past year is essentially a series of clever hacks to existing software and hardware. De la Peña's team is well-suited to this sort of work—most of their inventions here have come out of their own needs, with limited means, resulting in software that makes a higher-end but not wildly expensive camera able to capture both spaces and people while adding depth or volume. This so-called volumetric capture isn't perfect, but Reach works well enough to allow a huge portion of people to suddenly create within this previously unplayable form.

By building the sense of space, de la Peña is able to trick you into believing in your presence in that space. This becomes all the more powerful when you are in a space with a person in it. You listen more intently because that person appears more real, because you believe—if only for an instant—that you are there with them. In one early demo of the Reach platform, de la Peña and her team captured a landscape in Utah canyon country, a lot of sandstone and open sky. But standing there on the rock with you are holograms of different people—including one of musician Reggie Watts—addressing you.

De la Peña's continuing goal with Reach is to capture more environments for people to tell their stories in. She'd like to create a virtual space that is a segment of the walled U.S. border with Mexico, as well as the courtroom in the Supreme Court. Although we are constantly hearing about them, we rarely grapple with the places themselves, much less stand in them and listen. All de la Peña needs, she says, is "access to a place for, maybe, six hours, and now I can have a model for anybody to use whenever they want to use it." In this way, on the Reach platform, she and her team will build a database of environments.

But the places themselves are only half the challenge. The rest is up to all of us. In creating these virtual spaces for others to use, and building a tool kit for capturing and rendering people in depth within these spaces, de la Peña and her team are throwing the empathy machine out into the wider world. Perhaps, with Reach, we've finally begun moving toward something post-internet, something less anonymous, that seems closer to the lived experience—something kinder. But de la Peña says she isn't as concerned with kindness. There is a more important step first: listening. "If you and I were facing each other in the virtual world, would we begin to at least try to understand each other? Would we listen? Maybe. Probably. Yes."

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Economy
Iran Sanctions Won't Fuel Oil Prices for Long; Analysts see pressure on oil as supply increases amid weakening global economic growth

By Sarah McFarlane
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Anticipation of U.S. sanctions on Iran drove **oil prices** to multiyear highs last month, but the crude being pumped to replace Iran's supply and easing demand growth from a slowing global economy could push them lower again.

Lower **oil prices** may be good for U.S. consumers and businesses at a time when inflation is starting to tick up, boosting inflation-adjusted income for households and profit margins for energy-consuming businesses. However, they could sting the nation's energy producers who have become important drivers of U.S. economic growth.

Early last month, the price of Brent crude, the global oil benchmark, climbed to a four-year high around $86 a barrel. The approach of

U.S. sanctions pushed Iranian crude and condensate shipments to 1.76 million barrels a day in October from 2.66 million barrels in June, according to ship-tracking firm Kpler. West Texas Intermediate, the U.S. gauge, hit around $76 a barrel, a near four-year high, as Iranian shipments slipped.

In all, 1 to 1.5 million barrels a day of Iranian shipments are expected to be knocked offline by U.S. sanctions.

But Brent has fallen almost 16% and WTI 17% since early October, plummeting alongside equity markets on concerns about the global economy, trade protectionism and rising interest rates.

In the short term, **oil prices** will be underpinned by dwindling Iranian supplies. The U.S. is reinstating sanctions on Monday after President Trump's withdrawal from a 2015 international agreement to ease restrictions in return for curbs to the country's nuclear program.

The Trump administration has made clear that its goal is to reduce Iranian exports to zero. But the White House has acknowledged that a number of buyers may not be able to go to zero immediately, granting waivers to eight countries to allow them to temporarily continue importing Iranian oil while they work toward switching to other suppliers.

Further out, analysts see pressure on the **oil price** as the U.S., Russia and Saudi Arabia all increase supply when weakening global economic growth is likely to hurt demand. Rapidan Energy Group forecasts 2.5 million barrels a day of additional global supply in 2019.

"The big unremarked-upon change in oil markets in the last six months has been the supply tsunami that has been building for next year," said Bob McNally, president of Rapidan Energy Group. "We see next year as very oversupplied, and that's before we take into account demand risk."

The U.S. economy is growing robustly, but the rest of the world shows signs of slowing down. In October, the International Monetary Fund lowered its forecasts for global economic growth this year and next, citing trade protectionism and instability in emerging markets. That could ease demand from energy consumers. In an October monthly report, the International Energy Agency revised its 2018 and 2019 demand growth forecasts lower, citing a weaker global economic outlook.

Members of the Organization of the Petroleum Exporting Countries have been pumping near full tilt in recent months to offset losses from the Islamic Republic, the cartel's third-largest producer. OPEC ally Russia, for instance, has increased its production by 400,000 barrels a day to 11.74 million barrels between May and September, a post-Soviet record, according to the International Energy Agency.

Goldman Sachs predicts that Brent will climb to $80 a barrel by the end of this year, before falling to $60 within two years. The bank forecasts 2019 global oil demand growth slowing to 1.45 million barrels a day from 1.55 million barrels in 2018, as the global economy slows.

"We're more upside risk near term and more downside risk further out," said Jeff Currie, global head of commodities research at Goldman Sachs.

A big factor will be increased U.S. production, as the industry sorts out logistical constraints which have made it hard to move American oil, Mr. Currie said.

U.S. oil output is expected to reach record levels this year as shale revolutionizes the industry. By 2022, America is expected to become a net energy exporter, only seven years after Washington lifted a ban on selling U.S. oil abroad. Of the 2.5 million barrels a day of additional global supply Rapidan Energy Group expects in 2019, the majority will come from the U.S. and Brazil.

The Energy Information Administration forecasts U.S. output to rise 10% in 2019 to 11.8 million barrels a day, potentially making it the world's top crude producer.

On the flip side, further declines in Venezuelan production are expected due to the continuing economic crisis there, while output in Libya and Nigeria is at risk of sudden disruptions amid civil unrest.

Of course, as prices fall, producers could cut supply and send **oil prices** back up again. Some analysts believe that OPEC could consider cutting output as early as its biannual meeting in December.

Write to Sarah McFarlane at sarah.mcfarlane@wsj.com

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EXCHANGE --- The Intelligent Investor: Sometimes, It's Bonds For the Long Run

By Jason Zweig
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Maybe investors should question the dogma of "stocks for the long run." History shows that a portfolio of bonds has outperformed stocks surprisingly often and for shockingly long periods.

That's the intriguing argument in a new research paper by Edward McQuarrie, a retired business professor at Santa Clara University. Investors have long taken it as an article of faith that stocks have always beaten bonds -- and always will -- if you can just hang on long enough. Prof. McQuarrie's research is a healthy reminder that this belief is wrong. His findings also show the limits and dangers of extrapolating from the past.

Stocks offer a stake in a business's variable profits in the indefinite future. Bonds are contracts conferring rights to a fixed stream of income over a certain period. If stocks didn't offer the prospect of higher return, investors wouldn't want to brave the uncertainty of owning them. But whether stocks deliver that higher return depends largely on how they are priced relative to bonds.

The popular belief that there's never been a 30-year period in which stocks had lower returns than bonds is false. As recently as 2011, bonds had earned higher returns than stocks over the prior 30 years (long-term Treasury bonds, 10.7% annually; U.S. stocks, 10.4%).

That's no aberration, says Prof. McQuarrie. Using digitized antique newspapers to supplement an online database of U.S. stock and **bond prices**, he assembled an index of bonds back to 1793.

That has enabled him to calculate 30-year returns beginning in 1823. Between then and 2013, he shows, bonds earned higher returns than stocks in one-quarter of all 191 three-decade-long periods.

Most of those stretches were in the 19th century. But much of the data on which Jeremy Siegel, a finance professor at the University of Pennsylvania's Wharton School, relied for his best-selling 1994 book "Stocks for the Long Run" also came from the same era.

The difference: Prof. McQuarrie assembled his early data with a wide variety of bonds available to investors at the time. Prof. Siegel chose the highest-quality and lowest-yielding bonds -- often a single U.S. Treasury bond or as few as two municipal bonds.

According to Prof. McQuarrie, the issues tracked in "Stocks for the Long Run" account for less than 5% of the total bond market in much of the 19th century.

Prof. Siegel used so small a sample in order to approximate what economists call the "risk-free rate," or the return on a bond with the lowest possible danger of defaulting.

In academic theory, that makes perfect sense. In the real world, the early U.S. had no risk-free rate. Not only was the survival of the nation often in doubt, but from 1835 through 1841 the U.S. Treasury didn't even have any debt outstanding. By the 1840s eight states had defaulted. Most bonds were risky, so they often had to offer yields of 5% or more.

Seen through that lens, says Prof. McQuarrie, stocks don't overwhelmingly dominate bonds. "Sometimes bonds give you a better return; sometimes, stocks do." Calculations of bond returns based on a sliver of the market are a "heroic extrapolation," he says.

That the bonds in "Stocks for the Long Run" might have been "a tiny part of the market does not bother me," says Prof. Siegel. He points out that three-month Treasury bills, often used as today's risk-free rate, are also a small fraction of the market.

Could bonds as a whole -- as opposed to a handful of high-quality issues -- have done better than stocks in the early U.S.?

"That's possible, and it might be in the data," says Prof. Siegel. "Clearly, in that early period, with bonds that had higher yields, it could well be that the broad bond market may have outperformed stocks."

Prof. McQuarrie calculates that bonds did slightly better than stocks -- an average of 5.9% annually versus 5.8%, after inflation -- all the way from the beginning of 1793 through the end of 1877.

Are returns from the days of steamboats and stovepipe hats relevant today? In short, yes. In France, Italy, Japan and Spain, among other nations, bonds earned better returns than stocks -- after inflation -- for decades on end in the post-1900 era.

"Is it likely that stocks will outperform bonds?" asks Prof. Siegel. "Of course. But should we never expect to find periods when bonds outperform stocks? No, no, no. We should expect to find that, absolutely."

No one should ever assume that the outperformance of stocks over bonds, even over extremely long periods, is "predestined or foreordained," he says. That's especially true when interest rates start at high levels.

Many investors have put blind faith in stocks, confident that history will repeat itself. Someday it might -- in a way that investors who have all their money in stocks should hedge against before it's too late.

Bonds have underperformed stocks for most of history, but not always. New measures suggest the long-term advantage of stocks may be weaker than many investors think.

Note: Returns on stocks are preliminary and subject to revision. All returns annualized and adjusted for inflation. Source: Edward McQuarrie, Santa Clara University via Early U.S. Securities Price database at the Economic History Association, plus original archival research (bonds) THE WALL STREET JOURNAL.

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The New York Times

U.S.; Politics
Republicans Have a Humming Economy to Tout, but Trump Rhetoric Muddies the Message

By Astead W. Herndon and Sydney Ember
1,554 words
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English

In normal political times, a glowing report on the nation's economy just before Election Day would be a gift to the party in power and a uniform talking point for its candidates. But entering the final weekend before Tuesday's midterm vote, President Trump's blistering message of nativist fear has become the dominant theme of the campaign's last days, threatening to overshadow the good economic news.

This is a political bind Republicans did not envision. They spent the final months of 2017 working on a package of sweeping tax cuts they hoped could be the centerpiece of their 2018 campaign message, buttressed by a soaring **stock market** and a low unemployment rate. And they got what they wanted, passing a $1.5 trillion tax bill last December.

A new jobs report released Friday highlighted the continued strength of the economy, as employers added about 250,000 jobs in October while the unemployment rate remained at 3.7 percent, a nearly 50-year low.

But Mr. Trump, again, has upended the traditional political playbook. Candidates are frequently forced to answer for his inflammatory and baseless tweets. And at the political rallies that are becoming a daily event as the election draws closer, the president has waded into racially fraught waters, using a broad brush to paint immigrants as villainous and dangerous.

"They all say, 'Speak about the economy, speak about the economy," Mr. Trump said Friday, during a rally in West Virginia. "Well, we have the greatest economy in the history of our country. But sometimes it's not as exciting to talk about the economy."

On the campaign trail, Republican candidates have taken a split-screen approach to Mr. Trump's nationalist message; many, recognizing its political potency with the conservative base, are continuing to embrace it.

Democrats have "open borders psychosis," Kris Kobach, the hard-right Republican candidate for governor in Kansas, told a crowd in Kansas City, Mo., during a rally on Friday with Vice President Mike Pence. Earlier in the day, Senator Ted Cruz of Texas began a stump speech by boasting about the economy, but quickly shifted to a more foreboding theme closely aligned to Mr. Trump's warnings about a migrant "invasion."

"You mean the people of Texas want to stop the caravan?" bellowed Mr. Cruz, who is in a competitive, closely watched race against Beto O'Rourke, the Democratic challenger. The crowd responded with chants of "build the wall."

Other Republicans, however, are straining to avoid the president's strident language and focusing instead on an economy-first message.

In Winterset, Iowa, Representative David Young, a Republican in a very close race, spent the bulk of an address to voters talking about the strong economy and Republican job creation.

"Right now we're seeing a real economy renaissance going on in the country," he said. "Here in rural Iowa, the incredible things going on with our economy are quite spectacular. I just want to keep the federal government out of your way so people can work, small businesses can grow, larger businesses can hire more people, we can keep the economy growing like today."

In campaign appearances this week, two Illinois Republicans locked in tough races in Chicago's suburbs, downplayed the immigration issue. Randy Hultgren, the incumbent in the 14th Congressional District, appeared at a metal forging plant Friday and did not mention Mr. Trump's immigration speech at the White House the day before.

Peter Roskam, a Republican who is facing his own tough challenge, told McClatchy the immigration rhetoric was not important to his constituency.

That message "skips right past this district," Mr. Roskam said. "This district hears that and kind of shrugs."

A top aide to Paul D. Ryan, the retiring House Speaker, also pleaded with Republicans to tout the jobs report. "Were going to spend all day and weekend talking about the strong economy, right?" the aide, Brendan Buck, tweeted.

One problem for Republicans trying to extol the economy is that the tax cuts did not turn out to be the political windfall they envisioned. Polls showed the tax breaks enjoyed only middling popularity as many Americans came to see them as a gift to the richest Americans that did little to address the problem of wage stagnation.

Some Democrats have actually weaponized the tax package against their opponents, including Danny O'Connor, a Democrat running in a tight race against a Republican incumbent, Troy Balderson, in Ohio. In the run-up to a special election in August — they are squaring off again in Tuesday's general election — Mr. O'Connor and his backers spent more money attacking the tax cuts than Mr. Balderson and his allies spent defending it.

Traditional Republican pollsters and strategists said hewing too closely to Mr. Trump's incendiary strategy could contain more risk than reward for candidates in the campaign's final days. They warn of possible backlash among minority voters and college-educated whites, two groups that could be especially crucial in deciding congressional control.

Polling suggests that the same suburban independents who broke for Mr. Trump in the final days of the 2016 election could shift back to Democrats this time around. And Republican campaign veterans said that while Mr. Trump's fear-mongering is firing up his base, it could energize other voters who were previously apathetic to vote for a Democrat next Tuesday.

"The problem is Republicans have a good story to tell in the economy," said Mike Murphy, a former adviser to Jeb Bush, John McCain and Mitt Romney. "But the Republican with the largest microphone only wants to go on these rants about immigration."

Mr. Trump, he said, is "managing to offend every swing voter in the country."

That could prove particularly risky in competitive races for the House of Representatives. Republicans are defending many seats in diverse metropolitan regions where the president's heated language could prove a hindrance.

Mr. Trump even acknowledged at his rally Friday that Republicans could lose the House, saying, "it could happen, could happen."

In the Senate, both parties have clung to nervous optimism about the half-dozen most competitive races. But in Missouri, which has one of the most closely watched Senate races, officials in both parties said internal polling indicated Senator Claire McCaskill, a Democrat, had gained ground in her race against her Republican challenger, Josh Hawley, the state's attorney general.

Jeff Kaufmann, the chairman of the Iowa Republican Party, said he did not think Mr. Trump's closing message was harmful, even if it was not aligned with the economic arguments the state's Republican candidates were offering.

"As long as the noneconomic issues that he is talking about do not run counter to the core of what defines us as a state, I don't think he is a distraction," Mr. Kaufmann said. "I almost think his presence and his energy at this point in our midterms is more important than specifically what he is saying."

Still, some Republicans have expressed dismay that their party is offering an inflammatory closing argument.

Senator Jeff Flake of Arizona, a Republican who is retiring at the end of his term, called the party's tone "unseemly." Representative Ryan Costello of Pennsylvania, who is also retiring, said Mr. Trump's immigration stances have distracted from the party's best midterm message.

“We all know challenges of suburban” Republicans,” he tweeted. “So now POTUS, out of nowhere, brings birthright citizenship up. Besides being basic tenet of America, it’s political malpractice.”

But some Republicans — and the voters who support them — have said Mr. Trump’s explicit language mirrors their own beliefs.

“The radical left is on the move,” said Representative Kevin Yoder, a Kansas Republican facing a tough re-election campaign in a suburban swing district, who also appeared at the rally with Mr. Pence. “They’re on the march. And this radical left is based on socialism.”

At Mr. Cruz’s rally in Fort Worth, Bill Ranelle, 75, said that on a scale of one to 10, he rated his concerns about immigration an eight, and gave voice to some unfounded characterizations of migrants.

“My grandparents came through Ellis Island and their purpose was to live the American dream and become part of the American culture,” he said. “I don’t see the illegals wishing to do that.”

Lisa Lerer contributed reporting from Fort Worth. Michael D. Shear contributed from Huntington, W. Va., Jonathan Martin from Washington, Trip Gabriel from Des Moines and Mitch Smith from Kansas City, Mo.

* Trump’s Nationalism Is Breaking Point for Some Suburban Voters, Risking G.O.P. Coalition

* Trump and G.O.P. Candidates Escalate Race and Fear as Election Ploys

* U.S. Added 250,000 Jobs in October; Unemployment at 3.7%

“We have the greatest economy in the history of our country,” President Trump said at a rally in Huntington, W.Va., on Friday. “But sometimes it’s not as exciting to talk about the economy.” | Gabriella Demczuk for The New York Times | Senator Ted Cruz of Texas began a stump speech Friday by boasting about the economy, but quickly shifted to immigration. | Tamir Kalifa for The New York Times

Document NYTFEED020181103eeb3000jh

The New York Times

Business Day; DealBook
Berkshire Says It Bought Back Nearly $1 Billion of Its Own Stock

By Reuters
413 words
3 November 2018
11:15 AM
NYTimes.com Feed
NYTFEED
English

Berkshire Hathaway, the conglomerate run by the billionaire Warren Buffett, said on Saturday that its operating profit in the third quarter nearly doubled as its insurance business dodged hurricanes and benefited from lower taxes.

The strong result gave Mr. Buffett more cash to deploy, and he used some of it to buy back nearly $1 billion of his own company's stock.

Operating profit in the quarter doubled to $6.88 billion from $3.44 billion a year earlier, higher than the $6.11 billion expected by Wall Street, according to data from Refinitiv.

The company's insurance operations were helped by lower estimated liabilities from property and casualty insurance than in prior years, and by lower taxes. The insurance companies' bottom lines last year were hit by major losses as a result of three hurricanes in the United States and an earthquake in Mexico.

Insurance underwriting income was $441 million in the third quarter, compared with a loss of $1.4 billion in the same period a year ago.

Berkshire's results also improved across its railroad, utilities and energy, manufacturing, service and retailing and financial-products businesses.

"This is absolutely one of the biggest quarterly earnings reports that has ever come out of a United States corporation," said Bill Smead, chief executive of Smead Capital Management in Seattle, a Berkshire shareholder.

Berkshire said its third-quarter net income rose more than 355 percent to $18.5 billion, though that reflected a new accounting rule requiring it to report unrealized investment gains with earnings.

Berkshire also said it had bought $928 million of its own shares in the third quarter.

Berkshire ended September with $103.6 billion in cash, short-term Treasuries and other similar investments.

Mr. Buffett's last big acquisition was in January 2016, when Berkshire paid about $32 billion for the aircraft parts maker Precision Castparts.

Berkshire's Class A shares closed Friday at $308,411.01 a share, delivering a total return of 3.6 percent for the year, a bit ahead of the 3.4 percent return of **Standard & Poor**'**s 500**-**stockindex**.

Mr. Smead said it made sense for Mr. Buffett to buy back stock.

"He is the most successful value investor of all time, and his company's stock in relation to book value is at an extreme value in a world where value is incredibly attractive."

Document NYTFEED020181103eeb3003h1

The New York Times

Business/Financial Desk; SECTB
Despite a Strong Jobs Report, Technology Stocks Pull Markets Lower

By THE ASSOCIATED PRESS
765 words
3 November 2018
The New York Times
NYTF
Late Edition - Final
2
English

Stocks slipped on Friday as Apple shares absorbed their worst loss in more than four years. Thanks to gains over the previous three days, the **Standard & Poor's 500-stockindex** finished with its biggest weekly increase since March.

Apple, the world's largest technology company, forecast weak revenue in the current quarter and startled investors by saying it would stop disclosing quarterly iPhone sales. That pulled technology stocks lower. Other high-growth stocks held up well after the United States and China said they had made some progress in trade talks, and Asian indexes surged on reports that China's government plans to cut taxes.

The Department of Labor said employers added 250,000 jobs in October, with no sign that hiring was going to slow down. The proportion of Americans with jobs is at its highest level since January 2009, and hourly wages also grew by the most since then. Along with high consumer confidence, those are all good signs for economic growth and consumer spending in the months to come.

Bond yields surged following the strong jobs report as investors bet on continued economic growth, which would push the Federal Reserve to raise interest rates more quickly.

''It clearly was a good report,'' said David Lefkowitz, senior equity strategist Americas at UBS Global Wealth Management.

Growth in wages was about what investors were expecting, Mr. Lefkowitz said. That is important because investors are still sensitive to signs that inflation could flare up, forcing the Federal Reserve to be more aggressive in raising rates. If inflation grows moderately, that would not be as likely.

The **S.&P. 500 index** slid 17.31 points, or 0.6 percent, to 2,723.06. The **Dow Jonesindustrial average** fell 109.91 points, or 0.4 percent, to 25,270.83.

The **Nasdaq composite**, which has a high concentration of technology companies, lost 77.06 points, or 1 percent, to 7,356.99.

Stocks had surged over the previous three days and finished the week 2.4 percent higher. They skidded in October, suffering their worst monthly loss in seven years. The **S.&P. 500** will have to rise another 7.6 percent to match the record high it reached on Sept. 20.

Bond prices dropped, sending yields sharply higher. The yield on the **10-year Treasury** note jumped to 3.22 percent, from 3.13 percent. A jump in interest rates last month started the market's downturn, but investors on Friday did not seem as worried. Interest rates will also be in focus when the Federal Reserve meets next week, though it is not expected to raise rates in November.

Apple stock sagged 6.6 percent to $207.48. Shares of chip-makers also fell. Qorvo stock lost 5.7 percent to $74 and Broadcom stock fell 4 percent to $220.77.

Starbucks's sales were better than expected, and customers spent more after it raised prices for brewed coffee. The stock jumped 9.7 percent to $64.42, its biggest gain since 2011. Kraft Heinz shares sank 9.7 percent to $50.73 after its third-quarter profit fell way short of analyst forecasts.

The governments of the United States and China both said they were making some progress in trade talks. It has been months since the two sides made any visible progress, and fears that the dispute was getting worse contributed to the big losses for global markets in October. Chinese state media also said President Xi Jingping promised tax cuts and other help to China's entrepreneurs.

In Germany, the DAX rose 0.4 percent and in France, the CAC 40 gained 0.3 percent. The FTSE 100 was down 0.3 percent in Britain.

The Nikkei 225 surged 2.6 percent in Japan, while in Hong Kong, the Hang Seng soared 4.2 percent. The Kospi was up 3.5 percent in South Korea.

The dollar rose to 113.16 yen from 112.70 yen. The euro slipped to $1.1394 from $1.1409.

Oil prices continued to slip. Benchmark United States crude fell 0.9 percent to $63.14 a barrel in New York and Brent crude shed 0.1 percent to $72.83 a barrel in London.

Gold fell 0.4 percent to $1,231.70 an ounce. Silver dipped 0.1 percent to $14.75 an ounce.

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

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The New York Times

National Desk; SECTA
Employers in U.S. Add 250,000 Jobs As Economy Hums

By PATRICIA COHEN; Ben Casselman contributed reporting.
1,464 words
3 November 2018
The New York Times
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1
English

The last official snapshot of the economy before Americans vote on Tuesday offered another reminder of the labor market's persistent strength. Hiring is up. Wages are up. The total number of workers and job searchers is up.

"It's really the strongest part of the broader economy at the moment," Michelle Girard, chief United States economist at NatWest Markets, said of the labor market.

A swerving **stock market**, tariffs and weakening growth in other countries may be causing agita, but they have done little to dent economic momentum in the United States. Employers added 250,000 jobs in October, extending a record streak of growth to 97 months, the Labor Department reported on Friday.

The economy has historically not played an outsize role in midterm elections, and this political season, border control, health care and Brett Kavanaugh's nomination to the Supreme Court have gobbled up airtime and political ad space. Still, about three-quarters of registered voters say the economy is "very important" in determining their vote, according to polls conducted by the Pew Research Center. Among Republicans, that number is even higher at 85 percent.

"Jobs and the economy" was also cited more frequently than other issues as the most important in a survey conducted in early October for The New York Times by the online research platform SurveyMonkey.

A recent string of reports suggests both are in good shape. Last week, the government estimated that the economy grew at a hearty annualized rate of 3.5 percent in the third quarter. Confidence remains high among consumers and business leaders. Over the past year, employers have added an average of 210,000 jobs a month.

Friday's roundup also offered evidence that sidelined workers are not only feeling optimistic about job prospects but are actually finding work, which is why the jobless rate was unchanged at 3.7 percent even as employers hired more people. An estimated 711,000 people joined the labor force last month. President Trump, on Friday, called the numbers "tremendous."

A modest monthly wage gain of 0.2 percent nonetheless produced a surprisingly big 3.1 percent jump in annual growth. That was partly because of an unusual drop in pay in October last year after hurricanes. Yet even if the year-over-year increase was somewhat inflated, the underlying trends point to a pickup in wage growth.

Some analysts saw warnings of inflation, but others said the pay increase should not bother policymakers at the Federal Reserve. "I don't think it's something the Fed should worry about," Ms. Girard said. "Productivity growth is picking up, and workers should earn more. It doesn't mean companies have to pass on higher wage costs to consumers. They can afford to pay them more."

The Fed, which has increased rates three times this year from historically low levels, is expected to raise them again to 2.5 percent in December as a hedge against inflation.

Mr. Trump has called the Fed "loco" and "out of control" for raising interest rates, and blamed it for the recent drop in stock prices and for potentially derailing the economy.

In a call with reporters, Kevin Hassett, the chairman of the president's Council of Economic Advisers, cited productivity growth as the explanation for higher wages, and not an overheating economy. He also took the opportunity to say that the president respects the Fed's independence.

As always, the monthly jobs report captures only a particular moment; the underlying trend is what's important. That caution is particularly pertinent this time.

The back-to-back hurricanes in September and October may have distorted the data in unpredictable ways. ''It looks good, but it's never happened before when you have hurricanes making landfall in successive survey weeks,'' said Ian Shepherdson, chief economist at Pantheon Macroeconomics.

Manufacturing jobs -- which have traditionally paid well and have been a focus of Mr. Trump's policies -- increased by a healthy 32,000.

Here, too, Mr. Shepherdson advised skepticism, noting that the Institute for Supply Management reported this week that its manufacturing index had fallen to a six-month low amid worries about tariffs, shortages of parts and a drop in global demand.

''If I were a Republican politician, I would be shouting about it,'' Mr. Shepherdson said, referring to manufacturing. ''But there's no way that growth is going to continue.'' Manufacturing sectors in China, in particular, and Europe are weakening sharply. Producers, he said, are worried about ''tariffs, tariffs, tariffs.''

October's figures will be revised twice more, and September's once more.

Although the unemployment rate has consistently surfed below the levels reached in 2000, at the height of that expansion, wages have been growing at significantly slower rates.

Low wages in many sectors have contributed to financial instability. More than a quarter of Americans don't earn enough to cover basic expenses, while more than a third are unable to pay all their bills on time, according to a report released Thursday by the Center for Financial Services Innovation, which is funded by nonprofit foundations and several banks. That shortfall has contributed to mounting credit card debt and loan defaults.

October's report, however, is among several recent signs that wage growth is gathering steam.

According to a report last week from the research arm of the payroll processing firm ADP, American workers are earning nearly $1 more per hour on average than they were a year ago.

Protolabs, a digital manufacturing company based in Minnesota, hired 50 people last month, bringing the year's total to 340, a pace it expects to match in 2019, said Renee Conklin, vice president for human resources. But the competition for workers is becoming stiffer. ''We're seeing more employers making counteroffers to retain people,'' Ms. Conklin said.

Since the recession ended, analysts have struggled to understand how many more potential workers are out there. Before the financial crisis, more than 66 percent of the population 16 or older was working or looking for a job. In recent years, that number -- the labor-force participation rate -- has rarely risen above 63 percent.

Many of those missing workers will never rejoin the labor force -- some have reached retirement age, others have seen their skills lose value, and a number are too disabled to work.

Economists continue to argue about how many more people could be lured back to the labor market. Rising wages are certainly one attraction.

Women are coming back into the work force at a much faster rate than men, however. And over the past year, a net total of 1.4 million women have joined compared with 845,000 men. Drawing in even more women would require better child care, paid parental leave and more flexible hours, said Betsey Stevenson, an economist at the University of Michigan. ''We know what to do for women,'' she said. ''We're really at a loss as to what to do to induce more men back.''

Job opportunities are also rippling out to groups that were largely bypassed during much of the recovery: African-Americans, Hispanics, less-educated workers and people with disabilities have all seen their unemployment rates drop in recent months.

Employers say they are constantly on the hunt for workers. ''I speak to probably a thousand businesspeople a month,'' said Rick Lazio, a former Republican congressman who is a senior vice president at Alliantgroup, a tax-credit consulting firm. Midsize manufacturers are turning down lots of business, he said, ''because they can't find the people and they can't get the equipment fast enough.''

Help is not coming from abroad: The number of immigrant visas issued by the government has declined for two years in a row.

Worries about fierce competition for holiday hiring have prompted employers to be more aggressive, putting offers out earlier than usual and raising wages, recruiters said.

United Parcel Service has said it plans to hire 100,000 seasonal workers. Several applicants for packing or delivery positions who showed up at the company's hulking customer center in Manhattan during a recent nationwide hiring drive said they hoped temporary stints would turn into permanent jobs. A company spokesman said holiday positions paid $10.35 to $30 an hour, depending on the location.

''I'm just praying,'' said Chanique Cox, 42, who did not finish high school. She knocked her knuckles on a wooden counter and clicked her blue nails. ''I'm only finding temporary jobs. I would love it if I got a permanent job.''

Follow Patricia Cohen on Twitter: @PatcohenNYT.

CHARTS: Wage Growth (A1); The Labor Picture in October (Source: Bureau of Labor Statisics) (A15)

Document NYTF000020181103eeb30005g

The New York Times

National Desk; SECTA
Trade War Comes to Standstill, and Indiana Is Caught in the Middle

By MARK LANDLER; Glenn Thrush and Alan Rappeport contributed reporting from Washington.
1,391 words
3 November 2018
The New York Times
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English

INDIANAPOLIS -- When President Trump said Thursday he held a ''long and very good conversation'' on trade with President Xi Jinping of China, it kicked off a brief rally in **financial markets** and a flurry of questions about why the tensions between Washington and Beijing had suddenly eased.

The answer is, they haven't really. The explanation for Mr. Trump's newly soothing tone lies less in the state of trade negotiations -- which remain on hold -- than in the president's domestic political calculations, particularly in states heavily dependent on trade, like Indiana.

Four days before a midterm election that features a nip-and-tuck Senate race in this state, Mr. Trump is trying to quell fears of a protracted trade war with China. His reassuring message may resonate in Indiana, the United States' largest producer of steel but also home to soybean farmers who have been hurt by China's retaliatory tariffs on American agriculture.

''We've had very good discussions with China,'' Mr. Trump told reporters at the White House, as he left for a pair of political rallies in Indianapolis and Huntington, W.Va. ''We're getting much closer to doing something. They very much want to make a deal.''

The president's enthusiasm was at odds with his advisers, who said nothing much had changed with Beijing. But it cheered investors in a market increasingly depressed by worries about a trade war. And analysts said it would pacify farmers and factory workers across the Midwest.

Mr. Trump came to Indiana to campaign for Mike Braun, a Republican who is trying to unseat the Democratic incumbent, Senator Joe Donnelly. Mr. Donnelly has a slim lead in the polls, but Mr. Braun has made inroads lately, in part by challenging his opponent on trade.

''I spoke to President Xi today,'' Mr. Trump told a raucous crowd at a high school here. ''They want to make a deal, but we have to have a fair deal. We have to have a deal that's fair for the United States.''

The president took credit for the recently revised North American Free Trade Agreement with Canada and Mexico, which he called a ''giant victory for Indiana farmers, manufacturers and dairy producers.''

The trade showdown with China, however, has whipsawed Indiana, benefiting it in some ways while hurting it in others. Steel mills in the industrial north are prospering because of Mr. Trump's tariffs on China and other steel exporters. But soybean farmers are suffering because of the retaliatory tariffs China imposed on agricultural exports.

Companies that make auto parts are able to charge higher prices because of a loss of competition from China. But the recreational vehicle industry, one of Indiana's manufacturing pillars, worries that sales will be hurt if it passes along those higher prices to customers.

''The R. V. industry could be in a period of transition,'' said Richard Curtin, an economist at the University of Michigan, who studies the industry. A deal with China ''would be widely welcomed,'' he said. ''The closer you are to these industries, the more it would be welcomed.''

Mr. Trump's phone call to Mr. Xi, however, did not appear to be linked to any progress in trade negotiations. Those talks have been on hiatus for weeks, and officials said they did not expect any progress at least until the two presidents meet, which is likely to be at the Group of 20 meeting of industrialized nations in Buenos Aires early next month.

Mr. Trump's chief economic adviser, Larry Kudlow, dismissed reports that Mr. Trump asked his cabinet to draft a trade deal with China and said "there's no massive movement" to get something done quickly.

"We're doing a normal, routine run-through of things that we've already put together and normal preparation," Mr. Kudlow said on Friday on CNBC. "We're not on the cusp of a deal."

Still, after warning for weeks that China was not ready to negotiate on trade with the United States, Mr. Trump took an uncharacteristically conciliatory tone after his call with Mr. Xi, which was both unusually long -- 56 minutes -- and initiated by him.

"We talked about many subjects, with a heavy emphasis on Trade," Mr. Trump said on Twitter. "Those discussions are moving along nicely with meetings being scheduled at the G-20 in Argentina."

Mr. Xi issued a similarly warm statement on Friday, reaffirming the importance of his personal relationship with Mr. Trump and predicting that the two sides could reach a deal. Chinese officials have been taken aback by the vehemence of Mr. Trump's language against them, and Mr. Xi's response suggested he was eager to lower the temperature.

Administration officials caution that the gulf between the two countries remained wide over issues like market access and China's alleged purloining of technology from American companies. Any deal, they said, would require specific pledges on the part of the Chinese.

In a sign of the administration's determination to keep up the pressure, the Justice Department took legal action this week against two companies based in China and Taiwan, accusing them of stealing trade secrets from Micron Technology, an American technology company.

The Trump administration remains divided internally between officials who want to take an uncompromising approach toward China -- allying the European Union and other trading partners in a united front -- and those who favor cutting some kind of deal.

In recent months, Mr. Trump has sided with the hard-liners, though he remains unpredictable, particularly when there are other considerations at play, as his most recent about-face demonstrates.

Mr. Trump, people who know him said, was also motivated by a desire to give the markets a tonic, days before voters go to the polls. The president has regularly boasted about rising stock prices since he took office, but the markets have given up those gains in recent weeks.

The Chinese are also seeking to defuse the situation at a time when their own economy and currency are showing signs of weakening.

Still, they remain confounded by Mr. Trump -- especially his recent claims that they are attempting to interfere in the midterm elections -- and they still feel burned by the president's rejection of a steel deal negotiated last year by his commerce secretary, Wilbur L. Ross.

Craig Allen, the president of the U.S.-China Business Council, which represents 200 American companies that do business with China, said Chinese nationalism would make it "difficult for any Chinese leader to accept anything that is a less than equal agreement."

Trade concerns have dominated the Senate race in Indiana, with Mr. Donnelly and Mr. Braun, both of whom have business ties, accusing each other of selling out American workers.

"I voted against every bad trade deal that hurts Hoosiers," Mr. Donnelly said in one recent campaign ad, in which he stands next to a pickup truck loaded with boxes of auto parts sold by Mr. Braun's company -- each bearing a sticker that says, "Made in China." "Mike Braun has used those same deals to outsource Hoosier jobs to China."

Some analysts here said they were dubious that Mr. Trump's shifting tone on trade would drastically change the outcome in Indiana, a state he won by 19 points in 2016 and in which he remains popular.

"I have been amazed by the steadfast support of farmers for the president," said Mike Yoder, a Republican who is the commissioner of Elkhart County. "They have been willing to stick by this president, and if there is some plan for an endgame on tariffs, it has escaped me."

But Mr. Yoder said he welcomed Mr. Trump's softer tone. Elkhart County is a manufacturing hub, with assembly lines that produce recreational vehicles, as well as trucks and buses. Tariffs on steel and aluminum are driving up the cost of parts for these manufacturers.

''It is a good message,'' Mr. Yoder said, ''because for Indiana -- and especially Elkhart County -- these tariffs need to go away.''

A steel mill in Portage, Ind. President Trump has softened his tone on the trade war with China days before the midterms. (PHOTOGRAPH BY SCOTT OLSON/GETTY IMAGES)

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THE WALL STREET JOURNAL.

Page One
What's News: Business & Finance

171 words
3 November 2018
The Wall Street Journal Online
WSJO
English

Strong hiring and low unemployment are delivering U.S. workers their best pay raises in nearly a decade. Employers added 250,000 jobs in October, with wages gaining 3.1% from a year earlier.

The U.S. imported a record amount of goods in September, while the trade deficit with China rose to its highest level ever.

YouTube is being tested by racist comments and other hate speech on its Super Chat feature.

A big drop in Apple dragged down major U.S. stock indexes. The Dow and **S&P 500** fell 0.4% and 0.6%, respectively, while the **Nasdaq** lost 1%.

Alibaba cut its full-year revenue forecast by 4% to 6%, citing growing doubts about the Chinese economy.

Exxon and Chevron posted their highest third-quarter profits in four years.

Ford and VW are in talks to create a self-driving-car joint venture.

GM is winding down a car-subscription service it rolled out nearly two years ago for Cadillac.

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THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Imports to U.S. Climb to a Record

By Sharon Nunn
294 words
3 November 2018
The Wall Street Journal
J
A2
English

WASHINGTON -- The U.S. imported a record amount of goods in September, while the trade deficit with China rose to its highest level ever, despite intense efforts by the Trump administration to close the trade gap.

The foreign-trade deficit in goods and services increased 1.3% from the prior month to $54 billion in September, the Commerce Department said Friday. A surge in products purchased from abroad helped widen the gap, with the value of imported goods ballooning to $218 billion, the highest level on record. Meantime, imports from China picked up, pushing the trade gap to $40.2 billion, another record.

In an attempt to reduce the trade deficit, the White House placed tariffs on Chinese goods and on product categories like steel and solar panels from China and other countries. Foreign countries have placed retaliatory tariffs on U.S.-made products. Domestic factory activity has been affected, and metal prices have risen, squeezing manufacturers' margins.

When discussing trade, President Trump has historically singled out China, but the trade gap with other countries has risen as well; the deficit in September with Russia was the highest since May 2013.

"For China specifically, any decrease in China imports will take time to unfold due to the logistics of changing supply chains," said Kathy Bostjancic, head U.S. **financial market** economist at Oxford Economics.

Historically speaking, the U.S. imports more goods than it exports, but runs a modest trade surplus for services. Economists attribute the chronic trade deficit the U.S. has faced for decades to Americans consuming more than they produce relative to the rest of the world's economies.

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THE WALL STREET JOURNAL.
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Business & Finance
What's News
Business & Finance

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Strong hiring and low unemployment are delivering U.S. workers their best pay raises in nearly a decade. Employers added 250,000 jobs in October, with wages gaining 3.1% from a year earlier.

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A big drop in Apple dragged down major U.S. stock indexes. The Dow and **S&P 500** fell 0.4% and 0.6%, respectively, while the **Nasdaq** lost 1%.

E-commerce giant Alibaba cut its full-year revenue forecast by 4% to 6%.

Exxon and Chevron posted their highest third-quarter profits in four years.

Ford and VW are in talks to create a self-driving-car joint venture.

GM is winding down a car-subscription service it rolled out nearly two years ago for Cadillac.

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THE WALL STREET JOURNAL.
U.S. EDITION

EXCHANGE --- On Business: Humans Are Winning the Battle With Robots --- Many companies find it more efficient to use people; at Airstream, installing 3,000 rivets by hand

By John D. Stoll
1,014 words
3 November 2018
The Wall Street Journal
J
B2
English

JACKSON CENTER, OHIO -- Airstream's factory here is racing to fill a backlog of orders for its retro, high-end travel trailers that spans well into next year. The company is hiring, adding dealers and spending $50 million to build a bigger plant.

I counted eight workers climbing through an Airstream to bolt a hulking aluminum shell to a steel chassis, and snake fluid lines and wires through walls. To finish the shiny, silver capsule off, workers will need to install 3,000 rivets by hand.

There's not a robot in sight. They may speed production, but the machines require a substantial investment that risks being wasted if the economy slumps.

"You don't want to have a robot just sitting there," Bob Martin, the chief executive of Airstream parent Thor Industries, told me this week.

That's a big reason many in American business have yet to welcome our new robot overlords, even though Friday's jobs report showed the historically tight labor market getting tighter. Unemployment below 4% is pushing up wages and making finding skilled workers at a competitive wage tougher to do.

"We see in U.S. manufacturing a race between technology and human capital," Stanford University economist Nicholas Bloom said. While some companies like electric-car maker Tesla Inc. are racing to automate almost every process on the factory floor, he said many executives are reluctant to sink investments in equipment that "will be hard to reverse."

We'll continue to see innovation in fields that are traditionally dependent on people. For example, grocery stores, which often struggle to find people to work for lower wages, are experimenting with robots. Analysts say it could take decades, though, for these initiatives to meaningfully alter the employment picture.

Robotics spending is forecast to equal $90 billion in 2018, according to researcher International Data Corp., with a hefty chunk of that investment aimed at industrial or manufacturing uses. That is a considerable increase compared to prior years, but it is only a sliver of the nearly $3 trillion committed to capital investment.

John Van Reenen, a Massachusetts Institute of Technology economics professor and Mr. Bloom's research partner, said executives in many industries -- including health care and retailing -- aren't sold on the technical revolution. "There is a big debate on whether robots are really delivering on the productivity benefits they might promise."

At an event to commemorate the revamp of a factory west of Detroit last month, Ford Motor Co.'s president of global operations, Joe Hinrichs, said a lot of industrial automation happened several decades ago. Now companies are trying to "optimize how they use people" rather than install more machines.

Ford spent nearly $1 billion converting the factory to go from making small cars to producing pickup trucks. Much of that went toward new tooling for stamping out body parts, but relatively little went toward adding automation, Mr. Hinrichs said. Artificial intelligence is now integrated into the final inspection lines to boost quality. But skilled workers are needed to interact with the AI tools.

Mr. Bloom said incremental efforts like this are helping boost worker productivity, even if at a lower rate than was experienced during the decadelong boom that started in the mid-1990s. He said economists may need to get comfortable with 1% annual productivity gains, particularly because it takes a lot of investment just to maintain that modest rate.

"After the [financial] crisis hit, sectors such as financial services went from boom to bust, and companies reacted to weak demand and uncertainty by holding back investment, driving capital-intensity growth down to the lowest rates since World War II," a report published this year by McKinsey & Co. said.

Earlier this year the tide appeared to be turning. The Bureau of Economic Analysis reported nonresidential fixed investments had increased at an 11.5% annual rate in the first quarter and 8.5% in the second quarter.

Business investments slowed to 0.8% in the most recent period, however. Analysts blame lower optimism on a **volatile** political environment, including threats of a trade war.

The Business Roundtable, which regularly surveys CEOs, found its quarterly CEO economic-outlook index fell in recent months due to increased uncertainty. This is directly leading to plans for lower capital spending, the organization said.

Economic uncertainty is always present in businesses like the RV industry, which is highly cyclical. RV wholesale deliveries cooled significantly in September, adding further concern.

Airstream's order bank remains robust, but Mr. Martin said the company's investors still expect a measured approach, one that doesn't take long to amortize capital spending. "One of the more attractive things about our industry is payback at our factories is really quick," Mr. Martin said.

Airstream's parent company has increased capital spending in recent years to keep up with demand, but most of that money has gone toward buying land or putting up walls to make room for employees to build more trailers and motorhomes.

Mr. Martin said cargo trailer makers in the past have used robots to try to speed assembly. But those investments are hard to justify. Instead, on the factory floor in Jackson Center, workers still swarm with hand tools.

"It's very much like building a house on wheels," Airstream CEO Bob Wheeler said. The company focuses instead on incrementally refining the manufacturing process, using the "continuous improvement" principles that originated with Toyota decades ago.

As we talked, two employees, separated by a wall of aluminum, used a rivet gun and "bucking bar" to work together to fasten one of those 3,000 rivets in an Airstream.

Had the company had considered buying machines that can install all of those rivets without the help of human hands?

"We have a dedicated workforce and low turnover here," Mr. Wheeler said. "We'll keep investing in them."

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THE WALL STREET JOURNAL.

Heard on the Street
Markets
Digital Disruption Snarls Madison Avenue; Once big beneficiaries of the online-ad boom, agency groups now face existential threats

By Stephen Wilmot
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The Wall Street Journal Online
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English

The rise of the internet battered industries from newspapers to retailers, but it was a gold mine for the world's major advertising companies. Until now. Madison Avenue is under intense pressure to change and no one has yet discovered a path to renewed growth.

The most immediate threat to ad industry giants like WPP, Omnicom and Publicis is the shift from traditional creative campaigns to more direct ways of reaching consumers online. Even if they solve this puzzle, the agencies still have to deal with the dominance of Google and Facebook in online ads, which is key to understanding the long-term challenge faced by the industry.

WPP has been hit hardest. Once an investor darling, the company's **stock price** has roughly halved since the start of 2017 as growth has stalled and investors have questioned the acquisition-driven strategy of longtime Chief Executive Martin Sorrell in a period of convulsive industry change. Mr. Sorrell resigned in April amid allegations he misused company funds. He has denied any wrongdoing.

His successor, Mark Read, cut growth and margin expectations after dismal third-quarter results last month. He is set to announce a turnaround strategy in December, but early moves have focused on combining agencies. Young & Rubicam, a storied creative shop founded in 1923 that coined the 1970s jingle "I am stuck on Band-Aid 'cause Band-Aid's stuck on me," is being merged with VML, a specialist in digital marketing founded in 1992. Tellingly, VML's boss will run the business.

One challenge to agency groups is coming from tech consultants, which are often better equipped to pitch the kind of large-scale projects that allow brands to directly connect with consumers—projects such as real-time social media engagement, e-commerce rollouts and systems to manage customer relationships. Marketing-related revenue for five big groups—Accenture, Cognizant, Deloitte, PwC and IBM—rose 32% last year, according to research by Ad Age.

This shift was building out of sight until last year, when it was laid bare by client budget pressures, particularly among big consumer-products companies. After years of solid growth, traditional ad agencies barely grew in the U.S. in 2017.

Unilever, which makes Ben & Jerry's ice cream and Dove soap and is the world's second-largest advertiser after Procter & Gamble, has highlighted the threat most dramatically. After receiving an unwelcome takeover bid from Kraft Heinz it unveiled an investor-pleasing strategy that involved reducing agency fees by 30%.

The challenge to agencies posed by Google and Facebook—the publishing giants of the online world—is less immediate but more existential. It mainly threatens the big media-buying agencies that aggregate client ad spending and funnel it to publishers and TV networks.

To date, the explosive growth of an ad-funded "free" internet has been great news for media buyers. They have gradually shifted clients' ad budgets from print to the internet and taken extra fees for digital technology such as "programmatic" ad bidding, where advertisers pitch for online ad slots in real time. The media-buying operations of agency groups grew at 10% a year with margins exceeding 20% between 2002 and 2016, estimates Brian Wieser, an analyst at Pivotal Research.

But Google and Facebook, not satisfied with being merely vehicles for ads, are increasingly competing with agencies for advertising clients. For example, telecom company Vodafone is now working toward bypassing agencies for the biddable part -- currently just under a quarter -- of its roughly £600 million ($780 million) ad budget, including by working directly with Google and Facebook. Previously the whole budget was handled by WPP's media-buying umbrella, GroupM.

The larger Google and Facebook get, the easier it will be for advertisers to go straight to them. Silicon Valley has better consumer data and better skills to handle it than Madison Avenue or its clients, and this will only become a bigger advantage as more ads are automated and targeted. Barring a sea change in data regulation, this transformative trend is still in its infancy.

To be sure, not all agency groups will be equally hit. Omnicom could benefit in the short term from WPP's creative troubles, while Publicis could yet make something of its expensive but farsighted 2015 acquisition of U.S. consultancy Sapient.

For the industry as a whole, however, the future looks less certain than ever. For a while, advertising agents were boosted by their role in funding the booming online world. Now they could be next in the line of fire.

Write to Stephen Wilmot at stephen.wilmot@wsj.com

REVOLUTION IN THE AD INDUSTRY

This column is part one of a Heard on the Street series chronicling how digital technology has gone from being the advertising industry's best friend to its worst foe.

* Part Two: Madison Avenue's Unequal Fight With Google

* Part Three: Tech Consultants Are the New Mad Men

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International New York Times

us
As New Sanctions Loom, U.S. Push Against Iran Faces Steep Obstacles

By GARDINER HARRIS
1,290 words
2 November 2018
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English

WASHINGTON — President Trump called on world leaders in September to slash their purchases of Iran's oil before the imposition on Nov. 5 of major sanctions, the last major pieces of the administration's blockade of the Iranian economy.

"We ask all nations to isolate Iran's regime as long as its aggression continues," Mr. Trump said at the United Nations.

But less than a week before the crucial deadline this Monday, the campaign against Iran is facing severe challenges. China and India, the largest buyers of Iranian oil, will continue making huge purchases, with Turkey and perhaps Russia following suit. Britain, France and Germany have promised to continue doing business with Tehran.

And Saudi Arabia, the administration's crucial partner in its anti-Iran efforts, is facing global censure and threats of sanctions from Congress after the killing of Jamal Khashoggi, a journalist and Saudi dissident. Penalties against Saudi Arabia could undercut efforts to keep global **oil prices** stable as Iran's exports plunge.

The problems have piled up as European diplomats and oil analysts say that even after the sanctions go into effect, Iran will most likely sell at least one million barrels of crude oil a day — a sharp decline from last year but perhaps enough to sustain its economy and wait out Mr. Trump's term.

The administration's stated goal for its sanctions campaign is for Iran to make a dozen fundamental changes to its domestic and foreign policies, including ending its support for Hezbollah in Lebanon, Hamas in Gaza and the Houthi rebels in Yemen. Few analysts believe the present Iranian government could fulfill the demands and survive.

"There is no way the Trump administration will be able to achieve its 12 stated objectives because they're utterly unrealistic," said Robert Einhorn, a senior fellow at the Brookings Institution. "Unless significant changes are made, it's a policy destined to fail."

But efforts to tighten the screws on Tehran in the coming months could further alienate European allies, freight the relationship with China with yet another difficult dispute, undermine decades of efforts to woo India, and impede the stabilization of Syria and the battle against the Islamic State.

Administration officials dismiss these risks in part because earlier warnings by critics about the downsides of leaving the Iran nuclear deal largely proved false.

Iran

At the heart of Iran's financial future are its oil and gas exports, and Trump administration officials have adamantly said for months that they intend to reduce those exports to zero and penalize any country that continues purchases after Nov. 4 — which would effectively destroy Iran's economy. On Tuesday, a State Department spokesman retreated from those implacable demands.

"Our goal remains to get to zero oil purchases from Iran as quickly as possible. That's not changed," the spokesman, Robert Palladino, said during a press briefing, adding, "But we are prepared to work with countries that are reducing their imports on a case-by-case basis."

The Nov. 5 sanctions target Iran's central bank, oil sales and shipping companies, and come on top of a set of sanctions that went into effect in August. Administration threats have already persuaded buyers in Europe, Japan and South Korea to largely stop purchasing from Iran.

As a result, Iran's crude oil exports loaded on tankers plunged by more than 20 percent to 1.8 million barrels per day in September, down from 2.3 million in May. Oil exports continued to decline in October, according to IHS Markit, an energy analytical firm.

But during the United Nations General Assembly in September, foreign ministers from Britain, France, Germany and the European Union joined those from Russia, China and Iran in promising to collaborate on the creation of a "special purpose vehicle" independent of the dollar to continue commercial relations. Trump administration officials reacted to the announcement with derision and fury.

Even in Europe, economists and officials doubt the new financial channel will yield significant economic benefits for Iran or threaten the global dominance of the dollar anytime soon. And yet its symbolism was profound. Any sanctions on the new channel or other European efforts to save the nuclear deal would worsen already seriously strained trans-Atlantic ties.

China, India and Turkey

Beijing presents another challenge. China is the largest buyer of Iranian oil and, although Beijing recently instructed two large state oil companies to stop purchases for a time, China will most likely remain the biggest buyer. The Trump administration has given Beijing "no reason to be in compliance with U.S. law on Iran," said Sung-Yoon Lee of Tufts University's Fletcher School of Law and Diplomacy in Medford, Mass. Oil executives and analysts agree.

Some are predicting that the administration will announce penalties against some Chinese entities on Nov. 5 to show toughness against Beijing, popular with Mr. Trump's voters, ahead of the midterm elections the next day. But such sanctions will most likely be largely symbolic. Tariffs against China have already spooked Wall Street and lowered global growth projections. Broad sanctions could set off a panic.

In India, the second-largest buyer of Iranian oil, private companies like the energy giant Reliance have largely stopped buying it. Government entities ramped up purchases over the summer so they could show reductions next year, analysts said. But significant purchases will most likely continue.

Prime Minister Narendra Modi's re-election campaign, scheduled for next spring, will prevent him from acceding to American demands on Iran, said Mohan Guruswamy, a distinguished fellow at the Observer Research Foundation in India.

"Modi can't be seen as buckling on Iran since public sentiment is not with the U.S. on these new sanctions," Mr. Guruswamy said.

Heather Nauert, the State Department's spokeswoman, recently called India's continuing purchases of Iranian oil "not helpful" and said that "India will find out" if sanctions result.

But sanctions against India would do violence to a host of American priorities, including efforts to bolster Afghanistan; counter China and Pakistan; and ramp up sales of American oil, natural gas and military equipment.

Turkey, which gets most of its oil and natural gas from Iran and Russia, will continue oil purchases and other commercial relations with Iran, diplomats and analysts said. A recent warming between Ankara and Washington after the release from detention of an American pastor would be dashed by penalties, said Soner Cagaptay, director of the Turkish Research Program at the Washington Institute for Near East Policy.

Victory Lap

Sanctions have caused pain, but they have yet to produce clear strategic victories for the Trump administration. Despite sanctions on North Korea, Russia and Venezuela, Pyongyang has so far shown no signs of slowing its nuclear and ballistic missile weapons production, President Vladimir V. Putin has only grown bolder and Venezuela continues to slide into anarchy.

But administration officials will take a victory lap on Nov. 5. They are mindful that when Mr. Trump announced in May that he was walking away from the Iran nuclear deal, critics predicted that Tehran would soon restart its nuclear program, that **oil prices** would soar, and that sanctions would never truly bite without the support of others in the deal.

None of those warnings proved true, giving administration officials a great sense of confidence in their policy.

PHOTO: A bazaar in Tehran in July. The Trump administration plans to impose sanctions on Iran on Nov. 5. (PHOTOGRAPH BY EBRAHIM NOROOZI/ASSOCIATED PRESS)

* Trump Abandons Iran Nuclear Deal He Long Scorned

* Bolton Warns of 'Terrible Consequences' for Those Doing Business with Iran

* U.S. to Restore Sanctions on Iran, Deepening Divide With Europe

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THE WALL STREET JOURNAL.
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Trump, Xi Talk as Tech Fight Brews

By Vivian Salama, Aruna Viswanatha and Kate O'Keeffe
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2 November 2018
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A1
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Corrections & Amplifications

The Trump administration has imposed tariffs on around $250 billion in Chinese imports. A Page One article Friday about a discussion between President Trump and China's President Xi Jinping incorrectly said the tariffs totaled $250 billion.

(WSJ Nov. 6, 2018)

(END)

President Trump said he had a "very good conversation" with President Xi Jinping of China that signaled progress in the nations' trade dispute, hours before federal prosecutors unsealed charges against a Chinese technology firm for allegedly stealing trade secrets.

The president's upbeat assessment came as an impasse over trade has threatened to undermine a planned meeting between Messrs. Trump and Xi at the Group of 20 leaders summit in Buenos Aires later this month.

Mr. Trump said the two leaders discussed many issues by telephone on Thursday, including the trade dispute that has sparked tit-for-tat tariffs on hundreds of billions of dollars of goods flowing between the two countries, worrying U.S. businesses and investors.

"Those discussions are moving along nicely with meetings being scheduled at the G-20 in Argentina," he tweeted, buoying the **stock market**.

The president's top economic adviser, Larry Kudlow, echoed the president's optimism, saying in an interview the call represented "a thaw" in relations.

Yet, there was no sign the U.S. would yield in its refusal to resume trade talks with China until Beijing presents a concrete proposal to address Washington's broader economic complaints.

The administration followed Mr. Trump's upbeat comments with a characteristic shot across China's bow, a reminder of the technological rivalry that has sparked significant tensions between the world's two largest economies.

The U.S. Justice Department accused Chinese state-owned Fujian Jinhua Integrated Circuit Co., its Taiwanese partner United Microelectronics Corp. and three Taiwan nationals of stealing trade secrets from the largest U.S. memory-chip maker, Micron Technology Inc., in a grand jury indictment unsealed on Thursday.

The move came days after the Commerce Department dealt a potentially fatal blow to Jinhua by barring exports and transfers of U.S.-origin technology to the firm, which depends on the technology to produce its own chips. Jinhua, a startup backed by $5.7 billion in Chinese state funds, is central to China's plan to build a world-class semiconductor industry and wean itself off dependence on foreign technology.

Attorney General Jeff Sessions also criticized China on Thursday, saying recent activity showed it was violating an accord reached with the Obama administration under which both governments agreed not to support cyberattacks to steal corporate secrets from one another.

"In 2015, China committed publicly that it would not target American companies for economic gain," Mr. Sessions said. "Obviously, that commitment has not been kept."

Representatives for Jinhua and the Chinese Embassy in Washington didn't comment. A lawyer for United Microelectronics declined to comment.

Also on Thursday, Mr. Sessions announced a new "China initiative" to better combat theft of trade secrets, bribery, illegal foreign lobbying and business deals that could give foreign investors access to critical U.S. technology.

Mr. Sessions said a new working group of Justice Department officials, including the top federal prosecutors from districts in California, Texas and other states, would increase law-enforcement engagement with U.S. universities, where the Justice Department contends that Chinese Communist party initiatives target technology and threaten academic freedom.

The tensions with China have been a sore spot in many rural communities in the U.S. After the Trump administration imposed $250 billion in tariffs on Chinese imports, Beijing responded with retaliatory tariffs on U.S. agricultural exports to China, hurting farming communities, many of which are counted among Mr. Trump's supporters. Voters have raised the issue of tariffs at election rallies before next week's U.S. midterm elections.

Mr. Kudlow however, denied politics were behind the conversation. "It's about serious international diplomacy," he said.

In their conversation, Mr. Xi told Mr. Trump that economic and trade disputes risked harming both of their countries, according to Chinese state broadcaster China Central Television.

CCTV also reported Mr. Trump had initiated the phone call and said Mr. Xi was willing to meet the president at the G-20 summit to "exchange in-depth views on China-U.S. relations and other major issues." A Trump administration official confirmed that the U.S. requested the call.

The U.S. wants China to come forward with a specific negotiating agenda before the two sides resume preliminary talks to move negotiations along. But Beijing said it won't provide specific points until the two sides meet so it can form a proposal.

"We haven't had a satisfactory response" from China, Mr. Kudlow said. "We're waiting."

Mr. Kudlow also tried to ease concerns that the Trump administration's trade fight with China would have a significant impact on U.S. growth or profits of U.S. businesses.

"I'm not going to deny that there could be some very modest effect" on the U.S. economy, he told a small-business conference hosted by the Washington Post. But he added, "We are doing it right now without China . . . our small businesses are soaring."

Business lobbyists in Washington had hoped the meeting in Argentina would be like a meeting Mr. Trump had with European Commission President Jean-Claude Juncker in July that helped end a trade fight between the European Union and the U.S.

But Mr. Kudlow urged caution in drawing such conclusions. "It's not like the EU visit," he said.

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THE WALL STREET JOURNAL.

Tech

Apple Shares Stumble, but Company Keeps Trillion-Dollar Valuation; Stock has its worst day in four years, hit by investor concerns about the lackluster outlook, decision not to report unit sales

By Sarah E. Needleman
778 words
2 November 2018
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English

Apple Inc. shares stumbled Friday as investors fretted over the iPhone maker's financial outlook for the important holiday quarter and the company's decision to stop reporting device unit sales in future results.

The stock fell 6.6% to $207.48, its worst percentage decrease since January 2014 and a drop that nearly knocked Apple from its lofty trillion-dollar **stock-market** valuation. Technology stocks, particularly those with sky-high valuations, have slumped in recent weeks.

Apple's selloff Friday removed about 100 points from the **Dow Jones Industrial Average**, contributing to the broader market's decline. The stock remains up 23% year to date.

Based on Apple's current reported share count, its valuation would have slid under a trillion dollars if its **stock price** fell below $207.04. Shares were below that level heading into the close, but a flurry of buying in the final minute lifted the stock higher by 4 p.m. ET.

The company's valuation could still change when Apple updates its share count, expected when the company files its annual report with securities regulators in the coming days.

Apple's quarterly results, released after the close of trading Thursday, showed the world's most valuable public company turned in another period of record revenue and profit—its fourth-consecutive quarter doing so. Apple said it had double-digit growth in all of its geographic regions, and that it continued to rake in money from App Store sales and other services.

But investors seized on two points. Apple's forecast of revenue between $89 billion and $93 billion for the holiday quarter didn't portend explosive growth, with the low end of its range only slightly above the year-ago results. That sent Apple shares on a downward trajectory.

And then the company said it would stop reporting unit-sales figures for its three most recognizable brands, the iPhone, iPad and Mac, while giving more details on its services business. That news knocked the stock a few percentage points lower.

"It just shows the frustration that investors feel after the company out of left field pulled unit metrics," Wedbush Securities analyst Daniel Ives said. "You're seeing a lot of investors scratch their heads trying to evaluate if the fundamental story of Apple has changed."

Apple finance chief Luca Maestri sought to buffer the news during the company's call with analysts Thursday. He reiterated that the revenue projection still suggests the company will turn in, once again, record results. He and Chief Executive Tim Cook stressed that unit-sales figures aren't relevant to the company's financial reporting anymore.

That was evident in the numbers Apple reported. While the company's iPhone unit sales showed 0% growth, the device's revenue surged 29%, thanks to the company's strategy of raising prices on its most popular gadget. The iPhone X price is just shy of $1,000, while the recently announced iPhone XS Max costs $100 more.

Analysts at BTIG said Apple's decision to stop reporting unit sales could lead to speculation. "Apple might not think it's helpful to report unit data for its products, but we do. More data is better than less data. There is rarely an exception to this," the analysts wrote.

Apple cited other reasons for its revenue forecast, including a challenging situation with currency valuations. Mr. Maestri also stressed that a year ago, Apple released its priciest phone during its fiscal first quarter. This time around, it did the opposite, releasing the more modestly priced iPhone XR during the current quarter.

Analysts at J.P. Morgan said Apple's forecast suggests the company is being conservative in the face of currency headwinds and softer growth in emerging markets. In a research note, the analysts wrote that Apple's decision to stop reporting unit sales is "irrelevant in evaluating Apple's success on its strategy relative to smartphones," and that the focus is on driving growth in the average selling price of the phone.

The projection and the announcement of a change in how Apple will communicate its results took the shine off what was otherwise a robust quarter. Revenue for the three months ended Sept. 29 rose nearly 20% to $62.9 billion from the same period a year earlier, while profit soared 32% to $14.13 billion. Both numbers beat Wall Street's forecasts.

Write to Sarah E. Needleman at sarah.needleman@wsj.com

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Heard on the Street
Markets

Why Deutsche's New Investor Is No Warren Buffett; It's difficult to believe that Deutsche is the most compelling investment in finance right now

By Paul J. Davies
536 words
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English

When Warren Buffett put $5 billion into Goldman Sachs in the teeth of the 2008 crisis, it was a major, public expression of faith in the bank that put a floor under its crumbling **stock price**. He made an absolute killing.

Douglas Braunstein, the former chief financial officer of JPMorgan, may not be Warren Buffett, but he is trying a similar trick with Deutsche Bank after taking a big stake and supporting management.

His simple thesis is the German bank's fortunes likely won't get worse. The big differences between him buying a 3.1% stake in Deutsche (through his firm Hudson Executive Capital) and what Mr. Buffett did a decade ago are that Deutsche isn't getting new money and the bank's problems are chronic rather than acute and short-lived.

If Deutsche has hit rock bottom, Mr. Braunstein's bet could pay out handsomely. He built his stake buying stock in the market mostly in October when the price averaged €9.33.

Over three years, Mr. Braunstein's price gain could be more than 70% if the bank just meets consensus forecasts. Deutsche's return on equity is forecast to hit 5% in 2021, according to FactSet, and its book value ought to get to about €31.60. That's hardly stellar performance. But assuming the stock traded then at about 50% of book value, it would be worth €15.80.

The problem with this is whether returns will even hit that level. Analysts at Berenberg, who see Deutsche as a value trap, reckon returns will have only reached 2.6% by 2020, versus consensus of 3.4% (they don't yet forecast beyond that).

Furthermore, the bank's book value won't necessarily grow either: In February last year, the forecast for Deutsche's book value per share at the end of 2019 was €40.93; now the forecast is €30.16. A the end of the third quarter this year it was €29.75.

But Mr. Braunstein thinks the bank's big losses are done: Deutsche has a well-capitalized, highly liquid and clean balance sheet. There is no expectation of massive fines to come.

This is all true, but Deutsche still has to arrest its revenue declines and that isn't easy. The high cost of insuring Deutsche Bank against default in the derivatives market makes it a less attractive company to do business with. This makes it harder to raise ultracheap funds from corporate cash-management and transactions clients, which could then be used in its fixed-income trading division like other banks do. Deutsche is issuing preferred senior bonds that should help bring costs down, but this will take time to have an effect.

Mr. Braunstein shouldn't lose money from here, but it is difficult to believe his view that Deutsche is the most compelling investment in finance right now. This isn't a Warren Buffett moment—Deutsche Bank can't be bailed out through faith alone.

Write to Paul J. Davies at paul.davies@wsj.com

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WSJ PRO CENTRAL BANKING

Economy
U.S. Goods Imports and Trade Deficit With China Hit New Records; Foreign-trade gap in goods and services increased 1.3% from the prior month

By Sharon Nunn
587 words
2 November 2018
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English

WASHINGTON—The U.S. imported a record amount of goods in September, while the trade deficit with China rose to its highest level ever, despite intense efforts by the Trump administration to close the trade gap.

The foreign-trade deficit in goods and services increased 1.3% from the prior month to $54 billion in September, the Commerce Department said Friday. A surge in products purchased from abroad helped widen the gap, with the value of imported goods ballooning to $218 billion, the highest level on record. Meantime, imports from China picked up, pushing the trade gap to $40.2 billion, another record high.

In an attempt to reduce the trade deficit, the Trump administration placed tariffs on billions of dollars of Chinese goods and on product categories like steel and solar panels from China and other countries. Foreign countries have placed retaliatory tariffs on U.S.-made products. Domestic factory activity has been impacted, and metals prices have risen this year, squeezing manufacturers' margins.

When discussing trade, President Donald Trump has historically singled out China, but the trade gap with other countries has risen as well; the deficit in September with Russia was the highest since May 2013.

"For China specifically, any decrease in China imports will take time to unfold due to the logistics of changing supply chains," said Kathy Bostjancic, head U.S. **financial market** economist at Oxford Economics.

Both total imports and exports grew 1.5% in September from the prior month. Domestic buyers increased purchases of foreign-made capital goods, including computers and airplane engines, and consumer goods, including cellphones and toys. Meanwhile, Americans used more services from abroad, such as transportation and courier services, though the U.S. typically has a modest trade surplus for services.

Analysts expect the deficit to continue to widen in the coming months. Major world economies that would typically buy U.S. exports are beginning to show signs of fatigue; eurozone economic growth recently pulled back to a four-year low. Add to that a strengthening dollar and tariffs on some American-made goods, and U.S. products will look more expensive to foreign buyers who are already experiencing rough economic outlooks.

At the same time, imports from foreign countries are likely to remain well supported by upbeat domestic demand, according to Ms. Bostjancic. Low unemployment, rising wages and strong economic growth have encouraged spending and importing by American consumers and businesses.

Historically speaking, the U.S. imports more good than it exports, but runs a modest trade surplus for services. Economists attribute the chronic trade deficit the U.S. has faced for decades to Americans consuming more than they produce relative to the rest of the world's economies.

To be sure, international trade data can be **volatile** from month to month. But in the first nine months of 2018, the overall trade deficit increased 10% in September when compared with the same period in 2017.

The trade deficit was a drag on the calculation of gross domestic product growth in the third quarter, following a surge of exported soybeans that boosted the measure in the second quarter. Forecasting firm Macroeconomic Advisers projected growth would slow in the fourth quarter to a 2.6% annual rate from the above-3% growth seen earlier in 2018.

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

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THE WALL STREET JOURNAL.

World

As New Iran Sanctions Loom, U.S. Aims to Plug Gaps; Trump administration's plan to block Iranian oil exports begins Monday, as it grants waivers allowing eight countries to temporarily import Iranian oil

By Ian Talley and Courtney McBride
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2 November 2018
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The Trump administration moved Friday toward its goal of maximum economic pressure against Iran, while granting waivers allowing eight countries to temporarily import Iranian oil without facing U.S. punishment.

The waivers, to countries that government advisers say include China, Turkey and India, are designed to give them time to switch to other suppliers while sharply reducing or eliminating their purchases of Iranian oil over time.

But with the U.S. economic pressure campaign coming into full force at 12:01 a.m. eastern time Monday, American officials also struggled to plug the holes that have plagued past sanctions plans against Iran.

Unlike the global support for the Obama administration's penalties, broad opposition to the current U.S. policy, including from European allies, is sure to complicate the task. And Iran has pledged to resist the sanctions.

Still, the Trump administration is off to a strong start: Iranian oil exports have fallen by more than a million barrels a day since the White House launched its new campaign in May. That decline represents more than a third of international sales.

Iran's economy, with oil accounting for 80% of tax revenue, is in pain. Europe's largest companies have pulled out, and Iranian consumers rushed to exchange their rials, pushing the currency's value to record lows and sparking a surge in consumer prices.

In March, the International Monetary Fund forecast Iran's economy would expand by 4% in 2018. Now it predicts a two-year recession, with a 3.6% contraction next year.

"We have seen a dramatic reduction in oil imports by Iran's top importers, a collapse in foreign direct investment, capital flight and banks deciding the cost-benefit analysis of doing business in Iran is simply not there," said Brian Hook, who heads the State Department's new Iran Action Group, in an interview.

The Trump administration's strategy to harden sanctions began with its decision in May to withdraw from the 2015 Iran nuclear pact, which triggered the reimposition of many sanctions while giving the U.S. leeway on how leniently or forcefully to apply economic pressure. An executive order issued by President Trump set Nov. 5 as the day the oil sanctions resume.

They prohibit purchases of Iranian oil, with companies facing sanctions unless the State Department grants waivers to their home countries.

U.S. officials didn't name the countries receiving waivers on Friday. The government advisers said China, India and Turkey along with South Korea, Japan, the United Arab Emirates, Taiwan and Iraq are likely to receive waivers.

Separately on Friday, the U.S. Treasury Department said it lifted sanctions on two Turkish government ministers that were imposed in August amid Ankara's refusal at the time to free Pastor Andrew Brunson, who was arrested three months after a failed July 2016 military coup. Turkey has since released him.

Treasury Secretary Steven Mnuchin told reporters Friday that his office will add more than 700 Iranian banks, companies and individuals to its sanctions blacklist, including some that previously had been granted sanctions relief under the 2015 international nuclear agreement with Iran.

Some of the Iranian banks will be blacklisted for their ties to the government, while others will be targeted for financing activities linked to U.S.-designated terror groups, human rights abuses and weapons programs.

The U.S. warned that the Europe-based financial messaging firm Swift, whose infrastructure allows banks to quickly and cheaply conduct cross-border transactions, also risks U.S. penalties if it doesn't disconnect banks tied to terror groups, rights abuses and weapons programs from its system.

That threat has fueled tensions with Washington's trans-Atlantic allies who have so far opposed the Trump administration's Iran policy.

Swift declined to comment.

The Trump administration is seeking to surpass the success of the Obama sanctions, which led to the 2015 nuclear deal. After exiting from that deal in May, the Trump team said it wants a more comprehensive accord with Iran that not only prevents development of nuclear weapons, but also bans long-range missiles and curbs Tehran's support for armed conflicts in Syria, Lebanon, Yemen and Iraq.

"History shows that this regime only changes its behavior and comes to the negotiating table when under significant pressure," Mr. Hook said.

But Tehran isn't completely isolated. Many of the world's largest economies, including trans-Atlantic allies, opposed the Trump administration's decision to pull out of the nuclear accord and reimpose sanctions. European governments and others have sought to preserve ties with Iran, in part an effort to ensure it stays in the nuclear accord. That global support for Tehran may give license to evasion.

"The dissatisfaction with the U.S. sanctions program is a silent encouragement for circumvention," said Alma Angotti, managing director of Navigant Consulting's global investigations practice.

The European Union, despite a corporate exodus, wants to shield trade and finance with Iran from U.S. sanctions. Firms from China, Russia and elsewhere have remained in Iran.

Washington said it is aiming to cut Iran's oil exports to zero over the coming months, threatening sanctions against companies and countries that don't switch to the new sources the U.S. is negotiating to bring online in Saudi Arabia, Iraq, Qatar and at home.

As its aboveboard oil sales decline, Iran's government is scrambling to keep selling surreptitiously, using techniques honed during the Obama pressure campaign, U.S. officials say: loading cargoes into non-Iranian vessels at sea, and turning off shipboard satellite beacons.

In recent months, Tehran has assembled a special sanctions-busting group, Iran experts say, with top officials from the oil, intelligence, export and foreign ministries and the Central Bank of Iran.

During the Obama-era pressure campaign, Tehran moved tens of billions of dollars-worth of oil, gold and other goods through banks, trading companies and exchange houses across the globe, including in Turkey and Dubai, one of the seven U.A.E. emirates. It is reactivating that infrastructure, U.S. officials say.

Turkey's state-owned Halkbank—as well as several other Turkish banks under scrutiny by U.S. prosecutors—is facing potential multibillion-dollar fines by the U.S. for its role in those activities.

Neither the bank nor officials at the Turkish and U.A.E. embassies in Washington responded to requests for comment.

A U.S. security official familiar with the matter said the Dubai government has reassured the U.S. that it won't allow such activity again.

"There's nothing right now that gives me a specific concern that there will be real leakage," Treasury Secretary Steven Mnuchin said between stops on a Middle East tour last month.

Much of his trip—which included stops in the U.A.E., Qatar and Kuwait—centered on securing sanctions enforcement. But, "to the extent that we see it, we will figure out to plug the holes," Mr. Mnuchin said.

Mr. Hook said the U.S. already knows Iran's clandestine channels and will be "vigorous and relentless in enforcement."

The European Union's foreign policy chief and the French, British and German foreign and finance ministers said in a statement that the European governments "deeply regret the further re-imposition of sanctions" and reiterated their support for the 2015 nuclear deal.

The officials said they are still working on measures to protect trade and investment in Iran but that the centerpiece of these measures -- a special purpose vehicle to facilitate commerce - was not yet ready.

Asa Fitch in Dubai and Laurence Norman in Brussels contributed to this article.

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Strategies
Business Day
The Stock Market Typically Rises After Midterm Elections. This Year Is Anything but Typical.

By Jeff Sommer
1,192 words
2 November 2018
12:00 PM
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English

There has been a deficit of cheerful news lately about American politics. And with the midterm elections looming, it may be difficult to think clearly about anything else.

So here's a tidbit that may be diverting and even mildly comforting: The midterms have consistently been good for the **stock market**.

Remarkably, this has been true for every midterm election since World War II.

The data shows that it hasn't mattered who won or lost or which party controlled the White House or Congress, either before the voting or as a result of it. Whatever the political configuration or the election results, the midterm election season has been an excellent one for stocks.

The pattern "gives a very positive message for the market," said Ed Clissold, chief United States Strategist for Ned Davis Research. "It's only part of the picture, but it's a positive part."

The numbers tell the story. Since 1946, in years with midterm elections, the **Standard & Poor's 500**-**stockindex** has gained a median of 18.4 percent in the nine-month period from Sept. 30, just ahead of voting, through June 30 of the following year, according to data compiled by Ned Davis Research. In that same period in nonvoting years, the index gained 4.9 percent.

Diving a little deeper into the Ned Davis data, the pattern is evident when presidential terms are broken down into three-month quarters. Each four-year presidential term has 16 quarters, and the best one has typically been the quarter we are in now, the fourth quarter of a midterm year.

In this midterm quarter, the **stock index** since 1946 has gained 7.5 percent on average. The next best two quarters in performance have been the next two quarters chronologically — the first and second quarters in the year after the midterm election — with average gains of 7.5 percent and 6.6 percent.

There have been declines within these periods — including one, in 1946, as large as a 15.4 percent loss — but in every case, the net result for the nine-month midterm season was a market gain.

But why? That's the problem with this pattern: Because presidential motivations and actions aren't sufficiently documented, there is no conclusive explanation, though a great deal of academic work has been done on this subject, as I've written just before the last two midterm elections.

The main working hypothesis is a cynical one: Presidents are politicians who care overwhelmingly about their own re-election. (And to a much lesser extent, two-term presidents look to ensure the election of their successors.) They stimulate the economy — and, indirectly, the **stock market** — for maximum effect as their own elections grow closer, or so the theory goes.

That implies that their first year in office is the best time to make politically painful moves, which won't hurt them in the polls later. And it follows that it's better to gin up the economy in the second half of their tenure, starting around the midterms. If the good times are going to roll, let them roll closer to a presidential election.

Cause and effect have been difficult to prove. The one case with a smoking gun occurred, naturally enough, in the Nixon administration.

Secret White House tapes, combined with the investigations of the special prosecutor and the House Judiciary Committee, as well as efforts by private individuals and researchers, are gradually giving us a more precise view of the internal workings of the government in that era than is available for other administrations.

Thanks to those Nixon White House tapes, Burton A. Abrams, an economics professor at the University of Delaware, has shown that in 1971 and early in the 1972 election year, President Richard Nixon secretly pressured the Federal Reserve chairman, Arthur F. Burns, to expand the money supply, with the goal of ensuring Mr. Nixon's second term.

Mr. Nixon took other actions, including the imposition of wage and price controls to curb inflation, all aimed at improving his standing in the polls. And he crushed Senator George McGovern in the presidential election of 1972.

In some cases, however, presidents appeared to act against their own self-interest in economic matters. In retrospect, President Jimmy Carter's appointment of Paul Volcker as chairman of the Federal Reserve in July 1979 may be seen in this light, as a public-spirited sacrifice.

Mr. Volcker's tight monetary policy reined in the rampant inflation of the era, but also helped to start the recession that lasted from January through July in 1980 — and doomed President Carter's bid for a second term. (The Iran hostage crisis didn't help, of course.) Carter lost to Ronald Reagan in November 1980.

Still, the patterns in the **stock market** over a very long period appear to be persuasive. (Even for Mr. Carter, the **stock market** eked out a small gain, 0.4 percent, in the midterm election quarter.)

But even if the overall pattern is more than an elaborate series of coincidences, and even if presidential self-interest causes it, it's possible that President Trump may be so singular that little of this applies.

For one thing, the administration's timing on economic matters seems to have been off, as far as this **stock market** cycle goes. Last winter's tax cut and the current, widening budget deficit have stimulated the economy, but way ahead of the typical schedule — so far ahead, in fact, that they may not help Mr. Trump's re-election odds in 2020.

The Federal Reserve is already raising interest rates and is expected to continue through next year, which could slow the economy as the presidential election approaches. Despite the Fed's independent status, Mr. Trump has repeatedly criticized the central bank's moves, with no apparent effect so far.

The **stock market** often moves ahead of the economy, responding to changing expectations. Because the economy — and corporate earnings — have been so strong lately, year-over-year comparisons are widely expected be less favorable in 2019.

By 2020, many strategists say, the chances of a recession are mounting. And with the prospect of declining growth rates ahead, the market has given up gains lately, and **bullish** Wall Street forecasters have been lowering their targets.

Of course, the Fed could back off if the economy slackens. And the administration could engage in further fiscal stimulus after the midterms by enacting one of its campaign promises, a big infrastructure investment plan. But its ability to do so depends on the election results. So will its ability to meet another stated goal, further tax cuts.

Will the midterm pattern be sustained once more? Its overwhelming consistency is formidable. But so is Mr. Trump's ability to shatter convention.

Follow Jeff Sommer on Twitter: @jeffsommer

Minh Uong/The New York Times | The midterms have consistently been good for the **stock market**. | Demetrius Freeman for The New York Times | President Trump on Thursday. | Sarah Silbiger/The New York Times

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WSJ PRO CENTRAL BANKING

Markets

What Will Banks Do With Cash Freed Up by Rule Changes? No One Knows. Fed proposal to ease short-term cash requirements for big banks heads into uncertain territory

By Ryan Tracy and Lalita Clozel
905 words
2 November 2018
07:00 AM
WSJ Pro Central Banking
RSTPROCB
English

Regulators plan to pare back requirements that banks keep billions of dollars of cash on hand to pay short-term bills. No one knows for sure what will happen next.

The liquidity coverage ratio rule was invented to protect banks from credit freezes similar to the 2008 financial meltdown. Four years ago, the Federal Reserve began requiring banks to keep enough cash on hand—or easy-to-sell assets such as Treasury bonds—to cover expected bills for the next 30 days.

On Wednesday, under Trump-appointed regulators, the Fed proposed reducing the required ratio for four large U.S. lenders and removing it altogether for 11 others, in one of the most significant regulatory relief measures for banks since the financial crisis.

The changes would free the banks up to repurpose as much as $77 billion in assets locked up by the current rule—a small percentage of the total liquid assets held by all banks with more than $100 billion in assets, the Fed said. Nine of the largest U.S. banks would see no change under the proposal.

Some see an economic boost where banks rededicate the cash to loans, long-term securities or other higher-yielding but riskier assets.

"This regulatory relief is very important to sustain the economic juggernaut that we have going now," House Financial Services Committee Chairman Jeb Hensarling (R., Texas) said, adding that when banks makes a loan, "the cost of compliance is going to be put into that interest rate."

Critics say the change won't significantly boost lending, but that it will increase risk.

Fed officials said they tried to assess whether loosening the rules would increase lending—and couldn't find conclusive evidence either way.

Fed governor Lael Brainard, an Obama appointee who dissented from her colleagues' decision to approve the proposal, said, "I see no change in the financial environment…that would require us to substantially weaken a rule that was backed by strong analysis." She added that banks are "providing ample credit and earning ample profits" under current liquidity requirements.

In adopting the liquidity rules, Fed officials cited the 2008 crisis. Many banks then were relying on **volatile** funding sources that suddenly evaporated, leaving taxpayers on the hook to keep the financial system functioning.

Three lenders in the range of about $100 billion to $300 billion in assets faced deep liquidity problems during the crisis and had to be sold in emergency deals, Ms. Brainard pointed out.

The Fed said banks affected by the liquidity-rule changes have much firmer funding today. These banks' assets are about 14% liquid on average today, up from 5% for banks of that size in 2006 and 2007, according to the Fed.

Fed officials expect the impact of the changes to be modest overall. The regulator will still conduct "stress tests" of banks' liquidity, though the results won't be made public, and for some banks, those tests could be even more restrictive than the liquidity coverage ratio, officials said.

Fed Vice Chairman for Supervision Randal Quarles, who supported the rule changes, said he hopes "firms will see reduced regulatory complexity and easier compliance with no decline in the resiliency of the U.S. banking system."

Banks with assets of $250 billion to $700 billion could cut their buffers of "liquid assets" such as Treasury securities by up to $43 billion, the Fed estimated. Affected firms include U.S. Bancorp, PNC Financial Services Group Inc. and Capital One Financial Corp. An additional 11 banks with assets of $100 billion to $250 billion would be exempted from the liquidity coverage ratio entirely, freeing up liquid assets of up to $34 billion, the Fed said.

What banks will actually do with the extra cash is an open question.

William Lang, managing director at International Business Machines Corp.'s Promontory Financial Group unit and a former Fed bank supervisor, said banks should get a "substantial benefit." He said they could boost returns by converting short-term, easy-to-sell assets such as Treasury bonds into higher-yielding—and riskier—long-term assets.

The impact might be small in the context of the broader Treasury market, given that big, systemically important banks will still need to hold the debt, said Jabaz Mathai, head of U.S. interest-rate strategy at Citigroup Inc.

Wayne Abernathy, an executive vice president at the American Bankers Association, said that giving banks more flexibility around funding sources could boost profitability and allow them to make more loans. "You're taking away some of the barriers [and] allowing them to be more aggressive," he said. He added, however, that even with the changes, liquidity requirements would be too strict.

Wednesday's proposal "strikes a good balance that would allow banks to foster economic growth, better serve customers, while keeping the banking system strong," U.S. Bancorp said in a statement

PNC said the proposal "acknowledges the real differences between the business model and risk profiles of Main Street banks, like PNC, and globally systemically important banks."

Capital One didn't respond to requests for comment.

Daniel Kruger contributed to this article.

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THE WALL STREET JOURNAL.

Heard on the Street
Markets
Why Exxon Is Touting Connectivity; Oil giant is squeezing more money from fewer barrels with big investments in logistics, refining and chemicals

By Spencer Jakab
455 words
2 November 2018
12:24 PM
The Wall Street Journal Online
WSJO
English

It isn't how much you pump but what you do with it that counts.

That message was obvious in Exxon Mobil Corp.'s third-quarter results announcement on Friday. Before using the word "production" in his remarks, chief executive Darren Woods talked about "the benefits of integration," and gushed about the company's "logistical network" that created "connectivity" between its operations.

Output of hydrocarbons—ostensibly the business of Big Oil—was nothing to brag about. Third-quarter liquids and natural gas production was the equivalent of 3.786 million barrels of crude a day, putting Exxon on pace for its lowest annual figure since merging with Mobil nearly 20 years ago.

But what it did with those barrels was, and will be, impressive. Net income rose by 57% year-over-year. Cash flow from operations plus asset disposals topped $30 billion for the first nine months of the year, and free cash flow was $16.5 billion.

Despite the turn in its fortunes, the company hasn't returned to its once-prodigious share buybacks and is instead investing heavily in chemicals, refining and logistics, particularly in North America. By 2025, the company plans its chemicals output to be 40% higher and it will be able to ship, process or refine far more barrels from the prolific Permian Basin.

Currently, a barrel of U.S. crude fetches $9 less than the global benchmark; a barrel of Canadian some $40 less; and a cubic foot of U.S. natural gas around half of what identical molecules command in Europe or Asia. In such a world, being able to exploit those differentials is hugely valuable. That could include shipping a commodity to where it brings a higher price or turning it into a value-added product, like gasoline or polyethylene, more cheaply than other producers who use pricier feedstocks.

That use of cash won't be as lucrative as in the good old days when Exxon tackled big upstream projects few others could touch because of risk, size and complexity. Its return on invested capital routinely topped 30% back then. Now it will be lucky to sustain a return half as high. Even so, that is a decent way for an industrial company to deploy shareholder cash.

Exxon's shares have lost value over the past one, three and five years despite the sharp recovery in **oil prices**. It has been a tough cycle for the stock but a productive one for the company—a fact not yet appreciated by the market.

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THE WALL STREET JOURNAL.

Markets
Banks Raise Oil Forecasts as Iran Sanctions Approach; Iran's supply losses are projected to be bigger than expected, which could further boost prices

By Christopher Alessi
690 words
2 November 2018
09:34 AM
The Wall Street Journal Online
WSJO
English

LONDON—Banks last month raised their forecasts for **oil prices**, amid expectations of a further reduction in crude supply from Iran after U.S. sanctions on the OPEC member's oil industry take effect next week.

Brent crude—the global oil benchmark—is now expected to average nearly $75 a barrel this year, according to a poll of 11 investment banks surveyed by The Wall Street Journal. West Texas Intermediate, the U.S. standard, is projected to average just above $68 a barrel in 2018. The estimates mark increases of roughly $2 and $1, respectively, on the forecasts from September's survey.

"Losses from Iran are just around the corner," said Harry Tchilinguirian, global head of commodity markets strategy at BNP Paribas, one of the banks polled by the Journal.

"These losses are expected to be much heavier than expected as we get news that key refiners in India and China are refraining from [scheduling future imports] of barrels of Iranian oil," Mr. Tchilinguirian added.

Exports of Iranian crude have already been falling rapidly as buyers have reduced their purchases ahead of a Nov. 4 deadline mandated by U.S. sanctions. Crude shipments from Iran—the third-largest oil producer in the Organization of the Petroleum Exporting Countries—dropped to about 1.5 million barrels a day in September, compared with 2.3 million barrels a day of exports in June, according to people familiar with the matter.

President Donald Trump in May pulled the U.S. out of a 2015 international agreement to curb Iran's nuclear program, setting the stage for the reimposition of sanctions.

Analysts have estimated that more than a million barrels a day of Iran's exports could ultimately be taken off the market, which could further tighten supply and boost prices. Early last month, belief that Iranian oil would leave the market helped push Brent over $86 a barrel for the first time in roughly four years.

Since then, crude prices have fallen roughly 12% amid global **stock market** turmoil and signs of weakening oil demand, closing out October with their biggest monthly decline in over two years.

Prices were also pressured as Russia and Saudi Arabia—the de facto head of OPEC and the world's largest crude exporter—increased their production in an effort to fill the Iranian shortfall.

"Crude has moved with the broader selloff in risk assets," said Jason Gammel, oil analyst at Jefferies, another bank surveyed in the Journal poll. But, he added, "recently, the market has been…well-supplied, due in large part to the surge in production from Saudi Arabia before the full effects of U.S. sanctions hit Iranian exports."

Saudi Arabia said in October it had increased crude output to around 10.7 million barrels a day, up from roughly 10.5 million barrels a day the month prior, while indicating it could further ramp up production to around 11 million barrels a day this month.

OPEC and its production allies outside the oil cartel, led by Russia, agreed in late June to begin gradually increasing production after more than a year of holding back output.

Nonetheless, many of the pressures the oil market has faced throughout October are "likely transitory," according to Martijn Rats, commodities strategist at Morgan Stanley.

"The pillars of oil market strength over the last few months are still there—inventories and spare capacity are both low by historical standards, leaving little buffer in the oil market, [and] Iran's exports will likely continue to fall as U.S. sanctions kick in," he wrote in a note.

Mr. Rats predicted that Brent would again reach $85 a barrel by the end of the year.

Other bank analysts also see **oil prices** rising further going forward. For 2019, they see Brent averaging above $77 a barrel and WTI averaging nearly $71 a barrel, according to the Journal survey.

Benoit Faucon contributed to this article.

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THE WALL STREET JOURNAL.

Markets

Corporate Buybacks Return, Supporting Market; Companies like IBM, Shell and Estée Lauder authorize significant share repurchases

By Avantika Chilkoti
932 words
2 November 2018
04:49 PM
The Wall Street Journal Online
WSJO
English

U.S. companies are ramping up share buybacks again, offering potential support to **volatile** markets.

Share buybacks fell ahead of earnings season, when regulations bar such repurchases. As that so-called blackout period ends, there has been a resurgence, with companies making the most of last month's selloff. That has eased analysts' concerns that the year's buyback boom is over.

Net buybacks in the month totaled just $12 billion by Oct. 19, but jumped to $39 billion by Oct. 29, according to estimates from JPMorgan Chase & Co. That is more than the $30 billion recorded in September and just under the $48 billion recorded in August.

The bank's estimates are based on the average drop in share count across the **S&P 500**, FTSE Russell1000, Datastream U.S. and MSCI U.S. indexes.

Some analysts hope a resurgence in buybacks could help support share prices during a period of geopolitical and economic uncertainty. Others are skeptical that companies can continue purchasing their own shares at the current pace, particularly as the stream of repatriated cash that helped drive the year's buybacks slows down.

"It is possible that some companies saw the equity correction as an opportunity to buy back their stock" in October, said Nikolaos Panigirtzoglou, global-markets strategist at JPMorgan. "But this raises the hurdle for November."

The pickup came at the close of a month that wiped more than $4 trillion in value from stocks in the U.S., Europe and Asia. Markets have tumbled on concerns over the U.S. trade dispute with China, the prospect of slowing global growth and higher interest rates and declines in the technology sector. The S&P has lost 6.9% in the past month, while the **Dow Jones Industrial Average** is down 5.6% and the tech-heavy **Nasdaq Composite** has dropped 8%.

That swoon has accentuated interest in buybacks.

Cosmetics firm Estée Lauder Cos., whose shares dropped by as much as 14% during October, on Wednesday announced plans to buy back 40 million shares, or 11% of the total outstanding. The New York-based company had spent more than $240 million buying back its own stock over October, it said.

Semiconductor-equipment maker Rudolph Technologies Inc., based in Massachusetts, pointed to "undervalued market conditions" on Monday as it announced it had spent $14.3 million completing a buyback plan. The firm's shares dropped as much as 20% in October.

This past week, International Business Machines Corp. authorized $4 billion worth of buybacks, and financial-exchanges operator Intercontinental Exchange Inc. announced a plan for repurchases worth $2 billion.

Elsewhere, Netherlands-based Royal Dutch Shell PLC spent $2 billion on buybacks between July 26 and Oct. 19. On Thursday, it launched a second round, planning to spend up to $2.5 billion by late January.

Buybacks aren't loved by everyone. Critics say they are motivated by executives' desire to boost the value of the stock options and allocations in their remuneration packages. Buybacks also channel profits away from the research and capital expenditure that could improve productivity in the longer term, they say.

"There is an inherent conflict of interest because the management is incentivized through the share price," said Neil Dwane, global strategist at Allianz Global Investors.

For their fans, buybacks are an efficient way to return capital to shareholders by boosting the share price.

Mr. Panigirtzoglou warned that stock repurchases could now decline because companies may have already taken advantage of the correction and that the repatriation of U.S. profits stockpiled overseas could tail off. Companies' purchases of their own shares hit new highs in the first half of the year, after December's tax overhaul motivated firms to repatriate funds. Some of the returning cash has been put toward dividend payments, capital expenditures and bonuses, but a large share has been used to buy existing shares.

Inflows of repatriated cash dwindled to $105 billion in the second quarter from $225 billion in the previous three-month period, according to JPMorgan.

Still, some analysts say there could be more cash to come.

Some companies repatriated offshore capital immediately in response to the tax reform, but others may act more slowly, depending on how their overseas profits are invested, according to Todd Castagno, an equity strategist at Morgan Stanley.

Mr. Castagno pointed out that some corporations hold a lot of their offshore capital as corporate bonds, which are difficult to liquidate.

Cash held overseas by U.S. nonfinancial companies rated by S&P hit $1.3 trillion last year, according to S&P's own estimates, though that estimate varies wildly between sources.

Data shows U.S. companies have also hit pause on announcing plans to buy back shares in the second half of this year. There is usually a lag between these announcements and the actual share repurchases.

TrimTabs, an investment research company, said that companies announced $156 billion in buybacks in the third quarter, after posting record levels in the first and second quarter of $242 billion and $437 billion, respectively.

Marvell Technology Group, a semiconductor company with a total market capitalization of about $11 billion, for example, announced this past month it would increase its buyback program to $1 billion from $300 million, but set no timetable for the purchases. Chief Financial Officer Jean Hu said management is holding out for prices to sink further.

"We'll do the buyback opportunistically as we think about the valuation and about the future of the company," she said.

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THE WALL STREET JOURNAL.

Markets

Tech Swoon Stings Hedge Funds; Broad declines for hedge funds prompt dismay among some investors

By Juliet Chung and Rachael Levy
876 words
2 November 2018
02:48 PM
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English

Hedge funds that rode the technology wave up are getting bruised on the way down.

Tiger Global Management posted a 9.4% net loss in its tech-focused hedge fund last month, according to people familiar with the firm. The fund is up roughly 10% net for the year through October, beating the **S&P 500** and the industry on average.

Less specialized hedge funds were hit as well. Soroban Capital Partners was down 9% for the month, while Glenview Capital Management and Melvin Capital Management lost 11% and 15%, respectively, according to people familiar with the firms. Suvretta Capital Management lost 8.1% in October, according to an investor document.

Third Point's losses of 6.7% to 6.9% in its funds—a loss of roughly $1 billion in a month—have taken it into the red for the year.

The broad declines for hedge funds in October occurred during one of the most violent pullback in stocks in more than seven years. Stocks around the world lost about $5 trillion in value, according to S&P Dow Jones Indices, as shares in Europe and Asia also tumbled.

The **S&P 500** lost nearly 7% last month, marking its worst October since 2008. It is up 3% for the year through October.

The magnitude and widespread nature of losses are prompting dismay among some investors. While hedge funds are expected to lag bull markets because they are hedged—or have bets against the market or specific companies that eat into their returns—clients expect them to outperform during downturns. Hedge funds also commonly market themselves as being uncorrelated with broader markets.

But hedge funds betting on and against stocks lost 7.4% for October, Goldman Sachs Group Inc. said in a client report Friday. For the year through October, the funds on average were down 4.9%.

Oct. 24 was particularly damaging for the funds, which had their worst day in almost seven years, according to another Goldman report. Those funds tracked by Goldman dropped 1.44% that day, the report said.

A slight rebound in technology shares at the end of October helped some hedge funds trim their losses, traders said.

Hedge funds have steadily increased their exposure to the tech sector over the past several years as the number of publicly traded U.S. companies has shrunk and technology companies have helped drive returns. The tech sector jumped 37% in 2017, nearly doubling the broader **S&P 500**'s advance. Health-care and technology stocks drove the **stock market** higher this year before October.

"It was either get on the bus or you got left in the dust," said Scott Warner of Paamco Prisma, which manages or advises on $30 billion in client money. "You saw people starting to drift to a narrower and narrower subset of ideas, especially very large managers whose investible universe is not that big."

Chasing companies that were leading the market was only part of the reason some managers piled into technology.

Fundamentally, many investors have found technology companies attractive the last several years believing these firms were well positioned to succeed even when there is growing competition from China and Europe. They also expected rising interest rates to hurt some other large sectors, including consumer staples and utilities.

At the end of June, one of the FANG grouping—Facebook Inc., Amazon.com Inc., Netflix Inc. and Google parent Alphabet Inc.—made up at least 5% of 163 hedge-fund firms' U.S. stockholdings, according to an analysis of securities filings by portfolio analytics firm Novus. That is up from 93 hedge funds three years earlier, the firm found.

The industry's exposure to those four stocks as a percentage of their growing tech sector investments over that three-year period increased by about 75%, according to other analysis by Novus.

Despite the October selloff, some investors in hedge funds said their tech investments generally have remained profitable over the long term.

"One of the big concerns has been how sustainable is that source of return," said Alex Band, of outsourced investment firm Partners Capital, which advises on more than $24 billion of client money. But "there's a lot of value to many of these companies."

Other factors hurt hedge funds last month, said investors, including a selloff in popular biotech companies, bets against retail companies that rallied and weakness in European equities.

The $28 billion Tiger Global was among the earliest of hedge funds to focus on technology investing, and it now manages more money in its venture capital funds than in its hedge fund. In an Oct. 31 letter to investors, the firm said its concentration in "high-growth companies" that had hurt it in October had contributed to its gains the first nine months of the year.

Tiger Global also said it had been "adding to certain longs where prospective returns have increased and covering some shorts that have declined. In general, we are more optimistic about our portfolio after this move."

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THE WALL STREET JOURNAL.

U.S. Markets
Markets
Apple Shares Pull Down U.S. Stock Indexes; Losses threaten the recent stock-market rebound; Apple falls 6.6%

By Corrie Driebusch
852 words
2 November 2018
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The Wall Street Journal Online
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English

Corrections & Amplifications

The **S&P 500** posted its strongest weekly performance since March. An earlier version of this story incorrectly said it was the best since May.

A big drop in shares of Apple dragged major U.S. stock indexes into the red Friday, breaking their three-session winning streak.

The iPhone maker's shares lost $14.74, or 6.6%, to $207.48—their biggest one-day percentage loss since January 2014—after the company gave disappointing guidance for the holiday quarter. The declines threatened to push the company's market value below $1 trillion and also spread to other big technology stocks, which had been hammered in October.

Apple's tumble was responsible for about 100 points of the 109.91-point decline in the **Dow Jones Industrial Average**. Friday's 0.4% dip brought the index to 25270.83.

Friday's slump underscores the fragility of the U.S. **stock market**'s recent rebound. After a crushing October that shaved more than $4.5 trillion from shares of companies in the U.S., Europe and Asia, the **S&P 500** had risen more than 1% each of the past three trading sessions entering Friday. It still ended the week up 2.4%, its best performance since March.

The broad **stock-market** index shed 17.31 points, or 0.6%, to 2723.06 on Friday, led by the tech sector, which slumped 1.9%. The tech-heavy **Nasdaq Composite** posted steeper declines, down 77.06 points, or 1%, to 7356.99.

Apple's results, released after the close of trading Thursday, showed the world's most valuable company turned in another period of record revenue and profit—its fourth-consecutive quarter doing so.

But investors seized on two points: Its revenue forecast didn't portend explosive growth, and the company said it would stop reporting unit-sales figures for its three most recognizable brands, the iPhone, iPad and Mac.

Based on Apple's current reported share count, its valuation would fall under a trillion if its stock fell below $207.04. That could change when Apple reports a new share count in its quarterly filing with securities regulators.

Apple's declines put the rest of the tech sector under pressure. Netflix and Intel fell more than 2%; Google parent Alphabet dropped more than 1%; and Facebook shares declined less than 1%. Netflix and Alphabet shares had posted double-digit declines over the past month as investors soured on many highflying growth stocks.

Apple had been considered immune to some of those concerns before its earnings report. Its fall exemplifies how during this earnings season, companies are getting atypically punished for disappointing quarterly results and poor guidance.

"Even though revenue and earnings numbers may be good, a lot of those eye-popping growth numbers are already known and expected this quarter," said Darrell Cronk, chief investment officer of wealth and investment management for Wells Fargo Investment Institute. "Companies with weaker guidance are seeing the most acute selling in their share prices."

Even after weeks of battering, Mr. Cronk said he wasn't ready to recommend investors buy up more shares of tech stocks, saying he didn't believe prices have come down enough to make the group compelling.

Instead, he is recommending clients scoop up shares of industrial and financial companies, which he finds "unduly cheap" right now based in part on their price-to-earnings ratios.

Elsewhere, renewed hopes that trade tensions between the U.S. and China are de-escalating and a strong October jobs report gave investors reason to be more optimistic.

President Trump tweeted Thursday about what he called a "long and very good conversation" with his counterpart in China, Xi Jinping, helping push shares higher in Europe and Asia.

"While we are still cautious over a full resolution of recent tensions in the medium term, resumption of dialogue between Washington and Beijing would be good enough to investors for now," said Tai Hui, chief market strategist for Asia at J.P. Morgan Asset Management.

And the October jobs report buttressed the argument that the U.S. economy remains on strong footing, as the Labor Department reported that hiring accelerated last month and the unemployment rate held at a 49-year low. Wages increased 3.1% from a year earlier, the best year-over-year gain for average hourly earnings since 2009, data showed.

But what is good for the economy doesn't always translate to positive news for stock investors, as many worry that rises in wages could hurt corporate profit margins and lead the Federal Reserve to raise interest rates more quickly than expected.

The 10-year **U**.**S**. **Treasuryyield** rose to 3.214% versus 3.144% on Thursday. Yields move inversely to prices.

Stocks across Europe advanced, with the Stoxx Europe 600 up 0.3%, following larger rises in Asia. Meanwhile, Japan's Nikkei Stock Average rose 2.6%, China's Shenzhen A Share Index gained 3.4% and Hong Kong's Hang Seng rallied 4.2%.

Sarah E. Needleman and Avantika Chilkoti contributed to this article.

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The New York Times

Business Day; DealBook
Apple Will Stop Revealing How Many iPhones It Sells. That's a Bad Sign.

By Peter Eavis
735 words
2 November 2018
05:35 PM
NYTimes.com Feed
NYTFEED
English

Apple has giant revenues, profit margins that are the envy of corporations everywhere and a **stock market** value of $1 trillion.

Despite those obvious strengths, Apple told investors on Thursday that it would stop reporting numbers central to understanding the performance of its biggest business: selling iPhones.

The company said it would no longer disclose how many iPhones, iPads and Mac computers it sold each quarter. Without this data, investors will not be able to track the average selling price of iPhones, a crucial number for assessing whether consumers are balking at paying up for Apple's higher-priced phones.

The decision, along with Apple's disappointing forecast for this quarter's sales, helped drive the company's **stock price** down more than 7 percent on Friday, a move that weighed on the wider **stock market**.

Apple's move to cut back its disclosures also should serve as a jolt for all investors.

For much of the year, investors seemed to ignore the warning signs hanging over large technology companies and pushed their stocks higher. Their plunge last month — Netflix's stock is down 26 percent from its high, and Amazon is off 19 percent — has most likely made investors more aware of the problems these companies face in their core businesses.

But Apple's decision to make its iPhone sales less transparent may underscore the seriousness of these challenges. "An abrupt loss of disclosure suggests weakness beyond one quarter," Jeffrey Kvaal, an analyst for Nomura, wrote in a research note.

Sales of iPhones have stalled in recent years. As a result, Apple has raised prices to bolster its iPhone revenue. The average selling price of an iPhone was $793 in the three months through September, a 28 percent increase from a year earlier. Without the tally of phones sold, calculating the average selling price won't be possible, and outsiders will find it harder to gauge consumers' sensitivity to the price of iPhones. "We believe unit volumes and A.S.P.'s are reflective of the loyalty and satisfaction consumers have in their devices," Mr. Kvaal wrote in his note, referring to average selling prices.

Selling iPhones at a premium price to a relatively small portion of the global smartphone market has been at the heart of Apple's strategy. With less data, investors will probably find it harder to tell whether this approach remains successful.

Other big technology companies have removed data from their regular financial reports. And some simply do not disclose figures that would be helpful in determining trends in their business. Twitter, for instance, does not provide the overall number of daily average users, a number that Facebook gives out.

Facebook does not disclose Instagram's revenue, a number that would help investors understand the attraction of each platform to advertisers.

Apple's chief financial officer, Luca Maestri, on Thursday contended that removing the data would not affect investors' understanding of the company's performance. Over the last three years, he said, there was no correlation between price and the number of phones sold. And Apple said it would disclose new information, including the cost of sales for its two main businesses, called products (selling items like iPhones) and services (for instance, subscriptions to Apple music).

But the new information may not make up for what's being taken away. Sales of iPhones accounted for nearly three-fifths of the company's revenue in its latest quarter. And the decision to stop providing iPhone sales comes at a pivotal time for smartphones. Sales of smartphones in more affluent countries are slowing as consumers hold onto their phones longer. While sales are still growing in emerging markets, such as India, the handsets that dominate those markets are cheaper. So as the sales mix shifts to those countries, it could crimp profit margins.

"I think we're at peak smartphone," said Kevin Dennean, a tech sector strategist at UBS Global Wealth Management.

Matt Phillips contributed reporting.

Apple's decision to stop disclosing how many iPhones, iPads and Mac computers it sells each quarter weighed on its share price, which dropped more than 7 percent Friday. | Erica Yoon for The New York Times

Document NYTFEED020181102eeb200a15

THE WALL STREET JOURNAL.

Markets

Barclays, Lloyds Fare Poorly in EU's Bank Stress Tests; U.K. banks post unexpectedly weak results in European Banking Authority's assessment

By Margot Patrick and Philip Georgiadis
889 words
2 November 2018
05:49 PM
The Wall Street Journal Online
WSJO
English

Barclays PLC unexpectedly posted the worst results in a stress test of European banks Friday, with a key capital measure dropping close to what investors consider the bare minimum needed to withstand a hypothetical economic crash.

The results will amplify investor attention on another round of tests by the Bank of England in December and come as British and European banks attempt to plan for the potential impact of Brexit even as the terms of Britain's separation from the European Union remain unclear.

The capital measure in question, called the common equity tier 1 ratio, dropped as low as 6% at Barclays during the 2018-20 period covered by the test, which featured an adverse scenario that included double-digit unemployment and falling asset prices over the three years.

Lloyds Banking Group PLC also turned in a surprisingly poor performance, with its ratio falling as low as 6.78% during the three years assessed.

The European Banking Authority tested the year-end 2017 balance sheets of 48 banks to assess their financial strength, extrapolating to cover the effects of hypothetical events in 2018-20. The regulator didn't give formal pass or fail marks, but analysts were looking for banks to maintain at least a 5.5% common equity tier 1 ratio.

In the test, Barclays, had a year-end 2020 adverse-scenario figure of 6.37%, while Lloyds's was 6.8%.

Investors are looking to the tests to get an idea of how much capital, if any, banks may be able to return to shareholders in the form of dividends or stock buybacks. The results feed into individual bank capital requirements to be set by banking supervisors later this year, which could lead to some having to raise additional capital or take other measures such as improving risk controls.

Fernando de la Mora, a managing director at turnaround specialist Alvarez & Marsal, said U.K. banks faced tougher economic stresses than other participants, with "a little bit of a hard Brexit embedded in the scenario." He said there appeared to be a political element to the test as well, as Britain prepares to leave the EU.

"U.K. banks are not any more exposed to a crisis than European banks," Mr. de la Mora said, noting that they don't have the nonperforming loans and low capital ratios of some continental peers.

Lloyds said its capital position remains strong.

Barclays said it "fully acknowledges the outcome" of the EU exercise, but added its capital requirements will primarily be informed by the Bank of England's December stress tests. The bank's shares have fallen more than 13% this year amid lingering questions over its profitability and whether Chief Executive Jes Staley's strategy focused on the U.S. and the U.K. will pay off. The lender has a large U.K. retail bank as well as investment banking and credit-card units spanning the U.S. and U.K.

The main driver of the declining ratios under the tests was credit losses in corporate loan books and unsecured retail lending, indicating that Barclays's large U.S. and U.K. credit-card portfolios may have dragged down its figures.

The European Banking Authority didn't disclose details behind the individual banks's hypothetical losses. Mortgage losses also were a big contributor, another likely cause of the relatively bad outcome at Barclays and Lloyds.

Among the other poor performers: Italy's Banco BPM SpA, with a 6.7% ratio, and Germany's NordLB, with a 7.1% ratio. Deutsche Bank AG, considered to be one of Europe's most troubled banks, fared relatively well, with an 8.14% result.

The EBA said 25 banks hit a trigger that would require them to reduce distributions such as dividends. Together, they decreased distributions by €52 billion ($59 billion) and improved their collective ratio by 0.6 percentage point. The group included some of the region's strongest banks, including HSBC Holdings PLC and Banco Santander SA, which both posted common equity tier 1 ratios in stressed scenarios above 9%.

Some of the continent's weakest lenders, such as small Italian banks, weren't included in the test, and no Greek or Portuguese banks were tested.

European banks have been increasing their capital buffers for a decade. But their share prices have lagged behind U.S. and global peers as sluggish economies, low interest rates and competition weigh on profits. The Euro Stoxx Banks index is down 19% so far this year, against a 5.6% decline in the KBW **Nasdaq** Bank index of U.S. banks.

The EBA said the 48 banks tested are the largest in Europe and account for around 70% of the region's banking assets. These are the regulatory agency's toughest tests yet since a predecessor body started the assessments in 2009, but they aren't yet seen on par with the Bank of England tests or the Federal Reserve's assessments of large U.S. banks and foreign ones with U.S. footprints.

Giovanni Legorano contributed to this article.

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THE WALL STREET JOURNAL.

Economy
How Long Can the Great Jobs Picture Continue? The Fed Thinks Indefinitely; Inflation dynamics have changed, Chairman Jerome Powell believes, meaning the expansion has life left

By Greg Ip
959 words
2 November 2018
11:58 AM
The Wall Street Journal Online
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English

Friday's jobs report showed unemployment remains at a 49-year low, and it should be even lower next July when, as is likely, the expansion becomes the longest on record. How much longer does Federal Reserve Chairman Jerome Powell think this performance can continue?

"Effectively indefinitely," he told an interviewer last month.

It's an audacious claim. Business cycles don't die of old age but with time do tend to develop life-threatening conditions such as inflation or financial imbalances.

Mr. Powell's read of recent economic history leads him to believe this time will be different. After World War II, expansions usually ended with rising inflation and interest rates. Mr. Powell, though, regularly notes the last two didn't: Unemployment dropped below 5% in the 1990s and again in the 2000s without dislodging core inflation (which excludes **volatile** food and energy prices) from around 2%. This proved inflation had become much less responsive to low unemployment in recent decades.

Rather than inflation, bursting asset bubbles brought those cycles to an end. So as long as financial imbalances don't return, and some shock like a war doesn't come along, Mr. Powell is confident unemployment can stay much lower than in the past without forcing the Fed to kill off the expansion with higher interest rates.

Since the 1950s, economists have believed that when unemployment drops below some minimum natural level, demand for workers, goods and other resources outstrips the supply, and wages and prices head up. This inverse relationship between unemployment and inflation is called the Phillips curve.

Studies by Fed staff conclude that from the late 1970s to the early 1990s, the Phillips curve was rather steep: a one-percentage-point drop in the jobless rate would push inflation higher by 0.5 to 0.8 percentage point.

By the early 2000s, though, that same decline in unemployment would only raise inflation by a quarter point, and by 2017, by just 1/20th. In other words, the Phillips curve is now almost flat. Furthermore, from the 1970s to the early 1990s, inflation was quite sticky: If it rose in one year, it tended to stay there the next. That stickiness is now gone; an increase or decrease in inflation tends to be fleeting.

There is plenty of debate about why the Phillips curve has flattened and inflation is less sticky. Fed officials tend to credit themselves for making clear they will hold inflation near 2% no matter what. That encourages workers and firms to plan on 2% inflation, an expectation that becomes self-fulfilling.

Whatever the reason, the flatter Phillips curve is why Mr. Powell and his colleagues think unemployment can average 3.5% over the next two years while inflation barely tops 2%, and short-term interest rates remain around 3%.

This outlook "is not too good to be true and does not signal that death of the Phillips curve," he said in a speech in Boston last month. It's consistent with "a very flat Phillips curve and inflation expectations anchored near 2%."

There's a troubling tension in this forecast: Fed officials think the natural unemployment rate is much higher, around 4.5%. That suggests unemployment would eventually have to rise quite a bit, which has never happened without a recession.

Yet Mr. Powell has cast doubt on the usefulness of natural rate estimates. In a speech in Jackson Hole in August, he noted how hard the natural rate is to pin down in real time: It was higher than widely assumed in the 1970s and lower in the 1990s. A footnote to that speech suggested it might differ in the short and long runs, implying the long-run 4.5% estimate carries little weight in Fed deliberations. "What does that longer-run natural rate of unemployment mean?" he said to reporters in September. "It's not creating problems in the short run for [our] forecast."

So if inflation or some random shock doesn't kill off this expansion, what will? Mr. Powell has been more open than his predecessors to raising interest rates to curb the sorts of financial excess that triggered the last two recessions. But in September, he told reporters he thought the risk of such excesses was only "moderate." Behind that sanguine view is the fact that speculative mortgages no longer infest the housing market, one common culprit in financial meltdowns, and banks, another culprit, have plenty of loss-absorbing capital and liquidity. Corporate and commercial real-estate loans are largely not on bank balance sheets. House and stock prices are high but justifiably so given how low interest rates are.

Is this outlook too **bullish**? For all the evidence Mr. Powell marshals for his case, it adds up to saying the world "is different this time"—often called the most dangerous words in finance.

The last time unemployment was this low, in the 1960s, inflation erupted almost suddenly. As for financial excesses, the last crisis began outside the banks, and yet the U.S. is slowly scaling back the tools put in place to watch for such risks.

Mr. Powell knows the dangers of thinking it's different this time. A footnote to his speech last month notes the late economist Herb Stein advised skepticism of any claim that "the economy [will] perform outside the range of its past experience." This, Mr. Powell said last month, is why the Fed is raising interest rates: "If we put no [probability] on overheating we wouldn't raise rates at all."

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THE WALL STREET JOURNAL.

Business

Chevron's Profit More Than Doubles; Oil producer benefits from higher crude oil prices and production in the U.S.

By Aisha Al-Muslim
263 words
2 November 2018
09:14 AM
The Wall Street Journal Online
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English

Chevron Corp.'s earnings in its latest quarter more than doubled from a year ago as the oil producer benefited from higher crude **oil prices** and production in the U.S.

Chevron on Friday reported a third-quarter profit of $4.05 billion, or $2.11 a share, up from $1.95 billion, or $1.03 a share, a year earlier. Analysts polled by Refinitiv were looking for $2.09 a share.

The company's results included a $930 million gain from the settlement of a contract in its energy exploration operations, and a gain of $350 million from the sale of southern African refining, marketing and lubricant assets.

Revenue rose 22% to $43.99 billion but still missed the consensus forecast of $46.67 billion. Oil-equivalent production rose 9% to 2.96 million barrels a day, the company said.

Chevron shares rose 4.6% to $116.35 in morning trading Friday. Shares are up 0.9% in the past 12 months.

Write to Aisha Al-Muslim at aisha.al-muslim@wsj.com

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THE WALL STREET JOURNAL.
U.S. EDITION

Active Bond Managers Beat the Market

By Asjylyn Loder
740 words
2 November 2018
The Wall Street Journal
J
B12
English

Bargain shopping may not be the best idea when it comes to bond funds.

Higher-priced portfolios pieced together by active money managers are handily beating the cheaper index-tracking competition, largely because active managers are doing a better job protecting their portfolios from rising interest rates.

Investors have bulked up on passively managed portfolios since the financial crisis amid a steady drumbeat of evidence showing that most managers can't beat the market, especially after fees. But fixed-income funds have consistently bucked that trend. Recent Morningstar research found that 70% of fund managers who pick and choose intermediate-term bonds are beating their passive peers. Only 36% of U.S. stock pickers can make the same boast.

This is particularly important now that fixed-income investments are facing the first prolonged period of rising rates in a generation. The Federal Reserve has raised rates three times this year, and another boost is expected in December. Even debt issued by the most creditworthy borrowers is sagging because rising rates undermine the value of outstanding debt.

Active money managers have been preparing for that eventuality, but index-tracking funds continue to load up on bonds that will suffer greater losses when rates rise.

"This has been a long time coming," said Dan Suzuki, portfolio strategist at Richard Bernstein Advisors. "We've been saying for a while that the biggest risk in portfolios isn't equity **volatility** but rising risks for bonds."

Rising rates erode the value of existing debt because newly issued bonds offer higher payouts to investors. Longer-term debt is especially vulnerable to such fluctuations, while short-term bonds are less sensitive.

Money managers measure the risk using a metric called "duration." The higher the duration, the greater the risk of loss when rates rise.

Active portfolio managers have been steadily shifting toward short-term debt, which is less vulnerable to losses from rising rates and inflation. The average actively managed taxable bond mutual fund has a duration of 3.6 years, down from 4 years in September 2008, according to research from the Investment Company Institute. Meanwhile, index mutual funds have an average duration of 6.2 years, up from 4.7 years, according to ICI.

That is especially worrying for mom-and-pop investors who have gobbled up passive funds in recent years and may not know that their safe-haven bond funds are vulnerable to rising rates, said Marina Gross, executive vice president of portfolio research and consulting at Natixis SA. Those investors are now seeing declines on virtually every asset class in their portfolio, which may prompt panicked selling that locks in losses, she said.

In the past month, investors have sold off exchange-traded funds that invest in longer-term debt while several short-term debt ETFs picked up new assets, according to FactSet.

"When you see red across the board, that's when investors start to get jittery," Ms. Gross said.

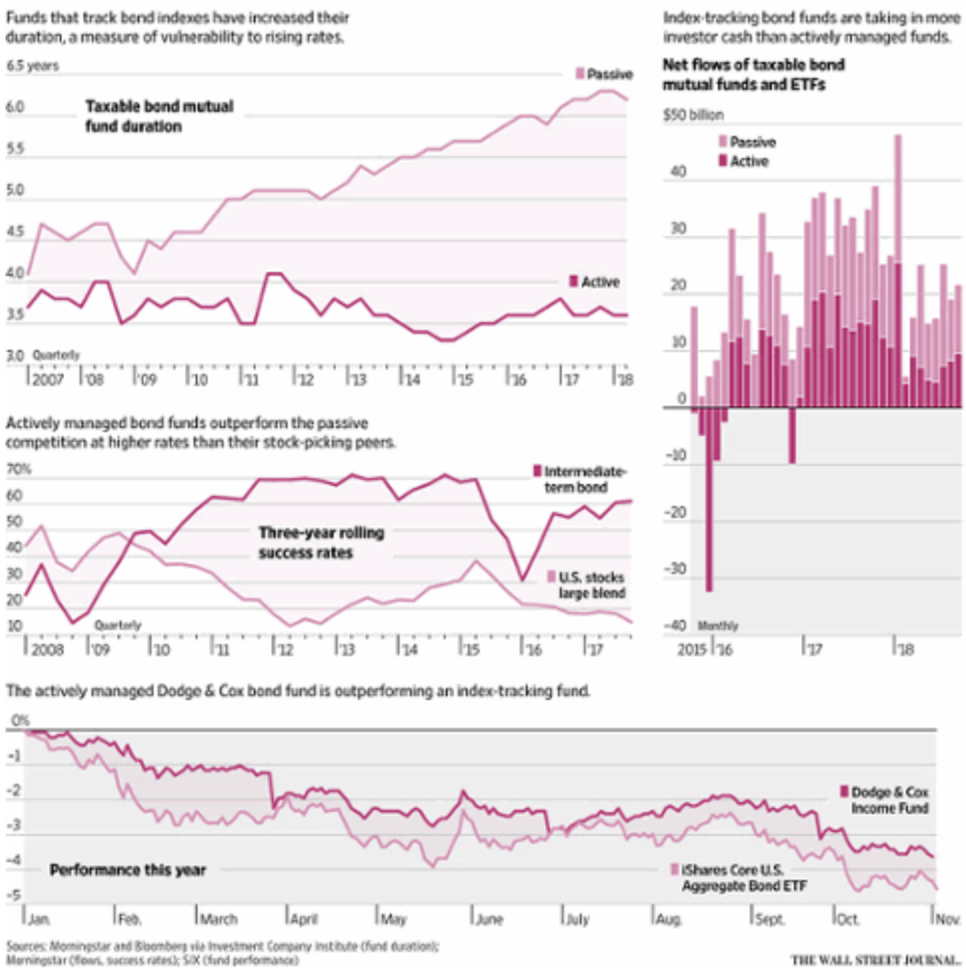
The increase in passive fund duration is largely owed to a structural pitfall that's baked into bond indexes. The indexes are designed to reflect the broader market, including U.S. Treasury debt. The U.S. government has issued more debt since the financial crisis to pay for things like bank bailouts, unemployment benefits and tax cuts, so Treasurys have become a larger slice of the indexes.

Treasury debt tends to be longer term than corporate debt, which has dragged duration higher. U.S. Treasurys are now 38.1% of the Bloomberg Barclays Aggregate Bond Index, up from 22.4% at the end of 2007, according to ICI.

"Much of the rise that we're seeing in index taxable bond funds is coming from the fact that there's so much more Treasury debt out there, and it's being issued at the longer end of the curve," said Shelly Antoniewicz, senior director of industry and financial analysis at ICI.

It is a well-known issue with bond indexes, and something that active managers can readily sidestep, said Ben Johnson, head of global ETF research for Morningstar. Active managers can also eke out additional gains by taking on more risk than the index.

That is a big reason why active bond managers have a higher win rate against passive than their counterparts in stocks, Mr. Johnson said. The bond benchmark is easier to beat.



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THE WALL STREET JOURNAL.
U.S. EDITION

Market Swings Put Chill On Debt Boom

By Joe Wallace
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2 November 2018
The Wall Street Journal
J
B1
English

Companies are finding it harder to issue new debt, as the **volatility** battering global stocks adds to concerns in credit markets.

Corporate-**bond prices** have declined throughout the year and October's global market rout triggered massive outflows from credit funds.

U.S. investment-grade issuance slipped 34% from September, according to data-provider Dealogic, while high-yield issuance was down 50% from October last year. Even before October's selloff, American companies had been raising less money. By the end of September, total investment-grade issuance in 2018 was down 12% compared with the first nine months of last year, and high-yield issuance had fallen by almost one-third.

Investors pulled $3.1 billion from investment-grade corporate-bond funds last week, according to Bank of America Merrill Lynch, bringing outflows over the past two months to a record $25.2 billion. High-yield funds also have seen big withdrawals. By contrast, equity funds drew in $8.5 billion last week.

"From a fixed-income perspective 2018 is rapidly turning into a year best forgotten," said David Oliphant, an executive director at Columbia Threadneedle Investments. "We're getting to the end of a very protracted and mature credit cycle."

Bond prices have drifted lower through much of the year, after a yearslong rally. Last month some of the concerns hitting credit, such as slowing global growth and fears of a trade war, caught up with equity markets, pushing major U.S. indexes near or into correction territory.

Credit markets also had benefited from a decade of monetary stimulus that is now being withdrawn. The European Central Bank is set to end its bond-buying program and the Federal Reserve is raising interest rates and winding down its balance sheet.

On Wednesday, oil-and-gas company GEP Haynesville became the third speculative-grade company to cancel a U.S. bond sale in recent days, following pulled deals from brokerage firm INTL FCStone Inc. and environmental-services business GFL Environmental Inc. Both GEP Haynesville and INTL FCStone had been hoping to raise cash to repay existing revolving-credit borrowings.

Looking to fund a merger with Waste Industries, GFL Environmental was able to raise the requisite funds in the leveraged-loan market, which has generally stood up better than the bond market.

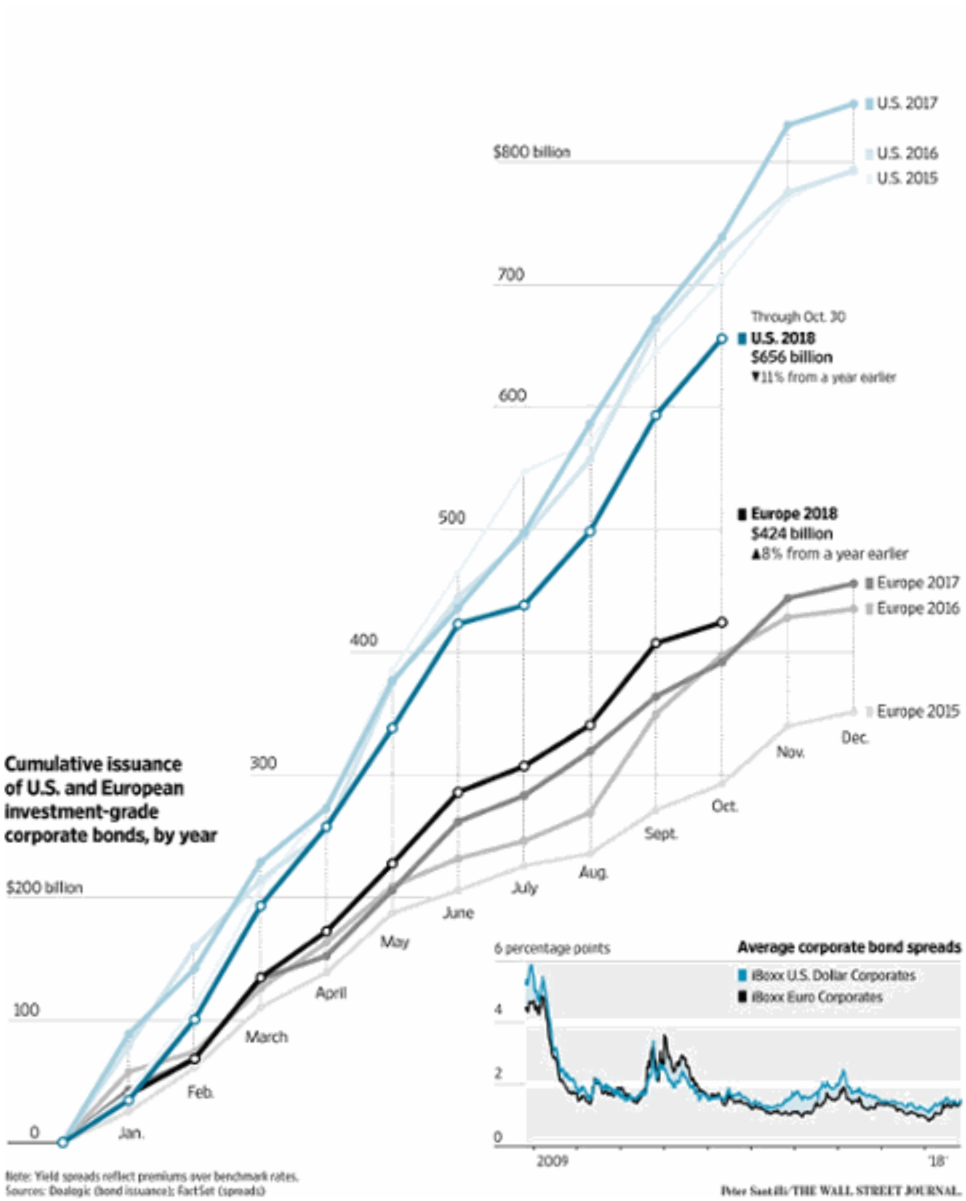
On Wednesday, the spread between yields on investment-grade bonds and those on safer government debt had still reached 1.5 percentage points in the U.S. and 1.46 points in Europe, according to IHS Markit's iBoxx indexes. That is up from postcrisis lows of 1.08 and 0.82 points reached in early February.

In this environment, bankers say they have advised clients to hold back on issuing new debt until markets calm down. Bonds have become more sensitive to disappointing corporate news such as a string of profit warnings by European auto makers, a further incentive for companies to hit pause on funding.

To be sure, corporate bonds still have much lower spreads than they did during the selloff of early 2016, let alone the global financial crisis. Bankers also say refinancing risk for the corporate world is relatively low since many companies locked in funding early this year, anticipating that markets would move against issuers during 2018.

But some investors believe that corporate spreads will continue to head higher.

"Credit is entering a new regime and transitions tend to be difficult," said Wolfgang Bauer, co-manager of the Absolute Return Bond Fund at London-based M&G.



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THE WALL STREET JOURNAL.

Heard on the Street
Markets

India Is the Latest Place for a Government-Central Bank Scrap; Tensions between Modi's government and the Reserve Bank of India over bank regulation have bubbled to the surface

By Andrew Peaple
450 words
2 November 2018
06:38 AM
The Wall Street Journal Online
WSJO
English

It isn't just the U.S. where the leadership has a problem with the central bank.

Indian markets have been **volatile** in recent days as tensions between Narendra Modi's government and the Reserve Bank of India over bank regulation bubbled to the surface. The rupee weakened sharply in the early part of the week as rumors circulated the RBI's governor might even resign, before recovering Friday amid a broad rally in emerging markets.

Investors are getting used to such run-ins: The U.S. president's criticisms of the Federal Reserve have signaled open season on technocrats. Not that some politicians need Donald Trump to spur them on. Turkish leader Recep Tayyip Erdogan has been in conflict with that country's central bank for years. Even in China, where policy disputes are usually kept under wraps, there was a public fight this summer between the Ministry of Finance and the People's Bank of China over who should bear responsibility for stoking the slowing economy.

In India, it's no coincidence this is happening with Mr. Modi's government facing a big electoral test next year. While the central bank is eager to keep tackling major Indian banks' chronic bad debt problems, the government wants to keep the credit taps open and the economy buzzing. Tighter conditions for nonbank lenders in India, in the wake of a string of defaults by a major funder of infrastructure projects, have complicated the picture. Shadow banking has been an increasingly important source of finance in India's economy in recent years. With those lenders hobbled, the government wants established banks to resume a lead role in keeping credit flowing.

Markets used to independent central banks may help to keep the onslaught on central bankers in check. After the rupee's tumble, India's government issued a somewhat mollifying statement reaffirming the RBI's autonomy.

Longer-term, a rethink of the proper relationship between elected and unelected policy makers may be necessary. Inflation-targeting, independent central banks hit peak popularity in the years before the financial crisis, when the rise of China's export machine helped them keep interest rates low without stoking inflation.

Things have become more complicated since. And in countries like India, where the lines of economic responsibility have always been somewhat fuzzy, cracks in policy-making structures are beginning to show. Investors seeking stability may prefer countries where the government and central bank are more in tune.

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THE WALL STREET JOURNAL.

Markets

Chinese Stocks Are Having a Bad Run in the U.S. Chinese ADRs on the NYSE or Nasdaq have fallen 14% in the last three months

By Ben Eisen
579 words
2 November 2018
05:07 AM
The Wall Street Journal Online
WSJO
English

Stocks in China have fallen hard recently. Chinese stocks in the U.S. have fallen even harder.

What's Happening

American depositary receipts of Chinese companies that trade on the New York Stock Exchange or **Nasdaq** have fallen 14% in the last three months, with much of that decline taking place in October.

Depositary receipts represent interests in shares of foreign companies with primary or secondary listings in the U.S. Chinese ADRs have underperformed market indexes in both the U.S. and China during a market rout that hammered stocks around the globe.

Despite an end-October rebound, the BNY Mellon China Select ADR Index, which comprises 53 Chinese ADRs including tech behemoth Alibaba Group Holding Ltd and travel portal Ctrip.com International Ltd., sank 13% last month.

That was more than the 9% drop in the dollar-denominated Shanghai Composite Index over that span, and a 9.2% drop in the tech-heavy **Nasdaq**. The **S&P 500** logged a 6.9% decline for October.

Collectively, the group of U.S.-listed Chinese companies lost $140 billion in market value last month, according to the ADR index, in which tech stocks have a roughly 40% weighting. A broad-based market rally in the U.S. following a positive conversation President Trump had with Chinese President Xi Jinping pushed the Chinese ADR index up 5.1% on Thursday.

What It Means

In recent years, many companies eschewed mainland IPOs in favor of the U.S., where listing rules are less onerous. Alibaba's record-setting $25 billion IPO in 2014 sparked a wave of U.S. listings of Chinese companies. Close to 100 Chinese companies with a combined market capitalization of roughly $1 trillion now have ADRs, according to data from S&P Dow Jones Indices.

The selloff in Chinese ADRs has taken place during heightened trade tensions between China and the U.S., and cooling valuations of hot tech stocks that were the backbone of the global stock rally for years.

"They're at the crux of two issues, one which is the tech slowdown and the other which is the China trade situation," said Mohammed Apabhai, head of Asia trading strategies at Citigroup.

ADRs have historically been an easier way for investors to make **bearish** bets on Chinese equities. In mainland China, selling shares "short"—by borrowing securities to sell, then buying them back at a lower price—is relatively uncommon.

Other investors, however, say that Chinese tech stocks simply had further to fall after a giant run-up in recent years. Three of the largest ADRs—internet giant Alibaba, web-search company Baidu Inc. and e-commerce business JD.com Inc.—have slid 17%, 13% and 30%, respectively, over the last three months.

Earlier this year, China tried to encourage some of its tech behemoths to list on the mainland via so-called Chinese depositary receipts that mimic the design of ADRs. That effort has stalled in recent months after smartphone maker Xiaomi Corp. explored and then postponed plans for a listing in Shanghai.

Write to Ben Eisen at ben.eisen@wsj.com

Asia Markets Snapshot

* The Shanghai Composite rose 2.7%, its third day of gains

* Hong Kong's Hang Seng rose 4.2%

* The yuan strengthened to 6.8897 a dollar in onshore trading

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STOCKS & BONDS
Business/Financial Desk; SECTB
Dollar Drops, but Market Continues Gradual Rebound

By THE ASSOCIATED PRESS
719 words
2 November 2018
The New York Times
NYTF
Late Edition - Final
2
English

Stocks climbed Thursday as major indexes extended a rebound into a third day. The dollar dropped, a change that provided a relief to industrial and technology companies.

The U.S. **stock market** continued its gradual rebound from a plunge that lasted almost the entire month of October, and many of the biggest gains Thursday came from stocks that struggled badly last month like chipmakers and other technology companies and smaller, domestically-focused companies.

Stocks headed higher after President Donald Trump tweeted that he had spoken to President Xi Jinping of China and that the two countries were making some progress in trade negotiations. He did not give details, but there have been few signs of movement in the trade dispute in recent months, and investors are getting nervous about the prospect of significant tariff increases.

Strong earnings from American companies have helped the market recover its footing over the last three days. Chemicals maker DowDuPont jumped after reporting a strong quarter, as did Arm & Hammer maker Church & Dwight and insurer AIG.

The **Standard & Poor**'**s500 index** added 28.63 points, or 1.1 percent, to 2,740.37. The **Dow Jonesindustrial average** picked up 264.98 points, or 1.1 percent, to 25,380.74. The **Nasdaq composite** climbed 128.16 points, or 1.8 percent, to 7,434.06. The Russell 2000 index jumped 33.57 points, or 2.2 percent, to 1,544.98.

Stocks fell sharply from early October through the last few days of the month, a skid that briefly wiped out their gains for the year. After a rally over the last two days, the **S**.**&P**. **500** is up 2.5 percent in 2018.

During the sell-off, high-growth companies like technology and industrial companies and smaller stocks were hit especially hard as investors worried about various factors that could slow their growth and their profits. Those included the trade fight between the United States and China, rising interest rates, and higher costs for fuel and other necessities.

Chemicals maker DowDuPont surged 8.1 percent to $58.27 after its third-quarter profit surpassed analysts' estimates. The company said sales grew in all regions, with strong gains in Asia-Pacific and Latin America. DowDuPont also said it expected to save more money from a cost-cutting program and plans to buy back another $3 billion in stock. Fertilizer and chemicals maker CF Industries jumped 6.3 percent to $51.05.

The ICE U.S. Dollar Index slid 0.9 percent after reaching a 16-month high on Wednesday. A weaker dollar helps companies that do a lot of business outside the U.S., as it makes their products more affordable in foreign markets and also increases their profits when they are translated back into dollars.

Boeing rose 2.3 percent to $363.07 while farm equipment maker Deere added 3.8 percent to $140.65. Among chipmakers, Nvidia gained 3.5 percent to $218.11 and Advanced Micro devices jumped 11 percent to $20.22. The **S&P 500** fell 6.9 percent last month, and technology and industrial companies and retailers fared even worse.

The decline in the dollar also sent metals prices sharply higher. Gold jumped 1.9 percent to $1,238.60 an ounce. Silver soared 3.5 percent to $14.78 an ounce, and Copper gained 2.4 percent to $2.72 a pound.

Oil prices continued to weaken after the Department of Energy said that U.S. crude stockpiles increased for the sixth straight week. Benchmark U.S. crude slumped 2.5 percent to $63.69 a barrel in New York.

Wholesale gasoline fell 2 percent to $1.72 a gallon and heating oil skidded 2.2 percent to $2.20 a gallon. Natural gas fell 0.7 percent to $3.24 per 1,000 cubic feet.

Bond prices turned higher. The yield on the **10**-**year Treasury** note fell to 3.14 percent from 3.15 percent.

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

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THE WALL STREET JOURNAL.

World

Trump and Xi Talk as U.S.-China Tech Fight Brews; President cited progress in the nations' trade dispute, hours before federal prosecutors unsealed charges against a Chinese technology firm

By Vivian Salama, Aruna Viswanatha and Kate O'Keeffe
1,151 words
1 November 2018
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Corrections & Amplifications

The Trump administration has imposed tariffs on around $250 billion in Chinese imports. An earlier version of this article incorrectly said the tariffs totaled $250 billion. (Nov. 5, 2018)

President Trump said he had a "very good conversation" with President Xi Jinping of China that signaled progress in the nations' trade dispute, hours before federal prosecutors unsealed charges against a Chinese technology firm for allegedly stealing trade secrets.

The president's upbeat assessment came as an impasse over trade has threatened to undermine a planned meeting between Messrs. Trump and Xi at the Group of 20 leaders summit in Buenos Aires later this month.

Mr. Trump said the two leaders discussed many issues by telephone on Thursday, including the trade dispute that has sparked tit-for-tat tariffs on hundreds of billions of dollars of goods flowing between the two countries, worrying U.S. businesses and investors.

"Those discussions are moving along nicely with meetings being scheduled at the G-20 in Argentina," he tweeted, buoying the **stock market**.

The president's top economic adviser, Larry Kudlow, echoed the president's optimism, saying in an interview the call represented "a thaw" in relations.

Yet, there was no sign the U.S. would yield in its refusal to resume trade talks with China until Beijing presents a concrete proposal to address Washington's broader economic complaints.

The administration followed Mr. Trump's upbeat comments with a characteristic shot across China's bow, a reminder of the technological rivalry that has sparked significant tensions between the world's two largest economies.

The U.S. Justice Department accused Chinese state-owned Fujian Jinhua Integrated Circuit Co., its Taiwanese partner United Microelectronics Corp. and three Taiwan nationals of stealing trade secrets from the largest U.S. memory-chip maker, Micron Technology Inc., in a grand jury indictment unsealed on Thursday.

The move came days after the Commerce Department dealt a potentially fatal blow to Jinhua by barring exports and transfers of U.S.-origin technology to the firm, which depends on the technology to produce its own chips. Jinhua, a startup backed by $5.7 billion in Chinese state funds, is central to China's plan to build a world-class semiconductor industry and wean itself off dependence on foreign technology.

Attorney General Jeff Sessions also criticized China on Thursday, saying recent activity showed it was violating an accord reached with the Obama administration under which both governments agreed not to support cyberattacks to steal corporate secrets from one another.

"In 2015, China committed publicly that it would not target American companies for economic gain," Mr. Sessions said. "Obviously, that commitment has not been kept."

Representatives for Jinhua and the Chinese Embassy in Washington didn't comment. A lawyer for United Microelectronics declined to comment.

Also on Thursday, Mr. Sessions announced a new "China initiative" to better combat theft of trade secrets, bribery, illegal foreign lobbying and business deals that could give foreign investors access to critical U.S. technology.

Mr. Sessions said a new working group of Justice Department officials, including the top federal prosecutors from districts in California, Texas and other states, would increase law-enforcement engagement with U.S. universities, where the Justice Department contends that Chinese Communist party initiatives target technology and threaten academic freedom.

The tensions with China have been a sore spot in many rural communities in the U.S. After the Trump administration imposed tariffs on $250 billion in Chinese imports, Beijing responded with retaliatory tariffs on U.S. agricultural exports to China, hurting farming communities, many of which are counted among Mr. Trump's supporters. Voters have raised the issue of tariffs at election rallies before next week's U.S. midterm elections.

Mr. Kudlow however, denied politics were behind the conversation. "It's about serious international diplomacy," he said.

In their conversation, Mr. Xi told Mr. Trump that economic and trade disputes risked harming both of their countries, according to Chinese state broadcaster China Central Television.

CCTV also reported Mr. Trump had initiated the phone call and said Mr. Xi was willing to meet the president at the G-20 summit to "exchange in-depth views on China-U.S. relations and other major issues." A Trump administration official confirmed that the U.S. requested the call.

The U.S. wants China to come forward with a specific negotiating agenda before the two sides resume preliminary talks to move negotiations along. But Beijing said it won't provide specific points until the two sides meet so it can form a proposal.

"We haven't had a satisfactory response" from China, Mr. Kudlow said. "We're waiting."

Mr. Kudlow also tried to ease concerns that the Trump administration's trade fight with China would have a significant impact on U.S. growth or profits of American businesses.

"I'm not going to deny that there could be some very modest effect" on the U.S. economy, he told a small-business conference hosted by the Washington Post. But he added, "We are doing it right now without China…our small businesses are soaring."

Mr. Kudlow said that national security adviser John Bolton will take the lead in planning this month's bilateral meeting with Mr. Xi and his delegation, which may include a lunch or dinner. Officials with the National Security Council, the Department of Treasury, and the Office of the U.S. Trade Representative are all involved in planning.

Business lobbyists in Washington had hoped the meeting in Argentina would be like a meeting Mr. Trump had with European Commission President Jean-Claude Juncker in July that helped end a trade fight between the European Union and the U.S.

But Mr. Kudlow urged caution in drawing such conclusions. "It's not like the EU visit," he said.

"If they don't make a satisfactory offer, then the president will continue to aggressively pursue his agenda and I think he's right to do so. I say that as a free trader," Mr. Kudlow said earlier in the day. "The principle culprit is China."

A business official who tracks U.S.-China talks closely says that the Treasury, which plays a big role in the Group of 20 meetings, has been pressing to use the occasion for the two sides to agree on a wide negotiating agenda, including the bilateral trade deficit, technology transfer and the practices of state-owned enterprises.

But U.S. Trade Representative Robert Lighthizer, some U.S. officials say, has been arguing that the time isn't ripe yet for negotiations because China hasn't yet felt the full brunt of U.S. tariffs.

Bob Davis and Dustin Volz contributed to this article.

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THE WALL STREET JOURNAL.

Markets

Activist Hedge Fund Takes $620 Million Stake in Struggling Deutsche Bank; Douglas Braunstein's hedge fund, Hudson Executive Capital, takes 3.1% stake in Deutsche, backing the beleaguered bank's management

By Cara Lombardo and Jenny Strasburg
1,023 words
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A New York-based activist hedge fund has taken a stake in Deutsche Bank AG, betting the German lender's new chief executive can revive its sagging profits by pursuing a turnaround strategy investors so far have found unconvincing.

Hudson Executive Capital LP, led by former JPMorgan Chase & Co. finance chief Douglas Braunstein, said it has built about a 3.1% stake in Deutsche Bank common shares.

The investment, Hudson's biggest so far, was made in recent months as the bank's shares plumbed record lows. The roughly $620 million stake makes Hudson a top-five shareholder, and the first new one of size since the bank's latest restructuring and CEO change in April.

In an interview, Mr. Braunstein called Deutsche Bank "misunderstood and undervalued," a conclusion he drew during almost a year of talking to current and former executives and other finance contacts. His initial impression in late 2017 was that the management team at the time was "as dysfunctional as you could basically find." Current executives seem unified in efforts to cut costs and boost revenues, he said.

Hudson believes the bank is taking the right steps under Chief Executive Christian Sewing to bolster its traditional banking businesses serving retail customers in Germany, including wealthy asset-management clients, and European companies seeking deal advice, lending and cash management.

"Doug Braunstein and Hudson Executive come with deep backgrounds investing in financial services companies," Mr. Sewing said Thursday in a statement. "We appreciate Hudson Executive's confidence in our ability to execute on our strategic objectives."

Shares in Deutsche Bank rose 3.5% in Frankfurt.

Deutsche Bank's global-transaction-banking unit, which is part of its investment bank and houses its trade-finance and cash-management businesses, has brighter prospects than a spate of dismal results suggests, in Mr. Braunstein's view. The bank needs to better link those customers with its big fixed-income business, he said, something the lender is focused on.

He called transaction banking a "crown-jewel asset" that helps provide affordable funding, easing one of the lender's big problems—its higher-than-average funding costs.

Mr. Sewing, a career Deutsche Bank employee who became CEO when the supervisory board fired his predecessor, has said he is refocusing on the lender's roots serving European companies and making its German retail banking more efficient. He wants it to be less dependent on trading businesses that historically have driven profits but have become more **volatile**.

Mr. Braunstein praised Mr. Sewing. "We would not have made the investment but for the fact that we think he's the right guy for the job," Mr. Braunstein said.

He added that a move by private-equity firm Cerberus Capital Management LP and its president, Matt Zames, to formally advise Deutsche Bank on cost-cutting and operational challenges was "a very significant positive." Cerberus in November 2017 disclosed a roughly 3% position in the bank. Earlier this year, in an unorthodox move, Cerberus also became a paid adviser to Deutsche Bank. Messrs. Braunstein and Zames had worked together closely in senior JPMorgan roles. Mr. Zames was JPMorgan's chief operating officer before leaving the bank last year.

Deutsche Bank has seen its market value plummet to about $20 billion, roughly a third of its value before the financial crisis, as it paid billions in legal settlements, suffered technology and compliance shortfalls, and saw business move to stronger U.S. banks. Its shares have declined nearly 46% this year and hit record lows in October after the bank reported a sharp decline in third-quarter earnings and tapered its full-year revenue forecast. In recent months it has cut thousands of jobs, failed a U.S. Federal Reserve stress test and continued to lose senior executives.

Deutsche executives see Mr. Braunstein as supportive even as he makes clear the firm must turn around underperforming businesses, a person close to the bank said.

Asked about persistent speculation that Deutsche Bank could merge with German rival Commerzbank AG, Mr. Braunstein said Deutsche Bank has enough "self-help" to focus on without pursuing a merger. He said he isn't invested in Commerzbank.

Hudson Executive, launched in 2015, bills itself as a constructive activist shareholder. Unlike traditional activists, it eschews public letters and proxy contests, instead preferring to work alongside management with the help of an advisory team of chief executives. Included in Hudson's roughly $1.4 billion in assets under management are two single-company wagers. These include the position in Deutsche Bank and one in Cardtronics PLC, an ATM company whose board Mr. Braunstein joined this year.

Activist investors have at times shied away from banks, whose businesses are subject to heavy regulation and broad market shifts that can make it hard to predict outcomes. But as banks emerged from the financial crisis as less risky institutions, they became more attractive.

ValueAct Capital Partners LP, another activist that considers itself friendly, revealed a 0.7% stake in Citigroup Inc. in May without calling for any significant changes. It told investors at the time that it believes the bank's strength as a provider of cash management and other corporate banking services will lead to growth in the postcrisis era.

A significant portion of Hudson's capital for the Deutsche Bank investment comes from EnTrustPermal, Gregg Hymowitz's fund-of-hedge-funds firm known for backing some of the activists' largest bets. Mr. Hymowitz said Deutsche Bank's credibility has been so dented that investor expectations are artificially low.

"I don't need JPMorgan quality," he said. "What we really need is for the world to believe this bank is mediocre."

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* Deutsche Bank Retreats as New CEO Extols 'Immediate Action' (April 26, 2018)

* Former JPMorgan Finance Chief, Deal Maker Team Up on Activist Hedge Fund (Jan. 20, 2015)

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THE WALL STREET JOURNAL.

World

Over a Barrel: U.S. Pushes Middle East Deals Ahead of Iran Oil Ban; Diplomatic work anticipates squeezed crude supply

By Benoit Faucon, Timothy Puko and Summer Said
1,147 words
1 November 2018
06:52 PM
The Wall Street Journal Online
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Corrections & Amplifications

The neutral-zone dispute could provide an opportunity for the Saudis to help repair ties with the U.S. An earlier version of this article misstated it as a natural zone dispute. (Nov. 2)

The Trump administration has intervened in recent weeks in two Middle East disputes that have hobbled regional oil production, aiming to boost global supplies as Iranian oil sanctions take effect, according to officials familiar with the efforts.

Washington is trying to broker a deal between Saudi Arabia and Kuwait over a contested strip of oil-rich land called the "neutral zone" between the two countries, these officials said. U.S. officials are also trying to persuade the federal government of Iraq to allow exports of oil through the semiautonomous Iraqi region of Kurdistan, people familiar with that effort said.

The long-simmering standoffs have kept about 800,000 barrels a day out of international oil markets. U.S. officials hope that by bridging still-sharp differences between the two sides in either dispute, they can reopen the taps on the stranded crude, according to these people.

Washington faces tough odds. The disputes over the Saudi-Kuwaiti neutral zone and the Baghdad-Kurdistan standoff have both been resistant to years of negotiations and, at times, outside diplomatic pushes.

But if successful, the efforts could help cushion oil markets—and the U.S. economy—from knock-on effects of Iranian sanctions. Washington plans to enforce a series of stiff economic restrictions on Iran on Nov. 5, including some that target Iranian oil sales. U.S. officials say they want to stop all of the country's roughly 2.2 million barrels a day of exports.

That amounts to more than 2% of global oil output. It is a big enough chunk of overall supply that the prospect of it being knocked out has helped buoy global crude prices for much of the year. Iranian exports have already fallen by about 800,000 barrels a day ahead of the sanctions, as buyers pull back.

For much of the year, President Trump has accused the Organization of the Petroleum Exporting Countries, a cartel of big producers effectively led by Saudi Arabia, of keeping **oil prices** artificially high, and has called on Saudi Arabia and other big producers to open their taps.

OPEC, for its part, says it acts responsibly to keep **oil prices** at levels that encourage global growth. It recently agreed with Russia to pump more oil.

International crude soared this summer and into the autumn, hitting multiyear highs above $80 a barrel amid expectations of higher demand and worry about supply constraints in places countries such as Venezuela and Libya. The threat of losing so much Iranian output on top of all that had some oil market watchers expecting a march to $100 by the end of the year. Brent settled late Thursday under $73 a barrel, though many investors are still betting on a big boost from the pullback in Iranian exports.

With big producers like Saudi Arabia, Russia and the U.S. all pumping almost flat out, output disruptions elsewhere could threaten global supply, and stoke prices once again.

Against that backdrop, Trump administration officials have reached out to counterparts in Saudi Arabia and Kuwait, urging them to solve their dispute over the neutral zone.

The two shut down about 500,000 barrels a day of production there three years ago, citing disputes about land and environmental permits. To ramp up diplomatic efforts that began weeks ago, Secretary of State Mike Pompeo called high-ranking Saudi and Kuwaiti leaders in late October to jump-start the mediation process, according to a person familiar with the matter.

Saudi Foreign Minister Adel Jubair said late last month he expected differences on the shared Kuwait zone to be resolved. Chevron Corp., which operates one of the joint fields, said early last month it stands ready to restart resume pumping oil if both countries struck a deal.

Kuwaiti and Saudi officials say privately, though, that differences are still a long way from being resolved.

A summit in September between Saudi Crown Prince Mohammed Bbin Salman and Kuwaiti ruler Sheikh Sabah Al Ahmad Al Sabah ended acrimoniously, according to people familiar with the matter. The Saudi side demanded more control of the fields, according to one official familiar with the talks.

Even if a deal was reached, technical limitations mean a return to full capacity could take nine months, one official said. One hurdle: Resuming production in the neutral zone could deflate pressure in a giant, 1.2-million barrels-a-day field next door in Saudi Arabia, Saudi officials say.

U.S. leverage over Saudi Arabia has always been difficult to gauge. That is especially the case after Riyadh said its operatives were responsible for the death of Saudi dissident journalist Jamal Khashoggi. The U.S. has condemned the killing, and Mr. Trump has threatened punishment, appearing to chill U.S.-Saudi ties. At the same though, the neutral zone dispute could provide an opportunity for the Saudis to help repair those bonds.

Meanwhile, officials from the U.S. State and Energy Departments have held talks with Iraq's central government and the semiautonomous Kurdish Regional Government to resume exports from the disputed Kirkuk area, according to Iraqi Kurdish and U.S. officials. The U.S.-brokered Iraqi talks were a talking point brought up by Brian Hook, the U.S. State Department's special representative for Iran, during meetings in mid-October,seeking to reassure European officials last month according to officials present.

International sales of about 300,000 barrels a day of Kirkuk crude were blocked last year after Baghdad took military control of the area——driving out Kurdish forces who had effectively annexed it to their autonomous region during the war against Islamic State. Baghdad has since refused to pay transit fees for a Kurdish Regional Government export pipeline that goes to Turkey.

Spokesmen for the State and Energy Departments didn't immediately respond to requests for comment.

In exchange for allowing exports to resumes to Turkey—which itself needs to replace Iran oil—the U.S. told Baghdad it may get exemptions on sanctions on other trade with Iran, according to a person familiar with the talks. U.S. officials hope this will bring 200,000 barrels a day of oil exports as some of the Kirkuk oil is used locally

With banks weary of dealing with Tehran, Iraq is already struggling to pay for Iranian natural gas it needs for its power stations.

Isabel Coles in Beirut contributed to this article.

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THE WALL STREET JOURNAL.

Tech

Apple Reports Record Results but Weak Revenue Outlook; Financial chief says forecast reflects earlier release of priciest iPhone, emerging markets, forex; shares fall in after-hours trading

By Tripp Mickle
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Apple Inc. reported its fourth consecutive quarter of record revenue and profit, as the combination of higher iPhone prices and strong app-store sales propelled the technology giant to its best year ever.

But the world's most valuable company offered guidance for the current period that disappointed many investors, and said it would stop reporting unit sales for its products—a measure closely watched by investors—raising questions about the prospects for strong sales of new gadgets it has unveiled in the past two months.

Shares of Apple fell 6.5% to $207.76 in after-hours trading, making it the latest tech company to be punished after announcing results during a period of **stock-market** turmoil. Tech shares have tanked over the past several weeks amid investor unease with sky-high valuations, as well as slowing revenue growth and rising costs at some companies. Controversies over the power and responsibility of some internet platforms like Facebook Inc. and Google have fueled the concerns.

Apple said it expects revenue in the December quarter—traditionally Apple's most important—of between $89 billion and $93 billion. Analysts' consensus estimate is for revenue at the high end of that range, $92.94 billion according to FactSet, on hopes for strong demand for the $749 iPhone XR, $999 iPhone XS and $1,099 iPhone XS Max that Appleintroduced in September. Revenue in the December quarter last year totaled $88.3 billion.

Chief Financial Officer Luca Maestri said in an interview that the forecast partly reflects weakness in developing-market economies such as Turkey and Brazil. It also is driven by the fact that Apple introduced its priciest iPhones in September this year, whereas a year ago it began selling the pricier iPhone X in November, fueling growth in that period. Weaker foreign currencies against the dollar are another factor, he said.

Still Mr. Maestri said even the low end of guidance would provide another quarter of record revenue. "We are starting the new year with a lot of confidence and the strongest product lineup we've ever had," he said, pointing to the new iPads, MacBooks and iPhones unveiled over the past two months.

The projections overshadowed otherwise strong results. Revenue for the three months ended Sept. 29, the final fiscal quarter, rose nearly 20% to $62.9 billion from the same period a year earlier, Apple said Thursday. Profit soared 32% to $14.13 billion, helped in part by lower taxes resulting from the U.S. tax overhaul. Both numbers beat analysts' forecasts.

Those results offered affirmation for two main pillars of Apple's current strategy: promoting its software-and-services business and raising prices on its flagship iPhones to compensate for slower growth in unit sales. Both aim to capitalize on the loyalty of customers who use iPhones for everything from communication and shopping to watching video and reading the news.

Apple last year raised the starting price for its flagship iPhone by about 50% to nearly $1,000. In the latest quarter, revenue from the device, which accounts for most of Apple's sales and profit, rose 29% to $37.19 billion, despite flat unit sales.

The services business—including app-store sales, Apple Pay use and music-streaming subscriptions—reported record revenue of $9.98 billion, up 17% from a year ago. That is slower than recent quarters but keeps Apple on track to fulfill Chief Executive Tim Cook's promise that services will be a $50 billion business by 2020.

For the full fiscal year, although the number of iPhones sold world-wide edged up less than 1% to nearly 218 million, higher prices helped Apple deliver record revenue of $265.6 billion, up 14% from its previous high in fiscal 2015.

In the face of stagnating growth in unit sales, Apple said it would stop reporting such numbers for iPhones, iPads and Macs, starting with the December quarter. Mr. Maestri said the number of units the company sells isn't representative of its underlying business. He said the company will also rename its "other products" category to "wearables, homes and accessories," a move that is more emblematic of the devices driving that business.

"Our install base is growing at double digits and that's probably a much more significant metric for us from an ecosystem point of view and customer loyalty," Mr. Cook said during a call with analysts. "This is a little bit like if you go to the market and push the cart up to the cashier and she says: How many units do you have in there? It doesn't matter a lot how many units there are in there in terms of the overall value of what's in the cart."

Apple's shares, already trading down, fell further during the call. Analysts and investors have long followed unit sales numbers closely to help gauge the popularity of Apple's products.

Apple's forecast for the current quarter and the accounting changes show "there's enough uncertainty out there to be conservative, which is what we've heard from other technology companies," said Tom Plumb, chief executive officer of SVA Plumb Wealth Management, which has $2.8 billion under management and counts Apple among its top holdings. "Every one of them is concerned about the overall environment, tariffs, trade and the economy, and they're saying: Don't get your expectations up too high."

Apple, which in August became the first U.S. company to surpass $1 trillion in market value, had been faring far better than many other tech titans in the recent swoon. As of Thursday's close, before the earnings report, its stock had fallen less than 5% from its all-time high on Oct. 3, shedding less than $48 billion of its valuation. That compares with declines off their peak values of about $180 billion for Amazon.com Inc., $139 billion for Google-parent Alphabet Inc., and $192 billion for Facebook.

In the September quarter, Apple's China business, which has been accelerating in recent quarters, continued to improve even as the Chinese economy weakens. Sales in Greater China, which includes Hong Kong and Taiwan, rose 16% to $11.41 billion in the period.

Apple avoided having its devices swept up in the Trump administration's most recent round of tariffs of 10% on $200 billion of Chinese imports. Still, those tariffs are set to rise to 25% early next year, and President Donald Trump has said tariffs eventually will be expanded to all Chinese imports, which would include iPhones, smartwatches and other gadgets. Such a move would increase the danger that the Chinese retaliate by punishing Apple's business in China, trade experts say.

Mr. Maestri said Apple is watching trade issues with China closely, but said "the interest in our new products has been very good."

Write to Tripp Mickle at Tripp.Mickle@wsj.com

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THE WALL STREET JOURNAL.

Heard on the Street
Markets

Apple's Juice Runs Out; The iPhone maker's strong stock now less appealing following a disappointing outlook and future reporting changes

By Dan Gallagher
360 words
1 November 2018
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The Wall Street Journal Online
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The world's largest tech company had been spared most of the pain of one of the worst selloffs in the sector's history. But even for Apple Inc., the bill eventually comes due.

Apple's share price slumped after hours Thursday following the company's fiscal fourth-quarter results. The reaction was caused by two things: a disappointing revenue outlook for the December quarter, which will include the launch of its latest iPhone, and a surprise announcement that the company will no longer break out device unit sales in future financial results. It bears noting that Apple sold more than $228 billion worth of iPhones, iPads, Macs, Watches and other items in its most recent fiscal year, accounting for more than 85% of the company's total revenue.

The decision, in other words, will sharply limit investors' ability to understand the main drivers of the world's most valuable company. And those drivers are important. Apple has received due credit over the past year for its ability to grow device revenues despite relatively flat unit sales, mainly from boosting prices. Apple's share price had gained more than 31% for the year ahead of Thursday's report, and the stock survived last month's tech selloff with only a 3% drop. The **Nasdaq Composite** was down 9.2% for the month.

But Apple's forecast for the December quarter suggests the gains the company has enjoyed from goosing its prices may be ebbing. Revenue is expected to come in a range of $89 billion to $93 billion for the current quarter, suggesting a gain of only 3% year-over-year at the midpoint. That follows five consecutive periods of double-digit percentage gains, and even includes the launch of a new iPhone, iPad and MacBook Air in the period. Those devices still may end up selling well. But Apple has made sure investors will have a harder time figuring that out. At this point, the stock deserves to lose some of its shine.

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