THE WALL STREET JOURNAL.
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Earnings Growth Heats Up After Years of Cost-Cutting

By Theo Francis and Thomas Gryta
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America's largest companies are on pace to post two consecutive quarters of double-digit profit growth for the first time since 2011, a product of years of cost-cutting, a weaker dollar and stronger consumer spending.

Earnings at **S&P 500** companies are expected to rise 11% in the second quarter, according to data from Thomson Reuters, following a 15% increase in the first quarter. Almost 60% of the firms in the index have reported second-quarter results so far.

Corporate America's strong earnings performance comes as several policy initiatives that were expected to help boost companies' bottom line -- corporate-tax cuts and increased government spending on infrastructure -- have been sidetracked amid political infighting in Washington, D.C., which culminated with the recent failure of the health-law bill.

Even as activity inside the Beltway bogged down, markets have been on an almost nonstop rally since the election. The **S&P 500** is up 16% since early November and 10% this year.

"You could argue that the **stock-market** investor overestimated Trump but underestimated earnings," said Christopher Probyn, chief economist for State Street Global Advisors.

The second-quarter profit gains are spread across industries from Wall Street banks to Detroit's car factories to Silicon Valley's software labs. Earnings are expected to decline only in the utilities sector, according to data from Thomson Reuters.

Several factors are at work, analysts and economists say. A weaker dollar has made it easier to sell U.S.-made goods overseas and has kept borrowing costs low. U.S. wages have improved enough to help bolster consumer spending without raising employer labor costs so much to dent the bottom line.

Companies also continue to reap the fruits of their recent zeal for cutting costs, Mr. Probyn said. "We underestimated some of the cost-cutting and restructuring that has gone on within the various industries; that has permitted earnings to keep doing well."

Sales, too, rose in the quarter, by an expected 5%, the second-biggest increase in more than five years, according to data from Thomson Reuters. The figures reflect actual results for about half the **S&P 500 index**, and analysts' estimates for those that had yet to report results as of Friday.

On Friday, the Commerce Department reported that gross domestic product rose at a 2.6% rate in the second quarter, up from 1.2% in the first quarter.

Executives say even rapid progress on a tax rewrite or an infrastructure bill is unlikely to help improve profits soon.

"We're halfway through the year, and they haven't done [tax overhaul]," Christopher Nassetta, CEO of Hilton Worldwide Holdings Inc. said last week. "We're not going to have enough time for it to trickle through and really benefit this year."

The White House didn't respond to a request for comment.

"Political and policy uncertainty continues to weigh on health care, taxation, regulation and trade," Debra Cafaro, chief executive of Ventas Inc., a real-estate investment firm specializing in senior housing and health-care property, said Friday. "Washington has been wildly unpredictable."

As executives discuss results with investors and analysts, events in Washington have faded into the background. **S&P 500** companies that mentioned President Donald Trump or his administration during their latest conference calls are down by a third compared with three months ago, according to an analysis by research firm Sentieo.

The market has also largely stopped reacting to blow-by-blow developments in Washington, despite uncertainty over the size, shape and timing of any tax and infrastructure initiatives, said Quincy Krosby, chief market strategist with Prudential Financial Inc.

Last week, congressional Republicans and the Trump administration outlined some plans for tax changes to cut individual and corporate tax rates "as much as possible" with a timeline to advance legislation this fall. Many specifics aren't yet known. President Trump has also promised to put $1 trillion toward infrastructure, likely from a mix of private and public funding, although details remain unclear.

Corning Inc. CEO Wendell Weeks, who was at the White House this month to announce new U.S. investment and hiring, told analysts last week that he still expects Congress to overhaul the tax code -- eventually.

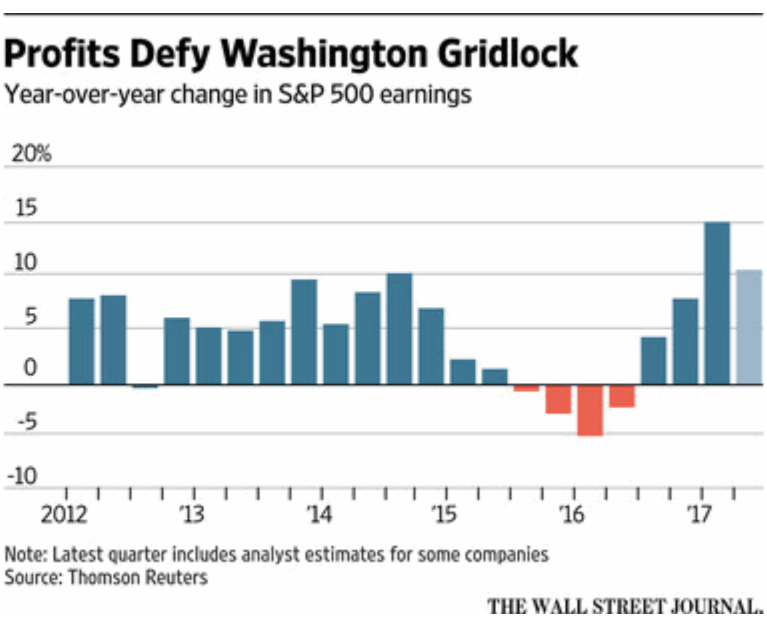
"What I am much less confident about is how the political math works in any given year," Mr. Weeks said. "So I think calling timing on that one is above my pay grade."

Honeywell International Inc. CEO Darius Adamczyk earlier this month said he hoped lawmakers would advance plans for revamping the tax code as soon as the current quarter. Still, he isn't counting on it.

"I think there's more uncertainty in that now than maybe even before, so I can't let that sort of rule the business," Mr. Adamczyk said.

That uncertainty could make it difficult for companies to sustain robust earnings growth, said Omar Aguilar, chief investment officer of equities for Charles Schwab Investment Management.

Companies are reporting solid cash flow, but capital spending has been weak until recently. Uncertainty over tax policy may exacerbate that reluctance to invest, Mr. Aguilar said. "Tax reform is clearly what the future may require for these numbers to continue on the same pace."



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U.S. News --- THE OUTLOOK: GOP's Next Task: Raising Debt Limit

By Kate Davidson
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Republicans are leaving town for an August recess after a failed attempt to repeal the Affordable Care Act. When they return in September, they'll have just 12 working days to deal with another big problem.

In a letter to lawmakers Friday, U.S. Treasury Secretary Steven Mnuchin said the federal borrowing limit, or debt ceiling, needed to be raised by Sept. 29 or the government risked running out of money to pay its bills.

The Treasury Department has been employing cash-conservation measures since March, when borrowing hit the formal ceiling of nearly $20 trillion. Those measures are expected to run out in early to mid-October. When they do, the government won't have money to pay interest on debt, write Social Security checks or make millions of other routine payments, unless it can tap credit markets for borrowing to raise additional cash. Missing payments could send **financial markets** in a tailspin.

Lawmakers have managed to resolve bitter feuds over the debt limit before. But markets are starting to reflect angst about Washington'sability to navigate a new showdown given the challenges Republicans have had reaching common ground on issues like health care. Lawmakers leave town with no clear strategy for managing the complex politics around raising the limit when they return.

"We just don't know what the process is going to look like this time,"said Goldman Sachs political economist Alec Phillips.

This will be the first time Republicans will control both chambers of Congress and the White House while navigating a debt-ceiling increase since 2006, when a House rule existed that bypassed the need for a debt-limit vote. The rule was repealed in 2011. Now,they face resistance in their own party.

In the past, conservative Republicans sought to pair increases in the borrowing limit with steep spending cuts. Some argued against raising the limit at all.

This time the GOP will have to own the consequences if the government defaults on debt or fails to make other payments.

Mr. Mnuchin has made clear the administration wants to see the debt limit increased, with no strings attached. But GOP leaders will almost certainly need Democratic support to pass any increase, somethingDemocrats might be reluctant to provide without something in return. They have been unified in opposition on other issues.

The path to raising the debt limit will be the first major political test for Mr. Mnuchin, a Washington novice who has been intensely focused on the Trump administration's forthcoming tax overhaul proposal.

It is going to be a tight squeeze. Treasury's cash balance is expected to drop to near $25 billion in September -- a precariously low level, especially in the event of some unforeseen shock, such as a severe natural disaster, global crisis or unexpected drop in revenue.

Strategic challenges hang over Mr. Mnuchin's options. When President Barack Obama was in power, some Republicans sought to allow cash to run down and prioritize some payments, such as interest on debt, over others, such as discretionary spending. Thatidea could return.

Transcripts from a 2011 meeting of the Federal Reserve showed the central bank, as the Treasury's financial agent, was prepared to continue making payments to bondholders, while potentially delaying other payments, if Congress failed to raise the borrowing limit.

Mr. Mnuchin told lawmakers on Capitol Hill last week he had "no intent" to prioritize payments, which would put him in the uncomfortable position of choosing whether to pay foreign bond holders ahead of retirees or government workers.

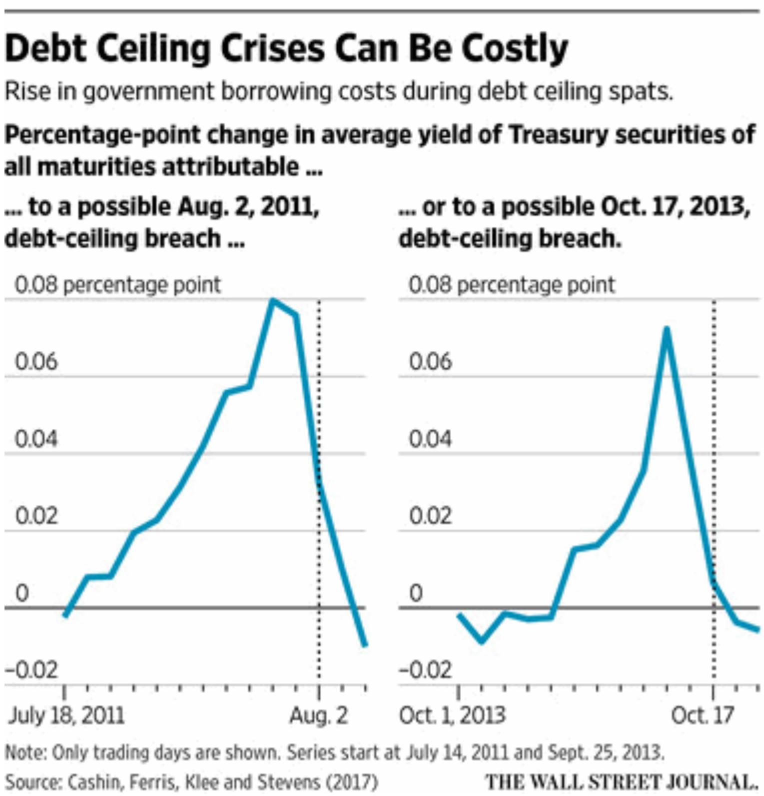
The showdown will coincide with the end of the fiscal year on Sept.30, and the prospect of a government shutdown if Congress fails to authorize new spending for 2018. That could make the debt limit increase more difficult to address, if lawmakers get bogged down in a fight over spending.

Adding to the political muddle, some lawmakers want to relax spending caps set into law six years ago as part of a compromise reached between Mr. Obama and congressional Republicans to end an earlier debt-limit standoff.

The costs from delaying action on the debt ceiling are already mounting, Mr. Mnuchin warned lawmakers.

Two recent debt-limit fights on Capitol Hill, in 2011 and 2013, raised yields on Treasury securities ahead of the expected date of default, ultimately boosting Treasury's borrowing costs by about $260 million in 2011 and $230 million in 2013, according to research released by the Federal Reserve this year.

"Right now effectively, as opposed to borrowing in the market at lower rates, we're borrowing and making our trust funds whole at slightlyhigher rates," Mr. Mnuchin said. "There is a real cost to doing that."



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THE WALL STREET JOURNAL.
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OPEC's Existential Problem --- Big budget obligations drive members to keep pumping despite deal to cut oil output

By Benoit Faucon in London, Lynn Cook in Houston and Summer Said in Cairo
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OPEC, the once powerful oil cartel, is struggling to hold the line in a make-or-break fight to limit oil production, prop up crippling low prices and prove its relevance.

Why? Its members are addicted to oil.

Eight months after the Organization of the Petroleum Exporting Countries announced a plan for its 14 members and 10 allied countries to withhold almost 2% of the world's oil every day to boost prices, seven of the 11 OPEC members that pledged to cut appear to be producing more oil than promised.

Crude prices have actually fallen, by 7.6% to $52.52 a barrel, since the beginning of the year -- half what the cartel called a fair price just three years ago and a level that some say is here for the long term.

Previously, low production costs meant OPEC members profited even when **oil prices** fell. These days, members have ramped up government spending to keep populations happy and cover military expenses, and don't have a cushion to let oil revenues slip. Their strained budgets can be covered only through increasingly high prices per barrel, and if prices are low they need to produce more.

The inability to control output poses a potentially existential threat to OPEC's influence. The longer prices remain low, said Helima Croft, the global head of commodity strategy at RBC Capital Markets and a longtime watcher of the cartel, "the harder it is to make the case to the most cash-strapped producers that they are 'better together.' "

Tensions were laid bare last week in St. Petersburg, where OPEC and its non-OPEC allies discussed why output was going in the wrong direction.

Russia aimed to boost camaraderie with a visit to the Hermitage museum and a picturesque evening cruise on the Neva River, where ministers donned matching hoodies bearing the logo of the city's soccer team, FC Zenit.

But during the weekend, Saudi Arabia's energy minister, Khalid al-Falih, and other oil officials holed up in a hotel conference room at the Four Seasons calling other OPEC ministers -- including those in Iraq and the United Arab Emirates -- demanding to know why they weren't cutting production as much as promised, according to people familiar with the matter.

"Some have underperformed. We have talked to them," Mr. Falih told reporters, adding he didn't "mince words."

Iraq denied it wasn't meeting targets and said OPEC was getting bad information.

OPEC has been under pressure from U.S. shale producers, who since about 2008 have helped to nearly double U.S. oil production.

The output has stolen market share from the cartel's members and pushed prices lower. OPEC's share of the global oil market has shrunk to 40% today from 55% in the early 1970s, when its embargo on sales to the West quadrupled **oil prices** in six months.

The dynamic working against OPEC is that, collectively, its members need the highest **oil prices** of any industry player -- more than companies such as Exxon Mobil Corp., Royal Dutch Shell PLC and most U.S. shale producers, according to Goldman Sachs.

For decades, OPEC was the low-cost producer of oil. During the boom years of 2011 through 2014, OPEC members, which largely fund national spending with oil revenue, could balance their budgets with **oil prices** $10 to $40 a barrel less than most oil companies needed to fund their spending and pay dividends. Today, OPEC needs $10 to $20 a barrel more than Big Oil and U.S. exploration and production outfits, the investment bank said in a report to clients.

OPEC members once drew their power from the giant reserves of what is known as "easy oil" -- conventional crude that costs as little as $3 per barrel to pump. That cost guaranteed both fat profits when prices were high and the ability to hunker down when the market tanked.

Several years of $100 a barrel **oil prices** lasting until 2014 coincided with big military, security and domestic spending to pacify restive populations during the Arab Spring, hold back the tide of Islamic State and influence the Syrian civil war. Those spending obligations meant OPEC was fundamentally unprepared for the **oil-price** crash that followed.

The U.A.E. spends only $12 to pump a barrel of oil but needs oil to sell at $67 to cover its government expenditures, according to the International Monetary Fund. Its national budget has quadrupled to over $114 billion over the past 15 years.

The social spending helps regular Emiratis with housing costs, water bills and cheap electricity -- subsidies that the U.A.E. government has been unwilling to significantly cut for fear of street protests.

The Persian Gulf country also has major military commitments, spending about $23 billion a year on defense -- more than conflict-heavy countries like Israel and Iraq -- as it helps fight wars in Syria and Yemen.

The U.A.E. is among OPEC's worst offenders in pumping too much oil. It has cut only about half the amount it promised, according to the International Energy Agency, which advises governments and companies about energy trends.

A U.A.E. official said the country's oil production is tied up in joint ventures with foreign oil companies that are hard to change, making it difficult to cut output. The country's officials have said they plan to cut more oil production and recently announced limits on their oil exports.

In a move that could put pressure on the U.A.E., OPEC and Russia are planning a meeting of midlevel officials in Abu Dhabi on Aug. 7, the cartel said, "to assess how conformity levels can be improved."

Overall, OPEC on Nov. 30 agreed to cut production by 1.2 million barrels a day, a deal that took almost a year to negotiate and raised expectations for an oil-market rally. Instead, member exports in June were 120,000 barrels a day lower than October, according to Kpler, a firm that tracks tanker movements to measure exports.

"OPEC will have lot of difficulties to respect its commitments because of budgetary difficulties faced by some its member countries," said Chakib Khelil, the former oil minister of OPEC member Algeria.

Ecuador's oil minister, Carlos Perez, went on state television this month to say the tiny producer was no longer sticking with its production pledges, "because of the needs that the country has."

Iraq faces a budget squeeze from its war with Islamic State. It pledged to cut over 200,000 barrels a day but has cut less than half that amount on average through June, according to the IEA.

"Completely untrue and groundless," Iraq's Oil Minister Jabbar al-Luaiby said of the overproduction accusation. "Iraq is in full compliance with the OPEC declaration."

In Saudi Arabia, which produces 30% of OPEC's output, oil revenue has fallen 60% since the mid-2014 peak in **oil prices**. In that time period government spending declined only 18%, according to Goldman Sachs.

Instead of cutting spending, the Saudis have drawn down $246 billion of their foreign reserves and issued a $17 billion sovereign bond.

"We calculate, and a lot of people we know calculate, there's about three more years of this they could deal with, with regard to drawdowns in the sovereign funds -- and then they've got a very severe problem," said Tim Dove, chief executive of Fort Worth-based Pioneer Natural Resources Co., a shale driller.

Saudi officials said they can withstand low prices for longer than any other country.

The Saudis haven't dialed back increases in defense and infrastructure spending, including a $23 billion Riyadh metro system expected to be completed in 2019. Defense and security spending jumped 50% between 2010 and 2013, and defense spending grew again last year to $50 billion.

The kingdom is working on plans for an IPO of part of its state-owned oil firm, Saudi Arabian Oil Co., known as Aramco. The listing, likely the largest-ever public offering, is expected to fetch tens of billions of dollars that Crown Prince Mohammed bin Salman has said he plans to put in a sovereign-wealth fund to invest in new industries.

The impending IPO was the impetus behind Saudi Arabia's decision late last year to reverse itself and push OPEC to cut production and raise **oil prices**, according to people close to the kingdom's oil ministry. The value of the IPO could depend in part of the price of oil, which the Saudis want to rise to $60 a barrel, the people said.

Mr. Falih denied the cuts are designed to lift the IPO price.

Saudi and other OPEC officials once believed U.S. shale producers needed **oil prices** of $80 a barrel or higher to function. The U.S. financial system and bankruptcy process helped ensure that oil fields continued to pump, even though more than 250 North American oil drillers and service companies have gone bust during the oil slump, according to Haynes and Boone, a law firm specializing in the energy industry.

The continued production helped pay down debt while companies reorganized. When the producers emerged from bankruptcy, new owners had the old debt load wiped clean. With a clean slate, plumbing once expensive shale fields became more economical. Other companies on the ropes sold to stronger rivals that can manage the fields more effectively or issued new shares to raise capital.

On Friday, big U.S. oil firms reported some of their strongest quarterly profits since the price crash.

There are signs that OPEC's goal of reducing oil in storage, a proxy for the global oil glut, is slowly starting to happen. U.S. inventories have fallen in 14 of the past 16 weeks.

Lower imports into the U.S. have played a role, with Saudi Arabia intentionally lowering its shipments. Imports from Saudi Arabia to the U.S. are at a two-year low, down by about a third since January, data-tracking firm ClipperData said Friday.

Russia, the world's largest crude producer but not an OPEC member, has gradually cut output by about 300,000 barrels a day since the agreement, the IEA said.

Oil prices have risen over 9% since last week's meeting in St. Petersburg, when Saudi Arabia said it would go further by also placing a cap on its exports.

Officially, OPEC said the cartel as a whole is complying with its production-cut agreement, with output averaging more than one million barrels a day less this year compared with October, helped by larger-than-agreed cuts by Saudi Arabia.

But monthly figures show output recently has moved higher, according to observers including the IEA, which said seven of the 11 OPEC members that pledged to cut were producing more than promised.

OPEC has a long history of fractious relations among its members, a collection of regimes from the Middle East, Africa and South America.

Even the cartel's most powerful moment, the 1973 oil embargo, divided the group, with only its Arab members cutting off crude to Western nations that supported Israel.

When **oil prices** began falling in July 2014, then-Saudi oil minister Ali al-Naimi said OPEC no longer had the power -- or will -- to cut production and save the market. U.S. shale producers were too powerful.

But Mr. Naimi said he believed OPEC members' still had essential advantages, such as the ability to produce at extremely low cost.

Mr. Naimi was replaced in May 2016 by Mr. Falih, a Western-educated oilman with long experience at Aramco. Mr. Falih has said Saudi Arabia and even OPEC couldn't make a difference by cutting production on its own.

He reached out to Alexander Novak, energy minister in Russia, where low **oil prices** were creating a budget crunch.

"We both had an extended crisis," Mr. Novak said in an interview. "We both wanted results."

OPEC's agreement last year with Russia and other big producers gave the cartel a coalition that controlled about 55% of global oil output, its earlier level of dominance. Knowing that OPEC members cheated on production pledges in the past, the cartel created a compliance committee to monitor production and scold members who pumped more.

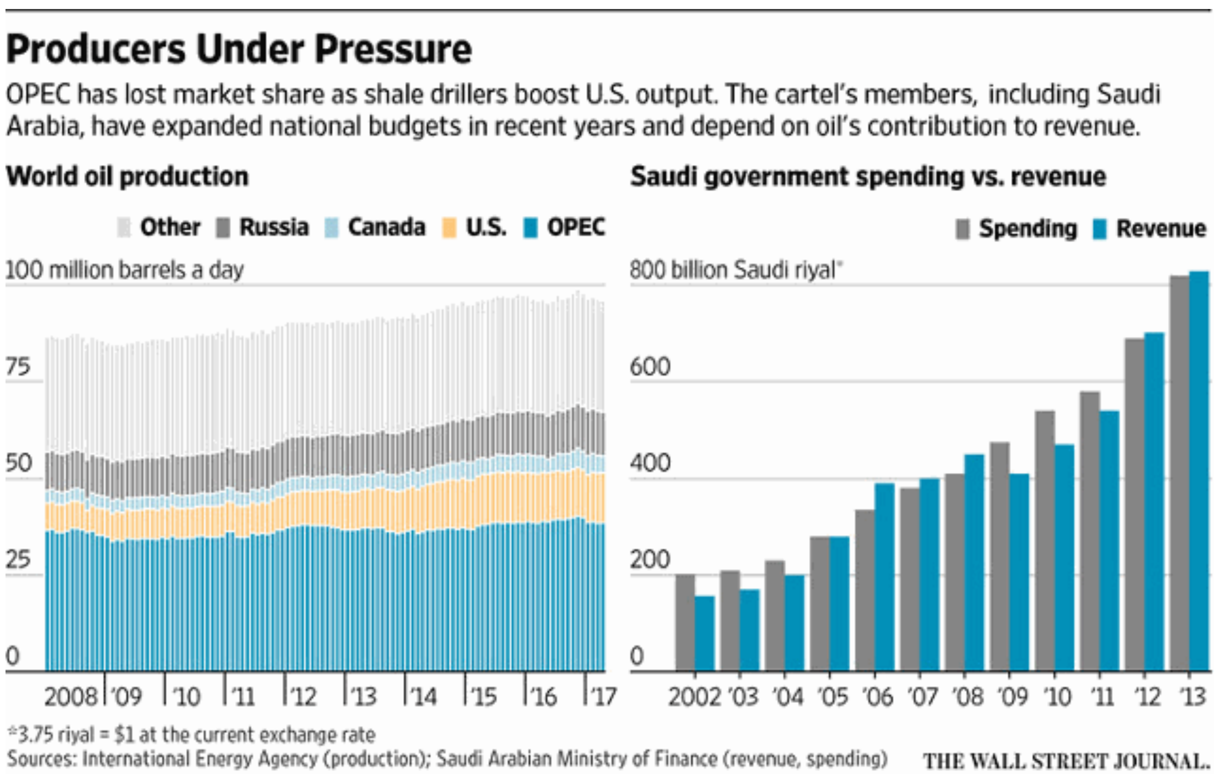
In April, Mr. Falih was upset after reading a news article about Iraq pumping over its limit and stealing market share from Saudi Arabia.

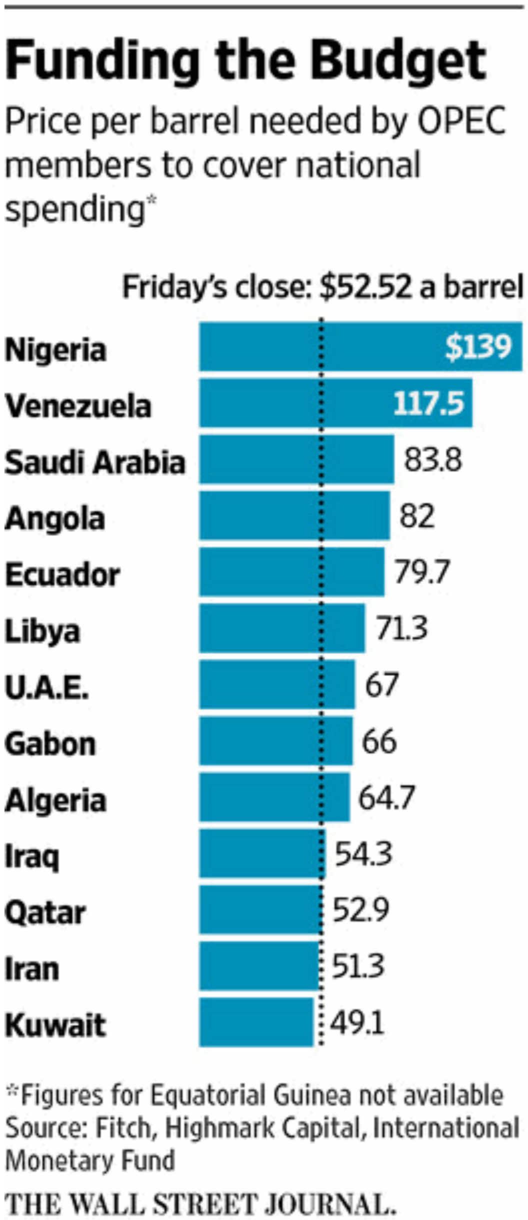
"See, they are laughing at us," Mr. Falih wrote in a WhatsApp message to a group of peers, according to people familiar with the exchange.

In Iraq, there is a strong feeling that the country should be exempt from cutting production because of the war against Islamic State, said Luay al-Khatteeb, an adviser to the Iraqi parliament.

OPEC members said they are trying now to negotiate a way to quit the production cuts early next year without sending the market into another downturn.

Georgi Kantchev and Nathan Hodge contributed to this article.





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U.S. News: Economy Is Steady in Slow Gear

By Jeffrey Sparshott
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The U.S. entered the ninth year of economic expansion in steady but unspectacular fashion that shows little sign of abating.

Gross domestic product, a broad measure of goods and services produced in the U.S., expanded at a 2.6% annual rate in the second quarter, the Commerce Department said Friday, a rebound after a tepid start to the year.

The figures repeated a familiar pattern of weak winters followed by a stronger spring and summer, leaving overall growth subdued. "The economy is on cruise control. Unfortunately, cruise control is about 2%," said Diane Swonk, founder of DS Economics.

The U.S. emerged from recession in mid-2009. Since then, GDP growth has averaged 2.1%. In contrast, growth averaged 3.6% during a 10-year span in the 1990s and 4.9% during a nearly nine-year stretch in the 1960s, the only two expansions with longer durations.

Slow and steady has produced a long stretch of job creation and left the economy on mostly stable footing, with few signs of the kind of excess that in the past have derailed long periods of growth.

In the 1960s, for example, runaway inflation led the Federal Reserve to raise interest rates and curtail growth. Today, broad measures of inflation are historically weak. The price index for personal-consumption expenditures -- the Fed's preferred inflation gauge -- rose at an annual rate of 0.3% in the second quarter. That is well below the Fed's 2% target. Core prices, which exclude **volatile** food and energy costs, increased 0.9% at an annual rate during the quarter.

After the 1990s stock boom, a tech bubble burst, crashing markets and ultimately sending the economy into recession and an expansion that didn't produce many jobs. There are signs today that stocks are fully valued, one potential risk for investors. But the stock boom lacks the fervor of the 1990s.

Absent such forces, underlying economic growth appears locked in for the foreseeable future, with both households and businesses helping to propel modest growth. Forecasts for the remainder of the year are mixed. J.P. Morgan expects a second-half growth rate of 1.75%, NatWest Markets around 2.5% and Capital Economics 2.5% to 3.0%. The Federal Reserve in June estimated full-year GDP growth would register at 2.2%.

Forecasters in The Wall Street Journal's July survey of economists pegged the odds of a recession at just 15%, little changed from last month and down 22% from a year ago.

Against that backdrop, stocks and corporate profits are marching higher and **volatility** in markets is low.

On Friday, the biggest U.S. energy companies reported robust profits. Exxon Mobil Corp. nearly doubled its net income, compared with a year ago, and Chevron Corp. saw profits jump to $1.45 billion in the second quarter.

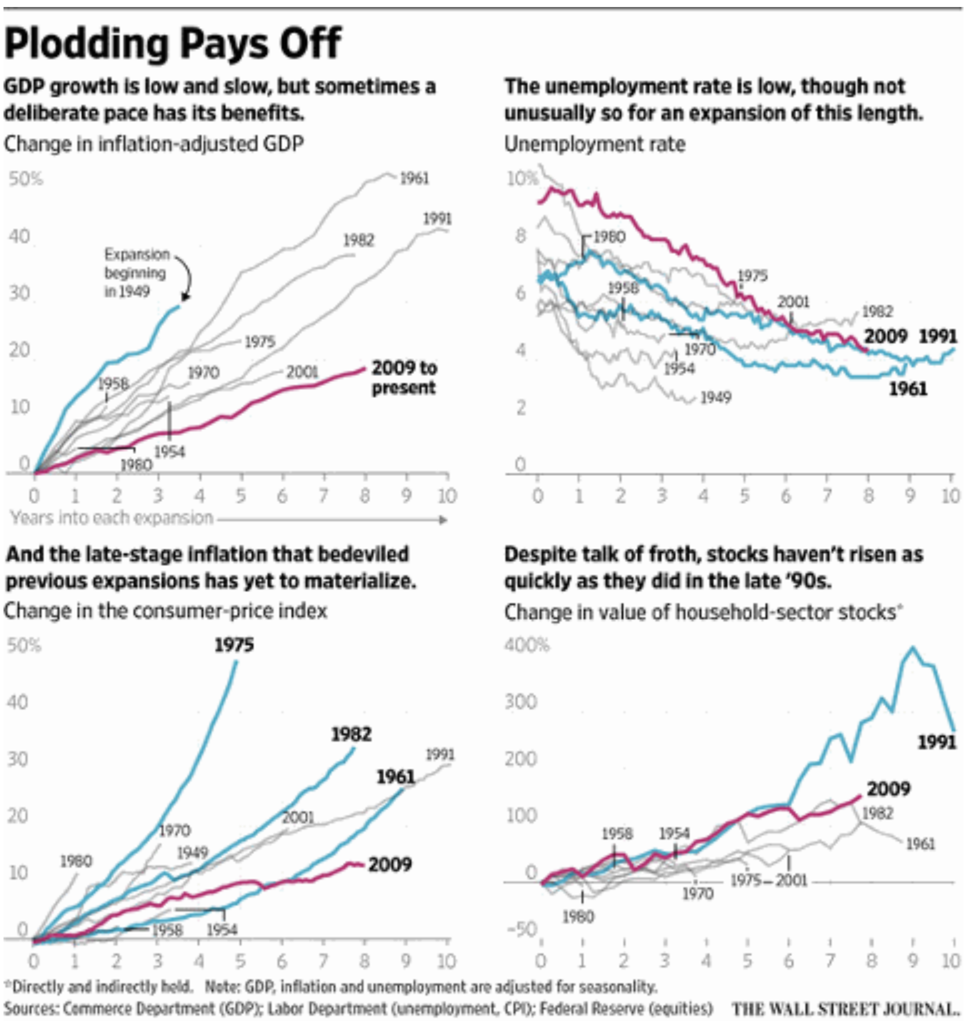
"The outlook is that businesses and consumers are becoming more confident in the future," Christopher Martin, chairman and CEO of Jersey City, N.J.-based Provident Financial Services, told investors Friday. "And notwithstanding the headlines from Washington and the partisanship in Congress, overall, we are **bullish** on the U.S. and our local economy and its potential for stronger growth."

Friday's GDP report showed that consumer spending rose at a 2.8% pace, an improvement from the first quarter's 1.9% rate. Consumers stepped up spending on both goods and services, though there are signs households do have some concerns about the future.

The University of Michigan on Friday said its final reading on overall consumer sentiment in July fell slightly from the prior month. An index that tracks expectations about the future declined to 80.5, its lowest level since last October. An index tracking confidence in the current economic situation jumped to 113.4, its highest level since July 2005.

President Donald Trump has pledged to return the nation to above-3% growth by overhauling the tax and regulatory systems and negotiating better trade deals. There is little to suggest a breakout is imminent.

"If a well-constructed tax reform deal is enacted this year or next, the economy may fire on all cylinders and accelerate to closer to President Trump's 3% goal," said Stephen Stanley, chief economist at Amherst Pierpont Securities. But, for now, the economy is firmly entrenched at a little better than 2%, he said.



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The New York Times

Foreign Desk; SECTA
Russia Retaliates Against Tougher Sanctions by U.S.

By NEIL MacFARQUHAR
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MOSCOW -- Russia took its first steps on Friday to retaliate against proposed American sanctions for Moscow's suspected meddling in the 2016 election, seizing two American diplomatic properties in Russia and ordering the United States Embassy to reduce staff by September.

The moves, which had been threatened for weeks, came a day after the United States Senate approved a measure to expand economic sanctions against Russia, as well as against Iran and North Korea. The White House announced late Friday that President Trump would sign the bill.

The latest move by the Kremlin strikes another blow against the already dismal diplomatic relations between the two sides, with each new step moving Moscow and Washington further from the rapprochement anticipated a few months ago.

''Russia's response to the new sanctions was inevitable,'' Aleksei Pushkov, a Russian legislator and frequent commentator on international affairs, wrote Friday on Twitter. ''There is a high probability that this will not be the end of it.''

Starting on Tuesday, Russia will block access to a warehouse in Moscow used by the United States Embassy and to a bucolic site along the Moscow River where staff members walk their dogs and hold barbecues.

The number of American targets inside Russia for Kremlin retaliation is limited, particularly if Moscow is worried about damaging the investment climate or about other economic fallout.

External arenas, however, are a different matter. Moscow might have shown some restraint in eastern Ukraine or in Syria because of the expectation of improving ties with Washington, but now, the Kremlin may be looking for places to challenge the United States.

Referring to the vote by Congress to toughen the sanctions, the Russian Foreign Ministry said in a statement, ''This yet again attests to the extreme aggressiveness of the United States when it comes to international affairs.''

Dmitri S. Peskov, the spokesman for President Vladimir V. Putin, said the Russian leader had approved the retaliatory measures despite saying a day earlier that he would wait for the final version of the law before taking any such steps.

There had been questions whether Mr. Trump would sign the legislation. But given the congressional investigations into possible collusion between his campaign and the Kremlin, and considering that the Republican Party has majorities in the House and the Senate, he was under considerable pressure not to use his veto.

The United States Embassy in Moscow issued a short statement confirming only that it had received the notification from the Foreign Ministry and that it was sending the orders to Washington for review.

The American ambassador, John F. Tefft, had expressed ''his strong disappointment and protest,'' the statement said.

The statement from the Foreign Ministry said that the United States Embassy was asked to reduce its diplomatic and technical staff members in Russia to 455 by Sept. 1, matching the number of Russian diplomats in the United States.

In addition to the embassy in Moscow, the United States has consulates in St. Petersburg, Vladivostok and Yekaterinburg.

It was not immediately clear how many American workers would have to leave, because the Kremlin's announcement did not detail which employees were to be included in the count. There are hundreds of staff members in Russia, including workers constructing an embassy building in Moscow.

In December, President Barack Obama expelled 35 Russian diplomats and seized two estates, one on Long Island and one on Chesapeake Bay in Maryland, in response to Russia's interference in the presidential election the month before.

Moscow did not respond at that time, with Mr. Putin signaling that he was hoping for better relations under Mr. Trump. The chances of that happening have largely evaporated.

On Thursday, while expressing annoyance, Mr. Putin said at a news conference in Finland that he would wait to see the final law on the new American sanctions before deciding on a response. But the Senate vote tipped the balance, Mr. Peskov said.

The announcement from Russia's Foreign Ministry said that if the United States responded to the latest measure with any further expulsions, Russia would match them.

The White House has lobbied against the law containing the extra measures, calling it a curb on presidential power, because it would effectively force Mr. Trump to seek congressional approval before lifting any sanctions. The fact that it passed a Republican-controlled Congress underscores the unease in Mr. Trump's own party about his repeated praise of Mr. Putin and of Russia.

The new law would strengthen sanctions first directed against Russia in 2014 after the annexation of Crimea and the destabilizing of Ukraine. Those sanctions curbed American involvement in the oil industry and limited Russian access to Western **financial markets**. Russia responded with a broad ban on Western food imports.

The new legislation would expand some of the measures, particularly in the energy market. European countries have expressed concern about the law's potential impact on the energy market on the Continent, because it might affect the expansion of the Nord Stream pipeline that carries Russian natural gas to Germany under the Baltic Sea.

Follow Neil MacFarquhar on Twitter @NeilMacFarquhar .

Employees in Moscow on Friday at a warehouse used by the United States Embassy and where access will soon be blocked. (PHOTOGRAPH BY MAXIM SHIPENKOV/EUROPEAN PRESS AGENCY)

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The New York Times

STOCKS AND BONDS
Business/Financial Desk; SECTB
Stock Indexes Sag Worldwide As Earnings Reports Underwhelm

By THE ASSOCIATED PRESS
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29 July 2017
The New York Times
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3
English

Stock markets around the world sagged on Friday after Amazon and other big companies reported quarterly results that underwhelmed investors.

The **Standard & Poor's 500-stockindex** lost 3.32 points, or 0.1 percent, to 2,472.10 and closed a week packed with corporate earnings reports almost exactly where it started. It set a record during the middle of it.

The **Dow Jonesindustrial average** gained 33.76 points, or 0.2 percent, to 21,830.31 and set another high. The **Nasdaq composite** fell 7.51, or 0.1 percent, to 6,374.68.

A little more than half the companies in the **S.&P. 500** have now shown how much profit they made during the spring, and the results have been mostly encouraging. Earnings for the index are on pace to be about 9 percent higher than a year earlier, according to FactSet. But expectations were high coming into the reporting season, and the few companies that have fallen short of forecasts have seen their stock prices punished.

Amazon dropped $25.96, or 2.5 percent, to $1,020.04 after its profit missed expectations. Its forecast for operating income this fiscal year was also below many analysts' forecasts, though revenue for the latest quarter beat expectations.

Earnings reports were the main focus for markets during a busy week, during which the Federal Reserve decided on Wednesday to hold interest rates steady and the government on Friday gave an update on the economy's health.

The economy grew at an annual rate of 2.6 percent in the second quarter, revved up by a rise in consumer spending, the Commerce Department reported. Last quarter's growth rate was more than double that of the year's first quarter, which was revised down to 1.2 percent. The faster growth, though, was still a shade below the 2.7 percent that economists expected.

Tobacco stocks were some of Friday's worst performers after the Food and Drug Administration said it was considering limiting the amount of nicotine in cigarettes so that they're no longer addictive. Altria Group, which sells Marlboro and other cigarettes in the United States, fell $7.02, or 9.5 percent, to $66.94. It had been down as much as 18.9 percent shortly after the F.D.A.'s announcement.

Starbucks fell $5.50, or 9.2 percent, to $54 after it lowered its forecast for earnings this fiscal year, and Goodyear Tire & Rubber sank $2.97, or 8.4 percent, to $32.51 after it gave a forecast for 2017 operating income that fell short of analysts' expectations.

The yield on the **10-year Treasury** note fell to 2.29 percent from 2.32 percent late Thursday. The two-year yield dipped to 1.35 percent from 1.36 percent, and the 30-year yield dropped to 2.90 percent from 2.92 percent.

Stock markets around the world were weak. Japan's Nikkei 225 index dropped 0.6 percent and South Korea's Kospi lost 1.7 percent.

France's CAC 40 lost 1.1 percent, the FTSE 100 in London fell 1 percent and Germany's DAX dropped 0.4 percent.

The dollar fell to 110.57 Japanese yen from 111.19 yen late Thursday. The euro rose to $1.1757 from $1.1675, and the British pound rose to $1.3145 from $1.3063.

The price of oil capped off its best week since early December with another gain. Benchmark crude rose 67 cents to settle at $49.71 per barrel and touched its highest level since May. Oil gained nearly 9 percent over the week.

Brent crude, the international standard, gained $1.03 to $53.53 a barrel Friday.

Gold rose $8.40 to settle at $1,268.40 per ounce, silver added 12 cents to $16.70 per ounce and copper was close to flat at $2.88 per pound.

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

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The New York Times

Business/Financial Desk; SECTB
U.S. Growth Accelerates But Misses Trump Mark

By NELSON D. SCHWARTZ
1,079 words
29 July 2017
The New York Times
NYTF
Late Edition - Final
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English

The economy's trajectory in President Trump's first year in office is looking a lot like it did during President Barack Obama's last year in office.

The Commerce Department reported on Friday that the economy rebounded last quarter after a slow start to 2017, bringing the growth rate for the first half of the year to just under 2 percent. In 2016, the economy expanded at an annual rate of 1.5 percent.

The latest figures are a long way from the 4 percent pace Mr. Trump has promised, and they underscore how remarkably consistent, if hardly spectacular, the economy's performance has been since the current recovery started eight years ago this summer.

"This is more of the same," said Patrick Newport, an economist at IHS Markit. "We are doing better than just about any other developed Western economy, even though this doesn't meet the standards we're used to. We're the leader of a slow-moving pack."

The 2.6 percent expansion rate last quarter should assuage fears stirred by the economy's near stall in January, February and March, when gross domestic product grew at an annual rate of just 1.2 percent.

It also suggests that policy makers at the Federal Reserve will stick with their plan to gradually raise interest rates while shrinking the central bank's balance sheet.

But the expansion camouflages some more profound shifts just under the economy's surface.

Sectors like technology, health care and banking are thriving, even as industries like retail shed jobs.

And while the 4.4 percent unemployment rate is the lowest in a decade, wage growth remains frustratingly slow, and the fortunes of college-educated workers have diverged sharply from those with a high school diploma or less.

The **stock market** has also been soaring and the housing market is similarly robust in many parts of the country, especially in coastal areas like New York, Washington, San Francisco and Boston.

In the latest quarter, the economy benefited from steady consumer spending and an improving trade balance, while less robust state and local spending, along with slower inventory growth, worked as headwinds. Demand from shoppers for durable goods like automobiles, appliances and furniture contributed more than a full percentage point to growth.

Another bright spot lately has been the dollar's decline against other currencies, especially the euro, which makes American exports more competitive overseas.

This week, the government also reported positive figures on orders for durable goods in June and a slightly more favorable trade balance.

The dollar's softness benefits American companies with sales abroad, as those foreign revenues are translated into dollars.

Diane Swonk, an independent economist in Chicago, cited impressive earnings reports from McDonald's and Caterpillar recently, and said currency gains should serve as a tailwind for corporate profits later this year. The dollar has declined as other economies, especially those in Europe, have been showing signs of life, even as expectations for the American economy have cooled this year.

Just a few months ago, economists were expecting a strong rebound for the second quarter, with the consensus in May calling for 3.7 percent growth. There was talk of a ''Trump Bump'' as consumer and business sentiment improved.

Those hopes came down to earth, however, amid moderate spending by consumers, which accounts for roughly two-thirds of all economic activity.

And with deep divisions on Capitol Hill between Republicans and Democrats, as well as within the Republican majority itself -- underscored early Friday by the Senate rejection of a health care bill -- hopes have faded for the kind of big infrastructure program or comprehensive tax reform Mr. Trump has promised.

''At most we are expecting a slight cut in corporate tax rates next year, not big cuts,'' Ms. Swonk said. ''It won't be the kind of sweeping reform we need.''

''The infighting both within the White House and both political parties exceeds the partisan gridlock we've become accustomed to,'' she added. ''Infrastructure spending seems to have fallen off the radar screen.''

In the second half of the year, economists like Michael Gapen of Barclays are predicting growth will remain in a range of 2 percent to 2.5 percent. ''The economy remains in a modest growth path, and last quarter was driven by gains in household and business spending,'' Mr. Gapen said.

''The surprise came in the area of trade, where it looks like solid growth outside the U.S. and a weaker dollar boosted exports,'' Mr. Gapen added. ''This is a turnaround from last year, when a stronger dollar was a drag on growth.''

The figure released on Friday is the first of three estimates that the Commerce Department will provide on growth in April, May and June. The final number could be revised higher or lower, depending on factors like consumer spending, business investment, factory orders and imports and exports.

The White House has said that its long-term target for growth is 4 percent, and Mr. Trump has repeatedly said that the economy could grow faster if regulations were rolled back and trade policies were toughened to encourage American companies to manufacture more of their products in the United States.

But many economists say that goal is unrealistic, given fundamental factors like an aging population and the retirement of the baby boomers, along with years of slow productivity gains.

The last time annual economic growth topped 4 percent was in 2000, at the end of the tech-fueled boom of the late-1990s. Since then, the American economy's best annual performance was in 2005, just before the bursting of the housing bubble, when annual growth was 3.3 percent.

''We could grow slightly faster than we are now, if you had comprehensive tax reform and a 10-year infrastructure spending program,'' Mr. Gapen said. ''That could get us to 2.5 percent growth per year or slightly better. But 4 percent is highly unlikely.''

Follow Nelson D. Schwartz on Twitter @NelsonSchwartz.

A Boeing plant in Seattle where 777s are assembled. The economy benefited in the second quarter from steady consumer spending and an improving trade balance. (PHOTOGRAPH BY TEGRA STONE NUESS FOR THE NEW YORK TIMES) (B5) CHART: Real Economic Growth: Annual rate of change in the gross domestic product, based on quarterly figures adjusted for inflation and seasonal fluctuations. (Source: Commerce Department) (B5)

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THE WALL STREET JOURNAL.
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Heard on the Street
More of Same Isn't So Bad For Economy

By Justin Lahart
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English

[Financial Analysis and Commentary]

The U.S. economy has been far from inspiring, but, hey, it could be worse.

The Commerce Department on Friday reported that gross domestic product expanded at a 2.6% annual rate in the second quarter, after increasing (a downwardly revised) 1.2% in the first quarter. With the rebound in growth owing more to temporary factors and measurement issues than anything fundamental, the average of the two figures of 1.9% is probably the better reflection of GDP's underlying trend.

Since the recession ended, GDP has expanded at a 2.1% annual rate. Everybody would have liked, and many people expected, growth to be stronger. Then again, the economy weathered a lot during those years. Sometimes being stuck in a rut isn't such a bad thing.

Moreover, slow as growth has been, it has been sufficient for the economy to keep adding jobs. Even though wage growth has been lackluster, the pace of hiring has bolstered household income. Next Friday's jobs report will likely show that hiring remains strong.

Half of the message for investors is that they shouldn't expect the economy to suddenly shift into higher gear, particularly with the stimulus hopes that accompanied President Donald Trump's move to the White House looking doubtful.

But the other half of the message is that the economy can absorb a lot, and despite all of the political uncertainties the U.S. faces, the risk of recession -- typically the **stock market**'s biggest danger -- remains low. That counts for a lot.

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The New York Times

World; Europe

Russia Seizes 2 U.S. Properties and Orders Embassy to Cut Staff

By NEIL MacFARQUHAR
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MOSCOW — Russia took its first steps on Friday to retaliate against proposed American sanctions for Moscow's suspected meddling in the 2016 election, seizing two American diplomatic properties and ordering the United States Embassy to reduce staff by September.

The moves, which Russia had been threatening for weeks, came a day after the United States Senate approved a measure to expand economic sanctions against Russia, as well as against Iran and North Korea. The bill, mirroring one passed by the House on Tuesday, now goes to President Trump for his signature.

The latest move by the Kremlin strikes another blow against the already dismal diplomatic relations between the two sides, with each new step moving Moscow and Washington farther from the rapprochement anticipated a few months ago.

Some analysts suggested that matters could get even worse. "Russia's response to the new sanctions was inevitable," Aleksei Pushkov, a legislator and frequent commentator on international affairs, wrote on Twitter. "There is a high probability that this will not be the end of it."

The number of American targets inside Russia for Kremlin retaliation are limited, particularly if Moscow is worried about damaging the investment climate or about other economic fallout.

External arenas, however, are a different matter. Moscow might have shown some restraint in eastern Ukraine or in Syria because of the expectation of improving ties with Washington, but now, the Kremlin might be looking for places to challenge the United States.

Referring to the vote by Congress to toughen the sanctions, the Russian Foreign Ministry said in a statement: "This yet again attests to the extreme aggressiveness of the United States when it comes to international affairs."

Dmitri S. Peskov, the spokesman for President Vladimir V. Putin, said the Russian leader had approved the retaliatory measures despite saying a day earlier that he would wait for the final version of the law before taking any such steps.

The version that emerged from the Senate vote late Thursday seemed to be the final one, Mr. Peskov noted, and the White House has already suggested that it might reject this law in favor of something even more onerous.

"The White House said that the bill could be toughened, so it doesn't change the essence of the situation," Mr. Peskov said.

It is unclear whether Mr. Trump will sign the legislation. But given the congressional investigations into possible collusion between his campaign and the Kremlin, and considering that the Republican Party has majorities in the House and the Senate, he is under considerable pressure not to use his veto.

The White House has been ambivalent about whether Mr. Trump will give his approval. During his campaign for the presidency, Mr. Trump pledged to improve ties with Russia.

The United States Embassy in Moscow issued a short statement confirming only that it had received the notification from the Russian Foreign Ministry and that it was sending the orders to Washington for review. The American ambassador, John F. Tefft, had expressed "his strong disappointment and protest," the statement said.

The statement from the Russian Foreign Ministry said that the United States Embassy was asked to reduce its diplomatic and technical staff members in Russia to 455 by Sept. 1, matching the number of Russian diplomats in the United States.

In addition to the embassy in Moscow, the United States has consulates in St. Petersburg, Vladivostok and Yekaterinburg.

It was not immediately clear how many American workers would have to leave, because the Kremlin's announcement did not detail which employees were to be included in the count. There are hundreds of staff members in Russia, including workers constructing an embassy building in Moscow.

Starting on Aug. 1, Russia will also block access to a warehouse in Moscow and to a bucolic site along the Moscow River where staff members walk their dogs and hold barbecues.

In December, President Barack Obama expelled 35 Russian diplomats and seized two estates, one on Long Island, N.Y., and one on Chesapeake Bay in Maryland, in response to Russia's meddling in the United States presidential election.

Moscow did not respond at that time, with President Vladimir V. Putin signaling that he was hoping for better relations under the future President Trump. The chances of that happening have largely evaporated.

On Thursday, while expressing annoyance, Mr. Putin said at a news conference in Finland that he would wait to see the final law on the new American sanctions before deciding on a response. But the Senate vote tipped the balance, Mr. Peskov said.

The announcement from the Russian Foreign Ministry said that if the United States responded to the latest measure with any further expulsions, Russia would match them.

The White House has lobbied against the law containing the extra measures, calling it a curb on presidential power, because it would effectively force Mr. Trump to seek congressional approval before lifting any sanctions. The fact that it passed a Republican-controlled Congress underscores the unease in Mr. Trump's own party about his repeated praise of Mr. Putin and of Russia.

The new law would strengthen sanctions first directed against Russia in 2014 after the annexation of Crimea and the destabilizing of Ukraine. Those sanctions curbed American involvement in the oil industry and limited Russian access to Western **financial markets**. Russia responded with a broad ban on Western food imports.

The new legislation would expand some of the measures, particularly in the energy market. European countries have expressed concern about the law's potential impact on the energy market on the Continent, because it might affect the expansion of the Nord Stream pipeline that carries Russian natural gas to Germany under the Baltic Sea.

Follow Neil MacFarquhar on Twitter @NeilMacFarquhar.

* Lawmakers in Russia Call for Retaliation Against New U.S. Sanctions

* House Approves Sweeping Sanctions Package Against Russia

* For Trump and Putin, Sanctions Are a Setback Both Sought to Avoid

* Congress Reaches Deal on Russia Sanctions, Setting Up Tough Choice for Trump

* Key Senator Drops Objection, Clearing Way for Russia Sanctions

The United States Embassy in Moscow. The moves against American diplomatic activity in Russia had been threatened for weeks. | Alexander Nemenov/Agence France-Presse — Getty Images

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Telecoms: Market's Endangered Species --- With just four companies, index providers weigh eliminating category

By Akane Otani
782 words
28 July 2017
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B12
English

In 2000, the **S&P 500** telecom sector was stuffed with a dozen companies, including Nextel Communications and WorldCom Inc. Today, it is down to four.

This has created a strange dynamic for the group, which can swing wildly when the **stock price** of one or two of the companies changes.

That was on display this week, after Verizon Communications Inc. and AT&T Inc. reported quarterly earnings. The **S&P 500** telecom sector climbed 5.2% Thursday, led by a jump in Verizon, which rose $3.41, or 7.7%, to $47.81. On Wednesday, the group rose 3%, boosted by a rally in AT&T. It was the sector's biggest two-day move since 2008.

The question now awaiting investors is: Will the sector disappear entirely?

Telecom's influence on the broader **S&P 500** has waned over the years because of rampant consolidation, leaving it the next obvious choice for a makeover, investors and analysts say. Telecom, which is made up of Verizon, AT&T, CenturyLink Inc. and Level 3 Communications Inc., is the smallest of the **S&P 500**'s 11 sectors.

"Right now, when you look at what telecom is doing, it's usually just one of four stocks moving," said Art Hogan, chief market strategist at Wunderlich Securities. "It makes a great deal of sense to look at the sector."

A wave of possible changes to the **S&P 500**'s classifications could overhaul the group and reshuffle billions of dollars in index-tracking funds that stay aligned with the makeup of the **S&P 500**. S&P Dow Jones Indices and fellow index provider MSCI Inc. said this month that they are considering rolling out a new sector, the communication-services sector, that would fold telecom stocks in with select media, entertainment, consumer-internet and digital-services stocks.

Telecom was 2.1% of the **S&P 500**'s overall market capitalization as of the end of June, according to S&P Dow Jones Indices, down from 8.7% in 1990.

Over that time, giants like the former SBC Communications bought Ameritech Corp. and AT&T Corp. before rebranding itself as AT&T, while GTE Corp. merged with Bell Atlantic and renamed itself Verizon Communications. More recently, CenturyLink has been preparing to complete its purchase of Level 3 Communications, a move that would further reduce the number of stocks in the telecom sector.

Much of the deal activity in the telecom sector reflects the pressures the industry has faced.

The sector "is changing as landlines disappear, smartphones become more affordable and internet connections become increasingly important," S&P Dow Jones Indices and MSCI said in a statement explaining their rationale for the proposal. "Companies in the sector are adapting by diversifying into internet services, cable, media content and other areas by consolidating with other companies."

The flagging telecom sector could get a boost if the two index providers decide to move some internet-focused companies out of the existing consumer-discretionary and information-technology sectors.

Many such stocks have rallied this year as investors bet on fast-expanding firms. Shares of Facebook Inc. are up 48% this year, while eBay Inc. is up 22% and Google parent Alphabet Inc. has risen 20%. Meanwhile, the **S&P 500** telecom sector has shed 8.3%.

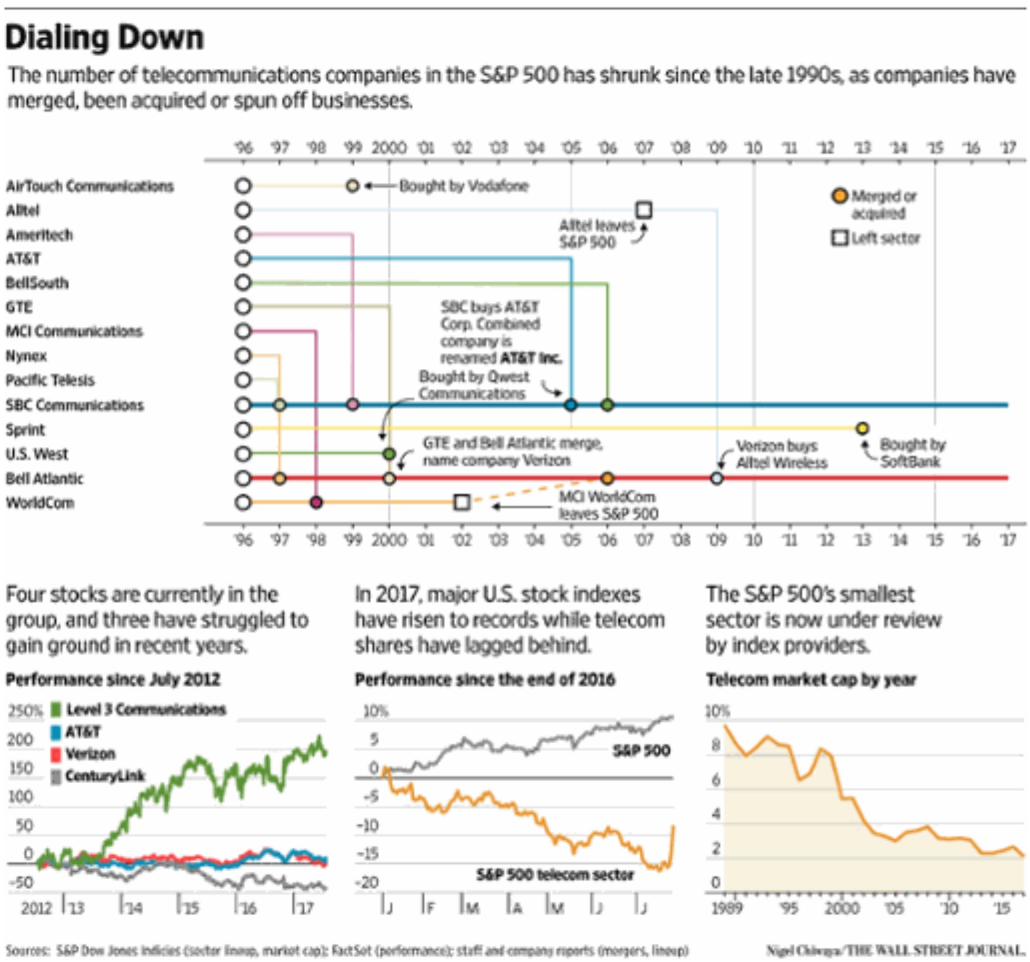
Investors, asset managers and analysts have said that the telecom sector is too narrowly defined and that it was due for a review, said David Blitzer, head of index policy and governance at S&P Dow Jones Indices. There doesn't appear to be any exchange-traded funds that exclusively track the telecom sector, Mr. Blitzer said.

Instead, funds like Vanguard Telecommunications Services ETF, iShares U.S. Telecommunications ETF and SPDR S&P Telecom ETF track a broader and larger group of stocks, including companies like U.S. Cellular Corp. and Boingo Wireless Inc. that don't belong to the telecom sector.

Still, there are no guarantees of what companies, if any, will be incorporated into a new communication-services sector.

S&P Dow Jones Indices and MSCI are still weighing whether companies that focus on search engines, social media and mobile messaging, as well as web hosting and web-design services, should be folded into the sector, they said.

The two index providers are soliciting feedback on the proposal from members of the investment community until Sept. 29. If they decide to move forward, they would announce the changes by November and roll them out sometime in 2018, S&P Dow Jones Indices and MSCI said.



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Heard on the Street
Bull Market's Growth Trouble

By Justin Lahart
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28 July 2017
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B1
English

[Financial Analysis and Commentary]

Stocks are hitting records and valuations are at 15-year highs, both signs of confidence. But a closer look at what is driving the rally shows that the eight-year **bull market** may be nearing its end.

The current earnings season makes it clear that investors are paying up for companies that are generating strong growth in earnings and revenues and ignoring or selling stocks where growth is anything less than stellar. In the past, that was a sign that the **stock market** rally, and the economic expansion, were in their final stages.

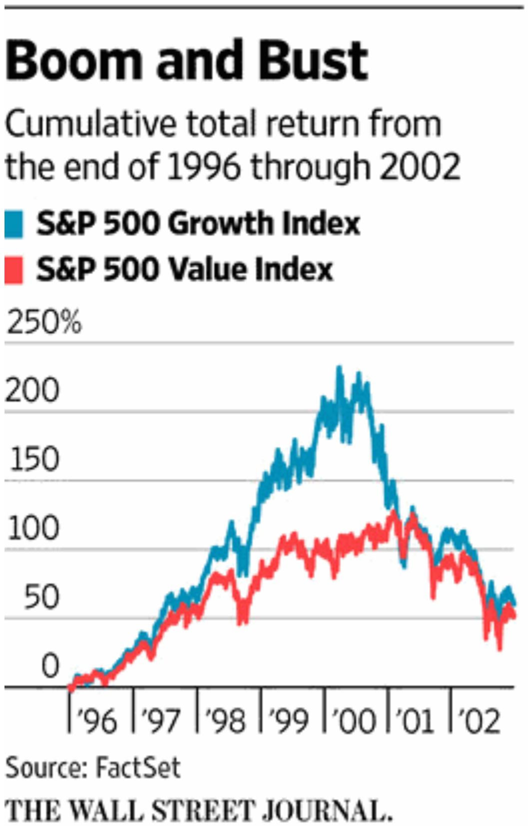
The quest for growth is epitomized by the stock gains in Amazon.com, Apple, Google parent Alphabet and Facebook. The **S&P 500** Growth index has returned 17.1% this year. In contrast, the **S&P 500** Value index, which includes stocks with lower P/E, price-to-sales and price-to-book ratios, has returned 6%. Nor is this just about investors' infatuation with the S&P's Gang of Four -- growth stocks' outperformance extends to the shares of midsize and small companies.

The narrow preference for growth may be a sign that we are in the late stages of the economic cycle, says Societe Generale quantitative strategist Andrew Lapthorne.

Late in economic expansions, earnings growth slows and profit margins narrow. That puts a premium on companies that are able to keep generating growth. Indeed, in the latter stages of both the **bull market** that ended in 2007 and the one that ended in 2000, growth stocks outperformed.

Investors have become ruthless with companies that aren't growing rapidly enough. On Thursday, Whirlpool fell 6.3% and F5 Networks fell 7.2% after their growth rates failed to satisfy investors.

Even if we are in the last stage of the economic cycle, it is impossible to know how long that stage will last. Growth stocks had only a brief period of outperformance in 2007 before the financial crisis. But rapidly growing companies led the market for three years during the tech bubble. The rally in growth stocks will probably end badly, but it also may only have just begun.



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Borrowing With Stock Soars as Market Rises

By Michael Wursthorn
1,005 words
28 July 2017
The Wall Street Journal
J
A1
English

Wall Street brokerages have been selling billions of dollars in loans backed by stocks and bonds, a trend that yields lucrative fees for the firms but poses risks for borrowers.

While banks don't always report these loans in the same way, these securities-backed loans total at least $100 billion for the biggest brokerages -- up exponentially since the financial crisis -- with several billions of dollars of additional debt held at smaller brokerages, banking analysts estimate.

Executives at Morgan Stanley earlier this month highlighted these loans to individuals as a big growth area and revenue driver, saying the loans helped expand the bank's overall wealth lending by about $3.5 billion, or 6%, in the second quarter. On Thursday, Goldman Sachs Group Inc. took a step toward expanding its securities-based lending business through a new partnership with Fidelity Investments.

The loans work a lot like margin loans. Brokerages lend against the value of an investor's portfolio. But unlike margin lending, customers don't use the debt to buy more securities. Brokerage executives say the loans can help clients avoid selling assets. The client can get cash without shifting their investments; they also avoid potentially locking in losses or incurring taxable gains, or missing out on future **stock market** gains. Clients are also able to borrow money at relatively low interest rates because the loans are secured.

"Securities based loans can be a valuable financial planning tool for appropriate clients," a Morgan Stanley spokesman said.

Critics worry that the surging market has made investors numb to the risks of borrowing against their investments -- a scenario that has played out before. In the run-up to the Great Depression, the dot.com bubble of 2000 and the financial crisis, investors binged on margin debt that proved perilous when stocks tumbled.

Investors using these loans now could face a similar fate if markets tank and the value of their collateral shrinks, prompting the bank to demand repayment. If the margin call isn't met, the securities backing the loans are sold and the borrower is responsible for any remaining balance.

For brokerages, these loans have become a reliable source of revenue in the years since the financial crisis, as firms have begun moving from a business model of charging commissions for trading to a system of fees based on assets under management. The loans themselves help brokers retain these assets because customers don't have to sell stocks and other securities when they need cash. These loans have also become a big factor in brokers' compensation.

Several Merrill Lynch brokers said they have asked longstanding clients to open a securities-backed line of credit to help them hit bonus hurdles, assuring that clients wouldn't need to use it or pay any fees for opening it. Merrill brokers receive continuing payments for getting clients to tap credit lines, and those loan balances contribute to year-end bonus calculations, people familiar with the matter said.

Brokerage executives have said the longer a client has one of these loans tied to their account, the more likely they are to use it.

"We were dramatically pushed to put these on all of our client accounts," said Steven Dudash, a former Merrill Lynch broker who has been managing his own investment-advisory firm since 2014. "Whenever you're product-pushing, it's not in the client's best interest."

Merrill representatives say its brokers offer these loans to clients in a responsible manner, including disclosing the risks and fees.

"If people need the money, they should sell securities," said Terrance Odean, a professor of finance at the Haas School of Business at the University of California, Berkeley. "It's very risky to take a leveraged position in the market."

Wells Fargo & Co. recently changed practices around how brokers pitch lending products. Starting this year, Wells Fargo stopped offering brokers bonuses tied to how many loans, they opened for clients, executives of the bank have said.

As of the end of 2016, clients of Bank of America Corp.'s wealth unit, which includes Merrill Lynch and private bank U.S. Trust, had some $40 billion in such loans outstanding, up 140% from 2010. Morgan Stanley's customers had $30 billion in these loans, more than double from 2013. UBS Group AG and Wells Fargo also have made billions of dollars in such loans, people familiar with those banks said.

Morgan Stanley's finance chief, Jonathan Pruzan, said while discussing earnings this month that the bank expects more clients to take out loans in the months ahead. "That's been a real key driver of our wealth business," he said.

The growth of securities-backed loans has drawn the attention of regulators, who have questioned the brokerages' marketing and sales efforts as well as the suitability of the loans.

Merrill opened more than 121,000 such loan accounts between 2010 and 2014 with more than $85 billion in total credit extended, according to a Financial Industry Regulatory Authority settlement order last year. In the matter, Finra alleged that Merrill didn't fully explain the risks of securities-backed loans and used risky or concentrated investments as collateral.

Merrill settled its case without admitting or denying the allegations. Merrill reported its securities-lending oversight lapses to Finra initially and cooperated with the regulator's inquiry, according to Merrill representatives. They said the firm has improved its procedures.

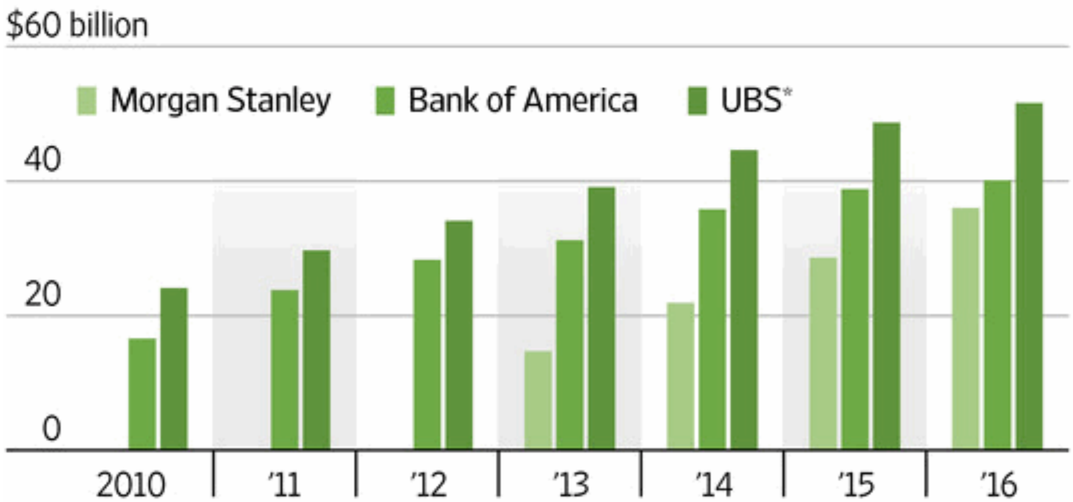
In another regulatory action, the Massachusetts securities watchdog last year accused Morgan Stanley of developing a sales program that encouraged brokers to pitch these loans regardless of whether clients needed them.

Morgan Stanley agreed to a $1 million settlement with the regulator in April without admitting or denying wrongdoing. A Morgan Stanley spokesman said Massachusetts found no evidence that any clients were harmed or that any of the loans were unsuitable or unauthorized. "We have taken steps to strengthen and clarify our policies and controls," he said.

Borrowed Time

Wall Street brokerages have made lending, including loans backed by investment portfolios, a priority in the years since the financial crisis.

Value of securities-backed loans



Note: Data are for Morgan Stanley Wealth Management (not publicly available from 2010-12), Bank of America's Global Wealth Unit (includes Merrill Lynch and private bank U.S. Trust) and UBS Wealth Management Americas. *UBS figures include other debt, including mortgages.
Source: companies' filings

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The New York Times

Business/Financial Desk; SECTB

Tech Sector's Slump Overshadows Telecom's Surge

By THE ASSOCIATED PRESS
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2
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Wall Street stock indexes pulled back from their record highs Thursday after an afternoon swoon for technology companies, which overshadowed another big day for telecoms.

The **Standard & Poor's 500**-**stockindex** fell 2.41 points, or 0.1 percent, from its record set a day earlier to close at 2,475.42. The **Nasdaq composite** likewise fell from a record, down 40.56, or 0.6 percent, to 6,382.19. The **Dow Jonesindustrial average** was an exception, and it rose 85.54, or 0.4 percent, to 21,796.55 to set another record high.

Stocks had been on track for another quiet day of gains in a year full of them, but Apple, Microsoft and other technology stocks suddenly changed direction in the afternoon. After being up as much as 0.6 percent in morning trading, tech stocks in the **S**.**&P**. **500** finished the day down 0.8 percent. It was the worst performance among the 11 sectors that make up the index.

Software company CA had the biggest loss in the **S**.**&P**. **500**, falling $3.55, or 10.2 percent, to $31.10. It began to plunge around noon, after reports that merger talks between it and BMC Software have ended.

Close to half of the companies in the **S**.**&P**. **500** have reported their earnings for the latest quarter, and the results have been mostly encouraging. Not only are profits growing, so are revenues for many companies.

Twitter dropped $2.77, or 14.1 percent, to $16.84. It reported better-than-expected quarterly results, but it also said that its monthly average user base did not grow from the prior quarter.

Health care stocks were also weak, and drugmaker AstraZeneca sank after it said its lung cancer drug Imfinzi did not reach its goals in a clinical trial. United States-listed shares of AstraZeneca lost $5.06, or 14.9 percent, to $28.88.

Industrial companies also struggled, and Johnson Controls tumbled $3.18, or 7.3 percent, to $40.14. It reported weaker-than-expected revenue for the latest quarter and trimmed the upper end of the range for its forecast for full-year earnings per share.

On the opposite side were telecom stocks, which rallied for a second straight day. Verizon Communications had its best day in more than eight years after it reported more revenue than analysts expected. Many more customers added wireless phones than Wall Street had forecast. Verizon jumped $3.41, or 7.7 percent, to $47.81.

Verizon's big day follows AT&T's, which had its biggest move since 2009 on Wednesday after it reported stronger-than-expected earnings. Over the last two days, AT&T has climbed 8.8 percent, and Verizon is up 8.7 percent.

Oil and gas prices rose, which helped energy stocks in the **S**.**&P**. **500** rise 1 percent. The price of oil has been on a strong run this week, hitting its highest level since May, and benchmark United States crude rose 29 cents to settle at $49.04 Thursday. Brent crude, the international standard, gained 52 cents to $51.49 a barrel.

Gold rose $11 to $1,260.00 per ounce, silver gained 11 cents to $16.57 an ounce and copper rose nearly a penny to $2.88 a pound.

The yield on the **10**-**year Treasury** rose to 2.32 percent from 2.29 percent late Wednesday.

The dollar dipped to 111.21 Japanese yen from 111.89 yen on Wednesday. The euro rose to $1.1721 from $1.1647, and the British pound rose to $1.3104 from $1.3029.

In overseas markets, the CAC 40 in France dipped 0.1 percent, the German DAX fell 0.8 percent and the FTSE 100 in London dropped 0.1 percent. The Japanese Nikkei 225 index up 0.1 percent. In Hong Kong, the Hang Seng climbed 0.7 percent, and the Kospi in South Korea added 0.4 percent.

CHARTS: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Thursday. (Source: Reuters); 7-Year Treasury Notes: High yield at auction. (Source: Treasury Department)

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THE WALL STREET JOURNAL.
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Global Sales, Weak Dollar Lift U.S. Corporate Profits

By Ben Eisen
1,177 words
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English

A pickup in global growth and a weakening dollar are boosting profits at many U.S. companies that do business overseas, helping support the yearslong rally in the **stock market** and pushing major indexes to records.

Shares of Expedia Inc. climbed nearly 2% in after-hours trading on Thursday after the online travel company reported profits and revenue that beat analyst expectations. The company said international bookings accounted for an increasing share of total bookings.

Expedia joined Dow Chemical Co. and Intel Corp. in reporting strong earnings Thursday, following Boeing Co. a day earlier. The **Dow Jones Industrial Average** rose 85.54 points Thursday, or 0.4%, to 21796.55, a fresh record, while the **S&P 500** fell 2.41 points, or 0.1%, to 2475.42.

The reports picked up on a theme recurring during the second-quarter earnings season: Companies are benefiting from increasing demand for goods and services by foreign buyers as well as expectations for faster global growth with continued low inflation.

The belief in corporate earnings has helped propel markets to fresh highs over the past year. Recent earnings periods have helped solidify that view.

Earnings from America's largest companies have in large part helped keep the market rally going in the face of political uncertainty at home and abroad.

Profits at companies in the **S&P 500** rose 14% in the first three months of the year, and second-quarter earnings are on pace to climb roughly 9% versus the year-earlier period, according to FactSet.

"When we look at the portfolio, those names with international exposure have done substantially better than those names that are domestic. And that's a pretty substantial reversal," said Jim Tierney, chief investment officer for concentrated U.S. growth equities at AllianceBernstein Holding LP.

Among his holdings: Priceline Group Inc., which does much of its business in Europe, and is up 38% this year. In comparison, another stock in his portfolio, Ulta Beauty Inc., is a U.S.-focused cosmetics and fragrance company whose stock is down 2.2% this year after a strong run in recent years.

The declining dollar is also helping to drive earnings higher. U.S. exports become cheaper to foreign buyers when the dollar's value falls.

The U.S. currency slid again Wednesday after the Federal Reserve left its benchmark interest rate unchanged. Many analysts don't expect the Fed to raise rates again until December, and a slowdown in inflation could keep the dollar under pressure.

On Thursday, the dollar gained, with the ICE Dollar Index, which measures the U.S. currency against six others, rising 0.3%.

With the Federal Reserve's commentary suggesting the central bank will keep rates low for now, investors say U.S. stocks should keep eking out gains, provided that corporate earnings continue to be supportive.

Coca-Cola Co. Chief Financial Officer Kathy Waller cited the "slightly better currency environment" as a reason the company was raising its earnings forecast for the full year, saying Wednesday that it expects adjusted earnings per share to be flat to down 2%, compared with guidance of a 1% to 3% decline from the prior year. Coca-Cola shares rose 38 cents, or 0.8%, to $46.12, on Thursday, extending gains from the previous day.

"Clearly a weaker dollar is helpful there," Fredrik Eliasson, sales and marketing chief at railroad company CSX Corp., said on an earnings call last week, referring to the company's coal-exports business. The company transports U.S. exporters' freight. "And I think as we look at some of the other markets, we will see some of those benefits. I don't think we've seen a lot of it yet, but anytime we have a little bit of weaker dollar, it does help them."

The ICE Dollar index is down roughly 8% this year, near its lowest level in 13 months. The euro, which is heavily weighted in the index, has been a standout performer, rising 11% against the dollar this year.

The dollar has tumbled in 2017 after a rally that followed the U.S. presidential election, when investors bet on faster growth and higher inflation under the Trump administration. Tepid data on inflation, auto and retail sales have pressured the U.S. currency recently, and investors and analysts have tempered expectations for President Donald Trump's policy agenda.

The Fed has penciled in one more rate increase this year, but some investors believe that plan will be thwarted by persistently weak inflation, which has continued to undershoot the central bank's annual target of 2%. The fed-funds futures market, where traders bet on the future rate path, suggests a roughly 43% probability of at least one more increase before the end of the year, according to data from CME Group Inc.

A weaker dollar, if it lasts, could further fuel earnings gains in coming quarters. If the ICE Dollar Index ends 2017 about where it is now, the drop for the year would lift per-share earnings in the **S&P 500** by roughly 4% in 2018, according to Morgan Stanley, which estimates that profits increase 1% for every 2% fall in the dollar.

Some observers say the dollar is poised to fall further, particularly if Mr. Trump, facing resistance to his economic agenda, attempts to use the currency as a tool to help the economy expand faster. He could do so by, "jawboning the dollar further down and instituting policies that are more dollar depreciative in nature," said Adrian Helfert, head of global fixed income at Amundi Smith Breeden.

Mr. Trump praised Fed Chairwoman Janet Yellen for keeping the dollar "not too strong," in an interview with The Wall Street Journal on Tuesday.

There are risks for companies banking on a lift from currency movements. If the Trump administration chooses to pursue protectionist trade policies that provoke tit-for-tat tariffs, it could undermine the advantages of a weaker dollar by adding other costs for exporters. Mr. Trump is considering whether to take steps to protect U.S. steel producers from imports, telling the Journal Tuesday that he would take his time to make a decision.

Many firms hedge their currency exposure to reduce its impact on earnings. Toy company Hasbro Inc., for example, hedges nearly three-quarters of its costs, Chief Financial Officer Deborah Thomas said on an earnings call Monday.

"To the extent we haven't hedged, we should get some benefit from it. But on a full-year basis, again, we really hedge to protect the pricing that we offered to our retailers," she said.

Some said a stronger global economy was helping results. M. Keith Waddell, chief financial officer at staffing agency Robert Half International Inc., cited a strong operating environment outside the U.S., particularly in Europe, on an earnings call Tuesday. The stronger euro, he said, was simply "even more icing."

Amrith Ramkumar contributed to this article.

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REVIEW & OUTLOOK (Editorial)
Tax Reform Principles

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The 'Big Six" GOP tax negotiators released a statement of principles Thursday, and the main news is the death of the House border-adjustment tax. A favorite idea of Speaker Paul Ryan, the BAT was savaged by retailers who feared they'd pay more for imports. The problem is that the BAT would have raised as much as $1 trillion to pay for lower tax rates, so its defeat raises a new obstacle to reform.

This shows that tax reform may be even harder to pull off than repealing ObamaCare given how politicians have laced the tax code with subsidies and carve-outs. Interests clawing to keep their favors usually defeat the public interest in lower rates. But the potential payoff in faster growth and rising incomes is still worth the political effort, so give Congress and President Trump credit for setting the goal of a signing ceremony this year.

As the debate begins, this is a good moment to offer some principles to judge how reform is faring:

-- The growth priority. After 12 years of a lackluster economy, or worse, tax reform's overriding goal should be to lift annual GDP to 3% or more. The current expansion is into its ninth year and showing signs of age. Europe has grown faster than the U.S. for some time. The Trump bump in **financial markets** hasn't been matched in the real economy.

Amid a labor shortage and sluggish incomes, a capital spending surge is crucial to give the expansion a second wind. This is where tax reform must focus. This means lowering tax rates on business and individuals to spur risk-taking and investment.

In particular it means cutting the U.S. corporate tax rate low enough to compete with the rest of the world and return $2 trillion in capital that U.S. companies have stashed overseas. A corporate rate much higher than 20% won't do the job. The evidence of economic research is overwhelming that cuts in corporate tax rates flow to workers in higher wages.

The political opposition will come from Democrats and many Republicans who view tax reform mainly as a populist lever to redistribute income. They include White House aide Steve Bannon, who wants to raise tax rates on the affluent, and conservatives like Mike Lee on Capitol Hill who think taxes should serve social policy. The risk is that they will steal money for tax credits that do nothing for growth and could be used to reduce rates.

-- Make cuts immediate. One temptation in every reform debate is to phase-in tax cuts to fit inside Congress's 10-year budget-deficit box. That is a growth killer as investors delay decisions to wait for lower rates. George W. Bush made that mistake with his 2001 tax cut, which was a growth bust. He corrected it by making his 2003 cuts immediate, and the faster growth that followed saved his re-election.

-- Permanence. Businesses invest with a long tail, and they will scuttle some projects if they think lower rates go poof after five or 10 years. Mr. Bush made this mistake in 2003 and Barack Obama took advantage in 2013.

Thursday's joint GOP statement says the goal "places a priority on permanence," which is progress. Some provisions, such as business expensing, could end after five years without doing too much harm. But tax rates should be fixed in law so future Congresses will have a harder time changing them.

-- Reform, not merely a tax cut. One reason tax reform spurs growth is by reducing subsidies so capital can flow where it gets the highest return. This efficiency increases productivity, which increases wages. But this means stripping out as much chaff as possible in the tax code like subsidies for electric cars, real estate or racetracks.

Ending these subsidies also helps pay for lower rates. But the GOP has already agreed not to change the mortgage-interest or charitable deductions, and now the trillion-dollar BAT is dead. Reformers will have to fight that much harder to end the big-dollar deductions for state and local taxes and for interest on business borrowing.

If that becomes too difficult, the temptation will be to abandon reform and default to the lowest-common political denominator of a simple tax cut. This would be better than nothing, but it won't boost capital investment or the economy nearly as much in the medium- or long-run.

-- The deficit-neutral trap. The budget outline now moving through the House promises a balanced budget in 10 years including tax reform. That may be necessary to pass the outline but it could be the death of tax reform if it locks the GOP into the fiscal prison of budget "scores" by the Congressional Budget Office and Joint Tax Committee.

Speaker Ryan has worked for years to get those bureaucracies to better account for rising tax revenues that flow from faster growth, but they still use models that underestimate the growth impact of tax cuts on capital and marginal rates.

Republicans need to find an exit from the deficit-neutral trap. Perhaps that means taking a revenue score from Treasury's Office of Tax Analysis, rather than Joint Tax. Balanced-budget fetishists might keep in mind that Ronald Reagan's 1981 tax cuts would never have happened had Congress not tolerated deficits. Faster growth caused revenues to boom and the deficit eventually fell.

With ObamaCare repeal foundering, Republicans can't afford another "skinny" reform that fails to deliver on Mr. Trump's promise to raise growth and wages. Tax reform will determine whether this Congress was worth electing.

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The New York Times

Business/Financial Desk; SECTB
Markets Eke Out Gains Off Strong Earnings Reports

By THE ASSOCIATED PRESS
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Stock indexes inched further into uncharted territory on Wednesday after AT&T, Boeing and others joined the parade of big companies reporting stronger profits than analysts expected. Stocks that pay big dividends were particularly strong after the Federal Reserve took a pause in its slow-moving campaign to lift interest rates, causing Treasury yields to sink lower.

The **Standard & Poor's 500-stockindex** edged up by 0.70 points, or less than 0.1 percent, to 2,477.83 and added a whisper to its record high set a day earlier.

The **Dow Jonesindustrial average** gained 97.58 points, or 0.5 percent, to 21,711.01, and the **Nasdaq composite** rose 10.57 points, or 0.2 percent, to 6,422.75. Both are at record highs.

While announcing its decision to hold short-term rates steady, the Federal Reserve said that it may begin paring the $4.5 trillion balance sheet it built up after the financial crisis ''relatively soon,'' which some analysts took to mean as September. The Fed also said that inflation is expected to remain below its target of 2 percent in the short term.

After the Fed's announcement, drops for Treasury yields accelerated, and the 10-year yield fell to 2.29 percent from 2.33 percent late Tuesday.

The best-performing area of the market was the telecommunications sector, which jumped after AT&T reported stronger second-quarter earnings than Wall Street had forecast. Its stock rose $1.81, or 5 percent, to $38.03.

Boeing was the top-performing stock, and it had its best day in more than eight years after it raised its forecast for earnings this year and reported better-than-expected earnings for the second quarter. It jumped $20.99, or 9.9 percent, to $233.45.

''We've seen some pretty strong results from important companies,'' said John Wilson, senior equity portfolio manager at Columbia Threadneedle. ''They're delivering very strong revenue and profit growth. That's encouraging, especially given the fact that markets have had a pretty good move.''

The **S.&P. 500** is already up nearly 11 percent for the year on the expectation that corporate profits will continue to rise, and the stronger profits help to validate the big gains.

Akamai Technologies fell to the sharpest loss in the **S.&P. 500** despite reporting better-than-expected second-quarter results. It gave a forecast for third-quarter revenue and other measures that were lower than analysts were expecting, and its stock dropped $7.79, or 14.6 percent, to $45.49.

For the first time in seven weeks, benchmark United States crude topped $48 a barrel. It climbed 86 cents, or 1.8 percent, to $48.75 a barrel. Gold fell $2.70 to $1,249.40 an ounce.

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

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Heard on the Street
Investors May Feel Left Out of Fed Plans

By Justin Lahart
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27 July 2017
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[Financial Analysis and Commentary]

Can the Federal Reserve take away the punch bowl from the **stock market** without taking it away from the economy?

The Fed left rates steady at the conclusion of its two-day policy meeting Wednesday and, given worries about low inflation, investors are doubtful another rate increase is coming this year. But the central bank doesn't seem to have any qualms about starting to run down the stock of Treasury and mortgage securities it accumulated in the wake of the financial crisis. It said it plans to do that "relatively soon" -- a signal that it could start shrinking its portfolio after its September meeting.

It seems the Fed is making its rate decisions contingent on what inflation does, but that it is happy to go forward with its plan as long as the job market continues to do well, says J.P. Morgan Chase economist Michael Feroli. It is a mystery why.

One possibility is that it wants to get the balance-sheet process under way before Chairwoman Janet Yellen's term ends in January, helping to make any successor's move into the job smoother. But the Fed also may be mindful of differences in how rate increases and portfolio reductions might affect the economy.

When the Fed raises rates, it increases banks' borrowing costs and can make them less willing to extend credit. But when it starts reducing its balance sheet, it will increase the supply of Treasury and mortgage securities on the market, placing upward pressure on their yields. That will make them more attractive relative to stocks and bonds and could reverse an easing in market conditions that has come despite the Fed's rate increases. This has the Fed worried. Indeed, minutes of its June meeting showed that some policy makers were concerned that investor complacency amid high valuations "could lead to a buildup of risks to financial stability."

For investors, whether **financial markets** are an element in the Fed's thinking is beside the point: For whatever reason, it isn't letting low inflation get in the way of its balance-sheet plan. That could make markets challenging.

The New York Times

Business Day; Economy

Fed, Leaving Rates Unchanged, Expects to Wind Down Stimulus ‘Relatively Soon’

By BINYAMIN APPELBAUM
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WASHINGTON — The Federal Reserve moved into the ready position Wednesday for the next phase of its retreat from its post-crisis economic stimulus campaign. In a statement after a two-day meeting of its policy-making committee, the Fed said it would start reducing its bond holdings “relatively soon” so long as moderate economic growth continues.

The Action

• The Fed, as expected, left its benchmark interest rate in a range between 1 percent and 1.25 percent.

• The reduction of the Fed’s bond holdings is likely to begin in September.

• The Fed noted the weakness of inflation, but said it expected a rebound.

The Takeaway

The Fed remains officially sanguine about lower than expected inflation. The stance is likely to reinforce market expectations that the Fed will take action to increase borrowing costs at its next meeting, in September. Rather than raising its benchmark rate, the Fed is expected to announce it will begin to reduce its bond holdings.

The Fed accumulated more than $4 trillion in Treasury securities and mortgage-backed securities as part of its campaign to reduce borrowing costs for businesses and consumers. Under its exit plan, which it described in June, it would gradually reduce those holdings — initially at the slow pace of $10 billion a month.

The Fed has held borrowing costs at low levels since the financial crisis to increase economic activity by encouraging borrowing and risk-taking. The agency is now trying to raise costs to reduce those incentives.

By the end of the year, the Fed projects that interest rates could return to a level that would neither encourage nor discourage economic activity.

So far, however, markets have largely shaken off the Fed’s retreat. Borrowing costs remain low and loan terms have shown little sign of tightening. Some measures show financial conditions have eased since the Fed began its retreat.

The Background

At its last meeting, in June, the Fed raised its benchmark interest rate for the third consecutive quarter, to a range of 1 percent to 1.25 percent. The agency also described its plans for reducing its bond holdings, a process that analysts expect to begin at the Fed’s next meeting.

Those steps reflected the Fed’s confidence in the health of the economy.

Since then, however, some Fed officials have expressed concern about continued weakness in inflation. The agency’s preferred measure declined in the last three monthly reports, to 1.4 percent in May from an annualized pace of 2.1 percent in February.

The Fed aims to keep inflation at a 2 percent annual rate. While high and rising inflation is economically disruptive, lower inflation can cause problems, too.

Neel Kashkari, president of the Federal Reserve Bank of Minneapolis, has been the most vocal among Fed officials in warning that the agency may be raising interest rates too quickly. He voted against the quarter-point rate increases in March and in June. Several other members of the Fed's policy-making committee have expressed concern about weak inflation in recent weeks.

Janet L. Yellen, the Fed's chairwoman, has acknowledged the recent weakness, but she has said that she expects inflation to rebound. Job growth remains strong, with most Fed officials seeing a tight labor market that is likely to result in higher prices.

The Fed has predicted one more rate increase this year, but analysts do not expect a decision earlier than December, so the Fed has time to consider the incoming data.

The Reaction

Some investors saw evidence in the Fed's statement that the central bank is a little less likely to raise rates in December. The dollar weakened against foreign currencies, continuing a recent trend. The dollar's exchange value reflects market perceptions of the relative strength of the American economy compared to the rest of the world.

Stock indexes rose after the 2 p.m. announcement, as equity investors like low rates. The **S**.**&P**. **500 index** ended the day up very slightly at 2,477.83. The yield on the benchmark **10**-**year Treasury** fell slightly because bond investors like high rates.

Analysts saw little evidence of a shift in the Fed's monetary policy plans.

"We think the Fed has laid out its policy plans quite clearly and it is unlikely to deviate from them unless there is a very dramatic change to inflation and employment trends," said Rick Rieder, BlackRock's chief investment officer of global fixed income.

Michael Feroli, chief United States economist at JPMorgan Chase, said investors were overanalyzing minor changes in the Fed's wording. "We don't sense a significant loss of confidence from the FOMC that inflation will return to target over time," he said, referring to the Federal Open Market Committee, the Fed's policy panel.

Follow Binyamin Appelbaum on Twitter @bcappelbaum.

* U.S. Inflation Remains Low, and That's a Problem

* Maybe We've Been Thinking About the Productivity Slump All Wrong

* Yellen Treads Carefully on Regulatory Issues in Senate Panel Appearance

* Yellen Says Economy Is Robust, but Adds That Fed Will Stay Flexible

Janet L. Yellen, the Fed's chairwoman, has acknowledged recent weakness in inflation, but has said that she expects it to rebound. | Eric Thayer for The New York Times

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Banking & Finance: Business Depositors Press Banks on Returns

By Telis Demos and Christina Rexrode
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26 July 2017
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B12
English

Consumers are giving banks a pass when it comes to shopping for higher interest rates on deposit accounts. Businesses, on the other hand, are becoming more demanding.

With short-term interest rates on the rise, corporate depositors are seeking bigger payouts for their deposits, and big banks have started capitulating.

The reason: Small rate increases are often worth just pennies to many consumers, but they can translate into meaningful dollars on large corporate deposits of millions or even billions of dollars.

Companies have greater leverage with banks since in many cases they also bring in lucrative investment banking and trading business.

"The jig is up," said James Gilligan, assistant treasurer at Kansas City, Mo.-based power company Great Plains Energy Inc. He said many companies, including his, have negotiated better deposit pricing with banks where they also borrow. Treasurers who have the flexibility to move their money are also seeking higher rates.

The pressure from corporate depositors is pushing up banks' costs just as they are beginning to benefit from lending money in the U.S. at higher rates. The Federal Reserve has increased short-term rates twice this year and may do so again.

While bank stocks shot up after last year's presidential election, their shares have been losing ground more recently. Though second-quarter earnings reports were stronger than expected, investors were still spooked by banks' cautious outlooks for future interest income. The KBW **Nasdaq** Bank Index is roughly flat, down 0.2% since banks began reportingearlier this month, while the **S&P 500 index** is up 1.2%

Across the largest U.S. banks, the average interest paid jumped by about a third in the second quarter to 0.34% from 0.26% a year ago, according to Autonomous Research-- the highest levelin four years. Bankers said business depositors are behind the rise.

While demand for higher rates has been "effectively at zero" from individual consumers, banks are grappling with "hot money from corporates" that are more likely to decamp for higher rates elsewhere, William Demchak, chief executive of Pittsburgh-based PNC Financial Services Group Inc., told analysts earlier this month.

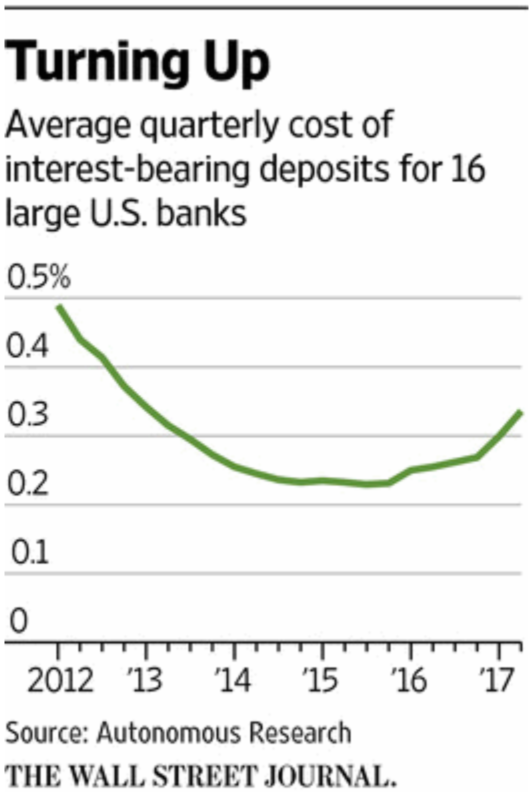
Companies' success in getting higher rates is based largely on the size of their cash hoard and the amount of other business they do with a bank. The higher the cash balances and fees a company pays, the more likely it is to get an increase, either from its current bank or from a new one.

"The way we approach pricing these days is, we defend our turf," said Tayfun Tuzun, chief financial officer at Cincinnati-based Fifth Third Bancorp. Mr. Tuzun said U.S. banks are also being pressured by competition from overseas banks that want to build their deposits.

Some are willing to pay 1.25% or 1.3%, he said, while a typical corporate deposit rate for a large account in the U.S. is about 0.9% to 1%.

By contrast, the average retail savings rate was 0.18% at large banks in the second quarter, according to analysts at Jefferies Group LLC.

Banks use deposits from both retail and corporate customers to fund loans. They aim to pay depositors a rate that is lower than the one they collect on loans. As the gap between the rates increases, banks' profits grow.



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'Fear Gauge' Hits a Record Low

By Gunjan Banerji and Amrith Ramkumar
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English

A key measure of market **volatility** set a new floor Tuesday, falling to its lowest level ever in intraday trading.

The CBOE**Volatility** Index, known as Wall Street's "fear gauge," declined to 9.04 at one point in the day, marking a new intraday low for the index, which was launched in 1993. The CBOE index, called VIX, didn't set a record closing low, settling at 9.43 at the end of the day. The all-time closing low of 9.31 was set on Dec. 22, 1993.

The VIX uses **S&P 500** options prices to project expected **stock-market** swings over the next 30 days. It tends to rise when stocks are falling and vice versa.

Markets have been calm this year, and some investors and analysts have said that a resurgence in **volatility** could be on the horizon. The VIX's lows have induced investors to fret about the lack of fear, even spurring some to bet on a reversal.

"I remember a lot of people feeling this way in early 2007," said Amy Wu Silverman, an equity derivatives strategist at RBC Capital Markets, in an email, adding that at the time people were aware about risks lurking in subprime mortgages and real-estate investments. "It was more about how long it could carry on, and investors not wanting to miss the party."

On Tuesday, equities rose around the world following a positive reading of business sentiment in Europe and corporate earnings results from companies including Caterpillar Inc. and McDonald's Corp.

With a close under 10 on Tuesday, the VIX closed in single digits for nine consecutive sessions -- by far its longest streak ever. The previous record of four was set in December 1993, and the VIX closed under 10 just four times from 1995 to 2016.

In May, two professors asserted that the VIX could be manipulated. CBOE Holdings, which administers the index, disagreed.

Wall Street heavyweights have expressed differing views on what is behind the muted **volatility**. Marko Kolanovic at J.P. Morgan Chase & Co. has said a slew of technical factors have pushed **volatility** lower.

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Caterpillar Boosts Outlook On Signs of Global Upturn

By Andrew Tangel and Josh Zumbrun
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26 July 2017
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A1
English

Caterpillar Inc. signaled cautious optimism about global growth, offering fresh evidence that many markets are in rebound mode after a yearslong slump.

The world's largest heavy-machinery maker, an economic bellwether, in its second-quarter earnings report Tuesday highlighted growing demand in China's construction sector and a revitalization of the mining industry. The company boosted its earnings outlook for the year, despite sluggish infrastructure spending in the U.S. and weakness in Brazil and the Middle East.

The Peoria, Ill., maker of bulldozers and mining trucks said it expects revenue of $42 billion to $44 billion for 2017, up from a previous forecast of as much as $41 billion.

If that prediction is borne out, it would be Caterpillar's first year-over-year revenue increase since 2012.

The upbeat earnings report was one of many that helped push the **Dow Jones Industrial Average** up 100.26 points, or 0.5%, to 21613.43. The **S&P 500** and **Nasdaq Composite** both closed at new records.

DuPont Co. and United States Steel Corp. also topped expectations, due to improved demand for products ranging from soybean seeds to flat-rolled steel.

"This is the first time since the Great Recession ended that we're seeing a synchronized global recovery and that's what the markets are keying on right now," said Scott Anderson, chief economist at Bank of the West. "In past years, whenever the U.S. was doing well, Europe wasn't and vice versa. Now everyone seems to be more on the same page."

A stabilization of commodity prices has put major developing economies like China, Brazil, Russia and Nigeria on stronger footing after they were hit by a commodity-price plunge in 2014.

An International Monetary Fund index of global commodity prices has risen nearly 27% since hitting a 12-year low in 2016. The World Bank projected last month that, by next year, global economic growth would reach a seven-year high.

And stability in global manufacturing has been widespread. None of the top-15 trading partners for the U.S. were contracting in June, said Chad Moutray, chief economist for the National Association of Manufacturers.

Industrial output in the U.S. has risen steadily, climbing for the past five months, thanks to renewed oil and gas production to feed global demand.

The Federal Reserve's measure of industrial production in June was the strongest since February 2015. That has helped the U.S. economy add 581,000 jobs in the second quarter despite a slowdown in consumer spending and job losses in the retail sector.

Caterpillar's U.S. payroll grew to 48,500 employees by the end of June, an increase of 2,000 over the previous three months, and the company is hiring at factories in Illinois, Indiana and Arkansas.

But there are doubts the recovery will be sustained. Caterpillar executives noted that revenue increases in some sectors, particularly mining, followed years of steep declines and that sales were still off their highs from recent years.

The company said it is expecting strengthening demand for excavators in China in response to government spending on public-works projects, a pickup in the North American natural-gas industry and increasing sales of replacement parts for mining equipment as fewer trucks remain idle.

Geopolitical uncertainty and commodity-price **volatility** still pose risks to Caterpillar's rosy outlook. Executives declined to speculate how the company might fare next year and beyond.

Caterpillar's second-quarter revenue jumped 10% from the year-earlier period to $11.3 billion, and profit of $802 million beat Wall Street's expectations.

Shares rose $6.36, or 5.9%, to $114.54, contributing about 44 points to the **DJIA**'s gain.

Solid earnings have supported major stock indexes this year, helping them climb to records. Companies in the **S&P 500** are poised to report earnings growth of 7.8% in the second quarter from the year-earlier period, according to FactSet, building on gains from the first quarter, when firms posted their strongest results since 2011.

A weakening dollar could further boost profits at multinational corporations and, in turn, lift the **stock market** through the second half.

Sales of construction equipment in North America, Caterpillar's largest market, rose 3% in the second quarter. But U.S. government spending on roads, bridges and other infrastructure has been lackluster, executives said.

"The United States is in need of infrastructure investment," Caterpillar Chief Financial Officer Brad Halverson said.

While Caterpillar's revenue from construction equipment rose 11% overall in the quarter, sales decreased 5% in the region including Europe, the Middle East and Africa. Latin American sales rose 31% as several economies there showed signs of improvement, but Brazil remains a weak spot, executives said.

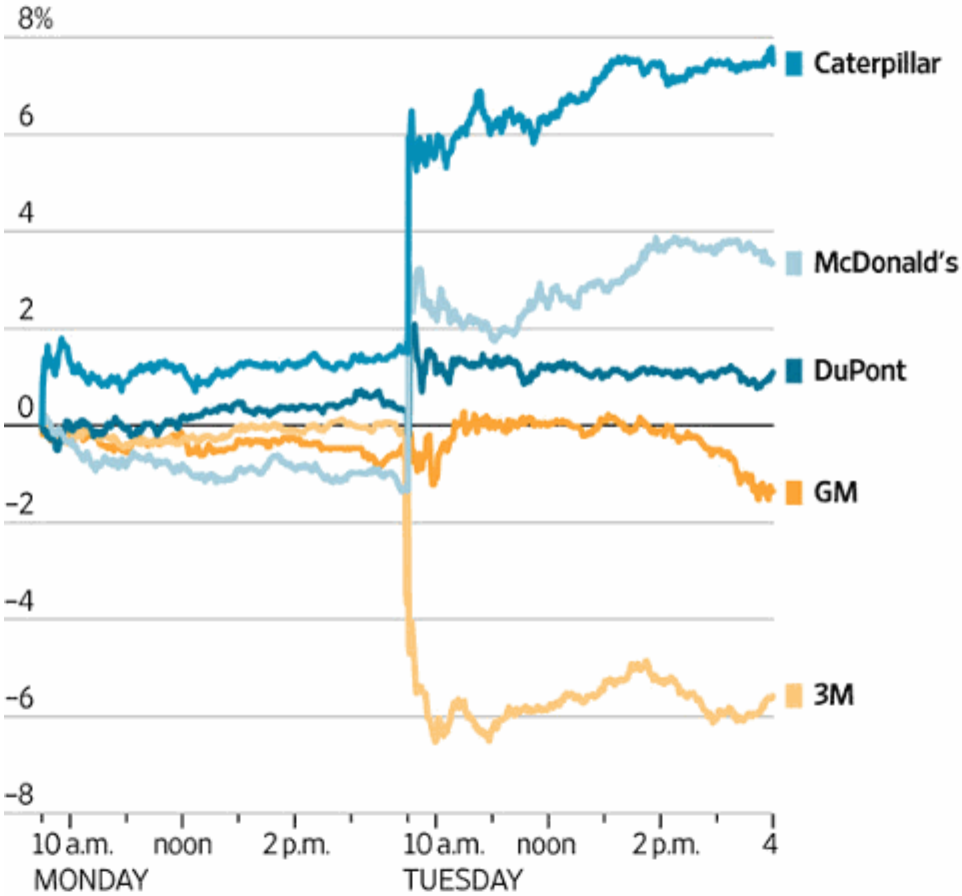
Signs of turnaround in Caterpillar's retail segment emerged in the first quarter. That trend continued as retail sales of Caterpillar machinery increased 7% world-wide during the three months ended June 30.

Caterpillar reported quarterly earnings per share of $1.35. Analysts polled by Thomson Reuters had expected $1.26 in adjusted earnings per share.

Akane Otani and Austen Hufford contributed to this article.

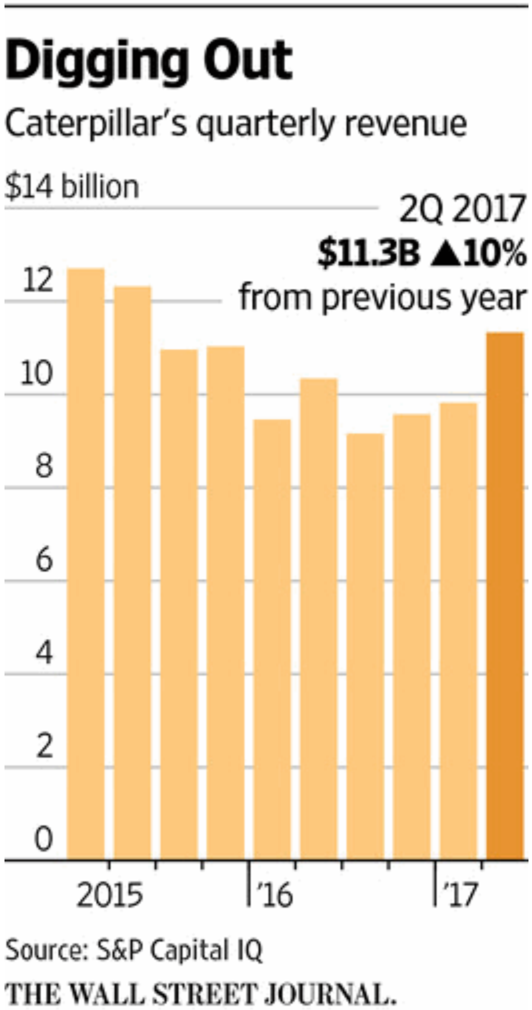
Day of Divergence

Share performance of companies that reported earnings Tuesday



Source: WSJ Market Data Group

THE WALL STREET JOURNAL.



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Document J000000020170726ed7q0002b

THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Consumers Exhibit Increased Confidence

By Sarah Chaney
386 words
26 July 2017
The Wall Street Journal
J
A2
English

A measure of consumer confidence rose sharply in July as Americans expressed confidence in current and future economic conditions.

The Conference Board on Tuesday said its index of consumer confidence rose to 121.1 in July from a revised 117.3 in June, marking the second-highest reading since 2000. The index in March hit 124.9, its highest level since December 2000, but had slid in recent months.

July's increase "was driven by another rise in the current conditions subindex to a fresh 16-year high, reflecting falling gasoline prices, the strength of the job market and recent record highs in the **stock market**," said Michael Pearce of Capital Economics in a note to clients.

An index tracking household attitudes about the present economic situation rose in July from a month earlier, while the index tracking expectations about the future also increased.

After a surge in sentiment readings in the wake of the election of President Donald Trump, measures of sentiment have moderated in recent months. The University of Michigan said the preliminary reading of its consumer-sentiment index was 93.1 in July, down from a June reading of 95.1 and a May reading of 97.1.

Economists follow these surveys because of the expectation that an increase in optimism should translate into increased consumer spending. But recent economic data show consumers pulled back spending, and inflation on consumer purchases softened.

Still, consumer confidence was buoyed by an improving labor market. Those saying jobs were "plentiful" rose to 34.1% in July, compared with 32% in June. Business conditions were described as "good" in July by 33.3%, up from 30.6% a month earlier.

"Overall, consumers foresee the current economic expansion continuing well into the second half of this year," said Lynn Franco, the Conference Board's director of economic indicators.

Federal Reserve Chairwoman Janet Yellen said in her congressional testimony this month that she has "a reasonable level of confidence that the expansion can continue" and that, with respect to consumer debt, "households are generally in a stronger position."

"Overall, I wouldn't point to household debt as something that is, you know, flashing red on a stability concern," Ms. Yellen said.

Document J000000020170726ed7q0000a

THE WALL STREET JOURNAL.
U.S. EDITION

Investor Shows No Fear, Bets Big on VIX

By Gunjan Banerji
583 words
25 July 2017
The Wall Street Journal
J
B1
English

One investor has bet on a powerful resurgence in market turbulence -- a wager that could net a profit of about $265 million if Wall Street's fear gauge more than doubles in the next three months.

An unknown investor made a massive trade via the options market Friday, as the CBOE**Volatility** Index, the fear gauge that tracks investor expectations for equity **volatility**, fell to its lowest since December 1993.

About one million options contracts changed hands on a bet that the CBOE**volatility** gauge, called VIX, will rise to 25 by October. That's a level the VIX hasn't reached since June 2016, when the U.K. surprised global markets by voting to exit from the European Union. The VIX finished at 9.43 on Monday.

If he or she is correct, the investor could see a payout of about $265 million, according to Stefan Wintner, vice president who covers **volatility** strategies at the commodity-trading adviser Dunn Capital Management, which is based in Stuart, Fla.

In the three-legged trade, the investor bought about 260,000 calls, or **bullish** options, that expire in October with a strike price of 15, according to Trade Alert. The strike is the level at which the contracts can be exercised.

The investor also sold roughly the same number of October puts, or **bearish** contracts, with a strike of 12. On top of those two trades, the investor sold more than 500,000 calls expiring in October with a strike of 25.

He or she collected about $5 million on the contracts that were sold, according to a Trade Alert note. The calls with a strike price of 15 were bought at $1.45 each. The investor collected premiums on the puts and calls that were sold for 75 cents and 45 cents, respectively.

Should the prolonged calm that has dominated markets continue -- and the VIX stay at its recent lows -- the investor could get burned and lose about $60 million, according to Mr. Wintner, since he or she is essentially short the puts that were sold. The investor could also lose money if the VIX climbs far above 25, he said, because of the 500,000 calls that were sold.

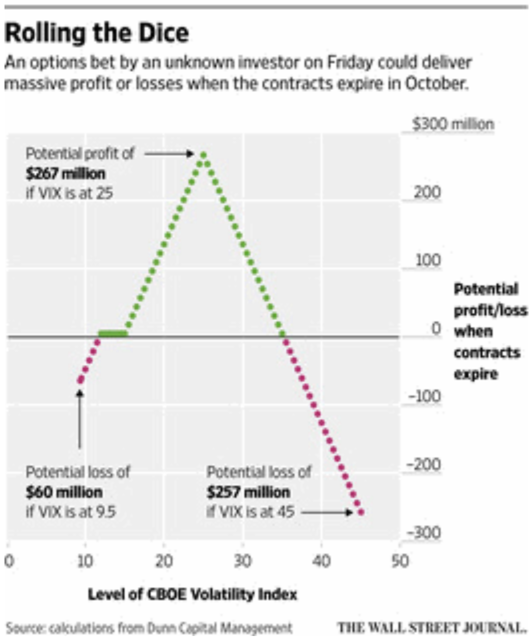
"I've never seen anything bigger," said Mark Caffray, a managing director at PTR Inc., a floor broker at the Chicago Board Options Exchange specializing in the VIX and **S&P 500**. "It's pretty aggressive, and very **bullish** on VIX."

He added that the bet was particularly remarkable given where the VIX has been trading. The index has been below 10 for its longest stretch ever.

The VIX is a measure of expectations for market swings over the next 30 days and is based on options prices on the **S&P 500 index**. It tends to rise along with investor anxiety, as stocks fall.

October has historically been a more turbulent month for the **stock market**. The investor may expect **volatility** to pick up after the summer, an outlook shared by others in the market, according to Pravit Chintawongvanich, head of derivatives strategy at Macro Risk Advisors.

In the last year, the trader dubbed "50 Cent" by market watchers has been periodically scooping up **bullish** options on the VIX, paying a price of about 50 cents for each contract. It doesn't appear that trader is at work in this instance, said Mr. Chintawongvanich.



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The New York Times

Business/Financial Desk; SECTB

Technology Shares Rise Ahead of Earnings Reports

By THE ASSOCIATED PRESS
681 words
25 July 2017
The New York Times
NYTF
Late Edition - Final
2
English

Stocks mostly fell on Monday, and market indexes inched backward at the start of a busy week of corporate earnings reports and a meeting of the Federal Reserve. Technology stocks, though, added to their big gains for the year and helped push the **Nasdaq composite** to another record.

The **Standard & Poor's 500**-**stockindex** lost 2.63 points, or 0.1 percent, to 2,469.91 after nine of the 11 sectors that make up the index recorded losses. It is the first three-day losing streak for the index in a month, but it is still within a fraction of a percent of its record.

The **Dow Jonesindustrial average** fell 66.90 points, or 0.3 percent, to 21,513.17. The **Nasdaq composite** rose 23.05 points, or 0.4 percent, to 6,410.81.

The **Nasdaq** is up 19.1 percent this year, nearly double the rise of broader market indexes, as investors have turned to technology stocks in their search for strong growth as the global economy remains sluggish.

Amazon and several other big technology companies are set to release their second-quarter results this week, when more than a third of **S**.**&P**. **500** companies are expected to report.

Expectations are high: Analysts forecast that tech stocks in the **S**.**&P**. **500** will report 16 percent growth in earnings per share, according to S.&P. Global Market Intelligence. That is up from a forecast of 10.9 percent growth a month ago. Companies will need to follow through on those expectations to justify the big moves their stock prices have already made.

''The group did have a strong start to the year, and there are some questions about how long tech can continue to rally,'' said Ann Miletti, senior portfolio manager at Wells Fargo Asset Management. ''Over all, what we're believing to be true is that second-quarter results are going to come in, in general, better than expected. But the second-half outlook is the most important thing.''

The Federal Reserve's policy-making committee begins a two-day meeting on Tuesday, following its decision last month to raise short-term interest rates for the third time since December. Most investors expect the Fed to hold rates steady at this week's meeting and possibly raise them once more this year.

The steepest loss in the **S**.**&P**. **500** on Monday came from Hasbro, which sank $10.95, or 9.4 percent, to $105.00 despite reporting stronger-than-expected earnings for the latest quarter. The stock had been up nearly 50 percent for the year before the earnings release, but analysts said some investors might have been nervous after Hasbro cited softness in its markets in Brazil and Britain.

On the opposite end was WebMD Health, the health information website, which soared $10.91, or 19.8 percent, to $66.10 after a portfolio company of the investment firm K.K.R. said it would buy the website for $66.50 a share in cash.

In the commodities market, benchmark United States crude rose 57 cents, or 1.2 percent, to $46.34 a barrel. Brent crude, the standard for international **oil prices**, rose 62 cents, or 1.3 percent, to $48.68 a barrel.

Gold fell 40 cents to settle at $1,253.90 per ounce, silver slipped 1 cent to $16.44 per ounce and copper rose 1 cent to $2.74 per pound.

The yield on the **10**-**year Treasury** note ticked up to 2.26 percent from 2.24 percent late Friday, and the two-year yield rose to 1.36 percent from 1.34 percent.

The euro dipped to $1.1642 from $1.1665 late Friday, the dollar ticked up to 111.10 Japanese yen from 111.06 yen, and the British pound rose to $1.3028 from $1.2993.

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

Document NYTF000020170725ed7p0005d

THE WALL STREET JOURNAL.
U.S. EDITION

Business & Finance
What's News
Business & Finance

226 words
25 July 2017
The Wall Street Journal
J
A1
English

Alphabet said its advertising business continued to grow rapidly but that ads on smartphones and YouTube videos are less lucrative than Google's desktop ads.

OPEC is weighing a crackdown on members that aren't curbing oil output as the group struggles with efforts to raise crude prices.

An unknown investor bet on a resurgence in market **volatility** that could net a $265 million profit.

The Dow fell for a third-straight day, easing 66.90 points to 21513.17, while the **Nasdaq** set a record.

Samsung introduced in the U.S. its lower-price copy of J&J's rheumatoid-arthritis drug Remicade.

China's HNA unveiled a new ownership structure in a bid to eliminate doubt over who controls the firm.

Activist investor Sandell has bought a stake in Barnes & Noble as it seeks a sale of the bookstore chain.

Existing-home sales fell 1.8% in June from May and prices jumped as strong demand outstripped supply.

Time is looking to sell a stake in African-American magazine Essence and bring in a strategic partner.

KKR agreed to acquire health-information provider WebMD for $2.8 billion.

Foxconn is nearing a decision to produce display panels in Wisconsin.

An options exchange won CFTC approval to place options bets on bitcoin.

Document J000000020170725ed7p0002g

THE WALL STREET JOURNAL.
U.S. EDITION

Banking & Finance: Options Exchange Cleared for Bitcoin

By Gunjan Banerji
517 words
25 July 2017
The Wall Street Journal
J
B10
English

Traders tired of quiet U.S. markets may soon have something more **volatile** to bet on: bitcoin options.

On Monday, a bitcoin options exchange called LedgerX won approval from the Commodity Futures Trading Commission to clear bitcoin options, making it the first U.S. federally regulated platform of its kind.

The venue will allow traders to place options bets on virtual currencies, which have recently posted some of the wildest swings across global markets.

LedgerX, which plans to launch in the fall, will offer institutional investors bitcoin puts and calls, contracts that allow them to sell or buy, respectively, at designated prices.

The CFTC's decision marks a victory of a three-year-plus effort by founders of New York-based LedgerX, overseen by Ledger Holdings Inc. Co-founders Paul Chou, chief executive officer, and Juthica Chou, president, were traders at Goldman Sachs Group Inc. before taking the helm of LedgerX. Chief Technology Officer Zach Dexter, also a co-founder, was a software engineer.

The CFTC's approval also represents a divergence to how two U.S. regulatory agencies have treated bitcoin, the largest virtual currency with a market capitalization of about $45 billion, according to coinmarketcap.com.

In March, the Securities and Exchange Commission denied an application for the first exchange-traded fund that would track bitcoin on concerns the virtual currency could be manipulated. The SEC declined to comment on LedgerX.

Most bitcoin markets are unregulated and outside of the U.S. Bats BZX, an exchange owned by CBOE Holdings Inc., asked the SEC to reverse the bitcoin ETF decision, saying that the CFTC calls bitcoin a commodity and had allowed another exchange to offer swaps based on it.

CFTC acting Chairman Christopher Giancarlo has said that he's optimistic about blockchain technology's future, but he hasn't commented on LedgerX. Blockchain is a digital ledger and the technology that underpins bitcoin. LedgerX's Mr. Chou is on the CFTC's Technology Advisory Committee.

A CFTC spokeswoman said, "No committee, including the Technology Advisory Committee, plays any role in any registration decision."

An approval "recognizes the important and legitimate uses of digital currencies that are spreading throughout the world," said Jeremy Liew, a partner at Lightspeed Venture Partners, in an email before the CFTC's decision Monday. The venture-capital firm has a stake in LedgerX.

Proponents say an options exchange will spur trading and attract investors who are fearful of entering what has so far been an unregulated market, dominated by coders and entrepreneurs.

A CFTC-regulated venue could assuage institutional concerns about the virtual-currency landscape. Bitcoin has won over unlikely champions as it gains mainstream acceptance, including Fidelity Investments Chief Executive Abigail Johnson.

It might also be welcome news for traders who thrive on **volatility**. Bitcoin's value has more than doubled this year to $2,762.63 as of Sunday, but the currency is prone to violent swings. Within one day in January, it approached a record before entering **bear market** territory.

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THE WALL STREET JOURNAL.
U.S. EDITION

Options: Volatility Still Possible For Tech Heavyweights

By Gunjan Banerji
445 words
25 July 2017
The Wall Street Journal
J
B11
English

Traders expecting muted moves for some technology stocks after their earnings reports may want to think again.

Facebook Inc. and Amazon.com Inc. will both report earnings this week, with Apple Inc. following next week. Traders have cast muted expectations for post-earnings-report fluctuations in the shares of some tech heavyweights. That is in part because of the run-up in their share prices this year, which some argue will limit any pop following their results.

Shares of Netflix Inc. blew past the expectations of options traders last week as its subscriber trends wowed investors. The stock jumped almost 14%, well above the roughly 8% move that options forecast ahead of the report.

The mammoth postearnings jump "is a reminder that even as internet bellwethers have achieved significant scale, they remain volatile around events," wrote Jim Strugger, derivatives strategist at MKM Partners, in a note last week.

Even though Amazon.com's earnings tend to spur volatility, it is relatively cheap to hedge using options ahead of their release, wrote Goldman Sachs Group analysts in a July 19 report. Options forecast a 4.3% shift in either direction after results are reported on Thursday, well below the average 5.4% move over the past eight reports, Trade Alert data show. The projections are based on an options strategy called a "straddle," which entails purchasing both put and call options contracts -- giving holders the right to sell or buy securities at a set price -- at the same strike price.

Options traders aren't anticipating increased turbulence for Facebook, either, which reports results after the market closes Wednesday. Traders forecast a 4.7% swing in the stock in either direction, below its average move.

Earnings releases have become an outsize factor for single stocks, even as major stock indexes remain placid. Last quarter, stocks moved four times their average daily price swing on earnings reports, wrote Goldman analysts. In many sectors, more than 30% of stocks' quarterly returns came during earnings week.

For the so-called "FAAMG" stocks -- Facebook, Amazon, Apple, Microsoft Corp. and Google parent Alphabet Inc. -- more than 50% of their quarterly returns were fueled by earnings, according to Goldman. Its analysts said that stock volatility has shifted to the earnings report, but "the options market has not adjusted to reflect the increasing importance of earnings for stock returns."

Following the market's close Monday, Alphabet said quarterly profit slid 28% because of a $2.7 billion fine from European regulators. In after-hours trading, its shares fell $31.65, or 3.2%, to $966.66.

Document J000000020170725ed7p0001m

Sketch Guy
Your Money; Asset Allocation
You’re No Coward if You’re Keeping Some Money Out of Stocks

By CARL RICHARDS
585 words
24 July 2017
01:16 PM
NYTimes.com Feed
NYTFEED
English

If you’re a bit scared about investing your money right now, you’re not alone. I’ve received many emails and comments recently from people who have money to invest. They even know how it should be invested. But they just can’t get themselves to put the money into the **stock market**.

Why are they scared? Many of them cite the fact that markets are at record highs and the endless stream of uncertainty in the news.

Feel that way yourself? Well guess what: You don’t have to invest the money. Really, it’s true!

Funny, but even as I type these words, I feel a sense of relief. I gave myself this same advice awhile back when I noticed how worried I was about my investments.

You see, I hate losing money in investments that are outside my control. It ties me up in knots and distracts me from just about everything. So awhile ago, when I moved some money out of a 401(k) plan into my retirement account after a job change, I left it in cash.

I told myself that I was fine with missing out if the market continued to go up. But I wasn’t fine with investing this pile of cash just in time to get my head taken off in a big, scary market drop. And guess what? That was and still is true. So, I’m fine sitting in cash earning 0.16 percent or whatever the rate might be. I just don’t want to lose.

This decision has cost me in paper gains that I might have achieved, given how well the **stock market** has done since that decision, but I don’t care. I don’t see it as a real cost. Instead, I see it as an investment in my sanity and my human capital.

The fact that I didn’t have to worry about losing money in that area of my life allowed me to feel comfortable taking risks in other areas. I’ve started two or three new businesses and moved my family to New Zealand. The risks I have taken have provided, and will continue to provide, a much higher return than what I might have received if I remained fully invested in the markets.

I know what you’re thinking, but this not a sneaky way to engage in market timing, where one states with great confidence what the markets will do next and invests (or not) accordingly. Instead, this is about taking comfort in less risk (and living with less potential reward) in one area while taking more risk in another. Having a pile of low-risk investments offers ballast to an otherwise risky life.

Of course, each individual needs to take a complete and careful look at the total financial picture. You need to weigh when and where you take risks. But along the way, don’t be afraid to make the moves that make it easier to take the risks that don’t fit neatly into a spreadsheet.

Carl Richards, a certified financial planner, is the author of “The Behavior Gap” and “The One-Page Financial Plan.” His sketches and essays appear weekly. Have a question for him that he can answer in this column, with a customized sketch? You can submit it here. Follow him on Twitter: @behaviorgap

Carl Richards

Document NYTFEED020170724ed7o00565

THE WALL STREET JOURNAL.
U.S. EDITION

Business News: OPEC Fights to Keep Pact --- Recent threats to the cartel's agreement on production curbs have its leaders scrambling

By Georgi Kantchev in St. Petersburg and Benoit Faucon in London
529 words
24 July 2017
The Wall Street Journal
J
B3
English

OPEC is worried that its plan to drain a global oil glut -- and thereby raise crude prices -- isn't working.

A long-planned meeting in St. Petersburg, Russia, on Monday to discuss the oil market with big producers outside the cartel has turned into a critical gathering.

Over the weekend, the Organization of the Petroleum Exporting Countries said, its ministers have held a series of "intensive consultations" about the challenges for an output-cutting deal the 14-nation cartel struck last year with Russia and other big producers.

The agreement was supposed to take almost 1.8 million barrels of crude oil off the global market and drain an oversupply that has weighed prices down for three years and sent a shock through the economies of oil-producing economies.

But prices have remained stubbornly low as the glut persists. Brent, the international benchmark, fell 2.5%, to $48.06 on Friday because of doubts about OPEC's ability to turn around the market.

Saudi Arabian energy minister Khalid al-Falih cut short his vacation to come to St. Petersburg for a committee meeting he sometimes skips because of the gathering's sudden "strategic importance" and "the high expectations of the times," said OPEC Secretary General Mohammad Barkindo.

Mr. Falih has been calling OPEC oil officials all weekend, said a person close to the minister, describing him as "very nervous." Mr. Falih declined to speak with reporters. A Saudi oil-ministry official didn't respond to request for comment.

Mr. Falih met his Russian counterpart, Alexander Novak, on Sunday. Saudi Arabia is the de facto leader of OPEC, while Russia is the world's top producer and leader of a faction of 10 non-OPEC producers that pledged to cut output.

The two men will preside over a gathering of several OPEC and non-OPEC producers Monday designed to shore up support for their efforts to limit global oil output. Among the topics, Mr. Novak said, will be production from Libya and Nigeria. The two OPEC members, which were exempted from last year's deal, have recently raised output.

An OPEC official said Iraqi production would also be discussed, as the cartel member's output has remained much higher than its agreed upon levels.

Major Action at

Monday's Meeting

Is Seen as Unlikely

OPEC officials and analysts cautioned against expecting the cartel and its allies to take major action on Monday. It is a routine committee meeting with only handful of the 24 countries involved.

Another reason to expect little action is the Organization of the Petroleum Exporting Countries is weighing how to deal with U.S. producers.

Shale drillers took advantage quickly when **oil prices** briefly rose last year after the OPEC deal to curb output, sending more crude into global supply. They also have learned to drill at lower prices, and U.S. production has maintained its upward swing even as prices have been depressed this year.

Document J000000020170724ed7o0001y

THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
Shining Light on 'Shadow Rate'

By Justin Lahart
473 words
24 July 2017
The Wall Street Journal
J
B9
English

[Financial Analysis and Commentary]

The European Central Bank has reached the same spot the Federal Reserve reached four years ago. For markets on both sides of the Atlantic, it is an event that comes with consequences.

In May 2013, then-Fed Chairman Ben Bernanke told Congress the central bank later that year might begin tapering its asset purchases -- remarks that sent Treasury yields sharply higher, and ultimately forced the Fed to push back its plans. The ECB is keen not to relive the "taper tantrum." Following its meeting Thursday, President Mario Draghi took care to not lay out any sort of timetable for when the central bank will start reducing purchases.

But, as with the Fed in 2013, an improving economy is putting the ECB on the path to eventually ending its bond purchases and, if nothing goes badly awry, tightening. Throughout that process, even as its benchmark interest rate remains stuck at zero, **financial markets** will need to undergo a substantial adjustment.

One way to gauge how big the adjustment needs to be is to look at the ECB "shadow rate" constructed by economists Jing Cynthia Wu and Fan Dora Xia. Calculated with the rates on longer-dated credit instruments, this gauges where the ECB's benchmark rate might be if it could be set meaningfully below zero. It is, in effect, a measure of how stimulative the ECB's unconventional monetary policy is. At minus-5.1% as of last month, the ECB shadow rate is deeply negative.

The lowest the comparable U.S. shadow rate reached was minus 3% in mid-2014, when the Fed was in the midst of tapering. From there it climbed, reaching the zero level in November 2015. It was a period when the yield on 10-year Treasurys remained low, not least because bond purchases by other central banks were draining the supply of long-term government bonds available to investors.

But it coincided with a sharply stronger dollar. In effect, adjustments that in the past, when global markets weren't as integrated, might have flowed through into higher long-term rates showed up in exchange rates instead. Ultimately, the dollar's strength caused problems. In early 2016, worries emerged that emerging-market debtors wouldn't be able to repay dollar loans.

As European credit markets adjust for an eventual ECB tightening, and as the ECB shadow rate rises, the euro may rise sharply against other currencies, including the dollar. In contrast to what happened during the Fed's shadow rate rise, long-term bond yields also could move higher since there will be one less central bank draining supply. The world that investors find themselves in will look a lot different than the one they are in now.

Document J000000020170724ed7o0000q

THE WALL STREET JOURNAL.
U.S. EDITION

MoneyBeat: Fear Gauge Signals Calm

By Amrith Ramkumar
249 words
24 July 2017
The Wall Street Journal
J
B8
English

Investors are getting used to a single-digit VIX.

Known as Wall Street's "fear gauge," the CBOE**Volatility** Index, or VIX, finished under 10 for a seventh consecutive session on Friday and briefly dipped below 9.31, its lowest close hit in December 1993. The index ended Friday down 2.3% at 9.36.

The run of closes under 10 marks the VIX's longest such streak. The previous record of four also was set in December 1993.

The VIX, which uses **S&P 500** options prices to gauge expectations or **stock market** swings over the next 30 days, has closed below 10 only 23 times since it was launched in 1993, with 14 of those occurrences coming this year. Between 1995 and 2016, the index finished below 10 on just four instances.

An eerie calm has descended upon U.S. markets this year. Major U.S. stock indexes have marched higher and steadied near fresh highs last week. The VIX tends to rise when investors are anxious and stocks are falling.

As the VIX continues to plumb historic lows this year, there is little agreement on what its low levels say about the markets. Some investors argue that the VIX's depressed levels represent investor complacency and that a selloff is near. Previous valleys have been followed by surges in **volatility**, they say. Others say there is no cause and effect.

Document J000000020170724ed7o0000o

The New York Times

Business Day
OPEC Will Discuss Production, and a Batch of Earnings Are Due

By THE NEW YORK TIMES
1,118 words
23 July 2017
09:00 PM
NYTimes.com Feed
NYTFEED
English

Here’s a look at what’s coming up this week.

OIL INDUSTRY

Compliance with output cuts is slipping.

Oil officials from the Organization of the Petroleum Exporting Countries and other large producers like Russia and Oman are expected meet on Monday in St. Petersburg, Russia, to review the output cuts agreed on last year. The attendees have plenty to talk about, with **oil prices** now about $48 a barrel for Brent crude. OPEC compliance with the reductions is slipping. Ecuador, an OPEC member though a small producer, said this month that it would not meet the terms of the agreement and would raise output because it needed the revenue. Iraq is also producing well over its quota. The biggest issue is that rising production from Libya and Nigeria, both OPEC members that are exempt from the agreement, is offsetting much of the impact of the cuts. Stanley Reed

ECONOMY

Britain girds for ‘Brexit’ with talks in U.S. and Mexico.

Liam Fox, the British international trade secretary, will seek to forge deeper commercial ties with the United States and Mexico this week as part of efforts to prepare for his country’s departure from the European Union. The visit, including an inaugural meeting on Monday of a United States-United Kingdom trade and investment working group, is vitally important to his country’s goal of bolstering trans-Atlantic trade after “Brexit,” as the British exit from the European Union is known. Later in the week, Mr. Fox will travel to Mexico to meet with Ildefonso Guajardo, the minister of economy, to seek ways of maintaining trade ties once Britain leaves the European bloc. The British meetings are a delicate matter for relations between London and Brussels. That is because Britain is not allowed to conclude deals on its own before it leaves the European Union. James Kanter

TECHNOLOGY

The major internet companies will report earnings.

A fistful of report cards from the major internet companies will arrive this week in the form of earnings announcements from Amazon and Twitter on Thursday, Facebook on Wednesday and Alphabet, the parent company of Google, on Monday. Wall Street is expecting Amazon, Facebook and Alphabet to continue to demonstrate their dominance of internet commerce, social media and search, which has made them three of the most highly valued companies in the world. Investors will look for Twitter to show that it is becoming a potent advertising medium, not just President Trump’s favorite communications channel. Nick Wingfield

AUTO INDUSTRY

Will the slowdown in sales show up on the bottom line?

The three Detroit automakers report second-quarter earnings this week, and analysts will be looking for any sign that the slowdown in sales in the United States this year is hurting their bottom line. General Motors and Ford have reported strong profits because of brisk sales of high-margin trucks and sport utility vehicles as well as steady growth in China. But industry sales have slumped in their home market this year. Fiat Chrysler is generally less profitable than its crosstown rivals. G.M. will report on Tuesday, followed by Ford on Wednesday and Fiat Chrysler on Thursday. Neal E. Boudette

ECONOMY

No policy making is expected from the Fed. Worries? Maybe.

The Federal Reserve's policy-making committee is not likely to make policy when it meets Tuesday and Wednesday. Fed officials are deferring decisions until later in the year. The Fed already has raised its benchmark interest rate twice this year as it retreats from its post-crisis economic stimulus campaign. Analysts expect the Fed to announce at its next meeting, in September, that it will begin to reduce its bond holdings, another step toward normalcy. The July meeting is largely a place holder, but the Fed will update its economic outlook on Wednesday. The crucial question is how worried are Fed officials about a recent downturn in inflation? Binyamin Appelbaum

BANKING

Will Europe's big banks keep pace with U.S. counterparts?

European banks will be in focus this week as some of the region's largest lenders are expected to report their second-quarter results. Deutsche Bank, Banco Santander of Spain, the British banks Barclays and Lloyds Banking Group, and the Swiss banks Credit Suisse and UBS are all expected to update investors on their results for the three months ending in June.

Bank of America, Citigroup, Goldman Sachs, JPMorgan Chase and Morgan Stanley reported generally positive quarters, aside from their trading operations, where results remained weak. Investors will look to see if Europe's banks kept pace. Investors will also be watching closely for litigation costs for the European banks. Chad Bray

OIL INDUSTRY

As producers report earnings, investors will look for cost cutting.

Most of the world's major oil companies are expected to report second-quarter earnings this week. Royal Dutch Shell, the largest European oil company, will report on Thursday, along with Total of France and Norway's Statoil. The American giants Exxon Mobil and Chevron will follow on Friday, along with Italy's Eni. Earnings should be helped by slightly higher **oil prices** than last year's second quarter as well as zealous cost-cutting. But with **oil prices** still under pressure, analysts say, investors will want to see further spending cuts. Stanley Reed

ECONOMY

Growth is expected, but perhaps below the rate once anticipated.

On Friday at 8:30 a.m., the Commerce Department will report its initial estimate of economic growth in the second quarter. Experts are forecasting growth of 2.5 percent on an annual basis, above the 1.4 percent rate recorded in the first quarter but well below the 3 percent-plus pace many economists had been anticipating a few months ago. If the number is weaker than expected, it will be another reminder that the economy's underlying growth rate isn't much better — or worse — than it has been since the current recovery began eight years ago. Nelson D. Schwartz

AUTO INDUSTRY

Tesla will deliver its first Model 3 sedans.

The electric carmaker Tesla plans on Friday to deliver the first of its highly anticipated Model 3 sedans to customers, a turning point for the company in its efforts to produce a battery-powered vehicle for the mass market. Tesla's chief executive, Elon Musk, will celebrate the event with employees at the company's assembly plant in Fremont, Calif., and provide updates for investors and analysts on production targets for the Model 3, which is expected to be priced at about $35,000 and serve as an anchor for Tesla's long-term expansion plans. Bill Vlasic

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THE WALL STREET JOURNAL.
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The Intelligent Investor: Volatility Quandary: 'It Just Is What It Is'

By Jason Zweig
714 words
22 July 2017
The Wall Street Journal
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B1
English

One of the oldest adages on Wall Street is that investors are always worried about something. This summer, the markets are writing a corollary to that old rule: When investors can't find anything worth worrying about, they worry about why no one seems to be worrying enough.

"The global market's ongoing low volatility should be unsettling for investors," portfolio manager Brian Singer of William Blair & Co. wrote this month, and just about every investor I've spoken to in the past few weeks has echoed that idea.

Tax overhaul is stalled, global alliances are fraying, the health-care plan is in the emergency room -- yet U.S. stocks are not only at records but fluctuating less (by some measures) than at any time since 1993. It's that calm that is making many portfolio managers jittery.

I'm not so sure how much you should worry about all this.

Yes, the CBOEVolatility Index or VIX, the measure of stock-price fluctuation often called the "fear gauge," is brushing lows set nearly a quarter-century ago. However, futures contracts expiring in 2018, a way to bet on the direction the VIX will head over the next year, are at prices much closer to historically normal levels. That implies traders believe today's extraordinary calm won't last much longer, says Joanne Hill, head of research and strategy at CBOE Vest Financial, an investment-advisory firm in McLean, Va.

The VIX dates back only about 30 years. Since 1950, according to an analysis by the BlackRock Investment Institute, stocks have fluctuated in a narrow band about 80% of the time, similar to their current behavior.

Viewed over the longer term, the recent calm is even less unusual. Counting July as if it were already over, all seven months of 2017 do rank among the least volatile on record, but they are far from the historical extremes, according to William Schwert, a finance professor at the University of Rochester.

February -- statistically, the dullest point in the market's doldrums this year -- was only the 18th-least volatile among the 1,586 months since reliable data became available in 1885. So far, July is the 44th-least volatile month on record.

The early 1950s, mid-1960s and the mid-1990s, among many other periods, had volatility at least as low as today's.

Is volatility too low for the market's own good? Does that mean that we're in a bubble that's bound to burst?

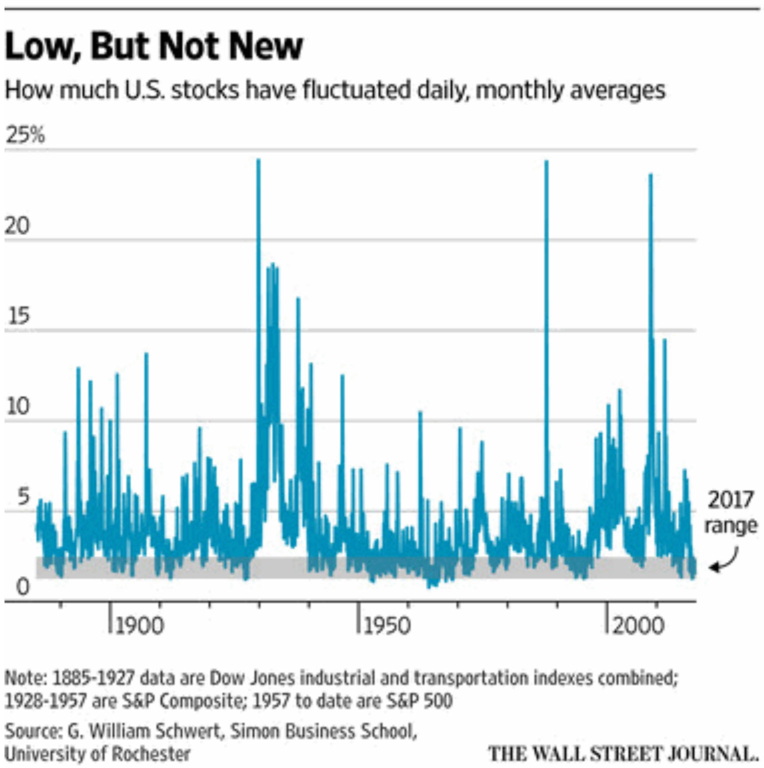
"I don't think it means anything," says Prof. Schwert, who has been studying volatility for more than 30 years. "There's no way to determine whether volatility is too high or too low. It just is what it is."

History shows that periods of low volatility can last surprisingly long and aren't necessarily harbingers of bad markets to come. After multiyear periods when stocks barely fluctuated, returns have sometimes been poor, as they were after the 1929 crash, the mid-1970s and the early part of the last decade. But calm markets have also preceded or coincided with periods of robust returns, as in the 1950s, the late 1990s and now, at least so far.

You might be tempted to bet against a continuation of today's calm by buying an exchange-traded fund designed to profit if volatility jumps up. But, for complicated technical reasons, such funds can deviate wildly from the underlying performance of the VIX, sometimes delivering bloodcurdling losses. Avoid them.

What you can do is make sure the market's calm doesn't infect you with complacency. Stocks aren't significantly more likely to go down after a quiet period than after a time of turbulence. But a drop will feel a lot more shocking than it otherwise would, so you had better be prepared.

Ask yourself or your financial adviser whether you have enough cash to make it through a bad market, are overexposed to stocks or have any money-losing positions you can sell to harvest a tax loss. Taking structured actions like these will help prevent you from reaching for extra risk now or suffering regret later.



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The New York Times

Business/Financial Desk; SECTB

Oil Prices Fall, Dragging Down Energy Shares

By THE ASSOCIATED PRESS
550 words
22 July 2017
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NYTF
Late Edition - Final
2
English

Stocks finished barely lower on Friday as energy companies fell with **oil prices** and a 10-day rally for technology companies came to an end. But Wall Street mostly avoided the sharp losses that hit European stocks.

The price of United States crude oil fell 2.5 percent and pulled energy stocks lower. Technology companies slipped, ending their longest winning streak in more than two years.

Investors bought government bonds in the United States and Europe, which sent prices higher and yields lower. With yields down, investors who wanted income bought shares in companies that pay big dividends, such as utilities and household goods makers.

European stocks took sharp losses after Reuters reported that the European Central Bank would consider paring its stimulus programs in late October. Indexes in France, Germany and Italy all fell, and so did the blue chip Euro Stoxx 50 index.

''Europe is the economy that makes people the most nervous,'' said J.J. Kinahan, chief market strategist at TD Ameritrade. ''It's one that is still being treated with caution.''

The **Standard & Poor**'**s 500**-**stockindex** fell almost a point, 0.91, to 2,472.54. The **Dow Jonesindustrial average** dipped 31.71 points, or 0.1 percent, to 21,580.07. The **Nasdaq composite** lost 2.25 points to 6,387.75.

General Electric skidded after it said it expected to reach only the low end of its annual profit forecast range. G.E. said its power unit struggled in the second quarter and low **oil prices** were also hurting its business. The stock fell 78 cents, or 2.9 percent, to $25.91. It's down 18 percent this year.

Also falling was the oil-field services company Baker Hughes, which is combined with G.E.'s oil and gas unit this month and is now owned mostly by G.E. It shed 85 cents, or 2.4 percent, to $34.12.

Baker Hughes was one of a horde of energy companies that fell with **oil prices**. Benchmark United State crude lost $1.1to $45.77 a barrel in New York. Brent crude, the standard for international **oil prices**, shed $1.24, or 2.5 percent, to $48.06 a barrel in London.

Over the last few weeks, investors have focused what the European Central Bank will do as the European economy continues to improve. On Friday, the euro rose to $1.1677 from $1.1626. It has not been this strong compared to the dollar since the beginning of 2015. The DAX in Germany lost 1.7 percent, and in France, the CAC 40 shed 1.6 percent. The FTSE 100 in Britain shed 0.5 percent.

European and American **bond prices** jumped.The yield on the **10**-**year Treasury** note fell to 2.24 percent from 2.26 percent.

Microsoft's fourth-quarter profit and sales surpassed Wall Street estimates as the company posted another round of strong results from its cloud computing business. However, its stock dipped 43 cents to $73.79.

Gold added $9.50 to $1,254.30 an ounce.

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

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THE WALL STREET JOURNAL.
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Short Sellers Retreat Amid Rally --- A gauge of bets against stocks is at a four-year low even as warning signs persist

By Ben Eisen and Akane Otani
777 words
22 July 2017
The Wall Street Journal
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B1
English

Times are tough for skeptics of the **bull market**.

Flummoxed by the endurance of a 2017 rally that produced its 27th **S&P 500** record this week, investors are backing off bets that major indexes are headed downward.

Bets against the SPDR **S&P 500** exchange-traded fund, the largest ETF tracking the broad index, fell to $38.9 billion in the week ended July 14, the lowest level of short interest since May 2013, and remained near those levels this past week, according to financial-analytics firm S3 Partners. Short sellers borrow shares and sell them, expecting to repurchase them at lower prices and collect the difference as profit.

Bearish investors say they are scaling back on these bets not because their view of the market has fundamentally changed, but because it is difficult to stick to a money-losing strategy when it seems stocks can only go up.

They believe the market moves are at odds with an economy that remains lukewarm as it enters its ninth year of growth, stock valuations that are historically high and a delay of business-friendly policies in Washington like tax cuts and infrastructure spending.

"There seems to be an overall view that people are invincible, that things will always go up, that there are no risks and no matter what goes on, no matter what foolishness is in play, people don't care," said Marc Cohodes, whose hedge fund focused on shorting stocks closed in 2008.

Mr. Cohodes is now a chicken farmer based in California who is looking to get into goat herding in Canada. He shorts a handful of individual stocks personally, but isn't focused on the broader market.

The practice of shorting companies is also going by the wayside as stocks continue to notch records. Short-biased hedge funds had $4.3 billion in assets at the end of March, down from $7.1 billion at the end of 2013, according to HFR Inc.

The difficulty for **stock-market** bears stems from a Goldilocks-like market environment, in which the economy is expanding fast enough to support corporate earnings, but slow enough for the Federal Reserve to keep rates relatively low. Years of low rates and easy-money policies have boosted stocks, defying forecasts for a steep, prolonged downturn.

"The shorts have been frustrated now for quite a while," said Scott Minerd, global chief investment officer at Guggenheim Partners, which has $260 billion in assets under management. The scenarios that might lead to a payout for market bears -- an economic recession or a sharp rise in interest rates -- don't seem imminent, either, Mr. Minerd added.

In one sign of capitulation among the bears, stock pullbacks have been getting shorter.

This year, there have been two times when the **S&P 500** has closed down 1% or more. After these two selloffs, it has taken stocks an average of 14.5 days to recoup losses. That is well below the 25.5 days it took on average to bounce back from stretches of 1%-plus selloffs in 2016 and the 80 days it took to rebound in 2015, according to an analysis by WSJ Market Data Group.

"The danger is that you're too early getting out," said Ernesto Ramos, head of equities at BMO Global Asset Management, which has $246 billion under management.

The issue for investors, Mr. Ramos said, is that there remain few compelling alternatives to stocks.

Bond yields have remained stubbornly low this year, with the yield on the **10**-**year Treasury** note ending Friday at 2.232%, down from 2.446% at the end of 2016.

At the same time, many who are invested in stocks are wary of signs that the **bull market**'s days are numbered.

While signs of a housing bubble in the middle part of the last decade were abundant, indications that borrowing by companies will lead to a wave of defaults are more nuanced, said Albert Edwards, a strategist at Societe Generale SA. Mr. Edwards has been **bearish** for most of the **bull market** and believes a corporate-debt binge will ultimately lead to a deeper **bear market** than in the 2008 financial crisis.

"It's much harder this time to see the corporate-debt excesses," he said. "It's not a headline catcher. You have to be a bit geeky to pull apart the data and analyze it."

Peter Levin and Charley Grant contributed to this article.

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Heard on the Street
In the Main, It Isn't Only the Euro

By Richard Barley
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B12
English

[Financial Analysis and Commentary]

Let the battle commence. On one side is the European Central Bank, which is seeking to preserve the benefits for the economy of its monetary-policy settings. On the other side are **financial markets**, eyeing an exit from ultraloose policy and led by a surging euro.

ECB President Mario Draghi said Thursday that the euro's gains had "received some attention" on the ECB Governing Council. That statement wasn't enough to stop the currency from rising to its highest level against the dollar since January 2015. That is a problem for the ECB because a rising euro would tend to weigh on inflation and ultimately might start to raise concerns about competitiveness and growth.

But the euro isn't the only factor that counts. A financial-conditions index constructed by Nomura shows that the backdrop for the eurozone economy has remained supportive even as the euro has appreciated. That reflects factors such as buoyant credit markets, a steeper yield curve and stronger bank stocks, which offset the currency effect.

Importantly, receding political risk has reduced the threat of turmoil for more highly indebted sovereigns in the eurozone, potentially a much bigger headache for the ECB than the currency. The gap between 10-year Italian and German bond yields has contracted by some 0.5 percentage point in the past three months and is unchanged since the start of the year. Euro-denominated corporate-bond spreads have tightened in 2017. Large companies have easy access to historically cheap borrowing.

Meanwhile, the rise in government-bond yields has mostly been at long-dated maturities, leading to a steeper yield curve. That should be good news for banks, a key conduit for financing in the eurozone. The Euro Stoxx Banks index is up 12.5% this year and close to 70% off its 2016 low. Credit standards and conditions have been easing. That might support investment, providing further underpinning for the economy.

The reasons for the euro's rise are important, too. The stronger currency largely reflects the improvement in the eurozone economy. The dollar peaked on a rush of optimism about the U.S. outlook that has faded. Meanwhile, Europe has steadily outperformed expectations. A weaker dollar also tends to ease global conditions, particularly for emerging markets, something that Europe should benefit from.

The euro will command a lot of attention and rightly so. But if credit-market conditions in particular remain supportive, the ECB's task looks more manageable.

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The New York Times

COMMON SENSE
Business/Financial Desk; SECTB
Struggling to Find the Spirit of '86

By JAMES B. STEWART
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CORRECTION APPENDEDWith efforts to reshape health care seemingly in shambles, Congress now confronts an issue that business-minded Republicans (and many Democrats) really care about: tax reform.

As Senator Ron Johnson, Republican of Wisconsin, put it this week, ''We've got to move on to tax reform so we have a competitive tax system,'' and do it ''pretty quickly.'' The House Ways and Means Committee continued hearings on tax legislation on Wednesday.

The stakes couldn't be higher for Republicans in Congress and the Trump administration, all anxious to demonstrate that a party that controls the White House and both houses of Congress can accomplish something significant and deliver on at least one major campaign promise.

So what would be the elements of a tax reform plan that is fair and simple and will stimulate growth -- not to mention attract at least 50 Republican votes in the Senate?

A good place to start, say many Republicans and Democrats, is the Tax Reform Act of 1986, enacted under President Ronald Reagan with bipartisan support.

Almost everyone, it now seems, loves it.

Those behind the House Republicans' tax plan -- including the speaker, Paul D. Ryan of Wisconsin, and the Ways and Means chairman, Kevin Brady of Texas -- went to great lengths to praise Reagan's accomplishment in their tax reform manifesto, ''A Better Way.''

''President Reagan was willing to lead on tax reform,'' they wrote. ''As a result of that leadership and three years of difficult work in Congress, the United States emerged with one of the most modern, fair and competitive tax systems in the developed world -- one that laid the foundation for decades of American job growth.''

Byron Dorgan, a former Democratic senator and representative from North Dakota, and a member of the House Ways and Means Committee that approved the 1986 bill, wrote in The Hill this year: ''It was widely celebrated as a major success. We eliminated many deductions and special deals in the tax code, used the savings to substantially lower the top tax rate to 28 percent, and also simplified the tax code.''

The 1986 reform also achieved the elusive goal of being ''revenue neutral'' (meaning it neither expanded the deficit nor entailed an overall tax increase) even as it cut the top individual rate from 50 percent to 28 percent. The top corporate rate declined to 34 percent, at the time the lowest corporate rate in the developed world, from 46 percent. The legislation offset the loss of revenue by broadening the base -- eliminating a host of deductions, exemptions and credits, including many abusive tax shelters. It also greatly simplified returns for millions of taxpayers.

Legislators sold the bill to voters as a fair, efficient, simple spur to economic growth, and it proved enormously popular, one of Reagan's enduring accomplishments. The economy (and the **stock market**) soared. But over the years, much of it was undone as lobbyists and special interests pushed new preferences into the tax code.

As Mr. Brady said this week: ''America now has one of the most costly, unfair, and uncompetitive tax systems in the world. The need for pro-growth tax reform is urgent.''

So why not go back to 1986 and simply restore the principle that worked so well then -- lower tax rates, along with a broader base that avoids increasing the deficit?

It turns out that many people have tried. The most recent example came in 2014, with tax reform legislation drafted by the Ways and Means Committee, led at the time by Representative Dave Camp of Michigan, a Republican who retired from politics in 2015. The legislation followed 30 congressional hearings dedicated to tax reform and 11 separate bipartisan tax reform working groups led by Mr. Camp and Representative Sander Levin of Michigan, then the ranking Democrat on the committee.

The Camp reform proposal cut rates and closed loopholes. The bipartisan Joint Committee on Taxation estimated it would lead to the creation of 1.8 million jobs and add up to $3.4 trillion to the gross domestic product without adding to the deficit. The committee estimated that the bill would save an average middle-class family of four $1,300 per year in federal taxes.

''I took as inspiration the 1986 act,'' Mr. Camp told me this week. ''We adopted the same structure and approach. We reduced rates and broadened the base. I felt good about that.''

Mr. Camp's effort drew bipartisan praise. ''I applaud it,'' said C. Eugene Steuerle, a co-founder and fellow of the Urban-Brookings Tax Policy Center, a key architect of the 1986 reform act and former deputy assistant secretary of the Treasury for tax policy. While it needed a few amendments, he said, over all ''it was rigorous, based on clear principles, and didn't rely on magic money'' to avoid expanding the deficit.

The Camp bill never even made it to the House floor.

''You can't just go back to 1986 today,'' said Michael J. Graetz, a professor and tax specialist at Columbia and Yale law schools who has written extensively about the 1986 act. Then, there were numerous tax shelters, loopholes and other sources of revenue. Today, ''there's no pot of gold to pay for the cuts, the way there was back in 1986,'' Mr. Graetz said.

Even though it nominally cut corporate rates, the 1986 act actually shifted much of the tax burden from individuals to corporations. That's not feasible today, where lowering the tax burden on corporations is a major goal.

That was a reality that Mr. Camp had to confront. ''The Camp plan turned out to be a reality test,'' Mr. Graetz said. ''There was a lot of pain in the Camp bill in terms of eliminating tax deductions and credits. And that only got you to a 25 percent corporate rate. President Obama used to say he could get us to 28 percent, also with a lot of pain. But it's hard to get the business community excited about 28 percent or 25 percent, especially now that the U.K. is moving to 17 percent and Canada is close to that.''

And Mr. Camp's plan wasn't able to lower individual rates much at all -- devising three brackets, taxed at 10 percent, 25 percent and 35 percent. But it phased out certain deductions and exemptions for people making over $400,000 a year. The Tax Foundation calculated that some taxpayers making more than $400,000 would pay a marginal rate as high as 43.8 percent, in effect a tax increase on the wealthy. It also hit rich taxpayers by lowering the cap on mortgage deductions to $500,000, from $1 million.

And the Camp plan actually raised the top effective rate on capital gains and dividends to 24.8 percent, from 23.8 percent, according to the Tax Foundation.

That was anathema to many Republicans.

Some of the ''pain'' inflicted by the Camp plan also hits especially close to the Trump White House, since it proposed closing some of the biggest loopholes for real estate developers. Mr. Camp's plan eliminated the break for so-called like-kind exchanges, which many real estate developers use to delay or avoid capital gains tax.

And the Camp plan proposed longer depreciation schedules, reducing the deductions that businesses can take for capital investment and thus increasing taxes for most real estate developers. The Trump plan calls for immediate expensing of 100 percent of capital costs, eliminating depreciation altogether -- an enormous windfall for real estate interests.

It should probably come as no surprise that one person who didn't like the Tax Reform Act of 1986 was Mr. Trump. ''One of the worst ideas in recent history,'' was how he described it in a 1999 op-ed piece in The Wall Street Journal.

Suffice it to say that anything resembling the 1986 act would appear to be dead on arrival with this administration and Congress, even though many tax experts support such an approach.

"Camp's approach is what responsible tax reform should look like, and he garnered no support from either Republicans or Democrats," Mr. Graetz said.

That doesn't mean people are giving up hope. "I'm still optimistic we can conclude tax reform this year," said Mr. Camp, now a senior policy adviser at the tax, accounting and consulting firm PwC. He's been encouraged that Trump administration officials have recently reached out to him.

"The issues are difficult but it's not nearly as partisan as health care," he said. "There's been a lot of work done on tax policy over the years, and I think we can build on that. Most people agree there's an urgent need for tax reform, and I see this as a tremendous opportunity."

First in a series of Common Sense columns about the shape a responsible tax reform plan might take.

Correction: July 26, 2017, Wednesday

This article has been revised to reflect the following correction: The Common Sense column on Friday, about the legacy of the Tax Reform Act of 1986, misstated the year in which The Wall Street Journal published an op-ed article by Donald J. Trump criticizing that legislation. It was 1999, not 1986.

President Ronald Reagan, flanked by lawmakers at the White House, signed a landmark 1986 tax overhaul. (PHOTOGRAPH BY BOB DAUGHERTY/ASSOCIATED PRESS)

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The New York Times

Strategies
Business Day
Partisan Conflict Is High, but the Market Doesn't Care

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The United States is so sharply divided that political consensus appears to fray almost daily. Yet two truths about politics can be demonstrated with hard numbers.

The first is that partisan conflict doesn't just seem to have become more intense this year: It has actually reached new levels of nastiness.

The second is that the **stock market** simply doesn't care. In fact, the rising acrimony has been a fine environment for stocks, though possibly detrimental to the economy itself.

Nearly everything is quantified these days: how much we eat, how frequently we exercise, how much time we spend glancing at a Facebook post or reading an article. In the age of Big Data, why not measure trends in political vituperation?

The Federal Reserve Bank of Philadelphia is doing just that. It maintains a monthly Partisan Conflict Index, building on the work of Marina Azzimonti, formerly a research economist with the Philadelphia Fed and now an associate professor at Stony Brook University. The monthly index peaked in March and remains at historically high levels.

"The long-term trend is pretty impressive," Professor Azzimonti said. "And it's safe to say that this year, partisan conflict in the United States has reached an all-time high."

Professor Azzimonti also created an annual historical index that begins in 1891 and continues through 2013. Both indexes use a common methodology — searches in newspaper databases that measure the frequency of "articles reporting lawmakers' disagreement about policy," as she explains in her academic article, "Partisan Conflict and Private Investment."

Despite periodic spikes around elections and specific political battles, conflict generally declined from 1891 until the early 1920s, remained fairly stable until 1965 — the year that the landmark Voting Rights Act was signed into law — and then began a long climb to its current stratospheric levels, she has found. One striking discovery is a clear "rally 'round the flag" effect: Conflict ebbed in the early crisis of the Great Depression, in World War I and World War II.

But contentiousness increased in the 1960s, accelerated during the Great Recession and leapt during the debt ceiling crises and health care battles of the Obama administration. It catapulted to previously unexplored levels with the election of President Trump and kept moving higher, the monthly Philadelphia Fed index shows.

"You might not have expected that, with both branches of Congress and the presidency controlled by the same party," Professor Azzimonti said. But the kinds of conflict measured by her indexes require three basic ingredients: disparate political preferences or views; the power to block or obstruct; and constraints, usually fiscal, that cause political eruptions. All of those are abundant now, she said.

The widespread shock among many Democrats when Mr. Trump won the election in November appeared as a spike in the monthly index. "I thought the index would go down after the election, but that's not what happened," she said.

Instead, the index rose further after Mr. Trump issued widely contested executive orders on travel and on undocumented immigrants, she said, and the continuing emotional battles over the Affordable Care Act have intensified conflict.

What's more, she said, fiscal constraints mean that even if the Trump administration and Republicans in Congress pivot toward the relatively popular goal of tax reform, the partisan conflict thermometer is likely to stay elevated.

"The index picks up conflict over fiscal issues, and since the Great Recession, with debt levels so high, it's not easy to just cut taxes," Professor Azzimonti said. "A tax cut, even a simple one, raises questions about expenditures. What spending are you going to cut? Medicaid? Not without a lot of conflict."

You don't need a fancy index to know that people are angry and divided. But converting the shouting into numbers makes it possible to conduct comparative quantitative analysis. What scholars have found are negative correlations between partisan conflict and a variety of economic factors.

A paper published by the Bank of England in December 2016, for example, indicated that an increase in the Partisan Conflict Index was "associated" with an increase in cash holdings by corporations. That may be because corporate managers seek greater safety — and limit risk-taking investment — when the political system seems particularly dysfunctional.

And Professor Azzimonti has found negative correlations between conflict and foreign direct investment. "It makes sense that foreigners will be reluctant to invest in the United States when they don't know what Congress or the president are going to do, or what specific policies are going to be enacted," she said.

Her econometric models suggest that increased conflict is associated with slower economic growth, perhaps because partisan conflict leads economic decision makers to defer productive risk-taking. But she can't prove cause and effect. "Correlations, yes, we see them, but causation is difficult to pin down," she said. "I hope that others will pursue that."

One thing is clear, though: The **stock market** has gone on one of the greatest bull runs in history despite rising levels of partisan conflict. Ed Clissold, chief United States strategist with Ned Davis Research Group, and Alex Sun, a market analyst with that firm, pointed out in a recent note to clients that stocks tend to rise more rapidly when the Partisan Conflict Index soars. The title of their note was: "**Stock Market** to Politicians: Keep Arguing."

Why the market disregards partisan conflict is far less obvious. One possibility is that political dysfunction translates into gridlock, which Wall Street has long been said to favor (though, as I've written, the data indicates that is only true with a Democrat in the White House and Republicans in Congress). Another plausible explanation is that the Partisan Conflict Index is a sentiment indicator, and stocks often rise when negative sentiment is contradicted by facts like strong earnings. It may also be the case that stock-friendly factors like the low interest rates set by the Federal Reserve are overwhelming the effects of partisan conflict.

Professor Azzimonti says she can't explain it. "We economists don't really understand the **stock market**," she said. "I certainly don't. I'm the worst trader in the world."

Even in the era of Big Data, some mysteries have not been unraveled with numbers. Right now, the sublime indifference of the **stock market** is one of them.

Twitter: @jeffsommer

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THE WALL STREET JOURNAL.
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Streetwise: No Bubble in Tech Rally, Just Catch-Up

By James Mackintosh
767 words
21 July 2017
The Wall Street Journal
J
B1
English

U.S. technology stocks have finally passed their 17-year-old bubble-era high, and the speed of this year's rally has many -- including me -- concerned. The **S&P 500**'s information-technology sector is up 23%. Of the 10 stocks adding the most market value, eight are tech stocks, when Amazon.com is included. Those who missed out surely regret it.

But take a step back, and a lot of the gains look more like catch-up than bubble. There might be an everything bubble, but neither tech stocks nor megacapitalization companies stand out as particularly frothy when looking at performance.

In the past, froth was obvious. In the dot-com bubble of 2000, the tech sector produced clearly unsustainable returns -- annualized at 53% including dividends for five years -- that were miles ahead of everything else. In the "peak oil" bubble of 2008, the energy sector had similarly unrealistic five-year annualized gains of 31%.

There has been nothing like this in recent years. It is true that tech stocks have been wonderful for investors this year, particularly the big names of Alphabet, Amazon, Apple, Facebook and Microsoft. But they were mostly just catching up with underperformance in the aftermath of the election, when Silicon Valley was obviously out of favor with the new president, and hopes of tax cuts boosted companies that actually pay U.S. tax.

Look instead at one-year or five-year performance and the tech sector is in line with the financial sector. Or go all the way back to the **stock-market** low of March 2009: Since then, financials and tech-stock prices have both risen a bit more than 390%, as bank failure risk was priced out; including dividends, the real-estate, financials and consumer discretionary stocks are all ahead of tech over the period.

It is true that some tech stocks are in other sectors, distorting the measure. Amazon is classed as retail, and its stellar performance generated about a fifth of the consumer discretionary sector's gains since the 2009 low -- and half this year's gains.

But the financial sector rally has been about traditional banking and insurance -- not fintech -- while real estate is as offline as a stock can be.

Another way to judge excessive enthusiasm for disruptive companies should be to look at the losers. Old-style retail stocks, owners of U.S. malls and more recently stocks such as Zillow, facing rumors of competition from Amazon, have all been hammered.

Have they been driven down too far? Taking the gap between the best- and worst-performing sectors offers a measure of how powerful investment fashions are, and it is wider than usual at the moment. Yet, it doesn't back up the disruption theory.

Over the past year, the best sector has outperformed the worst by more than 50 percentage points, the second-widest gap since the recovery from the crisis in 2009.

In the 2000 bubble the gap reached 124 points, and in 2008 energy was 66 percentage points ahead of the worst sector (real estate, where the property-price crash was already under way).

Yet, if this wide gap between the best and worst sectors is a reason to worry, it isn't a reason to worry about tech, since financials edged it out as the best-performing over the past year, just.

The worst performers were telecom, disrupted by an old-fashioned price war, and energy, disrupted by OPEC and shale.

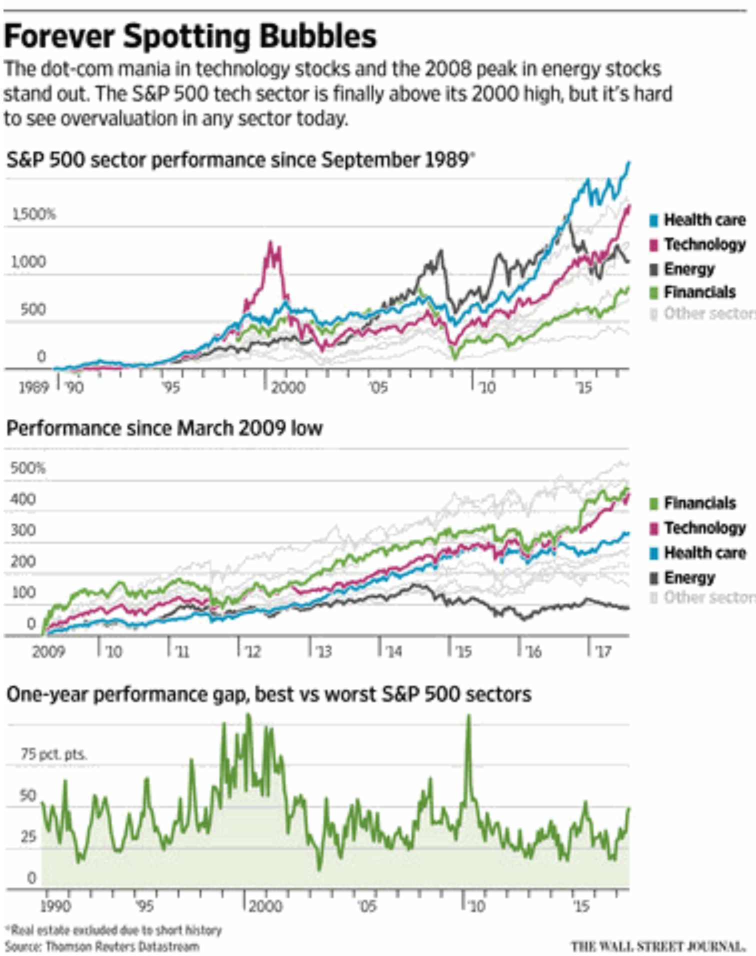
Perhaps enthusiasm for disruption doesn't show up between sectors, though. Amazon is disrupting retail, and new technologies are being deployed in many other sectors, too.

If investors were betting on the disrupters and against the disrupted, we should expect to see a big gap between the best and worst performers within sectors. We don't.

Tim Edwards at S&P Dow Jones Indices calculates a measure known as dispersion showing how much variation there is in stock performance. Only in the industrial and financial sectors is it higher than the long-run average, and even within consumer discretionary, the effect of Amazon isn't visible, with dispersion slightly below average.

I think investors give Amazon and Tesla way too much credit as disrupters, but being overpriced isn't the same thing as being in a bubble.

There could be an everything bubble lifting the entire market, but stock performance doesn't suggest overenthusiastic investors have inflated a tech bubble or even a broader bubble of disrupters. Yet.



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THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: For the Low Income, Big Growth in Pay

By Eric Morath
720 words
21 July 2017
The Wall Street Journal
J
A2
English

For the first time in years, pay for the lowest-income Americans is rising faster than for other groups.

Weekly pay for earners at the lowest 10th percentile of the wage scale rose at a faster rate last quarter, year-to-year, than for any other group measured by the U.S. Labor Department -- including those at the top of the income scales who earn five times as much.

The shift for full-time low-income workers -- including restaurant workers and retail cashiers -- who make about $10.75 an hour, is a sign that a tightening labor market is delivering better pay to workers who largely haven't shared in gains since the recession ended eight years ago, according to economists and government data. Last quarter marked the first time since late 2010 that this earning group's gains outpaced all others, including the 90th, 75th, 50th and 25th percentiles.

Rising minimum wages in many states is one factor.

Usual weekly earnings for workers ages 25 and older at the bottom of the pay scale rose 3.4% from a year earlier in the second quarter, according to analysis of newly released Labor Department data. That was stronger than the median gain of 3.2% and the 3.1% improvement for workers at the 90th percentile, who earn more than nine in 10 other Americans. The percentage increases are based on a four-quarter average of earnings, to smooth out **volatility** in the data.

Throughout much of the economic expansion that began in mid-2009, wage gains for the lowest-earning Americans trailed median wage gains and those of the highest earners. The annual raise for the lowest earners was below 1% annually during 2015, less than half as strong as the median gain.

The recent improvement for low earners coincides with a downward trend in the U.S. unemployment rate, which stood at 4.4% last month, versus 4.9% a year earlier. The unemployment rate for those with less than a high-school education -- who make up much of the low-wage workforce -- fell even more sharply, to 6.4% last month from 7.5% a year earlier. Tighter labor supply in theory should push up wages.

Wages have been rising swiftly in fields such as restaurants, amusements and gambling, said Jed Kolko, economist at job-search site Indeed. That is an indication that employers need to pay more to attract workers into those fields.

"In a strengthened economy, people spend more on entertainment and eating out, raising demand for workers in those fields," he said. Those wage gains also at least partially reflect rising minimum wages, which have increased in 21 states this year.

Usual weekly earnings is a different wage measure than the more broadly cited average hourly earnings figure reported in the jobs report each month. The quarterly figure incorporates overtime pay, commissions and tips that might not be captured in the hourly figure.

Average hourly earnings have been stuck near a 2.5% annual increase for most of the past year and a half. But the jobs report shows stronger wage growth in the lowest-paying broad sector, hospitality.

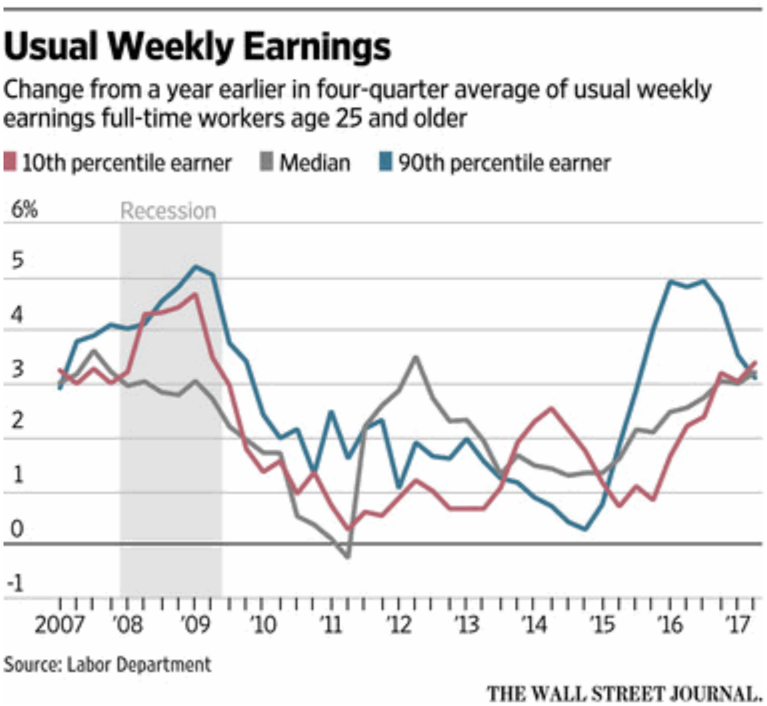
Average earnings' failure to rise even while many Americans are doing better reflects a slowdown at the top.

"The slowdown has been particularly sharp within the top 5%," Goldman Sachs economists wrote in a research note Thursday. "One possibility is that some high-wage individuals could be delaying the recording of earnings, given the possibility of a future income tax cut."

Still, higher-earning Americans have fared much better during the expansion. Pay for workers in the 90th percentile has increased nearly 20% since mid-2009. Pay for the 10th percentile worker rose 12.5%, not enough to offset inflation.

"We're starting to see wage pressure at the two ends -- the high-skilled end and the low-skilled end," Philadelphia Federal Reserve President Patrick Harker said in an interview this month. "Where the squeeze is still happening is the middle-skill jobs."

He said that could partially reflect new technologies emerging to supplant better-paid workers. For example, he said, sophisticated document-reading software is reducing law firms' need for young associates.



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The New York Times

Business/Financial Desk; SECTB
The Strong Dollar Is Getting Weaker. Why That Isn't Bad for Everyone.

By BINYAMIN APPELBAUM
821 words
21 July 2017
The New York Times
NYTF
Late Edition - Final
3
English

The value of the dollar has fallen steadily since the beginning of 2017, erasing a sharp rise immediately after President Trump's election.

To take one example, the number of euros that can be obtained for one dollar has declined to the lowest level in more than a year. The dollar has also declined against the British pound, the Japanese yen and the Chinese renminbi.

Is that bad? It sounds bad.

The exchange rate is a price -- the price of money. When the price of milk goes down, that is good for families and bad for dairy farmers. When gas prices fall, commuters are happy and Exxon Mobil is sad. When the dollar drops, there are also winners and losers.

The winners are American companies that sell goods and services to foreigners -- manufacturers like Caterpillar; tourist attractions like Disney World; technology companies like Facebook -- because those customers can exchange their currencies for more dollars.

The losers are American consumers who now must pay more dollars to obtain foreign goods and services.

Of course, many Americans are in both categories. They may benefit at work and suffer at the supermarket.

Why is the dollar losing value?

The dollar strengthened after the presidential election because investors expected Mr. Trump and congressional Republicans to increase domestic growth by fulfilling campaign promises to cut taxes and reduce regulations, among other measures. The reversal of those gains reflects diminished confidence that Mr. Trump will be able to deliver.

''Trump Weakens the Dollar'' was the main headline in the German financial daily Handelsblatt on Wednesday.

So we're back where we started?

It is important to put the recent decline into a broader context. Over the last six years, the dollar is still up about 28 percent.

The climb started in 2011 as the American economy began to recover more quickly than the economies of the rest of the developed world. Domestic growth was sluggish by historical standards, but things were worse everywhere else. The United States was ''the cleanest shirt in the dirty laundry basket,'' said Jim Paulsen, chief investment strategist at the Leuthold Group, a Minneapolis investment firm.

There was also a rush into dollar-denominated assets. At the beginning of 2011, Mr. Paulsen noted recently, the interest rate on the benchmark **10**-**year Treasury** note was a little lower than the available return on a portfolio of debt issued by other major nations, including Britain, Germany and Japan. By 2016, the Treasury rate was as much as five times as high as the global portfolio.

The rest of the world now appears to be doing a little better. The International Monetary Fund said in June that it was cutting its forecast for the growth of the United States economy, but stronger growth elsewhere would offset the impact on the world economy.

Should the United States push down the dollar?

Mr. Trump has said that he would like the dollar to decline in value.

''I think our dollar is getting too strong, and partially that's my fault because people have confidence in me,'' he told The Wall Street Journal in April.

Some economists think he is right.

The value of the dollar, relative to other currencies, is supposed to reflect the strength of the American economy, relative to other countries. But exchange rates can be distorted by investors, which in turn can distort patterns of economic growth. And there is some evidence the price of the dollar remains above its actual value, which tends to encourage imports and discourage exports.

The dollar was overvalued by about 8 percent in May, according to William R. Cline of the Peterson Institute for International Economics. The continuing slide has shaved a few points off that estimate, but the currency probably remains somewhat overvalued.

Could the United States push down the dollar?

Exchange rates are determined by open trading on **financial markets**. Some governments actively participate in those markets to influence the value of their currencies. The United States in recent decades has mostly stayed on the sidelines.

Recent administrations have focused instead on pressing other nations to stay out of the market. The Bush and Obama administrations, for example, made progress in persuading China to allow the value of the renminbi to appreciate against the dollar.

The Trump administration has not articulated a consistent policy on these issues.

How is the value of the dollar measured?

The dollar can be exchanged for a wide range of currencies. At last count, the United Nations recognized about 180. The Federal Reserve calculates an average of exchange rates by weighting rates based on the volume of trade with the United States, so the price of dollars in Japanese yen is more important than in Icelandic kronur.

CHART: Trade-weighted U.S. dollar index (Source: Federal Reserve Bank of St. Louis)

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THE WALL STREET JOURNAL.
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Heard on the Street
How Quants Are Calming the Stock Market

By Spencer Jakab
559 words
21 July 2017
The Wall Street Journal
J
B12
English

[Financial Analysis and Commentary]

"It's quiet out there. Too quiet."

The number of times that this movie cliche turned trading cliche has appeared in market commentaries recently is a testament to how dull trading has been and how nervous investors are about it.

Stock-market volatility was so low in the first few months of the year that some analysts said bad times were coming soon. Then the market got calmer. Over half of the 25 lowest readings ever in the VIX, the CBOE**Volatility** Index that is widely cited as a proxy for investor caution, have occurred since May. This month the VIX hit its lowest-ever 30-day moving average.

The main explanation why options prices, upon which the VIX is based, are showing little concern about **volatility** in the future is that actual, realized **volatility** of stocks also has been so low. The most commonly cited factors are that central banks will save the day in the case of bad news and that there have been few recent economic surprises.

Neither will last forever, but there may be a less-noticed factor damping **volatility** with more staying power: quant trading. The share of trading done by funds run by algorithms has doubled in just four years to over a quarter of U.S. stock turnover, according to Tabb Group. Their success is partly a result of new flows of information from satellites, credit-card transactions, social media and other sources being interpreted by an army of Ph.D.s with massive computing power.

"If there are fewer things that lead to surprises because information is going from completely unknown to completely known . . . then you should have less **volatility**," says Leigh Drogen, a former quant trader and chief executive officer of crowdsourced earnings-estimate provider Estimize.

Investors sell when they hear bad news about a company, but if they get that news from multiple sources over time, the selling should be spread out. In the past, everyone learned of the downturn when the company announced earnings, making the selloff rapid and the stock more **volatile**. While hard to quantify, the VIX, now below 10, may well be two or more points lower thanks to better information.

But could this happy state of affairs contain the seeds of a major comeuppance? Despite more information, business cycles or geopolitical risks haven't gone extinct. Traders grappling with a low-return world in which passive funds rule have crowded into similar strategies and bet on the same statistical anomalies, often using leverage. Mr. Drogen doesn't think such statistical arbitrage investors will bolt in a market shock, but he admits that high-frequency traders might. Because they provide so much liquidity, and because computerized trades won't be placed if liquidity dries up, a quant exodus could happen.

The "quant quake" in August 2007 saw some funds lose nearly a third of their value in a week and many odd **stock market** moves, but no systemic shock. With traditional stock pickers and bank trading desks playing a much smaller role than a decade ago and quant funds being far larger, the notion that we are experiencing the calm before a fairly nasty storm may be more than just a bad screenplay.

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THE WALL STREET JOURNAL.
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European Markets: Euro Surges as ECB Worries Ease --- Currency hits more than 2-year high against dollar, but bonds remain calm

By Christopher Whittall
613 words
21 July 2017
The Wall Street Journal
J
B11
English

LONDON -- The euro jumped against the dollar to its highest level in nearly two years after European Central Bank President Mario Draghi said the ECB will discuss when to trim its huge bond purchases in the fall.

But bond markets remained broadly calm, as Mr. Draghi's tentative language failed to spark the kind of **volatility** that followed his comments in June, when he hinted at winding down the stimulus program.

The euro traded at $1.1638 late in the European afternoon on Thursday, up 1.1% on the day against the dollar and its highest intraday trading level since August 2015.

Late in New York trading, the euro was up 1% on the day at $1.1632, the highest late New York rate since Jan. 15, 2015.

Meanwhile, 10-year German bond yields were little changed at around 0.54%, and riskier eurozone debt rallied, as **financial markets** showed signs of mixed reactions to the ECB's messaging.

That contrasts to the concurrent rises in bond yields and the euro that followed Mr. Draghi's comments in late June on the improving outlook in the euro area that investors took as the first clues that the ECB is moving closer to ending its easy-money policies. Yields rise as prices fall.

The ECB's policies of ultralow interest rates and mass asset purchases have helped pin down the euro and bond yields in recent years.

But with a strengthening European economy, many investors are asking whether the time is nearing when that stimulus will start to be withdrawn. That could mark an important turning point for markets, given that the Federal Reserve is already tightening its own monetary policy and making plans to reduce the size of its balance sheet.

Mr. Draghi described the eurozone economy as "robust" on Thursday, but also highlighted the lack of inflation in the region, suggesting that there are still reasons to keep stimulus in place.

And while he said the central bank would discuss the issue of scaling back its bond-buying program in the fall, he refused to set a date. The bank's Governing Council left monetary policy unchanged on Thursday.

The ECB is likely eager to avoid the sharp rise in bond yields that followed the Fed raising the prospect of trimming its bond purchases in 2013, often referred to as the taper tantrum.

Mr. Draghi has "delivered a balanced and nuanced approach to the thorny issue of tapering," said Arnab Das, head of EMEA and emerging-market macro research at Invesco Fixed Income. "They are keeping their options open, but they are putting tapering on the table to try to avoid another minitantrum."

Both bond yields and the euro have moved sharply since Mr. Draghi first hinted at tapering in June. The euro has gained around 4.5% against the dollar over the past month, while the 10-year German **bond yield** has more than doubled.

Still, there are signs that investors aren't overly worried about the impact of the withdrawal of stimulus on riskier assets.

On Thursday, Italian and Spanish **bond prices** rose. These two markets have benefited from the ECB's bond-buying program.

"The European story is good right now with growth, and political risk has receded. It's a positive backdrop for both the euro and risk assets right now," said Ryan Myerberg, a senior portfolio manager at Janus Henderson Investors.

He said he believes the euro could break through $1.17 over the summer.

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The New York Times

Common Sense
Business Day
Tax Reform, Reagan Style, May Be a Tougher Fit for Trump

By JAMES B. STEWART
1,676 words
20 July 2017
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Corrections Appended

With efforts to reshape health care seemingly in shambles, Congress now confronts an issue that business-minded Republicans (and many Democrats) really care about: tax reform.

As Senator Ron Johnson, Republican of Wisconsin, put it this week, “We’ve got to move on to tax reform so we have a competitive tax system,” and do it “pretty quickly.” The House Ways and Means Committee continued hearings on tax legislation on Wednesday.

The stakes couldn’t be higher for Republicans in Congress and the Trump administration, all anxious to demonstrate that a party that controls the White House and both houses of Congress can accomplish something significant and deliver on at least one major campaign promise.

So what would be the elements of a tax reform plan that is fair and simple and will stimulate growth — not to mention attract at least 50 Republican votes in the Senate?

A good place to start, say many Republicans and Democrats, is the Tax Reform Act of 1986, enacted under President Ronald Reagan with bipartisan support.

Almost everyone, it now seems, loves it.

Those behind the House Republicans’ tax plan — including the speaker, Paul D. Ryan of Wisconsin, and the Ways and Means chairman, Kevin Brady of Texas — went to great lengths to praise Reagan’s accomplishment in their tax reform manifesto, “A Better Way.”

“President Reagan was willing to lead on tax reform,” they wrote. “As a result of that leadership and three years of difficult work in Congress, the United States emerged with one of the most modern, fair and competitive tax systems in the developed world — one that laid the foundation for decades of American job growth.”

Byron Dorgan, a former Democratic senator and representative from North Dakota, and a member of the House Ways and Means Committee that approved the 1986 bill, wrote in The Hill this year: “It was widely celebrated as a major success. We eliminated many deductions and special deals in the tax code, used the savings to substantially lower the top tax rate to 28 percent, and also simplified the tax code.”

The 1986 reform also achieved the elusive goal of being “revenue neutral” (meaning it neither expanded the deficit nor entailed an overall tax increase) even as it cut the top individual rate from 50 percent to 28 percent. The top corporate rate declined to 34 percent, at the time the lowest corporate rate in the developed world, from 46 percent. The legislation offset the loss of revenue by broadening the base — eliminating a host of deductions, exemptions and credits, including many abusive tax shelters. It also greatly simplified returns for millions of taxpayers.

Legislators sold the bill to voters as a fair, efficient, simple spur to economic growth, and it proved enormously popular, one of Reagan’s enduring accomplishments. The economy (and the **stock market**) soared. But over the years, much of it was undone as lobbyists and special interests pushed new preferences into the tax code.

As Mr. Brady said this week: “America now has one of the most costly, unfair, and uncompetitive tax systems in the world. The need for pro-growth tax reform is urgent.”

So why not go back to 1986 and simply restore the principle that worked so well then — lower tax rates, along with a broader base that avoids increasing the deficit?

It turns out that many people have tried. The most recent example came in 2014, with tax reform legislation drafted by the Ways and Means Committee, led at the time by Representative Dave Camp of Michigan, a Republican who retired from politics in 2015. The legislation followed 30 congressional hearings dedicated to tax reform and 11 separate bipartisan tax reform working groups led by Mr. Camp and Representative Sander Levin of Michigan, then the ranking Democrat on the committee.

The Camp reform proposal cut rates and closed loopholes. The bipartisan Joint Committee on Taxation estimated it would lead to the creation of 1.8 million jobs and add up to $3.4 trillion to the gross domestic product without adding to the deficit. The committee estimated that the bill would save an average middle-class family of four $1,300 per year in federal taxes.

“I took as inspiration the 1986 act,” Mr. Camp told me this week. “We adopted the same structure and approach. We reduced rates and broadened the base. I felt good about that.”

Mr. Camp’s effort drew bipartisan praise. “I applaud it,” said C. Eugene Steuerle, a co-founder and fellow of the Urban-Brookings Tax Policy Center, a key architect of the 1986 reform act and former deputy assistant secretary of the Treasury for tax policy. While it needed a few amendments, he said, over all “it was rigorous, based on clear principles, and didn’t rely on magic money” to avoid expanding the deficit.

The Camp bill never even made it to the House floor.

“You can’t just go back to 1986 today,” said Michael J. Graetz, a professor and tax specialist at Columbia and Yale law schools who has written extensively about the 1986 act. Then, there were numerous tax shelters, loopholes and other sources of revenue. Today, “there’s no pot of gold to pay for the cuts, the way there was back in 1986,” Mr. Graetz said.

Even though it nominally cut corporate rates, the 1986 act actually shifted much of the tax burden from individuals to corporations. That’s not feasible today, where lowering the tax burden on corporations is a major goal.

That was a reality that Mr. Camp had to confront. “The Camp plan turned out to be a reality test,” Mr. Graetz said. “There was a lot of pain in the Camp bill in terms of eliminating tax deductions and credits. And that only got you to a 25 percent corporate rate. President Obama used to say he could get us to 28 percent, also with a lot of pain. But it’s hard to get the business community excited about 28 percent or 25 percent, especially now that the U.K. is moving to 17 percent and Canada is close to that.”

And Mr. Camp’s plan wasn’t able to lower individual rates much at all — devising three brackets, taxed at 10 percent, 25 percent and 35 percent. But it phased out certain deductions and exemptions for people making over $400,000 a year. The Tax Foundation calculated that some taxpayers making more than $400,000 would pay a marginal rate as high as 43.8 percent, in effect a tax increase on the wealthy. It also hit rich taxpayers by lowering the cap on mortgage deductions to $500,000, from $1 million.

And the Camp plan actually raised the top effective rate on capital gains and dividends to 24.8 percent, from 23.8 percent, according to the Tax Foundation.

That was anathema to many Republicans.

Some of the “pain” inflicted by the Camp plan also hits especially close to the Trump White House, since it proposed closing some of the biggest loopholes for real estate developers. Mr. Camp’s plan eliminated the break for so-called like-kind exchanges, which many real estate developers use to delay or avoid capital gains tax.

And the Camp plan proposed longer depreciation schedules, reducing the deductions that businesses can take for capital investment and thus increasing taxes for most real estate developers. The Trump plan calls for immediate expensing of 100 percent of capital costs, eliminating depreciation altogether — an enormous windfall for real estate interests.

It should probably come as no surprise that one person who didn’t like the Tax Reform Act of 1986 was Mr. Trump. “One of the worst ideas in recent history,” was how he described it in a 1999 op-ed piece in The Wall Street Journal.

Suffice it to say that anything resembling the 1986 act would appear to be dead on arrival with this administration and Congress, even though many tax experts support such an approach.

“Camp’s approach is what responsible tax reform should look like, and he garnered no support from either Republicans or Democrats,” Mr. Graetz said.

That doesn’t mean people are giving up hope. “I’m still optimistic we can conclude tax reform this year,” said Mr. Camp, now a senior policy adviser at the tax, accounting and consulting firm PwC. He’s been encouraged that Trump administration officials have recently reached out to him.

“The issues are difficult but it’s not nearly as partisan as health care,” he said. “There’s been a lot of work done on tax policy over the years, and I think we can build on that. Most people agree there’s an urgent need for tax reform, and I see this as a tremendous opportunity.”

First in a series of Common Sense columns about the shape a responsible tax reform plan might take.

Correction: July 20, 2017, Thursday

This article has been revised to reflect the following correction: An earlier version of this column characterized a House Ways and Means Committee hearing on Wednesday incorrectly. It was the latest of the committee’s hearings on tax reform, not the first.

Correction: July 26, 2017, Wednesday

This article has been revised to reflect the following correction: The Common Sense column on Friday, about the legacy of the Tax Reform Act of 1986, misstated the year in which The Wall Street Journal published an op-ed article by Donald J. Trump criticizing that legislation. It was 1999, not 1986.

* Health Care Has G.O.P. Down. Tax Cuts May Be the Cure.

* White House Scaling Back Goals for Business Tax Cuts

* Economists Fear Trump’s Tax Plan Only Heightens a ‘Mountain of Debt’

* Trump's Industry, Real Estate, Poses Hurdle to Tax Overhaul

President Ronald Reagan, flanked by lawmakers on the South Lawn of the White House, signing into law a landmark tax overhaul in 1986. | Bob Daugherty/Associated Press

Document NYTFEED020170720ed7k003h1

International New York Times

business
Tax Reform, Reagan Style, May Be a Tougher Fit for Trump; Common Sense

By JAMES B. STEWART
1,655 words
20 July 2017
International New York Times
INHT
English

Corrections Appended

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The 1986 reform also achieved the elusive goal of being "revenue neutral" (meaning it neither expanded the deficit nor entailed an overall tax increase) even as it cut the top individual rate from 50 percent to 28 percent. The top corporate rate declined to 34 percent, at the time the lowest corporate rate in the developed world, from 46 percent. The legislation offset the loss of revenue by broadening the base — eliminating a host of deductions, exemptions and credits, including many abusive tax shelters. It also greatly simplified returns for millions of taxpayers.

Legislators sold the bill to voters as a fair, efficient, simple spur to economic growth, and it proved enormously popular, one of Reagan's enduring accomplishments. The economy (and the **stock market**) soared. But over the years, much of it was undone as lobbyists and special interests pushed new preferences into the tax code.

As Mr. Brady said this week: "America now has one of the most costly, unfair, and uncompetitive tax systems in the world. The need for pro-growth tax reform is urgent."

So why not go back to 1986 and simply restore the principle that worked so well then — lower tax rates, along with a broader base that avoids increasing the deficit?

It turns out that many people have tried. The most recent example came in 2014, with tax reform legislation drafted by the Ways and Means Committee, led at the time by Representative Dave Camp of Michigan, a Republican who retired from politics in 2015. The legislation followed 30 congressional hearings dedicated to tax reform and 11 separate bipartisan tax reform working groups led by Mr. Camp and Representative Sander Levin of Michigan, then the ranking Democrat on the committee.

The Camp reform proposal cut rates and closed loopholes. The bipartisan Joint Committee on Taxation estimated it would lead to the creation of 1.8 million jobs and add up to $3.4 trillion to the gross domestic product without adding to the deficit. The committee estimated that the bill would save an average middle-class family of four $1,300 per year in federal taxes.

"I took as inspiration the 1986 act," Mr. Camp told me this week. "We adopted the same structure and approach. We reduced rates and broadened the base. I felt good about that."

Mr. Camp's effort drew bipartisan praise. "I applaud it," said C. Eugene Steuerle, a co-founder and fellow of the Urban-Brookings Tax Policy Center, a key architect of the 1986 reform act and former deputy assistant secretary of the Treasury for tax policy. While it needed a few amendments, he said, over all "it was rigorous, based on clear principles, and didn't rely on magic money" to avoid expanding the deficit.

The Camp bill never even made it to the House floor.

"You can't just go back to 1986 today," said Michael J. Graetz, a professor and tax specialist at Columbia and Yale law schools who has written extensively about the 1986 act. Then, there were numerous tax shelters, loopholes and other sources of revenue. Today, "there's no pot of gold to pay for the cuts, the way there was back in 1986," Mr. Graetz said.

Even though it nominally cut corporate rates, the 1986 act actually shifted much of the tax burden from individuals to corporations. That's not feasible today, where lowering the tax burden on corporations is a major goal.

That was a reality that Mr. Camp had to confront. "The Camp plan turned out to be a reality test," Mr. Graetz said. "There was a lot of pain in the Camp bill in terms of eliminating tax deductions and credits. And that only got you to a 25 percent corporate rate. President Obama used to say he could get us to 28 percent, also with a lot of pain. But it's hard to get the business community excited about 28 percent or 25 percent, especially now that the U.K. is moving to 17 percent and Canada is close to that."

And Mr. Camp's plan wasn't able to lower individual rates much at all — devising three brackets, taxed at 10 percent, 25 percent and 35 percent. But it phased out certain deductions and exemptions for people making over $400,000 a year. The Tax Foundation calculated that some taxpayers making more than $400,000 would pay a marginal rate as high as 43.8 percent, in effect a tax increase on the wealthy. It also hit rich taxpayers by lowering the cap on mortgage deductions to $500,000, from $1 million.

And the Camp plan actually raised the top effective rate on capital gains and dividends to 24.8 percent, from 23.8 percent, according to the Tax Foundation.

That was anathema to many Republicans.

Some of the "pain" inflicted by the Camp plan also hits especially close to the Trump White House, since it proposed closing some of the biggest loopholes for real estate developers. Mr. Camp's plan eliminated the break for so-called like-kind exchanges, which many real estate developers use to delay or avoid capital gains tax.

And the Camp plan proposed longer depreciation schedules, reducing the deductions that businesses can take for capital investment and thus increasing taxes for most real estate developers. The Trump plan calls for immediate expensing of 100 percent of capital costs, eliminating depreciation altogether — an enormous windfall for real estate interests.

It should probably come as no surprise that one person who didn't like the Tax Reform Act of 1986 was Mr. Trump. "One of the worst ideas in recent history," was how he described it in a 1999 op-ed piece in The Wall Street Journal.

Suffice it to say that anything resembling the 1986 act would appear to be dead on arrival with this administration and Congress, even though many tax experts support such an approach.

“Camp’s approach is what responsible tax reform should look like, and he garnered no support from either Republicans or Democrats,” Mr. Graetz said.

That doesn’t mean people are giving up hope. “I’m still optimistic we can conclude tax reform this year,” said Mr. Camp, now a senior policy adviser at the tax, accounting and consulting firm PwC. He’s been encouraged that Trump administration officials have recently reached out to him.

“The issues are difficult but it’s not nearly as partisan as health care,” he said. “There’s been a lot of work done on tax policy over the years, and I think we can build on that. Most people agree there’s an urgent need for tax reform, and I see this as a tremendous opportunity.”

First in a series of Common Sense columns about the shape a responsible tax reform plan might take.

Correction: July 20, 2017, Thursday

This article has been revised to reflect the following correction: An earlier version of this column characterized a House Ways and Means Committee hearing on Wednesday incorrectly. It was the latest of the committee’s hearings on tax reform, not the first. An earlier version also misstated the year in which The Wall Street Journal published an op-ed article by Donald J. Trump criticizing the Tax Reform Act of 1986. It was 1999, not 1986.

Correction: July 21, 2017, Friday

PHOTO: President Ronald Reagan, flanked by lawmakers at the White House, signed a landmark 1986 tax overhaul. (PHOTOGRAPH BY BOB DAUGHERTY/ASSOCIATED PRESS)

* Health Care Has G.O.P. Down. Tax Cuts May Be the Cure.

* White House Scaling Back Goals for Business Tax Cuts

* Economists Fear Trump’s Tax Plan Only Heightens a ‘Mountain of Debt’

* Trump's Industry, Real Estate, Poses Hurdle to Tax Overhaul

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THE WALL STREET JOURNAL.
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The Defiant Ones: Stocks on the Rise --- In rare global rally, indexes in Asia, U.S. and Europe all avoid pullbacks so far in '17

By Steven Russolillo
855 words
20 July 2017
The Wall Street Journal
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B1
English

Stock markets go up and down: It is a fact of life. Except in 2017.

Three major **stock-market** benchmarks in the U.S., Europe and Asia have avoided pullbacks this year, commonly defined as 5% declines from recent highs. Never in at least the past 30 years have all three indexes -- the **S&P 500**, MSCI Europe and MSCI Asia-Pacific ex-Japan -- gone a calendar year without falling at some point by at least 5%.

In good years and bad, markets tend to fluctuate wildly, with stock indexes often falling by double-digit percentages before bouncing back. That hasn't been the case this year, another reflection of the historically low **volatility** that has gripped the world. The CBOE**Volatility** Index, or VIX, finished Friday at its lowest since 1993.

Of course, 2017 is only a little more than half over, and plenty can change in the back half of the year. But the last time stock markets went this deep into a year without all three of those benchmark indexes suffering at least 5% pullbacks was nearly a quarter-century ago, in 1993, according to The Wall Street Journal's Market Data Group. All three finished that year with sharp gains.

Many investors say they are optimistic that the steady grind higher will continue and defy historical odds that suggest the markets should eventually falter. That is because earnings growth appears to be accelerating globally, economic growth is improving and central banks largely remain accommodative, even amid recent moves to tighten policy.

The rise of quantitative trading and the flood of money into passive strategies such as exchange-traded funds have also reduced **volatility**, investors and strategists say. ETFs owned nearly 6% of the U.S. **stock market** in the first quarter, the highest share on record, according to an analysis of Federal Reserve data by Goldman Sachs Group Inc.

Market calm has prevailed despite political and monetary turmoil: the U.K. vote last year to withdraw from the European Union, President Donald Trump's election victory in November, the European Central Bank's signal last month that it would soon start winding down its bond-buying program; none produced the sustained market swings many expected. That has raised concerns there might be another, less-well-understood dynamic at play.

Some investors who have missed out on this year's rally are waiting for cheaper opportunities to get back in. Others are taking positions in the options market that protect themselves from large price swings.

"We all want markets to go up forever and for there never to be any problems," said Daniel Morris, senior investment strategist at BNP Paribas Asset Management, which has about $661 billion in assets under management. "But this environment has been a challenge for equity investors who are looking for growth at a reasonable price."

The MSCI Asia-Pacific ex-Japan index, a benchmark that tracks big Asian companies listed globally, has surged 22% in 2017, propelled by strong rallies in tech companies such as Tencent Holdings Ltd. and Alibaba Group Holding Ltd.

The index's biggest peak-to-trough decline this year was 2%. If that performance continues for the rest of the year, it would be the smallest intrayear drop over at least the past three decades and a far cry from the index's average 20% pullback each year, according to analysts at J.P. Morgan Asset Management.

Indeed, there have been only three instances over the past 30 years in which the Asia index's biggest intrayear drop was less than 10%: 1991, 1993 and 2005.

Europe's performance, measured by the MSCI Europe Index, has also been steady. The index's biggest drop this year was 4%, far below its average intrayear decline of 16%, according to J.P. Morgan Asset Management.

In the U.S., sharp gains in tech and consumer stocks have propelled markets higher alongside shallow and brief dips.

The **S&P 500** has gained 11% this year. Its worst peak-to-trough drop has been 2.8%. If it finishes 2017 that way, it would be the second-smallest decline in a calendar year over the past 60 years, according to LPL Financial Holdings Inc., an independent brokerage and investment firm. The smallest was in 1995, when the index had a 2.5% fall. It surged 34% that year.

History suggests the stretch of calm won't last. The **S&P 500** has avoided a 5% or more pullback in just five of the past 60 years, according to LPL.

But for now, the catalysts that have propelled the rallies and minimized the pullbacks remain in place, including low odds of an imminent recession and strong earnings growth. The ratio of analysts revising their global earnings estimates higher rather than lower recently jumped to its highest level in about five years, according to Richard Turnill, global chief investment strategist at BlackRock Inc.

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Equities: Tech Shares Pass Dot-Com Era Record --- Information-technology sector beats the previous high reached back in March 2000

By Amrith Ramkumar and Ben Eisen
659 words
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English

Technology stocks broke a nearly two-decade-old record on Wednesday.

The **S&P 500**'s information-technology sector ended the day at 992.29, closing above its previous high of 988.49 set in March 2000 at the peak of the dot-com bubble. Tech stocks are by far the best performing among the index's 11 sectors this year, up 23% after posting their ninth consecutive day of gains.

Although it was down in June -- the first month of losses for the sector this year -- amid concerns that the group's rapid run-up had left it susceptible to a selloff, tech stocks have regained their mojo in recent weeks.

Apple Inc., the largest publicly traded company in the U.S. by market capitalization, has posted its longest streak of consecutive gains since August 2014, at nine days, while shares of other tech titans, including Facebook Inc. and Microsoft Corp., closed at highs. Google parent Alphabet Inc. isn't far from joining Apple as one of two companies with a market capitalization above $700 billion.

Those large tech companies have carried the **S&P 500** to fresh highs this year, attracting investors for their ability to increase earnings despite tepid economic growth.

The tech-oriented **Nasdaq Composite** returned to setting fresh highs in the spring of 2015. On Tuesday, it set its first record since June 8 and reached another high Wednesday, its 40th of 2017.

The S&P tech sector has been slower to reclaim record levels than the **Nasdaq** in part because it is missing some of the **Nasdaq**'s biggest gainers. Netflix Inc. and Amazon.com Inc., though they are often associated with tech stocks and included in the **Nasdaq**, are classified by S&P as consumer-discretionary companies.

Netflix shares gained 14% Tuesday, their largest one-day advance of the year, after the internet-streaming company blew through its quarterly subscriber-growth estimate. They are up 49% this year, while Amazon is up 37%.

Meanwhile, the S&P tech sector includes some underperformers, such as International Business Machines Corp., and Western Union Co., both down more than 11% this year. Neither are in the **Nasdaq**.

Even as some investors have become concerned about the persistent rise in technology stocks this year, they are quick to note that there are major differences between tech stocks now and in 2000.

The **S&P 500** tech sector is trading at 23.2 times the past 12 months' earnings as of Tuesday's close. While that is above the 22 times at which the broader S&P benchmark is trading, it is far below the 70.3 times the prior 12 months of earnings on March 27, 2000, when the tech sector peaked, according to FactSet.

Tech stocks have become profitable in recent years, with the sector increasing profits by 18% in the first three months of 2017 from a year earlier, topping the **S&P 500**'s 14% growth.

Apple had profit of $11.03 billion in its most recent quarter. By contrast, Cisco Systems Inc., the largest tech company by market cap in early 2000, earned less than a 10th of that in the three months through April 2000.

But some pieces of the tech sector look strikingly similar. Microsoft, the second-largest tech company in March 2000, with a market cap of about $540 billion, is now the third-biggest company, with a market cap of about $570 billion, according to FactSet and S&P Dow Jones Indices.

With the largest tech firms set to report earnings in the next few weeks, tech stocks could go even higher.

Weeks when quarterly earnings are being reported have traditionally driven a much higher percentage of **stock-price** gains for those highflying companies.

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The New York Times

Business/Financial Desk; SECTB
Tech and Energy Sectors Lead to Records

By THE ASSOCIATED PRESS
701 words
20 July 2017
The New York Times
NYTF
Late Edition - Final
4
English

Stocks on Wall Street continued to climb Wednesday, led by technology, health care and energy companies. Media companies also rose as stock indexes set record highs.

The technology part of the **Standard & Poor's 500**-**stockindex** finally broke the record it set in March 2000, before the dot-com bubble burst. Energy companies rose with the price of oil as energy stockpiles in the United States continued to shrink. Cable network companies Scripps Networks and Discovery Communications jumped after The Wall Street Journal reported that they are in talks to combine.

The **S**.**&P**. **500** rose 13.22 points, or 0.5 percent, to 2,473.83. Despite a sharp drop from IBM, the **Dow Jonesindustrial average** added 66.02 points, or 0.3 percent, to 21,640.75. The **Nasdaq composite** gained 40.74 points, or 0.6 percent, to 6,385.04.

The **S**.**&P**. **500** technology index surpassed its peak from late March 2000, at the height of the dot-com boom. Apple picked up 94 cents to $151.02 and Facebook advanced $1.28 to $164.14 while Cisco Systems rose 39 cents, or 1.2 percent, to $31.90.

Vertex Pharmaceuticals rose after it reported strong results from studies of drug regimens that are intended to help hard-to-treat forms of cystic fibrosis. Vertex soared $27.53, or 20.8 percent, to $159.69. That followed a 2.3 percent gain Tuesday after regulators approved a breast cancer treatment the company developed. Vertex's stock has more than doubled this year and it is trading at record highs.

Oil prices rose after the United States government said fuel stockpiles shrank last week. Benchmark crude rose 72 cents, or 1.6 percent, to $47.12 a barrel in New York. Brent crude, the standard for international **oil prices**, gained 86 cents, or 1.7 percent, to $49.70 per barrel in London.

Scripps Networks and Discovery Communications jumped after reports that the two cable network companies are in talks to combine. Scripps, which owns HGTV, Food Network and Travel Channel, climbed $9.87, or 14.7 percent, to $76.89. Discovery Communications, which runs TLC and Animal Planet, gained $1.13, or 4.3 percent, to $27.18.

Homebuilders jumped after the Commerce Department said construction of new homes rose 8 percent in June, breaking a three-month losing streak. Home construction is up slightly this year, but not enough to make up for a decline in older homes being listed for sale.

Spice maker McCormick agreed to buy RB Foods, the food division of Reckitt Benckiser, for $4.2 billion. That will give the company brands including French's mustard and Frank's RedHot. The price was higher than some analysts expected, and McCormick lost $5.07, or 5.2 percent, to $92.07.

IBM posted weaker sales than analysts expected, and its stock fell $6.47, or 4.2 percent, to $147.53.

Morgan Stanley climbed after the investment bank said its trading businesses did well during the second quarter, a contrast to rival banks which reported poor trading results as market conditions were quiet last quarter. Morgan Stanley rose $1.48, or 3.3 percent, to $46.62.

Gold inched up 10 cents to $1,241.20 an ounce. Silver rose 3 cents to $16.30 an ounce. Copper lost 2 cents to $2.71 a pound.

Bond prices inched lower. The yield on the **10**-**year Treasury** note rose to 2.27 percent from 2.26 percent.

The dollar dipped to 111.81 yen from 112.01 yen. The euro fell to $1.1516 from $1.1555.

The CAC 40 of France rose 0.8 percent and the British FTSE 100 jumped 0.6 percent. The DAX in Germany added 0.2 percent. In Japan, the Nikkei 225 **stock index** edged up 0.1 percent and the Hang Seng in Hong Kong climbed 0.6 percent. The South Korean Kospi added 0.2 percent.

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

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Heard on the Street
The Last Market Betting on Trump

By Justin Lahart
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20 July 2017
The Wall Street Journal
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B12
English

[Financial Analysis and Commentary]

Investors in most markets don't expect as much from President Donald Trump and Congress as they did in January. There is still optimism in stocks, and that could lead to disappointment.

Republicans' failure this week to repeal and replace the Affordable Care Act raises fresh questions about whether they will enact the tax-cut and stimulus-spending promises Mr. Trump campaigned on. Not only did the health-care debate reveal sharp divisions that exist in the GOP, but it chewed up a half year of the legislative time clock. And because Congress will need to pivot to the budget and to raising the debt ceiling, there won't be much time to pass a tax overhaul before the midterm election campaign sets in.

The lower expectations for the passage of a tax-cut and spending package are reflected in all the Trump trades that have unwound since the start of the year.

The dollar, for example, shot higher following the presidential election on expectations that the U.S. economy would get a boost, but it is now trading below its November levels. Treasury yields have moderated since the start of the year despite two rate increases from the Federal Reserve. The same is true for **stock-price** declines this year in the shares of companies that would benefit from large-scale infrastructure projects, such as Vulcan Materials and Granite Construction.

More than infrastructure, however, it was the possibility of a tax revamp that got investors in the **stock market** excited. An index of shares of companies with high tax rates -- the companies that should benefit most from a corporate tax cut -- constructed by Strategas Research Partners moved up sharply relative to low-tax stocks following the election. But that outperformance has been erased this year.

Yes, the overall **stock market** by contrast, has held on to its postelection gains. That leads to the conclusion that the rally is due much more to healthy corporate earnings and solid global growth than to expectations for Mr. Trump's policies.

"We just believe the market has already been giving little credit to tax reform," says Strategas policy analyst Dan Clifton.

Still, the market's high valuation in the face of declining earnings growth and a tepid U.S. economy means some of the rally was likely driven by policy expectations. More than half of the respondents to a survey of nearly 1,100 clients conducted by Cornerstone Macro last month said they expected Congress to pass a significant tax bill before the 2018 midterm elections.

The question to ask, says Cornerstone's Andy Laperriere, is what would happen to stocks if all investors gave up on a tax cut? The answer: They would probably fall.

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THE WALL STREET JOURNAL.
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Business News: Old Money Problems Await New GE Boss --- Profit target and cash flow will be the focus for investors ahead of quarterly report

By Thomas Gryta
595 words
20 July 2017
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J
B6
English

GE's quarterly results, due Friday, will give the company's incoming boss a taste of what he is up against: concerns about long-term profit goals and generating cash in the short term.

John Flannery's appointment as General Electric Co. chief executive, a post he assumes Aug. 1, has stoked some optimism about the company, but not enough to buoy the stock. Shares of the giant industrial company are down 15% so far this year, through Wednesday's close, while the **S&P 500 index** is up 11%.

The divergence is forcing GE to defend its conglomerate model to investors. The Boston company worked with activist Trian Fund Management earlier this year to set new cost-cutting targets. But Wall Street still is bracing for GE to lower its long-held 2018 profit target of $2 a share.

"Investors have come to realize that $2 of earnings power in 2018 is simply not on the table," said Morgan Stanley analyst Nigel Coe. In May, current CEO Jeff Immelt said the goal was at the high end of expectations, warning that GE would need additional cost cuts to make it.

On average, analysts expect earnings per share of $1.81 in 2018 -- down from an average estimate of $1.89 calculated in late May -- and generally expect the company to lower the target either on Friday or in the months after Mr. Flannery, head of GE's health-care business, takes the reins.

For the second quarter, Wall Street expects GE to report earnings of 25 cents a share, down about 50% from a year earlier, with revenue declining about 13%. The decline is largely attributable to a year-ago gain from GE selling its appliances business.

Thomson Reuters says GE will be the biggest drag on **S&P 500** profits, which are expected to rise 8.5% in the quarter from a year earlier. Excluding GE, **S&P 500** profits are forecast to climb 9.5%.

In the first quarter, GE reported a higher profit but Wall Street was blindsided by a negative cash flow of $1.6 billion from industrial operating activities. The company blamed the shortfall on the timing of inventory and orders. It reiterated its goal of $12 billion to $14 billion of positive industrial cash flow by year-end, up from $11.6 billion in 2016.

Chief Financial Officer Jeffrey Bornstein said in April that cash from operating activities would be "sequentially much better in the second quarter than the first."

GE has taken steps to retain cash by cutting the time its customers have to pay their bills, while extending the time it has to pay its own suppliers. In May, GE's Power division sent notices to some U.S. suppliers that it was lengthening the payment window and giving itself a discount if it pays those suppliers early.

The worries about cash center on the company's dividend, which costs $8 billion a year to fund. Deutsche Bank, one of the few brokerages with a "sell" rating on the company, warned in May that GE might have trouble covering the dividend after capital spending and pension payments.

In an interview last month, Mr. Flannery said the dividend is "safe" and reducing it won't be considered. He has promised to review the entire GE portfolio and produce recommendations by the fall.

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America's Farmers Turn To Bank of John Deere --- As low crop prices curb traditional loans, machinery giant bets on financing

By Jesse Newman and Bob Tita
2,114 words
19 July 2017
The Wall Street Journal
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A1
English

For nearly two centuries, Deere & Co. has built equipment to help farmers plant and harvest their crops. Now, the company's financial muscle is doing more of the work.

Throughout the Farm Belt, low prices for corn, soybeans and wheat are putting a strain on U.S. grain farmers, making it harder to get bank lending to plant a crop, or commit to purchasing multimillion-dollar fleets of new equipment.

Deere, the world's largest manufacturer of tractors and harvesting combines, is stepping in to fill the gap. It already lends billions to finance farmers' purchases of equipment. Now, it is providing more short-term credit for crop supplies such as seeds, chemicals and fertilizer, making it the No. 5 agricultural lender behind banks Wells Fargo, Rabobank, Bank of the West and Bank of America, according to the American Bankers Association.

Deere has also expanded its leasing program to get the company's green and yellow tractors into the hands of farmers, even when they are unable or unwilling to pay hundreds of thousands of dollars to buy one.

Its financing has helped farmers stay in business while generating income for Deere during the worst market for machinery sales in more than 15 years.

Farmers' incomes will decline for a fourth year this year, to half what they were in 2013, the U.S. Department of Agriculture projects. And inflation-adjusted debt is at a level not seen since the 1980s farm bust.

In shoring up the ailing sector, Deere's loans may be helping draw out the pain for farmers, allowing them to continue to rack up debt despite a glut of grain world-wide that is keeping a lid on crop prices. The increase in equipment leasing, meanwhile, is weakening Deere's own market for sales.

If crop prices remain subdued, "you're just prolonging the agony and potentially building up [farm] losses instead of cutting the pain, cauterizing the wound and stanching the flow of financial blood now," said Scott Irwin, an agricultural economist at the University of Illinois.

But if poor weather ultimately spurs grain prices higher, Mr. Irwin said, the risks of farm lending likely would be forgotten, and Deere could win new or more-loyal customers.

Deere said it is responding to greater demand for leased equipment from farmers and for short-term credit from other farm-industry manufacturers such as seed companies that are offering aggressive financing through Deere as a sales incentive.

"Our core mission is to support sales of equipment," said Jayma Sandquist, vice president of marketing for the U.S. and Canada for John Deere Financial, the company's financing unit. "It's a cyclical industry. We've built a business that we can manage effectively across all cycles, and our performance would indicate we can do that."

The financing arm has shielded the Moline, Ill., company from the worst of the farm slump, keeping factories and dealers intact and investors satisfied with profits. Despite a 37% drop in sales of its farm equipment since a record high in 2013, Deere's **stock price** is up 72% from its recent low in early 2016 and up 22% since the start of 2017.

Deere Financial's portfolio of loans and leases, which includes short-term lending, leasing and multiyear loans for equipment purchases, totaled $34.7 billion at the end of the company's 2016 fiscal year, in October.

Since 2013, the total value of equipment leases held by Deere is up 87%. Loans for farm-equipment purchases, meanwhile, have fallen 10% since peaking in 2014, reflecting sliding machinery sales.

Short-term credit accounts for farmers -- used for items such as crop supplies and equipment parts -- are up 38% since the end of 2015. As of early 2017, the bank operation of Deere Financial had handed out about $2.2 billion. It is close on the heels of the No. 4 agricultural lender, Bank of America, which has about $2.6 billion out.

"Deere Financial is a massive force," said Robert Wertheimer, a Barclays analyst. Deere, which accounts for about two-thirds of all the big tractors sold in the U.S., "is able to influence this market. They have more market power than most companies."

Rob Zeldenrust, senior agronomy manager at North Central Co-op in Mentone, Ind., said a farmer who grows corn, soybeans and wheat on 1,000 acres likely would need $250,000 to cover the cost of seed, fertilizer, chemicals, spraying and fuel for a single growing season.

Suppliers like Deere can be a lifeline for farmers such as 59-year-old Harry DuRant in South Carolina. Mr. DuRant leases a tractor from Deere, and has charged seed and chemical purchases to lines of credit held by Deere and other suppliers. Together with loans from his local bank, the financing has helped him plant corn, soybeans, peanuts, cotton and other crops despite losing money for three years out of the past four. It has helped him weather floods, a hurricane and total crop failure.

But low commodity prices are making it difficult for Mr. DuRant to pay off past debts without taking on new ones. "It's a vicious cycle," Mr. DuRant said, noting that seed companies continually introduce more-expensive, higher-yielding varieties of corn and soybean seeds that appeal to farmers like himself, despite a global oversupply of crops and low grain prices. "I buy into it because I'm a grower, so of course I want to make 150-bushel corn instead of 120-bushel corn. All we're doing is making the situation worse."

Supplier credit has long played a role in the financial plumbing of the U.S. heartland. But it has grown more crucial in recent years as commercial banks have become choosier, increasing interest rates and collateral requirements and denying financing to some farmers altogether.

The volume of new loans for farm operations originated by banks in the first half of 2017 fell 7% from a year earlier, according to the Federal Reserve Bank of Kansas City, following a decline in the first half of 2016. Loan volumes in the second quarter ticked up slightly, the bank said.

"It used to be you showed up [at a bank] and said you were a farmer and they said please let us lend you something," said Illinois farmer Aaron Wernz, noting that several years ago a $100,000 loan for operating expenses could be secured with a phone call. "Now they want to make sure their t's are crossed and i's are dotted."

Nate Franzen, president of the agribusiness division of First Dakota National Bank in Yankton, S.D., said the number of high-risk loans at his bank has quadrupled to 12% in the past two years. The bank is working to restructure debt for some borrowers, and urging others to sell land or equipment or vacation homes. He has had to tell a few farmers it couldn't finance them at all.

"As producers get overextended, banks like mine say 'I can't go any further,'" said Mr. Franzen. "'We're not going to stick with you until it's all gone.'"

Agribusinesses such as Monsanto Co., DuPont Co., Dow Chemical Co. and agricultural co-ops nationwide offer financing on crop supplies through in-house programs or in partnership with lenders like Deere and Rabobank.

BASF SE, one of the world's largest suppliers of pesticides to farms, offers financing exclusively through Deere, and says its program has expanded in the past five years.

CHS Inc., a large farmer-owned cooperative in the U.S. that lends widely to farmers, is holding about $250 million in debts owed by a single farm operation, according to court documents.

Deere's main rival, CNH Industrial NV -- the maker of CaseIH and New Holland equipment brands -- has also turbocharged its leasing program.

But Deere has expanded the reach of its financing business well beyond machinery, and far more than any other manufacturer in the farm sector. The financing business accounted for a third of its net income in fiscal 2016, up from 16% in 2013.

Deere's lending arm regularly yields profit margins much greater than Deere's margins for equipment sales -- in 2016, the net margin for financial services was 16%, compared with 4.5% for equipment.

Financing profits have also suffered less during the downturn; net income from financing activities fell 17% from 2013, while net income from the equipment business plunged 57% in that period.

But Deere's loan or lease balances more than a month past due have doubled since 2012 to $434 million at the close of fiscal 2016, according to an annual regulatory filing for a Deere financial subsidiary for its U.S. business.

The amount of debt Deere said it won't be able to collect has doubled since 2014 to $103 million, with more than half of that amount from its crop-supplies credit program.

Losses at Deere's financial arm still remain minuscule relative to the size of its finance business. The company said mounting farm debt isn't a significant risk given still-high equity levels -- the difference between total assets and total debt on farms. "We have many good customers that can continue to repay and stay consistent across underwriting," said Deere's Ms. Sandquist.

In the longer term, Deere's aggressive leasing activity threatens its core business of selling large, high-horsepower tractors that can cost more than $200,000 apiece, and harvesting combines priced at more than $500,000.

Deere accelerated its equipment leasing in 2014 when sales plummeted following almost a decade of rapid-fire purchases by farmers flush with cash. The leasing business has kept Deere from having to idle factories and has provided dealers with income from replacement parts and services for leased equipment.

In turn, it has provided farmers with machines for one to three years for a fraction of their purchase price, alleviating the need for loans. A new tractor costing $250,000 can be leased for about $30,000 a year. That compares with the cost to buy with a loan, which would require a 20% down payment of $50,000 and more than $40,000 a year in payments for five years for the remaining $200,000 with 5% interest.

At the end of a lease, many farmers have returned their machinery to dealers, adding to an already oversupplied market for used equipment. That pushes down the price farmers who own can get for their used machines, discouraging trade-ins for new models. The lower prices also erode profits for Deere when the machinery is eventually sold.

"I don't believe I'll ever buy again," said Mark Gath, a farmer in Luverne, Minn., who recently decided to lease four combines and five tractors from the company instead of borrowing money to buy. "I don't have a bank looking at me saying: 'You've got $5 million of equipment debt. What are you going to do?' "

At the end of fiscal 2016, Deere carried leases on farm and lawn equipment valued at $4.8 billion, up 22% from the previous year.

Deere quit offering one-year leases last year. The longer-term contracts benefit Deere by having farmers pay more of the machinery's cost through their payments.

Deere executives said they are seeing better prices and shrinking inventories for used equipment, as well as improving order volume for new models.

Ms. Sandquist said farmers' interest in leasing is waning as their appetite for buying grows again. "We are certainly seeing leasing coming down, and we're seeing stabilization in used values," she said.

The company increased its equipment sales-growth forecast for the year to 9% from 4% in May, and it cranked up its net profit outlook to 33% growth, to $2 billion.

Turning farmers like Michael Oliver into buyers again will be critical for Deere's future.

Mr. Oliver, who farms 32,000 acres near Cadiz, Ky., said he used to trade in and purchase about $12 million worth of machinery -- seven combines and a dozen tractors -- every year before sliding crop prices caused him to start leasing three years ago. But he recently concluded that even that was too costly. He is now extending warranties on old equipment he already owns, saying: "We're going to use our own equipment, and it looks like we're going to be keeping it for a while."

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The New York Times

Business/Financial Desk; SECTB

Insurers Fall After Defeat of G.O.P. Health Care Bill

By THE ASSOCIATED PRESS
719 words
19 July 2017
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NYTF
Late Edition - Final
2
English

Stocks were divided on Tuesday as health insurers declined after the failure of the latest Republican health care bill while a big jump in subscribers for Netflix sent technology and consumer-focused companies higher.

Stocks spent most of the day lower after the health care push stalled and several financial firms, including Goldman Sachs, reported underwhelming second-quarter results. Energy and industrial companies also slipped.

Stocks flirted with larger losses and most of the companies listed on the New York Stock Exchange fell, but the gains for tech and consumer stocks were enough to send the **Standard & Poor's 500-stockindex** and **Nasdaq composite** index to record highs.

Wall Street did not have a big reaction to the Republican health care defeat, as it did when a related bill failed in March. After four months of struggles over health care, investors do not expect as much from Congressional Republicans and President Trump on other issues.

''Tax changes aren't likely to take place any time soon and are likely to be smaller than they hoped,'' said Kate Warne, an investment strategist for Edward Jones.

The **S.&P. 500** rose 1.47 points, or 0.1 percent, to 2,460.61, edging above the record it set Friday. The **Dow Jonesindustrial average** fell 54.99 points, or 0.3 percent, to 21,574.73. The **Nasdaq composite** index climbed 29.87 points, or 0.5 percent, to 6,344.31, as tech companies like Facebook and Alphabet, the parent of Google, rose. After a plunge in June, the **Nasdaq** has surged in the last two weeks.

Several major banks reported strong second-quarter results, but that was not enough to excite investors. Bank of America and Goldman Sachs said their trading businesses struggled, as the market has been calm for months.

Goldman lost $5.95, or 2.6 percent, to $223.31, and Comerica fell $1.47, or 2 percent, to $73.05. Bank of America declined 12 cents to $23.90.

Netflix jumped after announcing it added 5.2 million subscribers in the last three months, and for the first time, it has more subscribers outside the United States than in it. The second quarter is usually a slow period for Netflix, so the big gain pleased investors. Netflix rose $21.90, or 13.5 percent, to $183.60. Among other consumer companies, Amazon.com added $14.34, or 1.4 percent, to $1,024.38.

Facebook gained $3.13, or 2 percent, to $162.86, and Alphabet picked up $10.99, or 1.1 percent, to $986.85.

The Senate health care bill was defeated Monday night when two more Republican senators announced they opposed it, which prevented the proposal from coming to a vote. Republican leaders shifted their efforts to repealing the 2010 Affordable Care Act without creating a replacement law, but that effort was quickly shut down as well.

Health insurers declined. Aetna fell $1.69, or 1.1 percent, to $153.31, and Anthem retreated $2.64, or 1.4 percent, to $189.45. UnitedHealth, the largest company in the industry, inched up 59 cents to $186.85 after it reported strong second-quarter results and raised its annual outlook.

The dollar slid to 111.98 yen from 112.66 yen. The euro rose to $1.1563 from $1.1480. The euro has not been this strong compared with the dollar since early 2015.

Bond prices rose. The yield on the **10**-**year Treasury** note slid to 2.26 percent from 2.31 percent. That hurt bank stocks.

Benchmark United States crude added 38 cents to $46.40 a barrel in New York. Brent crude, the international standard, rose 42 cents to $48.84 a barrel in London.

Gold gained $8.20 to $1,241.90 an ounce. Silver rose 17 cents, or 1 percent, to $16.27 an ounce. Copper added 1 cent to $2.73 a pound.

The New York Stock Exchange on Tuesday as the **S**.**&P**. **500**-**stock index** and **Nasdaq** hit highs. (PHOTOGRAPH BY DREW ANGERER/GETTY IMAGES) CHART: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Tuesday. (Source: Reuters)

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THE WALL STREET JOURNAL.
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Banking & Finance: Bull Market Lacks Herd Mentality

By Ben Eisen
400 words
19 July 2017
The Wall Street Journal
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B14
English

One thing the **stock market** has going for it: It isn't trendy.

Investors have found it difficult to pick sectors and strategies that have consistently outperformed throughout this **bull market** because the trends keep shifting. What was up one day or week is down the next, and vice versa, according to an analysis by Jim Paulsen, chief investment strategist at the Leuthold Group.

When it is tough to find a strategy that outperforms for long periods, investors act less like a herd and are forced further afield in search of market-beating returns. Such an environment also means investors are less likely to become overly optimistic and complacent and pile into one side of a trade that is doing well until it crashes.

Mr. Paulsen views the level to which investors are piling into particular trades as the market's trendiness. By his analysis, this **bull market** has, for the most part, had a trendiness level that ranks in the bottom 25% of historical readings.

Only for brief periods in 2009 and 2014 did his measure of trend following jump above the bottom-of-the-barrel grouping.

"Almost the entire **bull market** has been with an internal market trendiness that is very low," Mr. Paulsen said.

To measure the extent to which the market is characterized by trend following, Mr. Paulsen looked at 40 indexes that track various industry segments. He tracked how many days in a row each one underperformed the broader market on a one-year trailing basis before flipping to outperform, or vice versa. The performance didn't matter: only how long it stayed above or below the benchmark before it switched. Once it did so, the trend was deemed to have ended. He averaged them out to come up with a reading on trendiness.

What he found is that the measure peaked at times when the market was at elevated levels, such as during the height of the dot-com bubble in 2000. At that time, everyone was following hot tech startups -- a herd behavior that ended with a crash. It bottomed out after the 2008 financial crisis had roiled markets and there were few consistent trends to ride out.

Years later, this **bull market** is getting old but the measure is still low, Mr. Paulsen said.

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The New York Times

Breakingviews
Business Day; DealBook

Goldman Sachs Struggles to Navigate the Markets

By JOHN FOLEY
460 words
18 July 2017
05:34 PM
NYTimes.com Feed
NYTFEED
English

Who cares about a few bad weeks in fixed-income markets?

Jamie Dimon, JPMorgan Chase's chief executive, raised that reasonable question last week. The answer is Lloyd C. Blankfein at the rival Wall Street firm Goldman Sachs, which on Tuesday reported a 40 percent year-on-year slump in revenue from trading bonds, currencies and commodities. Goldman's market compass is a little off, and investors may soon expect Mr. Blankfein to fix it more quickly.

The quarter to June was the second in a row in which Goldman, the $90 billion financial company, has been out-traded by its peers. While others warned that the period would not be as good as a year earlier — basically because fewer freaky things happened in the market — JPMorgan and Citigroup reported revenue shrinkage in their equivalent divisions less than half as severe as Goldman's.

They may be less exposed to commodities or benefit more from steady corporate business rather than hedge funds. And swings in markets can have a bigger impact on Goldman because it lacks a large commercial banking business. Last quarter, the firm's dire fixed-income performance was offset by strong equities trading and a $1.2 billion slug of revenue from equity investments that Goldman holds on its own book.

Over time, the firm's exposure to **volatile** fixed-income trading will become more muted. In the most recent quarter F.I.C.C., as it's known, made up around 15 percent of net revenue, against 24 percent in the second quarter of 2016.

Mr. Blankfein's push into retail banking is still in its infancy, but the 20 percent-plus returns on equity that other consumer lenders manage — more than twice what Goldman reported last quarter — suggest that is a promising new direction.

Targeting less flighty corporate clients and longer-term asset managers may also muffle some of the noise, though that will take time, too. Of course, that will also dampen Goldman's traditionally unmatched ability to ping back significantly when markets do.

That ping-back potential — referred to in analyst-speak as operating leverage — is a big part of Goldman's investment appeal. It helps explain why the bank trades at 1.1 times its estimated book value a year from now, according to Thomson Reuters Eikon.

The implication is that investors believe Goldman can push its return on equity well into double digits. As Mr. Dimon at JPMorgan suggested, a few bad trading weeks needn't change their minds. But a couple more uninspiring quarters might.

John Foley is Reuters Breakingviews editor for Europe, the Middle East and Africa. For more independent commentary and analysis, visit breakingviews.com.

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International New York Times

opinion
Wall Street Profits by Putting Investors in the Slow Lane; Op-Ed Contributors

By JONATHAN MACEY and DAVID SWENSEN
908 words
18 July 2017
International New York Times
INHT
English

Wall Street has developed a new way, clouded in obscurity, to fleece the hundreds of millions of Americans who have money invested in company pension plans, mutual funds and insurance policies.

Institutional brokers are legally obliged to execute trades on the exchange that offers the most favorable terms for their clients, including the best price and likelihood of executing the trade. The 12 exchanges, most of which are owned by New York Stock Exchange, **Nasdaq** and Better Alternative Trade System (BATS), along with the Chicago Stock Exchange and the Investors Exchange (IEX), are supposed to compete to offer the best opportunities.

But that's not what is happening. Instead, brokers routinely take kickbacks, euphemistically referred to as "rebates," for routing orders to a particular exchange. As a result, the brokers produce worse outcomes for their institutional investor clients — and therefore, for individual pension beneficiaries, mutual fund investors and insurance policy holders — and ill-gotten gains for the brokers.

Although the harm suffered on each trade is minuscule — fractions of a cent per share — the aggregate kickbacks amount to billions of dollars a year. The diffuse harm to individuals and the concentrated benefit to Wall Street create yet another way in which the system is rigged, justifiably eroding public confidence in the fairness of the financial system.

This is how it works: The likelihood of executing a trade at the best price depends on the length of the queue to buy or sell and the incentives to trade. Longer queues lead to longer delays to execute a trade. Delays typically lead to worse outcomes. Quite simply, it makes no sense to wait on a longer line to receive a worse execution.

And yet, brokers choose longer queues hundreds of thousands, if not millions, of times a day. Publicly available trade and quote data show that the queues to buy or sell stock are considerably longer on exchanges that offer kickbacks. Even though the queues decrease the likelihood of getting a trade completed and impair the price performance after the trade is executed, brokers still direct trades to these places because of the kickbacks they receive.

One exchange, the IEX, refuses to pay rebates. Created by Brad Katsuyama (whose odyssey to defy the ethos of Wall Street was told in Michael Lewis's "Flash Boys"), IEX has a speed bump that prevents high-frequency traders from front-running ordinary investors. (Yale University, where we work, has a de minimis exposure to IEX through an investment by one of the university's external managers.)

Since opening on Aug. 19, 2016, IEX has delivered on its promise of better execution. Consider data on effective spread, which measures an exchange's ability to provide trade executions at attractive prices. A lower effective spread is good for investors, since the gap between what buyers pay and what sellers receive is smaller.

BATS (a rival stock exchange founded by a high-frequency trader) posts data on this measure of execution quality for the major exchanges on its website. According to our calculations, in the six months before IEX's arrival, **Nasdaq** led the effective spread rankings in the widely used **Standard & Poor**'**s500 index**, with the number of top ranks ranging from 169 to 216 stocks.

In September 2016, IEX's first full month of operation, the exchange crushed its rivals, offering the best effective spread for 412 of the **S**.**&P**. **500**'s stocks. In the ensuing months, IEX's dominance increased, with the exchange displaying the lowest effective spread for 497 of the stocks in the **S&P 500** in May 2017 and for 500 stocks in June 2017. (In June, the **S&P 500** actually contained 505 stocks.)

The added cost to investors trading on other exchanges is stunning. On average, the competing exchanges have effective spreads 96 percent higher than IEX's for stocks in the **S**.**&P**. **500**, with the premium ranging from 80 percent to 158 percent on the exchanges for which BATS provided data.

The obvious question in light of IEX's superior execution quality is why the exchange has a market share of just over 2 percent. One reason seems obvious: Unlike the other exchanges with greater market share, IEX does not pay broker kickbacks. (BATS and the New York Exchange have each recently converted one of their exchanges to a kickback-free model.)

Elimination of kickbacks would elevate the integrity and quality of America's securities markets, improving executions for real investors and restoring a sense of fairness. Since kickbacks result in worse trade execution, brokers that route client orders for kickbacks violate their duty of best execution.

Senator Mark Warner, a member of a Senate subcommittee on banking and investment, recognizes the conflict created by the practice of paying rebates. On July 14, Senator Warner wrote to SEC Chairman Jay Clayton urging the full elimination of rebates to "increase price transparency, reduce fragmentation, strengthen stability, and bring U.S. equity markets" closer to the competitive mandate.

Maybe it's time for the Securities and Exchange Commission to start enforcing its own best-execution rule.

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Jonathan Macey is a professor at Yale Law School. David Swensen is the chief investment officer of Yale University.

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THE WALL STREET JOURNAL.
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Investors Are Digging Deeper for Value --- They find alternatives after cutting exposure to assets that now seem too expensive

By Ira Iosebashvili
619 words
18 July 2017
The Wall Street Journal
J
B12
English

Some investors are searching globally for out-of-favor assets, concerned that a looming wind down of central banks' easy-money policies will hit the markets' top performers.

That goes beyond moving money into less-loved areas of the **stock market**, such as shares of auto makers or retailers. Some are swapping U.S. Treasurys for currencies such as the Japanese yen or Swiss franc, or betting on investments that will benefit if inflation picks up again after a yearslong hiatus.

For money managers, such trades are a way to stay invested while cutting exposure to assets they believe may have become too expensive during nearly a decade of ultraloose monetary policy from the world's central banks. Signals that policy makers around the world are preparing to dial back stimulus efforts amid evidence of broad improvement in the global economy sparked selling in government bonds, utilities shares and the U.S. dollar in recent weeks.

The yield on the benchmark U.S. **10**-**year Treasury** note is a yardstick money managers use to value other assets, so a rapid climb in yields could rattle other markets. At the same time, the cyclically adjusted price/earnings ratio for the **S&P 500**, a popular metric pioneered by Nobel Prize-winning economist Robert Shiller, shows valuations are at their highest levels since 2002.

"In 2009, you didn't have to dig too deep for value, once you concluded the world wasn't coming to an end," said Adam Farstrup, head of multiasset product, Americas at Schroders. "Now . . . there are no obvious places to hide."

To protect against sharp declines in the **stock market**, the firm prefers a basket of haven currencies such as the Swiss franc and Japanese yen to U.S. government bonds, where yields remain near historic lows despite the recent global bond selloff. Yields fall as **bond prices** rise.

Schroders has also cut positions in economically sensitive stock sectors such as financials and increased allocations to shares of health-care companies, which it believes have been depressed by months of political wrangling over a repeal of the Affordable Care Act.

Other investors are mining the **stock market** for companies with shares trading at relatively low multiples of earnings or book value, the total value of their assets outside what they owe. The average **S&P 500** stock now trades at 3.1 times book value, according to FactSet, the highest multiple in a decade.

Tim Rudderow, chief investment officer at Mount Lucas Management LP, owns General Motors, which traded last week at 5.6 times its past 12 months of earnings, and retailer Kohl's, whose **stock price** is down roughly 50% from its 2015 high and trades at 11.7 times earnings, according to FactSet. By comparison, Amazon.com trades at 190.1 times earnings, while Netflix trades at 211.1 times earnings.

While GM has benefited from a rise in U.S. auto sales since the financial crisis, some analysts said threats from rivals such as Tesla have hurt its shares. Kohl's shares have been stung as retailers compete with e-commerce firms.

Mr. Rudderow believes momentum will shift from technology stocks that have led markets higher to equities that have performed more modestly. "This hugely bifurcated market is creating big value," Mr. Rudderow said.

Vadim Zlotnikov, chief market strategist and co-head of multiasset solutions at AllianceBernstein, is buying derivatives that are linked to the consumer-price index and would rise in value if U.S. inflation broke out of its monthslong slump.

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THE WALL STREET JOURNAL.
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Heard on the Street
High-Yield Bonds Not Worth Risk

By Richard Barley
290 words
18 July 2017
The Wall Street Journal
J
B12
English

[Financial Analysis and Commentary]

Interest rates are low, so what's not to like about high-yield corporate bonds? One measure suggests investors should think twice.

The yield on the Bloomberg Barclays global high-yield corporate-bond index stands at just over 5%, not far from its record 2014 low of 4.7%. But what really matters is the extra yield -- or spread -- that investors pick up versus other, safer asset classes such as government bonds. At first glance, that looks relatively chunky.

But it is worth looking again. Strategists at Prudential Portfolio Management Group, part of the U.K.'s Prudential PLC, break it down like this: First, there are always going to be some high-yield companies that default. So PPMG shaves off some of the extra yield to account for long-run average losses due to defaults. Then, the strategists deduct the spread available on safer investment-grade corporate bonds. After all, if an investor can achieve the same yield pickup by buying a less risky security, it would make sense to do so.

On that basis, the risk premiums on high-yield bonds in the U.S. and Europe were negative in June, PPMG calculates. The extra yield wasn't enough to compensate investors for the risk of owning them over time.

This has happened before, most recently in 2014. That was followed by a selloff that gathered pace in 2015 as the falling **oil price** hit energy-company balance sheets. There may not be an immediate catalyst for the market to fall now. But for investors buying high-yield bonds, the risk-reward balance doesn't look encouraging.

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THE WALL STREET JOURNAL.
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Dow Transports Are Waving the Rally Flag

By Ben Eisen
465 words
18 July 2017
The Wall Street Journal
J
B11
English

An index of plane, train, and shipping companies has been hitting fresh records this month, a **bullish** signal for those who track the century-old Dow Theory.

The Dow Jones Transportation Average didn't hit a new record between the beginning of March and the start of this month. The divergence between the index and the **Dow Jones Industrial Average**, which has repeatedly hit fresh records since the start of June, had raised concerns about the strength of the **stock market** rally.

The Dow Theory holds that any lasting rally to new highs in the Dow industrials must be accompanied by a fresh record in the Dow transports, the 20-**stock index** of the largest U.S. airlines, railroads and trucking firms. When the transport average lags behind the blue-chip index, it can presage broader stock declines.

The transports have gained 7.2% this year, while the Dow industrials have climbed 9.4%.

The price-weighted transport index had been dragged down in part by United Parcel Service Inc., the third most expensive stock in the index. The company's shares have fallen 2.2% this year as UPS contends with higher shipping costs associated with e-commerce.

The series of transport records this month offers confirmation of the rally in industrials, an encouraging sign for chart watchers that the broader **stock market** rally is on track.

"Both the industrials and transports are in gear and confirming each other," said Stephen Suttmeier, a technical research analyst at Bank of America Merrill Lynch. "There's no divergence for the bears to growl about."

Critics of the Dow Theory say it has become less relevant as the U.S. has shifted to a more service-based economy and away from a manufacturing one. But the Dow Theory is just one of a number of technical indicators that have recently flashed **bullish** signals for the rally. Measures of how broadly the rally has spread across stocks, known as market breadth, have also indicated to technicians a wide base of support for stocks.

"The technical indicators point to further gains in the **stock market**," said Bruce Bittles, chief investment strategist at Baird, in a note to clients on Monday.

A high in the transports has also often preceded moves higher in other indexes, such as the **S&P 500**. On Friday, the transports hit a 52-week high alongside the **S&P 500** and the small-cap Russell 2000 index. The last time the trio began hitting 52-week highs after a three-month absence of such "triple plays" was in November, according to Bespoke Investment Group, and the **S&P 500** gained 7.5% over the next three months.

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THE WALL STREET JOURNAL.
U.S. EDITION

Germany Should Say Danke for U.S. Oil

By Isaac Orr
577 words
18 July 2017
The Wall Street Journal
J
A13
English

German Chancellor Angela Merkel used her closing speech at the recent Group of 20 summit to chide President Trump for withdrawing the U.S. from the Paris climate accord. Yet the German people will benefit far more from the American president's focus on facilitating U.S. energy production and boosting exports than from Mrs. Merkel's climate policies. They have increased residential electricity prices for German households and failed to achieve any meaningful reductions in fossil-fuel consumption or carbon-dioxide emissions.

Germany has developed a reputation as a green-energy superpower, but in many respects it isn't. Of all the energy used in Germany in 2016, 34% came from oil, 23.6% from coal, 22.7% from natural gas, 7.3% from biomass, 6.9% from nuclear, 2.1% from wind power, and 1.2% from solar. Waste, geothermal and hydropower accounted for the remaining 2%.

All told, Germany derived more than 80% of its total energy consumption from fossil fuels. That's bad news for a country that depends on imports. About 97% of the oil, 88% of the natural gas and 87% of the hard coal Germans consume are imported.

Though they may find it difficult to swallow, the German people will benefit from Mr. Trump's efforts to make energy resources accessible and affordable. Germans spent $73.5 billion on imported oil in 2013, when the price of Brent crude averaged approximately $108 a barrel. Since then, the U.S. embrace of hydraulic fracturing -- also known as "fracking" -- has resulted in a surge of U.S. crude oil on the world market, causing global **oil prices** to fall to about $47 per barrel. Some back-of-the-envelope math suggests Germans may now pay $41.5 billion less per year for their oil imports, constituting an average savings of around $1,107 (at current exchange rates) for each of Germany's 37.5 million households.

Ms. Merkel's climate and energy policies have caused residential electricity prices in Germany to spike by approximately 47% since 2006, costing the average German household about $380 more a year. The higher prices are largely due to a 10-fold increase in renewable-energy surcharges that guarantee returns for the wind and solar-power industries. These surcharges now make up 23% of German residential electric bills.

The German people are paying far more for their household energy needs under Ms. Merkel, yet they have little to show for it. Since 2009, when Germany began to pursue renewables aggressively, annual CO_2 emissions are down a negligible 0.1%.

Meanwhile, the U.S. experienced year-over-year reductions in CO_2 emissions in 2015 and 2016, and CO_2 emissions have fallen a dramatic 14% since 2005. This has mostly been made possible by fracking -- a practice banned in Germany. Fracking has allowed the U.S. natural-gas industry to compete with coal in a way that wasn't previously possible, lowering costs for everyone.

Slapping around Mr. Trump, who is deeply unpopular in Germany, might score Ms. Merkel some domestic political points. But if the German leader really wants to help the environment, she might consider scaling back the attacks. Without American energy production and exports, Germany -- and the world -- would be a dirtier, darker and less efficient place.

Mr. Orr is a research fellow at the Heartland Institute.

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THE WALL STREET JOURNAL.
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Virtual Currencies: Bitcoin, Ether Are Caught In Cryptocurrencies Selloff

By Paul Vigna
221 words
17 July 2017
The Wall Street Journal
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B9
English

The price of the digital currency bitcoin fell over the weekend, dropping below $2,000 and farther away from its June highs, part of a broad selloff in dozens of cryptocurrencies, including ether.

Bitcoin on Sunday traded as low as $1,836, according to news and research site CoinDesk, down about 8% on the day, and almost 40% from its high of $3,018 on June 11. Meanwhile, ether, the currency used on the Ethereum network, traded as low as $155 on Sunday, down about 60% from its high of $395 on June 13.

Prices were lower across the board on Sunday, most notably for the tokens created via the so-called initial coin offering, or ICO , process.

The selloffs are another reminder that these new kinds of digital assets remain highly speculative trading vehicles. The markets around them are still relatively immature and illiquid, resulting in extremely **volatile** trading.

The simple problem is that prices earlier this year were rising faster than the fundamental values warranted, said Andreas Antonopoulos, a bitcoin developer and author.

"Analysis tools are immature, investors are immature and expect quick riches, then get washed out." "You have to ignore the drama and focus on the real reason to be involved in this," he added.

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The New York Times

Business Day; DealBook
Struggles at Procter & Gamble Draw Scrutiny of Nelson Peltz

By JULIE CRESWELL and MICHAEL J. de la MERCED
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17 July 2017
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Correction Appended

Tide detergent dominated the American laundry room for decades and helped make Procter & Gamble a consumer products behemoth.

But consumers have increasingly been shunning premium-priced brands like Tide for cheaper versions of laundry detergent. And the detergent market is just one of many in which Procter & Gamble is battling to keep bargain-hunting customers.

Across a number of its mission-critical, multibillion-dollar product lines — from Pampers diapers to Olay skin creams to Gillette razors — Procter & Gamble is fighting to retain its market share.

Those struggles have now attracted the attention of Nelson Peltz, a billionaire investor and activist shareholder.

Arguing in a regulatory filing that the company was in need of a shake-up, Mr. Peltz announced on Monday that he was seeking a seat on the board of Procter & Gamble. His investment firm, Trian Fund Management, disclosed a $3.5 billion stake in February.

The filing signals a ratcheting-up in the size of the corporate targets of activist investors, who through behind-the-scenes cajoling or sometimes high-profile public proxy wars try to force companies to change their strategies with an eye toward profits for themselves.

Activist investing has attracted larger and larger pools of money, allowing managers like Mr. Peltz to hunt for ever-bigger corporate game. A proxy fight at Procter & Gamble, which has a market value of nearly $225 billion, would be among the biggest in corporate history.

And Procter & Gamble, based in Cincinnati, is merely the latest consumer-driven company to capture the attention of activist investors.

Last month, Daniel S. Loeb's hedge fund, Third Point, said he would agitate for changes at Nestlé, and Jana Partners had earlier pressured the retailer Whole Foods to revamp its board. Whole Foods ultimately announced that it would sell itself to Amazon.

This is not the first time that Procter & Gamble has faced activist pressure: The billionaire William A. Ackman pushed the board to oust Robert A. McDonald as chief executive in 2013, prompting Mr. McDonald's predecessor, Alan G. Lafley, to return to the post from retirement.

Companies with mature consumer brands — like Procter & Gamble, with its Tide detergent and Gillette razors — can be ripe targets for activists because their days of surging growth are often well behind them.

While companies may want to keep the brands, enjoying the cash they can generate, activist investors tend to be more aggressive in their approach. They often look for ways to sell the brands and reinvest in new technologies or brands that can generate better growth opportunities, said Damien Park, a managing director at Spotlight Advisors, a firm that consults with companies and funds on activist campaigns. (Mr. Park is not involved in Mr. Peltz's crusade with Procter & Gamble.)

That Procter & Gamble has become the quarry for activist investors is a sign of how far the once-iconic giant has fallen.

For years, Procter & Gamble attracted the best-and-brightest marketing M.B.A.s from the nation's top schools. It spurred many a Harvard Business School study of its internal methodologies and disruptive innovations. And it was the home to many big consumer hits, like the Swiffer duster and Crest Whitestrips.

But thanks in no small part to lackluster economic growth overseas, combined with a strong dollar, Procter & Gamble has had 13 consecutive quarters of sales declines. Its shares have lagged behind the **Standard & Poor's 500-stockindex**.

The company is on its third chief executive, David Taylor, in eight years. It is slashing billions of dollars in costs and shrinking its work force.

To meet the challenges, Procter & Gamble has moved quickly to reduce its portfolio of brands, selling about 40 beauty brands, including CoverGirl makeup and Clairol Nice 'n Easy hair coloring, to Coty last year.

But analysts say what has gone missing from Procter & Gamble is innovation, new products or designs that will spur top-line growth.

"Olay hasn't grown in years," said Mark Astrachan, an analyst with Stifel Financial. "Pantene has been relaunched I don't know how many times at this point. On shaving, it was not focused on the fact the market was moving online and to products offered at a lower price point. It didn't launch a shaving club until it had lost considerable market share."

And while the company is beginning to lower the prices of its goods to compete with less expensive products, the prices of its brands are, on average, 40 percent higher than the average price in the category, said Ali Dibadj, an analyst at Bernstein Research. Tide is twice the average price in the laundry detergent arena, Mr. Dibadj said.

For now, Mr. Peltz has emphasized cutting costs and trimming the layers of management bureaucracy at Procter & Gamble, but not much else.

Since taking its stake in Procter & Gamble in February, Trian had held about a half-dozen meetings with the company, outlining its arguments, according to two people briefed on the matter. The company made its own counterarguments, including asking for more time to prove the worth of its current strategy.

Those discussions reached a head last week when Procter & Gamble formally declined to give Mr. Peltz a seat.

In a statement on Monday, the company said it had had "an active and constructive dialogue" with Trian. It also said that its board was "confident that the changes being made are producing results" and that it "expresses complete support for the company's strategy, plans and management."

Trian said Monday that it was not seeking to break up Procter & Gamble — a well-worn tactic of activists — or seeking to replace David S. Taylor, who has been the company's chief executive for less than two years. If Mr. Peltz is elected, Trian said, the firm will renominate the director who had been defeated, effectively expanding Procter & Gamble's board by one seat.

For the most part, Trian has tended to apply pressure behind the scenes with corporate management, a self-described "constructivist" tact. Mr. Peltz meets regularly with management teams and board members, often discussing lengthy analyses that the firm has put together. (The firm's "white paper" on General Electric ran to about 80 pages.)

Since setting up Trian in 2005, Mr. Peltz and his partners, Peter W. May and Edward P. Garden, had resorted to proxy fights just twice before Procter & Gamble. That is out of 23 campaigns at 20 companies, according to data from FactSet.

Trian's win rate in its proxy fights is 50 percent. In the battle against the ketchup maker Heinz for board seats, Trian won two of the five seats it sought. But with the chemical maker DuPont, shareholders rejected Trian outright and re-elected all of the sitting directors, although the company's chief executive, Ellen J. Kullman, retired five months later, after the company fell short on financial performance targets.

People with knowledge of Trian's interactions with Procter & Gamble stressed that the discussions had been cordial, with the two sides agreeing on a number of issues.

While Mr. Peltz has not signaled any interest in breaking up Procter & Gamble, some analysts say that could still be the ultimate outcome.

“For almost a decade, they have been talking about improvement, and for all of their efforts and advantages, I haven’t seen it play out at all,” said Mr. Dibadj, the Bernstein analyst, who has advocated a breakup of the company. “This is an organization that is simply too big and too complex.”

Follow Michael J. de la Merced on Twitter @m_delamerced.

Correction: July 19, 2017, Wednesday

This article has been revised to reflect the following correction: An article on Tuesday about efforts by the investor Nelson Peltz to gain a seat on the board of Procter & Gamble misstated the name of the company that bought beauty brands from Procter & Gamble last year. It is Coty, not Cody.

* Why Nelson Peltz Wants P.&G. to See Him as a ‘Constructivist’

* What Nelson Peltz Is Up To With His $3.5 Billion Stake in P.&G.

* Procter & Gamble to Streamline Offerings, Dropping Up to 100 Brands

Photograph by Tony Cenicola/The New York Times; Illustration by The New York Times | Nelson Peltz in New York in 2013. His investment firm, Trian Fund Management, disclosed a $3.5 billion stake in Procter & Gamble in February. | Heidi Gutman/CNBC

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The New York Times

Breakingviews
Business Day; DealBook

Procter & Gamble's Board Could Use a Fresh Member

By LAUREN SILVA LAUGHLIN
493 words
17 July 2017
02:54 PM
NYTimes.com Feed
NYTFEED
English

Nelson Peltz, the corporate agitator, is opting for the close shave at Procter & Gamble.

Mr. Peltz's Trian Partners, which owns a $3.3 billion stake, is taking a more surgical approach to the $223 billion company — whose brands include razors and detergent — than it did with its last proxy fight at DuPont, lobbying for a single board seat. Trian is also dangling niceties like promising to support management and not calling for a breakup.

Given Procter & Gamble's many challenges, shareholders would be silly to pass on his assistance.

The company, which is based in Cincinnati and whose brands include Gillette, Tide and Pampers, is struggling to navigate changing consumer habits. Upstarts like the Dollar Shave Club have cut into its market share of products with easy online purchasing and delivery and original marketing. P.&G. is increasing its online presence and has fought back with price cuts, but its **stock price** has lagged competitors' and the **Standard & Poor**'**s500 index** in the last year, and — as Mr. Peltz points out — over the last decade.

Procter & Gamble's revenue in the fiscal third quarter declined. David Taylor, the longtime employee who became chief executive two years ago, drummed up some new costs to cut, but analysts appear underwhelmed by the company's focus on "irresistibly superior" products. Trian said it was concerned that $13 billion of identified cost savings would not materialize given an "overly complex organizational structure and a slow-moving and insular culture."

While those may sound like fighting words, Mr. Peltz's push comes with a smiley emoticon. Trian is not seeking a breakup, or to push out Mr. Taylor, or even to cut research and marketing expenses. Mr. Peltz's first move as director would be to reinstate the board member he displaced.

It is a notable contrast with Trian's approach at DuPont, where it sought four board seats and urged for a separation of businesses. Trian got no seats, but the chief executive was out five months later, and DuPont announced a merger with Dow Chemical that would lead to a breakup.

Procter & Gamble's board may still be smarting from its last nick with activism. In 2013, the hedge fund boss William Ackman persuaded Procter & Gamble to remove its chief executive and bring back its former boss A. G. Lafley. Mr. Ackman then sold his shares. Yet, the company's share price has increased less than 10 percent over the last four years — the **stock market** equivalent of five o'clock shadow.

Mr. Peltz may not have all the answers to Procter & Gamble's troubles, but a fresh look on the board is warranted.

Lauren Silva Laughlin is a columnist for Reuters Breakingviews. For more independent commentary and analysis, visit breakingviews.com.

Procter & Gamble's brands include Tide. The company is struggling to navigate changing consumer habits. | Mario Anzuoni/Reuters

Document NYTFEED020170717ed7h006el

THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
The Four Stocks You Can't Skip

By Justin Lahart
434 words
17 July 2017
The Wall Street Journal
J
B10
English

[Financial Analysis and Commentary]

When one-third of the **S&P 500**'s gain comes from four stocks, there aren't many ways to beat the market without them.

A good year for the **stock market** would be a lot less exciting if it hadn't been for the shares of Amazon.com, Apple, Google parent Alphabet and Facebook. The combined market value of the four companies has increased by more than $500 billion since the start of the year, making them a major force behind the **S&P 500**'s $1.7 trillion gain. They are also why most S&P sectors have struggled against the overall index.

The total return of the S&P is 10.5% this year. Only three of its 11 sectors have done better: technology (home to Apple, Alphabet and Facebook), consumer discretionary (home to Amazon) and health care.

The **S&P 500** Growth index, which holds the **S&P 500** stocks with the fastest-growing sales and earnings, and the greatest price momentum, has returned 15.1%.

Amazon, Apple, Alphabet and Facebook count for nearly one-fifth of its weight. The **S&P 500** Value index -- the yin to growth's yang -- has underperformed.

Of the four behemoths, only Apple has a dividend, and a rather scant one.

No surprise, then, that the S&P High Yield Dividend Aristocrats index, which screens for companies that have consistently increased their dividends, has done poorly. The **S&P 500** Equal Weight Index (which puts every stock on an equal footing rather than weighting by market size) has over time tended to outperform the **S&P 500**. But not this year. Midsize- and small-company shares, in both the growth and value categories, have also underperformed.

So for almost any invest-ors who adhered to any particular style, 2017 prob-ably hasn't been so good. And unless they loaded up on the four stocks that happened to power the market higher, it hasn't been much of a year for stock pickers. The plain-vanilla strategy of just buying the **S&P 500** has so far been the right one.

But when the **stock market** is driven by just a handful of stocks, each of which is substantially more expensive on a price-earnings basis than they were at the start of the year, it can be setting itself up for trouble. It might not take much for investors to suddenly pine for all the stocks and styles they have abandoned.

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THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
How to Prepare When Central Banks Go in Same Direction

By Richard Barley
501 words
17 July 2017
The Wall Street Journal
J
B10
English

[Financial Analysis and Commentary]

The central-bank landscape has changed. Divergence is dead, and convergence is in the cards. Such transitions are when things start to get tricky.

The turn in the tide at central banks -- whether it be the European Central Bank charting a path to reducing bond purchases, the Federal Reserve preparing to rein in its balance sheet, the Bank of Japan's stealth tapering, the Bank of England talking of a rate rise or the Bank of Canada actually raising rates for the first time in seven years -- has led to speculation about coordinated action. The idea that a secret cabal of central bankers has conspired to work together was dismissed recently by ECB executive board member Peter Praet.

The more likely explanation is simply that central banks are reacting to a global economy moving in the same direction for the first time in years. After a decade of crisis-fighting policy, there is no obvious crisis to fight. Output gaps are closing and economic **volatility** is low. The threat of deflation has faded. Inflation is below target in many countries, with the exception of the U.K. But central bankers are generally making the argument that softness in headline measures is transitory, with growth holding up and labor markets tightening.

That shift matters for markets. It tips the balance for future policy actions: Economic data would need to deteriorate persistently for a change in tone. And it allows room for central bankers to consider other risks, in particular the steep rise in asset prices that their policies have engendered and which may yet pose a threat to financial stability.

The question is whether markets have taken that on board. This week's action highlights that. First, markets put a dovish spin, perhaps unwarrantedly, on Fed Chairwoman Janet Yellen's testimony Wednesday and the "everything rally" resumed: Prices for stocks, bonds and gold all rose. But to the extent that markets ease financial conditions, they may actually encourage central bankers to tighten policy. Bonds fell back Thursday after The Wall Street Journal reported ECB President Mario Draghi could signal a shift in policy at the Fed's Jackson Hole conference in August.

Clouding the picture, markets could yet do some of the tightening for central banks, particularly when it comes to currencies. For instance, the ECB may have a problem if the euro charges higher, as a 10% rise in the trade-weighted exchange rate could shave 0.5 percentage point off inflation, notes Lombard Street Research. No wonder the Fed and the ECB are eager to talk about how they will move gradually. The risk to markets is that investors get too comfortable with this idea.

This push-and-pull seems likely to lead to higher **volatility**. Central bankers have for a long time been investors' best friends. Now the relationship is a lot more complicated.

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THE WALL STREET JOURNAL.
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Equities: Fear Gauge Falls to Lowest Since 1993

By Gunjan Banerji
299 words
17 July 2017
The Wall Street Journal
J
B9
English

A key gauge of market **volatility** hit its lowest level in almost 24 years Friday as stock indexes smashed records.

The CBOE**Volatility** Index, known as Wall Street's "fear gauge," or VIX, slid for a sixth consecutive session to 9.51, the third-lowest close in history and its nadir since Dec. 23, 1993. The index uses options bets on the **S&P 500 index** to measure expected stock swings over the next month. It tends to rise when investors are anxious and stocks are falling.

U.S. stocks hit highs on Friday, despite some disappointing economic data. Retail sales decreased in June from the prior month, while inflation data came in flat from May and well below the Federal Reserve's 2% target. The **S&P 500** and **Dow Jones Industrial Average** both closed at records and the **Nasdaq Composite** finished with its second-highest close.

This year has been eerily calm for stocks. The fear gauge has finished below 10 nine times this year, the most ever, according to The Wall Street Journal's Market Data Group. Investors have attributed the lack of market turbulence to the easy monetary policies of central banks world-wide. On Thursday, Fed Chairwoman Janet Yellen indicated that the central bank would tighten monetary policy gradually.

But placid markets as evidenced by the VIX index have pushed some investors to wonder if markets are too complacent, and others have even posited that the VIX is subject to manipulation.

As the **volatility** gauge slumped Friday, some options traders eyed a potential rebound. Almost three times as many **bullish** call options traded over **bearish** put options on the index Friday, Trade Alert data show.

Document J000000020170717ed7h00021

THE WALL STREET JOURNAL.
U.S. EDITION

MoneyBeat: Earnings Jolt Is Coming

By Chris Dieterich
273 words
17 July 2017
The Wall Street Journal
J
B9
English

Traders all year have lamented the lack of **volatility** in the U.S. **stock market** and, in turn, the influence of corporate fundamentals on market returns. They may want to gird for action as second-quarter earnings get under way.

Over the past two decades, 18% of the **S&P 500**'s total return came from price moves during the days before and after its companies report earnings, according to options-market strategists at Goldman Sachs Group.

Last quarter, **S&P 500** stocks moved an average of 3.5% immediately following earnings, compared with an average daily move of 0.8% on other days, the widest difference on record.

Among the five biggest tech and internet companies -- Facebook Inc., Apple Inc., Amazon.com Inc., Microsoft Corp. and Google parent Alphabet Inc. -- earnings-related moves have an even greater impact on their long-term performance. Over the past three years, 52% of those stocks' total returns have accrued during their earnings weeks, Goldman says.

If history is any indicator, the stocks of companies reporting this week will likely get a jolt. Netflix Inc., a member of the FANG stock club synonymous in recent years with momentum stocks, posts second-quarter results late Monday. The streaming video company's stock fell 2.6% after it unveiled slowing subscriber growth during the first quarter. Shares of International Business Machines Corp., which is scheduled to report Tuesday, have averaged a move of 4% higher or lower in the trading session following earnings over the past four years, according to Trade Alert.

Document J000000020170717ed7h0000m

The New York Times

Money and Business/Financial Desk; SECTBU

The Market Is Watching the Fed

By CONRAD DE AENLLE
1,742 words
16 July 2017
The New York Times
NYTF
Late Edition - Final
11
English

Who are you going to believe, the Fed or your own eyes?

The Federal Reserve has been raising interest rates, saying that the labor market has been strengthening and that economic activity has been rising. Yet economic indicators in chart after chart show a slowdown (or worse) may be approaching.

But so far there is little evidence that Wall Street is worried. Despite the occasional swoon in technology stocks and the persistent decline in energy issues, the market continued to rise through the second quarter. The SPDR **S**.**&P**. **500** Trust, an exchange-traded fund that tracks the **Standard & Poor**'**s 500**-**stockindex**, returned 3.1 percent for the period, including dividends.

But the bond market did not completely ignore the erosion in economic data. Yields on **10**-**year Treasury** notes slipped to 2.3 percent from 2.4 percent and were as low as 2.1 percent in the last week of June.

Investment advisers express concern about the worsening economic readings, but are willing, for the moment, to accept the Fed's contention that they represent a dip in an otherwise robust expansion. They warn, however, that if the weakness lingers, it may be time to start believing their own eyes and lighten up on stocks.

The interest rate increases are not ''negative or problematic yet,'' said Erik Knutzen, chief investment officer of multi-asset class investing at Neuberger Berman. But ''if economic growth and inflation continue to come in very soft and potentially roll over, it's possible that the Fed will engage in a policy mistake.''

A widely followed, continually updated forecast of national economic output from the Federal Reserve Bank of Atlanta declined to 2.6 percent annual growth for the second quarter from an earlier 4.3 percent outlook around the beginning of May. That is after a meager 1.4 percent annualized growth announced for the first quarter.

In another sign that the economy is flagging, demand for credit has moderated. After increasing at more than 7 percent a year in 2014 and 2015, the rate slipped to 6.5 percent last year and just 2.6 percent in April, according to the Fed.

The yield curve has flattened, meaning long-term bond yields have fallen as short-term rates have risen. An inverted yield curve, in which short rates are higher than long rates, often heralds a recession.

Meta indicators like the Citi U.S. Economic Surprise Index, which compares economic readings with forecasts, went from its highest level in more than three years, recorded in mid-March, to a six-year low around the end of June.

Investors are facing ''a little bit of a mixed message'' from the hawkish Fed and the feeble economic indicators, said Scott Klimo, co-manager of the Sextant International Fund. Stocks have remained strong, in his view, because investors are choosing to believe messages coming from Washington, and not just from the Fed.

''I think there's a lot of hope in the marketplace, in particular hope for reforms from the federal government'' to overhaul the tax code and spend big money upgrading the nation's infrastructure, Mr. Klimo said. He cautioned that investors had become conspicuously complacent, but then added that ''absent some external shock, it does seem as though things can cruise along for a little bit'' in the **stock market**.

He envisions biotechnology and other health care stocks cruising along better than most, as effective ways to overhaul the provision of medical care continue to elude policy makers. The right blockbuster drugs can enrich the companies that make them while saving lives at lower cost than other treatments. Cancer drugs developed by Merck and Bristol-Myers Squibb are notably promising, he said.

Health care was among the strongest groups of stock funds in the second quarter, with the average portfolio up 6.5 percent, according to Morningstar. Industrials and natural resources were notably weak. As well as the health funds did, they managed on average to trail the 7 percent return of Health Care Select Sector SPDR, a popular exchange-traded fund that tracks the sector.

The average domestic stock fund over all was up 2.7 percent in the period. Bond funds rose 1.4 percent.

International stock funds beat their domestic counterparts handily. The average one gained 5.6 percent, led by portfolios that invest in Europe, China and India.

Given their concerns about valuations and economic growth, it's no surprise that investment advisers are looking abroad for opportunities. Mr. Klimo is a fan of Chinese internet stocks, like Tencent and Alibaba. Like many investors, he is unenthusiastic about oil, he said.

Tim Guinness, chief investment officer of Guinness Atkinson Funds, also likes stocks in China and the region around it.

"The cheapest part of the world is the Far East" excluding Japan, he said. "China is making a good transition from investment-led growth to consumption-led growth."

Mr. Guinness foresees China following the same path of development that Japan did from 1970 to 1990, an excellent time to own Japanese stocks.

"We're increasing our weightings significantly to the Far East and reducing them to the U.S.," he said.

He is wary of American stocks because he finds them expensive. He has no concern about the Fed raising rates during a period of iffy economic growth.

"The time is well past for stopping quantitative easing and increasing interest rates," Mr. Guinness said. Quantitative easing is the program of asset purchases that the Fed used to shore up the economy after the financial crisis. The Fed is expected soon to start disposing of the assets it bought, another source of worry for many investors.

Mr. Guinness cited a number of largely overlooked difficulties resulting from extremely low rates. Low rates limit the earnings of banks, forcing them to be overly cautious in their lending. Low bond returns limit returns for savers and force companies to add more cash to their pension plans, reducing capital investment.

"You'll be amazed that interest rates going up will be good for markets, not bad," he said.

Edward Yardeni, president of Yardeni Research, maintains a **bullish** outlook on the **stock market** and a glass-half-full view of the economy. The yield curve may be flattening, but at least it's not inverted. As for the Citi surprise index, he finds it to be a **volatile** indicator that often bounces back quickly from plunges like the recent one as economists adjust their expectations after the data disappoints them.

"I think the economy is still performing pretty much the way it has been since 2010," Mr. Yardeni said. The modest growth in the first quarter, the most recent one for which a figure has been released, "seems slow, but you've got slower growth in the labor force."

The number of people available to work is not expanding as much as it used to, limiting economic growth. He noted that the meager growth rate had been enough to keep unemployment below 5 percent. That should allow the Fed to nudge short-term interest rates to 2 percent next year, he predicted, from about 1 percent after the June increase, and give the central bank ammunition if the economy begins to stall.

One benefit of the modest pace of growth is that even with so few out of work, Mr. Yardeni said, inflation remains low. Consumer prices rose just 1.6 percent in the 12 months through June, according to the Bureau of Labor Statistics, and the unemployment rate was only 4.4 percent. For May, the Atlanta Fed recorded national wage inflation of 3.4 percent.

"As long as inflation remains subdued, and as long as we don't have a recession, bonds and stocks should continue to work," Mr. Yardeni said.

James Paulsen, chief investment strategist at the Leuthold Group, wonders how long low inflation will continue to support the markets. He warned in a note to investors that inflation is a risk, despite the tepid economic growth.

Wage growth has been tame, but with few suitable people left to hire for companies that need to expand to meet consumer demand, it could flare up, he said. Productivity growth, often a way to keep a lid on prices, has been low after years of modest capital investment, he added.

"Investors should prepare for both wage and consumer price inflation to rise between 3 and 4 percent in the next couple years," Mr. Paulsen said. "This does not imply a recession is looming or a **bear market** for stocks is imminent," but "it implies a major investor mind-set change."

Even with inflation quiescent, the rich valuations and a so-so, or worse, economy make even some bulls less than enthusiastic about stocks.

"If someone came into a lot of money and asked what to do with it, they have my condolences," Mr. Yardeni said. "Everything has been picked over." He added, though, that he doesn't "see any particular reasons to get out of stocks or bonds at this point."

He encouraged investors to stick with stocks that have healthy dividend yields, and he prefers technology as a rare source of growth these days and energy stocks as "a good contrary bet." He would also give emerging markets a chance. But not all of them.

"India stands out, China does not," he said, disagreeing with Mr. Guinness.

Mr. Knutzen at Neuberger Berman recommended Treasury Inflation-Protected Securities, which are Treasury notes and bonds that rise in value if inflation goes up, and debt issued in emerging economies. He has been reducing exposure to stocks of large American companies and investing more in smaller companies and overseas markets where valuations are lower.

"We have become more cautious in our views," Mr. Knutzen said. The economic backdrop provides "an O.K. environment for stocks, but there's not much margin for error."

Janet L. Yellen, chairwoman of the Federal Reserve. The Fed has been raising interest rates, though inflation remains slow along with wage growth. Investors are facing "a little bit of a mixed message" from a hawkish Fed and feeble indicators, said Scott Klimo of the Sextant International Fund. (PHOTOGRAPH BY JOSHUA ROBERTS/REUTERS) (BU14) CHART: SECOND-QUARTER MUTUAL FUND RETURNS: APRIL 1 - JUNE 30, 2017 (Source: Morningstar); DRAWING (DRAWING BY MINH UONG/THE NEW YORK TIMES)

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The New York Times

FUNDAMENTALLY
Money and Business/Financial Desk; SECTBU
When the Trump Agenda Stalls, Muni Bonds Surge

By PAUL J. LIM
1,239 words
16 July 2017
The New York Times
NYTF
Late Edition - Final
16
English

Municipal bonds were supposed to be among the biggest losers under a Trump presidency.

Shortly after the November election, muni bonds -- issued by states, municipalities and local agencies to finance government projects -- faced a ''triple whammy,'' said Terri Spath, chief investment officer at Sierra Investment Management.

First, there was a sharp rise in market interest rates late last year in anticipation of the new Trump policies boosting economic growth. And rising rates are a headwind for bonds in general. Then there was the president's pledge to lower income tax rates, coupled with concerns that he might eliminate the tax-exempt status of muni income.

And finally, President Trump has promised to increase infrastructure spending by possibly $1 trillion -- which, if it happens, could flood the muni market with additional supply, weighing on the price of existing muni securities.

But it hasn't turned out that way so far.

''Here we are, several months later, and the administration has had problems getting anything done,'' said Nicholos Venditti, a portfolio manager who helps run several municipal bond funds at Thornburg Investment Management. ''There's been no health care reform yet, no tax reform and no clarity on spending.''

Meanwhile, concerns about a slow-growing economy have resurfaced, pushing the yield on **10**-**year Treasury** notes back down to 2.3 percent at the end of June, from as high as 2.62 percent in March. And the Treasury secretary, Steven Mnuchin, recently told the Senate Finance Committee that the Trump administration supported preserving the muni bond tax exemption.

The result of all of these developments is that muni bond mutual and exchange-traded funds have enjoyed a surprisingly good run this year.

For instance, the SPDR Nuveen Bloomberg Barclays Municipal Bond ETF, whose biggest holdings include revenue bonds issued by the California State University system as well as the University of California, has generated total returns of 3.6 percent this year and 2.2 percent in the recently ended quarter.

Even before investors factor in the tax break (muni income is exempt from federal taxes and, in some cases, state taxes as well), that performance compares favorably with the 2.3 percent returns for the Vanguard Total Bond Market ETF this year and the 1.6 percent gains in the last quarter.

Going forward, though, navigating the muni bond landscape will get a whole lot trickier, money managers say.

Even if Mr. Trump cannot produce annual growth of greater than 3 percent, which has eluded the economy lately -- or the 4 percent rate that the White House promised earlier this year -- the administration is still planning to move forward on its efforts to cut taxes.

Ultimately, how much income tax rates eventually come down, if at all, will help determine the direction of muni **bond prices**. But the tax cut debate itself is likely to create short-term **volatility** for these investments.

What's more, muni investors are largely following a conservative strategy.

"You can see where investors are hiding out," says Mark R. Freeman, co-manager of the Westwood Income Opportunity Fund. "Everybody is bunched up at the short end of the curve," he said, referring to muni debt with a maturity of no more than five years.

That demand for shorter-term munis has made it harder to find great values. In fact, it has compressed the so-called yield spread -- the gap between what short-term muni bonds are paying and what similarly dated Treasuries yield.

For example, the average high-quality two-year municipal bond is paying 1.06 percent, according to Bloomberg, while two-year Treasuries are paying considerably more: 1.36 percent.

By comparison, 30-year munis are paying virtually the same as Treasuries before the tax benefit is factored in: 2.87 percent before the tax break, versus 2.92 percent for equivalent Treasuries. And for someone in the 25 percent tax bracket, that 2.87 percent is actually the equivalent of a 3.83 percent taxable yield.

To be sure, long-dated bonds are susceptible to larger drops in price should interest rates rise. And with the Federal Reserve lifting short-term rates, taking on that much so-called duration risk by buying extremely long-dated bonds does not seem to make sense, money managers say.

Gregg S. Fisher, founder of the investment management firm Gerstein Fisher, says investors should remember a big reason for buying muni and other core bonds in the first place: "For the certainty that they present," he said.

That's why he suggests investors play it relatively safe for the foundation of a muni portfolio, by sticking with bonds that are from high-quality issuers with investment-grade ratings (reducing the risk of a default) and that mature in less than five years.

"Our preference for any client, no matter what state they live in, would not be to buy 100 percent of their bonds issued in any one state," he said. "You should diversify across the country," he added, even if doing so forgoes some state tax breaks.

Ajay Thomas, head of municipal securities at William Blair, agrees that investors should mostly be considering investment-grade municipal bonds. But he points out that as investors venture out to the lower end of the high-quality bond universe and the higher end of the low-quality world, they may start to see better opportunities.

"You're not necessarily seeing a big difference in yields if you go from a AAA-rated bond to a AA bond," he said. "But if you go below A, there's clearly some spread." He noted that there were some decent opportunities among munis related to health care and higher education in this category.

Ms. Spath of Sierra Investment Management also said that higher-yielding munis are worth a look.

Sierra sold all its muni holdings shortly after the presidential election last year, amid mounting pressures weighing on these investments, Ms. Spath said.

But in early January, as some of the reaction to the Trump victory subsided, the firm moved back into muni bonds.

Today, Sierra's municipal bond exposure is entirely in high-yield muni funds, she said.

"High-yielding municipals are currently yielding roughly the same as high-yield corporate bonds, and that doesn't make sense," she said, noting that many investors are totally overlooking the tax benefit these securities provide.

She said the firm preferred investing in munis through a fund, in part because of the diversification advantage but also because institutional buyers can often obtain better prices.

Among Sierra's top muni holdings is Nuveen High Yield Municipal Bond fund, with an average credit quality of BB, which is at the upper end of noninvestment grade bonds.

Nearly one third of that fund's holdings are in debt tied to health care or education and civic organizations. Among its top holdings recently were B-rated debt issued by the Chicago Board of Education at a coupon of 7 percent and AA-rated debt issued by the University of Kansas Hospital Authority with a coupon of 5 percent.

One solid performer is the SPDR Nuveen Bloomberg Barclays Municipal Bond ETF, which has returned 3.6 percent this year on holdings that include bonds issued by the University of California, above. (PHOTOGRAPH BY BRAD TORCHIA FOR THE NEW YORK TIMES)

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The New York Times

Money and Business/Financial Desk; SECTBU
Nice Rate if You Can Get It

By M.P. DUNLEAVEY
1,073 words
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Late Edition - Final
16
English

With investment costs, less is more. Many investors are getting the message that paying less for mutual funds (or for any investment, really) will put more money in their pockets in the long run.

Last year, investors in the United States paid, on average, the lowest mutual fund fees ever, according to Morningstar.

But investment costs are full of unpleasant surprises, and academic studies have found that many people aren't taking advantage of better-priced alternatives.

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A recent study by the Investment Company Institute documented a similar trend over the last 20 years.

The more assets a fund has, the lower its expenses tend to be. So the overall trend in fund flows to cheaper mutual funds means that the average asset-weighted expense ratio of index funds dropped to 0.17 percent, Morningstar found -- considerably lower than the average 0.75 percent fee charged by active funds.

As a result, the market share of low-cost passive funds swelled to 32 percent in 2016, from 23 percent in 2012.

On the face of it, there is a benevolent domino effect happening: As more investors choose cheaper funds, the assets in those funds grow -- and the corresponding costs further decline. Or they should.

An Enduring Disparity

But positive as this trend may be, it masks some glaring, persistent differences in fund costs throughout the industry, said Michael J. Cooper, a professor of finance at the University of Utah. ''Expense ratios are dropping, which is wonderful,'' he said, ''but the disparity between high-cost funds and low-cost funds hasn't changed.''

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Even controlling for characteristics like a fund's style, size and risk level, the study revealed a constant disparity in fund pricing over time -- and the risk of lower returns for those who buy pricier funds, because of the compounding effect of fees.

"The costs for getting it wrong -- investing in high-expense funds when close-to-identical low-expense funds are available -- are large," the authors write. "We show that a low-expense fund investor could have earned 70 percent to 145 percent more" than someone who chose comparable funds at a higher price.

The authors looked at the effect of fees over a 48-year horizon, which helped to show the potentially dramatic toll of investment costs over decades.

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The analysis built on work by other researchers who had found that **Standard & Poor's 500-stockindex** funds, which merely track the **S.&.P. 500**, show a surprisingly wide price gap, "despite being basically the same peanut butter," Mr. Cooper said. He found that, for the period of 2000 to 2014, an investor in the lowest-cost **S.&.P. 500 index** funds would have ended up with a balance 22 percent higher than someone who invested in the highest-cost funds.

"It's baffling," said Mr. Hauptman of the Consumer Federation of America. "You have nearly identical funds, yet one can cost 1 percent more than the other. In a competitive environment, why do these products exist?"

Yet they do. Even confining one's view to the landscape of **S.&.P. 500 index** funds -- often referred to as plain vanilla funds because they simply mirror the performance of big companies -- the range of choices is dizzying. There are about 50 different **S.&.P. 500** funds, with over 150 different share classes, according to Morningstar, and fees vary widely.

The annual expense ratio for the Admiral shares of Vanguard's 500 Index Fund (VFIAX) is 0.04 percent basis point, compared with 1.55 percent for the A shares of the Rydex **S.&.P. 500** Fund (RYSOX), which also charge a sales fee of 4.75 percent.

Similar Funds, Differing Costs

What can account for such stark differences? One reason Vanguard maintains such low fees is the economy of scale of its equity index funds, which are among the biggest and cheapest in the industry.

"We can keep passing on the economies of scale to the investors, who are basically creating them," said Joseph Brennan, director of global equity indexing. Vanguard is owned by its mutual fund shareholders, and that unique structure provides an incentive to keep costs low.

Rydex funds, by contrast, have fewer assets under management, which can drive up costs. And the Rydex **S.&.P. 500** fund "is more expensive than some other index funds because it is priced twice a day and designed for tactical fund traders," said Ivy McLemore, a spokesman for Guggenheim Investments, which offers the Rydex funds.

It can be hard for individual investors to parse various funds and their costs. But the fee-conscious can still take matters into their own hands. The Financial Industry Regulatory Authority offers a fund-analysis tool, as does Feex.com, an online service that can analyze the fees you're charged. When it comes to investment costs, clearly it pays to be your own watchdog.

DRAWING (DRAWING BY CRAIG LAROTONDA)

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THE WALL STREET JOURNAL.
U.S. EDITION

Market Soars as Economy Plods --- Indicators point to continuing expansion, but pace is modest in light of share run-up

By Ben Leubsdorf
1,027 words
15 July 2017
The Wall Street Journal
J
A1
English

Surging optimism in **financial markets** hasn't translated into a big pickup in economic growth.

Stocks hit records Friday and big U.S. banks reported stronger-than-expected earnings. But new government data showed consumers pulled back spending at midyear even as markets rallied. Households also grew less optimistic about the future and inflation on consumer purchases softened.

Taken together, the indicators pointed to an economy that is entering the ninth year of expansion steady and still creating jobs at a healthy clip, but without obvious additional momentum. President Donald Trump has set out an agenda to push economic growth well beyond the roughly 2% pace that has prevailed since the recession ended in 2009, but so far there is little sign of a real breakout happening.

Rising stocks could point to an upturn down the road, or conversely a risk that investors could soon get tripped up.

Modest price pressures are a possible sign of slower underlying economic momentum and a headache for the Federal Reserve, which has struggled to reach its 2% annual inflation goal since the 2007-09 recession.

"To be sure, the data do not suggest an impending recession," said Richard Curtin, chief economist for the University of Michigan's consumer-sentiment survey. "Rather, the data indicate that hopes for a prolonged period of 3% GDP growth sparked by Trump's victory have largely vanished, aside from a temporary snapback expected in the second quarter."

The president has suggested a number of policies to spur growth, including a tax overhaul and major infrastructure spending, but those aren't yet close to reality.

On the positive side, factory output picked up in June, and domestic energy production is rebounding. Overall economic activity appeared to accelerate in the second quarter following a weak start to 2017, when gross domestic product expanded at a 1.4% annual rate during the first quarter.

For the recently ended second quarter, forecasting firm Macroeconomic Advisers projected 2.3% growth and the Federal Reserve Bank of Atlanta's high-profile GDPNow model predicted a 2.4% growth pace.

Reports on Friday offered fresh insights into the state of the economy, a broadly healthy picture with some downbeat signals headed into the second half of 2017.

Markets took bad economic news as good investment news. Low inflation and slow consumer spending growth means the Fed might move more slowly than planned to raise interest rates, which tends to push stocks up. The **Dow Jones Industrial Average** closed Friday up 84.65 points, or 0.39%, at a record 21637.74. The **S&P 500** also hit a record, rising 11.44 points, or 0.47%, to 2459.27. The yield on the **10**-**year Treasury** note fell to 2.319%, and the dollar weakened.

Several of the biggest U.S. banks, while showing stronger-than-expected earnings, saw their shares slide following mixed reports.

J.P. Morgan Chase & Co., the largest U.S. bank by assets, reported record quarterly profit of $7.03 billion. But it also trimmed forecasts for growth in loans and net interest income.

Wells Fargo & Co. reported a $6.7 billion decline in average loans from the first quarter. The company's chief financial officer, John Shrewsberry, noted "softness across the industry," but also cited specific actions the bank has taken "primarily driven by our own risk discipline which have caused our growth to slow."

The bank has pulled back, for example, in auto lending, part of an $11.1 billion drop in its consumer loan portfolio from a year earlier.

Retail sales -- a gauge of consumer spending at stores, restaurants and websites -- decreased a seasonally adjusted 0.2% in June after falling 0.1% in May, the Commerce Department said. It was the first back-to-back sales drop since July and August 2016.

Sales excluding motor vehicles and gasoline fell 0.1% last month, the first decline for the measure in almost a year.

In the second quarter, total retail sales were up just 0.2% from the first three months of the year. But more broadly, sales rose 3.9% in the first half of 2017 compared with the year-earlier period.

Fed Chairwoman Janet Yellen told lawmakers this past week that growth in household outlays "continues to be supported by job gains, rising household wealth and favorable consumer sentiment."

But the University of Michigan's sentiment gauge dropped in July for the second straight month, with a preliminary July reading of 93.1 versus 95.1 in June and 97.1 in May. The decline was driven by weaker expectations for future economic gains, though the overall index was still 3.4% higher in June from a year earlier.

On inflation, the Labor Department said its consumer-price index was unchanged in June from the prior month. Excluding the often-**volatile** categories of food and energy, so-called core prices rose just 0.1% for the third straight month.

On an annual basis, overall inflation softened to a 1.6% annual gain in June, while core inflation was steady at 1.7% annual growth.

The central bank's preferred inflation gauge, the Commerce Department's price index for personal-consumption expenditures, poked above the central bank's 2% goal in February for the first time in nearly five years. It has settled lower each month since. The most recent data, for May, showed a 1.4% year-to-year gain.

"We're starting to see some signs of cyclical weakness," said Laura Rosner, senior economist at research firm MacroPolicy Perspectives.

The Fed has penciled in one more increase for short-term interest rates this year, and also plans to begin shrinking its $4.5 trillion asset portfolio.

Continued soft readings on core inflation could damp enthusiasm for higher rates, though Ms. Yellen has said she expects the current weakness will prove transitory and inflation will firm alongside a tightening labor market.

Aaron Lucchetti, Jeffrey Sparshott and Josh Zumbrun contributed to this article.

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The New York Times

Business/Financial Desk; SECTB
Modest Gains Push Indexes to New Highs

By THE ASSOCIATED PRESS
703 words
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2
English

Gains by big technology and health care companies pushed stocks modestly higher on Friday, lifting several major indexes to new highs.

The **Standard & Poor's 500-stockindex**, the **Dow Jonesindustrial average** and the Russell 2000 index of smaller-company stocks each set records as the market posted its third straight day of gains.

Energy companies helped lift the market as crude **oil prices** rose. High-dividend stocks like real estate companies and utilities also posted big gains following a drop in bond yields. The lower yields and a weak forecast from JPMorgan Chase weighed on banks.

Investors brushed off a report showing that retail sales declined in June and drew encouragement from data indicating that industrial production rebounded last month. Traders also welcomed a report showing that inflation at the consumer level was flat in June, which suggests that the Federal Reserve may have more reason to delay another interest rate increase.

Lindsey Bell, an investment strategist at CFRA Research, said, "The low inflation data will put the Fed more in a wait-and-see mode to really determine if the low inflationary environment is really transitory."

The **S**.**&P**. **500 index** gained 11.44 points, or 0.5 percent, to 2,459.27. The Dow rose 84.65 points, or 0.4 percent, to 21,637.74. The **Nasdaq composite** added 38.03 points, or 0.6 percent, to 6,312.47. The Russell 2000 index picked up 3.16 points, or 0.2 percent, to 1,428.82.

Bond prices rose. The yield on the **10**-**year Treasury** note fell to 2.33 percent from 2.35 percent late Thursday.

Investors had a mix of company earnings and economic data to consider Friday.

The Commerce Department said retail sales fell 0.2 percent in June as Americans curtailed spending at restaurants, department stores and gas stations. That followed a 0.1 percent drop in May. In addition, the Federal Reserve said factory output rebounded in June as manufacturers churned out more cars, appliances and furniture. Overall industrial production rose 0.4 percent and is up 2 percent over the last year.

And the Labor Department said consumer prices were flat in June, the latest evidence that inflation remains muted. All told, inflation has climbed just 1.6 percent from a year ago.

Several big banks reported their second-quarter earnings on Friday. Among them were JPMorgan Chase, Citigroup and Wells Fargo, each of which posted results that beat Wall Street's expectations. But it was not all good news.

JPMorgan, the nation's largest bank by assets, said it expected weaker net interest income. Its shares fell 85 cents, or 0.9 percent, to $92.25, while Citigroup slid 30 cents to $66.72. Wells Fargo lost 61 cents, or 1.1 percent, to $54.99.

Technology and health care companies were among the big gainers. NetApp climbed 2.26, or 5.5 percent, to $43.64. Microsoft rose $1.01, or 1.1 percent, to $72.78. Zimmer Biomet Holdings gained $3.51, or 2.7 percent, to $132.49.

Despite the decline in retail sales in June, investors bid up shares in several retail chains after some analysts upgraded the sector a day after Target raised its second-quarter forecasts and said sales and customer traffic increased. Ulta Beauty gained $4.34, or 1.7 percent, to $261.74, while Gap rose 50 cents, or 2.2 percent, to $23.28.

Energy futures closed higher. Benchmark United States crude rose 46 cents, or 1 percent, to settle at $46.54 a barrel on the New York Mercantile Exchange. Brent crude, used to price international oils, gained 49 cents, or 1 percent, to $48.91 per barrel in London.

The dollar fell sharply, sliding to 112.56 yen from 113.23 yen late Thursday. The dollar also weakened against the euro, which rose to $1.1467 from $1.1406.

CHARTS: Retail Sales: Total retail and food services sales, seasonally adjusted. (Source: Commerce Department); The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Friday. (Source: Reuters)

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The New York Times

Business Day; Mutual Funds
Lower Fees Are Great, if You Actually Get Them

By M.P. DUNLEAVEY
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* Investing May Be Cheaper, but Fees Still Hurt

* Vanguard Is Growing Faster Than Everybody Else Combined

* The Looming Danger of All the Investment Fees You Don't See

* BlackRock Earnings Rise on Tide of E.T.F.'s and Index Funds

Fund fees have hit record lows, yet many investors are still stuck with high costs. | Craig LaRotonda

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THE WALL STREET JOURNAL.
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Streetwise: Emerging Stocks, Tech and Yellen

By James Mackintosh
788 words
14 July 2017
The Wall Street Journal
J
B1
English

Janet Yellen is an unlikely Goldilocks, but the Federal Reserve chairwoman has finally chased the three bears away from emerging markets. The jump in emerging-market stocks and currencies after her slightly dovish comments on Wednesday means that after almost 10 years, investors who put $1,000 into the MSCI Emerging Markets Index at the 2007 peak now have $1,000 again, before fees and taxes, assuming they reinvested their dividends.

There are lessons here about central banks, emerging markets and, unexpectedly, technology stocks.

The first is that markets are particularly prone to overinterpret central-bank comments, as investors worry that almost a decade of easy money is coming to an end.

Comments by Bank of England Gov. Mark Carney and European Central Bank chief Mario Draghi in Sintra, Portugal, two weeks ago turned into a Sintra conspiracy theory of coordinated global tightening, helped along by the Bank of Canada and others. The market priced in higher interest rates even as inflation expectations fell.

Ms. Yellen's testimony to Congress on Wednesday suggested investors had made a mistake. Sure, the Bank of Canada had indeed turned hawkish, raising rates for the first time in seven years, but Ms. Yellen made clear the Fed would change course if recent weak inflation persists. If there is a global conspiracy for tighter money even in the absence of inflation, the Fed isn't part of it.

The second lesson is that this matters for emerging markets. Many investors have been arguing that there will be no repeat of the 2013 "taper tantrum" that hit emerging-market stocks, bonds and currencies when the Fed signaled it would soon end its stimulus.

The thinking is that emerging-market countries are better prepared this time. But if their currencies, **bond prices** and stocks rise when Ms. Yellen is a little bit dovish, that strongly suggests they will fall if she turns hawkish.

A fall doesn't equate to a tantrum, but sensitivity is high. On Wednesday, Ms. Yellen's comments prompted a 0.04 percentage-point drop in the **10**-**year Treasury** yield, and a rise of about 1% in emerging-market local-currency **bond prices**, in dollar terms.

If the link between the two stays the same and Treasury yields rise as they did in 2013, emerging-market bonds could repeat the 20%-plus drop of 2013.

The third lesson is that the performance of tech stocks depends in part on the Fed, and in turn, is vital to emerging-market investors.

Stories justifying tech companies are about disruption -- of media, retail, cars, or in the case of artificial intelligence, everything. But the Fed also matters, because tech firms are high-growth companies that ought to be able to increase profits even if the economy does little.

Profits far in the future are worth more when interest rates are low, so tech stocks are more sensitive to rates than others.

Equally, a weak economy -- one cause of low rates -- leaves a dearth of rapidly growing companies, making tech stocks one of relatively few options for investors who want to chase growth. Bring back growth, and there is less need to pay up to hold expensive tech stocks.

Tech stocks have performed wonderfully so far this year, with the sector leading the **S&P 500**, as hopes for a U.S. stimulus faded. The same was true Wednesday.

Tech, in turn, matters to emerging markets, because the vision many have of these countries as poverty-stricken and backward isn't accurate -- at least as far as their main **stock-market** index goes.

Technology is now the biggest sector in the MSCI Emerging Markets Index, and five tech companies alone make up 17% of its value.

Three of those -- South Korea's Samsung Electronics, Taiwan Semiconductor Manufacturing and Taiwan's Hon Hai Precision Industries -- are in countries richer per capita than Italy, adjusted for purchasing-power parity.

Four of the five big emerging-market tech companies are up more than 46% in dollar terms this year, with Alibaba, China's answer to Amazon.com, up 70% through Wednesday. Even laggard Taiwan Semi is up 23%. All suffer the same sensitivity to the economy and interest rates as America's tech giants, as they demonstrated after the U.S. election briefly brought rising bond yields and hopes of economic stimulus.

Investors even in such apparently diverse areas as technology and emerging markets have little choice but to be Fed watchers. Emerging-market shareholders can reasonably hope that the next decade is more rewarding than the last, but they shouldn't rely on the Fed keeping the bears at bay.

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Business Day; Mutual Funds
A Possible Alternative to Stocks and Bonds: Commodities?

By CONRAD DE AENLLE
1,250 words
14 July 2017
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NYTFEED
English

Making a case that the **stock market** isn't expensive these days often means dragging Tina into the conversation.

Tina is short for "There is no alternative." It is a claim that after a decade of loose monetary policy and low interest rates, bonds, the traditional alternative to stocks, are no better a bargain than high-flying stocks.

Yet there may be one alternative to stocks. Commodities got cheaper through much of the second quarter, adding to several years of mediocre-to-weak performance. Gold and silver were hit hard. So were materials that work for a living, such as iron ore, copper, oil (and substances refined from it), although some of them staged rebounds late in the period, as did many agricultural products.

Ordinary investors can take positions in commodities through funds that hold them directly or that own shares of companies that mine, grow or process them. But should they? Prices have tumbled, but have they tumbled enough?

Investment advisers are divided on whether commodities are on the verge of reversing their poor performance, compared with stocks, and some who do think so aren't especially enthusiastic about it. There is wider agreement that commodities or shares of production companies are worth owning for the sake of broadening a portfolio and reducing risk.

"The **stock market** as a whole looks expensive to us," said Matt Kadnar, an asset allocation specialist for GMO, "but commodity stocks look like they're trading at a bit of a discount, relative to where they have traded historically, and there's a diversification benefit."

"Having some element of your portfolio in commodity-based equities makes sense," he said, "but it's much harder to call them a strong buy, as you could have 15 months ago when they were being taken to the cleaners." That was around the time crude oil was trading at multiyear lows, in the mid-$20s a barrel, roughly half of where it is now. Agricultural products and industrial and precious metals were also near long-term bottoms.

Krishna Memani, chief investment officer of OppenheimerFunds, agrees that commodity producers' stocks would have been a better buy then, but he still thinks they are worthwhile now and likely to perform well in the second half as evidence mounts of a broadening global economic recovery.

"As commodities have gone out of vogue, commodity-oriented companies are probably cheap, although I would have said that with a lot more conviction in the first quarter of 2016," Mr. Memani said. "As the synchronized global growth picture persists, the discount may disappear."

One reason that Mr. Kadnar thinks shares of production companies have recovered less than they should have is that there is a bias against them that actually creates long-term value.

"One of the things we like about commodity equities is that managers tend to avoid them," he said.

Mr. Kadnar was hinting at a shortcoming inherent in investing in commodities: There are no correct fundamental prices for them. Yardsticks like price-earnings ratios exist to indicate whether stocks are reasonably valued, but commodities typically move, often with violent swings, in response to ephemeral and often unpredictable economic, industrial and even meteorological events.

Investors can work around those difficulties, said Scott E. Wolle, chief investment officer for global asset allocation at Invesco, by comparing recent prices with their very long-term averages (most commodities are trading well below their average prices over the last 10 years, he noted) and choosing exposure to a broad range of markets, seeking diversification into and within commodities.

“That’s a long-term measure of value that should put you on the right side of the trade,” he said.

Exchange-traded funds with a diversified range of physical commodities include iShares S&P GSCI Commodity-Indexed Trust, PowerShares DB Commodity Index Tracking Fund and United States Commodity Index Fund. The first two are heavily weighted toward energy commodities; the third has equal allocations of 14 commodities.

E.T.F.s for production-company stocks generally focus on narrower segments, like SPDR S&P Metals & Mining, FlexShares Morningstar Global Upstream Natural Resources Index Fund and VanEck Vectors Agribusiness.

Commodities are useful in hedging against inflation, Mr. Wolle said. He acknowledged that inflation has been subdued worldwide for many years and that commodity prices have suffered for it, but they remain “one of the few assets that can protect you against that.”

Certain commodities, most notably gold, also serve as hedges against political uncertainty and upheaval, Mr. Wolle said. There certainly has been some of that in the last several months, and gold has rallied about 20 percent from its low in late 2015.

With global monetary policy still loose, he recommends exposure to precious metals to guard against any uptick in inflation. The immediate outlook is also auspicious for industrial metals and energy, in his view, as economic growth picks up in more parts of the world, though he advises steering clear of agricultural commodities.

As for how to get exposure, Mr. Wolle favors the materials themselves, or funds that own them directly, rather than commodity stocks. Some companies hedge their own exposure by using derivative contracts that lock in a specific price for what they produce, limiting the benefit of rising prices, he pointed out.

The Wells Fargo Investment Institute, by contrast, favors a none-of-the-above approach when it comes to short-term allocations to commodities. It has been **bearish** since the start of the year and predicts weakness into 2018, in line with its **bullish** outlook on the dollar, which tends to move in the opposite direction from commodities.

But John LaForge, head of real asset strategy at the institute, conceded in a recent report that “the U.S. dollar could make us wrong should it become unexpectedly, excessively weak.” Noting that gold, an alternative currency for thousands of years, is more sensitive to movements in the dollar than other commodities, he added, “Gold is where we could be really wrong.”

Even if commodities bounce back, they may not bounce that high, Mr. Memani of OppenheimerFunds cautioned.

“Commodities are probably in a good place, relative to the supply/demand dynamic,” but that “doesn’t mean prices are going back to the old highs” achieved around six years ago.

“People imputed special value to commodities based on the growth spurt from 2000 to 2007 driven by an investment and construction boom in emerging markets, and China in particular,” he said. “As that demand accelerated in a meaningful way, it helped prices, but that in turn brought in new supply and depressed prices. Unless we get a new boom, the chance of prices going back to that level is pretty small.”

It’s clear that commodities cost a lot less than they did several years ago and that stocks cost a lot more. But given the variety of opinions about commodities, it’s less clear they are the best of the alternatives that value-conscious investors look for, even if the others aren’t so great, either. So investors should be careful when considering what, how and why to buy.

“With commodities, like anything else, there are no easy answers,” Mr. Kadnar said.

* Funds That Add Spices to the Stock-and-Bond Mix

* 2016’s Winning Investors Talk About 2017, and Donald Trump

* Three Funds Hit the Jackpot With a Variety of Bets

* Balancing Costs and Competition

Michael Dalder/Reuters

Document NYTFEED020170714ed7e005bq

The New York Times

Business Day; Mutual Funds
Ways of Winning in a Bull Market

By TIM GRAY
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English

In a **bull market** (the current one reached its eighth birthday in March), mutual fund managers can find many ways to win. In the second quarter, three of the better-performing stock funds scored with picks as varied as well-known technology companies, micro-cap stocks and Asian innovators.

Fidelity OTC Portfolio

Gavin S. Baker, manager of the Fidelity OTC Portfolio, often makes big bets on big names. His fund, for example, had committed about 8.5 percent of its $15.3 billion in assets to Tesla, an electric-car maker, at the end of May. It likewise owned sizable slugs of Apple, Alphabet and Amazon.

Those hefty holdings partly spring from the fund's design: It's benchmarked against the tech-heavy **Nasdaq Composite** Index. Thus, to favor a company, as Mr. Baker has with Tesla, his fund must have a greater allocation to the stock than the index does. Tesla accounts for less than 1 percent of the **Nasdaq**.

Mr. Baker aims to identify and exploit enduring technological themes, like the continued growth of e-commerce and cloud computing. Lately, a favorite motif is the emergence of artificial intelligence. “A.I. will change the world in ways we can't even imagine now,” he said.

The fund's Tesla holding is partly a wager on that belief. Mr. Baker, a Tesla owner himself, said he likes the company not just for the quality of its cars but also for its continuous improvements to its self-driving technology. Many other companies are developing that technology, too, but Mr. Baker is **bullish** on Tesla's prospects.

“In a year or two, we may look back and think it's funny we focused on Tesla being an electric-car company when they're building a big competitive advantage in autonomous driving,” he said.

Tesla's stock has been falling lately, dropping more than 15 percent from a peak on June 23. Mr. Baker said his fund has added to its Tesla position this year, though he wouldn't comment on whether the fund had bought or sold shares recently.

Mr. Baker has managed his fund since 2009. Over that time, he said, he has learned patience: “I appreciate more and more that, in a world dominated by people trading E.T.F.s and quantitative traders and hedge funds, the biggest competitive advantage I have is a long-term time horizon.” Mr. Baker retains an average holding for about two years and will keep favored stocks far longer. Nvidia, for example, has been an overweight in the fund — a larger allocation than in the benchmark — for Mr. Baker's whole tenure.

The fund, with an expense ratio of 0.91 percent, returned 9.34 percent in the second quarter, compared with a total return of 3.09 percent, including dividends, for the **Standard & Poor's 500-stockindex**.

Wasatch Micro Cap Fund

Dan Chace, co-manager of the Wasatch Micro Cap Fund, is even more patient with stocks than Mr. Baker: His fund retains an average holding for about three years, compared with a little less than two for the typical actively managed stock fund.

Yet he said he tries to guard against being too patient, striving to stay focused on why he bought a stock and not stumbling into what he called “thesis creep.” “If things don't play out, you don't want to rationalize or justify,” Mr. Chace said.

The Wasatch fund differs from the typical micro-cap offering tracked by Morningstar in that it invests more of its shareholders' money abroad. About 20 percent of the fund is parked in foreign stocks, compared with 3 percent for its average peer. Mr. Chace, who has managed the fund since 2004, can invest as much as 30 percent of the assets in foreign fare. "We're going to keep pushing it up," he said.

He said he has raised the fund's foreign stake because the United States micro-cap pool has been stagnant. (Wasatch counts as micro-caps companies with market capitalizations of less than $1.5 billion.) Over the last decade, relatively few domestic companies have issued stock in initial public offerings, or I.P.O.s, he said.

India, in contrast, has many small companies with good growth rates, and Mr. Chace has gravitated there. His fund's top two holdings at the end of March — MakeMyTrip and Natco Pharma — are Indian ventures.

Similarly, one of his recent good performers was V-Mart Retail, which specializes in selling apparel in India's smaller cities and countryside. Because of the company's rural market, it's not being squeezed by e-commerce companies in the way many big retailers are, he said.

Mr. Chace's fund, with an expense ratio of 1.67 percent, returned 8.93 percent in the second quarter.

Matthews Asia Innovators

India is also a hunting ground for Michael J. Oh, lead manager of the Matthews Asia Innovators Fund. Mr. Oh, who grew up in Seoul, South Korea, and moved to the United States as a teenager, scours Asia for companies developing new technologies or creating innovative products and services. About a third of the fund's assets are invested in China and Hong Kong and about a fifth in South Korea. India accounts for 8 percent.

Until last year, the fund was known as the Matthews Science and Technology Fund, but its sponsor, Matthews Asia, changed the name because Mr. Oh, who has overseen the fund since 2006, was finding opportunities beyond that narrower niche. He said his goal is to invest in companies benefiting from a growing middle class throughout Asia and rising disposable incomes there. "The question we're asking is, 'What will consumers with incremental income spend on?'"

Lately, an answer has been beauty products. One of the fund's larger holdings has been Hugel, a South Korean cosmetics and pharmaceuticals company whose offerings include botulinum toxin (or Botox) wrinkle treatments. Korean cosmetics makers have been innovators for more than a decade, Mr. Oh said, but their market was largely limited to South Korea and Japan.

Now a surging middle class in China has created a big new pool of potential buyers, he said. In April, Bain Capital agreed to pay about $800 million for a controlling stake in Hugel.

Mr. Oh invested in the TAL Education Group, a Beijing tutoring company, for similar reasons. Education is highly valued there, he said, and as parents see their discretionary income rise, they'll often spend some of the surfeit on their children's educations. His fund, with an expense ratio of 1.24 percent, returned 13.57 percent in the second quarter.

* Finding Growth in Pizza, Paint and Credit-Card Companies

* Funds That Find Speedsters, Even in a Slow Economy

* China's Rapid Growth Doesn't Ensure Stock Gains

* Emerging Markets, Even in Turmoil, Have a Place in a Portfolio

Michael Oh, lead manager of the Matthews Asia Innovators Fund. He said his goal is to invest in companies benefiting from a growing middle class throughout Asia and rising disposable incomes there. The fund returned 13.57 percent in the second quarter. | Jason Henry for The New York Times | Gavin Baker, manager of the Fidelity OTC Portfolio fund, in 2014. He makes big bets on major technology stocks, and he sees artificial intelligence as an emerging trend. "A.I. will change the world in ways we can't even imagine now," he said. The fund returned 9.34 percent in the last quarter. | Rick Friedman for The New York Times

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The New York Times

Business/Financial Desk; SECTB
Bank Shares Rise Ahead of Earnings Reports

By THE ASSOCIATED PRESS
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4
English

Banks and technology companies led stocks to modest gains on Thursday, pushing the **Dow Jonesindustrial average** to its second record close in two days.

Big retail chains and other consumer-focused stocks were among the gainers. Energy companies rose as the price of crude oil increased. Phone companies and utilities lagged behind the overall market.

''We're continuing to hit record highs,'' said Erik Davidson, chief investment officer for Wells Fargo Private Bank. ''It is a resilient market, impervious to whatever comes out of Washington.''

The **Standard & Poor's 500**-**stockindex** gained 4.58 points, or 0.2 percent, to 2,447.83. The Dow rose 20.95 points, or 0.1 percent, to 21,553.09. The **Nasdaq composite** added 13.27 points, or 0.2 percent, to 6,274.44.

Trading was mostly subdued for much of the day as investors weighed new economic data on applications for unemployment benefits and prices at the wholesale level, and focused on the coming wave of corporate earnings.

Banks and other financials stocks posted the largest gains. T. Rowe Price Group added $3.61, or 4.8 percent, to $79.19. Goldman Sachs Group rose $3.01, or 1.3 percent, to $230.40. Morgan Stanley picked up 56 cents, or 1.2 percent, to $45.52.

The gains among financial companies came as investors looked ahead to Friday, when several big banks, including Citigroup, JPMorgan Chase and Wells Fargo, release their second-quarter results.

Traders also bid up shares in technology sector companies. NetApp rose $1.21, or 3 percent, to $41.38. PayPal gained $1.35, or 2.4 percent, to $57.90.

Bond prices fell. The yield on the **10**-**year Treasury** note rose to 2.35 percent from 2.32 percent late Wednesday.

Benchmark United States crude gained 59 cents, or 1.3 percent, to settle at $46.08 per barrel on the New York Mercantile Exchange. Brent crude, used to price international oils, added 68 cents, or 1.4 percent, to close at $48.42 per barrel in London.

The dollar inched up to 113.21 yen from 113.19 yen late Wednesday. The euro weakened to $1.1405 from $1.1418.

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

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The New York Times

Business/Financial Desk; SECTB
London and New York Duke It Out For $2 Trillion Saudi Aramco Listing

By STANLEY REED and MICHAEL J. de la MERCED
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LONDON -- London and New York have been battling for months over what could be the biggest public offering in history, Saudi Arabia's state energy company Saudi Aramco.

Britain looks to be working hard to land it, with regulators unveiling proposals on Thursday that aim to make it easier for state-owned companies to list on the London Stock Exchange.

Though the Financial Conduct Authority of Britain did not explicitly name the Middle Eastern energy giant when it published the potential new rules, the implication is clear.

Saudi Arabia wants to list 5 percent of Aramco, at a valuation of around $2 trillion, a blockbuster listing that has set stock exchanges around the world competing against one another. Analysts say the final decision is likely to come down to London and New York.

The fight for Saudi Aramco's listing is well underway.

How is London trying to attract Aramco?

The Financial Conduct Authority has proposed creating a new category of premium listings specifically geared toward state-owned companies.

The bottom line: Any interaction between public sector firms and the sovereigns that control them will not require approval by other shareholders.

''Sovereign owners are different from private sector individuals or companies -- both in their motivations and in their nature,'' Andrew Bailey, the conduct authority's chief executive, said. ''Investors have long recognized this, and capital markets are well adapted to assess the treatment of other investors by sovereign countries.''

The regulator has called for feedback, before issuing more detailed proposals.

Why is Saudi Aramco's I.P.O. so valuable?

In a word: oil. Saudi Aramco produces more of it than any other company -- an average of 10.5 million barrels per day last year -- and claims reserves equivalent to 15 percent of the world's total. It also has a large and modern global oil refining network.

Crown Prince Mohammed bin Salman, the driving force behind the public offering, has said that it could value the company at $2 trillion. While other estimates have been lower, in the range of hundreds of billions of dollars, that would still be a mammoth sum.

The value of the offering is likely to depend on several factors, from the price of oil to the taxes that the government applies to Saudi Aramco's revenues. (The government slashed the company's tax rate in March.)

Ultimately, though, it will all depend on confidence in Saudi Arabia's economy and the kingdom's stability. Investors considering purchases of Aramco shares will need to take into account how closely intertwined the company is with the government's economic and political strategies.

For instance, Aramco sells all of the natural gas it produces to domestic customers at below market prices that underpin the country's industrial base.

Have low **oil prices** had an impact on the offering?

The price of oil is crucial because it is a critical variable in determining the value of future Saudi cash flows.

Riyadh had been keeping production high to squeeze out lower-cost oil producers. But some analysts believe the kingdom agreed to trim production late last year not just to lift **oil prices** but also because of worries that a low price would affect the I.P.O. valuation. In a worst-case scenario, sustained low prices could force Saudi Arabia to postpone, or even abandon, the public offering.

There are other effects. In a paper published this year, Bassam Fattouh, the director of the Oxford Institute for Energy Studies, wrote that low **oil prices** could mean that the reduced tax rate on Aramco ''may not be sustainable'' -- such a combination would deprive the government of much-needed funds for social and development spending.

Investors might recognize this problem and lower their calculations of the value of Aramco's cash flows, according to Mr. Fattouh, who is close to the Saudi energy leadership.

What would be the benefits of listing in New York?

Listing in New York would give Saudi Aramco access to what is seen as the biggest market in the world, with the investor capital available to support trading in such a huge company.

Debuting on the New York Stock Exchange also carries with it the prestige of a listing on the Big Board, and market debutantes still ring the bell on their first day of trading.

But concerns remain about a New York listing.

In particular, an I.P.O. in the United States would leave Saudi Aramco more vulnerable to lawsuits in American courts. Last year, for instance, Congress voted to allow victims of the Sept. 11 attacks to sue Saudi Arabia in courts in the United States.

Shareholders in American companies also frequently file lawsuits against companies for perceived regulatory violations.

Which one will Aramco pick?

For now, nothing has been announced.

Much still remains unresolved -- the listing is not expected before next year, and the company has not yet chosen all of its bankers.

It is worth noting that Saudi Aramco is likely to be listed on its home country's exchange, the Tadawul. But the kingdom is still deciding between London and New York.

The New York Stock Exchange had reportedly been favored for its deeper pool of available capital and its prestige.

Whether the proposals announced in Britain on Thursday sway Aramco, though, is so far unclear.

A Saudi Aramco oil complex in Saudi Arabia. The company is weighing a huge public offering. (PHOTOGRAPH BY SAUDI ARAMCO, VIA REUTERS)

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THE WALL STREET JOURNAL.
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U.S. News: Yellen Expects Inflation Pickup

By Nick Timiraos
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WASHINGTON -- Federal Reserve Chairwoman Janet Yellen said a strong labor market and rising prices of imported goods support her expectation that a recent downturn in inflation will prove transitory.

In raising interest rates last month and penciling in one more increase later this year, Fed officials so far have looked past recent soft inflation readings by pointing to several idiosyncratic price declines, such as for wireless-phone plans.

Ms. Yellen cited those factors in testimony to the Senate Banking Committee on Thursday but nodded to uncertainty in near-term inflation figures. "There may be more going on. We're watching inflation very carefully in light of low readings," she said. "I think it's premature to conclude that the underlying inflation trend is falling well short of 2%. I haven't reached such a conclusion."

Fed officials next meet July 25-26 and are likely to leave short-term interest rates unchanged. At their meeting last month, officials raised rates for the third time in as many quarters to a range between 1% and 1.25%.

While the economy has largely performed in line with the central bank's forecasts, inflation has been weaker than expected. Excluding the **volatile** food and energy categories, the Fed's preferred inflation gauge slowed to a gain of 1.4% over the year ended in May, versus 1.8% in February. The Fed has fallen short of its 2% inflation target for most of the past five years.

Ms. Yellen cited rising import prices as one reason why global factors aren't "mainly responsible" for the low inflation readings. She also pointed to continued declines in labor-market slack, which would traditionally point to rising wages. "We're not seeing very substantial upward pressure on wages, but we may begin to see upward pressure on wages and prices," she said.

Ms. Yellen said little about the timing of the Fed's next moves. Most economists polled recently by The Wall Street Journal expect the central bank to start shrinking its $4.5 trillion holdings of bonds and other assets in September and to next raise short-term interest rates in December. That would allow officials to monitor inflation trends for several months before deciding whether to lift borrowing costs.

The central-bank leader also offered her assessments on other topics.

With respect to her future at the Fed, Ms. Yellen implied she hadn't discussed with the White House whether President Donald Trump might want to nominate her to continue as chairwoman after her term ends in February. "It's not been something that's come up," she said. If Mr. Trump asked her to stay on, that is "something that I would discuss with the president, obviously."

Regarding the likelihood of another financial crisis, Ms. Yellen clarified comments she made in London last month when she said she didn't believe there would be another crisis "in our lifetimes." On Thursday, she said, "We can never be confident that there won't be another financial crisis," but she pointed to postcrisis changes to bank-capital and regulatory standards that have made the financial sector more resilient.

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ECONOMY

Forecasters Lower

Growth Expectations

Early optimism that President Donald Trump would be able to revitalize the U.S. economy is fading as Congress struggles to pass major legislation.

Forecasters in The Wall Street Journal's monthly survey of economists marked down their outlooks for growth, inflation and interest rates this month, a partial reversal of a postelection bump.

Forecasters assess whether they think the economy is more likely to outperform or underperform their forecasts.

The number of economists seeing those risks to the downside climbed to 57% in this month's survey, the highest since before the election. That was up from 51% last month and 37% just two months ago.

The survey of 63 business, financial and academic economists was conducted from July 7 to July 11. Not every economist answered every question.

Growth forecasts for the last three quarters of 2017 were all down from May. Forecasts for growth in 2018 were unchanged at 2.4%, but the average forecast for 2019 dropped to 1.9%.

-- Josh Zumbrun

PRODUCER PRICES

Gauge Indicates

Subdued Inflation

A gauge of U.S. business prices ticked up in June, another signal of moderating inflation pressures.

The producer-price index for final demand, which measures changes in the prices that U.S. companies receive for their goods and services, increased a seasonally adjusted 0.1% in June from a month earlier, the Labor Department said Thursday.

The month-over-month increase was slightly higher than economists expected, but overall price pressures continued to remain soft in June.

The index for core prices, which excludes the often **volatile** food and energy sectors, rose 0.1% in June. From a year earlier, core prices were up 1.9%, below the pace seen in previous years and suggesting little momentum for price pressures.

"In short, fairly tame and fairly close to expectations, although the core measures still show a pickup in the past year, said Jim O'Sullivan, chief economist at High Frequency Economics, in a note to clients.

-- Sarah Chaney

EDUCATION

Requests for Financial

Assistance Increase

The number of students who completed applications for federal financial aid increased 6% in the latest cycle.

The increase, to just over 14 million students through June 30, reverses a four-year downswing, according to Education Department data collected by the National College Access Network, a nonprofit group that supports expanded access to higher education.

The Free Application for Federal Student Aid, known as the Fafsa, is used not just to determine eligibility for federal aid programs, but also for a number of state-level aid programs and schools' own institutional awards.

College-financing experts say that even students from wealthier families should complete the Fafsa to be considered for merit aid or to show the financial burden of having multiple kids in college.

-- Melissa Korn

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THE WALL STREET JOURNAL.
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Governors and Mayors Should Be Begging for Trump's Tax Cut

By Arthur Laffer and Stephen Moore
855 words
14 July 2017
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J
A17
English

These are brutal days for state governments, especially progressive ones. Last week Illinois passed its first budget in two years, raising taxes by $5 billion -- despite already having a state and local tax burden that's among the highest in the nation. Connecticut's deficits are so big, according to the fiscal watchdog group Truth in Accounting, that every taxpayer would have to pony up an extra $49,500 to pay off all the liabilities. In Oklahoma, where low **oil prices** have tanked state revenue, some public schools open only four days a week.

Liberal groups warn that President Trump's proposals would make things worse by reducing the funds Washington sends states under programs like Medicaid. Governors and mayors, the argument goes, would be forced either to slash social services or raise taxes to make up the difference.

But focusing on federal support obscures the real problem. The biggest cause of states' budget woes is the anemic condition of the national economy. Over the past eight years, growth in state and local revenue has slowed to a crawl. In fiscal 2017, total state revenue rose by less than 1% after adjusting for inflation, according to the National Association of State Budget Officers.

What states need most to regain fiscal health are national policies that accelerate the growth of the economy. Governors and mayors should be lobbying nonstop for the tax cuts proposed by Mr. Trump, which would revitalize state finances.

When the federal government cuts taxes, more money is left in the hands of businesses and workers. The Trump plan would free up an estimated $2 trillion to $4 trillion over 10 years -- an enormous influx of cash for state and local economies.

Compare state finances during the go-go Reagan years with President Obama's tenure, beginning after the end of the recession each president faced. After the recession of 1983, the national economy grew an average of more than 4% a year through 1990. During the Obama recovery between 2009 and 2016, the economy grew just over 2% annually. Remember that those effects compound: Strong growth year on year increases the size of the economy over time.

If state and local tax revenue had grown under President Obama at the rate it did under President Reagan, receipts in 2016 would have been greater by about $650 billion, or 26%, according to national income and product account data. If the economy in the Obama years had grown at 3.5% to 4%, the average rate for postrecession recoveries, states and cities would have had about $430 billion more. Think what they could do with nearly half a trillion dollars in additional tax revenue each year.

Even if Republican tax reform eliminates the federal deduction for state and local income taxes -- a move we support -- its effect on states would still be overwhelmingly positive. When federal income taxes were high in the 1970s, people could write off as much as 70% of their state and local taxes. Slashing rates in the 1980s brought that figure down to as low as 28%. Yet state fiscal health improved dramatically in the '80s. The main effect of eliminating the deduction today would be to reduce the federal subsidy to high-tax states.

Critics will say this forecast for economic and revenue growth is wishful thinking, but it is based on the historical record. In the seven years after the Kennedy tax cuts, real state and local receipts grew by more than 60%, according to data from the Federal Reserve Bank of St. Louis. In the seven years after the Reagan rate cuts, the real increase was 37%. After Mr. Obama's tax increases, real growth was a meager 10%.

The nonpartisan Tax Foundation estimates that after 10 years the Trump tax reform would increase America's long-run gross domestic product by up to 8.2%. State and local governments capture about 13% of GDP in taxes according to 2016 Internal Revenue Service data, meaning the growth spurred by the proposed cuts would give them about $200 billion more each year by 2027 to balance their budgets, reduce taxes, or spend on education and social programs.

With the Trump tax cuts in place, the cumulative increase in state and local revenue over the following 10 years would be roughly $1 trillion. Could any imaginable tax increase raise that kind of money?

Amazingly, the bean counters at the Congressional Budget Office and Joint Tax Committee completely ignore this effect when they tally the "cost" of tax cuts in terms of forgone revenue. Almost a third of the lost federal revenue from Mr. Trump's tax reform would be recouped by states and cities.

We only have one question: Why aren't more governors and mayors -- especially those in economically depressed areas -- demanding the Trump tax cuts?

Mr. Laffer is chairman of Laffer Associates. Mr. Moore is a senior fellow at the Heritage Foundation. They are co-chairmen of the Committee to Unleash Prosperity.

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U.S. EDITION

U.S. News -- Capital Account: Electric Cars Are the Future? Not So Fast

By Greg Ip
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Skepticism of electric cars melts a bit more with each new announcement from the likes of Tesla, which last week launched production of a mass-market vehicle, and Volvo, which days later promised to phase out gasoline-only engines by 2019.

But that progress comes with two big caveats: First, it has relied on extensive public subsidies and, second, it has done little to reduce planet-warming emissions of carbon dioxide. If electric cars are ever to displace gasoline engines without government putting its thumb on the scale, they must not only keep innovating but outrun innovation in fossil fuels.

Electric cars have come a long way. They are no longer ugly, impossibly expensive and impractical, thanks to advances that have cut battery storage from $1,000 per kilowatt-hour in 2010 to $273 last year, according to Bloomberg New Energy Finance.

Nonetheless, that means a 75 kwh battery (about 250 miles of range) adds about $20,000 to the cost. So how do the cars sell? Public largess helps a lot. The U.S. federal government offers a tax credit of up to $7,500 each for the first 200,000 electric or plug-in hybrid cars a manufacturer sells. Throw in state tax credits, subsidies for recharging infrastructure, relief from gasoline taxes, preferential lanes and parking spots and government fleet purchases, and taxpayers help pay for every electric car on the road.

What happens when the credits go away? When Hong Kong slashed a tax break worth roughly $55,000 for a Tesla in April, its sales ground to a halt. In Georgia, electric vehicle sales plummeted 80% the month after a $5,000 tax credit was repealed.

Tesla will find plenty of niche buyers for its high-priced cars once it exhausts its credits. But for electric vehicles as a whole, hybrids have a sobering lesson. From 2005 to 2010, some hybrid buyers enjoyed a $3,500 tax credit. Sales kept rising after the credit expired, peaking at 487,000, or 3.1% of total vehicles, in 2013, according to Edmunds.com, when gasoline averaged $3.51 a gallon. A surge in oil supply caused gas prices to drop to $2.36 a gallon this year, and hybrids' market share fell to just 2.1%.

Many optimists think falling battery costs mean electric vehicles will inevitably displace the internal combustion engine (ICE). Last week, Bloomberg predicted electric cars would become "price competitive" with ICE cars in eight years without subsidies.

But such scenarios hinge not just on the cost of batteries but on the price of oil and the efficiency of competing vehicles. Economists Thomas Covert, Michael Greenstone and Christopher Knittel, in an article for the Journal of Economic Perspectives, estimate that at the current battery cost of $270 per kwh, oil would have to cost more than $300 a barrel (in 2020 dollars) to make electric and gasoline equally attractive. If battery costs fall to $100, as Tesla Founder Elon Musk has targeted, oil would have to average $90.

That could happen. But optimists "overlook the compensating effect of incumbent technology," says Kevin Book, of ClearView Energy Partners, an advisory firm. He notes, for example, the spectacular decline in natural gas prices that fracking has made possible. And ICE efficiency typically rises 2% a year.

ClearView says that in an optimistic scenario, where battery costs fall 10% a year starting now and gasoline begins at $5 a gallon, electric vehicles will be competitive in five years. If battery costs fall just 5% a year and gasoline starts at $2.25, it will take more than 20.

This would still be a step forward for the climate, but by how much depends on other factors. Electric vehicles are meant to be recharged at night. Economists Joshua Graff Zivin, Matthew Kotchen and Erin Mansur note in a 2014 article in the Journal of Economic Behavior and Organization that night is when electricity is likeliest to come from coal. They estimate electric vehicles account for more carbon dioxide per mile than comparable hybrids in most of the U.S.

Regulators further dilute the reduction impact by giving auto makers added credit for each electric vehicle, when complying with average fuel efficiency standards.

These subsidies have clearly accomplished one goal: They've accelerated innovation when the private market had little incentive to invest. Yet they may not be the most efficient way to combat carbon emissions. A carbon tax, for example, would incentivize conservation and alternative fuels regardless of **oil prices**.

Since that's unlikely for now, Mr. Greenstone and Sam Ori, both of the University of Chicago's Energy Policy Institute, and Cass Sunstein, of Harvard University, suggest scrapping the current array of fuel efficiency standards and assigning manufacturers a tradable emissions cap for each vehicle. This would put alternatives to electric cars on a level playing field. Just in case electric vehicles don't meet their heady expectations, the world should spread its bets.

(See related letters: "Letters to the Editor: Electric Cars Help America Depend Less on Oil" -- WSJ July 26, 2017)

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THE WALL STREET JOURNAL.
U.S. EDITION

ETFs: A Way to Bet Against Battered Retail Stocks

By Chris Dieterich
550 words
13 July 2017
The Wall Street Journal
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B12
English

New ETFs are in the works to allow traders to profit from the struggles of brick-and-mortar retailers.

Contrarians, take note.

Such niche launches of exchange-traded funds have regularly presaged turning points in their respective markets.

On the surface, now would seem like a fertile time to launch ETFs designed to bet against traditional retailers. The SPDR S&P Retail ETF is down 11% so far in 2017 to its lowest price in a year, driven by a steady stream of bad news. Amazon.com Inc.'s $13.7 billion bid last month for Whole Foods Market sent traditional supermarkets shares into a tailspin, retailers are closing stores at a record pace and Abercrombie & Fitch Co.'s failure this week to find a bidder sent a message that private-equity firms are wary about betting on turnarounds.

Against this backdrop, ProShare Advisors, the 10th-largest ETF provider by assets, filed plans with securities regulators last week for new double- and triple-levered ETFs designed to rise on days that retail stocks fall. Also coming is an ETF that goes "long" online retailers while "shorting" traditional ones.

Investors sometimes view new ETFs as contrary market signals because of the amount of time it can take to turn an idea for a new fund into reality. Because such products must meet a series of regulatory and exchange-specific requirements, it typically takes months, and sometimes years, for an idea to go from preliminary filing to tradable ETF. In some cases, fund companies register for ETFs and wait for a ripe time to debut.

That means that a once-popular trade will sometimes already have started to lose its luster by the time an ETF hits the market.

With the benefit of hindsight, the debut of the Market Vectors Rare Earth/Strategic Metals ETF in late 2010 marked the peak of a speculative frenzy in producers of materials such as yttrium, which is used in products ranging from electronics to auto parts.

And don't forget "yieldcos," public companies spun off by parents in the renewable-energy industry, including Terraform Power, which was shaved off from SunEdison in 2014. The Global X YieldCo Index ETF hit the market in May 2015, reached its high four days later and has fallen 22% since.

New leveraged or inverse ETFs often arrive in pairs, with "**bullish**" and "**bearish**" iterations hitting at the same time. In these cases, the presence of new products can signal simply that a long-term trend might be due to reverse.

Still, the coming launch of ETFs that allow traders to wager on the decline of brick-and-mortar retailers is a sign of one-way sentiment if ever there was one. Jared Dillian, a former ETF trader who now publishes a financial newsletter, wrote this week that the **bearish** retail ETF filings are one of few signals that "maybe it is time to put on your distressed hat and look around some of these names for value."

In other words, retail bears might want to brace for the scenario, however unlikely, that the debut of **bearish** retail ETFs could signal that the beaten-down industry is due to rebound.

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THE WALL STREET JOURNAL.
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Heard on the Street
Past Flop May Help Big Tobacco

By Stephen Wilmot
468 words
13 July 2017
The Wall Street Journal
J
B13
English

[Financial Analysis and Commentary]

What consumer good offers the best growth potential? It could be one in long-term decline: the cigarette. Some **stock-market** valuations have yet to catch on.

As unit sales have fallen in the U.S. and other rich countries, manufacturers have generated profit growth by ramping up prices and -- helped by marketing bans -- trimming costs. Meanwhile, spending on smokes in developing countries has risen. This formula has yielded huge gains for tobacco investors in recent years.

Now there is an added source of growth: cigarette substitutes. The popularity of heat-not-burn products in Japan has transformed the most recent quarterly results of Philip Morris International.

Unlike vaping products popular in the U.S. and U.K., heat-not-burn cigarettes contain tobacco and generate a "throat hit" similar to traditional varieties. But instead of being lit with a flame, they are heated by a sleek holder to generate a nicotine-laden inhalation.

Heat-not-burn technology was a costly flop when pioneered in the 1980s by Reynolds, yet it sowed a seed that under Reynolds's rival Philip Morris has grown into a credible product: IQOS. Released in Japan in 2014, IQOS accounted for 7% of cigarettes sold in the country in the first quarter.

Crucially, PMI gains even if IQOS replaces Marlboro, because heat-not-burn smokes are more lightly taxed than conventional cigarettes in most countries. Citigroup estimates that a pack of IQOS generates 30% more revenue for PMI in Japan than a pack of Marlboros, even at similar prices.

The brokerage is penciling in 8% organic sales growth at PMI this year, at least double what can be expected at consumer-products groups. They earn higher margins than vaping products.

Buying PMI stock is the obvious way to play this theme. A smarter bet could be London-listed British American Tobacco. BAT's valuation gap to PMI is near its widest in at least a decade; investors are excited about IQOS but give BAT no credit for its challenger product, glo. BAT's lower margins also suggest potential for cost cutting, particularly given its merger with Reynolds, due to complete later this year.

Buying PMI stock at 23 times prospective earnings amounts to an uncertain wager that IQOS finds converts beyond Japan. Japan's consumer culture can be insular, and smokers in the country like lighter menthol cigarettes, for which IQOS is a good substitute. It may be harder to win over those used to stronger smokes.

At less than 18 times earnings, well below not just PMI but also consumer-goods peers, BAT stock should prove a safe investment -- whether or not heat-not-burn lives up to its early promise.

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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
Technology Firms Lead Broad Gains in Market

By THE ASSOCIATED PRESS
690 words
13 July 2017
The New York Times
NYTF
Late Edition - Final
2
English

Technology companies led stocks higher on Wednesday in a broad rally that helped nudge the **Dow Jonesindustrial average** to a new peak.

In remarks before Congress, the Federal Reserve chairwoman, Janet L. Yellen, raised the possibility that the central bank would consider slowing the pace of its interest rate increases if inflation remained persistently below its target level.

The move assuaged concerns among some traders who have been worried that the Fed was moving too quickly to raise interest rates, despite a slowdown in inflation and the economy's sluggish growth of just 1.4 percent in the first quarter.

Ms. Yellen's remarks put investors in a buying mood and sent bond yields lower, stoking demand for real estate companies, utilities and other high-dividend stocks. Materials companies also posted hefty gains.

''Investors would prefer lower interest rates, particularly if the economy isn't gaining the kind of traction that would warrant a faster rate-hike path,'' said Quincy Krosby, chief market strategist at Prudential Financial. ''This is positive for the markets.''

The **Standard & Poor's 500**-**stockindex** gained 17.72 points, or 0.7 percent, to 2,443.25. The Dow rose 123.07 points, or 0.6 percent, to 21,532.14, a record high. The **Nasdaq composite** added 67.87 points, or 1.1 percent, to 6,261.17.

The **stock market** appeared to be poised for a big move early, climbing in premarket trading as investors sized up Ms. Yellen's prepared remarks, which were released before her testimony. The indexes opened higher across the board and stayed up the rest of the day.

Ms. Yellen, in her biannual testimony before the House Financial Services Committee, said the central bank expected to keep increasing a key interest rate at a gradual pace, but also raised the possibility that the pace of increases would be slower than previously expected if inflations remain below its annual growth target of 2 percent.

Many economists believe the Fed, which has raised rates three times since December, will increase rates once more this year.

Ms. Yellen also said she planned to start trimming the Fed's bond holdings this year.

The yield on the **10**-**year Treasury** note fell to 2.32 percent from 2.37 percent Tuesday afternoon. Yields affect rates on mortgages and other consumer loans.

Technology companies led the market higher. PayPal gained $1.79, or 3.3 percent, to $56.55. Nvidia rose $6.63, or 4.3 percent, to $162.51. Activision Blizzard added $3.04, or 5.2 percent, to $61.02.

Real estate investment trusts and other stocks that pay high dividends benefited from rising **bond prices**, which pulled bond yields lower. Crown Castle International rose $1.76, or 1.8 percent, to $100.05. American Tower climbed $2.95, or 2.3 percent, to $133.88.

NRG Energy was the biggest gainer in the **S**.**&P**. **500**. It soared 29.4 percent after the company said it planned to raise up to $4 billion through asset sales in order to lower its debt. The stock climbed $4.79 to $21.09.

Oil prices wavered early Wednesday, but recovered following a report showing that United States crude oil inventories declined sharply last week.

Benchmark United States crude rose 45 cents, or 1 percent, to settle at $45.49 a barrel on the New York Mercantile Exchange. Brent crude, which is used to price international oils, gained 20 cents, or 0.4 percent, to close at $47.72 per barrel in London.

The dollar fell to 113.25 yen from 113.84 yen late Tuesday. The euro fell to $1.1416 from $1.1467.

Gold rose $4.40 to $1,219.10 an ounce. Silver added 14 cents to $15.89 an ounce. Copper inched up 1 cent to $2.68 a pound.

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

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THE WALL STREET JOURNAL.
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U.S. News: Yellen Still Expects Gradual Rate Hikes

By Nick Timiraos
545 words
13 July 2017
The Wall Street Journal
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A2
English

WASHINGTON -- Federal Reserve Chairwoman Janet Yellen, faced with a recent, puzzling slowdown in global inflation, said she expects the forces holding down consumer prices to fade in the months ahead, allowing the central bank to stick to its plans for gradual interest-rate increases.

But she left herself an out, saying the Fed could veer from its policy plans if inflation weakness proved more stubborn than officials expect.

Ms. Yellen repeated her view that a tightening labor market would put upward pressure on wages and prices. "It's premature to reach the judgment that we're not on the path to 2% inflation over the next couple of years," she said Wednesday during a hearing of the House Financial Services Committee. But, she added, "We're watching this very closely and stand ready to adjust our policy if it appears that the inflation undershoot will be persistent."

Stocks rallied and bond yields fell after her testimony.

Markets increasingly expect the Fed to next raise rates in December, after launching in September the process of slowly shrinking its $4.5 trillion portfolio of bonds and other assets acquired during and after the financial crisis.

Fed officials next meet July 25-26. At their meeting last month, they raised short-term interest rates for the third time in as many quarters to a range between 1% and 1.25% and penciled in one more increase this year.

Fed officials in recent weeks have debated whether the inflation slowdown is likely to persist, with some saying they want to hold off on more rate increases until price pressures pick up. But even those who want to go more slowly on raising rates because of inflation have shown no such qualms about announcing plans to implement the portfolio runoff in the next few months.

Ms. Yellen has been in the camp of those who see the inflation slowdown as likely to be transitory.

She said the traditional pattern in which tighter labor markets put pressure on wages and inflation more broadly has been slow to surface. "The relationship between those two things has become more attenuated than we've been accustomed to historically," she said.

The unemployment rate, at 4.4% in June, was near its lowest level in 16 years, but wage pressures have been muted.

"There is . . . uncertainty about when -- and how much -- inflation will respond to tightening resource utilization," Ms. Yellen said Wednesday.

Excluding the **volatile** food and energy categories, the Fed's preferred inflation gauge slowed to a gain of 1.4% over the year ended May, versus 1.8% in February -- both below the Fed's 2% target. The Labor Department is set to report on its consumer-price index for June on Friday.

Ms. Yellen characterized the Fed's benchmark short-term rate as "somewhat below" its neutral level, one in which the Fed is neither trying to spur nor slow the economy. Because that neutral level is currently low by historical standards, she said the central bank might not need to raise rates much further to reach it.

Ms. Yellen faces a second day of testimony Thursday, before the Senate Banking Committee.

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THE WALL STREET JOURNAL.
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Heard on the Street
Overheard

153 words
12 July 2017
The Wall Street Journal
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B16
English

[Financial Analysis and Commentary]

Late last summer, S&P Dow Jones Indices put the shares of real-estate investment trusts into their own **stock-market** sector. The timing was perfect -- to sell REITs.

Since the **S&P 500** REIT sector began trading on Sept. 19 it has returned, with dividends reinvested, all of 1.9%, according to FactSet. The **S&P 500** has returned 15.4% over the same period.

What is behind REITs' poor performance? They are domestically focused when overseas economies are doing better. A rising-rate environment makes their yields less attractive. Too many new properties mean that it is harder to raise rents.

The real-estate industry had been pushing for its own category for years, and performance had been so good that the index-making gods agreed to split them off from banks. Be careful what you ask for.

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THE WALL STREET JOURNAL.
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Streetwise: The Stock Market Faces A New Threat: Bonds

By James Mackintosh
765 words
11 July 2017
The Wall Street Journal
J
B1
English

Rising bond yields threaten to undermine the case for holding expensive stocks, and shareholders should be worried.

It has been "TINA" for the past seven years. That means "there is no alternative" but to buy stocks with bond yields so low. But the danger is shareholders will return to cash and bonds as yields rise.

Stock markets have provided a flavor of the risks ahead as bond yields jumped over the past two weeks. In the eurozone, where the bond moves started, financials are the only sector that have managed to rise, as banks benefit from higher yields. In the U.S., yields haven't risen quite so rapidly, but financials, up 4.2%, are way ahead. The only other sectors in the black -- industrials and materials -- moved just positive after Friday's solid jobs report.

If investors bought stocks because bond yields were so miserable, they are likely to sell stocks when bond yields perk up.

Just how big the danger is will depend on what happens to bond yields, of course. But it will also depend on why yields rise, and the latest reason is concerning.

Rising bond yields can be good for stocks if they are driven up by expectations of a stronger economy. Higher future profits can more than offset the cost of discounting those profits back to today at a higher rate, making stocks more valuable (higher yields make profits far in the future less valuable than profits made quickly -- so it makes sense that speculative technology stocks have fallen sharply.)

Bond yields pushed up by anything other than a strong economy are bad news, and the latest rise looks as though it was mostly driven by concern about central-bank bond buying, not the economy.

Bond investors like to break down bond yields into two parts: the expectation of interest rates over the life of the bond and a bit extra, driven by supply and demand, to cover the risk of being locked in until maturity.

The extra bit is known as the term premium and accounted for almost the entirety of the Treasury yield rise in the past two weeks, according to calculations by the Federal Reserve Bank of New York. The same goes for the eurozone, according to Goldman Sachs estimates.

Combine the term premium with a measure of how expensive bonds are compared with stocks, and we can get a feel for just how bad things could get for shareholders as bond yields rise.

Even after the recent rise, the term premium as calculated by the New York Fed is extremely low. If it merely returned to its 50-year average, while expectations for the economy and Fed increases remained unchanged, the **10-year Treasury** would yield 4.2%, a massive rise from Monday's 2.4%.

It is hard to believe a move of that size will happen quickly, but it illustrates just how much the TINA argument for equities depends on the term premium, and so on central-bank bond buying.

If the term premium did rise back to its long-run average, it would be enough to wipe out half the valuation gap between stocks and bonds on the popular measure of the forward equity risk premium, the main TINA justification. The equity risk premium values stocks, like bonds, by looking at the expected earnings yield, the inverse of the price/earnings ratio, to see how much higher it is than the **bond yield**.

With a forward earnings yield of 5.62% and a **10**-**year Treasury** yielding 2.37%, the gap of 3.23 percentage points is the projected annual extra reward for holding the **S&P 500**.

This measure should be very concerning for those obsessed by TINA. Far from screaming buy, the equity risk premium at 3.23 points is about the lowest since Lehman Brothers failed and is back down to where it was in November 2007. Those who think it is a useful guide need to admit that shares are more expensive relative to bonds than they have been in a decade. Combine a rising term premium with the already narrowing gap between shares and bonds, and the siren song of TINA loses its melody.

Investors who expect the economy to strengthen might reasonably hope that profits rise enough to offset higher yields, even at today's elevated stock valuations. Those who have fallen for TINA's charms should consider the homely values of cash and bonds again.

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THE WALL STREET JOURNAL.
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The Energy Shortage No One Saw Coming --- Australia, a major global gas exporter, can't keep the lights on in Adelaide

By Rachel Pannett
2,072 words
11 July 2017
The Wall Street Journal
J
A1
English

On a sweltering night this past February, the world's No. 2 exporter of liquefied natural gas didn't have enough energy left to keep its own citizens cool.

A nationwide heat wave in Australia drove temperatures above 105 degrees Fahrenheit around the city of Adelaide on the southern coast. As air-conditioning demand soared, regulators called on Pelican Point, a local gas-fueled power station running at half capacity, to crank up.

It couldn't. The plant's operator said it wasn't able to get enough natural gas quickly to run its turbines fully. At 6:03 p.m., regulators cut power to 90,000 Adelaide homes to prevent a wider blackout.

Resource-rich Australia has an energy crisis, one that offers lessons for America as it prepares to vastly increase natural-gas shipments abroad.

Australia now exports so much liquefied natural gas, or LNG, it may overtake No. 1 exporter Qatar within several years. It exported 62% of its gas production last year, according to the BP Statistical Review of World Energy.

Yet its policy makers didn't ensure enough gas would remain at home. As exports increased from new LNG facilities in eastern Australia, some state governments let aging coal plants close and accelerated a push toward renewable energy for environmental concerns. That left the regions more reliant on gas for power, especially when intermittent sources such as wind and solar weren't sufficient.

Shortages drove domestic gas prices earlier this year in some markets in eastern Australia to as high as $17 per million British thermal units for smaller gas users such as manufacturers. On the spot market, gas prices have gone from below $1 in 2014 to roughly $7 today -- well above the roughly $3 that prevails in the U.S. -- causing havoc around the country.

In March, Australia's largest aluminum smelter cut production and laid off workers because it said it couldn't secure enough cheap energy. During one blackout last year, some families lost embryos in an in-vitro-fertilization clinic with no backup generation, according to a government-commissioned report. In February, some tuna fishermen watched catches rot because freezers shut off.

The blackouts have been severe enough to catch the attention of Tesla Inc. Chief Executive Elon Musk, who said last week he agreed to build a giant battery system in the state of South Australia, where Adelaide is the capital city, to store power from a wind farm. Such a system could provide electricity during shortages.

Prime Minister Malcolm Turnbull, in an emailed response to Wall Street Journal questions, blamed previous Labor governments. Mr. Turnbull, of the center-right Liberal Party, said "gas export licenses were issued without regard to the consequences for the domestic market," and, "as a result, at a time of record gas production we have had the prospect of a shortage of domestic gas on the east coast."

The Labor Party says that when the LNG-export plants were approved, the industry said sales abroad wouldn't affect domestic gas supply because it was developing new sources of gas. "It is clear that those assurances haven't come to pass," said Mark Butler, the Labor lawmaker who is currently its spokesman on energy. "If we had our time again, we would have put in place a national-interest test," he said. Such a test ensures domestic needs are protected.

Australia's plight is less likely in America, which is experiencing a gas glut and is boosting exports. The first LNG-export terminal in the lower 48 states opened in Louisiana last year, allowing exports by ship in addition to existing pipelines to Mexico and Canada.

The U.S. is on track to become the world's No. 3 LNG exporter behind Qatar and Australia by 2020, according to the U.S. Energy Department.

Unlike Australia -- which has plentiful gas supplies in its west but no pipelines to get them to its gas-starved east -- the U.S. has a large pipeline grid, making it easier to move supplies during shortages. It also has largely avoided the kind of long-term export contracts that trapped Australian companies into giving foreign buyers priority.

Still, Australia's gas pains offer a case study in what can go wrong in committing to expanding exports at the same time as other steady power sources are shutting down, said Michael Webber, deputy director of the Energy Institute at the University of Texas at Austin. "We have more options" in America than Australia, he said, but "there's always a risk that markets will behave in a different way than we anticipated."

"There's no one country that has mastered this," Mr. Webber said. "We're all learning from each other."

Until the 2000s, Australia was a minnow in international energy markets. It had major gas deposits off its northwestern coast, but coal remained its dominant fuel source.

Geologists had suspected there was methane gas buried in Australia's vast coal seams. When energy prices climbed with Chinese demand, companies including BG Group PLC, now owned by Royal Dutch Shell PLC, rushed to extract this "coal-seam gas" -- a process that involves pushing gas out of seams, sometimes through hydraulic fracturing, or "fracking" -- in Australia's east.

ConocoPhillips bought a 50% stake in an Australian coal-seam-gas venture for $8 billion in 2008. In 2010, Shell and PetroChina Co. in a $3 billion deal acquired coal-seam-gas producer Arrow Energy, which had a market value of $10 million a few years earlier.

Producers say they concluded the only way to justify the cost of extracting coal-seam gas was to sell it abroad, where demand was higher and customers would agree to long-term contracts. They also needed money to build terminals on the east coast to convert gas into liquid for shipping.

In 2009, BG Group and Adelaide-based Santos Ltd. signed 20-year export deals, the first of a string of long-term export contracts by coal-seam-gas concerns in Australia.

In a 2009 report, the northeastern Queensland state's government warned of "a real problem that the availability of gas in the ground may not translate into gas supplied to the domestic market." It suggested requiring energy companies keep up to 20% of production for domestic users.

Australia's energy companies argued such "gas reservation" policies would deter investment needed to boost supply. Many politicians emphasized how LNG projects would create jobs.

Queensland didn't institute a gas-reservation plan. Its government now says it couldn't have predicted all of the forces creating current shortages.

Western Australia state did implement a similar plan years before for its offshore gas, avoiding local gas shortages. The plan also applied to exports from LNG terminals added on the west coast after 2009. In Australia's east, three terminals were built off Gladstone in Queensland.

As gas production increased, Australia cut back on coal, whose use had put it among the world's biggest greenhouse-gas emitters per capita. Coal-fueled plants were shut down without comprehensive plans for replacing them with other power sources.

South Australia and Queensland, in 2014 and 2015, set targets to get 50% of their electricity from renewable sources such as wind and solar. Gas, the argument went, would help fill the gap when renewable power wasn't sufficient.

Some prospective new gas sources in the east were being shut down, with New South Wales placing a moratorium on fracking in 2011and later freezing new exploration licenses for coal-seam gas. Victoria this March banned fracking and new coal-seam-gas development.

Santos and its partners weren't able to pump as much gas as expected and began signing third-party supply contracts, including from other gas producers and electricity companies to meet export obligations, adding to factors driving up domestic prices.

As prices rose, some manufacturers using gas, such as fertilizer makers, publicly threatened to move operations abroad. Power plants relying on gas -- currently about 25% of Australia's power grid -- raised rates.

"Santos has been singled out as almost the sole cause" of Australia's gas problems, Santos Chairman Peter Coates told shareholders in May. Coal-seam gas could underpin Australia's long-term needs with more investment and never would have been developed without foreign buyers, he said. "The gas would still be sitting in the ground."

Gladstone, the city with the three new LNG-export facilities, has been among areas most affected. It is home to manufacturers that use gas, including Australia's largest aluminum smelter, a Rio Tinto PLC plant that once distributed beer-can holders reading: "Proudly Australian, operating beyond 2030."

In March, Rio Tinto cut 14% of the smelter's production and laid off 100 workers, saying it couldn't secure enough inexpensive energy. Rio Tinto CEO Jean-Sebastien Jacques in May said: "The price was so high that it didn't make any sense anymore for us to produce."

Kirsty Callander said her Fit Life smoothie-and-snack bar in Gladstone has seen business shrivel since the smelter layoffs. "I think Australia should keep what's ours," she said, "and get the jobs and money coming here."

In February, regulators ordered another aluminum smelter, in New South Wales, to cut production to prevent power outages in the state.

Outages have become a familiar gas-crisis byproduct, including one in September 2016 in which 1.7 millionhouseholds and businesses in South Australia state lost power after tornadoes damaged lines supplying power from Victoria. South Australia was relying on other states for electricity because **volatile** gas prices and other issues had forced its generators to cut capacity. Power wasn't fully restored for 12 days.

In the week that Adelaide's blackout cut power to 90,000 homes, five ships left Gladstone carrying out 314,000 tons of LNG altogether, according to the port operator. That's enough to generate electricity for roughly 750,000 Australian homes for a year, according to calculations for the Journal by the Australian Bureau of Statistics.

The Adelaide blackout traced to 2015, when the Pelican Point gas-fired power plant's owner, EngieSA of France, mothballed one of its two turbines, saying it was too expensive to run at prevailing gas prices.

When Australia's electricity overseer, the Australian Energy Market Operator, ordered Pelican Point to fire up its second turbine that hot February day, Engie initially said it wasn't available. When the regulator insisted, Engie said it couldn't move quickly without gas-supply contracts. Engie declined to comment about the blackout. In a statement afterward, it said: "There is no commercial rationale to operate the second Pelican Point unit in the current market environment in [South Australia] for a small number of days across the year."

Engie in March agreed to restart the second turbine after Origin Energy Ltd., which operates one of the Queensland LNG plants, committed to provide gas to Pelican Point and buy some of its electricity.

Prime Minister Turnbull that month urged producers to reserve more gas for the domestic market. He declared in April he would invoke little-used trade powers to block some exports until local needs were met; the measures went into effect July 1.

The energy regulator in June said the market and government response should help secure the power grid, though it "remains susceptible" to extreme summer conditions.

South Australia and Queensland are promising to openmore land to gas development. Shell has reduced exports from one Australian LNG facility to supply more gas locally and recently signed supply contracts with utilities, including a short-term deal with Engie.

Companies' flexibility to make such concessions is constrained by overseas contracts, industry analysts say. Without more gas production or faster development of other power sources, many say, Australia faces more shortfalls.

Meanwhile, budgets of Australians such as retiree Lynda Pearce, 68 years old, are feeling the shortage's impact. "I'm really worried about what's going to happen," said Ms. Pearce, who in a Gladstone suburb has seen her power bill go up around 6% in three months.

Nearby, Gladstone's LNG plants continue exporting. "It seems stupid," she said, "to send the gas offshore when people want it here."

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The New York Times

Business/Financial Desk; SECTB
Trading Day Is Sluggish Before Earnings Reports

By THE ASSOCIATED PRESS
647 words
11 July 2017
The New York Times
NYTF
Late Edition - Final
6
English

Wall Street capped a mostly listless day of trading Monday with an uneven finish for stock indexes.

Gains by technology and materials stocks were mostly outweighed by losses among real estate companies, banks and other sectors. Macy's and other big retailers also had hefty losses.

Energy companies rose as the price of crude oil rebounded from an early slide.

Investors were acting before the corporate earnings reporting season, which ramps up this week. Technology stocks were a favorite, with traders expecting companies in the sector to post solid results, said Anastasia Amoroso, global investment specialist at JPMorgan Private Bank.

''There's definitely a pivot going on to earnings from some of the trading last week,'' she said. ''Investors are looking for some of the higher-growth opportunities, and tech definitely stands out.''

The **Standard & Poor's 500**-**stockindex** rose 2.25 points, or 0.1 percent, to 2,427.43. The **Dow Jonesindustrial average** slid 5.82 points, or 0.03 percent, to 21,408.52. The **Nasdaq composite** index rose 23.31 points, or 0.4 percent, to 6,176.39.

Bond prices rose. The yield on the **10**-**year Treasury** note fell to 2.37 percent from 2.39 percent late Friday.

Trading also had a mixed start Monday after a broad increase in major markets in Europe and Asia.

Investors appeared to focus on the coming second-quarter earnings season. The market expects earnings per share to grow about 7 percent from companies in the **S**.**&P**. **500**.

Traders also were looking ahead to potential news from the Federal Reserve. Janet L. Yellen, the Fed chairwoman, is expected to address Congress on Wednesday and Thursday.

''We're going through a transition phase where interest rates and Fed policy were very friendly for quite some time and that was the most important support for the markets,'' said Bruce Bittles, the chief investment strategist at Baird. ''Now we're moving more toward the revival of the global economy, including the U.S., and what that might mean for earnings prospects going forward, and the markets are now dwelling on that potential.''

The **S**.**&P**. **500**'s technology sector, which had a sell-off a few weeks ago, made the biggest gain Monday. The chip maker Nvidia led the group, climbing $6.94, or 4.7 percent, to $153.70.

Materials companies also posted big gains. CF Industries led the pack, adding $1.83, or 6.6 percent, to $29.72.

Big department stores slumped, led by Macy's. It was the biggest decliner in the **S**.**&P**. **500**, sliding $1.60, or 7.1 percent, to $21.08. Gap fell $1.43, or 6.3 percent, to $21.21. Best Buy lost $3.64, or 6.3 percent, to $54.23.

Abercrombie & Fitch sank 21.1 percent after announcing last weekend that it was no longer for sale. The company, which has struggled and said in May that it was talking with several possible buyers, said that sales remained strong at its Hollister brand. The stock shed $2.57 to $9.59.

Energy futures made gains. Benchmark United States crude added 17 cents to settle at $44.40 a barrel in New York. Brent crude, used to price international oils, also rose 17 cents to close at $46.88 a barrel in London.

Gold inched up $3.50 to $1,213.20 an ounce. Silver added 20 cents to $15.63 an ounce. Copper was little changed at $2.65 a pound.

In currency trading, the dollar rose to 114.05 yen from 113.99 yen late Friday. The euro slipped to $1.1403 from $1.1404.

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

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THE WALL STREET JOURNAL.
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Investing in Funds & ETFs: A Quarterly Analysis --- A Smarter Approach to ETF Investing --- Exchange-traded funds turn 25 years old next year; Yet investors still make many mistakes; One thing to know: The time of day makes a difference

By Michael A. Pollock
1,289 words
10 July 2017
The Wall Street Journal
J
R1
English

Corrections & Amplifications

The expense ratio for iShares Core MSCI EAFE Index (IEFA) is 0.08%. The expense ratio was incorrectly stated as 0.8% in an article about choosing exchange-traded funds that appeared in Monday's Investing in Funds & ETFs report.

(WSJ July 12, 2017)

(END)

Exchange-traded funds in the U.S. turn 25 years old next year, and the rapidly growing ETF universe continues to eat into traditional mutual-fund investing.

But while investors are trading ETFs more actively than ever, are they doing it more smartly? The answer, according to the pros, is too often no.

Overwhelmed by the swelling number of ETF choices, investors sometimes take shortcuts. They pick those just with the lowest fees or the strongest recent returns. Then, because ETFs are so easy to buy and sell -- unlike their mutual-fund cousins, they can be traded all day on exchanges, like stocks -- investors impatiently dump the laggards and move on to something else.

For all of these reasons, the returns that investors earn in ETFs often can lag behind the performance of the ETFs themselves.

As ETFs continue to attract more investor dollars, this may be a good time to step back and look at how to choose, trade and manage ETFs more safely:

1. Don't get caught up in the buzz

Aiming to gain an edge in a competitive field, financial firms create high-sounding labels for ETFs, such as "smart beta," "strategic beta" and "alternative beta." Such terms usually mean that an ETF weights the stocks in its basket based on something other than market cap or that it employs a proprietary strategy to try to trim risk or beat the broad market.

Smart-beta funds can beat the market, at least for a while. But because their specialized strategies move in and out of vogue, stretches of good performance are frequently followed by lackluster returns, says Phil Bak, chief executive of Ann Arbor, Mich.-based ETF provider ACSI Funds and a former head of ETF listings at the New York Stock Exchange. What happens when a strategy becomes too popular is that the underlying stocks of the ETF become expensive, and the strategy then begins to underperform. Institutional players and professionals are continually rotating in and out of certain strategies, shifting to ones they believe are undervalued and due for a rebound.

Dividend-focused ETFs, which did well in part of 2015 and last year, haven't fared as well lately for this reason, Mr. Bak says.

People need to consider whether their investment-time horizons are long enough to justify owning an ETF whose performance could vary widely over several years.

2. Pick your spots when trading

In theory, an ETF's net asset value should closely track the value of the stocks it holds. But the two can diverge more than usual at certain times of day -- such as early, before some stocks have opened at 9:30 a.m. ET, or near the 4 p.m. close, when a rush of late orders can cause heightened **volatility**.

By not trading at the open or close, investors improve their chances of minimizing transaction costs paid on ETF trades, says Joel Dickson, Vanguard Group's global head of investment research and development. He and others also advise using limit trades -- specifying in advance the lowest price for a sale or highest price for a buy that you're willing to accept.

Limit trades can be useful for a value play, such as trying to buy below where an ETF has been trading. But an alternative that offers price protection and better assurance of getting a trade done is a marketable limit order.

In this approach, someone who wants to buy an ETF would set the limit price at or a fewcents above the "ask," the lowest price a prospective seller will accept. When selling, the investor might set the limit price at or a few cents below the bid, which is the highest price a prospective buyer would be willing to pay.

Because markets have been calm recently, investors may question the value of giving up some price certainty in exchange for better execution, says Michael Iachini, who heads manager research at Charles Schwab Investment Advisory Inc. But **volatility** will rise again, and marketable limit orders can protect investors against abrupt changes in price just as they are entering a trade, Mr. Iachini says.

3. Give diligence its due

Sorting through numerous ETFs can be hard, but ETF shopping deserves as much time as analyzing actively managed mutual funds, says David Lynch, managing partner at Athena Capital in Lincoln, Mass.

It may be tempting to skip fund literature and just choose the ETF with the lowest expense ratio, says Todd Rosenbluth, head of ETF and mutual-fund research at New York-based financial-analysis firm CFRA. That could be a mistake: Performance can hinge much more on what is in the underlying index than on a small difference in fees, he notes.

Vanguard FTSE Developed Markets ETF (VEA), with an expense ratio of 0.07%, and iShares Core MSCI EAFE Index (IEFA), at 0.8%, are similar funds. But the iShares fund, which has more French and German stocks and no exposure to Canada, has gained nearly 15% this year, compared with about 14% for the Vanguard ETF, Mr. Rosenbluth notes.

4. Avoid the hot 'satellite positions'

People often create ETF portfolios by first buying a broad fund such as SPDR **S&P 500** ETF (SPY) and then surrounding it with more-specialized ETFs, or "satellite positions." But commonly, returns on the satellite positions lag behind the return from the S&P, says Jay Batcha, a Traverse City, Mich.-based adviser whose firm, Optimal Capital, guides other advisers on ETF strategies.

Avoid picking those ETFs that have sizzled the most lately, says Mr. Batcha. It's also important to understand that the narrower an ETF's strategy, the more **volatile** it can be, Mr. Batcha adds.

This year, investors poured into Financial Select Sector SPDR Fund (XLF), believing that banks generally would benefit from deregulation and rising interest rates. At one point in June, it was up only marginally for the year while the S&P was up 8%. Then it surged to catch up to the S&P. How **volatile** has it been? It has a beta of 1.5 over the past year, which means it has been 50% more **volatile** than the **S&P 500**. For the past three years, the fund was only 12% more **volatile** than the S&P. The heightened **volatility** may reflect shifting investor expectations about what the Trump administration will do in terms of financial deregulation.

5. Figure out the factors

ETF fact sheets usually describe the factors behind the strategy. Smart-beta funds often use three to six metrics. Some others -- such as low-**volatility** ETFs -- tend to rely a lot on one factor. Some may use 15 or 20 factors as part of a complex, quantitative approach.

Mr. Batcha says having more factors tends to smooth performance over a market cycle. Among ETFs he likes is Reality Shares Divcon Leaders Dividend ETF (LEAD), which uses seven factors to spot companies most likely to raise dividends, according to its fact sheet.

But steer away from ETFs whose strategies aren't well-described in literature, says Mr. Bak of ACSI Funds. "If, after a half-hour, you are still scratching your head and trying to figure out when an ETF might or might not do well," he says, "perhaps that investment is too complicated for you."

Mr. Pollock is a writer in Ridgewood, N.J. He can be reached at reports@wsj.com.

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MoneyBeat: Dow, S&P Grow Apart

By Chris Dieterich
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10 July 2017
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B9
English

What did the market do today?

The answer to this simple question has become more difficult in recent weeks, as the typically close relationship between the **Dow Jones Industrial Average** and the **S&P 500** has broken down.

The 20-day correlation between the two closely followed yardsticks of U.S. **stock- market** performance last week fell to 0.47, the lowest since 2003, according to WSJ Market Data Group. That is a far cry from near-lockstep trading that usually occurs between the two. Over the past 15 years, the average correlation between the Dow and **S&P 500** is 0.96.

Correlation is measured on a scale of minus-1 to 1. A reading of 1 means uniform price moves while minus-1 means perfect opposition; a reading of zero means no relationship.

The unusually disparate day-to-day price moves are a result of the recent sector rotation that has taken hold of equity markets. Since mid-June, former market laggards such as financial stocks have surged, while this year's top performer, technology, has slipped. This price action has accentuated the difference between the two indexes.

The Dow is price-weighted, meaning that companies with the highest stock prices carry the most sway. Goldman Sachs Group Inc., which trades at more than $225 a share, represents the biggest holding. Industrial-sector stocks account for one-fifth of the Dow.

Contrast this with the **S&P 500**, which ranks stocks by market values. Apple Inc., the largest company in the world, is the biggest holding here; the tech sector is the biggest grouping in the **S&P 500**. Goldman ranks a distant 52nd in the **S&P 500**.

The Dow led the way early this year when financials and industrials rallied. The **S&P 500** has done best when technology stocks have dominated.

The recent sector rotation has had an even greater impact on the correlation between the Dow and the tech-heavy **Nasdaq Composite** Index. Over 15 years, these two benchmarks have a correlation of 0.83. Since last month, however, the Dow and **Nasdaq** have been negatively correlated, meaning they have moved in opposition. That is rare, and the minus-0.45 correlation between the Dow and **Nasdaq** late last month was the weakest since 2001.

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Investing in Funds & ETFs: A Quarterly Analysis --- Quarterly Monitor: U.S.-Stock Funds Rose 2.7% In the Second Quarter but Overseas Did Even Better

By William Power
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R2
English

Foreign-stock exposure is finally making a difference for fund investors.

For years, fund investors have heeded the advice to keep at least some of their money in overseas stocks. But in many months and quarters, the diversification strategy didn't pay off, as U.S. stocks climbed to a series of highs.

Now it is. While U.S. stocks are performing well, as corporate earnings roll on, international-stock funds are doing even better. Cheaper valuations in the rest of the world and support from central banks has turned the tide.

Mutual funds and exchange-traded funds focused on U.S. stocks gained a respectable 2.7% in the second quarter -- their fifth straight quarterly gain. But international-stock funds were up 6.5%, according to Thomson Reuters Lipper data. For the first half, U.S.-stock funds were up 7.7%, while international funds were up 15%.

"One of the biggest fears I'd had was U.S. investors abandoning foreign markets" in frustration, says Brent Schutte, chief investment strategist at Northwestern Mutual Wealth Management Co. in Milwaukee. According to Mr. Schutte, the "questions I was getting in the last few years [were] 'why invest [overseas] at all?' And 'why does diversification matter?' "

Now, he says, "we believe international and emerging markets will outperform in the second half," as they did in the first.

An estimated net of nearly $78.42 billion flowed to mutual funds and ETFs that invest in international stocks in the second quarter, based on Investment Company Institute data. In contrast, an estimated $23.31 billion flowed out of U.S.-stock funds in the quarter.

Health/biotechnology funds led the way in the U.S., up 8.5% in the quarter.

Investors wary about the valuations of U.S. stocks and convinced that the Federal Reserve will be measured in raising interest rates also put their faith in bonds. An estimated $93.67 billion flowed to bond funds in the quarter.

Bond-fund performance has been positive. Funds focused on intermediate-maturity, investment-grade debt (the most common type of fixed-income fund) were up 1.4% in the quarter and up 2.4% for the first half.

"If you would have started the year telling me both the stock and bond markets would have pretty positive returns in the first six months, that is something I wouldn't have thought would have happened," says Mr. Schutte. "For the second half," he adds, "we believe we'll see rising interest rates alongside a still-rising **equity market**, but perhaps more **volatility**," as the Fed winds down its bond portfolio and rates rise.

However, he says, "We've de-emphasized interest-rate-sensitive sectors like real-estate investment trusts and utilities; we would rather own traditional equities like the S&P than REITs."

Mr. Power is a Wall Street Journal news editor in South Brunswick, N.J. Email him at william.power@wsj.com.

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U.S. News --- THE OUTLOOK: Weak Inflation Vexes Central Banks

By Paul Hannon and David Harrison
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A2
English

Leading central banks plan to withdraw some of the stimulus measures they have put in place since the financial crisis. But their timing seems a little puzzling: Inflation, which is already below their targets, is falling world-wide.

The decline in inflation is a mystery since the global economy appears to be growing at a faster pace than during recent years, while unemployment rates continue to edge lower.

According to central bankers, inflation is generated by the gap between the demand for goods and services and the economy's ability to supply them. When that output gap is wide, inflation is lower, and when it is narrow, prices grow more quickly. Low inflation is a symptom of a weak economy, something they want to avoid as much as high inflation, a sign of an overheated economy.

To boost inflation, central banks stimulate demand by lowering interest rates, encouraging households and businesses to borrow and spend. As the volume of goods and services that people want to buy nears the limit of the economy's capacity to supply them, wages rise, as do prices, generating inflation.

But try as they might, central banks have been unable to reach their inflation targets in recent years, despite their success boosting growth and lowering jobless numbers. That has raised questions about the reliability of the traditional link between the output gap and prices.

"Central banks across the Western world are struggling to define that relationship," said Bert Colijn, an economist at ING Bank.

Across the Group of 20 largest economies, which account for most of the world's economic activity, annual inflation slumped in May to its lowest level since August 2016, according to the Organization for Economic Cooperation and Development.

Much of that decline was due to easing energy prices. But even excluding that **volatile** item, and similarly choppy food prices, "core" inflation is slowing in many places.

That isn't a recent phenomenon. Core inflation in developed economies hasn't changed much in the years since the financial crisis, never reaching the 2.5% rate it stood at in September 2008, when Lehman Brothers collapsed, or going below the 1.1% rate it hit in December 2010.

Central bankers are struggling to explain why inflation isn't responding the way the textbooks say it should to an improving global economy and falling jobless rates. According to the OECD, the unemployment rate in developed economies fell to 5.9% in May from 6.3% a year earlier.

In the U.S., Federal Reserve Chairwoman Janet Yellen has shrugged off the past few months of low inflation numbers, saying they were caused by temporary domestic factors, such as cheaper new cellphone plans. But the global inflation slowdown calls that thesis into question.

Chicago Fed President Charles Evans suggested last month that poorly understood technological advances or aging populations could also be holding down inflation around the world.

"I sometimes wonder if there isn't something more global, more technological that's taking place that we don't quite have our arms around very well," he said.

Fed officials devoted part of their June 13-14 meeting to debating inflation's surprising softness. Some argued the link between the output gap and inflation had weakened over the past few years. Others worried that letting the economy grow too quickly would bring about a sudden burst of inflation that would be hard to control.

The picture is just as confusing in Europe.

In a June 27 speech that was widely viewed by investors as signaling a readiness to remove some stimulus later this year or early next, European Central Bank President Mario Draghi said inflation has been weaker "than one would expect on the basis of output gap estimates and historical patterns."

Mr. Draghi concluded that a narrowing output gap would eventually have its usual effect on prices. It would just take longer.

Other global factors may be at play. Because so many companies compete around the world, weaker economic growth and sluggish inflation in one country could keep a lid on prices in other countries, propagating low inflation across continents.

Another explanation could be there are lower inflation expectations globally. After years of tepid price growth, workers may not push that hard for a raise and companies may not feel compelled to increase prices despite signs of improvement in the economy.

Whatever the cause, central bankers appear willing for now to look beyond the past few months of weak inflation numbers as they shift away from easy-money policies. Faith in output gap theory is one driver. Some also are growing worried about other problems. For example, recent speeches from Fed officials and the minutes of the last meeting suggest a growing concern about financial stability as asset prices rise.

If consumer price trends don't turn soon, however, central bank officials could find they have undermined the inflation mission they have established as their core objective.

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Proposal to Launch Options Trading Floor Stirs Outcry

By Gunjan Banerji
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English

Many Wall Street traders have lamented the steady demise of floor trading. But now that one exchange is trying to launch the first U.S. open-outcry trading pit in decades, it isn't exactly being welcomed.

Box Options Exchange LLC hopes to open a new floor for about 40 human traders at the Chicago Board of Trade Building. The exchange, whose electronic platform has one of the smallest market shares in U.S. options, is trying to build up its business by vying for orders executed via open outcry.

While trading floors have dwindled in almost all markets because of a shift to electronic trading, old-fashioned shouting and hand signals in open pits have endured in the options market, where investors sometimes prefer human traders to execute complex orders rather than computer programs.

It would be a needed respite for floor traders, many of whom have sought new jobs since screen-based trading took off in the 1990s. Intercontinental Exchange Inc., which owns the New York Stock Exchange, ended floor trading for options on futures in 2012, and CME Group closed most of its futures trading pits in 2015. The largest options exchange, Chicago Board Options Exchange, has seen its floors thin to about 440 people earlier this year from 10 times that in the late 1980s.

Box's initial plan, though, sparked critical letters this year from Chicago Board Options Exchange owner, CBOE Holdings Inc., and the NYSE, as well as trading firms that said another trading venue will make it tougher to do business as activity potentially becomes less transparent and more fragmented.

Nasdaq Inc., which also operates options exchanges, has filed three comment letters about its concerns. A main one is that a Box trading floor, if approved, could sit empty for a few months, potentially leading to worse prices for customers if not enough market makers are competing. Since trading firms take time to get new people trained and registered, **Nasdaq** argues that Box shouldn't be allowed to open until the traders, known as "market makers," are ready to participate.

"Having an empty room would be completely contrary to the spirit of the trading floor," said Kevin Kennedy, head of U.S. options at **Nasdaq**, in an interview.

The Securities and Exchange Commission plans to make a decision on the new floor by Aug. 2, documents show.

Open outcry accounts for about 13% of U.S. options trading, according to Burton-Taylor International Consulting, which advises exchanges. Most trades are done electronically. Over 350 million options contracts exchanged hands in June in the U.S., with about 2% flowing through Box, data from Options Clearing Corporation show. Box is partly owned by TMX Group, which operates the Toronto Stock Exchange.

Backers of the company's proposal say it will boost competition among exchanges. Some also say it is Box's right to try to build market share in the fiercely competitive options landscape, where a select group of exchanges like the NYSE, **Nasdaq** and Chicago Board Options Exchange run the existing floors.

But Box's efforts have rankled some U.S. options traders, who are already dealing with a labyrinthine market structure. A new open outcry pit would push market makers to staff the new floor and incur higher costs, said Peter Maragos, chief executive of Dash Financial Technologies, a broker dealer and technology provider.

"Where's the benefit for the client?" said Mr. Maragos, whose firm has brokers on the CBOE floor. "We're just adding more complexity, more fragmentation."

The SEC doesn't restrict the number of exchanges, said Box Chief Executive Ed Boyle. It only creates the legal and regulatory requirements that exchanges must follow. He also pointed to the existing 15 venues for U.S. options.

"For someone to make the statement 'Why do we need another one?' is naive," said Mr. Boyle, who has worked in options since 1981. "It really comes off as they don't want additional market competition."

Steve Crutchfield, the head of market structure for CTC Trading, opposed the new floor in a letter to the SEC. He said that a sparsely populated floor can make it easier for trading firms that handle client orders to seek venues where they get paid commissions, rather than where they can get the best prices for clients. His firm staffs all four existing open-outcry floors.

One of the changes Mr. Boyle made in response to criticism was to scrap a requirement for traders to post continuous electronic quotes if they have a floor presence, which others don't require.

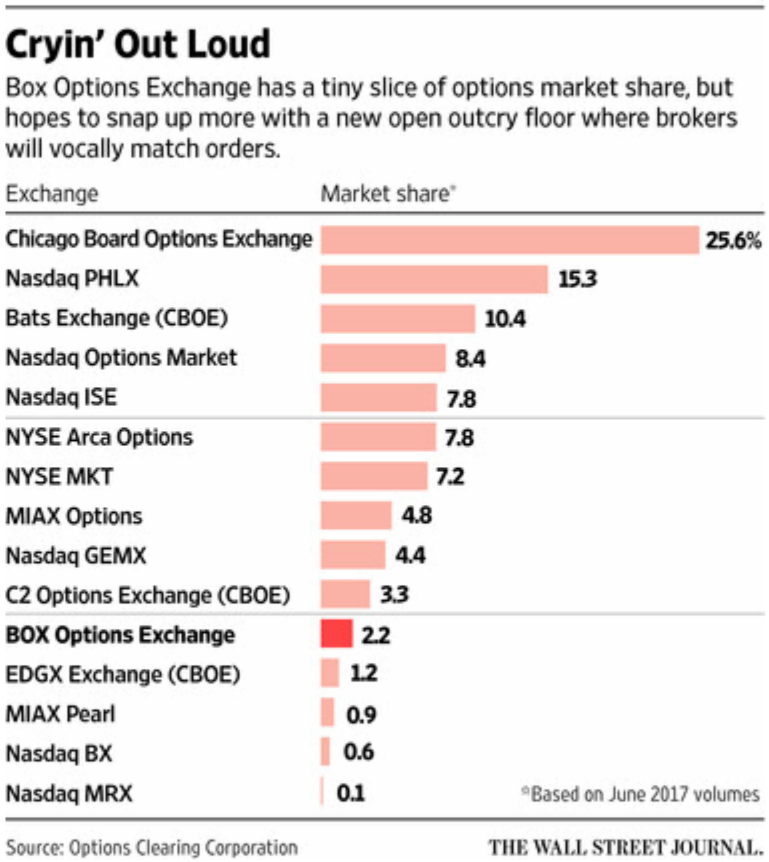
Some options traders said the open-outcry model could help investors who want to prevent prices from moving when their large options orders are getting executed.

"There is still a role for human traders," said Andy Nybo, a director at Burton-Taylor. An NYSE spokeswoman said 25% to 40% of the exchange's options volume flows through two floors in San Francisco and New York.

The number of CBOE floor traders has fallen, but over half of its most lucrative products -- including options on the **S&P 500 index** and CBOE**Volatility** Index -- are carried out on its Chicago floor. **Nasdaq** still operates an open-outcry pit in Philadelphia. While CME Group closed most of its futures trading floors, it maintains pits for **S&P 500** futures and options on futures for everything from the S&P index to hogs and corn.

Box isn't the first exchange to consider a new floor in recent years. Before being acquired by **Nasdaq**, the International Securities Exchange had considered an open outcry floor but eventually decided against it, said a person familiar with the matter.

But its plan has stoked worries that, if approved by the SEC, the new floor could lead to other exchanges trying to launch their own. "Approving the proposal would open the floodgates for every options [exchange] to open empty 'trading floors' in disused office space," Mr. Crutchfield wrote.



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Investing in Funds & ETFs: A Quarterly Analysis --- Portfolio Strategy: If the Market Declines, Two Funds to Consider --- A revealing statistic is the maximum drop

By John Coumarianos
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The Wall Street Journal
J
R6
English

How well will your stock fund hold up in a **bear market**?

To answer that question, traders and analysts often rely on statistical ways of measuring **volatility** -- the most prominent among them being standard deviation, which tells you how far a series of returns swings from the average over a given period. But such metrics don't always offer a clear picture of how resilient a fund is likely to be in tough times.

That is why more attention should be paid to "max drawdown" -- the maximum decline a fund has experienced from peak to trough over a given period. When combined with standard deviation, max drawdown can reveal more about a fund's past **volatility** than standard deviation alone.

First, however, a closer look at standard deviation: Generally, the wider the range, the greater the **volatility** of that investment. For example, over long periods, the **stock market**'s annual returns have averaged around 10% and its standard deviation has been about 18, meaning the majority -- though not all -- of the market's annual returns have been between 28% and minus 8%.

That's a big range, so standard deviation is useful in understanding that the **stock market** has inflicted a wild ride on investors in exchange for delivering its annualized 10% return. But it doesn't quite tell investors how much downside **volatility** they can expect to endure. That's because there can be multiple years of negative returns easily exceeding an 8% loss (such as the **bear market** of 2000-02) or much bigger single-year losses than 8% (such as in 2008). Standard deviation only captures a majority of results around an average, not the full range of results.

These days, even an 8% calendar-year loss might seem surprising to investors who have been treated to unusually calm markets and whose short memories make the 2008-09 **bear market** seem like ancient history. But it is really a ho-hum event in the long stretch of market history when you consider that the last two bear markets -- in 2000-02 and 2008-09 -- saw drawdowns of 50%. Also, the **stock market** has experienced eight bear markets as defined as a drop of 20% or more since 1929 and countless pullbacks of 10% to 20%. These statistics may be more meaningful in conveying the past **volatility** of the **stock market** to investors than standard deviation of returns.

Finally, standard deviation doesn't distinguish between upside and downside **volatility**. Of course, investors want the former without the latter.

To see how **volatility** can be deceiving by itself, we looked at domestic large-cap funds with more than $1 billion in assets for two time periods -- the beginning of 2008 through May 2017 and from the beginning of 2010 through May 2017. The first period captures the three most recent significant declines -- the crisis period in 2008-09 and the market swoons in the late summer of 2011 and late 2015 -- early 2016. The latter period captures only the second two.

We found a number of examples where looking at just one **volatility** metric in isolation could be deceiving.

First, AMG Yacktman Focused Fund (YAFFX) had stellar relative max drawdowns of 38% and 11% for both periods under consideration, when compared with the 51% and 16% max drawdowns for the **S&P 500** Total Return Index.

Yet Yacktman Focused looks unremarkable on standard-deviation metrics. The fund's three-year standard deviation is 10.1, and its 10-year standard deviation is 15.6. Those readings are in line with the 10.4 three-year and 15.2 10-year readings of the S&P 500 Total Return Index. In this case, the fund's max-drawdown statistics would give an investor a better understanding than standard deviation of its resilience in bad times.

Sequoia Fund (SEQUX) poses a somewhat different problem -- its long-term volatility looks muted, but its more-recent max drawdown number is alarming. A top performer with low relative volatility for decades, including during the financial crisis, the fund stumbled in 2015 and 2016 with a large position in embattled Canadian drug company Valeant Pharmaceuticals. Its max drawdown from 2010 through May 2017 is 31% versus 16% for the S&P 500.

But just as Sequoia's record of stability made it hard to forecast its recent stumble, its recent high volatility numbers may also be a poor guide to the future. Recent reforms on position sizes and committee reviews instituted after the Valeant debacle could result in the fund returning to its formerly muted volatility profile.

Mr. Coumarianos, a former Morningstar analyst, is a writer in Laguna Niguel, Calif. Email reports@wsj.com.

When 'Max Drawdown' Is Needed

Focusing on 'max drawdown' in conjunction with standard deviation can be useful.

NAME	MAX DRAWDOWN FROM 6/07-5/17	MAX DRAWDOWN FROM 1/10-5/17	STANDARD DEVIATION 10-YR (MTH.-END)
AMG Yacktman Focused	-38.35%	-10.98%	15.64
Sequoia	-40.72	-31.32	14.29
S&P 500 total return	-50.95	-16.26	15.23
Russell 1000 Value total return	-55.56	-17.07	16.11
Russell 1000 Growth total return	-47.99	-18.79	15.50

Source: Morningstar

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Why Bitcoin Is Booming

By John O. McGinnis and Kyle W. Roche
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10 July 2017
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A15
English

Who says only the government can make money? This year the value of the private currency bitcoin has climbed to unprecedented levels, while at the same time becoming far less **volatile** than in previous periods of rapidly increasing demand. Bitcoin has reached these new benchmarks despite news that might have depressed its value, such as the Securities and Exchange Commission's rejection of a fund permitting small traders to invest in bitcoin on the **stock market**.

The SEC action prompted obituaries, but bitcoin is thriving. A prime reason is the distrust many citizens have in their government's currency. They want to use bitcoin as a hedge or an alternative mechanism of payment and transfer when government currency doesn't efficiently perform such basic functions. It's no surprise that millennials, many of whom understand the digital currency much better than their baby-boom forbears, are investing in bitcoin at far greater rates.

All modern fiat currencies depend on trust in a government for their value and stability. Some governments have institutions, like the U.S. Federal Reserve, that inspire substantial trust, but others have monetarily oppressive regimes many citizens want to bypass. Argentina continually debased its currency until last year. China puts burdensome restrictions on transferring its currency out of the country. Both countries have seen substantial trading in their respective bitcoin exchanges.

Unlike national currencies, bitcoin does not depend on a regime that can be corrupted by politics. With bitcoin, trust is required not in government but in the decentralized order of those who verify bitcoin transactions -- the so-called miners. They maintain what is popularly known as the "blockchain" -- a public ledger on the internet of all bitcoin transactions, which accounts for the ownership of every bitcoin in existence.

The innovation of bitcoin is creating a decentralized process to update the blockchain as new transactions in bitcoin occur. Anyone with internet access can attempt to update the blockchain by employing substantial computer power to solve a mathematical problem. The miner who succeeds in solving the problem gets the rights to add a block of recent transactions to the blockchain. In return for this work, the successful miner is paid in newly minted bitcoin, the number of which is fixed by a pre-existing algorithm. This process is repeated every 10 minutes or so, assuring an accurate record of all bitcoin transactions.

Bitcoin miners serve another important role. As with any currency, sometimes the rules governing bitcoin's operation need to be tweaked. With fiat, governments pass laws or issue administrative decrees. With bitcoin, new code is adopted when the community of miners reaches a consensus on the change.

Bitcoin miners sometimes disagree about how best to meet the demands of the market, as shown by a current dispute about the optimal size of each block. But the genius of bitcoin is that because miners are paid in bitcoin, their incentives are strongly aligned with bitcoin's value. Government officials, by contrast, might not face such strong incentives to maintain the value of their national currency. In developing nations, sometimes those interests include taking valuable property in exchange for an abuse of their power. In developed ones, job retention, promotion, and ideological perspectives can all distort official behavior. Money has been described as a social contract, but politicians charged with enforcing that contract often have incentives to advance their own interests or those of particular political factions at the expense of their legal duties.

Bitcoin's creation of order without centralized law is not unknown to society. Social norms often regulate behavior without the benefit of formal law. Rules of etiquette tell people how to behave at the table without causing offense. But while order without law is possible without software, software can improve its enforcement. One might ignore a social convention, but it is impossible to ignore the operation of an algorithm that tells the world whether you own a bitcoin.

To continue to flourish, bitcoin does not have to become a more stable store of value than the U.S. dollar. It can climb the rungs of respectability by prevailing over less trustworthy currencies. It is already gaining strength and stability by competing successfully against monetarily oppressive regimes and helping poor immigrants in the developed world remit money to their relatives back home. As bitcoin gains stability, it can become even more competitive because even the best fiat money is subject to political risks.

National and international crises will continue to fuel bitcoin's rise. The instability caused by problems with the euro, Brexit and the many Western democracies' growing ratio of debt to gross domestic product threatens the value of even established currencies. Bitcoin is likely to succeed so long as the value of other moneys rests on politics.

Mr. McGinnis is a law professor at Northwestern University. Mr. Roche is a lawyer at Boies Schiller & Flexner LLP.

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Investing in Funds & ETFs: A Quarterly Analysis --- Sector Strategy: Tech Funds to Sink Your Teeth (Not FANGs) Into

By Tim Mullaney
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Ask most people to explain this year's rally in technology stocks and funds, and they'll respond with a four-letter word: FANG, the popular acronym for Facebook, Amazon.com, Netflix and Google (via the stock of its parent, Alphabet).

But it isn't that simple.

Most of the tech funds with the best returns year to date do rely heavily on FANG, and on Apple Inc., according to data from fund researchers Morningstar Inc.

But the hottest tech stocks this year aren't the FANGs -- they are semiconductor stocks, videogame companies and purveyors of software tied to hot fields like cloud computing and manufacturing automation. And this changing of the guard, temporary or not, means at least one tech fund is outperforming not only the **S&P 500** but the S&P Tech index, and without overweighting the FANGs. That's good news for tech-fund investors who worry that FANG stocks have become overvalued.

The year's top-performing actively managed tech fund through July 7, according to data from Morningstar, is T. Rowe Price Global Technology (PRGTX), which listed only an 11% allocation to FANG stocks for the first quarter. The T. Rowe fund's shares have risen 28.7% so far this year, before dividends, thanks in part to positions in London-based telecom firm Liberty Global and Tesla, the latter of which it recently sold. The **S&P 500** and S&P Tech index, by contrast, have returned 8.3% and 17%, respectively.

The fund's largest holding is cloud-computing leader Salesforce.com, says manager Josh Spencer. The $4.8 billion fund has a small exposure to Amazon and just recently bought some Netflix, but for much of this year Alphabet was the only FANG stock in its top 10 holdings. It also has no Apple shares. As the global tech fund's name implies, it has also put more than a quarter of its money to work outside the U.S.

The second- and third-best returns for actively managed tech funds to date, by contrast -- in a virtual tie -- are Fidelity Advisor Technology Fund (FATIX) and Fidelity Select Technology (FSPTX) -- each of which each devotes more than a quarter of its portfolio to FANG shares and Apple. The Fidelity Advisor Technology fund posted a return of 27.7% through July 7, and Fidelity Select Technology posted a return of 27.68%. Both returns are before dividends.

Mr. Spencer says he isn't down on FANG. He just thinks it isn't the only interesting technology around. He is just as interested -- and more interested, at current prices -- in chips, in software for industrial automation, in videogaming and in cloud computing.

Fidelity's two top tech funds also have bets outside the FANGs, including Tesla and large investments in chip companies and Asian web businesses such as JD.com. But Apple, Facebook and Alphabet are the top three holdings of Fidelity Advisor Technology, accounting for more than a quarter of the fund, according to SEC filings.

Indeed, many tech-fund managers still like the FANG companies: 70% of actively managed funds are overweight the four companies' share of the **S&P 500**, and short interest in the FANGs has all but evaporated, says Bank of America Merrill Lynch strategist Savita Subramanian.

But even after the recent selloff in tech stocks, Alphabet is trading at 28 times this year's estimated earnings and Facebook at 30; never mind the stratospheric multiples Netflix and Amazon have long commanded. Through July

7, Facebook was up 32% for the year, Amazon 31%, Netflix 21% and Alphabet Class A shares 19%. Apple shares are up 24%.

But none of the FANGs, nor Apple, has climbed as much as the top 10 performers in the 69-stock **S&P 500** Information Technology Index through July 7.

The new class of tech outperformers, of course, also face risk of overvaluation or missteps. But this year's top 10 tech performers in the S&P Information Tech Index include videogame company Activision Blizzard (up more than 50%), semiconductor manufacturing equipment maker Lam Research (40%), chip maker Micron Technology (38%), and videogame-chip maker Nvidia (37%). The common theme is their ties to markets growing faster than the projected 3% to 3.5% rise in corporate tech spending, says Scott Kessler, director of equity research at CFRA Research.

For investors who want to be in the tech sector but are worried about being overweight in certain shares, there is also Guggenheim **S&P 500** Equal Weight Technology ETF (RYT), which owns equal-weighted positions in each tech company in the **S&P 500**. (It also doesn't own Netflix and Amazon, which are members of S&P's Consumer Discretionary Index.) The $1.4 billion fund has scored a 16.4% return this year, according to ETF Database.

"It's a little bit of the anti-Apple," says Bill Belden, head of product development at Guggenheim. "When market leadership is narrow, there's a reversion to the mean where equal-weight funds can benefit."

Mr. Mullaney is a writer in Maplewood, N.J. He can be reached at reports@wsj.com.

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Investing in Funds & ETFs: A Quarterly Analysis --- Spotlight / Asian Junk Debt: Asia Might Beckon for Junk Investors

By Simon Constable
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Could Asian junk debt be a sweet spot for investors?

On average, it had bigger annualized returns than U.S. high-yield securities from 1999 through 2016 but about the same annualized **volatility**, according to an analysis by money-management firm Matthews Asia. The analysis also showed Asian junk had higher returns and lower **volatility** than similar securities from Latin America and Europe.

The returns are higher in Asia because they have to be to attract investors. No matter how good a company is, it is affected by the credit of the country where it's based, and there are many Asian countries with imperfect credit.

"I call them good companies in bad ZIP Codes," says Satya Patel, a portfolio manager for Matthews Asia Strategic Income fund (MAINX).

"The best company in India can only be a triple-B-minus," he says, because that is the rating of the Indian government. It's also just above a junk rating.

Mr. Patel points out that current yield spreads for junk debt -- the difference between the interest rates companies must pay to borrow and the rates governments pay -- are marginally higher than historical averages in Asia, while spreads elsewhere are below their averages. That means that if spreads were to move toward their historical averages, prices of junk debt would trend higher in Asia and lower elsewhere.

"As an investor, you might be worried about the level the U.S., Europe or Latin America are at," says Mr. Patel. "Not so much in Asia."

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The New York Times

Business Day

Allen & Co.'s Meeting of the Moguls, and Yellen Goes to Congress

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Here's a look at what's coming up this week.

MEDIA AND TECHNOLOGY

In these mountains, mergers are born.

The private jets are headed to Sun Valley, Idaho, once again for the technology and media conference that begins on Tuesday and is run by the investment bank Allen & Company. The gathering is renowned as a place for the industries' top chiefs to bond over golf and rafting — and potentially strike merger deals. The pending union of AT&T and Time Warner (whose chiefs have been invited to attend) has fueled speculation that Lowell McAdam, Verizon's chief executive and a regular invitee, will approach one of his colleagues on the media side about a potential acquisition. Michael J. de la Merced

ECONOMY

Yellen to update Congress on the Fed.

Janet L. Yellen, the Federal Reserve chairwoman, could be making her final appearances before Congress on Wednesday and Thursday when she testifies about the Fed's biannual report on monetary policy. Ms. Yellen's four-year term as chairwoman ends in February, and President Trump has not indicated whether he plans to nominate her for a second term. The report, published on Friday, recapitulated the Fed's view that these are neither the best of times nor the worst of times. The economy is growing steadily, but faster growth remains elusive because of persistent problems like weak wage growth, a dearth of corporate investment and the slow pace of productivity growth. The hearings are also likely to include a large dose of sparring about regulatory issues. Ms. Yellen has lately been taking every opportunity to make the case for preserving the financial regulations imposed after the 2008 crisis. Congressional Republicans argue those strictures are limiting economic growth. Binyamin Appelbaum

Things are looking up in Canada.

With **oil prices** depressed and the Canadian economy sluggish, many economists had assumed that the Bank of Canada would not raise its key lending rate until sometime next year. But recent statements by Stephen Poloz, the central bank's governor, have now raised expectations that a rate increase may come as soon as Wednesday.

Speaking with CNBC late last month, Mr. Poloz said that during the first quarter, Canada's economy showed "really strong growth, surprisingly so." The country's economy grew at a 3.7 percent annual pace. The bank cut its overnight rate to 0.5 percent two years ago, and it has stayed there since. "It does look as though those cuts have done their job," Mr. Poloz said in the interview. Some major Canadian banks have increased some of their consumer rates since then. One factor that may work against a central bank increase is that inflation remains well below its target of 2 percent. Ian Austen

Flat consumer prices could cause waves.

On Friday, at 8:30 a.m., the Labor Department will release data on consumer prices in June. The Consumer Price Index is expected to be flat overall, with core prices, excluding the **volatile** food and energy sectors, rising 0.2 percent.

Economists will be watching this indicator more closely than usual, as the inflation rate has been falling short of what many experts had expected, indicating a slightly less robust economy. If the number comes in below expectations, it could prompt policy makers at the Federal Reserve to rethink their promise to keep raising interest rates later this year. Nelson D. Schwartz

BANKING

Strong earnings reports are expected from big banks.

On the heels of a resoundingly successful stress test, and after announcing big dividend increases late last month, JPMorgan Chase, Citigroup and Wells Fargo will report their second quarter earnings on Friday. Expectations are for a strong quarter across the board as banks have largely regained their footing since 2008. President Trump has promised to roll back post-recession banking regulations, so many large financial institutions are anticipating more flexibility in their lending practices, even as the Fed is expected to continue to raise interest rates. Zach Wichter

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Heard on the Street
Markets Not Ready for Jobs Boost

By Justin Lahart
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[Financial Analysis and Commentary]

The June employment report was good news for American workers. For investors, the message is mixed.

The U.S. economy added 222,000 jobs last month, the Labor Department reported Friday, and the job counts for the prior two months were revised higher. The unemployment rate edged up to 4.4% from 4.3%, but for a good reason: More people were looking for work, and therefore counted in the labor force. If there was a down note in the report, it was that wage growth is still lackluster -- average hourly earnings were up just 2.5% from a year earlier -- but at the recent hiring pace, it is hard to imagine that not improving.

Taken together, the one-month number and the revisions point to a stronger jobs market than previously believed. Over the past three months, the U.S. has added about 194,000 jobs a month. The three-month average before Friday's report and the upward revisions to the April and May figures was about 121,000 jobs. The economy needs to generate fewer than 100,000 jobs to keep up with population growth.

If the current trend continues, we've gone from an employment market that was tightening only slightly to one that could change the dynamic of wage increases, inflation and bond yields. The unemployment rate could drop below 4% by early next year.

Under these circumstances, the Federal Reserve will almost definitely follow through with its plans to start shrinking its balance sheet this fall and raise rates again in December.

Indeed, if the recent pace of hiring holds, the Fed might set aside its worries over low inflation, and lean toward tightening faster to keep the job market from overheating.

That would hurt bond investors who have bet that interest rates will hardly move in the coming months. Stocks, too, are priced for low rates. With the price/earnings ratio on the **S&P 500** near its highest level in more than a decade, investors would have to rethink whether stocks deserve such high valuations.

Markets largely ignored the jobs report Friday, but if stocks and bonds fall in anticipation of higher rates, that could tighten financial conditions more than the Fed would want, damaging the economy. But with jobs growth this strong, the Fed can't risk underreacting either, even with inflation well below its 2% target.

As far as the Fed is concerned, the best thing would be for the job market to slow to a sustainable pace, with inflation drifting up toward its target as it gradually reduced its balance sheet and raised rates. Investors might like to dream of such an outcome, too, but reality is apt to be messier.

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