THE WALL STREET JOURNAL.
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**New Priorities for a New Fed Regime**

By Martin Feldstein
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The Wall Street Journal
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Now is a good time for those who hope to see new thinking at the Federal Reserve. There will soon be a new Fed chairman and vice chairman. The president of the Federal Reserve Bank of New York, who serves as vice chairman of the Federal Open Market Committee, will also be replaced in the coming months. And a majority of the Fed's Board of Governors will be new next year. What should this leadership emphasize?

Financial stability must become one of the leading objectives of monetary policy. The Fed now uses monetary policy to achieve its congressionally mandated goals of price stability and maximum employment. Although it relies on regulation and supervision to reduce the risks to the banking sector, the broader risks to the financial sector reflect the effects of monetary policy on asset prices.

The Fed has kept the short-term federal-funds interest rate at less than the rate of inflation for nearly a decade. Meantime, it has exploded its balance sheet, to $4.5 trillion today from $870 billion in 2007. Low interest rates have caused investors and lenders to reach for yield, pushing up asset prices and making high-risk investments and loans.

The most obvious increase in financial risk has been the rapid rise in share prices. The price/earnings ratio of the **S&P 500 index** rose from an average of 18.5 in the three years before the downturn of 2007 to 25.2 now, an increase of 37%. The current P/E ratio is 63% higher than its historic average and higher than all but three years in the 20th century.

If the P/E ratio declines to its historic average, the implied fall would reduce the value of household equities by $9.5 trillion. If every dollar of decline in wealth reduces spending by the historic average of 4 cents, the level of household spending would fall by $475 billion, or more than 2% of gross domestic product. The lower equity prices and the decline in household spending would also cause business investment to fall, further reducing economic activity.

**Bond prices** are also out of line with historic experience. With inflation at around 2%, the long-term **10**-**year Treasury** yield should be at about 4.5%. Instead it is only about 2.5%. If the yield on long-term bonds returns to normal historic levels, there will be substantial losses of value for current bondholders.

Commercial real estate is overpriced because investors compare the yield on real estate with the interest rate on long-term bonds. Since real estate is often held in highly leveraged investments, falling prices could lead to an even greater decline in the net value of real-estate assets.

The combination of overpriced real estate and equities has left the financial sector fragile and has put the entire economy at risk. The Fed has so far chosen not to address this fragility.

Fed Chair Janet Yellen, during a July 2014 speech, acknowledged that certain conditions could prompt the Fed to deal with the risks of overpriced assets. Since 2014, the **S&P 500** P/E ratio has risen to 25.17 from 18.96 -- more than 30%. Yet at no time in the past four years has the Fed explicitly allowed the increasing asset prices and resulting financial sector risks to influence monetary policy.

Ms. Yellen noted in her 2014 remarks that low interest rates can create incentives for participants in **financial markets** to take on excessive risk while reaching for more yield. But she also emphasized her skepticism of monetary policy's ability to deal with financial vulnerabilities. She added "the potential cost, in terms of diminished macroeconomic performance, is likely to be too great to give financial stability risks a central role in monetary policy decisions, at least most of the time." Looking at the conditions in mid-2014, she concluded that there was then no need "for monetary policy to deviate from a primary focus on attaining price stability and maximum employment in order to address financial stability concerns."

She concluded her speech stressing the importance of considering "adjustments in the stance of monetary policy, as conditions change in potentially unexpected ways." Yet the departing Fed chair clearly prefers regulatory and supervisory policies that focus on banks over monetary policy when dealing with the risks of financial instability. Let's hope her successor disagrees and incorporates financial stability as a key goal of monetary policy.

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Mr. Feldstein, chairman of the Council of Economic Advisers under President Reagan, is a professor at Harvard and a member of the Journal's board of contributors.

(See related letters: "Letters to the Editor: It's Time to Let the Market Set Interest Rates" -- WSJ Dec. 6, 2017)

(See related letter: "Letters to the Editor: Expectations of What the Fed Can Do Exceed Reality" -- WSJ Dec. 13, 2017)



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The New York Times

Business Day
**Markets Pass Another Milestone, as Investors Remain Fearless**

By LANDON THOMAS Jr.
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One of the longest **stock-market** booms in history continued its gravity-defying ascent Thursday, with investors cheering the prospect of deep corporate tax cuts and the rollback of government regulations under President Trump.

The **Dow Jonesindustrial average** eclipsed yet another milestone, closing Thursday above 24,000 for the first time. And the **Standard & Poor**'**s500 index** logged its 13th straight month of gains, the longest such streak in history.

Stock markets have been going up, more or less without interruption, since March 2009, the end of the acute phase of the global financial crisis. This eight-and-a-half-year **bull market** is now the second-longest in history, behind only the rally that lasted from 1987 until 2000.

Investors are embracing Mr. Trump's pro-corporate presidency, marked by the promise of lower taxes, the installation of former industry executives in key government agencies, and the repeal or relaxation of rules and regulations that have made it hard for some big businesses to expand without fear of interference from Washington.

Indeed, the view is taking hold that Mr. Trump, in so aggressively promoting policies aimed to stoke the economy and **financial markets**, has unleashed animal spirits — largely absent under President Barack Obama — that are now reflected in ever rising consumer confidence indicators and a willingness to embrace risk in the **stock market**.

"It comes down to psychology, and the psychology today is that everything is awesome," said Charlie Bilello, a **stock market** historian at Pension Partners. "Jobs have grown for 85 straight months, you have growth in corporate earnings, and you have tax cuts."

This week's rally was sparked by a smattering of good news. Strong economic signals showed consumer confidence at a nearly 17-year high. Retailers posted promising results as the holiday shopping season kicked into gear. And it wasn't just the Dow. The Standard & Poor's 500 was up 0.82 percent on Thursday and closed at 2,647.58. The **Nasdaq composite** finished up 0.80 percent.

More than anything, enthusiasm about life being more pleasant for corporate America is propelling stocks. This week, investors were thrilled by the signs that a normally dysfunctional Washington is coalescing around a tax-cut package that would go straight to the bottom line of businesses and their owners.

Of course, there is no guarantee the tax-cut package will become law. That is a potential tripwire for markets.

"If the tax reform doesn't get done, I think there will be a pretty sharp correction," said Bruce Van Saun, chief executive of Citizens Financial Group, one of the largest banking companies in the northeastern United States.

Mr. Van Saun said stock markets could plunge as much as 15 percent if the tax cut was derailed in Congress. "I think it's quite pivotal right now," he said. "The businessperson has an expectation that this will get done."

In a year of **stock market** records, hitting the 24,000 mark is not the most historic. This was the fifth 1,000-point milestone for the Dow this year; it first hit 20,000 on Jan. 25. The latest large round number — surpassed after the Dow jumped 1.3 percent Thursday — arrived barely a month after the previous landmark.

These milestones, of course, are arbitrary. Passing a round number in a particular index isn't itself significant.

But the ease with which the barrier was cleared highlights the extent to which investors are willing to look past geopolitical uncertainty and pricey stock valuations and bet that the market will keep going up.

"People are assuming this is normal — but it is not," Mr. Bilello said. "The relationship between risk and reward has broken down."

Is this a bubble that's about to pop? Investment experts are divided.

Skeptics point to the fact that many stocks, especially in the technology sector, are at historically high levels. Investors, they note, are relying on debt to amplify their returns. And a tulip-style mania has sent the price of the digital currency Bitcoin soaring.

But even more investors are **bullish**. Sure, valuations are high, but in contrast to 2000, when Silicon Valley was littered with companies without business models, today's tech behemoths — including Facebook and Amazon — are fundamentally sound. And a round of tax cuts could further fatten corporate profits. As for Bitcoin, if it crashes there is no direct reason it should necessarily drag down stocks.

Market participants say one of the distinguishing features of this long run is its ability to keep climbing a so-called wall of worry. Investors have suffered numerous frights, such as Britain's voting to leave the European Union, geopolitical fears in North Korea and political turmoil in Washington, but they have jumped back into the market after each stumble.

Ed Yardeni, an independent **stock market** strategist, has identified 58 of these small market panics since 2009. This year, he has not seen a single one.

"This is starting to feel like a melt-up," Mr. Yardeni said, describing a feverish state of a **bull market** when investors discard all fears. "The market has climbed a wall of worry, but now it seems as if there is nothing to worry about."

That, Mr. Yardeni said, is itself something to worry about, because investors are throwing caution to the wind.

According to Mr. Bilello, the stock analyst, a typical year will include three or four **stock market** corrections. In 2017, there have been none. The worst swoon this year was a 3.3 percent fall between March 2 and April 19.

Such a relentless — and smooth — rise in stocks is very unusual.

Several unprecedented factors might be helping the rally, analysts say. For the first time ever, an American president is actively promoting a **stock market** surge. Mr. Trump has tweeted often about the **stock market**, including eight times this week alone.

A president's boasting about the market doesn't mean it should keep going up. But at these high levels, psychology becomes a critical factor that can move stocks higher.

That could mean your brother-in-law praising his portfolio at a cocktail party — or the president of the United States speaking more broadly to his 43 million followers on Twitter.

It doesn't hurt that there has never been a time when the global economy has been growing so strongly while central banks kept interest rates so low.

Traditionally, bull markets come to an end when, after a sustained period of growth, inflation forces central banks to raise rates.

Now, with inflation stagnant and the lingering anxieties of the 2008 financial crisis fading, investors are not ready to contemplate the end of the party.

For example, the latest missile scare from North Korea, after so many previous flare-ups, barely caused investors to bat an eyelid.

"I used to call my clients fully invested bears," said Mr. Yardeni, the investment strategist. "Now they are giddy bulls — how could they not be?"

* A **Stock Market** Panic Like 1987 Could Happen Again

 

* The **Stock Market** Charges Ahead, Despite the World's Storms

* The **Stock Market** Has Been Magical. It Can't Last.

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**Bitcoin Mania: Even Grandma Is In**

By Peter Rudegeair and Akane Otani
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Rita Scott's grandson convinced her in mid-November to get in on the latest investing sensation and buy bitcoin. "I thought it was a big coin," the 70-year-old said. "I didn't even know what it was, a piece of coin? Why would I invest in a piece of coin?"

With a few hundred dollars of her money invested in it, Ms. Scott quickly caught on and started checking the price several times a day, even while playing poker at a casino in her hometown of Las Vegas.

Late Monday, as the price approached $10,000 for the first time, her grandson, Anthony Santa, sold the bitcoin that he and his grandmother held, netting what he said was a gain of around 45% over just a few weeks.

That was prescient. While bitcoin later topped the $11,000 mark -- reaching its highest level in its nine-year history -- the virtual currency tumbled more than $2,000 later Wednesday as several exchanges struggled to handle surging volume. It rallied again later to trade at $10,214.

"Believe me, I didn't have this much fun with T. Rowe Price," said Ms. Scott, a retired secretary and taxi driver, referring to her mutual-fund investments.

Bitcoin, a stateless digital currency that shares some investment characteristics with gold, has captured the imagination of investors.

As its value has doubled since mid-October and risen more than tenfold in 2017, the currency has transformed from a curiosity among techies to a hot topic for mainstream investors.

But the speed of its ascent has some warning that it will end in tears. And, as Wednesday's quick reversal shows, bitcoin is extremely **volatile** -- the currency has declined more than 50% on eight separate occasions since 2011.

Another source of concern: The latest move higher in bitcoin's price is drawing in more individual investors.

"They see the price break $10,000, obviously they see the news, they hop on their app and go ahead and buy bitcoin," said Bobby Cho, head of over-the-counter trading at Cumberland, the cryptocurrency unit of a high-speed trading firm in Chicago.

Paul Joseph Spelce, a 22-year-old graduate student in New York, was one of the newcomers who bought in. Over Thanksgiving dinner with friends last week, the conversation was dominated by talk of bitcoin. "Even this woman who didn't have a computer at home couldn't stop talking about how bitcoin was going to reach $10,000 soon," Mr. Spelce said.

After stewing about it over the weekend, he pulled an all-nighter poring over articles about bitcoin's rise. He repeatedly searched the price of bitcoin on Google.

At about 6 a.m. Wednesday, he placed an order to buy $50 worth of bitcoin on Coinbase. Hours later his position was up about 11%. Then it was down 9%. "When I clicked, it was just one of those feelings. I'd finally read enough, finally felt confident enough to do it," Mr. Spelce said. "My friends all think I'm crazy."

Friends of Tony Horsely in Atlanta have been more understanding. The 78-year-old investor began investing in bitcoin over the summer just to add some spice to his portfolio. Soon, he moved about 5% of his portfolio into the coin and an exchange-traded fund based on the currency. He started writing a periodic, informal note to about 30 friends, in which he talks about bitcoin's price dynamics and the logistics of buying it.

"I'm late to the game," he said, "but I'm enjoying it."

While some of his friends have expressed doubts, Mr. Horsely says about half a dozen joined him in buying. Meanwhile, he has accelerated his purchases, picking up more bitcoin on Nov. 24, and then Wednesday morning.

The fervor for bitcoin has been global. Tom Reaney, owner of the Burger Bear restaurant in London, started accepting bitcoin about five years ago after a customer asked to pay for some bacon jam with the virtual currency.

Recently, nearly as many people ask Mr. Reaney about investing in bitcoin as using it to pay for a meal. "It's quite lucrative," says Mr. Reaney, who owns seven bitcoin. Even though he views a drop in price as inevitable, he says "I don't want to pull my money out because it keeps going up."

But bitcoin's **volatility** is making many conservative investors hesitant, some of whom work in finance.

At the Asia Securities Industry & **Financial Markets** Association's annual conference in Hong Kong on Wednesday, only two of about 150 professional investors raised their hands when asked if they had invested during a session on cryptocurrencies.

"It's incredible that we're [seeing this] at a finance event, but it's actually very common," said the panelist Henri Arslanian, PwC's China and Hong Kong leader for fintech.

Mr. Arslanian, who also teaches a fintech course at the University of Hong Kong, said when he asks his students that same question, usually about 30% of them say they own virtual currencies.

He said in the past few weeks he has received so many requests on how to trade cryptocurrencies that he has put together "a template response."

While individual investors might be piling into bitcoin, some are cashing out quickly, potentially adding to the currency's **volatility**.

Nathan Hoyle, a 27-year-old Londoner training to be a Navy pilot, bought GBP 1,000 worth of bitcoin in September as a "curiosity," he said. When he saw the rally picking up steam, he decided he would take his profit and run if it got close to $10,000 from the $3,500 level where he bought it.

When the price rose above $9,800 Wednesday, that was close enough. He said he sold his position, booking a GBP 1,780 profit. "Now, I'll wait for another price crash and buy again," Mr. Hoyle said.

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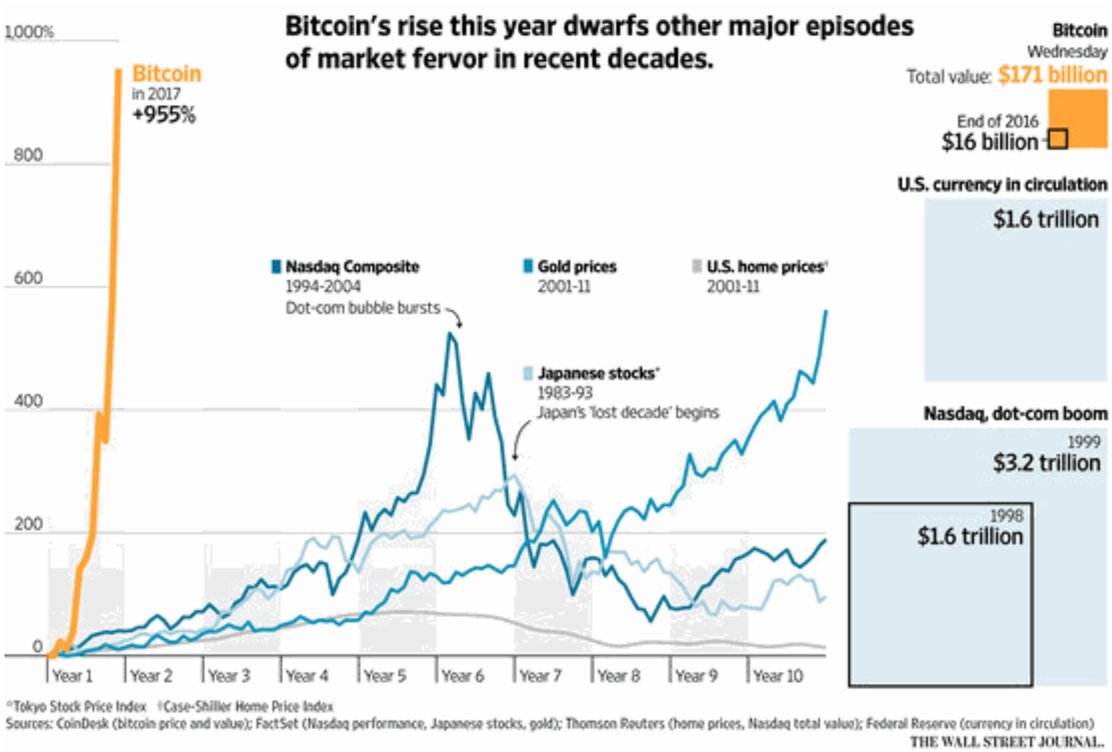
Paul Vigna, Christopher Whittall and Steven Russolillo contributed to this article.

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**Streetwise: Bitcoin Isn't What Its Creator Envisioned**

By James Mackintosh
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30 November 2017
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English


It is plausible to believe that bitcoin has had a faster rise in value than any asset in history. The $11,000 per bitcoin it passed on Wednesday compares with a value of less than half a cent when a Florida programmer paid 10,000 bitcoins for two pizzas in May 2010 -- a percentage gain of more than 250 million.

The attention the cryptocurrency is getting raises plenty of questions, mostly about whether the mania behind bitcoin's 10-fold gain this year will end in a crash.

The bigger question for those thinking of buying bitcoin is what it actually is. Satoshi Nakamoto, the pseudonymous creator of the cryptocurrency, designed it in 2009 as a secure online alternative to cash, a way to make payments without needing the trust and checks of the bank-based dollar system.

"The bitcoin is a beautiful mathematical object," said Yves Choueifaty, who has just launched a bitcoin mutual fund at Tobam, the French fund manager he founded.

But while bitcoin is a wonderful academic creation, it isn't doing what its founder envisaged: cutting transaction costs and allowing "small casual transactions."

Instead, bitcoin has become a vehicle for hoarding by libertarians and hard-currency enthusiasts who fear central banks will inflate away their savings, and for gambling by hordes of speculators attracted to its wild price swings.

Everything I have just written will infuriate bitcoin aficionados. So let's go through the three roles of a currency:

-- Medium of exchange. If you can't pay someone in it, it definitely isn't money.

-- Store of value. A currency should be a useful place to keep savings, and -- thanks to its use as a medium of exchange -- is more convenient than keeping savings in property, gold or cattle.

-- Unit of account. Other things should be valued in the currency: the accounts of a business, or the price of property, cows and everything else.

Bitcoin is a poor medium of exchange, because relatively high fees need to be paid to get a transaction prioritized by the computers of the "miners" who run the distributed database known as the blockchain. Wednesday's backlog of 70,000 or so bitcoin trades waiting to go through is fairly normal, with a peak in May above 230,000 -- and low-fee transactions sometimes take days to be confirmed.

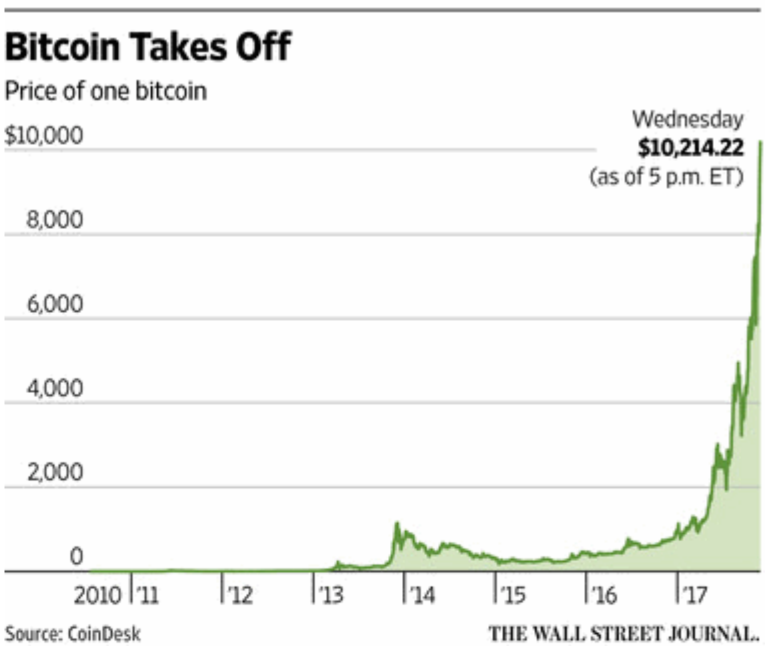
Bitcoin buffs often point to the number of stores that accept the cryptocurrency as proof of its success. Yet, dozens of new funds, listed vehicles and apps have launched this year with a sales pitch that this makes it easy for investors to get into bitcoin. If it is easier to get bitcoins by buying a listed company than just buying bitcoins, it is unlikely to become widely used anytime soon.

Bitcoin is pretty poor as a store of value, too. An investor who put in $1,000 at the start of the year might not agree, because the bitcoins are now worth over $10,000. But the point of storing value is to be fairly confident of what it might be worth in the future. The value of the dollar is eroded by inflation, but when the Federal Reserve is doing its job properly that should erode slowly and fairly predictably. By contrast, just this year bitcoin has had five-day periods where it was up 44% or down 25% against the dollar.

Storing a lot of bitcoin is also hard. For all that see it as "digital gold," bitcoin funds are turning to physical safes -- where they store sheets of paper on which cryptographic keys are printed -- to keep their cryptocurrency safe from hackers and staff. That isn't so much more convenient than real gold, and fund fees are often higher than for gold funds.

Bitcoin's price **volatility** wouldn't matter if it was a unit of account. As Mr. Choueifaty says, bitcoin has no **volatility** from the perspective of bitcoin, as 1 bitcoin is still worth 1 bitcoin. Yet, the base price of almost everything is set in traditional currencies, so the bitcoin price of pizzas and other stuff fluctuates wildly as the bitcoin exchange rate swings about.

But for the moment, bitcoin's best hope looks like attracting more buyers who want to shift their savings onto the blockchain -- and speculators willing to bet that those savers will arrive. The soaring price of bitcoin alone shows that expectations are high. But as currency historian and Berkeley economics professor Barry Eichengreen said: "Expectations can change."

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Heard on the Street
**Why Tax-Cut Winners Are Losing**

By Justin Lahart
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[Financial Analysis and Commentary]

The Republican tax plan has a greater chance than ever to pass. Why aren't stocks of companies that would benefit most doing better?

Many of the stocks that rallied hardest after President Donald Trump's election paid the highest tax rates. Small-cap companies, which investors thought had the most to gain from a tax cut, rose nearly three times as much as large caps.

Since then, small caps have underperformed, as have a variety of tax-reform portfolios strategists have put together. Some investors have seen that as evidence of market skepticism over whether tax reform was likely to pass. And on Tuesday, when the Senate Budget Committee voted to advance its tax measure to the Senate floor, small caps outpaced the benchmark **S&P 500**.

But a closer look suggests that the performance of small caps reveals less about the tax plans' prospects than it does about the environment they are operating in. Whatever the chances of tax-plan success were before the October Senate budget deal that paved the way to a $1.5 trillion tax cut, they should be higher now. But small caps are merely even with the large-cap **S&P 500** since then. And the shares of **S&P 500** companies that have specifically endorsed the Senate's tax bill have underperformed, according to research firm Strategas.

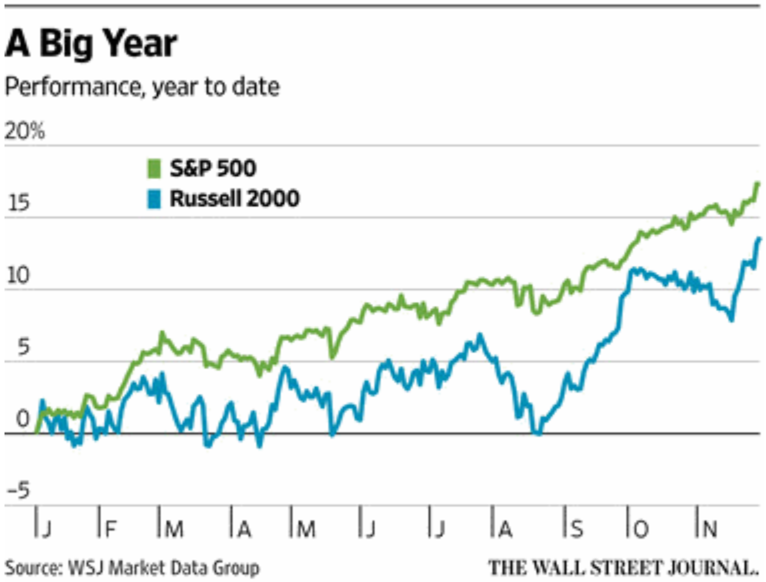
The bigger problems for the shares of companies that would win big under a tax cut probably lie elsewhere.

One is where they make their money. Small-cap stocks get far more of their revenue domestically than the multinationals that dominate the **S&P 500**. In a year economic growth overseas has ramped up and the dollar has weakened, that has been a strike against them.

Another is the kind of stocks that investors favor right now. The top 10 companies in the **S&P 500** Value index, which includes shares of companies that count as inexpensive on a variety of valuation measures, have a median tax rate of about 28%, according to FactSet. The top 10 companies in the **S&P 500** Growth index have a median tax rate of 25%.

But this has been a year investor preferences have tilted toward growth. With rising costs threatening to cut into companies' profits, shares of those seen as able to consistently deliver strong sales and earnings gains -- a group epitomized by Amazon.com, Apple, Google parent Alphabet and Facebook -- have been the **stock-market** standouts.

Investors have essentially bet that bigger gains can be made owning these rapidly growing giants than the stocks that would benefit most from tax cuts. Unless that changes, the big pops that investors were expecting from a tax cut may be minimal.

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The New York Times

Op-Ed Contributor
Opinion
**What if Everyone Benefitted When Stocks Soared?**

By MATT BRUENIG
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Everyone knows that we are again living in a Gilded Age.

More controversial is the question of what should be done about it. We seem stuck in the same policy equilibrium we have been in for decades, with conservatives denying that there is a problem and pushing policies that would make it even worse, liberals emphasizing the need for education and skills development, and leftists pushing for a unionized labor market and social-democratic welfare state.

Some of these ideas are good ones, which would make life better for vulnerable people. But they'd do little to directly target inequality in our society or to capture all the benefits that economic fairness brings.

The solution is simpler than it seems. There's a tried and tested way, within the system we have now, of giving everyone a share in the investment returns now hoarded by the wealthy. It's called a social wealth fund, a pool of investment assets in some ways like the giant index or mutual funds already popular with retirement savings accounts or pension funds, but one owned collectively by society as a whole. One that paid dividends not to the few, or even just to the shrinking middle class lucky enough to have their savings invested, but to everyone.

It may be our best chance to stop a decades-long trend of rising wealth inequality that has only accelerated since the Great Recession. According to new data released by the Federal Reserve, the collapse of the housing bubble and the ensuing financial crisis caused the net worth of virtually all families, rich and poor, to drop sharply between 2007 and 2010. But during the post-2010 economic recovery, the fortunes of the wealthiest grew rapidly while nearly everyone else's lagged behind.

The wealth of the top 1 percent increased by an average of $4.9 million over the past decade, while the average holdings of the bottom 99 percent declined by about $4,500. Wealth inequality is now the highest it has been since the Federal Reserve began collecting this kind of data in 1983. A full account of just how bad things have gotten is difficult to wrap one's mind around. In 2016, according to my calculations, the top 1 percent had an average wealth of $26.6 million, while the net worth of everyone in the bottom third combined was less than zero (because of a mixture of low accumulated savings and high debt).

The stress this puts on our society is hard to overstate, and though recognition of our country's grossly unequal condition has grown in recent years, few have proposed credible ways of turning things around. That's where a social wealth fund comes in.

Here's how it could work. The federal government would create and run a new investment fund, and issue every adult citizen one share of ownership. The fund would gradually come to own a substantial and diverse portfolio of stocks, bonds and real estate. The investment return that the fund generates would be paid out to each citizen in the form of a universal basic dividend, and the shares would be nontransferable to preserve the institution's egalitarian purpose.

The net result of such a system would be to gradually transform private wealth, which is very unevenly distributed, into public wealth that every person in society owns an equal part of. If, over time, the social wealth fund came to own one-third of the country's wealth, that would allow it to distribute an annual dividend equivalent to about a third of the total returns on invested capital each year, which represents about a tenth of net national income. In 2016, based on the latest available census population figures, that would have meant around $6,400 paid to all adults or $8,000 paid to every person between the ages of 18 and 64.

Over the past few decades, wealth funds like this have been successfully implemented in Alaska and Norway, quashing any doubt about their practical viability. Alaska's fund was created in 1976 under the Republican Governor Jay Hammond and has grown in value to $62 billion. In a typical year, every Alaskan citizen, including children, receives a dividend from the fund of about $1,000 to $2,000. Norway's similar fund recently topped $1 trillion in value and, in the last quarter alone, generated $23 billion of investment return, or about $4,500 per Norwegian. Unlike Alaska, Norway uses its fund not to directly pay out dividends but as a source of revenue for its famously generous welfare state.

The idea has a long history. Thomas Paine advocated the creation of a similar "national fund" in his 1797 pamphlet "Agrarian Justice." Socialist economists have supported it as well. Oskar Lange wrote in favor of the concept in 1936, and Rudolf Hilferding described the socialization of financial assets as "the ultimate phase of the class struggle between bourgeoisie and proletariat" in 1910.

In more recent times, more and less robust versions of the idea have been endorsed by the Nobel Prize-winning economist James Meade, the former Greek Finance Minister Yanis Varoufakis and even Hillary Clinton in her 2016 campaign memoir. It would be hard to claim it's some sort of utopian fantasy.

The key challenge in building a social wealth fund is not how to run it once it has been created, but how to bring assets into the fund in the first place. Alaska and Norway were able to dedicate the proceeds from natural resource exploitation to that purpose, but most governments seeking to duplicate their efforts would need to look elsewhere for the money.

Wouldn't the enormous wealth that our increasingly productive society is generating, which now flows into just a few pockets, be a fair source? Some of the concrete ways this could happen are through the transfer of existing federal assets like land, buildings and portions of the wireless spectrum into the new fund. Other measures could include increases in taxes on capital that affect mostly the wealthy such as estate, dividend and financial transaction taxes and the creation of a new type of corporate tax that requires companies to directly issue new shares to the social wealth fund on an annual basis and during certain corporate moves such as initial public offerings, mergers and acquisitions.

Another way to bring assets into the fund would be to modify the way the Federal Reserve pumps money into the economy. Currently, the central bank does that by buying up Treasury bonds. If instead we used newly created money to buy up stocks that are then deposited into the social wealth fund, it would gradually socialize wealth ownership without the need to raise taxes on anyone. As Roger Farmer and Miles Kimball have argued, these kinds of asset purchases could also be ramped up during recessions, allowing the federal government to acquire significant portions of the national wealth relatively cheaply while also stabilizing **financial markets** and stimulating the economy.

Creating a social wealth fund in which we all own an equal part is certainly not the only way to tackle wealth inequality directly, but it is one of the few ways that we know works well and is able to work within the system we now have. If policymakers want to get serious about trimming wealth concentration, and not just use these shocking statistics to promote the same old half-measures, then this would be a fair, effective and practical way to start.

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Matt Bruenig is the founder of People's Policy Project.

Ariel Davis

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The New York Times

STOCKS & BONDS
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**Signs of Tech Sell-Off as Nasdaq Tumbles**

By THE ASSOCIATED PRESS
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A steep slide in big technology companies pulled the major U.S. stock indexes mostly lower Wednesday, offsetting strength in banks and health care and erasing some of the gains the market made a day earlier.

The tech-heavy **Nasdaq composite**, which is the best-performing index this year, had its biggest single-day drop since August as investors cashed in some of their winnings and bid up shares in health care companies and retailers, among others.

Bond yields rose following a strong report on third-quarter economic growth in the U.S. That helped banks because they can charge higher interest rates on loans.

The **Dow Jonesindustrial average** closed modestly higher, notching a record high for the second straight day, while the **Standard & Poor**'**s500 index** dipped less than 1 point.

"The market is flat, but inside the market, lots of change," said Bob Doll, chief equity strategist at Nuveen Asset Management. "People are rotating away from what's worked so well and buying some of the laggards."

The **S&P 500 index** fell 0.97 points, or 0.04 percent, to 2,626.07. The Dow gained 103.97 points, or 0.4 percent, to 23,940.68. The **Nasdaq** lost 87.97 points, or 1.3 percent, to 6,824.39. The Russell 2000 index of smaller-company stocks picked up 5.86 points, or 0.4 percent, to 1,542.30. Rising stocks slightly outpaced declining ones on the New York Stock Exchange.

Signs of a tech sell-off were visible early on Wednesday, as the **Nasdaq** opened lower.

Amazon, Facebook, Google parent Alphabet and other big technology companies gave up some of their recent gains as the sector posted its biggest loss in more than five months. Even so, the sector remains the biggest riser this year, with a gain of 35.7 percent.

"If you look at any kind of chart you can see how extended tech was," Doll said. "People are saying, 'I've made so much money, let me take a little money off the table.'"

Amazon dropped $32.33, or 2.7 percent, to $1,161.27. Facebook fell $7.29, or 4 percent, to $175.13. Alphabet slid $25.91, or 2.4 percent, to $1,037.38.

Shares in several chipmakers also slumped. Micron Technology lost $4.19, or 8.7 percent, to $43.74, while Applied Materials shed $4.42, or 7.7 percent, to $52.91. Lam Research declined $18.50, or 8.7 percent, to $194.64.

The market got another batch of encouraging economic news Wednesday.

The Commerce Department estimated that the U.S. economy grew at an annual pace of 3.3 percent from July through September. That would be the fastest rate in three years.

The new estimate helped lift bond yields. The yield on the **10**-**year Treasury** rose to 2.38 percent from 2.34 percent late Tuesday.

Meanwhile, the National Association of Realtors said that its pending home sales index surged 3.5 percent last month. On Monday, the Commerce Department said sales of new homes jumped in October to their fastest pace in a decade.

"We've had some pretty decent economic news," said CFRA Investment Strategist Lindsey Bell.

Banks and other financial stocks posted solid gains for the second day in a row, getting a boost from rising bond yields. Banks benefit from rising bond yields because they can charge higher interest rates on loans. Citizens Financial Group climbed $1.89, or 4.9 percent, to $40.67.

Health care stocks also posted solid gains. UnitedHealth Group was the biggest riser in the Dow and accounted for almost half of the average's gain. The stock rose $6.74, or 3.1 percent, to $222.88.

Autodesk was the biggest decliner in the **S&P 500**, tumbling 15.9 percent.

The design software company slumped after saying it would eliminate 1,150 jobs, or about 13 percent of its current workforce. Autodesk said the cuts will cost $135 million to $149 million. The company had a disappointing third quarter and gave a weak forecast. The stock fell $20.61 to $109.34.

Investors welcomed news that Chipotle Mexican Grill is looking for a new CEO.

The restaurant chain is trying to recover from a sales slump following a series of food safety scares. Founder Steve Ells, who currently serves as chairman and CEO, will transition to executive chairman once someone new is in place at the top post. The stock gained $16.13, or 5.6 percent, to $301.99.

Crude **oil prices** extended their recent losses. Benchmark U.S. crude gave up 69 cents, or 1.2 percent, to settle at $57.30 a barrel on the New York Mercantile Exchange. Brent crude, used to price international oils, lost 50 cents, or 0.8 percent, to close at $63.11 a barrel in London.

In other energy futures trading, wholesale gasoline fell 4 cents to $1.73 a gallon. Heating oil shed 3 cents to $1.92 a gallon. Natural gas rose 5 cents, or 1.6 percent, to $3.18 per 1,000 cubic feet.

Gold fell $12.80, or 1 percent, to $1,282.10 an ounce. Silver dropped 37 cents, or 2.2 percent, to $16.46 an ounce. Copper slid 3 cents to $3.04 a pound.

The dollar rose to 111.82 yen from 111.55 yen on Tuesday. The euro strengthened to $1.1863 from $1.1837. The pound rose to $1.3424 from $1.3373.

Major European stock indexes were mixed.

Germany's DAX finished flat, while the CAC 40 of France rose 0.1 percent. Britain's FTSE 100 slid 0.9 percent.

Earlier in Asia, Japan's Nikkei 225 index gained 0.5 percent, while South Korea's Kospi edged 0.1 percent lower. Australia's S&P ASX 200 added 0.5 percent. The Hang Seng index in Hong Kong fell 0.2 percent. India's Sensex slipped 0.1 percent, while shares in Southeast Asia were mixed.

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

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

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The New York Times

FACT CHECK
National Desk; SECTA
**Claims About Tax Plan, Deducting for Dishonesty**

By LINDA QIU
908 words
30 November 2017
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NYTF
Late Edition - Final
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English


WASHINGTON -- At a Wednesday afternoon rally in Missouri, President Trump played up what he called the "biggest tax cuts in history" and boasted about economic growth "in a nonbraggadocious way."

"In fact, they're going to say Trump is the opposite of an exaggerator," he said of his rosy projections, in a speech full of exaggerations and falsehoods. Here's an assessment.

He is wrong that "for years, they haven't been able to get tax cuts, many, many years since Reagan."

President Ronald Reagan, who enacted a major tax cut in 1981 and lowered tax rates again in 1986, was hardly the last president to have done so. President Bill Clinton signed the Taxpayer Relief Act of 1997. President George W. Bush enacted two major tax cuts in 2001 and 2003. The stimulus passed under President Barack Obama included hundreds of billions of dollars in tax cuts, and Mr. Obama later extended the Bush tax cuts with the American Tax Payer Relief Act of 2012.

He inaccurately suggested the plan wouldn't help the wealthy.

Mr. Trump insisted that the tax bill is "not good for me" or the wealthy. Referring to Senator Chuck Schumer, Democrat of New York and the minority leader, the president said: "I keep hearing Schumer, 'This is for the wealthy!' If it is, my friends don't know about it."

That is not supported by most analyses of the tax plans being considered in Congress.

Under the Senate plan, every income level would receive a tax cut in 2019, but people earning $20,000 to $30,000 annually would face a tax increase the next year, according to the Joint Committee on Taxation. By 2027, most people making under $75,000 each year would see a tax increase, while those making more would continue to receive a tax cut.

Under the House plan, every income group would see tax cuts through 2027, but the richest one-fifth of Americans would receive 56 percent to almost 75 percent of the cuts, according to the Tax Policy Center.

Based on his 2005 tax return, Mr. Trump himself could save more than $1.1 billion under the White House tax framework, according to an analysis by The New York Times, and the same amount under the House plan, a tax expert at Marcum L.L.P. told NBC.

He falsely called the current plan the "biggest tax cut in the history of our country, bigger than Reagan."

Mr. Trump has repeated this claim at least a dozen times since October, but it has not been true of any of the tax plans released in Congress or outlined by his administration.

A 2013 Treasury Department report assessed the size of major tax bills either as a percentage of the economy, by the reduction in federal revenue or in inflation-adjusted dollars. The 1981 Reagan tax cut is the largest under the first two metrics. It was equivalent to 2.9 percent of gross domestic product and reduced federal revenue by 13.3 percent. The 2012 Obama tax cut amounted to the largest cut in inflation-adjusted dollars: $321 billion a year.

For Mr. Trump's tax cut to exceed the Reagan cuts as a share of G.D.P., the Committee for a Responsible Federal Budget estimates it would need to cost roughly $6.8 trillion over 10 years. To have a larger effect on revenue, it would need to cost $5.7 trillion. No version of the current tax cut plan meets those benchmarks.

The budget blueprint that Republicans released in mid-October, the bill passed in the House in November and the bill currently being considered in the Senate all amount to a tax cut of about $1.5 trillion over 10 years. This would place as the 12th-largest as a share of the economy.

He falsely suggested that the **stock market** was previously flat.

Mr. Trump spoke of tepid growth before he took office. ''In all fairness, the **stock market** was going this way,'' he added, drawing a flat line with his hand. The **stock market** has hit record highs under Mr. Trump, but the uptick began after the financial crisis in 2008.

The link he drew between market performance and G.D.P. growth also contradicts his own comments. On Wednesday, Mr. Trump said the economy was ''doing terribly'' at 1.2 percent G.D.P. growth, which occurred in the first quarter of this year. But during that quarter, he jubilantly posted on Twitter about the **stock market**'s ''longest winning streak in decades.''

He exaggerated when he said a 3.3 percent growth was the ''largest increase in many years.''

The Commerce Department adjusted its estimate of G.D.P. growth to 3.3 percent in the third quarter of 2017 from a previous estimate of 3 percent. This is the largest increase in about three years, according to data from the Bureau of Economic Analysis. The economy grew at 3.2 percent in the first quarter of 2015 and at 5.2 percent in the third quarter of 2014, and the increase was larger than 3.3 percent in five other quarters under Mr. Obama.

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THE WALL STREET JOURNAL.
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**Bitcoin Futures in Works --- Nasdaq and Cantor Fitzgerald consider launching products to trade cryptocurrency**

By Stephanie Yang and Alexander Osipovich
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30 November 2017
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J
B7
English


Nasdaq Inc. and broker Cantor Fitzgerald LP are looking to join the rush on Wall Street to trade bitcoin, which powered to a record on Wednesday.

Nasdaq aims to launch bitcoin futures in the first half of 2018, according to people familiar with the situation.

Separately, Cantor said it is seeking to launch bitcoin derivatives on an exchange it owns, also in the first half of next year. The moves come after two major Chicago exchange operators announced similar plans for bitcoin.

Investor interest has grown as the digital currency has exploded in value. Bitcoin is up more than 10-fold since the start of the year. It was trading at $10,214.22 late Wednesday afternoon after hitting a record of $11,377.33 earlier in the day, according to CoinDesk.

The emergence of bitcoin futures would be a big step toward maturity for the cryptocurrency, which is less than a decade old. By letting traders bet on whether bitcoin rises or falls, a futures market would make it easier for both big banks and retail investors to trade bitcoin.

Nasdaq's bitcoin contract would debut on Nasdaq Futures, or NFX, a marketplace that the New York-based exchange group launched in 2015 that until now has mainly focused on energy trading, according to the people familiar with the situation.

One of the people said Nasdaq is trying to differentiate itself from rivals CME Group Inc. and Cboe Global Markets Inc. -- the two Chicago exchange groups that have announced plans to launch bitcoin futures -- by designing a futures contract that better tracks the world-wide price of bitcoin. Nasdaq has briefed market participants on its plans, this person added.

Nasdaq isn't completely new to bitcoin. It lists an exchange-traded note linked to the digital currency on one of its European exchanges.

Cantor, a global financial firm founded in 1945 whose businesses range from bond brokerage to investment banking to real estate, unveiled its bitcoin-derivatives plans in an interview with The Wall Street Journal.

The firm aims to launch a bitcoin swap -- a type of derivative -- on Cantor Futures Exchange LP. Cantor's swap would allow traders to bet on bitcoin prices up to three months out, with built-in protections to limit their losses if bitcoin prices swing above $15,000 or below $5,000.

The firm expects retail traders to be the initial adopters of the new contract, but it is targeting institutional players, too, executives said.

"The asset class is not going away," said Shawn Matthews, chief executive of Cantor Fitzgerald & Co., the firm's brokerage arm. "If you look at the next level, it will be the institutions coming in and being larger participants in the marketplace, especially as liquidity gets better."

Cantor's exchange is a backwater of futures markets, with a few thinly traded contracts tied to weather events, foreign-exchange rates and gold. But it does have a valuable asset: a license from the Commodity Futures Trading Commission, meaning it would be easier to launch bitcoin futures on Cantor's exchange than to create a new futures exchange from scratch.

Separately, Nodal Exchange LLC, a decade-old U.S. futures exchange specializing in electricity and natural-gas trading, is exploring whether to launch cryptocurrency futures, a person familiar with the matter said. Nodal's parent company is majority-owned by German exchange Deutsche Borse AG.

Such upstarts could face tough competition from more established futures exchanges. CME, the world's biggest exchange group, is seeking to launch bitcoin futures as soon as the second week of December. Cboe is aiming to launch its bitcoin futures by early 2018, the company has said. CME's and Cboe's planned contracts are under review by the CFTC.



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**Alibaba's Debt Sale: $7 Billion**

By Manju Dalal and Julie Wernau
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The Wall Street Journal
J
B13
English


Chinese e-commerce company Alibaba Group Holding Ltd. sold $7 billion in U.S.-dollar bonds, its second visit to the debt markets in three years.

The company on Wednesday sold bonds with maturities ranging from 5.5 years to 40 years, according to people who participated in the deal. The deal is the biggest offshore dollar-bond issue from Asia this year and the second largest in history, according to data provider Dealogic.

Alibaba sold the bonds in five parts, with maturities ranging from 5.5 years to 40 years. The 10-year bonds that mature in 2027 demanded an additional 1.08 percentage points over Treasurys. The yield on the **10**-**year Treasury** note settled at 2.376% on Wednesday.

Its planned bond issue comes as the cost of borrowing is rising for some Asian companies, following a recent selloff. However, Alibaba is also raising the money ahead of an expected rise in U.S. interest rates next month. Rate increases usually drive up bond yields, forcing issuers to pay a higher interest rate on debt offerings.

The company sold $8 billion in bonds in 2014.

The announcement of the bond issue's terms follows two days of road shows with investors across Asia, Europe and the U.S. On a conference call with investors Monday, Alibaba indicated the proceeds of the new bonds could be used for acquisitions in growth areas such as physical retail and logistics assets. More than half of the new bonds are likely to be sold to non-Asian investors, mostly in the U.S.



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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
**Banks and Retailers Help Indexes Leap to New Highs**

By THE ASSOCIATED PRESS
1,076 words
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NYTF
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6
English


Banks led a broad rally in U.S. stocks Tuesday, lifting the market to a milestone-shattering finish.

Gains by industrial stocks, retailers and health care companies also helped drive the major stock indexes to record highs.

Investors were encouraged by news that a Senate committee cleared the way for a tax reform bill to go before the full Senate. Financial stocks also got a boost from Federal Reserve chair nominee Jerome Powell, who told another Senate committee that the Fed would consider easing up on bank regulations.

Encouraging economic data and the latest batch of company earnings and deal news also helped drive the rally, which gave the **Standard & Poor**'**s500 index** its best day since Sept. 11.

"When you're in a market where you're at new highs with the averages, in theory, nobody has losses," said Mark Chaikin, founder of Chaikin Analytics. "Given seasonal patterns, I expect that we'll see the market strong into year-end."

The **S&P 500 index** rose 25.62 points, or 1 percent, to 2,627.04. The **Dow Jonesindustrial average** gained 255.93 points, or 1.1 percent, to 23,836.71. The **Nasdaq composite** added 33.84 points, or 0.5 percent, to 6,912.36. The Russell 2000 index of smaller-company stocks picked up 23.12 points, or 1.5 percent, to 1,536.43.

Gainers outnumbered decliners more than 2 to 1 on the New York Stock Exchange.

Early on, investors had their eye on Washington, where the Senate Budget Committee weighed the chamber's version of a sweeping tax bill. The committee voted 12-11 to pass the Republican tax plan late Tuesday afternoon. The sweeping measure, which would lower corporate tax rates, now advances to the full Senate. GOP leaders hope to have the Senate take it up later this week.

Another panel, the Senate Banking Committee, drew the spotlight early on as it heard testimony from Powell, who has been a member of the Fed's board since 2012 and is expected to win confirmation to succeed Janet Yellen.

In written testimony released before the start of the hearing, Powell said that, if confirmed as the next Fed chairman, he expected the central bank to continue raising interest rates gradually.

Powell also said that, under his leadership, the Fed would consider ways to ease the regulatory burdens on banks while preserving the key reforms Congress passed to try to prevent another financial crisis.

"Powell's testimony basically said that he's a Janet Yellen on steroids," said Chaikin. "His testimony gave the market a lot of confidence."

Banks and other financial stocks had their best day since March. The sector is up 15.2 percent this year.

JPMorgan Chase and Bank of America notched their gains since April. Shares in JPMorgan rose $3.43, or 3.5 percent, to $101.36. Bank of America added $1.05, or 3.9 percent, to $27.64.

Investors also got a double dose of encouraging data on the U.S. economy Tuesday.

The Conference Board said that its consumer confidence index rose this month to its highest level since November 2000. Economic growth clocked at a healthy 3 percent annual pace in the third quarter, and the unemployment rate has fallen to a 17-year low of 4.1 percent.

A separate index showed U.S. home prices rose at the fastest pace in more than three years in September, fueled by a record-low supply of homes for sale. Homebuilder shares rose, led by KB Home, which gained $1.17, or 4.1 percent, to $30.

The latest corporate deal news also moved the market.

Buffalo Wild Wings jumped 6.3 percent after it agreed to be acquired by Arby's for $157 a share. Buffalo was at $117.25 a share before reports about a possible deal emerged two weeks ago. The stock added $9.20 to $155.60.

Emerson Electric rose 3.7 percent after the company withdrew its bid for Rockwell Automation. Emerson shares climbed $2.27 to $64.15. Rockwell added $6.09, or 3.2 percent, to $197.13.

Companies with strong quarterly results or outlooks also got a lift.

Thor Industries surged 13.3 percent after the RV maker reported quarterly earnings that were much higher than analysts were expecting. The stock gained $18.12 to $154.37. Rival Winnebago Industries rose $3.95, or 7.8 percent, to $54.60.

Tech Data climbed 10.2 percent after the information technology products company posted better-than-expected third quarter results and gave strong fourth-quarter forecasts. The stock picked up $9.54 to $102.76.

Real estate sector companies were the only laggard. Public Storage fell $5.50, or 2.6 percent, to $209.43.

**Bond prices** rose. The yield on the **10**-**year Treasury** fell to 2.34 from 2.35 percent late Monday.

Benchmark U.S. crude dropped 12 cents to settle at $57.99 a barrel on the New York Mercantile Exchange. Brent crude, used to price international oils, declined 23 cents to close at $63.61. Wholesale gasoline fell 2 cents to $1.77 a gallon.

In other energy futures trading, heating oil was little changed at $1.95 a gallon. Natural gas rose 15 cents, or 5 percent, to $3.07 per 1,000 cubic feet.

Gold inched up 50 cents to $1,294.90 an ounce. Silver fell 20 cents to $16.82 an ounce. Copper slid 6 cents to $3.07 a pound.

The dollar rose to 111.55 yen from 111.01 yen on Monday. The euro weakened to $1.1847 from $1.1899.

Major stock indexes in Europe rose following a downbeat day in Asia.

Germany's DAX added 0.5 percent, while France's CAC 40 gained 0.6 percent. Britain's FTSE 100 rose 1 percent.

In Asia, Japan's benchmark Nikkei 225 and Hong Kong's Hang Seng were little changed. Australia's S&P/ASX 200 lost nearly 0.1 percent. South Korea's Kospi added 0.3 percent. Shares in Southeast Asia were mixed.

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

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

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THE WALL STREET JOURNAL.
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**Bets Stock Volatility Will Stay Low Continue to Pay Off**

By Chris Dieterich
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B15
English


Bets on a subdued market "fear gauge" notched another milestone.

Exchange-traded products designed to "short" the Cboe **Volatility** Index, or VIX, ended Tuesday with year-to-date returns north of 150%.

While stupefying price gains in bitcoin have stolen the spotlight in recent months, short-VIX ETPs are, arguably, the most apt mascots for 2017's "buy-the-dip" market.

That is because rising stocks and unusual calm are rocket fuel for short-**volatility** instruments. Neither trend shows signs of stopping.

Last week ushered in the lowest intraday VIX reading on record, 8.56.

The VIX tends to fall when stocks rise, and vice versa, because it measures how much traders will pay for protective options on the **S&P 500**.

The **stock market** has been so calm that traders don't feel like paying up. Strong earnings and synchronized economic growth have drawn investors to risky assets at the same time that accommodative monetary policies have discouraged investors from owning safer, low-yielding ones.

Central bankers have telegraphed their next moves and few forecast economic recession soon.

Pessimists warn that an eventual reversal in short-**volatility** ETP prices will be swift and severe. But, as with the **stock market**, bears have been wrong for a long time.

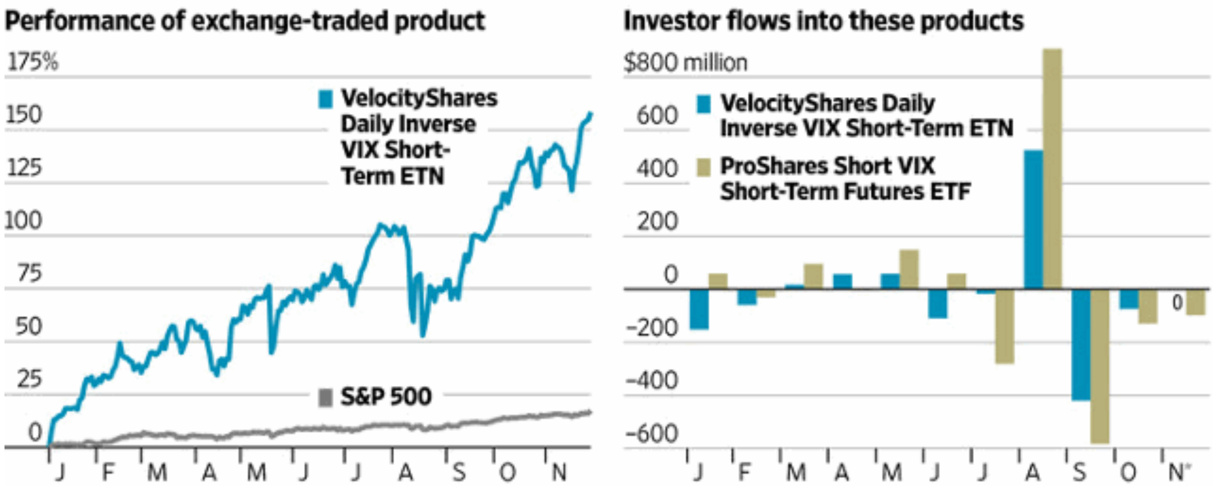
Despite huge gains, flow data show investors aren't piling in to the two main short-VIX products, the VelocityShares Daily Inverse VIX Short-Term exchange-traded note and the ProShares Short VIX Short-Term Futures exchange-traded fund.

All told, some $32 million has exited from these ETPs so far in 2017, according to FactSet, a sign that traders are taking profits as prices rise.

For now, it appears that traders are riding the short-VIX wave but are keeping these products on a short leash.

## Betting the Center Will Hold

Exchange-traded products that benefit from declines in volatility, a measure of expected stock-price swings, have soared in price—yet they haven't lured large inflows. The developments are being watched by analysts who warn that volatility won't stay low forever and that renewed jitters could mean large losses.




*Through Nov. 27

Sources: WSJ Market Data Group (performance); FactSet (flows)

THE WALL STREET JOURNAL.

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The New York Times

Business/Financial Desk; SECTB

**With Oil Prices Climbing, OPEC's Leader Cites Producers' 'New Optimism'**

By STANLEY REED; Clifford Krauss contributed reporting from Houston.
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English


VIENNA -- As officials from some of the world's biggest oil producers arrive here in Vienna, they have plenty to be cheery about.

Oil prices have risen unexpectedly fast of late, surging 20 percent since the beginning of September, providing much-needed money for the strained budgets of the 14 members of the Organization of the Petroleum Exporting Countries.

That leaves OPEC members with a quandary: Do they again extend production cuts first announced a year ago? What had seemed to analysts to be a foregone conclusion now looks to be more complex.

The group of oil exporters, along with some nonmembers like Russia, agreed to the production cuts to ease a glut in the market and bolster prices. To some extent, that appears to have worked. Brent crude oil, the main international benchmark, is trading at around $64 a barrel, even after falling slightly this week. Some analysts see prices topping $70 next year.

While those figures are well below the heights of more than $100 in 2014, they are more than double the price early last year. In a speech welcoming delegates to Vienna on Monday, the cartel's secretary general, Mohammad Barkindo, spoke of ''a new optimism in the oil market not seen for a very long time.''

According to OPEC figures, the cartel has cut production by about 700,000 barrels a day from a year ago. Russia is holding back another 300,000 barrels a day. That trim, though, amounts to slightly more than 1 percent of global supply.

A bigger influence has been a stronger global economy driving demand for oil. Economists have been upgrading their forecasts for growth worldwide, and that has affected demand, which has risen by nearly five million barrels a day since 2014. That is more than the total daily output of Iraq, OPEC's second-largest producer.

The twin factors have recently helped make a dent in the substantial inventories of crude that had built up on tank farms, sprawling sites where enormous drums hold excess supplies of oil, around the world.

Other events have played a role. Hurricane Harvey, which swamped oil installations on the gulf coast of the United States in August, caused major disruption and highlighted the dwindling stockpiles.

''All these factors prop up a higher price,'' said Sadad I. Al-Husseini, a former executive vice president at Saudi Aramco, Saudi Arabia's national oil company, who now runs a consulting firm.

Political developments in Saudi Arabia and in other major oil producers like Venezuela are also affecting the market.

In Riyadh, two separate campaigns led by the kingdom's crown prince, Mohammed bin Salman, are raising questions. For one, a crackdown on corruption led by the prince has swept up at least 11 other senior members of the royal family. Though the effort has not disrupted Saudi oil flows, it has added to the uncertainty facing businesses looking to operate in the kingdom.

Saudi Arabia is also pushing forward on the sale of a stake in Saudi Aramco, set for next year. A return to low prices might put that public offering, which is being spearheaded by the crown prince, at risk, giving Riyadh a major stake in ensuring that production cuts hold.

"I am not saying that Mohammed bin Salman is going to fail or be overthrown or whatever," said F. Gregory Gause, a Saudi expert and head of international affairs at the Bush School of Government and Public Service at Texas A&M University. "But what I always thought was a very stable system is now embarking on changes on numerous fronts simultaneously."

Political turmoil in Venezuela, a leading OPEC member, has also raised the specter of a sudden drop in its supply of oil. Production has fallen by 500,000 barrels a day, equivalent to around 20 percent of its output, over the last year. That decline is expected to deepen with the government behind on debt payments and unable to pay service companies crucial to the energy industry.

Elsewhere, production and exports have fallen in Iraq because of tensions in the northern part of the country between Iraqi and Kurdish forces.

While these trends have helped push prices up, potential developments could send them lower again, from the impact of shale oil producers in the United States to a collapse of the agreement on production cuts.

American shale companies, in particular, are seen as the swing producers in the market, able to ramp up output to meet rising demand and take advantage of rising prices. These operators, from small companies to behemoths like Chevron and ConocoPhillips, have streamlined operations and can make money at far lower prices than in previous years. Current prices could lead to a surge in drilling.

Higher prices could also strain an agreement between Saudi Arabia and Russia to hold down production.

Russia has been rapidly drilling recently and could add up to one million barrels to its daily output over the next five years. As Western sanctions -- a response to Russia's military moves in Ukraine and Syria and its meddling in the United States presidential election -- begin to bite, Moscow's calculation could change.

"Russia is the kingpin," said Bhushan Bahree, an OPEC analyst at IHS Markit. Cooperation between OPEC and non-OPEC producers, he added, "would fall apart without Russian participation."

Still, most analysts expect OPEC and Russia to extend their production cuts. While OPEC has often moved to stem price declines, it has less of a track record of constraining price increases. Exporters want to make as much revenue as they can, particularly to compensate for recent lean years.

"I don't think many of the OPEC countries think about the long-term aspects," said Bill Farren-Price, president of Petroleum Policy Intelligence, a market research firm. "What they think about is how do we fulfill next year's budget."

"If we can have a few months of higher prices," he added, "surely that is a good thing."

Follow Stanley Reed on Twitter: @stanleyreed12.

A Saudi Aramco oil complex in eastern Saudi Arabia. Higher prices could strain a Saudi agreement with Russia to hold down production. Some analysts see prices topping $70 next year. (PHOTOGRAPH BY SAUDI ARAMCO)

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**Bitcoin Price Passes $10,000**

By Paul Vigna and Steven Russolillo
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29 November 2017
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B1
English


Bitcoin crossed the $10,000 mark for the first time in its nine-year history, the latest burst in a rally that has transformed the virtual currency from a curiosity to a hot topic for mainstream investors.

The digital currency on Tuesday at about 8:30 p.m. Eastern Time passed the threshold to trade at $10,025.96 and at that level isup 21% just since Friday, according to research site CoinDesk. For the year, it is up 933%, having started 2017 at $968.23. It continued to surge Tuesday evening, and by 10:40 p.m. had traded as high as $10,358.31.

It is one of most notable surges in a generally positive year for asset prices. Through trading Tuesday, the **S&P 500** is up 17% in 2017 and the **Dow Jones Industrial Average** has jumped 21%. The Nikkei 225 is up 18%. Gold has added about 13%, and copper 23%.

In recent months, investors have set aside doubts about bitcoin's use by criminal elements and focused instead on the potentially transformative technology behind it and the prospect that bitcoin could replace gold as an investment to hold when faith ebbs in fiat currencies.

"We now have millions of active users," said Peter Smith, chief executive of bitcoin services firm Blockchain.info. "We didn't have a million last year."

Big institutions such as CME Group Inc. and Goldman Sachs Group Inc. have stoked enthusiasm about bitcoin's place in the world by exploring products based on the virtual currency. CME, the world's biggest exchange group, is expected to launch a futures contract based on bitcoin as soon as the second week of December.

For all its appreciation among investors, bitcoin is still controversial. South Korea's prime minister on Tuesday warned that the lure of fast money could prove detrimental and encourage crime.

The manic rally "has led to cases where young people and students get involved with cryptocurrencies to earn money," Prime Minister Lee Nak-yon said in remarks at a Tuesday cabinet meeting released by his office. "If we let things continue, I feel that it will lead to some serious distorted or pathological phenomenon."

Most individual investors aren't making much money from the rally. About 75% of bitcoin addresses, also known as wallets, have less than 0.1 bitcoin in them, according to research site BitInfoCharts.

Pete Ferro, a 66-year-old small-business owner who resides in Brick, N.J., said he started researching cryptocurrencies in the spring before ultimately diving in. "When I first learned about it, I thought it was too sketchy, too uncertain, too risky," he said. "Then I saw it creeping up higher and higher. I didn't invest a lot, but I'm learning as I go along."

With the advice and guidance from his daughter's 34-year-old boyfriend, he plunked $3,000 in June into ripple and litecoin, two smaller virtual currencies. He avoided bitcoin because he thought it was expensive. "I kick myself for not going in then because now it skyrocketed."

Investors and traders have been attracted by bitcoin's **volatility** in a low-interest-rate market where stocks and bonds have plodded to slower gains. While technology stocks have rallied sharply, few have jumped 10-fold like bitcoin has this year, or even more than that in the case of the smaller virtual currencies, ethereum, ripple and litecoin.

Bitcoin was introduced in 2008 by a pseudonymous actor calling himself Satoshi Nakamoto. His vision was for an online currency that could be exchanged between peers, without government or banks standing in the middle.

The concept has gained fans among those who believe that "unbanked" residents of poorer countries can use bitcoin and other mobile money options to participate more fully in the financial system.

But the currency's growth has also attracted critics like J.P. Morgan Chase & Co. CEO James Dimon and Berkshire Hathaway Chairman Warren Buffett, who have argued that governments likely will ultimately crack down, crushing bitcoin's price.

"Bitcoin is a speculative bubble that will pop at some point," wrote Michael Oliver, a market analyst at Momentum Structural Analysis, in North Carolina. Much like the dot-com bubble, however, the sector he argued will become more mature after its reckoning.

Much of this year's growth has come from Japan. On April 1, Japan's Financial Services Agency put in new rules around bitcoin, which recognized it as a legitimate payment method. Japan quickly became one of the largest markets for bitcoin, currently representing about 60% of all trading.

While bitcoin's $166 billion market value now rivals that of General Electric Co. or the monetary base of Venezuela, the use of bitcoin's network isn't keeping pace. The number of bitcoin transactions on a daily basis has been consistent in 2017. In January, daily transactions averaged between 250,000 and 300,000. It fell during the summer, then regained near-peak levels in the fall.

Bitcoin's price rise has come during an intense feud within the industry over the currency's future. Because of its growth, the bitcoin network can't efficiently process all the transactions its gets, forcing users to offer fees in exchange for faster trade confirmations. Those fees average around $5, but rose to nearly $20 earlier this month.

Partially in response to such fees, some bitcoin market participants wanted to expand the network's capacity, but their efforts have fallen short for now. That makes bitcoin less useful as a means of exchange, leaving it as more of a store of value.

In other words, coffee-shop customers may no longer be interested in paying for their morning order in bitcoin instead of with a credit card. But if they invested in bitcoin, they could probably afford to buy a cup for all their friends.

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Eun-Young Jeong contributed to this article.



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THE WALL STREET JOURNAL.
U.S. EDITION

**Senate Tax Revamp Gains Traction --- Trump helps sway some holdouts but a battle with Democrats may stymie budget progress**

By Richard Rubin and Kristina Peterson
1,163 words
29 November 2017
The Wall Street Journal
J
A1
English


WASHINGTON -- Republican efforts to overhaul the U.S. tax code gained momentum Tuesday when two key Senate Republicans expressed optimism about supporting the bill and a congressional committee advanced the measure for a vote on the Senate floor later this week.

Republican progress toward overhauling the nation's tax code came while President Donald Trump squabbled with Democrats over spending legislation needed to prevent a government shutdown next month. The Senate Budget Committee approved the tax measure, 12-11, along party lines.

Mr. Trump in a twitter post on Tuesday morning dismissed striking a deal with congressional Democratic leaders Rep. Nancy Pelosi of California and Sen. Chuck Schumer of New York. Both lawmakers then skipped a meeting in the afternoon with Republican congressional leaders and the GOP president to discuss the impasse.

Investors cared more about the tax developments than the spending impasse. Stocks rallied on signs Republicans will complete their tax overhaul, pushing the **Dow Jones Industrial Average** up 255.93 points, or 1.09%, to a record high of 23836.71. The Dow is up five of the past six days and 20.62% so far this year.

"I think it's going to pass," Mr. Trump said, referring to the tax bill. He added there would be "lots of adjustments before it ends."

Senate Republicans don't yet have 50 votes locked down for the tax plan and are in the midst of completing agreements that accommodate an array of lawmaker concerns. But they emerged from a lunch meeting with the president expressing confidence about getting the votes they need.

"Everybody said the same thing," said Sen. Mike Rounds (R., S.D.) after a lunch with Mr. Trump on Tuesday. "They all said, 'We want to get to yes. We want to get to yes.'"

Senate Republican leaders have been trying to address the concerns of several groups of wary lawmakers in their own party, including Bob Corker of Tennessee and Susan Collins of Maine. On Tuesday they appeared to have made substantial progress.

If the Senate passes the bill this week, a House-Senate agreement on reconciling the two chambers' competing versions of the measure would be the only remaining obstacle to completion.

The Senate tax bill would lower the corporate tax rate to 20% from 35%, repeal the alternative minimum tax, shrink the estate tax and lower individual rates. The individual tax cuts would expire after 2025, while the corporate tax cuts would remain in place, leaving about half of households worse off by 2027 than if Congress did nothing.

The plan would increase budget deficits by $1.4 trillion over a decade, plus additional interest costs. That price tag -- created under an agreement Mr. Corker made earlier this year -- is causing new concerns for Mr. Corker, who said he is concerned about deficits. Sens. Jeff Flake (R., Ariz.) and James Lankford (R., Okla.) said they shared the same concern.

Mr. Corker is worried the tax cuts won't trigger the additional economic and revenue growth that many Republicans are expecting from their overhaul. He said he and other senators had an outline in place for an agreement to create an automatic mechanism that would alter the tax cuts if the plan doesn't produce the expected growth and revenue results.

"I think we've come to a pretty good place," Mr. Corker said. "We've got an outline of an agreement at every level that matters in the Senate to make it happen."

Mr. Corker didn't provide details of how that would work, and other senators said they were still negotiating the particulars. Still, the idea of potentially triggering tax increases down the road was running into opposition from some conservatives, including Americans for Prosperity, Americans for Tax Reform and Rep. Tom Cole (R., Okla.).

"I'm not going to vote to impose automatic tax increases on the American people," said Sen. John Kennedy (R., La.) "I'd rather drink weed killer than do that."

Ms. Collins said Tuesday that she was optimistic that there would be a way to address many of her concerns, including a deduction of up to $10,000 for property taxes.

Ms. Collins said lawmakers were still determining how they would pay for adding the property-tax deduction. She had proposed keeping the top individual tax rate at 39.6%, instead of the 38.5% currently in the Senate bill for couples making at least $1 million, but she said there was no consensus over that idea.

Under current law, taxpayers who itemize their deductions can subtract state and local income or sales taxes as well as property taxes, but Republicans want to curb that break to pay for rate cuts. The Senate bill would repeal the deduction. The House bill preserves the $10,000 property tax break, a concession to Republicans from high-tax states.

If the Senate includes that property-tax deduction, House Republicans would have an easier time passing a final bill.

Ms. Collins has been objecting to a provision of the tax bill that would repeal the mandate that individuals have health insurance. Ending the mandate would save the government money because fewer people would get insurance and the government would spend less on Medicaid and insurance subsidies.

On Tuesday, Ms. Collins said she secured an agreement to vote on bipartisan legislation to stabilize the individual insurance market, helping ease her concerns. Mr. Trump had opposed that bill earlier this year, but told GOP senators on Tuesday he would support it, lawmakers said; the White House didn't respond to a request for comment on that issue.

Republicans have 52 votes in the Senate and they can lose only two votes, assuming all Democrats vote no. There are several groups of wavering Republicans, but the statements by Mr. Corker and Ms. Collins move Republicans closer to locking those down.

At the Budget Committee vote, Sen. Ron Johnson (R., Wis.), who has said he opposes the bill because it doesn't cut taxes deeply enough for pass-through businesses such as partnerships and S corporations, voted to move it forward.

Democrats said Republicans' haste in moving a $1.4 trillion tax cut through Congress contradicts their own years of warnings about the economic harm of budget deficits.

"Where are all those deficit hawks now? Where are those charts and graphs?" said Sen. Patty Murray (D., Wash.). "Where is the moral outrage? Where is the concern for our children and grandchildren now?"

Republicans counter that tax cuts will spur enough economic growth to pay for themselves, even though independent estimates of their plans haven't shown that.

The nonpartisan Joint Committee on Taxation may release its projections about the bill's economic effects as early as Wednesday.

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Siobhan Hughes and Peter Nicholas contributed to this article.



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THE WALL STREET JOURNAL.
U.S. EDITION

**U.S. News: Trump and Democrats Clash Over Budget --- Schumer, Pelosi skip meeting after tweet, suggesting headwinds for a long-term deal**

By Kristina Peterson and Peter Nicholas
475 words
29 November 2017
The Wall Street Journal
J
A4
English


WASHINGTON -- Efforts to reach a deal that would keep the government running and address sticky immigration and spending issues derailed on Tuesday, after Democratic leaders pulled out of a planned White House meeting in response to jabs by President Donald Trump on Twitter.

Current funding for the government expires at 12:01 a.m. on Dec. 9, giving lawmakers little more than a week to pass short-term legislation keeping it fully operational. Although Congress could still pass a short-term measure, which usually isn't controversial, Tuesday's public dispute indicated that subsequent negotiations for an expected longer-term package at year's end face partisan headwinds.

The skirmish began Tuesday morning when Mr. Trump tweeted that he planned to take a tough line on any discussions over immigration that come up in negotiations on keeping the government funded beyond next week.

"Meeting with 'Chuck and Nancy' today about keeping government open and working," Mr. Trump tweeted, referring to Senate Minority Leader Chuck Schumer (D., N.Y.) and House Minority Leader Nancy Pelosi (D., Calif.). Mr. Trump continued by saying they want "illegal immigrants flooding into our Country unchecked." He added, "I don't see a deal!"

Mr. Trump's tweet angered the Democratic leaders, who said they saw no point in visiting the White House for what they deemed fruitless talks.

"It would be a waste of everyone's time to continue working with someone who clearly has no interest in coming to an agreement," Mr. Schumer told reporters.

Should the impasse continue over spending and force a government shutdown, Mr. Trump said he "would absolutely blame the Democrats."

On Tuesday evening the president said on Twitter: "I ran on stopping illegal immigration and won big. They can't now threaten a shutdown to get their demands."

Democrats said voters would hold Republicans responsible, given that they control the White House and both chambers of Congress.

The blowup between Mr. Trump and the Democrats marks a sharp contrast with a meeting in September. In that gathering, Mr. Trump shocked GOP leaders by overriding their objections and striking a deal with Mrs. Pelosi and Mr. Schumer to keep the government funded until December.

There are other, more **volatile** issues in play this time. Democrats and some Republicans have indicated they hope to include protections in the year-end spending bill for undocumented immigrants brought to the U.S. at a young age by parents. Mr. Trump in September ended a program protecting many of these immigrants, known as Dreamers.

Some Democrats have said they wouldn't vote for a spending bill that doesn't include protections for Dreamers.



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THE WALL STREET JOURNAL.
U.S. EDITION

**U.S. News: Consumers Hopeful**

By Sharon Nunn
218 words
29 November 2017
The Wall Street Journal
J
A2
English


Consumers are more confident than they have been since the early 2000s, as unemployment hit a 17-year low and the **stock market** continues to hit highs.

The Conference Board on Tuesday said its index of U.S. consumer confidence increased to 129.5 in November from 126.2 in October, which was already the highest level in 17 years. The boost in economic zeal was felt across multiple income levels, with those making less than $25,000 a year and people making in the low six-figures range posting more than one-year highs in confidence.

Increasing numbers of U.S. consumers felt business conditions were better and jobs were plentiful, just as the unemployment rate dropped to 4.1% in October, a 17-year low, and the **stock market** is repeatedly hitting highs.

"Consumers' assessment of current conditions improved moderately . . . driven primarily by optimism of further improvements in the labor market," said Lynn Franco, director of economic indicators at the board. "Consumers are entering the holiday season in very high spirits and foresee the economy expanding at a healthy pace" into early 2018.

Despite optimism and a seemingly rosy jobs picture, spending growth has moderated since the start of 2017.



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THE WALL STREET JOURNAL.
U.S. EDITION

**Banking & Finance: Trading Firm Rides Bitcoin Wave --- DRW Holdings fills void left by skittish Wall Street to embrace the digital currency**

By Alexander Osipovich
796 words
28 November 2017
The Wall Street Journal
J
B11
English


One of Chicago's largest high-speed traders has taken a central role in the bitcoin market, stepping into the vacuum created by Wall Street's hesitant response to the booming investor interest in digital currencies.

DRW Holdings LLC uses quantitative models to buy and sell bitcoin, for its own account and for use as a market maker -- firms that grease the wheels of finance by buying, selling and quoting prices. Cumberland, DRW's digital-currency unit, says it has traded more than $20 billion of bitcoin, ethereum and other cryptocurrencies in the past year. That makes it one of the top market makers in the sector, traders said.

Bitcoin, invented less than a decade ago, is up 896% from the start of the year and was trading at $9,647.92 on Monday. The value of all the bitcoins in existence is about $162 billion, more than the market capitalization of Boeing Co.

Despite those gains, the market for bitcoin is plagued by extreme **volatility** and an uncertain regulatory status, factors that have limited the interest of many Wall Street firms. DRW started its bitcoin desk more than three years ago, but banking giants such as Goldman Sachs Group Inc. and J.P. Morgan Chase & Co. are just now considering how they will handle bitcoin trading.

"They were very early adopters, and they've got a massive lead over everyone else," said Brian Kelly, founder of BKCM Digital Asset Fund, a crypto hedge fund that trades regularly with Cumberland.

Founded in 1992, DRW employs more than 800 people and trades on exchanges around the world. About a quarter of its business involves high-frequency trading -- running automated strategies over ultrafast network connections -- although other strategies can involve trades that last for months or even years.

Based in a sleek Chicago skyscraper, DRW's offices feel more like those of a Silicon Valley tech company than a Wall Street bank, with a casual dress code and weekly visits from a meditation teacher.

As a nonbank firm that doesn't manage money for outside investors, DRW is less subject to the regulatory questions looming over bitcoin than Goldman and other big banks.

Donald Wilson Jr., the firm's founder and chief executive, has clashed with regulators over civil allegations that DRW manipulated an interest-rate contract in 2011. The Commodity Futures Trading Commission sued him and his company over the allegations, in a case that went to trial last year.

Mr. Wilson and DRW have rejected the allegations, saying their trading strategy was lawful and calling the agency's legal arguments flawed. Unlike most traders facing a CFTC manipulation case, they refused to settle. The judge has yet to disclose his verdict.

DRW doesn't report financial results, and it declined to say how much money its crypto unit makes. Mike Komaransky, a former partner who helped build Cumberland, retired from the company in June at age 38. He drew attention in August when he put his Florida mansion on sale for $6.5 million and offered to accept payment in bitcoin. The house is still for sale, Mr. Komaransky said.

DRW set up Cumberland in 2014, the same year a theft of more than $470 million of bitcoin from Mt. Gox, once the world's largest bitcoin exchange, and other troubles caused the digital currency to lose more than half its value.

Cumberland was among the biggest buyers of bitcoins seized from Ross Ulbricht, founder of the underground online drug bazaar Silk Road, who is serving a life sentence after being convicted of narcotics trafficking, conspiracy to launder money and other crimes.

The unit bought about 70,000 such bitcoins in auctions conducted by U.S. and overseas authorities, it says.

Mr. Wilson thinks bitcoin's reputation as a tool for criminals is undeserved. "A lot of shady people have done a lot of bad things with dollars," he said in an interview.

Initially, DRW considered focusing on bitcoin mining, a process in which computers solve complex math problems to generate new bitcoins.

That led the firm to call its crypto unit Cumberland Mining & Materials LLC -- a name borrowed from the Grateful Dead song "Cumberland Blues," about a hardworking miner.

Cumberland mines Zcash, an upstart digital currency whose backers say has better privacy protections than bitcoin.

The unit also runs automated trading "bots" that try to eke out profits from differences between the prices of digital currencies on different exchanges.

But Cumberland's fastest-expanding business is market-making, especially in big-ticket trades of at least $100,000 and ranging into the millions of dollars.

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Paul Vigna contributed to this article.

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THE WALL STREET JOURNAL.
U.S. EDITION

**Bitcoin Speeds Toward $10,000**

By Steven Russolillo, Akane Otani and Paul Vigna
587 words
28 November 2017
The Wall Street Journal
J
B1
English


Bitcoin's price jumped to a high within a few hundred dollars of $10,000, extending an eye-popping 2017 run for the digital currency and underscoring the ebullient investor sentiment sweeping global markets.

Bitcoin was trading at $9,647.92 Monday after surpassing $9,000 for the first time over the weekend. It took bitcoin just seven days to rise $1,000 to its latest round-number milestone, according to research site CoinDesk, its fastest such rise in the nine years of its existence. At the end of 2016, Bitcoin traded at $968.23, making the year-to-date increase 896%.

The sharp gains in bitcoin, together with the rallies that have taken the major share indexes in the U.S. and around the globe to records, are raising concerns among investors that a broad 2017 market advance is entering dangerous new territory. Stock indexes in the U.S. are trading at historically high price-earnings multiples, and markets in many parts of the globe are experiencing unusually tame price swings, a condition widely known as low **volatility**.

Those factors, together with the perception that some market gains are being driven by concentrated, one-way bets on assets like technology stocks, are raising fears among some investors that the market is entering a final push higher before it pulls back sharply. While corporate earnings are rising and interest rates and inflation remain low, many analysts worry that the drumbeat of higher prices is causing investors in all sorts of markets to become complacent and assume that recent gains will be extended.

"The danger is always if companies can't meet these higher expectations, and we get a reversion back to the mean," said Matt Watson, portfolio manager at James Investment Research who has favored investing in sectors like energy that have underperformed the **S&P 500** this year.

The 896% gain for bitcoin compares with gains of 28% in the **Nasdaq Composite** Index, 19% in the **Dow Jones Industrial Average** and 16% in the **S&P 500**.

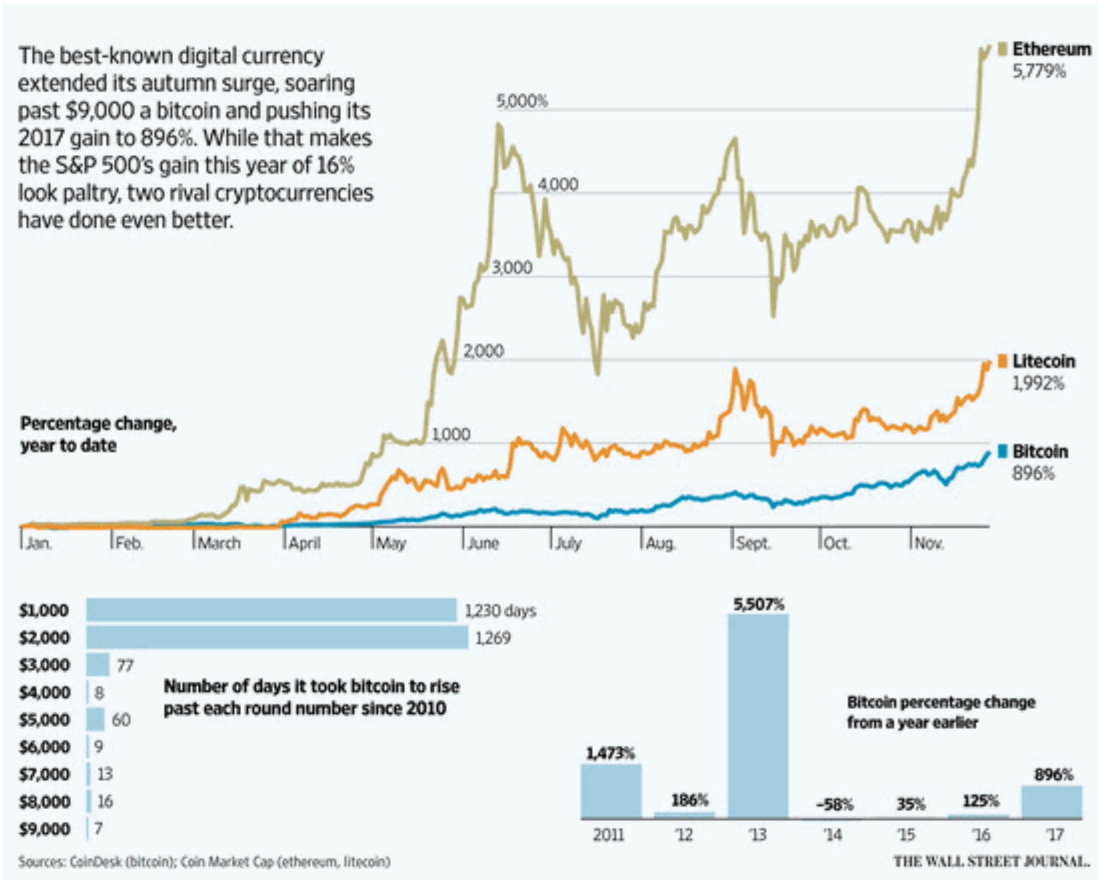
Bitcoin is a digital currency that runs on a decentralized network of computers, rather than a centralized ledger under the control of a central bank or government. Users can exchange value directly, without a middleman such as a bank.

Bitcoin has a market capitalization of about $162 billion, according to industry site Coinmarketcap.com -- more than General Electric Co. and a number of other Dow components. Investor interest in bitcoin Coinbase, the largest bitcoin exchange in the U.S., added about 100,000 accounts last week from Wednesday to Friday. That brings its total to about 13.1 million, underscoring the surge in activity among retail participants.

This week's gains will further fuel the debate around digital currencies, which have been viewed as havens for illicit activity yet are pushing further into the mainstream investment world.

China in recent weeks has banned exchanges that trade bitcoin, fearing the virtual currency could provide an avenue for capital flight. J.P. Morgan Chase & Co. Chief Executive James Dimon, whose bank is the largest dealer in global currencies, called bitcoin a "fraud" and said he would fire any employee who traded it.

J.P. Morgan and Goldman Sachs Group Inc. are looking into how they should respond to growing client interest. CME Group Inc., the world's biggest exchange group, is expected to launch a futures contract based on bitcoin as soon as the second week of December.




Document J000000020171128edbs00021

The New York Times

Business Day; Energy & Environment
**Shell, to Cut Carbon Output, Will Be Less of an Oil Company**

By CLIFFORD KRAUSS
878 words
28 November 2017
04:34 PM
NYTimes.com Feed
NYTFEED
English


Bowing to pressure from shareholders and the Paris international climate accord, Royal Dutch Shell pledged on Tuesday to increase its investment in renewable fuels and to cut its carbon emissions in half by 2050.

Shell and other big oil companies have moved only sporadically over the last decade toward greater production of wind and solar energy. Now there are signs of a commitment to take climate change more seriously.

In comments to investors, Ben van Beurden, Shell's chief executive, said that from 2018 to 2020, the company's new-energies division would spend up to $2 billion a year on renewable energy sources like wind, solar and hydrogen power and on electric-car charging stations.

While that sum is a large increase from Shell's previous commitment, it is well below 10 percent of the oil giant's total investment dollars. Still, Mr. van Beurden stressed that the pledge was just a start and that the company supported the goal of the Paris accord, which is to keep global temperatures from rising more than 2 degrees Celsius (3.6 degrees Fahrenheit) above preindustrial levels.

"We will do this in step with society's drive to align with the Paris goals," Mr. Van Beurden added, "and we will do it by reducing the net carbon footprint of the full range of Shell emissions, from our operations and from the consumption from our products."

Shell, Europe's largest oil company, said it aimed to reduce its greenhouse-gas emissions by 20 percent by 2035 and by half by 2050. The growing global dependence on natural gas, as a replacement for coal, should help Shell meet its goals since it has made a big investment in producing and trading gas.

Environmentalists gave the Shell pledge generally positive reviews.

"It's good that they are looking in the right direction," said Dan Becker, director of the Washington-based Safe Climate Campaign. "They are ahead of their competitors in recognizing that the days of oil dependence are numbered."

But he added, "We'll have to make progress a lot more quickly than they are projecting in order to protect the climate."

Since the adoption of the 2015 Paris accord, in which most of the countries in the world agreed to set goals to reduce their greenhouse-gas emissions, international oil companies have begun to make more public pledges to reduce their carbon releases.

Several European oil companies have acknowledged that they would have to leave some carbon resources in the ground. Statoil, the Norwegian oil company, has begun a major shift toward investing in wind power. This month, Shell and seven other oil companies pledged to reduce emissions of methane, a potent greenhouse gas, from leaky pipes and wells.

Shell is working with BMW, Daimler, Ford and Volkswagen to install fast-charging stations on Europe's highways to make electric cars capable of longer trips. Shell has projected that the expansion of the global electric-car fleet over the next decade will significantly slash gasoline demand.

Perhaps Shell's most ambitious project is its Quest carbon capture and storage project in Canada, which recovers carbon dioxide emissions from a major oil-sands project and then compresses it into a liquid for storage underground. The project is one of only a few in the world.

While some energy experts say carbon capture could be a useful tool to control climate change, skeptics say the technology is too expensive to be deployed broadly enough to make a real difference.

Generally, European oil companies have moved faster on climate efforts than their American counterparts, partly because there is a broader political consensus on the problem on the Continent. Norway, though a major oil producer, is considering removing oil investments from the holdings of its sovereign wealth fund.

Mr. van Beurden said the company would measure the accomplishments of the carbon-reduction effort in reports every five years. "This is a challenge for the whole planet," he said.

Shell's carbon pledge followed a shareholder resolution, backed by the company, that called on Shell to embrace targets to improve its performance to control climate change.

Mark van Baal, founder of Follow This, a group of environmentally minded Shell shareholders that has the support of the Church of England and an assortment of Dutch institutional investors, praised the initiative as "an ambitious decision to take leadership in achieving the goals of the Paris climate agreement."

In the meantime, Shell appears to be making increasing profits from oil and gas. With **oil prices** and cash flow gradually rising again, Shell announced on Tuesday that it was reviving its all-cash dividend, discarding a program that gave shareholders an option of receiving dividends in shares of stock, which had been depressed in recent years.

* Norway's Wealth Fund Considers Divesting From Oil Shares

* America's 'Renaissance' to Gains for Renewables: Global Energy Trends

* Digging the Graveyard of Oil's Past

* Exxon Mobil Shareholders Demand Accounting of Climate Change Policy Risks

A station where Shell is offering electric-vehicle charging in London. | Mary Turner/Reuters | Ben van Beurden, chief executive of Royal Dutch Shell, at a conference in 2015. | Benoit Tessier/Reuters

Document NYTFEED020171128edbs007sl

THE WALL STREET JOURNAL.
U.S. EDITION

**Stock Markets Around the World Hail 2017 --- Broad rally attributed to corporate earnings, stronger economies and monetary policies**

By Steven Russolillo
726 words
28 November 2017
The Wall Street Journal
J
B13
English


The vast majority of global stock markets in 2017 have surged either to fresh records or multiyear highs, one of the broadest rallies in years that investors say is a result of the increasingly synchronized global economic recovery.

Nearly half of the 35 major indexes representing the world's biggest stock markets by value have reached highs this year, the most since 2007, according to an analysis by The Wall Street Journal. In the U.S., the **Dow Jones Industrial Average** has logged 60 record closes this year, the most since 1995, with the latest push higher following the House Republicans' proposed tax-code overhaul.

The **Nasdaq Composite** has gained 28% this year and set 69 new highs, the most ever in a calendar year. The **S&P 500** cleared 2600 for the first time Friday, marking its second-fastest round-number milestone.

Elsewhere, the FTSE 100 in the U.K. and South Korea's Kospi index have set records this year despite geopolitical uncertainty in those regions. India's benchmark stock gauge has also surged to new highs, standing out from many other emerging markets due to renewed confidence in the country's political and economic stability.

Even markets that aren't at records have set other milestones. Japan's Nikkei Stock Average surged to a 21-year high, Hong Kong's Hang Seng surpassed 30000 last week for the first time in a decade, and the Taiwan Taiex trades at its highest since 1990. Twelve of the 18 indexes that didn't set a record this year still achieved multiyear highs, according to the Journal's analysis.

Investors say the global stock rally has been a culmination of improving corporate earnings, strengthening economies and supportive monetary policies from central banks around the world. Market **volatility** has fallen to historic lows and investors have used nearly every dip as a buying opportunity. Despite lofty valuations, analysts and investors say conditions are ripe for the rallies to continue.

"We're in this very **bullish** backdrop," said Michael Kelly, global head of multiasset at PineBridge Investments, which has $89 billion in assets under management. "A lot of people are surprised, saying, 'where did this massive run come from when everyone's been so cautious?' But investors are begrudgingly recognizing that growth is not secularly stagnating, that things are getting back to normal."

A rare outlier: Chinese stocks. The Shenzhen Composite, made up of many manufacturing and tech companies, fell into negative territory for the year after a market selloff last Thursday. Chinese authorities last week took fresh steps to halt the proliferation of small online lenders, which weighed on the **stock market** there.

Outside of China, investors point to strong economic growth for the rise in global markets. The International Monetary Fund last month raised its global growth forecasts to 3.6% this year and 3.7% in 2018, both up a tenth from prior estimates. The IMF said recent growth has been more broad-based than at any point since the beginning of the decade.

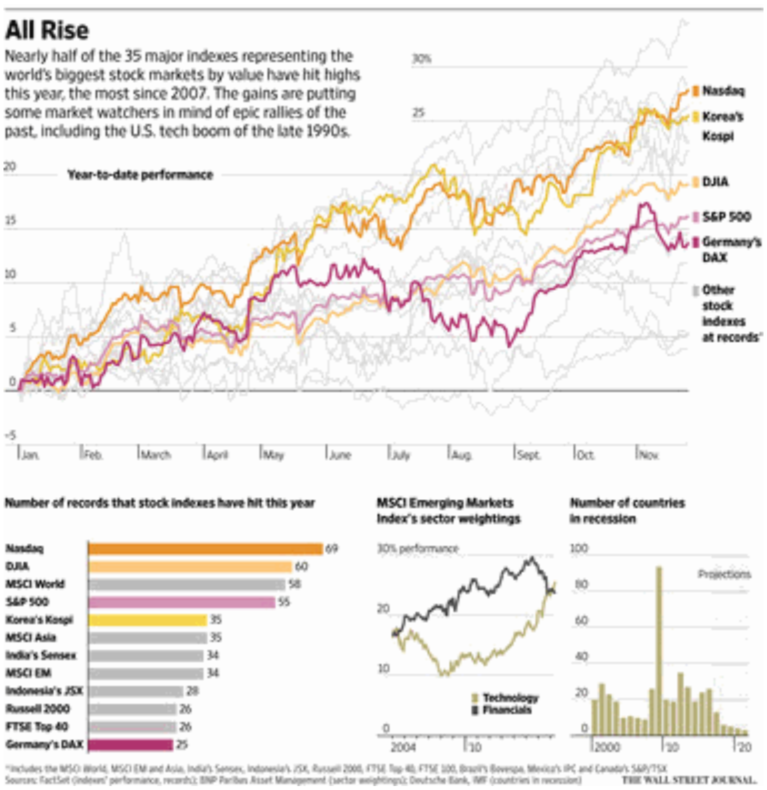
What's more, only 13 countries are in recession, the fewest since 2007, according to Deutsche Bank economist Torsten Slok, who cited IMF data. By 2021, this estimate is forecast to drop to three, which would be the fewest countries ever in recession.

The U.S. economy has benefited, registering its best six-month stretch of growth in three years. In Europe, a measure of consumer sentiment rose last month to its highest level since April 2001. And in Asia, tech giants

Alibaba Group Holding Ltd. and Tencent Holdings Ltd., have surged so much that the tech industry overtook finance this year as the biggest sector in the MSCI Emerging Markets Index for the first time since 2004, according to BNP Paribas Asset Management.

The return to growth and diminished market **volatility** have been driven in part by stimulative central banks. The Bank of Japan and European Central Bank have been overly accommodative since the recession. And although the Federal Reserve has raised interest rates four times, Treasury yields and mortgage rates remain near historic lows.

"We still have crisislike monetary policy, even though the crisis has long passed," Mr. Kelly said.

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Document J000000020171128edbs0000v

 

The New York Times

Business/Financial Desk; SECTB
**A Decline in Oil Prices Hurts Energy Shares**

By THE ASSOCIATED PRESS
455 words
28 November 2017
The New York Times
NYTF
Late Edition - Final
4
English


In a sluggish trading on Wall Street, stocks edged mostly lower on Monday as investors came back from the Thanksgiving holiday.

Energy stocks declined the most following a slide in crude oil prices. Materials companies also declined, partly offsetting gains among utilities and industrial stocks.

Retailers posted solid gains on reports that the holiday shopping season was off to a strong start.

Investors also cheered some corporate deals and looked ahead to several economic reports and potentially market-moving news out of Washington this week.

Bill Northey, a senior vice president of U.S. Bank Wealth Management, said, ''As you look at the context of this entire week, Monday is a little bit light on market-moving events, but as we proceed through the balance of this week, we have a busy economic calendar.''

The Standard & Poor's 500-stockindex slipped 1 point to 2,601.42. The Dow Jonesindustrial average edged up 22.79 points, or 0.1 percent, to 23,580.78. The Nasdaq composite index fell 10.64 points, or 0.2 percent, to 6,878.52. The Russell 2000 index of smaller-company stocks lost 5.85 points, or 0.4 percent, to 1,513.31.

More stocks fell than rose on the New York Stock Exchange.

Bond prices rose. The yield on the 10-year Treasury note fell to 2.33 from 2.34 percent.

Losses among energy stocks weighed on the market Monday as oil prices declined.

Marathon Oil lost 65 cents, or 4.3 percent, to $14.48, while Newfield Exploration gave up $1.05, or 3.4 percent, to $29.69.

Benchmark United States crude fell 84 cents, or 1.4 percent, to settle at $58.11 per barrel on the New York Mercantile Exchange. Brent crude, used to price international oils, declined 2 cents to close at $63.84 in London.

Several retailers closed higher as the holiday shopping season moved into high gear. Shoppers are expected to spend $6.6 billion on Cyber Monday, up more than 16 percent from a year ago, according to Adobe Analytics, the research arm of Adobe.

Gold rose $7.10 to $1,293.80 an ounce. Silver added 3 cents to $17.02 an ounce. Copper slid 4 cents to $3.13 a pound.

The dollar weakened to 111.01 yen from 111.58 yen. The euro fell to $1.1899 from $1.1927.

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

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

Document NYTF000020171128edbs00056

THE WALL STREET JOURNAL.
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**Who's Afraid of Index Funds?**

By Barbara Novick
733 words
27 November 2017
The Wall Street Journal
J
A15
English


Challenges to the status quo -- political, economic or social -- always evoke strong emotions, from enthusiastic support to fierce criticism. The loudest critics often have the most to lose, even if they acknowledge some benefits of the new regime.

This clash is now unfolding over ascendant investment vehicles: index and exchange-traded funds, or ETFs. The dramatic growth of such products has been revolutionary. More investors are choosing indexing over funds managed by traditional stock pickers, known in the industry as active managers. Since 2009, U.S. index funds have seen inflows of some $1.7 trillion, compared with outflows of nearly $1 trillion for actively managed mutual funds.

Indexing has democratized investing. Today, all Americans can inexpensively and conveniently invest in markets, countries and strategies once open only to institutional investors. Yet a few detractors have compared such passive investing to Marxism and declared it an existential threat to the modern securities market. What exactly do they object to?

As more individuals and institutions invest in index products rather than individual stocks, critics claim, the price of these securities becomes increasingly untethered from the value of individual companies. They argue that companies included in these indexes see their stock prices fly higher and higher regardless of their performance, while non-indexed stocks get ignored like wallflowers at a dance.

But the numbers tell a different story. Despite the popularity of indexing, active managers still dominate the buying and selling of stocks. Indexed assets -- including mutual funds, ETFs and institutional portfolios -- account for less than 20% of all global equities, according to our analysis. That's about $12 trillion of a $68 trillion market. The rest is actively managed.

Those actively managed assets trying to beat the market trade much more frequently than indexed assets do. At BlackRock, we estimate that for every $1 of U.S. stock trades driven by investors buying or selling index funds, there are $22 of trades driven by active stock pickers. Combine the effects of greater size and faster turnover, and it's clear that the price of stocks is overwhelmingly determined by active traders.

Critics of indexing sometimes point to the specter of a 100% indexed market. What would happen, they ask, if indexing replaced stock-picking entirely? Naturally, this would make it impossible to price individual securities properly. But this hypothetical ignores the natural equilibrium created by supply and demand.

If indexing began to distort stock prices, that would create an enormous opportunity for active fund managers to reap big returns -- attracting more dollars to those active funds and at least partly reversing the flow toward index management. This process is why active management remains -- and will continue to remain -- essential.

Indexing is only one component of a diverse, robust and constantly innovating ecosystem. Think of ETFs and index funds as levers that sit alongside individual stocks and bonds, actively managed funds, futures and swaps, private equity and IPOs. Together, they combine to support the smooth functioning of U.S. capital markets and Americans' ability to confidently buy and sell securities.

What cannot be disputed is that indexing's success has upended the status quo. The effect will grow as regulatory regimes around the world require the kind of consumer-friendly price transparency that benefits index products.

To be sure, there are still questions to address. For example, investors need to better understand the difference between plain-vanilla ETFs and highly leveraged exchange traded notes, or ETNs, which have more **volatile** prices. But while debate is healthy, it needs to be based on facts rather than fear. There is a big difference between disruptions to the way traditional asset managers do business, which certainly are occurring, and disruptions to the basic functioning of capital markets, which are not.

Far from undermining the markets, indexing has unleashed new competition, driven innovation and identified new ways to deliver profits. Even active managers are using more ETFs, while everyday investors are saving more. The rise of indexing has changed for the better the way all investors seek returns, manage risk and build portfolios. That's a development everyone should welcome.

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Ms. Novick is a co-founder and vice chairman of BlackRock, a global leader in asset management.

(See related letter: "Letters to the Editor: Aggressive on Passive Funds" -- WSJ Dec. 14, 2017)



Document J000000020171127edbr0000g

THE WALL STREET JOURNAL.
U.S. EDITION

**Loan Growth Hits a Rut**

By Christina Rexrode
965 words
27 November 2017
The Wall Street Journal
J
A1
English


Loan growth at banks is slowing, casting a cloud over what was supposed to have been a banner year for financial institutions following last November's elections.

The rate of 12-month loan growth at U.S. banks in the third quarter hit its lowest level since the end of 2013, according to data released last week by the Federal Deposit Insurance Corp. That marked the sixth consecutive quarter of decline for this measure of loan growth.

Growth in each of the four major lending categories measured by the FDIC fell. Notably, the growth rate for business lending, an important source of revenues for banks in recent years, plumbed its lowest level since the first quarter of 2011.

While loan balances are still rising, the slowing rate of growth has defied the expectations of bankers. Many have spent the year looking for growth-reviving catalysts that never came and remain puzzled by the slowdown.

Even more surprising is that falling rates of loan growth are occurring as many signals point to a more buoyant U.S. economy. Unemployment continues to decline, gross domestic product growth came in at 3% in the third quarter and business investment is rising.

Tepid rates of loan growth along with continued low long-term interest rates have taken some of the sizzle out of bank stocks. Financial shares were among the chief beneficiaries of last November's election surprise, soaring on hopes of a tax-code overhaul, lighter regulation and stronger economic growth. With progress in these areas uneven during 2017, gains are more muted.

The KBW **Nasdaq** Bank Index, a measure of 24 of the largest commercial banks, is up about 8% since the start of the year, about half the rise of the **S&P 500**.

"There was such enthusiasm coming out of the election," said Gerard Cuddy, CEO of Beneficial Bancorp Inc., a community lender in Philadelphia. "I think reality is setting in."

The slowdown in lending growth raises questions about firms' prospects for 2018, especially given that long-term interest rates haven't moved much, even as short-term ones are climbing. The difference, or spread, between 10-year and two-year U.S. Treasury debt, a rough proxy for bank profitability, is around 0.6 percentage point, its lowest level in a decade.

If loans balances aren't growing briskly and the interest-rate spread is narrow, it is far tougher for banks to increase net-interest income.

"The plane used to be flying at 30,000 feet, now it's at 10,000," said Christopher Marinac, director of research at investment-banking boutique FIG Partners. "There are many banks that are concerned about how much they can grow the loan book in 2018."

At the biggest U.S. banks, loan growth in the third quarter was spotty. At J.P. Morgan Chase & Co. and Bank of America Corp., total loans grew 3% from a year earlier. Citigroup Inc. posted growth of 2%, while total loans at Wells Fargo & Co. fell 1%.

Loan growth was anemic among many smaller banks. At BB&T Corp., total loans in the third quarter were roughly flat compared with a year earlier. In an earnings call last month, CEO Kelly King said more clients were taking advantage of low rates in the bond markets and paying off their bank loans. Hurricanes in the southern U.S. also had an effect.

He added the bank is purposely restructuring its loan portfolio to focus on more-profitable loans. Still, Mr. King nodded at deeper issues around the downshift, saying "the mega issue here is that, you know, we've been on a nine-year slow economy."

An area of particular concern for all banks is business lending. In the third quarter, the 12-month growth rate for business loans fell to 2.48% from 2.79% the prior quarter and 7.67% a year earlier.

The drop-off is even more pronounced based on weekly Federal Reserve data. Commercial and industrial loans, or business lending, in early November were up less than 1% from a year prior, the data show.

From mid-2014 through mid-2016, growth of such loans was regularly in the double digits. This is putting 2017 on track to be the worst year for business-loan growth since 2010, when the economy was still wrestling with the immediate aftermath of the financial crisis.

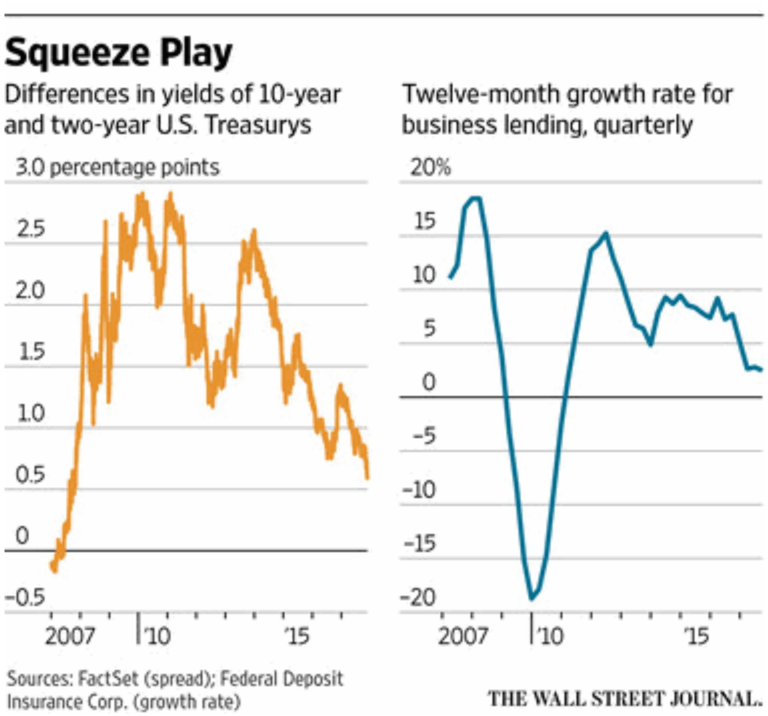
It remains unclear why. Throughout the year, some banks have said more subdued business lending was due to a lack of clarity from Washington on the fate of initiatives on taxes and health care.

Such worries should eventually fade, though, said Darren King, finance chief at M&T Bank Corp., where loans in the third quarter were down 2% versus a year earlier. "Business owners are eventually going to get to the point where they say, 'I can't wait to find out what is going to happen in Washington,'" he said.

Even so, "that doesn't mean I think we're going back to 2015 or 2016 levels" of loan growth, Mr. King added.

Some bankers also have cited heightened competition. More business customers are tapping the bond market instead of bank loans to take advantage of low interest rates there, while insurance companies are offering to fund 30-year commercial mortgages and hedge funds are lending to riskier companies.

Others think the slowdown in business lending is a hangover from above-average growth in recent years. Many potential corporate clients are already loaded up on debt, said Kevin Barker, an analyst at Piper Jaffray & Co. That tamps down demand for loans. It also makes some banks wary of lending even more to these companies, he added.



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THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
**Be Wary on China Debt**

By Nathaniel Taplin
551 words
27 November 2017
The Wall Street Journal
J
B11
English


[Financial Analysis and Commentary]

It is well known that Chinese history is circular -- dynasties rise and dynasties fall. So is commentary on the country's economy.

In 2008, China was supposedly on the brink of collapse. In 2009, its farsighted stimulus program saved the world economy. And in 2015, its nearsighted stimulus and ham-handed regulation were poised to tank the world economy. Now, according to market consensus, China's problems have largely been fixed and it is poised to dominate the new century.

If that sounds suspicious, it should.

China has made progress on tackling its debt problem in 2017. Debt as a percentage of GDP has fallen for the first time in years, the nation's Kafkaesque regulatory infrastructure has been strengthened, and forced factory closures have boosted margins in struggling industries. The problem is that market perceptions on China have grown disproportionately to real progress.

The improvement in steel and coal finances -- the two most vulnerable indebted sectors -- has been real. Both industries were close to insolvent by late 2015, with aggregate operating earnings just 1.5 times and 1.8 times interest costs, respectively. Two years later, the ratio in both sectors is around five times.

Unfortunately, only part of this improvement is due to capacity cuts. The other factor is the enormous, old-school stimulus unleashed in late 2015, which pumped up the real-estate market and commodity demand. The repayment ability of coal and steel firms tends to follow the real-estate investment cycle closely, suggesting that has more to do with improving industrial margins than relatively modest capacity cuts.

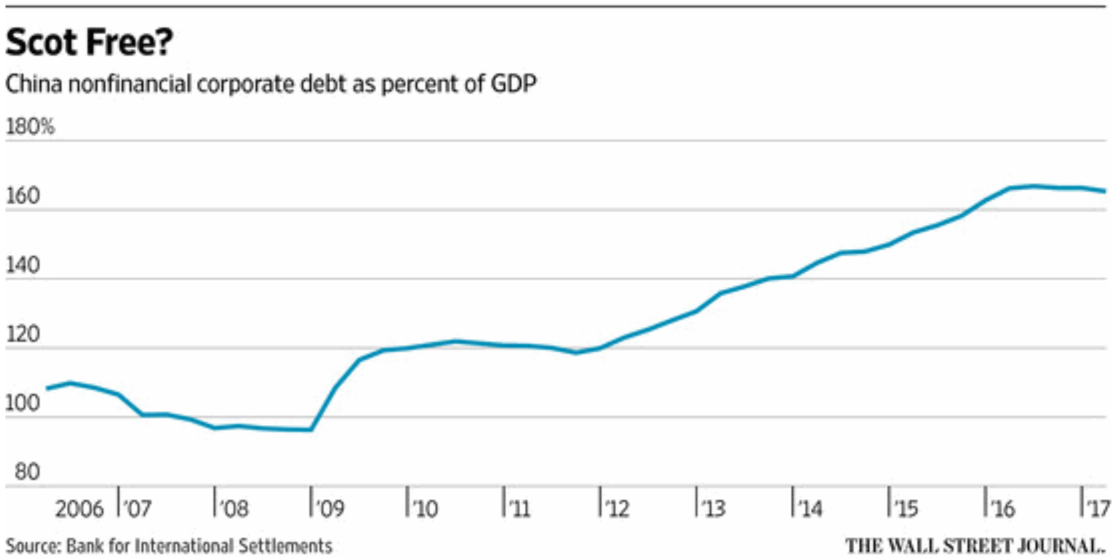
China's financial vulnerability to a real-estate downturn -- now starting to unfold again -- remains worryingly high. Corporate debt ticked down by a measly 1% of GDP in the first quarter of 2017, according to the Bank for International Settlements, after rising by nearly 50 percentage points over the past five years. Close to 40% of the total is located in the real-estate, construction, mining and steel sectors, all intimately linked to the property market. Steel firms alone had 4.4 trillion yuan ($665.72 billion) of debt at the end of 2016 (4% of GDP), according to researchers at the Asean+3 Macroeconomic Research Office.

Chinese financial markets have started to catch on. Steel prices are up 20% since June -- but steel and coal firms such as Hangzhou Iron & Steel and Yanzhou Coal Mining have sold off sharply since the summer, and bond investors continue to demand far shorter durations for coal debt than in other industries. Banks, which are being asked by Beijing to convert steel debt into equity, are dragging their feet.

Fewer steel mills competing for business will still be a positive next year -- and continuing government efforts to buy up empty apartments mean the property downturn will probably be less painful than in 2015.

But no one should delude themselves into thinking China's debt problem has really turned the corner. To spring itself from the sturdy debt trap built in the years after the 2008 crash, China needs to keep credit growth in check and keep steel, coal and apartment prices reasonably high.

History suggests doing both won't be easy.

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THE WALL STREET JOURNAL.
U.S. EDITION

**U.S. News --- THE OUTLOOK: Fed Plan for 2017 Nears Completion**

By Nick Timiraos
854 words
27 November 2017
The Wall Street Journal
J
A2
English


Federal Reserve officials are preparing to raise interest rates in December, allowing them to accomplish something that eluded them in each of the past two years: They will have delivered on their projections at the start of the year, which for 2017 showed three rate increases plus the start of the shrinking of their large bond portfolio.

Whether officials can pull off a repeat performance by sticking to their road map of gradual rate increases again next year is clouded by conflicting signals on two items that matter most to the central bank: employment and inflation.

Steady job gains have dropped the unemployment rate to lower-than-expected levels, at 4.1% in October, a 17-year low. If the unemployment rate drops next year as much as it did this year -- a 0.7 percentage point slide -- it would plumb lows not seen since the late 1960s.

Yet inflation has been puzzlingly soft. After nosing above the Fed's 2% target for the first time in five years at the start of 2017, it slowed unexpectedly and hasn't yet rebounded. Excluding **volatile** food and energy categories, the Fed's preferred inflation gauge rose just 1.3% from a year earlier in September.

At first, officials believed a few idiosyncratic price declines, such as wireless phone plans and prescription drugs, were to blame, though the weakness has proved more widespread and stubborn.

Many economists, including Fed Chairwoman Janet Yellen, have long trusted in the framework advanced by the economist A.W. Phillips, who in 1958 hypothesized employers would bid up wages when workers grew scarce and hold wages steady when workers were abundant.

Today, wages and prices haven't moved as the framework would suggest, raising questions over whether the labor market might have more slack or if something more permanent is holding inflation back.

"We're not seeing quite what we're expecting to see," said New York Fed President William Dudley this month. "That creates a bit of uncertainty about the best course going forward."

Most Fed officials expect once the jobless rate falls low enough, price pressures will re-emerge. No one is quite sure what that exact level is, but each decline in the unemployment rate brings the economy a little closer to it. Mr. Dudley said low inflation isn't all bad because it means the economy might be able to sustain a lower jobless rate.

The Fed has held its benchmark federal-funds rate in a range between 1% and 1.25% since lifting it in June.

The economy is still adding more than enough jobs to keep up with the growth of the working-age population, and the unemployment rate is now below levels officials view as sustainable, around 4.6%. Last December, Fed officials projected the unemployment rate would end this year within a range of 4.4% to 4.7%. In September, the projection had edged down to a range of 4.2% to 4.5%. Economists at Goldman Sachs expect the unemployment rate to keep falling, to 3.7% by the end of 2018 and 3.5% by the end of 2019.

For the Fed, the ideal scenario would look something like this: job growth slows a little in order to hold the unemployment rate steady, at around 4%, with inflation slowly returning to its 2% target. Tight labor markets would continue to boost wages while encouraging employers to pull workers out of the shadows of the labor market and to provide more nonwage benefits, such as worker training.

Three risks loom.

The first is the unemployment rate drops too low, too quickly, leading to an unsustainable rise in prices that forces the Fed to raise rates at a fast clip, triggering a recession. "We don't want a boom-bust policy," Ms. Yellen said in New York last week.

The second risk is inflation doesn't respond as expected but the Fed keeps raising rates because unemployment falls lower. This could push inflation even lower still and hold back the economy. Persistently low inflation in the end would force the Fed to cease any rate increase campaign and could leave it with little room to maneuver should another recession hit.

The third risk is the economy avoids an inflation run-up but rising asset values and low market volatility fuel financial imbalances. The last two expansions ended this way, with the tech-stock bubble of 2000 and the housing-market collapse of 2007.

Ms. Yellen's nominated successor, Fed governor Jerome Powell, might try to use regulatory tools to fight an asset price boom. But such tools have had mixed results in other countries, and Republicans want Mr. Powell to lighten the regulatory load. He might instead be pressed toward fighting an asset price boom with higher interest rates.

Mr. Powell's confirmation hearing on Tuesday before a Senate panel could offer early insight into how he will approach the coming year of difficult trade-offs and even harder choices.


 

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THE WALL STREET JOURNAL.
U.S. EDITION

**MoneyBeat: S&P Vaults to 2600**

By Chris Dieterich
309 words
27 November 2017
The Wall Street Journal
J
B10
English


The eight-year U.S. **stock- market** rally continues to rack up milestones. And fast.

The **S&P 500** finished last week at 2602, closing above another round number as it continues its virtually unhindered ascent in 2017. The benchmark eclipsed the hurdle in 49 trading sessions after it closed above 2500 for the first time back on Sept. 15. The 4% advance marks the second time the index reached a century milestone in fewer than 50 days.

It was the second-fastest such climb on record. Back in 1998, during the run-up to the dot-com bubble, it took 35 trading sessions for the **S&P 500** to vault from 1000 over 1100, a 10% advance.

Under the hood, technology stocks were the biggest contributors to the rally's latest push. The **S&P 500**'s tech stocks rose 11% during the 49-day run, roughly double the 5.4% advance for financial- sector shares, the next best market segment. Chip maker Micron Technology Inc. surged 43% over that stretch and fellow semiconductor companies Intel Corp. and Nvidia Corp. tacked on 21% apiece.

In that respect, the latest milestone serves as a microcosm for the U.S. **stock market**'s performance all year, which has been dominated by towering tech-stock gains in general and by chip stocks in particular. Both Micron and Nvidia have more than doubled in price to help the **S&P 500**'s tech sector rise 39%. By market value, the **S&P 500** is now one-quarter technology stocks, compared with 14% for each of the next two sectors, financial and health-care stocks. That means continued strength in tech stocks could disproportionately help the **S&P 500** in any new hasty advance toward 2700.



Document J000000020171127edbr00015

The New York Times

The Week Ahead
Business Day

**Housing Reports, a Possible Tax Vote and a Fed Chair Hearing**

By THE NEW YORK TIMES
930 words
26 November 2017
09:17 PM
NYTimes.com Feed
NYTFEED
English


Here's what to expect in the week ahead:

ECONOMY

Two new housing reports are coming out.

With the economy and job market continuing to improve, demand for homes has been rising. But housing inventory remains limited, pushing prices upward and leaving prospective home buyers depressed about their chances of leaving rental apartments. As a result, if you own a home, the American housing market has been great. If you don't, it's been horrible.

Two reports this week will shed light on that dichotomy and give a sense of whether the home market economy is moving toward equilibrium. The October report on new home sales will come out on Monday, following a strong rise in September. The numbers are notoriously **volatile**, but have slowly edged upward, a trend that appears likely to continue as long as job growth remains strong.

Still, construction is not rising fast enough to keep up with demand. The S.&P. CoreLogic Case-Shiller Home Price Index, coming Tuesday, was expected to show that home prices have continued to rise as the supply of new homes remained limited. The net effect of these trends is that the housing sector is not contributing to the economy as much as it could. Conor Dougherty

The Bank of England will release a report on banks' health.

The Bank of England is expected to provide its semiannual outlook on the financial stability of the British financial system on Tuesday, as well as the results of its latest stress test to measure the ability of Britain's largest lenders to weather another financial shock. In June, the central bank said that Britain's financial system remained stable over all, but warned that "there are pockets of risk that warrant vigilance," including rising consumer debt and easier lending conditions in the mortgage market.

Since its last financial stability report, the rate of inflation also has increased steadily, hitting 2.8 percent in October. The Bank of Englandraised its main interest rate this month for the first time in a decade as it tried to strike a balance between moderate growth and rising prices. The value of the pound has declined sharply since Britons voted last year to leave the European Union. Chad Bray

Powell faces confirmation hearing, and Yellen testifies.

Jerome H. Powell, President Trump's nominee to be the next chairman of the Federal Reserve, will head to Capitol Hill on Tuesday for a confirmation hearing before the Senate Banking Committee. Janet L. Yellen, the current Fed chairwoman, will testify on Wednesday before the Joint Economic Committee in what could be her final appearance before Congress as the head of the central bank, a post she is expected to pass to Mr. Powell in early February.

The back-to-back hearings should provide an opportunity to compare the views of Mr. Powell and Ms. Yellen on the issues confronting the Fed, including how fast to raise interest rates, how best to prepare for future economic downturns and how far to roll back postcrisis financial regulations. Binyamin Appelbaum

Senate Republicans may vote on tax legislation.

The Senate Republican tax legislation may reach the floor this week, what would be a major step in the party's hopes for rewriting the tax code. House Republicans already passed their version of the tax cut bill this month and the Senate plan has cleared the Finance Committee. No Democrats have supported the legislation in either chamber.

Because of the slim majority that Republicans hold in the Senate, the vote could be delayed if more than two Republican senators oppose the bill. Thus far, at least four Republican senators have expressed trepidations about the plan. Alan Rappeport

OIL INDUSTRY

OPEC and Russia will discuss oil output.

Most analysts forecast that OPEC and Russia will agree to extend their production cuts beyond March 2018 when the oil producers' group meets on Thursday in Vienna. **Oil prices** have recently risen to their highest levels in two years — now about $63 a barrel for Brent crude — as political instability led to lower output in member countries like Venezuela and Iraq. The recent detention of princes by Saudi Arabia, OPEC's de facto leader, has also worried markets. Still, the Saudis want to continue to trim output to deal with the lingering oil glut and to support the expected sale of a stake in Saudi Aramco, the national oil company, next year. Stanley Reed

AUTO INDUSTRY

Strong November auto sales are expected.

On Friday, automakers will report new car sales for November, and the industry is expected to show a 1 percent decline from the same month a year ago. But that doesn't mean sales are flagging.

Consumers continue to snap up sport utility vehicles and trucks at a brisk pace, spurred by a rising **stock market**, low interest rates and favorable manufacturer incentives. Even with a decline in sales, the total will be the second-best in history for the month of November, according to Kelley Blue Book. The only better November came in 2016. Neal E. Boudette

* Senate Tax Plan Diverges From House Version, Highlighting Political Pressures

* Trump Announces Jerome Powell as New Fed Chairman

* Real Estate's New Normal: Homeowners Staying Put

Jerome H. Powell, the nominee to be the next chairman of the Federal Reserve. He and Janet Yellen, the current chairwoman, will testify before Congress this week, presenting an opportunity to compare their views of the challenges facing the Fed. | Joshua Roberts/Reuters

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THE WALL STREET JOURNAL.
U.S. EDITION

**Retail Stocks Get a Bit of Holiday Joy**

By Chelsey Dulaney
426 words
25 November 2017
The Wall Street Journal
J
B10
English


Retailers felt some holiday cheer on Black Friday.

Macy's, Kohl's and Gap shares rose Friday, while Amazon.com Inc. set a record high as the holiday shopping season got under way.

The gains helped propel the **S&P 500** above 2600 for the first time, the 55th record close for the index this year.

Retail sales in the coming weeks are expected to be strong, potentially enabling retailers to cut back on discounts and heavy promotions this year -- a development that would be a shot in the arm for companies whose profits have been hit hard in recent periods by rising competition and tepid demand.

The National Retail Federation said it expects sales to grow as much as 4% from a year earlier to $682 billion in November and December, which would make it the strongest holiday period since 2014.

A robust holiday season would come as a relief to investors after a dismal few years for traditional retailers, which continue to struggle with the shift to online shopping and the growing dominance of Amazon. Recently, signs have emerged that the retail rout may finally be coming to an end.

A string of upbeat earnings reports this month from department stores like Macy's and mall-based sellers like Gap have helped to drive retail shares higher.

Investors are hopeful that the strong U.S. job market and high consumer confidence are beginning to boost consumer spending.

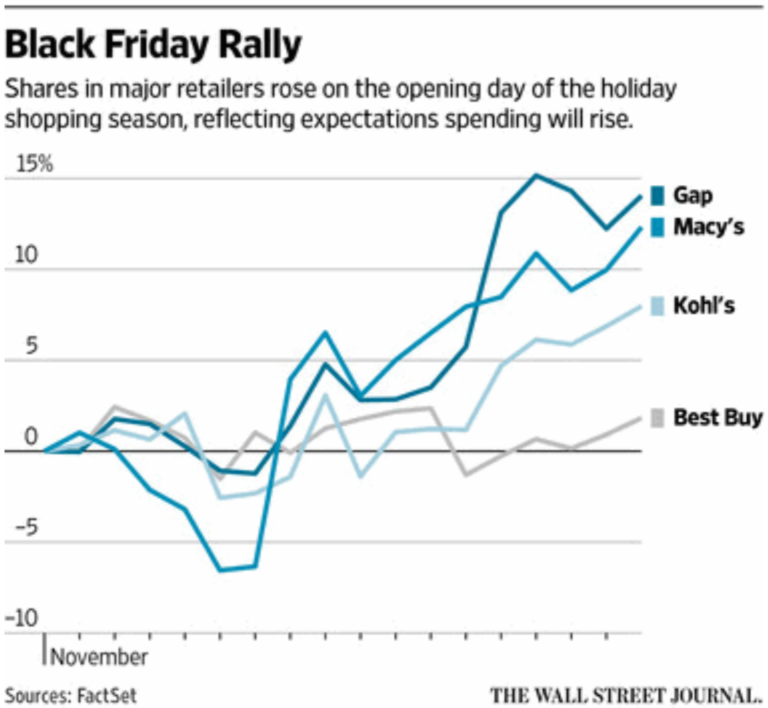
Many retailers also have cut down on excess inventory over the past year and closed stores, helping to improve profitability.

Still, retail stocks have a long way to go to make up for the last few years. Despite November's gains, shares of Macy's remain down 53% over the last year, while the closely watched SPDR S&P Retail ETF is down 11%.

And sellers of everything from T-shirts to toilet paper still have to contend with the growing reach of Amazon, which reported Friday that orders placed through its app increased more than 50% over last year. Morgan Stanley has estimated that Amazon will account for more than 30% of all U.S. online sales this holiday season.

Among the companies left behind in the Black Friday rally were Signet Jewelers Ltd., Target Corp. and Mattel Inc.

Those companies, among the S&P's worst-performing stocks, have been struggling lately with a variety of headwinds including competition from Amazon and shifts in consumer spending.

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THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
**Proving Investment Success Takes Time**

By Spencer Jakab
763 words
25 November 2017
The Wall Street Journal
J
B1
English


[Financial Analysis and Commentary]

Is it luck or skill? Picking a fund manager who can beat the index is tough, but picking one who beats it through actual ability is far more difficult.

Victor Haghani, a co-founder of one of the best-known investment firms in history, says the most surprising thing is that people have great confidence that they can pick these supertalented fund managers. Currently the chief executive of Elm Partners, which espouses index investing for wealthy clients, Mr. Haghani will try to prove that to you with a simple test.

He and two colleagues told several hundred acquaintances who worked in finance that they would flip two coins, one that was normal and the other that was weighted so it came up heads 60% of the time. They asked the people how many flips it would take them to figure out, with a 95% confidence level, which one was the 60% coin. Told to give a "quick guess," nearly a third said fewer than 10 flips, while the median response was 40. The correct answer is 143.

Mr. Haghani's belief in indexing means he has a vested interest in the outcome. His earlier experience as an active investor gives him perspective on how hard it is to beat the market. Mr. Haghani was a co-founder of Long Term Capital Management, the hedge fund that had spectacular results from exploiting real market anomalies before its failure nearly took down the global financial system in 1998.

The research applies directly to picking fund managers. We already know most active managers fail to beat an index fund in any given year, yet many people pay up for managers they believe have the skill to do so.

For example, performance of the Fairholme Fund won its manager, Bruce Berkowitz, the distinction of domestic equity fund manager of the decade in 2010 from Morningstar. The fund had beaten its benchmark most years, and its compound annual return was an impressive 13 percentage points better than peers on an annualized basis.

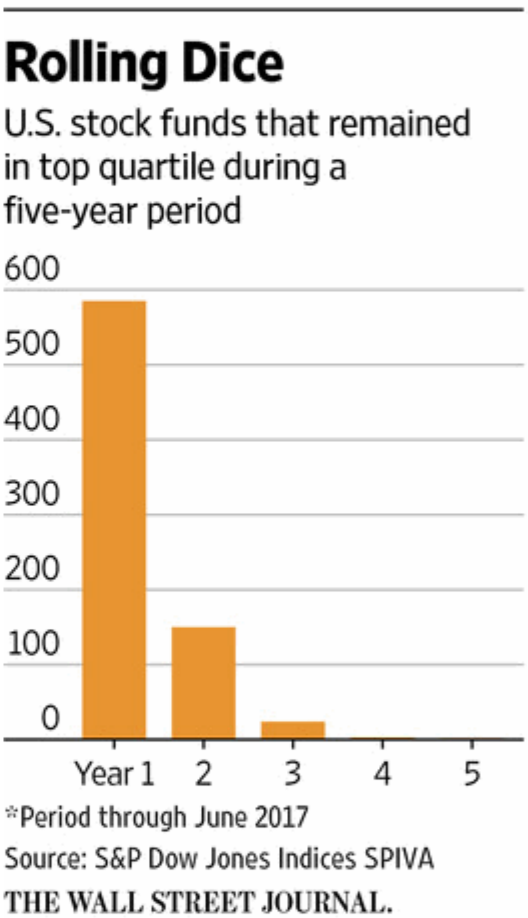
The fund slumped strikingly the very next year, lagging behind the **S&P 500** by nearly 35 percentage points. The inevitable schadenfreude in the financial media elicited a rebuke from Mr. Berkowitz in his 2011 letter to shareholders. "One circling of the sun is too short a time to differentiate between good and lucky," he wrote. He was right, but perhaps not in the way that he meant. Writing in 2014, after two more years -- one bad and one good -- for Fairholme, Mark Hebner of Index Fund Advisors used statistics to determine if skill was responsible for Fairholme's past success. Using a measure of how much Mr. Berkowitz's fund tended to deviate from its benchmark and the same 95% confidence interval used in the coin-flipping paper, he concluded that it was too soon to tell. It would take 18 years to get an answer, longer than the fund had then been in business and far longer than most investors' patience.

For managers with more **volatile** results than Mr. Berkowitz's, Mr. Hebner determined that it could take several hundred years of performance to discern the manager's true ability.

There are other explanations for investing success that aren't sustainable. Strategies such as value investing can fall in and out of favor. And, unlike loaded coins, an investment strategy that is a legitimate winner may not stay that way because others can try to mimic it. Long Term Capital Management produced stupendous results, but then its strategy was copied, and Mr. Haghani saw the erosion of their edge firsthand.

The confidence investors place in their ability to pick skilled managers is ultimately costly. Investors buy top-performing and top-rated funds without any ability to determine if skill or luck produced the gains. The result is that the typical investor in active funds lags behind even those funds' return by quite a bit.

For example, when Mr. Berkowitz began his triumphant decade, his fund was tiny. By the end, it was large and then probably got a further boost from the award. During the year that it lagged behind the market by 35 percentage points, it took a lot more people's savings down with it. For some successful funds, the effect is so stark that a fund manager retires with vast personal wealth and a wonderful reputation while never generating a net dollar of value for investors. Coin flipping can get expensive.

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THE WALL STREET JOURNAL.
U.S. EDITION

**S&P 500 Powers to New Heights --- Index finishes above 2600 for first time, as analysts start revising their 2018 forecasts**

By Michael Wursthorn
888 words
25 November 2017
The Wall Street Journal
J
A1
English


U.S. stocks' record run notched another milestone, with the **S&P 500** closing above the 2600 level on Friday for the first time.

The broad market index rose 5.34 points to 2602.42, up almost 1% for the week and marking its second-fastest climb to a round-number milepost on record. The S&P took 49 days to reach 2600 from 2500, a speedy rise exceeded only by the 35-day surge to 1100 in 1998.

The **Nasdaq Composite** Index also hit a record on Friday, advancing 21.80 points to a high of 6889.16. The **Dow Jones Industrial Average** rose 31.81 points to 23557.99. The blue-chip index hit a record on Tuesday.

Many analysts had predicted early in the year that stocks would stall, and they have upgraded their year-end forecasts to account for this year's double-digit-percentage gains. The **Nasdaq** is up 28% this year, while the **S&P 500** and Dow industrials have climbed 16% and 19%, respectively.

The upbeat outlooks underscore the belief of analysts and investors that synchronized global growth, an expanding U.S. economy, and companies' strong profit reports can extend the rally further. The optimism and fear of missing out on gains has helped markets rebound quickly from pullbacks.

"That cocktail of factors wouldn't suggest the economy is heading into a recession anytime soon," said Michael Scanlon, a portfolio manager at Manulife Asset Management. "The U.S. equity markets are the best place to have exposure."

Goldman Sachs Group Inc. this past week raised its year-end target for the **S&P 500** to 2850, a 9.5% gain from Friday's close, saying its "rational exuberance" reflects continued U.S. and global economic growth, low inflation, and slowly rising interest rates. The prospects of Republicans passing a tax-overhaul plan also factors into Goldman's forecast.

Other banks that have raised forecasts for next year include UBS Group AG and BMO Capital.

Still, not all Wall Street analysts are calling for another year of big gains. Larry Adam, Deutsche Bank Wealth Management's chief investment officer, has maintained a 2650 target for the **S&P 500** over the next 12 months, a call he and his team reiterated last week.

"We're dialing down our expectations going forward," Mr. Adam said. "We don't see any major risks, but we don't see all of those [economic factors] happening again next year."

Many firms entered the year skeptical stocks could go further, given the gains of recent years and the valuations on many broad market indexes. Goldman estimates that the earnings multiple -- or its price relative to earnings -- of the median **S&P 500** stock is in the 99th percentile historically, suggesting that there are few periods in history in which the market appeared more overextended.

In part reflecting those concerns, Bank of America Corp. initially called for the S&P to finish the year at 2300, while Deutsche Bank AG expected the broad index to end at 2350. The index closed last year at 2239.

The **S&P 500** clinched its 55th closing high on Friday, the index's most records in a calendar year in more than two decades. The **Nasdaq** has also posted the most record closes in a single year, marking its 69th on Friday, while the Dow industrials have hit 60 highs.

Many analysts expect indexes to resume their grind higher through the rest of this year and into 2018.

Tech companies have been a major factor behind indexes' gains, and investors and analysts expect that to persist. Facebook Inc. and Google parent Alphabet Inc. are among the best-performing stocks this year and are a big part of why the **S&P 500**'s tech sector is up 38% in 2017.

A narrow part of the market has driven a lot of the advance in the past year, said Craig Hodges, chief investment officer at Hodges Funds. **S&P 500** growth companies, or those with higher-than-average rates of earnings or sales growth, are up 23% this year, compared with just 7.8% for value stocks that tend to sport below-market valuations.

But other sectors have begun to narrow the gap. Shares of consumer-discretionary and consumer-staple stocks have also performed better in recent months to push indexes higher. Both sectors are on pace for their best quarter since the first three months of the year, thanks in part, to improving profit outlooks among companies such as Wal-Mart Stores Inc., auto-parts retailer AutoZone Inc. and J.M. Smucker Co., the seller of Folgers coffee and fruit spreads.

One factor that could influence stock gains is the Federal Reserve. Investors got more clarity about the path for interest rates in 2018 after officials on Wednesday released minutes from the central bank's Oct. 31-Nov. 1 meeting that showed they likely would raise short-term rates in the near term due to a strengthening economy. Several officials added that their support for the move would hinge on whether inflation picks up.

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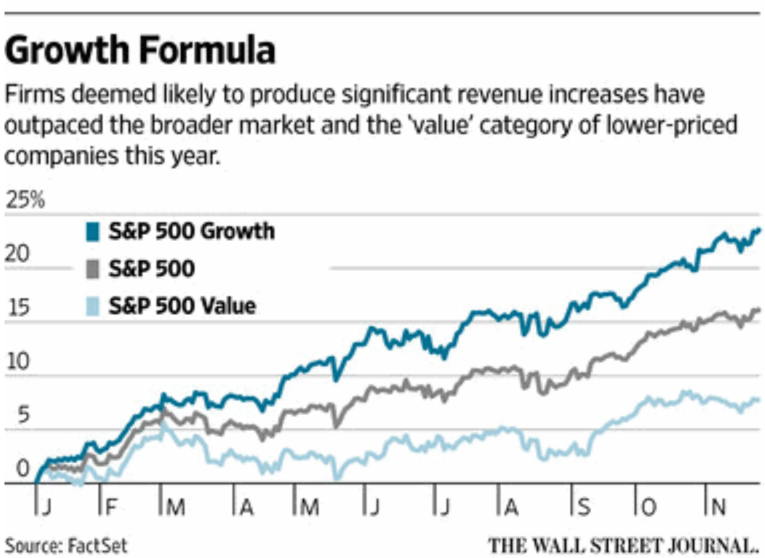
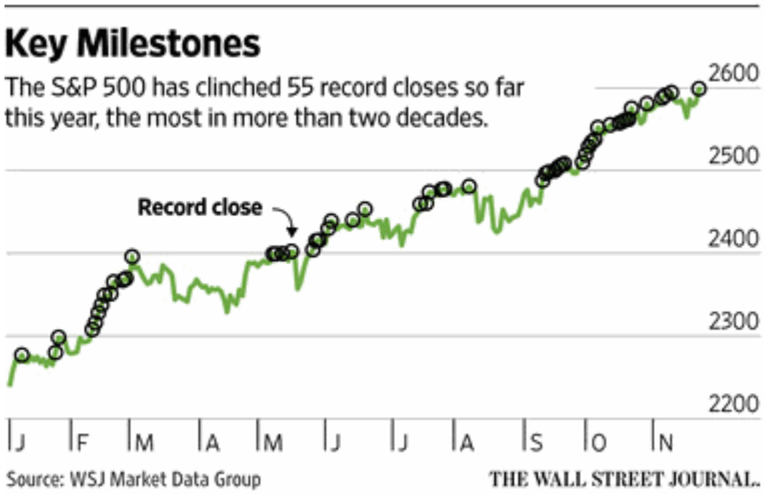
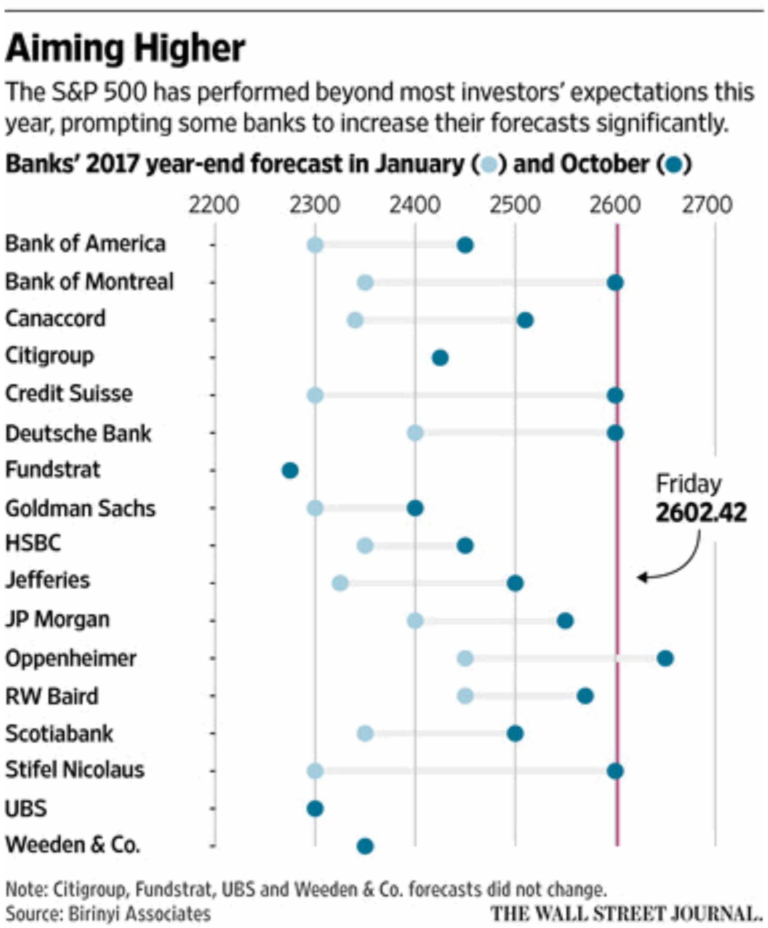
Riva Gold contributed to this article.



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The New York Times

Business/Financial Desk; SECTB
**Tech and Energy Firms Rise As More Records Tumble**

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


NEW YORK -- U.S. stocks set more records in quiet post-holiday trading on Friday as technology companies again did much of the heavy lifting. Energy companies rose with the price of oil.

Macy's and some of its retail counterparts rose after the department store's chief executive said Black Friday sales were going well. The online titan Amazon made an even bigger gain. **Oil prices** and energy companies rose after Bloomberg reported that a group of key oil producers plans to extend production cuts until the end of 2018.

''If you take the cumulative effect of online and foot traffic going into the stores, it's showing you a robust consumer spending pattern,'' Quincy Krosby, chief market strategist at Prudential Financial, said.

The **Standard & Poor**'**s 500**-**stockindex** rose 5.34 points, or 0.2 percent, to 2,602.42, its first close above 2,600.

The **Dow Jonesindustrial average** added 31.81 points, or 0.1 percent, to 23,557.99. The **Nasdaq composite** index gained 21.80 points, or 0.3 percent, to 6,889.16. The Russell 2000 index of smaller companies climbed 2.40 points, or 0.2 percent, to 1,519.16.

The Dow finished slightly below its record high from Tuesday, but the other major indexes closed at record highs. Trading ended early after the Thanksgiving holiday on Thursday.

Macy's chief executive, Jeffrey Gennette, told CNBC that holiday shopping is off to a good start with relatively few discounts and strong sales of some especially profitable products like winter clothing. Macy's gained 44 cents, or 2.1 percent, to $21.07, and other department stores climbed as well.

Experts are mostly predicting strong sales over the holiday shopping period because of increased consumer confidence and a very low unemployment rate. The National Retail Federation trade group expects sales to grow at least as fast as they did last year.

Big retailers like Wal-Mart and Urban Outfitters and Gap have also reported strong quarterly results recently. On Friday, Gap added 47 cents, or 1.6 percent, to $29.64, and the electronics retailer Best Buy gained 51 cents to $57. Amazon's stock rose $29.84, or 2.6 percent, to $1,186.

Amazon, along with the tech giants Apple, Facebook, Microsoft and Google's parent company, Alphabet, have played a huge role in the market's gains this year. Those five companies combined are responsible for more than one-fourth of the value the **S**.**&P**. **500** has gained this year. Amazon and Facebook closed with record highs on Friday, and the other three set record highs earlier this month.

U.S. benchmark crude rose 93 cents, or 1.6 percent, to $58.95 a barrel in New York. Mr. Krosby said the Keystone oil pipeline spill earlier this month has also pushed U.S. **oil prices** higher by disrupting supplies.

Brent crude, used to price international oils, added 31 cents to $63.86 a barrel in London.

Hess gained 95 cents, or 2.2 percent, to $44.40, and Marathon Oil added 25 cents, or 1.7 percent, to $15.13.

The billionaire investor Carl Icahn disclosed that he acquired a 13.5 percent stake in SandRidge Energy. A week ago, SandRidge agreed to buy the oil and gas company Bonanza Creek Energy, and Mr. Icahn says he opposes the $736 million deal. Another major SandRidge investor, Fir Tree Partners, is also against the deal. SandRidge jumped $1.40, or 8 percent, to $18.90, while Bonanza tumbled $3.76, or 11.7 percent, to $28.38.

In other energy trading, wholesale gasoline added 2 cents to $1.79 a gallon. Heating oil rose 2 cents to $1.95 a gallon. Natural gas sank 16 cents, or 5.2 percent, to $2.81.

The dollar rose to 111.58 yen from 111.23 yen. The euro climbed to $1.1927 from $1.1853.

**Bond prices** fell. The yield on the **10**-**year Treasury** note rose to 2.34 percent from 2.32 percent late Wednesday.

Gold fell $4.90 to $1,287.30 an ounce. Silver lost 12 cents to $16.99 an ounce. Copper rose 3 cents to $3.17 a pound.

France's CAC 40 rose 0.2 percent and the DAX in Germany gained 0.4 percent. Britain's FTSE 100 slipped 0.1 percent. Japan's benchmark Nikkei 225 index rose 0.1 percent, while the Hang Seng in Hong Kong rebounded 0.5 percent and South Korea's Kospi added 0.3 percent.

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

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

Document NYTF000020171125edbp00047

 

The New York Times

OP-ED CONTRIBUTOR
Editorial Desk; SECTA
**The G.O.P.'s Tax Trap**

By NICOLE GELINAS
927 words
25 November 2017
The New York Times
NYTF
Late Edition - Final
21
English


Do congressional Republicans and President Trump want to undertake a multitrillion-dollar federal bailout of states and cities? If not, the Senate and House should squelch their competing proposals to reduce or eliminate Americans' ability to deduct state and local taxes on their federal tax forms.

Curtailing tax breaks is generally a good idea. Subsidies for certain activities distort the economy. When the mortgage-interest deduction spurs a family to buy a more expensive home than they would have otherwise, it keeps that money from more productive parts of the economy.

But state and local tax deductions do not fall into this category. Since the nation's founding, American citizens have safeguarded small-scale democracy. The Bill of Rights prescribes that ''the powers not delegated to the United States by the Constitution, nor prohibited by it to the states, are reserved to the states.''

Scholars and judges differ over where state control ends and federal oversight starts. But no scholar argues that states, cities and towns don't possess the right and obligation to staff schools, pave roads, purify water and put out fires.

For this, local and state governments need money -- which they mostly get from their own taxpayers, not from Washington. To assert that the federal government has the primary claim on this tax dollar, as Republicans are doing, is to claim that the federal government bears the primary responsibility for these tasks.

That's not a conservative argument, but a European one. In France, the national government, not Paris, stands behind a $37 billion ''Grand Paris'' plan to improve public transportation. In America, by contrast, Washington expects New York and New Jersey to bear half the cost of a new tunnel under the Hudson River, even though Amtrak, the national railroad, depends on this critical piece of infrastructure. Similarly, New York has received only $1.3 billion toward the $4.2 billion cost of the first three stops of the Second Avenue subway. The rest comes from New York taxpayers.

Wealthier taxpayers do disproportionately benefit from these tax deductions, because they pay the most in taxes. In New York City, just 1 percent of tax filers -- 37,273 households -- pay 49.3 percent of city income taxes. But their ability to deduct these taxes from federal taxable income is an indirect subsidy to New York's poorer and middle-class residents, who benefit from state and local spending on education, Medicaid, public safety and homeless services.

If Congress were going to diminish America's local-governance model anyway, now is not the time. Nearly a decade into the economic recovery, state and local governments remain under fiscal stress, particularly when it comes to pension and health care promises to retirees.

Chicago owes $45.2 billion to current and future public-sector pensioners, but had set aside only $9.5 billion as of the city's latest audited annual report. New Jersey and its local governments owe $122.2 billion, but have set aside just $53.7 billion. Even healthier governments, such as New York State and New York City, owe tens of billions of dollars in future health care payment obligations to retirees.

As retirement costs have grown, state and local governments have cut back on infrastructure investments. Municipal debt -- the mechanism through which governments borrow to build and maintain infrastructure -- is 17 percent below its 2007 level after inflation.

Republicans characterize this issue as a blue-state problem because blue states have higher taxes. But red states are struggling too. Texas owes $39.1 billion for pensions, but has set aside just $25 billion. Gulf states, including Florida and Louisiana, must invest in flood-protection measures. Houston voters approved new borrowing for such infrastructure this month -- borrowing enabled by local tax deductions.

Republicans also characterize the issue as one of local mismanagement. ''I don't think it's up to the federal government to save New York from its bad decisions,'' said Mick Mulvaney, Mr. Trump's budget director, last week. True, governments from Chicago to New Jersey have made poor fiscal decisions. In a system that grants citizens great autonomy to govern themselves at the local level, disparities in financial management are inevitable. But it is none of Washington's business that New York's taxes are too high.

One reality remains -- somebody must pay. Three sources exist: taxpayers; public-sector retirees, via pension and health-benefits cuts; and municipal investors, via Detroit-style debt defaults in severe cases. Congress is making the first more difficult for state and local governments, and in most places, legal protections prevent governments from cutting pension benefits.

That leaves bondholders. As the Standard & Poor's rating agency said this week, the overall impact of a tax plan that curtails state and local tax deductions ''could be costly and detrimental to the credit quality of many public-finance issuers.''

Signing a bill into law that creates systemic distress for a **financial market** that affects the lives of all Americans is hardly the best way to improve the economy. And it may result in eventual tax increases, not tax cuts, at the federal level. Global investors may grow tired of America's lurching from crisis to crisis and raise the cost of federal borrowing, as well.

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Nicole Gelinas is a contributing editor to the Manhattan Institute's City Journal.

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THE WALL STREET JOURNAL.
U.S. EDITION

**Investors Pile Into Inflation-Hedging Bonds**

By Chris Dieterich
448 words
25 November 2017
The Wall Street Journal
J
B10
English


Fund investors broke ranks with the market's consensus last week and plowed money into assets that benefit should consumer prices snap out of a yearslong funk.

Mutual funds and exchange-traded funds targeting inflation-protected Treasurys, known as TIPS, pulled in $1.2 billion in the week ended Wednesday, according to Bank of America Merrill Lynch and EPFR Global.

The influx represented the largest draw since November 2016 and the third-largest inflow on record.

TIPS increase their payout to holders if inflation measures exceed certain thresholds and can be viewed as a proxy for expectations for the future rate of inflation.

Yet the burst of TIPS fund buying contrasts both with recently lackluster inflation readings and the bond market's view that inflation will be stagnant in the years ahead.

The Labor Department's consumer-price index rose 2% in October from a year earlier while the Fed's preferred measure of inflation rose 1.6% in September from a year earlier, well below the central bank's 2% target.

It is no secret that central-bank officials and investors alike have been puzzled by persistently muted U.S. inflation readings at the same time that the economy continues to grow and add jobs.

These vexing trends have pulled down inflation expectations, which had been at multiyear highs early in 2017.

The 10-year break-even rate -- the yield premium investors demand to hold the **10**-**year Treasury** note relative to the 10-year TIPS -- was 1.87% Friday, in line with levels over the past three months.

The market-based inflation reading burst above 2% in January amid investor enthusiasm for pro-growth policies including tax cuts, infrastructure spending and deregulation with Republicans in control of the White House and Congress.

For much of this year Fed officials had largely stuck by the contention that a series of "transitory" factors such as a drop in prices for wireless-phone plans could help explain soft inflation readings.

An improving labor market, the argument went, would ultimately lead to higher wages and kick-start a cascade of higher prices for consumer goods and services.

But outgoing Federal Reserve Chairwoman Janet Yellen, whose term as chairwoman ends in February, this week expressed uncertainty about this view.

"My colleagues and I are not certain that it is transitory, and we are monitoring inflation very closely," Ms. Yellen said at New York University's Stern School of Business.

Even so, last week's big flow into inflation-protected Treasurys shows that at least some investors are willing to wager on higher inflation trends.



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THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
**Who Needs a Tax Cut? Companies Are Spending Anyway**

By Justin Lahart
440 words
24 November 2017
The Wall Street Journal
J
B12
English


[Financial Analysis and Commentary]

Tax cut or no tax cut, companies could be spending a lot more money in the year ahead.

There was an awkward moment during an onstage interview with White House economic adviser Gary Cohn at The Wall Street Journal CEO Council this month. Asked if the tax bill would spur them to boost investment, only a smattering of executive raised their hands. "Why aren't other hands up?" wondered Mr. Cohn.

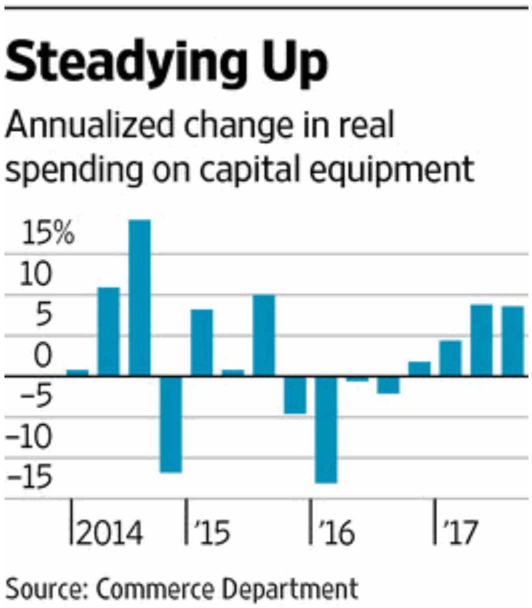
But the thing is that companies already have been investing more. Through the first three quarters of this year, capital spending on equipment has risen at a 7.3% annual rate, the fastest pace in three years. The pickup in spending continued in the current quarter: Wednesday, the Commerce Department reported that shipments of nondefense capital goods excluding aircraft -- something economists look to in order to gauge capital spending -- rose 0.4% in October from September. It was the ninth gain in a row for the typically **volatile** series, marking the longest winning streak since 1994.

Tax cut or no tax cut, companies have had the means to invest for a while. Their balance sheets are healthy, and their cost of capital is extraordinarily low. What they needed was a reason, and the biggest reason to invest is demand.

Demand is looking a lot better. The U.S. economy continues to chug along, and for the first time in a long time the rest of the world is chugging along with it. Companies that want to maintain or expand their market share need to keep up, and that requires more equipment. Moreover, a low unemployment rate and the specter of rising labor costs is pushing companies to make their workers more productive.

There has also been a shift in investor attitudes that is intensifying the need to step up capital spending. For years -- indeed, even before the financial crisis struck -- investors were rewarding companies that were paying shareholders through dividends and stock buybacks over companies that focused on growth. Lately, however, investors are favoring growth, providing companies with an incentive to get into the club.

For a U.S. economy that for years has relied almost solely on consumers for growth while companies underspent, the pickup in capital spending counts as a good thing. It could help temper any shift lower in consumer spending if households opt to boost their low saving rates. And if it goes on long enough, it could help boost productivity, allowing the economy to move along at a faster clip.

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THE WALL STREET JOURNAL.
U.S. EDITION

**Streetwise: Those 2017 Predictions: So Wrong**

By James Mackintosh
710 words
24 November 2017
The Wall Street Journal
J
B1
English


We all like to remember our successes and forget our failures, and finance is no different. As investors' inboxes once again become clogged with annual outlooks from Wall Street's scribblers, there is little admission of the nearly universal failure to predict what happened this year -- even though the things the analysts missed are much more interesting than their forecasts.

There are two big lessons to learn from the mistakes of the year-end crystal-ball gazing. The first is that when everyone agrees that prices can go only in one direction, it is dangerous. The second is more nuanced: We really know an awful lot less about how the economy works than we thought.

Last year, almost everyone was **bullish** about the prospects for the "reflation trade" of higher bond yields, stock prices and the dollar, driven by rising wages and Donald Trump's tax-cut plans.

A year on, and inflation hasn't materialized, the tax discussion is bogged down in Congress and almost every analyst was wrong. Benchmark **10**-**year Treasury** yields are down, not up; the dollar is down, not up, and the **S&P 500** has delivered more than double the gains of even the most **bullish** Wall Street prognosticators.

Strategists mostly shrug their shoulders and move on to their 2018 predictions. Their forecasts out so far suggest the stock rally will continue and bond yields finally start to rise, if a bit less than they thought before.

Cynics will look at what happened in the past and wonder why anyone bothers. Predictions have a dire track record, and have been sadly predictable themselves. Treasury yields have been forecast to rise every year for the past decade, according to forecasts collected by Consensus Economics, yet they have gone down more often than not. Even when they went up, the moves were only once anywhere near what was predicted, back in 2008. Forget using a dartboard to plan investments; on average a coin toss would be better.

The same goes for stock prices. Only rarely is the average **S&P 500** forecast of strategists anywhere near the actual result. More than half the time since 2000 the miss has been either too high or too low by an amount bigger than the S&P's 9% long-run annual gain.

Don't blame Wall Street for getting it wrong, though. When markets work, they incorporate an average prediction already, so forecasting markets involves assessing when the average prediction will change, as well as fundamentals such as the economy. Both are pretty unpredictable.

"It's doubly silly," says M&G fund manager Eric Lonergan. "You can't predict what's going to happen [with events] and even if you are fortuitous enough to be right, it doesn't help you when you're investing."

This year has been a classic example. Analysts thought stocks would do well as Mr. Trump cut taxes and inflation picked up, while many also predicted more **volatility** because of the political and geopolitical uncertainty. They were wrong, at least so far, about taxes and inflation, but stocks went up anyway. They were right about political and geopolitical uncertainty, but **volatility** failed to appear.

The key to what went wrong for the forecasters this year was the lack of inflation, something Federal Reserve Chairwoman Janet Yellen has described as a "mystery." As the year went on, investors became increasingly convinced that inflation would stay dormant, bringing down long-term bond yields and the dollar even as decent economic growth boosted profits and stock prices.

Not many of the year-ahead treatises have landed yet, but those that have almost all, once again, predict bond yields rising over the next year along with stock prices. It is tempting to regard that forecast as a contrarian indicator and bet on the opposite. But while that approach would have worked for bonds and the dollar this year, it would have meant missing out on a stunning share-price rally.

Strong consensus is a warning sign worth watching for. But the value in Wall Street's year-end publications comes from the analysis they contain, not the prices they predict.


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THE WALL STREET JOURNAL.
U.S. EDITION

**Yield Curve Narrows, but Few Are Worried --- Last time gauge was so low, a crisis brewed; this time, investors split on what it means**

By Daniel Kruger
852 words
24 November 2017
The Wall Street Journal
J
B12
English


The yield gap between short- and long-term Treasurys has shrunk to its narrowest level since 2007, the year the financial crisis gathered steam. But few investors and economists are worried that a repeat of the 2008 meltdown is in store.

While analysts have long considered the gap, known as the yield curve, a key barometer for the health of the economy, many are split about what the signal means now. Much of their disagreement is rooted in the exceptional conditions of the past decade: emergency measures from global central banks that have produced little inflation, unemployment falling with few signs of wage pressure, and stock markets that continue to climb with little **volatility**.

The uncertainty is accentuated by the contrast in economic conditions from the last time the yield curve was similarly compressed. In 2006 and 2007, as short-term rates matched and even exceeded long-term rates, a phenomenon known as an inverted yield curve, there were clear signs that the economy was overheating. Housing prices, which had been surging for several years, were seen as unsustainably high, securitized products had spread risk throughout the financial system, and stock prices were supported by a wave of increasingly aggressive leveraged buyouts.

Today's flattening comes even as the economy seems to be humming along, sending an unclear signal at a time when stocks keep pushing to records in a rally propelled by signs of synchronized global growth and fueled recently by hopes that U.S. tax cuts can provide a further boost.

Some investors today support the traditional view that the narrowing gap is a signal that excessive policy tightening by the Federal Reserve risks pushing the economy into a recession.

"The markets are pushing back against the Fed," said Michael Collins, a senior portfolio manager with PGIM Fixed Income, which has placed trades that will profit if the gap shrinks. If the central bank continues to raise interest rates, "the yield curve is going to get flat, stocks are going to sell off, and the economy's going to get hit," he said.

But with few signs of a slowdown, others speculate that the forces at work are unlike other times. Just as the Fed's expansion of its bond portfolio to $4.2 trillion has failed to spur inflation, monetary policies intended to boost consumer prices in Europe and Japan may be holding down U.S. interest rates. Central bank rates that are below zero there are fueling demand for relatively high-yielding U.S. government debt, holding down the benchmark **10**-**year Treasury** yield when it might otherwise be rising to reflect solid growth prospects in the U.S.

"We are in a global synchronized recovery -- everybody knows that," said Brian Jacobsen, head of multisector strategy at Wells Fargo Asset Management. "What everybody's worried about is how long can this last. As it gets longer in the tooth, people are going to worry more and more."

The lack of inflation pressures, particularly on hourly wages, has befuddled policy makers who have been expecting the lowest unemployment rates since the dot-com boom to force employers to lift salaries. The Fed has raised rates three times since December 2016 and is forecasting four more increases through 2018, citing its forecasts that inflation will soon perk up. Yet inflation, using the Fed's preferred measure, has persisted below its 2% target.

There is additional uncertainty from Washington, as some of the curve's widening at the beginning of 2017 came from expectations that President Donald Trump would be able to pass plans to boost infrastructure spending and cut corporate and personal taxes. That led to a surge in expectations for faster growth and higher inflation, which lifted **10-year Treasury** yields to 2.609%, the highest since 2014.

"As it became apparent none of these things were happening, you've seen the curve flatten," said Ilya Gofshteyn, a macro strategist at Standard Chartered Bank.

The yield curve Wednesday narrowed to about 0.59 percentage point from 1.25 percentage points at the start of the year, near the narrowest gap since November 2007. Most of that change has been from a climb in two-year Treasury yields, which tend to rise on expectations of interest-rate increases from the Fed. The **10-year Treasury** yield, which typically reflects expectations for growth and inflation, has fallen to 2.322% from 2.446% at the end of 2016. Yields rise when **bond prices** fall.

The yield curve's pinch has been especially apparent in bank stocks. The KBW **Nasdaq** Bank Index of large U.S. commercial lenders has slipped roughly 2.2% this month as the **S&P 500** has gained around 0.8%. A steepening yield curve tends to boost banks' lending profitability, since they can borrow at low short-term rates while lending at higher long-term rates.

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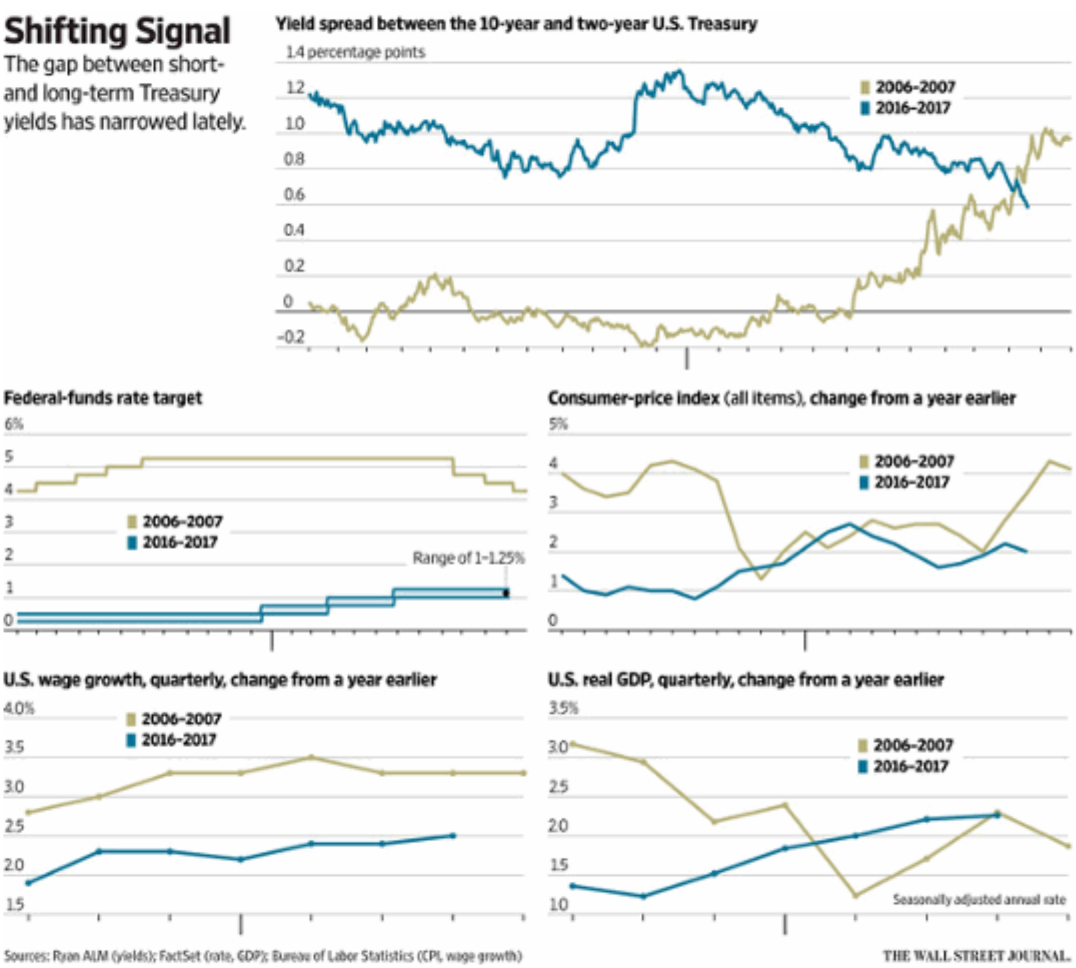
Michael Wursthorn contributed to this article.



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THE WALL STREET JOURNAL.
U.S. EDITION

**Transport Warning Is Shrugged Off --- Weak performance is attributed to downbeat earnings rather than deeper economic woes**

By Michael Wursthorn
831 words
24 November 2017
The Wall Street Journal
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English


Shares of planes, trains and automobiles are skidding, and that often spells trouble for the rest of the market. But some analysts and investors aren't heeding the century-old warning sign this time around.

The Dow Jones Transportation Average is on track for its first quarterly decline in more than a year, as the index has fallen 2.9% so far this quarter. The **Dow Jones Industrial Average** is up 5% in the year's final three-month period.

The index of 20 of the largest U.S. airlines, railroads and trucking firms is used by some in the market as a proxy to gauge the health of the U.S. economy since those companies are responsible for the vital movement of raw materials, goods and people.

So when the index diverges from the broader **Dow Jones Industrial Average**, some investors take it as a sign to sell. However, several analysts and investors say the Dow transports' weak performance is due to a spate of downbeat earnings rather than a deeper economic funk.

Analysts pointed to a series of hurricanes in the previous quarter that disrupted thousands of flights among airliners, including United Continental Holdings Inc., American Airlines Group Inc. and Southwest Airlines Co., and caused service disruptions for railroad and shipping companies at a time when most transportation businesses are grappling with rising costs.

"There's pretty good divergence there. But the latest pullback in transports was more due to disappointing third-quarter earnings," said Leo Grohowski, chief investment officer of BNY Mellon Wealth Management, adding that airlines were particularly weak.

Still, the quarterly decline in transport stocks is noteworthy given how closely the two indexes tend to trade. Since 1900, the Dow industrials and Dow transports have traded above their 200-day trading average in tandem more than 50% of the time, according to data from Ned Davis Research.

Airlines in the Dow transports were among the hardest-hit stocks. Shares of United have fallen 12% since it reported earnings last month. United said storms such as Hurricane Harvey disrupted its operations and caused it to incur higher costs, while the rollout of new low-cost, no-frills fares, known as "Basic Economy," all contributed to a drop in revenue, executives said while discussing third-quarter results.

Both American Airlines and Southwest Airlines reported improved revenue in the previous quarter, while maintaining prices that helped offset rising fuel, labor and other costs. Still, the hurricanes shaved off millions of dollars in profit and revenue at both carriers. American shares have fallen 4.6% since it reported earnings on Oct. 26, while Southwest has declined 3.6%.

Railroad companies haven't fared much better in recent months, despite the double-digit gains they had already notched. Norfolk Southern Corp. posted upbeat results last month, beating revenue and profit estimates, yet its stock has fallen 2.3% since it reported earnings on Oct. 25. CSX Corp. beat profit expectations but revenue fell short due, in part, to service delays that stemmed from the hurricanes and derailments. Its shares have fallen 3.5% since it released earnings Oct. 17.

Another big laggard in the index: Avis Budget Group Inc. The car-rental company's shares tumbled 16% since it said on Nov. 6 that higher fleet costs and weaker international pricing had hurt the car-rental company, causing it to miss earnings and revenue expectation and lower its sales guidance for the rest of the year.

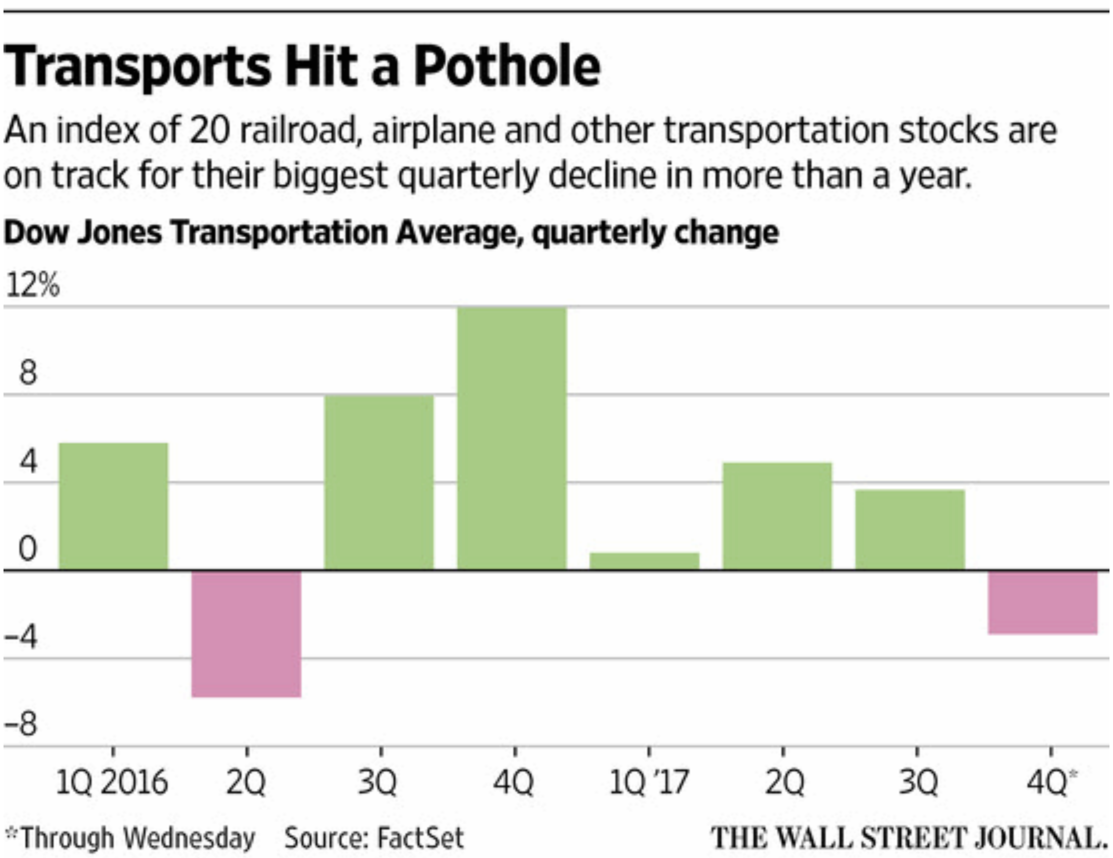
As the transports index lurches toward its first three-month decline since the second quarter of last year, **stock-market volatility** has picked up slightly relative to much of the rest of the year. That has created a better environment for stock pickers, some investors added.

"Stock disparity is picking up, and that's an opportunity for active managers," said Jason Pride, director of investment strategy at wealth-management firm Glenmede. "Stocks are showing signs of moving away from one another."

Concerns around how Republicans proceed on their tax overhaul contributed to recent declines in the **Dow Jones Industrial Average**, causing the index to snap an eight-week winning streak and swing between gains and losses in recent sessions. Sectors that had been performing better earlier this year, such as industrials, are now trailing, while concerns about the market's health picked up following losses in the junk-bond market.

Lofty valuations, especially among technology companies that have contributed significantly to the market's gains this year, have also kept investors on edge, with some believing those stocks could pull back on geopolitical concerns or due to developments in Washington.

"The albatross for the market is valuations at this point," said Terri Spath, chief investment officer of Sierra Investment Management, an investment firm with $2.7 billion in assets. "They've been too high for a while."

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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
**Market's Record Run Skips a Beat as Interest Rates Fall**

By THE ASSOCIATED PRESS
1,036 words
23 November 2017
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NYTF
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English


NEW YORK -- U.S. stocks mostly slipped away from their latest record highs Wednesday as the two former halves of Hewlett-Packard both tumbled, while falling interest rates helped phone companies but hurt banks.

The price of oil jumped on reports OPEC and a group of other countries might extend the cuts in production they made at the start of this year. That took energy companies higher. Hewlett Packard Enterprise sank after it said CEO Meg Whitman will retire, while printer and PC maker HP lost ground after its latest quarterly report.

Interest rates fell after the Federal Reserve released minutes from its latest meeting, which ended Nov. 1. While most officials were comfortable raising interest rates soon, as investors think they will do in December, a few Fed leaders think rates should stay where they are until there is more evidence inflation is rising.

The Fed has suggested it wants to raise rates three more times next year, but many are skeptical that it will.

"The market certainly doesn't believe it, and hasn't believed it all along," says Scott Wren, senior global equity strategist for Wells Fargo Investment Institute. He said investors may change their minds as economic reports roll in over the next few weeks, and they may get nervous if they think the Fed will move faster.

The **Standard & Poor**'**s500 index** dipped 1.95 points, or 0.1 percent, to 2,597.08. The **Dow Jonesindustrial average** slid 64.65 points, or 0.3 percent, to 23,526.18. The **Nasdaq composite** rose 4.88 points, or 0.1 percent, to a record 6,867.36. The Russell 2000 index of smaller-company stocks lost 2.13 points, or 0.1 percent, to 1,516.76.

All four indexes closed at record highs Tuesday, and on Wednesday most of the companies on the New York Stock Exchange finished higher.

U.S. markets will be closed Thursday for the Thanksgiving holiday. They will reopen Friday but will close at 1 p.m. ET.

The two main companies that once comprised Hewlett-Packard took the largest losses in the **S&P 500**. Hewlett Packard Enterprise, which sells data-center hardware and tech gear, dropped after it announced company President Antonio Neri will replace Whitman as CEO Feb 1. Whitman became CEO of Hewlett-Packard in 2011 and oversaw its split in 2015. HPE also reported mixed fourth-quarter results.

Analysts said they were surprised by the timing because Whitman suggested last month that she wasn't leaving soon. Like several other analysts, Steven Milunovich of UBS said Neri is a good choice, but that Whitman will be hard to replace.

"Whitman's star power could be missed when competing with the likes of Michael Dell, Chuck Robbins, and Ginni Rometty for large enterprise deals," he wrote, referring to the CEOs of Dell, Cisco Systems and IBM.

HP Enterprise fell $1.02, or 7.2 percent, to $13.10. Meanwhile HP Inc., which sells PCs and printers, had a solid quarter but couldn't sustain the gains it's made this year. The stock lost $1.12, or 5 percent, to $21.34. It's up 44 percent in 2017.

Bond prices started the day with small gains, which sent yields lower. Yields moved lower still as investors looked over the Federal Reserve minutes. The Fed has already raised interest rates twice this year in spite of low inflation, and Wren, of Wells Fargo, said investors may get jumpy as they examine economic data in the next few weeks and try to figure out how fast the Fed will move next year.

The yield on the 10-year Treasury note fell to 2.32 percent from 2.36 percent. That sent banks lower because lower yields translate to smaller profits on loans. Cincinnati Financial fell 80 cents, or 1.1 percent, to $72.66. Phone companies, which pay big dividends similar to bonds, climbed higher. Verizon Communications rose 92 cents, or 2 percent, to $47.10.

The dollar also weakened as investors expected lower interest rates. It sank to 111.17 yen from 112.44 yen. The euro rose to $1.1822 from $1.1742.

U.S. crude rose $1.19, or 2.1 percent, to $58.02 a barrel in New York. Brent crude, used to price international oils, gained 75 cents, or 1.2 percent, to $63.32 a barrel in London. Both oil benchmarks are at two-year highs.

Reuters reported that Saudi Arabia, the biggest oil exporter in the world, wants the OPEC cartel to extend this year's cut in oil production for another nine months. The nations of OPEC, as well as other major oil producers including Russia, will meet in Vienna next week to discuss their goals.

Farm equipment maker Deere posted a bigger profit and better sales than analysts expected, and it also gave surprisingly strong forecasts for its new fiscal year. The stock climbed $6.02, or 4.3 percent, to $145.25.

Gold added $10.50 to $1,292.20 an ounce. Silver rose 15 cents to $17.11 an ounce. Copper rose 1 cent to $3.14 a pound.

In other energy trading, wholesale gasoline lost 1 cent to $1.77 a gallon. Heating oil remained at $1.93 a gallon. Natural gas skidded 5 cents to $2.97 per 1,000 cubic feet.

Germany's DAX lost 1.2 percent while the FTSE 100 in London rose 0.1 percent and France's CAC 40 slipped 0.2 percent. Tokyo's Nikkei 225 gained 0.5 percent and the Hang Seng index of Hong Kong advanced 0.6 percent. The Kospi in South Korea rose 0.4 percent.

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

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

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The New York Times

Business/Financial Desk; SECTB
**Fed Remains on Track to Raise Rates in December**

By BINYAMIN APPELBAUM
821 words
23 November 2017
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Late Edition - Final
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English


WASHINGTON -- The Federal Reserve is preparing to raise its benchmark interest rate in December despite the concerns of some Fed officials about the persistent weakness of inflation, according to an account of the Fed's most recent policy meeting.

The account, which the Fed published Wednesday, described officials as united in confusion about the reasons that inflation is weak but divided about the consequences. While some officials favored watching and waiting, a majority of Fed officials -- including the chairwoman, Janet L. Yellen -- have made clear that they are inclined to keep raising the Fed's benchmark rate.

At the two-day meeting that ended Nov. 1, those officials were ''reasonably confident that the economy and inflation would evolve in coming months such that an additional firming would likely be appropriate in the near term,'' the Fed said.

The group made no changes to monetary policy at the meeting; it had signaled in advance of the meeting that it would not act before December. It left its benchmark rate in a range of 1 percent to 1.25 percent, and did not alter the instructions for the gradual reduction of its $4 trillion portfolio of Treasury securities and mortgage bonds now underway.

But the meeting account, released after a standard three-week delay, is likely to solidify investor expectations that the Fed will raise rates by a quarter-point at the December meeting.

The continued debate about the weakness of inflation has divided officials into two broad camps. Most, including Ms. Yellen, regard slow inflation as somewhat mysterious but not a cause for great concern because they expect tightening labor market conditions to eventually drive up prices. As a result, they want to keep raising interest rates at a gradual pace.

The unemployment rate fell to 4.1 percent in October and the pace of job growth remains strong. The account described it as ''well above the pace likely to be sustainable in the longer run.''

A minority of Fed officials, however, have become increasingly forceful in registering their concerns. Those officials are more worried about moving too fast than too slow. They fear that the persistence of sluggish inflation could damage the economy, for example, by permanently eroding public expectations about the future pace of inflation.

The minutes said that some of those officials are reluctant to vote for additional rate increases until they are convinced that inflation is indeed gaining strength.

The officials ''indicated that their decision about whether to increase the target range in the near term would depend importantly on whether the upcoming economic data boosted their confidence that inflation was headed toward the Committee's objective.''

Some Fed officials also want to raise rates because they are concerned that **financial market** conditions have not tightened adequately this year, meaning credit is easier and cheaper to get than the Fed would have anticipated. The Fed raises its benchmark rate to make it more difficult to borrow money. But the rates on consumer and business loans have not climbed in response, prompting worries that investors are taking excessive risks.

Fed officials also want to stockpile ammunition against future economic downturns. The Fed's primary medicine for weak growth is cutting rates, which it can do only if it has a high enough rate to cut from.

The minutes described the program to reduce the Fed's bond holdings as off to a good start. The Fed had announced in September that it would begin to reduce those holdings by $10 billion a month during the final quarter of 2017, a show of confidence in the health of the economy. It plans to slowly increase the pace until it reaches a monthly rate of $50 billion. On the current schedule, it will arrive at that plateau in October 2018.

The Fed has said that it intended to stick to its schedule barring significant economic disruptions, and to underscore that the unwinding is on autopilot, it may stop providing updates in its post-meeting statements.

Expectations about the course of monetary policy have held steady even as the Fed prepares for a change in leadership. President Trump announced earlier this month that he would nominate Jerome H. Powell as the next Fed chairman. If he is confirmed by the Senate, Mr. Powell would replace Ms. Yellen in early February.

Mr. Powell, a Fed governor, has consistently supported the gradual unwinding the Fed's stimulus campaign. The Senate Banking Committee has scheduled a confirmation hearing on Tuesday. Ms. Yellen is also scheduled to testify before the Joint Economic Committee on Wednesday.

Follow Binyamin Appelbaum on Twitter @bcappelbaum.

Job seekers in Robbinsville, N.J. The labor market remains strong, a factor that most Federal Reserve policy makers think will drive up prices and justify a gradual increase in interest rates. (PHOTOGRAPH BY MARK MAKELA/GETTY IMAGES)

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The New York Times

U.S.; Politics

**As Her Last Day With the Fed Nears, Janet Yellen Looks Back on Her First**

By BINYAMIN APPELBAUM
908 words
21 November 2017
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NYTimes.com Feed
NYTFEED
English


Janet Yellen, the Federal Reserve chairwoman, made a relaxed appearance at New York University on Tuesday night, answering questions about her life in economics and her time at the Fed one day after she announced plans to leave the central bank next year.

Ms. Yellen said nothing new about the Fed's policy plans for the coming months, leaving unaltered the widespread expectation that the Fed will raise its benchmark interest rate in mid-December.

Instead, Ms. Yellen entertained the audience with her description of her first day at the Fed almost four years ago, and a firsthand report on the typical topics of conversation at her dinner table.

"We do have a heavier dose of economics in our diet than some might find appetizing," she said.

Ms. Yellen announced Monday in a letter to President Trump that she would step down from the Fed's board at the same time she ends her term as Fed chairwoman in early February.

Mr. Trump has nominated Jerome H. Powell to succeed Ms. Yellen as the Fed's chairman.

On Tuesday, Ms. Yellen kept a longstanding engagement to be interviewed on a stage at the Stern School of Business by Mervyn King, the former governor of the Bank of England.

In one of her final public appearances as the Fed's chairwoman, Ms. Yellen answered questions about policy in her trademark clear and steady style that has eliminated much of the guesswork that was once required to divine the Fed's intentions.

She said the Fed was still inclined to raise interest rates gradually as it sought to balance the risks of moving too fast and moving too slowly. The Fed is widely expected to raise its benchmark rate by a quarter of a percentage point at its final policy meeting of the year in mid-December. The rate now sits in a range of 1 percent to 1.25 percent.

Ms. Yellen noted the unemployment rate had fallen to 4.1 percent as of October, which the Fed regards as a little lower than the minimum level that can be sustained without spurring inflation.

Some Fed officials also want to raise rates to discourage speculation in **financial markets**, and to increase the Fed's ability to respond to economic downturns.

On the other hand, the Fed sees little reason to rush. The economy is not overheating, inflation is below 2 percent, and the Fed does not want to stall growth.

As she approaches her last day at the Fed, Ms. Yellen recalled her first: Feb. 3, 2014. She described a small swearing-in ceremony — a larger public event was held a few weeks later — followed by a quick turn to work, beginning with recording a video message to her staff.

Mr. King asked whether she paused for a little Champagne. Ms. Yellen laughed and responded, "Well, it's a work day after all, Mervyn. We saved that for a family treat in the evening."

She said working at the Fed had been a "total pleasure."

Ms. Yellen's tenure has been defined by her campaign to reduce unemployment. "I'm very interested in the job market, and a lot of my career has been spent studying unemployment and trying to understand how we can lower it," she said.

Mr. King also noted that the Fed under Ms. Yellen had continued an evolution toward greater transparency. Central banks once adhered to a philosophy that Mr. King described as "keep the press out of the bank and keep the bank out of the press."

But in recent decades, banks have adopted the opposite view. It is now conventional wisdom that effective policy requires management of public expectations.

Ms. Yellen said communication had been a central element of her job: explaining the Fed to lay audiences, defending its policies before Congress, calibrating expectations in **financial markets**.

Much of the conversation was lighthearted. Mr. King, noting that Ms. Yellen is married to an economist and that her son is also an economist, asked what she did to get away from economics.

Ms. Yellen responded, "Now, why would you want to do that?"

She said that her family not only discussed economics at the dinner table, they also sometimes carried the conversations — and academic papers — to the beach.

Ms. Yellen's husband, George Akerlof, was a co-author on some of her early work, and she said that he had continued to play an important role in her career by supporting her turn toward public policy. "When I've been offered jobs in Washington, for example, his attitude has been, 'You want to do that? Absolutely we're going to make it work,'" she said.

Mr. Akerlof did not get the nod as the economist who has most influenced Ms. Yellen. Instead she named her mentor, James Tobin, a Yale University economist and a leading Keynesian theorist.

Ms. Yellen did, however, name Mr. Akerlof as the most interesting person she had ever met.

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* If Janet Yellen Goes, the Fed's Current Policy May Go With Her

* Yellen Will Leave Federal Reserve Next Year

Janet L. Yellen announced Monday that she would step down from the Federal Reserve's board at the same time she ends her term as Fed chairwoman in February. | Al Drago/The New York Times

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THE WALL STREET JOURNAL.
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**Tech Rally Powers World Markets --- Global giants like Apple, Amazon, Alibaba and Tencent are prime movers**

By Riva Gold
887 words
22 November 2017
The Wall Street Journal
J
B1
English


Shares of global technology companies are outpacing other sectors this year by the widest margin since the height of the dot-com era, with a handful of key players dictating how markets are performing around the world.

That dynamic was on display again Tuesday, when the **Nasdaq Composite** rose 1.1% to end at its 67th record close in 2017, the highest number of record closes in any year.

Shares of Apple Inc. rose 1.9%, while International Business Machines Corp. added 1%. Microsoft Corp. was up 1.4%, putting the three tech giants among the biggest contributors to the Dow industrials' gains Tuesday.

Tech gains boosted the broader market. The **S&P 500** and **Dow Jones Industrial Average** also closed at record highs, rebounding after a rare down stretch during the previous two weeks. Blue-chip stock indexes in Europe and Asia closed higher.

In a sign that the tech rally is going global, Chinese internet company Tencent Holdings Ltd. rose 2.4% after intraday gains briefly put the company's market capitalization at around $530 billion, larger than Facebook Inc.'s $528 billion. Tencent hit $500 billion for the first time Monday.

Just eight companies -- Facebook, Apple, Amazon.com Inc., Netflix Inc., Alphabet Inc., Baidu Inc., Alibaba Group Holding and Tencent -- have increased by $1.4 trillion in market cap in 2017, a sum roughly equivalent to the combined annual gross domestic product of Spain and Portugal.

Tech giants' powerful user networks, large cash piles and access to consumer data have led many investors to expect the big will only get bigger.

"You need critical mass to support continuing innovation," said Christopher Dyer, director of global equity at Eaton Vance. While there are exceptions, "China and the U.S. would be natural destinations for incremental dollar investment within tech," he said.

While technology companies have helped take U.S. and some Asian stock markets to records, less tech-heavy bourses of Europe, Canada and Australia haven't enjoyed the same success.

For MSCI Europe, roughly 85% of its underperformance relative to world stocks can be attributed to differences in the weight and performance of their technology sectors, according to Morgan Stanley.

"There's no doubt the markets that have high tech components will have been the best performers this year," said Paul Markham, a global equities portfolio manager at Newton Investment Management, who has invested in many of the tech behemoths.

"The narrow nature of this rally has to be seen as something of a concern . . . but these are cash-generative companies who are being seen as the bedrock of the new economy."

Global tech stocks are up 42% this year, roughly double the gains of the broad-based MSCI AC World Index. So far in 2017, the tech sector is up 21 percentage points more than the next best sector, materials -- leading by the widest margin of any sector since 1999, according to an analysis by Morgan Stanley.

The sector's dominance could make leading markets vulnerable should investors' enthusiasm fade for tech or regulation hamper development of these companies, some analysts say.

But most don't see that happening soon as the giants of this sector continue to deliver on earnings, meaning tech could continue to be the differentiator among global markets in the years to come.

Samsung Electronics, Tencent and Alibaba and Taiwan Semiconductor Manufacturing Co. make up a combined 17% of the MSCI Emerging Market Index, even more influential than Facebook, Apple, Netflix, Amazon and Alphabet, which make up around 11% of the **S&P 500**, according to S&P Dow Jones Indices.

MSCI Europe has a less than 5% weighting to technology companies, compared with a 25% weight in MSCI USA and a 17% weight in MSCI World.

Tech isn't the only factor behind this year's global rally. A synchronized pickup in growth has buoyed earnings around the world, and a continued hunt for yield has left few alternatives to stocks. There are also risks for the sector, including the prospect of greater regulation.

But some analysts dismiss comparisons with the dot-com boom. Tech valuations in the U.S. are just a fraction of where they were during that era. In early 2000, the **S&P 500** tech sector traded at a forward price-to-earnings ratio of 52, according to FactSet. Today, that P-E is 19, compared with 18 for the **S&P 500** as a whole.

In the third quarter, **S&P 500** tech companies beat expectations by the widest margin of any sector, with an earnings growth rate of 21% -- nearly double the next best performer outside the energy sector.

Many market participants think this rally still has legs, pushing record weekly inflows into tech earlier this month, with U.S. and Chinese tech funds gaining particular traction, according to fund-tracker EPFR Global.

"In 1999 [tech companies] were incredibly expensive and didn't yet have a lot of earnings," said Mark Phelps, an equities chief at AllianceBernstein.But today, not only are their earnings keeping up, "they've got more data, more processing power and they're giving the consumer a really good product," he said.



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**Low-Volatility ETFs Lure Risk-Averse Investors**

By Chris Dieterich
281 words
22 November 2017
The Wall Street Journal
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English


Investors appear keen to pile into risk-averse stocks when times get tough.

Heavy buying of stodgy stocks last week shows that at least some big investors prefer parking money in "safer" stocks instead of selling equities outright in bouts of turmoil, an inclination that could provide a buffer against the long-awaited market pullback.

Low-volatility U.S. stock exchange-traded funds grabbed $1.4 billion last week, a surge of buying that boosted their total assets by nearly 6%, according to Steven DeSanctis at Jefferies LLC. Low-volatility ETFs own stocks with histories of less erratic price moves than the broader market.

No ETF group pulled in more new money, either in absolute or proportional terms.

For perspective, high-yield bond ETFs last week experienced $645 million in outflows, just 2.1% of assets. Those relatively minor high-yield ETF withdrawals coincided with intense attention over whether a credit-market hiccup might transform into a full-fledge flight out of risky assets.

U.S. stocks did get some renewed volatility last week, compared with placid trading in 2017. The S&P 500 ended Friday with its second weekly decline in a row and last week, the index snapped a 50-session streak without a daily decline of more than 0.5%.

But incrementally choppier trading stoked the biggest-ever one-day inflow into the PowerShares S&P 500 Low Volatility Portfolio ETF, which pulled in $798 million Friday, according to FactSet. An additional $122 million moved into PowerShares S&P MidCap Low Volatility Portfolio ETF, its biggest one-day flow ever.



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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
**Technology and Health Care Fuel Market's Record Ascent**

By THE ASSOCIATED PRESS
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22 November 2017
The New York Times
NYTF
Late Edition - Final
2
English


NEW YORK -- The market's biggest winners this year, technology and health care, powered U.S. stock indexes to more all-time highs on Tuesday.

Huge technology companies like Apple and Facebook continued their ascent, while strong reports from companies including medical device maker Medtronic and construction and technical services company Jacobs Engineering helped health care and industrial companies, respectively.

Basic materials companies, which have done better than the rest of the **Standard & Poor**'**s500 index**, also rose. Telecommunications companies declined, while energy companies and banks didn't do as well as the rest of the market.

Apple, Facebook, Alphabet, Microsoft and Amazon, the five most valuable companies on the **stock market**, all rose more than 1 percent, and they've all had a very strong year. JJ Kinahan, chief market strategist at TD Ameritrade, said that's not about to stop.

"They're seeing better earnings, better sales, better growth," he said. "It's difficult to argue with that."

The **S&P 500 index** climbed 16.89 points, or 0.7 percent, to 2,599.03. The **Dow Jonesindustrial average** gained 160.50 points, or 0.7 percent, to 23,590.83. The **Nasdaq composite** added 71.76 points, or 1.1 percent, to 6,862.48.

The Russell 2000 index of smaller-company stocks rose for a fourth day and picked up 15.49 points, or 1 percent, to 1,518.89. All four indexes set records. The Russell had struggled in recent weeks, but on Tuesday it beat its record close from early October.

Big-name technology companies lead the way overall. Apple rose $3.16, or 1.9 percent, to $173.14 and Facebook added $3.12, or 1.7 percent, to $181.86. Health care companies climbed as well. Those two sectors are the best-performing parts of the market this year.

Homebuilders climbed after the National Association of Realtors said sales of homes grew in October. They're down slightly from last year because there are so few houses on the market, but the tight supply and rising prices have sent homebuilder stocks soaring this year. On Tuesday, NVR advanced $59.69, or 1.8 percent, to $3,377, while D.R. Horton gained $1.15, or 2.4 percent, to $49.35.

Along with those reports, investors were cheered by projections from Goldman Sachs analyst David Kostin, who forecast that the **S&P 500** will rise 14 percent in 2018 if corporate taxes are cut. Kostin, who didn't think stocks would rise that much this year, now says the **bull market** could last three more years, with continued economic growth and lower taxes taking the **S&P 500** to 3,100 by the end of 2020.

Kinahan, of TD Ameritrade, said the potential tax cuts might help stocks in another way: usually, investors might sell some of their holdings after a better-than-expected year like this one. But right now, they're not sure what their taxes will look like in 2018.

"People may not be taking profits as aggressively at the end of this year as they would in a normal year because they're not sure where the tax plan will come out," he said.

Medtronic jumped after it posted profit that was larger than analysts had expected. The company said sales of heart devices including newer devices like its CoreValve Evolut Pro heart valve, drove its sales higher in the fiscal second quarter. The stock rose $3.76, or 4.8 percent, to $82.66.

Signet Jewelers plunged $23.05, or 30.4 percent, to $52.79 after the company slashed its annual forecast. The company recently sold its highest-quality loans to Alliance Data Systems, but the company said "disruptions" related to that move have affected sales, especially for its Kay brand.

Alliance Data Systems fell 83 cents to $223.84. Aaron's, which is running a lease-payment program for other Signet customers, fell 54 cents, or 1.5 percent, to $36.20.

Campbell Soup's profit and sales both fell a bit short of analysts' forecasts. The company reported a 9 percent drop in soup revenue and said carrot costs increased. It also faced greater logistics costs in the aftermath of the hurricanes. The stock shed $4.09, or 8.2 percent, to $45.84.

**Bond prices** rose. The yield on the **10**-**year Treasury** note fell to 2.36 percent from 2.37 percent.

Benchmark U.S. crude oil rose 41 cents to $56.84 a barrel in New York, while Brent crude, the international standard, added 35 cents to $62.57 a barrel in London.

Wholesale gasoline climbed 3 cents to $1.77 a gallon. Heating oil was little changed at $1.94 a gallon. Natural gas slipped 3 cents to $3.02 per 1,000 cubic feet.

Gold rose $6.40 to $1,281.70 an ounce. Silver added 12 cents to $16.96 an ounce. Both metals had taken sharp losses Monday. Copper rose 4 cents to $3.13 a pound.

The dollar slipped to 112.44 yen from 112.67 yen. The euro rose to $1.1742 from $1.1732.

Germany's DAX gained 0.8 percent and the CAC 40 of France CAC 40 rose 0.5 percent. The FTSE 100 index in Britain rose 0.3 percent. Japan's Nikkei 225 rose 0.7 percent while the Kospi in South Korea added 0.1 percent. The Hang Seng in Hong Kong rose 1.9 percent, its biggest gain in two months.

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

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

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THE WALL STREET JOURNAL.
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Heard on the Street
**Robust Biotech Sector Cloaks Problem Areas**

By Charley Grant
354 words
22 November 2017
The Wall Street Journal
J
B16
English


[Financial Analysis and Commentary]

It hasn't been as happy a year for biotech investors as one might expect.

By most measures, sector performance has been strong. The **Nasdaq** Biotechnology Index is up 17% this year, in line with a broadly rising **stock market**. The S&P Biotechnology Select Industry Index, which places a greater weight on smaller companies, is up nearly 37%. Some of the problems that plagued the sector in recent years, such as investor fears about a possible crackdown on high drug prices, have receded.

Health care also has remained a fairly hot sector for mergers and acquisitions. There have been 941 announced U.S. health-care deals for a total volume of about $184 billion, according to Dealogic. That volume is second only to the tech sector this year, and other deals -- like CVS Health's offer to acquire health-insurance giant Aetna -- could be announced soon.

But that backdrop masks some significant negatives for investors. Biotech stocks have underperformed the **S&P 500** by 7 percentage points over the past month. Adding to the gloom: The stocks that have underperformed have been institutional investor favorites.

Bad results have been part of the problem. Celgene, historically a strong performer, is down 28% in the past six weeks after disclosing a key clinical trial for an experimental Crohn's disease drug failed and significantly cutting its long-term earnings guidance.

Meanwhile, that deal volume isn't quite as strong as it might seem. Announced deals exceeded $300 billion in 2014 and 2015, according to Dealogic. More important for investors, the deals haven't necessarily taken place where investors expected.

Some of the hardest-hit stocks have been perceived buyout targets. The cancer-focused biotech Tesaro is down 37% this year, for instance. The Wall Street Journal reported in March that Tesaro had put itself up for sale, meeting with lukewarm interest. Tesaro's immediate competitors also have seen their share prices pressured.

That is a recipe for a **bull market** without any holiday euphoria.



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**J.P. Morgan Reviews Role in Bitcoin**

By Alexander Osipovich
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B15
English


J.P. Morgan Chase & Co. Chief Executive James Dimon has said that if any of the bank's traders bought or sold bitcoin, he would "fire them in a second."

But that isn't stopping the bank from looking at business opportunities in the planned bitcoin-futures market. CME Group Inc., a Chicago-based exchange operator, is seeking to launch bitcoin futures by the end of this year.

J.P. Morgan is considering whether to provide its clients access to CME's new bitcoin product through its futures-brokerage unit, a person familiar with the situation said. That means the bank's customers could use it to place bets on whether the digital currency will rise or fall, while J.P. Morgan collects fees for such services.

The process involves assessing whether there is demand among J.P. Morgan's customers for the proposed CME bitcoin contract, according to this person.

It is possible that J.P. Morgan could decide not to offer the service. CME's launch is also subject to regulatory approval, meaning it could potentially be delayed or derailed by the Commodity Futures Trading Commission.

Other banks must also make the call about whether to support CME's bitcoin futures. Goldman Sachs Group Inc., Bank of America Merrill Lynch and Morgan Stanley are among the dozens of firms that offer their customers access to CME's markets through their futures-brokerage arms. Morgan Stanley is evaluating whether to provide access to the CME bitcoin contract, a person familiar with the matter said.

But none of those banks has a CEO who has been as critical of bitcoin as Mr. Dimon, who has blasted it as a "fraud" and compared it with past financial bubbles.

"If you're stupid enough to buy it, you will pay the price for it one day," he told a conference last month.

The bank's looming decision underscores challenges Wall Street firms face as bitcoin emerges from the shadowy margins of **financial markets** and investors' interest grows.

A CME spokeswoman declined to comment on J.P. Morgan's deliberations.

Terrence Duffy, chief executive of CME Group, said in a CNBC interview this month that he expects trading in bitcoin futures to begin the second week of December.

Launching futures would bring the virtual currency a big step closer to the financial mainstream, making it easier for both large financial firms and retail investors to trade it. CME's smaller crosstown rival, Cboe Global Markets Inc., is also seeking to launch bitcoin futures.

J.P. Morgan already handles clients' trades of Bitcoin XBT, an exchange-traded note designed to track the value of the digital currency. The bank has said it doesn't take positions in the note and simply routes customers' buy and sell orders electronically to the exchanges.

Brokering trades in bitcoin futures would be similar, because J.P. Morgan itself wouldn't be placing bets as to whether bitcoin rises or falls. Instead, it would effectively act as a conduit between customers wishing to trade bitcoin futures and CME's marketplace.

J.P. Morgan is the second-biggest futures broker in the U.S., second only to Goldman, CFTC data show.

One of the few futures brokers to speak out about CME's bitcoin futures plan is Interactive Brokers Group Inc., a major electronic brokerage firm. Thomas Peterffy, its chairman and chief executive, has warned that CME needs to ring-fence its system for clearing bitcoin-futures trades from the rest of its markets, or else losses in bitcoin could end up rippling through the broader financial system.

"Unless the risk of clearing cryptocurrency is isolated and segregated from other products, a catastrophe in the cryptocurrency market that destabilizes a clearing organization will destabilize the real economy," Mr. Peterffy wrote last week in an open letter to the chairman of the CFTC, which he also published in a full-page advertisement in The Wall Street Journal.

A CFTC spokeswoman declined to comment.



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The New York Times

Business/Financial Desk; SECTB

# Holiday Confidence Buoys Retailers, As Indexes Climb in Light Trading

By THE ASSOCIATED PRESS
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21 November 2017
The New York Times
NYTF
Late Edition - Final
6
English


Stocks rose on Monday as a mix of smaller United States-focused businesses, technology companies and banks climbed. Drug makers struggled, which limited those gains.

Retailers rose for the third day in a row as their latest quarterly reports have investors feeling better about the United States economy and the amount of shopping people are likely to do over the holidays. Technology companies went up after another deal between chip makers, and industrial companies also posted gains.

Companies that sell opioid pain medications tumbled after the government released a new, much higher estimate of the costs of the addiction crisis. Merck fell after a good report from its rival Roche about a drug that competes with Merck's cancer medication Keytruda.

Trading was relatively light. That is probably going to be the case throughout the week as the Thanksgiving holiday approaches and investors turn their attention to 2018. Jeff Kravetz, regional investment strategist for U.S. Bank Private Wealth Management, expects more gains for stocks in the United States and in other parts of the world.

''We've got developed markets working, and we've got emerging markets working,'' he said. ''This is just a wonderful year for international markets after a bit of a drought.''

The **Standard & Poor's 500**-**stockindex** picked up 3.29 points, or 0.1 percent, to 2,582.14. The **Dow Jonesindustrial average** gained 72.09 points, or 0.3 percent, to 23,430.33. The **Nasdaq composite** index advanced 7.92 points, or 0.1 percent, to 6,790.71. The Russell 2000 index of smaller-company stocks climbed 10.57 points, or 0.7 percent, to 1,503.40.

The chip maker Marvell Technology Group said it would buy its competitor Cavium for $6 billion. Cavium jumped $8.19, or 10.8 percent, to $84.02 and is up 22 percent over the last two weeks on reports Marvell would make a bid. Marvell rose $1.30, or 6.4 percent, to $21.59.

Other technology companies also rose. IBM added $1.54, or 1 percent, to $150.51, and Cisco Systems gained 60 cents, or 1.7 percent, to $36.50.

A White House group said the opioid drug epidemic cost the country $504 billion in 2016, far more than other recent estimates, and companies that make those pain medications traded sharply lower.

Allergan gave up $3.76, or 2.2 percent, to $171.12, and Teva Pharmaceutical Industries fell 76 cents, or 5.5 percent, to $13.08. Insys Therapeutics shed 17 cents, or 3.2 percent, to $5.20. Executives including Insys' founder and its former chief executive have been charged with offering kickbacks to doctors to persuade them to prescribe its fentanyl spray, Subsys. Its stock traded above $40 in mid-2015.

Merck stumbled after Genentech, a unit of the Swiss drug maker Roche, reported positive results from a study of its drug Tecentriq as a primary treatment for lung cancer. Genentech said patients who were given Tecentriq as part of their treatment regimen were less likely to die or see their cancer get worse.

The results could affect sales of Merck's drug Keytruda and Bristol-Myers Squibb's Opdivo. Merck fell $1.10, or 2 percent, to $54.10, and Bristol-Myers Squibb lost 52 cents, or 0.9 percent, to $60.80.

Time Warner shares continued their two-week stumble as the Department of Justice filed a lawsuit to block its proposed merger with AT&T. The $85 billion deal would give AT&T the Warner Bros. movie studio and cable networks including HBO and CNN.

Time Warner lost $1.01, or 1.1 percent, to $87.71, and AT&T added 13 cents, or 0.4 percent, to $34.64.

Benchmark United States crude fell 46 cents to $56.09 a barrel in New York. Brent crude, which is used to price international oils, dropped 50 cents to $62.22 a barrel in London.

The dollar rose to 112.62 yen from 112.07 late Friday. The euro slipped to $1.1728 from $1.1793.

Gold slumped $21.20 to $1,274.60 an ounce. Silver sank 53 cents to $16.84 an ounce. Copper gained 3 cents to $3.09 a pound.

**Bond prices** edged lower, and the yield on the 10-year United States Treasury note rose to 2.37 percent from 2.35 percent.

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

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**CEO Council (A Special Report) --- The Vice President on Taxes and Trade: Mike Pence says the administration thinks they have the votes for tax reform -- and offers a defense of the president's leadership qualities**

By Gerald F. Seib
1,373 words
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The Wall Street Journal
J
R2
English


The Trump administration is one of the most pro-business in recent memory. What do its agendas mean for companies? Vice President Mike Pence spoke on the state of the nation, and then discussed a range of issues with The Wall Street Journal's executive Washington editor, Gerald F. Seib. Here are edited excerpts.

MR. PENCE: The president is winging his way back from a journey across the Asia Pacific. He has been about the business of restoring American leadership on the world stage. He joined President Xi in China to announce agreements that will benefit the American economy.

President Trump earlier this year made the decision to withdraw from the Trans-Pacific Partnership. America will pursue bilateral trade agreements. We expect that markets will be open to an equal degree on both sides.

America's economy, and confidence in America, is rebounding. Businesses from the outset of this administration have created 1.5 million new jobs. The **stock market** is setting new records. The economy has grown by at least 3 percentage points for the past two quarters. Before the end of this year, we're going to cut taxes for working families and businesses.

Let me also say that the president and I welcome word that the Senate Finance Committee will include the repeal of the individual mandate of Obamacare. By eliminating the mandate, we will enact tax relief for working families.

MR. SEIB: In his work in Asia, the president enunciated a paradigm shift in trade. We're going to focus on bilateral deals that are better for the U.S. But let me pose the problem that some people see with that approach, which is that by leaving the multilateral arena, you're creating a vacuum, in Asia in particular, that China will step in and fill. Is that a concern to you?

MR. PENCE: President Trump believes in free and fair trade, but that multilateral deals result in the United States losing leverage. He believes we'll be able to advance the interests of our country and the countries we're trading with more effectively with arm's-length relationships.

MR. SEIB: When the other 11 countries in the Trans-Pacific Partnership say, "We're moving on," is that a train leaving with us left behind?

MR. PENCE: We don't think so. This is the most powerful economy in the history of the world. We're in the midst of renegotiating the North American Free Trade Agreement. The president is very passionate about this, that the United States has not pressed our interests enough in recent years.

I have heard it many times in private, but the president has said it very much in public this week, "Well, I don't blame China for a bad trade deal." He blamed the policy makers in the United States who have allowed that kind of a relationship to evolve.

So I think the honesty of that kind of dialogue, the strength of the American economy, puts us in a position to move toward what the president envisions, bilateral win-win trade relationships.

MR. SEIB: Let me turn to your sales pitch on the tax bill. We did a national poll in which only 16% said they favored cutting corporate taxes. And 37% said businesses are paying less than their fair share, which would suggest you've got a way to go to make the sale about a combination of a corporate tax cut and an individual cut. Can you do that?

MR. PENCE: I think we can. I traveled around the country, meeting with businesses large and small, and people get it. They understand what a barrier our tax code has been to growth and to jobs. But we need business leaders in this country to tell that story too.

MR. SEIB: Are you going to have 52 Senate votes going forward, or is this problem in Alabama going to cost you one of those?

MR. PENCE: We believe we'll have the votes. We believe that we're making steady progress in the United States Senate and in the House of Representatives and that we'll have the votes. But we're taking nothing for granted.

MR. SEIB: Is there an opening for diplomacy to solve the North Korea nuclear problem?

MR. PENCE: President Trump made very clear what our policy is. First and foremost, the era of strategic patience is over. We're absolutely committed to resolving this issue. All options are on the table, but we continue to hope and we continue to work to resolve this issue peaceably, by bringing economic and diplomatic pressure to bear.

We believe that we've isolated North Korea economically and diplomatically in ways that have never occurred before. China's taken action that they've never taken before. We believe they need to do more. Other countries in the region need to do more.

President Trump is absolutely committed to achieve what is the consensus objective of the world community, and that is that North Korea would abandon its nuclear and ballistic missiles program. And that we would have a nuclear-free Korean Peninsula.

MR. SEIB: We earlier today canvassed this group and asked them for questions that I might pose to you. One person said, "I voted for Trump 12 months ago. I would vote for him today. I believe our system needs to be shaken up, but it's painful to watch at times. Being a sensible Midwesterner," that's you, "how do you put up with all the chaos and periodic silliness?"

MR. PENCE: I couldn't be more proud to be vice president for Donald Trump. The American people elected the right man at the right time.

When we got the call about being considered for this job, I'd only met the president twice. We said we were honored, but never expected we would be asked.

I said, "There's two things I'd want to know. Number one, I'd like to know the job description." Because there's only one person that writes it. The second thing I said is, "We'd need to know them as a family." I said, "Now, I know none of that's possible." This was late June. I said we wouldn't be able to spend the kind of time together that we could get to know each other.

Two days later I got a call that said, "Not only did the candidate like your response, but he wanted to invite you to spend Fourth of July weekend with him, and bring your whole family. And his family's going to be there." We arrived on a Friday night. We went to the clubhouse. My wife and my daughter were with me.

Dave's been running Bedminster since the president bought it a number of years ago. He walked over to the table and he said to me, "I just wanted to check and make sure everything's OK, and you guys have what you need." I said, "Oh, it's wonderful."

Dave said, "You know how he is. He's called a couple of times from the car to make sure everything is squared away."

There were two things in that moment that I've seen every single day with President Donald Trump. Number one is, he has high standards. Things have to be right. I've spoken to the president every day during this trip, with few exceptions, and every day he's talked to me about tax cuts. He's totally focused.

The other thing I saw was another quality of leadership, because when Dave said to me, "He's going to want to make sure things are right," he said it with a smile. There's two great qualities of leaders. Vision and standards. Number two, you've got to inspire people to want to work for you. That's the kind of leader President Trump is.

 

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Heard on the Street
**No Stock Bubble but Rising Risks**

By Justin Lahart
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English


[Financial Analysis and Commentary]

When is it going to end? And how?

In a year when asset prices have surged, those are questions that should be nagging at investors' minds. Stocks, hardly cheap at 2017's onset, have gotten progressively more expensive. Prices on junk bonds and emerging-market debt have risen sharply, driving yields even lower.

Do these markets count as bubbles? Probably not. That is because many of the usual hallmarks of bubbles -- euphoric optimism, excessive trading and a belief that no matter how crazy prices are, someone will be crazy enough to pay even more -- are absent. If there is euphoric optimism, it is in the prices of Silicon Valley's unicorns and in impossible-to-value bitcoin which is up more than 700% this year.

Still, an asset doesn't have to be in a bubble for it to be excessively valued, or for its price to drop. One danger is that after the dot-com bust and the financial crisis, investors now believe that the only time markets fall sharply are when there is a bubble.

High prices don't mean the market will fall, though when it does, the selloffs tend to be more intense. A fresh reminder came when a sharp fall in the high-yield bond market this month led investors to pull money out of junk-bond funds at the third-highest pace ever.

By one popular yardstick, U.S. stocks have rarely been so expensive. The cyclically adjusted price earnings ratio devised by Nobel Prize winning economist Robert Shiller has gone to 31.3 from 27.9 this year. That level has only been eclipsed twice: just before the 1929 crash when the measure peaked at 32.6, and in the years surrounding the dot-com bubble when it reached 44.2.

Mr. Shiller's measure may be elevated, in part, for technical reasons, which can offer investors some solace, but maybe not too much. The **S&P 500** would have to fall by one-third for the Shiller PE to decline to its average level over the past half-century.

When markets fall, they usually fall for a reason. The usual culprits are recessions, falling corporate profits and central banks aggressively pushing up rates. When the Federal Reserve raised rates in the late 1960s, helping to push the U.S. economy into recession, stocks fell sharply. And while the economy weathered rapid rate increases in 1994, it was a trying year for stocks.

At the moment, such risks don't seem to be in the offing. Rather, the world is in the midst of an unusual moment in which countries all over are growing while low inflation is keeping central banks at bay.

Perhaps that is why surveys show investors putting lower-than-usual odds on the chances of stocks crashing. And maybe that is part of why markets are showing so little **volatility**: If the risk of a big decline seems low, then any little jog down looks like a buying opportunity.

That in itself is a reason to be wary. If investors are almost all confident, there will be a lot of sellers when the environment sours. And if markets don't pause here -- if the benign outlook is justification for pushing valuations higher -- the eventual panic, and losses, will be greater.

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**CEO Council (A Special Report) --- In Defense of the Current Tax Bills: Gary Cohn on removing the health-insurance mandate, as well as why the plans will improve productivity, and the impact on housing**

By Gerard Baker
999 words
20 November 2017
The Wall Street Journal
J
R11
English


Taxes are front and center in the minds of businesspeople and citizens as the House and Senate try to hash out a bill. There are potentially sweeping changes in the works, including removing the deduction for state and local taxes.

Wall Street Journal Editor in Chief Gerard Baker spoke with Gary Cohn, a former Goldman Sachs executive and currently assistant to the president for economic policy and director of the National Economic Council. Here are edited excerpts of the conversation.

MR. BAKER: Why is now a good time to be cutting taxes, to be increasing the deficit significantly?

MR. COHN: When you look at what's happened to the U.S. workforce since the recession, yes, we've created jobs. But wages have been growing basically in line with low inflation. One of the big drivers of our tax-reform policy is to get real wage growth back into the United States. When we talk about lowering taxes on businesses, one of the results of that is that the businesses are going to be able to pay their workers more. We know that individuals know how to spend their money much more efficiently than the government does. The multiplier effect of individuals spending is substantially higher than the multiplier effect of government spending.

MR. BAKER: U.S. economic growth has been about 2% for the last 10 years. A large part of the reason why the trend seems to have dropped from 3% 20 years ago seems to be demographics. The other phenomenon is productivity, which has been weak. What's going to go on with this tax cut to raise productivity?

MR. COHN: One of the big components of the tax bill is immediate expensing for capital expenditures. There's an enormous amount of capital expenditures that can be spent in the system that enhance productivity.

MR. BAKER: But we've seen this enormous investment in technology in the last 25 years, yet there has been no increase in productivity in that time. Productivity's declined. How is that going to change?

MR. COHN: The regulatory environment has had a huge impact on productivity. Nonproductive regulation is chewing up enormous amounts of company earnings that they can't reinvest into what is really productivity. We need to roll back that regulation. We need to make our businesses more competitive. I'm not looking to deregulate our businesses. But we're looking to allow them to compete and be more productive than businesses around the world.

MR. BAKER: Is it really important to have the tax bill done by Dec. 31?

MR. COHN: We've got to get taxes done this year. The legislative calendar is going to get very crowded come the first, second week of December. There are a bunch of issues that got punted for a few months into the first and second week of December.

MR. BAKER: One item I want to ask you about is a plan to reintroduce the removal of the mandate requiring people to sign up for health insurance. There are concerns that once you start pulling on that string, all kinds of difficult things arise. Would you welcome that?

MR. COHN: We're supportive of it. Tax reform is really important to us in the administration. I think it's important to the House and Senate. We have to get that done. If we can get the individual mandate repealed as well, that to us is a real windfall, and we'd love to see that happen. But we're still plodding ahead on tax reform whether it happens or whether it doesn't happen.

MR. BAKER: The state- and local-tax deduction elimination. Do you think there should be at least some support for some people who are going to be hit who pay a lot in state and local taxes?

MR. COHN: I don't think that's a proper characterization. The question should be, do the bills deliver middle-income tax relief? And the answer is yes. How they get there is different. The only way to grade whether it's successful or not is to literally look at the tables, look at the distribution, and say, "Does this do what we want it to do? And does this deliver tax relief to hardworking American families?" And the answer to both bills is yes, it does. So yes, they've attacked it different ways, but ultimately they get to the same answer.

MR. BAKER: The doubling of the standard deduction will for a lot of people mean that there's no point anymore in deducting their mortgage interest because they have something that's below the standard deduction. There's a lot of concern in the housing sector, lots of lobbying's going on, that this could really cause a lot of damage.

I know that people think that only affects the wealthy. But actually, there's a huge number of people who have loans in that range. There's concern that could do really quite significant damage to the housing sector. Do you worry about that?

MR. COHN: I worry about everything. So of course I worry about it. But I think when you look at the data and you look at the reality, people really don't buy houses because of deductibility of interest. People buy houses because they're **bullish** on the economy, they're gainfully employed, they think they're going to be employed for a long time, they think the business they're working for is solvent, they think their pay is going up, not going down. Potentially, their spouse is getting a job and is in the same fundamental characteristics. That's when people tend to buy houses.



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**CEO Council (A Special Report) --- The Bottom Line on the Tax Cuts: Treasury Secretary Steven Mnuchin, optimistic about completing tax reform before year-end, says the corporate rate isn't going above 20%**

By Gerard Baker
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The Wall Street Journal
J
R4
English


It's a time of tremendous confidence in the U.S. economy and **stock market**. But there are large question marks about the immediate and long-term prospects -- from proposed tax changes to the fate of trade deals.

To put those matters in perspective, Wall Street Journal Editor in Chief Gerard Baker spoke with Treasury Secretary Steven Mnuchin. Here are edited excerpts of the discussion.

MR. BAKER: Does it worry you that expectations in the market and in business and consumer confidence are maybe too high?

MR. MNUCHIN: No, it doesn't worry me. People are very excited about what the Trump administration's economic policies are. The president has been very clear this is all about creating growth. That we've been in a period for the last eight years of very low growth. The president fundamentally believes we can get back to 3% or higher sustained GDP.

We have a high degree of confidence in getting tax reform done between now and the end of the year. It's critical to the economy.

MR. BAKER: Taxes are very much a moving target right now because we have the House proposal for tax reform and the Senate proposal, and obviously those two have to be reconciled in some way. Twenty percent corporate rate of tax. The House proposal is to have it begin immediately in the next fiscal year. The Senate defers it for a year. Does that worry you? Given that we have these high expectations for a lower-tax environment, does it concern you that the Senate defers that tax cut?

MR. MNUCHIN: It doesn't. Our preference is to start this sooner. But let me just put this in perspective. When you look at fundamentally where we are, the president's objectives, the House's objectives and the Senate's objectives are all aligned.

We want to create a competitive business-tax system. We have one of the highest tax rates in the world. We have a crazy concept of, "If you leave the money offshore, you don't pay taxes." So it's not a surprise trillions of dollars are sitting offshore.

The president also wants us to have middle-income tax cuts. That's what the House plan is about. That's what the Senate plan is about. When you look at them, there are some minor differences. But the good news is, the objectives are exactly the same. Whatever differences there are, I'm comfortable that we will get them together.

MR. BAKER: Is that 20% rate low enough in terms of the international environment to get the kind of boost to investment in the U.S., investment in jobs that you want? How important is it that it stays as close to 20% as possible? Because there is some suggestion that as part of the compromise process it might drift up.

MR. MNUCHIN: No, it's not going up. I can tell you this is one of the things that the president feels very strongly about. Twenty percent. So this will be a significant tax cut for corporations.

MR. BAKER: Turning to some of the provisions on the personal-tax side, one that's causing a lot of neuralgia for a lot of members of Congress, particularly Republican members of Congress in high state- and local-tax states, is the provision to eliminate or to significantly reduce the deductibility of state and local taxes.

You know very well there are a number of Republicans who have already come out in the House and said they can't support it. The Senate does away with it completely in its proposal. Is that something that you'll be willing to be flexible about?

MR. MNUCHIN: The issue here is fundamentally we believe that the federal government should get out of the business of subsidizing the states. Having said that, if you're in New York, you're in New Jersey or you're in California, for a median income of $75,000, a family of four, you're going to get a tax cut that's over $1,000. For someone who makes $300,000, you're going to get a tax cut, even in the high-tax states, of several thousand dollars.

For someone who makes $1 million in the high-tax states, you are going to get an increase. But those people will get the benefit of lower business taxes. As the president said, this is not about cutting taxes for rich people. This is about middle-income tax cuts and making our business taxes competitive.

MR. BAKER: Almost the very first thing the president did as he took office was to take the U.S. out of the Trans-Pacific Partnership. The other 11 TPP signatories or planned signatories have agreed to go ahead and push on with their own trade pact. The worry is that the U.S. is missing out here on an opportunity for leadership that other countries in the region are seizing. Isn't it a risk that you're not going to be part of critical discussions as this critical region continues to grow and seek opportunities for growth?

MR. MNUCHIN: We fundamentally disagree with that interpretation. When I showed up at my first G-20 meeting, it was right after the president had been elected. People were concerned. People were concerned about our policies on trade. People were concerned about protectionism.

Let me be clear. The president believes in free and fair trade. We are one of the largest trading partners in the world. We have one of the most, if not the most, open investment market in the world. The president wants to make sure that other markets are as open to us as we are to them.

Two of the conversations the president had with President Xi were on trade and North Korea. The president wants to make sure these other markets are open and that we have fair trade for the U.S.

MR. BAKER: What about Nafta? The president keeps threatening to withdraw the U.S. from Nafta if it doesn't get the kind of concessions it wants. The Wall Street Journal polls economists, and 89% of the economists polled said for the U.S. to pull out of Nafta would hurt the U.S. economy. Are they wrong?

MR. MNUCHIN: If the end result is we have a better deal, which is what the president wants, that will be better for the U.S. economy and for U.S. business. I'm optimistic that we will renegotiate this deal.



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THE WALL STREET JOURNAL.
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**Index Shifts to Alter ETFs**

By Ben Eisen
422 words
20 November 2017
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English


Major U.S. stock indexes are scheduled for a face-lift.

S&P Dow Jones Indices and MSCI Inc., whose indexes are tracked by trillions of dollars held in exchange-traded funds, rolled out a series of planned changes to their company sector groupings this past week.

The changes will affect where companies are grouped within benchmarks like the **S&P 500** and could alter what stocks are held in certain industry-focused ETFs.

The latest shifts reflect the way the corporate landscape has changed in recent years. Foremost, the index will update the telecommunications sector, which now looks like a relic of a past era.

The telecom sector made up 9.8% of the **S&P 500** in 1989 but has shrunk to a 1.8% weighting, according to S&P Dow Jones Indices.

After a long period of consolidation, it holds just three companies.

The telecom sector will be broadened to encompass communications.

That means creating a new media-and-entertainment industry group within it that will inherit the media companies that are currently classified in the consumer-discretionary sector.

After the change, the current telecom stocks will be side by side with the likes of advertising, publishing and interactive media firms.

There are a couple of other changes.

Internet retail, a subindustry within the consumer discretionary sector, will absorb some e-commerce companies that are currently in the tech sector.

Also, the internet and software and services subindustry in tech will be discontinued, with the companies being classified elsewhere.

A new tech subindustry called internet services and infrastructure will also be created in its place.

More guidance is expected in January, when some of the affected companies are announced.

The changes will go into effect next September.

Some of those affected may include the big tech firms, given the updates to the tech sector, analysts say.

This could also change what sector-tracking ETFs hold, though it will be up to the ETF providers to decide how to account for those changes.

The real-estate sector's spinout from the financial sector may offer one template.

At the time, theFinancial Select Sector SPDR, the largest financial sector ETF, issued a special dividend to investors in the form of shares in a newly created real-estate sector ETF.

It remains to be seen how the sector shifts will affect investors, but it is clear index creators are trying to keep up with the times.



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THE WALL STREET JOURNAL.
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Heard on the Street
**Even U.S. Blue-Chip Corporate Bonds Aren't So Safe**

By Richard Barley
432 words
20 November 2017
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J
B11
English


[Financial Analysis and Commentary]

If the great bond rally of the past decade is nearing a top, the losses could be bigger than many people think. Even blue-chip U.S. corporate bonds could harbor nasty surprises.

One measure already shows potential complacency: The difference between yields on U.S. investment-grade corporate bonds and Treasurys -- or the extra interest investors get for lending to companies that might go bust rather than to the government -- is at its narrowest point since the summer of 2007. The gap hit a milestone in October at just 1 percentage point.

There is another indicator that should be just as important: duration, a measure of how sensitive a bond's price is to movements in yield. If bond yields rise, prices fall, but low-duration bonds will suffer less and offer more protection to investors than long-duration bonds.

But low rates have made it attractive for companies to sell long-term debt, and right now corporate-bond duration is remarkably high, meaning small movements in rates can have an outsize impact on **bond prices**. For instance, when yields rose around 0.5 percentage point in the weeks after Donald Trump won the presidency in 2016, it wiped some $200 billion off the market value of U.S. corporate bonds.

It is the combination of tight spreads and higher duration that is unsettling, as it has eroded the cushion bondholders have if the tide turns. And it has led to a vast transfer of credit and interest-rate risk from companies to lenders. This year will mark the sixth consecutive year U.S. investment-grade supply tops $1 trillion, according to industry body Sifma.

The dynamics of a market rally this long work differently in corporate bonds and equities. Sure, reasonable global growth and low inflation for now provide a benign backdrop; default rates are low.

But once bond spreads reach such tight levels, more of the benefit of growth accrues to shareholders. Share prices can always go higher, while bond spreads can't narrow much more. Bond investors' risk is skewed to the downside, since any downturn in earnings will result in corporate leverage turning out to be higher than appreciated, as cash flows contract relative to debt outstanding.

It may take time for these concerns to hit the corporate-bond market, since the search for yield is a powerful force. But for bondholders, the pursuit of higher returns is only getting riskier.



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THE WALL STREET JOURNAL.
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**U.S. News --- THE OUTLOOK: Economic and Equities Trends Diverge**

By Josh Zumbrun
757 words
20 November 2017
The Wall Street Journal
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A2
English


There's something about economic growth and stock markets, across the developed and emerging world, that doesn't add up.

For most of the past decade, the stock markets of developed countries have powered higher even as their economies struggled with sluggish growth.

By contrast, emerging-market economies have grown dramatically, but their stock markets have been dismal.

"It's difficult to imagine a very large and persistent disconnect between equity markets and the real economy continuing indefinitely," said Eswar Prasad, a senior fellow at the Brookings Institution.

To contemplate the extent of this disconnect, Mr. Prasad and his colleague Karim Foda of the Brookings Institution's Global Economy and Development program compared the growth and market performances of the major advanced economies with those of the largest emerging markets.

Think of it as the major G-7 economies (U.S., U.K., Canada, Japan, Germany, Italy and France) vs. the BRICs (Brazil, Russia, India and China).

U.S. stocks have climbed 76% over the past decade, outperforming India's market by more than 10 percentage points, the Brookings program calculated. Over that same period, India's economy grew 89% vs. just 14% for the U.S.

Over the past decade, China's economy has more than doubled in size while its market has declined 35%.

Not all emerging markets have posted such rapid growth. Russia's economy, for example, has grown just 6.5%, barely faster than Japan. But despite posting slightly better growth, Russia's markets are down 50% while Japan's are up by 46%.

This observation is true whether focused on the biggest emerging markets, or on all emerging markets collectively. Over the past decade, emerging-market economies have nearly doubled in size, growing at an annualized rate of 6.6%, according to data from the International Monetary Fund.

The MSCI Emerging Market **stock index** has climbed at an annualized rate of just 0.6% over that same decade.

Individual markets and economies have their stories. China's economy has been slowing, a disappointment to some investors. Brazil and Russia had recessions driven by a drop in commodity prices. On the other hand, developed countries have held interest rates near zero and their central banks have flooded their economies with money to spur growth.

Generally speaking, the developed countries have aging demographics and slow productivity growth, while the emerging world has younger populations and can post faster productivity growth simply by copying wealthier countries.

Some of the disconnect is likely natural. "Emerging-market equities rarely outpace developed-market equities to the extent one might expect when looking at the markedly superior economic growth rate among emerging economies," said Eric Lascelles, chief economist of RBC Global Asset Management.

Mr. Lascelles sees a handful of reasons a sizable gap could persist. First, emerging markets, in general, have more meddlesome governments and worse corporate governance, he said, which could result in less of their economic growth benefiting investors in those economies. Secondly, the stock markets in the major developed economies are full of companies that operate globally, and thus can still benefit substantially from emerging-market growth.

Stock markets can run for years -- perhaps very many years -- disconnected from economic fundamentals. But ultimately, the overall profitability of equity markets must have some tie to economic growth. There must be more real income, somewhere in the economy, for customers to buy products.

The difference in economic growth is expected to continue. Over the next five years, emerging-market economies are forecast to grow an additional 44% vs. just under 20% for advanced economies. Five years from now, in 2022, the IMF forecasts emerging markets will eclipse the G-7 economies in overall size.

Broadly speaking, there are four ways the current paradox could be resolved.

Developed economies could accelerate much more than anyone expects, helping to justify their buoyant markets. Or developed markets could come down, better aligning with their growth. Emerging markets could also slow more than anyone currently expects, so their stock valuations look more justified. Or emerging-market stocks could boom, better aligning with their generally robust growth.

Some combination of all four things could happen. The only thing that looks unlikely is for the current dynamic to continue indefinitely.

"Things that cannot be sustained will eventually end," Mr. Prasad said, "and the concern with **financial markets** is that adjustments happen not gradually, but very rapidly, and in a way that creates turmoil."



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THE WALL STREET JOURNAL.
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Heard on the Street
**Worriers (Usually) Get Market Wrong**

By Spencer Jakab
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B11
English


[Financial Analysis and Commentary]

Sir John Templeton famously said "this time is different" are the four most dangerous words in investing. While anyone caught up in a speculative bubble would do well to heed him, the four costliest words for a long-term investor may be "this is the top."

The fear of buying risky assets such as stocks and watching as prices tumble can have a paralyzing effect, sapping potential returns. There is almost always a reason to be nervous, but the vast majority prove false.

For example, in February 2014 a chart made the rounds on Wall Street showing an eerie correlation between the **Dow Jones Industrial Average** in 1928 and 1929 and the **S&P 500** from mid-2012 through early 2014. A continuation of the pattern would have meant an almost imminent crash. Anyone who sold has missed out on a 56% total return for the **S&P 500**. In December 1996, Federal Reserve Chairman Alan Greenspan warned about "irrational exuberance" in markets, and the **S&P 500** doubled over the following three years including dividends.

Even something as concrete as valuation is disastrous as a market-timing tool. A widely used metric popularized by Professor Robert Shiller of Yale University, the cyclically adjusted price/earnings ratio, has been elevated before sharp **stock market** reversals. Nevertheless, it has spent about half of the past decade in the most expensive decile of readings in its 136-year history, and stocks have doubled over that time including dividends.

Today, investors aren't worried about many things, which itself is worrisome. Take the Wells Fargo/Gallup Investor and Retirement Optimism Index: It hasn't been as high since 2000, just as the technology bubble was bursting.

Another measure cited by Mr. Shiller, whose book "Irrational Exuberance" was published the month the tech bubble peaked, shows that wealthy investors are more confident that a crash won't occur in the next six months than any time since June 2015. History shows that high levels of confidence usually occur before crashes, as they did before the past two bear markets. The confidence level is higher now than it was either of those times.

An even longer-running poll, the Investors Intelligence survey of advisers, recently registered the highest **bullish** reading since a few months before the 1987 **stock market** crash.

Investors have been right not to call a top, but they are starting to act like this time is different.



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The New York Times

NONFICTION
Book Review Desk; SECTBR
**Roller Coaster**

By CHARLES R. MORRIS
984 words
19 November 2017
The New York Times
NYTF
Late Edition - Final
10
English


A FIRST-CLASS CATASTROPHE

The Road to Black Monday, the Worst Day in Wall Street History

By Diana B. Henriques

393 pp. Henry Holt & Company. $32.

Diana B. Henriques is an award-winning financial journalist and a best-selling chronicler of the Bernie Madoff Ponzi scheme. Her new book focuses on a 30-years-ago crisis -- the Black Monday debacle of 1987 when the **stock market** turned in a one-day loss that, on a percentage basis, was almost twice as large as the steepest drop in 1929. In making her case for the importance of the 1987 crash, Henriques has produced a valuable and unfailingly interesting account of a crucial two-decade period in Wall Street history -- when markets made a full-bore transition from serving individual investors to a system dominated by giant corporations, mostly trading for themselves, and competing by means of arcane computer algorithms and spectacular processing speeds.

A critical factor in her tale is the ''financial future.'' Futures are an old instrument used in trading commodities, like wheat. At spring planting, farmers and wholesale buyers could execute future contracts to lock in prices at harvest. Futures regulation, however, wasn't fully formalized until the creation of the Commodity Futures Trading Commission (C.F.T.C.) in 1974.

A portentous milestone was passed when the Chicago Board of Trade and the Chicago Mercantile Exchange, or ''the Merc,'' started trading financial futures on a host of instruments -- Treasury note interest rates, government-issued mortgage bonds, foreign currencies and various **stock index** futures, like Value Line and the **S & P 500** stock indexes. After a jurisdictional catfight between the C.F.T.C. and the Securities Exchange Commission (S.E.C.), the regulators settled into an uneasy truce, although the Chicago institutions consistently outgunned the S.E.C. and the New York Stock Exchange in creativity and aggressiveness.

It took only about a decade for futures and related instruments like options to dominate Wall Street trading. The intellectual motivation came from new axioms of ''efficient markets'' and ''rational agents'' that held that untrammeled markets were always self-correcting. Portfolio mathematics superseded fundamental business analysis. Computers and new cadres of ''quants'' reigned.

In the 1970s, two young professors at Berkeley's business school, Hayne E. Leland and Mark Rubinstein, conceived the idea of ''portfolio insurance,'' a technical method for protecting the value of a large institutional portfolio. They joined with John O'Brien, a highly sophisticated trader and a master salesman, to form a company, Leland O'Brien Rubinstein Associates (LOR), that soon was racking up stunning sales.

LOR's product was a set of algorithms that clicked in during a market downturn to limit losses. When the insurance algorithms were triggered, computers would sell futures to lock in a pricing floor, and then reverse the process as markets recovered. The concept was simple, but its execution requirements were formidable.

Skeptical customers asked what would happen if the markets didn't step up and buy futures at ''rational'' prices. That was easily waved off. Yes, in panicky markets, the futures clearing prices might be lower than the rational price, but canny traders would soon recognize the bargains on offer. That glibly danced by a scarier issue, however -- the sheer scale of portfolios that were protected by insurance. A truly serious downturn could trigger huge robotic futures sales that could overwhelm the capacities of the traders.

And that duly happened on Black Monday, Oct. 19, 1987. After several weeks of slipping markets, floods of computer-driven futures orders hit the Chicago markets, overwhelming their systems and driving a steep plunge in futures prices, many all the way to zero, which signaled no bids at all. As futures prices collapsed, the implacable insurance algorithms accelerated the selling. Henriques gives us a gripping, almost minute-by-minute account of the weeks that followed, including the posturings, the denials and the panics, as well as the ''web of trust, pluck and improvisation'' that pulled the markets through.

Summing up the crisis, Henriques places blame on ''disparate, blindly competitive and increasingly automated markets ... gigantic and increasingly like-minded institutional investors'' and ''a regulatory community that was poorly equipped, ridiculously fragmented, technologically naïve and fatally focused on protecting turf.''

Henriques overstates her case, however, when she writes that ''more than a trillion dollars in wealth had been lost.'' And she cites a comment from President Reagan at an impromptu news conference during the worst days of the crisis that ''all the business indices are up. There is nothing wrong with the economy,'' which she compares to Herbert Hoover's complacency in 1930.

Actually, Reagan was right. The economy was fine. From 1986 through 1989, real (inflation-adjusted) growth was 3.5 percent, 3.5 percent, 4.2 percent and 3.7 percent. The 1980s **stock market** was a roller coaster. It opened with historically low price-earnings ratios, which allowed canny leveraged buyout investors to snap up solid companies at bargain prices. As copycat investors flooded into the buyout markets, the quality of deals deteriorated -- laughably, one major acquisition was insolvent on the day the deal closed. The trillion-dollar drop in market values was just a recognition of reality. The saps who took the losses were counterbalanced by the lucky investors who got their money out in time.

That said, Henriques has produced a highly intelligent and perceptive analysis of an important transitional era in modern finance. She is quite right that the quant-driven market complexities of the 1980s finally caused a real crash in 2007-8. Sadly, the deregulatory crusaders of the current administration seem to have paid no attention.

Charles R. Morris's most recent book is ''A Rabble of Dead Money,'' a history of the Great Depression.

Traders on the floor of the New York Stock Exchange on Black Monday. (PHOTOGRAPH BY ASSOCIATED PRESS)

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**Bitcoin Roars Back To Nearly $8,000**

By Steven Russolillo
413 words
18 November 2017
The Wall Street Journal
J
B10
English


The price of bitcoin surged Friday to a record near $8,000, erasing the sharp pullback last weekend in a stretch that is **volatile** even by the digital currency's standards.

After slumping more than 25% over four days, bitcoin roared back this week, jumping to its highest level of $7,998 on Friday morning in Asia before retreating slightly, according to research site CoinDesk. The digital currency has risen more than 700% this year ahead of a highly anticipated launch of bitcoin futures, which could draw more institutional investors into the small yet growing market.

Price swings are common in the cryptocurrency markets. Bitcoin has had five separate declines this year of more than 20% off recent highs. Still, the latest action stands out for what some market watchers described as unusual activity involving bitcoin and an alternative version of the digital currency called Bitcoin Cash, which has quickly grown in popularity.

Bitcoin Cash's price recently quadrupled in four days just as bitcoin was tumbling. Simultaneously, activity from so-called miners -- businesses that process transactions on the network and get paid in new coins -- spiked on Bitcoin Cash, quickly retreating and going back to the original bitcoin.

"It seems highly likely that this was an elaborate pump-and-dump scheme," wrote Ben Thompson, an independent analyst and author of the tech newsletter Stratechery.

Bitcoin recently traded around $7,800 after falling below $6,000 on Sunday.

"Money has rushed back into bitcoin," said Arthur Hayes, founder and chief executive of BitMEX, a bitcoin-derivatives exchange in Hong Kong. "We're back from where we started from last week."

Traders' focus is shifting to the coming launch of bitcoin futures contracts. Earlier this week, Terry Duffy, chairman and CEO of CME Group Inc., told CNBC he expects the futures contract listing could come in the second week of December. The U.S. Commodity Futures Trading Commission is reviewing the exchange's plan for launching bitcoin futures.

Futures are derivatives contracts that investors and companies typically use to speculate on prices or hedge risk against market swings. Derivatives traders acknowledge the complexities that exchanges face in starting a healthy, thriving market for cryptocurrency futures or options, including how to value bitcoin derivatives and whether there will be enough traders who can consistently post prices.

"It's a wild-west and rumor-driven market," said John Spallanzani, chief macroeconomic strategist at GFI Securities LLC.

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THE WALL STREET JOURNAL.
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**Investor Zeal Cools For Riskiest Debt**

By Manju Dalal, Saumya Vaishampayan and Christopher Whittall
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18 November 2017
The Wall Street Journal
J
A1
English


Emerging-market bonds are showing signs of stress, fresh evidence that investor interest in some of the world's riskiest debt may be cooling down after a long rally.

Companies in China, Hong Kong and Indonesia recently pulled planned bond sales totaling $800 million in dollar-denominated debt. The companies blamed weak market sentiment, bankers and investors said. Venezuela bonds, already trading at distressed levels, fell further this week after two ratings firms declared the government in default after missed interest payments.

The recent weakness in emerging markets was part of a broader correction in junk-**bond prices** around the globe this week that has mostly affected lower-rated issuers. The selloff followed some poor U.S. corporate earnings and a pullback in the **stock market** that raised concerns that riskier investments are due for a more sustained downturn.

Flows out of high-yield bond funds jumped to $6.7 billion in the week ended Nov. 15, according to strategists from Bank of America Merrill Lynch. That was the third highest withdrawal on record, the bank said.

"We're seeing huge outflows from mutual funds and ETFs, so it's triggering this domino effect," said Stephen Ketchum, managing partner at Sound Point Capital Management.

Bondholders' recent skittishness marks a sharp turn from most of this year, when yield-hungry investors plowed billions of dollars into emerging-market bonds.

Many investors have been betting that global growth and a low default rate in the developing world means that selloffs should be viewed more as opportunities than warnings signals. "When there are periods of weakness, investors have been very conditioned . . . to buy the dip," said Ashley Perrott, head of pan-Asian fixed income at UBS Asset Management in Singapore.

And by the end of the week, there were signs that the junk market was settling down. High-yield bonds staged a big rebound on Thursday. The average yield in the Bloomberg Barclays U.S. corporate high-yield index dropped to 5.82% from 5.97% on Wednesday, its largest decline in nearly 14 months. **Bond prices**, which move inversely to yields, were mostly flat on Friday.

A large part of the recent high-yield bond declines have also been concentrated in the debt of some telecommunications firms, which account for a large chunk of the market.

But in much of the developing world, bond markets remain on edge. As prices have fallen, yields on global high-yield and emerging-market bonds have climbed. The average spread -- or the gap between yields on these bonds and U.S. Treasurys -- this week hit a two-month high of 3.88 percentage points, after touching a multiyear low of 3.41 percentage points in late October, according to a Bank of America Merrill Lynch index. The index has gained 8.6% this year.

China's benchmark 10-year yield jumped to a three-year high this week. Foreign investors were also net sellers of emerging-market debt in Asia for the first time this year in October, according to Australia & New Zealand Banking Group Ltd.

Venezuela's missed debt payments, along with political tension stretching from Lebanon to Zimbabwe, rattled investor sentiment.

After months of big gains, analysts are now watching for signs of a turn in sentiment as major central banks, led by the Federal Reserve, reverse years of easy monetary policies that have encouraged many investors to embrace riskier assets. Yet, some say as long as central banks taper their bond purchases or raise interest rates slowly and inflation stays low, higher-yielding assets will remain attractive.

Given the strong rally earlier this year, "it was inevitable that emerging markets would go through an air pocket," said Luke Spajic, head of portfolio management of emerging Asia at Pacific Investment Management Co.

Investors have turned more cautious ahead of a flurry of new dollar-bond deals coming before the Thanksgiving holiday next week. That includes Nigeria's plans to sell up to $5 billion in government debt next week, which data provider Dealogic says would be the largest such deal ever from Africa.

Many issuers are also preparing to sell bonds before Christmas ahead of the Fed's next possible interest-rate increase. They include Chinese internet companies Alibaba Group Holding Ltd. and Baidu Inc., which are planning or considering U.S. dollar-bond sales, according to people familiar with the matter.

But other issuers have pulled back after not finding enough interest. Hong Kong-listed Concord New Energy Group Ltd., which has a high speculative-grade credit rating, this week tried to sell three-year dollar bonds at a yield of 7.125%, but failed to attract sufficient investor demand.

Chinese steelmaker Inner Mongolia Baotou Steel Union Co. also withdrew a $200 million sale of three-year unrated bonds on which it wanted to pay 5.7%, while Indonesian palm-oil producer Sawit Sumbermas Sarana canceled what would have been its inaugural sale of $300 million in U.S. dollar bonds.

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Julie Wernau and Sam Goldfarb contributed to this article.



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THE WALL STREET JOURNAL.
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Business World
**For GE Investors, Growth in the Spring**

By Holman W. Jenkins, Jr.
788 words
18 November 2017
The Wall Street Journal
J
A13
English


Don't believe in magic. The secret revealed in GE's troubles is that there is no secret.

General Electric fared brilliantly two decades ago under Jack Welch because he steered it into growing businesses in a booming global economy, then whipped his underlings to control costs and extract profits. Any synergies from a lower cost of capital or mastering the arcana of tax regulation were probably a small factor in his success.

His methods were always going to be hard for his successors to replicate. Competition from private equity for undervalued business opportunities is greater. Other companies use the same whips now to mobilize employees. A certain CNBC host used to debunk corporate tax reform because companies like then-parent GE seldom pay the statutory rate. In fact, curbing wasteful tax-minimization strategies is the best argument for tax reform. In any case, Corporate America (especially Silicon Valley) has long since caught up with GE in this department.

Under Jeffrey Immelt, GE suffered a pretty ordinary case of a company being in markets that didn't grow as expected, especially power. And a good bit of successor John Flannery's turnaround, the plan for which was unveiled this week, will actually consist of waiting till things get better.

Unlike Mr. Immelt, though, he has the advantage of being able to bash previous management in the meantime. Staff at the power division are singled out for being slow to respond to falling turbine shipments, etc. But it wasn't staff that decided to saddle GE with the turbine business of France's Alstom two years ago. And what to make of French Minister Arnaud Montebourg's comment that the GE-Alstom deal represented "the return of the state in the economy"? Mr. Montebourg opposed GE's bid at first, then ended the fight by allowing three of Alstom's units to become joint ventures of GE and the French state. Mr. Immelt even promised that GE, which usually cuts costs and consolidates operations, would create 1,000 additional jobs in France.

GE struck a similarly ill-starred bargain last year for a controlling stake in oil-field services outfit Baker Hughes, hoping to catch a rebound in **oil prices**. It didn't happen but still might, in which case Mr. Flannery may well shelve plans to dump the stake when contractually permitted to sell in 2019.

Mr. Flannery is said to be hardheaded and probably is. Half his job now is to beat down the **stock price** and blame previous management, then wait for things to look up.

He receives only lukewarm plaudits from Wall Street for his promise to make GE smaller, with fewer ways to stumble in the future. Any philosophizing about what businesses are "core" to GE was always a bit of a show. The "core" businesses are those that stand to make Mr. Flannery look good a year or two from now. Electricity demand is expected to increase 50% in the next 20 years; GE turbines generate one-third of the world's electric power. You would be crazy to sell this business at a price depressed by a passing episode of mismanagement, especially when it has strong technical overlap with GE's aircraft-engine business.

What do these have to do with medical devices? Nothing, but GE will be keeping medical devices too, because the division is doing well and Mr. Flannery ran it.

Whether GE is a sensible conglomerate is a question that occupies theorists. From today's position, cyclical and management improvements alone ought to be able to provide shareholders a return on their now-depressed holdings.

What strategic suspense remains concerns Mr. Immelt's digital strategy, subject of so many curious commercials featuring wispy millennials explaining their jobs to their dads.

He spent $4 billion on an "industrial internet" to monitor the performance of turbines and other devices down to their smallest parts, greatly economizing on maintenance and downtime. But GE's "Predix" software proved buggy. The company had to call a two-month "timeout" earlier this year. And customers were confused why a software "service" came with so many equipment-purchase obligations. Eventually, too, GE dumped its own expensively built server farms in favor of Amazon Web Services. Shareholders, of course, have yet to see a return from any of this.

Mr. Immelt was surely correct that digital technology will revolutionize heavy industry. Whether GE really has much to offer against nimbler startups with names like Uptake and Flutura remains a question. Never mind. What will really make Mr. Flannery's tenure is today's battered down **stock price**.



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**Where Have All the Public Companies Gone?**

By Jason M. Thomas
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17 November 2017
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A15
English


The media and the public pay a lot of attention to broad **stock market** indexes, but many of the most well-known measures aren't what they seem. The Wilshire 5000, for example, contains roughly 3,500 companies. There haven't been 5,000 domestic stocks to include in the index since 2005.

The number of public companies in the U.S. has been on a steady decline since peaking in the late 1990s. In 1996 there were 7,322 domestic companies listed on U.S. stock exchanges. Today there are only 3,671. Easy access to venture, growth and private-equity capital means that companies no longer need to pursue an initial public offering to fund growth or access liquidity. Increases in regulations, shareholder lawsuits and activist demands have also diminished the appeal of a public listing. Over the past two decades, the number of annual IPOs has fallen sharply, to 128 in 2016 from 845 in 1996.

Companies are going public later in their lifespans -- if they ever do at all. The dearth of IPOs has led to a 50% increase in the average age of public companies, from 12 years in 1996 to 18 years in 2016. Jeff Bezos founded Amazon in 1994, taking the company public three years later with an enterprise value of approximately $600 million. From 1997 to 2002 public investors enjoyed a 12-fold appreciation in Amazon's stock. Conversely, Mark Zuckerberg waited until Facebook was eight years old before taking it public. At the time of Facebook's IPO in 2012, the social-media company had a market value of more than $100 billion.

The trend away from IPOs has benefited private market players at the expense of everyday investors. With companies like Uber, Airbnb and other successful startups delaying their IPOs for so long, there is little prospect for public returns on a scale similar to those enjoyed by Amazon's early stockholders. The aversion to public listings isn't limited to the technology sector. Microcap, small-cap and midcap stocks have all but disappeared from U.S. exchanges. Over the past 20 years, the average size of a publicly listed company in the U.S. has risen nearly fourfold, after accounting for inflation.

As a large number of yesterday's "growth stocks" have migrated to private portfolios, so too has the diversifying economic exposure they provide. The dispersion of stock returns -- the average difference in monthly returns across all stocks -- has declined as a result, narrowing the gap between the winners and losers. Less dispersion reduces the value of stock picking, and investors have responded accordingly. Since 2000, roughly $1.7 trillion has been invested using passive strategies like exchange-traded funds and index mutual funds. At the same time, funds pursuing active strategies have experienced $1.4 trillion in outflows.

Since ETFs and index funds buy stocks on a pro rata basis, ignoring price or fundamentals, the rise of passive investing has intensified the correlation of returns across stocks. Discretionary, research-based stock selection now accounts for only 10% of average trading volume. The offsetting deviations in company performance that were once the hallmark of a broadly diversified stock portfolio have been overwhelmed by marketwide buy or sell orders.

Equity allocations are supposed to offer investors exposure to earnings growth and idiosyncratic business risk. Company-specific outperformance has become increasingly difficult to achieve in public markets dominated by mature businesses and passive fund flows. Today, it isn't possible to assemble a portfolio with the same makeup as the **stock market** of 1997 without exposure to private markets.

Many investors take this approach in emerging markets, where mega banks, mining, energy and telecommunications companies tend to account for a disproportionate share of available stocks. The limited pool of investment options in such countries means that market values tend to be highly correlated and fluctuate in response to fund flows rather than fundamentals. The greater the dissonance between the **stock market** and the real economy, the more investors must rely on various forms of private equity to gain exposure to the underrepresented but faster-growing industry segments and companies.

The **stock market** today isn't the **stock market** of 20 years ago. Investors, take heed.

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Mr. Thomas is director of research for the Carlyle Group.

(See related letter: "Letters to the Editor: Problems Ahead as Public Company Numbers Decline" -- WSJ Nov. 28, 2017)



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THE WALL STREET JOURNAL.
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**Streetwise: The Antidote to the Fed's Poison**

By James Mackintosh
965 words
17 November 2017
The Wall Street Journal
J
B6
English


Janet Yellen has two meetings left as chairwoman of the Federal Reserve, and traders think they know exactly what she will do with interest rates. Federal-funds futures peg the chance of a quarter-point increase next month at 97%, with just a 5% chance of a further rise at her swan song in January.

Ms. Yellen has plenty of time to shake the complacency of markets, and she should. The best way is to become less predictable. An emergency Fed meeting on a Sunday could raise rates some random amount, say 0.07 percentage point. Even better, the Fed doesn't need to even issue a press release about it, let alone hold a press conference. Let the markets find out that the overnight borrowing rate has gone up when it, well, goes up.

Such talk is heresy for the modern central banker, and markets would hate it. But that is the point. Central banks have been coddling investors for years with transparency and forward guidance, to such an extent that the question of what policy makers will do has primacy over analysis of inflation and the economy.

Central bank openness and the unwillingness of policy makers to surprise investors was a powerful drug in the crisis, but leaks a slow poison into the markets. The result is that investors have piled on bad risks they would otherwise be unwilling to take on. It also degraded the quality of the signals markets send about the economy. Perhaps worst of all for central bankers, the transparency has conspicuously failed in its main job of getting investors to understand the policy process. Their magical aura is wavering, and the danger is the curtain is pulled back to reveal that mere economists control the monetary-policy levers.

Each of these points is important. But there is also a question of timing. Central banks became more open about their plans for a sound monetary-policy reason: They ran out of room to cut rates.

Back in 2004, the Fed worried that when it started raising rates from 1% a market panic could create economic troubles, and it didn't have much scope to respond by cutting rates further. Guiding the market about future policy succeeded in avoiding an upset like that of 1994, when unexpected rate increases rattled investors.

In the wake of the Lehman Brothers collapse in 2008, the Fed cut rates to 0% to 0.25% and had to switch to bond buying instead of further rate cutting. Public guidance about future rates became more explicit, giving central banks -- led by the Bank of Canada, then headed by Mark Carney, now governor of the Bank of England -- an extra tool to influence longer-dated borrowing costs.

The need for that extra tool is fading. The Fed last month took its first baby steps to cut the size of its bondholdings, while the European Central Bank is buying less. They should be thinking about how to back away from their crisis-era communication strategy, too, but instead they're considering making it permanent.

"Why to [sic] discard a monetary policy instrument that has proved to be effective?" asked ECB President Mario Draghi at a conference in Frankfurt this week.

"Draghi's a magician, he's tremendously good at manipulating the markets," says Matthew Eagan, co-manager of the $13 billion Loomis Sayles Bond Fund in Boston. Yet, in the U.S. it's time to let the markets find their own levels, and as the European economy recovers, the same will hopefully soon be true for the ECB.

Forward guidance menaces markets mainly because it encourages risk taking, over and above that already encouraged by low rates. With hindsight, we can see how the predictability of Fed rate rises -- a quarter point at every meeting from 2004 to 2006 -- freed financiers to pile on short-term leverage, with disastrous consequences. It isn't only the level of interest rates that matters.

Something similar has happened today. Low **volatility** has become a way of life, in part because central banks are so predictable, and it is encouraging more risk taking. The danger is that any shock will be worse as a result, and really big market disruptions help create recessions, as in 2001 and 2008.

Forward guidance also makes markets less useful as a gauge of what investors are thinking and so less effective at allocating capital to the best effect in the economy.

"The more you try to influence market prices for your own ends the less informative market prices become," says Hyun Song Shin, head of research at the Bank for International Settlements in Switzerland.

In some ways this isn't the fault of the central banks, who have mostly explained that the guidance depends on what happens to inflation and the economy (after some embarrassing early mistakes, particularly from Mr. Carney). But investors want conviction, even when central banks spell out the uncertainty. The Bank of England is furthest ahead in explaining the uncertainty, but its prediction that there is a 90% chance that in three years inflation will be between roughly 4.5% and minus 0.5% is mostly ignored in favor of its prediction of inflation just above 2%.

My suggestion of a small secret rate increase harks back to the pre-1994 era, when the Fed didn't announce its decisions until a month or later. Democratic accountability makes it hard for the Fed to adopt the "never explain, never excuse" maxim of former Bank of England Gov. Montagu Norman. But for the health of the economy and their own credibility central bankers should try to break the markets' addiction to their words.



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THE WALL STREET JOURNAL.
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**Treasury's New Debt Tactic: Go Short --- As demand increases, the department plans to issue more bonds with shorter terms**

By Nick Timiraos
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17 November 2017
The Wall Street Journal
J
B12
English


The Treasury Department has unveiled a new strategy for managing federal debt that could ease pressures set to push up long-term interest rates and reduce a potential drag on the economy.

Under the plan unveiled earlier this month by Treasury, the department would increase the share of shorter-term debt issuance and reduce the share of longer debt issuance, ending a yearslong trend that favored long-term debt issuance.

Total issuance of government debt will still rise in coming years with growing federal budget deficits. As that supply increases, it is likely to weigh on **bond prices**, pushing up yields, which rise as prices fall. And Treasury yields influence other household and business borrowing costs, such as on mortgages and corporate bonds. The Treasury's new approach will shift some of that upward pressure on yields to shorter-term debt and away from longer-term debt.

The move could also help offset another source of upward pressure on long-term yields: the Federal Reserve's slow retreat from purchasing long-term Treasurys.

The central bank last month began reducing its reinvestment of the proceeds of maturing long-term government bonds into new ones. That reduction in demand, particularly coming at a time of growing supply, is likely to further weaken prices and nudge long-term yields higher.

"The impact on the market of the Fed's balance sheet runoff is entirely determined by how the Treasury refinances those missing Fed auction purchases," said Lou Crandall, chief economist at financial research firm Wrightson ICAP.

Still, changing the Treasury's debt-management strategy right now isn't without risk given the uncertainty that already exists over how investors will manage both the Fed's unwind and the trajectory of growing budget deficits. The move also coincides with Treasury Secretary Steven Mnuchin's apparent retreat from plans to issue bonds with 50- or 100-year terms -- which would have boosted the supply of long-term debt, further weighing on prices and pushing up on yields.

After President Donald Trump's election last year, Mr. Mnuchin sent long-term Treasury yields climbing when he said the U.S. should consider extending the maturity of Treasury debt, including by issuing ultralong bonds.

Mr. Mnuchin appears to have shelved those plans after Wall Street investors, including a Treasury committee with representatives of the nation's largest financial institutions, told the department it didn't see strong or sustainable demand for such debt. The longest U.S. bond now is 30 years in duration. The Treasury plan would end a stretch in which it has issued a historically high proportion of longer-term debt. The weighted average maturity of U.S. debt has exceeded 70 months for the past year, near a multidecade high and up from a recent trough of 49 months in 2008.

The supply of Treasury government debt has been rising, with the U.S. government running deficits of 3.5% of gross domestic product for the year ended October, up from 2.6% one year earlier. Any deficits from a tax cut passed later this year or next year by Congress would further boost Treasury borrowing.

Meanwhile, the Fed will allow $6 billion in Treasury debt to mature every month during the fourth quarter without reinvestment, and that monthly amount will increase by $6 billion every quarter to a maximum of $30 billion at the end of next year.

After several years issuing a greater share of longer-term debt, the benefit of continuing to extend the average maturity "starts to diminish in terms of the gains we get," said Monique Rollins, the Treasury's acting assistant secretary for **financial markets**, at a Nov. 1 briefing. "We're looking at kind of a stabilization from here."

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Will Auctions Draw

Enough Bidders?

As the Treasury Department prepares to increase its short-term borrowing, some investors are concerned that the rising size of its auctions raises risks that could spark selling in the bond market.

Since the financial crisis, the bond dealers the Treasury relies on to make sure its offerings are fully subscribed have been buying much less debt. That leaves the agency relying on investors -- ranging from mutual funds to foreign central banks -- to pick up the slack. Dealers, investors and analysts say a sudden drop-off in bidding at auctions could produce a rapid rise in yields. Bond yields rise when prices fall. Such an increase in yield could send ripples throughout the economy.

The surge in borrowing "will make the auction process larger and more **volatile**," said Robert Tipp, chief investment strategist at PGIM Fixed Income.

Some traders, however, note that problems stemming from a poor auction could be limited to a particular offering, and that investor concerns about rising yields have persisted even as yields have remained near modern lows over the past nine years.

While Treasury data suggest dealers have been bidding less aggressively at auctions this year than since data became available, they play an essential part. This year, investors have won 80% of the $1.54 trillion in bonds they have bid for. But investor bids aren't enough by themselves to fully meet the more than $2 trillion in annual government borrowing needs.

-- Daniel Kruger



Document J000000020171117edbh00017

The New York Times

Nonfiction
Books; Book Review
**The Day Wall Street Collapsed**

By CHARLES R. MORRIS
1,008 words
17 November 2017
05:00 AM
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English


A FIRST-CLASS CATASTROPHE

The Road to Black Monday, the Worst Day in Wall Street History

By Diana B. Henriques

393 pp. Henry Holt & Company. $32.

Diana B. Henriques is an award-winning financial journalist and a best-selling chronicler of the Bernie Madoff Ponzi scheme. Her new book focuses on a 30-years-ago crisis — the Black Monday debacle of 1987 when the **stock market** turned in a one-day loss that, on a percentage basis, was almost twice as large as the steepest drop in 1929. In making her case for the importance of the 1987 crash, Henriques has produced a valuable and unfailingly interesting account of a crucial two-decade period in Wall Street history — when markets made a full-bore transition from serving individual investors to a system dominated by giant corporations, mostly trading for themselves, and competing by means of arcane computer algorithms and spectacular processing speeds.

A critical factor in her tale is the "financial future." Futures are an old instrument used in trading commodities, like wheat. At spring planting, farmers and wholesale buyers could execute future contracts to lock in prices at harvest. Futures regulation, however, wasn't fully formalized until the creation of the Commodity Futures Trading Commission (C.F.T.C.) in 1974.

A portentous milestone was passed when the Chicago Board of Trade and the Chicago Mercantile Exchange, or "the Merc," started trading financial futures on a host of instruments — Treasury note interest rates, government-issued mortgage bonds, foreign currencies and various **stock index** futures, like Value Line and the **S & P 500** stock indexes. After a jurisdictional catfight between the C.F.T.C. and the Securities Exchange Commission (S.E.C.), the regulators settled into an uneasy truce, although the Chicago institutions consistently outgunned the S.E.C. and the New York Stock Exchange in creativity and aggressiveness.

It took only about a decade for futures and related instruments like options to dominate Wall Street trading. The intellectual motivation came from new axioms of "efficient markets" and "rational agents" that held that untrammeled markets were always self-correcting. Portfolio mathematics superseded fundamental business analysis. Computers and new cadres of "quants" reigned.

In the 1970s, two young professors at Berkeley's business school, Hayne E. Leland and Mark Rubinstein, conceived the idea of "portfolio insurance," a technical method for protecting the value of a large institutional portfolio. They joined with John O'Brien, a highly sophisticated trader and a master salesman, to form a company, Leland O'Brien Rubinstein Associates (LOR), that soon was racking up stunning sales.

LOR's product was a set of algorithms that clicked in during a market downturn to limit losses. When the insurance algorithms were triggered, computers would sell futures to lock in a pricing floor, and then reverse the process as markets recovered. The concept was simple, but its execution requirements were formidable.

Skeptical customers asked what would happen if the markets didn't step up and buy futures at "rational" prices. That was easily waved off. Yes, in panicky markets, the futures clearing prices might be lower than the rational price, but canny traders would soon recognize the bargains on offer. That glibly danced by a scarier issue, however — the sheer scale of portfolios that were protected by insurance. A truly serious downturn could trigger huge robotic futures sales that could overwhelm the capacities of the traders.

And that duly happened on Black Monday, Oct. 19, 1987. After several weeks of slipping markets, floods of computer-driven futures orders hit the Chicago markets, overwhelming their systems and driving a steep plunge in futures prices, many all the way to zero, which signaled no bids at all. As futures prices collapsed, the implacable insurance algorithms accelerated the selling. Henriques gives us a gripping, almost minute-by-minute account of the weeks that followed, including the posturings, the denials and the panics, as well as the "web of trust, pluck and improvisation" that pulled the markets through.

Summing up the crisis, Henriques places blame on "disparate, blindly competitive and increasingly automated markets … gigantic and increasingly like-minded institutional investors" and "a regulatory community that was poorly equipped, ridiculously fragmented, technologically naïve and fatally focused on protecting turf."

Henriques overstates her case, however, when she writes that "more than a trillion dollars in wealth had been lost." And she cites a comment from President Reagan at an impromptu news conference during the worst days of the crisis that "all the business indices are up. There is nothing wrong with the economy," which she compares to Herbert Hoover's complacency in 1930.

Actually, Reagan was right. The economy was fine. From 1986 through 1989, real (inflation-adjusted) growth was 3.5 percent, 3.5 percent, 4.2 percent and 3.7 percent. The 1980s **stock market** was a roller coaster. It opened with historically low price-earnings ratios, which allowed canny leveraged buyout investors to snap up solid companies at bargain prices. As copycat investors flooded into the buyout markets, the quality of deals deteriorated — laughably, one major acquisition was insolvent on the day the deal closed. The trillion-dollar drop in market values was just a recognition of reality. The saps who took the losses were counterbalanced by the lucky investors who got their money out in time.

That said, Henriques has produced a highly intelligent and perceptive analysis of an important transitional era in modern finance. She is quite right that the quant-driven market complexities of the 1980s finally caused a real crash in 2007-8. Sadly, the deregulatory crusaders of the current administration seem to have paid no attention.

Charles R. Morris's most recent book is "A Rabble of Dead Money," a history of the Great Depression.

* A Pause to Recall the 1987 Crash

* Could the 1987 **Stock Market** Crash Happen Again?

* A **Stock Market** Panic Like 1987 Could Happen Again

Traders on the floor of the New York Stock Exchange on Black Monday. | Associated Press

Document NYTFEED020171117edbh0038x

 

THE WALL STREET JOURNAL.
U.S. EDITION

**Financial Climate Is Loosest Since '94**

By Ben Eisen
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17 November 2017
The Wall Street Journal
J
B6
English


The Federal Reserve keeps lifting rates, but financial conditions keep getting looser.

A measure of how easily money and credit flow the through the economy via **financial markets** is at its loosest since January 1994, according to the latest data from the Federal Reserve Bank of Chicago. The National Financial Conditions Index was most recently at minus 0.93, meaning financial conditions are almost a full standard deviation looser than average.

The latest numbers in the Chicago Fed index may be revised in the coming weeks based on future data, but a trend toward looser conditions has been continuing for much of the past 18 months. The measure tracks a variety of market factors, such as borrowing costs, **stock-market volatility**, and the level of the U.S. dollar.

Policy makers and investors alike keep a close eye on financial conditions for an indication of the effect monetary policy is having on the broader economy. When markets sold off early last year after the Fed's first rate increase of this cycle, for example, financial conditions quickly became more restrictive. Fed Chairwoman Janet Yellen mentioned it at the time, and eventually the Fed slashed its expectations for how quickly it would raise rates.

Now, the opposite is happening. The Fed is withdrawing its easy-money policy by lifting rates, actions that typically lift borrowing costs and tighten financial conditions. But conditions are loosening, and it is showing across the various tools used to measure it. The Goldman Sachs Financial Conditions Index, one of the most widely watched measures, is also currently around multiyear lows.

The Chicago Fed's measure is broad, spitting out a reading based on 105 different variables that are lumped into three categories. The bucket that has pulled the index down the most over the past year has been the one that measures credit growth. It fell to minus 0.33 from minus 0.15 in September 2016, indicating conditions are becoming more encouraging of borrowing.



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THE WALL STREET JOURNAL.
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**U.S. News: U.S. Watch**

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A2
English


WASHINGTON

Army Didn't Submit

Records of Convicted

The U.S. Army has failed to submit military conviction records to federal databases in as many as one-fifth of all cases, the Army's top officer said Wednesday, allowing those service members to bypass legal prohibitions against buying and possessing weapons.

The acknowledgment by Gen. Mark Milley, the Army chief of staff, reflected what officials are concluding is a widespread problem across the military exposed by the Nov. 5 church rampage in Texas by Devin Kelley, a former Air Force member who killed 26 people and injured 20 others.

The Army, from 1998 to 2016, logged more than 2,400 dishonorable discharges resulting from convictions in general court-martial proceedings, according to reports submitted to Congress. Names of defendants in those cases should have been submitted to the FBI for inclusion in its national background check system.

That would mean, at a minimum, nearly 500 individuals have been overlooked in the system, based on Gen. Milley's comments.

-- Nancy A. Youssef

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ECONOMY

Consumer Prices

Edged Up in October

The soft trend for inflation persisted in October, but firmer underlying numbers put the Federal Reserve in a good position to lift its benchmark interest rate next month.

The consumer-price index, measuring what Americans pay for everything from cars to phone service, advanced 0.1% in October from a month earlier, the Labor Department said Wednesday. Excluding **volatile** food and energy costs, so-called core prices increased 0.2%.

From a year earlier, consumer prices rose 2%, the first easing of year-over-year gains since June. When excluding food and energy, prices rose 1.8% from a year earlier.

That was the strongest annual gain in core prices since April, and could give confidence to policy makers considering if the economy is prepared for third increase in the central bank's benchmark interest rate this year.

Also Wednesday, the Commerce Department reported retail sales increased 4.6% on the year to October.

-- Eric Morath and Harriet Torry

Document J000000020171116edbg0002g

 

The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
**Broad Declines Reflect a Market Losing Its Momentum**

By THE ASSOCIATED PRESS
1,129 words
16 November 2017
The New York Times
NYTF
Late Edition - Final
3
English


Technology companies led U.S. stocks lower Wednesday, giving the market its biggest loss since early September.

Grocery stores and packaged foods and beverage companies also accounted for much of the decline. Energy stocks fell as the price of crude oil closed lower a day after its biggest loss since October. Banks and phone companies eked out modest gains.

The latest slide extended the market's losses from a day earlier and added to its pullback in November.

Unlike October's broad market rally, fewer stocks and sectors have been notching gains this month, and the latest market decline reflects that, noted Bruce Bittles, chief investment strategist at Baird.

"And that's exemplary of a market that's losing momentum, and that's the real story here," Bittles said. "It means the market is struggling here, and it could mean that a lot of the good news on the economy, earnings and even the potential for a tax-reform bill are to a great extent already built into current prices."

The **Standard & Poor**'**s500 index** fell 14.25 points, or 0.6 percent, to 2,564.62. The **Dow Jonesindustrial average** lost 138.19 points, or 0.6 percent, to 23,271.28. The **Nasdaq composite** slid 31.66 points, or 0.5 percent, to 6,706.21. The Russell 2000 index of smaller-company stocks gave up 7.16 points, or 0.5 percent, to 1,464.09.

The major indexes are all in the red for the month, but still near their most recent record highs.

Stocks were headed lower from the get-go on Wednesday as investors weighed a batch of new government data on inflation, retail sales and manufacturing.

The Commerce Department said retail sales rose 0.2 percent in October, while a closely watched report by the Federal Reserve Bank of New York showed manufacturing expanded at a slower pace this month in New York, but remained at a healthy level. In addition, the Labor Department said consumer prices edged up 0.1 percent last month, the smallest gain in three months. That followed a report earlier this week showing that prices at the wholesale level spiked last month.

"The inflation data that was released this week are basically giving a green light to the Fed to raise rates," said Quincy Krosby, chief market strategist at Prudential Financial.

Investors were keeping an eye on Washington, where Senate Republicans began pushing their version of a major tax overhaul that would slash corporate taxes.

But the Senate measure was complicated by the last-minute inclusion of a repeal of the section of the Affordable Care Act that requires Americans to get insurance coverage. The legislative push also appeared to hit a snag Wednesday, when Sen. Ron Johnson of Wisconsin said he opposes the GOP tax bill, saying it helps corporations more than other businesses.

Expectations of a big business tax cut have helped lift the market higher this year.

The uncertainty over the fate and timing of the tax bill contributed to growing market unease.

The VIX index, which tracks expected price swings in the **S&P 500**, jumped 13 percent Wednesday, a three-month high. The index closed at a record low as recently as Nov. 3.

A sell-off in high-yield bonds may be another potential red flag for the market. An exchange-traded fund that tracks high-yield bonds, the SPDR Bloomberg Barclays High Yield Bond ETF, has declined 2.2 percent since Oct. 24 and is at its lowest level since March.

"That would suggest, as opposed to the economy steaming ahead, that some folks are looking for the economy maybe to slow next year," said Bittles.

Technology sector stocks, which have done far better than the rest of the market this year, took some of the biggest losses Wednesday. Chipmaker Nvidia lost $4.20, or 2 percent, to $209.98. Macom Solutions Technology Holdings slumped 18 percent after the chipmaker's latest quarterly results fell short of Wall Street's expectations. The stock gave up $6.59 to $30.02.

Companies that make consumer products also were big decliners. General Mills slid $1.59, or 2.9 percent, to $52.53.

Target slumped 9.9 percent after the retailer issued a weak profit forecast for the quarter including the holiday season. The stock was the biggest decliner in the **S&P 500**, tumbling $5.93 to $54.16.

IBM fell 1.2 percent after Warren Buffett's Berkshire Hathaway disclosed that it sold another chunk of the technology company's stock. IBM declined $1.79 to $147.10.

Investors bid up shares in banks and other financial companies. Bank of America climbed 55 cents, or 2.1 percent, to $26.79.

Crude **oil prices** pared some of their early losses, but still finished lower.

Benchmark U.S. crude fell 37 cents, or 0.7 percent, to settle at $55.33 per barrel on the New York Mercantile Exchange. Brent crude, used to price international oils, lost 34 cents, or 0.5 percent, to close at $61.87 a barrel in London.

A report from the International Energy Agency pointing to strong production growth in the years ahead, particularly in the U.S., has weighed on **oil prices** this week. That's pulled down energy stocks, such as Halliburton. The stock dropped $1.25, or 2.9 percent, to $41.69.

In other energy futures trading, wholesale gasoline gave up 2 cents to $1.74 a gallon. Heating oil was little changed at $1.91 a gallon. Natural gas declined 2 cents to $3.08 per 1,000 cubic feet.

Gold fell $5.20 to $1,277.70 an ounce. Silver slid 10 cents to $16.97 an ounce. Copper shed 1 cent to $3.06 a pound.

The dollar fell to 112.89 yen from 113.40 yen on Tuesday. The euro was unchanged at $1.1794.

Major stock indexes in Europe also closed lower. Germany's DAX fell 0.4 percent, while the CAC 40 in France slid 0.3 percent. The FTSE 100 index of leading British shares was 0.6 percent lower.

Earlier in Asia, Tokyo's Nikkei 225 index tumbled 1.6 percent as manufacturers' shares were stung by a stronger yen. Hong Kong's Hang Seng lost 1.0 percent, while Australia's S&P ASX 200 fell 0.6 percent. The Kospi of South Korea declined 0.3 percent.

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

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

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THE WALL STREET JOURNAL.
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Heard on the Street
**Rumbling Markets Flash Signs Of Caution**

By Richard Barley
377 words
16 November 2017
The Wall Street Journal
J
B1
English


[Financial Analysis and Commentary]

Has winter arrived early this year? Some markets certainly feel chillier in November than in October. Answers are elusive, but markets may have set themselves up for a fall.

The wobble is notable in a year that has seen concerns about market calm and complacency build. In Europe, the Euro Stoxx index has fallen more than 4% since Nov. 1; in Japan, the Nikkei Stock Average is down that much in a week. Corporate-bond yields have risen, with the spread for U.S. high-yield debt over Treasurys widening 0.5 percentage point from October's lows. Emerging-market debt and currencies have suffered, too.

Some markets are, as yet, unruffled. The **S&P 500** is just below its record, even as concerns about U.S. tax policy have re-emerged. In Europe, the spread between Italian and German government-bond yields is close to its tightest point for more than a year.

The Swiss franc, a classic haven in times of trouble, is little changed. Moreover, the big macroeconomic picture remains one of relative solidity and broadly synchronized global growth.

It is worth putting some of the moves into context. The backup in U.S. high-yield debt appears to be driven by problems particular to the communications sector.

Local problems account for some of the moves in emerging markets, such as the renewed weakness of the Turkish lira and South African rand.

Perhaps the problem lies more with investors than assets. It has been a good year for many markets, better than might have been expected at the start of 2017 and thus a reason to cash in. More broadly, investors may have placed too much faith in extremely buoyant conditions.

As investors' expectations become more entrenched and asset prices rise, there is a risk of disappointment. The path markets are walking gets narrower, because everything has to go just right to support higher valuations and tighter credit spreads. Small deviations become more important, but also garner more attention than they otherwise might because markets are expensive.

The important question is whether enough small deviations come together to trigger a more noteworthy disruption.



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U.S. EDITION

**Gold Falls As Dollar Rebounds**

By Ira Iosebashvili
201 words
16 November 2017
The Wall Street Journal
J
B13
English


Gold prices reversed gains, following a rebound in the dollar.

Gold for November delivery fell 0.4%, to settle at $1,276.50 a troy ounce, on the Comex division of the New York Mercantile Exchange on Wednesday.

The ICE Dollar Index bounced from three-week lows and was unchanged for the day. A rising dollar tends to weigh on gold, which is denominated in the U.S. currency and becomes more expensive to foreign investors when the dollar appreciates. Stocks initially pared losses, but fell later in the day, with the **S&P 500** finishing down 0.6%.

Peter Hug, global trading director at Kitco Metals, said some investors may have sold gold holdings to raise funds for buying the dip in U.S. stocks.

When stocks fall, "traders often start selling their most liquid assets to generate cash . . . and few assets are more liquid than gold," he said.

A more pronounced selloff could eventually boost gold, which is a popular destination for investors during periods of market turmoil.

In base metals, copper for November delivery lost 0.4%, to $3.0490 a pound.



Document J000000020171116edbg0000j

The New York Times

Fact Check
U.S.; Politics
**Trump's 'Tremendous Success' Abroad Is Overstated**

By LINDA QIU
936 words
15 November 2017
07:42 PM
NYTimes.com Feed
NYTFEED
English


WASHINGTON — President Trump marked his return from a five-country tour of Asia by recounting on Wednesday its "tremendous success" and that of his other trips abroad.

Deterred only by a struggle to quench his thirst, Mr. Trump listed numerous achievements against terrorism and for United States workers in claiming that "America is back." But some of those statements don't hold much water. Here's an assessment.

He spoke of dealing ISIS 'one crushing defeat after another' since his meeting with Arab allies.

In detailing his May trip to Saudi Arabia, Mr. Trump said he spoke about "our strategy to defeat terrorists by stripping them of financing, territory and ideological support" and urged Arab states to drive terrorists from their societies.

It is true that the Islamic State has lost significant territory, including its de facto capital in Syria, "since that time," as Mr. Trump said. But the extremist group had begun losing territory well before Mr. Trump's trip to Riyadh, and he has largely kept to plans laid out under President Barack Obama.

He exaggerated when he suggested that 'billions and billions of dollars are pouring' into NATO at his urging.

After repeatedly criticizing other countries in the North Atlantic Treaty Organization for not paying their fair share to the military alliance, Mr. Trump has since claimed credit for changing the trend. He said on Wednesday that "NATO, believe me, is very happy with Donald Trump and what I did."

Under NATO guidelines, member states agreed to commit a minimum of 2 percent of gross domestic product to the organization's defense efforts, but few nations actually do so. The secretary general of the alliance, Jens Stoltenberg, said in July that five countries contributed at least 2 percent of their G.D.P. He said he expected Romania to reach the benchmark this year, and Latvia and Lithuania to next year.

While it is conceivable that Mr. Trump ushered along the process, efforts to address the disparity predated his complaints. Members that were not meeting that bar of 2 percent pledged in September 2014 — largely because of Russian actions that were continuing — to do so over the next decade.

He overstated the overall American trade deficit.

Mr. Trump said that during his Asia trip, he gave a firm warning to every country "that cheats, breaks the rules and engages in economic aggression," which, he said, is why "we have almost an $800 billion a year trade deficit with other nations." That figure is accurate when examining only the trade balance in goods, about $750 billion last year.

Trade in services, however, reduced the overall deficit to $505 billion. The total trade deficit has actually increased under Mr. Trump's watch — to $405 billion during the first nine months of 2017, compared with $370 billion during the first nine months of 2016.

He noted economic growth trends that predate his presidency.

Mr. Trump ticked off several accurate economic metrics: The unemployment rate is at its lowest level in nearly 17 years, the economy grew at over 3 percent in the last two quarters, and the **stock market** has been soaring. What he omits, however, is that those trends began under the Obama administration.

Almost all of the decline in the unemployment rate happened under Mr. Obama's watch. It peaked at 10 percent in 2009, dropped to 4.8 percent by the time Mr. Trump took office and continued to decline to 4.1 percent in October. Similarly, G.D.P. growth in the last two quarters — 3 percent and 3.1 percent — is certainly healthy but on par with numbers posted in the last three years.

He said Japan will make arms purchases 'worth many billions,' but Japan disputes that.

Mr. Trump played up Japan's commitment to its own defense capabilities and suggested that Prime Minister Shinzo Abe, whose name he mispronounced, had agreed to "purchases of U.S. advanced capabilities, from jet fighters to missile defense."

It is possible that Japan agreed to the arms sale, but if Mr. Trump and Mr. Abe did strike a deal, it would be in a very preliminary stage in a process that could take years. The Pentagon's Defense Security Cooperation Agency has yet to notify Congress of any intended sale, which must happen before negotiations can begin.

Japanese officials have also pushed back at the notion. In a report in The Japan Times last week, the Japanese chief cabinet secretary, Yoshihide Suga, said that Tokyo was following its existing defense procurement plan that was approved more than three years before Mr. Trump took office.

He claimed $250 billion in deals with China, a figure that includes nonbinding agreements.

The Commerce Department's breakdown of the $250 billion package includes several deals that are not guaranteed to proceed. For example, an $8 billion natural gas project and $83 billion in shale development projects were both agreed to in nonbinding memorandums of understanding. The breakdown also lists a $38 billion agreement for Boeing to supply China with 300 aircraft, which is in line with its 20-year forecast, and $2.2 billion in sales from General Motors to Shanghai Automotive Industry Corporation, a large automaker in China that has a joint venture with G.M.

Wondering about a claim's accuracy? Email factcheck@nytimes.com.

President Trump speaking on Wednesday in the Diplomatic Room of the White House. He listed many achievements against terrorism and for United States workers in claiming that "America is back." | Tom Brenner/The New York Times

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The New York Times

Business Day; DealBook
**Peltz May Have Won After All: DealBook Briefing**

By MICHAEL J. de la MERCED, ANDREW ROSS SORKIN and AMIE TSANG
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Happy Wednesday. We're waiting to see when — or if — the Justice Department moves to block AT&T's bid for Time Warner. And we're watching the latest twists in the Senate's tax overhaul efforts. (Want this in your own email inbox each morning? Here's the sign-up.)

• AT&T and Time Warner are still waiting for the Justice Department to decide when — or if — it will move to block their $85.4 billion deal.

• Nelson Peltz's fund said that he had indeed emerged victorious in a proxy battle with Procter & Gamble.

• A banking watchdog that found its teeth under President Barack Obama is losing its bite.

The Peltz-P.&G. Odyssey Continues

It was the biggest corporate proxy fight in history. The activist investor Nelson Peltz wanted a seat on Procter & Gamble's board, arguing that the company should be broken up. He and the company waged very expensive campaigns to sway investors to their point of view.

Last month, after a nail-biting vote, the company announced that Mr. Peltz did not get enough votes to prevail. He disputed the result, leaving unresolved his bid to bring about change at a company whose share price has lagged that of its peers for a decade.

On Wednesday evening, the fight gained another level of intrigue. Both Procter & Gamble and Trian Fund Management, Mr. Peltz's investment firm, announced another preliminary vote count by the independent inspector of elections had found that Mr. Peltz may have, in fact, been elected to the board.

What was the count? Mr. Peltz appeared to have edged out Ernesto Zedillo, a former president of Mexico, by a margin of approximately 0.0016 percent of outstanding shares, according to Procter & Gamble.

Procter & Gamble said it expected the inspector's final tally of votes in the coming weeks.

So much for the Silicon Valley tax.

Remember when tech companies were up in arms over a provision in the Senate's tax bill in which stock options and restricted stock units would be taxed upon vesting, rather than exercising? When Uber, Sam Altman of Y Combinator, and others wrote a letter to Congress urging that the change be undone?

That part of the tax bill is gone now.

When the Senate introduced an updated version of its legislation — the same one that introduced tying the tax overhaul to repealing the individual insurance mandate — this week, it eliminated the options provision. In fact, start-up employees can now defer paying those taxes until there's an opportunity for them to sell their vested stock.

A recap of why tech companies were worried:

Some start-up employees could owe big tax bills without being able to pay, since privately held companies' shares are generally harder to sell. Bigger unicorns could draw money from outside investors to let employees cash out — Uber already has — but younger start-ups have no such recourse.

Companies could pay more cash compensation, using up precious cash flow. Or they could go public — if they make it that far. Tech employees might forgo working at younger companies because they couldn't pay as much. "We legitimately can't figure out how this is going to work," one start-up adviser told DealBook's Michael J. de la Merced.

Fred Wilson of Union Square Ventures, who had been an outspoken opponent of the previous initiative, was exuberant:

I'm thrilled and I want to thank all of you who called your elected officials and those in the Senate Finance Committee who clearly understand the importance of equity compensation to the start-up model.

— Michael J. de la Merced

A banking regulator is tamed under Trump ...

The Office of the Comptroller of the Currency was once one of the friendliest regulators in Washington, but after the financial crisis of 2008, it became one of the fiercest. That's changed under President Trump.

The changes are happening without congressional action or a rule-making process, but instead through the pen of the agency's interim leader, Keith A. Noreika, who has deep connections to the industry.

Among the shifts: Making it easier for Wall Street to offer payday-style loans and clashing with the Consumer Financial Protection Bureau.

High-interest loans illustrate the divergent views of the two agencies: Less than an hour after the consumer bureau unveiled the final version of rules to rein in the payday-lending industry, which charges triple-digit annual interest rates on short-term loans, the banking regulator effectively took the opposite route.

... and may find a new ally in a recent adversary.

But changes may be coming soon to the C.F.P.B. after its director, Richard Cordray, announced his plan to step down this month.

Mr. Cordray was appointed by President Obama to a five-year term that was to end in July 2018. Under his leadership, the agency has extracted nearly $12 billion in refunds and canceled debts for 29 million consumers — making the C.F.P.B. a source of loathing for Republicans and industry alike.

Mr. Cordray's departure clears the way for President Trump to reshape the agency and for Mr. Cordray to perhaps run for governor in Ohio, his home state.

Lisa Donner, executive director of Americans for Financial Reform, said Mr. Cordray did "exemplary work on behalf of the American public." She added:

There is lots more work for the CFPB to do, and we will remain vigilant in demanding that it stick to the task. The next director of the CFPB needs a track record of standing up for consumers.

– Randy Pennell

SoftBank looks to deepen its ties to Saudi Arabia.

From Dinesh Nair, Bloomberg:

SoftBank aims to deploy up to $15 billion in a new city called Neom that Crown Prince Mohammed bin Salman plans to build on the Red Sea coast, the people said, asking not to be identified as the information is private. The Japanese company's Vision Fund also plans investments of as much as $10 billion in state-controlled Saudi Electricity Co. as part of efforts to diversify the utility into renewables and solar energy, the people said. SoftBank also will have some of its portfolio companies open offices in Neom, they said.

I'm hearing that the Vision Fund piece, at least, is accurate.

Remember that Saudi Arabia is the cornerstone investor in SoftBank's soon-to-be-$100 billion Vision Fund.

 

Extra credit: Reread Farhad Manjoo's column from last week on Saudi Arabia's complicated relationship with the tech industry, some of which is interwoven with its Vision Fund position.

— Michael

The next big Kung Fu star could be China's richest man.

From The Daily Mail:

The Alibaba founder Jack Ma needs just 22 minutes to defeat some of the world's best fighters. It helps that his company was the one making it happen.

Mr. Ma is the star of a new movie, "Gong Shou Dao," which follows Mr. Ma's character, a practitioner of Tai Chi, through a gantlet of action stars that includes Jet Li.

Mr. Ma emerges victorious, only to be greeted by three other formidable fighters: the action star Jason Statham and the boxers Manny Pacquiao and Gennady Golovkin. So... sequel?

Here's the trailer.

Will it be peace or war over the Time Warner deal?

Today could be the day that the Justice Department finally sues to block AT&T's $85.4 billion takeover bid for the media giant, according to Rich Greenfield of BTIG. Or maybe not: Michael has heard that's a possibility — but also that settlement talks have been continuing.

In his blog post, Mr. Greenfield lays out what we've heard is a longstanding concern among regulators about the last big "vertical merger" of broadband and media companies, Comcast's takeover of NBCUniversal. To win approval, Comcast agreed to several rules about how it would provide NBCUniversal content to rivals, in a consent decree meant to prevent anticompetitive behavior.

Mr. Greenfield writes:

We have long sensed regulators throughout the government felt the Comcast NBCU consent decree failed. Whether or not Comcast specifically violated the exact terms of the consent decree, we believe regulators feel the spirit was violated with Comcast pushing the envelope as far as possible.

Attorney General Jeff Sessions didn't address questions at a House Judiciary Committee hearing yesterday about possible political interference in the Time Warner deal, saying only that his team always strove to act professionally. But Brian Stelter of CNN pointed out an interesting question that Mr. Sessions declined to answer.

Critics' corner

• Michael Wolff asserts of the deal, "Even when directly told that the White House didn't like it, and that senior Trump officials were saying it was going down, AT&T put its fingers in its collective ears." (Hollywood Reporter)

• Matt Stoller of the Open Markets Institute writes, "Both Democrats and Republicans have to be careful not to open the door to an equally dangerous prospect — of dangerous monopolists wielding flimsy or even untrue political threats to justify their concentrations of power." (WaPo)

Did Senate Republicans hurt their tax plan?

Multiple factors have shifted after the Senate included a repeal of the individual insurance mandate in the latest version of its tax bill. (Doing so helps the Senate stay below its $1.5 trillion budget deficit limit.)

• Can the Senate majority leader, Mitch McConnell, get 50 votes now? Susan Collins, who was already urging changes to the plan, was a critical vote in defeating the last several attempts to replace the Affordable Care Act. But including the mandate could sway more conservative senators toward the "aye" column.

• Will lawmakers be happy with a proposal to make all of the tax cuts, except for the corporate one, expire in 2025, creating a fiscal cliff where many voters' tax bills would jump in 2026?

The House is scheduled to vote on its tax bill on Thursday, and it's expected to pass. The Senate is expected to vote after Thanksgiving. If its bill passes, there's then the arduous work of reconciling the two. (As we noted yesterday, the economist Alec Phillips of Goldman Sachs believed that the chances of a tax package being signed were looking better — but that was before the latest version of the Senate bill came out.)

Cui bono?

• At a WSJ C.E.O. Council event where Gary Cohn was being interviewed by the newspaper's editor in chief, Gerard Baker, only a few audience members' hands went up when asked if they plan to increase their companies' capital investments. Mr. Cohn asked: "Why aren't the other hands up?" (@nataliewsj)

• In a national survey of 9,504 adults conducted for the NYT by SurveyMonkey, 78 percent of respondents said they did not believe that a tax cut for their employer would mean a raise for them. (NYT)

• Other beneficiaries of the tax plans as currently written: commercial real estate firms and companies that hold patents and other intellectual property offshore. (WSJ, Bloomberg)

G.E.'s **stock price** continues to bleed.

How much worse can things get? Shares in the embattled conglomerate have fallen more than 12 percent in the days since the company's C.E.O., John Flannery, unveiled his transformation plan. That was enough of a plunge to leave Boeing as the biggest American industrial company by market value.

But the bigger crisis is existential, according to John Gapper of the FT:

I shall miss the soul of GE's old machine. If a company is just a mechanism for monitoring businesses with what Mr. Flannery calls "a very critical, analytical, dispassionate eye", the market itself is a competitor. GE used to amount to more than that.

Analysts have either lowered their price targets or are considering it, CNBC reports.

Extra credit: Remember when Trian Partners asserted that G.E. could be valued at about $40 to $45 a share by the end of this year? The fund hopes you don't.

Mohamed El-Erian would be an unusual pick for the Fed under Trump.

Both the WSJ and CNBC now report, citing unidentified sources, that the former Pimco chief executive is a candidate to become the Federal Reserve's vice chairman. Suffice to say, he would be an unusual pick for the Trump administration.

Mr. El-Erian has the qualifications. But he's also what some of President Trump's backers would consider a "globalist": He had an international upbringing as the son of an Egyptian diplomat, and his economic views generally mesh well with those of the departing Fed chairwoman, Janet Yellen.

Then again, Jerome Powell, the White House's nominee for Fed chairman, doesn't represent a sharp break from Ms. Yellen's policies, either.

Vultures are circling Venezuela.

The next big, messy default of a country may be near after credit ratings agencies said that the Maduro government had failed to meet some obligations. That has drawn in hedge funds which specialize in distressed sovereign bonds, while more traditional investors — who held billions of dollars' worth — are fretting or fleeing.

The world news flyaround

• Zimbabwe's military said that it had custody of President Robert Mugabe, but denied that it had begun a coup. (NYT)

• As many as 17 people detained in Saudi Arabia's anti-corruption campaign have required medical treatment for abuse by their captors, putting Crown Prince Mohammed bin Salman at risk of a backlash. (NYT)

• Analysts at UBS this week: "A sharp and sustained rise in the price of oil would only follow if we were to see more serious political turmoil in Saudi Arabia, or through an escalation of proxy wars in the wider region."

Jerry Jones is still fighting with his fellow N.F.L. owners.

 

The Dallas Cowboys owner denied yesterday that he has received a “cease-and-desist” warning from the N.F.L. owners who are negotiating a contract extension for commissioner Roger Goodell, after he tried to block it. But he also pressed for a delay in the process, telling CBS Sports Radio, “We just need to slow this train down and discuss the issues at hand in the N.F.L.”

Could things go nuclear? ProFootballTalk, citing an unidentified source, reported earlier this week that some owners had been discussing how to strip Mr. Jones of his ownership. In his radio interview, Mr. Jones said called that “laughable and ridiculous.”

Extra credit: Dom Cosentino of Deadspin takes a look at how the Cowboys owner became the league’s “shadow commissioner.”

Today in ‘Who’s afraid of Amazon?’

• The Morgan Stanley analyst Brian Nowak asserted this week that Jeff Bezos’s behemoth could eventually have a market capitalization of $1 trillion. (Axios)

• “The conventional wisdom is that wholesale margins are thin, but Amazon operates on even thinner margins,” Ana Gupte of the investment bank Leerink said, referring to drug wholesalers fearing that the e-commerce giant could wipe out their profits. (FT)

Everyone loves Richmond (for corporate bankruptcy filings).

According to Michael Corkery and Jessica Silver-Greenberg of The NYT, the reasons the city in Virginia has become the new hot spot for Chapter 11 filings, like that of Toys “R” Us, include:

• Its speedy “rocket docket” for processing cases

• Precedents favorable to debtors

• A willingness to approve high legal fees (Toys “R” Us’s lawyers at Kirkland & Ellis are billing as much as $1,745 an hour).

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* Advertisers Delete Tweets Around Calls to Boycott Sean Hannity

Sam Altman of Y Combinator | Lucy Nicholson/Reuters.. | The headquarters of Time Warner in New York. Today’s Time Warner is the byproduct of many rounds of spinoffs and acquisitions. | Adrees Latif/Reuters | Senator Orrin G. Hatch, Republican of Utah, delivered opening remarks during a Senate Finance Committee hearing on Tuesday. | Tom Brenner/The New York Times | Fred Prouser/Reuters | A line at an A.T.M. on Tuesday in Caracas, Venezuela. | Juan Barreto/Agence France-Presse — Getty Images | David Goldman/Associated Press | Nick Cote for The New York Times | The federal courthouse in Richmond, Va., where Toys “R” Us filed for bankruptcy. The bankruptcy court there offers several features attractive to the executives, bankers and lawyers trying to get an edge in Chapter 11 cases. | Justin T. Gellerson for The New York Times

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THE WALL STREET JOURNAL.
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**Junk-Bond Selloff Hits Telecoms --- Rout is confined to sector for now, but it could spread if fund outflows get worse**

By Jon Sindreu, Christopher Whittall and Sam Goldfarb
899 words
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The Wall Street Journal
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B1
English


An autumn pullback in the junk-bond market is centered in the telecommunications sector, raising concerns that weakness in the group could spread if withdrawals from mutual and exchange-traded funds pick up momentum.

The bond selloff has hit firms ranging from European giant Altice NV to U.S. operator Frontier Communications Corp., dragging down broader indexes of high-yield bonds -- those deemed speculative by credit-rating firms.

The selling so far has been largely contained, easing fears that the junk-bond retreat could be the first crack in a furious 2017 market rally that has taken major stock indexes around the globe to records, some investors said.

Yet telecom makes up a meaningful chunk of high-yield indexes and exchange-traded funds and some analysts are concerned that retail investors, whose exposure to junk bonds tends to come through passive funds, may get spooked by the selloff. In a worst-case scenario, they could then dump other riskier assets like stocks, these analysts say.

"This stuff can become very self-reinforcing," said Anthony Robertson, head of Strategic Value Credit at Cheyne Capital. "It can spiral out of control quickly."

As prices of telecom bonds fell, their average yield in the Bloomberg Barclays U.S. high-yield index rose to 6.63% Monday from 5.45% a month earlier, according to Bloomberg Barclays. The average yield of the entire index climbed to 5.78% from 5.46%.

Telecom companies have faced escalating challenges for some time. Growth in the U.S. wireless market has slowed and pricing pressure has chipped away at the profits of even the largest and most successful companies, such as Verizon Communications Inc. and AT&T Inc.

Shares of telecom companies in the **S&P 500** have fallen 20% in 2017, while the broader index has gained 15%. That makes the telecom sector the worst-performing of the **S&P 500**'s 11 groups.

Telecom companies with junk-rated bonds are in an especially tough position. They include the third- and fourth-largest wireless carriers, T-Mobile US Inc. and Sprint Corp., along with companies that still rely heavily on legacy landline assets such as Frontier and CenturyLink Inc. Representatives for those companies didn't comment for this article.

Bonds backed by Frontier and CenturyLink have dropped sharply after both companies reported lackluster third-quarter earnings along with downward revisions to projected earnings. Frontier's 11% notes due 2025 are trading well below par at around 76 cents on the dollar, down from 85 cents at the end of last month, according to MarketAxess.

In the case of Sprint, the recent bad news was the breakdown of merger talks with T-Mobile. Its 6.875% bonds due 2028 traded above 110 cents on the dollar as recently as Oct. 30 but were below par at 99.25 cents on the dollar on Tuesday.

Challenges exist in Europe as well: For example, the chief executive of Altice quit last week and the Dutch-listed telecom is grappling with disappointing earnings and large debts. Altice bonds maturing in 2028 traded at 94 cents of face value late in the European afternoon Thursday, according to Tradeweb. They were trading above par as recently as early November.

Some investors noted the selling followed a long rally in junk bonds that came as ultralow interest rates around the developed world pushed investors into high-yielding debt. In October, the extra yield to hold junk bonds relative to ultrasafe Treasury bonds was on the verge of reaching its lowest level since before the financial crisis. Problems largely confined to a specific set of companies shouldn't be seen as a harbinger of a widespread market downturn, some observers said.

"This is more about idiosyncratic risk," said Jeff Mueller, a high-yield debt portfolio manager at Eaton Vance.

Bonds issued by communications companies, a grouping that includes telecom as well as advertising, internet and media companies, are widely held. In the iShares iBoxx $ High Yield Corporate Bond exchange-traded fund, the largest junk-bond ETF, with $18.5 billion in assets, communications-company bonds make up 24% of the portfolio, including five of the top 10 holdings. The ETF is down roughly 2% this month, erasing much of its 2017 gain.

"We've had such low **volatility** for so long now that a move like the one we saw last week seems a lot more dramatic," said Peter Aspbury, fund manager at J.P. Morgan Asset Management.

Messrs. Aspbury and Mueller both said that the recent wobble gave them the opportunity to buy bonds they had already wanted at a cheaper price.

Cash calls for high-yield bond funds haven't been particularly large so far. The four-week moving average of net flows from U.S. loan funds was $536 million in the week ended Nov. 8, according to Thomson Reuters Lipper. That result isn't a big outlier when compared with the rest of the year.

For outflows to surge, concerns would have to grow that a larger share of issuers is in danger of defaulting, and there is no sign of that yet, Mr. Mueller said.

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Nick Kostov contributed to this article.



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THE WALL STREET JOURNAL.
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**Venezuela's Golden Generation Is Fleeing --- Fate of class of 1994 signals a nation's decline**

By Ryan Dube
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English


CARACAS, Venezuela -- The class of 1994 had big dreams upon graduating from the Ceapucv high school, a two-story building tucked into a hillside overlooking this city. Solsire Ortega wanted to run an architecture firm, while Juan David Chacon hoped to become a famous musician.

Most of the close-knit class of about 50 students intended to stay in Venezuela, where growing up meant parties on Caribbean beaches, hiking the Avila mountain range and cheering for the city's Lions baseball club. The oil-rich country was still a land of opportunity, even though they were coming of age amid the rise of Hugo Chavez and his leftist, antiestablishment movement.

In the years after graduation, Venezuela went from one of the region's oldest democracies to what the U.S. and others now call a dictatorship, from one of Latin America's richest nations to one of its poorest, and from a place where migrants came searching for opportunity to one many are trying to flee.

School ended more than two decades ago, and now about two-thirds of the class has emigrated, according to interviews with the students and former teachers, starting new lives in places like small-town Texas, Madrid, and Sydney.

They are among the two million or more Venezuelans who have left the country since 1999, the year Mr. Chavez gained power, according to Tomas Paez, a Venezuelan immigration expert. That exodus is roughly twice the number who fled Cuba in the two decades after the revolution there, and is set to worsen. President Nicolas Maduro, Mr. Chavez 's successor, is stripping away the country's last vestiges of democracy, and the economy is in a full-blown collapse that already rivals the U.S. Great Depression.

On Monday, Venezuela was ruled in default on a missed interest payment by S&P Global Ratings, pushing the country closer to a reckoning of its $150 billion debt load.

Many of those who have left are people like the Ceapucv class of 1994 -- the future bankers, lawyers, economists and doctors whose absence is likely to hamper Venezuela's economic growth for decades to come.

"It's a big loss," said Libia Alvarez, the class's science teacher, who has kept in touch with many of the students. "All of our great professionals are leaving, seeking a better quality of life abroad."

Vanessa Briceno has made a life in Philadelphia, and Edgard Rodriguez in Madrid. Manuela Silva is an architect in Australia, while Julie Bolivar is a doctor in France. This past June, Carolina Gomez, also a doctor, left with her family for McAllen, Texas, a move they decided to make after the government violently put down a protest movement in 2014.

"I marched, I cried, I fought. I did everything for my country that I could do," said Dr. Gomez, who is preparing to practice medicine in the U.S. "But we're very far from defeating this wickedness."

Those left behind are increasingly frantic to leave. Ricardo Arzola, a sales manager at food conglomerate Empresas Polar SA, has a good job at Venezuela's most admired company. Salary increases and company perks such as free food have allowed him to weather the economic collapse.

But he sees a grim future for his children, ages 7 and 11. He worries about their education after history books were rewritten to champion Mr. Chavez and his Socialist movement while comparing the U.S. to the Third Reich.

Mr. Arzola wasn't ready to leave until now. He thought there was a chance to change his country when he joined antigovernment protests earlier this year in a failed bid to stop Mr. Maduro from creating a super-assembly stacked with government supporters -- a kind of tropical Politburo with unchecked power that many here view as the death of democracy.

A government crackdown left 120 people dead and the opposition in disarray. For Mr. Arzola, that settled his decision to move to Argentina, where he and a few friends started a small business selling cleaning supplies.

"Clearly there is no democracy," he said. "Even though I'm at a really good company, now I have to think about the future of my sons."

Officially called the UCV Professors Association School, Ceapucv was created for the children of academics from the Central University of Venezuela. Here, the sons and daughters of engineering professors, historians and poets studied from kindergarten through high school and were guaranteed acceptance into the university.

As middle-class children, they went camping, played soccer and danced to Michael Jackson's "Thriller." As teenagers, they smoked and drank at raucous parties, created heavy metal and ska bands, and walked home at night when it was still safe to do so. Some shared a first kiss.

To celebrate their graduation, they took a trip to Margarita Island. Today, they remember those days as some of the best of their lives.

Born in the late 1970s, they were children when Venezuela's golden age of prosperity started to unravel. A global oil glut led to a sharp currency devaluation in 1983, known as Black Friday. Six years later, hundreds of people were killed in Caracas when riots broke out after then-President Carlos Andres Perez cut gasoline subsidies, an uprising called the "Caracazo" that Mr. Chavez exploited to stage a failed coup in 1992, when most of the classmates were in their third year of high school.

Many students came from liberal families concerned with inequality and disgusted with the political elite. But like their parents -- some of whom were former urban guerrillas who played Cuban folk music at home -- they differed on whether to support Mr. Chavez.

After his release from prison in 1994, Mr. Chavez presented himself on television as a charismatic, center-left democrat. He traded his red beret and fatigues for a suit and tie. He pledged to respect press freedom and called Cuba a dictatorship. "I'm not the devil," a smiling Mr. Chavez said.

Solsire Ortega's family wasn't buying it, fearing Mr. Chavez was another Latin American strongman. Soon after his election in 1998, Ms. Ortega's mother sent her younger brother to Florida and arranged for her to move to Mexico and then Spain, ending dreams of running an architecture firm here.

Today, Solsire Ortega's daughter refuses to recognize her Venezuelan nationality, preferring to think of herself as Spanish and Mexican. "She's heard so many terrible things about what is happening in Venezuela," said Ms. Ortega, who works in tourism in Seville. "We never imagined this."

Hector Navarro's family was committed to the revolution. His dad, also called Hector, is remembered by classmates as the friendly chaperone who accompanied them to Margarita Island. Five years later, he left his job as an engineering professor to become Mr. Chavez's first education minister.

The family remained loyal to Mr. Chavez during his 14-year rule. Hector Jr. joined government marches and supported Mr. Chavez's social welfare projects in Caracas's slums. When Mr. Chavez died in 2013, it was like losing a family member, said the younger Mr. Navarro, now a computer science professor at the UCV.

Both men quickly became disillusioned with Mr. Maduro, accusing him of being an autocrat destroying his predecessor's legacy. The super-assembly Mr. Maduro created this summer is in the "worst style of Mussolini and Hitler," Hector Sr. said.

Like his schoolmates, the younger Mr. Navarro thought about emigrating. He spends nights programming to supplement his $30 a month salary as a professor. On a recent trip to Peru, he returned with deodorant, shampoo and soap, basics in short supply. At Ceapucv, where his son now studies, the school can't afford food for the cafeteria. When his son grows up, he'd support him if he decided to leave.

The regime's rise upended the friendship of Magaly Henriquez and Paula Sarco Lira, who were close in school and went on to study chemistry together at the UCV.

 

"We became two strangers," said Ms. Sarco Lira.

Ms. Henriquez followed her father into public service, believing in Mr. Chavez's message to help the poor. She worked at PdVSA's technology institute, which provided her a scholarship to France. She returned and became the president of the National Center for Chemical Technology, overseeing projects to help Venezuela substitute imports it can no longer afford, including shampoo.

These days, Ms. Henriquez remains committed to the embattled Mr. Maduro, calling him a well-intentioned leader hamstrung by the crash in **oil prices**.

"I still believe a lot in what we are trying to do," said Ms. Henriquez. "I think the easiest solution is to go, to leave your country and to forget that you have a responsibility here."

Ms. Sarco Lira didn't have much of a choice. She also wanted a career in oil, but after university those plans were stamped out when Mr. Chavez fired almost 20,000 striking oil workers, including her sister, brother-in-law and future husband. After she failed a security clearance for a job at the oil giant on account of those family ties, she found work in the pharmaceutical industry.

But it became increasingly difficult to make ends meet. Her father stopped hosting Sunday breakfast as food prices skyrocketed. She went a couple months without being able to buy rice, and was forced to reduce her young daughter's fruit servings. Then she got a job offer in Madrid.

"It was never our plan to leave Venezuela," said Ms. Sarco Lira, who emigrated in March. "But you can't live with that level of stress."

The exodus of the class of '94 has accelerated under Mr. Maduro. Alvaro Yanez, who worked at a health services company, found himself waking up at 4 a.m. to join long lines for food. He also took to social media to search for medicine for his diabetic father, a political-science professor who spent his career at the UCV. Fed up, he finally left for Ecuador.

Others have suffered first hand from crime so rampant that only 12% of Venezuelans told Gallup they feel safe walking alone at night.

Economist Norka Ayala was home with her baby when her husband was kidnapped, driven around Caracas by armed men as the family frantically gathered ransom. He was released, but the couple has stopped going out at night and won't take their children to public parks. She plans to move to Peru in coming months.

Juan David Chacon began singing about crime. A reggae artist with long dreadlocks, he toured Venezuela and abroad. He had his own chilling experience: Armed men stole his vehicle and forced him to sing Bob Marley tunes while they used his dreads to dust their guns. In 2010, he released Rotten Town, a song that called Caracas the "embassy of hell, land of murderers."

Rodrigo Belisario studied chemistry and worked his way up to plant manager at global cement producer Holcim Ltd.'s Venezuela operation before it was nationalized by Mr. Chavez in 2008. Mr. Belisario eventually settled in Virginia, where he has watched his once beloved country fall apart.

"We've been in this mess such a long time that to get out of it will take two or three generations," he said. "By that time, we will be dead and my children will have a life here."



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**American Industry Picks Up Steam**

By Andrew Tangel and Josh Zumbrun
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English


American manufacturing has picked up pace over the last 12 months thanks to steady global economic growth, a rise in energy and other commodity prices, and increased business confidence.

Although progress isn't being felt by all industries, makers of items ranging from bulldozers to semiconductors to food products are on the upswing as various measures of spending, sentiment and employment have climbed, while stock markets hit record highs.

The sector "absolutely has improved relative to where we were a year ago," said William Strauss, a manufacturing economist at the Federal Reserve Bank of Chicago, who described the growth as modest.

Employment numbers point to the overall progress. The U.S. manufacturers have added 156,000 workers since Donald Trump was elected president in November 2016, according to government data.

That is a clear turnaround from the loss of 16,000 such jobs during the final year of Barack Obama's administration, although the recent growth hasn't surpassed manufacturing payroll increases in 2011 and 2014, when the sector gained more than 200,000 jobs.

Also, business investment has risen, a sign companies are spending to increase productivity. In the first quarter, investment in plants climbed a seasonally adjusted annual rate of 14.8%, the highest since early 2014. Investment in equipment climbed 8.8% in the second quarter, the highest in almost two years.

A confluence of factors is helping manufacturing, according to Stanley Black & Decker Inc. Chief Executive James Loree, who cited a shrinking wage differential between U.S. and foreign workers and rapid technological advances. In his particular business, "end users love locally made products," Mr. Loree added in an interview on Tuesday.

"Global macroeconomic conditions are solid," Rockwell Automation Inc. Chief Executive Blake Moret told analysts, citing "strong orders" and optimistic forecasts for global economic growth and industrial production.

Milwaukee-based Rockwell, which sells factory hardware and software to myriad manufacturers around the world, said last week it expects organic sales growth as high as 6.5% in its 2018 fiscal year, with an additional 2.5% boost to its results coming from a weaker dollar.

Global energy and commodity prices have rebounded amid growth in many economies around the world. That has boosted sales for Illinois-based manufacturing giant Caterpillar Inc. and other makers of heavy machinery used to extract natural resources.

In the process, Caterpillar has increased its domestic workforce by 3,200 from the end of March to 49,700 at the end of September.

"The overall environment is more business-friendly and we think that has created some business confidence," Caterpillar finance chief Brad Halverson said in an interview.

Part of the optimism stemmed from the election of a businessman as president last November and Mr. Trump's promise of reduced taxes and fewer regulations.

The gains have happened even though important parts of Mr. Trump's manufacturing agenda haven't come to fruition, observers and business leaders say.

Early in his term, Mr. Trump promised to punish American companies that shift production abroad, but such penalties haven't materialized.

A big item, the overhaul of U.S. taxes, is being debated in Congress. But a $1 trillion infrastructure plan hasn't panned out. Nor has repeal of the Obama-era health-care law.

"We believe the lack of progress over key elements of federal policies -- specifically health care, tax reform, and infrastructure funding -- continues to exert downward pressure on both public and private construction activity," C. Howard Nye, chief executive of North Carolina-based Martin Marietta Materials Inc. said in an analyst call on earlier this month.

Gary Cohn, the president's top economic adviser, said Tuesday that a plan to overhaul the nation's infrastructure is "the next thing on our agenda."

Amid general improvement for manufacturing, some industries and companies have posted gains while others have continued to struggle.

The performance of America's largest manufacturing companies also has been mixed. Of the 10 largest industrial companies in the **S&P 500**, only Caterpillar, Honeywell Inc. and 3M Co. recorded higher third-quarter profit and earnings per share compared with a year earlier, according to data from Thomson Reuters I/B/E/S.

Profit and earnings per share declined at General Electric Co., Boeing Co., United Technologies Corp., Lockheed Martin Corp. and General Dynamics Corp. Two companies -- United Parcel Service Inc. and Union Pacific Corp. -- posted a rise in per-share earnings while their overall profit slipped.

To be sure, manufacturing growth could slow if the economy tips into recession or if there are disruptions in trade or other geopolitical problems. Also, a weaker dollar -- which has boosted exports by making American goods cheaper abroad -- could reverse direction.



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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
**Crude Oil Prices Droop, And the Market Follows**

By THE ASSOCIATED PRESS
904 words
15 November 2017
The New York Times
NYTF
Late Edition - Final
2
English


Energy companies led U.S. stocks modestly lower Tuesday, erasing the small gains the market made a day earlier.

The biggest drop in crude **oil prices** since October weighed on oil producers and other energy stocks. Disappointing results or outlooks from retailers and other companies also weighed on the market.

Utilities and consumer-focused companies like packaged food and beverage makers, restaurant chains, bucked the trend.

Investors had their eye on Washington D.C., where the House is expected to vote on its version of a major tax bill this week. Expectations that the tax overhaul will sharply lower corporate taxes have helped lift the market higher this year.

"We're through earnings season, which was pretty good, with earnings up about 10 percent," said Stuart Freeman, co-head of global equity strategy for Wells Fargo Investment Institute. "Now investors are waiting and watching to see what shape this tax reduction bill is going to take."

The **Standard & Poor**'**s500 index** fell 5.97 points, or 0.2 percent, to 2,578.87. The **Dow Jonesindustrial average** lost 30.23 points, or 0.1 percent, to 23,409.47. The **Nasdaq composite** slid 19.72 points, or 0.3 percent, to 6,737.87. The Russell 2000 index of smaller-company stocks gave up 3.81 points, or 0.3 percent, to 1,471.26.

The steep drop in crude **oil prices** weighed on oil exploration companies and other energy sector stocks.

Newfield Exploration was the biggest decliner in the **S&P 500**, tumbling $2.27, or 7.1 percent, to $29.82. Range Resources lost $1.23, or 6.6 percent, to $17.35.

Benchmark U.S. crude fell $1.06, or 1.9 percent, to settle at $55.70 per barrel on the New York Mercantile Exchange. That's the biggest single-day decline since October. Brent crude, used to price international oils, declined 95 cents, or 1.5 percent, to close at $62.21 a barrel in London.

"There's this perception that there's a lot of supply waiting in the wings and as prices have moved higher that's made the marginal producer want to come out and just find more oil," said Eric Freedman, chief investment officer of U.S. Bank Wealth Management.

The market's spotlight is on retailers this week, with many of the companies reporting quarterly results over the next few days, including Target Corp., Wal-Mart Stores and Best Buy.

On Tuesday, Home Depot turned in better-than-expected results and raised its outlook for the year. Shares in the home-improvement retailer rose $2.71, or 1.6 percent, to $168.06.

Advance Auto Parts vaulted 16.3 percent after the company's latest quarterly earnings exceeded Wall Street's expectations. The stock was the biggest gainer in the **S&P 500**, climbing $13.44 to $95.72.

Other big retailers failed to impress traders.

TJX Cos., the parent company of T.J. Maxx and Marshalls, fell 4 percent after it reported revenue and earnings that missed analysts' estimates. Its shares lost $2.82 to $67.94.

Dick's Sporting Goods slid 2.8 percent after the retailer reported a solid quarter but also said its earnings per share could drop as much as 20 percent next year. The stock gave up 73 cents to $25.59.

General Electric was among the market's big movers, sliding sharply for the second straight day after analysts downgraded the industrial conglomerate. On Monday, GE pulled back on profit expectations and slashed its dividend in half. The stock tumbled $1.12, or 5.9 percent, to $17.90 Tuesday. It's now down 43.4 percent this year.

Investors bid up shares in Buffalo Wild Wings following a report that Roark Capital has offered to buy the company for $150 a share, or $2.3 billion. Shares in the restaurant chain soared $28.10, or 24 percent, to $145.35.

**Bond prices** rose. The yield on the **10**-**year Treasury** note fell to 2.38 percent from 2.41 percent late Monday.

In other energy futures trading, wholesale gasoline gave up 3 cents to $1.76 a gallon. Heating oil fell 3 cents to $1.91 a gallon. Natural gas slid 7 cents to $3.10 per 1,000 cubic feet.

Gold rose $4 to $1,282.90 an ounce. Silver added 3 cents to $17.07 an ounce. Copper fell 5 cents to $3.07 a pound.

The dollar fell to 113.40 yen from 113.57 yen on Monday. The euro strengthened to $1.1794 from $1.1667.

Major stock indexes in Europe closed lower or flat. Germany's DAX fell 0.3 percent, while France's CAC 40 shed 0.5 percent. Britain's FTSE 100 was little changed.

Earlier in Asia, Japan's Nikkei 225 **stock index** finished flat. Hong Kong's Hang Seng index slipped 0.1 percent. Australia's S&P/ASX 200 fell 0.9 percent. South Korea's Kospi edged down 0.2 percent. Shares in Taiwan and Southeast Asia were mostly higher.

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

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

Document NYTF000020171115edbf0005a

 

THE WALL STREET JOURNAL.
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**SEC Rejects Delaying Surveillance Database**

By Dave Michaels and Alexander Osipovich
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B18
English


Wall Street's top overseer rejected a last-minute request from securities exchanges to delay a vast database of trading information billed as the most advanced defense against manipulation and bouts of market mayhem.

The Securities and Exchange Commission said late Tuesday that it wouldn't agree to delay Wednesday's launch of the Consolidated Audit Trail, a project regulators accelerated after they didn't have enough data to explain a wild trading session in May 2010 known as the flash crash. Exchanges recently launched a lobbying campaign to convince the SEC and lawmakers that the repository would include too much personal information about American investors and would become a target for hackers.

All of the exchanges tasked with helping build the CAT -- including the New York Stock Exchange, **Nasdaq** Inc. and others -- had asked for a one-year delay of the project. Given the SEC's rejection of the delay, the exchanges won't comply with their own plan on Wednesday when they fail to report trading data to the audit trail.

Stock-exchange executives approached the SEC last week to seek the delay, according to people familiar with the matter, and formally requested the extension late Monday.

"I am not in a position to support the issuance of the requested relief on the terms currently proposed," SEC Chairman Jay Clayton said in a statement. "I urge the [exchanges] to continue their efforts to work cooperatively with each other and to meet their responsibilities as promptly as practicable."

Mr. Clayton's statement, which said the SEC's talks with exchanges over the project in recent days have been "constructive," suggests the agency probably won't seek to penalize the exchanges for missing the deadlines.

The audit trail, which will ultimately ingest about 58 billion daily trading records, has become a source of friction between regulators, exchanges, brokers and investors. The biggest exchanges are in the odd position of talking down a major technology project they are required to build under a commission-approved plan.

Mr. Clayton, a political independent, said Tuesday that the SEC would consider whether it needs access to investors' personal information. Current plans call for the database to store data such as Social Security numbers and dates of birth of people behind trades, though these elements aren't scheduled to be reported until a second deadline in November 2018.

The SEC chief's refusal to budge on a major deadline for the long-delayed project drew praise from SEC Commissioner Kara Stein, a proponent of tougher regulation who has called the CAT the "Hubble telescope" of the markets.

Ms. Stein, a Democrat, questioned whether exchanges, which are for-profit companies but still have legal duties to oversee fair trading, can still be relied upon to act as regulatory partners for the SEC.

In their request to postpone the deadline, which was posted on a public website on Tuesday, the exchanges said a delay would help ensure that certain essential steps can be taken to secure the data in the audit trail.



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THE WALL STREET JOURNAL.
U.S. EDITION

**U.S. News: Producer Prices Jump, Signaling More Inflation**

By Sharon Nunn
338 words
15 November 2017
The Wall Street Journal
J
A2
English


WASHINGTON -- The prices that businesses pay for goods are picking up, a potential precursor to more consumer-price inflation.

The producer-price index, a measure of inflation experienced by businesses, increased 2.8% in October from a year earlier, the largest year-over-year increase in more than five years, according to a report released by the Labor Department Tuesday.

"If producers see more inflation, then consumers are gonna get it sometime, somewhere in the end," said Chris Rupkey, chief financial economist at MUFG. "Inflation is starting to rear its ugly head at the producer level."

Increases in the amount that businesses paid for goods and services decelerated from 2012 to 2015 and fell in 2015, as **oil prices** slumped and the dollar strengthened, making imports cheaper.

Now, gas prices are rebounding and the beginning of 2017 saw a weakening dollar, pushing up what businesses pay and potentially decreasing profit margins. This could cause business owners to raise what they charge customers.

Excluding the **volatile** food, energy and trade services categories of the producer-price index, prices increased 2.3% from a year earlier, the fastest year-on-year price increase since the middle of 2014. Multiple aspects of business spending have increased at more rapid rates, including the cost of transporting and warehousing goods.

"Costs go up and firms eventually have to recoup those costs with pricing," said Stephen Stanley, chief economist at Amherst Pierpont Securities. "The fact that the economy is strong is allowing firms to get a little more confident with pricing."

The Federal Reserve is closely monitoring inflation as it considers another increase in short-term interest rates by the end of the year.

Consumer-price inflation has continued to undershoot the Fed's targets, with other inflation-related readings coming in weak, despite a tight labor market and strong economic growth, which could pose an obstacle to the Fed's interest-rate plans.



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THE WALL STREET JOURNAL.
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**Bitcoin Loses 25% in Latest Wild Swing --- Canceled software update and concerns about coming futures hit cryptocurrency**

By Steven Russolillo and Paul Vigna
731 words
14 November 2017
The Wall Street Journal
J
B10
English


The booming **bull market** for bitcoin has hit another speed bump.

Bitcoin slumped more than 25% in recent days, falling below $6,000 after touching a record just shy of $7,900 last week. A canceled software upgrade, concerns about the coming launch of bitcoin futures and fears of an asset bubble weighed on the cryptocurrency, which is known for sharp swings.

On Monday, bitcoin prices regained some of their losses in **volatile** trading. It traded as high as $6,770, according to CoinDesk, up about 16% for the day, then slid back to about $6,500.

Even with the decline, bitcoin is still up more than 500% this year and has a market capitalization of about $100 billion.

The latest drop marked the fifth time this year that bitcoin has fallen more than 20% from a recent high, according to research site CoinDesk. Bitcoin traded at about $6,500 late Monday.

The recent decline came after last week's suspension of plans that would have split the digital currency into two competing versions.

A group proposing to launch a new version of the currency that would allow for faster trading put off those plans after they were bitterly opposed by a group of bitcoin's main software developers.

Traders also have been jittery about the impending introduction of bitcoin futures. Exchange operators CME Group Inc. and CBOE Global Markets Inc. have announced plans to offer such contracts, which would give Wall Street traders an avenue to bet on bitcoin prices and hedge against **volatility**, a crucial step in bitcoin's move into institutional and retail markets.

Those plans come with risks: Over the weekend, Thomas Peterffy, one of the world's most successful derivatives traders, said he was concerned bitcoin derivatives would introduce extraordinary **volatility** that would be difficult to contain.

"For the first time, I am extremely scared," Mr. Peterffy, founder and chairman of Interactive Brokers Group, told Barron's, citing concerns about the stability of Wall Street's smaller clearing firms.

Investors who have stuck with bitcoin have been rewarded handsomely. Three years ago, the digital currency was at $300 and six years ago it was at $2.

The sharp rise has sparked concerns that the digital currency is mired in one of the biggest financial bubbles of all time.

One alternative version of the digital currency called Bitcoin Cash has quickly grown in popularity. Launched in August and created as a split from the original bitcoin, Bitcoin Cash uses a technology that can process more transactions at a given time, translating to lower fees for users. At about $21 billion, it is the third-largest cryptocurrency by market value, according to industry site Coinmarketcap.com.

Bitcoin's backers are still fighting along the lines of the initial schism: Some want bitcoin to have low costs and fast transaction times. Others want to keep the current configuration, which is driving up transaction fees and bottlenecking payments. This slower network works better if bitcoin is being used as a store of value.

Digital currencies like bitcoin are generally open-source software projects, sustained by developers who work on a volunteer basis. That also means any other group is welcome to take the software and create their own version of it. Bitcoin Cash is a copy of bitcoin that is faithful to the original in all but a few respects.

There was an initial bout of relief last week, which helped propel bitcoin higher, after the plans for a version of bitcoin that would have somewhat increased capacity were withdrawn. But it just opened the door for Bitcoin Cash's backers to make a push.

The first important marker of this will be a measurement of activity from the "miners": businesses that process transactions on the network and get paid in newly created coins. A measure of their combined computing power, called the hash rate, has been rising for Bitcoin Cash and falling for bitcoin.

Still, the reality is that the original bitcoin has been in use for about nine years and has a community of businesses, developers, and miners around it. Bitcoin Cash has existed for a few months, and, despite its positioning for payments, has few -- if any -- retail outlets that accept it for that.

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**A Hedge Fund That Has a University**

By Thomas Gilbert and Christopher Hrdlicka
594 words
14 November 2017
The Wall Street Journal
J
A19
English


Whatever you may hear, the Republican tax-reform proposal isn't an assault on higher education. The House and Senate plans include a new 1.4% excise tax on the net investment income of university endowments, but the levy applies only to private colleges with at least 500 students and endowments of more than $250,000 a student. Schools like Harvard, Yale, Stanford and Princeton -- which together hold over $100 billion -- are predicting doom. Yet this long-overdue tax will benefit higher education in the end.

Over the past 30 years universities have chased higher returns on their endowments, leading them to take greater risks. Our research shows that more than 75% of the assets in university endowments are now in risky investments: securities, hedge funds and private equity. Think of Harvard as a tax-free hedge fund that happens to have a university.

The proposed levy on investment income -- dividends, interest and capital gains -- is fundamentally a tax on this risk-taking, not on the endowments themselves. By taxing risk-driven income, the GOP plan doesn't target higher education. It goes after hedge funds masquerading as university endowments.

When an endowment is invested in safe assets such as bonds, it serves as a rainy-day fund to buffer the risks a university takes in its normal operations: admitting students on scholarship, launching new research laboratories and generally expanding its educational and research missions. Such a safe endowment generates almost no investment income, meaning there would be no tax liability under the GOP proposal.

Instead the tax would fall on large, risky and illiquid funds. Endowments that make such investment decisions cannot effectively protect their schools. During the financial crisis, Harvard's endowment lost nearly 30% of its value. After failing to sell its private-equity portfolio, the university had to institute drastic hiring and budget freezes.

A large and risky endowment also reveals a university's poor assessment of its internal investment opportunities, such as scholarships and research. If Harvard and Stanford have educational and research projects that could benefit from additional funds, why put their money at risk in the **stock market**? Perhaps the answer is that the opportunity to run a tax-free hedge fund is too attractive. In that case, why should taxpayers subsidize their activities?

In colleges' defense, states have placed perverse restrictions on their ability to use endowments as rainy-day funds. The Uniform Prudent Management of Institutional Funds Act is a law in 49 states that limits the maximum endowment payout rate between 5% and 7% a year. Although well-intentioned, that and earlier restrictions prevent universities from tapping endowments to fill the kind of budget holes they experienced in 2008.

To have the best chance of improving incentives for endowments, the proposed investment tax should be accompanied by a repeal of these payout caps. But it's a mistake to think that taxing risky investments by university endowments is an attack on academia. Discouraging superwealthy schools from pumping cash into stocks, hedge funds and private equity should lead to increased spending on education and research. Isn't that the purpose of higher education?

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Messrs. Gilbert and Hrdlicka are assistant professors of finance at the University of Washington.

(See related letters: "Letters to the Editor: Should Rich College Endowments Be Taxed?" -- WSJ November 21, 2017)

(See related letter: "Letters to the Editor: Tax College Endowments? Well, Do It the Right Way" -- WSJ November 22, 2017)



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THE WALL STREET JOURNAL.
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**Big Issues: Energy (A Special Report) --- Should the U.S. Limit Exports of Natural Gas?**

1,440 words
14 November 2017
The Wall Street Journal
J
R2
English


President Donald Trump in June announced to the world an age of "energy dominance" by the U.S.

More drilling for oil and gas and new incentives for nuclear energy are part of the Trump administration's plans to enlarge the already huge U.S. footprint in increasingly competitive global energy markets.

Another part of the plan: more exports of natural gas. The U.S. has become a major player in international natural-gas markets in recent years. Improved drilling techniques, including hydraulic fracturing, or fracking, along with technological developments that have boosted the industry's ability to liquefy natural gas for shipping have fueled both a global boom and a glut in natural gas.

The fast-growing global market for liquefied natural gas, or LNG, that has arisen makes U.S. supplies more exposed to international prices than before. Some fear this will raise costs for natural-gas customers within the U.S., including manufacturers.

Industry sources, meanwhile, say that natural-gas exports will create more jobs at home and help the U.S. compete globally with other exporters of natural gas, such as Russia and Iran.

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YES:

Exports Raise Prices

In the U.S. and Hurt

Manufacturing

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By Paul Cicio

Years ago, Congress decided that if natural gas were to be exported to non-free-trade-agreement, or NFTA, countries, it would have to be in the public interest. But it can't possibly be in the public interest to export as much natural gas as the Energy Department has approved for the next few decades: an amount roughly equal to two-thirds of all of our domestic demand last year.

Low-cost, plentiful natural gas has been a critical contributor to the U.S. economy for years. Inexpensive natural gas has played a major role in the revival of manufacturing in this country. The big increase in exports that the gas industry and the Trump administration want will pressure supplies and increase the price in the U.S., as buyers overseas bid up prices -- posing a significant long-term risk to the U.S. economy. Plus, gas resource estimates are highly speculative and subject to significant economic and political risk long term.

When Congress passed the Natural Gas Act, which says that the Energy Department can't approve exports to NFTA countries without it being in the public interest, the message was clear: The U.S. economy as a whole is a priority over exports to NFTA countries.

But last year, according to the Energy Department, some 56% of U.S. LNG exports were shipped to 13 NFTA countries. Such shipments don't constitute fair trade, nor do they follow the president's "America First" policy for U.S. manufacturers. Shipping our LNG to NFTA countries rewards them for not having free-trade pacts with the

U.S. and undermines our ability to secure bilateral fair-trade agreements. NFTA countries buying our natural gas are often the same countries that subsidize their manufacturers and apply import tariffs to prevent U.S. manufacturers from exporting products into their country.

Increasing LNG exports is damaging to the economy when prices increase to global levels, undermining our manufacturing competitiveness and jobs. Even a study sponsored by the Energy Department to justify its export approvals concluded that increased LNG exports resulted in higher natural-gas and electricity prices, decreased wages, capital and indirect tax income, and created negative impacts to manufacturing competitiveness and jobs. Gas producers, exporters and shareholders are the winners, and everyone else loses.

Australia shows what can happen when LNG exporters reach full export potential. Exporters in Australia contracted for so much of its natural gas that prices increased threefold to levels equal to what foreign LNG buyers were paying. Manufacturers' competitiveness was severely damaged and jobs were affected.

Exporting LNG isn't a big job creator. The U.S. Bureau of Labor Statistics says that from 2010 to 2016, the oil-and-gas industry created only 22,600 direct jobs, while the manufacturing sector created 820,000. Significant job creation attributable to natural gas can only be achieved if the gas is consumed in the U.S. If it is exported, the countries buying the gas will get the job-creation benefits.

Linking our biggest, most affordable energy source more closely to international markets will mean increasing exposure of U.S. consumer prices to global **volatility**, price shocks and speculative international trading. The Energy Department should define public interest and complete an analysis of proposed LNG exports that includes long-term economic risk assessment. Then it should cancel NFTA approvals that aren't in the public interest, and establish a consumer safety valve to ensure that exports won't impose economic harm on the U.S.

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Mr. Cicio is president of the Industrial Energy Consumers of America. He can be reached at reports@wsj.com.

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NO:

Increasing Exports

Will Have a Positive

Economic Impact

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By Anna Mikulska

U.S. exports of liquefied natural gas are on the way to becoming a vital part of global trade in natural gas.

The Energy Information Administration predicts LNG exports will more than triple by 2025, driven by growing international demand, record U.S. natural-gas production and added liquefaction capacity. Demand for LNG is poised to grow particularly in Asia, including China, Japan and other countries that don't share a free-trade agreement with the U.S.

Meanwhile, some U.S. politicians and manufacturers have repeatedly asked the Energy Department not to issue new approvals for LNG exports to the so-called NFTA countries. But the Trump administration is continuing the Obama-era policy of embracing LNG exports as a way to stimulate the U.S. economy and facilitate broader aims of U.S. diplomacy. And there are good reasons for doing so.

To start, the U.S. already exports many manufactured goods, services, oil, refined products, chemicals and agricultural goods to NFTA countries. There is no reason to treat LNG differently. Shipping LNG is a commercial transaction, not a reward. If the U.S. doesn't export its LNG, the NFTA countries will find other suppliers, including Australia, Qatar, Russia, Mozambique and possibly even Iran.

Advocates of limiting exports are concerned about depleting domestic supply and triggering an increase in domestic prices, to the detriment of U.S. manufacturing competitiveness.

 

But even if exports were to grow to six times their 2016 levels by 2018, they will constitute only about 4% of total U.S. production. And to achieve these levels, U.S. producers must remain competitive in global markets -- in other words, domestic prices of natural gas have to remain relatively low.

Though it is true that increasing LNG exports will push domestic prices up, the impacts are modest. A 2015 Energy Department study on the macroeconomic impact of increasing LNG exports finds that LNG exports have a net positive impact on U.S. GDP. And U.S. industries reliant on natural gas grow under all LNG export scenarios, even if at a slightly lower rate.

Indeed, the U.S. natural-gas abundance has already had a profound impact on gas-intensive industries, and long-term investments are proceeding in parallel with continuing construction of LNG export capacity. The American Chemistry Council estimated that shale development as of July has triggered 310 chemical-industry projects (completed, started or projected). These projects are associated with an expected $185 billion in new capital investment, 464,000 direct and indirect jobs, and $26 billion in new tax revenue through 2025.

Critics might look at selective years and narrow job descriptions to try to argue that LNG exports won't contribute much to job growth. But more than 61,000 jobs were created in the extraction of oil and gas between 2004 and 2017. And if one looks at Bureau of Labor Statistics for extraction, drilling and support activities in the oil-and-gas industry, more than 162,000 jobs were created between 2007 and 2012.

If restrictions were imposed on LNG exports, only a few domestic manufacturers would gain a small advantage, while the broader benefits to the rest of the economy would be lost. Restrictions would weaken the U.S. position in bilateral and multilateral trade discussions and reduce any foreign-policy benefit that could be derived from a growing U.S. role in the global energy market.

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The New York Times

Business/Financial Desk; SECTB

**Possible Toy Merger Sweetens a Market Soured by G.E.'s Dividend Cut**

By THE ASSOCIATED PRESS
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2
English


Major stock indexes capped a day of mostly subdued trading with slight gains on Monday.

Consumer and household goods companies led the market higher, offsetting losses by industrial and energy stocks.

Corporate deal news also helped put investors in a buying mood. The toy maker Mattel soared nearly 21 percent on a report that its rival Hasbro had offered to buy it.

General Electric slumped about 7 percent after cutting its dividend and releasing a weak forecast for next year.

The **Standard & Poor's 500**-**stockindex** rose 2.54 points, or 0.1 percent, to 2,584.84. The **Dow Jonesindustrial average** gained 17.49 points, or 0.1 percent, to 23,439.70. The **Nasdaq composite** index added 6.66 points, or 0.1 percent, to 6,757.60.

**Bond prices** were little changed. The yield on the **10**-**year Treasury** note fell slightly to 2.40 percent from 2.41 percent.

The gains in consumer stocks and utilities, which also rose, suggest that investors were looking for yield, said Lindsey Bell, investment strategist at CFRA Research.

''They're maybe showing a little bit of skepticism in the **bull market** that's more than eight years old,'' she said. ''Maybe they're feeling a little bit squeamish after last week.''

The major stock indexes opened lower on Monday and then wavered between small gains and losses. By midmorning they had inched back up into positive territory, hovering just above their Friday closing levels for the rest of the day.

Consumer and household goods companies were among the big gainers. J. M. Smucker rose $2.37, or 2.3 percent, to $106.49.

While trading was mostly subdued, investors bid up shares in companies at the center of merger-related news.

Mattel was the biggest gainer in the **S**.**&P**. **500**, climbing $3.02 to $17.64, on news of a possible deal. Hasbro added $5.38, or 5.9 percent, to $96.83.

Shares in Qualcomm went 3 percent higher after the company rejected an unsolicited takeover offer from Broadcom worth $103 billion, or $70 a share. Qualcomm said the proposal was significantly undervalued and that a deal between the chip-making giants would face substantial regulatory resistance. Shares in Qualcomm added $1.92 to $66.49. Broadcom rose 5 cents to $265.01.

Some corporate news failed to put investors in a buying mood.

G.E. tumbled after the company said it would cut its dividend in half to 12 cents per share, starting next month. The company also released annual profit projections that were well below what Wall Street had been expecting.

John Flannery, the chief executive, speaking to investors gathered in Boston, said the cost-cutting maneuver was part of the measures G.E. would take to make the company simpler and stronger. The stock was the biggest decliner in the **S**.**&P**. **500**, losing $1.47 to $19.02. G.E. is down almost 40 percent this year.

Traders also had their eye on the latest company earnings.

The meat producer Tyson Foods rose 2 percent after it posted a larger profit and greater sales than analysts had expected. The stock added $1.45 to $75.59.

Energy futures closed mostly lower.

Benchmark United States crude rose 2 cents to settle at $56.76 per barrel on the New York Mercantile Exchange. Brent crude, used to price international oils, slipped 36 cents to close at $63.16 a barrel in London.

Gold rose $4.90 to $1,277.30 an ounce. Silver added 18 cents to $16.05 an ounce. Copper gained 4 cents to $3.12 a pound.

The dollar rose to 113.58 yen from 113.53 yen on Friday. The euro strengthened to $1.1668 from $1.1663. The British pound slid to $1.312 from $1.3197 as investors worried that Prime Minister Theresa May is facing a rebellion within her own party over the handling of the Brexit talks.

Major stock indexes in Europe closed lower. In Germany, the DAX shed 0.4 percent, while in Paris, the CAC 40 fell 0.7 percent. In London, the FTSE 100 slid 0.2 percent.

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

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THE WALL STREET JOURNAL.
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**Long Rally Appears A Bit Worn**

By Corrie Driebusch, Sam Goldfarb and Ben Eisen
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J
B1
English


A rally that has sent stock indexes around the world to records showed signs of stalling this past week, highlighting fears that buoyant markets could be poised for a pullback.

The **Dow Jones Industrial Average** posted its worst week since September after investors grew nervous about the chances for a sweeping U.S. tax overhaul. Adding to the concern: A drop in the junk-bond market, often viewed as an early warning sign of broader market stress, capped by the cancellation of two separate debt sales.

Many money managers have been watching for months for signs of cracks in the market's steady gains. Instead, major stock indexes have embarked on a remarkable rally. The Dow industrials have climbed 19% in 2017, notching 59 records in the process, the most in a calendar year since 1995.

Along the way, investors overcame rising tensions between the U.S. and North Korea, legislative setbacks in Washington, D.C., disruptive hurricanes and the indictment of a presidential campaign official. Instead, they have focused on higher corporate earnings, a steadily expanding U.S. economy and hopes for a cut in the corporate tax rate.

"The reason **volatility** has been so low this year is that economic data around the world has been so strong," said David Lefkowitz, senior equity strategist of the Americas at UBS Wealth Management. Despite the calm climb higher, Mr. Lefkowitz said in recent months he has been consistently asked about whether markets are due for a pullback.

On Friday, coal company Bowie Resource Partners LLC pulled a $375 million bond offering that would have helped fund its takeover by a group of investors led by Murray Energy Corp. and the formation of a partnership, leaving financing for the deal uncertain. A spokesperson for Murray Energy confirmed the bond was pulled but didn't provide further comment.

Bowie had raised the proposed yield on the notes to around 11%, but potential buyers were wary about investing in a debt-laden company in a challenged sector, investors said.

On Thursday, merchant power company NRG Energy Inc. canceled a refinancing effort. NRG offered a 5.75% yield for new bonds due 2028, but that was at least a quarter-percentage point too low for investors, according to people familiar with the deal.

Spokesmen for Bowie and NRG didn't immediately return requests for comment.

Meanwhile, stocks declined after the Senate bill contrasted with the House version in key areas, including in its plan to delay the corporate tax-rate cut until 2019.

Smaller companies fell more than their large-company counterparts, with the small-cap benchmark Russell 2000 down 1.3% in the past week compared with the Dow's 0.5% weekly decline. Investors view smaller companies as bigger beneficiaries of a tax overhaul than their large-company counterparts because small firms tend to pay a higher median effective tax rate.

Other victims of the downturn: Shares of this year's best-performing companies, as some investors took the opportunity to secure profits. Technology companies in the **S&P 500** fell 0.9% over the last two days of the week but remain up 37% in 2017.

Still, investors stopped short of predicting a prolonged selloff.

"We're looking past this two-day turmoil in the market," said Terry Simpson, multiasset investment strategist for BlackRock's global investment strategy team, noting that corporate earnings remain strong and economies around the world are growing."At the end of the day, we are still in a sustained economic expansion that could continue into next year."

The **stock market** owes its previous two months of weekly gains in large part to strong quarterly results from companies across all sectors, according to traders.

Investors haven't entirely curtailed their risk taking. In a sign that it doesn't take much to lift stocks, shares of battered retail companies rallied Friday, even as the broader market declined. J.C. Penney Co. gained 15% after better-than-expected earnings for the July to September period. The SPDR S&P Retail exchange-traded fund rose 1.6%

Similarly, despite the pullback in the junk-bond market, many investors believe it is still in generally good condition. Recent selling has come after the extra yield to hold junk bonds relative to ultrasafe Treasury bonds was on the verge of reaching its lowest level since the financial crisis. At least five companies with low credit ratings successfully sold bonds on Thursday and Friday, with borrowing totaling around $2 billion, according to LCD, a unit of S&P Global Market Intelligence.

As of Thursday, the average junk-**bond yield** was 5.74%, up from 5.31% on Oct. 24, according to Bloomberg Barclays data. Yields rise when prices fall.

"The cracks are still so few and far between that the bull deserves the benefit of the doubt," said Doug Ramsey, chief investment officer of Leuthold Group in Minneapolis.



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THE WALL STREET JOURNAL.
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Heard on the Street
**Tax Cuts Should Worry Investors**

By Justin Lahart
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11 November 2017
The Wall Street Journal
J
B12
English


[Financial Analysis and Commentary]

Congressional Republicans and Presidential Donald Trump are confident that they will notch a win on taxes. Investors may not see the final result as the win they had anticipated.

A hint of this came Thursday, when the Senate Republican proposal to rewrite the tax code included some big differences with the House plan. One that stuck in the **stock market**'s craw was a proposal to delay cutting the corporate tax rate until 2019, compared with a 2018 start under the House proposal. That means no bump in earnings next year.

Under a standard valuation model, that would make stocks worth a bit less. Small wonder, then, stocks slipped, with tax-cut beneficiaries banks and domestically focused small caps falling furthest.

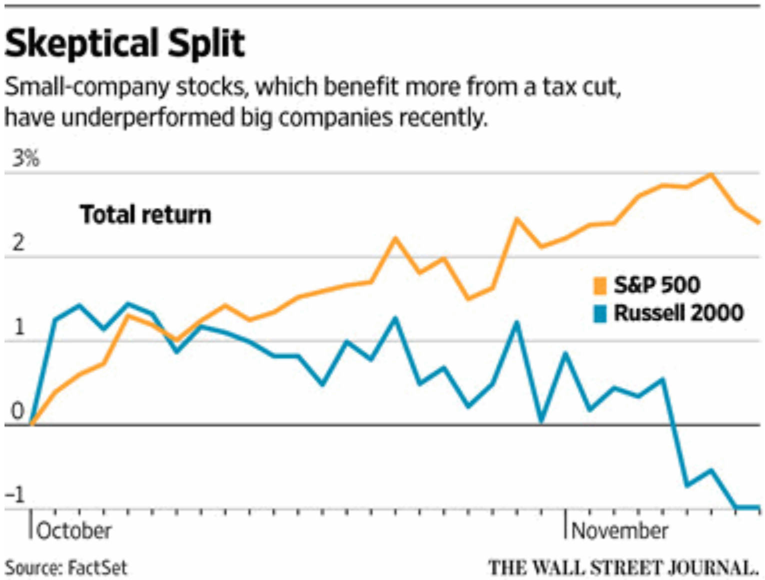
More important than the delay was the idea that a 20% corporate tax rate that is the biggest change in the tax plan is subject to negotiation. The problem is making up for the lost revenue. For the plan to pass the Senate with a simple majority, it must cost no more than $1.5 trillion over 10 years and can't increase the deficit beyond that. But looking at the trade-offs that congressional Republicans will need to strike in order to meet that constraint, and at what is looking like a challenging election next year, investors should be prepared for corporate tax cuts to be pared back less than in either the House or Senate plans.

One of the most difficult trade-offs is what to do about state and local income and property deductions. The House plan retains property-tax deductions, with a cap at $10,000, while eliminating the remainder of deductions. The Senate gets rid of all the deductions. For House Republicans in high-tax states, neither plan is very palatable -- especially after Democrats' performance in Virginia and New Jersey elections on Tuesday.

Of course, Tuesday's performance by the Democrats may also create a sense of urgency among Republicans to get something done on taxes. But the need to get something done may prompt them to set their sights lower.

Worries about the election could also lead them to rejigger their tax plan so that more voters feel they have gained something from it. The corporate tax cut -- especially if it is delayed a year or phased in -- won't do that. That is because while some portion of corporate tax cuts benefit workers (how much is a big debate), neither will it benefit them right away nor will that benefit be clear-cut.

So it shouldn't be surprising if the tax benefits to the middle class become a bit more palpable, and the proposed corporate tax cuts end up getting reined in as a result. If so, investors will have to rein in their expectations for a profit boost as well.

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THE WALL STREET JOURNAL.
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**The Intelligent Investor: The Rot Beneath Some Index Funds**

By Jason Zweig
842 words
11 November 2017
The Wall Street Journal
J
B1
English


Index funds are supposed to meet expectations almost exactly -- but once in a while they can hand investors an unpleasant surprise.

These mutual funds and exchange-traded funds passively track the performance of a basket of stocks, bonds or other assets. They seek to match the market, not to beat it. After costs and taxes, they should provide returns almost identical to those of the underlying investments they hold.

Then there is PNC **S&P 500 Index** Fund.

Next month, PNC has announced, the fund will pay out $4.19 in capital gains per share. This past week, the fund's per share value was around $19. So, even if you never sold a share, the fund will pay out nearly 22% of your total investment as a taxable gain.

Unless you own it in a retirement account, you'd owe approximately $325 to $515 in federal tax on a $10,000 holding, depending on your tax bracket. That would put something between 3% and 5% of your investment straight into Uncle Sam's pocket. (To be fair, you would owe proportionately less in future taxes if you sell down the road.)

So, even though the PNC index fund has come within a third of a percentage point of matching the **S&P 500**'s 17.4% return so far this year, its investors will fall badly behind the market after they pay their taxes.

How can that happen?

In general, when investors exit a fund, it may cash out of some of its holdings, potentially generating a taxable gain that must be paid out to the remaining shareholders.

In recent years, at least, more investors have wanted to buy index funds than sell, tending to make such portfolios unusually tax-efficient. Vanguard 500 Index Fund hasn't paid out a capital gain since December 1999, according to Morningstar; State Street Institutional **S&P 500 Index** Fund hasn't paid one since December 2000.

However, investors withdrew $63 million from the PNC fund, or 38% of its assets, over the 12 months through Sept. 30, Morningstar estimates.

A spokesman for PNC Funds declined to comment.

The manager of an index fund doesn't have much flexibility on which shares to sell when investors want their money back, says Mark Wilson, president of Mile Wealth Management in Irvine, Calif., whose website CapGainsValet.com warns about taxable payouts.

That's because such a portfolio needs to hold stocks in similar proportions to the index it's seeking to match. So the manager can't always sell selected holdings at a loss that would offset gains elsewhere. Instead, he or she has to sell pretty much across the board, which can generate unwanted capital gains.

Launched in early 2000, the $125 million PNC fund tries to match the market before expenses.

Its prospectus explains that the fund manager may use futures contracts on the index, or various exchange-traded vehicles, "in addition to, or in place of," the stocks in the **S&P 500**.

Over the past 10 years, the fund has trailed the **S&P 500** by 0.29 percentage point, or a bit less than its average expenses over the period. So it has come close -- but only before tax. PNC **S&P 500 Index** Fund's 7.2% average annual return over the past decade shrivels to 6.2% after tax, estimates Morningstar.

PNC's isn't the only index fund that doesn't always behave like its underlying investments. Rydex **S&P 500** Fund is a $256 million portfolio that seeks to match the market with swaps, options, futures contracts and other indirect techniques, in addition to the stocks themselves.

So Rydex **S&P 500** turns its portfolio over at an annualized rate of 133%, implying that it holds its average investment for, at most, nine months at a time. Most **S&P 500 index** funds have turnover rates of 5% or less, equivalent to an average holding period of at least 20 years.

The Rydex fund costs between 1.6% and 2.3% annually, the most of any **S&P 500 index** fund, according to Morningstar. But it tends to underperform the market by a margin slightly wider than its already distended expenses. In 2016, for instance, it trailed the market by nearly 0.4 percentage point more than its expenses. Extra trading costs money.

Ivy McLemore, a spokesman for Guggenheim Investments, which offers the Rydex funds, says the fund is used by -- and most suitable for -- short-term traders. It "has performed in line with expectations" given its expenses, he says.

The word "index" is related to the Latin word for forefinger. Index funds are meant to be indicators. If you own one, it should passively track the performance of a broad basket of stocks, bonds or other assets -- and its own returns should indicate, almost exactly, how the underlying investments performed.

If they don't, something is wrong.



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The New York Times

Business/Financial Desk; SECTB
**Amazon Apprehension Accompanies a Day of Losses**

By THE ASSOCIATED PRESS
670 words
11 November 2017
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Late Edition - Final
5
English


So that's what a losing streak feels like. Stocks fell for the second day in a row Friday, which had not happened in a month, as Amazon put a scare into yet another industry: medical device and health care equipment companies.

Those companies slumped after an analyst for Citi Investment Research said Amazon might be on the verge of shaking up their industry by speeding up distribution and cutting prices. Energy companies gave up some of their recent gains while retailers, media companies and household goods companies moved higher. Stocks finished the week with small losses, ending an eight-week winning streak.

One factor in those losses was uncertainty over the Republican plan to cut taxes. Stocks dipped Thursday after Senate Republicans proposed leaving corporate tax rates alone in 2018 before cutting them in 2019. That surprised investors, who pulled stocks down slightly from recent record highs.

''We would expect a little bit more of that as we get more delays and uncertainty in the tax plan,'' said Sean Lynch, the co-head of global equity strategy for Wells Fargo Investment Institute. Lynch said an eventual tax cut for companies, and for at least some individuals, would give investors ''a dose of confidence'' that company earnings will grow a bit faster and the economy and **stock market** will rise for a bit longer.

The **Standard & Poor**'**s500 index** lost 2.32 points, or 0.1 percent, to 2,582.30. The **Dow Jonesindustrial average** slid 39.73 points, or 0.2 percent, to 23,422.21. The **Nasdaq composite** turned higher and rose 0.89 of a point to 6,750.94. The Russell 2000 index of smaller-company stocks inched up 0.26 of a point to 1,475.27.

The **S**.**&P**. **500** set an all-time high on Wednesday but finished the week down 0.2 percent. The index had gained 5 percent over its winning streak, the longest in almost four years. The Russell 2000, which comprises smaller companies that might benefit more from a corporate tax cut, fell 1.3 percent this week. That was its largest loss in three months.

Amit Hazan, an analyst with Citi Investment Research, wrote Friday that the online retail giant Amazon is making quick progress in the medical supply field and could soon start distributing goods to hospitals, as some organizations appear interested in working with Amazon.

Baxter International, which sells intravenous pumps and other hospital equipment, fell $1.35, or 2.1 percent, to $64.04. Becton, Dickinson dipped $5.25, or 2.3 percent, to $219.23. The medical device maker Medtronic slid $1.48, or 1.8 percent, to $79.33.

Competition with Amazon has hurt retailers for years, and the online giant has pressured supermarkets and grocery stores with its purchase of Whole Foods. In recent weeks, health care product companies, medication distributors and drugstores have fallen as Wall Street wondered how Amazon's logistics expertise and willingness to slash prices might affect their business. The drugstores CVS and Walgreens jumped Friday; investors may be relieved that Amazon could turn its focus to industries they are less involved in.

United States crude oil lost 43 cents to $56.74 a barrel in New York. Brent crude, used to price international oils, gave up 41 cents to $63.52 a barrel in London.

Wholesale gasoline gave up 1 cent to $1.81 a gallon. Heating oil lost 1 cent to $1.93 a gallon.

**Bond prices** slumped. The yield on the **10**-**year Treasury** note rose to 2.38 percent from 2.34 percent.

Gold dropped $13.30, or 1 percent, to $1,274.20 an ounce. The dollar rose to 113.54 yen from 113.32 yen. The euro fell to $1.1618 from $1.1643.

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

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THE WALL STREET JOURNAL.
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**Bond Market Turns Less Friendly to Junk --- Investors typically look to junk bonds as a sign of broader market trouble**

By Ben Eisen and Sam Goldfarb
497 words
11 November 2017
The Wall Street Journal
J
B11
English


A red-hot bond market is turning more frosty toward junk-rated issuers.

Investors demanded a 3.79 percentage point premium, or spread, over going rates to own junk bonds, the highest in nearly two months on Thursday, according to index data from Bank of America Merrill Lynch. That's up from 3.38 percentage point on Oct. 24, near its lowest since the financial crisis. Two low-rated issuers also pulled bond deals over the last day.

The gyrations suggest a shift away from particularly easy conditions that were on display just a few months ago. The market showed signs of stabilizing Friday, but the latest wobble offers a hint that investors are getting edgier after a torrid rally in the debt of lower-rated companies this year.

"It's just so much easier to sell when your starting point" is such low yields, said Drew Conrad, a fixed-income trader at Denver Investments.

Investors typically look to junk bonds as an early-warning sign of broader market hiccups. Recent weakness in that market had been brewing for a few weeks, even as stocks kept climbing to records. But on Thursday, the **S&P 500** fell as much as 1.1% before rebounding to close 0.4% lower. It was down a further 0.1% Friday.

As Thursday's weakness unfolded, NRG Energy said it withdrew an $870 million refinancing "in response to broader market conditions." It marked the first pulled deal since June, according to LCD, a unit of S&P Global Market Intelligence. The merchant power producer was hoping to sell bonds due in 2028, but its 5.75% yield offer was too low for investors, who wanted at least 6%, according to two investors.

Canyon Resource Holdings LLC, a highly leveraged coal company, pulled its offering of a $375 million secured note Friday, investors said. The bonds were to be used as part of its acquisition of Bowie Resources Partners, due to close next week. Representatives for NRG and Bowie didn't return requests to comment.

Four other deals were completed Thursday, totaling $1.85 billion. One of them, chemical company Platform Specialty Products, priced its eight-year notes at 5.875%, the high end of initial indications.

In one sign of how hot the junk bond market was just a few months ago, money-losing electric-car company Tesla issued $1.8 billion of eight-year bonds at a yield of 5.3%. Demand was so strong that bankers increased the size of the deal by $300 million.

Since then Tesla's bonds, rated B3 by Moody's Investors Service, have fallen steadily in price. The bonds were trading at 94 cents on the dollar Thursday, down from almost 100 cents in August, according to trading platform MarketAxess.



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THE WALL STREET JOURNAL.
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Heard on the Street
**Turkey Can Show Global Market Risks**

By Richard Barley
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11 November 2017
The Wall Street Journal
J
B12
English


[Financial Analysis and Commentary]

In a world worried about complacency in markets, where should an investor look for rumblings of disorder? A good candidate is Turkey.

The **volatile** emerging market has offered investors plenty of reasons for concern in recent years. Now, inflation has risen into double-digit territory, reaching 11.9% in October. Growth has been strong, although there are concerns it is reliant on a credit binge that is unsustainable.

As a result, since peaking in early September, the Turkish lira has fallen 12% versus the U.S. dollar. The Bloomberg Barclays index of local-currency Turkish bonds has swung from a year-to-date rise of more than 10% to a decline of over 5%, with the yield on the index rising to 12.5%.

To some extent, investors have seen this movie before, but each time tensions have risen, they have been contained; markets have avoided outright crisis. That is in part because the central bank has, in the end, raised rates in response to pressure.

Yet Turkey is among the most vulnerable to a change in the status quo of ultra-loose monetary policy given its persistent current-account deficit, a problem many emerging-market countries addressed in recent years.

The latest bout of weakness in Turkish bonds and the lira has coincided with a rise in the U.S. dollar as markets have shifted to reassess U.S. monetary and fiscal policies. The question now is whether investors continue to ignore fundamental worries to chase returns.

Turkey looks like an important country to watch for signs that the global attitude to risk and the hunger for yield are changing.



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The New York Times

Business Day
**China Eases Limits on Foreign Stakes in Financial Firms**

By KEITH BRADSHER
1,208 words
10 November 2017
06:28 AM
NYTimes.com Feed
NYTFEED
English


BEIJING — Hours after President Trump left China with a warning about its trade practices, Beijing threw him — and Wall Street — a bone.

The Chinese government said on Friday that it would relax or remove a broad range of limits on foreign ownership of banks and securities firms. The move could inject a little foreign know-how into a vast financial system that helped fuel China's economic rise but that in recent years has become burdened with debt, bubbles and inefficiencies.

Foreign firms may not rush in right away. Global financial institutions have been cautious about investing in China, partly because they would be required to buy mostly Chinese-made telecommunications equipment for their operations here and to store financial data here as part of the country's tough new cybersecurity laws.

Still, the Chinese initiative could help Beijing rally political support from Wall Street banks and securities firms, which have profited from fees on Chinese purchases of American companies but have long been limited in what they could do inside China.

China could use some friendly faces in Washington. In addition to Mr. Trump's comments about unfair trade during his visit to Beijing this week, Republicans in the House and Senate introduced legislation with strong Trump administration support that would ratchet up considerably the federal government's scrutiny of Chinese acquisitions of companies in the United States.

Goldman Sachs Group praised the Chinese move, saying, "We welcome today's announcement and look forward to playing a greater role in China's capital markets."

China keeps tight limits on a number of industries it considers vital, including energy, transportation, the media and financial services. Companies in the United States, Europe and Japan have increasingly complained about being limited in those markets or shut out entirely, even as Chinese companies make their own investments in similar industries outside its borders. In many cases, Beijing's limits have given rise to Chinese giants who dominate markets at home.

Officials in Beijing had previously said the government would open the financial sector to outside money, but Friday's move offered the first concrete details.

Zhu Guangyao, China's vice finance minister, said that his country would start allowing foreign investors to own 51 percent of Chinese securities firms, fund managers and futures companies, and would allow them to own 100 percent three years from now. The current limit on foreign ownership is 25 percent for large, publicly traded securities firms and 49 percent for most other businesses in these categories.

Mr. Zhu said that China would also raise the allowed foreign investment in insurance companies, currently 50 percent for most companies, to 51 percent in three years and 100 percent in five years. China also plans to eliminate its current limit of 25 percent foreign ownership in banks, Mr. Zhu said, but he did not say when it might happen.

While the moves were announced several hours after Mr. Trump and his advisers flew to Vietnam, Mr. Zhu said that the initiatives were the result of decisions made during the Communist Party's congress last month. Trump administration officials shied away from making commitments while in Beijing over market access, the sort of horse-trading that marked previous presidential visits. They have also been distracted by domestic issues and other trade issues.

Some international banking acumen may be welcome in China. The country's state-controlled banking system has lent heavily to state-owned companies and affiliates of local governments, leading to vast piles of debt accumulated in a short amount of time. Meanwhile, some smaller businesses continue to complain about lack of access to money. Increased competition could spur state-owned banks to improve their lending decisions.

"Speaking over all, it is a good thing," said Liu Dongliang, an analyst at China Merchants Bank. "There will be more different kinds of capital involved, and their management ideas and risk control ideas may arouse some reaction."

American financial institutions cautiously welcomed the Chinese move. Citibank said that its existing operations in China were already growing, with more than $1 billion a year in China-related revenue, and that it wanted to study the details of the new regulations when they were released.

China promised when it joined the World Trade Organization in 2001 that it would rapidly open up its **financial markets** to foreign competition. Foreign commercial banks were then disappointed when Chinese regulators set high capital requirements for each foreign bank branch, limiting their ability to expand.

But the rise of online banking has reduced the need for bank branches, and so has the rise of electronic payments. Over the past couple of years, Citibank has been gradually closing some of its retail branches in China, as it has done in the United States. According to the bank, 95 percent of its retail banking transactions now take place outside bank branches.

Yet foreign banks hold just 1.5 percent of the assets in China's credit-swollen banking system. State-owned banks have flooded credit markets with so many loans that finding large, financially stable, creditworthy borrowers has become harder in China, forcing newcomers to enter the treacherous market of providing loans to smaller enterprises at a time when the entire Chinese economy is gradually slowing.

China's **financial markets** have a reputation for fraud and manipulation, particularly the **stock market**. Increasing the role of foreign firms in these markets could help introduce overseas practices that might limit misconduct.

Asset management companies have already been expanding their role in China, and the new rules announced by Mr. Zhu could speed that process. Peter L. Alexander, the founder and managing director of Z-Ben Advisors, a Shanghai financial consulting firm, said that because Chinese investors tended to have large holdings in relatively simple money market funds and had not yet shown much interest in purchasing exchange-traded funds, "there's an opportunity for active managers."

Mr. Zhu also repeated on Friday a Chinese pledge made late Thursday to ease joint-venture requirements for electric cars and other so-called new energy vehicles that may be built in China's free-trade zones. Unlike any other large car manufacturing nation, China requires either that all cars sold within its borders be assembled in a 50-50 joint venture with a local partner or that an import tax of at least 25 percent be paid, plus a range of other taxes.

Tesla has sought and apparently obtained permission to have a wholly owned factory in a free-trade zone in Shanghai, and is still working out other details, like whether cars made in the zone will qualify for electric car subsidies that China currently provides only to domestically produced cars.

Follow Keith Bradsher on Twitter:@KeithBradsherAilin Tang contributed research.

* Targeting China's Purchases, Congress Proposes Tougher Reviews of Foreign Investments

* Tesla Plant in China May Be a First

* S.&P. Downgrades China's Debt, Citing a Surge in Lending

A view of Shanghai's financial district last year. The Chinese government announced on Friday that it would relax or remove some of the limits on foreign ownership of banks and securities firms. | Mike Nelson/European Pressphoto Agency

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THE WALL STREET JOURNAL.
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**Banking & Finance: Nasdaq Proposal Has Traders Worried --- Fears are that secret strategies could be exposed; investors also might be harmed**

By Alexander Osipovich
844 words
10 November 2017
The Wall Street Journal
J
B10
English


Some Wall Street heavyweights are crying foul over a proposal by Nasdaq Inc. that they say will expose hidden trading strategies, in the latest clash between traders and exchanges over Big Data.

A dispute has erupted over Nasdaq's plan to launch an options-data service called the "Intellicator Analytic Tool." Critics say that if approved by the Securities and Exchange Commission, the service could enable sophisticated algorithmic traders to exploit investors.

"In the interest of fairness and the investing public, this initiative should be denied by the regulator," Thomas Peterffy, the billionaire chairman and chief executive of Interactive Brokers Group Inc. and one of the pioneers of automated options trading, said in an email.

Exchanges in recent years have sought to boost profits by selling data, often reaching into the torrent of electronic-trading activity that rushes through their markets for data to package and sell.

Nasdaq PHLX is the second-biggest U.S. options exchange. Some 12 billion to 14 billion digital messages a day zip through its systems, representing trades and other information, according to Nasdaq.

The Intellicator -- a combination of the words intelligent indicator -- would use that activity to gauge market sentiment. Every minute, it would spit out numbers corresponding to a part of the options market and show whether investors in that market segment were bullish or bearish.

While it wouldn't reveal the identities of investors, the Intellicator could reveal the "customer type" of buyers or sellers in thinly traded markets. For instance, it could show whether a trade was initiated by a small investor or money manager, by identifying certain traders as "professional customers" who place larger volumes of orders each day.

Nasdaq said in a September SEC filing that, in some cases, the Intellicator could be used to "reverse-engineer" the strategies of certain kinds of firms, yielding information "not otherwise available on the Exchange's data feeds."

That could harm pension funds and other institutional investors, for whom it is critical to get big trades done quietly, said Peter Maragos, chief executive of Dash Financial Technologies, an equities and options brokerage.

When such big investors want to buy or sell large quantities of options, their brokers will often break the order into chunks and execute them throughout the day. The idea is to avoid tipping off the market about the large investor's intentions.

But if the Intellicator reveals a small order was initiated by a big investor, others could infer that the investor is about to buy or sell many options, potentially affecting the price of the underlying stock. An algorithmic trader could quickly buy or sell that stock, resulting in a worse price for the investor on the options, Mr. Maragos said. "We don't see how this benefits investors in any way," he said.

A major Wall Street lobby group urged the SEC to block the Intellicator proposal in a letter released Thursday. "If this data is made publicly available, customer trades could be adversely impacted if bad actors attempt to utilize this data to manipulate the market," the group, Sifma, said in the letter, which was dated Wednesday.

Jeff Kimsey, **Nasdaq**'s head of global data products, said in an emailed response: "We have developed these products with great care and consideration to ensure that they cannot be used in a manner that is detrimental to the market."

**Nasdaq** says it is actually trying to "democratize" options data, or level the playing field between high-tech traders and ordinary investors. The New York exchange operator consulted with dozens of its customers before unveiling the Intellicator and sought to minimize the risk of exposing anyone's secrets, Mr. Kimsey said in an interview.

Customer-type data is available elsewhere, and savvy traders already use it, he said, though he added that no other source releases such data as frequently as every 60 seconds, as the Intellicator would.

Some market veterans say the Intellicator proposal won't have as much impact as critics fear. "What **Nasdaq** is trying to do is add a little more transparency," said Henry Schwartz, president of options data firm Trade Alert LLC. "But I don't think they're overdoing it."

The SEC has until Nov. 18 to respond to **Nasdaq**'s plan, though it could just decide to delay a decision for months.

**Nasdaq** unveiled the Intellicator in an August SEC filing, but withdrew that filing less than two weeks later. When it filed an expanded version in September, it included the material about how the Intellicator could help reverse-engineer hidden trading strategies. Mr. Kimsey said **Nasdaq** added those sections after talking to the SEC. An SEC spokeswoman declined to comment.

The clash comes as the arcane business of exchange-data feeds has come under growing scrutiny, even drawing attention from the Treasury Department in a report last month.

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Gunjan Banerji contributed to this article.

 

## Growth Business

Nasdaq's exchange-data revenues have increased 27% in the past four years.


Source: the company

THE WALL STREET JOURNAL.

 




Document J000000020171110edba0002p

THE WALL STREET JOURNAL.
U.S. EDITION

**House, Senate GOP Split on Taxes --- Overhaul plans diverge on corporate, estate and income tax, posing hurdles for path forward**

By Richard Rubin
1,112 words
10 November 2017
The Wall Street Journal
J
A1
English


Senate Republicans' proposal to rewrite the tax code breaks significantly with the one crafted by the House GOP, confronting party leaders with dozens of differences to reconcile and little time before the year-end deadline they have set to pass it.

The Senate plan, released late Thursday, contrasts with the House version in key areas, including the timing of a corporate tax-rate cut, the number of individual tax brackets, the details of international tax rules, and the particulars of estate-tax changes.

Despite the differences, Republicans say they are confident they can prevail in cutting taxes by about $1.5 trillion over a decade, aided by an advertising blitz from business groups and conservatives and motivated by the political imperative to rack up a major legislative victory ahead of next year's midterm elections.

House and Senate Republicans are trying to refine and pass their respective bills in the next few weeks, needing to reconcile their differences while operating with slim majorities and working against the backdrop of rough election defeats this week that make some lawmakers more wary of disturbing a restive electorate.

"We still have a lot more work, but we're really excited," said Gary Cohn, President Donald Trump's chief economic adviser.

The Senate bill, according to Senate Finance Committee aides, would delay until 2019 a cut in the corporate tax rate to 20%. It also would double the estate-tax exemption to a maximum of about $11 million per person, but it would leave the 40% tax itself in place for estates above that level. The Senate bill also sets a 38.5% top tax rate for individuals and preserves a seven-bracket structure. The top rate would start at $1 million for married couples and $500,000 for individuals.

The House bill, by contrast, would cut the corporate tax rate immediately and repeal the estate tax starting in 2025. The House plan proposes a 39.6% top rate for individuals and a four-bracket structure.

"The House will pass its bill, the Senate will pass its bill and then we will get together and reconcile the differences, which is the legislative process," House Speaker Paul Ryan (R., Wis.) told reporters Thursday. "And that's how this process will continue."

Stocks fell during the day amid worries over the prospects for a tax rewrite, and the specter of a delay in corporate tax relief, but pared their declines later. The **Dow Jones Industrial Average** had fallen as much as 253 points by early afternoon, but ended the day down 101.42 points, or 0.4%, at 23462.94, The **S&P 500** fell 0.4%, while the **Nasdaq Composite** dropped 0.6%.

Mark Travis, chief executive of Intrepid Capital Management, a Milwaukee-based fund manager, said Thursday's selloff intensified following reports that the Senate tax bill would delay the corporate-tax-rate cut until 2019. He added that would likely cause investors to sell some of their assets to lock in some of the year's gains.

The Senate Finance Committee is scheduled to consider the bill next week, and the full Senate may vote the week after Thanksgiving. Meanwhile, House Republicans moved their bill out of the Ways and Means Committee Thursday, preparing for a vote by the full House next week.

"One thing seems clear: There isn't enough money to pay for everything that each house wants," said Greg Valliere, chief global strategist at Horizon Investments. "Something has to give -- most likely corporate tax relief, which may not be as generous as proponents expected a few weeks ago."

After they struggled and failed to pass a health-care bill and lost in state elections on Tuesday, Republicans see the tax bill as their best chance for a legislative victory while they have full control of the Congress and the White House. But some of the changes they are proposing could be liabilities in the swing districts they are defending in the House.

House Republicans made late changes in their bill Thursday, keeping the adoption tax credit, increasing a one-time tax on foreign profits, adding lower rates for small businesses, bumping up taxes on multinational corporations and exempting car dealers from a limit on interest deductions.

Differences between the House and Senate are especially evident in the debate about the state and local tax deduction. Republican senators are prepared to eliminate the deduction, which hits high-tax blue states like New York, New Jersey and California hardest.

The Senate would repeal the deduction, a decision that freed up money for other priorities. The House narrows the deduction but doesn't completely end it; it leaves in place the ability to deduct up to $10,000 in property taxes.

"Senate Republicans are completely pulling the rug out from under their colleagues who represent suburban districts in the House," said Sen. Charles Schumer (D., N.Y.), who has been fighting to preserve the state and local tax deduction.

As the debate moves ahead, the Senate Republicans will operate with less flexibility than the House. The Senate finance panel has a 14-12 party split, meaning that Republicans need to keep all of their members together in the committee.

And in the full Senate, Republicans have 52 seats. They can't pass a bill if more than two members of their party vote no. Some worry that the plan would add too much to federal budget deficits. Some prioritize larger child tax credits; some don't want tax cuts that they believe favor the wealthiest Americans. And many will have narrow, state-focused priorities and the clout to insist on them.

Another obstacle: The Senate bill faces what is known as the Byrd Rule, a requirement that the overhaul not increase deficits beyond the first 10 years.

The bill has rising deficits toward the end of the decade and as constructed now, it seems unlikely to meet the Byrd test. Finance Committee aides say they will need to adjust it to comply. Otherwise, Republicans would be unable to get a bill through the Senate on a fast-track process without needing Democratic votes.

In other ways, the House and Senate tax plans fall in the same framework. They each would repeal the alternative minimum tax, repeal personal exemptions and nearly double the standard deduction.

The Senate also would set the child tax credit at $1,650, up from $1,600 in the House.

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Siobhan Hughes, Kristina Peterson and Michael Wursthorn contributed to this article.

 

## Reconcile This

Republicans' House and Senate tax plans both lower the corporate rate to 20%, nearly double the standard deduction and eliminate personal exemptions and the alternative minimum tax. But they differ significantly in other ways.

| | House bill | Senate bill |
|---|---|---|
| Top individual rate | 39.6% | 38.5% |
| Number of individual tax brackets | Four | Seven |
| Estate tax | Expands exemption to about $11 million a person, repeals in 2025 | Expands exemption to about $11 million a person |
| Corporate-rate reduction to 20% takes effect | 2018 | 2019 |
| Top pass-through rate | 25% with caveats | Above 30% |
| State/local deduction | Preserves for property tax up to $10,000 | Eliminates |
| Medical expense deduction | Eliminates | Preserves |
| Student-loan interest deduction | Eliminates | Preserves |
| Child tax credit | $1,600 per child | $1,650 per child |

Sources: U.S. House and U.S. Senate

THE WALL STREET JOURNAL.



Document J000000020171110edba0002e

The New York Times

Business/Financial Desk; SECTB
**Markets Skid On Delay Of Tax Cut**

By THE ASSOCIATED PRESS
312 words
10 November 2017
The New York Times
NYTF
Late Edition - Final
7
English


Stocks skidded in the United States on Thursday after Senate Republicans surprised Wall Street by proposing a delay in cutting corporate taxes. Industrial and technology companies fell the most, but stocks regained some of their losses before the closing bell.

Senate Republicans introduced a tax bill a week after their House counterparts did the same. While both bills would reduce the corporate tax rate to 20 percent from 35 percent, the Senate legislation does not do that until 2019.

Industrial companies had their worst day in almost three months. Weak reports from aircraft parts maker TransDigm and medical waste processor Stericycle were partly to blame, while a weak forecast from Johnson Controls also hurt the sector. Media companies traded higher after a solid report from Twenty-First Century Fox, and energy companies also rose.

The **Standard & Poor's 500**-**stockindex** dropped 9.76 points, or 0.4 percent, to 2,584.62. The **Dow Jonesindustrial average** fell 101.42 points, or 0.4 percent, to 23,461.94. The **Nasdaq composite** slid 39.06 points, or 0.6 percent, to 6,750.05. Each closed at an all-time high on Wednesday.

Benchmark United States crude gained 36 cents to $57.17 a barrel in the New York. This week oil has been trading at its highest prices since the middle of 2015.

Gold rose $4.00 to $1,285.60 an ounce.

**Bond prices** were little changed. The yield on the 10-year note rose to 2.34 percent, from 2.33 percent.

The dollar fell to 113.34 yen from 113.82 yen. The euro rose to $1.1642 from $1.1598.

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

Document NYTF000020171110edba0005b

The New York Times

National Desk; SECTA
**Senators' Tax Bill Delays A Promised Corporate Cut**

By JIM TANKERSLEY, ALAN RAPPEPORT and THOMAS KAPLAN
1,454 words
10 November 2017
The New York Times
NYTF
Late Edition - Final
1
English


WASHINGTON -- Senate Republicans outlined their vision on Thursday for overhauling the tax code, proposing a one-year delay in President Trump's top priority of cutting the corporate tax rate while reinstating some prized tax breaks used by middle-class families.

The Senate bill differs significantly from the House version approved by the Ways and Means committee on Thursday: It would preserve some popular tax breaks, including ones for mortgage interest and medical expenses, and would maintain a bottom tax rate of 10 percent for lower earners. But it would also jettison the state and local tax deduction entirely and delay the enforcement of a 20 percent corporate tax rate until 2019, which could rankle the White House and mute the economic growth projections that Republicans are counting on to blunt the cost of the tax cuts.

The disparate bills show the competing pressures that Republican lawmakers are facing and the calculations that Senate and House leaders are making to ensure passage of the bills through their respective chambers. While both bills share the main priorities of cutting corporate and individual taxes, they diverge on matters of high political sensitivity, particularly for vulnerable House Republicans from high-tax states and for Senate Republicans concerned about adding to the federal budget deficit.

Senate staff members said their draft would require changes, likely major ones, to survive procedural rules that allow it to pass on a party-line vote. Those changes could include setting some of the tax cuts to expire after a period of years.

A retiring senator, Jeff Flake, Republican of Arizona, raised concerns that the legislation could add more to federal deficits. "I remain concerned over how the current tax reform proposals will grow the already staggering national debt," Mr. Flake said, "by opting for short-term fixes while ignoring long-term problems for taxpayers and the economy."

Senators Mike Lee, Republican of Utah, and Marco Rubio, Republican of Florida, said the bill did not go far enough in increasing the child tax credit, which rose to $1,650 per child in the Senate version, from $1,600 in the House bill, and would now be available to families making up to $1 million a year, a leap from a current income limit of $110,000. "The Senate is not going to pass a bill that isn't clearly pro-family," they said in a joint statement, "so we look forward to working with our colleagues to get there."

Stocks tumbled on the news that the corporate rate cut may be delayed. The **Standard & Poor's 500-stockindex** fell 0.4 percent and the **Nasdaq** 100 slipped 0.5 percent.

"The Street definitely felt like there was some connection between tax policy and the market reaction, which was pretty severe," said Les Funtleyder, a portfolio manager at E Squared Capital Management in New York.

FreedomWorks, a conservative advocacy group, called the Senate's plan to delay the corporate tax cut "unacceptable."

Still, several business groups and Republican leaders applauded the movement in both chambers. The influential National Federation of Independent Business, which represents small businesses and had opposed the House bill, reversed course and said it backed both an amended House bill and the Senate version. Other groups shook off the delayed rate cut and embraced the Senate plan.

"It's been a week of remarkable progress," said Michael A. Steel, a former House leadership aide who is a managing director for Hamilton Place Strategies, a consultancy in Washington.

Republican leaders expressed optimism that they could quickly address concerns and resolve the competing political pressures facing their lawmakers in the Senate and House.

"This will be met with Senate consternation and all kinds of things," said Representative Peter Roskam of Illinois, who oversees the Ways and Means tax policy subcommittee. "But when it comes down to it, what we're on the verge today is winning an argument -- winning an argument about the future of our economy and what our worldview is."

The bill set for introduction in the Senate Finance Committee includes seven income brackets, scuttling some of the simplicity that House drafters used to sell their bill, which reduced the number of brackets to four.

It would keep the bottom tax bracket for individuals at 10 percent, which the House had raised to 12 percent, and would reduce the top rate for high earners to 38.5 percent, down from the current rate of 39.6 percent, which the House had maintained. Like the House bill, the Senate's version plans to roughly double the standard deduction and expand the child tax credit.

The starkest example of the competing priorities is the state and local tax deduction, which is heavily used in high-tax states like New York, New Jersey and California, which are represented by Democrats in the Senate but have some Republican representatives in the House. The Senate completely eliminates the valuable tax break, which allows taxpayers to deduct state and local income, sales and property taxes. The House bill would still allow individuals to deduct property taxes up to $10,000.

Some House Republicans have already rejected that limitation as too strict and the Senate's complete elimination could further spook those members, whose political future could be imperiled if they pass a plan that actually increases their constituents' tax bills.

"Every state should be a winner in tax reform, and in my opinion, that would not be the case if the Senate view were to prevail," said Representative Leonard Lance, Republican of New Jersey. "I'm not voting for the $10,000, so I'm certainly not voting for zero," Mr. Lance said.

The bill would add $1.5 trillion to federal budget deficits over a decade, without accounting for additional economic growth it might spur, according to the Joint Committee on Taxation. But Senate staff members suggested that the Finance Committee would need to make changes to ensure it does not lose revenue after 10 years, and thus stays in compliance with the procedural rules that would allow the bill to pass on a party-line vote.

In another significant departure from the House bill, the Senate would not create a special, lower top rate for so-called pass-through entities, which are businesses whose profits are distributed to their owners and taxed as individual income. Instead, the Senate would create a 17.4 percent deduction on income taxes for pass-through owners of all income levels, effectively cutting rates both on rich owners and on middle-class small-business owners who would not have benefited from the House's original lower pass-through rate. For service-providing pass-throughs, it would phase out that benefit for individuals with income above $75,000 and for married couples with income above $150,000.

On Thursday, in the face of pushback from fellow Republican lawmakers, small businesses and other industry groups, Representative Kevin Brady of Texas, who leads the Ways and Means Committee, unveiled a 29-page amendment making further revisions to the House's tax plan. The amendment restores the adoption tax credit, which the House tax plan had planned to repeal. It also creates a new, lower tax rate for certain business owners.

Under the new provision, the first $37,500 of business income would be taxed at 9 percent, rather than 12 percent, for an unmarried individual earning less than $75,000 through a pass-through business. For a married couple, the dollar amounts would be double.

The Senate is also including a provision to prevent large multinational corporations from stashing profits overseas. The bill will propose a new business tax on American and foreign companies -- effectively a minimum tax on their income earned in the United States -- while also levying a 12.5 percent tax on income that American companies receive overseas from their intellectual property.

Preliminary estimates indicate the provision would raise more than $130 billion in tax revenue over 10 years to help offset revenue lost from rate cuts, committee staff members said. The original House approach, which would have levied a 20 percent "excise tax" on payments between American and foreign companies that are affiliated with each other, would have raised an estimated $155 billion in revenue.

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The Senate majority leader, Mitch McConnell, above center, has little room for error in getting his party's tax proposal to pass. The Senate minority leader, Chuck Schumer, left, held up documents related to the bill while addressing reporters on Thursday. (PHOTOGRAPHS BY TOM BRENNER/THE NEW YORK TIMES) (A17)

Document NYTF000020171110edba00047

 

THE WALL STREET JOURNAL.
U.S. EDITION

**Demand For Gold Declines**

By David Hodari
249 words
10 November 2017
The Wall Street Journal
J
B11
English


The price of gold isn't always governed by the laws of supply and demand. For gold bulls, that's good news, because demand is down.

Global demand for gold slumped to its lowest level in eight years in the third quarter, according to a report released Thursday by the World Gold Council. Demand dropped 9% from the year-earlier period, after it hit a record in the July-to-September quarter in 2016, the report said.

The price of gold is still up 12% this year, underscoring how the demand for the metal plays less of a role than it does for other commodities. With gold, U.S. interest rates and the metal's status as a haven investment can often play a bigger role in driving the price higher or lower.

In the third quarter, factors including Indian tax changes and a booming **stock market** contributed to sinking demand. Moreover, buying from gold-backed exchange-traded funds edged up by only 19 tons, 87% less than they bought in the year-earlier quarter.

These funds had to compete against a soaring **stock market** with "a contained gold price contrasting poorly against that," said Alistair Hewitt, the council's head of market intelligence.

Still, central-bank demand for gold climbed 25%, the report said. Meanwhile, demand from technological companies rose 2% thanks to the increased use of gold in chips and wireless devices.



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THE WALL STREET JOURNAL.
U.S. EDITION

**Treasurys Feel Pull of German Gravity --- Aggressive stimulus efforts in Europe push overseas investors to U.S., helping cap yields**

By Sam Goldfarb and Daniel Kruger
718 words
9 November 2017
The Wall Street Journal
J
B13
English


The yield on **10-year Treasury** notes is falling again, and some analysts are pointing to a familiar nemesis: German debt.

For years now, German government bond yields, along with European sovereign yields in general, have exerted a gravitational pull on the Treasury market. Slow postcrisis growth and aggressive monetary stimulus have led to ultralow yields in Europe. That, in turn, has pushed overseas investors to buy U.S. government bonds for the relatively substantial income they offer compared with European sovereign debt, helping cap Treasury yields.

This month's decline in Treasury yields serves as a reminder that it could be difficult to escape that dynamic, investors and analysts say.

Low Treasury yields have ripple effects across the U.S. economy. They help bring down borrowing costs for individuals and businesses, tend to weigh on the dollar and help bolster stocks by making them look more attractive to yield-seeking investors.

The yield on the **10-year Treasury** note settled Wednesday at 2.325%, down from a recent high of 2.452% on Oct. 26. Yields fall when **bond prices** rise.

When the European Central Bank signaled at the end of October that it would continue its bond-buying program deep into next year, German bond yields fell sharply. Treasury yields, however, rose initially as U.S. investors remained focused on the potential for tax cuts and interest-rate increases at home.

That pushed the gap between the **10-year Treasury** yield and 10-year German **bond yield** above 2 percentage points, rare territory that some see as unsustainable. The spread between the two bonds stayed below 2 percentage points for 27 years until President Donald Trump's election last November. Even then, its stay above that threshold lasted just several months.

On Wednesday, the gap, or spread, between the **10-year Treasury** yield and 10-year German bond was down to 1.99 percentage points from 2.05 points on Oct. 27.

A widening spread between Treasury yields and German bond yields is always going to be difficult to sustain because "the more the spread widens, the more buying you see coming into our market" from overseas, said Donald Ellenberger, head of multisector strategies at Federated Investors Inc.

Mike Swell, co-manager of the Goldman Sachs Strategic Income Fund, said his portfolio profited in recent months from a bet that the gap between Treasury yields and German yields would expand. The fund, however, has unwound that trade in recent weeks and would consider betting on a narrower spread if the gap gets any wider.

Driving the fund's original trade was the idea that the U.S. was further along in its economic recovery than Europe, while the Continent remained committed to monetary stimulus, he said. At this point, though, there are signs that the eurozone economy is catching up with the U.S.

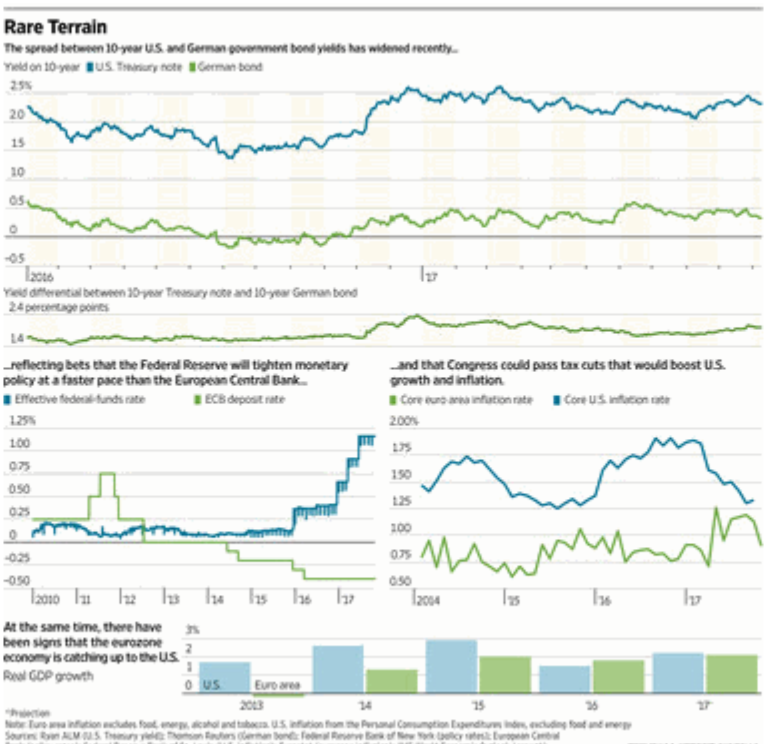
The eurozone economy, which has had a rockier recovery from the financial crisis than the U.S., is expected to expand 2.1% this year, according to the latest report from the International Monetary Fund, just a shade below the projected U.S. growth rate of 2.2%.

Overall, there is "much more convergence versus divergence" among economies, making it risky to hold German government bonds at current prices, Mr. Swell said.

Bets on government bonds are hardly free from risk. While inflation has remained persistently below targets set by the ECB and Federal Reserve, both central banks have expressed confidence that prices will rise. The U.S.'s budget deficit could push up rates faster than in Germany, which has a surplus. The Fed could also raise interest rates more aggressively than investors forecast. Rising inflation eats away at the purchasing power of bonds' fixed returns.

Still, NatWest Securities strategists recommend investors sell five-year German debt and buy five-year Treasurys because they say the rise in U.S. yields may have been overdone.

Combining a bet on falling Treasury yields with one on rising German yields offers investors a hedge should global bond yields take a collective move higher, said Brian Daingerfield, a NatWest strategist.

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THE WALL STREET JOURNAL.
U.S. EDITION

**U.S. News -- Capital Account: Trump Should Give Thanks for Solid Economy**

By Greg Ip
824 words
9 November 2017
The Wall Street Journal
J
A2
English


In the year since Donald Trump was elected president, the economy and markets have been on a roll. Stocks have set one record after another, unemployment has dropped sharply and the U.S. enjoyed its strongest six months of growth since 2014.

Mr. Trump thinks he knows why: "The reason our **stock market** is so successful is because of me," he declared this week.

But Mr. Trump should be giving thanks, not taking credit. The entire global economy is picking up steam, and foreign stocks are outperforming American ones. This suggests the U.S.'s good fortune is due less to Mr. Trump's presence than to a broader, global trend. Years of highly stimulative monetary policies by central banks have finally overcome various postcrisis headwinds.

So Mr. Trump is a lucky man. But can he make it last? That will require translating what may be a short-lived upswing into permanently faster growth, and as the fight over U.S. tax cuts demonstrates, that is no easy task.

The disappointing pace of global growth over the past decade reflects both structural drags such as aging populations and headwinds that followed the U.S. financial crisis in 2008 and Europe's sovereign-debt crisis in 2012. Central bankers responded with bond buying and zero interest rates.

That monetary medicine circulated slowly because banks were focused on working through bad loans and complying with new rules rather than lending. The process was over in the U.S. and still under way in Europe when another shock hit in 2015: an **oil-price** collapse and an abrupt slowing in China.

By last year, most of those shocks had receded. Oil recovered, especially after production cuts by OPEC and Russia shortly after Mr. Trump's election. China reopened the credit taps.

Ethan Harris of Bank of America Merrill Lynch notes that growth in China, the eurozone and Japan this year has exceeded both economists' expectations and those countries' long-term potential growth rates.

The markets mirror this. Blue-chip shares are up 21% in the U.S. since Election Day last year, 22% in France, 28% in Germany, 33% in Japan and 26% in emerging markets.

Of course, global growth and markets have always been linked, through trade and investor attitudes. Sometimes that's because the rest of the world is hitching a ride on a U.S. boom.

This time, though, there's a better case the reverse is happening. Japanese and European growth this year has been driven heavily by consumer spending and business investment, not exports.

By contrast, U.S. exports have grown faster than imports, with that gap contributing on average a quarter of a percentage point to growth each quarter this year. The dollar rallied after the election and then slid as investors upgraded prospects for the rest of the world faster than for the U.S. and reallocated capital accordingly.

The **stock market** initially soared after Mr. Trump's election as investors justifiably anticipated looser regulation, especially of banks, and lower taxes. Yet with time, the "Trump trade" has faded.

A basket of stocks tracked by Goldman Sachs of the highest-taxed companies outpacedthe overall marketfor the first month after the election and has since underperformed; it's up 17% in the past year, less than the total market. Goldman says that's because multinationals, which tend to have the lowest tax rates, also benefit most from the lower dollar.

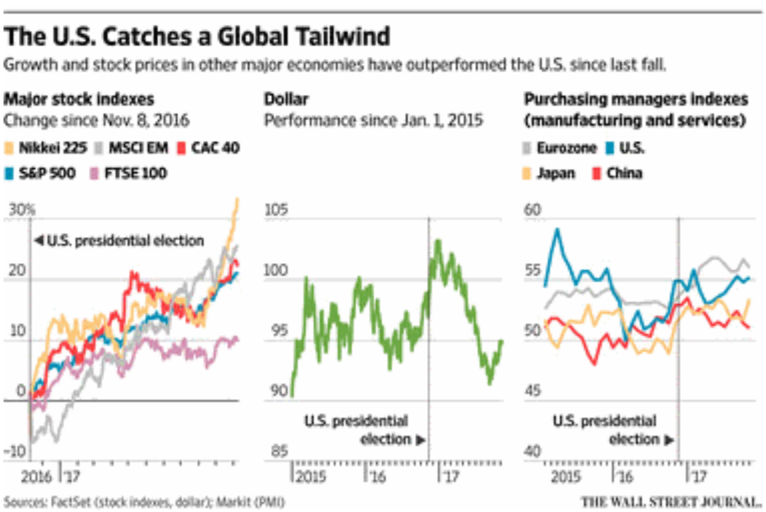
So why is the market up so much? The economy "was better than markets realized this time last year," says Charles Himmelberg, Goldman's co-chief markets economist. "It was a little bit of a happy coincidence that markets started to fully price the strength of that macro data when Trump got elected."

So Mr. Trump has been lucky. Still, successful presidents make their own luck, which is why Mr. Trump last week nominated Federal Reserve governor Jerome Powell to take over from Janet Yellen when her term as central bank chairwoman ends in February. Short of reappointing Ms. Yellen, it was the closest he could come to maintaining her strategy of raising interest rates gradually and cautiously.

Mr. Trump has promised to return the U.S. to sustained 3% growth through lighter regulation and lower taxes, and renegotiated trade pacts. His officials were proud to note the economy hit that annualized rate in the second and third quarters this year.

But that growth isn't sustainable. It required employers to add so many workers that the jobless rate dropped 0.4 percentage point. Keep that up and the labor market is going to run out of people.

That would finally make the Fed nervous enough about inflationary pressure to pick up the pace of interest-rate increases, withdrawing the medicine that got the current global upswing started.

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**Bank Investors Made a Mint on Crisis**

By Rachel Louise Ensign
1,037 words
7 November 2017
The Wall Street Journal
J
B1
English


The U.S. banking industry is booming -- a development that is bringing windfall gains to a small group of investors who had the gumption to buy esoteric bank securities when the outlook for financial firms and the economy was far less clear cut.

After years of banks grappling with the fallout of the crisis and low interest rates, the bets on what are known as TARP warrants are finally paying off. The investors, who include fund managers John Paulson and Bill Miller, bought these warrants for bank stocks secondhand, after they were initially issued to the government during the 2008 bank bailout.

The investors' unpopular view at the time was that banks and their stock prices would recover to precrisis levels. By betting on warrants, a high-octane security similar to an option, the fund managers basically doubled down on that opinion, risking their entire investment if it didn't happen by 2018 or 2019.

"If the subprime credit-default swaps were this asymmetric, beautiful investment to express what was wrong with American capitalism . . . , these securities are the opposite," said Django Davidson, a founding partner at London-based Hosking Partners LLP, which bought about $200 million of the warrants for banks including Bank of America Corp.

The warrants date to the financial crisis, when the government invested about $250 billion in about 700 banks as a part of the Troubled Asset Relief Program. As part of TARP, which aimed to shore up bank capital and restart lending, the government got warrants to buy shares in the banks. The Treasury Department started getting rid of the warrants in 2009, a process that included selling some off to investors.

For years after the crisis, many investors hated bank stocks, comparing them to heavily regulated utilities no longer able to take risks and grow. The warrants also slumped; some of Citigroup Inc.'s fell so much they were delisted from the New York Stock Exchange in 2016.

But since the November 2016 presidential election, bank stocks have helped lead a broad **stock-market** rally tied to renewed confidence and hopes of tax and regulatory overhaul. Meanwhile, banks' crisis-era legal problems have subsided and interest rates have started to rise, making lending more profitable.

The change in sentiment has made the warrants a turnaround story. Some from big banks have surged 65% to 1,440% since the election, easily outpacing the 36% rally in the KBW **Nasdaq** Bank **stock index**. One group of Bank of America's warrants, once left for dead, are up the most in the group. With the recent jump, J.P. Morgan Chase & Co. warrants are up 426% since they started trading in late 2009, compared with a 146% increase for the bank's stock.

The warrants give investors the right to buy a stock at a predetermined price. If the stock rises far above that "strike price," the warrant is like a winning lottery ticket. If it stays below that price, the warrant ends up worthless.

While exchange-traded stock options usually go out only a couple of years, warrants often last longer. "We were lucky it was a 10-year warrant," said Philippe Jabre, a Geneva-based fund manager who bought warrants in SunTrust Banks Inc., among others. He said the recovery took longer than he had expected.

"There were good days and other days when I felt like crying," said John Hadwen, a portfolio manager at CI Investments' Signature Global Asset Management, which has held TARP warrants since 2010. When his J.P. Morgan warrants fell in value after the bank's 2012 London whale trading loss, Mr. Hadwen pushed to buy the rest available, but the Canadian asset manager's chief investment officer said no.

Mr. Davidson said he learned about the warrants a few years ago at an Omaha, Neb., bar where he was mingling with attendees at Berkshire Hathaway's annual meeting. Warren Buffett, the conglomerate's chairman, got warrants unrelated to TARP as a part of Berkshire's crisis-era investments in Goldman Sachs Group and Bank of America.

The Miller Opportunity Trust mutual fund said it has notched gains of about $77 million on a $24 million investment in J.P. Morgan warrants.

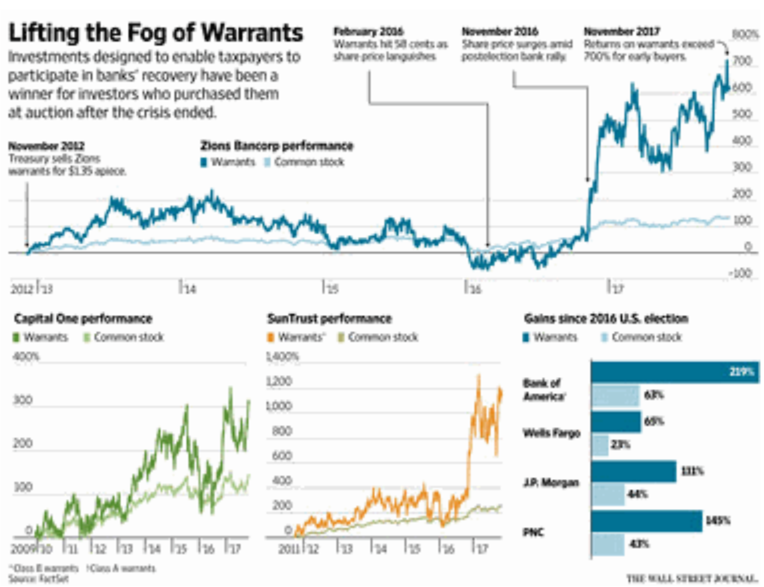
When the fund bought the warrants, "the market hated financials and was pricing in pretty dire scenarios," said Samantha McLemore, co-manager on the portfolio with Mr. Miller.

Mr. Paulson, who made billions of dollars betting against subprime mortgages a decade ago, turned a roughly $100 million profit on about $600 million in bank warrant investments, according to a person familiar with the matter. But he could have earned more if his funds hadn't sold their J.P. Morgan warrants in 2012. Mr. Miller's fund similarly lost out by selling Bank of America warrants around that time, though Ms. McLemore said the fund has done well by hanging on to the bank's common stock.

Investors got the warrants only because the U.S. government didn't want to hold on to them. By late 2009, the biggest banks had paid TARP money back and the Treasury started auctioning the warrants. By the end of 2012, it had made about $5 billion auctioning them off to investors. In other cases, Treasury sold the warrants back to the banks.

That has transferred the rest of the gains to private hands. The TARP warrants still trading in Bank of America, J.P. Morgan, Wells Fargo & Co. and PNC Financial Services Group Inc., for example, are worth more than $2 billion more on paper than when the government sold. At banks such as J.P. Morgan that hit their strike price a while ago, investors have likely netted additional profits by exercising the warrants.

New York-based Maltese Capital Management bought 2.2 million TARP warrants in Salt Lake City-based Zions Bancorp. from the government for about $1.35 apiece and held on to most of them. Today, they are worth about $11.15 a share, a return of around 726%. "We'd like a few more of those," said Terry Maltese, the firm's founder.

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THE WALL STREET JOURNAL.
U.S. EDITION

**Streetwise: It's Time to Change Game Plan for Stocks**

By James Mackintosh
705 words
7 November 2017
The Wall Street Journal
J
B1
English


Shareholders are luxuriating in the ideal environment as the global economy delivers growth without inflation. It is hard to be cautious when the fundamentals look great, but this might be just the time to start worrying.

The fundamentals offer little cause for concern, with models suggesting recession and runaway inflation are both unlikely (although the models aren't very reliable in either case).

So what could possibly go wrong? If the economy is unlikely to threaten stocks, the biggest danger comes from the market itself. History shows that a loss approaching 20%, the standard definition of a **bear market**, has been almost as likely when the economy is expanding as it has been during recessions.

It is obvious why recessions hurt stocks, as sales shrink and caution replaces confidence. Big market drops outside recessions are harder to get a grip on, but fall into two categories.

The first is a simple mistake. In 1998, the **S&P 500** fell 19% by anticipating imminent economic troubles that failed to materialize after Russia's default; in 2011, when the U.S. credit rating was downgraded and the eurozone imploded; and in 1978, when investors -- wrongly -- thought stagflation meant recession was imminent (it took until 1980 to arrive).

Such a mistake is easy to imagine today. A simple model used by the Federal Reserve Bank of New York already puts a 9% chance on a recession in the next 12 months, the highest since the last recession ended. Forecasting recessions is hard, so it doesn't take much evidence of economic weakness to create fear of recession.

The second category, and the bigger danger, involves exuberance. Three of the biggest losses since the **S&P 500 index** began in 1957 appeared to be mainly about exuberant markets going into reverse, with no specific trigger. These led to losses of a third in October 1987 and the drops of 21% and 28%, respectively, in 1966 and 1962.

Just as the market was exuberant in 1962, 1966 and 1998, it is exuberant today. Stock and debt markets are expensive on almost every measure.

Of course, everything might continue to be fine or have a big drop and recover. After all, in 1998 stocks still had two more years of powering ahead before they crashed.

Investors have three options. At one extreme is to push the pedal to the metal while the going is good and be ready to slam on the brakes and get out quick when trouble arrives. At the other extreme, investors could sit safely on the sidelines with cash and bonds, and wait to pick up the pieces after a crash.

Both approaches are problematic, as strategist Jan Loeys at J.P. Morgan points out. Those going hell for leather will find it hard to execute a quick U-turn when everyone tries to sell at once; few timed it right in 2000 or 2007, when with hindsight the sell signals were everywhere. Equally, those sitting on the sidelines will need extraordinary serenity not to regret missing out on gains like the 20% the S&P delivered in 1999, let alone the 86% of the technology-oriented **Nasdaq Composite** Index that year. This year, the cautious are already hurting, missing gains of 16% in the S&P and 26% in the **Nasdaq**.

For Mr. Loeys, the solution is to temper regret and reward, taking profits regularly from the riskiest positions and shifting the money toward more defensive holdings. He likes long-dated options that might profit from a recession further in the future, and he doesn't like high-yield bonds, as at just 5.5% junk bonds no longer offer a high yield.

A similar but simpler approach would just move some money each month out of go-go tech stocks into less expensive stocks and into Treasurys.

Investors are treating each drop as an opportunity to get into stocks by buying the dip. The safer strategy is to treat each fresh high as an opportunity to sell the most expensive stocks and shift to cheaper assets and those better able to resist a downturn.


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U.S. EDITION

**Investing in Funds & ETFs: A Monthly Analysis --- Fixed-Income Investing: Beware Bond Funds That Have Gone Out on a Limb --- Some of the workhorse funds for bond investors could be courting too much credit risk**

By John Coumarianos
1,064 words
6 November 2017
The Wall Street Journal
J
R15
English


Corrections & Amplifications

Donald Ellenberger, co-manager of Federated Total Return Bond Fund, said he doesn't think yield spreads, or difference between corporate bond and U.S. Treasury bond yields, "will tighten much." The word much was incorrectly omitted from Mr. Ellenberger's quotation and the word Bond was omitted from the fund's name in an article about bond funds in the Investing in Funds & ETFs report on Monday.

(WSJ Nov. 7, 2017)

(END)

The past nine years have been challenging for bond funds trying to deliver income to investors. The Federal Reserve collapsed rates during the financial crisis in an effort to stimulate the economy, and has only recently begun elevating them, although with some ambivalence.

Consequently, the Bloomberg Barclays US Aggregate Index, or AGG, the main U.S.-bond index, is yielding less than 2.5%. Funds that track the index have delivered around 2% annually in total return to investors for the five-year period through Oct. 31.

These are painful numbers for investors trying to maintain the purchasing power of their capital. And one of the risks investors face is that managers of intermediate-term bond funds -- those whose benchmark is the AGG and which serve as the bond workhorses of most portfolios -- may be tempted to add bonds of dodgier credit quality to their funds to deliver a bigger yield.

This is especially true for actively managed funds whose expense ratios may be higher than 0.50%, meaning they consume 20% or more of the yield the index has to offer. We analyzed Morningstar's intermediate-term bond category and found some funds that are going out on a limb.

Around 14% of the AGG's bonds are rated in the BBB range (BBB+, BBB or BBB-), which is the lowest rating of bonds still considered "investment grade," or deemed likely to make interest and principal payments. Anything that ranks below the BBB range is considered junk or speculative, meaning one of three ratings firms -- Moody's, S&P or Fitch -- deems interest and/or principal payments at risk. The AGG holds no junk bonds. (The Moody's ratings system varies from the other two ratings firms. Its lowest investment-grade rating is Baa3, and its first level of junk is Ba1. We will use the S&P and Fitch system, which is how most fund websites convey information.)

It turns out that 44 of 301 intermediate-term funds in Morningstar's database have 28% or more of their portfolios -- double the 14% of the index -- in BBB-rated bonds.

Moreover, 75 of the 301 funds have at least 10% of their portfolios in bonds rated BB or below -- i.e., in junk bonds. Finally, 174 of 301 funds have more than 20% of their assets in bonds rated BBB or below -- a combination of the lowest investment-grade rating and junk. While many funds that loaded up on lower-grade corporate bonds have done well for the decade, the future may not be quite as rosy.

For example, the $4.4 billion Delaware Diversified Income Fund (DPDFX) has 25% of its portfolio in junk bonds and more than half its portfolio in bonds rated BBB or lower. The fund has produced a 5.23% annualized return for the decade through Sept. 30, but it dropped 5% in 2008. That performance landed it in the middle of Morningstar's intermediate-term bond category during a year when corporate bonds performed badly.

John Hancock Bond Fund (JHNBX), which has nearly 20% of its portfolio in junk and more than half of its portfolio in bonds rated BBB or lower, fared less well during the financial crisis despite its current five-star Morningstar rating and top 5% category showing for the past decade. The $11 billion fund lost nearly 12% in 2008, placing it in the bottom quartile of its peer group that year.

Finally, the $8 billion Federated Total Return Fund (TLRAX) has 18% of its portfolio in junk bonds and 45% in bonds rated BBB or lower. It held up well in 2008, eking out a 0.12% gain and landing in the top half of the intermediate-bond category. The fund has had a middling showing over the longer term, with a 4.29% annualized return for the 10 years ended in September, which places it in the bottom half of the category.

Owning a slug of BBB-rated or junk bonds doesn't doom a fund to disaster. Good bond selection can avoid the bankruptcies. But even corporate bonds that don't fail exhibit **volatility** as yield spreads -- the difference in yield between a corporate bond and a U.S. Treasury bond -- widen and narrow. That happens when investors' attitudes change from seeking risk to avoiding risk, or when investors change their minds about how much yield they require as compensation for assuming risk.

"There's no doubt valuations and spreads are tight," says Donald Ellenberger, co-manager of the Federated fund. "We don't think spreads will tighten here, but we don't see a catalyst for them widening because of no recession and stronger demand in the economy. Spreads have been stable for long periods before, and this could be one of those periods."

Spreads are as narrow now as they have been in a decade, meaning corporate-bond and junk-bond investors are accepting the least amount of extra yield over Treasurys to own those bonds.

For that reason, bond funds going out on a credit limb should look great now. But because bond yields and prices move in opposite directions, if investors decide they require more yield, existing corporate prices will drop, sending those corporate-heavy funds down.

Howard Greene, lead portfolio manager of the Hancock fund, says that his fund varies the amount of credit risk it takes, and, that right now it is in about the middle of its historic range. Mr. Greene thinks investors are "better served" at this point in the cycle with some credit risk rather than the interest rate risk that U.S. Treasurys have.

Roger A. Early, co-head of fixed income at the Delaware fund's parent, says his fund is overweight in banking, utilities and health care. "In a sense you're paying full price for credit these days, but credit metrics have improved markedly since 2015, and there remains an unabated global appetite for credit and extra yield."

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Mr. Coumarianos, a former Morningstar analyst, is a writer in Laguna Niguel, Calif. He can be reached at reports@wsj.com.

## How Junky?

Some mutual funds assume more credit risk than their index. Exposure in percent to bonds with different credit risk.

| | CREDIT QUALITY | | | | | |
|---|---|---|---|---|---|---|
| | BBB | BB | B | BELOW B | JUNK RATED* | BBB OR BELOW |
| Delaware Diversified Income (A) | 29.65% | 14.05% | 10.57% | 1.23% | 25.85% | 55.50% |
| John Hancock Bond (A) | 31.56 | 12.09 | 5.68 | 1.74 | 19.51 | 51.07 |
| Federated Total Return Bond (inst.) | 26.33 | 6.24 | 11.94 | 0.02 | 18.20 | 44.53 |
| Bloomberg Barclays US Aggregate | 14.03 | 0.00 | 0.00 | 0.00 | 0.00 | 14.03 |

*Junk ratings are those below BBB Source: Morningstar

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THE WALL STREET JOURNAL.
U.S. EDITION

**Investing in Funds & ETFs: A Monthly Analysis --- Spotlight / Global X Lithium & Battery Tech ETF: An ETF Is Driven by Electric-Car Batteries**

By Simon Constable
427 words
6 November 2017
The Wall Street Journal
J
R6
English


With the prospects for a mass market in electric cars improving, the batteries that power them may provide an opportunity for investors.

Governments around the world are implementing regulations aimed at phasing out gasoline-powered vehicles, brightening the outlook for significant growth in the electric-car market, says Jay Jacobs, director of research at exchange-traded funds provider Global X Management Co. in New York.

That means demand will grow for the lithium-ion batteries electric cars run on, and for lithium itself, Mr. Jacobs says. "In 2015, car production consumed 15,000 tons of lithium, but by 2025 analysts expect this number to reach 136,000 tons," he wrote in a blog post on the Global X website.

Meanwhile, increases in the supply of the metal can take years to materialize, Mr. Jacobs says. That suggests the price of lithium should rise as growth in demand outpaces the expansion of supply.

One option for investors who are sold on the future of electric cars is the $945 million Global X Lithium & Battery Tech ETF (LIT), which holds a basket of stocks related to the lithium-battery business.

The exchange-traded fund's annual returns haven't been stellar, averaging 7.94% over the five years through Nov. 1, according to Morningstar Inc. Investors could have done much better with a fund that tracks the **S&P 500 index**, which notched an average annual total return of 15.9% over the same five years. However, lately things have been better for the Global X lithium fund. The fund was up 28.9% in the third quarter alone, according to Morningstar.

There are, of course, risks. "If Congress and the Trump administration pull electric-vehicle subsidies in tax reform, the ETF would probably come down for obvious reasons," says Jay Van Sciver, an industrials analyst at Hedgeye Risk Management, an investment-research and financial-media company.

"Absent a negative catalyst like that, my guess is that this ETF does well as auto makers push to make up for the impact of Dieselgate," Mr. Van Sciver says, referring to the 2015 scandal after it was discovered that Volkswagen AG had cheated in emissions tests for diesel-powered cars. By casting doubt on the role diesel cars could play as environmentally friendly alternatives to gasoline vehicles, the scandal caused many auto makers to focus more on the development of electric cars, he says.



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THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
**Why China's Bonds Fell**

By Anjani Trivedi
558 words
6 November 2017
The Wall Street Journal
J
B10
English


[Financial Analysis and Commentary]

Catching sight of a chain reaction in China's markets is rare. Carrying out a postmortem of a recent selloff in China's $9 trillion bond market shows how it is becoming harder for Beijing to untangle its increasingly intertwined financial system.

In the aftermath of China's twice-a-decade party congress last week, yields on benchmark 10-year Chinese government bonds spiked to 3.9%, their highest in three years. Government bond futures fell. Reasons proffered for the rout ranged from expectations of higher U.S. interest rates to general fearmongering.

An important anomaly to note about the bond rout is that as government bonds sold off, yields on less liquid, unsecured Chinese corporate bonds barely moved. That is atypical in an environment of rising rates. Usually, bond investors shed their less liquid holdings and keep assets that are more easily tradable, like government debt.

So, this is how the selloff in China really worked: Let's start with the travails of China's small and midsize lenders that -- like most banks -- fund themselves by taking in customer deposits and by borrowing in wholesale markets. In China, the latter has increasingly meant issuing short-term bonds known as negotiable certificates of deposit, or NCDs.

The trouble for Chinese banks of late is that both these funding sources have become expensive. Borrowing costs have risen as Beijing pursues its deleveraging campaign, while bank-deposit growth has been slowing.

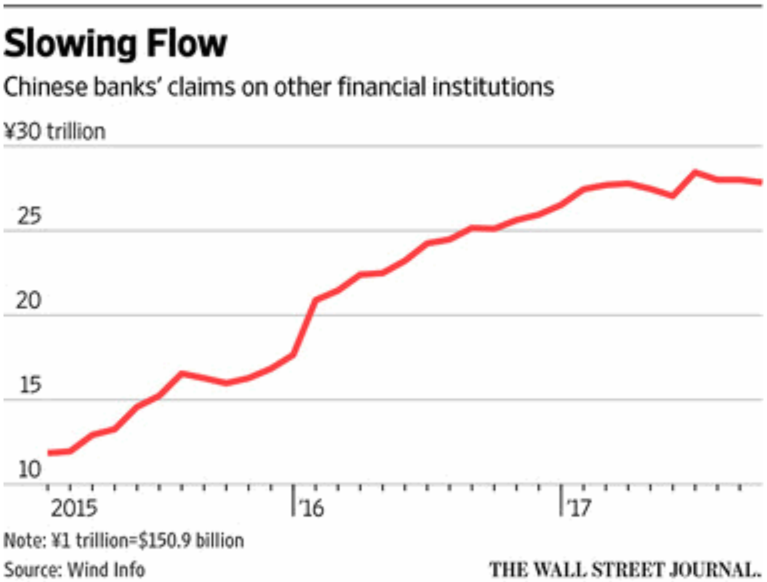
To balance out these rising costs, banks have been placing more of their money with nonbank financial institutions -- the likes of trust companies, funds and securities companies -- that offer high returns from investing in various markets, from bonds to stocks and commodities. Deposits placed by banks with these nonbanks -- the bulwarks of China's infamous shadow-banking system -- had grown to more than $4 trillion as of September.

But with less funds coming into banks now, less can go out. That has led to trouble for the nonbanks, which, after years of only ever-higher inflows, have started facing redemptions. Banks' claims on nonbanks have dropped 2% since peaking in June, according to Wind Info, equivalent to a $90 billion withdrawal of funds. In addition to these redemptions, the cost for nonbanks of juicing returns on their investments by leveraging up has risen because of higher interest rates.

Faced with redemptions, nonbanks have needed to sell something, and quickly. Unloading highly liquid government bonds has proved the easiest option. Meanwhile, the nonbanks have held on to their higher-yielding corporate bonds, which at least have the benefit of helping them to maintain high returns.

The upshot for investors looking for clues about Chinese markets: Watch out for trends in wholesale markets, particularly what is happening with those negotiable certificates of deposit. Issuance of NCDs fell by more than 300 billion yuan ($45.39 billion) in October, according to an estimate by Rhodium Group. And at least 5 trillion yuan worth of this short-term debt is expected to mature in the last quarter of the year, Rhodium estimates, indicating more funding pain for the banks ahead.

As Chinese banks find it harder to raise cash, there could be more episodes of **volatility** in asset markets. Investors should be prepared.

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THE WALL STREET JOURNAL.
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**Investing in Funds & ETFs: A Monthly Analysis --- Fundamentals of Investing: The Truth Behind the Stock 'Presidential Cycle' --- While the second year of a term is supposed to be bad for investors, a study casts doubt**

By Mark Hulbert
703 words
6 November 2017
The Wall Street Journal
J
R6
English


Followers of the so-called Presidential Election Year Cycle are noting with some trepidation the beginning of the second year following President Donald Trump's election, because such years are supposed to be bad for stocks.

Yet they're worrying for nothing: Research has shown second years of presidential terms to be no worse than average for the **stock market**.

The theory is that presidents (of either party) will do whatever it takes to have the economy roaring for the next presidential election. That means they will arrange for any economic medicine to be swallowed early in their term. As a consequence, the **stock market** is likely to perform better in the third and fourth years of the four-year term than in the first or second.

At first blush it appears as though there is solid support for this second-year concern. Since 1896, when the **Dow Jones Industrial Average** was created, the Dow has produced an average fiscal-year gain of 7.1%, without dividends (years are Nov. 1 through Oct. 31). That compares with an average gain of 4.1% during second years in presidential cycles.

There is less here than meets the eye, however. Due to the wide variability of the year-to-year results, statisticians cannot rule out that this difference is just a random fluke of the data (at least at the 95% confidence level that they typically use when determining if a pattern is real).

One illustration of this variability is that second years have been above-average performers over the past 10 presidential cycles (since the mid-1970s). In the second years of Barack Obama's first and second terms in office, for example, the Dow produced impressive gains of 14.5% and 11.9%, respectively.

Two researchers who have been studying the Presidential Election Year Cycle are Kam Fong Chan, a senior lecturer in finance at the University of Queensland in Australia, and Terry Marsh, an emeritus finance professor at the University of California, Berkeley, and CEO of Quantal International, a risk-management firm for institutional investors. Dr. Marsh says the third year's above-average performance is the only part of the presidential-cycle theory that satisfies traditional standards of statistical significance. There is no statistical justification for expecting the returns in the other years of the cycle to be either better or worse than average.

With a third year for President Trump still a year away, therefore, the Presidential Election Year Cycle provides no basis for expecting the **stock market** over the next 12 months to perform especially well or poorly, Dr. Chan says. Because the **stock market** in the typical year goes up, you shouldn't be disappointed by that -- unless you're one of those people who think average isn't good enough.

November marks the beginning of another widely followed seasonal pattern on Wall Street: the Halloween Indicator. It is based on the **stock market**'s historical pattern of producing far better gains during the Nov. 1-April 30 period than between May Day and Halloween. But Drs. Chan and Marsh show in a recent study that the difference between the two periods derives almost completely from the third years of the presidential cycle.

During the other years of the cycle, they found, there is no statistical justification for expecting above-average winter returns or below-average summers. So there is no reason to expect that the market's gain over the next 12 months will be front-loaded into the next six months.

The bottom line? There no doubt are plenty of other things for investors to worry about. But, to the extent you have been worried merely because we were beginning the second year of President Trump's cycle, you can now breathe a bit easier.

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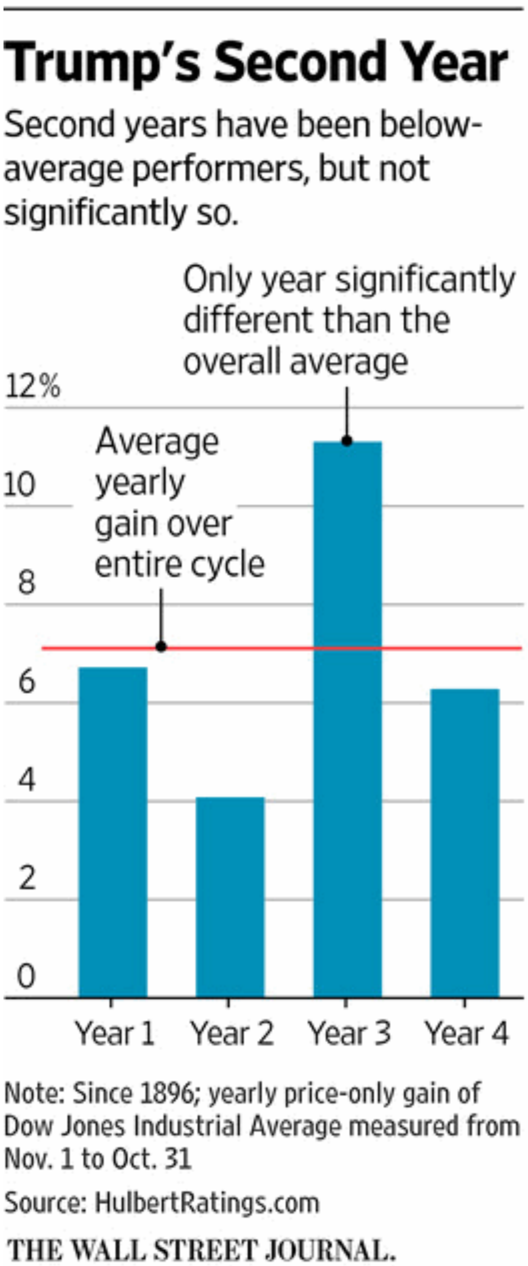
Mr. Hulbert is the founder of the Hulbert Financial Digest and a senior columnist for MarketWatch. He can be reached at reports@wsj.com.



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