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Markets

Retiring Soon? Plan for Market Downturns; Advisers say there are steps savers can take to minimize the damage from investment losses in early retirement

By Anne Tergesen
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For each year in which a **bull market** persists, workers become likelier to retire. But those who leave the workforce now—the ninth year of the longest U.S. **bull market**—are potentially setting themselves up for a tough stretch that could test their portfolio's long-term resilience.

Why? When the **stock market** becomes historically expensive, as some metrics suggest it is today, research shows it's often a harbinger of below-average future returns. This can be especially painful for retirees with long life expectancies because withdrawals combined with poor returns will leave less in an account to compound over decades.

Take, for instance, a 65-year-old who retires when his or her portfolio is worth $1 million. If the retiree withdraws 4%, or $40,000 in the first year, and the portfolio loses 40% of its value soon after, he or she will have just $576,000 left to fund a retirement that could last 30 or more years. Any subsequent withdrawals will make it even harder for the portfolio to recover.

Returns in "the first five to 10 years of retirement matter most," says Wade Pfau, a professor of retirement income at the American College of Financial Services in Bryn Mawr, Pa. Early declines can "lock a portfolio into a downward spiral."

That doesn't mean that people on the cusp of retiring should cancel their plans. For one thing, it's notoriously difficult to predict the arrival, duration and severity of bear markets. And if you are ready to leave your job, sticking around may undermine your health and happiness.

The good news: There are steps you can take to limit withdrawals from stocks when they are down and partly protect your portfolio. Just be sure to understand the trade-offs.

1. Build a cash cushion

This strategy typically involves setting aside one to five years of living expenses in cash so you won't have to sell stocks at depressed prices.

Retirees with cash buffers often react more calmly to market declines, reducing the odds that they will panic and bail out of the market completely, says Ross Levin, a financial adviser in Edina, Minn.

The problem, Mr. Levin says, is that the low returns on cash often reduce a portfolio's long-term returns. "If you have 80% in stocks and 20% in bonds with a three-year cash position, that's a worse strategy from a returns standpoint than having 70% in stocks and 30% in bonds," and nothing in cash, he says. A cash buffer "allows you to manage a client's psychology during bad times, but it's not an optimal strategy."

To solve that problem, some advisers instead use bonds as a buffer. A $1 million portfolio with 60% in stocks and 40% in bonds effectively holds eight years of living expenses in bonds, Mr. Pfau says.

But if stocks sink and a retiree needs to liquidate bonds to cover living expenses, the buffer is likely to shrink.

To prevent clients from selling stocks at depressed prices to replenish their bonds, many advisers recommend waiting until the stocks recover their losses to do so. But an investor who used such a strategy in 2008—when the financial crisis slammed U.S. stocks—would have had to draw down his or her bond buffer for about five years before starting to build it back up, a nerve-racking experience for all but the least risk-averse, Mr. Pfau says.

2. Rebalance

A better strategy, many say, is to invest in a diversified portfolio—such as 60% in stocks and 40% in bonds—and rebalance it after major market moves.

Retirees who do so will use their winners to cover at least some of their expenses. For example, in 2008, when the **S&P 500** lost about 37%, investment-grade bonds gained about 5.25%. As a result, someone who had 60%, or $600,000, in stocks and 40%, or $400,000, in bonds before the crash had 47%, or $378,000, in stocks and 53%, or $421,000, in bonds afterward.

If a retiree with such a portfolio needed $40,000, he would start by withdrawing the $21,000 of bond profits. Because bonds comprise significantly more than 40% of the post-crash portfolio, the investor would whittle them further, by withdrawing the additional $19,000 in spending money he needs. To re-establish the desired 60% stock-40% bond allocation, he would then transfer $77,400 more to stocks from bonds.

In contrast to holding a "cash buffer," this approach "systematically ensures" that an investor sells holdings that have appreciated most while also buying things that have declined and are relatively cheap, says Michael Kitces, director of wealth management at Pinnacle Advisory Group Inc. in Columbia, Md. By shifting money into assets that are beaten down, rebalancing helps a portfolio recover faster when a turnaround finally arrives, he adds.

According to recent research, which looked at 140 combinations of investment strategies, withdrawal rates, and buffer-zone sizes over successive 30-year periods from 1926 to 2009, investors came out ahead with cash-buffer strategies in only three instances. In contrast, with rebalanced portfolios, they came out ahead in 70 simulations, said co-author David Nanigian, associate professor of finance in the Mihaylo College of Business and Economics at California State University, Fullerton. In the remaining 67 combinations, the strategies performed the same, he said.

How often should you rebalance? Some investors do so quarterly or annually. Cameron Brady, an adviser in Westlake, Ohio, says he acts when his clients' portfolios drift by five percentage points from target allocations.

3. Use another type of buffer

What if you like the idea of a cash buffer, but don't want to tie up a portion of your portfolio in an asset that's sure to earn low returns?

To provide clients with a source of cash in the event of a market meltdown, some advisers recommend using home-equity lines of credit or reverse mortgages, which allow people ages 62 and older to convert their home equity into cash.

Both charge upfront fees. For example, the upfront "mortgage insurance premium" many borrowers pay on reverse mortgages is now 2% of the home's value, capped at $13,593.

With a home-equity line of credit, Mr. Pfau says, borrowers must make monthly repayments. (Reverse mortgages must be repaid when the borrower dies, moves, or fails to pay property taxes or homeowner's insurance.) Both charge interest.

Mr. Pfau recommends that people with permanent life insurance, including whole life and universal life policies, consider tapping the cash value in these policies during market crises. You can withdraw premiums tax-free and also borrow from the cash value to get additional tax-free income, he says.

"You will reduce the death benefit," he adds, "but by helping to preserve the portfolio, you are probably better off."

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Three Other Ideas

While retirees should devise a plan to help their portfolio weather a market downturn early in retirement, advisers say there are a host of other steps to consider:

* Reduce spending: A long-held rule in money management says you can withdraw 4% from your savings in the first year of retirement and give yourself an annual raise over the next 30 years to keep pace with inflation without going broke, even in a worst-case historic scenario. But if a **bear market** arrives soon after you retire and you want some extra insurance, cut spending. One simple method advisers cite calls for forgoing inflation adjustments after any year in which your portfolio loses value

* Go more conservative: Conventional wisdom calls for people entering retirement to have a big portion of their savings—say, 60%—in stocks to help their nest egg grow over time and then reduce that percentage as they age. But recent research indicates that those who take the opposite approach—by reducing equity exposure right before retirement and then gradually raising it over time—are likely to make their money last longer.

* Get a part-time job: Another way to reduce stress on a portfolio is for an early retiree to secure a part-time job or for spouses to stagger their retirement years. With some income, the retiree won't need to withdraw as much from the portfolio, making it less vulnerable to depletion.

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International New York Times

business

Trump Hit Iran With Oil Sanctions. So Far, They're Working.

By CLIFFORD KRAUSS
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HOUSTON — When President Trump announced in May that he was going to withdraw the United States from the nuclear agreement that the Obama administration and five other countries negotiated with Iran in 2015 and reimpose sanctions on the country, the decision was fraught with potential disaster.

If Mr. Trump's approach worked too well, **oil prices** would spike and hurt the American economy. If it failed, international companies would continue trading with Iran, leaving the Islamic Republic unscathed, defiant and free to restart its nuclear program.

But the policy has been effective without either of those nasty consequences, at least so far.

Nearly two months before American oil sanctions go into effect, Iran's crude exports are plummeting. International oil companies, including those from countries that are still committed to the nuclear agreement, are bailing out of deals with Tehran.

And remarkably, the price of oil in the United States has risen only modestly while gasoline prices have essentially remained flat. The current global **oil price** hovers around $80 a barrel, $60 below the highs of a decade ago.

"The president is doing the opposite of what the experts said, and it seems to be working out," said Michael Lynch, president of Strategic Energy and Economic Research, a research and consulting firm.

Initial signs of a foreign-policy success could benefit Mr. Trump politically as Republicans try to hold on to control of Congress. The president and lawmakers allied with him could point to the administration's aggressive stand toward Iran as evidence that his unconventional approach to diplomacy has been much more fruitful and far less costly than Democrats have been willing to acknowledge.

The administration's tactical advantage could be fleeting, of course, if Iran retaliates with cyberattacks or militarily, incites more militia violence in Iraq, or revives its nuclear program.

The most important reason that predictions of higher **oil prices** have been wrong is that there is plenty of oil sloshing around the world. The United States has become a huge exporter of oil in the last several years and is now shipping roughly the same amount — more than two million barrels a day — that Iran did earlier this year.

Trade tensions and economic problems in developing countries like Turkey and Argentina might also be slowing the growth of energy demand.

Another thing in Mr. Trump's favor is that while governments in Europe and Asia have publicly opposed his decision to withdraw from the nuclear agreement, many businesses in those places have made a different calculation. They have concluded that it makes little financial sense to risk investments in and trade with the United States by doing business with Iran.

Until Mr. Trump's May announcement, Western allies considered the nuclear deal with Iran a success. In exchange for agreeing to strict limits on its nuclear program and international monitoring, Iran was allowed to re-enter the global oil market. The deal lifted restrictions on foreign companies doing business in Iran and gave the country access to frozen assets overseas.

After Nov. 4, companies that buy, ship or insure shipments of Iranian oil can be excluded from the American market and banking system unless they obtain waivers from the administration.

Trump administration officials say its sanctions are designed to punish Iran for its interventions in Syria, Yemen and other countries.

For Iran, the timing could not be worse. The country has lost influence over **oil prices** as other producers have eclipsed its energy industry, which has not kept up with technological advances.

At the beginning of the century, Iranian officials could shake the oil markets by staging military maneuvers or merely hinting that they would reduce supplies. Back then, American oil production was falling and global demand for crude was surging.

But those days are long gone. Like the United States, countries including Canada and Brazil are also exporting more oil. Russia, Saudi Arabia and Iraq have also increased production, helping to keep **oil prices** in check. Saudi Arabia and its Persian Gulf allies are only too happy to support the sanctions against their chief rival, Iran, by expanding exports.

That has provided a buffer for the global oil market as Iranian exports dropped by more than 25 percent, or around 600,000 barrels a day, between June and the start of September. Exports are expected to drop by an additional half-million barrels when American sanctions go into effect. All told, exports could drop from a high of 2.7 million barrels this year to fewer than a million in 2019 — lowering the country's exports to less than 1 percent of the global market, from about 3 percent earlier this year.

That would further squeeze the Iranian government, which had $50 billion in oil revenue last year; oil and petroleum products make up about 70 percent of the country's exports by value.

"For Iran, it shows the leverage that they have had through oil has not only diminished but may never return," said Amy Myers Jaffe, a senior fellow specializing in energy at the Council on Foreign Relations. "People just don't care if they are going to lose business in Iran. People don't feel desperate for supply.''

The sanctions are so onerous that even companies from countries opposed to Mr. Trump's approach are withdrawing from Iran.

South Korea, Iran's third-biggest oil market last year, halted purchases in August after buying 194,000 barrels a day in July. Shipments to France and Japan, two other major markets, are also dropping.

OMV, the Austrian oil company, recently backed out of an agreement with the National Iranian Oil Company to evaluate oil fields. Hellenic Petroleum of Greece, Spain's Repsol and Italy's Eni are winding down oil purchases.

The Foundation for Defense of Democracies, a conservative Washington think tank, found that 71 foreign companies planned to withdraw from Iran, 19 intended to stay and 142 were undecided or hadn't said as of early September.

"Big international companies have to ask themselves what risks are they willing to take on," said David Adesnik, the foundation's director of research. "Even if you don't have a business in the U.S. you can be cut off from our financial system, and that's not something a truly global firm can afford."

The next big shoe to drop appears to be India, Iran's second-biggest oil market after China. Reliance Industries, the nation's leading refiner, has said it will stop buying Iranian crude when American sanctions kick in. And the State Bank of India, the country's largest lender, has told refiners that it will block payments for Iranian crude.

American officials are waging a public and private campaign to persuade foreign leaders to cut economic ties with Iran — and to buy more American oil.

During a visit to India this month, Secretary of State Mike Pompeo said the administration was seeking a total halt to Iranian oil exports, although countries will be given time to switch suppliers.

"Purchases of Iranian crude will go to zero from every country or sanctions will be imposed," Mr. Pompeo said.

The sanctions could allow Russian and Chinese companies to replace Western businesses in Iran. After Washington denied it a waiver, the French oil giant Total pulled out of a contract to develop the South Pars gas field, leaving a potential opening to China's CNPC to increase its investment in the field.

China, which imports a half-million barrels of Iranian crude a day, can more easily resist American policy than other countries. That's because its smallest refiners and domestic banks have little or no exposure to the United States.

Russia is another obstacle.

Gazprom and Rosneft, two state-controlled Russian oil and gas giants, are negotiating oil development deals worth roughly $10 billion with the Iranian oil ministry.

For its part, Iran is not sitting still. The state-run Iranian tanker company is storing oil on its fleet of supertankers rather than shut down production, which can damage wells. Iran could smuggle oil over land through Pakistan and Afghanistan, and barter with trading companies to get around sanctions.

International transactions are largely denominated in dollars, which strengthens American sanctions. Over time, Iran's oil trade could shift to other currencies, particularly the Chinese renminbi.

"We will continue by all means to both produce and export," President Hassan Rouhani of Iran said recently on state TV. "Oil is in the front line of confrontation and resistance."

PHOTO: An Iranian-flagged support boat near an oil tanker. A big drop in Iran's oil exports has had little impact on the global oil market. (PHOTOGRAPH BY ALI MOHAMMADI/BLOOMBERG) (B4) CHARTS (Sources: Thomson Reuters; Energy Information Administration) (B4)

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Markets

Copper Surges as Tariff Fears Ebb; Metal enjoyed its best day in more than 18 months; gold falls

By Paul Garvey
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Copper prices enjoyed their best day in more than 18 months Friday as concerns about the impact of trade tensions on the global economy continued to ease.

The price of metal for September delivery jumped 4.24% to $2.8365 a pound on the Comex division of the New York Mercantile Exchange, its single best session since February 2017.

Friday's run also helped the metal post its best performance in a single week since November 2016, with copper climbing almost 8% for the week.

The recovery continued to unwind some of the damage since June, when threats of tariffs between the U.S. and China stoked concerns about their impact on economic growth. From a peak of $3.293 a pound in June, copper had fallen to as low as $2.557 last month.

Those concerns have eased amid continued strong economic data out of both the U.S. and China.

Before Friday's surge, Barclays analyst Ian Littlewood said the decline of copper prices in recent months wasn't justified given the solid fundamental backdrop for the metal.

"Improving demand, underlined by sharply increasing Chinese premia and declining stocks, provides a strong fundamental rationale for higher prices, while stretched speculative positioning looks susceptible to a short covering rally," he said.

Copper, which is used in a range of industrial applications and electrical products, is often seen as a barometer of global economic health.

Goldman Sachs' commodities team said Friday that global copper demand was tracking at 2.8% growth, while Chinese copper inventories had fallen sharply in recent months amid the trade tensions.

"This week the trade war was escalated and markets shrugged it off with copper rallying. The reason is the market has already factored in an extended standoff between the U.S. and China," Goldman Sachs said.

It was a different story for gold prices, however. The precious metal dropped back through the $1,200-an-ounce mark Friday after signs of continued strength in the U.S. economy shot the dollar sharply higher.

Gold for September delivery fell 0.83% to $1,196.20 a troy ounce on Comex, slumping in tandem with a rise in the value of the U.S. dollar.

The WSJ Dollar Index, which measures the U.S. currency against a basket of 16 others, climbed 0.35% on Friday. A stronger dollar makes dollar-denominated commodities more expensive for holders of other currencies.

Friday's fall wiped off most of the gains made over the week, although gold still managed to finish the in the green for the second consecutive week.

The fall came as Goldman Sachs formally cut its **bullish** price forecasts for the metal.

Goldman Sachs now forecast gold at $1250, $1300 and $1325 a troy ounce over the next three, six and 12 months, down from its previous expectations of $1350, $1375 and $1450 a troy ounce, respectively.

The Goldman analysts said the strength in the U.S. and the weakness in emerging markets were similar to conditions in the late 1990s, when gold fell toward record lows.

"From 1998 to 2000, a tech boom reduced DM [developed market] fear and boosted U.S. real rates while at the same time the Asian financial crisis wiped out EM [emerging market] wealth, pushing gold to $250 a troy ounce," Goldman Sachs said.

"While nowhere as extreme, the same forces have been at play this year in gold."

Elsewhere in metals, silver gained 0.38% to $14.269 a troy ounce, while aluminum rose 2.35% to $2,091 a metric ton, zinc climbed 1.67% to $2.496 a metric ton and nickel jumped 4.95% to $13,250 a metric ton.

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Stock Shake-Up Looms in Friday Session

By Asjylyn Loder
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Get ready for a frenzied day of trading on Wall Street.

Investors on Friday will have to contend with the scheduled rebalancing of several major indexes, and the expiration of heavily traded futures and options contracts, a quarterly collision that traders call "quad witching." That is in addition to big changes by two of the world's largest index providers to a widely used system that organizes companies based on where they fit in the global economy.

The shuffling, which will affect 23 **S&P 500** companies worth a combined $2.7 trillion is tied to changes in the way index providers classify companies according to industry. Although a seemingly esoteric exercise, it has real-world implications, especially for stocks such as Facebook Inc., Twitter Inc. and Google parent Alphabet Inc. that will leave the technology sector to join a new "communication-services" segment.

"There are a lot of assets that are going to be moving around," said Matthew Bartolini, head of SPDR Americas Research at State Street Global Advisors, issuer of some of the biggest ETFs caught up in the reshuffle.

All told, investors following major S&P indexes will have about $55 billion in trading to do to realign with their new benchmarks, Victor Lin, a trading strategist at Credit Suisse AG, estimated. That includes more than $20 billion in shares that will be bought and sold by ETFs just because of the shuffling of the sectors, he said.

All but one of the affected companies will move into the newly dubbed communication-services sector, the revamped version of what used to be "telecommunication services." Six companies will shift over from "information technology," while Walt Disney Co.; Netflix Inc.; Comcast Corp.; News Corp, parent company of The Wall Street Journal, and nine others will join from "consumer discretionary." EBay Inc. is moving into consumer discretionary from tech.

Part of the reason for the shift is the current telecom sector houses only three stocks: AT&T Inc., Verizon Communications Inc. and CenturyLink Inc. The sector's influence on the broader **S&P 500** had waned over the years because of consolidation in the industry, and the group could swing wildly when the **stock price** of just one company moved.

All three of the current constituents will be part of the new communication-services group, and the telecommunications sector will no longer be focused on staid dividend-paying stocks, said Jon Maier, chief investment officer at Global X, an ETF issuer with about $10 billion in assets.

The changes mark the most significant overhaul of the Global Industry Classification Standard, or GICS, since it was created in 1999 by index providers MSCI Inc. and S&P Dow Jones Indices. The system sorts more than 46,000 securities world-wide into 11 different sectors, which are then further subdivided into industries and subindustries.

Traders don't expect the shuffling to trigger a surge in **volatility**. Wall Street has had plenty of time to prepare for the changes since they were first announced last year, said Nick Kalivas, senior equity ETF product strategist at Invesco.

"It's not like it's going to be a shock," Mr. Kalivas said. "If it came out of the blue, then the potential for dislocation and **volatility** would be much higher."

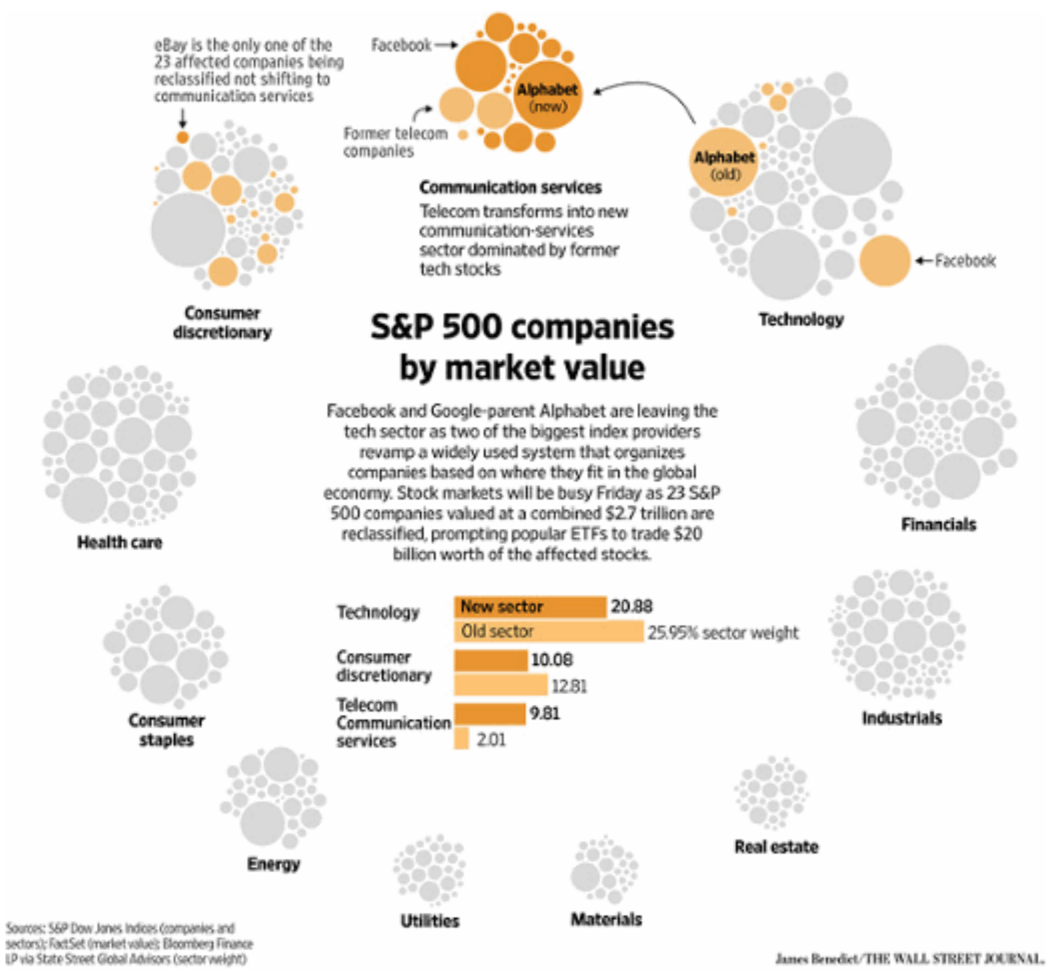
All of the affected ETFs are likely to see outsize volumes and flows as big investors adjust their holdings. But most of the activity will be in large, heavily traded stocks that can absorb the higher volumes, said Josh Lukeman, a managing director at Credit Suisse.

The biggest trades will likely come from State Street's popular Select Sector SPDR lineup. The $23 billion technology ETF will need to sell eight million shares of Facebook and two million shares of Alphabet, almost 16% of the fund's assets, according to firm's website. The $16 billion consumer-discretionary fund, meanwhile, will have to unload $2.5 billion worth of Comcast, Disney and Netflix shares, 16% of its assets.

At BlackRock Inc., three ETFs worth a combined $3.2 billion will rebalance Friday. Invesco has five ETFs with combined assets of almost $2.7 billion that will be rebalancing Friday.

Unlike other index providers, Vanguard Group began rebalancing its ETFs four months ago. The $22 billion Vanguard Information Technology ETF has since sold all of its holdings in Facebook and Alphabet, according to FactSet. Those companies are now the top two holdings of the former Vanguard Telecommunication Services ETF, which has been renamed for the new communication-services sector. The $3.2 billion Vanguard Consumer Discretionary ETF sold off all of its Netflix and Disney stock.

Some investors have likewise begun to shuffle their holdings. In June, State Street launched a communication-services ETF to track the newly created sector. The fund has picked up $257 million in the past month, pushing assets up to $668 million, according to FactSet.



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Banking & Finance -- Streetwise: There Have Never Been So Many Bonds That Are Almost Junk

By James Mackintosh
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English

Investors often turn to corporate-bond markets for early warning of trouble, and currently find reassurance that all is well. But look closer and the real message is that hidden risks are building. The next downturn could be more painful than usual for creditors, with knock-on effects for shareholders.

Credit markets send two classic signals: The first shows excessive risk taking, when companies pay very little above Treasury bonds -- as in the late 1990s and 2007, and again today. This is a handy reminder that lenders have thrown caution to the wind, but is hard to use because history tells us that bond yields can stay low for a very long time before trouble hits.

The second signal alerts when easy borrowing periods are coming to an end, with the riskiest corporate bonds selling off before shareholders realize the danger. Trouble appeared in U.S. junk bonds months before the **S&P 500** peaked in 2007, and gave several weeks' notice of the 2011 selloff. It isn't infallible -- the dot-com bubble carried on for two years after the 1998 bond selloff -- but is worth watching.

At the moment investors may be scratching their heads. The first signal is flashing, but the second is confused. U.S. junk bonds have been doing great, suggesting nothing is wrong, even as higher-quality bonds sell off.

The option-adjusted spread -- a standard measure of the extra yield over Treasurys -- on U.S. junk bonds is down to post-Lehman Brothers lows, although not quite as low as in either of the past two economic cycles. But in the larger investment-grade universe the spread is up 0.25 percentage point from its low in January, hitting quality companies with the equivalent of an extra Federal Reserve rate rise. What is going on?

The explanation is that high-quality bonds aren't as high-quality as they used to be, while junk bonds are a little safer than they were. This summer for the first time more than 40% of the value of U.S. corporate bonds was rated BBB, just eking over the line into investment grade, and an even higher proportion was BBB in Europe.

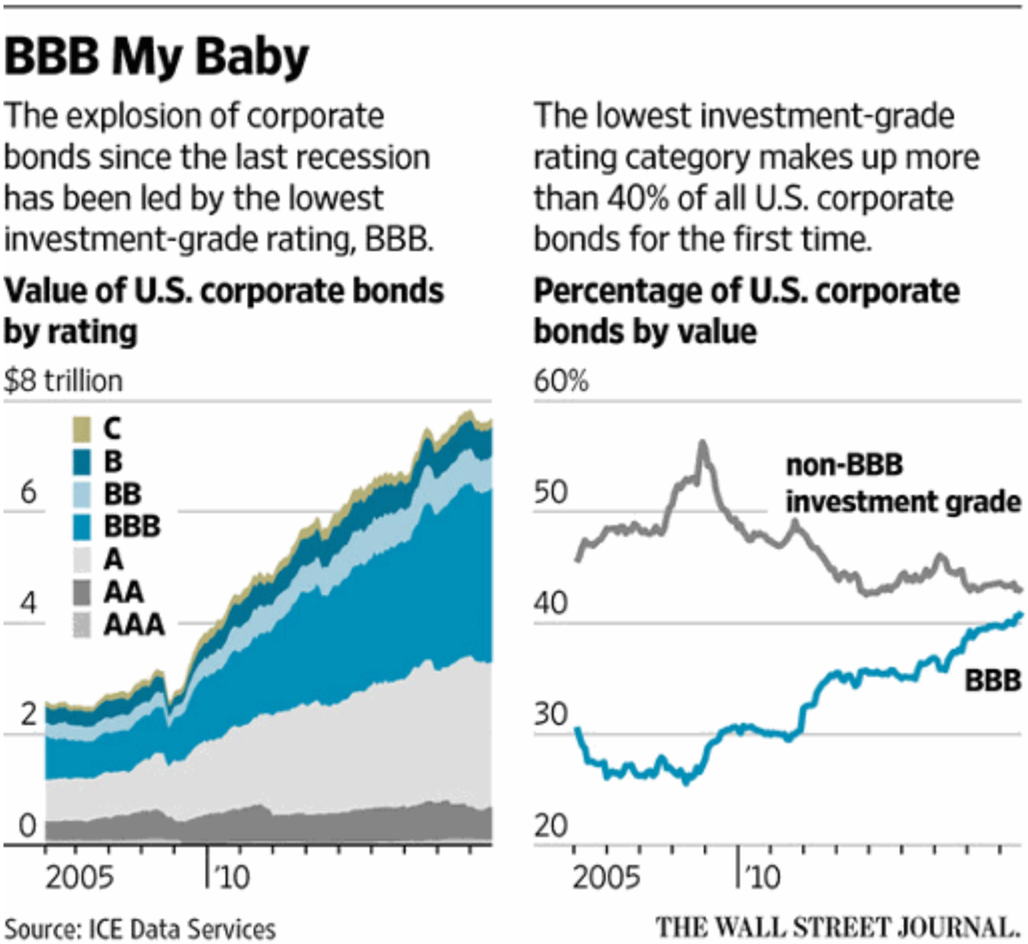
Back in 2007, bond spreads were a little lower than today, but a smaller slice of bonds was on the bottom rung of investment grade and so at risk being downgraded to junk; only 26% of U.S. bonds were rated BBB, and only 20% of eurozone bonds, according to Intercontinental Exchange data.

Chief financial officers have been borrowing as much as they can get away with without their debt being classed as junk, because the move to junk leads to sharply higher borrowing costs. The attention paid to that rating boundary means the usual danger of leverage comes with an extra risk: the buildup of BBB bonds could mean even more downgrades to junk in the next recession than usual.

The scale of the debt at risk of downgrade to junk is already frighteningly high, despite decent economic growth. Hans Lorenzen, a credit strategist at Citigroup, calculates that just the weakest BBB-rated bonds with a negative outlook or on review for downgrade, plus those where the issuer has other junk-rated bonds, amount to about half of the existing size of the $1 trillion U.S. junk market. In Europe those close to the edge would add about 35% to the 347 billion euro ($405 billion) junk market if all were downgraded.

The good news is that after the 2008 crunch, lots of bond-fund managers changed their rules to allow them to hold at least some bonds that weren't part of their benchmark, so they wouldn't have to dump downgraded paper immediately. But it isn't clear whether they could cope with the scale of downgrades that might result from the changed structure of the market.

All this is bad news for investors only if things go wrong. If the economy keep growing and defaults stay low, more debt is great for shareholders and fine for bondholders. Investors should recognize the extra risks they are running mean they face greater losses if they are wrong about growth.



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U.S. News: U.S. Home Sales Fell in August

By Laura Kusisto and Sharon Nunn
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U.S. home sales stalled in August, highlighting a growing disconnect between the sluggish housing market and the strong economy that is powering stocks to new highs.

Existing home sales fell in August from a year earlier, the sixth straight month of declines. Sales of previously owned homes fell 1.5% to a seasonally adjusted annual rate of 5.34 million homes, the National Association of Realtors reported Thursday. Sales were flat compared with July's pace.

Economists said that low inventory, rising home prices and higher mortgage rates continue to pressure the housing market.

Lackluster home sales stand in sharp contrast to the booming **stock market**. The **Dow Jones Industrial Average** and the **S&P 500** both hit records Thursday as expectations of strong corporate profits and continued economic growth offset lingering investor concerns about the trade dispute between the U.S. and China.

A strong economy typically boosts demand for housing, too, putting more money in consumers' pockets and giving them confidence to make what for many will be the largest purchase of their lives.

Yet 78 straight months of annual home price gains coupled with rising mortgage rates have made homes less affordable. That has prompted some would-be first-time buyers to continue renting, and made existing owners reluctant to sell if it means trading up for a much more expensive home at a higher mortgage rate.

"Consumer confidence may be near record levels, but no one appears confident enough to sell their home either to trade up to something bigger for a growing family or to downsize as the baby-boom generation hits retirement age," said Chris Rupkey, chief financial economist at MUFG.

The median sale price for an existing home in August was $264,800, up 4.6% from a year earlier. Meanwhile, mortgage rates climbed back near the seven-year high they hit in May, with rates for a 30-year mortgage now averaging 4.65% this week, up from 4.6% a week earlier, Freddie Mac said Thursday.

The upper end of the housing market -- where many buyers have benefited from the **stock market**'s gains -- remains strong, with nearly 12% growth in single-family home sales over $1 million and nearly 9% growth in sales from $750,000 to $1 million. In contrast, sales of single-family homes priced below $100,000 fell about 12%, and sales from $100,000 to $250,000 fell roughly 2%, according to NAR.

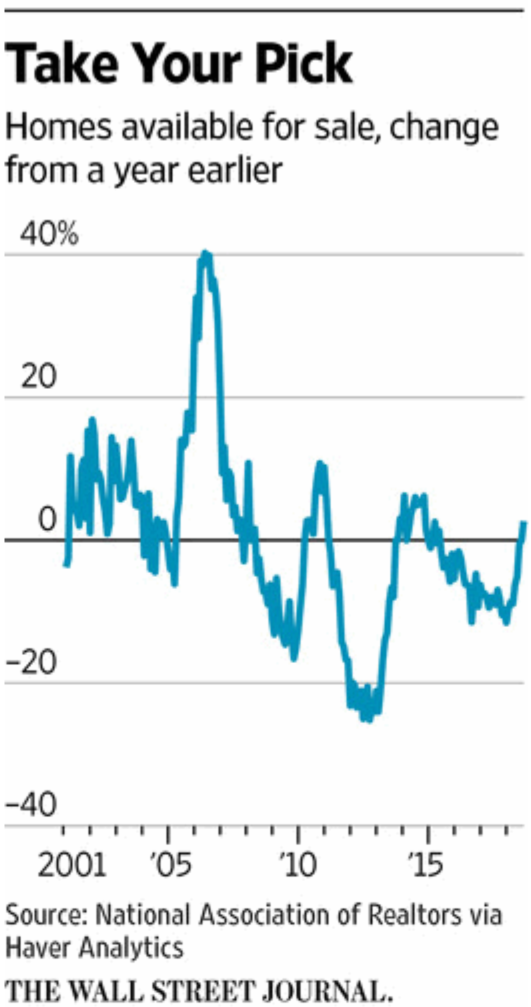
Lawrence Yun, the trade group's chief economist, said the strongest demand their realtors are indicating is "in the lower price points, but sales are down because of lack of inventory."

Economists have blamed a lack of inventory for the slowing market, but growing inventory levels and moderating price gains suggest demand is also tapering. The supply of existing homes in the U.S. increased 2.7% in August from a year earlier, the first rise in inventory on an annual basis in more than three years, according to NAR.

Pricier markets on the West Coast have seen even more dramatic growth in supply. In Seattle, inventory grew 30% in August from a year earlier, while Portland, Los Angeles and the Bay Area have all also seen near-double-digit increases in inventory, according to Ruben Gonzalez, chief economist for real-estate brokerage Keller Williams.

NAR's Mr. Yun said the moderating prices and increase in supply are healthy developments for the market because they could help lure buyers back from the sidelines.

Mr. Gonzalez said inventory has increased but still not enough to boost sales.



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Oil Producers Plan New Path --- OPEC and Russia-led partners to discuss how much to pump as Iranian sanctions bite

By Benoit Faucon and Christopher Alessi
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B1
English

OPEC and its Russia-led counterparts meet this weekend, as international **oil prices** flirt with multiyear highs, to gauge whether they need to boost output amid U.S. sanctions on Iran.

The discussions come at a tricky time for the cartel -- just a few months before U.S. midterm elections, a time when **oil prices** take on outsize political importance in the country that burns more oil than any other.

President Trump has taken public aim at OPEC this year, blaming the cartel on Twitter for high **oil prices**, which boost pump prices. On Thursday morning, Mr. Trump fired off a fresh swipe, saying in a tweet, "The OPEC monopoly must get prices down now!"

The cartel has previously said it was responding to Mr. Trump and other world leaders, who in the spring had ratcheted up complaints about high prices. The group in June agreed to boost their collective output. The Organization of the Petroleum Exporting Countries meets again Sunday in Algiers with big non-OPEC producers led by Russia.

The additional supply helped damp prices in recent months. But they are back up again more recently. Brent, the international benchmark, temporarily breached $80 a barrel last week for the first time since May. Prices are hovering near highs not seen since early summer. Prices started Thursday higher, trading at more than $79 a barrel, on the back of weekly U.S. government data showing crude inventories had fallen to a 3 1/2-year low last week.

OPEC members say they will be wary of pumping too much more oil. That hesitancy is also partly due to Washington. The Trump administration's various trade disputes have at times roiled global stock markets, and knocked **oil prices**, amid worry the disputes might slow global economic growth.

Mr. Trump "is influencing both supply and demand" in oil markets, an OPEC official said. If prices aren't to his liking, "I would expect another tweet" while producers meet in Algiers, this official said.

U.S. Energy Secretary Rick Perry met with his Saudi counterpart, Khalid al-Falih, early last week in Washington, and held a meeting with Russian Energy Minister Alexander Novak last Thursday in Moscow. In Moscow, Mr. Perry credited the two countries with having averted "a spike in **oil price**."

A representative of the Energy Department didn't return a request for comment on the Algiers meeting.

The White House's press office couldn't be reached.

OPEC and Russia are expected to discuss at the Sunday meeting whether the group needs to boost output, throttle back or keep output unchanged in coming months. The group isn't expected to make a formal decision, though if ministers telegraph their thinking one way or the other, they could move **oil prices**. The group also is expected to discuss the contours of their future cooperation.

Saudi Arabia, as OPEC's de facto leader, "has a very narrow needle to thread," said Jason Bordoff, director of the Center on Global Energy Policy at New York's Columbia University.

The Algiers meeting is the latest in a series in which OPEC and a group of non-OPEC producers, first among them Russia, have acted together to guide crude market prices.

Two years ago, the two sides came together at a time when prices were low thanks to a flood of new oil from U.S. shale producers. U.S. production, while still growing, is now facing challenges such as bottlenecked pipelines.

Saudi Arabia and Russia orchestrated cutbacks, which worked in boosting prices. In June, they loosened up again, agreeing to add about 600,000 barrels a day of crude to world markets.

A big factor then was the looming effect of new U.S. sanctions on Iran. The Trump administration reinstated tough limits on buying Iranian crude, threatening to bottle up output. The International Energy Agency estimates Iranian exports fell by 500,000 barrels a day between April and August.

At the Algiers meeting, oil ministers from Saudi Arabia, Russia and other countries will debate whether more is needed, though they won't have to decide until a December summit. Saudi Arabia and Russia have boosted output beyond their promise in June, according to oil-production data. The Saudis increased output by 500,000 barrels a day in August, and Moscow has raised production by 250,000 barrels a day, compared with four months ago, the IEA reported last week.

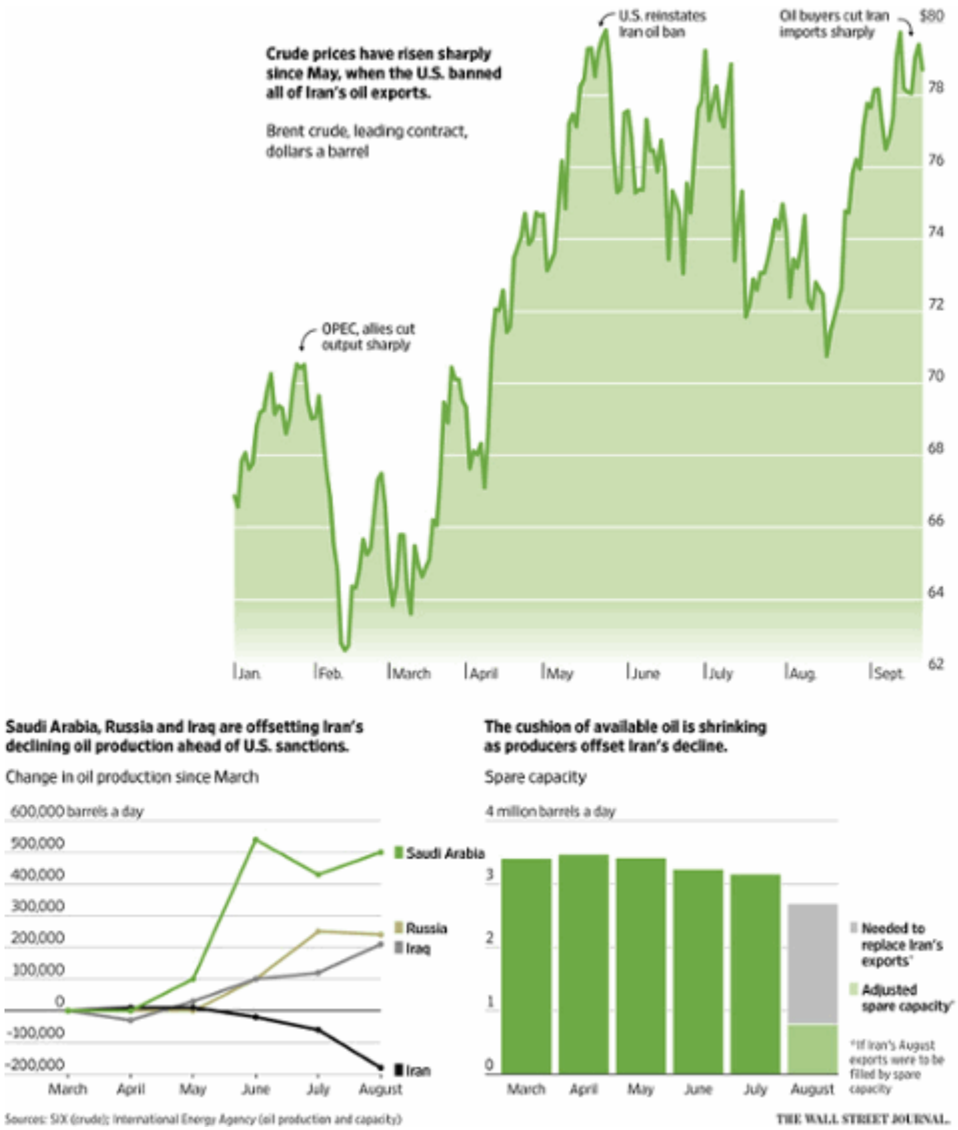
Complicating the calculation are diverging estimates of just how much Iranian exports are falling short. Iran maintains it is exporting close to 2.1 million barrels a day, according to the country's OPEC envoy, Hossein Kazempour, in an interview. This suggests little change in the past two months.

But the IEA said the Islamic Republic exported just 1.9 million barrels a day in August, a decline of 500,000 barrels a day from April.

OPEC's ability to fill the hole left by U.S. sanctions on Iran isn't limitless. The group's spare capacity -- the amount of shut-in oil that could be brought online within 90 days -- fell to 2.69 million barrels a day in August, a decline of 780,000 barrels a day since April, according to the IEA. Spare capacity acts as a sort of global shock absorber for unexpected supply disruptions.

"The global system [is] highly vulnerable to any further significant outage," HSBC warned in a note Wednesday.

Summer Said contributed to this article.



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THE WALL STREET JOURNAL.

Markets

Thailand, Patient Zero in Asia's Financial Crisis, Enjoys a Much Better 2018; Thai stocks and the baht advance even as other emerging markets struggle

By Saumya Vaishampayan
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21 September 2018
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English

The euphoria from fresh records in U.S. stocks spilled over into Asia on Friday. The Shanghai Composite rallied 2.5% for its biggest gain in six weeks. The Nikkei 225 rose 0.8%, a day after Prime Minister Shinzo Abe won another term as leader of Japan's ruling party.

Friday's Big Theme

In Thailand, the country at the center of the Asian financial crisis two decades ago, markets are booming. That is thanks in part to a large current-account surplus, which effectively means Thailand is today a net lender abroad, rather than being overly dependent on foreign funding.

What's Happening

Thai stocks and the baht have advanced this quarter, pushing both into positive territory for the year even as many other emerging markets are struggling.

Thailand's benchmark SET Index has surged 10% since its low for the year on June 29 in local-currency terms. With Friday's advance, the index has eked out a 0.1% gain for the year and is less than 5% away from its January record. The prospect of elections next year, after much delay, has boosted sentiment, said Charnon Boonnuch, Southeast Asia economist at Nomura.

The Thai baht—nowadays a freely floating currency rather than one with an unsustainable dollar peg—is up 0.6% for the year, according to FactSet. A high exchange rate can bring its own problems, such as making exports less competitive, but this year, weaker currencies are a much bigger headache for emerging markets, particularly those with lots of hard-currency debt.

Stocks, corporate bonds and currencies in Indonesia and China, as well as in trouble spots such as Turkey and Argentina, have tumbled this year. A strong dollar and higher U.S. interest rates have dented the appeal of investments in higher yielding but riskier emerging economies and sucked cash into the relative safety of the U.S.

Market Reaction

Decent economic growth and a current-account surplus have helped insulate Thailand from the woes afflicting its peers, analysts say. From a current-account deficit of 8% of GDP in 1996, Thailand has gone to a surplus of 10.6% as of last year, according to the World Bank.

Moreover, the bond market isn't dominated by foreigners who tend to flee in times of stress, unlike Indonesia. And economists expect the central bank to lift interest rates in the coming months, which has helped boost the baht.

Thailand also looks attractive because of its tourism and services sectors, which mean it will be less affected by trade tariffs than some Asian peers, said Irene Cheung, senior strategist for Asia at ANZ.

"It's a more diversified economy that's not too dependent on what's happening between the U.S. and China," she said. "It makes them more resilient."

Still, the country hasn't been immune to the pullback from riskier investments. Foreigners have pulled money out of Thailand's **stock market** every month this year, although they poured $1.5 billion into its bond market last month, according to ANZ estimates.

Elsewhere

The Hong Kong dollar surged. In recent action, one U.S. dollar bought 7.8129 Hong Kong dollars, which meant the Hong Kong currency had strengthened 0.4%—an unusually large move for a pegged currency that trades in a narrow band against the dollar.

Write to Saumya Vaishampayan at saumya.vaishampayan@wsj.com

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WSJ PRO CENTRAL BANKING

Economy

Timiraos's Take: What Nellie Liang's Nomination Says About Trump and Powell; The nomination of Nellie Liang shows President Donald Turmp and his advisers aren't keen to make Fed Chairman Jerome Powell's job too difficult.

By Nick Timiraos
558 words
21 September 2018
06:02 AM
WSJ Pro Central Banking
RSTPROCB
English

President Trump's selection of former Federal Reserve economist Nellie Liang to fill the last of three vacancies on the central bank's board shows how, despite Mr. Trump's recent airing of frustration about higher short-term rates, his advisers aren't keen to make Fed Chairman Jerome Powell's job too difficult.

Ms. Liang's nomination also reflects Mr. Powell's prowess navigating bureaucratic politics.

Three personnel decisions since Mr. Powell became chairman in February, including Wednesday's announcement, have resulted in selections that largely bear Mr. Powell's imprint.

With his extensive input, the White House nominated Richard Clarida to become the vice chairman in April. After they passed on another Powell favorite—John Williams—for that job, the New York Fed made him its next president.

Together with Ms. Liang, all three have deep expertise, are well regarded by their peers, and aren't likely to push for a dramatic break with the Fed's monetary or regulatory policies in the main. They are also regarded as team players who wouldn't easily depart from Mr. Powell's public positions, even if they express reservations in private.

Ms. Liang's nomination has been in the works for months, dating back before Gary Cohn quit as director of the National Economic Council in March. The selection required Mr. Powell and Ms. Liang to gain crucial support from the White House advisers who vet and steer personnel decisions.

Ms. Liang is a registered Democrat who played a part in shaping the postcrisis financial-regulatory architecture, positions that appear potentially at odds with the Trump administration. But she is well regarded by academics and **financial-markets** veterans alike—and by policy makers on both sides of the aisle, including Republicans who likely helped her win over any White House skeptics.

In recent decades, the White House tended to defer to the Fed chairman in filling out board nominations, but the same level of deference to the chair appeared far less likely here given Mr. Trump's recent expressions of annoyance with the Fed's policies. The Reagan administration, for example, nominated three board members who disagreed with then-Chairman Paul Volcker's policies, leading the board to outvote Mr. Volcker in 1986.

All of this leaves Mr. Powell with a key adviser to help him shape the Fed's role in financial stability, particularly during a phase of the economic cycle in which concerns about high asset values and complacent markets will gain more currency if inflation pressures remain quiescent.

She could help Mr. Powell articulate whether and when monetary policy should be used to tamp down financial excesses. In recent literature, Ms. Liang has appeared to position herself between economists such as Lars Svensson, who has argued that the costs too often will outweigh the benefits, and Jeremy Stein, who has signaled more sympathy for the approach.

The pick could tamp down worries the Trump White House is spoiling for a provocation with the Fed, just as it reinforces Mr. Powell's tactical chops.

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WSJ PRO CENTRAL BANKING

Economy

Fedspeak Cheat Sheet | Booming Economy, Negative Rates | Denmark Reopens Investigation | Central Bank's Missing Cash | Timiraos's Take: What Nellie Liang's Nomination Says About Trump and Powell; The Wall Street Journal's central banking newsletter for Friday, September 21, 2018

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Timiraos's Take: What Nellie Liang's Nomination Says About Trump and Powell

Fedspeak Cheat Sheet: What Fed Officials Said Ahead of Their September Meeting

Swiss Paradox: Booming Economy, Negative Interest Rates

Liberia Probes Central Bank's Missing $104 Million in Cash

Denmark Reopens Investigation into Russia-Linked Money-Laundering Case

What Nellie Liang's Nomination Says About Trump and Powell

President Trump's selection of former Federal Reserve economist Nellie Liang to fill the last of three vacancies on the central bank's board shows how, despite Mr. Trump's recent airing of frustration about higher short-term rates, his advisers aren't eager to make Fed Chairman Jerome Powell's job too difficult.

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Key Developments Around the World

Fedspeak Cheat Sheet: What Fed Officials Said Ahead of Their September Meeting

Federal Reserve officials in recent weeks have signaled it's full speed ahead for a rate rise at their Sept. 25-26 Federal Open Market Committee meeting. They also telegraphed the slow and steady pace of increases would keep going as long as the economy stays on its current path. Some formerly dovish officials such as governor Lael Brainard and Chicago Fed President Charles Evans even indicated they might support lifting the central bank's benchmark rate higher than they once thought, given the economy's vigor. Here are some of their key comments on monetary policy since their most recent meeting.

Swiss Paradox: Booming Economy, Negative Interest Rates

At a time when most rich countries are following the U.S. Federal Reserve in moving away from crisis-era policies, Switzerland stands apart. Its central bank Thursday left its key policy rate at minus 0.75% despite what a government report has called a "booming" economy. In the U.S., where the economy has exhibited similar strong growth and low joblessness—albeit with higher inflation than in Switzerland—the Federal Reserve has already raised interest rates seven times since late 2015 and is expected to deliver an eighth next week.

South African Reserve Bank Keeps Interest Rate Unchanged

South Africa's central bank Thursday left its key interest rate unchanged after the country slipped into a technical recession in the second quarter and its currency has been hammered by the broader emerging market selloff. The decision by the South African Reserve Bank to keep its repo rate at 6.5% reflects a dilemma also faced by other central banks in middle-income countries. Their economies are slowing, but national currencies hit by global trade tensions and the U.S. Federal Reserve's interest-rate rises are forcing them to keep monetary policy tight.

Liberia Probes Central Bank's Missing $104 Million in Cash

Authorities in Liberia said they were investigating the disappearance of $104 million in newly printed bank notes intended for the central bank, in a possible fraud equal to 5% of gross domestic product. The justice ministry on Wednesday confirmed that 15 officials, including the son of former president and Nobel Prize winner Ellen Johnson Sirleaf and the former central bank governor, were under investigation and had been banned from leaving the country. Liberian officials said the bank notes—more than 16 billion Liberian dollars—were ordered by the central bank from overseas printers but disappeared between November and August.

FINANCIAL REGULATION ROUNDUP

SEC Says Don't Judge Its Enforcement Strength Solely on Volume of Cases, Fines

Wall Street shouldn't relax its standards just because its regulator looks less muscular these days, according to a top federal official. The Securities and Exchange Commission is still policing wrongdoers, even if the volume of its enforcement actions and dollar amount of its fines drop this year, Stephanie Avakian said. The SEC rejects the premise "that numbers—standing alone—can adequately measure the success or impact of an enforcement program," said Ms. Avakian, the SEC's co-director of enforcement.

Denmark Reopens Investigation into Russia-Linked Money-Laundering Case

Danish authorities reopened an investigation into a massive Russia-linked money-laundering scandal at their country's largest bank, as investors looked to assess the impact after the lender admitted to letting $233 billion move through a single Eastern European branch. The Danish Financial Supervisory Authority, said Thursday that it would revisit a probe at Danske Bank that it had closed in May, when it reprimanded the bank and ordered it to set aside $800 million in capital for any risks. The regulator can't directly impose fines, but it can report its findings to the police and deem executives unfit. Employees at the bank's Estonia branch are under investigation by Estonian prosecutors for helping customers from Russia and other ex-Soviet Union states spirit ill-gotten gains abroad.

Abandoned IT Integration Linked to Danske Bank Failures

The billions that flowed through the Estonian branch of Denmark's largest bank may have slipped past risk analysts in part because the lender in 2008 dropped plans to integrate the branch into its group-level information technology platforms. An internal investigation found that employees at the Estonian branch had failed to run basic background checks on thousands of customers who lived outside the small Baltic country. It also said some employees had colluded with customers to evade the bank's compliance procedures. The investigation also pointed to failures of technology: The Estonian branch had its own IT platform, and therefore wasn't covered by the same customer, risk and transaction monitoring systems as other parts of the Danish bank, the report said.

Monday

7:50 p.m. EDT

Bank of Japan releases July 30-31 meeting minutes

Tuesday

Time N/A

Central Bank of Nigeria releases policy statement

Time N/A

U.S. Federal Reserve begins two-day policy meeting

1:30 a.m. EDT

Bank of Japan's Kuroda speaks to business leaders in Osaka

3:30 a.m. EDT

Bank of Japan's Kuroda holds press conference

How the Global Economy Was Hit by the Crisis

Last decade's global financial crisis "was the deepest, most synchronized global downturn since World War II, and it happened incredibly quickly," David Young writes in a Bank of England Bank Underground post that studies the extent of the downturn and how far off economists were in their outlooks. "After Lehman Brothers failed, macroeconomic forecasters underestimated the economy-wide impacts of an extraordinary financial shock that resulted in the failure of financial institutions, the evaporation of market liquidity, dramatic falls in assets prices, and a collapse in consumer and business confidence. It served as a sobering reminder that financial crises have sizeable effects on the real economy."

Trump's Currency Confusion Continues

President Trump has accused China of pushing down the value of its currency, but it is his economic policies that are driving up the dollar, Jeffrey Frankel writes for Project Syndicate. "Exchange rates do not always accord with economists' models. But in this case, the dollar's appreciation can be explained by Trump's own economic policies," he writes. He adds that Mr. Trump has criticized China for holding down the renminbi's value at times when it actually has been trying to support it, while his critiques have stopped when China has suspended its renminbi support efforts. "Why does Trump keep getting things backwards? It is not just his perverse personality. Trump makes the charge when the renminbi depreciates, which also happens to be when the [People's Bank of China] intervenes to support it. What he misses are two fundamental drivers of that depreciation: his own fiscal and trade policies."

The total net worth of U.S. households rose farther into record territory in the second quarter, propelled by climbing home values and stock prices. Household net worth rose by nearly $2.2 trillion in the second quarter to a record $106.929 trillion, according to a report by the Federal Reserve on Thursday.

U.S. home sales stalled in August, highlighting a growing disconnect between the sluggish housing market and the strong economy that is powering stocks to new highs.

The number of Americans filing applications for new unemployment benefits fell to a new 49-year low for the third straight week, though Hurricane Florence's effect on the jobs market remains unclear.

Japan's core inflation rose at a slightly faster pace in August, fueled by higher hotel and lodging prices during the vacation season.

The eurozone's economy continued its slow-motion slowdown in September, as exports suffered from a drop off in global demand and uncertainty about future trade relations between the U.S. and other countries.

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

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The New York Times

Business/Financial Desk; SECTB

New Economic Data Sends Markets to Record Highs

By THE ASSOCIATED PRESS
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21 September 2018
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NYTF
Late Edition - Final
2
English

Wall Street delivered another set of milestones Thursday as a wave of buying sent stocks solidly higher, driving the **Dow Jonesindustrial average** above the all-time high it closed at in January.

The **Standard & Poor's 500-stockindex**, the benchmark for many index funds, also hit a new high, eclipsing the peak it reached last month.

Technology stocks, banks and health care companies accounted for much of the broad rally. Energy companies declined along with crude **oil prices**.

A weaker dollar, which helps American exporters, and a mix of mostly encouraging economic reports helped put investors in a buying mood, a turnaround from earlier in the week when the United States and China each announced a new round of tariffs on each other's goods, triggering a sell-off.

''Some of the economic data that came out today continued to show strength,'' said Lindsey Bell, an investment strategist with CFRA. ''Given the strength in the economy, backed by the stimulus from tax reform as well as just fiscal stimulus in general, that should be able to offset some of the impact that we're going to get from tariffs as we go into the end of the year.''

The **S**.**&P**. **500 index** rose 22.80 points, or 0.8 percent, to 2,930.75. The Dow gained 251.22 points, or 1 percent, to 26,656.98. The **Nasdaq composite** climbed 78.19 points, or 1 percent, to 8,028.23. All three indexes are on track to end the week with a gain.

The Dow and **S**.**&P**. **500** were on course to set record highs from the get-go Thursday as investors pored through a batch of economic data.

The Labor Department's weekly tally of applications for unemployment aid was lower than expected, with claims slipping last week to 201,000. That is the lowest level since November 1969.

An economic index from the Federal Reserve's bank in Philadelphia also topped forecasts, and the Conference Board's index of leading economic indicators, designed to anticipate economic conditions three to six months out, rose 0.4 percent last month. While that came in slightly below forecasts, it still suggests the economy is on sure footing, said Tracie McMillion, global head of asset allocation for Wells Fargo Investment Institute.

''With a (reading) that high it's very unlikely that there's a recession on the horizon,'' Ms. McMillion said. ''The U.S. market is responding to this foundation of economic strength. Pair that with a dollar that has started to depreciate a little bit and that's good news for U.S. companies that trade abroad.''

A weaker dollar is particularly favorable for large-cap companies that do business overseas, because it makes their products more competitive.

The dollar rose to 112.48 yen from 112.27 yen on Wednesday. In other currency trading, the euro strengthened to $1.1776 from $1.1673. The British pound climbed to $1.3268 from $1.3145.

Mixed data on U.S. home sales and mortgage rates weighed on homebuilding stocks.

The National Association of Realtors said sales of previously occupied homes were flat in August after declining the previous four months. Separately, mortgage buyer Freddie Mac said the average rate on 30-year, fixed-rate mortgages jumped to 4.65 percent this week, the highest level since May.

William Lyon Homes tumbled 7.8 percent to $17.20.

Starting Monday, the United States will place a 10 percent tariff on another $200 billion worth of Chinese goods. The tariffs will rise to 25 percent on Jan 1. Beijing has said it would take ''counter measures,'' which includes hitting $60 billion worth of U.S. imports, including coffee, honey and industrial chemicals, with retaliatory taxes.

''Part of why you're seeing such significant upside today is the amount of the tariffs was less than expected,'' Bell said. ''The market is still optimistic that we will resolve this issue, perhaps not before the midterm (elections), but hopefully before the end of the year.''

Some of the biggest gains Thursday went to technology companies. Apple gained 0.8 percent to $220.03, while Microsoft climbed 1.7 percent to $113.57.

Health care companies also posted solid gains. Cardinal Health rose 2.3 percent to $55.17.

Red Hat slid 6.5 percent to $133.81 after the open-source software company's sales disappointed investors.

Canadian marijuana producer Tilray slumped 17.6 percent to $176.35 a day after the stock soared 38 percent.

The yield on the **10**-**year Treasury** held steady at 3.07 percent.

Gold rose $4.00 to $1,206.20 an ounce.

Benchmark United States crude fell 0.4 percent to settle at $70.77 a barrel in New York.

CHARTS: The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Thursday. (Source: Reuters); Jobless Claims: Weekly number of people who have filed for unemployment benefits for the first time. (Source: Labor Department, via Reuters)

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Business & Finance
What's News
Business & Finance

245 words
21 September 2018
The Wall Street Journal
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A1
English

The Dow and **S&P 500** set new highs, kindling hopes among some investors that U.S. stocks are on track to top performance expectations for 2018. The blue-chip index rose 251.22 points to 26656.98.

Google employees in 2017 discussed, but didn't implement, ways to tweak search-related functions to counter Trump's travel ban.

Google said that it continues to allow other companies to scan Gmail data.

The EU is ramping up pressure on Facebook to better spell out how consumers' data is being used.

OPEC and its Russia-led counterparts will meet this weekend to gauge whether they need to boost oil output amid U.S. sanctions on Iran.

Sales of existing homes in the U.S. fell in August from a year earlier, the sixth straight month of declines.

Wells Fargo is planning to cut as many as 26,500 jobs over the next three years.

U.S. airlines are fighting to keep control of the nearly $3 billion that people pay annually to change flights.

Goldman's stock-trading chief, Paul Russo, is negotiating his exit from the firm.

Comcast and Fox will settle their takeover battle for Sky in a weekend auction.

Amazon is offering manufacturers Alexa-enabled chips that can be incorporated into household devices.

Nestle is exploring options for its skin-health unit, which analysts say could fetch $4.1 billion.

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Prices Decline After Trump Tweet

By Dan Molinski
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21 September 2018
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Oil prices fell from two-month highs Thursday after President Trump said **oil prices** have been rising too much, and urged major oil producers in the Middle East to find a way to get them lower.

Light, sweet crude for October delivery ended 0.4% lower at $70.80 a barrel on the New York Mercantile Exchange. On Wednesday, the U.S. benchmark had settled at $71.12 a barrel, its highest closing level since July 10. Brent crude, the global benchmark, fell 0.9% Thursday to $78.70 a barrel.

"We protect the countries of the Middle East, they would not be safe for very long without us, and yet they continue to push for higher and higher **oil prices**!" Mr. Trump said in a morning post on Twitter. "We will remember. The OPEC monopoly must get prices down now!"

Oil prices had been rising in the overnight session, but declined immediately after the tweet, and remained lower during the New York session Thursday.

Mr. Trump's comments follow a nearly 10% rise over the past 30 days in the price of West Texas Intermediate, the U.S. benchmark for crude oil. That has helped send the average price of gasoline for U.S. consumers to $2.86 a gallon, compared with $2.83 a month ago and $2.59 a year ago, according to price-tracking service GasBuddy. In July, Mr. Trump partially blamed the Organization of the Petroleum Exporting Countries for rising prices.

The president's remarks come just ahead of a meeting in Algeria this weekend among key members of OPEC and Russia-led non-OPEC oil producers, where they are likely to discuss prices and production.

Earlier this week, Saudi Arabia officials reportedly indicated they would be comfortable with **oil prices** rising a bit more, at least temporarily, and those reports may be what set off the president.

Thursday's decline in **oil prices** followed a nearly 2% rise Wednesday after a weekly report from the U.S. Energy Information Administration showed U.S. crude inventories had fallen by 2.1 million barrels last week, to 394 million barrels.

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REVIEW & OUTLOOK (Editorial)
The New New Normal?

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A14
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The economy is doing so well these days that even Barack Obama recently emerged 20 months after he left office to claim credit. Perhaps he'll give another speech after Thursday brought more news that the days of economic malaise are over.

On Thursday morning the Labor Department announced that the number of Americans who filed new unemployment claims last week hit a new low for the current expansion. The seasonally adjusted figure, 201,000, was down 3,000 -- the lowest since November 1969. Part of the dip could be due to fewer claims in areas affected by Hurricane Florence. But the drop was even steeper in a few states like Illinois, and anyway the four-week average is at a record low too.

Then on Thursday afternoon the **stock market**, shrugging off President Trump's latest tariffs, surged to a new high. At market close the **Dow Jones Industrial Average** was up 1%, enough to beat its January record. Other indexes followed suit. Mr. Trump, responding to the news on Twitter, seemed to break his caps-lock key: "**S&P 500** HITS ALL-TIME HIGH Congratulations USA!" If workers are checking their retirement accounts for the first time in a couple months, they're probably happy too.

All the usual caveats apply: The data on weekly jobless claims can be noisy, the economy is bigger than the **stock market**, and nobody on Planet Earth knows what the Dow will do tomorrow. Mr. Trump's trade fight with China continues to escalate, with no clear resolution in sight.

No doubt most of our readers recall when the sluggish economy of the Obama years was said to be a "new normal." Economic sentiment began to shift on Election Day in 2016, and economic policy shifted dramatically toward growth over the last 20 months. Coincidence?

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The New York Times

Opinion
Tesla's Biggest Problem Isn't Elon Musk

By William D. Cohan
1,003 words
20 September 2018
06:05 PM
NYTimes.com Feed
NYTFEED
English

Is it too late for Tesla?

What may have started as an ill-advised bit of summer whimsy — Elon Musk's tweet on Aug. 7 suggesting that, as Tesla's chief executive officer and its largest shareholder, he was going to take the company private and had the "funding secured" to do so — has turned into a full-blown crisis.

There's the unwanted scrutiny: Thanks to Mr. Musk's tweet, Tesla is the target of a criminal investigation by the Justice Department and a civil investigation by the Securities and Exchange Commission. There's the missed opportunity: a Saudi investment fund that had been eyeing Tesla has invested $1 billion in a rival. There's the brain drain: the sudden departures of Tesla's chief accounting officer and its head of human resources. There's the loss of investor confidence: Tesla's **stock price** is down 25 percent since August.

And then there is Tesla's biggest and most acute problem: its precarious finances. Mr. Musk promises investors that Tesla is going to start making more cars and profits any day now, but that's wishful thinking. Tesla is not generating enough cash to pay back the mountain of debt that is coming due soon. Once stalwart investors are losing faith in Mr. Musk and his company, and Wall Street is turning on him. Tesla could soon become a case study of what can happen when an iconoclastic Silicon Valley entrepreneur, seduced by his own wonderfulness, thinks the rules of the marketplace do not apply to him.

Tesla's finances are fragile. It has around $11 billion in long-term debt and no profits. "That is not a sustainable business model," Jim Collins, a longtime auto industry research analyst, wrote in Forbes in April. "Not even close."

From January to June of this year, Tesla generated revenues of $7.4 billion, but it had an operating loss of $1.7 billion, burning through its cash on hand. It has $2.2 billion left, most of which will be needed to cover operating losses. Romit Shah, a research analyst at Nomura Instinet and once one of Tesla's biggest boosters, reversed course last week, calling the company "no longer investable."

About $1.7 billion of the company's long-term "convertible" debt is due in the next 14 months, meaning that the debt holders have the option of being repaid either in stock, at a specified price, or in cash. One chunk of the convertible debt, $230 million, is due in November. The conversion price is around $560 per share. If Tesla's stock is not trading at more than $560 per share by then, the holders of those notes will most likely want cash. That puts enormous pressure on Tesla and its leader to get the **stock price** up quickly — it's trading around $300 per share these days.

Not surprisingly, bond investors have become increasingly skittish about Tesla. In March, the bond-rating company Moody's moved Tesla's corporate debt rating lower on its noninvestment grade, or "junk," scale.

In its explanation of the downgrade, Moody's acknowledged that the market continues to admire Tesla's cars: Advance purchase reservations and deposits for them "remain high." But that hasn't been enough to solve Tesla's fundamental financial reality: It isn't producing cars fast enough to meet demand, its operations are running at a loss, and it has huge debts coming due. The resulting pressure on the company's cash balance cannot simply be wished away.

This is a harsh lesson that other Silicon Valley "visionaries" have already learned. Amazon's Jeff Bezos, Alphabet's founders Larry Page and Sergey Brin and, more recently, Facebook's Mark Zuckerberg have all weathered personal criticism and skepticism about their companies' business models by mostly delivering what Wall Street always wants: steady and ever-increasing profits. (Evan Spiegel, the co-founder and chief executive of Snap, and Jack Dorsey, the co-founder and chief executive of Twitter, might take note.) Mr. Musk is, indeed, a legendary entrepreneur. But $11 billion of debt and negative cash flow is a reality that vision alone cannot overcome.

Wall Street is a confidence game. When confidence in a company, or an entrepreneur, is high, it seems as if nothing can go wrong and there's no limit to the capital that investors will throw around. Wall Street fell in love with Tesla and, so far, there has always been plenty of money for Mr. Musk and his electric car company, then for his space company and then for his tunnel-boring company. He was even able to push through Tesla's $2 billion acquisition of SolarCity, even though many shareholders were wary of buying a debt-laden company owned by Mr. Musk and his cousins.

To be sure, Tesla is no Theranos; its products are real. The company still has a market value of about $50 billion.

So Tesla's best option to solve its short-term liquidity problems is to issue more shares of its wildly overpriced stock. There is already speculation that Tesla will have no choice but to raise new equity — one analyst put the need at $2.5 billion — but only at a significant discount to the current trading price. Selling stock, even at a discount, will require Mr. Musk to find investors willing to buy into his dreams. If that fails, and Tesla can't repay its debt, Mr. Musk may well lose his company to his creditors.

Mr. Musk has always found people willing to take a chance on him. But Wall Street's confidence can prove ephemeral, and Mr. Musk's personal antics are testing the limits of investor infatuation. He is on the verge of becoming a cautionary tale about a Silicon Valley genius felled by hubris.

William D. Cohan is a special correspondent for Vanity Fair and the author, most recently, of "Why Wall Street Matters."

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WSJ PRO CENTRAL BANKING

Economy
U.S. Existing-Home Sales Stalled in August; Decline of 1.5% from a year earlier highlights gap with surging economy

By Laura Kusisto and Sharon Nunn
944 words
20 September 2018
02:29 PM
WSJ Pro Central Banking
RSTPROCB
English

U.S. home sales stalled in August, highlighting a growing disconnect between the sluggish housing market and the strong economy that is powering stocks to new highs.

Existing home sales fell in August from a year earlier, the sixth straight month of declines. Sales of previously owned homes fell 1.5% to a seasonally adjusted annual rate of 5.34 million homes, the National Association of Realtors reported Thursday. Sales were flat compared with July's pace.

Economists said that low inventory, rising home prices and higher mortgage rates continue to pressure the housing market.

Lackluster home sales stand in sharp contrast to the booming **stock market**. The **Dow Jones Industrial Average** and the **S&P 500** both hit new intraday records Thursday as expectations of strong corporate profits and continued economic growth offset lingering investor concerns about the trade dispute between the U.S. and China.

A strong economy typically boosts demand for housing, too, putting more money in consumers' pockets and giving them confidence to make what for many will be the largest purchase of their lives.

Yet 78 straight months of annual home price gains coupled with rising mortgage rates have made homes less affordable. That has prompted some would-be first-time buyers to continue renting, and made existing owners reluctant to sell if it means trading up for a much more expensive home at a higher mortgage rate.

"Consumer confidence may be near record levels, but no one appears confident enough to sell their home either to trade up to something bigger for a growing family or to downsize as the baby-boom generation hits retirement age," said Chris Rupkey, chief financial economist at MUFG.

The median sale price for an existing home in August was $264,800, up 4.6% from a year earlier. Meanwhile, mortgage rates climbed back near the seven-year high they hit in May, with rates for a 30-year mortgage now averaging 4.65% this week, up from 4.6% a week earlier, Freddie Mac said Thursday. The yield for the U.S. government 10-year note is hovering near its highest level of the year.

The upper end of the housing market—where many buyers have benefited from the **stock market**'s gains—remains strong, with nearly 12% growth in single-family home sales over $1 million and nearly 9% growth in sales from $750,000 to $1 million. In contrast, sales of single-family homes priced below $100,000 fell about 12%, and sales from $100,000 to $250,000 fell roughly 2%, according to NAR.

Lawrence Yun, the trade group's chief economist, said the strongest demand realtors are indicating is "in the lower price points, but sales are down because of lack of inventory."

Economists have blamed a lack of inventory for the slowing market, but growing inventory levels and moderating price gains suggest demand is also tapering. The supply of existing homes in the U.S. increased 2.7% in August from a year earlier, the first rise in inventory on an annual basis in more than three years, according to NAR.

Pricier markets on the West Coast have seen even more dramatic growth in supply. In Seattle, inventory grew 30% in August from year earlier, while Portland, Los Angeles and the Bay Area have all also seen near-double-digit increases in inventory, according to Ruben Gonzalez, chief economist for real-estate brokerage Keller Williams.

NAR's Mr. Yun said the moderating prices and increase in supply are healthy developments for the market because they could help lure buyers back from the sidelines.

Mr. Gonzalez said inventory has increased but still not enough to boost sales. He also said the housing market may simply be in the late stages of the recovery and unlikely to see significant new growth. "For the most part, we're kind of past recovery [in the housing market] at this point. I think it could be a plateau potentially, rather than some peak and slide," he said.

A strong economy should also spur builders to build more homes, but the new-construction industry has also been sending mixed signals. Single-family housing starts rose 1.9% in August from a month earlier, the Commerce Department said Wednesday. But permits for new single-family homes, a more reliable and forward-looking indicator, declined 6.1%, Meanwhile, a gauge of home-builder sentiment flatlined in September after drifting lower for much of 2018.

"With mortgage rates at a seven-year high, home-builder sentiment trending lower, and an increased threat of tariffs further pressuring existing affordability challenges, the ho-hum results of August [construction] could very well be the norm for the foreseeable future," Scott Volling, a principal at PwC, said after the home construction report was released.

Starting next month, Hurricane Florence could also help depress home sales in North and South Carolina, which account for roughly 6% of existing homes for sale, according to Danielle Hale, chief economist a Realtor.com.

The Trump administration's tax bill also reduced some incentives for home ownership, especially in costly coastal markets and high-tax areas, by reducing the cap for the deductibility of mortgage interest and limiting the amount of state and local taxes that can be deducted.

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THE WALL STREET JOURNAL.

Business

Eventbrite Surges in Market Debut; Gain gives ticketing and event-services company a valuation near $3.4 billion on fully diluted basis

By Bowdeya Tweh and Maureen Farrell
564 words
20 September 2018
05:56 PM
The Wall Street Journal Online
WSJO
English

Eventbrite Inc. shares jumped sharply in their market debut, reflecting strong early demand from investors in the ticketing and event-services company.

The stock closed Thursday at $36.50, up 59% from its initial public offering price.

Eventbrite's IPO raised $230 million in proceeds after it priced at the high end of its range between $21 a share and $23 a share. That range was raised earlier this week from its prior target between $19 and $21 each.

The **stock-price** bump pegged Eventbrite's valuation near $3.4 billion on a fully diluted basis.

A flurry of companies are pursuing IPOs this year. IPO activity on U.S. exchanges is at its highest level since 2014, with 169 companies pricing offerings as of Wednesday that have raised $47.6 billion, up 42% from this time last year, according to Dealogic.

Investors have shown a hunger for the growth that can come with emerging technology firms such as Eventbrite, which uses its tech platform to help users with the management and ticketing of their live events.

Eventbrite Chief Executive Julia Hartz said in an interview Thursday that during the pre-IPO roadshow, potential investors were particularly excited about the size of the company's potential market. "There's a vast green field of opportunity."

Newly public tech companies have posted stellar performances in 2018, far outpacing gains in broader stock indexes, on average. So far this year, U.S.-listed technology and internet companies are up an average of 48% from their IPO prices, according to Dealogic. U.S.-listed IPOs are up 29%.

Eventbrite is trading under the symbol EB on the New York Stock Exchange. The company sold 10 million Class A shares for $23 each and it plans to use proceeds from the offering to pay down debt and other corporate purposes.

Like many technology companies that have made debuts in recent years, Eventbrite has a dual-class structure that gives the founders and some investors 10 votes a share, compared with one vote a share for investors buying shares in the public markets. Ms. Hartz said investors didn't voice concerns about this structure.

San Francisco-based Eventbrite was co-founded in 2006 by Ms. Hartz, her husband Kevin Hartz and Renaud Visage. Since 2015, the company has bought seven companies, including Ticketfly, as part of its global growth ambitions.

"Live experiences are fundamental to fulfilling that undeniable human desire to understand and find acceptance both from within ourselves and among others," according to a letter from the founders included as part of a recent Eventbrite securities filing. "From the first day we set out on this journey, that belief inspired our mission: to bring the world together through live experiences."

Eventbrite reported a loss of $15.6 million on $142 million in revenue for the first half of 2018, compared with a loss of $8.3 million on $88 million in revenue for the first half of 2017.

After the offering Tiger Global Management and venture-capital firm Sequoia Capital are expected to retain roughly 21% and 20%, respectively, of voting control in the company. The Hartzes are each retaining about 17% voting control.

Maria Armental contributed to this article.

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THE WALL STREET JOURNAL.

Markets

Goldman's Top Stock-Trading Executive to Depart; The change comes at a tough time for the equities business across Wall Street and, in particular, at Goldman, which has ceded ground to rivals in recent years

By Liz Hoffman
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The Wall Street Journal Online
WSJO
English

Goldman Sachs Group Inc.'s stock-trading chief is leaving the firm, the first senior departure as incoming Chief Executive David Solomon sets priorities and puts his own team in place.

Paul Russo, who has run Goldman's equities business since 2012, is negotiating his exit and is likely to depart in the coming weeks, according to people familiar with the matter. The firm is likely to give additional responsibilities to three executives—Brian Levine, Jeff Nedelman and Phil Berlinski—while Mr. Russo's counterpart, Michael Daffey, continues to head the business globally from London, some of the people said.

A spokesman for Goldman declined to comment. Mr. Russo couldn't immediately be reached for comment.

The change comes at a tough time for the equities business across Wall Street and, in particular, at Goldman, which has ceded ground to rivals in recent years.

The rise of electronic trading has reduced fees and forced banks to spend heavily to upgrade their software. Meanwhile, startups are peeling away the lucrative business of structuring derivatives, and hedge funds, once big fee-payers, are struggling.

Goldman's equities revenue has fallen to $6.6 billion last year from a peak of $11.3 billion in 2007. It has stabilized in recent years and held up better than the firm's fixed-income trading business.

A Goldman lifer, Mr. Russo is respected on the trading floor and in Washington, where he is often the firm's voice on trading regulations and market-structure issues. He joined as a summer intern in 1989 and rose the ranks in equity derivatives, trading products tied to **volatility** and stock indexes.

His is the first in a series of expected departures in Goldman's trading arm as Mr. Solomon makes his own promotions and readies his agenda. In the past month, Mr. Solomon has appointed two heads of the trading division, simplifying what had been a clunky leadership setup but snubbing some hopefuls in the process.

Overall, the changes tilt Goldman's trading business toward sales and software and were read by many on the floor as leaving less of a role for traditional traders like Mr. Russo.

Mr. Nedelman came up as a stock salesman covering big investment funds such as Capital Group. Since 2016 he has run Goldman's prime brokerage business, which caters to hedge funds.

Messrs. Levine and Berlinski are both traders, rather than salesmen. Mr. Levine came up trading technology stocks and later ran a desk that trades baskets of shares against indexes. Mr. Berlinski, based in London, previously oversaw stock trading across Europe and Asia.

Rachael Levy contributed to this article.

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The New York Times

Another View
Business Day; DealBook
Why America Should Embrace Market Surveillance in Sports Betting Before It's Too Late

By Scott Shechtman and Tony Sio
675 words
20 September 2018
07:21 PM
NYTimes.com Feed
NYTFEED
English

Get the DealBook newsletter to make sense of major business and policy headlines — and the power-brokers who shape them.__________

The American gambling industry and its regulators have an opportunity to police digital sports betting. They should take it before fraud becomes rife.

Wagering on sporting events has evolved rapidly overseas in recent years. In Europe, Asia, and Australia, gambling on events while using "in-play wagering" and live data feeds more closely resembles the trading environment on the **Nasdaq** than a Las Vegas sportsbook.

Legalized sports betting is now on its way to a broader rollout in the United States. In May, the Supreme Court struck down a more than 25-year-old law that effectively banned commercial sports betting in most states. A number of states have already moved to allow the practice.

Many bookmakers have made efforts to limit fraud and manipulation, but more can be done to ensure a level playing field. Regulators and sporting bodies would be wise to learn the lessons of the financial industry and adopt a range of policies and surveillance tools while the market in the United States for sports betting is still nascent.

Many investors, regulators, and capital market players were caught flat-footed when markets were computerized decades ago. New digital products and trading methods created fresh forms of electronic manipulation and unintended consequences that were difficult to track within a sea of data. Authorities took months, for example, to trace and explain the causes of the Flash Crash of May 2010.

The cost to the financial industry of catching up with the bad behavior was significantly higher than if it had invested in defensive technologies at the start. The United States has taken years to start the Consolidated Audit Trail, and it is estimated to have cost the industry over $50 million in its first year.

Many systems for monitoring the integrity of sports betting around the world look at odds or prices across bookmakers. This type of approach was abandoned in **financial markets** over 15 years ago because it does not provide the granularity needed to properly police trading.

The systems that monitor **financial markets** today are much more powerful and can handle large volumes of data. (**Nasdaq**'s SMARTS **stock market** surveillance software, for instance, can handle over 60 billion events per day and can detect manipulative activity in real-time.) Monitoring bets alongside live feeds of events will be crucial to understanding possible manipulation, particularly as a result of wagering during a game.

Individual bookmakers monitor their own customers very closely, but policing a marketplace requires more than simply trusting its participants. Even monitoring the entire market only at the price level could still allow nefarious activity spread across multiple bookmakers to go unnoticed.

To truly oversee sports betting markets, regulators should require licensed operators to share all transactional betting data so that it can be examined for patterns known to indicate irregular activity. Cooperation across states is also important so that as large a slice of the market as possible can be monitored.

Surveillance technology can be a major factor in how well a new market operates and enforces a safe, level playing field. These systems should be able to handle high volumes of data and have some level of machine learning capability. As the quantity of data, the range of products, and the sophistication of traders grow within sports betting, these new technologies will become necessary.

As a market operator and technology company, we fully endorse this necessity.

There is a vast gray (or black) market in wagering that exists beyond our shores. But with this new opportunity, the United States has a unique chance to set an example by overseeing this marketplace with integrity.

The FanDuel Sportsbook at the Meadowlands Racetrack. Legalized sports betting is now on its way to a broader rollout in the United States. | Bryan Anselm for The New York Times

Document NYTFEED020180920ee9k00cnl

WSJ PRO CENTRAL BANKING

Economy
U.S. Household Net Worth Neared $107 Trillion in Second Quarter; Household wealth in the stock market increased by about $848.3 billion in the quarter

By Harriet Torry
581 words
20 September 2018
05:20 PM
WSJ Pro Central Banking
RSTPROCB
English

The total net worth of U.S. households rose farther into record territory in the second quarter, propelled by climbing home values and stock prices.

Household net worth—the value of all assets such as stocks and real estate minus liabilities like mortgages and credit-card debt—rose by nearly $2.2 trillion in the second quarter to a record $106.929 trillion, according to a report by the Federal Reserve on Thursday. That marked a 2.1% increase from the first quarter and the eleventh straight quarter of rising U.S. wealth.

The figures are from a quarterly report known as the Flow of Funds, which tracks the aggregate wealth of all U.S. households and nonprofit organizations. The report provides no details of how that wealth is distributed between households. The figures aren't adjusted for inflation.

The report showed American households collectively remained on a strong financial footing as they headed into the second half of this year. Households' holdings in the **stock market** climbed by $848.3 billion in the second quarter after declining in the first three months of the year.

The value of households' real estate rose by $558.9 billion in the second quarter, a better gain than in the prior quarter, reflecting the fact that home prices are rising at time when demand for housing is high.

The value of owner-occupied housing climbed to more than $25 trillion in the second quarter, against roughly $10 trillion in mortgages. U.S. home prices rose 1.1% in the second quarter, according to the Federal Housing Finance Agency's house-price index, and posted a 6.5% year-over-year gain.

Rising stock and housing prices "are really creating a kind of foundation for the economy," said Joel Naroff, president of Naroff Economic Advisors.

Households also have $9.561 trillion in deposits, which include checking and savings accounts and certificates of deposit.

Higher household wealth in the second quarter came against a backdrop of strong spending by consumers and businesses, which drove robust economic growth. In the April to June period, gross domestic product—the value of all goods and services produced across the economy—rose at a 4.2% annual rate, adjusted for seasonality and inflation.

As the value of households' assets increased so did their liabilities. The report said household debt increased an annual rate of 2.9% in the second quarter, well below the double-digit annual rates in the mid-2000s.

"Households have a lot of net worth," said Steven Blitz, chief U.S. economist at TS Lombard, adding however that "hasn't generated an increase in leveraged spending" compared with earlier periods in which net worth was rising sharply.

U.S. households' collective net worth was close to seven times their total after-tax personal income in the second quarter, at 691.9%. That was up from 685.1% in the first quarter and well past the earlier prerecession peak of 668.5% in the first quarter of 2006.

Americans saved slightly less in the second quarter: the saving rate was 6.82%, down from 7.16% in the first quarter.

The data on household net worth include assets held by nonprofits, although they account for a small share.

Write to Harriet Torry at harriet.torry@wsj.com

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THE WALL STREET JOURNAL.
U.S. EDITION

'Safety' Stocks Fuel Market Rally

By Akane Otani
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20 September 2018
The Wall Street Journal
J
A1
English

U.S. investors are betting on the strength of the domestic economy offsetting ruptures in global trade and emerging markets, as stocks moved to within a whisker of all-time highs Wednesday.

The rally lifted the **S&P 500** and **Dow Jones Industrial Average** to within 0.2% and 0.8%, respectively, of their records.

The gains reflect a market environment in which the negatives for stocks are proving to be less frightful for investors and the underpinnings of the nine-year-old **bull market** remain strong.

Although the continuing trade dispute between the U.S. and China has rattled investors in recent months, the latest round of tariffs was less severe than investors had feared. Emerging markets have shown signs of stabilizing after sliding earlier in the month.

Next week's Federal Reserve meeting has stirred little nervousness, largely because many investors view another potential interest-rate increase as testament to the economy's vigor. Reflecting this perspective, yields on the benchmark 10-year U.S. Treasury note rose to 3.081%, the highest since May.

Meanwhile, the unemployment rate is hovering at the lowest level since 2000, wage growth is accelerating and corporate earnings look set to extend a streak of double-digit gains in the third quarter.

"Many people are thinking the U.S. economy is on such a roll, that why would they need to go elsewhere?" said JJ Kinahan, managing director and chief markets strategist at TD Ameritrade.

The market's latest run at records has brought the **S&P 500**'s 2018 gains to 8.8%, a remarkable divergence from major indexes in Europe and Asia, many of which have fallen into negative territory for the year. The Dow industrials rose 158.80 points, or 0.6%, to 26405.76 Wednesday, while the **S&P 500** gained 0.1%.

Underneath the rally, though, are changes in investor behavior and the stocks propelling it. New sectors have gained, and previous top performers have languished.

In September, the biggest gainers in the **S&P 500** include companies focusing on telecommunications services and consumer staples -- so-called safe sectors whose steady dividend payouts have long made them investor favorites when markets are **volatile** or declining. These shares typically lag behind major indexes during rallies, in part because they are perceived to offer limited potential gains.

But in September, telecom shares are up 1.7% and consumer staples are up 1.4%, beating a 0.2% increase in the **S&P 500**.

Some companies, such as Hershey Co., have rallied after increasing their dividend payouts. Others have jumped on industry-specific news: Cigarette makers Philip Morris International Inc. and Altria Group Inc. increased after the head of the Food and Drug Administration said he was considering banning flavored e-cigarettes from the U.S., while Corona brewer Constellation Brands Inc. rose after saying it was investing money in a Canadian marijuana grower.

Many of the shares that powered the Dow industrials, **S&P 500** and **Nasdaq Composite** to highs earlier in 2018 have tumbled this month. Apple Inc., Amazon.com Inc. and Alphabet Inc. each has declined at least 4% in September, partly reversing double-digit percentage gains for the year. Facebook Inc. has declined more than 7% this month, adding to its retreat in the second half of this year.

"As August ended and we rolled into September, there's been a natural inclination towards more defensive sectors," said Michael Arone, managing director and chief investment strategist at State Street Global Advisors. "We're continuing to see the struggle between the China hawks [in the White House] and those who want to put the trade dispute behind them."

Beyond the bond proxies, there are other signs of investors taking out protection against a pullback.

Investors are holding about 5.1% of their portfolios in cash, the highest share in 18 months, according to Bank of America Merrill Lynch's monthly global fund-manager survey.

To many, the moves reflect nervousness as investors get deeper into what has often been a rocky period for the **stock market**. September has historically been the worst month of the year for the **S&P 500**, according to investment research firm CFRA, which studied market returns going back to 1945.

This year has been no exception. Technology stocks, the best-performing sector in the **S&P 500** for the year, broadly retreated after Facebook and Twitter Inc. executives testified before Congress earlier in the month. The tech sector is down 2% in September, on pace for its worst month since March.

Yet some analysts are skeptical the rally in so-called safety trades is sustainable.

The Fed is widely expected to raise short-term interest rates by a quarter percentage point when it meets next week. That could put fresh pressure on both U.S. government bonds and their **stock-market** proxies, which typically lag behind market indexes in a rising-rate environment.

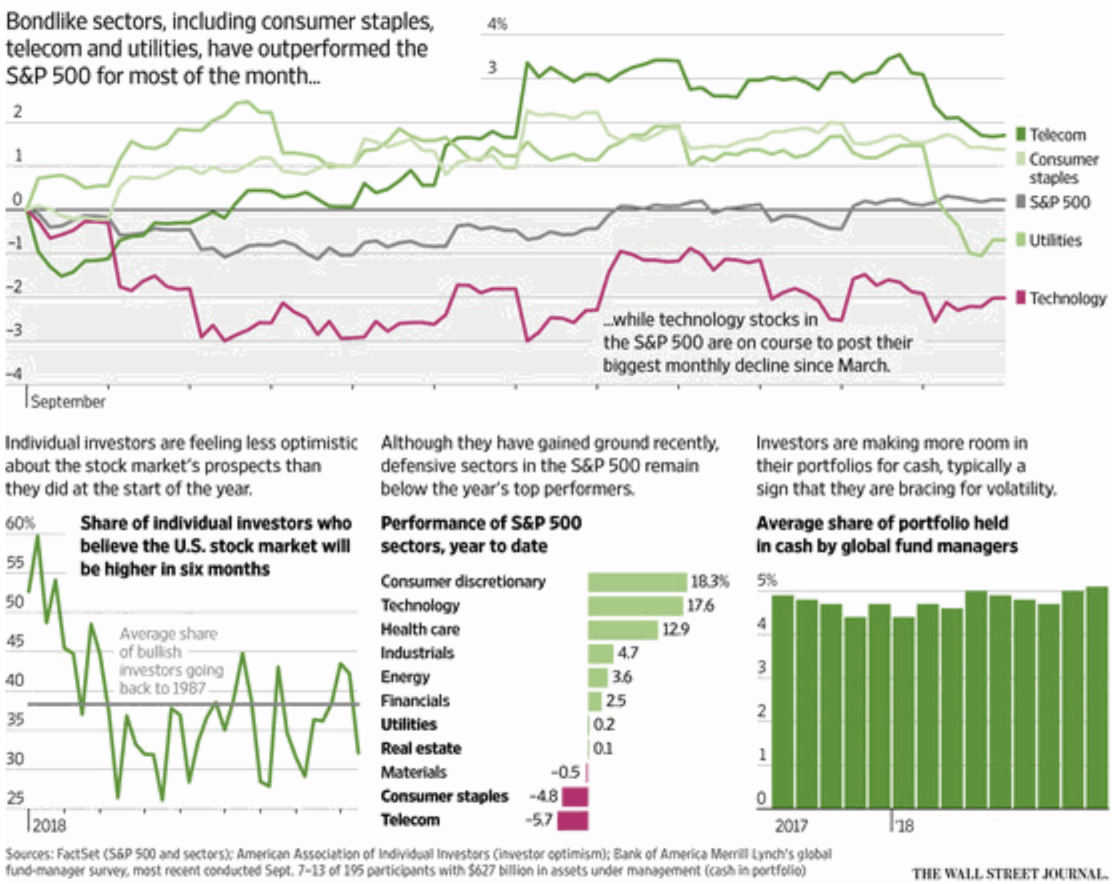
After being up 1.5% for the month through Tuesday, the **S&P 500** utilities sector slid Wednesday, erasing its September gains. Treasurys also remain weaker for the year.

Another factor that could slow the bond-proxy rally: lackluster earnings growth. The consumer-staples sector is expected to post the slowest earnings growth of the **S&P 500**'s 11 groups in the third quarter, followed closely by the real-estate and utilities sectors.

But for now, few analysts see the factors that have kept investors on guard disappearing soon. The possibility of the trade fight escalating will likely keep optimism reined in for now.

Just 32% of individual investors believe the **stock market** will be higher in six months, according to data through Sept. 12 from the American Association of Individual Investors. That is down 10 percentage points from the prior week and below the historical average of 39%.

"The wild card is the tariffs and if they end up actually changing the narrative and pushing the U.S. economy lower," said Brent Schutte, chief investment strategist at Northwestern Mutual Wealth Management Co.



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Business/Financial Desk; SECTB
Markets Post Mixed Finish as Bond Yields Surge

By THE ASSOCIATED PRESS
706 words
20 September 2018
The New York Times
NYTF
Late Edition - Final
2
English

Major stock indexes in the United States finished unevenly Wednesday as gains in banks and other financial companies outweighed losses elsewhere in the market.

Bond yields surged to the highest level in four months. That drove demand for bank stocks and triggered a sell-off in utilities, real estate companies and other high-dividend payers.

Energy stocks rose along with crude **oil prices**. Homebuilders declined following a mixed batch of housing data.

The surge in bond yields reflected the belief on the part of many investors that the economy is strengthening, noted Craig Birk, chief investment officer at Personal Capital.

''If the economy continues to move forward then interest rates have more room to creep higher and the Fed has more room to continue raising (short-term rates),'' he said.

The **Standard & Poor's 500**-**stockindex** rose 3.64 points, or 0.1 percent, to 2,907.95. The **Dow Jonesindustrial average** gained 158.80 points, or 0.6 percent, to 26,405.76. The **Nasdaq composite** lost 6.07 points, or 0.1 percent, to 7,950.04.

Trading was listless through much of Wednesday. The slight gains for the **S**.**&P**. **500** added to a solid rally a day earlier, when investors shrugged off initial jitters over the latest escalation in the trade dispute between the United States and China.

Headlines and speculation about the trade dispute took a backseat Wednesday to the surge in bond yields.

Bond prices fell, driving the yield on the **10**-**year Treasury** to 3.07 percent from 3.06 percent late Tuesday. That is the highest level since May 22.

When yields rise they force interest rates on mortgages and other loans higher, making it more profitable for banks to lend money. The higher bond yields drove up shares in banks and other financial stocks. Citigroup climbed 3.3 percent to $73.72.

New housing data weighed on homebuilder stocks. The Commerce Department said residential construction rebounded in August at the fastest pace in seven months. However, applications for new building permits, a forward-looking indicator, plunged. Homebuilders declined, giving up early gains. William Lyon Homes slid 3.4 percent to $18.65.

''As we're watching the data unfold here in the third quarter we think we may be, if not already passed the peak, passing the peak in terms of the economic acceleration here domestically,'' said Rob Haworth, senior investment strategist at U.S. Bank Wealth Management. ''You look at the housing data from today and there's some signs of that.''

A pickup in crude **oil prices** helped send energy stocks higher. Newfield Exploration gained 4.4 percent to $28.91.

Oil prices rose on data showing United States crude oil inventories fell last week and are now running at about 3 percent below the five-year average for this time of year.

All told, benchmark United States crude climbed 1.8 percent to settle at $71.12 a barrel in New York. Brent crude, used to price international oils, gained 0.5 percent to close at $79.40 a barrel in London.

Traders bid up shares in Fitbit after the maker of wearable exercise trackers launched a platform that offers personalized coaching. The company also announced a partnership with Humana to potentially give the insurer's 5 million members access to the platform. Fitbit gained 5.3 percent to $6.11.

Praxair climbed 3.9 percent to $164.37 on news reports that the industrial gases company is moving closer to getting the United States' antitrust approval of its merger with Germany's Linde.

Copart slumped 13.4 percent to $55.58 after the operator of online vehicle auctions reported earnings that fell short of analysts' estimates.

The dollar fell to 112.27 yen from 112.35 yen on Tuesday. The euro strengthened to $1.1673 from $1.1668.

Gold rose $5.40 to $1,202.20 an ounce.

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)

Document NYTF000020180920ee9k0005d

The New York Times

Business/Financial Desk; SECTB
Trump Picks Expert on Financial Regulation for Federal Reserve Board

By BINYAMIN APPELBAUM
718 words
20 September 2018
The New York Times
NYTF
Late Edition - Final
4
English

WASHINGTON -- President Trump nominated Nellie Liang, a longtime Federal Reserve staff member who is an expert on financial regulation, on Wednesday to join the Fed's board of governors.

Ms. Liang, 60, played a key role in the Fed's efforts to tighten oversight of the financial system after the 2008 crisis, including the creation of a new Fed department focused on monitoring financial stability.

She is well known and well regarded in the close-knit world of central banking, and Mr. Trump's decision was applauded by her peers. Carl R. Tannenbaum, the chief economist at Northern Trust, called the nomination an ''inspired choice.''

Ms. Liang, a registered Democrat, would bring to the Fed's board deep experience on questions of regulation and the stability of the financial system, an area that the Fed chairman, Jerome H. Powell, has described as increasingly important. Her views, however, appear to conflict with those of Mr. Trump, who has called for the Fed to reduce its postcrisis strictures on the banks.

In a presentation last week at the Brookings Institution, Ms. Liang reiterated her support for tougher postcrisis regulations. ''The regulatory and supervisory structure needs to be kept up-to-date with changes in the financial system, and to make it more resilient to a wider range of shocks,'' she said.

Krishna Guha, the head of the central bank strategy team at Evercore ISI, said Ms. Liang was likely to be open to efforts to streamline and perhaps to prune postcrisis safeguards. He added, however, that ''she is unlikely to favor any wholesale pullback from the postcrisis regime.''

The Fed's board oversees the central bank's work as a financial regulator and, together with the presidents of the Fed's 12 regional reserve banks, it also charts the course of monetary policy.

Before the crisis, those jobs were viewed as relatively distinct, at least in good times. Experts on monetary policy generally agreed that the Fed and other central banks should raise and lower interest rates for the sole purpose of controlling the pace of inflation. Since the crisis, however, some experts, including Ms. Liang, have argued that central banks should pay attention to **financial markets**, too. If financial speculation is rising to unsustainable heights, it might make sense to raise interest rates.

Officials are also wrestling with the role of regulation in popping asset bubbles. The Fed, for example, now has the power to constrain bank borrowing if the economy appears to be overheating by requiring the banks to raise a larger share of their funding in the form of capital.

Some Fed officials have argued in recent months that the Fed should impose such a requirement.

Ms. Liang, who must be confirmed by the Senate, would become the first Asian-American to serve on the Fed's board, and just the 10th woman. She has spent almost her entire professional life at the Fed. She graduated from the University of Notre Dame in 1979, then completed a doctorate at the University of Maryland in 1986. That same year, she joined the Fed's staff in Washington as a research economist.

She played a critical role in the ''stress tests'' of major banks in 2009.

The next year, Ms. Liang was chosen by the Fed chairman at the time, Ben S. Bernanke, to lead a new division of the central bank focused on monitoring financial stability. She served in that role from 2010 until 2017, when she left for a job at the Brookings Institution.

Mr. Trump has now made nominations for all three of the open seats on the Fed's seven-member board. Mr. Trump previously nominated Michelle Bowman, the chief banking regulator for the State of Kansas, and Marvin Goodfriend, a conservative professor of economics at Carnegie Mellon University.

Ms. Bowman and Mr. Goodfriend are awaiting Senate confirmation.

Richard Clarida was sworn in on Monday as the Fed's vice chairman.

If Mr. Trump's remaining nominees are confirmed, it could be the first time since 2013 that the Fed would operate with a full complement of governors.

Follow Binyamin Appelbaum on Twitter: @bcappelbaum.

Nellie Liang played a key role in the ''stress tests'' of 2009. (PHOTOGRAPH BY BROOKINGS INSTITUTION)

Document NYTF000020180920ee9k0004k

The New York Times

Business/Financial Desk; SECT
Tilray's Wild Day: DealBook's Closing Bell

By STEPHEN GROCER
567 words
20 September 2018
The New York Times
NYTF
The New York Times on the Web
English

Get the DealBook newsletter to make sense of major business and policy headlines -- and the power-brokers who shape them.

A mania appears to have gripped cannabis stocks. Tilray, a Canadian maker of cannabis products, surged as much as 94 percent Wednesday, gave it all back and then rallied again in the final 18 minutes to close up nearly 40 percent. Along the way, trading in the stock was halted four times. The company went public in July at $17 a share and has soared nearly 1,160 percent to close Wednesday at $214.06. Tilray is now valued at $20 billion, making it roughly the same size as American Airlines, CBS and Hershey.

The Amazon effect strikes specialty retailers. Amazon, according to CNBC, is testing out a new service, called Scout, that is designed to make it easier for consumers to browse by asking them to give a thumbs up or a thumbs down to products and then showing other products based on their choices. News of the service hit the stocks of specialty retailers. Shares of Stitch Fix were down 6 percent on Wednesday, while Wayfair and Etsy were off nearly 3 percent.

Companies have been stockpiling ahead of the latest round of tariffs on Chinese goods. Imports of more than 80 percent of the product lines covered by the tariffs increased from May through July, and imports of over a quarter of those product lines jumped by more than 25 percent, according to S7P Global's Panjiva, a supply chain data firm.

Forget the ''Fed Put.'' The market now has a ''Trump Tariff Put.'' One of the most persistent questions over the past several months: Why haven't stocks on Wall Street sold off more on the escalating trade war between the United States and China? Nicholas Colas, a co-founder of DataTrek Research, offered an explanation. ''President Trump measures his administration's success in part by how the **S**. **& P**. **500** and Dow perform,'' Mr. Colas wrote. ''If market fears of a real and lasting trade war were to sharply hit United States stocks, he would moderate his position quickly.'' That sounds an awful lot like the so-called Fed Put, which is essentially the idea that the Federal Reserve will come to the rescue of investors by lowering rates whenever stocks tumble.

Housing starts in the United States rose in August. The United States housing market could use some upbeat news after months of weakness. The headline number from the Commerce Department's report on housing starts on Wednesday looked like it. But a deeper look suggests that the 9.2 percent jump in housing starts last month is likely not sustainable. The increase was driven by a 29.3 percent rise in multifamily buildings, a segment that tends to be **volatile**. Building permits, a good gauge of future activity, fell to their lowest level in more than a year. Thursday will bring further clarity on the health of housing. The National Association of Realtors will release its report on sales of existing homes, which account for about 90 percent of home sales in the United States. Economists expect sales to tick up after four months of declines.

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THE WALL STREET JOURNAL.
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U.S. News: U.S. Watch

349 words
20 September 2018
The Wall Street Journal
J
A2
English

CONSTRUCTION

U.S. Housing Starts

Rose in August

U.S. housing starts grew modestly last month, driven by an outsize jump in apartment building that masked weakness in the pipeline for single- and multifamily construction.

Housing starts increased 9.2% in August from the prior month to a seasonally adjusted annual rate of 1.282 million, the Commerce Department said Wednesday. This rise in building was driven by a robust 29.3% climb in the volatile multifamily sector that likely won't be sustained.

Building permits, a more stable measure that can signal how much construction is in the pipeline, were down for multifamily building, a sign that demand continues to cool for apartments and condominiums.

Permits were also sluggish for the single-family sector, even as steady job and wage growth are helping drive home-buyer demand. Rising material costs and labor shortages are posing challenges for builders.

Housing-starts data are volatile from month to month and can be subject to large revisions.

-- Sarah Chaney

ROMAN CATHOLIC CHURCH

New Policies Set

For Reporting Abuse

Roman Catholic bishops in the U.S. announced a series of new policies on Wednesday for dealing with sexual-abuse accusations, the first concrete change they have publicly made since a series of new allegations plunged the church into crisis.

While the church has had a plan for dealing with complaints against priests since 2002, there was previously no formal method to address complaints against bishops, who oversaw that process. Now the church will establish a new system, run by a third party, for people to confidentially report misconduct by bishops, the administrative committee of the U.S. Conference of Catholic Bishops said.

The complaints will be directed "to the appropriate ecclesiastical authority and, as required by applicable law, to civil authorities," the committee said. In addition, the committee is beginning to develop a "code of conduct" regarding sexual abuse and harassment by bishops or negligence of duties in dealing with such issues.

-- Ian Lovett and Francis X. Rocca

Document J000000020180920ee9k00026

THE WALL STREET JOURNAL.
U.S. EDITION

World News: China Forum Turns Fractious

By Shan Li
555 words
20 September 2018
The Wall Street Journal
J
A7
English

TIANJIN, China -- The increasingly bruising China-U.S. trade fight briefly fractured the usual decorous calm of a high-profile forum on globalization.

At a news conference during a World Economic Forum meeting in China on Wednesday, a pair of U.S. congressmen vigorously defended President Trump's policies and took issue with remarks made minutes before by China's premier.

Todd Rokita and Darrell Issa, both Republicans, sparred with reporters and took up a key Trump administration criticism -- that China doesn't protect foreign companies' trade secrets -- dismissing as empty words a promise made by Premier Li Keqiang to improve intellectual-property protections.

"I'm not sure what the Chinese adage is, but in the United States we say talk is cheap and actions are what matter," said Mr. Rokita, who represents an Indiana district. "If it's wrong to steal, if it's wrong to cheat, then why would we accept it?"

Trade tensions have formed an undercurrent to this year's China session of the World Economic Forum, a cheerleader for globalization best known for its annual meeting in Switzerland. Hours before the opening session Tuesday, President Trump announced the biggest round of trade penalties so far, on $200 billion in Chinese goods; Beijing retaliated hours later, targeting $60 billion of U.S. products.

Panels on the outlook for stock markets and Chinese **financial-market** reforms often circled back to the trade tensions. A JPMorgan Chase & Co. banker balked when asked if its application to set up a majority-owned securities firm would be torpedoed by the trade war.

Premier Li spent much of his speech discussing the prospects that globalization, the internet and new technologies hold for growth. He denounced attempts to change it, without mentioning the U.S. or trade tensions.

"These rules have benefited the progress of all mankind," Mr. Li said. "No unilateralism will offer a viable solution."

Mr. Li's speech, in which he also reiterated promises to lower tariffs and improve the business environment for foreign companies, fell short of what some were looking for.

"We've heard this before," said Wendy Cutler, a former negotiator with the U.S. Trade Representative and managing director at Asia Society Policy Institute. "All the buzzwords were there but now the administration is looking for details."

At the congressmen's news conference, the mood turned combative after they panned Mr. Li's remarks. Mr. Issa interrupted a Chinese reporter who described President Trump as a climate-change skeptic and cut off a question by another Chinese journalist asking whether Mr. Trump would be impeached.

Both lawmakers said that the U.S., which is seeing robust economic growth, is well situated to outlast China in a trade dispute. That resolve won't waver even as Americans pay more for consumer goods, Mr. Issa said.

"I am incredibly aware of the impact these tariffs are having on Christmas items," said Mr. Issa, a veteran representative from Southern California.

The White House said Wednesday that Mr. Trump will name Mr. Issa as the new director of the independent U.S. Trade and Development Agency, which helps companies create jobs domestically through the export of U.S. goods and services for development projects in emerging economies.

Document J000000020180920ee9k0001b

THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
Housing Has Tough Times On the Way

By Justin Lahart
284 words
20 September 2018
The Wall Street Journal
J
B13
English

[Financial Analysis and Commentary]

The slowdown in housing can be blamed on a number of factors, and the bad news is they are likely to worsen.

On Wednesday, the Commerce Department reported that single-family housing starts increased by a modest 1.9% last month from July, leaving them below the levels they registered in the spring. Single-family permits, which measure how much construction is in the pipeline, fell to their lowest level in a year. Other housing measures, including existing- and new-home sales, also have been slowing in recent months.

The reasons for the weakness are clear: Mortgage rates are near seven-year highs and rising prices are cutting into affordability. A tight labor market and steep construction-material prices are raising builders' costs. The new tax law's limit on deductions for mortgage interest and state and local taxes makes owning a home less enticing in some states.

But if those things are headwinds for the housing market now, they could become even stiffer later. With the Federal Reserve on course to keep on raising rates through next year, long-term rates are on the rise again -- the **10**-**year Treasury** yield on Wednesday hit its highest level since May. A strong economy will likely keep driving unemployment lower, making the shortage of construction workers even more intense. For home buyers, the consequences of the tax-law changes may not have fully sunk in yet.

Housing's recovery after the financial crisis has been much weaker than anyone hoped for. The risk now is that it has been cut short.

page,5043
Document J000000020180920ee9k00016

WSJ PRO CENTRAL BANKING

Economy

Things to Know About Daly | Bailout Facility Made $2.5 Billion | BOJ Maintains Promise | Danske CEO Resigns | Timiraos's Take: What U.S.-China Trade Escalation Means for the Fed; The Wall Street Journal's central banking newsletter for Wednesday, September 19, 2018

2,838 words
19 September 2018
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English

Timiraos's Take: What U.S.-China Trade Escalation Means for the Fed

Five Things to Know About Incoming San Francisco Fed President Mary Daly

New York Fed Says It Wound Down Crisis Bailout Facility With $2.5 Billion Profit

Bank of Japan Maintains Promise to Keep Extremely Low Rates for 'Extended Period'

Danske Finds Billions of Dollars in Suspect Transactions; CEO Resigns

What U.S.-China Trade Escalation Means for the Fed

President Trump's announcement of new 10% tariffs on about $200 billion in Chinese goods that will ratchet higher to 25% by year-end replaces one source of uncertainty for the Federal Reserve—the specifics of U.S.-China trade policy—with several new uncertainties.

The basic question for Fed officials is whether they should react more to the inflationary impulse of tariffs or whether they should cushion any shocks a trade war could have on growth. The evidence suggests the latter is more likely to animate Fed thinking, meaning any change in the Fed's policy response could move in a dovish direction.

For the Fed, tariffs could have three important effects to monitor: 1) They result in higher import prices. 2) They could slow growth through productivity drags as businesses reorder their supply chains. 3) They could ripple through stock markets and currency markets.

The first raises the risk of tighter monetary policy, but such impacts should be transitory and not enough to merit a reaction from the Fed. Officials would be unlikely to react to higher prices from tariffs without evidence they were feeding through to expectations of even higher inflation.

The other two effects have clear downside risks. An all-out trade war with China "could easily sideline the Fed for all of 2019," wrote Seth Carpenter, chief U.S. economist at UBS and a former Fed staffer, in a report two weeks ago.

All three outcomes have big uncertainty bands around them. None are helpful for the Fed's high-wire act right now.

Strong growth is already raising questions about how much lower unemployment can fall without translating into wage and price pressures.

The trade fight could also tie closely to the other major international worry right now: the threat that a strong dollar causes dislocation in emerging markets that spills beyond Turkey and Argentina. While such crises tend to start in idiosyncratic economies, they don't always end there.

The big risk is that emerging-market problems spill into China at the very moment the U.S. is also upping the ante in its trade fight. The Fed's decision to dial back planned rate increases in 2016 after worries about Chinese growth sent the **stock market** sliding 10% to start that year, showing how China is the one emerging market that could disrupt the Fed's plans.

The upshot is that an already delicate phase of policy-setting—determining whether to raise rates to deliberately slow growth—is growing even more intricate.

The Trump administration was already running one policy experiment by pouring deficit-financed stimulus into an economy with less labor-market slack. Does the demand boost lead to more inflation? Or does the increased demand get shipped abroad via a stronger dollar?

Now, Mr. Trump is ordering up another experiment. One likely result: The Fed will become even more inclined to set policy based on incoming data, rather than the models and forecasts that often animate decision making.

Key Developments Around the World

Five Things to Know About Incoming San Francisco Fed President Mary Daly

Mary Daly, director of research at the Federal Reserve Bank of San Francisco, was tapped last week to become the bank's next president, effective Oct. 1. She will immediately have a vote on the Fed's rate-setting committee, making her views of great interest to investors. Here are five things worth knowing about her.

New York Fed Says It Wound Down Crisis Bailout Facility With $2.5 Billion Profit

Another unpleasant chapter of the financial crisis has reached a conclusion , this one with a $2.5 billion profit for taxpayers. The Federal Reserve Bank of New York said Tuesday that it had sold off all the remaining holdings of its crisis-era Maiden Lane LLC securities facility. The New York Fed created Maiden Lane in the spring of 2008 as part of its effort to protect the financial system and broader economy in the opening days of the financial crisis. That year, in a bid to get JPMorgan Chase & Co. to buy failing investment bank Bear Stearns Cos., the Fed took on troubled assets from the failed bank and put them in the Maiden Lane facility.

Bank of Japan Maintains Promise to Keep Extremely Low Rates for 'Extended Period'

The Bank of Japan reiterated Wednesday that it would keep interest rates extremely low "for an extended period," holding to forward guidance it first introduced in July. The BOJ decided to stand pat on policy after making a number of tweaks in July to prepare for a longer-than-expected fight to lift inflation. The board voted 7-2 to maintain shorter-term interest rates at minus 0.1% and keep the target for the 10-year Japanese government **bond yield** at around zero. It repeated a promise introduced in July to allow the **bond yield** to move in a more flexible manner, with the goal of reviving the moribund government bond market.

Kuroda: Easing Program Will End, but Not Now

Draghi Calls for More Action to Shore Up Banking Sector

European Central Bank President Mario Draghi urged eurozone governments on Tuesday to take further action to shore up the region's banking sector, including by creating a common insurance system for bank deposits. Speaking in Paris, Mr. Draghi said that while European governments had built a single system for supervising banks and managing bank failures in recent years, "more needs to be done."

Bank of Thailand Stands Pat

The Bank of Thailandleft its key interest rate unchanged Wednesday as it awaited more signs of a broad-based economic recovery as U.S.-China trade tensions fuel global uncertainty. The central bank's monetary-policy committee kept its one-day repurchase rate at 1.50%, in line with forecasts of 11 of 13 economists polled by The Wall Street Journal. Two had expected the central bank to raise the rate by a quarter of a percentage point.

Many Investors Expect Global Growth to Slow

Investors are more **bearish** on the economic growth that has powered global markets than at any time since the height of the sovereign debt crisis, according to a leading funds survey. The Bank of America Merrill Lynch survey also showed the high degree to which investors are moving out of emerging markets and into the U.S., where they still see prospects for strong corporate profits.

FINANCIAL REGULATION ROUNDUP

SEC Commissioner Calls for Regulators to Bolster Market Oversight

A top securities regulator is calling for his agency to beef up its oversight of the nation's stock exchanges to root out conflicts and curb rising fees that he says are harming investors. In a policy speech to be delivered Wednesday, Robert J. Jackson Jr., a Democratic commissioner at the Securities and Exchange Commission, will allege that the SEC has "stood on the sidelines" as the New York Stock Exchange, **Nasdaq** Inc. and other market operators have significantly boosted their profits while raising investors' costs, according to a copy of his remarks. Mr. Jackson will call on the SEC to ensure "that the exchanges' actions do not unduly burden competition and are fair and reasonable."

SEC Proposal to Limit Big Whistleblower Awards Draws Criticism

A proposal from the Securities and Exchange Commission to change rules governing its whistleblower program was condemned by commenters who said the agency is turning its back on the tipsters who expose financial crimes. The comment period for the proposal, which was announced in June, ended Tuesday. It is unclear when the SEC could issue a final rule. The SEC's proposal entails giving its whistleblower office discretion to limit awards in the biggest cases, when the agency collects penalties of $100 million or more, to a level it would see as "reasonably necessary."

Danske Finds Billions of Dollars in Suspect Transactions; CEO Resigns

Denmark's largest bank found more than $200 billion in transactions at its Estonian branch and suspects a "large portion" of it was related to money laundering, often from Russia. The CEO stepped down as a result of the year-long investigation. Danske's CEO Thomas Borgen said "it is clear that Danske Bank has failed to live up to its responsibility in the case of possible money laundering in Estonia," adding the investigation didn't find breaches of his legal obligations. Mr. Borgen will stay until a replacement is appointed, the company said. The size of the scandal has hammered its shares and raised concerns about a bank that holds more than a third of the country's customer deposits.

Mastercard, Visa Agree to Settle Merchant Antitrust Suit

Mastercard Inc., Visa Inc. and other financial institutions have agreed to settle a long-running antitrust lawsuit with merchants over the fees they pay when they accept card payments for a proposed settlement amount of about $6.2 billion. The proposed amount includes $900 million from all of the defendants, including a number of banks that issue debit and credit cards, including JPMorgan Chase & Co., Citigroup Inc., and Bank of America Corp. It also includes roughly $5.3 billion already paid by the defendants as part of a $7.25 billion settlement reached in 2012.

DOJ Opened Probe of Tesla After Musk's Going-Private Tweet

Tesla Inc. on Tuesday said the Justice Department has opened an investigation into the company following Chief Executive Elon Musk's surprise tweet in August that he had secured funding to possibly take the electric-car maker private. The company said that last month it received a "voluntary request for documents" from the Justice Department, generally the first step in a federal investigation of this kind. Tesla said it hasn't received a subpoena, a request for testimony or any other formal request.

Futures Regulator Fines NEX Group Subsidiary $50 Million

Intercapital Capital Markets LLC agreed Tuesday to pay $50 million to settle claims that its brokers helped manipulate a financial benchmark used to calculate a range of interest-rate products. Intercapital's settlement with the Commodity Futures Trading Commission ends a long-running investigation of the interdealer broker's alleged role in attempts to rig the rate, known as the U.S. Dollar International Swaps and Derivatives Association Fix, or ISDAfix. The rate was used to settle options on hedging and speculation contracts known as interest-rate swaps, and as a valuation tool for certain other interest-rate products, the CFTC's order stated. Intercapital neither admitted nor denied the allegations but agreed to pay the $50 million penalty.

Cryptocurrency Exchanges Are Vulnerable to Manipulation, Report Finds

A number of cryptocurrency exchanges lack basic consumer protections and are vulnerable to exploitation by market manipulators, the New York attorney general's office said in a report Tuesday. The report, the result of a monthslong investigation, found that many exchanges lack appropriate safeguards, putting consumers at risk. Additionally, the attorney general's office referred three exchanges to the New York Department of Financial Services for possibly operating unlawfully in New York.

Facebook and Financial Firms Tussled for Years Over Access to User Data

Facebook Inc. had been haggling with financial firms over its access to users' sensitive financial information for years, well before the social-media company came under fire for its handling of personal data. As recently as last year, the social-media company pressed financial firms for the ability to use customer data flowing through its Messenger platform for a range of purposes, including advertising, according to people familiar with the matter and documents reviewed by The Wall Street Journal. Concerned about privacy, several firms negotiated bespoke agreements that limited how Facebook could use any financial information that would pass through its servers.

Fintech Charter Drawing Interest: OCC's Otting

The Office of the Comptroller of the Currency's bid to allow fintechs into the banking system is drawing "robust interest," said the agency's head, Joseph Otting, in an op-ed Tuesday. "We expect multiple applications by the end of the year," he wrote in American Banker, a trade publication. The so-called fintech charter, which the OCC formally rolled out in late July, would allow online lenders and payment companies to benefit from pre-emption over state consumer protection laws, including interest rate limits. It hasn't resulted in any applications yet, and is being challenged in court by New York's financial regulator after an earlier lawsuit was dismissed as premature when the OCC hadn't yet formalized the policy. --Dow Jones Newswires

WEDNESDAY

Time N/A

Central Bank of Brazil releases policy statement

8:30 a.m. EDT

U.S. Commerce Department releases August housing starts

9 a.m. EDT

ECB's Draghi speaks in Berlin

THURSDAY

Time N/A

South African Reserve Bank releases policy statement

3:30 a.m. EDT

Swiss National Bank releases policy statement

4 a.m. EDT

Norges Bank releases policy statement

10 a.m. EDT

National Association of Realtors releases August U.S. existing-home sales

1:20 p.m. EDT

ECB's Praet speaks on monetary policy normalization challenges in New York

New York Fed Paper Studies Global Trends in Interest Rates

A New York Fed staff report studies why "ten years after the most acute phase of the global financial crisis, interest rates remain at or near historically low levels for many countries." Authors Marco Del Negro, Domenico Giannone, Marc P. Giannoni and Andrea Tambalotti find that "the trend in the world safe real interest rate, which was roughly stable at a bit below 2 percent for more than a hundred years, has dropped significantly over the past three decades." They continue: "We find that country-specific trends have all but vanished since the 1970s. This secular decline in global real rates is driven primarily by an increase in the premium that international investors are willing to pay to hold safe and liquid assets, as well as by lower economic growth around the world. The latter trend has been putting downward pressure on real rates since around 1980, possibly linked to demographic shifts, while the former emerged in the late 1990s. This timing points to the scarcity of safe assets in the context of a global saving glut as a fundamental secular force behind the low-interest-rate environment."

No, the Financial Crisis Didn't Spawn Populism

"Two defining events of the last decade were the financial crisis and the rise of right-wing populists like Donald Trump. Many believe that the first caused the second," The Wall Street Journal's Greg Ip writes in his Capital Account column. But he finds that "upon closer read of elections, economic data, surveys and history, this connection looks exaggerated if not wrong ." He writes that the unifying factor in the rise of right-wing populism "is a disenchantment with globalization in all its manifestations: international trade, international institutions (like the EU) and, most of all, immigration. The crisis probably contributed by discrediting financial globalization and the elites who championed it, but it is not the most important driver. More important were the pressure on middle class incomes (especially outside major cities) from outsourcing, trade and technological change, and the rise in the foreign-born population, and terrorism…Tidy historical narratives have a way of becoming accepted wisdom with the passage of time. That shouldn't be allowed to happen with the last decade."

The Chinese government announced plans Tuesday to impose new tariffs on $60 billion in U.S. exports, prompting President Trump to reiterate a threat to punch back by hitting Chinese goods worth more than four times that much.

Americans' compensation is growing, but workers might not notice it in their regular pay. The value of benefits—including bonuses and vacation time— grew at a faster rate in the 12 months ended in June than wages and salaries, according to data the Labor Department released Tuesday.

Annual inflation in the U.K. unexpectedly accelerated in August, driven by higher prices for airfares, theater tickets and clothes.

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THE WALL STREET JOURNAL.

World

U.S. Congressman on Chinese Leader's Trade Promises: 'Talk Is Cheap'; War of words erupts over trade at the World Economic Forum meeting in China

By Shan Li
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TIANJIN, China—The increasingly bruising China-U.S. trade fight briefly fractured the usual decorous calm of a high-profile forum on globalization.

At a hastily arranged news conference during a World Economic Forum meeting in China on Wednesday, a pair of U.S. congressmen vigorously defended President Trump's policies and took issue with remarks made minutes before by China's premier.

Todd Rokita and Darrell Issa, both Republicans, sparred with reporters and took up a key Trump administration criticism—that China doesn't protect foreign companies' trade secrets—dismissing as empty words a promise made by Premier Li Keqiang to improve intellectual-property protections.

"I'm not sure what the Chinese adage is, but in the United States we say talk is cheap and actions are what matter," said Mr. Rokita, who represents an Indiana district. "If it's wrong to steal, if it's wrong to cheat, then why would we accept it?"

Trade tensions between the world's two largest economies have formed an undercurrent to this year's China session of the World Economic Forum, a cheerleader for globalization best known for its annual meeting in Switzerland. Hours before the opening session Tuesday, President Trump announced the biggest round of trade penalties so far, on $200 billion in Chinese goods; Beijing retaliated hours later, targeting $60 billion of U.S. products.

Panels on the outlook for stock markets and Chinese **financial-market** reforms often circled back to the trade tensions. A JPMorgan Chase & Co. banker balked when asked if its application to set up a majority-owned securities firm would be torpedoed by the trade war.

Chinese leaders prefer to use these big international gatherings to focus on China's achievements. Premier Li spent much of his speech discussing the bright prospects that globalization, the internet and new technologies hold for economic growth. He defended the global trading order and denounced unilateral attempts to change it, without mentioning the U.S. or the escalating trade tensions.

"These rules have benefited the progress of all mankind," Mr. Li said. "No unilateralism will offer a viable solution."

Mr. Li's speech, in which he also reiterated promises to lower tariffs and improve the business environment for foreign companies, fell short of what some in the audience were looking for.

"We've heard this before," said Wendy Cutler, a former negotiator in the office of the U.S. Trade Representative and managing director at Asia Society Policy Institute. "All the buzzwords were there but now the administration is looking for details, not just a general statement."

At the congressmen's news conference, after panning Mr. Li's remarks, the mood turned combative. Mr. Issa interrupted a Chinese reporter who described President Trump as a climate-change skeptic and cut off a question by another Chinese journalist asking whether President Trump would be impeached.

Both lawmakers said that the U.S., which is seeing robust economic growth, is well situated to outlast China in a trade dispute. That resolve won't waver even as Americans pay more for consumer goods that have been hit with tariffs, said Mr. Issa.

"I am incredibly aware of the impact these tariffs are having on Christmas items," said Mr. Issa, a veteran representative from Southern California.

"The reality is this is the right time—for more than two decades, we saw our own industrial base erode because of a set of unfair trade practices in a number of countries," he said. "If we are going to ask for a proper fairness, if not now, then when?"

Mr. Rokita said he likes China, having spent six months studying Chinese law in Shanghai during the 1990s. This time around, he said he is shocked by China's slowing economic growth and heavy pollution.

"I am surprised to open the shades to my hotel room at night and barely see lights on," he said. "I am surprised to have pollution stinging my nose when I go outside."

Chao Deng contributed to this article.

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THE WALL STREET JOURNAL.

Markets

Unprofitable Firms Are Outperforming Other Growth Stocks; Shares of companies in the Russell 1000 Growth index with zero earnings are outperforming index overall, a sign of market distortion

By Corrie Driebusch
573 words
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Corrections & Amplifications

Companies in the Russell 1000 Growth index with the lowest trailing price-to-earnings ratios are underperforming this year. An earlier version of this article incorrectly stated the metric was a forward price-to-earnings ratio. (Sept. 19, 2018)

Shares of fast-growing companies are on a tear this year, but many of the strongest performers share a worrisome trait: They don't have earnings.

Growth companies—those focused on reinvesting to expand—tend to do best in bull markets and are often found in the technology, consumer-discretionary and health-care sectors that are driving the U.S. **stock market** higher in 2018.

Analysts say it makes sense, and is indeed positive, that the Russell 1000 Growth index is up more than its value counterpart, which features stocks that are considered bargains and are often deemed attractive in the later stages of an economic cycle.

What's problematic, however, is that companies in the Russell 1000 Growth index without steady profits have returned 18% in 2018 through August, compared with the 16% return for the whole index, according to data from FTSE Russell.

Jason Pride, private wealth chief investment officer for Glenmede, says he views that disparity as a warning sign and notes it was even more pronounced in August.

Glenmede data show the unprofitable Russell 1000 companies returned 13.5% last month, compared with a 5.5% return for the broader index.

"We're getting a little worried that equity markets are showing some unnatural distortions," including the amount of money rushing into companies posting losses, Mr. Pride said.

Major U.S. indexes ended August near all-time highs and have hovered near those levels so far this month. Despite worries about trade tensions, a currency crisis in emerging markets and the Federal Reserve's pace of interest-rate increases, the nine-year bull run doesn't appear to be slowing.

Among the unprofitable companies whose shares have surged this year are Sarepta Therapeutics Inc. and enterprise software company Okta Inc., which have both seen their stock prices more than double. Sarepta got a boost after an early-stage trial of a gene therapy drug showed promise in treating Duchenne muscular dystrophy, while Okta has rallied after posting big revenue gains.

Sarepta has reported only one quarterly profit since the beginning of 2016, yet 20 of 22 analysts polled by Factset have a "Buy" rating on the stock. Okta, meanwhile, went public in April 2017 and hasn't yet posted a quarterly profit as a public company. Eleven of 13 analysts have a "Buy" rating on its shares.

Also worrying some analysts: Companies in the Russell 1000 Growth index with the lowest trailing price-to-earnings ratios are underperforming this year. Those with price-to-earnings ratios between zero and 15 have returned 1.5% so far this year through the end of August, according to FTSE Russell.

That shows investors are more interested in companies they view as having big future earnings potential—such as biotech companies betting on new drugs or technology startups pouring revenue back into development—compared with companies with a record of posting profits.

"Investors are very willing to pay up for future profits in interesting stories," Mr. Pride said. "To a certain degree, that's OK. It creates entrepreneurship within companies. But at some point the market takes it too far, and I wonder if we're close to pushing that limit."

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The New York Times

Business/Financial Desk; SECTB
As a Trade War Intensifies, The Markets Merely Shrug

By MATT PHILLIPS, JACK EWING and ALEXANDRA STEVENSON
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19 September 2018
The New York Times
NYTF
Late Edition - Final
3
English

Investors tuned out the latest escalation in the trade war between the world's two largest economies, with markets around the world climbing slightly as President Trump announced new tariffs on China and Beijing responded in kind.

Stock markets in Japan, Germany and South Korea -- where many companies' fortunes hinge on international trade -- were all up. Even in China, where major equities markets had been down about 20 percent this year, the benchmark index in Shanghai closed almost 2 percent higher.

In the United States, the **Standard & Poor's 500-stockindex** rose more than 0.5 percent, as American investors continued to see few signs that companies would be hurt by Chinese attempts to retaliate against Mr. Trump's confrontational stance on trade. In the latest tit-for-tat, the president said Monday that the United States was imposing tariffs on another $200 billion in Chinese imports, and China responded by saying it was adding tariffs on $60 billion in American goods.

Why are markets so sanguine about a trade war that could affect hundreds of billions of dollars in international commerce?

One reason is that corporate profits in the United States have been booming -- they were up more than 20 percent in the first two quarters of the year, compared to last year -- thanks to the Trump administration's tax cuts and a strong domestic economy. That makes an intensifying trade war much less scary.

''I think the bottom line is that the earnings have continued to accelerate,'' said Marc Pouey, a strategist at Bank of America Merrill Lynch. ''If the trade tension were to dissipate, it would help sentiment, but this market is being held up by fundamentals, which are very good.''

Stock markets in the United States are beating their foreign counterparts. The **Nasdaq** index is up more than 15 percent this year. The **S**. **& P**. **500** is up 8.6 percent, even though the companies in the index generate about 38 percent of their sales outside the United States, according to the market data company FactSet.

By contrast, Japan's Nikkei 225 is up only about 2.9 percent for the year, and France's CAC-40 -- one of the best-performing large European stock markets -- had eked out a gain of less than 1 percent.

Some sectors of corporate America have lagged. Industrial companies in the **S**. **& P**. **500** -- Boeing, Honeywell and 3M among them -- are up only 4.7 percent for the year.

Such companies are especially vulnerable to trade disputes. They consume large amounts of products like steel and aluminum, whose prices have jumped because of the administration's import tariffs. Some of these companies also do lots of business in China, where they may be subject to that country's tariffs, a general economic slowdown because of the trade war or both.

''China, for sure, is impacting some of these stocks,'' said Anik Sen, global head of equities at asset manager PineBridge Investments. ''These are the ones that have actually borne the brunt of this uncertainty.''

Tariffs could knock 0.7 of a percentage point off China's annual economic growth, said Fang Xinghai, vice chairman of China's securities regulator. But, he added, the Chinese government has the tools to cushion any impact. Mr. Fang was speaking on Tuesday at a World Economic Forum conference.

Some analysts worry that Beijing may retaliate against the United States by weakening the value of China's currency, the renminbi, relative to the dollar. That would make Chinese products cheaper and more attractive to foreign buyers, potentially blunting the higher costs that American tariffs would impose.

The renminbi has weakened by more than 5 percent against the dollar this year, an unusual slide for a currency that does not trade freely and is carefully managed by Beijing. The daily exchange rate is set by the Chinese central bank and trades in a narrow band against the dollar.

On Tuesday, the renminbi had lost a little more ground against the dollar.

One big question hovering over the markets is whether the trade war has reached a plateau or will escalate further.

Mr. Trump has long railed against what he says are China's unfair trading practices, and even as he announced the latest round of tariffs on Monday, he said he was willing to quickly add levies on an additional $267 billion worth of Chinese imports if Beijing retaliated.

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 New York Times

Business Day; DealBook

McDonald’s Stock Shrugs Off #MeToo With Good News From Europe: DealBook’s One Thing to Watch Today

By Michael J. de la Merced
346 words
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NYTFEED
English

Get the DealBook newsletter to make sense of major business and policy headlines — and the power-brokers who shape them.__________

The restaurant chain will celebrate today after escaping tax fines in Europe, helping it to move on from yesterday’s protests over sexual misconduct in its workplaces.

Good news from Europe: The European Union ended a three-year tax investigation into McDonald’s today and didn’t issue any penalties. At issue was whether the non-taxation of McDonald’s profits in its Luxembourg subsidiary ran afoul of European rules prohibiting some government subsidies to companies. Such investigations have led to huge penalties for Apple and others. But McDonald’s and Luxembourg were found to have done nothing wrong. “Our in-depth investigation has shown that the reason for double non-taxation in this case is a mismatch between Luxembourg and U.S. tax laws, and not a special treatment by Luxembourg,” said the European Union competition commissioner, Margrethe Vestager, in a statement.

Bad news in America: McDonald’s may still face scrutiny over its efforts to prevent sexual misconduct at its 14,000 restaurants. Hundreds of employees in nine cities across the United States went on strike on Tuesday to pressure the fast-food chain into instituting stronger protections for workers. The company also was the subject of complaints filed with the Equal Employment Opportunity Commission in May. McDonald’s told The New York Times that it is taking steps to prevent sexual harassment in its workplaces.

What to watch for: The protests on Tuesday made only a small dent in McDonald’s**stock price**. While investors may worry about the specter of similar demonstrations hanging over the companyin the coming weeks, on Wednesday the company is likely to enjoy a boost from the European competition authority’s findings.

McDonald’s has been left unscathed by a three-year tax investigation carried out by the European Union. | Yves Herman/Reuters

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The New York Times

State of the Art
Technology

Why Jeff Bezos Should Push for Nobody to Get as Rich as Jeff Bezos

By Farhad Manjoo
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English

Jeff Bezos, the founder of Amazon and the world's wealthiest man, has been publicly agonizing over a vexing problem: what to do with all his money.

Last week, more than a year after asking his Twitter followers for philanthropic ideas, Mr. Bezos and his wife, MacKenzie, announced an initial plan. They said they would donate $2 billion to a new foundation meant to address homelessness and improve preschool education. The gift is a tiny portion of the Bezoses' total wealth — estimated by Forbes magazine to be $162 billion — but the foundation's name, the Bezos Day 1 Fund, suggests there will be lots more to come.

The question of how Mr. Bezos should spend his money is a good one, but a better place to start might be: Why does he have so much money in the first place? What does his fortune tell us about the economic structure and impact of the tech industry, the engine behind his billions? And, most important, what responsibility comes with his wealth — and is it any business of ours what he does with it?

The answer: Of course it's our business.

Mr. Bezos' extreme wealth is not only a product of his own ingenuity. It is also a function of several grand forces shaping the global economy. One is the unequal impact of digital technology, which has reduced costs and brought conveniences to many, but whose direct economic benefits have accrued to a small number of superstar companies and their largest shareholders. There is also the effect of labor and economic policy, which in the United States has failed to keep up with, and often only aggravated, the problem of tech-driven concentrations of wealth.

Once you understand the forces pushing Mr. Bezos' fortune ever skyward, one strategy for how he might spend it emerges above all others. "I think the most important thing he can do with his money is to become a traitor to his class," said Anand Giridharadas, author of a new book, "Winners Take All."

In the book, Mr. Giridharadas argues that the efforts of the super-wealthy to change the world through philanthropy are often a distraction from the planet's actual problems. To truly fix the world, Mr. Bezos ought to push for policy changes that would create a more equal distribution of the winnings derived from a tech-driven economy, Mr. Giridharadas said.

"He should address himself to America's deepest problems in ways that would demand sacrifice from the winners of our age — making a difference at the expense of their opportunity to make a killing," Mr. Giridharadas said.

There's another way of putting this: Jeff Bezos should spend his vast fortune pushing for a society where no one can ever become as rich as Jeff Bezos is now.

An Amazon spokesman declined to comment on Mr. Bezos' philanthropic plans.

Those who are fans of Amazon may argue with the notion that Mr. Bezos' wealth represents a problem and a responsibility. After all, Bezos, 54, is an uncommonly gifted businessman. He acquired his wealth legally and in the most quintessentially American way: He had a wacky idea, took a stab at it, stuck with it through thick and thin, and, through patient, deliberate, farsighted risk-taking, created one of the most innovative companies of the modern era.

But Mr. Bezos isn't just rich. He is growing unprecedentedly rich — rich enough that his wealth, by itself, illustrates a new economic reality.

A year ago, when he first called for philanthropy ideas, Mr. Bezos' fortune was estimated at only $80 billion, putting him an embarrassing second on the rich-person list, behind Bill Gates. The ideas rolled in, but the money came in faster. As Amazon's **stock price** sailed ever higher, Mr. Bezos' fortune eclipsed Mr. Gates's — and then kept climbing.

"The only way that I can see to deploy this much financial resource is by converting my Amazon winnings into space travel," Mr. Bezos told an interviewer in April.

In July, Mr. Bezos' wealth surpassed $150 billion, a record; even if inflation is accounted for, he is almost certainly the wealthiest human being in modern history. Only John D. Rockefeller, whose fortune once exceeded 2 percent of the total American economy, might plausibly have been richer. (Mr. Bezos would need to double his wealth again to beat that standard.)

Most of Mr. Bezos' wealth is tied up in Amazon's stock, so he could well lose billions if Amazon flails. But if he does, there will probably be someone else just as megarich to take his place, because extreme concentrations of wealth are baked into the dynamics of the modern tech economy.

Tech-powered businesses are often driven by an economic concept known as network effects, in which the very popularity of a service sparks even greater popularity. Amazon, for instance, keeps attracting more third-party businesses to sell goods in its store — which in turn makes it a better store for customers, which attracts more suppliers, improving the customer experience, and so on in an endless virtuous cycle. Digital businesses are also characterized by tremendous economies of scale — Amazon can create a robotic assistant once and deploy it to everyone — that further entrench concentration.

"We have technology that has allowed us to create vastly more wealth for society," said Erik Brynjolfsson, director of the M.I.T. Initiative on the Digital Economy. "But there's no economic law that says that these benefits will be distributed evenly — and it's worked out that some people have gotten most of the benefits and a lot of other people have been left behind."

But economics isn't destiny, he said.

"Technology has led to some of this concentration, but since it makes the pie bigger, you could make everyone better off simultaneously — you could make the poor better off and the rich better off — and whether we do that is a matter of policy," he said.

As Annie Lowrey pointed out in The Atlantic last month, economic policy is currently tilted toward benefiting people like Mr. Bezos far more than the hundreds of thousands of people who work in his warehouses. Among other policies, Amazon has capitalized on a weakened union movement and a low minimum wage, which has allowed it to expand by hiring an army of workers for its warehouses.

Amazon said that on average, its full-time warehouse workers made $15 an hour, including wages and other compensation; the company also said it provided full benefits, including tuition for career skills, to those workers. A $15 wage is higher than at some other retailers, but it is lower than estimates for what a family in the United States needs to meet its basic needs, known as a living wage.

"They're not providing the sort of high-wage, middle-class jobs to a broad swath of individuals that we used to associate with corporate success," Lawrence Katz, an economist at Harvard, said of Amazon and other high-flying tech firms. "What we're seeing is not the sharing of the productivity benefits that we used to see in the past. And that may be even more galling than the concentration of wealth."

How could Mr. Bezos address these issues through philanthropy? Mr. Giridharadas suggested several liberal economic policy ideas, among them efforts to strengthen unions, equalize how we pay for education, increase minimum-wage laws and push for a more progressive tax system. Both Mr. Gates and Warren Buffett — the second- and third-wealthiest people in the world — have said they should pay higher taxes.

Those ideas strike me as unlikely; Mr. Bezos is a far-thinking innovator, but he has expressed little interest in near-term political questions.

On the other hand, Mr. Bezos' most attractive quality, as a businessman, is his capacity for patience and surprise.

“This is guy who was willing to buck what everyone else thought for so long,” Mr. Giridharadas said. “If he brings that same irreverence to the question of how to give, he has the potential to interrogate himself about why it is that we need so many billionaires to save us in the first place — and what we could do to build a society that would not require Jeff Bezos to help us so much.”

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* Jeff and MacKenzie Bezos Pledge $2 Billion for Homeless and Preschoolers

* Amazon’s Antitrust Antagonist Has a Breakthrough Idea

* Jeff Bezos’ First Major Political Donation Is $10 Million to Elect Veterans

* Amazon Hits $1,000,000,000,000 in Value, Following Apple

Doug Chayka | Forbes Magazine estimated Jeff Bezos’ total wealth to be $162 billion. | Kyle Johnson for The New York Times

Document NYTFEED020180919ee9j003s5

THE WALL STREET JOURNAL.

Markets

Copper Prices Reverse Gains; Investors weigh the latest moves in the trade spat between the U.S. and China; gold rises

By Georgi Kantchev
307 words
19 September 2018
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Copper prices closed nearly flat on Wednesday as investors weighed the latest moves in the trade battle between the U.S. and China.

Copper futures for December delivery settled down 0.04% at $2.7295 a pound on the Comex division of the New York Mercantile Exchange. Gold for December delivery climbed 0.45% to $1,208.30 a troy ounce in New York.

A weaker dollar helped boost metals prices earlier in the day. The WSJ Dollar Index, which measures the currency against a basket of 16 others, was last down 0.2%. A weaker dollar makes greenback-denominated commodities less expensive for holders of other currencies.

The Chinese government said Tuesday it plans to impose new tariffs on $60 billion in U.S. exports, following President Trump's Monday announcement of new import taxes on $200 billion in Chinese goods.

But on Wednesday, Chinese Premier Li Keqiang defended the rules-based global trading system and, in a nod to China's trade tensions with the U.S., said problems should be resolved through consultations, not unilateral action.

"Whilst we are naturally cautious as to whether this price action represents a sea change and wary given recent intraday **volatility**, we are of the opinion these metals have further upside potential," said Alastair Munro of brokerage Marex Spectron.

Copper prices were also supported by signs of a tighter market. Copper inventories in London Metal Exchange-registered warehouses dropped 20,000 metric tons over the past week, taking the total inventory withdrawal to more than 80,000 in the third quarter so far, according to ING Bank.

Stephanie Yang contributed to this article.

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International New York Times

opinion
How the Next Downturn Will Surprise Us

By RUCHIR SHARMA
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After the fall of Lehman Brothers 10 years ago, there was a public debate about how the leading American banks had grown "too big to fail." But that debate overlooked the larger story, about how the global markets where stocks, bonds and other financial assets are traded had grown worrisomely large.

By the eve of the 2008 crisis, global **financial markets** dwarfed the global economy. Those markets had tripled over the previous three decades to 347 percent of the world's gross economic output, driven up by easy money pouring out of central banks. That is one major reason that the ripple effects of Lehman's fall were large enough to cause the worst downturn since the Great Depression.

Today the markets are even larger, having grown to 360 percent of global G.D.P., a record high. And financial authorities — trained to focus more on how markets respond to economic risk than on the risks that markets pose to the economy — have been inadvertently fueling this new threat.

Over the past decade, the world's largest central banks — in the United States, Europe, China and Japan — have expanded their balance sheets from less than $5 trillion to more than $17 trillion in an effort to promote the recovery. Much of that newly printed money has found its way into the **financial markets**, where it often follows the path of least regulation.

Central bankers and other regulators have largely succeeded in containing the practice that caused disaster in 2008: risky mortgage lending by big banks. But with so much easy money sloshing around in global markets, new threats were bound to emerge — in places the regulators aren't watching as closely.

Within the $290 trillion global **financial markets**, there are hundreds of new risks, pools of potentially troubled debt. Among the most troubling: corporate borrowers and so-called non-bank lenders all over the world.

As bank lending dried up, more and more companies began raising money by selling bonds, and many of those bonds are now held by these non-bank lenders — mainly money managers such as bond funds, pension funds or insurance companies.

Among corporations listed on the **S**.**&P**. **500 index**, debt has tripled since 2010 to one and a half times annual earnings — near the historic peaks reached during the recessions of the early 1990s and 2000s. And in some parts of the bond markets, debt loads are much higher.

One of the big corporate risks is developing largely beyond regulatory oversight. Some United States companies that were publicly traded in 2008 have since gone private, often precisely in order to avoid intensified scrutiny from regulators. Many of those companies were purchased by private equity firms, in deals that leave the companies saddled with huge debts. Right now the typical American company owned by a private equity firm has debt six times higher than its annual earnings — or twice the level that a public ratings agency would consider high-risk or "junk."

At a time when central banks are holding interest rates at record lows, the return from holding plain vanilla corporate bonds is negligible, so investors are more willing to buy junk, for the higher yields. And this hunt for higher returns has been playing out worldwide as asset managers chase higher returns anywhere they can be found, whether in United States private equity or in the bond markets of Europe and emerging economies like Argentina and Turkey.

The biggest risks outside the United States are in China, which has printed by far the most money and issued by far the most debt of any country since 2008, and where regulators have had less success reining in borrowers and lenders. Easy money has fueled bubbles in everything from stocks and bonds to property in China, and it's hard to see how or when these bubbles might set off a major crisis in an opaque market where most of the borrowers and lenders are backed by the state. But if and when Beijing reaches the point where it can't print any more money, the bottom could fall out of the economy.

More broadly, the trigger to watch is the United States Federal Reserve, since many other central banks in the world tend to follow the Fed's lead in setting interest rates. Over the last 50 years, every time the Fed has reined in easy money by raising interest rates, a downturn in the markets or the economy has followed eventually. It may take a while, but trouble almost inevitably does come.

Many doomsayers worried that the Fed tightening that began in 2004 would help prompt a recession — and it eventually did, in 2008. Though rates are still historically low in the United States, the Federal Reserve began to raise them more than two years ago and is expected to continue tightening them into next year.

The Fed's tightening is already rattling emerging markets. When the American markets start feeling it, the results are likely be very different from 2008 — corporate meltdowns rather than mortgage defaults, and bond and pension funds affected before big investment banks.

If a downturn follows, it is more likely to be a normal recession than another 100-year storm, like 2008. Most economists put the probability of such a recession hitting before the end of 2020 at less than 20 percent.

But economists are more often wrong than right. Professional forecasters have missed every recession since such records were first kept in 1968, and one of the many reasons for this is "recency bias": using economic forecasting models that tend to give too much weight to recent events. They see, for example, that big banks are in much better shape than in 2008, and households are less encumbered by mortgage debt, and so play down the likelihood of another recession. But they are, in effect, preparing to fight the last war.

To have any chance of anticipating and preventing the next downturn, regulators must look for the threats that have emerged since 2008. They need to recognize that the markets now play an outsized role in the economy, and their attempts to micromanage this vast sea of money have only pushed the risks away from big American banks and toward new lenders outside the banking system, particularly in the United States and China.

Markets have grown so large in part because every time they stumbled, central bankers rescued them with easy money. When markets rose sharply — as they have in recent years — the authorities stood by, saying they are not in the business of popping bubbles. Now, the markets are so large it is hard to see how policymakers can lower the risks they pose without precipitating a sharp decline that is bound to damage the economy. It's a familiar problem: Like the big banks in 2008, the global markets have grown "too big to fail."

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DRAWING (DRAWING BY JI LEE)

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WSJ PRO CENTRAL BANKING

Economy

U.S. Housing Starts Rose in August; Jump in home building obscures weakness in the pipeline for single- and multifamily construction

By Sarah Chaney
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English

U.S. housing starts grew modestly last month, driven by an outsize jump in apartment building that masked weakness in the pipeline for single- and multifamily construction.

Housing starts increased 9.2% in August from the prior month to a seasonally adjusted annual rate of 1.282 million, the Commerce Department said Wednesday. This rise in building was driven by a robust 29.3% climb in the **volatile** multifamily sector that likely won't be sustained.

Building permits, a more stable measure that can signal how much construction is in the pipeline, were down for multifamily building, a sign that demand continues to cool for apartments and condominiums.

Permits were also sluggish for the single-family sector, even as steady job and wage growth are helping drive home-buyer demand. Rising material costs and labor shortages are posing challenges for builders seeking to ramp up construction.

"Builders know that there is demand at a lower price point," said Aaron Terrazas, senior economist at Zillow. "They can't meet that price point given all the costs."

Housing-starts data are **volatile** from month to month and can be subject to large revisions. August's rise for starts carried a margin of error of 11.4 percentage points.

The broader trend shows the housing market notching some pickup, as starts climbed by 6.9% in the first eight months of 2018 compared with the same period a year earlier.

Still, would-be buyers are also dealing with rising prices and borrowing costs, deterrents to home buying.

"There is fundamental softness in housing," wrote Stephen Stanley, chief economist at Amherst Pierpont Securities, in a note to clients. "Even if the weather had been more favorable in recent months, housing activity would probably not have been much better than flat after advancing at a substantial pace in prior years."

The National Association of Home Builders on Tuesday said its gauge of builder confidence remained unchanged in September.

Jerry Howard, chief executive of the home-builder association, said the fact that the index is flat is a positive sign that his members aren't becoming overly exuberant the way they did in the mid-2000s.

Still, he said labor costs and affordability are going to become an increasing challenge to the industry. He expects housing to become an issue in the coming midterm elections and the presidential election in 2020.

"We're seeing younger people priced out in more and more markets," he said.

Laura Kusisto contributed to this article.

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The New York Times

Opinion

A Smorgasbord Recession? (Wonkish)

By Paul Krugman
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English

The 2008 financial crisis is (duh) a decade in the past; employment has been growing steadily since early 2010. Since nothing is forever, and proclamations that the business cycle is over have always ended in embarrassment, lots of people are looking for the sources of the next recession.

The thing is, there's nothing out there as obvious as the housing bubble of the mid-2000s, or even the tech bubble of the late 1990s. So here's my thought: maybe the next recession won't be caused by one big shock but instead by the combined impact of several smaller shocks. There are arguably several mid-sized bubbles out there, from private equity debt to emerging markets. Stocks are priced as if there's no risk despite omens of trade war, consumer confidence similarly seems to discount dangers. There's probably other stuff I'm missing.

The point, anyway, is that we might be looking at a smorgasbord recession, one that involves a mix of smallish things rather than a single dominant item. And there's a model for that kind of recession: the slump of the early 1990s.

Most modern recessions have had clear narratives, at least after the fact. The 79-82 double dip was about the Fed tightening to bring inflation down; 2001 was about the tech bubble; 2007-2009 about the housing bust and the financial crisis it triggered. But I've been reading various accounts of 1990-91, and they're kind of amorphous.

One piece was a boom and bust in commercial real estate, partly connected with the savings-and-loan crisis and aftermath, which led to a sharp drop in nonresidential construction:

Another piece was a drop in consumer confidence, brought on by **oil price** hikes and Gulf War jitters:

Yet another piece was the post-Cold War drawdown in defense spending:

So, no one overarching narrative, but the combination was enough to cause a recession. It was a fairly brief, shallow recession compared with the big slumps of 79-82 and 2007-9:

But recovery was sluggish and for a long time jobless, with unemployment continuing to rise long after the official end of the recession:

So here's my hypothesis: the next slump won't be a big bang like 2008, it will be a smorgasbord recession like 1990-1, the cumulation of a bunch of medium-sized issues.

You might ask why multiple issues should strike at the same time. The answer, in two words, is Hyman Minsky: after a long period of stable growth, lenders and investors get complacent, and the private sector overreaches.

If that is what happens, we should expect another sluggish, jobless recovery like that after the 1990-1 and 2001 recessions, except probably worse. Why? Because monetary policy is much less effective in reversing recessions brought on by private overreach than it is in reversing slumps brought on by previous tight money.

And we're likely to have a big problem with the zero lower bound. The Fed cut rates by around 5 percentage points in the face of the 1990 recession, and still got a jobless recovery:

This time around the Fed doesn't have 5 percentage points to cut — it only has 2. And no, that's not a reason to raise rates faster, to make room for later cuts; it's a reason to not raise rates until inflation is significantly higher, and hope that we've gotten to 3 or 4 percent before the smorgasbord attacks.

So those are my current thoughts on the next recession. When will it happen? (Looks at watch.) Actually, I have no idea. But it would be really strange if it doesn't happen within a few years at most.

Figure 1 | BLS | Figure 2 | University of Michigan | Figure 3 | BEA | Figure 4 | Federal Reserve | Figure 5 | BLS | Figure 6 | Federal Reserve

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THE WALL STREET JOURNAL.
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SEC Commissioner Seeks Market Curbs

By Gretchen Morgenson
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A top securities regulator is calling for his agency to beef up its oversight of the nation's stock exchanges to root out conflicts and curb rising fees that he says harm investors.

In a policy speech to be delivered Wednesday, Robert J. Jackson Jr., a Democratic commissioner at the Securities and Exchange Commission, will allege that the SEC has "stood on the sidelines" as the New York Stock Exchange, **Nasdaq** Inc. and other market operators have significantly boosted their profits while raising investors' costs, according to a copy of his remarks.

Mr. Jackson will call on the SEC toensure "that the exchanges' actions do not unduly burden competition and are fair and reasonable."

All of the active U.S. stock exchanges are for-profit enterprises, a reversal of the way the **stock market** operated for nearly two centuries. The NYSE, for instance, was a member-owned nonprofit until 2006 and was later acquired by Intercontinental Exchange Inc., an Atlanta-based exchange operator. Critics charge that for-profit exchanges exploit their position to extract greater fees from traders.

To gain access to the fastest information, banks and brokerage firms must pay the exchanges to connect to their data feeds. These costs have jumped in recent years, said Mr. Jackson, one of two Democrats on the five-person SEC.

Between 2013 and 2018, for example, connectivity fees more than tripled on the Bats Global Markets exchanges, he said. A spokeswoman for the Cboe Global Markets Inc., which acquired Bats in 2017, said, "Our connectivity offering has been significantly enhanced since the beginning of 2013. Then, a connection, which was offered free, covered two equity markets, and one new options exchange. Today, that same connection provides access to four equity exchanges and three options exchanges, which represent a major share of daily trading activity in those markets."

Mike Williams, executive director of the Equity Markets Association, which represents both the NYSE and **Nasdaq**, said, "U.S. exchanges are the most heavily regulated, transparent and trusted participants in our national equity trading infrastructure, and today provide more valuable, efficient and resilient trading and data services, at the lowest relative cost to investors, than at any time in history."

As a single minority commissioner, Mr. Jackson doesn't hold great sway on SEC policy at the moment. But his view echoes criticism from some market participants and others about market-data sales.

"It is very important that [stock exchanges] be regulated effectively," said Ken Bertsch, executive director of the Council of Institutional Investors.

Since technological advances have pushed down the prices of connectivity in other arenas, Mr. Jackson questioned why costs are rising for investors. Still, the SEC has approved every fee increase for connectivity to the nation's exchanges, he said. In the future, he said, the agency should approve the increases only if the exchanges can justify them.

Mr. Jackson's speech is to be delivered at an event co-sponsored by George Mason University Law & Economics Center in Arlington, Va., and the Healthy Markets Association, an investor-oriented nonprofit.

In it, he also will highlight problems with the two-tiered system for **stock-price** data -- a slow, relatively cheap public feed and lightning-fast private feeds that traders can access for a steeper fee. Those who pay up for the private feed can trade ahead of investors using public data, he said, receiving better prices on their trades.

"What does it say to mom-and-pop investors," Mr. Jackson said in an email, "that our stock markets are full of abuses like these?"

A remedy, Mr. Jackson wrote, is to bar exchanges from controlling the public feed while they sell access to private price data. The current setup has incentivized the exchanges to invest heavily in their private -- and highly profitable -- data feeds while letting the public system languish, he said.

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THE WALL STREET JOURNAL.
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Buyback 'Blackout' to Test Stock Market

By Amrith Ramkumar
703 words
19 September 2018
The Wall Street Journal
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English

A steady stream of robust earnings and economic data has virtually zapped **volatility** from U.S. stocks, but a coming freeze on share buybacks could challenge the market.

Companies typically don't repurchase their own shares in the month before reporting quarterly results because of regulations, and with the third quarter coming to an end, 86% of the **S&P 500** will be temporarily restricted by Oct. 5, according to Goldman Sachs analysts led by David Kostin.

That could remove a source of support to **financial markets**: Buybacks account for the largest percentage of cash spending by companies in the benchmark index for the first time in 10 years, the bank said in a note Friday.

Share repurchases can play a role in boosting stock prices because they lower the number of shares outstanding -- driving up per-share earnings even without overall profit growth. Company demand can also trigger **stock-price** gains.

Analysts have said record stock buybacks have underpinned recent market advances, helping major indexes stay near record highs despite ongoing U.S.-China trade tensions and a rout in emerging markets. Historically, companies used the most cash on capital expenditures.

However, in the first half of the year, share buybacks increased nearly 50% and approved repurchases are on pace to set a full-year record above $1 trillion, Goldman said.

That is why the imminent blackout period for buybacks injects uncertainty for investors and traders. Returns from the **S&P 500** during blackout and nonblackout periods have been roughly in line going back to 2000, but market **volatility** tends to be higher when buybacks aren't allowed, the Goldman Sachs analysts found.

The current blackout period comes during another remarkably placid period for U.S. stocks. The Cboe **Volatility** Index, which measures expected swings in the **S&P 500**, has dropped in five of the past six sessions and remains near historically low levels.

Meanwhile, the **S&P 500** has gone 59 trading days without a move of 1% in either direction, the longest streak since January, according to Dow Jones Market Data. It is also only the fifth time in the past five years the measure has posted such a streak for longer than 50 sessions.

Consistent corporate profits coupled with robust economic growth have placated investors. Analysts estimate third-quarter earnings by companies in the **S&P 500** will rise by 20% from a year earlier. That would be the third-fastest quarterly growth rate ever, trailing only the two previous quarters, according to FactSet. And the U.S. economy expanded at a revised rate of 4.2% in the second quarter, the quickest pace in nearly four years.

Because major indexes have been unusually calm lately, sudden outsize market moves during the blackout period could sour investor sentiment toward stocks, some analysts say. That occurred when the market tumbled in February.

With roughly 20% of the **S&P 500** already unable to buy back shares, the U.S. announced new tariffs on about $200 billion in Chinese goods late Monday. Beijing responded with duties on $60 billion of U.S. products.

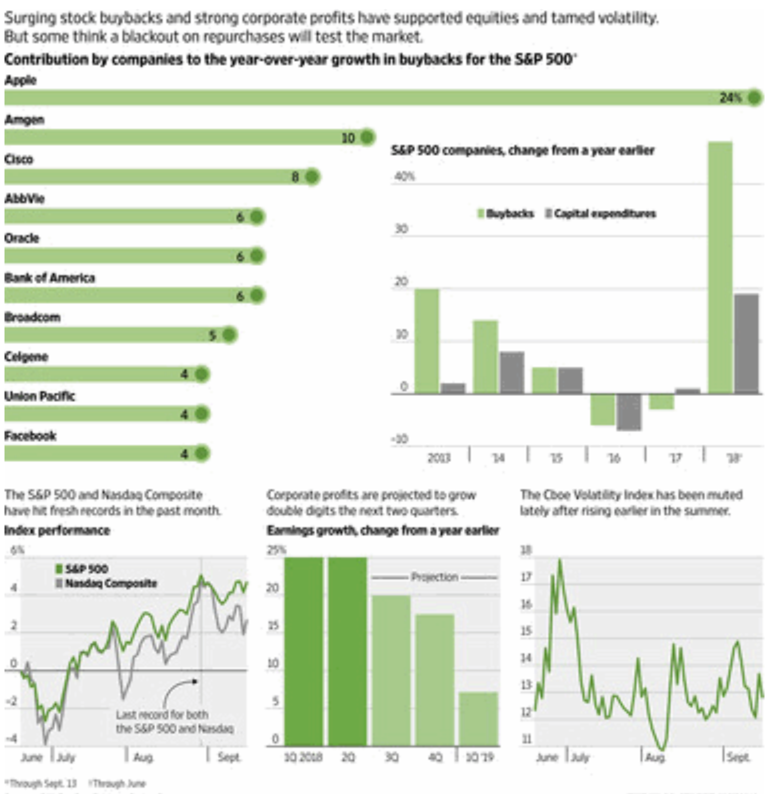
The **stock market** actually rose after news of the new levies this week, as the tariffs taking effect later this month were less stringent than many investors had feared. But some analysts expect trade anxiety to build ahead of planned November meetings between President Trump and Chinese leader Xi Jinping. Both the U.S. and China have laid out plans to end their monthslong tariff fight before those meetings.

And next week, the Federal Reserve is expected to raise rates and update its projected path for future increases, potentially stoking fears that tighter financial conditions could challenge companies and consumers.

Some analysts aren't as concerned about the blackout period because almost 80% of the growth in buybacks has been concentrated in 10 companies, most notably Apple, which itself has driven nearly one-quarter of the increase in share repurchases this year.

But after weeks of a quiet trading, others believe a quick pickup in volatility could cause investors to reassess the market backdrop.

Michael Wursthorn contributed to this article.



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WSJ PRO PRIVATE EQUITY

Pro Private Markets
Garcia's Take: Energy-Focused Firms Benefit From the 'Oil Paradox'

By Luis Garcia
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English

The retreat by equity markets from the energy sector is giving private-equity firms a chance to increase their presence in the space.

Energy-focused firms, however, still will need **stock-market** investors to warm up to the sector once again in the future.

"After the commodity supercycle ended in 2014, investors turned their backs on the [energy] sector," wrote Blackstone Group investment strategist and managing director Joe Zidle in an analysis the New York asset manager published last week. He added that the energy sector's weighting on the **S&P 500 stock index** fell to 6% as of June from a peak of 16%.

As a result, energy companies largely lost their ability to tap the equity markets to fund the expansion of their activities. They are investing less even as strong demand pushes **oil prices** higher, a situation Mr. Zidle called "the oil paradox."

U.S. energy companies raised a total of $10.23 billion from equity issuances—including initial public offerings and follow-on stock offerings—during the first six months of 2018, down 54.6% from the same period last year, according to a report released by Drillinginfo Inc., a software provider for the oil-and-gas industry.

The **equity market** pullback has prompted private-equity firms to play a bigger role as capital providers to the energy sector. Energy-focused firms are finding opportunities to expand their portfolio companies through joint ventures with public players. And as public energy companies shy away from the mergers-and-acquisitions market, private-equity firms more often are turning to their peers for deals.

EagleClaw Midstream Ventures LLC, a portfolio company of Blackstone Energy Partners, illustrates these trends.

The Houston-based midstream provider announced in June that it had teamed up with two public energy companies—midstream master limited partnership Kinder Morgan Inc. and oil-and-gas producer Apache Corp.—to develop a pipeline that will take natural gas from the Permian Basin to the Texas Gulf Coast area. In early September, EagleClawagreed to buy Caprock Midstream Holdings from private-equity firm Energy Spectrum Capital and Caprock management for $950 million in cash.

Private-equity firms, however, are counting on the equity markets eventually opening up again to the energy sector and becoming more supportive of public energy companies' efforts to grow. That will make it easier for firms to exit their investments, either by selling portfolio companies to a public buyer or by taking them public through an initial public offering.

Public energy companies are making great efforts to return more capital to shareholders and becoming more appealing to them. Master limited partnerships, for example, are strengthening their balance sheets by selling noncore assets to pay down debt.

"I think ultimately investors in those companies want growth and they will demand it once things are cleaned up," said Greg King, a managing partner at private-equity firm EnCap Flatrock Midstream, which last year soldEagleClaw to Blackstone for about $2 billion. "So, they will be back in the game."

Meanwhile, private-equity firms likely will continue to find opportunities to invest alongside public energy companies.

"Investors who step up to provide capital to energy companies will be rewarded," Mr. Zidle wrote.

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WSJ PRO CENTRAL BANKING

Economy
Timiraos's Take: What U.S.-China Trade Escalation Means for the Fed; The basic question for Fed officials is whether they should react more to the inflationary impulse of tariffs or whether they should cushion any shocks a trade war could have on growth.

By Nick Timiraos
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English

President Trump's announcement of new 10% tariffs on about $200 billion in Chinese goods that will ratchet higher to 25% by year-end replaces one source of uncertainty for the Federal Reserve—the specifics of U.S.-China trade policy—with several new uncertainties.

The basic question for Fed officials is whether they should react more to the inflationary impulse of tariffs or whether they should cushion any shocks a trade war could have on growth. The evidence suggests the latter is more likely to animate Fed thinking, meaning any change in the Fed's policy response could move in a dovish direction.

For the Fed, tariffs could have three important effects to monitor: 1) They result in higher import prices. 2) They could slow growth through productivity drags as businesses reorder their supply chains. 3) They could ripple through stock markets and currency markets.

The first raises the risk of tighter monetary policy, but such impacts should be transitory and not enough to merit a reaction from the Fed. Officials would be unlikely to react to higher prices from tariffs without evidence they were feeding through to expectations of even higher inflation.

The other two effects have clear downside risks. An all-out trade war with China "could easily sideline the Fed for all of 2019," wrote Seth Carpenter, chief U.S. economist at UBS and a former Fed staffer, in a report two weeks ago.

All three outcomes have big uncertainty bands around them. None are helpful for the Fed's high-wire act right now.

Strong growth is already raising questions about how much lower unemployment can fall without translating into wage and price pressures.

The trade fight could also tie closely to the other major international worry right now: the threat that a strong dollar causes dislocation in emerging markets that spills beyond Turkey and Argentina. While such crises tend to start in idiosyncratic economies, they don't always end there.

The big risk is that emerging-market problems spill into China at the very moment the U.S. is also upping the ante in its trade fight. The Fed's decision to dial back planned rate increases in 2016 after worries about Chinese growth sent the **stock market** sliding 10% to start that year, showing how China is the one emerging market that could disrupt the Fed's plans.

The upshot is that an already delicate phase of policy-setting—determining whether to raise rates to deliberately slow growth—is growing even more intricate.

The Trump administration was already running one policy experiment by pouring deficit-financed stimulus into an economy with less labor-market slack. Does the demand boost lead to more inflation? Or does the increased demand get shipped abroad via a stronger dollar?

Now, Mr. Trump is ordering up another experiment. One likely result: The Fed will become even more inclined to set policy based on incoming data, rather than the models and forecasts that often animate decision making.

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Business/Financial Desk; SECT

Markets Shrug Off Trump's Tariffs: DealBook's One Thing to Watch Today

By MICHAEL J. de la MERCED
375 words
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NYTF
The New York Times on the Web
English

Get the DealBook newsletter to make sense of major business and policy headlines -- and the power-brokers who shape them.

President Trump has escalated the United States' trade war with China, but American stock markets are taking the latest announcement of tariffs in stride -- for now.

Back story: Mr. Trump's latest levies, set to hit next week, cover $200 billion worth of imported Chinese goods, from network routers to wooden crates. Including actions taken earlier this year, America has now imposed tariffs on nearly half of products imported from China. Beijing has threatened to retaliate.

Potential impact: Ahead of the announcement, businesses shared their concerns with the Trump administration. Many fear that the tariffs may cripple their businesses and force them to raise prices.

The news: So far, those worries haven't weighed heavily on major stock indexes in the United States. Markets have rallied since the end of May, when Mr. Trump put in place his first major tariffs on steel and aluminum, with the **Standard & Poor's 500-stockindex** rising 6.8 percent since then. The S. &P.'s 500-**stock index** fell by less than 1 percent on Monday, ahead of the latest tariff announcement, while the **Nasdaq composite** index declined by 1.4 percent. Chinese and Japanese stock indexes were up in Tuesday trading, as were futures for the major American indexes. It's likely that American markets will continue to shrug off the levies today.

Why? Investors aren't spooked, perhaps for several reasons. Many have already accounted for the imposition of new tariffs. The levies will start at 10 percent, and then rise to 25 percent only after the holiday shopping season, postponing the pain that American consumers will feel. And while Mr. Trump and Beijing officials are talking tough, they may yet reach an agreement.

What to watch: If tensions escalate further, American stock indexes could yet slide. And if the battle starts to hurt corporate earnings, it is all the more likely.

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The New York Times

Business/Financial Desk; SECT
Trade, Buybacks and Brexit: DealBook's Closing Bell

By STEPHEN GROCER
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The New York Times on the Web
English

Get the DealBook newsletter to make sense of major business and policy headlines -- and the power-brokers who shape them.

A quick take on some of the important finance and business stories of the day.

Tesla just can't move beyond Elon Musk's tweet: Tesla said on Tuesday that the Justice Department had contacted the company for information after its chief executive, Elon Musk, abruptly announced last month that he had lined up funding to take the electric-car maker private. Shares of Tesla fell more than 3 percent and are off nearly 25 percent since Aug. 7, the day Mr. Musk made the announcement on Twitter.

Investors are more worried about trade than it appears? Major stock indexes in the United States finished solidly higher Tuesday despite the escalating trade war between the United States and China. The **Standard & Poor's 500**-**stockindex** has rallied about 7 percent since the end of May, when President Trump put tariffs on steel and aluminum in place. But don't take that to mean investors aren't worried. Trade topped the list of concerns for a fourth straight month in Bank of America Merrill Lynch's monthly survey of fund managers, although investors are somewhat less worried about it than they were in August.

So why haven't the markets pulled back more? The United States economy is seeing strong growth and corporate earnings are booming. That comes at a time that the global economy is cooling. How long can this divergence continue? Nearly half the fund managers in the Bank of America survey said they expected domestic growth to slow, bringing the United States back to the pack. Only 24 percent of respondents expected the United States to continue to perform better.

The tariffs will have more of an effect on inflation than on economic growth. By the calculations of Ian Shepherdson, the chief economist at Pantheon Macroeconomics, the tariffs on $200 billion of Chinese goods could shave 0.25 percent off United States gross domestic product growth. The levies could add 0.5 percent to the inflation rate. ''That's enough to matter, both to the Fed and to the public, who will notice when prices in Walmart start to jump,'' Mr. Shepherdson writes.

Corporate America's tax windfall is going more to buybacks than capital spending: Republicans sold the 2017 tax law as ''rocket fuel'' for American investment. They said that corporations would channel money back into the economy by building factories and offices and investing in equipment. Critics contended that companies would funnel the money to shareholders through buybacks and dividends. One camp was more right than the other. Through the first six months of 2018, capital spending did increase to $341 billion, up 19 percent from the same period a year earlier, according to Goldman Sachs. But companies were spending even more to repurchase shares. Buybacks jumped 48 percent to $384 billion in the first six months of the year, and for the first time in 10 years, buybacks are accounting for the largest share of cash spending by companies in the **S**. **& P**. **500**.

Trade? Brexit? Deal makers aren't concerned: Rising affections for protectionism hasn't reduced the appetites of corporate deal makers. Cross-border acquisitions are running at a historical high, according to Dealogic. The country most often targeted? Britain. Acquisitions of British companies by foreign buyers stands at $260 billion, a record for a full year. That's despite continued uncertainty about Britain's economic and trade relations with the European Union because of Brexit.

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The New York Times

Foreign Desk; SECTA
China Runs Short of Ammunition in Trade War

By KEITH BRADSHER; Elsie Chen and Ailin Tang contributed research.
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1
English

BEIJING -- President Trump imposed tariffs in July on $34 billion in Chinese goods. China matched them dollar for dollar with its own.

Then he hit an additional $16 billion in goods in August. China matched that, too.

Now, Mr. Trump has made his biggest move yet, announcing 10 percent tariffs starting in a week on $200 billion a year of Chinese goods. But this time, China can't match them all -- and that crystallizes a growing problem for Beijing.

On Tuesday, Chinese officials responded to the president's latest move by following through on an earlier threat to impose tariffs on $60 billion in American goods -- nearly everything China buys from the United States.

China's responses have so far failed to thwart Mr. Trump's trade offensive, and with the White House amping up the fight again, Chinese leaders aren't sure how to respond, people briefed on economic policymaking discussions say.

Chinese officials ''are generally confused,'' said Raúl Hinojosa-Ojeda, a trade specialist at the University of California, Los Angeles, who has been traveling around China speaking with officials, businesspeople and workers.

''They don't know what to do,'' he added. ''They worry that the tit-for-tat model is playing into Trump's hands.''

China does not import nearly enough from the United States to target $200 billion in American goods -- let alone the additional $267 billion in Chinese goods that Mr. Trump has threatened to tax.

But China's leaders feel they cannot back down. They have presented the trade war as part of a broader effort by the United States to contain China's rise.

Mr. Trump has said as much, and did so again at a news conference on Tuesday. ''China has been taking advantage of the United States for a long time, and that's not happening anymore,'' he said.

The Chinese public could see any effort to soothe tensions as capitulation. Some hard-liners want a more aggressive stance.

Lou Jiwei, who retired as finance minister in 2016 but is still the head of the country's social security fund, suggested on Sunday that China could deliberately disrupt American companies' supply chains by halting the export of crucial components mostly made in China. But Chinese trade experts dismiss that idea as impractical and not the government's position.

Chinese officials know what they don't want to do. They have rejected one idea that would replace the matching tariffs with a more sophisticated system, said the people briefed on the discussions, who spoke on the condition of anonymity because of the fragility of the deliberations. That response -- discussed in detail within the Commerce Ministry and other agencies -- would have led to lower tariffs on American goods in dollar terms, which could be seen as a fig leaf to the White House.

That approach would have recognized a potentially expensive new reality for Beijing: The tariffs may be here to stay. Mr. Trump is suffering from weak approval ratings and could lose influence in congressional elections in November. Democrats have opposed most of his agenda, but many have supported his attacks on trade with China. Even if Mr. Trump leaves office in two years, there is little guarantee that his China trade policies will be changed.

In Beijing, proponents of the new approach, which would scale down China's tariffs in dollar terms to reflect the lopsided trade imbalance between the two countries, say Chinese leaders could still revisit the idea because it offers them a way to contain the damage and soothe tensions.

China's leaders ''don't really want to engage in a dollar-for-dollar retaliation,'' said Yu Yongding, a prominent economist at the Chinese Academy of Social Sciences. ''Their purpose is to stop this trade war.''

China's other options are limited.

It could punish American businesses that depend on China. Already, its antitrust officials have effectively killed the $44 billion effort by Qualcomm, the semiconductor company, to buy a Dutch chip maker. China has also pledged to buy soybeans from other countries, but replacing voluminous American supplies will be difficult.

Other moves have already served as warnings, like delays at Chinese ports. Ford Motor's Lincoln cars and other goods have sometimes been the subject of unusually lengthy customs inspections this summer, although the delays do not appear to have caused much financial harm.

''It is certain that China will have other, invisible retaliation against the United States,'' said Mei Xinyu, a researcher at the Commerce Ministry's policy research and training academy.

But more drastic moves, like closing factories or encouraging consumer boycotts of American goods, could eliminate Chinese jobs. They could also permanently damage China's reputation as a place to do business and only accelerate corporate plans to look to other countries.

''It's difficult to build a reputation, and easy to harm a reputation,'' Mr. Mei said.

China could also guide its currency to a weaker level against the dollar. It has already nudged the currency a bit lower, making Chinese goods cheaper in the United States and partly offsetting the tariffs. But a weaker currency would make China's imports more expensive, raise the risk of inflation and lead to a potentially damaging flight of money out of the country. It could also provoke further American retaliation.

The trade war has hit only a small part of the Chinese economy for now, but the damage could add up. Higher tariffs on American goods raise the cost of essential imports like soybeans and microchips. China still derives a big chunk of growth from making smartphones, clothing, chemicals and a raft of other goods and selling them to Americans.

Already its currency and **stock market** have weakened as the trade war has intensified. China has taken steps to shore up its economy, but they could take months or years to kick in.

China has offered small concessions to the United States, like lowering its tariffs on imported cars from everywhere to 15 percent, from 25 percent; the United States, however, charges 2.5 percent. China has also allowed foreign companies to own greater shares of Chinese insurers, banks, asset management companies and car factories.

The new plan that Chinese officials rejected in recent weeks could have been more warmly greeted by the White House.

Under that plan, the United States and China would each levy tariffs based on proportions of trade rather than dollar amounts, people familiar with the discussions said. Because the United States imports nearly four times as much from China as it exports, that would lead to tariffs at different values.

For example, the United States has already levied tariffs on $50 billion in Chinese goods, one-tenth of what it imports from China. Instead of matching that with tariffs on $50 billion in American-made goods, China would levy tariffs on one-tenth of such goods, totaling $13 billion to $15 billion, depending on the details.

Proponents of the plan say letting Washington impose more tariffs than Beijing would actually hurt the United States more because tariffs are ultimately paid by consumers and businesses in the countries that levy them.

"The United States wants to hurt China by imposing tariffs on Chinese exports," Mr. Yu, the Chinese Academy of Social Sciences economist, wrote in a journal in July. "In the end, it may be the United States itself" that is hurt, he wrote.

But other Chinese trade experts say tariffs on equal fractions of trade would be too big a compromise.

"It's unrealistic, it's difficult in practice, it's not doable, and it's against basic trade rules," said Mr. Mei, the Commerce Ministry researcher.

Keith Bradsher is the Shanghai bureau chief for The Times, and previously served as Hong Kong bureau chief and Detroit bureau chief. He covered the creation of the World Trade Organization and North American Free Trade Agreement as a Washington correspondent for The Times in the early 1990s. Follow him on Twitter: @KeithBradsher.

A trade delegation from China, a big importer of American soybeans, touring fields in Missouri. (PHOTOGRAPH BY DAVE KAUP/REUTERS) (A8)

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Residential Prices Top Pre-Crisis Peak --- New York City houses, apartments are 2% above November 2006 levels, report shows

By Josh Barbanel
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A decade after the financial panic of 2008, housing prices in New York City have bounced back and recently edged above peak pre-crisis levels.

An analysis of long-term sales trends by StreetEasy.com found that sale prices for houses and apartments across the city are 2% above peak levels in November 2006, and 28.5% above the low point in November 2011.

It put the median resale price of an apartment or home across the five boroughs, from tony Fifth Avenue co-ops to small frame houses in neighborhoods hard hit by foreclosures such as Jamaica, Queens, at $656,188 in July, exceeding the 2006 peak of $643,255 in January 2018.

Those who bought and sold a New York City house or apartment after September 2008, when the bankruptcy filing by Lehman Brothers set off a financial panic, realized outsize gains, the report found.

Those sellers scored gains of 33%, or 7.5% a year.

Four out of five of these sellers saw gains of at least 10% -- enough to break even and cover transfer taxes, brokerage fees and other closing costs.

Only half of those who bought in the two years before the financial-services firm's bankruptcy and later sold saw such a gain on their sale after closing costs, the report found.

While Manhattan's luxury market beat to a different drum, overall sale prices in New York City reported by StreetEasy closely tracked the pattern across the country, where the housing market collapsed as years of lax lending standards gave way to tightening credit, and stagnating incomes.

Still, overall New York City housing prices reached a 2006 peak about four months after those in the rest of the country and hit bottom about four months earlier.

New York City, with its concentration of banks and financial-services firms, was hard hit by the financial crisis. But the city also bounced back faster than other parts of the U.S., as the economy and employment grew at a faster pace than the country as a whole.

Manhattan, with its many wealthy residents, international buyers and luxury housing, was less dependent on credit conditions. There precrisis prices peaked much later, in spring 2008. After a freeze in luxury sales, prices pushed above that level by 2014.

"The credit crisis that came along with the financial crisis definitely hit the other boroughs more than it hit Manhattan," said Grant Long, StreetEasy's senior economist.

The value of all residential transactions in New York City exceeded the $42.7 billion spent in 2006 only in 2016, according to data compiled by the Real Estate Board of New York.

In Manhattan, the $20.2 billion spent in 2008 was surpassed by 2013.

The StreetEasy report raised a question about the investment value of a home purchase, especially when compared with the outsize gains of the **stock market** in recent years.

Since the housing market in the city bottomed out in 2011, the **S&P 500 index** has risen 125%, compared with a gain of nearly 30% in housing prices.

"Even for those who did manage to time the market well, the numbers are less attractive when compared with other investments," the StreetEasy report said. "New York City real estate dramatically underperformed the **stock market**."

The report cited the profitable sale of a large studio at 88 Greenwich St., a 1929 art deco building that was converted to a condominium in 2007. It was purchased from the sponsor in 2010 near the bottom of the market for $490,000 and sold five years later for $655,000 for 34% gain.

In contrast, another studio in a co-op at 244 Madison Ave. near East 38th Street in Midtown Manhattan was purchased in 2007 for $575,000 and sold in 2014 for $635,000, a gain of 10%, which works out to a 1.3% annual return.

Now, prices are showing signs of weakening in Manhattan and Brooklyn. "A cycle of swift growth in New York home prices seems to be coming to an end," the StreetEasy report said, citing a surge of inventory that is likely to increase this year.

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Politics & Ideas: The American Dream Needs a Jolt

By William A. Galston
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English

The expectation that each generation will do better than the last is at the heart of the American dream -- and losing that confidence would transform our nation. A report this week from the Pew Research Center suggests that this faith in the future may be slipping away.

On one hand, economic confidence among Americans is more positive than at any time since 2002. Sixty-five percent rate current economic conditions as good -- up from the low of 17% in the spring of 2009, when unemployment was surging and the **stock market** was crashing. On the other hand, only 33% of Americans expect that their children will be better off financially than they themselves are.

Anxiety about the future goes hand in hand with nostalgia. Forty-five percent of Americans believe that the financial situation of "average people" is worse than it was 20 years ago. For many of these Americans, "Make America Great Again" is a visceral reminder of the arc of their own lives.

In all these respects, America is now a normal, unexceptional country. Throughout the developed world, positive sentiments about the present are coupled with negative expectations for the future. This includes many countries whose assessments of the present are even more positive than ours. Though 85% of the Dutch and 81% of Swedes say their current economic situation is good, only 35% of the citizens in these countries think their children will do better. In Australia, which hasn't had a recession in 25 years, only 28% expect their children's lives to be an improvement on their own.

In countries that view the current economic situation less positively, the prospects for the next generation are seen as even worse. Only 15% of French and Japanese citizens think their children will live better, as do only 23% of the British.

Much of Europe, moreover, shares America's fond memories of the past. Not surprisingly, 62% of Spaniards, 72% of Italians and 87% of Greeks believe that average people in their countries were better off financially 20 years ago than they are today. But so do 46% of Germans, 48% of Canadians, 53% of the British and 56% of the French.

Amazingly, 46% of Australians share this view -- even though median weekly household income has risen dramatically, from 1,100 Australian dollars to more than A$1,600 in the past two decades. In just the past decade, moreover, median household net worth in Australia his risen from A$722,000 to A$929,000. In Australia as in many other countries, nostalgia reflects something other than objective economic indicators.

In the U.S., by contrast, the sentiments are in step with the numbers. Between 1979 and 1999, median household income rose from $52,000 to nearly $60,000. Since then, it has barely budged. In fact, 2017 was the first year in which median household income exceeded its level in 1999. Americans are nostalgic not for a specific point in time, but rather for the decades in which the steady rise in household income was broken only by recessions, and in which each recovery yielded higher wages than the previous cycle.

Whether Americans regain our customary optimism depends largely on the policies we adopt. During the current recovery, which has increased median household incomes from their post-Great Recession low of $54,700 in 2012 to today's $61,400, most of the gains reflect increases in the number of people working and hours worked, rather than in hourly compensation for each worker. As we approach full employment, income gains will be sustained only by rising wages.

How might this be accomplished? In her recent book, "The Forgotten Americans," my Brookings Institution colleague Isabel Sawhill offers a comprehensive agenda for American workers. Her program would increase the benefits of work and reduce the cost of living with provisions like support for career and technical education, an expanded earned-income tax credit, a refundable child-care tax credit, increased profit-sharing, lifelong-learning accounts for individual workers, and rewards for corporations that increase training for their employees.

Experts who lean to the left will likely focus more on reducing corporate concentration and increasing workers' bargaining power with new forms of collective organization. Those who lean more to the right may choose to combine wage subsidies with stronger incentives to work and measures that strengthen families and communities, as Oren Cass proposes in his forthcoming "The Once and Future Worker." This is a debate candidates must join during the forthcoming presidential campaign.

One thing is clear already: Current policies offer little hope of reversing the steep decline in the share of U.S. income that flows to workers. Unless we change course, today's loss of confidence in a better future will persist, with profound consequences for our country's character.

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World News: Resurgent ISIS Imperils Libyan Oil Flow

By Jared Malsin and Benoit Faucon
691 words
19 September 2018
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A8
English

Islamic State is staging a resurgence in chaotic Libya, claiming more than a dozen attacks in the North African country this year and threatening to disrupt the flow of oil from one of the world's most significant suppliers.

The group's re-emergence comes two years after Libyan forces backed by U.S. air power dislodged the extremist group from its stronghold in the coastal city of Sirte, and it erodes one of the signature victories in the yearslong U.S.-led military campaign against the militants.

The latest attack came last week when gunmen wearing explosive vests and carrying assault rifles stormed Libya's state oil company, one of the country's most important and heavily guarded institutions. Explosions shook the building and two employees died in the assault.

One official said he shut himself in his office and began praying. "I saw my own coffin," the official said.

U.S. forces have kept up a steady barrage of strikes targeting Islamic State fighters in the country, including a drone strike in late August that killed a group member in Bani Walid, southeast of the capital, Tripoli, according to the U.S. Africa Command, which oversees American military operations in the country. Islamic State currently has between 400 and 750 members in Libya, an Africom spokesman said recently.

But Libya's widening security vacuum and worsening internecine violence have given the group room to maneuver. Libya, home to the largest oil reserves in Africa, is splintered among two rival governments and a complex mosaic of armed groups, and lacks a fully functioning state.

The worst clashes among militias in over a year have gripped Tripoli in the past few weeks. A rocket attack by a militia struck the city's only functioning airport on Sept. 11.

In this vortex of violence, Islamic State's Libyan branch has claimed responsibility for more than a dozen attacks since early this year, including raids on rival militias and security forces and a bombing in May at the headquarters of the Libyan election commission that killed a dozen people.

"They use these attacks to show they're back in business, to rebrand themselves, to draw recruits," said Frederic Wehrey, a Libya expert with the Carnegie Endowment for International Peace. "The best recruiter for the Islamic State in Libya is political turmoil, political infighting. When Libya is divided, that gives room for the Islamic State to grow."

The attack on the national oil company came amid concerns that problems in Libya could add to supply disruptions surfacing in countries such as Iran and Venezuela.

It also raised questions about whether Libya's oil facilities are adequately protected. Attacks on Libya's oil industry -- including an attack on the oil ports by a militia in June and a previous attack by Islamic State on an oil field in February -- have imperiled a modest recovery in the Libyan oil sector.

Oil production has climbed back to close to one million barrels a day since the state oil company persuaded armed groups to reopen facilities they had previously blocked. Last week's attack had no impact on supply but briefly pushed up world **oil prices**.

In a communique claiming responsibility for the attack on the state oil company, Islamic State said: "We stress that the oil fields supporting the Crusaders and their projects in Libya are legitimate targets for the mujahedeen."

The U.S. launched nearly 500 airstrikes in 2016 in support of a ground campaign by Libyan forces that expelled Islamic State from Sirte, denying the group its most important foothold outside its core in Iraq and Syria. A separate U.S.-backed operation drove the group out of strongholds in Iraq and Syria last year.

Many of the group's fighters fled to remote desert areas in Libya's center and south, where they have established hideouts, according to Western officials.

Libya's escalating civil war means that security forces haven't been able to turn their attention to eliminating the group there.

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Business News: Class Action Denied for Investors Stung by UBS Funds

By Andrew Scurria
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English

Investors who lost money on UBS Group AG mutual funds stuffed with Puerto Rico government bonds can't sue as a group, a federal judge said Monday, a setback in their efforts to collect from the Swiss financial-services giant.

The ruling by Judge Sidney H. Stein of the U.S. District Court in New York means that investors in closed-end mutual funds managed by UBS Financial Services of Puerto Rico Inc. must pursue their claims individually through arbitration, a more difficult path to recouping damages, rather than proceeding as a single, certified class.

Investors have claimed that UBS brokers told them their mutual funds were safe when in fact their assets were heavily concentrated in just a few Puerto Rican municipal bonds and the funds had used leverage to improve returns.

Judge Stein said the plaintiffs' circumstances and their decisions to buy and sell were so dissimilar that their claims needed to be adjudicated case by case. Attorneys for the plaintiffs didn't respond to a request for comment.

A decline in Puerto Rico **bond prices** starting in 2013, when the U.S. territory's fiscal crisis came into focus, drained value from the mutual funds and sparked hundreds of claims against UBS. Prices on some securities have declined further since Puerto Rico embarked on a court-supervised restructuring of its $73 billion debt load last year.

UBS said in its second-quarter report that mutual-fund customers had claimed $2.6 billion in damages through arbitration complaints arising from the downturn in Puerto Rican bonds. Of those complaints, $1.6 billion worth have been resolved through settlements, some of which were for millions of dollars, according to the regulatory filing.

Investors said UBS failed to structure the mutual funds to preserve capital as advertised and reaped millions of dollars in fees by selling and trading mutual-fund shares. UBS largely controlled the market for those shares, making them illiquid and prone to outsize price swings, according to investor complaints.

UBS has said investors received excellent returns for years that often exceeded the broader bond market.

UBS paid roughly $34 million in 2015 to settle accusations of failing to supervise a former broker who had customers invest borrowed money into the bond funds. The U.S. Securities and Exchange Commission separately sued the former broker, Jose Ramirez Jr., in federal court. He was fired by UBS in early 2014.

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WSJ PRO CENTRAL BANKING

Economy

Japan's Trade Deficit Doubles in August; Japan's trade surplus with the U.S. fell 14.5% from a year ago, due to a 21.5% jump in imports

By Mayumi Negishi
362 words
18 September 2018
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English

TOKYO—Japan's trade deficit in August almost doubled from the previous month, on a surge in imports of crude oil and U.S. liquefied natural gas, data from Japan's finance ministry showed Wednesday.

Japan's exports to China continued to outweigh those to the U.S., the data showed, as the latter pursues President Trump's "America first" policy to curb imports, prompting manufacturers to turn to the Asian market.

Japan posted a trade deficit of 444.6 billion yen ($4.0 billion) in August, in line with an expected ¥447.7 billion in a Nikkei survey, amid the escalating global trade tensions.

Japan's trade surplus with the U.S. fell 14.5% from a year ago, due to a 21.5% jump in imports, helped by Japanese demand for American plane parts, LNG and coal, the ministry said. Those imports outweighed a rise in its exports of medical supplies and construction and mining machinery, with cars taking the back seat as drivers of export demand. Japan remains sensitive to Mr. Trump's criticism of Japan's high trade surplus with the U.S.

Meanwhile, Japan's exports to China jumped almost 12% from the previous year. China's purchases of Japanese chip tools more than doubled from a year ago, while its purchases of cars and motors also jumped by more than a quarter. China seeks independence from Western countries for its semiconductor needs, and Tokyo looks to strengthen ties with countries upholding more open trade.

August's 6.6% rise year on year in exports—a straight gain for 21 consecutive months—beat the 5.3% increase expected by economists polled by The Wall Street Journal.

Economists said they expected imports to level off in tandem with **oil prices**, and that exports would continue to grow, although at a slower pace than last year, due to fears about a possible global trade war.

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International New York Times

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

By JIM TANKERSLEY and KEITH BRADSHER
1,869 words
19 September 2018
International New York Times
INHT
English

President Trump, emboldened by America's economic strength and China's economic slowdown, escalated his trade war with Beijing on Monday, saying the United States would impose tariffs on $200 billion worth of goods and was prepared to tax all imports.

Mr. Trump, in a statement released late Monday, showed no sign of backing down from the type of full-blown trade war between the world's two largest economies that has rattled **financial markets**, saying he was prepared to "immediately" place tariffs on another $267 billion worth of imports "if China takes retaliatory action against our farmers or other industries."

The tariffs on $200 billion worth of products comes on top of the $50 billion worth already taxed earlier this year, meaning nearly half of all Chinese imports into the United States will soon face levies. The next wave of tariffs, which are scheduled to go into effect on Sept. 24, will start at 10 percent before climbing to 25 percent on Jan. 1. The timing of the staggered increase will partially reduce the toll of price increases for holiday shoppers buying Chinese imports in the coming months.

"For months, we have urged China to change these unfair practices, and give fair and reciprocal treatment to American companies," Mr. Trump said. "We have been very clear about the type of changes that need to be made, and we have given China every opportunity to treat us more fairly. But, so far, China has been unwilling to change its practices."

The tariffs are aimed at pressuring China to change longstanding trade practices that Mr. Trump says are hurting American businesses at a moment when the administration believes it has an advantage in the trade dispute. China's economy is slowing, with consumers holding back and infrastructure spending slowing sharply. The Chinese slowdown is expected to worsen as America's tariffs ramp up. The United States, by contrast, has continued to experience robust economic growth, including the lowest unemployment rate since 2000.

White House officials said on Monday that China could win relief from the tariffs by acceding to the administration's trade demands, including allowing American companies greater access to the China market and dropping its requirement that American companies hand over valuable technology to Chinese partners. Officials said the United States would only continue trade negotiations if the Chinese were "serious" about giving ground on those issues.

The tariffs are aimed at hurting China, but they could hamper the American economy and bring pain for consumers. Unlike the first round of tariffs, which were intended to minimize the impact on American consumers, this wave could raise prices on everyday products including electronics, food, tools and housewares.

Retailers, manufacturers and a wide swath of other American businesses have warned that the new tariffs could hurt their profits, hiring and growth. The administration held six days of public hearings on the proposed $200 billion round of tariffs last month, which were dominated by companies warning that the United States no longer had the capacity to produce replacement products for the Chinese imports that would be hit by tariffs.

Economists warn the tariffs could chip away at economic growth in the United States. Morgan Stanley researchers estimate that the latest round could reduce economic growth in the United States this year by 0.1 percentage points, adding to another 0.1 percentage-point drag from tariffs currently in place. And the effects are likely to grow if China retaliates again, as it has threatened to do.

The administration did remove roughly 300 product lines — and some individual products — from the list after companies objected. Among the items dropped are smart watches, Bluetooth devices, bike helmets, plastic gloves, high chairs, play pens and certain chemicals. But, in some cases, partial product lines will be taxed while other parts are not. For example, high tech network routers and smart watches share a product line, but under the United States trade representative plan, the routers would be subject to tariffs while watches are not.

"It will be a lot of money coming into the coffers of the United States of America. A lot of money coming in," Mr. Trump said during remarks at the White House on Monday. He added that the United States cannot tolerate the trade gap between what it exports to China and what it imports from that country.

"We can't do that anymore," he said.

Mr. Trump's decision is a significant escalation of an already serious trade dispute — one with seemingly no end in sight. After months of failed trade talks, top officials from China and the United States were tentatively scheduled to talk later this month in Washington. But it is unclear whether Beijing will agree to come to Washington with the new tariffs set to go into effect.

"We are open to talk if there are serious talks," Larry Kudlow, the director of the National Economic Council, said in an interview on Monday.

Mr. Trump also indicated he was willing to end the trade war — if China agreed to his demands. "China has had many opportunities to fully address our concerns," Mr. Trump said. "Hopefully, this trade situation will be resolved, in the end, by myself and President Xi of China, for whom I have great respect and affection."

"The Chinese are livid and drafting their own battle plan — they won't take this sitting down," said James Zimmerman, a longtime lawyer in Beijing and the former four-time chairman of the American Chamber of Commerce there.

Trade analysts said Mr. Trump's approach risked further confrontation with the Chinese.

"Washington's view seems to be that tariffs and threats of more tariffs will soften up the Chinese and make them more amenable to negotiations," said Eswar Prasad, a Cornell economist who specializes in trade issues. "The evidence that, in response to U.S. bullying tactics, China just stiffens its spine and strikes back with proportionate tariffs against U.S. imports has had no discernible effect on the Trump administration's take-no-prisoners approach to this rapidly escalating trade war."

China is expected to further retaliate against the United States, and top officials have warned that could include penalizing American companies that rely on Chinese components for phones, cars, televisions and other products. China's commerce ministry has said that it is ready to put similar tariffs on $60 billion a year of American goods in response to the threat from the United States. China has matched previous tariff moves dollar for dollar, but the number of American goods to tax is dwindling because, for many years, it has only imported about a quarter as much as it exports to the United States.

Lou Jiwei, China's finance minister until his recent retirement and now a senior Communist Party adviser, delivered an unexpectedly strong threat to the United States in a lunch speech at the forum, which is organized by a government agency reporting directly to the cabinet. Mr. Lou said that, if necessary in the trade war, China could halt exports to the United States of components that are crucial to American companies' supply chains.

Mr. Lou said that it would take years for American companies to find alternatives to China. "To take a step back, the United States can establish an alternative supply chain in a third country, but it takes time — what about the pain of three to five years? This is enough to cross a political cycle," he said.

American businesses — which have warned that tariffs could hurt profits, force job cuts and, in some cases, destroy companies, said the taxes were going to hurt the United States more than the administration realized. The National Association of Chemical Distributors released a study this month that predicted nearly 28,000 chemical distributor and supplier jobs would be eliminated because of higher prices from the $200 billion round of tariffs.

"These tariffs are going to be paid for by the working families who drive our economy," said Jonathan Gold, a spokesman for a business group formed to fight tariffs called Tariffs Hurt the Heartland. "Tariffs are taxes, plain and simple. By choosing to unilaterally raise taxes on Americans, the cost of running a farm, factory or business will grow. In many cases, these costs will be passed on to American families."

The tech industry, while spared on certain products, called the administration’s approach “misguided” and said it would hurt American consumers while doing little to change China’s trade practices.

“Today’s retaliatory tariffs are not an effective trade policy and may violate U.S. law,” Gary Shapiro, chief executive of the Consumer Technology Association, said in a statement. “We urge the administration to reconsider its misguided approach of increasing tariffs, as they are directly paid for by American companies and consumers.”

The total wave of tariffs thus far has not been large enough to meaningfully affect consumer prices broadly across the economy — only narrowly, for certain products. Economists warn that the effects could grow noticeably larger if Mr. Trump follows through with his threat to subject nearly all Chinese imports to tariffs.

Asked about Mr. Trump’s tweets in the morning, regarding the lack of an impact on prices across the economy from tariffs, Mr. Kudlow stuck with the president. “With respect to the impact of tariffs, we’ll see,” he said. “We’re following it. We don’t see any problems so far.”

“I don’t see any reason to believe at the present time that the president’s trade reforms are going to damage the economy.”

The Trump administration has demanded steep cuts in Chinese tariffs and investment restrictions but has particularly focused on stopping the Chinese industrial policy initiative known as Made in China 2025.

Chinese policymakers have long said that they are willing to cut tariffs in particular, but want concessions from the United States, such as curbs on the Commerce Department’s ability to impose steep tariffs on imported goods that are government subsidized or are dumped below the cost of producing them. The United States has long refused, under the Obama administration and now under the Trump administration, contending that the American market is already so open that further concessions are not needed.

As for Made in China 2025, Chinese officials dismiss its importance. “We do not think this is such an important strategy for us or our industries,” said Wang Yiming, a vice president of the Chinese cabinet’s Development Research Center.

Chinese officials have expressed a willingness to get rid of the Made in China 2025 name, but they have been much more cautious about accepting limits on some of the key features of Chinese industrial policy, like enormous loans from state-owned banks at very low interest rates to favored industries.

PHOTO: Larry Kudlow, the director of the National Economic Council, said the White House was open to negotiating with China, but it’s unclear whether Beijing will agree to attend scheduled talks this month. (PHOTOGRAPH BY BRENDAN MCDERMID/REUTERS) (A14)

* Trump Threatens Tariffs on All Imports From China, Escalating Trade Feud

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WSJ PRO CENTRAL BANKING

Markets

SEC Commissioner Calls for Regulators to Bolster Market Oversight; In a policy speech, Robert Jackson, a Democratic commissioner at the SEC, alleges the agency "stood on the sidelines" amid investor harm

By Gretchen Morgenson
978 words
18 September 2018
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WSJ Pro Central Banking
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English

Corrections & Amplifications

An earlier version of this article incorrectly stated Robert Jackson's middle initial and omitted Jr. from his name.

A top securities regulator is calling for his agency to beef up its oversight of the nation's stock exchanges to root out conflicts and curb rising fees that he says are harming investors.

In a policy speech to be delivered Wednesday, Robert J. Jackson Jr., a Democratic commissioner at the Securities and Exchange Commission, will allege that the SEC has "stood on the sidelines" as the New York Stock Exchange, **Nasdaq** Inc. and other market operators have significantly boosted their profits while raising investors' costs, according to a copy of his remarks.

Mr. Jackson will call on the SEC to ensure "that the exchanges' actions do not unduly burden competition and are fair and reasonable."

All of the currently active U.S. stock exchanges are for-profit enterprises, a reversal of the way the **stock market** operated for nearly two centuries. The NYSE, for instance, was a member-owned nonprofit until 2006 and was later acquired by Intercontinental Exchange Inc., an Atlanta-based global exchange operator. Critics charge that for-profit exchanges exploit their central position in the markets to extract greater fees from traders.

To gain access to the richest and fastest **stock-price** and trading information, banks and brokerage firms must pay the exchanges to connect to their data feeds. These costs have jumped in recent years, said Mr. Jackson, one of two Democrats on the five-person SEC.

Between 2013 and 2018, for example, connectivity fees more than tripled on the Bats Global Markets exchanges, he said. A spokeswoman for the Cboe Global Markets Inc., which acquired Bats in 2017, said, "Our connectivity offering has been significantly enhanced since the beginning of 2013. Then, a connection, which was offered free, covered two equity markets, and one new options exchange. Today, that same connection provides access to four equity exchanges and three options exchanges, which represent a major share of daily trading activity in those markets."

Mike Williams, executive director of the Equity Markets Association, which represents both the NYSE and **Nasdaq**, said, "U.S. exchanges are the most heavily regulated, transparent and trusted participants in our national equity trading infrastructure, and today provide more valuable, efficient and resilient trading and data services, at the lowest relative cost to investors, than at any time in history."

As a single minority commissioner, Mr. Jackson doesn't hold great sway on SEC policy at the moment. But his view echoes criticism from some market participants and others about market-data sales.

"It is very important that [stock exchanges] be regulated effectively," said Ken Bertsch, executive director of the Council of Institutional Investors.

Since technological advances have pushed down the prices of connectivity in other arenas, Mr. Jackson questioned why costs are rising for stock investors. Still, the SEC has approved every fee increase for connectivity to the nation's exchanges, Mr. Jackson said. In the future, he said, the agency should approve the increases only if the exchanges can justify them.

Mr. Jackson's speech is to be delivered at an event co-sponsored by George Mason University Law & Economics Center in Arlington, Va., and the Healthy Markets Association, an investor-oriented nonprofit.

In it, he also will highlight problems with the current two-tiered system for **stock-price** data—a slow, relatively cheap public feed and lightning-fast private feeds that traders can access for a steeper fee. Those who pay up for the private feed can trade ahead of investors using the public data, he said, receiving better prices on their trades.

"What does it say to mom-and-pop investors," Mr. Jackson said in an email, "that our stock markets are full of abuses like these?"

A remedy, Mr. Jackson wrote, is to bar exchanges from controlling the public feed while they sell access to private price data. The current setup has incentivized the exchanges to invest heavily in their private—and highly profitable—data feeds while letting the public system languish, he said.

The exchanges say they have invested in the public-data system in the past few years and significantly improved its speed, making it tougher for high-speed traders to exploit differences between the private and public data feeds.

Understanding how for-profit exchanges' practices are affecting investors is crucial for the SEC, Mr. Jackson said.

It is difficult to pinpoint how much the exchanges earn in connectivity and data fees because the companies' financial filings provide varying levels of detail on these revenue sources.

But Eric Budish, professor at the University of Chicago's Booth School of Business, estimates that in 2015 the three major exchange families—Bats, **Nasdaq** and NYSE—generated at least $675 million from sales of proprietary data products, connectivity and "co-location," which allows traders to co-locate equipment within exchange data centers, giving them faster access to stock trading.

Without the revenues from proprietary data products and connectivity, the exchanges wouldn't be profitable, Mr. Budish said.

"They have market power in the sale of data and connectivity specific to their exchanges," Mr. Budish said in an interview. "This helps explain why the exchanges might be hesitant to innovate in ways that would be good for the market as a whole."

Mr. Jackson also will argue that stock exchanges should no longer have immunity from investors' lawsuits because they also conduct regulatory activities. In 2012, when **Nasdaq** bungled the Facebook Inc. initial public offering, for example, it fought investor lawsuits by claiming regulatory immunity; **Nasdaq** later settled the case.

Even when exchanges are held liable for investor mistreatment, Mr. Jackson said, most enjoy an SEC-approved modest cap on liability each year.

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U.S. Markets
Markets

U.S. Stocks Shrug Off New Tariffs to Post Gains; Moves came despite news China will "undertake synchronous retaliation" against the U.S.

By David Hodari
685 words
18 September 2018
06:05 PM
The Wall Street Journal Online
WSJO
English

Corrections & Amplifications

President Trump announced on Monday that he would impose new levies on about $200 billion in Chinese goods. An earlier version of this article incorrectly stated the amount of the new levies.

U.S. stocks rose as investors viewed a fresh round of tariffs on Chinese goods, as well as China's early response, as more measured than expected.

Because the introduction of the latest tariffs will be staggered, there is cautious optimism there is time for negotiations between the countries, some traders said.

The **Dow Jones Industrial Average** gained 184.84 points, or 0.7%, to 26246.96 and the **S&P 500** rose 15.51 points, or 0.5%, to 2904.31, while the **Nasdaq Composite** gained 60.32, or 0.8%, to 7956.11.

Investors sold stocks around the world Monday in anticipation of the Trump administration's announcement and sent the Shanghai Composite to its lowest level since November 2014.

"Whenever there are tariff threat rumors, the market's knee-jerk reaction is to sell off," said Mohit Bajaj, director of ETF trading solutions at WallachBeth Capital. "But then when we realized it's smaller, we bounce back."

President Trump late Monday announced new tariffs on $200 billion in Chinese goods. The White House said the 10% tax is set to be next Monday on a range of Chinese imports, including luggage and seafood. That levy will rise to 25% at the end of 2018. In response, China's commerce ministry said it "has no choice but to undertake synchronous retaliation" to defend its interests and unveiled plans for tariffs on an additional $60 billion of U.S. goods.

The fresh round of tariffs marked an escalation of the continuing trade spat that has dogged relations between the world's two largest economies. But investors "were expecting tariffs of 25% and instead only got ones of 10% for now, so the reaction is quite positive," said Claudia Panseri, European equity strategist at UBS Global Wealth Management.

The technology sector was one corner of the market where the tariffs were embraced as less drastic than feared. The sector rebounded Tuesday, rising 0.6% in the **S&P 500** after dropping 1.4% a day earlier. Importers have in recent weeks sought to be spared from tariffs, with the Trump administration removing about 300 products initially included in the original tariff list released in early July. Smartwatches—after a direct request from Apple—and Bluetooth devices were among the products to be exempted from the levies.

Also helping the bounce from Monday's declines were market expectations that negotiations between Washington and Beijing, currently being planned for the coming weeks, will proceed as expected.

Some traders were interpreting the staggered introduction of the tariffs as a sign the Trump administration is still eager to reach a trade deal with China ahead of midterm elections in November, according to Stewart Cook, head of London sales trading at Berenberg.

The Stoxx Europe 600 rose 0.1% after China-exposed indexes shrugged off early pressure in Asia-Pacific trading. The Shanghai Composite Index added 1.8%, while Hong Kong's Hang Seng closed 0.6% higher.

The impact of the new tariffs on foreign-exchange trading was limited, with the Chinese yuan 0.1% lower against the dollar. The WSJ Dollar Index, which measures the U.S. currency against a basket of 16 others, rose 0.1%.

China's currency has fallen more than 5% against the dollar this year, with analysts pointing to trade tensions as a major factor behind increasingly torpid economic figures out of Beijing.

Meanwhile, the dollar's steady rise has stalled in recent weeks, with strategists suggesting that investors are becoming inured to the trade fight.

The dollar "won't price the same thing over and over again. Part of the recent slowing is that the Chinese were letting the yuan weaken, but since they effectively called a halt to weakening in the currency, we've seen things calm down," said Kit Juckes, chief foreign-exchange strategist at Société Générale.

—Corrie Driebusch contributed to this article

Write to David Hodari at David.Hodari@dowjones.com

Document WSJO000020180918ee9i00105

The New York Times

Breakingviews
Business Day; DealBook
Chinese I.P.O.s Are Bringing Casino Trading to New York

By Alec Macfarlane
427 words
18 September 2018
10:10 AM
NYTimes.com Feed
NYTFEED
English

Get the DealBook newsletter to make sense of major business and policy headlines — and the power-brokers who shape them.__________

Chinese start-ups are bringing the **volatility** of their homeland markets to New York.

The Tencent-backed news aggregator Qutoutiao more than doubled its share price on its first day of **Nasdaq** trading, before tumbling on the second. The luxury electric-car maker Nio, which has a market capitalization of almost $9 billion, seesawed almost as much. Small free floats and untested business models are partly to blame, but the erratic behavior will hurt future debuts.

Qutoutiao, an unprofitable start-up that gives cash rewards to its readers, priced its shares at the bottom end of a marketed range last week. Investors, it seemed, were put off by a lack of important operating licenses, and other signs of a rushed sale. But the shares rose nearly 130 percent from their listing value on the first day — only to crash 40 percent in the next session. Nio, China's answer to Tesla, had a similar ride. It priced at the low end of an ambitious range and had a damp start, but its shares soared nearly 80 percent on the second day.

In both cases, the oscillations — more frequently seen in mainland exchanges — triggered trading halts.

One credible explanation for the roller coaster effect is the small quantity of shares actually sold by Chinese debutantes, either because of stubborn founders, weak investor demand or both. Just 16 percent of Nio was sold. Qutoutiao put roughly 5 percent of itself on the market. That amplifies market mood swings.

Overall, the eight largest Chinese companies making U.S. debuts this year sold between 4 and 19 percent of their shares, according to the data provider Dealogic. That compares to between 14 and 86 percent for the top non-Chinese companies listing on the **Nasdaq** and the New York Stock Exchange.

Of course, weak pricing relative to early headlines will have contributed too.

Either way, trading with Chinese characteristics has damaging consequences. With even companies like the $27 billion shopping app Pinduoduo whipsawing this year, large institutional investors may be put off further listings, making it ever harder to build credible shareholder books. That would only accentuate the gambling problem further.

Eric Siliang Tan, the chairman and C.E.O. of Qutoutiao, in New York last week. His company's shares had a dramatic first two days of trading. | Drew Angerer/Getty Images

Document NYTFEED020180918ee9i00439

THE WALL STREET JOURNAL.

Best of the Web
Opinion
How Many Bank Bailouts Can America Withstand? The architects of the 2008 rescues pretend they've been vindicated.

By James Freeman
1,324 words
18 September 2018
01:56 PM
The Wall Street Journal Online
WSJO
English

This month Journal subscribers based in the U.S. can download a complimentary e-book edition of "Borrowed Time: Two Centuries of Booms, Busts, and Bailouts at Citi," co-authored by James Freeman.

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Ten years after the financial crisis of 2008, the architects of the bailouts are still describing their taxpayer-backed rescues of certain financial firms as great products which were poorly marketed to the American people. The American people still aren't buying.

A decade ago, federal regulators were in the midst of a series of unpredictable and inconsistent interventions in the financial marketplace. After rescuing creditors of the investment bank Bear Stearns and providing a partial rescue of its shareholders in March of 2008, the feds then shocked markets six months later by allowing the larger Lehman Brothers to declare bankruptcy. Then regulators immediately swerved again to take over insurer AIG and use it as a vehicle to rescue other financial firms.

Within days legislative drafts were circulating for a new bailout fund that would become the $700 billion Troubled Asset Relief Program. Throughout that fall of 2008 and into 2009, the government continued to roll out novel inventions to support particular players in the financial industry and beyond. Some firms received assistance on better terms than others and of course many firms, especially small ones outside of banking, received no help at all.

In the fall of 2008, Ben Bernanke chaired the Federal Reserve, Timothy Geithner ran the New York Fed and Hank Paulson served as U.S. Treasury secretary. Looking back now, the three bailout buddies have lately been congratulating themselves for doing a dirty but important job. They recently wrote in the New York Times:

Many of the actions necessary to stem the crisis, including the provision of loans and capital to financial institutions, were controversial and unpopular. To us, as to the public, the responses often seemed unjust, helping some of the very people and firms who had caused the damage. Those reactions are completely understandable, particularly since the economic pain from the panic was devastating for many.

The paradox of any financial crisis is that the policies necessary to stop it are always politically unpopular. But if that unpopularity delays or prevents a strong response, the costs to the economy become greater. We need to make sure that future generations of financial firefighters have the emergency powers they need to prevent the next fire from becoming a conflagration.

The authors say that their actions saved the United States and the world from catastrophe, but of course this claim cannot be tested. We'll never get to run the alternative experiment in which investors and executives all have to live with the consequences of their investments. But Stanford economist John Taylor has made the case that massive ad hoc federal interventions were among the causes of the conflagration. On the fifth anniversary of the crisis he noted that in 2008 markets deteriorated as the government was taking a more active role in the financial economy, which may have contributed to a sense of panic:

...the **S&P 500** was higher on September 19—following a week of trading after the Lehman Brothers bankruptcy—than it was on September 12, the Friday before the bankruptcy. This indicates that some policy steps taken after September 19 worsened the problem... Note that the **stock market** crash started at the time TARP was being rolled out... When former Treasury Secretary Hank Paulson appeared on CNBC on the fifth anniversary of the Lehman Brothers failure, he said that the markets tanked, and he came to the rescue; effectively, the TARP saved us. Appearing on the same show minutes later, former Wells Fargo chairman and CEO Dick Kovacevich—observing the same facts in the same time—said that the TARP... made things worse.

CNBC reported at the time on its Kovacevich interview:

TARP caused the crisis to get "much greater," he added.

"Shortly after TARP, the **stock market** fell by 40 percent," he continued. "And the banking industry stocks fell by 80 percent. How can anyone say that TARP increased the confidence level of an industry, when its **stock market** valuation fell by 80 percent."

Perhaps the argument can never be resolved. What is known but is conveniently left out of the Times op-ed is an acknowledgment of the role that regulators played in creating the crisis by encouraging financial firms to invest in mortgage debt, to operate with high leverage and to expect help in a crisis. The Times piece includes no mention of Mr. Bernanke and his Fed colleagues holding interest rates too low for too long, or the massive risks at Citigroup overseen by Mr. Geithner's New York Fed, or the mortgage bets at AIG approved by the Office of Thrift Supervision at Mr. Paulson's Treasury Department.

Foolish regulators creating bad incentives was nothing new, though Beltway blunders had rarely if ever occurred on such a scale. What was of course most shocking for many Americans in 2008 was observing so many of their tax dollars flowing into the coffers of large financial institutions. For months both the financial economy and the real economy suffered as Washington continued its ad hoc experiments favoring one type of firm or another.

In 2009 markets began to recover and, thanks in no small part to years of monetary expansion by the Federal Reserve, stock investors enjoyed a long boom. But when it comes to economic growth and wages for the average worker there was no such boom, just an era of discouraged Americans leaving the labor force. And by keeping interest rates near zero for years, the Fed punished savers and enabled an historic binge of government borrowing.

That federal borrowing binge was also enabled by the rescue programs. The basic problem was that once Washington said yes to bailing out large financial houses, politicians could hardly say no to anyone else. It was no coincidence that just months after enacting the $700 billion TARP, lawmakers enacted an $800 billion stimulus plan. So began the era of trillion-dollar annual deficits. Since the fall of 2008, federal debt has more than doubled and now stands at more than $21 trillion.

The expansion of government also included record-setting levels of regulation, which limited economic growth. A financial economy heavily distorted by federal housing policy was cast as the free market that failed, and decision-making affecting every industry was further concentrated in Washington.

Messrs. Bernanke, Geithner and Paulson make the case that they saved the financial system but failed to sell the public on the value of their interventions. It's a sale that can never be made. Even if the bailouts hadn't led to an era of diminished opportunity and skyrocketing federal debt, Americans would have resisted the idea that our system requires occasional instant welfare programs for wealthy recipients chosen by un-elected wise men.

The bailout buddies are now urging the creation of more authorities for regulators to stage future bailouts. The Trump administration should do the opposite, so that bank investors finally understand they will get no help in a crisis.

This column isn't sure how many bailouts of financiers the American political system can withstand but is certain that such efforts will never be welcomed by non-financiers.

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Bottom Stories of the Day will return tomorrow.

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(Teresa Vozzo helps compile Best of the Web. Thanks to Jackie Harty.)

***

Mr. Freeman is the co-author of "Borrowed Time: Two Centuries of Booms, Busts, and Bailouts at Citi," now available from HarperBusiness. This month Journal subscribers based in the U.S. can download a complimentary e-book edition.

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THE WALL STREET JOURNAL.

Markets

Many Investors Expect Global Growth to Slow; Fund managers say investors are moving out of emerging markets and into the U.S., a Merrill survey finds

By Mischa Frankl-Duval
420 words
18 September 2018
12:43 PM
The Wall Street Journal Online
WSJO
English

Investors are more **bearish** on the economic growth that has powered global markets than at any time since the height of the sovereign debt crisis, according to a leading funds survey.

The Bank of America Merrill Lynch survey also showed the high degree to which investors are moving out of emerging markets and into the U.S., where they still see prospects for strong corporate profits.

The number of investors who expect global growth to slow in the coming year has risen to its highest level since December 2011, according to fund managers surveyed by Bank of America Merrill Lynch. Back then, the global economy was coming off a period of rebounding following the financial crisis and the eurozone's debt crisis was gearing toward its peak.

A net balance of 24% of investors surveyed expect the global economy to grow more slowly in the next 12 months.

After a long period of synchronized growth, some economies are showing signs of slowing. Economic data from Europe have softened, and the International Monetary Fund recently revised down growth projections for a number of large emerging-market economies, including Argentina, Brazil and India.

Money managers remain keen on the U.S.

Asked which region offered the best prospects for corporate profits, a net 69% of those surveyed selected the U.S., the largest proportion since January 2015. Meanwhile, 21% of those polled were overweight U.S. equities, the largest proportion since January 2015, and up from 19% last month.

U.S. shares have outperformed the rest of the world, with the **S&P 500** up 8% year to date against negative returns in Europe and much of Asia.

U.S. corporate profits have been strong, and the IMF expects the U.S. economy to grow at 2.9% in 2018 and 2.7% in 2019.

As they put money into America, investors are rotating out of emerging markets.

Allocation to emerging-markets equities fell 9 percentage points from last month's survey. Fewer respondents said they had an outsize allocation to emerging markets than at any point since March 2016. As recently as this April, the developing world was respondents' favorite region.

Emerging markets have been hit by a mixture of domestic problems, concerns over trade protectionism and rising U.S. interest rates, which has also led to a stronger dollar.

Document WSJO000020180918ee9i0050l

THE WALL STREET JOURNAL.
U.S. EDITION

Election Uncertainty Spurs Hedging

By Gunjan Banerji
291 words
18 September 2018
The Wall Street Journal
J
B12
English

While the **stock market** has marched higher this quarter, investors are increasingly turning to options to protect their bets ahead of the U.S. midterm elections.

Autumn tends to be **volatile** for equities, and this year, investors are focused on a particular date: Nov. 6, when voters head to polls to determine whether Republicans will maintain their slim control of Congress or lose ground to Democrats.

Options prices on the **S&P 500 index** show investors are taking protective steps against higher **volatility** the week of Nov. 6, according to a Wells Fargo Securities note last week.

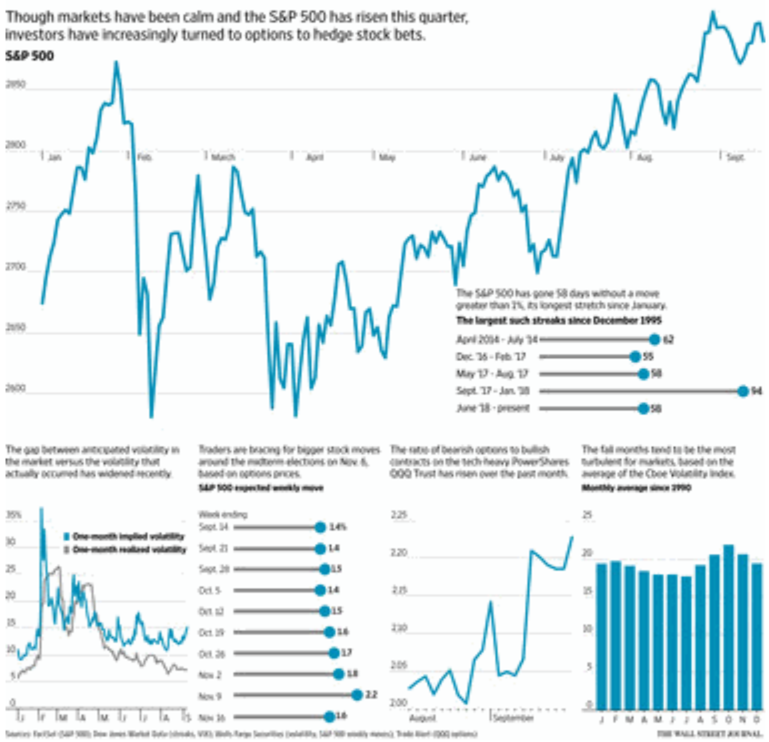
"It's a significant event," said Jeffrey Pavlik, chief investment officer of Pavlik Capital Management, who oversees options strategies on exchange-traded funds. "You're bound to have some effect" if the Trump administration's pro-growth and business-friendly agenda is potentially stymied, he said.

While turbulence in the market has been low recently, with the **S&P 500** up more than 6% so far this quarter, investor expectations for **volatility** are elevated, partly due to the election, analysts said.

For example, the **S&P 500** has gone 58 days without a move of greater than 1%, the longest streak since January.

Meanwhile, investors have been loading up on hedges for major ETFs that track small-cap, large-cap and technology companies, analysts said.

An options measure known as "skew" is elevated for the tech-heavy PowerShares QQQ Trust and iShares Russell 2000 Index ETF, which tracks small companies, according to Trade Alert. Skew measures how expensive **bearish** put options are relative to **bullish** call contracts. When it moves higher, that signals investors are paying up for protection.



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THE WALL STREET JOURNAL.

Heard on the Street
Markets
A Chinese Oil Slick for the Dollar? China's yuan-denominated oil futures contract is starting to look attractive

By Nathaniel Taplin
508 words
18 September 2018
07:52 AM
The Wall Street Journal Online
WSJO
English

China's ultra-speculative commodity markets have traditionally been territory where foreigners have feared to tread.

Recently, however, one contract has been gaining popularity—China's yuan-denominated crude-oil futures, which launched in March to much fanfare. One reason: Investors seem to be betting that China and Iran will start doing more of their oil trade in yuan as the Trump administration's November deadline for nations to cut Iranian oil imports looms closer. The yuan is still far from being a credible challenger to the dollar. But one downside to denying geopolitical rivals access to the dollar-based global payments system is that alternatives may start growing faster.

China's Shanghai-traded oil futures remain a distant third to the dollar-based contracts traded in New York and London, but they have gained ground quickly. In late March, following its first 24 hours of trading, the Shanghai contract captured 5% of the trading volume in global front-month oil futures, according to Thomson Reuters. By the end of July, it was at 14%. Trading in New York's West Texas Intermediate contracts declined to 57% of the front-month total from nearly 70% over the same period.

Most of the traders are almost certainly Chinese. But the contract has some attractive features that could eventually draw in other users, with U.S. rivals such as Iran and Russia likely at the forefront. Firstly, the contract itself is based on a blend of mostly sour and heavy crudes, more similar to the Middle Eastern oil many Asian refineries are designed for than the light, sweet oil behind the WTI and London-traded Brent contracts.

Secondly, unlike the ultra-**volatile** Chinese iron-ore contract, which has at various points traded at a 30% premium or more to spot prices, Shanghai crude has so far moved more or less in line with global benchmarks. One explanation is that foreigners have direct access to the market, and so large price gaps can be arbitraged away quickly. The only real exception was in early August, when new U.S. sanctions against Iran came into effect. Brent and WTI each fell about 1% that week. But oil in Shanghai jumped 2.5%, opening up a nearly $6 premium over the average price for the two big dollar-denominated contracts. China is Iran's biggest oil customer and has so far resisted U.S. pressure to curb imports again.

Foreign investors rightly remain wary of Chinese regulators, who have proven unpredictable in the way they oversee trading in other commodities in China.

But progress for Shanghai oil futures has been swifter than expected. Dollars are already getting scarcer around the world, particularly for developing Asian oil importers whose currencies often move in line with the yuan. Countries starving for dollars might soon start seeing Chinese takeout as a partial solution.

Write to Nathaniel Taplin at nathaniel.taplin@wsj.com

Document WSJO000020180918ee9i00231

THE WALL STREET JOURNAL.

Markets

Hedge Funds Struggle to Profit From Choppy Markets in Asia; Most Asian stock indexes were little changed Tuesday; Japan's benchmark Nikkei 225 had the biggest rise, up 1.6%

By Mike Bird
552 words
18 September 2018
06:34 AM
The Wall Street Journal Online
WSJO
English

Most Asian stock indexes rose Tuesday, despite the announcement of new tariffs on $200 billion of Chinese goods by the White House.

The Shanghai Composite Index rose 1.8%, rebounding after falling in morning trading in Asia, while Hong Kong's Hang Seng gained 0.6%. Japanese stocks also advanced, with the benchmark Nikkei 225 up 1.4%.

Tuesday's Big Theme

Hedge funds focused on Asia are having a difficult year.

What's Happening

For many years, hedge funds have looked forward to the return of choppier markets, hoping that would offer more opportunities to beat traditional money managers. But in Asia, a surge in stock, bond and currency **volatility** isn't having the desired effect.

Hedge funds focusing on Asia excluding Japan posted a decline of 3.1% in August, leaving them down 7% for the year, according to Hedge Fund Research, which compiles indexes showing how these investment vehicles have performed. Funds focused on China and India have both fallen more than 8% in 2018.

Through August, hedge funds focused on Western Europe and North America were up 5.6% and down roughly 0.7% for the year, respectively.

Although direct comparisons are difficult, because funds may be invested in various assets and have different risk profiles from typical institutional investors, the performance isn't impressive when set against broad benchmarks. MSCI's barometer of regional equities is down 3.6% this year, and Merrill Lynch's global high-yield and emerging-market bond index has lost about 1.1%, both on a total-return basis.

Data from Preqin, another data provider, also shows Asia-Pacific hedge funds among the worst performers recently.

Market Reaction

Fresh tariffs on $200 billion of Chinese goods were unveiled overnight. The U.S. tariffs will begin at 10% on Sept. 24 and rise to 25% at the end of the year, according to administration officials.

Analysts said the fact the tariffs didn't immediately start at 25%, plus continued negotiations, helped prevent a selloff.

"If sentiment around the talks is positive, the tariffs may be viewed as a pillow fight between the U.S. and China—lots of swinging but no real damage," Steve Englander, head of Group of 10 currency research at Standard Chartered, wrote in a note to clients.

Zhang Gang, senior analyst at Central China Securities, said there was growing consensus among investors the trade war will be protracted, with opportunities for the two countries to return to the negotiation table.

"The greatest market reaction may depend on the breadth and depth of China's retaliation," said analysts at Macquarie Group Ltd. Targeted efforts similar to Beijing's cuts in shipments of rare earths to Japan in 2010, which crimped that country's large electronics sector, could squeeze U.S. supply chains.

After most Asian markets were closed, Chinese government officials said Beijing would retaliate, without specifying precise measures.

Elsewhere

The U.S. dollar was up slightly against the Chinese yuan in offshore markets, rising 0.1% to 6.8651.

Shen Hong contributed to this article.

Write to Mike Bird at Mike.Bird@wsj.com

Document WSJO000020180918ee9i000ul

WSJ PRO CENTRAL BANKING

Economy

Clarida Sworn In | ECB Succession Race Tests German Faith | Wall Street Salaries Soar | Credit Suisse Rebuked | Hannon's Take: Wage Moves to Decide Timing of ECB Rate Rise; The Wall Street Journal's central banking newsletter for Tuesday, September 18, 2018

2,240 words
18 September 2018
05:43 AM
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RSTPROCB
English

Hannon's Take: Wage Moves to Decide Timing of ECB Rate Rise

Richard Clarida Sworn in as Vice Chairman of Federal Reserve Board

ECB Succession Race Tests German Faith in Bundesbank Model

Wall Street Salaries Continue to Soar

Credit Suisse Rebuked for Anti-Money-Laundering Failings

Wage Moves to Decide Timing of ECB Rate Rise

The European Central Bank on Thursday acknowledged what has become increasingly apparent: The eurozone economy has slowed, and its set to cool further in coming years.

However, the prospect of a weaker expansion than they had anticipated hasn't deterred policy makers from pressing ahead with the removal of some of the stimulus they have been providing to economic growth, and they confirmed their intention to end bond purchases under a scheme known as quantitative easing in December. The key to their continued confidence that inflation will settle at their target over coming years is to be found in a recent and still fragile pickup in wages.

As 2018 began, the ECB's economists expected any economic slowdown to start in 2019, forecasting a growth rate for this year that was essentially unchanged from what had been recorded in 2017, the best year for a decade. What they now expect is growth that is half a percentage point lower than in 2017, at 2% compared with 2.5%.

That is quite a big shift, but it appears to have had little impact on the ECB's policy intentions. That is because the expected growth rate remains well above the pace at which economists believe output can increase without pushing consumer prices higher, or its speed limit.

For the eurozone, that limit is pretty low, and most estimates put it somewhere around 1.25%. But guessing where a speed limit lies is one thing, and hard evidence that it is being exceeded is quite another. Which is where wages come in.

According to the measure favored by the ECB—pay per employee—wages were 2.3% higher in the second quarter than in the same period a year earlier, a significant pickup from the 1.8% increase seen in the first quarter and the fastest rise since the end of 2008. For policy makers, that is a clear sign that spare capacity is nearly or already has been used up, and inflationary pressures are building.

By another metric—pay per hour—that is used by the European Union's statistics agency, the pickup was much more modest, to 1.9% from 1.8%, a rate that was exceeded as recently as the second quarter of last year.

Whatever the metric, what is clear is that wage growth will be key to the ECB's decision as to when to raise its key interest rate for the first time since 2011. It has said that won't happen before the end of summer 2019, but exactly how soon after that is uncertain.

The ECB's economists expect wage rises to continue at around the current pace into next year, and pick up again in 2020. So it isn't the case that pay rises have to move significantly higher to trigger a rate move. It is the case that a fresh slowdown might delay a rate rise into 2020.

Key Developments Around the World

Richard Clarida Sworn in as Vice Chairman of Federal Reserve Board

Columbia University economist Richard Clarida was sworn in as the Federal Reserve's vice chairman Monday, the central bank said in a statement. Mr. Clarida will serve as the No. 2 to Fed Chairman Jerome Powell, who administered the oath of office. Mr. Clarida was nominated to a four-year term as vice chairman in April by President Trump, and the Senate confirmed his nomination in August on a 69-26 vote. Mr. Clarida was a managing director and global strategic adviser at Pacific Investment Management Co. and an economics professor at Columbia. He is a Republican and monetary-policy specialist who is well regarded by economists on both sides of the aisle.

ECB Succession Race Tests German Faith in Bundesbank Model

The race to succeed Mario Draghi as European Central Bank president presents Germany with a stark choice: Back the country's own candidate, a foe of Mr. Draghi's 2.5-trillion-euro bond-buying program, or concede that once-unorthodox monetary tools are here to stay. Germany's central bank, long a powerful voice in the global fight against inflation, has grown out of sync in the postfinancial crisis era of stagnant prices and wages, with its greatly expanded role for central banks and outside-the-box policies. "Perhaps the sands have shifted," said Stefan Gerlach, former deputy governor of Ireland's central bank. "Having been on the wrong side of history, at least as it appears now, has not helped the Germans."

ECB May Give More Rate Guidance

The European Central Bank might start providing additional guidance on the likely pace of future interest-rate increases, a senior ECB official said Monday. Benoît Coeuré, a member of the ECB's executive board, added, however, that the central bank shouldn't follow the Federal Reserve in giving precise interest-rate forecasts. Mr. Coeuré argued that additional guidance might be needed because the future path of inflation is unusually uncertain, and because central banks are entering unknown territory as they phase out novel stimulus tools such as large-scale bond purchases.

RBA Downplays Risks Around Mortgage Rate Increases

The Reserve Bank of Australia is downplaying risks to the housing market from rising mortgage interest rates, saying that the cost of funding a home loan is still below that a year ago. In minutes of its Sep. 4 policy meeting released Tuesday, the RBA said that at the time of the board gathering, lenders accounting for around 40% of the market had raised mortgage lending rates.

Quick Hits: Mounting Inflation a Global Issue, Report Says

Rising inflation could keep central banks around the world on a path of tighter monetary policy, minutes from Sweden's central bank were seen as more hawkish than expected, and Brazil's central bank could raise rates this week. Here are quick hits on central banking and related market views from around the world.

FINANCIAL REGULATION ROUNDUP

A Czar of Overseas Day Trading Is Banned From U.S. Brokerage Industry

A pioneer in the lucrative business of overseas day trading was banned from the U.S. brokerage industry Monday, the latest target of a government campaign to root out alleged manipulation in American markets stemming from foreign trading floors. The trader, Simon Librati, agreed to a five-year suspension from 10 U.S. stock exchanges and a $400,000 fine, according to disciplinary settlements with U.S. regulators resolving a nearly five-year investigation of his firms' trading. The outcome ends Mr. Librati's ability to control or work for a U.S. brokerage firm, although it doesn't bar him from trading personally. That is typical of such cases. Mr. Librati, who neither admitted nor denied the allegations, has been involved in high-stakes trading for over a decade, providing what U.S. regulators say was a conduit for overseas traders engaged in rapid-fire manipulation, mainly from China and Eastern Europe.

Singapore Authorities Question Deutsche Bank Executive Over 1MDB Scandal

A senior Deutsche Bank AG executive has been interviewed by authorities in Singapore as part of their investigation into the multibillion-dollar scandal at Malaysian state fund 1Malaysia Development Bhd., or 1MDB, people familiar with the probe said. These people identified the executive as Tan Boon-Kee, who until recently was Asia Pacific head of Deutsche Bank's financial institutions group. She was recently interviewed by Singapore police, these people said Monday. It couldn't be determined when Ms. Tan was interviewed or whether she has been charged with any wrongdoing. Efforts to reach Ms. Tan for comment were unsuccessful.

Women Rarely Run the Biggest Audits at the Big Four Accounting Firms

Three of the Big Four accounting firms in the U.S. now have women in the corner office, but auditing still has a large gender gap. A forthcoming study suggests women are underrepresented among the accounting-firm partners who head the outside audits of America's biggest public companies. Only 15% of the "engagement partners" in charge of each **S&P 500** company's audit are women, according to the study by the CFA Institute, which represents chartered financial analysts. The study is expected to be published this week. In addition, according to the study, women are even less likely to head the audits of the largest companies—only 11% of the engagement partners for the audits of S&P 100 companies are women—as well as old-line companies that have been with their current audit firms for decades.

Wall Street Salaries Continue to Soar

The average compensation for employees of Wall Street firms climbed more than 10% last year, according to a report released Monday. The average salary and bonus for employees at broker-dealer firms in New York City increased to $422,500 in 2017 and to $389,000 for securities-industry employees on Long Island, according to New York State Comptroller Tom DiNapoli's annual survey. The average wage for all industries in New York state is $61,460, according to the New York State Department of Labor. Mr. DiNapoli said the statewide average salary in the securities industry grew 12% to $403,100 in 2017.

Credit Suisse Rebuked for Anti-Money-Laundering Failings

Credit Suisse Group AG was ordered to bolster its anti-money-laundering processes by Switzerland's financial regulator on Monday, but avoided any financial penalties for its shortfalls. The regulator, Finma, stopped short of imposing fines on the Swiss banking giant after uncovering shortfalls over nearly a decade through 2014 in the bank's dealings with South American oil companies and Swiss-based FIFA, the world's top governing body for soccer.

Wednesday

Time N/A

Bank of Japan releases policy statement

Time N/A

Bank of Thailand releases policy statement

Time N/A

Central Bank of Brazil releases policy statement

2:30 a.m. EDT

Bank of Japan's Kuroda holds press conference

4 a.m. EDT

Bank of England's Haldane speaks at Bank of Estonia in Tallinn

8:30 a.m. EDT

U.S. Commerce Department releases August housing starts

9 a.m. EDT

ECB's Draghi speaks in Berlin

The Rise of Macroprudential Policies

The use of macroprudential tools has increased since the global financial crisis, and particularly among developed countries since 2015, but it isn't clear that they work, write Eugenio Cerutti, Stijn Claessens and Luc Laeven in a posting on VoxEU. "The jury is out on how much macroprudential polices can deliver in terms of overall financial stability," they write. "We still do not know how effective these policies will be for financial stability broadly as implementation of many macroprudential instruments is very recent and most countries have not gone through a full economic and financial cycle. Further research and better data are also needed in order to understand the interaction of macroprudential policies with other policies (e.g., capital control measures), the best way to implement policies over the cycle (rules versus discretion), their economic costs, and the best way to deal with political economy constraints."

Bailouts Shouldn't Be Only for Banks

"The perceived lack of attention to ‘Main Street' fed public suspicion of the bailouts" during the financial crisis, and "the government should have directed a mass refinancing of mortgages for primary homes in which the borrower was current in payments," Glenn Hubbard writes for The Wall Street Journal. "This would have led to an increase in disposable income and in home prices totaling more than $100 billion," says Mr. Hubbard, the dean of Columbia Business School who served as chairman of the Council of Economic Advisers under President George W. Bush. But the government's homeowners initiatives "lacked the boldness of the bank bailouts, and Americans noticed." He adds that "policy makers need to determine in advance how they will support the financial system in a crisis so that stakeholders can adjust. Just as important, they must explain these interventions and build public support for them by making sure the benefits reach ordinary Americans directly. One lesson of the crisis a decade ago is that the loss of such public support is very hard to regain."

Business activity in New York's manufacturing industry grew at a slower rate this month compared with August, as shipments and unfilled orders fell while inventories rose.

The International Monetary Fund said Monday that an abrupt and messy break from the European Unionwould cause harm to the British economy, adding that the U.K. won't be prepared for such an outcome when Britain leaves next March.

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

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The New York Times

Business/Financial Desk; SECTB
Hot Streak Fizzles as U.S. and China Square Off Over New Tariffs

By THE ASSOCIATED PRESS
839 words
18 September 2018
The New York Times
NYTF
Late Edition - Final
8
English

A slide in technology companies helped pull stocks lower on Monday, snapping a five-day winning streak for the market.

The sell-off accompanied speculation that the Trump administration was preparing to impose tariffs on an additional $200 billion worth of Chinese goods. The two governments have already imposed 25 percent tariffs on $50 billion of each other's goods, and another round of tariffs would represent a significant escalation in the trade dispute between the world's two largest economies.

Investors used the prospect of a deeper United States-China trade conflict to take some profits, especially in technology stocks, the market's biggest gainers this year. Department stores and other consumer-focused companies also accounted for a big slice of the losses. Safe-play sectors like real estate and utilities rose. **Oil prices** fell, erasing early gains.

The **Standard & Poor's 500**-**stockindex** fell 16.18 points, or 0.6 percent, to 2,888.80. The **Dow Jonesindustrial average** lost 92.55 points, or 0.4 percent, to 26,062.12.

The tech-heavy **Nasdaq composite** gave up 114.25 points, or 1.4 percent, to 7,895.79. The Russell 2000 index of smaller companies fell 18.17 points, or 1.1 percent, to 1,703.55. Most stocks on the New York Stock Exchange closed lower.

The United States has been locked in an escalating trade dispute with China. Washington contends that Beijing uses predatory tactics to acquire technology know-how in an effort to overtake America's global dominance in technology.

Over the weekend, news reports indicated that the White House was set to announce tariffs on $200 billion more in Chinese imports as soon as Monday. Beijing has said it will swiftly retaliate against additional tariffs.

The uncertainty over the trade dispute has at times roiled the market, but not derailed it from making gains on the strength of corporate earnings and a growing American economy. That suggests that many investors, for now, expect the two sides will work out a deal.

''It's a short-term, immediate-term thorn in the market's side,'' said Ted Theodore, chief investment officer of TrimTabs Asset Management. ''A big part of it is not knowing what the game plan is.''

Technology companies led the market's slide. Apple lost 2.7 percent to $217.88, while Netflix slumped 3.9 percent to $350.35. Twitter fell 4.2 percent to $28.86 after an analyst cut the price target.

Amazon.com lost 3.2 percent to $1,908.03 after The Wall Street Journal reported that it was investigating suspected bribes and data leaks by its employees.

Several big department store chains declined. Macy's slid 3.1 percent to $35.16. Kohl's lost 2 percent to $79.26. Gap gave up 2.6 percent to $27.05.

Traders bid up shares in companies that got favorable news from government regulators.

Teva Pharmaceutical climbed 2.5 percent to $23.43 after the Food and Drug Administration approved its preventive migraine treatment.

Express Scripts jumped 3.7 percent to $95.23 after regulators cleared the way for Cigna to buy it. Cigna rose 1.4 percent to $197.84.

Bond prices were little changed. The yield on the **10**-**year Treasury** dipped to 2.99 percent.

The dollar fell to 111.81 yen from 112.02 yen on Friday. The euro strengthened to $1.1684 from $1.1624.

Oil prices declined, wiping out gains from earlier in the day. Benchmark United States crude lost 0.1 percent to settle at $68.68 a barrel in New York. Brent crude, used to price international oils, fell 0.1 percent to close at $78.05 a barrel in London.

In other energy trading, wholesale gasoline slipped 0.3 percent to $1.98 a gallon, heating oil fell 0.1 percent to $2.21 a gallon, and natural gas jumped 1.7 percent to $2.81 per 1,000 cubic feet.

Gold rose 0.4 percent to $1,199.70 an ounce. Silver added 0.6 percent to $14.22 an ounce. Copper gained 0.2 percent to $2.65 a pound.

Major stock indexes in Europe finished mostly lower. The DAX in Germany dropped 0.2 percent, while in France, the CAC 40 lost 0.1 percent. In London, the FTSE 100 ended flat.

In Asia, the South Korean Kospi fell 0.7 percent and the Hang Seng index in Hong Kong tumbled 1.3 percent. The Australian S&P/ASX 200 rose 0.3 percent. Japanese markets were closed for a national holiday.

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 Monday. (Source: Reuters); 3-Month Treasury Bills: High rate at weekly auction. (Source: The Bond Buyer)

Document NYTF000020180918ee9i00059

The New York Times

Business/Financial Desk; SECT
Apple Shares in a Time of Trade War: DealBook's One Thing to Watch Today

By MICHAEL J. de la MERCED
342 words
18 September 2018
The New York Times
NYTF
The New York Times on the Web
English

Get the DealBook newsletter to make sense of major business and policy headlines -- and the power-brokers who shape them.

Shares of some of America's consumer goods companies and tech giants could be hit this week by Washington's escalating trade battle with Beijing -- and Apple may be particularly vulnerable.

The news: President Trump is expected to unveil tariffs of around 10 percent on $200 billion worth of Chinese goods as soon as Monday. The levies are expected to affect a broad range of consumer goods, from furniture to Apple Watches. Some Chinese officials advising the government in Beijing have proposed restrictions on the sale of materials and equipment that are important for American manufacturers, according to The Wall Street Journal, citing unnamed sources. Those officials specifically said that such curbs could affect Apple, though they didn't explain how.

Back story: Apple has warned that the tariffs could hurt sales of its devices, including Apple Watches and HomePod speakers. In a letter to the United States trade representative, Robert Lighthizer, sent earlier this month, the company wrote: ''Because all tariffs ultimately show up as a tax on U.S. consumers, they will increase the cost of Apple products that our customers have come to rely on in their daily lives.''

What it means: New levies and extra punitive actions by China could force Apple to raise the prices of its devices just ahead of the holiday season -- a crucial sales period for the company. There appears to be little sign that either Mr. Trump or the Chinese government will de-escalate the situation.

What to watch: Apple's **stock price**. Its shares fell 1 percent on Friday as reports of the new tariffs emerged, and a further 0.5 percent in premarket trading on Monday.

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The New York Times

Business Day
Betting Against Tesla: Short-Sellers Make Their Case

By Neal E. Boudette
1,591 words
17 September 2018
03:00 AM
NYTimes.com Feed
NYTFEED
English

For the past year, Elon Musk has waged a bitter war of words with short-sellers, the investors who are betting billions of dollars that Tesla will fail.

On Twitter and in interviews, he has called them haters and jerks who know little about electric cars. He has accused them of spreading false information and amplifying negative news about Tesla in hopes of dragging down its **stock price**. Their goal, in Mr. Musk's view, is nothing less than Tesla's destruction.

George Noble doesn't fit that description. Manager of his own hedge fund, Noble Capital Advisors, he rarely comments on Tesla in public or on Twitter, and he comes with an impressive pedigree. He has been following and investing in car companies for nearly 40 years, having started his career an auto analyst and then a rising fund manager at Fidelity in the 1980s.

"I'm not one of these individuals with superficial knowledge who's tweeting garbage on Twitter," said Mr. Noble, 61. "I've followed this industry a long, long time. I'm not a bomb-throwing hack."

There's no doubt Tesla and Mr. Musk, the company's high-profile chief executive, have plenty of detractors, especially on Twitter, where some critics trumpet vitriol and unsubstantiated information about the company and its business. But many of those who believe that Tesla is destined for a major restructuring — or even collapse — are buttoned-up investors. They base their view not on antipathy for Tesla or Mr. Musk, but on cold financial calculations, including its heavy debt load and voracious cash burn.

"This isn't only about Musk," said Mark B. Spiegel, a managing partner at Stanphyl Capital, which has a large position shorting Tesla. "It's about a terrible capital structure, because of the debt, and a **stock price** that is out of whack with the demand for the product and the competition that's coming in."

Mr. Spiegel said he had spoken out to "educate people" about Tesla's finances. "I'm just putting facts out there that counter the claims Musk puts out there," he said. "We don't make up reasons to short something."

Tesla did not respond substantively to a request for comment for this article.

Here are some of the reasons that skeptics like Mr. Nobel and Mr. Spiegel offer for their position.

The stock is overvalued

Unlike Mr. Noble, Mr. Spiegel regularly tweets about Tesla and makes no secret of his skepticism about the company and Mr. Musk. He acknowledges that his fund was "massacred" by the surge in Tesla's **stock price** in the second quarter, but believes his short position will pay off in the end.

The main reason that Tesla is the most shorted stock on Wall Street is its market valuation of $50 billion. Until recent declines in its stock, Tesla was worth more than General Motors. But in 2017, G.M. sold 9.6 million cars and trucks and made $12.8 billion in pretax profit. Tesla sold just over 100,000 cars in 2017, and lost $2.2 billion.

Mr. Noble said the image of an unprofitable company with a lofty market value harked back to the dot-com era, when enthusiastic investors drove up the stock prices of even start-ups that had no revenue and no profits.

"It's not that I don't like Tesla," he said. "The cars are cool — the acceleration, the torque." But a struggling, highly leveraged company with a valuation of $50 billion, he said, is "one of the biggest bubbles in the market."

The company is burning through cash

The argument against Tesla almost always cites its finances — whose shaky state, Mr. Spiegel contends, is often obscured by the hype over its cars and by Mr. Musk's own tweets and ambitious ideas, such as an electric semi truck and his hope to transport people through networks of underground tunnels.

With cars priced at $70,000 and up, a company selling more than 100,000 a year would normally rake in hefty profits. But Tesla still spends more money than it takes in, consuming nearly $1 billion every three months.

Tesla had $2.2 billion in cash at the end of June, but needs more. About half the cash is restricted, because it comes from customer deposits that it may have to refund if customers decide not to buy. The accounts-payable line on its balance sheet shows Tesla also owes its suppliers and other contractors $3 billion. It has a convertible bond payment of $230 million due in November and another of $920 million due next March.

Mr. Musk has vowed that a sharp increase in sales of the Model 3 sedan in the current quarter will drive up revenues enough to make Tesla profitable and provide the funds it needs, but short-sellers are skeptical.

Gabe Hoffman, 41, general partner at Accipiter Capital Management, a hedge fund that has shorted Tesla, points to the ratio of how much cash Tesla has and could access quickly and how much it owes in the short term. Because of its shortage of cash and all its liabilities, "Tesla looks worse than General Motors one quarter before it filed for bankruptcy," Mr. Hoffman said.

Beyond the headline numbers, short-sellers point to other, less visible concerns. Vincent Wolters, an individual investor who lives in Zurich and has shorted Tesla shares, has written detailed reports showing that Tesla's costs have been rising even as it makes more cars — the opposite of what profitable carmakers experience. Expenses for sales, general and administrative costs were more than Tesla's gross profit in both of the last two quarters, when it was making more cars than ever.

"To me that doesn't sound like a good long-term business model," Mr. Wolters said.

Elon Musk does not inspire confidence

Marc Cohodes, a former fund manager now investing on his own, decided to short the stock in August, prompted by an interview with The New York Times in which Mr. Musk was described as alternating between laughter and tears while describing an "excruciating" year that had taken a toll on his physical and emotional well-being.

The interview took place after the chief executive tweeted that he planned to take Tesla private at $420 a share and had "funding secured," a statement that has prompted the Securities and Exchange Commission to investigate whether he had misled investors, possibly violating securities laws. Two weeks later, Mr. Musk smoked marijuana during an interview shown on YouTube.

The chief of any company needs to be disciplined and to "execute at a high level," Mr. Cohodes said. But the string of recent events has convinced him that Mr. Musk is "not mentally fit" to deal with all of Tesla's challenges successfully. "I view Elon as a tragic figure," he added.

The New York Times, citing three people familiar with the thinking of board members, reported last month that some had grown alarmed by what they saw as Mr. Musk's erratic behavior. But after the reversal of his plan to take the company private, the independent directors — all those aside from Mr. Musk and his brother — declared, "We fully support Elon as he continues to lead the company moving forward."

There are questions about demand for Tesla's cars

For Mr. Noble, the biggest doubt about Tesla is whether consumers are actually clamoring to buy its cars. The company has reported that more than 400,000 people have paid deposits of $1,000 each to reserve Model 3s.

"That suggests that every car they make has a paying customer waiting for it," Mr. Noble said. "That is the heart of Tesla's story. That's why people buy the stock, because it looks like they have unlimited demand."

But some recent actions by Tesla suggest that may not be the case. The weekend after Labor Day, it held a "sales event" at its plant in Fremont, Calif., allowing deposit holders to stroll among several hundred cars and pick one to buy. Hundreds more have been parked for weeks at lots in Burbank and Lathrop, Calif.

On Friday, Tesla sent an email to customers and deposit holders inviting them to test drive a Model S or X overnight — the kind of marketing event that car companies organize to drum up sales.

“That’s inventory,” Mr. Hoffman said. “Everything they produce is supposed to be delivered or in transit on the way to the customer. If there’s nothing wrong with demand, why are there all these cars in Burbank? Something doesn’t add up.”

Asked to address the doubts raised about inventory, as well as Tesla’s finances and demand for its cars, the company’s chief spokesman, Dave Arnold, sent a one-sentence reply on Saturday: “We will get back to you shortly.”

The italics emphasizing the adverbial form of “short” were left to interpretation. By Sunday evening, Tesla had not responded further.

A tent set up at Tesla's factory in Fremont, Calif., to augment production of the Model 3. Elon Musk has tied his company's profitability to a sharp rise in Model 3 sales. | Justin Kaneps for The New York Times | Mr. Musk at a meeting with state governors last year. The Securities and Exchange Commission is looking into a claim he made in August about having "funding secured" to take Tesla private. | Reuters

Document NYTFEED020180917ee9h001b9

THE WALL STREET JOURNAL.

Heard on the Street
Markets
Teva Investors Get Headache Relief; New migraine drug is big win amid turnaround of generics business

By Charley Grant
320 words
17 September 2018
12:08 PM
The Wall Street Journal Online
WSJO
English

Generic-drug investors had an unfamiliar start to the week: good news that led to a stock rally.

Teva Pharmaceutical Industriesannounced Friday evening that it had secured Food and Drug Administration approval for its new antimigraine drug, Ajovy. Teva shares were up 5% by midday Monday in New York.

Ajovy sales won't make or break Teva's fortunes. Preventive migraine treatment is a growing but competitive market. Novartis and Amgen won FDA approval for a similar drug in May while Eli Lilly has a competing product that might reach market soon. Analysts at Leerink Partners expect annual Ajovy revenue of $629 million by 2023—a small fraction of Teva's projected annual sales.

Teva, unlike generic competitors, benefits from a hybrid model with some original drugs like Ajovy. It will carry higher profit margins than the bulk of Teva's product portfolio, helping to counter the effects of falling generic-drug prices. That trend has hammered Teva's profit margins and, in turn, its **stock price**, which is down 70% from its 2015 high. Higher profit margins also should also help reduce Teva's $30 billion debt load more quickly.

Beyond the immediate financial impact, the news is a big win for Chief Executive Kare Schultz, who took the top job last fall. Teva had disappointed investors all too often in recent years. Missing guidance for key operational and financial forecasts had become the norm. Winning regulatory approval for Ajovy was anything but certain so the market's reaction is warranted. Over the summer, the FDA had identified several issues during an inspection of a plant that belongs to Teva's manufacturing partner.

This time, though, Teva managed to deliver. Mr. Schultz's rebuilding efforts are in their early stages, but investors can point to some tangible progress.

Document WSJO000020180917ee9h004jx

THE WALL STREET JOURNAL.

Markets

Election Uncertainty Spurs Investors to Hedge; Options prices on the S&P 500 index show investors are taking protective measures against higher volatility the week of Nov. 6

By Gunjan Banerji
391 words
17 September 2018
08:00 AM
The Wall Street Journal Online
WSJO
English

While the U.S. **stock market** continues its march higher, investors are increasingly turning to options to protect their bets ahead of the U.S. midterm elections.

Autumn tends to be a **volatile** period for the **equity market**; and this year, investors have been increasingly focused on a particular date: Nov. 6, when voters head to polls to determine whether Republicans will maintain their slim control of Congress or lose ground to Democrats.

Options prices on the **S&P 500 index** show investors are taking protective measures against higher **volatility** the week of Nov. 6, according to a Wells Fargo Securities note last week.

"It's a significant event," said Jeffrey Pavlik, chief investment officer of Pavlik Capital Management, who oversees options strategies on exchange-traded funds. "You're bound to have some effect" if the Trump administration's pro-growth and business-friendly agenda is potentially stymied, he said.

While turbulence in the market has been low recently, with the **S&P 500** up 6.9% so far this quarter, investor expectations for **volatility** have been elevated, partly due to the election, analysts said.

For example, major equity indexes posted gains last week, and the **S&P 500** has gone 57 days without a move of greater than 1%, the longest streak since January.

Meanwhile, investors have been loading up on hedges for major ETFs that track small-cap, large-cap and technology companies, analysts said.

An options measure known as "skew" is near a one-year high on the iShares Russell 2000 Index ETF, which tracks small companies, according to options data provider Trade Alert. It is also elevated for the tech-heavy PowerShares QQQ Trust. **Bearish** put options on the QQQ fund have been particularly popular, according to Wells Fargo.

Skew measures how expensive **bearish** put options are relative to **bullish** call contracts. When it moves higher, that is a sign that investors are paying up for protection.

"There's uncertainty ahead of the elections," said Peter Cecchini, chief market strategist at Cantor Fitzgerald.

To receive our Markets newsletter every morning in your inbox, click here.

Write to Gunjan Banerji at Gunjan.Banerji@wsj.com

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THE WALL STREET JOURNAL.

U.S. Markets
Markets

Stocks Fall as Trade Threats Mount; Moves follow news that the U.S. trade fight with China is set to escalate this week; tech sector falls

By Akane Otani and Riva Gold
580 words
17 September 2018
04:50 PM
The Wall Street Journal Online
WSJO
English

* Technology shares slide

* Trade worries weigh on global stocks

* Shanghai stocks close at lowest since 2014

U.S. stocks slipped Monday, sending the **Nasdaq Composite** to its biggest one-day loss since July, as fresh trade threats between the U.S. and China stoked caution among investors.

Signs that the U.S. trade fight with China is set to escalate this week capped stock gains and sent the dollar lower. The Trump administration is planning to unveil new tariffs on $200 billion in Chinese goods, with President Trump saying Monday that he would make an announcement after the end of the trading day. Chinese officials have said they could pull out of trade talks if President Trump carries out his plans.

"The big question is what happens with tariffs, because they're the one thing people worry could cause the economy to roll over," said Brent Schutte, chief investment strategist at Northwestern Mutual Wealth Management.

The **Dow Jones Industrial Average** fell 92.55 points, or 0.4%, to 26062.12, ending near its low for the day. The **S&P 500** lost 16.18 points, or 0.6%, to 2888.80, snapping a five-day winning streak, and the **Nasdaq Composite** dropped 114.25 points, or 1.4%, to 7895.79.

Even with Monday's pullback, U.S. stocks remain near records. Analysts have attributed the relative resilience of the market to trade developments so far being incremental and having a minimal impact on the U.S. economy.

"We already have real trade issues," but it doesn't appear that the U.S. and China have reached the point of no return, said Jason Ware, chief investment officer at Albion Financial Group. "If we get there, that will be truly problematic for the economy and markets," he said.

Shares of technology-focused companies retreated, weighing on the **Nasdaq**.

Amazon.com slid $62.16, or 3.2%, to $1,908.03 after the company confirmed a Wall Street Journal report that it was investigating suspected data leaks and bribes of employees. Twitter, whose price target was lowered by an analyst at MoffettNathanson, shed 1.26, or 4.2%, to 28.86, while Apple lost 5.96, or 2.7%, to 217.88.

Beyond trade, investors and analysts say they are looking ahead to next week's Federal Reserve meeting, where the central bank is widely expected to raise short-term interest rates for the third time this year.

The WSJ Dollar Index, which measures the dollar against a basket of 16 currencies, fell 0.3%.

Elsewhere, the Stoxx Europe 600 swung between small gains and losses and ended up 0.1%.

Italy's FTSE MIB Index rose 1.1% as investors bet the country's coming budget won't set it on a collision course with the European Union.

The latest trade worries continued to hurt Asian stocks, with the Shanghai Composite falling 1.1% to its lowest level since November 2014 and Hong Kong's Hang Seng dropping 1.3%.

Analysts pointed to muted trading volumes across the region resulting from Typhoon Mangkhut and a holiday in Japan, where markets were closed.

Amrith Ramkumar contributed to this article.

Write to Akane Otani at akane.otani@wsj.com and Riva Gold at riva.gold@wsj.com

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WSJ PRO CENTRAL BANKING

Economy

Quick Hits: Mounting Inflation a Global Issue, Report Says; In Sweden, minutes released by the central bank were seen as more hawkish than expected

By WSJ Staff
686 words
17 September 2018
05:24 PM
WSJ Pro Central Banking
RSTPROCB
English

Rising inflation could keep central banks around the world on a path of tighter monetary policy, minutes from Sweden's central bank were seen as more hawkish than expected, and Brazil's central bank could raise rates this week. Here are quick hits on central banking and related market views from around the world.

Mounting Inflation a Global Issue, Economists' Report Says

Capital Economics says in a report Monday that rising inflation is a global issue that will keep central banks around the world on a tightening path. "Core inflation rate will probably rise quite sharply in the US next year but then drop back as the economy slows, while elsewhere we expect it to rise more slowly," the firm told clients. "We do not expect a dramatic increase in inflation because earnings growth remains fairly unresponsive to falling unemployment and **oil prices** are likely to fall next year, which would be a drag on headline inflation," they add.

Michael S. Derby

Riksbank Minutes More Hawkish Than Expected

The Riksbank minutes released Monday were somewhat more hawkish than expected as the dovish majority of the board didn't rule out a rate increase around the turn of the year, says Torbjorn Isaksson at Nordea. "All in all, for now we stick to our forecast that a first rate hike still is a long way off, but the probability for a rate hike in December or February has increased." It is a very close call if the Riksbank's forecasts for inflation and gross domestic product are revised downward before those meetings, he adds. "If Riksbank hike rates, then it will be a one-off rather than a start of a hiking cycle." The Swedish krona rises, with EUR/SEK down 0.4% at 10.4774.

Dominic Chopping

Norges Bank Seen Boosting Krone on Thursday

An interest-rate increase by the Norges Bank on Thursday is widely expected and already broadly priced into the Norwegian krone, but the currency is still likely to rise as the central bank will likely signal more rate increases will follow, says FX Knowledge. It recommends "holding on EUR/NOK downside and/or AUD/NOK downside." It says to avoid NOK/SEK for now because Riksbank may be "less tolerant" of Swedish krona weakness. Norges Bank should raise rates more than once because inflation is rising, FX Knowledge says, adding that some are arguing that Norway may be "behind the curve."

Olga Cotaga

Brazil Rate Rise Possible Wednesday

Brazil's central bank is likely to increase the interest rate by 25 basis points to 6.75% on Wednesday, says Société Générale, even though this may "risk the fury of the electorate weeks before the first round of the presidential election." This should be positive for the Brazilian real. Inflation fell recently, but "this hasn't caused **bearish** investors to back off." The real is one of the hardest hit emerging-market currencies of this year and had lost around 14% in value versus the dollar in August. The central bank could also stay put and "stick to foreign exchange intervention to smooth the pace of real depreciation."

Olga Cotaga

Thailand's Central Bank May Turn Hawkish

Thailand's central bank will likely keep interest rates on hold Wednesday, maintaining its support for the economy amid ongoing global trade tensions and a soft inflation outlook. All but two of 13 economists polled by The Wall Street Journal expect the bank's monetary-policy committee to keep its one-day repurchase rate at 1.5%. The others predict an increase, citing steady economic-growth momentum. Some of those expecting no change this week do see rates changing in the future, if not by year's end, then 2019, with anticipation of more hawkish commentary in Wednesday's statement.

Saurabh Chaturvedi

(The items in this column come from Market Talk, a feature of Dow Jones Newswires that provides real-time analysis of news developments and market activity.)

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THE WALL STREET JOURNAL.

Markets

Weaker Dollar Lifts Copper Despite Renewed Trade Angst; Trade worries have punished copper prices, pushing them down 20% from their June four-year highs

By David Hodari and Amrith Ramkumar
428 words
17 September 2018
02:32 PM
The Wall Street Journal Online
WSJO
English

Copper prices inched higher on Monday, supported by a weaker dollar despite the latest escalation in the trade fight between the U.S. and China.

Front-month copper for September delivery added 0.2% to $2.6335 a pound on the Comex division of the New York Mercantile Exchange. Trade worries have punished prices, pushing them down 20% from their June four-year highs with investors betting that tariffs will slow the Chinese economy and lower consumption of materials.

A stronger dollar has also hurt metals by making them more expensive for overseas buyers, but the WSJ Dollar Index, which tracks the dollar against a basket of 16 other currencies, fell 0.3% Monday.

That decline boosted industrial metals even though China is the world's largest source of demand for copper and other commodities, accounting for about 50% of global copper consumption.

The Trump administration plans to unveil fresh tariffs on $200 billion in Chinese products in the coming days, while Beijing is debating new ways to retaliate against U.S. corporations doing business in China. Although the two sides have laid out plans to resolve their monthslong dispute, some analysts remain skeptical that they will actually compromise quickly.

The anxiety about protectionism comes at a time when some investors were already worried about the Chinese economy slowing down and hurting commodity prices.

Among precious metals Monday, front-month gold for September delivery rose 0.4% to $1,199.70 a troy ounce, boosted by the weaker dollar. The dollar's strength has been a **bearish** factor for gold this year, while higher short-term Treasury yields have also weighed on prices. The yellow metal is down 8.2% in 2018 and hit its lowest point since early 2017 this summer.

Elsewhere in metals, most-actively traded silver futures added 0.6% to $14.223 a troy ounce. Palladium added 0.7% to $977, while platinum was up 0.3% at $800.90.

On the London Metal Exchange, aluminum for delivery in three months fell 0.3% to $2,036.50 a metric ton. Zinc closed up less than 0.1% at $2,334.50, tin edged down 0.1% to $19,025 and nickel fell 3% to $12,275. Lead climbed 1.6% to $2,071.

Write to David Hodari at David.Hodari@dowjones.com and Amrith Ramkumar at amrith.ramkumar@wsj.com

Document WSJO000020180917ee9h003ml

WSJ PRO CENTRAL BANKING

Economy

San Francisco Picks Daly | Barkin: Tariffs Threaten Confidence | Russia Raises Rates | Citi's Violations | Derby's Take: Fed Diversity Edges Higher; The Wall Street Journal's central banking newsletter for Monday, September 17, 2018

2,310 words
17 September 2018
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English

Derby's Take: Step by Step, Fed Leadership Diversity Edges Higher

San Francisco Fed Picks Mary Daly as President

Fed's Barkin Warns Tariffs Threaten Business Confidence

Russia Raises Interest Rates to Boost Ruble

Citi to Pay $12.9 Million Related to ‘Dark Pool' Trading Violations

Step by Step, Fed Leadership Diversity Edges Higher

Federal Reserve leadership, long dominated by white males, is slowly looking more like the rest of America.

On Friday, the San Francisco Fed said Mary Daly, its research director, will become president of the bank on Oct. 1. Her selection means that three of the 12 regional Fed banks are helmed by women.

The Fed board of governors in Washington also has one female member, out of three currently filled positions. Meanwhile, the Atlanta Fed last year picked the first African-American to lead a regional Fed bank in the institution's centurylong history.

That ethnic and gender makeup is still far from reflective of the nation, but it is a change. For most of its history, central-bank leaders have been white men drawn from the economics profession or finance, with a smattering of businessmen mixed in.

Regional Fed banks, in particular, have made diversity a key part of its selection criteria for new leaders. At the same time, the Fed—at least in its rhetoric—has taken greater heed of how different groups are faring in the economy.

The Fed has been pressed to broaden the pool from which it picks leaders, most notably by the left-leaning activists at Fed Up. That group has argued for hiring minorities who would be more attentive to how all parts of society are affected by monetary policy and the economy.

Mr. Bostic's selection could be seen a win for those efforts. But things haven't always gone the way the group wants. After the New York Fed demonstrated a desire to make diversity a priority in its leadership search earlier this year, it ended up selecting John Williams, a white male Fed insider. The opaque nature of the selection process as well as who got the job drew criticism, even drawing in local elected leaders.

Ms. Daly's selection presumably would be seen as a win for those seeking to break the white male hegemony. She breaks the mold in other ways, too: She doesn't have an Ivy League education. She grew up in challenging circumstances.

"I'm openly gay. I'm female," Ms. Daly said in a St. Louis Fed podcast earlier this year. "I don't think I've ever felt like I was in the majority," she said, adding that experience has caused her to question things and consider other viewpoints.

Fed Up, however, was unhappy with the pick. They called the selection "opaque, self-interested, and pro forma," and said Ms. Daly's hiring "reinforced the same mistaken status quo that hurts workers of color the most."

Key Developments Around the World

San Francisco Fed Picks Mary Daly as President

The Federal Reserve Bank of San Francisco said Friday that Mary Daly, its research director, will become its new president on Oct. 1. She will succeed John Williams, who helmed the institution from 2011 until leaving earlier this year to become president of the New York Fed. Ms. Daly, 55 years old, has worked at the San Francisco Fed since 1996, starting out as a staff economist before rising through the ranks, becoming research director in 2017. She has focused her work on labor-market issues, a timely interest as Fed policy makers struggle to understand why a strong job market hasn't spurred better wage gains and higher rates of inflation.

Fed's Barkin Warns Tariffs Threaten Business Confidence

The long-term impact of tariffs on imported goods is uncertain, but one immediate impact is clear, says Richmond Fed President Thomas Barkin: Businesses and consumers are worried about trade policy. "Uncertainty is bad for business," Mr. Barkin said in an essay published Friday on the Richmond Fed's website. "So in addition to the effects on sales and prices, the extent to which trade policy affects confidence is something I'll be watching very closely."

Fed's Evans: U.S. Economy ‘Firing on All Cylinders'

Federal Reserve Bank of Chicago President Charles Evans said Friday he expects the U.S. central bank to press forward with rate rises amid a bright economic outlook. "The U.S. economy is firing on all cylinders, with strong growth, low unemployment, and inflation approaching our 2% symmetric target on a sustained basis," Mr. Evans said in Fort Wayne, Ind. "I expect this good performance to continue over the next few years." He said, "given the strong growth fundamentals and positive inflation outlook, it is time for the Fed to return to the conventional monetary policy-making of yesteryear." For him, that means policy "will rely on gradual adjustments in interest rates."

Yellen Recommends Fed Formalize ‘Lower-for-Longer' Guidance on Rates

Former Federal Reserve Chairwoman Janet Yellen said central-bank officials should formally adopt a policy they employed earlier this decade that commits to holding interest rates lower for longer than they otherwise would when their short-term benchmark rate is near zero. She said the approach would compensate for the Fed's inability to cut short-term rates when near zero by encouraging investors to take on more risk, pushing down long-term rates, over which the Fed has less direct control. It could also prevent expectations of future inflation—which officials see as a crucial contributor to overall changes in inflation—from sinking lower during downturns.

Russia Raises Interest Rates to Boost Ruble

Russia's central bankraised interest rates Friday, moving to defend the ruble against market **volatility** and inflation as global investors question the outlook for emerging-market economies and the possibility of fresh U.S. sanctions. The Bank of Russia raised its key interest rate to 7.5% from 7.25%, ending a series of cuts that brought it down from a peak of 17% at the end of 2014 that was introduced in the wake of earlier sanctions imposed on the country by the U.S. and Europe. The raise, which surprised most economists, eased investor concerns over the bank's freedom of action in maintaining Russia's macroeconomic stability. In recent weeks, President Vladimir Putin's prime minister and chief economic adviser both suggested lending rates should fall to boost growth.

BOE's Carney: Britain Could Lose 10% of Jobs to Automation

Around 10% of British jobs could be lost to automation, Bank of England Gov. Mark Carney said Friday, highlighting the potential short-term costs of the so-called Fourth Industrial Revolution. In a speech in Dublin, Mr. Carney said widespread automation should eventually boost productivity and living standards in the global economy, but would likely mean a period of higher unemployment as more workers are replaced by robots. Such rapid change also presents a challenge for central bankers, he said, as a period of high unemployment would likely mean weaker spending and inflation.

FINANCIAL REGULATION ROUNDUP

Citi to Pay $12.9 Million Related to 'Dark Pool' Trading Violations

Citigroup Inc. will pay regulators $12.9 million to settle charges related to its operation of a so-called "dark pool" trading platform called Citi Match. The Securities and Exchange Commission said the Citi affiliate that marketed Citi Match misled users between at least December 2011 and June 2014 by informing them that high-frequency traders weren't permitted to trade in the pool. Users of the dark pool, such as mutual fund and retirement fund advisers, paid what the SEC called a "relatively high commission rate" that was generally a penny per share to trade in Citi Match. The Citi affiliate also marketed it as free from high-frequency traders. One PowerPoint presentation frequently used to market Citi Match said "No High Frequency Flow," the SEC said. However, two high-frequency trading firms accounted for more than 17% of all transactions by dollar volume in Citi Match during the period the SEC reviewed, the agency said.

The IRS Is Still Coming for You, Offshore Tax Cheats

Hiding money from the U.S. governmentis a lot harder than it used to be. On Sept. 28, the Internal Revenue Service will end its program allowing American tax cheats with secret offshore accounts to confess them and avoid prison. In a statement, the IRS said it is closing the program because of declining demand. But the agency vowed to keep pursuing people hiding money offshore and said it would offer them another route to compliance. What a difference a decade makes. Before 2008, an American citizen could often walk into a Swiss bank, deposit millions of dollars, and walk out confident that the funds were safe and hidden from Uncle Sam, says Mark Matthews, a lawyer with Caplin & Drysdale who formerly headed the IRS's criminal division. Now, he says, "Americans hiding money abroad have to go to small islands with sketchy advisers and less reliable financial systems."

New York Renews Lawsuit Challenging OCC Fintech Charter

New York's financial regulator is mounting a second offense against the Office of the Comptroller of the Currency's plan to offer national bank charters to fintech firms. In a lawsuit, New York's Financial Services Superintendent Maria T. Vullo renews a legal challenge against the OCC's fintech charter policy formalized in July, arguing it could harm New York consumers by allowing firms to benefit from a pre-emption over the state's consumer protection laws, including interest rate caps. It "puts New York financial consumers—and often the most vulnerable ones—at great risk of exploitation by federally-chartered entities improperly insulated from New York law," the lawsuit says. "The OCC's reckless folly should be stopped." An earlier lawsuit filed by the New York regulator last May was deemed by the court as premature and dismissed. --Dow Jones Newswires

Tuesday

Time N/A

National Bank of Hungary releases policy statement

3:15 a.m. EDT

ECB's Draghi speaks in Paris

3:30 a.m. EDT

ECB's Nouy speaks in Paris

The Inflation Expectations of Italian Firms

A VoxEU post by Bank of Italy economist Alfonso Rosolia studies how Italian companies form their inflation expectations and process communications from the European Central Bank. "Reassuringly, the evidence presented here suggests that firms quickly understand developments and are rarely misled by temporary shocks," he finds. "Importantly, they understand and directly respond to monetary policy decisions by revising their inflation expectations consistently with monetary policy impulses, even at times when the space for standard monetary policy tools is limited." The economist adds: "Inflation expectations of Italian firms are no longer deteriorating. Yet, persistent upward revisions require further sustained progress in moving towards the price stability goal."

The Fed's Dual Mandate Trumps ECB's Inflation Obsession

The U.S. Federal Reserve's dual mandate produces better outcomes than the European Central Bank's singular focus on price stability, write Davide Debortoli, Jinill Kim, Jesper Lindé, Ricardo Nunes in a posting on VoxEU. "The academic consensus that central banks should primarily focus on price stability may not be right," they write.

"Attaching a small weight on economic activity might help establish the credibility of a central bank during the inception of an inflation targeting regime. However, once such credibility has been established, our work suggests that central banks should also target measures of economic activity as well as aiming at price stabilisation whenever the economy is affected by non-trivial rigidities and inefficient shocks. This is particularly important today as fiscal constraints, in the form of stringent debt and deficit rules or elevated debt levels following the global financial crisis, may limit the scope for fiscal policy to promote economic stability going forward."

Post-Lehman Sins of Transmission and Omission

"Citizens conditioned to respect the godlike acumen of monetary maestros assume the maestros know exactly how their policies work. They don't," Joseph C. Sternberg writes for The Wall Street Journal. He says major central banks "largely were firing blind" when they turned to extraordinary and experimental policies to deal with the financial crisis, as the effects of those policies on the economy largely remain a mystery. "After decades of financial transformation, globalization and policy experimentation, central banks know less than they used to about the effects they have on Main Street," Mr. Sternberg writes. "It's likely to be some time before we figure out what central banks actually did to the economy after the Lehman crisis, let alone whether it worked."

U.S. consumer sentiment in September rose to the second-highest level since 2004—behind only the reading in March of this year—according to a University of Michigan survey released Friday. The recent gain was in part due to future expectations reaching a 14-year high.

American consumers reined in their spending in August, taking a breather after strong sales growth in July. Sales at retail stores and restaurants rose 0.1% from the prior month to a seasonally adjusted $509 billion in August, the Commerce Department said Friday.

U.S. industrial output rose for the third month in a row in August, largely because of strong utility and motor-vehicle production.

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THE WALL STREET JOURNAL.
U.S. EDITION

Smaller Stocks Power the Market --- Tech sector is key, but rally is also supported by wide breadth; risers lead decliners

By Corrie Driebusch
933 words
17 September 2018
The Wall Street Journal
J
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English

Technology giants get most of the credit for driving this year's **stock-market** gains, but the quiet strength of smaller companies is a reason to keep betting on U.S. stocks.

Signs of **stock-market** breadth are everywhere, investors and analysts say: Smaller-company stocks have climbed more than their larger counterparts this year. When all of the companies in the **S&P 500** are assigned an equal weighting, the index is still trading near records. And rising stocks have outnumbered decliners this year.

At the same time, strong earnings growth has cooled the lofty valuations that worried investors at the start of 2018.

These factors bode well for the **stock market** if its high-profile leaders such as Amazon.com Inc., Google parent Alphabet Inc. or Netflix Inc. falter, investors say. More than nine years into the **bull-market** run, many investors are watching for hints of a downturn. Some stumbles over the summer by popular tech stocks, along with recent declines in emerging markets, have stoked fears of a reckoning, but U.S. stocks appear resilient so far.

"Bull markets eventually end, and typically by the time you get to the peak, breadth is gone," said Bob Doll, senior portfolio manager and chief equity strategist for Nuveen Asset Management. "This is a broad market move. It's a good thing. It's healthy."

Among the quiet winners in the current market are midsize companies. When divided into five groups based on market value, the second and third quintiles of the Russell 1000 index are outperforming the top quintile that houses the biggest stocks, according to data compiled by Strategas Securities LLC. Shares of companies in the second and third quintiles have risen 13% and 12%, respectively, this year, beating the 8.7% advance by the largest companies in the index, Strategas data show.

Similarly, although the biggest 10 companies in the **S&P 500** at the start of the year have gone on to contribute roughly 45.5% of the broader index's 2018 total return through Friday's close, some investors and analysts note that it isn't uncommon for the top companies in the index to provide outsize returns. In the past decade, the biggest 10 names have contributed an average 30% to the broader index's annual return, according to Jeff Schulze, investment strategist at ClearBridge Investments. In 2015, they contributed nearly 80%, he said.

"It's nowhere close to being a potential danger sign for investors to be concerned about a market top," said Mr. Schulze of the current concentration.

Indeed, even without the 10 biggest contributors -- which include Amazon, up 68% -- the **S&P 500** would be trading higher. The equal-weighted index, which gives the same weight to both the smallest and largest companies in the index, reached a record in late August -- the same day as its more closely followed counterpart.

And the NYSE advance-decline line, a popular indicator of market breadth that measures the net companies rising each day since the start of the year, has climbed, a sign of robust participation in the rally.

One reason for the broad gains: Economic data and earnings growth have been solid across a swath of industries. Another: Many investors, worried about trade disputes, are betting on companies with a greater share of domestic earnings. Those firms are typically smaller than their multinational peers and are receiving more benefits from the corporate tax cut.

The Russell 2000, the benchmark index for smaller-company stocks, has climbed 12% in 2018, eclipsing the 8.7% rise by the **S&P 500**.

"Everyone's flocking to the U.S.," said Kristina Hooper, chief global market strategist for Invesco. "Investors view small or midcap names with more U.S. exposure as a safe place where they wouldn't have to deal with the trade war."

So far, the continuing trade dispute hasn't taken a big bite out of corporate earnings, a metric many investors say is an important indicator of future **stock-market** returns. As of Sept. 7, more than 80% of companies in the **S&P 500** had reported quarterly earnings that beat estimates, the highest percentage since FactSet began tracking the data roughly 10 years ago. Earnings for companies in the **S&P 500** increased 25% in the second quarter, while their smaller-company counterparts in the Russell 2000 posted a 48% jump, FactSet data show.

The strong corporate performance appears set to continue. The estimated earnings-growth rate for the **S&P 500** is 20% for the third quarter, while smaller companies are expected to do even better with a 36% increase, according to FactSet. These companies' earnings are growing at a faster rate than their stock prices, too, quelling valuation concerns. The 12-month price/earnings ratio of the Russell 2000 on a forward-looking basis is 22.2 as of Sept. 13, down from 24.2 at the start of the year, while the **S&P 500**'s ratio is down to 16.8 from 18.1.

All 11 sectors of the **S&P 500** are expected to report higher earnings in the current quarter, with seven sectors on track for double-digit growth, according to FactSet. And the leaders aren't technology companies, but energy and financial firms. "Earnings growth is broad. Lots of companies, lots of industries are participating, and that's most important," said Nuveen's Mr. Doll.

Broad Gains

The second and third quintiles of the Russell 1000 have posted bigger gains this year than the largest companies in the index.

It is not unusual for the biggest 10 companies in the S&P 500 to be responsible for much of the index's yearly rise.*

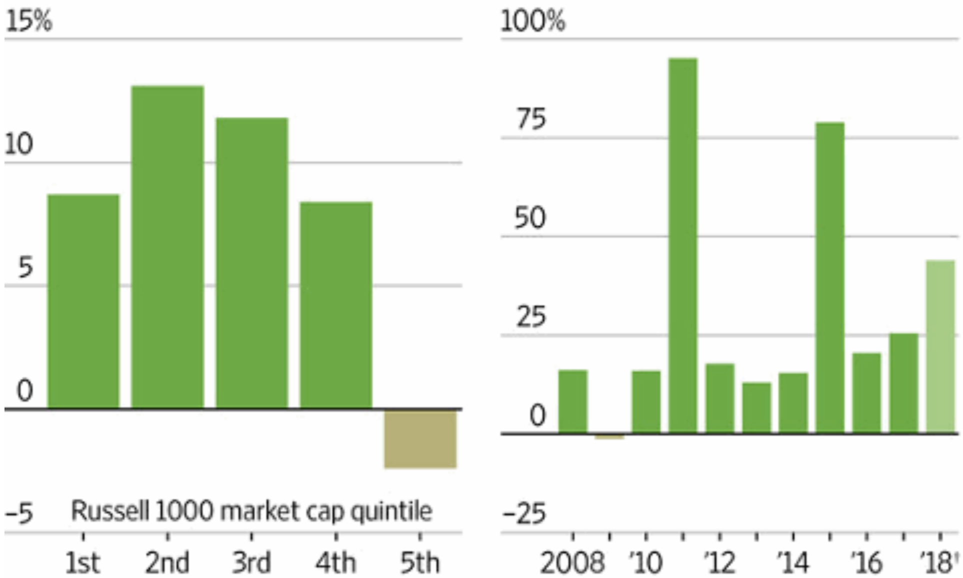

*Chart measures the percentage contribution to the S&P 500's total return by the ten biggest companies in the index at the start of the year †Through Wednesday

Sources: Strategas (quintiles); ClearBridge Investments (S&P 500)

THE WALL STREET JOURNAL.

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The New York Times

Business/Financial Desk; SECTB
In Trade War, China's Allies On Wall St. Lose Clout

By ALEXANDRA STEVENSON, KATE KELLY and KEITH BRADSHER; Alexandra Stevenson reported from Hong Kong, Kate Kelly from New York and Keith Bradsher from Beijing.
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HONG KONG -- When President Bill Clinton deliberated whether he should loosen trade barriers against China, Wall Street helped plead Beijing's case.

When Presidents George W. Bush and Barack Obama talked tough about labeling China as a currency manipulator, Wall Street urged restraint -- and both presidents backed down.

Today, China is hoping that Wall Street will once again use its political heft to soothe tempers in Washington. But as President Trump ratchets up the trade war with Beijing, Wall Street's words are falling on deaf ears.

Senior Wall Street executives met in Beijing on Sunday with current and former Chinese officials and bankers at a hastily organized session to find ways to strengthen financial ties between the United States and China. On Monday, the group -- which included executives from Goldman Sachs Group, Morgan Stanley and the Blackstone Group, the private equity firm, among others -- planned to meet with Vice President Wang Qishan, the right hand man of Xi Jinping, the country's leader.

New trade talks between the two governments are tentatively scheduled between Steven Mnuchin, the Treasury secretary, and Liu He, a Chinese vice premier, later this month in Washington. Stephen A. Schwarzman, Blackstone's chief, has been playing a critical role in organizing them, say people familiar with the talks, who asked for anonymity because the process is sensitive.

But the Chinese have indicated that they will pull out of the talks if Mr. Trump follows through on his threat to impose tariffs on another $200 billion in Chinese goods, according to a person familiar with the matter. Mr. Trump has told advisers that he wants to move ahead with the new round of tariffs and an announcement could come as early as this week, another person familiar with the discussions said.

That continues a frustrating trend for America's financial titans: Even as they win tax cuts and regulatory rollbacks from the Trump administration and the Republican-controlled Congress, they appear to be able to do little to stop the trade war.

''What's really surprising is that the connections that used to work, the formula that used to work, just don't work at this point,'' said Marshall W. Meyer, an emeritus professor of management at the Wharton School of Business.

Wall Street has long gambled that helping China would pay off. China has been slow to open its vast but tightly controlled **financial markets**, and Wall Street banks hope to get more business advising Chinese companies on acquisitions in the United States, lending money and selling financial services. Pressure from the Trump administration is now bearing fruit as China has begun to open its **financial markets** to foreign banks.

A worsening trade war could stymie that progress, and it hurt other foreign businesses as well. Lou Jiwei, China's former finance minister, said in a speech on Sunday that China could block exports of crucial components for Western supply chains if the trade war continued. Such a move would disrupt American businesses but would likely accelerate corporate efforts to shift factories away from China, and current Chinese officials haven't publicly discussed such a dramatic step.

The financial sector's arguments have often found a sympathetic ear in Washington. Over the past two decades, China has emerged as a major global economic growth driver and as an important customer for many American companies, including Apple, Qualcomm and General Motors.

But the Trump administration's trade hawks have so far prevailed against Wall Street-friendly voices of trade moderation, such as Mr. Mnuchin, a onetime Goldman Sachs executive. That is partly because the trade war hasn't shown President Trump much downside. His stance has won support from both parties. The United States economy shows few signs of trade-war damage, and markets continue to rise.

Even if Republicans lose Congress in November's elections, the trade war will probably continue, said Robert B. Zoellick, a former United States trade representative. Only a slump in the markets might make him reconsider, Mr. Zoellick said.

''I don't think that's going to affect Trump,'' Mr. Zoellick said about November's elections. ''Markets could.''

Relations between President Trump and Wall Street are complicated. Last year's tax bill greatly favored big financial companies, but some financial executives have clashed openly with Mr. Trump.

JPMorgan's chief executive, Jamie Dimon, a onetime informal adviser to Mr. Trump, said last Wednesday in a speech that ''I'm smarter than he is'' and that unlike Mr. Trump's, his personal wealth ''wasn't a gift from Daddy.'' Mr. Trump the next day called Mr. Dimon a ''nervous mess,'' and Mr. Dimon has since said he shouldn't have made the remarks. Others, like Morgan Stanley's chief, James Gorman, and the chief executive of Goldman Sachs, Lloyd C. Blankfein, opposed Trump policies like his original travel and immigration ban.

In the past, Wall Street was an effective advocate. In the late 1990s, when China's effort to lower trade barriers faced tough political opposition, China flew its premier, Zhu Rongji, to New York to meet directly with financial and business leaders. Senior leaders of Goldman Sachs and the American International Group, the big financial conglomerate, urged President Clinton to strike a deal. He did, and China joined the World Trade Organization in 2001.

Wall Street also discouraged the United States from formally accusing China of manipulating its currency. Both President Bush and President Obama vowed to get tough on China's longstanding efforts to weaken the value of its currency to help its importers. Wall Street banks urged them to reconsider. Both ultimately backed down. (President Trump has also threatened to label China a currency manipulator, though the currency has strengthened considerably in recent years. Business leaders and some members of his administration have discouraged him from acting.)

The Wall Street influence ran deep. Robert E. Rubin, a Wall Street veteran, served as Treasury secretary under President Clinton and helped forge the consensus within the Clinton administration on how to bring China into the World Trade Organization. Henry M. Paulson Jr., a former Goldman Sachs executive with a high profile in China, served as President Bush's Treasury secretary.

Wall Street figures have cultivated China connections in other ways. Mr. Schwarzman has raised more than $500 million to build a scholarship program in his name at China's prestigious Tsinghua University. Goldman Sachs last year said it would help China's sovereign wealth fund put $5 billion into acquiring stakes in American businesses.

Mr. Schwarzman is working behind the scenes to get China and the United States talking again. He urged American officials to invite their Chinese counterparts to resume talks, according to the people familiar with the discussions.

Last week, Mr. Mnuchin issued an invitation, which Chinese officials publicly greeted warmly. But Larry Kudlow, President Trump's chief economic adviser and another Wall Street veteran, suggested afterward that China had sought the invitation.

''There's some discussions and information that we've received that the top of the Chinese government wishes to pursue talks,'' he told Fox News.

The meeting in Beijing on Sunday -- organized by Zhou Xiaochuan, China's former central banker, and John Thornton, a former Goldman Sachs president -- gave Wall Street a chance to press for more business from China. The bankers were planning to present Wall Street's wish list for more market access, including creating a more transparent process for financial firms to get operating licenses and expanding the services that American bank branches can offer.

Because the meeting was called on short notice, top Wall Street executives didn't attend. Most sent a senior executive, like Franck Petitgas, head of Morgan Stanley's international business; John Waldron, president of Goldman Sachs; and Jon Gray, the No. 2 executive at Blackstone. Officials will pass suggestions to Mr. Liu, Mr. Xi's top economic adviser.

Prospects are good that this type of outreach will help, said Wendy Cutler, a former United States trade negotiator.

''Traditionally there have been these back channels, and one of the reasons why Beijing has put people like Liu He in these senior positions has been because they have such good relationships with Wall Street,'' said Ms. Cutler, who is vice president of the Asia Society Policy Institute.

''To date, these back channels don't seem to be working in moving this administration towards a negotiated solution.''

Stephen A. Schwarzman, Blackstone's chief, has been playing a role in organizing new trade talks for the United States and China. (PHOTOGRAPH BY TODD HEISLER/THE NEW YORK TIMES); Senior Wall Street executives planned to meet Monday in Beijing with Wang Qishan, the right hand man of President Xi Jinping. (POOL BY ROMAN PILIPEY) (B2)

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WSJ PRO CENTRAL BANKING

Markets

Women Rarely Run the Biggest Audits at the Big Four Accounting Firms; Only 15% of "engagement partners" in charge of each S&P 500 company's audit are women, study says

By Michael Rapoport
651 words
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Three of the Big Four accounting firms in the U.S. now have women in the corner office, but auditing still has a large gender gap.

A forthcoming study suggests women are underrepresented among the accounting-firm partners who head the outside audits of America's biggest public companies. Only 15% of the "engagement partners" in charge of each **S&P 500** company's audit are women, according to the study by the CFA Institute, which represents chartered financial analysts. The study is expected to be published this week.

In addition, according to the study, women are even less likely to head the audits of the largest companies—only 11% of the engagement partners for the audits of S&P 100 companies are women—as well as old-line companies that have been with their current audit firms for decades.

The big accounting firms often serve as "a natural pipeline" to train people who later become chief financial officers, controllers and audit-committee members at public companies, said Sandra Peters, the CFA Institute's head of financial-reporting policy. If there aren't enough women among engagement partners trained in complex financial matters, she said, not as many women could show up in senior financial positions in the corporate realm.

The Big Four firms say they are taking steps to improve opportunities for women and increase the number of female partners.

PricewaterhouseCoopers LLP said women accounted for 30% of the 2018 partner class and it is "laser-focused on enhancing female representation on all of our teams at every professional level."

Women also made up 30% of newly promoted partners at Ernst & Young LLP in the Americas this year. The firm said it is "committed to even greater representation of women and diversity."

Deloitte LLP said it continues "to invest significantly to develop, sponsor and mentor women as our lead client engagement partners." KPMG LLP declined to comment.

The CFA Institute study draws on newly available data about engagement partners, whom the firms have had to identify since a new regulation requiring it went into effect last year. The new rule from the Public Company Accounting Oversight Board is intended to improve audit partners' accountability and give investors a sense of their track records.

The dearth of women among engagement partners "is something we wouldn't have been able to see before without this data," Ms. Peters said.

Women tend to enter the accounting field in numbers close to those of men, and Cathy Engelbert at Deloitte, Lynne Doughtie at KPMG and Kelly Grier at EY head their firms. But that hasn't translated into equality at the partnership level: Women make up 51% of the full-time staff at U.S. accounting firms but only 24% of partners and principals, according to data from a separate study earlier this year from the Accounting MOVE Project, which promotes more women in accounting. Various possible reasons have been cited, from a lack of role models to a desire for more work-life balance as women ascend through the ranks.

The Big Four firms differ significantly in terms of the number of women who are engagement partners, according to the study. At Deloitte, 20.8% of **S&P 500** engagement partners are women, compared with 16.3% at PwC, 12.9% at EY and 10.6% at KPMG.

In addition, there are no female engagement partners at the 36 **S&P 500** companies that have been with their audit firm for 75 years or more, according to the study, and only six at the 107 companies that have been with their current auditor for at least 40 years.

Write to Michael Rapoport at Michael.Rapoport@wsj.com

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The New York Times

Opinion
What Do We Actually Know About the Economy? (Wonkish)

By Paul Krugman
2,813 words
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In a couple of days I'm giving a luncheon talk to the New York chapter of the National Association of Business Economists, and the title of this essay was the title I provided for the talk. To be honest, it was a bit of a dummy title, and I wasn't at all sure what I would actually say; but I've been spending some time trying to pin things down, and found myself wanting to put it together in a little essay. So here are some meta reflections on economic knowledge, inspired in part but not entirely by the financial crisis and its aftermath.

Now, obviously the crisis has inspired both soul-searching among economists and a lot of outside criticism. But I'd argue that most of both the internal soul-searching and the outsider criticism is off-base.

Among macroeconomists, the self-criticism seems to me to be mainly too narrow: people berate themselves for, say, not giving **financial markets** a bigger role in their models, but few have done what they should, which is to question the whole direction macroeconomics has gone these past four decades or so.

Among economists more generally, a lot of the criticism seems to amount to the view that macroeconomics is bunk, and that we should stick to microeconomics, which is the real, solid stuff. As I'll explain in a moment, that's all wrong. In fact, in an important sense the past decade has been a huge validation for textbook macroeconomics; meanwhile, the exaltation of micro as the only "real" economics both gives microeconomics too much credit and is largely responsible for the ways macroeconomic theory has gone wrong.

Finally, many outsiders and some insiders have concluded from the crisis that economic theory in general is bunk, that we should take guidance from people immersed in the real world – say, business leaders — and/or concentrate on empirical results and skip the models. In reality, however, advice from business leaders has generally been worse than useless this past decade, while the voices in the air heard by madmen in authority have, as usual, given very bad advice. And while empirical evidence is important and we need more of it, the data almost never speak for themselves – a point amply illustrated by recent monetary events.

So let me talk about three things:

The clean little secret of macroeconomics

There's a story about quantum physics – not sure where I read it – about the rivalry between the physicists Julian Schwinger and Richard Feynman. Schwinger was first to work out how to do quantum electrodynamics, but his methods were incredibly difficult and cumbersome. Feynman hit upon a much simpler approach – his famous diagrams – which turned out to be equivalent, but vastly easier to use.

Schwinger, as I remember the story, was never seen to use a Feynman diagram. But he had a locked room in his house, and the rumor was that that room was where he kept the Feynman diagrams he used in secret.

Modern macroeconomics is a bit like that, if you can imagine Schwinger in control of all the journals and in a position to prevent anyone from publishing the simpler version. What's the equivalent of Feynman diagrams? Something like IS-LM, which is the simplest model you can write down of how interest rates and output are jointly determined, and is how most practicing macroeconomists actually think about short-run economic fluctuations. It's also how they talk about macroeconomics to each other. But it's not what they put in their papers, because the journals demand that your model have "microfoundations."

Now, the thing about IS-LM-type analysis is that using it isn't that big a deal in normal times, but it makes some very strong predictions – predictions very much at odds with many peoples' priors — about abnormal times.

Specifically, this kind of analysis says that when there is a really big adverse shock to demand – say, from the collapse of a major housing bubble – there's a regime change, and neither monetary nor fiscal policy have the same effects they do in normal times.

On the monetary side, old-fashioned macro says that once interest rates have been driven down to the zero lower bound, monetary policy loses traction. Even huge increases in the monetary base (bank reserves plus currency in circulation) won't be inflationary. In fact, if you add in another old-fashioned approach some of us keep in our locked offices – Tobin-style analysis of the banking system – you conclude that big increases in the monetary base won't even do much to expand broader measures of the money supply.

We all know what happened. The Bernanke Fed massively expanded the monetary base, by a factor of almost five. There were dire warnings that this would cause inflation and "debase the dollar." But prices went nowhere, and not much happened to broader monetary aggregates (a result that, weirdly, some economists seemed to find deeply puzzling even though it was exactly what should have been expected.)

What about fiscal policy? Traditional macro said that at the zero lower bound there would be no crowding out – that deficits wouldn't drive up interest rates, and that fiscal multipliers would be larger than under normal conditions. The first of these predictions was obviously borne out, as rates stayed low even when deficits were very large. The second prediction is a bit harder to test, for reasons I'll get into when I talk about the limits of empiricism. But the evidence does indeed suggest large positive multipliers.

The overall story, then, is one of overwhelming predictive success. Basic, old-fashioned macroeconomics didn't fail in the crisis – it worked extremely well. In fact, it's hard to think of any other example of economic models working this well – making predictions that most non-economists (and some economists) refused to believe, indeed found implausible, but which came true. Where, for example, can you find any comparable successes in microeconomics?

But, you say, we didn't see the Great Recession coming. Well, what do you mean "we," white man? OK, what's true is that few economists realized that there was a huge housing bubble. But that's not a failure of fundamental models: the models certainly would have predicted that a bursting bubble that slashed residential investment by 4 percent of GDP and destroyed $7 trillion in homeowners' equity would cause a severe recession. What happened was that economists refused to believe that home prices could be that out of touch with reality.

That's not exactly a problem with macroeconomics; to some extent it's a problem with financial economics, but mainly I think it reflected the general unwillingness of human beings (a category that includes many though not necessarily all economists) to believe that so many people can be so wrong about something so big.

The bottom line: the past decade has been a vindication, not a refutation, of good old-fashioned macro. Which brings me to the flip side: microeconomics is not as great as advertised.

The dirty little secret of microeconomics

I spent much of my academic, pre-public intellectual career straddling two surprisingly distinct economics sub-fields. To normal human beings the study of international trade and that of international macroeconomics might sound like pretty much the same thing. In reality, however, the two fields used very different models, had very different intellectual cultures, and tended to look down on each other. Trade people tended to consider international macro people semi-charlatans, doing ad hoc stuff devoid of rigor. International macro people considered trade people boring, obsessed with proving theorems and offering little of real-world use.

Both sides were, of course, right.

Anyway, I think it's fair to say that over the past few decades the economics profession has tended to take the micro side of this debate. Microeconomic theory, grounded in rigorous derivation of individual behavior from utility maximization, was taken as the gold standard. Old-fashioned macroeconomics, based on loose psychological propositions like the marginal propensity to consume, and often describing aggregate relationships without explicitly describing what individuals were doing, was considered dubious and uncouth.

Indeed, macroeconomists were sufficiently hurt by the sneers of microeconomists that they spent several decades trying to make their field as much like micro as they could.

But does microeconomics really deserve its reputation of moral and intellectual superiority? No.

Even before the rise of behavioral economics, any halfway self-aware economist realized that utility maximization – indeed, the very concept of utility — wasn't a fact about the world; it was more of a thought experiment, whose conclusions should always have been stated in the subjunctive.

Yes, we believe that people tend to act in their self-interest and don't usually pass up obvious opportunities to make themselves better off. So it made sense to follow that line of thought to its end point. What if we imagined individuals who knew what they wanted and pursued the optimal strategy, given the constraints they faced, to achieve as much of those goals as possible? If that were the case, what would that predict about behavior?

It's an interesting and sometimes illuminating exercise. But it's not proof that the world actually works that way. And the truth is that it often doesn't. Kahneman and Tversky and Thaler and so on deserved all the honors they received for helping to document the specific ways in which utility maximization falls short, but even before their work we should never have expected perfect maximization to be a good description of reality.

True, a model doesn't have to be perfect to provide hugely important insights. But here's my question: where are the examples of microeconomic theory providing strong, counterintuitive, successful predictions on the same order as the success of IS-LM macroeconomics after 2008? Maybe there are some, but I can't come up with any.

Just to be clear: there's plenty of excellent micro work, both theory and empirical. What I'm talking about, however, is the kind of mind-altering, the-world-doesn't-work-the-way-you-think-it-does stuff macro has achieved. When I look at the American Economic Review's list of its top 20 papers, I think I may see one micro paper like that – Kenneth Arrow on health care. Other candidates?

In fact, when I try to come up with mind-altering empirical work on microeconomics, the example that comes most strongly to mind is the literature on the effect of minimum wage hikes – which happens to be an example of the facts refuting what the standard model told us to expect.

The point is not that micro theory is useless and we should stop doing it. But it doesn't deserve to be seen as superior to macro modeling.

And the effort to make macro more and more like micro – to ground everything in rational behavior – has to be seen now as destructive. True, that effort did lead to some strong predictions: e.g., only unanticipated money should affect real output, transitory income changes shouldn't affect consumer spending, government spending should crowd out private demand, etc. But all of those predictions have turned out to be wrong.

Meanwhile, the demand that macro become ever more rigorous in the narrow, misguided sense that it look like micro led to useful approaches being locked up in Schwinger's back room, and in all too many cases forgotten. When the crisis struck, it was amazing how many successful academics turned out not to know things every economist would have known in 1970, and indeed resurrected 1930-vintage fallacies in the belief that they were profound insights.

What data can and can't tell us

Data are good (they are also, as far as I'm concerned, plural, although this is looking like a losing battle.) Some of my best friends are data. The growing focus of economists on empirical evidence is very much a good thing.

But data never speak for themselves, for a couple of reasons. One, which is familiar, is that economists don't get to do many experiments, and natural experiments are rare: the vast bulk of the data we see reflect the confounding effects of variables we aren't interested in, and reverse causation on the variables we are trying to assess.

The other problem is that even when we do get something like natural experiments, they often took place under economic regimes that aren't relevant to current problems.

Both of these problems were extremely relevant in the years following the 2008 crisis.

Start with the effects of monetary expansion. History actually provides us with many examples of countries that rapidly expanded their money supplies, and the great majority of these examples look like, say, Brazil in the 80s and 90s:

That is, you might be tempted to conclude that the empirical evidence is that monetary expansion is inflationary, indeed roughly one-for-one.

But the question, as the Fed embarked on quantitative easing, was what effect this would have on an economy at the zero lower bound. And while there were many historical examples of big monetary expansion, examples at the ZLB were much rarer – in fact, basically two: the U.S. in the 1930s and Japan in the early 2000s. These examples told a very different story: that expansion would not, in fact, be inflationary, that it would work out the way it did.

But you needed a model, something like IS-LM-with-Tobin, to tell you which examples were relevant. The data didn't speak for themselves.

What about fiscal policy? The raw correlation between budget deficits and real output is negative, not positive, but everyone knows that this is because most of the causation runs from GDP to the budget, not the other way around.

So you wanted to look for examples of major shifts in fiscal policy that didn't reflect automatic stabilizers. For the U.S. that mainly meant wars; across a broader set of countries, you could look at the effects of austerity programs. Both these sources of sort-of natural experiments suggested a positive multiplier, but less than one, i.e., private-sector crowding out or in.

But again, what we wanted was the effect of fiscal policy at the zero lower bound. Simple macro models suggested that the multiplier would be much larger in that case, and a variety of evidence – e.g., Blanchard and Leigh on austerity, or Nakamura and Steinsson on regional shocks now supports that conclusion.

I would also note that because assessing fiscal policy changes can be subject to a serious error-in-variables problem, you really want to look at extreme changes. This means, in particular, that when we're talking about austerity policies you want to look at the period 2009-2012, the post-Greece panic; everything after that is relatively small changes at the edges, subject to so much measurement error that you wouldn't expect to find clear results.

The point is that empirical evidence can only do certain things. It can certainly prove that your theory is wrong! And it can also make a theory much more persuasive in those cases where the theory makes surprising predictions, which the data bear out. But the data can never absolve you from the necessity of having theories.

So what do we know about the economy?

Over this past decade, I've watched a number of economists try to argue from authority: I am a famous professor, therefore you should believe what I say. This never ends well. I've also seen a lot of nihilism: economists don't know anything, and we should tear the field down and start over.

Obviously I differ with both views. Economists haven't earned the right to be snooty and superior, especially if their reputation comes from the ability to do hard math: hard math has been remarkably little help lately, if ever.

On the other hand, economists do turn out to know quite a lot: they do have some extremely useful models, usually pretty simple ones, that have stood up well in the face of evidence and events. And they definitely shouldn't defer to important and/or rich people on policy: compare Janet Yellen's macroeconomic track record with that of the multiple billionaires who warned that Bernanke would debase the dollar. Or take my favorite Business Week headline from 2010: "Krugman or [John] Paulson: Who You Gonna Bet On?" Um.

The important thing is to be aware of what we do know, and why.

The New York Stock Exchange | Mark Lennihan/Associated Press | Figure 1 | Federal Reserve, BLS | Figure 2 | IMF

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THE WALL STREET JOURNAL.

Markets
U.S. Stocks Take the Global Lead; S&P 500 had its best week since mid-July, but many indexes globally struggled

By Michael Wursthorn and Amrith Ramkumar
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The **S&P 500** notched its best week since mid-July after investors took the U.S.'s latest overture to China as a sign that trade tensions may be receding. Booming economic growth and a run of strong corporate profits have supported stocks in the U.S.

But many indexes around the world have struggled with a slowdown in economic expansion and a stronger dollar. The dollar's recent rise has showed signs of stalling, relieving some of the pressure on emerging-market economies and multinational corporations.

Even after a rally Friday, the U.S. dollar has stalled near its lowest levels since late August. The currency has been weighed down recently, in part, by worries over an expected rise in the country's trade and budget deficits. Further declines could ease pressure on multinational corporations whose earnings have suffered because they need to convert foreign profits into dollars, while boosting exporters by making their products more competitive abroad.

Energy stocks rose alongside **oil prices** last week. The gains left the **S&P 500** energy sector roughly flat for the month, as traders prepare to weigh weekly U.S. inventory data and figures pointing to rising production from the Organization of the Petroleum Exporting Countries. Some analysts think fallout from Hurricane Florence could also affect demand for energy products.

Recent gains in software firms including Oracle Corp. have helped the technology sector trim some of its month-to-date losses and offset declines in chip makers. Investors will monitor earnings from Oracle, Red Hat Inc. and Micron Technology Inc. in the coming week to see if fresh results can further boost the market's best-performing sector.

Analysts estimate **S&P 500** companies will boost third-quarter earnings 20% from a year earlier. That would be the third-fastest-ever quarterly growth rate, trailing just the two previous quarters, according to FactSet. Estimates are projected to come down next year, as the effects of the corporate tax cut fade.

Ira Iosebashvili contributed to this article.

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The New York Times

Sunday Review Desk; SECTSR
We're Measuring the Economy All Wrong

By DAVID LEONHARDT
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Ten years after the collapse of Lehman Brothers, the official economic statistics -- the ones that fill news stories, television shows and presidential tweets -- say that the American economy is fully recovered.

The unemployment rate is lower than it was before the financial crisis began. The **stock market** has soared. The total combined output of the American economy, also known as gross domestic product, has risen 20 percent since Lehman collapsed. The crisis is over.

But, of course, it isn't over. The financial crisis remains the most influential event of the 21st century. It left millions of people -- many of whom were already anxious about the economy -- feeling much more anxious, if not downright angry. Their frustration has helped create a threat to Western liberal democracy that would have been hard to imagine a decade ago. Far-right political parties are on the rise across Europe, and Britain is leaving the European Union. The United States elected a racist reality-television star who has thrown the presidency into chaos.

Look around, and you can see the lingering effects of the financial crisis just about everywhere -- everywhere, that is, except in the most commonly cited economic statistics. So who are you going to believe: those statistics, or your own eyes?

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Over the course of history, financial crises -- and the long downturns that follow -- have reordered American society in all sorts of ways. One of those ways happens to involve the statistics that the government collects. Crises have often highlighted the need for new measures of human well-being.

The unemployment rate was invented in the 1870s in response to concerns about mass joblessness after the Panic of 1873. The government's measure of national output, now called G.D.P., began during the Great Depression. Senator Robert La Follette, the progressive hero from Wisconsin, introduced the resolution that later led to the measurement of G.D.P., and the great economist Simon Kuznets, later a Nobel laureate, oversaw the first version.

Almost a century later, it is time for a new set of statistics. It's time for measures that do a better job of capturing the realities of modern American life.

As a technical matter, the current batch of official numbers are perfectly accurate. They also describe some real and important aspects of the American economy. The trouble is that a handful of statistics dominate the public conversation about the economy despite the fact that they provide a misleading portrait of people's lives. Even worse, the statistics have become more misleading over time.

The main reason is inequality. A small, affluent segment of the population receives a large and growing share of the economy's bounty. It was true before Lehman Brothers collapsed on Sept. 15, 2008, and it has become even more so since. As a result, statistics that sound as if they describe the broad American economy -- like G.D.P. and the **Dow Jonesindustrial average** -- end up mostly describing the experiences of the affluent.

The **stock market**, for example, has completely recovered from the financial crisis, and then some. Stocks are now worth almost 60 percent more than when the crisis began in 2007, according to a inflation-adjusted measure from Moody's Analytics. But wealthy households own the bulk of stocks. Most Americans are much more dependent on their houses. That's why the net worth of the median household is still about 20 percent lower than it was in early 2007. When television commentators drone on about the Dow, they're not talking about a good measure of most people's wealth.

The unemployment rate has also become less meaningful than it once was. In recent decades, the number of idle working-age adults has surged. They are not working, not looking for work, not going to school and not taking care of children. Many of them would like to work, but they can't find a decent-paying job and have given up looking. They are not counted in the official unemployment rate.

All the while, the federal government and much of the news media continue to act as if the same economic measures that made sense decades ago still make sense today. Habit comes before accuracy.

Fortunately, there is a nascent movement to change that. A team of academic economists -- Gabriel Zucman, Emmanuel Saez and Thomas Piketty (the best-selling author on inequality) -- has begun publishing a version of G.D.P. that separates out the share of national income flowing to rich, middle class and poor. For now, its data is published with a lag; the most recent available year is 2014. But the work is starting to receive attention from other academics and policy experts.

In the Senate, two Democratic senators, including Chuck Schumer, the party leader, have introduced a bill that would direct the federal government to publish a version of the same data series. Heather Boushey, who runs the Washington Center for Equitable Growth, told me that it could be the most important change in economic data collection in decades.

And there is no reason that data reform needs to be limited to G.D.P. The Labor Department could change the monthly jobs report to give more attention to other unemployment numbers. It could also provide more data on wages, rather than only broad averages. The Federal Reserve, for its part, could publish quarterly estimates of household wealth by economic class.

These changes may sound technocratic. They are technocratic. But they can still be important. Over time, they can subtly shift the way that the country talks about the economy.

''As someone who advises policymakers, I can tell you there is often this shock: 'The economy is growing. Why aren't people feeling it,''' Boushey says. ''The answer is: Because they literally aren't feeling it.'' She argues -- rightly, I think -- that the government should not focus on creating wholly new statistics. It should instead change and expand the ones that are already followed closely. Doing so could force the media and policymakers to talk about economic well-being at the same time that they are talking about economic indicators.

It's worth remembering that the current indicators are not a naturally occurring phenomenon. They are political creations, with the flaws, limitations and choices that politics usually involves.

Take the unemployment rate. It dates to 1878, when a former Civil War officer and Massachusetts politician named Carroll D. Wright was running the state's Bureau of the Statistics of Labor. Wright thought that the public had an exaggerated sense of the extent of unemployment after the Panic of 1873. He called it ''industrial hypochondria.''

So Wright asked town assessors and police officers to count the number of people in their area who were out of work. But he added a caveat that he knew would hold down the number, as Alexander Keyssar, a Harvard historian, has written. Wright wanted the count to include only adult men who ''really want employment.'' He specifically called for the exclusion of the many men who had effectively given up searching for work because they didn't think that they could find a job that paid as much as their previous job. Not surprisingly, Wright's count produced a modest number that, he happily announced, had proved the ''croakers'' wrong.

Several years later, he received a promotion. He was named the first head of the federal Bureau of Labor Statistics, a job he would hold for 20 years. His original methods from Massachusetts influenced the way that the federal government began calculating unemployment data, and still do to this day. The fact that the official rate ignores millions of discouraged workers is -- although Wright wouldn't have used this phrase -- a feature not a bug.

There is no mystery about what a better set of indicators would look like. For the most part, the indicators already exist. They tend to be obscure, however. Some are calculated only once a year or less frequently. Others appear monthly or quarterly, but the media and politicians tend to ignore them. These numbers include: the overall share of working-age adults who are actually working; pay at different points on the income distribution; and the same sort of distribution for net worth (which includes stock holdings, home values and other assets and debts).

The whole point of statistics is to describe reality. When a statistic no longer does so, it's time to find a new one -- not to come up with a convoluted rationale that tries to twist reality to fit the statistic.

The notion that our most prominent economic indicators are problematic has been around for a long time. Kuznets himself, the economist who invented G.D.P. as we know it, cautioned people not to confuse it with ''economic welfare.'' Most famously, Robert F. Kennedy liked to say during his 1968 presidential campaign that G.D.P. measured everything ''except that which makes life worthwhile.''

After all these years, though, we haven't solved the problem. Maybe it takes a financial crisis to do so.

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CHARTS: G.D.P. is way up. For most adults, income is not. (Source: Thomas Piketty, Emmanuel Saez and Gabriel Zucman; Bureau of Economic Analysis); Stocks are way up. For most households, net worth is not. (Source: Source: Moody's Analytics; **stock index** includes value of reinvested dividends) (SR2)

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THE WALL STREET JOURNAL.
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U.S. News -- The Numbers: How to Account for Temperature Extremes

By Jo Craven McGinty
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English

When temperatures turn sizzling hot or glacially cold, averages may obscure the extremes.

That's a problem for companies eager to account for the effect weather has on demands for energy, which peak when temperatures soar or plummet.

So instead of relying on averages, the companies use a metric that captures the variability.

It's called degree days.

Degree days are the difference in one day between the average temperature and an arbitrary threshold, usually 65 degrees Fahrenheit. When the daily average is hotter than 65 degrees, buildings need air conditioning; when it's colder, they need heat.

On a warm day, with a daily average of 75 degrees, the difference from the threshold is 10 cooling degree days. On a cool day, with a daily average of 55 degrees, the difference is 10 heating degree days.

Over a span of time -- perhaps a month or a season -- degree days can be summed up to look at the impact of the daily extremes. The larger the number, the greater the energy demand.

To understand how the information communicated by degree days differs from that of averages, consider New York City.

So far this year, the daily average temperature measured at LaGuardia Airport is 58.6 degrees Fahrenheit, or about 1 degree above normal. At the same time, there have been 1,425 cooling degree days, which is 411 above normal.

"That's a pretty large departure given that the year as a whole is not that much warmer than average," said Jake Crouch, a climate scientist with the National Centers for Environmental Information.

The result suggests buildings near LaGuardia have had to use more energy than usual to stay cool this year.

In this case, the difference between the average temperature and the number of degree days is explained by colder-than-normal days early in the year followed by hotter-than-normal days later on. The average concealed the extremes. But the sum of the degree days revealed them.

Two decades ago, Enron, Koch Energy and Aquila Energy realized they could leverage this kind of information, according to Brad Hoggatt, chief portfolio manager for MSI GuaranteedWeather and past president of the Weather Risk Management Association.

They focused on using weather data as the basis for risk indexes, and in 1999, the Chicago Mercantile Exchange, or CME, began trading weather derivatives.

The contracts allow companies to hedge against the risk of weather-related losses by paying a premium to sellers who assume the risk.

In a typical transaction, if a specified threshold is exceeded, the buyer of the derivative receives a payment from the seller. The amount of the payment is determined in advance. If the threshold isn't exceeded, the seller keeps the premium.

Today, the notional value of weather futures and options traded on the Chicago Mercantile Exchange is approximately $362 million, according to a CME spokesman.

The size of the over-the-counter market is unknown, but the National Weather Service estimates it has a market value of $7 billion.

"The notional value of CME traded contracts is probably dwarfed by one OTC contract," said David Whitehead, the co-chief executive officer at weatherXchange and Speedwell Weather, a consulting firm that helps companies access index-based weather risk protection.

A recent example suggests he's right.

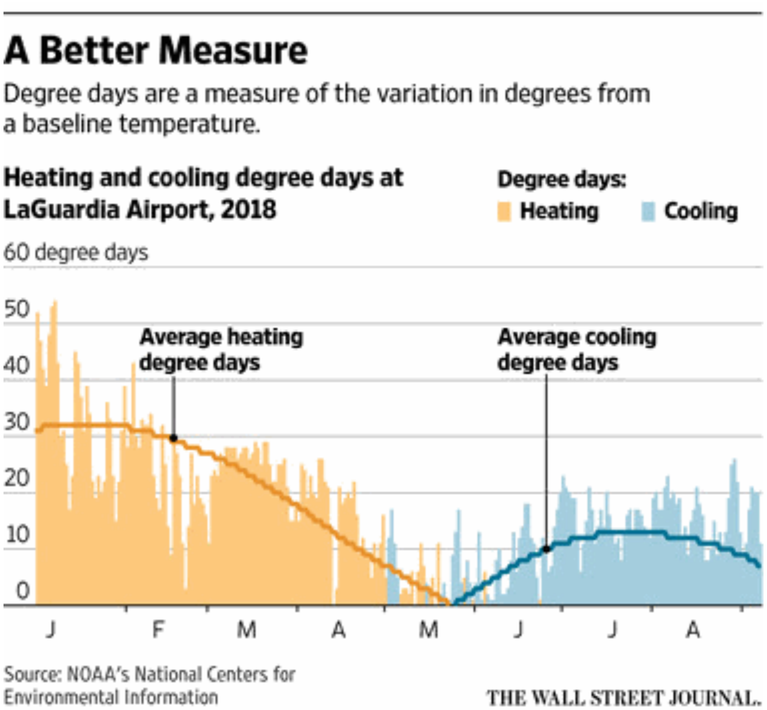
In 2013, the World Bank helped the Uruguayan state-owned hydroelectric power company purchase $450 million in climate insurance to protect against droughts and high **oil prices**. The premium wasn't disclosed, and the insurance wasn't triggered before the contract expired.

Now, weather protection can be purchased in the form of derivatives or parametric insurance, which, unlike traditional insurance, doesn't indemnify the loss but instead makes a predetermined payment after a triggering event.

Up to 75% of weather trading still involves the energy sector, according to Martin Malinow, president of Sompo Global Weather, but other sectors, including agriculture, construction and travel have emerged, and contracts may now be based on temperature, precipitation, wind speed, solar radiation or other weather-related yardsticks.

In the U.S., the data are publicly available from the National Centers for Environmental Information and in some cases date to the 1700s. Similar data, assembled for the weather risk market by companies such as Speedwell Weather, are available from other countries.

"This is a global market in every continent outside of Antarctica, whether it's North America, Europe, Asia, Africa, Australia or South America," Mr. Whitehead said. "People are hedging their weather risk everywhere."



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THE WALL STREET JOURNAL.

World

Trump to Announce New Tariffs on $200 Billion in Chinese Imports; The plan puts at risk high-level trade talks between the U.S. and China set for this month

By Bob Davis and Jacob M. Schlesinger
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The Trump administration plans to announce within days new tariffs on as much as $200 billion in Chinese goods, further pressuring Beijing before high-level, U.S.-China talks set for later this month, say people familiar with the matter.

President Trump's decision—to go into effect within weeks—is designed to give the U.S. more leverage in discussions with China over allegations that Beijing coerces American firms into handing over valuable technology to Chinese partners. But the decision's timing risks deepening the already bitter trade fight by starting another tit-for-tat round of tariffs.

The administration plans to start with tariffs of around 10% on as much as

$200 billion of goods, below the 25% level announced in early August. The level was lowered following extensive public hearings and the submission of written comments where importers and others complained of the possible impact of the duties—and to try to reduce the bite on American consumers ahead of the year-end holiday shopping season, these people said.

The tariffs would take effect weeks before November elections, where Mr. Trump's Republican party is struggling to retain control of Congress. Business groups opposed to the tariffs are spending heavily to make the tariffs an issue in the campaign. The new tariffs are all but certain to be met immediately by Chinese retaliation against U.S. exporters, especially against farmers, further raising the political heat on the GOP ahead of the vote.

But the people familiar said that the tariff level could be raised back to 25% if Mr. Trump concludes that Beijing doesn't soon show signs that it is acceding to U.S. demands to change its economic policies.

These people also stressed that details were still being completed over the weekend, and that the level could change, or that Mr. Trump could change his mind. As of Saturday, an announcement was planned for Monday or Tuesday.

White House spokeswoman Lindsay Walters declined to comment on the status of the tariff discussions inside the administration, referring to a statement she put out Friday that said: "The president has been clear that he and his administration will continue to take action to address China's unfair trade practices. We encourage China to address the longstanding concerns raised by the Unites States."

Mr. Trump made his decision late last week to move forward quickly with the tariff announcement, a few days after he had authorized aides to try and set a new round of talks with China. The two moves reflect divisions in his administration over handling escalating trans-Pacific trade tensions, with some urging an ongoing tough line and others hoping to keep open a dialogue that could foster compromises before the spat turns into a full-fledged trade war.

The tariffs are bound to complicate—if not derail—talks with top Chinese officials, which are currently scheduled in Washington for Sept. 27 and Sept. 28, say people familiar with the plans.

Beijing is expected to send Chinese Vice Premier Liu He to Washington to meet with Treasury Secretary Steven Mnuchin, who last week had sent an invitation to the Chinese for another round of senior level talks, said the people familiar with the discussions. If those talks go well, Mr. Liu may also meet with Mr. Trump.

But some of the people said Mr. Liu expected that the threat of tariffs would be delayed until at least the conclusion of the talks. The decision to move ahead with tariffs puts those talks at risk, they said.

After The Wall Street Journal reported the Mnuchin initiative last week, Mr. Trump tweeted that the U.S. "was "under no pressure to make a deal with China." Administration officials said Mr. Trump had authorized the invitation because he felt the Chinese had asked for it, and he wanted to make clear that it was only being sent at their request.

The invitation, they said, didn't represent any weakness in the U.S. position, and Mr. Trump has regularly touted China's slumping **stock market**—in contrast with the sharp gains on Wall Street during his term—as evidence that his trade strategy is working in squeezing the Chinese to consider making concessions.

U.S. business officials have also been urging Beijing and Washington officials to set up another round of talks, in the hopes of staving off tariffs. While U.S. businesses generally support the administration's efforts to confront China on intellectual property issues, they have argued that tariffs are wrongheaded, raise their costs and hurt their competitiveness. They say the tariffs are offsetting the economic gains from Mr. Trump's tax cuts and deregulation policies that business groups have supported.

The looming $200 billion tariffs comes on top of $50 billion on duties imposed on Chinese imports over the summer. China immediately retaliated with tariffs on U.S. goods and has said it would do the same in response to the coming round. Mr. Trump recently told reporters that he's ready to add tariffs on another $257 billion in Chinese goods—subjecting virtually all U.S.-bound Chinese exports to duties.

In contrast with earlier tariffs imposed by Mr. Trump on China, the next round would hit a broad range of consumer goods, ranging from luggage to bicycles to seafood. Trump aides have been wrestling with ways to balance penalizing China without provoking consumer outrage.

The first set affected mainly industrial products used by manufacturers who could absorb at least some of the costs without passing them on to average American shoppers.

The latest development demonstrates the divisions within the administration on trade issues. U.S. Trade Representative Robert Lighthizer and trade adviser Peter Navarro had been urging the administration to move ahead on tariffs regardless of Chinese actions in a bid to deepen pressure on Beijing to change its policies.

Mr. Mnuchin and National Economic Council Director Lawrence Kudlow, who are more sensitive to market fluctuations and talk regularly to U.S. business leaders, had been trying to continue talks and work out a deal.

Mr. Trump appears to have split the difference between the two camps—giving the green light to the talks, but making clear that he doesn't feel constrained in imposing new penalties and won't mind if China cancels the meetings.

That two-pronged strategy may undercut Mr. Mnuchin's efforts. Chinese officials regularly complain that they don't know whether U.S. officials are empowered to cut a deal, and worry about any offer being opposed by Messrs. Lighthizer and Navarro and turned down by Mr. Trump.

Mr. Liu, the Chinese vice premier, came up empty-handed earlier this year after negotiating with Mr. Mnuchin and other cabinet officials in Washington. Mr. Trump rejected as insufficient a Chinese offer made to Commerce Secretary Wilbur Ross to buy $70 billion in additional U.S. goods as a way to try to close the trade deficit. Mr. Lighthizer also didn't consider Beijing's purchasing pledges were solid.

U.S. officials sought to paint the tariff decision as separate from the coming trade negotiations. Progress in the talks would be bound to help the overall relationship, they said.

"There continues to be constructive high-level dialogue," said a U.S. official. "The involvement of Liu He and President Trump are positive for the relationship."

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The New York Times

Business/Financial Desk; SECTB
Markets Stay Strong Amid Encouraging Data

By THE ASSOCIATED PRESS
585 words
15 September 2018
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NYTF
Late Edition - Final
2
English

Stocks were lackluster on Friday as the market wrapped up a solid week. Shares of smaller companies rose after signs of sustained economic growth and reports that more tariffs on Chinese goods could be on the way.

The Federal Reserve said production of cars and energy jumped in August. The Commerce Department said sales by retailers grew only slightly in August after a big gain in July.

''It's a reflection of stronger economic growth,'' said Kate Warne, an investment strategist for Edward Jones. ''It continues to bode well for strength going into the fall and later in the year.''

Ms. Warne said she expects the American economy to grow about 3 percent this year, which is what most experts are forecasting. She said growth would be a bit weaker than in 2019, but that would still be better than most of the previous years since 2009.

Bond yields jumped Friday as investors interpreted the Federal Reserve report as a sign that the economy would keep growing and interest rates would keep rising. That helped bank stocks, but it hurt high-dividend stocks.

The **Standard & Poor's 500-stockindex** rose 0.80 points to 2,904.98. The index rose all five days this week after a four-day losing streak last week.

The **Dow Jonesindustrial average** added 8.68 points to 26,154.67. The **Nasdaq composite** slipped 3.67 points to 8,010.04.

The combination of trade worries and positive economic news helped smaller companies, which do more business in the United States than larger companies do. That makes them less vulnerable to flare-ups in trade tensions. The Russell 2000 index gained 7.40 points, or 0.4 percent, to 1,721.72.

Shares of industrial companies also rose after the Federal Reserve's report. Shares of the aerospace company Boeing jumped 1.2 percent to $359.80 and shares of the shipbuilder Huntington Ingalls gained 1.6 percent to $252.90.

The industrial data is a sign the economy is likely to keep growing, which means the Federal Reserve is likely to continue raising interest rates. It is expected to raise interest rates later this month, the third increase this year out of an expected four.

The yield on the **10-year Treasury** note rose to 3 percent from 2.97 percent late Thursday.

Shares of banks and financial companies rose, because of higher long-term interest rates that help them make more money from mortgages and other types of loans. Prudential Financial stock added 2.9 percent to $99.86 and SVB Financial Group LendingTree shares gained 1.4 percent to $319.29.

Benchmark United States crude oil added 36 cents to $68.77 a barrel in New York. Brent crude, used to price international oils, dipped 0.1 percent to $78.09 a barrel in London.

The dollar rose to 112.02 yen from 111.98 yen. The euro slipped to $1.1624 from $1.1686.

Gold was unchanged at $1,202 an ounce.

The DAX in Germany added 0.6 percent and in France, the CAC-40 rose 0.5 percent. The FTSE 100 index rose 0.3 percent in Britain.

The Nikkei 225 in Japan gained 1.2 percent and in South Korea, the Kospi rose 1.4 percent.

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

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THE WALL STREET JOURNAL.
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EXCHANGE --- Battered Industrial Shares Get New Wind

By Amrith Ramkumar
566 words
15 September 2018
The Wall Street Journal
J
B12
English

Beaten-down shares of industrial firms are starting to bounce back, supporting major U.S. stock indexes even as sectors including technology wobble.

The **S&P 500** industrials sector has risen 4.8% in the past month, making it the best-performing of the broader index's 11 groups in that span and lifting it up 2.3% despite recent swings in the market's best-performing sectors. It has risen in nine of the past 11 weeks and is at its highest level since February.

The **Dow Jones Industrial Average** has also outperformed recently, earlier this month narrowing the gap on the **S&P 500** to its lowest level since July. The blue-chip index is up 5.8% for the year, compared with the **S&P 500**'s 8.7%.

The Dow industrials' stability marks a shift from earlier in 2018, when trade tensions and worries about higher commodity costs battered manufacturers. Data Friday showed U.S. industrial output rose more than expected in August, lifted by strong utility and motor-vehicle production.

Industrial stocks have been among the market's worst-performing sectors in the past six months even with the U.S. economy growing at its quickest pace in years, so some analysts think more strong data could give the group a further boost. Figures from last month showed July output from factories, mines and utilities was weaker than expected.

Yet investors have rewarded industrials lately after many manufacturers reported strong second-quarter earnings despite the threat of tariffs hurting global demand.

Additionally, data earlier this past week showed a gauge of U.S. business prices in August clocked the first monthly decline in about a year and a half, a potentially positive sign for consumer-facing firms combating higher costs. Some commodity prices have fallen lately, a potential boon for many industrial companies.

Some analysts think strength in the U.S. economy could continue to underpin manufacturing stocks, even as trade discussions continue.

"We're focusing more on domestic demand," said Benjamin Lau, chief investment officer of Apriem Advisors, who has been slightly overweight industrials this year.

Signs that the U.S. is willing to compromise with Canada, the European Union and China on trade after reaching a deal with Mexico have also helped sentiment in the sector, analysts say. The Trump administration is giving Beijing another chance to try to stave off new tariffs on $200 billion in Chinese exports, asking top officials for a fresh round of trade talks this month, The Wall Street Journal reported earlier this week.

Third-quarter earnings season will mark a crucial period for industrial shares, with investors increasingly looking for sectors cheaper than the broader market that can still post consistent sales growth.

However, cautious comments from industry executives or weaker-than-expected results could send the group spiraling again, putting pressure on other sectors to pick up the slack.

After machinery manufacturer Caterpillar warned in April that first-quarter results could prove to be a "high-water mark" for the year, investors have been looking for signs that the group can sustain recent growth.

"We think that the sector may have derated enough that continued strength in earnings from here can help drive upside," Morgan Stanley analysts said in a recent note to clients.

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Get Ready for the Next Financial Crisis

By Daniel J. Arbess
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A15
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It's the 10th anniversary of the Lehman Brothers debacle. Do we need reminding that debt crises take place when markets underwrite and buy too much bad debt? Yes.

The 2008 crisis was clearly visible before it struck. So is the next one. The short-term fixes produced by America's broken political system failed miserably to reduce debt. Instead they substantially increased, nationalized and redistributed it -- from household mortgages to sovereign, corporate and consumer balance sheets. We may be about to experience the consequences of piling on more debt to solve a debt crisis.

Anyone who followed housing markets could see what was coming a decade ago. Speculators with the lowest credit scores were buying more homes than they cared to occupy -- financed with deferred interest and sometimes no money down. Those mortgages were securitized, pooled together in CDOs, "collateralized debt obligation" funds that issued small slices of equity leveraged with huge debt tranches backed by pools of mortgages.

Investors in CDO debt couldn't know the credit risk they were assuming. How could they perform due diligence on thousands of mortgages? Fund sponsors and placement agents reassured investors and credit-rating firms that "housing prices never go down, so mortgages don't default." One Wall Street participant recently told me that Moody's "stress case" assumed home prices would rise "only" 4% to 5% annually.

Buying credit-default-swap protection to short this assumption was nearly free (19 basis points for supersenior AAA-rated bonds), probably the most asymmetric trade ever. I know, because the Xerion hedge fund I managed did it in 2006, applying lessons learned in structured finance asset management, when we were offered and declined the opportunity to sponsor and manage one of the first mortgage-backed CDOs in 1998.

Wall Street firms started out serving their traditional and essential purpose of intermediating capital during the mortgage boom. But when yield-seeking institutions filled their capacity for mortgage CDO notes, the bankers convinced their firms to warehouse the leftovers on their own balance sheets to keep the gravy train of placement revenues on the tracks. Managements bought the bankers' never-default narrative, and the financial system paid the price.

Investor appetite, and the industry's legitimacy, ultimately relied on investment-grade ratings for the CDO notes conferred by government-certified credit-rating firms Moody's, Fitch and Standard & Poor. But they were hired by the placement agents and fund sponsors. Guess how much independent work did they did, and on whose models they relied?

A sophisticated few CDO investors wisely laid off the risks for a nominal fee to regulated insurers like AIG and financial-guarantee insurance companies such as MBIA and AMBAC. Some "first loss" investors in CDO equity even cleverly hedged by shorting notes senior to their position. It was free money for everyone -- until it wasn't. When Lehman was left to fail, the ensuing contagion and panic left the Fed and other sovereign balance sheets as the lenders of last resort.

Decision-making leadership across society has great technical expertise. Its incentives are another question. But the finance industry's market discipline maximizes efficiency, aiming to produce the most revenue at the lowest cost. That led professionals throughout the system -- sponsors, placement agents, credit-rating firms and investors -- to take the easy way out. Nobody bears specific responsibility for the last crisis. Everyone does: It was an entire industry ecosystem built on mindless heuristics, shortcuts and failures of common-sense investment diligence.

Talented Fed and Treasury leadership saved the day. Congress, paralyzed by partisan bickering, failed. It barely managed to enact the triage of the Troubled Asset Recovery Program, authorizing the Treasury to purchase defaulted bonds. Then it spent years blaming and vilifying "Wall Street," only to restrict its critical market-making and liquidity-providing functions while leaving the credit-rating firms and their conflict-laden model untouched. Lawmakers achieved nothing else meaningful in the eight following years.

The Obama White House did rescue the car industry, but only by impairing senior secured creditors and enriching the unions, which were subordinated unsecured creditors, with billions of dollars in equity, repudiating decades of basic bankruptcy law. The main burden of post-crisis government response fell by default to the Federal Reserve.

At least the Trump administration has moved on to reducing business regulations and cutting corporate tax rates, giving American companies an incentive to repatriate and invest overseas profits, a chance to do more than buy back stock with the savings. Call it fiscal easing. This should help the innovative, small businesses that create most of the economy's new jobs. But it won't be enough; Trump fiscal easing will probably be remembered as another kick-the-can palliative, paid for by adding trillions to the national debt.

In the past decade, total global debt (sovereign, corporate and household) has spiked nearly 75%. This includes a doubling of sovereign debt, from $29 trillion to $60 trillion, according to a recent McKinsey report. Total corporate debt increased by 78% over the same decade, to $66 trillion. Bank loan volumes have been stable, although low-quality "covenant lite" loans have dominated. Bond markets have filled in, with nonfinancial bonds outstanding up 172%, from $4.3 trillion to $11.7 trillion. McKinsey says 40% of U.S. companies are rated one notch above "junk" or lower, and the Bank for International Settlements estimates 10% of legacy companies in the developed world are "zombies," meaning earnings before interest and taxes don't cover interest expenses.

This is what zero interest rates and quantitative easing have wrought -- more debt and lower credit quality. Yield-starved investors were happy to look the other way and refinance dubious credits so long as rates were low and they had no better alternative. Small wonder central banks are glacially unwinding their balance sheets and raising rates. But higher rates are coming, possibly heralding a tsunami of credit defaults. Why should that be in this disinflationary environment, when software and service technologies are displacing capital and labor from industry and keeping costs low? Simply: more supply, and declining demand for U.S. Treasurys, whether the Fed raises policy rates or not.

The U.S. owes $21.5 trillion of Treasury debt, the majority of which is scheduled to be refinanced in the next eight years, disregarding the additional $1 trillion required by the 2017 tax reform and an estimated $100 trillion of unfunded entitlement spending ahead. The Fed still owns $2.324 trillion it bought from banks as part of quantitative easing, which will need to be refinanced at maturity. Foreign sovereigns own $6.5 trillion, 40% of which is in the hands of China, Japan and Saudi Arabia.

China and Japan are increasingly refinancing their own debt. As China continues its transition from exports to domestic consumption and buys its oil in its "petro yuan" straight from Saudi Arabia, while the U.S. buys less Saudi oil, Riyadh and Beijing have less appetite for U.S. Treasurys. Finally, the European Central Bank's anticipated policy normalization suggests Europe too will be competing with the Fed for buyers in sovereign refinancing markets. Is it prudent to assume that private institutions will pick up the slack?

Cautious as the Fed may be about raising short-term interest rates, and even should economic growth naturally slow as the one-time spike of fiscal easing subsides, supply-demand dynamics suggest the "belly" of the U.S. Treasury curve is headed higher. If the **10**-**year Treasury**, the reference rate for corporate bonds, surpasses 3.25%, much less approaches its long-term average yield of 4.5%, "lend and pretend" refinancing could stop cold.

When credit turns, stocks have never been far behind. The longest-ever **bull market** may be closer to ending than we think -- and that could be the least of our problems.

Mr. Arbess is CEO of Xerion Investments.

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The New York Times

White Collar Watch
Business Day; DealBook

Companies Are Pushing for Less Disclosure. Is That Good for Investors?

By Peter J. Henning
1,033 words
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English

Louis Brandeis, before his nomination to the Supreme Court, observed that "sunlight is said to be the best of disinfectants."

The federal securities laws were built around this concept, that more information to investors is the best protection.

Ten years after Lehman Brothers' bankruptcy, corporations are pushing to restrict how much, and how frequently, they must provide information. With a strong economy, low unemployment and the **stock market** near record highs, executives are striking back at rules they believe hamper their ability to make profits — even as they make more than ever. The common complaint is that disclosure requirements force companies to focus on the short term at the expense of making investments that may pay off years later.

President Trump tweeted on Aug. 17 that "some of the world's top business leaders" want to stop reporting financial information quarterly. He said he would ask the Securities and Exchange Commission to look at requiring disclosure only every six months.

The tweet raises a number of questions. Is less disclosure better for corporate America? If so, are six months the right interval? Could information be released annually, or perhaps just left to the best judgment of corporate managers about what should be disclosed? That is how most private companies, like Uber and Airbnb, are allowed to operate, because they have chosen not to tap the public markets for capital.

Jay Clayton, the S.E.C.'s chairman, has asserted that protecting the "Main Street investor" is a key mission for the agency. But the recent thrust of the S.E.C. appears to be moving away from disclosure and toward allowing companies to put out less information to the investing public.

In a recent meeting about entrepreneurship, Mr. Clayton said he wanted to make it easier for retail investors to buy shares in private companies, noting that these can be "pretty risky" but that "people want that." Private companies have minimal disclosure obligations, which was one reason Elon Musk, the chief executive of Tesla, floated the idea of taking his intensely scrutinized company private.

But much as a child would prefer a dinner without vegetables, giving in to investors who want to buy the latest hot start-up is not necessarily a good idea. Just last week, a onetime darling of Silicon Valley, Theranos, announced that it would dissolve. The move will cost the high-net-worth individuals and private equity firms that invested in it nearly $1 billion. If Theranos could have tapped into the retail market, a group Mr. Clayton has called "Mr. and Ms. 401(k)," the devastation from the company's collapse would have been far worse.

Lawsuits against management and directors for failing to fulfill their fiduciary duties, or against a company for making faulty or incomplete disclosures, are the best way for shareholders to police companies. These lawsuits are the bane of corporate management.

One way to limit them would be to require that these claims be heard in arbitration rather than as a public class-action lawsuit. But the S.E.C. has long taken the position that federal securities law prohibits a company from requiring that claims be brought in arbitration rather than in federal court. In 2012, the agency kept the

Carlyle Group from including an arbitration requirement that would have barred shareholders from filing class-action lawsuits as part of its planned initial public offering.

But the S.E.C. may soften its position on arbitration of shareholder claims. In July 2017, Michael Piwowar, an S.E.C. commissioner at the time, floated the idea that companies could put mandatory arbitration into their charters. Mr. Clayton said in a letter to Representative Carolyn B. Maloney in April that allowing arbitration was “not a priority for me,” although he tempered that by pointing out “it does not mean that it is not worthwhile to analyze.”

Does that mean the idea is dead, or is the S.E.C. just waiting for the right company to request dispensation to limit shareholder access to the courts for challenging management? Once the S.E.C. permits arbitration of claims, companies can be expected to jump on board quickly.

Of course, disclosure is not always perfect. The collapse of Lehman Brothers showed that. A report by the bankruptcy examiner pointed out how the company used an accounting trick, called “Repo 105,” at the end of the first and second quarters in 2008 to make the firm’s financial statements look stronger than they were. Yet neither the S.E.C. nor the Justice Department ever pursued charges related to Lehman’s accounting, so perhaps the questionable tactic was not enough to warrant a claim that investors were defrauded.

Last week, Mr. Musk joined a late-night webcast during which he appeared to smoke marijuana along with the host. That is hardly a securities law violation, but the disclosure the same day that the company’s recently appointed chief accounting officer had resigned sent a chill through Wall Street because investors rely on strong internal controls in putting together financial reports.

Management prefers less disclosure on the premise that it can invest for the long term. In an era when activist investors routinely take on corporate boards, such as Third Point’s seeking to remove all 12 directors from Campbell Soup, limiting how frequently a company must release information could also forestall outside challenges, further insulating management.

What is the best protection for shareholders? The S.E.C. does not review whether an investment is a good one, only whether enough information is available to judge the potential risks and rewards. Less disclosure would make that assessment more difficult, and leave investors guessing whether an opportunity is a good one — or a sinkhole for their money.

Jay Clayton, chairman of the Securities and Exchange Commission, has asserted that protecting the “Main Street investor” is a key mission for the agency, but it has been moving away from disclosure. | Brendan Mcdermid/Reuters

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THE WALL STREET JOURNAL.
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Banking & Finance -- Streetwise: Yield Curve and Other Markers Fail To Give Clear Directions

By James Mackintosh
829 words
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The Wall Street Journal
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B10
English

Corrections & Amplifications

The last U.S. recession started in December 2007. A chart showing recession risk with the Sept. 14 Streetwise column incorrectly placed the marker at December 2006. Markers for previous recessions also were placed a year early. A correct version of the chart is available at WSJ.com/Corrections.

(WSJ Sept. 25, 2018)

(END)

Economists, financiers and regulators have spent much of the past few weeks discussing how, 10 years on from Lehman's failure, a repeat can be avoided. The sad truth for investors is that the next **bear market** is likely to produce panic and hefty losses, even without another financial crisis. And it might not be too far away.

Working out exactly when is, to put it mildly, tough. But throughout history, recessions have gone hand-in-hand with major market drops. So one approach is to try to predict recessions, and sell beforehand. Another is to look for vulnerable markets, on the basis that the spark for recession may come from falling prices.

Unhappily, forecasting recessions is hard, and economists have failed miserably at it in the past. But to simplify massively, recessions happen when the economy runs out of cheap money or resources to support growth.

The cost of money is low in historical terms, but high when compared to what investors believe is sustainable in the long term. We can measure that by comparing the yield of short-term and long-term debt, known as the yield curve. When the cost of short-term money rises above 10-year yields, a U.S. recession has almost always followed.

The yield curve hasn't yet inverted, but the New York Fed's model based on yields puts the probability of a recession in the next 12 months at 15%. That is the highest since the last recession and the same as in the summer of 2006, about 18 months before the recession began.

The yield curve isn't the last word on recessions, and there are reasons to doubt its forecasting power. It has been much less reliable in other countries, predicting only one of the past five Japanese recessions and four of the past two U.K. recessions. Some economists believe it may be less useful now in the U.S., too, as quantitative easing and low global rates have depressed the 10-year yield.

Instead of forecasting, we could look for signs that money is tight by watching the most vulnerable markets. Turmoil in the Turkish lira and Argentine peso may be linked to the increased cost of borrowing in dollars, with the pair having among the biggest current-account deficits. Yet even junk-rated U.S. companies are still able to borrow at a very low spread above Treasurys, suggesting few worries domestically.

On the resource side, oil is a natural place to look for shortages that might constrict the economy. Crude prices soared ahead of the 2008, 2001, 1980 and 1974 recessions, more than doubling within a year each time. The rise in the past year should be reassuring at only 40%, and the U.S. economy may also be less sensitive to **oil prices**.

The world economy offers a broader reason for U.S. hope, too: So long as growth elsewhere is weak, there will be less competition for resources the U.S. needs.

The standard approach often gets things backward, though, because the economy is clearly affected by what happens in **financial markets**. When investors fled from short-term financing markets in 2008, the panic engulfing Wall Street spread to the rest of the economy, as former Federal Reserve Chairman Ben Bernanke pointed out this week. Debt crises are worse than equity crises, but the bursting of the dot-com bubble in 2000 clearly contributed to the 2001 recession, mild as it was.

Markets frequently run to excess before turning. Citigroup strategist Matt King points to high corporate leverage and weaker lending standards as a sign that the cycle is coming to an end, even as investors focus instead on high profits and low debt-servicing costs. As rates rise, high debts could create a nasty feedback loop, as buyers become scarce and worries grow about the ability of companies to raise new loans.

Equities aren't showing widespread signs of excess. Yet valuations are high on average in the U.S., justified by wider-than-usual profit margins rather than revenue growth.

If we knew the cycle would end soon, investing would be easy: Dump stocks for bonds. But the final phase can sometimes last for years, during which rising yields hit **bond prices** while stocks typically do very well.

Investors who decide the end is near but they will hang on for a final few months of gains from stocks should remember how bad things can get in a recession even when the banks are fine, however: The **S&P 500** lost more than 30% from peak to trough in the 1970, 1974 and 2001 recessions.

Financial crises are worse, and we shouldn't forget Lehman. But when the end of the economic cycle comes, investors should expect big losses even if banks don't totter.

Recession Risk Rising

Forecasts based on Treasury yields alone suggest the risk of a U.S. recession in the next 12 months has risen, but only to 15%.

Source: Federal Reserve Bank of New York

THE WALL STREET JOURNAL.

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WSJ PRO CENTRAL BANKING

Economy

Russia Raises Interest Rates to Boost Ruble; Move comes amid investor concerns about emerging-market economies

By Anatoly Kurmanaev and Paul Hannon
756 words
14 September 2018
10:50 AM
WSJ Pro Central Banking
RSTPROCB
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Corrections & Amplifications

An earlier version incorrectly spelled Oleg Kouzmin's name wrong on the second reference. (September 17, 2018)

MOSCOW—Russia's central bank raised interest rates Friday, moving to defend the ruble against market **volatility** and inflation as global investors question the outlook for emerging-market economies and the possibility of fresh U.S. sanctions.

The Bank of Russia raised its key interest rate to 7.5% from 7.25%, ending a series of cuts that brought it down from a peak of 17% at the end of 2014 that was introduced in the wake of earlier sanctions imposed on the country by the U.S. and Europe.

The raise, which surprised most economists, eased investor concerns over the bank's freedom of action in maintaining Russia's macroeconomic stability. In recent weeks, President Vladimir Putin's prime minister and chief economic adviser both suggested lending rates should fall to boost growth.

The bank's move ended weeks of speculation over the course of Russia's monetary policy, underscoring Elvira Nabiullina's willingness to take prompt action when confronted with threats to economic stability, even when that meant going against the wishes of Mr. Putin's economic team.

"Our goal is to meet the inflation target, this is the essence of our independence," central bank chief Ms. Nabiullina told reporters in Moscow after the rate decision. "There's a growing uncertainty over sanctions against Russia, the growing geopolitical risks have increased the outflow of capital from emerging markets."

She said she would consider further hikes this year if the inflationary pressures caused by rising sales tax and currency depreciation don't subside. The central bank now expects inflation to increase to as high as 5.5% by the end of next year, above its 4% target.

To help stabilize the ruble, the central bank will stop buying foreign currency this year, Ms. Nabiullina said. The ruble is down more than 14% against the dollar so far this year, although it rose 0.7% following the rate decision Friday.

The markets reacted positively to what they saw as the assertion of Ms. Nabiullina's independence. The country's benchmark 2-year bonds due in 2020 rose slightly following the rate decision. Moscow's main **stock index** rose 1% Friday.

"With this decision Nabiullina is showing she's prepared to make decisive decisions to react to tactical challenges that are arising in the markets," said Oleg Kouzmin, chief Russia economist at investment bank Renaissance Capital. "Her mandate is strong and she continues to enjoy the market's trust."

Mr. Kouzmin said he expects the key rate to rise to 8% in the coming months until emerging market **volatility** subsides.

Her assertive pursuit of stability has earned her the praise of the International Monetary Fund and big investment funds, and made it possible for her to have a bigger impact on the economy with less action than many of her developing country counterparts.

In Turkey, by contrast, the central bank's belated decision on Thursday to raise its key rate in response to a plummeting currency was quickly questioned by President Recep Tayyip Erdogan, weakening its impact. Similar moves to raise interest rates have recently occurred in Argentina, Indonesia and other developing economies.

"We consider that this would create a more positive attitude to emerging markets, to which Russia belongs," Ms. Nabiullina said, referring to Turkey's hike.

While policy makers face a variety of domestic problems in those countries, a common factor driving their recent moves is a series of rate increases by the Federal Reserve, which has led to an flow of capital into the U.S. and away from developing economies.

As a result, many central banks in the developing world face an unpleasant choice on whether to raise their interest rates as the dollar strengthens and investors sour on emerging markets. Raising rates can help limit capital outflows but could crimp economic growth. Leaving rates unchanged could make currencies more prone to further declines, creating the risk of higher inflation.

Russia faces a particular threat of capital outflows at a time of heightened tensions with the West.

"It…looks like the bank's board made the move today to stem capital outflows resulting from fears about new U.S. sanctions," wrote William Jackson, an analyst at Capital Economics, in a note to clients.

—Jon Sindreu in London contributed to this article.

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The New York Times

Wealth Matters
Your Money
3 Investments That May Have Hit Their Peak

By Paul Sullivan
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This week is the 10th anniversary of the collapse of Lehman Brothers, a flash point in the financial crisis. The economy has rebounded since then and the **stock market** has risen to record highs, but a feeling of caution looms over many investors.

One of them is Dan Rasmussen, a contrarian investor who has marshaled data and historical returns to argue that three of the most popular asset classes for high-net-worth investors are not as desirable as they seem.

Mr. Rasmussen, founding partner of Verdad Capital in Boston, has written an article and tworeports that make a case against investments in private equity, venture capital and private real estate, and he has piles of data to back up his argument.

“I want to give the advisers the intellectual ammunition to allow them to say, ‘No, I’m not going to put money into these strategies,’” he said.

But some advisers challenge this point of view, saying it is almost akin to market timing. “You could look at any asset class at any point in time and position it in a way and understand why it’s outperformed or underperformed,” said Scott Stackman, managing director of private wealth at UBS Wealth Management.

Here is Mr. Rasmussen’s argument for caution in three areas:

A model past its prime

During the financial crisis, Mr. Rasmussen worked at Bain Capital, a leading name in private equity. One of his jobs was to collect data on deals by Bain and its competitors to determine why some had done well and others had not.

The more profitable deals were the least expensive ones, he found. The cheapest 25 percent of deals accounted for 60 percent of the funds’ profits. The top 50 percent accounted for just 7 percent of profits. The difference was the price paid for the company. This was not solely for the obvious reason that paying less is better, but because private equity funds typically borrow 60 percent of the purchase price, which affects a company’s profitability.

Mr. Rasmussen said he admired the success Bain had in the 1980s and ’90s, but began to question whether the private equity model it had helped pioneer was still sustainable.

When early private equity firms bought relatively small companies at a discount and loaded them up with debt, the amount of leverage on the company was still about four times the company’s earnings before interest, taxes, depreciation and amortization, a measure of profitability known as Ebitda.

Private equity firms continued to apply this strategy, but they were paying more for the companies, and consequently the amount of debt was rising to more than six or seven times Ebitda. With leverage at 10 times Ebitda, Mr. Rasmussen found, a company’s free cash was almost all going toward debt service, and it was nearly impossible to be profitable.

A recent example is Toys “R” Us, which Bain, KKR and Vornado Realty Trust acquired for $6.6 billion in 2005. When it filed for bankruptcy in 2017, the toy company said it had $5.3 billion in debt and was paying $400 million in annual debt service payments.

Mr. Rasmussen said the sector would look worse if not for a few high-performing funds that pulled up overall returns.

“It’s probably the worst time ever to invest in private equity,” he said. “And now, it’s being packaged for wealth management firms and registered investment advisers.”

According to PitchBook Benchmarks, which gathers data on private equity investments, only 25 percent of funds have been outperforming the market, and have done so by a smaller amount.

Mr. Stackman of UBS said he was still putting money into private equity and hedge funds for certain clients, and reducing their investments in public equities or fixed income.

“I don’t know if I’d term it as a true shift,” he said. “This is our belief in how the high-net-worth clients could and should be invested.”

Mr. Rasmussen said the funds that still provided high returns equal with the risk were generally smaller ones that acted more like the owners of the companies they bought and didn’t just add debt to increase returns.

At his own firm, Mr. Rasmussen said, he modeled the strategy on what private equity funds were doing in the 1980s and 1990s: buying smaller companies at cheap prices and putting a reasonable amount of debt on them. In Verdad’s case, Mr. Rasmussen focused on buying publicly traded companies with a small market capitalization.

Verdad’s main leveraged company fund lagged its small-cap benchmark in the first two quarters of this year but kept pace with a broader global benchmark. Over the past three years, the strategy has beaten both the small-cap and global benchmarks by six percentage points.

An inconsistent pattern

The argument against venture capital is less nuanced. Top private equity funds are still delivering high returns, but venture capital funds have largely functioned as what Mr. Rasmussen calls “a rich man’s lottery.”

He cites data from Cambridge Associates showing that venture capital has underperformed the **Standard & Poor**’**s 500**-**stockindex**, the Russell 2000 Index and the **Nasdaq** over the last 15 years. And he argues that those venture capital firms that built big names often did so with a few spectacular investments that overshadowed more mediocre ones.

The venture capital firm Benchmark, for example, invested $6.7 million in eBay in 1997. That investment grew to $5 billion in two years, outshining other investments.

Any venture capitalist will argue that the big winners make up for all the bets that did not pay off. Mr. Rasmussen does not dispute that; he emphasizes how difficult it is to find those funds that are going to consistently make the big winning investments.

Higher fees mean lower returns

Mr. Rasmussen draws a distinction between real estate owned by private equity firms and real estate investment trusts. And for him, the difference in returns comes down to fees. A REIT typically charges a management fee of less than 1 percent. A fund that owns real estate will charge a typical private equity fee, which can be as high as 2 percent to manage the money and 20 percent of the profits.

“By and large, it’s a pretty efficient asset class, since rental income is a fixed contract,” he said. So fees play a big role in the difference in returns.

But real estate owned in REITs, he said, could be a good buffer for anxious investors because they have a low correlation to traditional equities given their stream of rental income. They’re also less risky, he wrote, than his focus, small-cap stocks.

Another view

Excluding entire asset classes can be a tough sell, some financial advisers say. Investors should be asking instead whether an asset class is performing as it should.

“You could put together a low-**volatility** portfolio of hedge funds, and they will get very consistent return,” Mr. Stackman of UBS said. “But you’re not getting the generous returns the S. & P. has been giving you since 2009.”

That would be around 2 percent a year for hedge funds versus about 18 percent for the **S**. **& P**. **500**. And many asset classes now have had a good run.

There’s another cautionary argument on private investments. Because they are inherently risky, they should be undertaken only by the most experienced investors.

Michael W. Sonnenfeldt, founder and chairman of Tiger 21, an investment club for people with $10 million to $1 billion, said the group’s 630 members had increased their investments in private equity and real estate.

The group’s collective portfolio has about 50 percent allocated to private equity and real estate. Public equity and debt make up just 35 percent.

Mr. Sonnenfeldt said that such high allocations to risky private assets were a product of how Tiger 21’s members often made their fortunes, building businesses and taking risk.

But he agreed with Mr. Rasmussen’s argument on investing in smaller companies.

“What our members do is not a referendum on the entire market,” Mr. Sonnenfeldt said. “It’s our members. Most people who are thinking about these investments wouldn’t do well without the skills to be successful. That’s an important distinction.”

And he said the group’s members expressed interest in private asset classes because, they said, their experience allowed them to influence the management of the investment.

“Our members overwhelmingly express their interest in private equity through ownership of a company or investment in a company,” he said. “Only a third have put money into a fund, and then they’re biased toward the smaller funds over the larger ones, for the reasons Rasmussen is talking about.”

In other words, the message is a resounding caveat emptor.

* Toys ‘R’ Us Case Is Test of Private Equity in Age of Amazon

Dan Rasmussen, founder of Verdad Capital in Boston. He argues that high-net-worth investors should think twice about three popular asset classes. | Cody O'Loughlin for The New York Times

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The New York Times

Breakingviews
Business Day; DealBook
Nio's Share Surge Takes It From Carmaker to Tech Star

By Katrina Hamlin
346 words
14 September 2018
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NYTimes.com Feed
NYTFEED
English

Get the DealBook newsletter to make sense of major business and policy headlines — and the power-brokers who shape them.__________

Electric-car maker Nio shifted quickly into a new gear. On the second day of trading after its initial public offering on the New York Stock Exchange, its shares zoomed up 76 percent. That transformed China's answer to Tesla from a carmaker into a tech star.

Some deserved skepticism forced Nio to sell its stock at the low end of the indicated price range. For a fleeting moment, its valuation — nearly $7 billion at Wednesday's close — just about suited the sector in which it operates. Applying rival Geely's net profit margin of nearly 12 percent and its valuation of seven times its forecasted earnings implied a bottom line of just over $1 billion for Nio. That would conceivably be within reach if it could run its manufacturing partner's factory at full capacity and then sell every single one of the 120,000 vehicles produced.

With a valuation of $13 billion, much higher expectations kick in. Nio would have to churn out more than twice as many vehicles as current capacity allows and find buyers for all of them. As of August, Nio had delivered just about 1,600 cars, generating $7 million in revenue at a big loss.

Chinese tech hype may explain the enthusiasm. Nio touted connected cars serviced by a dedicated app and partnerships with Tencent and JD.com for music streaming and e-commerce. These kinds of services resonate with investors. Shares of market debutants from China on the N.Y.S.E. and **Nasdaq**, excluding Nio, have averaged 64 percent increase this year, according to Dealogic. For all new listings in the Big Apple, the rise is a more muted 28 percent.

Tesla, too, trades at over 100 times estimated earnings for 2019. Nio may have belatedly captured some of that exuberance. It is nevertheless an unexpected, and implausible, U-turn.

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The New York Times

Opinion

Small Investors Are Prey, Again, for the Wolves of Wall Street

By Susan Antilla
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14 September 2018
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English

Ten years after the collapse of Lehman Brothers, and despite Congress's efforts to protect Mom and Pop with the 2010 Dodd-Frank Act, the small investor is increasingly vulnerable to shoddy practices on Wall Street.

Dodd-Frank was passed to rein in too-big-to-fail banks and establish new protections for consumers and investors. That included marching orders for the Securities and Exchange Commission to look into reforms meant to level the playing field between everyday investors and the sales agents who try to separate them from their money.

In the years since then, instead of enacting more rigorous requirements for the nation's 629,032 stockbrokers, the agency has proposed a code that isn't much stricter than the rules we already have. The S.E.C. has also chosen to do nothing with the authority it received with Dodd-Frank to unshackle investors from contracts that prevent them from taking brokers to court when things go off the rails.

The agency's official actions and failures to act are not the only problem.

Last month, Hester Peirce, an S.E.C. commissioner appointed by President Trump, threw out a bombshell, signaling that she would support requests from companies looking to block shareholders from bringing class-action lawsuits. Ms. Peirce told Politico that public companies "absolutely" should have the option of demanding arbitration instead of allowing class-wide court actions to proceed.

Today, when shareholders believe they've been cheated, they can join together before a court as a class, as investors in Enron and Worldcom did. The strength of such cases is in their numbers — investors can share costs that most solo plaintiffs couldn't afford — and in the deterrent effect of big judgments.

The commission would have to vote on this issue before a company could institute a rule barring class-action lawsuits for shareholders. Jay Clayton, the chairman and the sole independent on the five-person commission, which includes two Republicans and two Democrats, hasn't stated a position on barring class-action suits.

Mr. Clayton, however, recently promoted an idea that similarly is favorable to business. He told an audience in Nashville last month that the S.E.C. is studying various issues concerning private securities, including whether they should be made available to a larger universe of investors. The agency now limits private offerings to wealthy investors. Privately held companies provide far less information about their operations than public companies do, making them a risky bet for individuals. Big institutional investors, by comparison, have the tools to evaluate those companies.

And then there are the letdowns after Dodd-Frank. The law directed the agency to evaluate the standards that applied to stockbrokers and investment advisers. Stockbrokers, who are registered with Finra, a self-regulatory organization financed by its Wall Street members, are required only to recommend investments that are "suitable" for their customers, which leaves wiggle room for them to pick products that give them the biggest commissions. Registered investment advisers, who are overseen by the S.E.C. and state regulators, are held to a higher fiduciary standard of putting their clients' interests first.

In 2011, the staff of the S.E.C. recommended that stockbrokers should be subject to the same high standards as investment advisers. Instead, seven years later, the S.E.C. proposed a rule, requiring brokers to act in the "best interest" of clients, that would slightly raise broker standards but falls short of the fiduciary requirements that the staff recommended.

Dennis Kelleher of the investor advocacy group Better Markets called the proposal “so flawed that it threatens to do more harm than good.” Kara M. Stein, an S.E.C. commissioner appointed by Barack Obama, said that instead of protecting investors, the proposal “protects the broker-dealer from liability” by establishing minimal obligations, such as having conflict-of-interest policies, that give brokers legal protection.

That’s not to say the “best interest” standard doesn’t have some fans. The Securities Industry and **Financial Markets** Association, a Wall Street trade group, said it “supports and commends” the new standard.

Dodd-Frank also gave the S.E.C. authority to open the courthouse doors to investors, who are typically routed to a closed-door judicial program run by Finra in the event of a dispute with their broker. But the S.E.C. never exercised that authority.

At an event for Main Street investors organized by the S.E.C. in Denver in July, a woman named Jaimie Davis said she had lost more than $2 million at the hands of a broker who put almost all of her assets into speculative private placements that were later exposed as a fraud. Forced to use arbitration, she said one of her arbitrators “slept through most of the arbitration.” Ultimately, she lost the case.

Mr. Clayton, who said her story was “the worst” of all the ones he heard in two months of public meetings, promised to look into it. Twelve days later, the agency wrote to Ms. Davis to say there was nothing it could do to help.

The investor-unfriendly moves come at a bad time. Nine years into an economic recovery, stock prices are near record highs. But small investors should not get too comfortable. When things get ugly, they may find, yet again, that there is no one looking out for them.

Susan Antilla is a reporting fellow at The Investigative Fund and a contributing reporter at “The Intercept.”

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THE WALL STREET JOURNAL.

Markets
Stocks Hang On to Weekly Gains; DJIA, S&P 500 edge higher on Friday, while Nasdaq slips

By Riva Gold and Corrie Driebusch
597 words
14 September 2018
05:19 PM
The Wall Street Journal Online
WSJO
English

* Stocks notched weekly gains

* U.S. retail sales showed consumers reined in spending in August

* Nikkei closes at highest since February

Major indexes edged higher Friday, notching weekly gains as some investor fears about an escalation in trade disputes abated.

"What's driving intraday volatility and choppiness in the market? It's going to be trade," said Shawn Cruz, who manages trading strategy at TD Ameritrade. "We still haven't seen what's actually going to get put in place…so it's more or less a risk-aversion exercise."

The Dow Jones Industrial Average rose 8.68 points, or less than 0.1%, to 26154.67. The S&P 500 ticked up 0.80 points, or less than 0.1%, to 2905.98, a day after the index notched its biggest gain in two weeks on Thursday. The Nasdaq Composite slipped 3.67 points, or less than 0.1%, to 8010.04, though it joined the other two major indexes in posting weekly gains.

One driver of stocks' advances this week was technology companies, which had been one of the prior week's biggest decliners.

"It's good day, bad day with the chip sector, and you still have Facebook and Google under regulatory scrutiny, but the theme in tech is still positive. You're still getting good earnings reports," said Dan Morgan, senior portfolio manager at Synovus Trust. He added that he will be watching Oracle's earnings next week as a way to monitor health in the sector.

This week, technology companies in the S&P 500 rose 1.8%, with the PHLX Semiconductor Index up 1.1%. Apple shares have risen 1.1% this week after the company announced a new lineup of mobile devices.

Consumer companies declined Friday after U.S. retail-sales data showed American consumers reined in their spending in August, taking a breather after very strong sales growth in July. The data comes as U.S. wages rose in August, with private-sector hourly wages growing 2.9% from a year earlier, the fastest pace since mid-2009.

"If that's not translating into retail spending, retailers will feel the brunt of that move" as it costs more to pay their employees, Mr. Cruz said.

The Stoxx Europe 600 rose 0.4%, while banks lagged behind.

Shares in Danske Bank fell 1% after The Wall Street Journal reported that U.S. law enforcement agencies are probing Denmark's largest bank over allegations of massive money-laundering flows from Russia and former Soviet states.

Asian stocks were broadly higher, with benchmarks in Japan, Hong Kong and South Korea up 1% or more. Japan's Nikkei closed at its highest level since early February, ending its best week since July.

Softness in the dollar and stabilization in some emerging markets has also helped improve investors' appetite for risk, analysts said.

Shoqat Bunglawala, head of the global portfolio solutions group for EMEA and Asia Pacific at Goldman Sachs Asset Management, said he is cautious on emerging markets in the short term because of issues largely stemming from market sentiment and **volatility**, but in the medium term is still very positive on broader emerging markets.

Many are in a substantially better position than they were a few years ago, he said, pointing to improvements in earnings growth and well-anchored inflation.

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Goldman's incoming CEO is installing investment bankers in the Wall Street firm's senior-most roles, capping a power shift away from the trading business.

GM is recalling more than one million pickup trucks and large SUVs in the U.S. for a steering defect.

VW plans to stop building its iconic Beetle, ending an 80-year run for the car.

OPEC oil output surged last month, more than making up for a decline in Iranian supply because of U.S. economic sanctions.

The ECB lowered its forecasts for Europe's economic growth, but said it would press ahead with a plan to phase out easy money.

Agreeing on how to frame the path of rate increases next year could prove to be a tricky task for Fed officials.

Sears is limping into the critical holiday season, after the retailer reported its quarterly sales fell 26%.

Apple and other tech firms led the **S&P 500** to a 0.5% gain, while the Dow rose 147.07 points to 26145.99.

Facebook will begin fact-checking photos and videos, seeking to close a gap that allowed Russian propagandists to promote false news.

Amazon's Bezos plans to commit an initial $2 billion to help the homeless and educate preschoolers.

Kroger's sales grew less than expected and the grocer said it would sacrifice profit to keep investing to compete with Amazon and Walmart.

(END)

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THE WALL STREET JOURNAL.

Markets

Rebound for Industrials Helps Stabilize U.S. Stocks; The Dow industrials' stability marks a shift from earlier in the year, when trade tensions helped batter manufacturers

By Amrith Ramkumar
603 words
14 September 2018
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The Wall Street Journal Online
WSJO
English

Beaten-down shares of industrial firms are starting to bounce back, supporting major U.S. stock indexes even as sectors including technology wobble.

The **S&P 500** industrials sector has risen 4.8% in the past month, making it the best-performing of the broader index's 11 groups in that span and lifting it up 2.3% despite recent swings in the market's best-performing sectors. It has risen in nine of the last 11 weeks and is at its highest level since February.

The **Dow Jones Industrial Average** has also outperformed recently, earlier this month narrowing the gap on the **S&P 500** to its lowest level since July.The blue-chip index is up 5.8% for the year, compared with the **S&P 500**'s 8.7% climb.

The Dow industrials' stability marks a shift from earlier in 2018, when trade tensions and worries about higher commodity costs battered manufacturers. Data Friday showed U.S. industrial output rose more than expected in August, lifted by strong utility and motor-vehicle production.

Industrial stocks have been among the market's worst-performing sectors in the past six months even with the U.S. economy growing at its quickest pace in years, so some analysts think more strong data could give the group a further boost. Figures from last month showed July output from factories, mines and utilities was weaker than expected.

Yet investors have rewarded industrials lately after many manufacturers reported strong second-quarter earnings despite the threat of tariffs hurting global demand.

Additionally, data earlier this past week showed a gauge of U.S. business prices in August clocked the first monthly decline in about a year and a half, a potentially positive sign for consumer-facing firms combating higher costs. Some commodity prices have fallen lately, a potential boon for many industrial companies.

Some analysts think strength in the U.S. economy could continue to underpin manufacturing stocks, even as global trade discussions continue.

"We're focusing more on domestic demand," said Benjamin Lau, chief investment officer of Apriem Advisors, who has been slightly overweight industrials this year.

Signs that the U.S. is willing to compromise with Canada, the European Union and China on trade after reaching a deal with Mexcio have also helped sentiment in the sector, analysts say. The Trump administration is giving Beijing another chance to try to stave off new tariffs on $200 billion in Chinese exports, asking top officials for a fresh round of trade talks later this month, The Wall Street Journal reported earlier this week.

Third-quarter earnings season will mark a crucial period for industrial shares, with investors increasingly looking for sectors cheaper than the broader market that can still post consistent sales growth.

However, cautious comments from industry executives or weaker-than-expected results could send the group spiraling again, putting pressure on other sectors to pick up the slack.

After machinery manufacturer Caterpillar warned in April that first-quarter results could prove to be a "high-water mark" for the year, investors have been looking for signs that the group can sustain recent growth.

"We think that the sector may have derated enough that continued strength in earnings from here can help drive upside," Morgan Stanley analysts said in a recent note to clients.

To receive our Markets newsletter every morning in your inbox, click here.

Write to Amrith Ramkumar at amrith.ramkumar@wsj.com

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THE WALL STREET JOURNAL.

Markets
U.S. Government-Bond Prices Fall as 10-Year Yield Tests 3%; 10-year yield has moved above 3% on a few occasions this year, only to quickly fall back down

By Sam Goldfarb
460 words
14 September 2018
04:12 PM
The Wall Street Journal Online
WSJO
English

U.S. government-**bond prices** fell Friday, briefly pushing the yield on the 10-year note above 3% for the first time since early August, as investors' appetite for Treasurys was once again tested by forecasts for higher interest rates and continued strength in the U.S. economy.

The yield on the benchmark **10**-**year Treasury** note briefly reached as high as 3.001% early in the U.S. trading session. It settled at 2.992%, compared with 2.964% Thursday.

Yields, which rise as **bond prices** fall, have climbed in recent weeks, as factors constraining their rise, including concerns about trade tensions and emerging-market economies, have receded. At the same time, forces pushing them higher, such as solid U.S. economic data, have remained in place.

The 10-year yield's move to 3% will bring increased scrutiny to the bond market, with investors watching to see whether the yield can break through a level that has previously acted as a ceiling this year.

The **10**-**year Treasury** yield is of great importance to the global economy, serving as benchmark for a range of interest rates used by consumers, businesses and governments.

The yield has moved above 3% on a few occasions this year, only to quickly fall back down again, ensuring that the credit environment for consumers and businesses remains relatively favorable, even as the Federal Reserve has steadily raised short-term interest rates.

Friday's rise in yields reflects the "near-term pressure that we have seen on Treasurys," stemming in part from higher inflation and increased supply of Treasury debt, said John Canavan, market analyst at Stone and McCarthy Research Associates.

Treasury yields got their biggest boost in recent weeks from a surprisingly large increase in average hourly earnings in last Friday's jobs report. While the report didn't do much to lift inflation expectations, it did make investors more confident that the Fed will continue its current pace of monetary tightening, which would translate to two more rate increases by the end of the year.

Investors sold Treasurys Friday despite a lackluster report on retail sales.

Sales at retail stores and restaurants rose 0.1% from the prior month to a seasonally adjusted $509 billion in August, the Commerce Department said Friday. That was well below the 0.4% increase economists surveyed by The Wall Street Journal had expected.

Still, revised data showed retail sales rose 0.7% in July, up from an initially reported 0.5% increase.

Write to Sam Goldfarb at sam.goldfarb@wsj.com

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THE WALL STREET JOURNAL.

Heard on the Street
Markets
The Worst Is Over for Generic-Drug Stocks; There are signs that the generic-drug industry's long stock-market nightmare is ending

By Charley Grant
483 words
14 September 2018
05:30 AM
The Wall Street Journal Online
WSJO
English

Look carefully, and there are signs that the generic drug industry's long **stock-market**nightmare is ending. A poorly timed deal spree left the big players with too much debt as drug prices got hit, causing many stocks to fall by half or more.

Prices declined faster than usual because of consolidation among U.S. drug buyers and Trump administration policies that encouraged new generic drug applications, which creates more competition. Through August, the Food and Drug Administration had approved 719 applications in the current fiscal year, which ends in September. The agency approved 763 and 651 applications last year and in 2016, respectively.

That hit to pricing power came right as the largest manufacturers made expensive acquisitions. All of which resulted in too much debt and accelerated the fall in share prices. A Department of Justice investigation into price fixing throughout the industry added to the misery.

Even after a recent rally, shares of Teva Pharmaceutical Industries are down by nearly 70% from the 2015 high, while Mylan has dipped about 50% since then. But management teams have responded appropriately to the trouble. Measures included shutting down unprofitable drug production in the U.S. and using free cash flow to pay down debt.

Those measures have set the industry up for a rebound. For starters, three of the five largest U.S. generic drug companies will reduce their leverage to less than three times earnings before interest, taxes, depreciation and amortization by the end of next year, according to Randall Stanicky at RBC Capital Markets. That is important for investors; consider that Teva trades at less than 8 times forward earnings. Include debt however, and its valuation of 10 times earnings before interest, taxes depreciation and amortization looks more expensive.

While those moves have resulted in lowered short-term profitability, they have made it easier to generate growth in the future. As Mr. Stanicky, who correctly anticipated the sector's downturn back in 2016, put it, "the result of the decline in earnings we have seen over the last couple of years is ultimately going to be a positive."

And while generic approvals could set another record this fiscal year, the rate of growth has slowed from recent years. And applications, a leading indicator of future approvals, are actually behind last year's pace.

Investors shouldn't expect an immediate stock surge; for one thing, the price-fixing investigation is still open. And the sector likely needs more time to reduce debt before cash can be used for more productive uses, like stock buybacks or new deals.

But this time, patience should pay off: years of ugliness have helped create a much prettier picture.

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WSJ PRO CENTRAL BANKING

Economy
U.S. Retail Sales Rose Slightly in August; Sales at retail stores and restaurants rose 0.1%; July's increase was revised up

By Harriet Torry
620 words
14 September 2018
09:41 AM
WSJ Pro Central Banking
RSTPROCB
English

WASHINGTON—American consumers reined in their spending in August, taking a breather after very strong sales growth in July.

Sales at retail stores and restaurants rose 0.1% from the prior month to a seasonally adjusted $509 billion in August, the Commerce Department said Friday.

That was well below the 0.4% increase economists surveyed by The Wall Street Journal had expected. Compared with August a year earlier, sales grew 6.6%.

Still, revised data showed retail sales rose 0.7% in July, up from an initially reported 0.5% increase.

"Smoothing through the monthly gyrations, retail sales are rocking and rolling," said Stephen Stanley, chief economist at Amherst Pierpont Securities, in an analyst note.

The overall weakness in August was largely due to a drop in auto sales. Sales at motor vehicle and parts dealers dropped 0.8% from the prior month.

Excluding motor vehicles, sales were up 0.3% in August, and excluding gasoline, sales dropped 0.1%. Excluding both categories, sales rose 0.2% last month.

Consumer spending is a key driver of the U.S. economy, representing about two-thirds of economic output.

Spending at grocery stores was flat on the month and Americans increased their spending at bars and restaurants only slightly, by 0.2%.

Gas prices for U.S. drivers were $2.84 a gallon on average in August, down 1 cent from July, according to the U.S. Energy Information Administration, and consumers spent more at gas stations. In August, sales at gas stations rose by 1.7%, and were up 20.3% from a year earlier.

Retail sales data can be **volatile** from month to month. Sales at department stores dropped 1% in August, and sales at clothing stores dropped 1.7%.

Sales at nonstore retailers, such as purchases made online or from mail-order catalogs, rose 0.7% and were up 10.4% from August last year.

Online sales helped boost retailers in the second quarter, which was marked by robust consumer spending. Walmart, Target Corp., Home Depot Inc. and Nordstrom Inc. all reported strong sales for the quarter.

One of the last big retailers to report earnings, Kroger Co., said Thursday its sales grew less than expected in its most recent quarter. The largest U.S. supermarket chain by stores and sales said it would sacrifice profit to continue investing in online ordering and other services to compete with Amazon.com Inc. and Walmart Inc.

"We are making those investments and they are substantial and significant," Kroger Chief Executive Rodney McMullen said in an interview regarding competing digitally.

Friday's report from the Commerce Department suggests consumer spending continued to be strong at the start of the third quarter but could be cooling slightly, and the hurricane that made landfall on the North Carolina shore early Friday could muddy retail sales data ahead.

"Hurricane Florence may skew the numbers for September, with purchases ahead of the storm, declines in sales in the immediate aftermath, and then gains again during the recovery phase," said Gus Faucher, chief economist at PNC Financial Services Group, in a note to clients.

The Federal Reserve closely eyes consumer spending data as a gauge of economic growth, and Fed officials pointed to a pickup in consumer spending as a factor in their decision to raise interest rates in June to a range between 1.75% and 2%. They are widely expected to raise rates by a quarter percentage point again later this month.

Heather Haddon contributed to this article.

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WSJ PRO CENTRAL BANKING

Economy
Industrial Production Rose in August; Output at factories increased a modest 0.2%, largely because of motor vehicle and parts production

By Sharon Nunn and Eric Morath
399 words
14 September 2018
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English

WASHINGTON—U.S. industrial output rose for the third month in a row in August, largely because of strong utility and motor-vehicle production.

Industrial production, a measure of factory, mining and utility output, grew a seasonally adjusted 0.4% in August from the prior month, the Federal Reserve said Friday. Economists surveyed by The Wall Street Journal had expected a 0.3% gain for August. Industrial output has risen steadily throughout the summer months.

Robust 1.2% production growth in the utilities sector helped push last month's overall output gain, with electricity production increasing at a solid pace from a pullback seen earlier in the summer months.

Meanwhile, output at factories increased a modest 0.2%, but largely because of motor vehicle and parts production. If ones removes that from the measure, manufacturing output was unchanged in August. Mining production continued to increase steadily at 0.7%. Output in the category has grown each month since January.

In the longer term, industrial production rose 4.9% in August from the prior year. That is running ahead of broader economic output growth this year.

Capacity utilization, which reflects how much industries are producing compared with what they could potentially produce, increased by 0.2 percentage point to 78.1% in August. Economists had expected 78.2%.

Overall industrial production in July was revised up to a 0.4% gain from a pervious estimate of up 0.1%. Capacity utilization for the month was revised down to 77.9% from a first estimate of 78.1%

Manufacturing production has been rising since mid-2016, when rising **oil prices** helped reverse a hit to U.S. energy production. The manufacturing sector was hit hard by the 2007-09 recession and later by a big drop in **oil prices**, which hurt energy production. More broadly, it has been buffeted by years of competition from low-cost countries such as China.

"While there have been increased signs of slowing external growth, strong domestic demand will likely remain supportive for industrial activity expansion," Lewis Alexander, chief U.S. economist at Nomura, said prior to the report.

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THE WALL STREET JOURNAL.
U.S. EDITION

Sanctions Push Bruises Russian Bonds

By Matt Wirz
758 words
14 September 2018
The Wall Street Journal
J
B12
English

A growing drumbeat on Capitol Hill for further sanctions against Russia because of its interference in U.S. elections has hit Russian bond markets and the foreigners who trade in them.

Since U.S. legislators ramped up efforts at the start of August to pass laws that would penalize Russian financial and energy industries, prices of bonds denominated in Russian rubles have dropped about 7%, according to IHS Markit.

Prices are likely to fall further as Congress moves forward legislation that would prohibit U.S. investors from buying newly issued Russian government bonds, emerging-market bond fund managers said. Such selloffs also hit Russian banks and institutional investors, which are heavy buyers of their government's debt.

The decline is an unusual example of U.S. policy affecting securities of foreign governments, putting Russia in the realm of countries like Venezuela and Iran. It has also rocked emerging-markets investors already reeling from heavy losses in Argentina and Turkey.

Rising interest rates and the strengthening U.S. dollar have sparked stock and bond routs in 2018 in emerging-market countries such as Argentina and Turkey with trade imbalances and fiscal deficits. The selling spread in recent weeks to stronger economies like Indonesia. Losses in the year to date on a widely traded emerging-markets bonds exchange-traded fund are now about 6.28%, according to data from Morningstar.

Russia had stood out as one of the more stable economies in the developing world this year, bolstered by its low debt -- 17.4% of gross domestic product, according to S&P Global Ratings -- and prudent fiscal policies. Political risk has increasingly overshadowed that economic strength as the U.S. government moves to pinch Russia's finances.

"Investors have had years to reduce exposures in Russia," Daleep Singh, a former U.S. Treasury Department official, said at a hearing before the Senate Banking Committee Wednesday about one of the new sanctions bills. "I can think of no credible argument why U.S. public pension funds and saving vehicles should indirectly fund the Russian government while the latter continues to sponsor violations of U.S. sovereignty."

The proposed laws wouldn't prevent U.S. firms from owning any of Russia's existing debt but many are selling out all the same, preferring to avoid the political noise engulfing the bonds and potential compliance work involved in owning them, the fund managers said.

"People are just saying 'I want to stay out of it for a while,'" said Kumaran Damodaran, a fund manager at Stone Harbor Investment Partners. Stone Harbor's local-currency emerging-markets bond fund is still about 8% invested in Russian bonds because they pay high yields and the country has plenty of money to pay its debts even if the sanctions get imposed, he said.

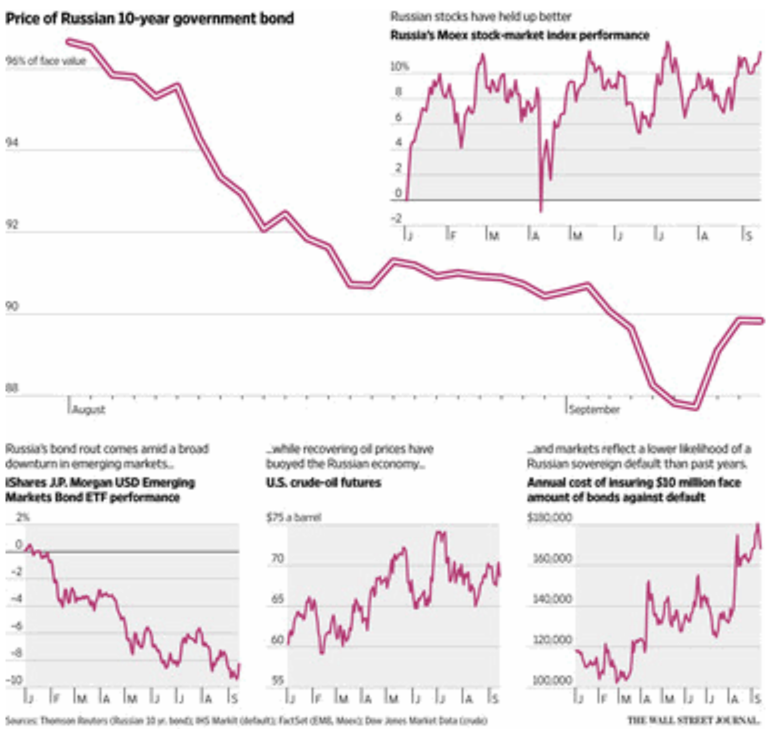
Congress accelerated work in July on at least two bills involving sanctions on Russian debt, when President Trump appeared to support Russian President Vladimir Putin's denial of election interference. The Trump administration imposed milder sanctions in April affecting bonds of companies owned by Russian oligarchs and was working Wednesday on further measures.

"It's up to us in this Congress to write strong, strong sanctions language," said Sen. Sherrod Brown (D., Ohio) in Wednesday's Banking Committee hearing.

In addition to blocking U.S. investors from buying new Russian bonds, Congress is considering freezing assets of certain Russian banks and state-owned entities, but has stopped short of a full-scale financial quarantine like those imposed on Iran and North Korea. Such a blockade remains unlikely unless Russia escalates either its disruption of U.S. elections or military operations like its incursion in eastern Ukraine.

It is unclear how much the measures currently under consideration will actually affect Russia's finances, which have been strengthened by a recovery in the price of oil, the country's largest export. The cost of credit-default swaps protecting holders of Russian bonds from nonpayment by the government -- a key measure of the perceived risk in the country's debt markets -- has declined about 63% since 2015, when collapsing **oil prices** threatened Russia's economy.

Nevertheless, passage of additional sanctions in Congress will likely spark a new round of selling by U.S. bondholders, the fund managers said. Even existing Russian bonds that wouldn't be affected by the potential sanctions would require portfolio managers to explain to nervous compliance executives and clients why they hold the debt, they said.



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THE WALL STREET JOURNAL.

Markets
Emerging Markets Endure a Lost Decade After Lehman; MSCI Emerging Markets Index has underperformed the S&P 500 by 113 percentage points since Sept. 15, 2008

By Steven Russolillo and Joanne Chiu
538 words
14 September 2018
02:24 AM
The Wall Street Journal Online
WSJO
English

Asian shares were broadly higher Friday. South Korea's Kospi led with a 1.4% advance underpinned by Samsung Electronics Co. and other chip makers following gains for U.S. tech stocks. Japan's Nikkei 225 advanced 1.2%.

Friday's Big Theme

Although the 2008 global financial crisis began on Wall Street, the decade that followed the collapse of Lehman Brothers has been harder on investors in emerging markets than their counterparts in the U.S.

What's Happening

A popular gauge of shares in the developing world, the MSCI Emerging Markets Index, has underperformed the **S&P 500** by 113 percentage points since Sept. 15, 2008—the day Lehman imploded. As of Thursday's close, it had gained just 19% over the decade.

The gap has grown more pronounced this year: The **S&P 500** is just shy of record highs, whereas the MSCI EM benchmark recently fell into a **bear market**—defined as a drop of at least 20% from a record high.

Capital is draining from emerging markets, as higher interest rates and faster U.S. growth draw money back to the world's biggest economy. That is also boosting the U.S. dollar, which creates problems for many foreign borrowers. Trade tensions between the U.S. and China, as well as crises in Turkey and Argentina, have also unnerved investors.

The divergence goes against conventional wisdom that investors should be richly compensated for taking outsize risk. In the first decade of this century, emerging markets more than doubled but the **S&P 500** was negative. Still, the trade-off has failed to pay off before: In the 1990s, U.S. markets soared, while toward the end of the decade financial crises in Asia and Russia rattled the developing world.

It is also a reversal from the start of the 2010s when emerging markets sped ahead, as Beijing borrowed heavily to sustain rapid growth with an infrastructure boom. That boosted commodity-producing nations by lifting prices of raw materials and spurred talk of economic "decoupling," in which poorer countries left the slow-growth rich world behind.

Market Reaction

Analysts at Morgan Stanley said elections, trade tensions and other risks are likely to continue weighing on sentiment in Asian emerging markets.

"Risks are building in Asia as investor concerns about external funding have spread from other emerging markets in Europe, the Middle East and Africa to Asia," Morgan Stanley analysts wrote recently. They flagged Indonesia and Malaysia among weaker countries in Asia because of their high external debt.

Others said the selloff has gone too far. Audrey Kaplan, head of global equity strategy at Wells Fargo Investment Institute, said, "We believe the decline extends beyond what the economic, earnings and currency fundamentals justify."

Elsewhere

China guided the yuan 0.2% stronger after an overnight pullback in the dollar. The People's Bank of China fixed the midpoint for onshore trading at 6.8362.

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WSJ PRO CENTRAL BANKING

Economy
Timiraos's Take: This Isn't the Neutral Rate You've Been Looking For; This week, Fed governor Lael Brainard gave investors—and her own colleagues—another reason to tread carefully when talking about a neutral rate.

By Nick Timiraos
672 words
14 September 2018
06:10 AM
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English

Jerome Powell has spent his first six months as Fed chairman offering greater humility about policy makers' ability to precisely estimate key variables such as the neutral rate of interest that neither spurs nor slows growth.

This week, Fed governor Lael Brainard gave investors—and her own colleagues—another reason to tread carefully when talking about a neutral rate.

Mr. Powell has eschewed point estimates of the neutral rate out of concern they offer potentially false precision about something that is inherently uncertainty. The Fed's monetary policy report released in July, for example, showed wide uncertainty bands around various model-driven estimates of a real neutral rate.

Almost as if to underscore Mr. Powell's restraint, revisions to gross domestic product data this summer prompted a large upward revision to one model of the real neutral rate developed by New York Fed President John Williams and Thomas Laubach, the Fed's director of monetary affairs. The revisions moved the estimate of the real rate closer to 1%, up 0.68 basis points, a magnitude equal to almost three quarter-point increases in the federal-funds rate.

Ms. Brainard delivered an important speech this week outlining a key distinction around the neutral rate, which has taken on added significance now that more of her colleagues are anchoring their rate projections around what should happen when policy reaches a neutral stance. The speech underscored the difference between the short-run and long-run estimate of neutral. Long-run estimates of neutral don't move around very much and apply in an environment of near perfect equilibrium, where inflation is stable and unemployment is at its long-run sustainable rate.

Short-run estimates of neutral, on the other hand, move around more. Deficit-financed tax cuts and federal spending increases approved over the last year are pushing up this rate, she said, as does "heightened risk appetite" from investors in buoyant **financial markets**.

This matters for reading the policy tea leaves right now because investors and some of Ms. Brainard's colleagues on the Federal Open Market Committee have been suggesting the Fed should pause rates once they reach a neutral setting.

The FOMC's quarterly projection of the rate path—the so-called dot plot—present estimates of a longer-run neutral rate, but Ms. Brainard was careful to caution that this shouldn't be confused with a shorter-run neutral, which she currently estimates is higher.

So where is the shorter-run neutral rate right now? Ms. Brainard doesn't say specifically, highlighting once again the uncertainty around such measures.

But she offers clues. It is cyclical, meaning it rises during good times and falls in bad ones. "Our current expansion appears to be no exception," she said. (This research posted online last week from Fed economist John Roberts provides some projections.)

When will we know when we're there? One sign would be that job growth slows enough to hold the unemployment rate at its current level, Ms. Brainard said.

The upshot is that it shouldn't be a surprise to see interest rates rise above officials' projection of the long-run neutral rate because the shorter-run neutral rate "may well surpass the longer-run equilibrium rate for some period," she said.

In June, nine of 14 officials projected the long-run neutral rate sat somewhere between 2.75% or 3%. The Fed raised rates at the June meeting to a range between 1.75% and 2%.

If Ms. Brainard's views represent the committee's mainstream, it suggests the Fed could continue with rate increases for at least the next year—a significant position for one of the committee's more dovish members in recent years to adopt.

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WSJ PRO CENTRAL BANKING

Economy

Economists Split Over Rate Path | Erdogan Questions Rate Rise | ECB Lowers Forecasts | Europe to Target Money Laundering | Timiraos's Take: This Isn't the Neutral Rate You've Been Looking For; The Wall Street Journal's central banking newsletter for Friday, September 14, 2018

3,066 words
14 September 2018
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Timiraos's Take: This Isn't the Neutral Rate You've Been Looking For

Economists Split Over Path of Interest Rates in 2019

Turkey's Erdogan Warns He Won't Tolerate High Rates for Long

ECB Lowers Growth Forecasts as It Confirms Plan to End Easy Money

Europe Moves to Target Money Laundering In Response to Scandals

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Key Developments Around the World

The Tricky Part of the Fed's Next Rate Increases

Deciding to raise short-term interest rates will be the easy part of Federal Reserve officials' meeting later this month. Agreeing on how to frame the path of rate increases next year could prove much harder. Solid U.S. growth, low unemployment and stable inflation should keep the Fed on track to raise its benchmark rate this month from its current range between 1.75% and 2%. Officials are likely to lift it again in December if trade disputes or **volatility** in emerging markets don't imperil global growth, according to interviews and public speeches. They also could drop language from their postmeeting statement that for years has described monetary policy as "accommodative," meaning rates are low enough to stimulate economic growth. Because rate increases this month and in December are so highly anticipated, the market's reaction could hinge on any clues officials provide about what comes in 2019 and beyond.

Economists Split Over Path of Interest Rates in 2019

Most private economists continue to expect Federal Reserve officials will raise short-term interest rates two more times this year, but are split over the path of rates in 2019, according to The Wall Street Journal's monthly survey of forecasters. Of the 59 economists surveyed this month, 88% expected the Fed to raise its benchmark federal-funds rate two more times this year, in September and December. That is unchanged from last month's survey. There is no clear consensus, however, over how many times officials will raise rates next year.

Most Economists See Tariff Effects on U.S. Economy as Limited

Fed's Kaplan Supports Rate Increases Toward ‘Neutral' Level

Federal Reserve Bank of Dallas President Robert Kaplan said Thursday the Fed's dual mandate of price stability and full employment has been met, and reiterated that interest rates should be increased toward a so-called neutral level that neither stimulates nor restricts the economy. "We should be moving toward neutral, but I think we should be doing it gradually and patiently," Mr. Kaplan said during an event with local business leaders at the Dallas Fed building.

Atlanta Fed's Bostic Says the Economy Needs Gradual Rate Rises

Federal Reserve Bank of Atlanta President Raphael Bostic said Thursday the U.S. central bank should press forward with rate rises. "When the economy is doing well and standing on its own, as it is now, I think monetary policy ought to be moving toward a neutral stance," he said in Jackson, Miss. "For me, this means a gradual increase in nominal interest rates over the next handful of quarters."

Bernanke Says Credit Freeze More to Blame Than Housing Bust in Latest Recession

Former Federal Reserve Chairman Ben Bernanke said in a new paper that the credit-market panic that culminated 10 years ago when Lehman Brothers failed better explains the severity of the 2007-09 recession than the housing bust does. The lesson for the Fed and other economic forecasters, Mr. Bernanke said, is that credit-related factors need more attention in their models and methods. Mr. Bernanke presented his findings Thursday at the Brookings Institution, where he is a distinguished fellow.

Boston Fed Research Calls For Central Bank to Review Policy, Regularly

It is time for the Federal Reserve to formalize the process of how it determines the mechanics of monetary policy, according to a new paper co-written by Federal Reserve Bank of Boston President Eric Rosengren. The research, prepared for a conference at the Brookings Institution on Friday, takes stock of how the Fed sets policy. The insight comes as central bankers face some big choices about policy mechanics, and the paper helps point a way forward in that still unsettled debate.

Turkey's Erdogan Warns He Won't Tolerate High Rates for Long

Turkey's President Recep Tayyip Erdogan warned Friday that he would only tolerate higher lending rates for some time, a day after the central bank raised its benchmark interest rate above inflation for the first time in a decade. Mr. Erdogan, who had urged the central bank to cut rates hours before Thursday's rate rise announcement, said the decision to increase the benchmark rate to 24% from 17.75% was misguided but added that he would wait to see results.

Turkey Takes Action on Strained Economy With Big Rate Rise

ECB Lowers Growth Forecasts as It Confirms Plan to End Easy Money

The European Central Bank on Thursday lowered its forecasts for Europe's economic growth this year and next, but said it would press ahead with a carefully telegraphed plan to phase out easy money. The decision underscores the delicate task facing the world's No. 2 central bank: The ECB has started to pivot away from years of ultralow interest rates, following the Federal Reserve, just as the eurozone economy softens and faces headwinds ranging from Brexit to vulnerabilities in its neighbor, Turkey. The ECB said it expects to wind down its €2.5 trillion ($2.9 trillion) bond-buying program by year-end, confirming a plan outlined in June. The bank also expects to hold its benchmark interest rate at the record low of minus 0.4% at least through the summer of 2019.

ECB Takeaways: End of Stimulus Approaches, but Caution Remains

Eurozone Posts Smallest Trade Surplus in Four Years

Bank of England Holds Key Rate as It Warns on Trade Tension Threat

The Bank of England on Thursday left its key interest rate unchanged, and warned of a growing threat to global economic growth from trade tensions between the U.S. and China. The BOE last month raised its key interest rate to its highest level in almost a decade, and this month all nine of its policy makers voted to leave it at 0.75%. The central bank repeated its view that further rate increases will be needed to bring inflation down to its 2% target from 2.5% in July and keep it there, but also repeated its message that those moves will be "limited and gradual."

BOJ Policy Makers Clash Over Banks' Complaints

Divisions are rising within the Bank of Japan over banks' complaints about low interest rates. Debate on whether to take them seriously is likely to be at the center of BOJ policy meetings, including one next week, according to people familiar with the deliberations. It reflects how the central bank's five-year-old radical-easing program, credited by supporters with having helped lift Japan's economy, continues to generate concern.

FINANCIAL REGULATION ROUNDUP

Deutsche Bank Names New Global Head of Anti-Financial Crime

Deutsche Bank AG promoted a London-based senior risk officer to oversee financial crime-fighting responsibilities globally, replacing an executive who is leaving for Danske Bank, according to a memo to employees released Thursday. Stephan Wilken, who has been with Deutsche Bank more than 20 years, will become head of anti-financial crime and chief of anti-money-laundering Oct. 1, according to the memo from Sylvie Matherat, the bank's chief regulatory officer and a management-board member. His appointment is still subject to regulatory approvals.

Founders of Shuttered $6 Billion Hedge Fund Planning a Comeback

Richard Schimel and Lawrence Sapanski ran a $6 billion hedge fund that shut down earlier this decade following an insider-trading investigation. Now they are plotting a return to the industry. Messrs. Schimel and Sapanski are planning to launch a new hedge fund and raise at least $500 million from clients, people familiar with the matter said. The firm, which doesn't yet have a name, is in the early stages of planning, and the plans could change. Messrs. Schimel and Sapanski previously founded Diamondback Capital Management in 2005.

Europe Moves to Target Money Laundering In Response to Scandals

Europe threw a one-two punch to fight money laundering on Wednesday, with the European Commission proposing enhanced powers for a regulator and lawmakers passing a package of new rules. European Commission President Jean-Claude Juncker called for greater supervisory and enforcement power for the European Banking Authority over its anti-money-laundering rules. The EBA, under Mr. Juncker's proposal, would be allowed to request investigations of a European country's banks by national anti-money-laundering supervisors, and convene a new committee bringing those supervisors together into one place. Meanwhile, the European Parliament on Wednesday approved new measures that members said would close loopholes in existing rules and make it easier for authorities to stop illicit transfers.

Public Companies Score a Win in Fight to Limit Reach of Proxy Advisers

U.S. public companies scored an early victory in a longstanding fight to curb the impact of consultants who influence shareholder votes on hot-button topics such as executive pay. The Securities and Exchange Commission on Thursday waded into the dispute by rescinding a pair of roughly 15-year-old letters written by its staff. The letters had given mutual-fund managers greater assurance to rely on a consultant's recommendations about matters up for a vote at a public company's annual meeting. Many corporations and Republicans in Congress say the letters boosted the influence of consultants known as proxy advisers, including Institutional Shareholder Services, which sometimes opposes big CEO pay packages.

WageWorks Shares Fall on Allegations Company Withheld Information From Auditors

WageWorks Inc.'s investigation into claims that information was withheld from auditors led the company's shares to fall nearly 17% Thursday. The decline is the second largest one-day drop on record and brings the stock's weekly decline to 19%, on pace for its worst week on record. Following the conclusion of an earlier investigation by the board's audit committee into financial and corporate matters, auditing firm KPMG LLP raised concerns with John W. Larson, WageWorks's lead independent director, that information had been withheld from auditors in 2016 and 2017, WageWorks said in a securities filing Wednesday. KPMG declined to comment Thursday, citing client confidentiality.

Friday

8:30 a.m. EDT

U.S. Commerce Department releases August retail sales

9 a.m. EDT

Chicago Fed's Evans speaks on economy and monetary policy in Fort Wayne, Ind.

9:15 a.m. EDT

Federal Reserve releases August U.S. industrial production

10 a.m. EDT

Boston Fed's Rosengren speaks on monetary policy framework at Brookings Institution in Washington

10 a.m. EDT

University of Michigan releases preliminary September U.S. consumer sentiment

Asset Ownership and the Uneven Recovery From the Great Recession

While household wealth has increased from its lows during the last recession, "aggregate patterns obscure the extent to which gains from the recovery are shared across the population," according to a Federal Reserve FEDS Notes. Authors Lisa Dettling, Joanne Hsu and Elizabeth Llanes find that "wealth is highly concentrated" and that suggests "aggregate wealth measures may insufficiently describe how most households fared financially in the recent economic recovery. The wealth inequality "may help explain why the long-standing connection between aggregate wealth and consumption is weaker than it once was, since higher income families tend to consume less out of wealth changes than lower income families." They also write that wealth declines in the bottom 90% of households are partly driven by a drop in asset ownership. That means the outlook for those households as the recovery continues will depend on asset ownership rates. However, "recent data provides little evidence ownership rates have rebounded."

The Fed Won't Save Emerging Markets

"When emerging markets run into trouble, the trouble can keep getting worse until the Federal Reserve rides to the rescue. But what if the Fed never shows up?" Justin Lahart asks in The Wall Street Journal. "There are factors that could mute the impact of the Fed's rate increases on emerging markets. The U.S. and other developed economies are doing well, so expanded exports might provide some emerging-market countries with a boost. China is adding fiscal stimulus, which also should help. But the risk is that those positives won't do enough to offset the Fed, and bad as things for many emerging markets are now, they only get worse."

Consumer-price pressures began to moderate in the U.S. in August after a buildup in inflation through much of the year, a positive signal for workers who have seen bigger paychecks largely eaten by price increases. The consumer-price index rose a seasonally adjusted 0.2% in August from the prior month, the Labor Department said Thursday.

The monthly U.S. federal budget deficit nearly doubled in August compared with a year earlier, as government spending swelled and revenues declined. The government ran a $214 billion deficit last month, compared with a $107.7 billion budget gap in August 2017, due to a 30% rise in government outlays, the Treasury Department said Thursday.

The number of Americans filing applications for new unemployment benefits fell last week, remaining at a half-century low for the second-straight week.

Investment in factories, railways and other projects in China so far this year grew at its slowest pace in more than a quarter-century, pointing to challenges in government efforts to arrest an economic slowdown.

Argentine inflation accelerated in August from July as the cost of imports jumped higher because of the peso's rapid depreciation against the dollar.

Mexican President-elect Andrés Manuel López Obrador's plans to slim down the federal government will extend to the Finance Ministry, with the elimination of the office in charge of designing revenue policy, according to a person with knowledge of the changes. --Dow Jones Newswires

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The New York Times

Business/Financial Desk; SECTB

Europe, Citing Trade Risks, Projects Slower Growth

By JACK EWING and AMIE TSANG; Jack Ewing reported from Frankfurt, and Amie Tsang from London.
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14 September 2018
The New York Times
NYTF
Late Edition - Final
7
English

FRANKFURT -- When President Trump first provoked a trade war, the fear in Europe was that the biggest impact would be psychological. Executives would be rattled, and they would postpone or cancel plans to invest in expansion.

Increasingly, that is exactly what seems to be happening: European factories are producing fewer goods, automobile exports are plunging and surveys show that business managers around the Continent are nervous.

Soon, that will have a measurable impact on economic growth across the region. At least, that is what the European Central Bank expects.

On Thursday, the bank lowered its projections for economic growth across the 19-nation euro area, and warned that any potential escalation of the dispute -- which threatens to ensnare the European automotive industry -- could create further headaches.

Mario Draghi, the bank's president, said in a news conference that rising protectionism, vulnerabilities in emerging markets and **financial market volatility** had "gained more prominence." He added that the reduced forecasts were "mainly due to a somewhat weaker contribution from foreign demand."

He was speaking after a meeting of the central bank's rate-setting committee, which held interest rates steady on Thursday and made no changes to its monetary policy. The European Central Bank's Governing Council has outlined a plan for winding down emergency stimulus measures and shows no sign of changing course, despite a plethora of new risks.

According to Mr. Draghi, the bank's lowered growth projections only factored in protectionist measures that had so far taken effect. Any potential escalation could yet worsen them.

"Besides the effects on prices, tariffs, quotas, volumes traded and so on, what is going to be the effect on confidence of an extended trade war?" Mr. Draghi said.

The economic assessment published by the European Central Bank's in-house economists comes despite some bright spots in the eurozone that will affirm the bank's determination to continue dialing down stimulus.

The French economy is looking perkier. Eurozone unemployment, at 8.2 percent, is lower than it has been for around a decade. Wages in the common currency area are rising after years of meager growth.

But the list of risks is growing. The economy of Turkey, an important trading partner, is slowing, and that country's central bank had to raise interest rates sharply on Thursday. Talks with Britain to negotiate an amicable divorce with the European Union are deadlocked. And German car exports slumped in July, probably because buyers are unsettled by the trade war, analysts say.

Trade is easily the biggest worry for European companies. For the moment, an uneasy truce prevails between Europe and the United States on trade. Mr. Trump and Jean-Claude Juncker, the president of the European Commission, agreed after a meeting in July not to impose more punitive tariffs on each other while they try to negotiate a broad trade deal.

But European political leaders and business managers are nervous that the American leader could grow restive if the talks do not produce quick results -- and they probably will not. The European Commission is methodical in its approach, and hamstrung by the need to get approval from its 28 member states.

"There is really nothing the union can do to expedite its decisions on trade," said Mujtaba Rahman, managing director in London at Eurasia Group, a political consultancy.

United States tariffs on steel and aluminum imports remain in place, raising prices and disrupting intricate supply chains. The Commerce Department continues to examine whether foreign-made cars are a threat to national security, a process that would create the legal foundation for the 25 percent tariffs on auto imports that Mr. Trump has threatened.

Mr. Trump seems to thrive on keeping people guessing, but businesses hate uncertainty. As long as the Damocles sword of Trump tariffs hangs above the eurozone, companies will be hesitant to buy new machinery or expand operations.

They are right to worry. Oxford Economics in London estimates that a full-blown trade war, including auto tariffs, would shrink the European economy more than 1 percent and cost 1.6 million jobs. Such a severe downturn would certainly prompt the European Central Bank to reverse course, but it would not be able to prevent substantial pain.

"A trans-Atlantic trade war would have a severe economic impact on both the European and U.S. economies," Oxford Economics said in a report in August. "There would be no winners."

The meeting of the European Central Bank's Governing Council on Thursday comes almost exactly 10 years after the collapse of Lehman Brothers. In a measure of the impact of that event, the central bank is still coping with the aftermath -- the stimulus measures being phased out have their origins in that era.

The European Central Bank's plan for returning to normalcy includes a sharp reduction of its purchases of government bonds and other assets, a form of monetary stimulus. The purchases will drop by half after September, to 15 billion euros, or about $17.5 billion, per month. The bank said it expected the purchases to end altogether after December, but left open the option to change its mind if new data changes the economic outlook. The bank has signaled that it will begin raising official interest rates from record lows late next year.

"The E.C.B. remains on autopilot," Carsten Brzeski, chief economist at the German unit of Dutch bank ING, said in a note to clients.

Follow Jack Ewing and Amie Tsang on Twitter: @JackEwingNYT and @amietsang.

The European Central Bank's headquarters in Frankfurt. Eurozone companies have delayed buying machinery or expanding. (PHOTOGRAPH BY ALEX KRAUS/BLOOMBERG)

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THE WALL STREET JOURNAL.

Page One

What's News: Business & Finance

245 words
14 September 2018
The Wall Street Journal Online
WSJO
English

Goldman's incoming CEO is installing investment bankers in the Wall Street firm's senior-most roles, capping a power shift away from the trading business.

GM is recalling more than one million pickup trucks and large SUVs in the U.S. for a steering defect.

VW plans to stop building its iconic Beetle, ending an 80-year run for the car.

OPEC oil output surged last month, more than making up for a decline in Iranian supply because of U.S. economic sanctions.

The ECB lowered its forecasts for Europe's economic growth, but said it would press ahead with a plan to phase out easy money.

Agreeing on how to frame the path of rate increases next year could prove to be a tricky task for Fed officials.

Apple and other tech firms led the **S&P 500** to a 0.5% gain, while the Dow rose 147.07 points to 26145.99.

Sears is limping into the critical holiday season, after the retailer reported its quarterly sales fell 26%.

Facebook will begin fact-checking photos and videos, seeking to close a gap that allowed Russian propagandists to promote false news during the 2016 election.

Amazon's Bezos plans to commit an initial $2 billion to help the homeless and educate preschoolers.

Kroger's sales grew less than expected and the grocer said it would sacrifice profit to keep investing to compete with Amazon and Walmart.

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THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Tricky Part of Fed's Next Rate Increases

By Nick Timiraos
643 words
14 September 2018
The Wall Street Journal
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Deciding to raise short-term interest rates will be the easy part of Federal Reserve officials' meeting this month. Agreeing on how to frame the path of rate increases next year could prove much harder.

Solid U.S. growth, low unemployment and stable inflation should keep the Fed on track to raise its benchmark rate this month from its current range between 1.75% and 2%. Officials are likely to lift it again in December if trade disputes or **volatility** in emerging markets don't imperil global growth, according to interviews and public speeches.

Fed officials also could drop language from their postmeeting statement that for years has described monetary policy as "accommodative," meaning rates are low enough to stimulate economic growth.

Removing the language now, when rates aren't yet at a "neutral" level that neither spurs nor slows growth, would avoid sending potentially misleading signals about where such a setting lies.

Because rate increases this month and in December are so highly anticipated, the market's reaction could hinge on clues officials give about what comes in 2019 and beyond.

In June, officials penciled in two more rate increases this year, three next year, and one in 2020. They will update those projections at their Sept. 25-26 meeting.

Up until now, predicting what the Fed would do has been relatively straightforward for investors. Officials have been eager to pull back their emergency stimulus measures, which lasted far longer than anyone anticipated. The only question has been whether the economy would be strong enough for them do so.

Next year, the debate could change. With a few more increases, short-term rates will approach the officials' estimates of neutral, though there is still uncertainty about where this setting stands.

One camp is laying the groundwork for continuing to gradually lift rates to deliberately slow growth and prevent overheating.

Another camp is preparing to argue that as long as inflation remains near the Fed's 2% target, officials should consider pausing rate increases once their benchmark rate approaches neutral.

This approach may not sound controversial, but it would be unprecedented in recent history.

Traditionally, to guard against overheating, the Fed has raised rates high enough to cool growth. "If you're at neutral but the economy is growing so rapidly that you're going to miss on your inflation rate target . . . then neutral is not where you want to be," said Boston Fed President Eric Rosengren in an interview last week. He favored raising rates quarterly over the coming year.

Fed Chairman Jerome Powell hasn't taken either side, but in a speech last month at the central bank's annual retreat in Jackson Hole, Wyo., he provided clues that he might treat the traditional models more skeptically than some of his colleagues or staff.

He signaled skepticism over how firmly policy makers should rely on the estimates of long-run levels of unemployment and neutral rates that guide traditional thinking. The Fed is "navigating between the shoals . . . with only a hazy view of what seem to be shifting navigational guides," the Fed chairman said.

Mr. Powell applauded the Fed's decisions under then-Chairman Alan Greenspan in the mid-1990s to defy the models and wait for signs of inflation pressures before further tightening policy.

The need for such a go-slow strategy, given the weak response of inflation to rising or falling labor slack in recent years, "is clearer than ever before," Mr. Powell said.

Financial turbulence abroad represents the biggest risk to the Fed's plans. Officials could hold off on rate increases if a stronger dollar causes greater upheaval in emerging markets or trade tariffs lead to a slowdown in China that sparks global market selloffs.

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OPEC Output Hits Record Despite Sanctions on Iran

By Christopher Alessi
521 words
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J
B1
English

LONDON -- OPEC oil production surged last month, more than making up for a decline in Iranian supply due to U.S. economic sanctions, the International Energy Agency said Thursday.

In its closely watched monthly oil-market report, the IEA said crude-oil output in the Organization of the Petroleum Exporting Countries climbed in August by 420,000 barrels a day to average 32.63 million barrels a day.

That was the cartel's biggest month-on-month increase in more than two years, bringing the supply from the group's 15 producers to a nine-month high. The increase mainly came from higher production in Libya, Iraq, Nigeria and Saudi Arabia, the de facto head of OPEC.

The jump in production "far outweighed losses from Iran ahead of U.S. sanctions," the agency said, in a sign that Saudi Arabia -- the world's largest exporter of crude -- and its production allies are moving rapidly to fill global supply outages and keep the market in balance.

The spike in OPEC output brought total global production to a record 100 million barrels a day in August, according to the IEA.

OPEC, in its own monthly oil-market report on Wednesday, said its production had risen by 278,000 barrels a day last month.

Iranian crude production fell by 150,000 barrels a day month-on-month in August, to 3.63 million barrels a day, while exports dropped by 280,000 barrels a day to stand at 1.9 million barrels a day, according to the IEA. "Top buyers China and India cut back sharply," the agency's report noted.

President Donald Trump in May pulled the U.S. out of a 2015 international agreement to curb Iran's nuclear program, setting the stage from the reimposition of economic sanctions on the Islamic Republic. Measures targeting the OPEC member's oil industry are set to take full effect in November, but importers of Iranian crude have gradually been reducing their purchases in recent months.

The U.S. decision helped bolster **oil prices** amid investor concerns about a supply deficit, with Brent crude, the global benchmark, temporarily breaching the $80-a-barrel threshold for the first time in 3 1/2 years.

However, OPEC and partner producers like Russia agreed in late June to loosen the requirements of a production-cutting deal that took effect at the start of 2017, and begin ramping up production by as much as one million barrels a day. The move, engineered by the Saudis and Russians over concerns that high prices could dent demand and global growth, helped put a cap on prices this summer.

Prices have started to climb again in recent weeks as the market has refocused on Iranian supply disruptions. Brent closed up 0.9% Wednesday, at $79.74 a barrel.

The IEA said Saudi crude production rose by 70,000 barrels a day in August, to 10.42 million barrels a day. Russian output was steady at just over 11.2 million barrels a day.

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