THE WALL STREET JOURNAL.
U.S. EDITION

One Bank Dominates 'Repo' Market

By Katy Burne
781 words
31 August 2017
The Wall Street Journal
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B1
English

When ED&F Man Capital Markets in June opened a settlement account for government bonds at Bank of New York Mellon Corp., it was a watershed moment in an obscure but vital corner of the global financial system.

That was when London-based ED&F became the first bond broker to change "repo" clearing banks in nearly a decade.

ED&F's move, and other brokers doing the same, shift more of the market onto Bank of New York, which already dominated that sector with an 85% share.

That exacerbates concerns many traders have about the safety of repos, or repurchase agreements, in which lenders such as money-market funds make short-term loans, often using government bonds as collateral.

Bank of New York's onetime sole rival in the business of clearing U.S. Treasurys and repos backed by them, J.P. Morgan Chase & Co., in 2016 decided to exit from the business, prompting more than two dozen brokers including ED&F to move to Bank of New York.

With J.P. Morgan's retreat, concerns about the market's stability began falling squarely on Bank of New York. The company this past May formed a new unit with a separate governance team to oversee the repo business, acknowledging its unique role and responsibility.

Individual brokers' transitions have by all accounts been smooth. But many traders fret over the risks of having a single bank handle all clearing and settlement -- the process of completing trades and distributing funds according to contract -- in a short-term-lending market estimated by the Treasury's Office of Financial Research at $3.5 trillion.

Many worry that having all those transactions handled by just one clearing bank potentially exposes the world's safest bond market to threats ranging from mundane power outages to cyberattacks and terrorism.

"This clearing function is only in one bank now and is so systemically important," said Scott Skyrm, head of repo at Wedbush Securities, a Los Angeles broker dealer.

The Federal Reserve has been trying to overhaul the market for nearly a decade. Those efforts picked up as shortcomings in repos were exposed in 2008, when lenders' retreat from Bear Stearns Cos. and Lehman Brothers Holdings Inc. played a role in accelerating the financial crisis. Troubles at those firms and others, driven in part by their exposure to subprime-lending losses and reliance on short-term loans to fund longer-term investments, helped pave the way for an updated repo market.

A decade ago, many financial firms funded themselves "wholesale" by borrowing in the market overnight. Today, repo borrowings tend to be longer term and backed by stronger collateral, such as Treasury securities rather than privately issued mortgage bonds.

"When bad things happened in 2008, we saw that there were virtually no bids in the market for anything other than the risk-off sovereign market," said Mark Robinson, a former managing director at Bank of New York and most recently a business-development executive at financial-technology company Broadridge Financial Solutions.

Regulators have been trying on and off for years to resolve concerns about problems in repos spilling over to broader **financial markets**.

In April, Federal Reserve Bank of New York President William Dudley wrote that repo markets pose risks to market functioning and "are not settled yet," in part because participants can still choose to raise cash in a hurry by selling assets in a fire sale.

Bank of New York this summer began transitioning some clients of J.P. Morgan.

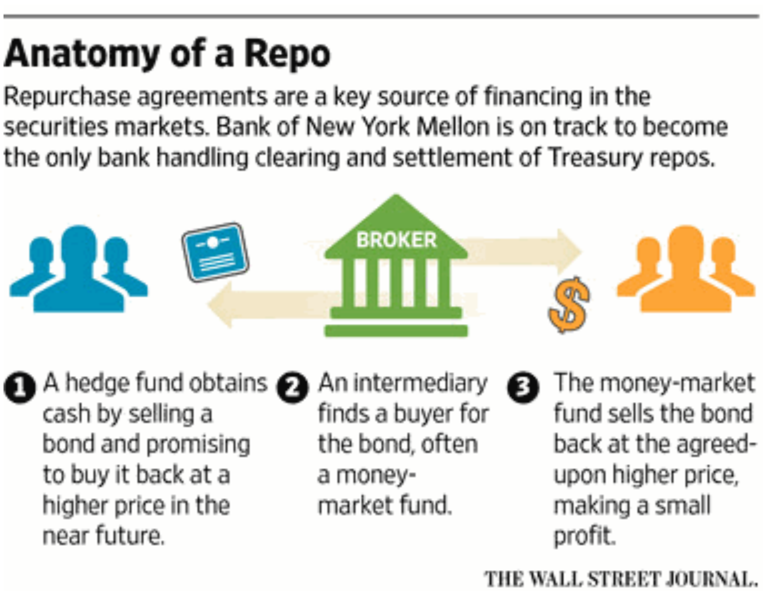
Besides ED&F, it has also added as new clearing clients INTL FCStone and Landesbank Baden-Wurttemberg. In all, about 30 are expected to move.

"We were nervous at first," said Bruce Fields, group treasurer at INTL FCStone. But he said his fears have been allayed since his firm's conversion on July 10, which he said has provided access to a wider array of repo lenders than at J.P. Morgan.

Trading volumes have shrunk, owing to new rules that have levied extra capital charges on banks.

Other rules have meant more repos are locked in for longer terms, reducing the incentives for firms to borrow in the short term while lending in the long term and creating an unsound condition that is known as an asset-liability mismatch.

Perhaps most important, the hundreds of billions of dollars in intraday loans that J.P. Morgan and Bank of New York once made every morning to bond brokers have been reduced by 97%, according to Fed estimates, virtually eliminating the exposure the two clearing banks had precrisis to a broker default.



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THE WALL STREET JOURNAL.
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Heard on the Street
Emerging-Market Bonds Could Have Further to Climb

By Richard Barley
438 words
31 August 2017
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English

[Financial Analysis and Commentary]

Low inflation has gone global. But while it is proving a test for central banks like the Federal Reserve and European Central Bank, it is a different story in emerging markets.

Investors in local-currency government bonds are the winners and could have more to come.

The gains so far in 2017 are pretty remarkable. The J.P. Morgan GBI-EM index of emerging-market local-currency bonds has returned 15% in dollar terms this year. That performance has been powered by the combination of falling bond yields and rising emerging-market exchange rates.

True, this year's numbers are flattered by the setback the market suffered at the end of 2016, when Donald Trump's victory in the presidential election hit emerging-market sentiment, resetting yields higher. But they are also the function of a fundamentally improving story for many emerging-market countries.

A key factor is easing inflation. An aggregate measure calculated by Capital Economics that covers 52 emerging-market economies held at an eight-year low of just 3% in July, down from 3.8% in January. In part, that is because the influence of food and energy prices that pushed inflation higher previously has waned. But it also reflects contained underlying price pressures.

Crucially, that may allow central banks in emerging markets to cut rates. Interest rates in many emerging-market countries remain high, after central banks had to react in recent years to rising inflation and weakening currencies by tightening policy. The Central Bank of Russia's policy rate is 9%, Brazil's is 9.25% and Mexico's is 7%.

But that gives emerging-market policy makers more room to maneuver. India, South Africa and Indonesia are among those to have cut rates in recent weeks. Further easing might not be priced into debt markets, meaning **bond prices** could rise. J.P. Morgan Asset Management points to Mexico, Indonesia and Turkey as offering potential.

The foreign-exchange part of the trade that has boosted returns may be more risky. A sharp rise in the dollar could be a big problem for many emerging-market assets and could reverse investment flows into these countries.

The yield on the GBI-EM index is still north of 6%, far above the yield on developed-market government bonds. Even without the tailwind of foreign-exchange gains, that is a tempting prospect in a world where low yields are depressing prospective bond returns. The stars may still be aligned for emerging-market bond investors.

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The New York Times

Business/Financial Desk; SECTB
Investors in a Buying Mood, Heartened by Growth Report

By THE ASSOCIATED PRESS
894 words
31 August 2017
The New York Times
NYTF
Late Edition - Final
2
English

United States markets climbed on Wednesday as investors cheered a report of stronger economic growth. Shares of technology companies, retailers and travel providers all made solid gains.

The Commerce Department raised its estimate for economic growth and said gross domestic product grew at its fastest pace in two years between April and June. Along with technology companies and consumer-focused firms, shares of health care companies and banks finished higher. Prominent stocks like Microsoft, Amazon and Facebook made some of the biggest gains.

''For all the tough times we've had the last couple of weeks, the thing that's kept the market afloat is the strong economic data,'' said Brent Schutte, chief investment strategist at Northwestern Mutual Wealth Management.

With more economic reports coming over the next few days, Mr. Schutte said investors would be looking for evidence of higher pay and greater inflation, adding that stocks should keep rising as long as the economy remained in good shape and inflation did not pick up.

The **Standard & Poor's 500**-**stockindex** rose 11.29 points, or 0.5 percent, to 2,457.59. The **Dow Jonesindustrial average** picked up 27.06 points, or 0.1 percent, to 21,892.43. The **Nasdaq composite** gained 66.42 points, or 1.1 percent, to 6,368.31 as shares of technology companies rose for the third day in a row.

The government raised its gross domestic product projection from last month, and the second-quarter estimate was much better than the first quarter, when growth was 1.2 percent.

Private businesses added 237,000 jobs in August, with broad gains across several industries including construction, manufacturing and leisure and hospitality, according to a survey by the payroll processor ADP.

Shares of the chip maker Analog Devices advanced after the company announced strong results in the third quarter along with a better-than-expected revenue forecast for the current period. Its stock jumped $4.17, or 5.2 percent, to $83.72. Microsoft stock gained 96 cents, or 1.3 percent, to $74.01 and Facebook shares picked up $1.87, or 1.1 percent, to $169.92. Amazon shares rose $13.53, or 1.4 percent, to $967.59, and Bank of America stock climbed 41 cents, or 1.7 percent, to $23.87.

Gasoline prices rose to two-year highs and **oil prices** continued to fall as the Gulf Coast region was inundated with rain from Tropical Storm Harvey, which has knocked out significant oil drilling and refining capacity. On Tuesday the largest oil refinery in the country was shut down and the operator of a major pipeline carrying fuel to the East Coast said it was running at a reduced rate.

Wholesale gasoline rose another 10 cents, or 5.7 percent, to $1.88 a gallon. Benchmark United States crude lost 48 cents, or 1 percent, to $45.96 a barrel in New York while Brent crude, the international standard, fell $1.14, or 2.2 percent, to $50.86 a barrel in London.

President Trump stumped for tax cuts in an afternoon speech in St. Louis, and while investors are eager to see taxes come down, Wall Street's reaction was muted.

''Right now expectations are low enough that if anything gets done, Wall Street will cheer it,'' said Mr. Schutte, of Northwestern Mutual.

The Food and Drug Administration approved the first treatment that genetically engineers patients' own blood cells to seek and destroy childhood leukemia. The drug, Kymriah, is made by Novartis, and several other companies are working on similar treatments. They are called CAR-T therapies, and they are being developed for blood cancers and maybe other tumors, too.

The approval wasn't a surprise to investors, and Novartis stock dipped 88 cents, or 1.1 percent, to $82.74. Gilead Sciences shares rallied, however. Earlier this week the company agreed to buy the CAR-T drug developer Kite Pharma for $11.9 billion. Its stock gained $5.49, or 7.2 percent, to $81.23. Shares of Juno Therapeutics, which is studying a similar treatment, lost $3.52, or 8 percent, to $40.29.

In other energy trading, heating oil added 1 cent to $1.67 a gallon. Natural gas lost 4 cents to $2.94 per 1,000 cubic feet.

Gold fell $4.80 to $1,314.10 an ounce. Silver dipped 2 cents to $17.40 an ounce. Copper lost 2 cents to $3.06 a pound.

Bond prices inched lower after a big jump the day before. The yield on the **10**-**year Treasury** note rose to 2.14 percent from 2.13 percent.

The dollar rose to 110.32 yen from 109.71 yen. The euro declined to $1.1888 from $1.1992.

European stocks bounced back after several days of losses. In Germany, the DAX rose 0.5 percent, as did the CAC 40 in France, and the FTSE 100 in Britain added 0.4 percent. In Japan, the Nikkei 225 rose 0.7 percent and the Kospi in South Korea gained 0.3 percent. Hong Kong's Hang Seng jumped 1.2 percent.

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

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The New York Times

Business/Financial Desk; SECTB
Surprising Briskness In Economic Growth

By NELSON D. SCHWARTZ
1,135 words
31 August 2017
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1
English

The current recovery has entered its ninth year -- long by economic standards -- but it is showing some unexpected vigor.

The Commerce Department said on Wednesday that the economy had expanded at an annual rate of 3 percent in the second quarter of the year, better than initially estimated, and a substantial acceleration over the first quarter's lackluster 1.2 percent pace.

The revised figure is still well below President Trump's goal of 4 percent growth, but it is the economy's best quarterly showing in two years.

Mr. Trump talked up the latest figures in a speech on Wednesday in Springfield, Mo., laying out his plans for tax overhaul. Despite nearly uniform skepticism from mainstream economists, he insisted that much faster economic growth was within reach.

''I happen to be one who thinks we can go much higher than 3 percent,'' the president said. ''There is no reason why we should not.''

There are several reasons that his goal is probably far-fetched, namely the country's aging work force and slower population growth than in the past. Combine that with low productivity growth, and hitting Mr. Trump's target begins to look like a Sisyphean challenge.

The president also suggested that other economies overseas were growing at two or three times the American rate. ''You look at other countries and what their G.D.P. is, they are unhappy when it is 7, 8, and 9,'' he said.

No major Western economy is growing close to that rate -- and none has in years. The fastest-growing large economy, China's, grew 6.7 percent last year.

Still, with personal consumption accounting for nearly 70 percent of economic output, the new willingness of shoppers to open their wallets is a good sign.

''The economy is stronger than you think,'' said Chris Rupkey, the chief financial economist at Mitsubishi UFJ Financial Group in New York. ''Bet on it.''

The improvement was driven in large part by strong consumer activity, with purchases of durable goods like automobiles and appliances rising strongly. Increased business spending also helped lift the latest estimate above Commerce Department's initial reading of 2.6 percent for the quarter.

The surge in consumer spending stands in stark contrast with the problems plaguing brick-and-mortar stores like Sears and Macy's, which have been forced to close dozens of locations this year amid fierce competition from online retailers like Amazon.com.

The government's data reflects all purchases, whatever the retail channel, which explains why malls and street-level stores may be suffering even as consumers become more **bullish** and the broader economy powers ahead.

Most economists are expecting the economy to expand at a rate of roughly 3 percent in the second half of 2017. That pace should be strong enough to keep job growth and wages on track for further gains, while keeping the threat of inflation modest for now.

Besides wild cards like Hurricane Harvey's impact on a broad swath of the Gulf Coast, and political uncertainty about issues like tax overhaul and a possible increase in infrastructure spending, traders are also keeping an eye on the Federal Reserve.

Most experts believe the central bank will raise interest rates just once more this year, but a faster economy or an increase in wages or inflation could prompt policy makers to move more quickly to tighten monetary policy and shrink the Fed's balance sheet in 2018.

Janet L. Yellen, the Fed chairwoman, and other policy makers will also be closely watching data expected on Friday morning from the Labor Department on hiring, wages and unemployment in August. Economists estimate that the economy added 180,000 jobs, but a stronger gain, like July's 209,000 jump, or an uptick in wages, would focus more investor attention on the Fed's next meeting on Sept. 19 and 20.

At a speech last week in Jackson Hole, Wyo., Ms. Yellen focused mostly on the continuing need for regulation, rather than the outlook for growth, but she did term the current economy ''strong.''

On Wednesday, some economists offered improved expectations for job creation in August after the payroll processor ADP reported that private employers added 237,000 jobs, well above the 185,000 increase that had been expected.

The acceleration in spending suggests that a so-called Trump bump -- improved sentiment among consumers and more optimism among business leaders -- may be translating into concrete actions like homeowners buying new appliances and companies investing in new software or equipment.

''The consumer is in the driver's seat in terms of economic growth,'' said Scott Anderson, chief economist at Bank of the West in San Francisco. ''It puts us on a stronger path going into the third quarter, although Hurricane Harvey introduces some uncertainty.''

Mr. Anderson expects growth in the range of 3 to 3.5 percent in the current quarter, but he said the hurricane could shave as much as 0.3 percentage points off that figure. A hit like that would mostly be reversed in the year's final quarter as rebuilding efforts kicked in, he added.

It will take more than one quarter's data for the White House or congressional Republicans to be able to claim credit for lifting the economy's growth trajectory. Under President Barack Obama in 2013 and 2014, quarterly growth occasionally exceeded 3 percent. But, in contrast to what happened during recoveries in the 1990s and mid-2000s, annual growth never passed that threshold.

If the economy were to sustain the current pace of expansion, it would be a significant uptick from the 2 percent annual growth rate that has mostly prevailed since the recovery began.

A difference of a single percentage point may not sound like much, but the stakes are huge in a $19 trillion economy. The acceleration could also help lift wage growth, which has been frustratingly slow for years despite steady hiring, a surging **stock market** and rising home prices.

Private-sector estimates of third-quarter growth have also inched higher lately. Macroeconomic Advisers now forecasts a 3.4 percent expansion rate for the current quarter, up from the 2.9 percent figure it forecast earlier this month.

Increases in consumer spending and business investment powered nearly all of the revision issued on Wednesday. Factors like net exports and residential investment barely changed, while government spending added only 0.1 percentage points.

The Commerce Department offers three estimates of growth as more data becomes available, with the final figure for second-quarter economic activity to be released on Sept. 28.

CHART: Real Economic Growth: Annual rate of change in the gross domestic product, based on quarterly figures adjusted for inflation and seasonal fluctuations. (Source: Commerce Department) (B3)

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Equities: NYSE Plans Delay on End-of-Day News --- Exchange says firms' announcements come too soon after 4 p.m. close, sowing disorder

By Alexander Osipovich
455 words
31 August 2017
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B11
English

Besieged by fast-trading robots, the floor traders at the New York Stock Exchange are getting a little help: an exchange-imposed news embargo for listed companies in the minutes after the market's 4 p.m. close.

The NYSE, a unit of Intercontinental Exchange Inc., said in a regulatory notice this week that it plans to prevent firms from issuing news releases for up to five minutes after closing time.

The move is a bid to protect NYSE's closing auctions from trading algorithms that scan English-language text in search of signals to buy or sell stocks. The auctions determine the end-of-day price for thousands of NYSE-listed stocks. Some market veterans said the NYSE news blackout is necessary partly because the Big Board is the last U.S. stock exchange to fully automate a task largely handled by computers elsewhere.

The NYSE's difficulty, which was disclosed in a notice posted Tuesday on the Securities and Exchange Commission website, is that sometimes companies release important news just after 4 p.m. but before the exchange has published a stock's closing price. When that happens, it can lead to "significant investor confusion" and bursts of **volatility**, the notice said.

The NYSE is trying to address a problem that has been around for years, but has gotten worse with the rise of algorithms that read news releases and execute trades if they spot phrases such as "record revenues" or "merger," said Eric Noll, former chief executive of brokerage Convergex.

"They're building in a buffer so the closing auction isn't impacted by rapid-fire trades coming into the market," Mr. Noll said.

The closing auctions held at the NYSE and **Nasdaq** Inc. are a critical part of the functioning of U.S. markets. They yield closing prices for stocks, which in turn determine the value of exchange-traded funds and other index funds that track the broader market or specific sectors.

The NYSE's proposed fix is needed in part because the 225-year-old exchange still runs an old-fashioned trading floor, with human traders called designated market makers, who oversee the closing auctions.

All-electronic exchanges such as **Nasdaq** can conduct the closing auction nearly instantly, but at NYSE it often takes longer. That is because the market makers can choose to close each stock manually or electronically.

Even when they opt for a manual close, in "almost all cases" the market maker can determine the closing price within five minutes, the SEC notice said.

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U.S. News: Economy Picked Up Spring Steam

By Ben Leubsdorf
502 words
31 August 2017
The Wall Street Journal
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A2
English

WASHINGTON -- The economy expanded at its most robust pace in more than two years in the spring and appears to have momentum going into the second half of the year, supported by consumer spending and a pickup in business investment.

Gross domestic product, a broad measure of the goods and services produced across the U.S., rose at a seasonally and inflation-adjusted annual rate of 3% in the second quarter, the Commerce Department said Wednesday. That was the strongest quarter in more than two years, and some forecasters expect growth will remain around that pace in the third quarter.

Since the recession ended in mid-2009, economic growth has fluctuated from quarter to quarter while averaging a little more than 2% a year. It is far from clear that a sustained breakout from that pace was building as the expansion entered its ninth year; similar past accelerations have proved fleeting. But some promising trends are under way, including a global pickup in growth supporting exports, rising employment supporting household income and spending, and robust corporate profits and confidence, supporting investment.

For now, at least, there is little sign of an imminent downturn.

"Typically in a business expansion, you would see growth start to arc downward as we get later into the cycle," said Ellen Zentner, chief U.S. economist at Morgan Stanley. But so far, she said, the pace of growth has remained steady.

Wednesday's report was an upgrade from the 2.6% GDP growth pace the government reported last month based on less-complete data. The upward revision reflected stronger household and business spending, offset in part by a sharper pullback in outlays by state and local governments.

Hitting 3% growth was notable because President Donald Trump has said he wants to lift annual economic growth above 3% in a sustained fashion by rolling back regulations, overhauling the tax code and enacting other policy changes.

"We just announced that we hit 3% in GDP. It just came out," Mr. Trump said Wednesday during an event in Springfield, Mo., referring to the quarterly figures released by the Commerce Department. "And on a yearly basis, as you know, the last administration during an eight-year period never hit 3%. So we're really on our way."

The quarterly GDP growth rate was above 3% eight times during former President Barack Obama's eight years in office. GDP growth exceeded 3% in four quarters on a year-over-year basis, though it never grew 3% over a calendar year.

Consumer, business and investor optimism have all jumped since Mr. Trump's election last year. Other forces supporting U.S. economic activity were under way well before Mr. Trump took office, including the falling unemployment rate, stabilization in **oil prices** and an upswing in global growth.

Many forecasters expect economic growth will remain modest in the coming years.

Sarah Chaney contributed to this article.

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Business/Financial Desk; SECTB

Markets Show Resilience Despite 'Double Whammy'

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30 August 2017
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English

North Korea's latest missile launch jolted the United States **stock market** Tuesday, but major indexes pulled back from those early losses and mostly finished higher as the weakening dollar gave technology and industrial companies a boost.

Investors bought bonds, which are traditionally considered safe assets, after North Korea fired a midrange ballistic missile that crossed over northern Japan and fell into the Pacific Ocean. It is believed to be the first time the country has sent a missile over Japan, and it seemed designed to show that North Korea can back up a threat to target the United States territory of Guam. Energy and insurance companies continued to feel the effects of Tropical Storm Harvey, which is dumping record amounts of rain on the Gulf Coast. The **Dow Jonesindustrial average** fell 134 points when the market opened.

''It was a double whammy for investors,'' said Karyn Cavanaugh, senior market strategist at Voya Investment Strategies. But she said investors are unlikely to sell and remain on the sidelines because much of the global economy is growing in sync. That will help company results.

''Buying on the dips is going to continue as long as earnings continue to move forward because investors know the market is going to continue to follow those earnings,'' she said.

And investors' fears eased as the day went on. As the dollar declined to two-and-a-half-year lows, companies that do a lot of business outside the United States climbed. A weaker dollar boosts their sales and helps their profits when they are converted back into dollars.

The **Standard & Poor**'**s500 index** rose 2.06 points, or 0.1 percent, to 2,446.30. The **Dow Jonesindustrial average** gained 56.97 points, or 0.3 percent, 21,865.37. The **Nasdaq composite** added 18.87 points, or 0.3 percent, to 6,301.89. Still, most of the stocks on the New York Stock Exchange fell.

The dollar has weakened in part because a lot of economies in other regions are getting stronger, which boosts their currencies. The dollar is down almost 10 percent in 2017, at its lowest point in more than a year, and the euro is at two-year highs.

Defense contractors climbed. Raytheon advanced $3.87, or 2.2 percent, to $182.11. United Technologies and Rockwell Collins rose after the Wall Street Journal reported that the companies are close to a deal. United Technologies jumped $3.37, or 2.9 percent, to $118.70, and Rockwell Collins rose $2.75, or 2.1 percent, to $130.74.

The dollar rose to 109.71 yen from 109.09 while the euro rose to $1.1992 from $1.1979.

Bond prices rose. The yield on the **10**-**year Treasury** note fell to 2.12 percent from 2.16 percent. Lower bond yields translate to lower interest rates, and banks fell as investors expected them to make less money from lending.

The Gulf Coast region continued to absorb heavy rains and widespread flooding, with Tropical Storm Harvey expected to dump even more rain on the region over the next few days. Tens of thousands of people are seeking refuge in shelters.

On Wall Street, insurers continued to fall as investors wondered if they are facing big losses. MetLife fell 84 cents, or 1.8 percent, to $46.73.

Companies that drill for oil in the Gulf or onshore in Texas are falling as investors worry about potential lost production. Anadarko Petroleum gave up 56 cents, or 1.4 percent, to $40.71.

Benchmark United States crude gave up 13 cents to $46.44 a barrel in New York. Brent crude, the international standard, picked up 11 cents to $52 a barrel in London.

Gold climbed $3.60 to $1,318.90 an ounce and remains at its highest price since late September.

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

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Banking & Finance: Harvey Won't Hurt Lenders for Long

By Telis Demos
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30 August 2017
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English

Banks may take a short-term hit as Tropical Storm Harvey paralyzes parts of Texas, but executives say that, as in previous storms, disruptions are likely to be modest and could even portend a longer-term pickup.

The KBW **Nasdaq** Bank index is down 1.3% since the storm initially made landfall Friday night, versus a virtually flat **S&P 500 index**. Shares of banks more heavily concentrated in Texas and the cities affected are down more sharply.

Houston, as the country's fourth-largest city, is a significant market for many banks, representing about 2% of big-bank deposits and U.S. mortgage origination volume, according to analysts at Autonomous Research.

Texas is a larger market for auto loans, but unlike home loans, most auto-insurance policies cover flooding, Autonomous Research analyst Brian Foran said.

Some regional and local banks have higher concentrations of loans and deposits, however.

Regional banks Prosperity Bancshares and Zions Bancorp have 30% and 19%, respectively, of their deposits in the Houston area, according to analysts at Barclays PLC. Their shares are off around 2.9% and 2.2%, respectively, since Friday's close.

Houston-based Allegiance Bancshares Inc., a commercial bank to small and medium-size businesses, has virtually all of its deposits in the Houston metropolitan area, analysts said.

George Martinez, chief executive of Allegiance, said that the bank planned to begin reopening some branches Wednesday. "We have to go through a period of adjustment for our business customers, but then they'll return to their regular strategies," he said. He noted that customers who used electronic banking "hadn't been slowed down."

Allegiance shares are down 7.5% since Friday's close.

Prosperity CEO David Zalman said the bank closed about 25% of its Texas branches on Monday -- or about 60 branches, mostly in coastal towns -- but had reopened many the next day. It also shifted some operations to West Texas and Dallas, he said.

"We're used to this," he said, citing Texas' history with past hurricanes. Despite Harvey's unusually dramatic impact, he said that "in the long run, this will create a robust economy for the state. You'll see deposits increase in Texas banks because of the insurance money."

Shares of Green Bancorp Inc., a commercial and consumer bank also based in Houston, are off 8.9%. It has about 60% of its loans and deposits in the Houston area.

Green has closed its Houston area branches and waived ATM and late fees,with staff either working remotely or staying at a hotel next to the bank's operations center in Houston.

Geoff Greenwade, Green's CEO, said he anticipated a slowdown in loan growth in the third quarter, with some loan closings deferred until later in the year.

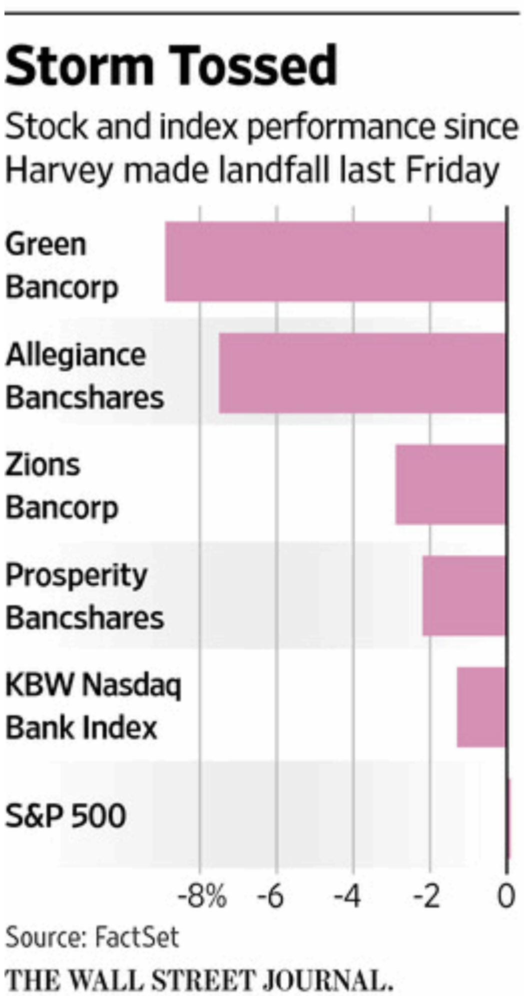
He said he anticipated "normal or above normal" growth in the fourth quarter and beyond. "What we've typically seen, because of insurance money and federal assistance and construction, it will provide somewhat of an economic boom for the community over the next year or two," Mr. Greenwade said in an interview.

He anticipated pickups in the construction and real-estate sectors, as multifamily properties may find it easier to attract tenants who may be rebuilding their homes.

Banks typically slash fees on banking services during disasters and have less customer activity, which can lead to a drop in revenue.

Big banks waiving certain fees, such as ATM or late charges, include J.P. Morgan Chase & Co., Wells Fargo & Co., and Bank of America Corp., which each have roughly 2% of their deposits in theHouston metropolitan area, excluding corporate deposits.

In the short term, based on patterns experienced in past storms such as Katrina and Sandy, analysts also expect loan activity to drop off and losses to pick up.



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Uneasy Investors Power Utilities Stocks --- Desire for havens, solid earnings and a lower chance of a rate rise spur August rally

By Akane Otani
564 words
30 August 2017
The Wall Street Journal
J
B14
English

Investors are paying for peace of mind.

U.S. government bonds, gold and other assets that investors view as safe stores of value rose Tuesday, extending recent gains for so-called havens after North Korea launched a missile over Japan. It was the latest reflection of investor unease in a month that has included escalating threats between the U.S. and North Korea; fallout from President Donald Trump's response to protests in Charlottesville, Va.; terrorist attacks in Europe, and some disappointing earnings from U.S. companies.

Another sign that investors have played defense in August: Utilities stocks are leading gains in the **S&P 500** this month and are outperforming the broader index in 2017, after the group lagged behind earlier this year.

The utilities sector fell 0.2% Tuesday, finishing behind the **S&P 500**'s gain of less than 0.1%. Still, utilities have risen 3.1% in August, compared with a decline of 1% for the broader index over the same period.

With economic data indicating inflation remains soft, utilities companies also have benefited from the dwindling threat of rising interest rates, investors and analysts say. Federal-funds futures, used by investors to place bets on the Fed's rate-policy outlook, on Tuesday showed a roughly 32% chance of a rate increase by December, down from 40% Monday and 47% a month ago, according to CME Group Inc. data.

As a result, government-bond yields have remained depressed, with the yield on the 10-year U.S. Treasury note falling Tuesday to 2.134%, down from 2.446% at the end of 2016. With bond yields so low, utilities remain an attractive, relatively stable income-producing investment, analysts say.

The dividend yield of the utilities sector was at 3.2% on Monday, according to FactSet.

Strong earnings also have helped some utilities companies rally.

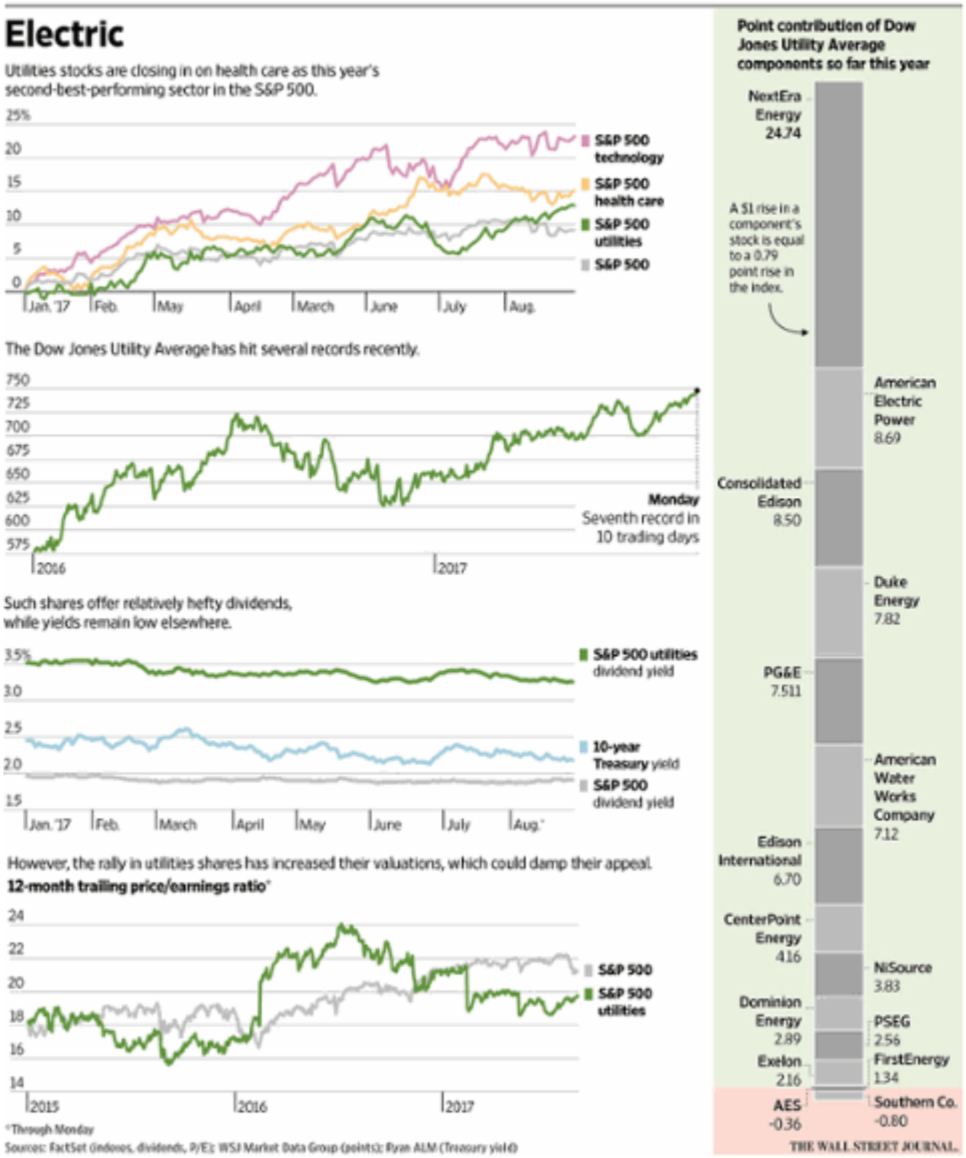
The best-performing stock in the sector this month is Missouri-based power company Ameren Corp., which reported a jump in quarterly profits at the start of the month and raised its earnings forecast for 2017. The stock has risen 7.7% this month and 15% this year.

Power-distribution company Alliant Energy Corp. and CenterPoint Energy Inc., other top-performing stocks in the utilities sector in August, have risen more than 6% apiece over the course of the month.

Many caution that after their run-up, utilities stocks look expensive. The **S&P 500** utilities sector traded Monday at 19.80 times its previous 12 months of earnings, according to FactSet, above its 10-year average of roughly 16. The broader **S&P 500** traded at 21.23 times trailing earnings.

The sector's rally could pause if there are fresh signs of economic growth, or if there appear to be reduced political risks out of Washington, said Quincy Krosby, chief market strategist at Prudential Financial. The Labor Department is scheduled to report monthly employment figures Friday, giving investors another look at the state of the U.S. economic recovery.

"We've had a lot of rhetoric pushing investors into safety," Ms. Krosby said. But with more economic data on the docket in September, that rally could be short-lived, she added.



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Business/Financial Desk; SECT
Morning Agenda: Cohn and Mnuchin Tackle Taxes

By AMIE TSANG
1,110 words
30 August 2017
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NYTF
The New York Times on the Web
English

President Trump has largely left management of his administration's tax overhaul to the former Goldman Sachs executives Gary D. Cohn and Steven Mnuchin. That is making some conservatives nervous.

For one, the advisers' ambitions have already drifted.

The 15 percent corporate tax rate proposed in April is now more likely to be set at 20 to 25 percent, according to people familiar with the recent thinking.

A proposed 35 percent ceiling on the highest personal income tax rate could be shelved altogether, leaving the top rate at the current 39.6 percent.

There is also the question of whether their experience in finance is enough to succeed in Mr. Trump's Washington.

People who have attended meetings with Mr. Cohn say he is nimble with data and has a keen understanding of the economy. But he has also made comments that some lawmakers suggest betray a lack of understanding about the political process. (For instance, he reportedly joked to Senate Democrats that ''Only morons pay the estate tax.'')

Mr. Mnuchin has made it clear that he has Mr. Trump's ear and is speaking for him. He is also more careful and more reserved than Mr. Cohn -- and more deferential to lawmakers.

The advisers have tried to avoid the mistakes that plagued the effort to repeal and replace the health care law, placing a premium on communicating with key members of Congress.

Still, they have yet to produce the kind of comprehensive plan Mr. Trump has promised. And some worry that the men have made little progress.

''From the standpoint of getting real tax reform, which takes buy-in from both sides, they have just frittered months and months away needlessly,'' said Senator Ron Wyden, Democrat of Oregon, the ranking member of the Finance Committee who has co-written two bipartisan tax rewrite proposals but said he had yet to be asked to meet one-on-one with either Mr. Mnuchin or Mr. Cohn.

The costs of Hurricane Harvey

It is a disaster of monumental proportions that has upended millions of lives. But the overall economic toll could be modest, based on Monday's **financial markets**.

The reaction from Wall Street has been subdued.

That might seem surprising as Houston is the fourth-largest American city and the center of a metropolitan area with economic output of half a trillion dollars a year. And indeed, the area does face years of rebuilding.

But other disasters have shown how effectively modern corporations can overcome logistical challenges. Insurers' balance sheets are relatively strong -- and home insurance policies generally do not cover flooding.

And, while it is a macabre form of accounting, the need to repair buildings could create a surge in output.

Still, the storm continues to wallop the Gulf Coast and it is too early to say that the economy is in the clear. But so far, the human damage is the greatest.

Worth noting:

Harvey disrupted nearly 15 percent of American refinery capacity, and the storm could take as much as 30 percent of the country's refining capacity offline, according to The Wall Street Journal.

The national average for gasoline prices could rise to more than $2.43 a gallon this week, according to TheStreet.

Investors Rush to Trade on 'Fear Gauge'

Wall Street's index of **volatility** has been falling -- confounding experts.

Day traders have been pouring into the most arcane corners of markets, betting on whether the VIX, or the so-called fear gauge, will rise or fall.

These wagers on expected **volatility** have traditionally been the province of highly specialized investors. But since the financial crisis, investment banks have offered VIX-linked products for purchase on the stock exchange, much like buying shares in IBM or Microsoft.

There are now more than 30 VIX-themed investment choices. And they are among the most actively traded securities on public stock markets.

But are all the investors aware of what they are getting into?

"These are incredibly complex products when you consider their price dynamics," said Robert E. Whaley, a financial professor at Vanderbilt University known as the father of the VIX for his work on developing it. "The volume in these things is huge, and my concern is that investors don't understand what they are and how their prices behave."

Quote of the Day

"The reality is that government, for a long period of time, has for whatever set of reasons become less functional and isn't working at the speed that it once was. And so it does fall, I think, not just on business but on all other areas of society to step up."

-- Tim Cook, Apple's chief executive, who has been increasingly wading into debates about larger social issues. Andrew Ross Sorkin had breakfast with him and considered how Mr. Cook had become more vocal about the company's moral responsibility.

A Question of Uber Ambitions

Dara Khosrowshahi, Uber's pick to replace Travis Kalanick as chief executive, faces a primary question: Will he turn Uber into the Amazon of transportation, or the Expedia of the industry (as in, one of its largest players, but not a transformational giant)?

His past at Expedia does shed some light on his temperament. While some Uber executives were considered untouchable under Mr. Kalanick, that's not the case with the people who have worked with Mr. Khosrowshahi.

"People don't get an excuse with Dara," said Shana Fisher, a venture capitalist who has worked with him. "They have to be good and good. Good and good. He doesn't have tolerance for less than that."

He does seem more risk-averse. He and his team had considered buying Booking.com, but decided against it because Expedia was fixed in its ways and Booking.com had lower margins. It was a costly mistake -- Priceline swooped in and turned Booking.com into a monster, changing the dynamics of hotel bookings. Mr. Khosrowshahi recognized the mistake and worked to repair it, delving into the pricing model that Booking.com ran.

This lower appetite for risk suggests Mr. Khosrowshahi may seek to turn Uber into a slower company, but one that may also be a better employer and even make a profit, The Times's Farhad Manjoo writes.

Related reading: Meg Whitman, one of the other candidates for the Uber job, spoke to The Financial Times about the board's decision-making process last weekend. "I was not a contender for this job until the weekend -- and I'm not even sure I was then," she said.

Follow Amie Tsang on Twitter @amietsang.

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The New York Times

OP-ED CONTRIBUTOR
Editorial Desk; SECTA
Corporate Tax Cuts Don't Mean More Jobs

By SARAH ANDERSON;) is the director of the Global Economy Project at the Institute for Policy Studies.
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''The arithmetic for us is simple,'' AT&T's chief executive, Randall Stephenson, said on CNBC in May. If Congress were to cut the 35 percent tax on corporate profits to 20 percent, he declared, ''I know exactly what AT&T would do -- we'd invest more'' in the United States.

Every $1 billion in tax savings would create 7,000 well-paying jobs, Mr. Stephenson went on to say. The correlation between lower corporate taxes and more jobs, he assured viewers, runs ''very, very tight.''

As Congress prepares to take up tax legislation this fall, including an effort to reduce the corporate tax rate, this bold jobs claim merits examination. Notably, it comes from the chief executive of a company that's already paying comparatively little in federal taxes.

According to the Institute on Taxation and Economic Policy, AT&T enjoyed an effective tax rate of just 8 percent between 2008 and 2015, despite recording a profit in the United States each year, by exploiting tax breaks and loopholes. (The company argues that it pays significant taxes, at a rate close to 34 percent in recent years, but that includes deferred taxes and state and local levies.)

Despite the enormous savings AT&T has realized, the company has been downsizing. Although it hires thousands of people a year, the company, by our analysis at the Institute for Policy Studies, reduced its total work force by nearly 80,000 jobs between 2008 and 2016, accounting for acquisitions and spinoffs each involving more than 2,000 workers.

The company has also spent $34 billion repurchasing its own stock since 2008, according to our institute report, a maneuver that artificially inflates the value of a company's shares. This is money that could have gone toward research and development or hiring.

Companies buy back their stock for various reasons -- to take advantage of undervaluation, to reward stockholders by increasing the value of their shares or to make the company look more attractive to investors. And there is another reason. Because most executive compensation these days is based on stock value, higher share prices can raise the compensation of chief executives and other top company officials.

Since 2008, Mr. Stephenson has cashed in $124 million in stock options and grants.

Many other large American corporations have also been playing the tax break and loophole game. Their huge tax savings have enriched executives but not created significant numbers of new jobs.

Our report analyzes the 92 publicly held American corporations that reported a profit in the United States every year from 2008 through 2015 and paid less than 20 percent of their earnings in federal income tax.

We chose this particular tax threshold because, as Mr. Stephenson mentioned, House Republicans are proposing to reduce the federal statutory corporate tax rate to 20 percent, down from the current 35 percent. President Trump wants an even deeper cut, down to 15 percent.

If claims about the job-creation benefits of lower tax rates had any validity, these 92 consistently profitable firms would be among the nation's strongest job creators. Instead, we found just the opposite.

The companies we reviewed had a median job-growth rate over the past nine years of nearly negative 1 percent, compared with 6 percent for the private sector as a whole. Of those 92 companies, 48 got rid of a combined total of 483,000 jobs.

At the companies that cut jobs, chief executives' pay last year averaged nearly $15 million, compared with the $13 million average for **S&P 500** companies.

Instead of tax-rate cuts for these big corporations, the coming tax debate in Congress should focus on making wealthy individuals and big corporations pay their fair share.

American multinationals hold $2.6 trillion in profits ''offshore,'' on which they would owe $750 billion in federal taxes if the money was repatriated. In most cases, these foreign profit stashes are merely an accounting fiction. Companies retain full access to these funds for use in the United States and could, if their executives so chose, use them to create jobs here.

Ordinary Americans have to pay all the taxes they owe each and every year. Offshore corporations should be required to do the same.

Beyond closing loopholes, we need to explore new ways to raise revenue fairly, including a tax on Wall Street speculation.

Most of us already pay a sales tax on gasoline, clothes and other basics. Why should hedge fund investors and other Wall Street traders pay no tax at all when they engage in short-term buying and selling of millions of dollars' worth of stocks and derivatives? A fee of just a small fraction of 1 percent on each Wall Street trade would encourage longer-term investment while generating huge revenue for real job creation.

At a town hall this month at AT&T headquarters in Dallas, Mr. Stephenson urged his employees to call Congress and demand a corporate tax cut.

The message policy makers really need to hear? Stop peddling the myth that ''tax relief'' for big companies will be good for the rest of us.

Follow The New York Times Opinion section on Facebook and Twitter (@NYTopinion), and sign up for the Opinion Today newsletter.

Sarah Anderson is the director of the Global Economy Project at the Institute for Policy Studies.

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THE WALL STREET JOURNAL.
U.S. EDITION

Travelers Takes Bite Out of Dow

By Erik Holm
433 words
29 August 2017
The Wall Street Journal
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B11
English

Shares of property-insurance companies fell Monday, the first trading session after Hurricane Harvey came ashore in Texas.

With floodwaters in Houston still rising, Travelers Cos. dropped 2.6%, by far the worst performer in the **Dow Jones Industrial Average**. It took 22 points off the Dow as the blue-chip index fell 5.27 points in total. Travelers is a major insurer of businesses and also sells home and auto insurance.

Initial reaction from Wall Street analysts that track the insurance industry is that business insurers, specialty insurers and reinsurers will be the hardest hit by the storm. Reinsurers provide insurance to insurance companies to protect them from catastrophic losses.

Among the big decliners were Axis Capital Holdings Ltd. and Aspen Insurance Holdings Ltd., which both fell 3.2% Monday, and XL Group Ltd., down 2.7%. All three are Bermuda-based companies that sell specialty insurance and reinsurance.

Car insurer Progressive Corp. fell 2.3%. Progressive has about 9% of the auto-insurance market in Texas, according to data provider SNL Financial.

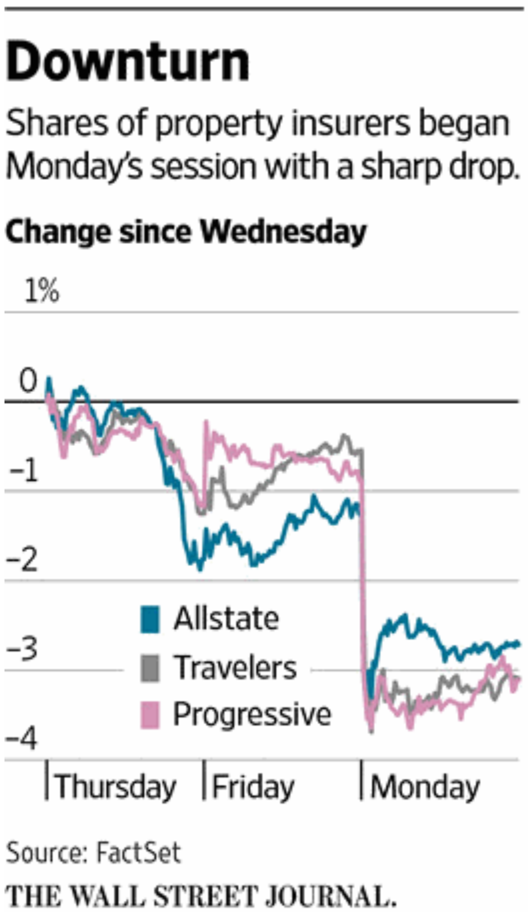
Insurers that sell significant amounts of home insurance, such as Allstate Corp., fell less. The worst and most widespread damage from the storm is expected to be caused by flooding, which largely isn't covered by homeowners' policies.

Allstate, which fell 1.5%, is the second-largest home insurer in Texas, with a market share of about 13%, according to SNL. State Farm is larger but isn't publicly traded. They are also the first and second-largest car insurers in the state.

For more than a decade, home insurers have been boosting premiums and reducing the amount of coverage they sell in hurricane-prone areas so major storms do less damage to their balance sheets. The property-and-casualty insurance industry had a surplus of $709 billion in the first quarter, a record, according to trade group Insurance Information Institute.

Past catastrophes sapped enough capital from the industry that insurers raised prices, but analysts said Monday that didn't appear likely from Harvey's apparent damage so far. Wells Fargo Securities analyst Elyse Greenspan wrote that her view of the industry was unchanged, saying it would take "a series of losses impacting the balance sheets of insurers" to drive up prices.

One stock rising Monday was insurance broker Brown & Brown Inc. Ms. Greenspan noted that the firm helps administer claims for the U.S. government's National Flood Insurance Program. Its shares rose 2% to $45.16, their highest since January.



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THE WALL STREET JOURNAL.
U.S. EDITION

Crisis-Era Scourge Reignites Worries

By Christopher Whittall and Mike Bird
825 words
29 August 2017
The Wall Street Journal
J
B1
English

LONDON -- The synthetic CDO, a villain of the global financial crisis, is back.

A decade ago, investors' bad bets on collateralized debt obligations helped fuel the crisis. Billed as safe, they turned out to be anything but. Now, more investors are returning to CDOs -- and so are concerns that excess is seeping into the aging **bull market**.

In the U.S., the CDO market sank steadily in the years after the financial crisis but has been fairly flat since 2014. In Europe, the total size of the market is rising again -- up 5.6% annually in the first quarter of the year and 14% in the last quarter of 2016, according to the Securities Industry and **Financial Markets** Association.

Collateralized debt obligations package a bunch of assets, such as mortgage or corporate loans, into a security that is chopped up into pieces and sold to investors.

The assets inside a synthetic CDO aren't physical debt securities but rather derivatives, which in turn reference other investments such as loans or corporate debt.

During the financial crisis, synthetic CDOs became a symbol of the financial excesses of the era. Labeled an "atomic bomb" in the movie "The Big Short," they ultimately were the vehicle that spread the risks from the mortgage market throughout the financial system.

Synthetic CDOs crammed with exposure to subprime mortgages -- or even other CDOs -- are long gone. The ones that remain contain credit-default swaps referencing a range of European and U.S. companies, effectively allowing investors to bet whether corporate defaults will pick up.

Desperate for something that pays better than basic government bonds, insurance companies, asset managers and affluent investors are scooping up investments like synthetic CDOs, bankers say, which had largely become the preserve of hedge funds after 2008. Investment banks, which create and sell CDOs, are happy to oblige. Placid markets have made trading revenue weak this year, and such structured products are an increasingly important business line.

Synthetic CDOs got "bad press," said Renaud Champion, head of credit strategies at Paris-based hedge fund La Francaise Investment Solutions. But "that market has never ceased to fully function," he added.

These days, Mr. Champion still trades synthetic CDOs, receiving a stream of income for effectively insuring against a sharp rise in European corporate defaults.

Many investors, though, still view the products as unnecessarily complex and are concerned they may be hard to offload when markets get choppy -- as they did in the last crisis.

"We don't see that demand from our clients and we wouldn't recommend it," said Markus Stadlmann, chief investment officer at Lloyds Private Banking, citing concerns over the products' lack of transparency and lack of liquidity, meaning it could be hard to exit from a position when needed.

The return of synthetic CDOs could present other risks. Even if banks are currently less willing to lend money to help clients juice returns, credit-default swaps can be very leveraged, potentially allowing investors to make outsize bets.

Structured products accounted for nearly all the $2.6 billion year-over-year growth in trading-division revenue at the top 12 global investment banks in the first quarter, according to Amrit Shahani, research director at financial consultancy Coalition.

"There has been an uptick in interest in any kind of yield-enhancement structure," said Kokou Agbo-Bloua, a managing director in Societe Generale SA's investment bank.

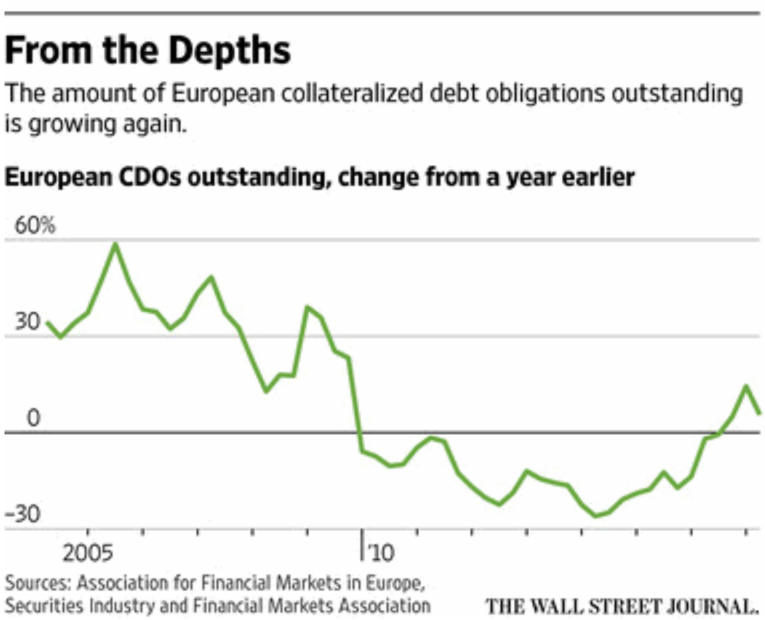
The fastest growth this year has come in credit -- the epicenter of the 2007-08 crisis. The top 12 global investment banks had around $1.5 billion in revenue in structured credit in the first quarter, according to Coalition, more than doubling since the first quarter of 2016. Structured equities are largest overall, a business dominated by sales of derivatives linked to moves in stock prices, with revenue of $5 billion in the first quarter.

"The low-yield environment hurts," said Lionel Pernias, a credit-fund manager at AXA Investment Managers. "So there are a lot of asset owners looking at structured credit."

These days, the typical synthetic CDO involves a portfolio of credit-default swaps on a range of companies. The portfolio is sliced into tranches, and investors receive payouts based on the performance of the swaps. Those investors owning lower tranches tend to get paid more but are subject to higher losses if the swaps sour.

Synthetic CDOs have evolved since the crisis, bankers say. For instance, most are shorter-dated, running up to around two to three years rather than seven to 10 years. Some banks will only slice and dice standardized CDS indexes that trade frequently in the market rather than craft tailored baskets of credits.

There are also fewer banks involved in arranging these trades. Those active include BNP Paribas SA, Citigroup Inc., Goldman Sachs Group Inc., J.P. Morgan Chase & Co. and Societe Generale SA.



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The New York Times

PRICING A DISASTER
Business/Financial Desk; SECTB
Hurricane Likely to Spare U.S. Economy From Wrath

By NEIL IRWIN
931 words
29 August 2017
The New York Times
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Late Edition - Final
2
English

Hurricane Harvey is a disaster of monumental proportions that will destroy vast amounts of property and upend millions of lives. But it also appears that the overall economic toll, at least for the United States as a whole, will be modest. And that surprising fact offers important lessons about how the modern economy works.

That benign view of the economic impact of the storm is the immediate verdict of **financial markets** Monday, which showed no signs of expectations that there will be broad ripple effects.

The **stock market** was essentially flat at midday. **Bond prices** are also little changed; if investors expected lasting damage, they would most likely would have bid up **bond prices**, seeking safety and anticipating a slower pace of interest rate increases from the Federal Reserve.

And despite the Texas Gulf Coast's central role in American energy production, **oil prices** are not exhibiting the kind of spike they did after Hurricane Katrina in 2005; the price of West Texas intermediate crude fell Friday and Monday.

Gasoline prices are a different story, having risen because refining capacity was shut down amid the storm. But the 9 percent rise in the price of gasoline futures in the last week is the kind of swing that happens routinely, and has brought prices back only to around their late-July level.

This subdued reaction from Wall Street may seem surprising. After all, Houston is the fourth-largest American city and is at the center of a metropolitan area with economic output of half a trillion dollars a year. The New Orleans metro area economy, devastated by Hurricane Katrina 12 years ago, is one-sixth as large. And the economic consequences for Texas indeed look likely to be severe, as Houston and the Gulf Coast face years of rebuilding.

But when you pick apart the ways a disaster -- even a huge one -- can affect the overall economy, it becomes clearer why **financial markets** and economic forecasters are so sanguine.

Disruption to production and supply lines. The Gulf Coast is a center of oil drilling, refining and chemicals manufacturing. The details of how those industries will be affected are not yet clear, and the possibility of damage to production and distribution facilities is real.

There are likely to be power outages, and there is already severe flooding of roads and other transportation infrastructure. Industrial facilities themselves may be damaged by floods. But one thing that the Hurricane Katrina experience, among other disasters, has showed is how effective modern corporations are at overcoming those kinds of logistical challenges.

In the early days after that disaster, there were fears about disruptions to incoming supplies of coffee and bananas and to Midwest grain normally exported via barges down the Mississippi River. If you look at the overall data from that year for those and other affected commodities, though, there's not much evidence of any lasting problems, reflecting the ability of corporate supply chain and logistics managers to find other ways to get products to market.

Financial losses. In theory, a natural disaster could deliver such severe losses to insurers, banks or other financial institutions as to cause broader economic problems.

There's not much evidence of that happening because of Harvey for a few reasons. Home insurance policies generally do not cover flooding, which means the severe flood damage should have less impact on insurers' payouts than you might expect. For many individuals, the financial losses from flooding can be devastating. But the possibility of the kinds of systemic problems that ripple across global **financial markets** appears remote.

Insurers' balance sheets are relatively strong after years without mega-catastrophes demanding particularly enormous payouts.

Rebuilding costs. One of the paradoxes of disaster economics is that they can actually be good for economic growth, at least the way ''growth'' is commonly measured.

The need to rebuild or repair flooded buildings in Texas could create a surge in economic output in the state in the months ahead, generating higher growth in gross domestic product. This is a macabre artifact of economic accounting -- no one would suggest that people are actually better off when billions of dollars' worth of capital is destroyed. But it is how the math works.

If this disaster had happened in a period like 2009 or 2010, when the housing bust had left millions of people -- especially construction workers -- unemployed, the need to rebuild homes and businesses in Houston might have worked like stimulus spending.

But it's not 2010 anymore. The unemployment rate among construction workers peaked at 27.1 percent in February 2010, but is now down to 4.9 percent. There aren't a lot of qualified, idle construction workers. Perhaps the availability of well-paying jobs in rebuilding homes in Texas and in doing mold remediation work and other tasks that will be in high demand could even coax people into the labor force who have been on the sidelines. In that case, the effort that goes into rebuilding Houston may create a bit of a boost to G.D.P., even if much of it comes at the cost of economic activity elsewhere.

The storm continues to wallop the Gulf Coast, and it's premature to declare that the economy is in the clear. But the initial evidence suggests that the human damage is far greater than the economic damage.

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The New York Times

National Desk; SECTA
Storm-Soaked Economy Faces Industry Losses In the Tens of Billions

By CONOR DOUGHERTY and NELSON D. SCHWARTZ; Neal E. Boudette contributed reporting.
1,217 words
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The brutal storm pummeling the Houston area is likely to rank as one of the nation's costliest natural disasters, with tens of billions in lost economic activity and property damage across a region crucial to the energy, chemical and shipping industries.

But economists say the region is likely to recover quickly and may even experience a bump in growth from rebuilding.

The Houston metropolitan area, the nation's fifth largest by population, accounts for about 3 percent of the nation's gross domestic product.

The area has a large and growing population and attracts continuous investment in oil-related manufacturing. It is also an important cog in global trade. Texas accounts for about half of petroleum and gas exports, along with about a fifth of chemical exports.

"The economic damage will be moderate, with disruptions to the heart of the nation's refinery and petrochemical industries in August and September," said Robert Dye, chief economist at Comerica Bank.

Texas is often thought of as a center of oil production, but the Houston area and the nearby Gulf Coast is where much of that black gold is turned into refined products like gasoline, diesel fuel, heating oil, and other distillates.

Mr. Dye said the Texas Gulf coast was home to about 30 percent of the nation's refining capacity, with about half of that now shuttered by the storm.

As a result, wholesale prices for gasoline jumped 6 cents to $1.73 a gallon in trading Monday on the benchmark contract that settles next month. The AAA motor club said gasoline was selling for $2.37 a gallon on average across the country, 4 cents more than a week ago.

On the other hand, crude **oil prices** fell as traders anticipated that demand would fall, with fewer refineries open and able to take delivery of the crude.

"It may take weeks for refineries to repair and replace damaged equipment," Mr. Dye said. "Port facilities have also been damaged, and this may result in an export bottleneck."

Indeed, with the Port of Houston and Corpus Christi's smaller port directly in the storm's path, a key logistics hub for the south-central United States is set to be out of commission for days, if not weeks.

Nearly half of the exports from Houston consist of resins, plastics, chemicals and minerals, reflecting the concentration of the nation's petrochemical industry on the Gulf Coast. Major imports flowing through the port include food, construction materials, machinery and retail consumer goods.

Ellen Zentner, chief United States economist at Morgan Stanley, said that although Hurricane Harvey's impact on national gross domestic product in the third quarter might be fairly neutral, "the lagged effects of rebuilding homes and replacing motor vehicles can lost longer," providing a lift to gross domestic product in the fourth quarter and beyond.

On the other hand, an extended rise in gasoline prices could have a more immediate effect. Each 10-cent rise in the price of gasoline is equivalent to a $10 billion tax on consumers, Ms. Zentner said, so ''should higher prices be sustained, it would rob other categories of spending as dollars are diverted to filling tanks.''

Similarly, a lengthy outage at petrochemical facilities that produce the raw materials for plastic, like polyethylene, could also raise prices for a range of goods, including toys, garbage bags and PVC pipe.

''It's definitely going to cause some dislocations in the wholesale market for plastics components,'' said Chris Lafakis, director at Moody's Analytics. ''This is a huge hub for petrochemicals.''

The economic impact of the storm will not be clear with any degree of accuracy for a while. But given Houston's commercial importance -- and its perch along a well-trod hurricane zone -- economists and others have long taken it for granted that an epic storm would hit the region eventually, so have a head start on the numbers.

About two years ago, Ray Perryman, the head of an economic analysis firm, looked at the hypothetical economic damage that would be wrought if storms of various sizes and magnitudes hit coastal Texas. The estimates ranged from around $11 billion to $80 billion -- and the earliest estimates suggest this disaster will be on the upper end of that range.

Moody's Analytics estimates that the damage will be $40 billion to $50 billion. The first and smaller set of losses -- less than $10 billion -- will come from things that do not happen: homes not purchased, sales not closed, gas not bought or shipped. The second and larger set of losses, totaling tens of billions, will come from property damage.

''Things are too preliminary to know at this point, but I would expect Harvey to be one of the two most costly in history when all is said and done,'' said Mr. Perryman, chief executive of the Perryman Group of Waco, Tex.

The damage, while serious and expensive, is likely to be a fraction of the $130 billion in damage caused by Hurricane Katrina. Katrina was one of the worst disasters in American history, and the final toll, human and economic, was staggering. When the levees broke, flooding was sudden and immediate and eventually killed close to 2,000 people.

The flooding from Harvey appears to be spread over a bigger area that had more time to mobilize, suggesting that the number of deaths will be far lower, Mr. Perryman said. Hurricane Katrina appeared to have had a greater impact on oil production and refining.

The Gulf Coast of Texas is also more prosperous and populous than New Orleans. And despite wobbly **oil prices**, local job growth has accelerated, along with continued improvement in home sales and construction. The number of Texas oil rigs has been rising over the past year, giving a big lift to exploration and chemical manufacturing jobs.

So far, the storm seems to have damaged things that can be replenished or replaced relatively quickly. Houston has huge amounts of economic assets that appear to be largely undamaged and are unlikely to be offline for much time.

Moreover, factories and refineries are rarely running at full capacity, and as they come back online, they can ramp up production to meet the backlogs that accrue. ''Businesses have stockpiles and the ability to catch up,'' said Christopher Thornberg, founding partner of Beacon Economics, a consulting firm.

As the floodwaters drain away and Texas shifts to clean-up mode, followed by a mammoth effort to replace what was lost, the daily modes of commerce will shift but not stop. Disruptions, displacement and property damage are quickly followed by federal aid and insurance checks.

''This is going to be disruptive, but the Houston economy will overcome it very quickly, just like other regions,'' said Mark Zandi, chief economist at Moody's Analytics.

In fact, when natural disasters do show up in economic data, it is usually as a small growth bump a few months after the storm, when rebuilding accelerates and insurance checks are cut.

An oil refinery in Corpus Christi, Tex. Many similar facilities in the path of the storm shut down as it approached. (PHOTOGRAPH BY JOE RAEDLE/GETTY IMAGES)

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The New York Times

Business/Financial Desk; SECTB
Texas Storm Mutes Markets As Investors Assess Impact

By THE ASSOCIATED PRESS
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29 August 2017
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2
English

United States markets were little changed on Monday as investors focused on the effects of Tropical Storm Harvey. Shares of insurance companies and oil drillers stumbled while refinery stocks rose along with gasoline prices.

With August coming to a close, Monday was one of the quietest days of the year on Wall Street. Shares of biotech drug companies rose after the hepatitis C and HIV drug maker Gilead Sciences agreed to buy the cancer drug maker Kite Pharma for $11.9 billion. Shares of the travel booking website Expedia tumbled after reports that the company's chief executive, Dara Khosrowshahi, would leave the company to head the ride-sharing company Uber.

Lacking other major corporate or economic news, investors mostly focused on the storm over Texas, which continued to hit parts of the Gulf Coast with heavy rains. Large parts of the energy and petrochemical industries are based there and companies with a lot of stores in the area stand to lose business. While gas price spikes will be temporary, other effects of the storm will last for years.

''There will be ripple effects that everyone is going to feel,'' said Jack Ablin, chief investment officer for BMO Capital Markets. He said that could include higher insurance premiums; the storm was likely to cause tens of billions of dollars in flood damage. Mr. Ablin added that the storm might affect interest rates as well: The Federal Reserve might hesitate to raise interest rates if officials thought the storm would slow the economy significantly.

The **Standard & Poor's 500**-**stockindex** picked up 1.19 points, or less than 0.1 percent, to 2,444.24. The **Dow Jonesindustrial average** dipped 5.27 points to 21,808.40. The **Nasdaq composite** rose 17.37 points, or 0.3 percent, to 6,283.02. Most of the stocks on the New York Stock Exchange fell.

Benchmark United States crude fell $1.30, or 2.7 percent, to $46.57 a barrel in New York. Brent crude, the international standard, lost 52 cents, or 1 percent, to $51.89 a barrel in London.

The energy industry was a major market driver. S&P Global analysts said about 2.2 million barrels a day of refining capacity was down or being shut down by Sunday.

Shares of Helmerich & Payne, an oil and gas well drilling contractor, gave up $1.29, or 2.9 percent, to $43.49. Wholesale gasoline futures rose 5 cents, or 2.7 percent, to $1.71 a gallon, and shares of refining companies climbed, as they stood to benefit from higher gas prices. Marathon Petroleum stock advanced 80 cents, or 1.5 percent, to $52.52.

Shares of insurance companies declined as investors worried that flooding from Harvey would lead to big losses. Travelers stock slumped $3.24, or 2.6 percent, to $123.23 and Progressive shares shed $1.09, or 2.3 percent, to $47.31.

Companies with large numbers of stores in Texas, like the shoe retailer DSW, the sporting goods company Finish Line and Boot Barn, lost ground in trading. Some companies that could play a role in cleanup efforts after the storm traded higher. Those included the environmental services company Clean Harbors, whose stock rose $1.59, or 3.1 percent, to $52.98.

Gilead Sciences agreed to buy Kite Pharma for $11.9 billion, or $180 a share. Kite Pharma stock jumped $38.95, or 28 percent, to $178.05 and Gilead shares gained 90 cents, or 1.2 percent, to $74.69.

The euro rose to $1.1979 from $1.1888, and it is now at its highest level since the beginning of 2015. The dollar inched down to 109.09 yen from 109.24 yen late Friday.

Bond prices edged higher. The yield on the **10**-**year Treasury** note slipped to 2.16 percent from 2.17 percent.

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

CHARTS: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Friday. (Source: Reuters); 3-Month Treasury Bills: High rate at weekly auction. (Source: The Bond Buyer)

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Business Day; DealBook
Day Trading in Wall Street's Complex 'Fear Gauge' Proliferates

By LANDON THOMAS Jr.
1,457 words
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Each morning, at the market's open, Seth M. Golden, a former logistics manager at a Target store, fires up the computer in his home office in northern Florida and does what he has done for years: Put on bets that Wall Street's index of **volatility**, the VIX, will keep falling.

It has been a lucrative strategy as the so-called fear gauge has been, outside of the occasional spike, largely fearless — confounding experts by sloping persistently downward and in the process making Mr. Golden a multimillionaire.

"There has been a lot of white noise," said Mr. Golden last Tuesday on a day that the VIX plummeted more than 10 percent, allowing him to lock in profits from short trades. "You had North Korea, Afghanistan, Trump people resigning. But I was never nervous — so today I just sat back, ate some popcorn and cashed in my profits."

On Monday, the index ticked up, after falling 8 percent on Friday, as investors took the view that the Fed would not be raising interest rates soon after a speech by Janet L. Yellen, the chairwoman of the Federal Reserve.

Twenty years ago, when the shares of dot-com and tech companies soared and swooned, investors loading up on hot tech stocks would define the speculative fever of that era. Across the country, people quit their day jobs to trade the likes of Webvan and eToys from their living rooms or glittery new E-Trade outlets.

Now, a new generation of day traders, deploying an expanding array of opaque, high-risk, high-return trading vehicles concocted by Wall Street, are pouring into one of the market's most arcane corners, making bets on whether the VIX — otherwise known as the Chicago Board Options Exchange**Volatility** Index — will rise or fall.

Wagering on the fear gauge, a measure of how **volatile** investors expect stock markets to be in the month ahead, has traditionally been the province of highly specialized investors with the cash and financial relationships to purchase the derivatives that facilitate these trades.

In the years after the financial crisis, however, investment banks like Barclays and Credit Suisse came out with VIX-linked investments that investors could purchase on the stock exchange, just as if they were buying shares of IBM or Microsoft.

Called exchange traded notes, they were a racier version of the exchange traded funds, or E.T.F.s, that track every variety of index and investment strategy and now have more than $4 trillion in investor assets.

Led by Barclays iPath **S&P 500** Short Term Futures ETN (VXX), these investments have attracted over $14 billion in investor flows since 2012, according to FactSet, a data-gathering firm.

There are now more than 30 different VIX-themed investment choices (including some that use leverage, amplifying gains and losses) that investors can snap up on a public exchange.

Because they are so easy to trade and because the question driving the trade — Will the markets succumb to fear or won't they? — borders on the existential, a new wave of millennial day traders has been at the forefront of this trade.

And many are using Stock Twits, the social media investing website embraced by stay-at-home investors, as well as Twitter and Facebook to passionately promote their strategies.

“You could describe it as a cult — it is about how you define and measure fear and can you trade it,” said David Moadel, an independent trader who uses social media to identify and interview emerging investors.

But this explosion in interest is prompting concerns that investors may not be truly aware of what they are getting into.

Today, VIX-themed entities are among the most actively traded securities on the public stock markets. The Barclays iPath note, Ultra VIX Short Term Futures (UVXY) by Pro Shares, and Daily 2X VIX ETN (TVIX) and Daily Inverse VIX ETN (XIV), both by Velocity Shares, are frequently among the most widely traded stocks of the day.

In theory, the murky nomenclature of these investments ought to be warning enough for amateur investors to tread with caution. And it is also true that the fund prospectuses warn bluntly that investors can lose large sums of money if they buy and hold these investments.

Robert E. Whaley, a financial professor at Vanderbilt University, who is known in **volatility** circles as the “father of the VIX,” for the work he did in helping the Chicago Board Options Exchange develop the index, says he has told the Securities and Exchange Commission that these securities are too risky for many nonprofessional investors.

“These are incredibly complex products when you consider their price dynamics,” Mr. Whaley said. “The volume in these things is huge, and my concern is that investors don’t understand what they are and how their prices behave.”

The S.E.C. has in the past publicly warned investors about the risky nature of these types of investments.

Indeed, the most popular of the funds, the Barclays iPath fund, known broadly by its ticker symbol VXX, has since its inception averaged a yearly return of negative 58 percent, according to FactSet.

Or look at it this way: If an investor bought VXX when it came to market in 2009 and held onto it until now, that investor would have lost 99 percent of his investment.

While many professionals will purchase these securities to hedge their exposure to the **stock market**, analysts say that day traders are now using them to gamble on a sharp spike in the VIX.

“You have seen this infusion of millennials coming in and buying VXX and UVXY,” Mr. Moadel said, referring to the main VIX product and its leveraged cousin. “But most of the time they just get killed.”

Doing the killing, so to speak, have been investors like Mr. Golden, who consistently shorts VXX and UVXY whenever they spike upward.

His bet is founded on two principles: one being that VXX and UVXY, because they track a basket of VIX futures, not the index itself, will decline in value over time as the contracts expire.

He describes it as a heavy anvil weighing down on the value of each security.

Mr. Golden also believes that in the decades since the VIX was introduced in 1993, its long-term trend has been to push consistently downward. Yes, there will be spikes as during major cataclysms (9/11, the 2008 financial crisis) and other less tumultuous events (a devaluation in China, a North Korea crisis or even a presidential tweet).

But after every spike of fear must follow a longer period of calm, Mr. Golden contends, which, he argues, is a perfect scenario if your bias is to always bet against fear.

“The nature of **volatility** is that it desensitizes over time,” he said. “Which is why the index has been tracking down for so long.”

Just as the frenetic buying of tech stocks by day traders in 1999 and 2000 came to be seen as a major factor behind the boom and bust, market experts say that traders like Mr. Golden who persistently short the VIX have distorted the market.

“The VIX spikes have become more extreme — on the upside and the downside,” said Salil Aggarwal, a derivatives strategist at Deutsche Bank.

Mr. Golden, who is 40, lives in a suburb of Ocala, Fla. Since he has been shorting VIX, he says his net worth has gone to $12 million from $500,000 in about five years.

When it comes to his craft, he is more the pedant than boastful trader, carefully posting snapshots of his trades on his Twitter feed and churning out dense treatises and videos laying out his methods. The best part of his day, he says, is picking up his toddler daughter from day care.

But, as with any trader on a roll, he likes to keep score, and he is quick to spar on Twitter with the traders who appear on CNBC's "Fast Money" program.

Now, he is starting a hedge fund dedicated to wagering against the VIX. Investors, he says, have been pounding on his door to get in early, offering him $100 million for starters.

That is a lot of money for a onetime Target manager.

"Yes, it is a crowded trade," Mr. Golden acknowledged. "But I don't worry about crowds — I just worry what the next existential shock might be."

* Political Turmoil Is High, but Wall Street's Fear Gauge Is Very Low

Seth M. Golden day trades Wall Street's index of **volatility**, the VIX, from his home office in Ocala, Fla. | Charlotte Kesl for The New York Times

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THE WALL STREET JOURNAL.
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Chicago Exchange's Chinese Deal Stalls

By Dave Michaels and Alexander Osipovich
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English

The Chicago Stock Exchange is a relic of history, trading less than 0.5% of U.S. stocks and in such straits that it has been looking for a buyer.

That isn't how U.S. officials see it. After a group of buyers emerged last year to rescue the exchange -- led by Chongqing Casin Enterprise Group, a Chinese conglomerate -- lawmakers demanded that the deal be halted on national-security grounds. The Securities and Exchange Commission issued a last-minute freeze that put the $20 million transaction on indefinite hold.

The 135-year-old exchange's efforts to win approval for the sale highlight mounting U.S. resistance to Chinese deal making, especially when it involves firms inside the plumbing of the U.S. financial system.

"When you take into account the risk of cyber-market manipulation and the gamut of concerns we have with China . . . you certainly have to be wary of this acquisition," Rep. Robert Pittenger (R., N.C.), a leading congressional critic of the deal and other Chinese acquisitions, said in an interview.

Foes of the deal say granting a Chinese company a stake in a U.S. stock exchange would create a back door for state-sponsored theft of Americans' financial data or hacks of critical market infrastructure.

Casin -- which is seeking to buy 20% of the exchange's parent company, CHX Holdings Inc., with other Chinese and U.S. investors buying the rest -- says it is independent of the Chinese government. Based in the inland city of Chongqing, it is active in businesses ranging from banking to tourism to sewage treatment.

CHX denies the acquisition will endanger the security of U.S. markets and says its policies will prevent confidential data from being shared with the new Chinese owners. The current CHX management team will remain in place if the deal goes through, said William Ruben, a CHX spokesman.

The deal got approval in December from the Committee on Foreign Investment in the U.S., or CFIUS, a multiagency panel that reviews acquisitions of U.S. companies for national-security concerns. Several Chinese takeover bids this year have failed to get timely CFIUS approval. These include a $1.2 billion purchase of MoneyGram International Inc., of Dallas, by Ant Financial Services Group, which is controlled by Chinese billionaire Jack Ma, a co-founder of e-commerce giant Alibaba Group Holding Ltd.

SEC commissioners put the Chicago exchange deal on hold on Aug. 9, freezing a staff decision earlier that day to greenlight the deal following a 240-day review period. CHX Chief Executive John Kerin told the SEC in a letter Friday, "CFIUS conducted a thorough, deep, and wide-ranging investigation" of the deal and "concluded that there were no unresolved national security concerns."

The CHX deal's supporters, including members of the Chicago City Council, say it will revitalize the institution founded in 1882 as a place for Midwest manufacturers and railroads to sell their shares. CHX Holdings has around 80 employees and 2015 revenue of $19.5 million, according to financial statements reviewed by The Wall Street Journal.

Casin hopes to turn CHX into a listings venue where smaller Chinese and other overseas companies can sell shares to U.S. investors.

The deal "is an opportunity for investors from the two largest economies to work together," Jackson Xiao, chief executive of Casin's North American subsidiary, said in emailed comments forwarded by a U.S.-based lawyer for the company.

CHX executives spoke by phone on Aug. 21 with aides to SEC Chairman Jay Clayton, people familiar with the matter said. The SEC officials told CHX they couldn't give any feedback on why commissioners halted the staff's decision or when the full commission would vote on the proposal, the people said.

Range of Concerns

Cloud CHX Proposal

President Donald Trump criticized the Chicago exchange deal during last year's presidential campaign, tying it to U.S. factory jobs fleeing the country. Since taking office, he has pressured Beijing on trade and criticized China for failing to rein in North Korea's nuclear program.

Listing in Chicago could give Chinese companies an alternative to going public in their home country, where the government tightly controls the offering process.

Rep. Robert Pittenger (R., N.C.) and other critics fear such companies could seek to defraud U.S. investors. "There are many concerns that a Chinese-controlled exchange would be able to list companies that would otherwise not have access to our markets," Mr. Pittenger said.

Both Casin and CHX said they would protect investors by imposing strong listing standards, the rules that govern which firms can offer shares. Such rules would need SEC approval.

"CHX firmly believes that thforeign emerging growth companies is through a U.S. listing that is regulated by the e safest way for U.S. investors to get exposure to SEC," a spokesman for CHX said.

Market veterans point to the wave of accounting scandals that hit U.S.-listed Chinese companies half a decade ago, which cost investors billions of dollars. Many of the companies in the debacle listed on **Nasdaq** Inc. or the New York Stock Exchange through a reverse merger, in which a firm buys a publicly traded shell company to take its spot on an exchange.

"Historically, exchanges have been very poor gatekeepers," said Soren Aandahl, director of research at Glaucus Research, a short seller that has targeted Chinese companies. "Why should the Chicago Stock Exchange be any different?"

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THE WALL STREET JOURNAL.
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U.S. News: Central Bankers Can't Savor Their Success

By Kate Davidson and Ben Leubsdorf
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28 August 2017
The Wall Street Journal
J
A2
English

JACKSON HOLE, Wyo. -- Central bankers have been looking forward for years to a moment when the world economy is growing steadily again, allowing them to unwind extraordinary monetary stimulus from global markets.

They are now in such a moment, but at the Federal Reserve's annual retreat here over the weekend they found their attention turned to other challenges, including a possible leadership transition at the Fed next year and the risk of a government shutdown or debt-ceiling crisis in Washington next month.

Congress returns to Washington in September with a few short weeks in which to raise the federal borrowing limit and authorize new funding to keep the government operating beyond Oct. 1. Signs of angst over the debt limit are beginning to rise in **financial markets** amid worries lawmakers won't be able to close a deal on time. Treasury officials have urged Congress to raise the borrowing limit by Sept. 29.

"What's being discussed regarding the shutdown and the debt ceiling, we have to monitor very carefully," Dallas Fed President Robert Kaplan said in an interview on the sidelines of the conference. Fed governor Jerome Powell warned in a television interview that failing to raise the debt ceiling would be a "major shock to the economy," while Treasury Secretary Steven Mnuchin told reporters at a White House briefing Friday he was "100% confident" Congress would act in time.

Fiscal brinkmanship comes as the Fed is preparing to take the next step in its gradually unfolding plan to withdraw monetary stimulus from the economy. It has raised short-term interest rates four times since December 2015. Next month it is expected to announce it will start shrinking its portfolio of mortgage and Treasury securities by allowing some to mature without reinvesting the proceeds into new bonds.

"The base case for me is that we should begin the roll-down of the balance sheet very soon," Mr. Kaplan said. "Obviously I'm monitoring closely, though, events in D.C., and I'm hopeful they won't have an effect on our efforts to begin that process. But we'll have to see." The Fed next meets Sept. 19-20.

Fed Chairwoman Janet Yellen did nothing to dispel the market's expectation that the Fed will start shrinking the portfolio next month. Her remarks Friday focused instead on bank regulation in the post financial crisis era. President Donald Trump has vowed to roll back regulation across sectors, but Ms. Yellen defended the Fed's efforts since the crisis to toughen oversight of banks, which she said has bolstered lending and economic growth.

Rather than focusing on near-term monetary policy issues, most of the conference dealt with long-term challenges, such as rising protectionism, growing inequality and the ability of fiscal policy makers to respond to the next recession -- issues over which central bankers may have limited influence.

On the sidelines of the meeting, participants buzzed about the potential for a leadership shake-up at the Fed next year, as Ms. Yellen closes in on the final months of her four-year term as the leader ofthe U.S. central bank.

Ms. Yellen is a top contender for another term as Fed chair, Mr. Trump has said. He has praised her stance on interest rates and said he liked her. But Ms. Yellen's remarks Friday highlighted a difference in their views on regulation, which could lead Mr. Trump in another direction.

Mr. Trump has said his top economic adviser, National Economic Council Director Gary Cohn, along with "two or three" other candidates he declined to name, are also being considered, leaving markets and Fed watchers guessing about where policy might be headed beyond early next year.

Analysts have theorized about a handful of dark horse candidates who may be in the mix, several of whom attended this year's Jackson Hole gathering, including former Fed governor Kevin Warsh.

Among her peers, Ms. Yellen earned high marks for her steady approach and clear communication as the Fed unwinds its crisis-era stimulus program.

"President Trump has to take his own decision, and that's his prerogative," Bank of Mexico Gov. Agustin Carstens said. "But I can speak for myself, and I can say that she has done an outstanding job."

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MoneyBeat: Outflows Hit Stocks

By Ben Eisen
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Investors are pulling a steady stream of money from the U.S. **stock market**, the latest sentiment shift to cause unease among market bulls.

Mutual funds and exchange-traded funds that invest in U.S. equities marked their 10th consecutive week of net outflows during the seven days ended Wednesday, good for the longest such streak in 13 years, according to Bank of America Merrill Lynch data.

The $2.6 billion pulled from U.S. equity funds in the latest week helped push withdrawals to $30 billion since late June, per Bank of America. Data provider EPFR found that the outflows were concentrated most heavily in actively managed funds.

The steady stream of withdrawals adds to concerns about a **bull market** that looks expensive by many measures. The **S&P 500**, which is up 9.1% this year to close at 2443 Friday, trades at a far-above-average ratio to the next 12 months of expected earnings.

Other indicators have also signaled caution, such as a decline in the number of U.S. stocks that are hitting new highs along with the broader market. Dow transports, traditionally thought to rise and fall with the economy, have been on a downtrend, lagging behind their peers in the Dow industrials. Those and other technical factors have some predicting more turbulence.

Investors have instead been hotter on international stocks. In the latest week, they put $3.1 billion into Japanese equity funds, the biggest inflow in five months, according to Bank of America. European equity funds had six straight weeks of inflows through mid-August, though they experienced $200 million in outflows in the most recent week. Still, it is worth remembering that investors, stung by losses during the financial crisis, have been hesitant to put money into U.S. stocks for much of the **bull market** that began in early 2009. That hasn't stopped the market from plowing higher anyway.

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The New York Times

ECONOMIC VIEW
Money and Business/Financial Desk; SECTBU
For Tax Cuts, Two Possible Paths

By NEIL IRWIN
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3
English

Congress and the Trump administration are said to be hard at work creating a tax bill, aiming for a signature economic policy achievement in the months ahead. As they do so, there is a fundamental tension they will have to resolve: Is this tax legislation about the past, or about the future?

The bill's writers face a series of choices over whether to shovel more money into the pockets of individuals and businesses based on choices they have already made, or to change tax laws that shape economic incentives in the years ahead. In at least a few areas, politics favors the past while theory favors the future.

One example of this is a debate over whether a tax cut will be retroactive. Suppose that a bill passes in November or December cutting individual income tax rates. Should the lower taxes apply to income earned in 2017, or only to that earned in 2018 and beyond?

It's easy to see why the smart thing politically would be to apply the lower rates to 2017; more money would show up in taxpayers' refund checks in the spring of 2018, ahead of the midterm elections. When the George W. Bush administration passed tax cuts in 2001 and 2003, it took that approach.

But it also defies the economic theory about why tax cuts might be advantageous for the economy. The entire conservative philosophy behind lowering taxes is that when the government takes less, it encourages people to invest more and work harder, increasing the nation's economic potential.

There is a continuing debate over how powerful those effects really are, yet it at least is a coherent theory of how tax cuts can generate economic growth. If a retroactive tax cut passes in November, however, no one can go back in time to January and suddenly put in more hours or invest more.

It might make sense to have a retroactive tax cut if we were in the middle of a recession, because putting some money immediately in taxpayers' pockets could help spur growth. But right now the economy is humming along with a 4.3 percent unemployment rate, a record high **stock market** and no recession in sight.

On the corporate side of the tax ledger, similar questions arise. Among them: whether, and how, to incentivize American companies to bring home the trillions of dollars in accumulated profits that they have kept parked overseas to avoid the 35 percent federal tax they would have to pay by repatriating the money.

In the mid-2000s, a repatriation tax holiday allowed companies to bring that money home at a low rate. President Trump's campaign tax plan included letting companies repatriate overseas earnings at a 10 percent rate, as part of a transition to a new system for taxing international income.

Depending on how it is structured, that could amount to a one-time boon for companies with large overseas profits, essentially rewarding past success rather than providing the incentives to invest in future growth.

''With repatriation at a lower rate, you're not only providing a tax cut for choices that have already happened, but you're rewarding choices that involved heavy tax avoidance and gaming of the tax system,'' said Lily Batchelder, a law professor at New York University. ''A lot of the reason so much money is socked away overseas is because of the ability of large multinationals to shift income on paper, so you're kind of rewarding bad behavior.''

Business lobbyists argue that when companies return money home, they will use it to create jobs and investment in the United States. But the mid-2000s experience suggested they instead used the cash for a merger spree. And for companies that see promising opportunities, the booming **stock market** and low interest rates mean that capital is readily available on favorable terms already; it's not clear why a company would invest in a new factory, for example, using repatriated overseas profits but not use money borrowed at a low interest rate by issuing bonds.

But the most interesting area of tension between changes that reward old behavior versus future behavior comes in how the corporate tax code handles capital investments by businesses.

Consider a company that spends $1 million on a piece of equipment expected to last 20 years. Currently, it can deduct the cost of investment spending gradually: in $50,000 annual chunks over two decades, unless covered by exceptions for certain equipment or for smaller businesses.

One idea, embraced by Republicans in the House but not those in the Senate, would be to allow companies to fully deduct capital expenses in the year they are incurred. Suddenly that company that spends $1 million on a piece of equipment could deduct the full million in the first year.

But this would be costly in terms of lost revenue to the Treasury, to the tune of a couple of trillion dollars over the next decade. And some people would rather that kind of money go toward reducing the corporate tax rate.

That pits two types of companies against each other. For those expecting to make large capital investments in the future, full expensing could be a boon. The ones that made big capital investments in the past and are now harvesting the profits have nothing to gain from full expensing but would win big if the corporate tax rate is cut.

Understandably, those companies would much prefer that those trillions go toward lower rates. Freedom Partners, the advocacy group funded in part by the Koch brothers, has argued this case, and many others agree with them.

Enthusiasts for full expensing, by contrast, argue that giving more favorable treatment to capital spending can help companies that are in growth mode and encourage the kind of investments that create more jobs. That is doubly significant in an era of relatively low capital spending and weak advances in labor productivity.

Think of a trucking company, says Scott Greenberg, a senior analyst at the Tax Foundation. With the ability to fully expense capital investments upfront, a firm that buys more trucks -- creating more jobs for both truck drivers and the manufacturing workers who build the truck -- benefits. By contrast, if you just cut the tax rate, ''even if a trucking company does not expand its fleet, it could still benefit from a lower corporate rate, because the profits from its existing fleet would be taxed less.''

There is still a great deal unknown about what type of tax legislation Congress will take up, with negotiations between House and Senate tax-writers and the Trump administration taking place behind closed doors.

But once it is revealed, the questions to ask aren't just whether it would benefit the rich or the middle class, or what it would mean for the deficit. Another big one is whether it is more about the economic future, or the economic past.

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A robotic arm loads pallets of chain saws in a factory in Virginia Beach. A change in how spending on capital investments like automation is treated for tax purposes could encourage more such investment, proponents say. (PHOTOGRAPH BY JOHN MINCHILLO/ASSOCIATED PRESS)

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Equities: Stocks Losing Some Momentum

By Chris Dieterich
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26 August 2017
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English

Traders are keeping busy amid the late-summer doldrums by parsing minor details of the U.S. **stock market**.

Their diagnosis: Not great.

A number of signs are pointing to bad market "breadth," or weakening measures of broad-market momentum. Even though the **S&P 500** has inched down just 1.5% from this month's all-time high, a confluence of worrisome signals suggest the market could be setting up for a pullback.

One concern is the 50-day moving average of the **S&P 500**, a short-term yardstick used by technical analysts to track trading momentum. The benchmark failed to close above this level both on Thursday and Friday. The longer the benchmark takes to break back above the 50-day average, the thinking goes, the sturdier this technical resistance will become, hindering the potential for gains.

At the single-stock level, the percentage of **S&P 500** components trading above their 50-day moving averages has fallen to 45%, down from nearly 75% just one month ago, according to Bespoke Investment Group. A steady weakening for the average stock in the index has yet to reach extremes, which Bespoke says could mean that further deterioration is necessary before the market looks primed for a post-slide, "oversold" bounce.

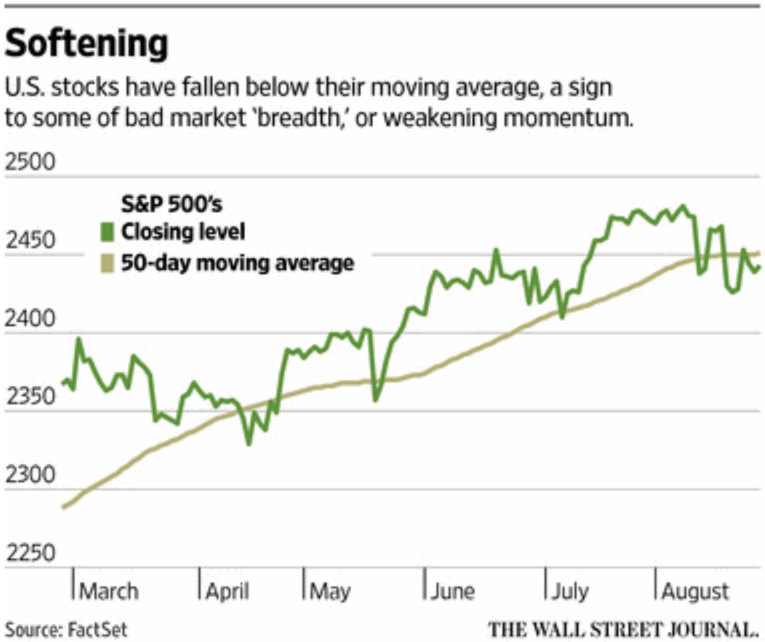
Meanwhile, the number of **S&P 500** stocks marking new 52-week lows has been rising.

William Delwiche, an investment strategist at Baird, notes that earlier this month the proportion of stocks at their lows was the highest since early 2016, when the **stock market** was under severe pressure from global growth concerns. He is watching levels for the **S&P 500** starting at 2375 -- about 2.8% below Friday's finish -- as long-term technical supports.

Katie Stockton, a technical strategist at BTIG, notes that the number of **S&P 500** stocks breaking below past key technical levels has outnumbered those breaking above them by about 2.5-to-1 over the past three weeks, another sign of flagging market momentum.

None of the technical analysts are forecasting a full-blown market tumble, however.

Ms. Stockton says the declining market breadth looks likely to be temporary; Mr. Delwiche agrees, noting the majority of **S&P 500** sectors remain in long-term uptrends.



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THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Durables Orders Signal Investment

By Sarah Chaney
441 words
26 August 2017
The Wall Street Journal
J
A2
English

U.S. business investment is catching a second wind after years of wobbly performance.

Companies are ramping up orders for computers, machinery and electrical appliances, a sign businesses are growing more confident in the economic outlook eight years into an economic expansion.

Durable-goods orders fell 6.8% in July, but the decline was driven by aircraft orders, which had surged the month before. Stripped of the **volatile** transportation category, orders were up 0.5% from a month earlier and up 5.6% from a year earlier.

Orders for core capital goods, which exclude aircraft and defense and which many economists use as a proxy for broader business investment, rose 0.4% in July. They bottomed in June 2016 and have risen six times in seven months. That pickup in business investment marks the best run since 2010, when the U.S. was coming out of the recession.

Business investment is now rising at a faster rate than overall economic growth for the first time since late 2014, evidence of momentum in an expansion that has been restrained by slow productivity growth that is sometimes the result of underinvestment. U.S. business investment rose at a 5.2% pace during the second quarter, following a 7.2% increase in the first quarter.

"Business equipment investment is on track to post another big gain in the third quarter," said Michael Pearce, U.S. economist at Capital Economics, in a note to clients.

The rise in spending comes after particularly weak investment from 2014 to 2016, resulting from a confluence of factors, including weak global demand and falling energy prices.

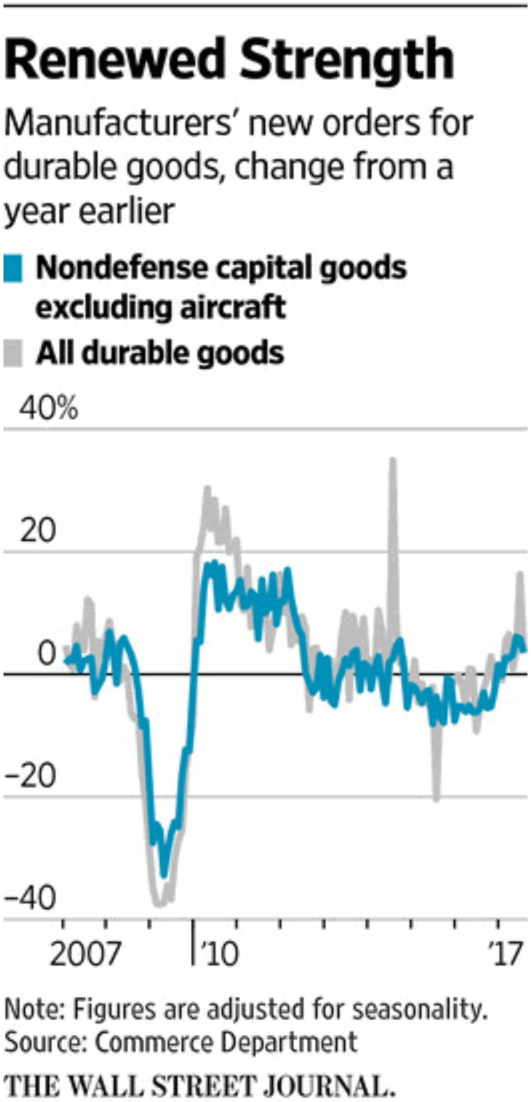
Now, with the unemployment rate hovering near a 16-year low, businesses may be likely to shift from spending on labor -- which was relatively inexpensive for many years during the expansion -- to capital.

Outside of a rebound in the oil and gas sector, solid fundamentals -- including strong manufacturing activity -- are further propelling companies to pour money into technology, research and development and new buildings.

Target Corp. executives noted in a second-quarter earnings call this month that the company had increased spending in a rollout of hundreds of remodeled stores.

Manufacturing data have signaled a positive growth trajectory for the overall economy. U.S. factory activity expanded for the 11th consecutive month in July, according to the Institute for Supply Management.

The Business Roundtable's gauge of chief-executive plans for capital spending and hiring and projections for sales over the next six months reached its highest level in three years in the second quarter.



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The New York Times

Foreign Desk; SECTA
U.S. Imposes New Sanctions on Venezuela to Pressure Maduro Government

By CLIFFORD KRAUSS
845 words
26 August 2017
The New York Times
NYTF
Late Edition - Final
5
English

The Trump administration imposed new economic sanctions on Venezuela on Friday, modestly ratcheting up the pressure on the embattled government of President Nicolás Maduro for increasingly repressive policies.

The sanctions restrict trading of Venezuelan bonds sold by the government in the American **financial markets** to raise money. The effect could increase the likelihood of a Venezuelan default on its debts at the end of the year.

The administration stopped short of prohibiting imports of Venezuelan crude oil to American refineries, which would almost certainly be a crippling step. American refiners have lobbied hard against sanctions against oil imports, arguing that they would raise fuel prices, slash profit margins and potentially cost oil company jobs along the Gulf Coast.

Financial and political analysts said the new sanctions would not represent a lethal blow to Mr. Maduro's government. But many say its survival over the next year is in serious doubt, partly because of continuing problems raising money to pay interest on its onerous debts while paying for food imports.

''It certainly sends a message,'' Risa Grais-Targow, the lead Venezuela analyst at Eurasia Group, a Washington-based political risk consulting firm, said of the new sanctions. ''But I would say in many ways it's not going to be that impactful because the Venezuela government effectively already lacks market access and hasn't been able to issue new debt for quite a while.''

The new sanctions have broad loopholes, allowing for the financing of most commercial trade, including the export of American light crude oil to Venezuela for mixing with its heavy crude, and financing for humanitarian services to the Venezuelan people.

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''These measures are carefully calibrated,'' said Sarah Huckabee Sanders, the White House press secretary, ''to deny the Maduro dictatorship a critical source of financing to maintain its illegitimate rule, protect the United States financial system from complicity in Venezuela's corruption and in the impoverishment of the Venezuelan people, and allow for humanitarian assistance.''

While limited, the move is the latest in a series of actions since Mr. Maduro's government held elections for a Constituent Assembly this month to circumvent the powers of the democratically elected Congress and rewrite the Constitution. The administration has placed financial sanctions on 20 leaders and individuals close to the government, including Mr. Maduro himself.

President Trump has even suggested that the United States might consider military action in Venezuela. That possibility was strongly criticized in Latin America and the United States as a throwback to the days of Yankee imperialism.

Still, top aides to Mr. Trump have been increasingly strident in their denunciations of Mr. Maduro's government.

''We will not stand by as Venezuela crumbles,'' Ms. Sanders said as she announced the new executive order applying sanctions.

Nikki R. Haley, the United States ambassador to the United Nations, aimed her criticism directly at Mr. Maduro.

''We will not stand for the dictatorship he's trying to create,'' she said in a statement, ''and we will continue to take decisive action until he takes steps to return Venezuela to the prosperous democracy it once was.''

Aside from political turbulence, Venezuela is suffering one of the worst economic crises in modern Latin American history. Hunger is common, store shelves are empty and oil production -- the country's life blood -- is in sharp decline. The government still has more than $9 billion in reserves, but those are quickly shrinking with $3.7 billion in loan payments due later this year.

Venezuela has roughly $97 billion in foreign debt, strangling an economy that has been eroding for years, especially as **oil prices** have plummeted since 2014. The financial crisis is drawing the country closer to Russia, with the Russian oil company Rosneft supplying some financing to Pdvsa in exchange for exploration and production rights.

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Treasury Secretary Steven Mnuchin during a news briefing on Friday in Washington, where new sanctions were announced. (PHOTOGRAPH BY YURI GRIPAS/REUTERS)

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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
Quiet Week on Wall Street Ends With Minimal Gains

By THE ASSOCIATED PRESS
666 words
26 August 2017
The New York Times
NYTF
Late Edition - Final
5
English

Stocks rose on Friday, and the **Standard & Poor's 500-stockindex** cruised to its first winning week after two weeks of losses.

The week was relatively quiet. Fewer shares traded hands than usual, and the biggest events, two speeches at the annual meeting of central bankers in Wyoming, were expected to create only a ripple in the market, if that.

The **S.&P. 500** rose 4.08 points, or 0.2 percent, to 2,443.05, and it barely budged after Janet L. Yellen, the Federal Reserve chairwoman, spoke in the morning. The day's other headline event, a speech by Mario Draghi, the European Central Bank president, also had little effect on stocks.

The **Dow Jonesindustrial average** gained 30.27 points, or 0.1 percent, to 21,813.67, and the **Nasdaq composite** index dipped 5.68, or 0.1 percent, to 6,265.64.

Central bankers have used past gatherings of economists in Jackson Hole, Wyo., to signal big changes in policy, and investors were listening in case this meeting followed suit.

But Ms. Yellen focused on defending regulation of the financial industry and gave no indication of changes to interest rate policy. The speech may lower her chances of getting reappointed as Fed chairwoman next year, because President Trump favored reducing regulations, but it did not change investors' expectations that the Fed would continue to slowly raise interest rates and prepare to reduce its $4.5 trillion balance sheet.

The biggest reaction to the speeches may have been in the currency market, where the dollar fell against rivals after Ms. Yellen spoke. Gains for the euro also accelerated after Mr. Draghi's speech.

The dollar fell to 109.24 Japanese yen from 109.51 yen late Thursday. The euro rose to $1.1888 from $1.1806, and the British pound rose to $1.2880 from $1.2802.

Autodesk, a design-software company, jumped to one of the biggest gains in the **S.&P. 500** after reporting stronger results for the latest quarter than analysts expected. It gained $4.36, or 3.9 percent, to $114.97.

Stocks have been winding up and down since the **S.&P. 500** set a record this month. Stronger-than-expected earnings reports from big companies have helped to support the market, while worries about politics have intermittently chipped away at confidence.

Next week, President Trump plans to press efforts to overhaul the tax system, with a stop scheduled in Springfield, Mo. A tax overhaul was one of the pro-business policies investors were banking on early this year after Republicans swept control of Washington, though expectations have dimmed in recent months.

''The market generally does not believe that anything is going to happen; it's maybe a 20 to 30 percent chance,'' said Phil Orlando, chief **equity market** strategist at Federated Investors.

Mr. Orlando said it was more likely that tax overhaul would happen as Republicans looked for a major win before the 2018 elections.

"Republicans have got to know that if they don't get anything done, they're toast," Mr. Orlando said. "This concept of self-preservation is a powerful one, in terms of keeping their jobs."

The yield on the **10**-**year Treasury** fell to 2.17 percent from 2.20 percent late Thursday. The two-year yield held steady at 1.33 percent, and the 30-year yield slipped to 2.75 percent from 2.77 percent.

Benchmark United States crude added 44 cents to settle at $47.87 a barrel. Brent crude, the international standard, gained 37 cents to $52.41 a barrel.

Gold rose $5.90 to $1,297.90 an ounce. Silver rose 9 cents, to $17.05 an ounce. and copper was little changed at $3.03 a pound.

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

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THE WALL STREET JOURNAL.
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U.S. News -- The Numbers: Pay Down the Mortgage, Forgo Gains?

By Jo Craven McGinty
827 words
26 August 2017
The Wall Street Journal
J
A2
English

Here's a personality test masquerading as a financial question:

Suppose you are a homeowner who has a substantial amount of money sitting in a traditional savings account. Should you use it to pay down your mortgage?

"The surprise here is that when deciding whether or not to use long-term savings to pay down your mortgage, you can simply compare the interest rates to one another," said Andrew F. Siegel, a statistics and finance professor at the University of Washington Foster School of Business, in Seattle.

"If your mortgage rate is bigger than your savings rate, then you should reasonably consider paying down the mortgage."

That sounds sensible, especially with savings accounts currently earning about 1% in interest on average and mortgages costing around 4%.

But in real life, there's more to the question.

It may make more sense to pay down credit-card debt or an automobile loan that carries a higher interest rate than a mortgage. Or it could be more advantageous, though riskier, to seek greater financial reward in the **stock market**.

"There's really no cookie-cutter answer," said Erin Lantz, vice president of mortgages at Zillow, an online real-estate marketplace. "On one hand, it can be attractive to pay off debt. Another way to think about it is to compare what you pay on your mortgage with other investment opportunities."

Ms. Lantz suggested asking yourself the following questions.

How much cash do you want to have on hand in case of an emergency? Are you paying a higher interest rate on other debt than you are paying on your mortgage? And what is your appetite for risk?

"The question is closely related to the concept of portfolio choice," said Pedram Nezafat, a professor of finance at Michigan State University.

The historical annual average return for the **equity market**, Dr. Nezafat said, has been about 9.5%, while the return for the bond market has been about 3.5%. These two asset classes have different risk profiles, and depending on risk tolerance and the investment horizon, investors will allocate different amounts to each class.

Likewise, a portfolio that contains both cash and a home is more diversified than one with only a home.

"It is true that the expected rate of return in the bond market is smaller than the one in the **equity market**, but you hold bonds because they are not as risky as equities," Dr. Nezafat said. "You may want to hold on to your cash and not increase your ownership in the house because cash is more liquid."

Homeowners also may weigh whether the benefit of deducting mortgage interest from federal income tax outweighs the benefit of paying down or paying off the debt with savings.

"The question is does the tax deduction fully make up for the loss," Dr. Siegel said, referring to the difference between the interest paid on the mortgage and the interest earned on the savings. "The answer is no."

If a homeowner has a marginal tax rate of 35%, the tax deduction essentially lowers a 4% mortgage interest rate to 2.6% -- still higher than the average rate of return on a standard savings account, which will also be taxed.

Because financial decisions involve many moving parts, Dr. Siegel said it can be helpful to separate out the effects of each one.

In this case, to isolate the issue of the cost of mortgage interest versus the rate of return on savings, he uses this scenario:

The savings account and mortgage start with the same amount of money -- say $200,000 each. Each has a fixed rate of interest, and the tax rate is constant. As the savings are used to pay down the mortgage, the two figures will be depleted at the same rate, and if the interest rates are the same, the taxes will be a wash.

If they aren't the same, as is typically the case, using savings to pay down the mortgage may still be beneficial. "In effect, you can think about any mortgage prepayment as being invested in an ordinary savings account earning your mortgage rate over the remaining life of your mortgage loan," Dr. Siegel said -- assuming a real-estate bubble doesn't lead to a market crash, as it did in 2008.

After you weigh the different options, The decision to pay down a mortgage, sit on savings or spend the money on something else may hinge on personality. "Some people do not like to have debt because excessive debt has long been the reason for financial hardship and bankruptcy, and hence emotional stress," Dr. Nezafat said. "So, If having a peace of mind is important to you, then you may want to pay off your mortgage early," Dr. Nezafat said. But you may be giving up on better opportunities.

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The New York Times

Fair Game
Business Day

Shut Down the Government, and This Time, Investors Will Care

By GRETCHEN MORGENSON
1,017 words
25 August 2017
11:47 AM
NYTimes.com Feed
NYTFEED
English

“If we have to close down our government, we’re building that wall.”

So proclaimed President Trump at a rally in Arizona on Tuesday, raising the specter of a federal government shutdown if Congress fails to provide the money to put up a wall between Mexico and the United States.

And with those words, the president managed to rattle investors in two big **financial markets** — United States Treasuries and stocks.

In recent years, government shutdowns have become so common that markets have either embraced them or shrugged them off. But as investors absorb the possibility of a closure this fall, market tremors are likely to intensify, experts say. The past will not necessarily be prologue this time around.

That’s the view of Isaac Boltansky, director of policy research at Compass Point Research & Trading in Washington. Noting that during the past three shutdowns, the **stock market** was unfazed by the political gamesmanship, Mr. Boltansky said, “I think this time will be worse because of the uncertainty from President Trump.”

Investors are grappling with two matters right now: the need to raise the nation’s debt ceiling in September so the government can pay its obligations, and the desire to have a federal budget in place by Oct. 1 to avoid a shutdown.

Earlier this week, Treasury Secretary Steven Mnuchin tried to reassure investors on the first matter. “We’re going to get the debt ceiling passed,” Mr. Mnuchin vowed at an event in Louisville, Ky., on Monday. He also predicted that the ceiling would be raised cleanly — that is, without spending reforms attached to the increase that are intended to move the government toward a balanced budget.

But the next day Mr. Trump invoked the government shutdown, spooking Treasury investors. Faced with the possibility of problems with both the debt ceiling and a shutdown, investors holding T-bills maturing in early October began selling. Short-term Treasury investors, like the institutions that oversee money market funds, can’t afford to wait around to see if they’ll be paid on time. It’s easier to bail out of the holdings that could be affected.

Stocks also weakened on the prospect of a shutdown — a very different investor response than has been seen during recent government closures.

Mr. Boltansky looked back at the **stock market**’s performance during all 18 government shutdowns, starting in 1976. He found that the **Standard & Poor**’**s 500**-**stockindex** averaged just a 0.6 percent loss over the course of those closures.

Early on in shutdown history, investors reacted very negatively. Closures in 1976 and 1977 coincided with 3 percent declines in the **S**. **& P**. **500**.

As investors grew more accustomed to shutdowns, they seemed to become more blasé about them. During the mid-1990s and the 2013 closure, for instance, stocks actually rose. They gained 3.1 percent during the 2013 stoppage.

Although stocks rose on Friday, investors should not expect such a performance this time, Mr. Boltansky said. One reason is that a government closure would raise serious doubts about the ability of the Republicans in Congress to get anything done.

“It will confirm one of the market’s fears that the Republicans are not a political party but a government coalition made up of leadership loyalists, conservatives and moderates,” Mr. Boltansky said. “If you have that dynamic, how can you get anything done legislatively?”

Remember that investors have been propelling stocks to record highs in part because of their expectations for pro-business action in Washington. A government shutdown could douse those hopes and drag down shares.

Even Mr. Trump’s deregulatory agenda, which he has been pursuing administratively rather than legislatively, could be harmed by a government closure, Mr. Boltansky said. For example, it would stall confirmations of Mr. Trump’s regulatory nominees — including Joseph Otting, who was nominated as comptroller of the currency, and Randy Quarles, chosen to run bank supervision at the Federal Reserve Board. Both nominees are expected to loosen the rules for financial companies when they are in place.

Plans among Republicans for broad-based tax reform may also be hurt by a government shutdown. Investors looking for big increases in corporate earnings as a result of lower tax rates may be in for a disappointment.

Here’s another question: How can the Federal Reserve Board begin to normalize monetary policy, as it has said it would, amid a government closure?

Then there’s the real disruption that government closures bring. Federal employees are furloughed, national parks closed and loans to small businesses halted. These shutdowns can result in real downturns in economic activity.

Consider a report from the Office of Management and Budget detailing the effects of the 2013 government closure, which lasted 16 days. Citing estimates from the Council of Economic Advisers, the report said the shutdown might have reduced gross domestic product growth by 0.25 percent in the fourth quarter of that year.

The report’s list of negative effects from the shutdown is long. It said the stoppage delayed Food and Drug Administration approvals of medical devices and drugs, stalled almost $4 billion in refunds to taxpayers, halted or curtailed services for veterans, and cost the National Park Service $500 million. Some 700 small businesses that had applied for roughly $140 million in loans during the shutdown had to wait until it ended to gain approval.

In short, the ripple effects resulting from a government shutdown are likely to be significant. Investors who have grown used to stock prices that only go up might want to strap themselves in for a bumpy ride.

Follow Gretchen Morgenson on Twitter: @gmorgenson.

* Trump Fences Himself In With Border Wall Spending Threat

* Trump Widens Rift With Congress as Critical Showdowns Loom

* At Rally, Trump Blames Media for Country’s Deepening Divisions

* Deadline Is Set for Congress to Raise Debt Ceiling

If a government shutdown keeps Congress from meeting deadlines on the budget and the debt ceiling, investors may pay the price. | Tom Brenner/The New York Times

Document NYTFEED020170825ed8p003jv

The New York Times

World; Americas
White House Raises Pressure on Venezuela With New Financial Sanctions

By CLIFFORD KRAUSS
846 words
25 August 2017
03:45 PM
NYTimes.com Feed
NYTFEED
English

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Treasury Secretary Steven Mnuchin speaks during a news briefing at the White House in Washington, where new sanctions against Venezuela were announced. | Yuri Gripas/Reuters

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The New York Times

Strategies
Business Day
The Market Is High. Beware of Portfolio Drift.

By JEFF SOMMER
1,195 words
25 August 2017
02:30 PM
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NYTFEED
English

Invest at the bottom of the market and sell at the top. That's solid advice, but it's not easy to follow.

Consider the **stock market** right now, for example. Is this the top of the market? Is it time to sell?

With the American **stock market** already up more than 300 percent since March 2009, including dividends, these are pertinent questions. Several readers asked them in response to last week's column, which pointed out that wherever the market goes next, it is definitely not at the bottom now. After years of spectacular gains, stocks are anything but cheap.

What's more, the market has been so placid this year — despite the turmoil emanating from Washington — that the calm on Wall Street has been almost supernatural. By some measures, stocks haven't been this steady in more than 50 years. Furthermore, the economic expansion now underway is already the third longest since 1854. It takes little imagination to envision a sudden rout.

Those observations unnerved some readers who asked what they, as investors, should do now. Simply put, my answer is this: If you're a stock investor, be prepared for a major decline, not because one is necessarily coming soon but because no one can predict where the markets are heading.

I spoke to Fran Kinniry, principal in Vanguard's investment strategy group. "I always tell people to be consistent in their thinking," he said. "People think they are O.K. with their portfolios now, and why not? They're probably sitting on big gains.

"But then I ask, imagine that you have a $1 million portfolio and you lose 30 percent, because that can happen, and that's $300,000. Now you've got just $700,000. How do you feel now? Would you be willing to stay in the **stock market** — and even sell some bonds, which have held on to their value, and use the money to buy more stocks, which are relatively cheap now? If the answer is no, it's important to know that now and to act on it."

If you realize that you can't afford to risk any losses, he said, you shouldn't be investing in stocks at all and this is a great time to sell. It's as simple as that.

That said, there is no reason to conclude that a big **stock market** decline is starting tomorrow. That might happen, but stocks may well rise for quite a while. Some astute analysts, like Laszlo Birinyi, an independent stock analyst in Westport, Conn., believe they probably will.

"We are in a **bull market**," he declared in an email, adding that there are plenty of opportunities in individual stocks which continue to gyrate, even if the overall market is surprisingly stable. Valuation concerns and technical indicators like market breadth and investor sentiment are worth considering, he said, but "none of them end up with a SELL" signal for the entire market. Mr. Birinyi says there is still money to be made by buying stocks. He may be right.

Still, after so many years of gains, there are hidden dangers.

Many investors are suffering from portfolio drift. As Mr. Kinniry of Vanguard says, even if your long-term strategy is well thought out, the colossal gains in the **stock market** could mean that you hold far more stock than you ever intended. In that case, you have taken on unintended risk because your portfolio has drifted far from its original moorings.

“If you have not looked at your portfolio for a long time,” Mr. Kinniry said, “the chances are very high that you should rebalance.”

Rebalancing implies returning to the mix of assets that is appropriate for you. What that mix should be is a personal question. Major mutual fund and brokerage companies and individual financial advisers offer counsel. And there are standard guidelines, though no one-size-fits all solutions. The financial quizzes I’ve taken all suggest that my holdings should be 60 to 70 percent stock, offset by 30 to 40 percent bonds, and I have remained within those parameters for 20 years. I’m closer to 70 percent stocks right now. I probably should rebalance.

In an email, William J. Bernstein, an independent investment adviser and author, put the challenge of investing this way: “Job one is to figure out your overall split between stocks and fixed income, and then what percent of stocks are domestic and foreign. Job two is to make absolutely sure that you don’t overestimate how well you’ll respond to a real market decline, particularly after a several-year period of high stock returns. How well you adhere to your allocation is more important than what that exact allocation is.”

Why hold stocks at all? It is because over periods of 20 years or more, stocks have almost always outperformed bonds, although stocks swing more wildly. That’s why it is generally thought that people with a long horizon should hold a bigger proportion of stocks than those who are living off their investments, or will soon do so.

But behavioral considerations matter, too. The classic advice for long-term buy-and-hold investing assumes that you will be emotionally capable of sticking with your holdings for the long term, and not panic and sell inopportunely when the market falls. In real-world downturns, however, many people desperately want to sell stocks, or suddenly realize that they must sell, because they need the cash. That’s why the steadier performance of bonds can be a source of great comfort.

“Rebalancing is more a risk-control measure than a return-generator,” said Dougal Williams, an independent financial adviser.

The problem, however, is that maintaining the right mix takes work. Someone else can do it for you, or you can do it yourself. If you have been letting things slide, it is time to rebalance.

Consider what would have happened if you were fortunate enough to hold a $1 million portfolio at the end of 2008, containing 60 percent stock and 40 percent bonds (a 60-40 portfolio). Recall that the United States **stock market** fell a whopping 37 percent in 2008. Holding as much as 60 percent stock after that debacle required some fortitude, along with a belief that the **stock market** would eventually rise. And it did. But look at what the market has also done:

That’s why it may be time to take some money off the table, even if, by doing so, you will be giving up some of the gains that will come when the **stock market** rises.

“Be capable of sticking with your strategy in the best of times and the worst of times,” Mr. Kinniry said. “It’s much easier to think clearly now than in the middle of a big market downturn.”

Twitter:@jeffsommer

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

* Why the Dow Isn’t Really the **Stock Market**

* Partisan Conflict Is High, but the Market Doesn’t Care

* Clouds Are Forming Over the Bond Market

Audrey Razgaitis

Document NYTFEED020170825ed8p005mt

THE WALL STREET JOURNAL.
U.S. EDITION

Doubts Over Stocks Propel a Gold Rush --- Yellow metal has gained 12% this year amid worries about debt ceiling, economy

By Ira Iosebashvili and Amrith Ramkumar
874 words
25 August 2017
The Wall Street Journal
J
B12
English

Gold is on track to outperform stocks for the first time since 2011, highlighting the uncertainty that has accompanied this year's **stock-market** gains.

While a season of strong corporate earnings has powered stocks to records, investors are focusing on a cluster of issues that threaten to derail the rally.

Many are worried about coming negotiations to raise the U.S. debt ceiling, an event that has roiled markets in previous years.

A failure to raise the U.S. debt limit in a timely manner would prompt a review of the country's credit rating, which now stands at the highest possible level, Fitch Ratings said Wednesday.

Others are nervous over a monthslong run of uneven U.S. economic data, which some are concerned could eventually drag down corporate earnings. Recent reports have shown some metrics, such as employment, holding strong while manufacturing falters and auto demand posts steep declines.

A **stock-market** rally that hasn't included a significant pullback in 19 months has amplified concerns that any correction could be swift and sharp, especially with valuations for many sectors near historic highs.

The worries have boosted prices for gold, a favorite destination for jittery investors who believe the metal will hold its value better than other assets when markets turn rocky.

Gold for August delivery fell 0.2%, to $1,286.60 a troy ounce, on Thursday and has risen 12% this year, compared with an 8.9% gain for the **S&P 500**.

Other indicators of investor anxiety, such as the Japanese yen, Swiss franc and CBOE**Volatility** Index, have also risen in recent weeks.

"You get a sense that beneath the veneer of the major averages, a certain level of anxiety is entering the market at large," said David Rosenberg, chief economist at Gluskin Sheff & Associates Inc.

Speculative interest in gold has become more positive in recent weeks. Net bets by hedge funds and other speculative investors on a higher gold price stood at 179,537 contracts for the week ended Aug. 15, the highest level since the week ended Oct. 4, 2016, according to Commodity Futures Trading Commission data.

A good portion of that buying has come from investors who believe the Federal Reserve is unlikely to raise interest rates a third time this year, especially as hopes fade for the White House to push through pledged fiscal-stimulus programs such as a tax overhaul and infrastructure spending soon.

Expectations that the Fed will lift rates at a gradual pace are a boon to gold, which struggles to compete with yield-bearing investments when borrowing costs rise.

"There is a perception that without fiscal reform in the U.S. there will be very real limits on how far the Fed can tighten," said Peter Hug, global trading director at Kitco Metals.

A weaker dollar has also boosted gold, which is denominated in the U.S. currency and becomes more affordable to foreign investors when the dollar declines. The WSJ Dollar Index, which measures the U.S. currency against a basket of 16 others, is down 7.3% this year.

Gold outgaining stocks isn't itself an unusual phenomenon. New York Mercantile Exchange gold futures have risen more, or fallen less, than stocks in 13 of the 27 years dating back to 1990, according to the WSJ Market Data Group.

But a faster rise in gold has become rare during the **bull market** that started in 2009.

That reflects both the steady rise in U.S. stock indexes and the large annual gains that gold posted in the run-up to the financial crisis and its aftermath. Those gains left gold prices vulnerable to declines as economic growth picked up.

Gold last outgained U.S. stocks in 2011, as the S&P was flat in a year marked by the U.S. credit-rating downgrade in August and the beginning of the acute stage of the euro crisis. Gold rose 10% that year.

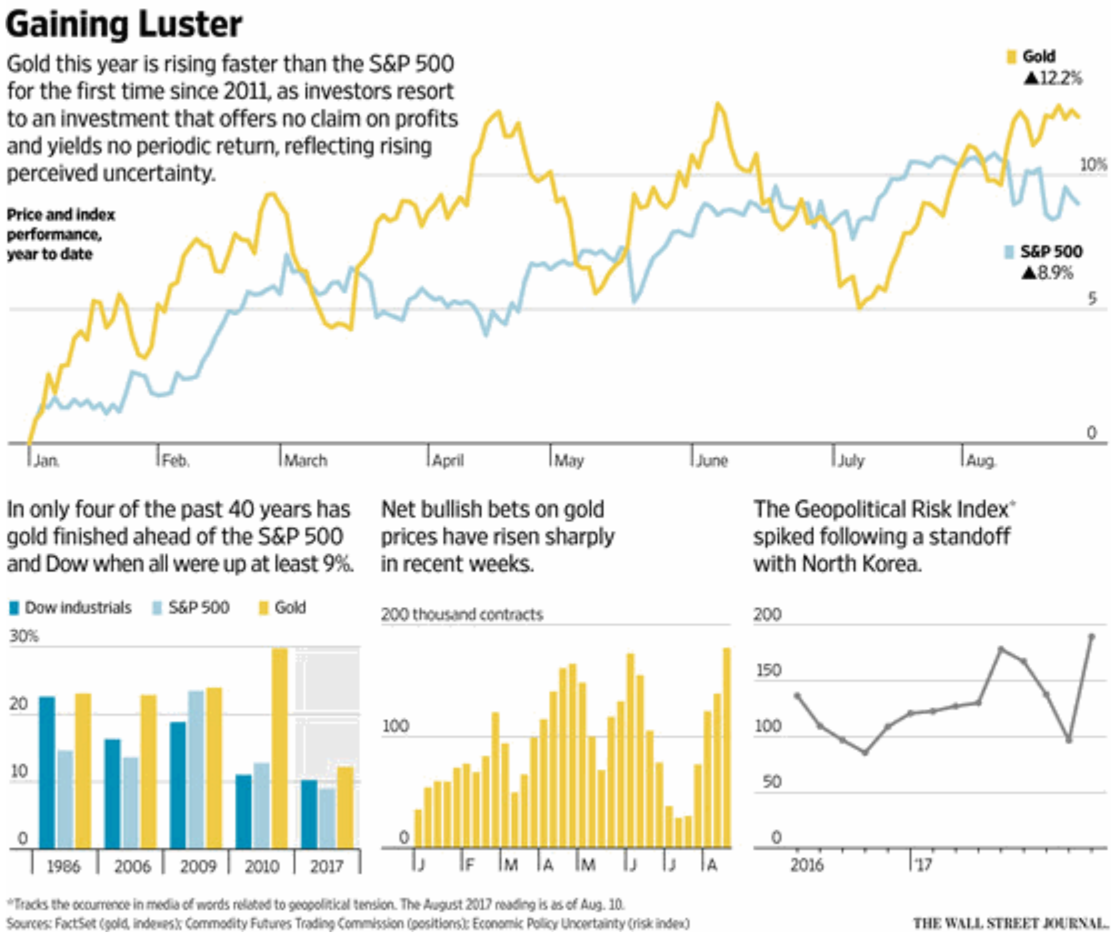
That year ended up being an anxious one for investors. Just two years after the financial crisis ended, Europe struggled with intensifying concerns about many nations' growth prospects and debt positions.

Meanwhile, investors were confronted with once-unthinkable concerns about whether the world's richest nation would default on its borrowings in the midst of a dispute over raising the debt limit. Those concerns echo now, with Treasury Secretary Steven Mnuchin saying Monday that his "magic super Treasury powers," which allow the government to conserve cash and avoid issuing new debt, will run out at the end of September.

But other years of large gains in both stocks and gold haven't necessarily foretold ill market tidings.

The S&P rose 26% and gold 20% in 2003, in the midst of the recovery from the 2001 recession. The S&P rose 14% and gold 23% in 2006, the year before the financial crisis started brewing.

Stocks gained 23% and gold 24% in the crisis-recovery year of 2009, and 2010 told a similar story, with stocks up 13% and gold up 30%.



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THE WALL STREET JOURNAL.
U.S. EDITION

Markets Eye Debt Ceiling With Unease

By Ben Eisen and Kristina Peterson
953 words
25 August 2017
The Wall Street Journal
J
A1
English

Early signs of concern about the federal debt ceiling are creeping into the **financial markets**, as President Donald Trump pressured lawmakers over how to proceed on the issue.

While stocks remain sturdy, the yields on Treasury bills that mature shortly after the debt-limit deadline have been on the rise. A Treasury bill due Oct. 12 has a higher yield than one that matures Nov. 24, according to Tradeweb. That is unusual for fixed-income securities, which typically yield more for longer maturities.

That kink suggests investors are worried Washington may fail, and yields are rising to compensate for the risk investors due their money in October won't be paid on time. The yields have been on the rise this summer, but the differential has picked up in recent days, and sooner than during debt-ceiling standoffs in 2011, 2013 and 2015.

Mr. Trump in Thursday tweets blamed the congressional Republican leadership for what he called the "mess" awaiting lawmakers this fall as they seek to raise the nation's borrowing limit and, separately, keep the government running when funding runs out at the end of September.

Lawmakers would have to deal with both issues in relatively short order, as the House and Senate have only 12 days during which they are both in session following the August recess.

Forecasters in The Wall Street Journal's monthly survey of economists this month saw, on average, a 22% chance of the government shutting down at the end of next month and a 17% chance that the U.S. Treasury would, at least temporarily, skip making payments on obligations to manage funding challenges.

Some bond investors are shrugging off the noise. Longer-term Treasury **bond prices** have been steady, with the yield on the 10-year note holding to its tightest 90-day range since 1972, according to WSJ Market Data Group.

Marques Mercier, a senior portfolio manager for Invesco, said he doesn't expect a default on government debt. Even so, he is light on Treasury bills that mature around October.

"Because of the DNA of this administration, and Congress's inability to pass some of the policies anticipated this year, that may increase the uncertainty of a resolution passing swiftly," Mr. Mercier said.

Mr. Trump laid out his sentiment on the issue early Thursday.

"I requested that Mitch M & Paul R tie the Debt Ceiling legislation into the popular V.A. Bill (which just passed) for easy approval," the president tweeted, referring to Senate Majority Leader Mitch McConnell (R., Ky.) and House Speaker Paul Ryan (R., Wis.). "They didn't do it so now we have a big deal with Dems holding them up (as usual) on Debt Ceiling approval. Could have been so easy-now a mess!"

In particular Mr. Ryan will be in the hot seat because House Republicans in recent years have often balked at raising the debt limit. He must work to prevent a partial government shutdown or even the threat of a debt crisis that could spook global markets.

In an interview with CNBC Thursday afternoon, Mr. Ryan said he didn't see Mr. Trump's tweet as an attack, and that Congress would raise the debt ceiling before it defaults on its debts.

"I know we will get this done," he said. "I'm really not that worried about this."

A spokesman for Mr. McConnell declined to comment.

Thursday, White House press secretary Sarah Huckabee Sanders said the administration is "committed to making sure" that the debt ceiling is raised. But she affirmed the president's threat this week to shut down the government if needed to secure funding for his long-promised Southwest border wall -- a move that could complicate the passage of a debt-ceiling increase if GOP leaders pair it with spending bills.

"He'll continue to fight for that funding," she said.

Few House Republicans have publicly backed Mr. Trump's call to shutter the government over the border wall.

But conservatives still smarting from the collapse of the GOP health-care bill in the Senate are making clear they don't want to accept any legislation that keeps the government's lights on or increases the debt ceiling without winning any concessions.

"This is where we see if our leadership will be able to deliver," said Rep. Mark Walker (R., N.C.), chairman of the Republican Study Committee, a group of more than 150 conservative House Republicans.

Most lawmakers expect Congress to pass a short-term spending measure keeping the government funded for a couple more months while they hammer out a longer-term budget deal.

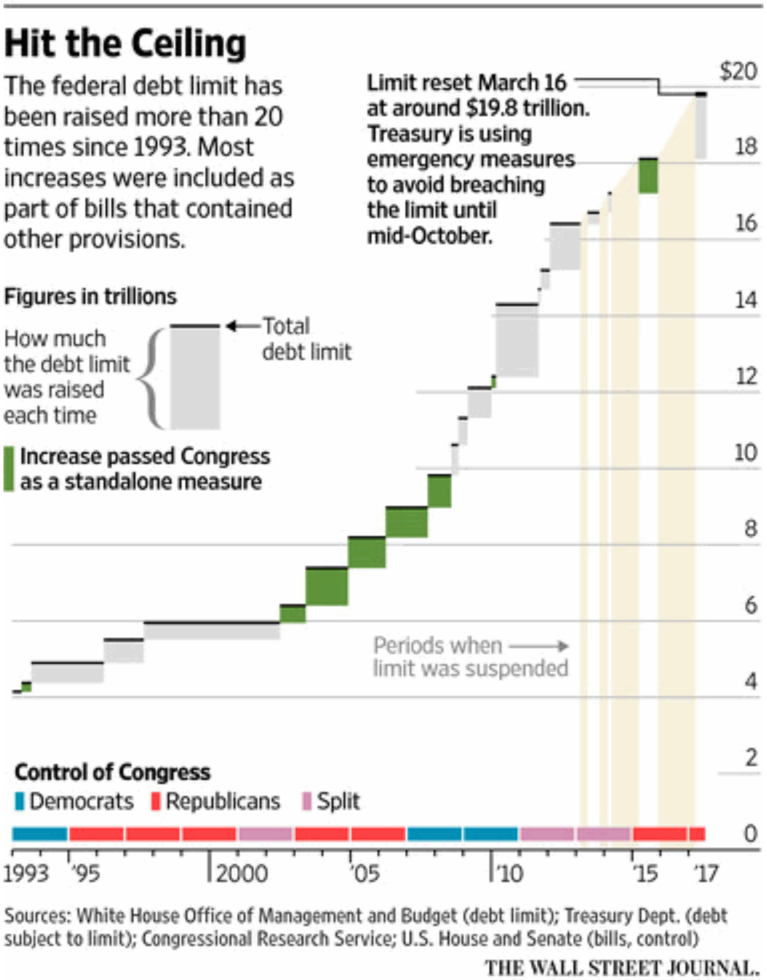
House Republicans in recent years have often refused to approve government spending or lift the debt limit, forcing GOP leaders to rely on Democratic votes. "I can't see a number of our right-wing conference members voting under any circumstance to raise the debt ceiling," said Rep. Dennis Ross (R., Fla.).

At the same time, Democrats have found almost no common ground with Mr. Trump, and many say Republicans would shoulder the blame if the government is shuttered.

"With a Republican House, Senate and administration, Republicans have absolutely no excuses for threatening America's families with a destructive and pointless government shutdown," House Minority Leader Nancy Pelosi (D., Calif.) said this week.

Treasury Secretary Steven Mnuchin has called for a "clean" debt-limit bill -- which would lift it without any other conditions -- but his presentation on fiscal matters before the Republican Study Committee earlier this year wasn't well received, according to lawmakers.

Gunjan Banerji, Sam Goldfarb and Natalie Andrews contributed to this article.



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THE WALL STREET JOURNAL.
U.S. EDITION

Streetwise: U.S. Debt Ceiling Spurs Bets on Fiasco

By James Mackintosh
845 words
25 August 2017
The Wall Street Journal
J
B1
English

There are good ways to trade politics in developed markets: Hire ex-politicians, identify long-run trends, or just assume nothing much will change. The more popular approach is to ignore politics until trouble is blindingly obvious, then panic.

The news recently highlights plenty of trouble: North Korean nukes, American neo-Nazis, corporate leaders abandoning the White House, and a president threatening to shut down his own government if he doesn't get his way. Yet markets have treated it all with a weary skepticism, with the **S&P 500** just 1.7% off its record close earlier this month. The only threat being treated seriously is the U.S. debt ceiling, and that is almost certainly overdone.

In some ways, this makes sense. Risk is a combination of probability and impact, and while nuclear war would have the ultimate impact, it will need more than a few comments by shouting leaders to make such a self-destructive outcome seem likely. History offers many examples of Korean saber-rattling since the 1953 armistice, and none led to renewed war, so investors may have simply learned to ignore them.

The debt ceiling is a different matter. The U.S. came perilously close to defaulting on its debt in 2011, leading Standard & Poor's to take away the country's top credit rating. Already, traders are starting to price in the danger of a repeat in early October, when the Treasury can do no more to avoid the ceiling. Treasury bills maturing in early October yield 0.2 percentage point more than those due in early November, a very large kink in what is usually a smoothly rising yield. The current anomaly is far higher than at a similar point ahead of the debt-ceiling votes in 2011, 2013 and 2015, according to Jordan Rochester, Nomura foreign-exchange strategist.

The lesson of recent years was that some in Congress were prepared to flirt with default on U.S. debt unless they got their way on spending cuts. The proximity of the budget-approval vote -- which faces a decent chance of turning into a government shutdown -- to the debt ceiling raises the risk that they become entangled, and party politics prevents the ceiling being raised. Yet congressional leaders understand the serious impact on markets and the economy if the U.S. were to default; in the 2011 debt-ceiling panic, the **S&P 500** fell 17% in two weeks.

John East, a political consultant at ACG Analytics in Washington, says a default will be avoided and the real question is what, if anything, Democrats will extract in return. "A hard deadline focuses people's attention," he said. "They [Congress] will sweep in at the last second to avert catastrophe."

The early signs suggest traders think the chance of trouble is higher this year, and it isn't hard to see why. Many high-profile investors have warned of the dangers posed by a capricious president, with Bridgewater Associates' Ray Dalio this week warning (again) that politics meant the U.S. was headed for 1937-style postcrisis problems.

I still find it hard to believe that the U.S. will default. Even if there was a default, it should make sense to buy the higher-yielding October bill instead of the November bill; either the U.S. will quickly resume payments, in which case the two are basically the same, or it won't, in which case the November payment will also be missed. The extra money on offer from bills so far is too small to make much difference to investors operating without large amounts of leverage, but politics does throw up bigger opportunities.

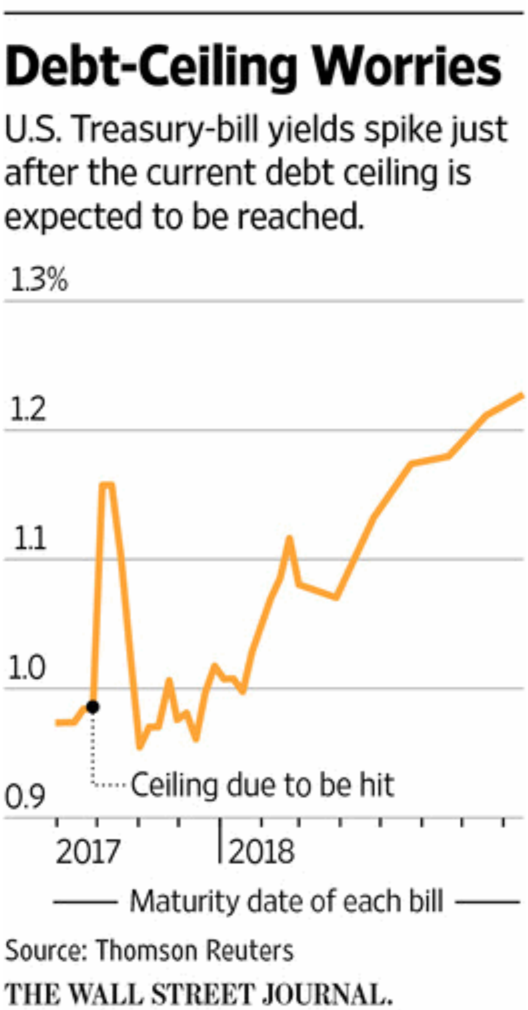
Philip Saunders, a fund manager at Investec Asset Management, grabbed one of these when Mexican shares and bonds were dumped following Donald Trump's election. Buying Mexico was, he said, "the purest play on political overreaction." That trade worked out as Mr. Trump retreated from threats to make Mexico pay for a wall, and a contrarian approach to politics can work.

Rupert Harrison, a BlackRock fund manager who was previously chief of staff to the British chancellor, says it is possible to exploit the tendency of investors to overreact to political risk, while also watching for risks that are being ignored.

"For the last year, it has paid to focus on fundamentals and to own political risk," he said. "Essentially, you're trading the market's systematic tendency to run away from what it doesn't understand."

Investors who put money on the policies of Mr. Trump at the end of last year have been sorely disappointed this year, as bets on tax cuts and trade restrictions unwound.

A plausible case can be made now that Republicans will agree on tax cuts next year in order to have something to campaign on in the midterm elections, but with every presidential tweet it is becoming harder to believe -- and the trades haven't been rewarded.



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The New York Times

Business/Financial Desk; SECTB
Markets Dip Lower After a Zigzag Day

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

Stock indexes ticked lower on Thursday after flipping multiple times between small gains and losses. It is the latest meandering course for a market that has been pushed in many directions the last few weeks.

Food companies struggled after the makers of Spam and Folgers coffee reported weaker-than-expected results, and grocers fell after Amazon said it planned to cut prices for avocados, eggs and other products when it takes control of Whole Foods next week. Retailers were big winners after a wide range of them said they earned larger profits last quarter than Wall Street had forecast.

The **Standard & Poor**'**s 500**-**stockindex** fell 5.07 points, or 0.2 percent, to 2,438.97. The **Dow Jonesindustrial average** fell 28.69 points, or 0.1 percent, to 21,783.40. The **Nasdaq composite** fell 7.08 points, or 0.1 percent, to 6,271.33.

The market has drifted up and down since the **S**.**&P**. **500** set a record high earlier this month. Helping stocks has been strong growth in profits, and most **S**.**&P**. **500** companies have reported higher earnings for the spring quarter than analysts forecast, and also healthier revenue.

Hurting stocks have been worries about politics both in Washington and abroad. Doubts are rising about how much help the Republican-led White House and Congress can provide for businesses.

There has also been lighter trading than usual this week, with few market-moving events on the calendar. That may be exaggerating moves for the market.

J. M. Smucker had the biggest loss in the **S**.**&P**. **500** after reporting weaker profit for the latest quarter than Wall Street expected. It cited weaker-than-expected sales for Folgers coffee, and it also lowered the range for its forecast of full-year profit. The stock dropped $11.34, or 9.5 percent, to $107.51.

Hormel Foods fell after it cut its forecast for full-year earnings because of higher costs for pork bellies and other ingredients. Its stock lost $1.83, or 5.4 percent, to $32.09.

On the winning side were retailers, led by Signet Jewelers, which jumped $8.65, or 16.7 percent, to $60.54. Strong sales of bracelets, rings and necklaces helped it report bigger revenue and profit for the latest quarter than analysts expected. Signet also said it was acquiring R2Net, an online jewelry retailer, for $328 million in cash.

Dollar Tree, whose stores sell $1 towels and $1 champagne flutes, surged after it reported stronger earnings than Wall Street had forecast. Customers bought more at each store visit than they did a year ago, and the company raised its forecast for profit this year. Dollar Tree's stock rose $4.18, or 5.6 percent, to $78.50.

The yield on the **10**-**year Treasury** rose to 2.20 percent from 2.17 percent late Wednesday. The two-year yield held steady at 1.31 percent, and the 30-year yield climbed to 2.77 percent from 2.75 percent.

The dollar rose to 109.56 to Japanese yen from 108.95 yen late Wednesday. The euro fell to $1.1799 from $1.1817, and the British pound stayed at $1.28.

Shares of refiners rose along with the price of gasoline as Hurricane Harvey approached the Texas coast of the Gulf of Mexico, which is home to many refineries. Valero Energy rose $1.73, or 2.6 percent, to $67.44, and Marathon Petroleum gained 96 cents, or 1.9 percent, to $51.13.

Benchmark United States crude fell 98 cents, or 2 percent, to settle at $47.43 a barrel. Brent crude, the international standard, fell 53 cents, or 1 percent, to settle at $52.04 a barrel.

Gold lost $2.70 to settle at $1,292.00 an ounce. Silver fell 8 cents, to $16.96 an ounce, and copper added 5 cents, to $3.03 a pound.

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

Document NYTF000020170825ed8p00059

THE WALL STREET JOURNAL.
U.S. EDITION

Banking & Finance: Bankers Indicted In Libor Scandal

By Austen Hufford
309 words
25 August 2017
The Wall Street Journal
J
B10
English

Two bankers were indicted in the U.S. on allegations that they manipulated a benchmark interest rate while at French lender Societe Generale SA, in the latest U.S. attempt to prosecute alleged participants in a multibillion-dollar scandal that roiled global markets.

The U.S. Justice Department accused Danielle Sindzingre and Muriel Bescond of instructing subordinates to submit inaccurately low figures that were then used to calculate the London interbank offered rate, or Libor, according to Thursday's indictment in U.S. District Court in Brooklyn.

The actions, which are alleged to have happened between May 2010 and October 2011, caused more than $170 million in harm to global **financial markets** because the false information affected transactions tied to Libor, according to the indictment.

The two bankers were charged with one count of conspiring to transmit false reports concerning market information that tends to affect a commodity and four counts of transmitting false reports.

Ms. Sindzingre and Ms. Bescond didn't immediately respond to a request for comment. Societe Generale said it was cooperating. The women remain employed at Societe Generale, a Justice Department spokeswoman said Thursday.

In July, a federal appeals-court panel overturned the convictions of two former Rabobank traders in the scandal, saying the defendants' Fifth Amendment right against self-incrimination had been violated.

Libor is calculated every workday by polling major banks on their estimated borrowing costs. The rate was used to price financial products world-wide. Its integrity was called into question after a rate-rigging scandal where traders at numerous banks were able to nudge it up or down by submitting false data. In the wake of the scandal, a top U.K. regulator said in July that the rate would be phased out.

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THE WALL STREET JOURNAL.
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Growth Takes Off Around The World

By Josh Zumbrun
1,473 words
24 August 2017
The Wall Street Journal
J
A1
English

For the first time in a decade, the world's major economies are growing in sync, a result of lingering low-interest-rate stimulus from central banks and the gradual fading of crises that over years ricocheted from the U.S. to Greece, Brazil and beyond.

All 45 countries tracked by the Organization for Economic Cooperation and Development are on track to grow this year, and 33 of them are poised to accelerate from a year ago, according to the OECD. It is the first time since 2007 that all are growing and the most countries in acceleration since 2010, when many nations enjoyed a fleeting snapback from the global financial crisis.

The International Monetary Fund in July projected global economic output would grow by 3.5% this year and 3.6% in 2018, up from 3.2% growth in 2016.

In the past 50 years, simultaneous growth among all the OECD-tracked countries has been rare. In addition to happening last decade, it has only happened in the late 1980s, and for a few years before the 1973 oil crisis.

"It's not a particularly fast or thrilling beat, more plodding and methodical, but it's getting the job done," said Josh Feinman, chief global economist of Deutsche Asset Management.

The development comes, ironically, just as nationalist movements in the U.S., Europe and beyond have gotten a new life, driven by suspicion over global trade and finance. At the moment, the growth pickup is lifting the fortunes of car makers in Japan, coal miners in Indonesia and forklift makers in Germany. U.S. exports grew by near a 6% annual rate in the first half of the year, their best two-quarter performance since the end of 2013 and outpacing the average of the previous decade.

The episode could be undone if synchronized growth morphs into overheating. As years of crisis have demonstrated, soaring global stock prices or regional property markets could quickly turn to financial mayhem that takes down economies. Moreover, central bankers, gathering this week for the Federal Reserve's annual conference in Jackson Hole, Wyo., could derail the upturn if they pull back financial stimulus too aggressively.

For now, though, the global upturn appears on track, in part because inflation is low and central bankers are moving gradually.

Federal Reserve Chairwoman Janet Yellen and European Central Bank President Mario Draghi, both speaking in Jackson Hole Friday, can point to the global backdrop to justify plans to pull back stimulus programs. The Fed is expected in September to begin reducing $4.5 trillion in securities holdings built over the decade to help drive down interest rates and boost risk-taking by investors, households and business. The ECB is nearing the end of its own bond-purchase program.

"For the first time in many years, we are seeing signs of synchronized economic expansions at home and abroad," said Fed governor Lael Brainard in a speech shortly before the Fed's June meeting. Ms. Brainard has been a leading voice of caution at the Fed about interest-rate increases. Now she is supporting the Fed's plan to shrink its securities holdings.

A wide range of factors are at play in the global upturn.

Among them, long-troubled eurozone economies, even Greece, show signs of turning a corner. The OECD sees 1% growth for Greece this year, not much but still the best in 10 years and against a backdrop of falling unemployment. The country last month successfully returned to the international bond market.

Economic growth in the 19-nation eurozone outpaced the U.S. in the first quarter and kept pace in the second quarter. Economic confidence is at its highest in a decade, and unemployment has fallen to an eight-year low of 9.1%. Growth has broadened beyond traditional powerhouses like Germany and the Netherlands: Spain notched its best growth performance in nearly two years in the second quarter. France and Portugal are both posting solid growth.

Jungheinrich AG, a German maker of forklift trucks, is benefiting from a "very good recovery" in Spain and Portugal, according to its chairman, Hans-Georg Frey. The firm, which makes four-fifths of its revenue in Europe, recently reported a 14% rise in net sales for the first half. "We are looking forward to a positive second half," Mr. Frey said.

In Italy, increased exports -- up 8% from a year earlier in June -- have helped push the nation's trade balance into surplus. Italian engineering firm CNH Industrial NV had seen its sales slide by about a quarter since 2014, but the firm reported a 3% rise in sales for the second quarter, to $6.9 billion, driven by strength in Asia and Europe.

In many advanced economies, including the U.S., the effects of the financial crisis are finally fading. American households have stopped paring back their debt exposures and started returning to normal spending patterns. The fiscal stance in many advanced economies has shifted from austerity to ease. Although the Fed has begun to raise its target interest rate, most interest rates around the world remain low and below inflation rates.

The world is also benefiting from a reversal from a global commodity bust that began in 2014. New energy supplies, such as from U.S. fracking, combined with soft global growth to send prices plunging. Now, prices have firmed and investment is picking up.

After the commodities bust helped sink Brazil into its deepest recession ever, it is now forecast to expand 0.3% this year and 2% in 2018. The IMF's global price index for all commodities is up 27% from the start of 2016, and Brazil's crucial iron ore has seen prices rise 37% off a recent bottom.

That is feeding through to the rest of the economy. MRV Engenharia e Participacoes SA, Brazil's largest builder of homes for low-income families, has launched 21% more new projects in the first half versus a year ago, said Chief Financial Officer Leonardo Guimaraes Correa. The country is "moving from a downward period to a period of recovery," Mr. Correa said.

Indonesian conglomerate PT Astra International saw net profit in its coal-mining subsidiary jump 85% during the first half of the year, while its maker of crude palm oil booked a 26% year-on-year increase in net profit. "For the rest of the year, we expect to continue to benefit from the [higher] coal and crude palm **oil prices**," said Yulian Warman, a spokesman for Astra International.

While the global outlook has bolstered U.S. stocks, investors in other countries have benefited even more: Indexes in Turkey, Hong Kong, Argentina, Greece and Poland are all up more than 20% this year, doubling the performance of the **Dow Jones Industrial Average**.

"All the attention to the U.S. election was covering up how much of the rest of the world was improving," said Adolfo Laurenti, global economist at the Swiss bank J. Safra Sarasin.

Japan's economy grew by an annualized 4% in the three months through June, lengthening its most recent stretch of growth under Prime Minister Shinzo Abe to six quarters. Consumer spending is helping drive growth; Nissan Motor Co. saw its Japan sales rise by 46% year to year in the June quarter thanks to the popularity of a minivan equipped with autonomous driving tools.

U.S. companies with large international footprints are among the big beneficiaries. Marriott International Inc., whose stock is up 21% this year, posted better-than-expected earnings this month on the back of rising revenue around the world.

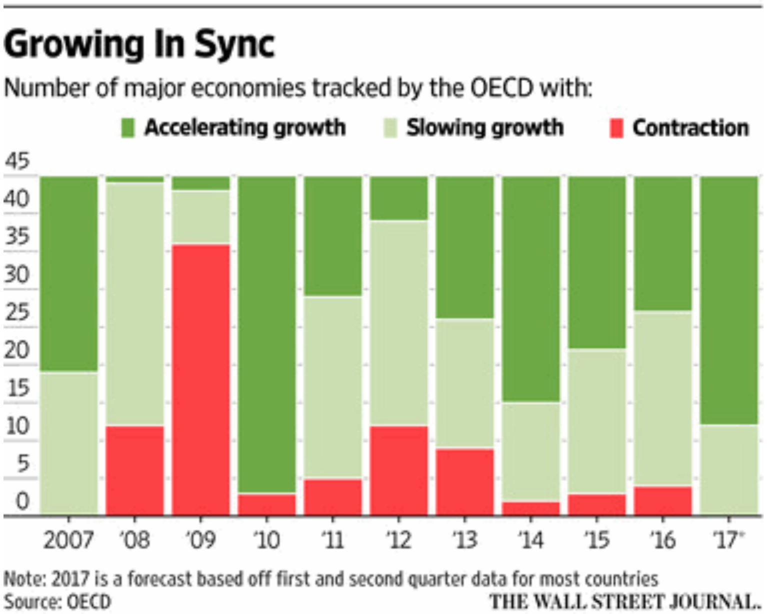
"We are very optimistic about the long term," said Arne Sorenson, the hotel chain's chief executive, on an earnings call this month. Revenue per available room "is increasing in most markets around the world," he said.

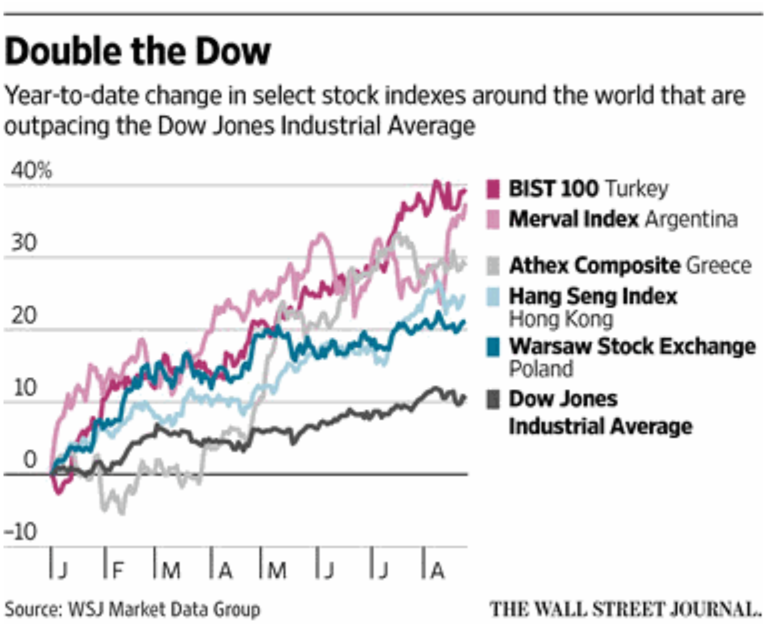
The three other periods in the past 50 years with synchronized growth saw the trend continue for a few years. In the end, however, those expansions became overextended and ended.

Some signs of froth are popping up now, beyond soaring stock prices. China relies increasingly on its property market for growth. Despite the government's recent crackdown on speculative home purchases, persistent demand for property has boosted production and sales of construction material, furniture and other items. Astronomical property prices are causing many consumers to tighten their purse strings.

Yet broader inflation is low world-wide, which will give central bankers an opportunity to proceed slowly in pulling back stimulus. It will make for easier breathing in the thin air of Jackson Hole, after years of crisis management and hand-wringing about the prospects for the global economy.

Tom Fairless, Grace Zhu, Luciana Magalhaes, Megumi Fujikawa and I Made Sentana contributed to this article.





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THE WALL STREET JOURNAL.
U.S. EDITION

Venezuelan Bonds Fall as U.S. Sanctions Loom

By Matt Wirz and Julie Wernau
769 words
24 August 2017
The Wall Street Journal
J
B1
English

Venezuelan **bond prices** tumbled Wednesday as traders grappled with the prospect that U.S. sanctions could restrict trading in the troubled South American nation's securities.

The Trump administration is considering banning trading by U.S. banks of new debt issued by Venezuela or its state-owned entities, and possibly some existing debt, a senior administration official told The Wall Street Journal on Wednesday. The move is aimed at weakening a government that Washington says has moved toward dictatorship, according to the official.

The U.S. Treasury Department has targeted foreign **financial markets** before. In 2014, it barred U.S. financial institutions from participating in new bond sales by Russia meant to raise money for the government, which had the effect of reducing the availability of dollar funding for the country.

But some steps under consideration are seen as extremely rare and could have unpredictable consequences. Investors couldn't recall a time when the Treasury prevented financial firms from trading debt among themselves in the so-called secondary market, a move the official said the administration is considering.

That move would aim to hurt the government of President Nicolas Maduro and his associates who hold these bonds, but could also harm U.S. and other private investors who own Venezuelan debt, analysts said -- a factor officials have considered in the past when deciding which sanctions to implement.

"This would be a new step for Treasury and there would undoubtedly be collateral damage for U.S. institutional investors," said Tim Ash, senior sovereign-bond analyst at BlueBay Asset Management, a U.K. investment firm.

Prices for Venezuela's government bonds due 2027 dropped as much as 4% to 39 cents on the dollar on Wednesday, while bonds from the state-owned oil company Petroleos de Venezuela SA due this November fell as much as 2.1% to 88.5 cents. Both bonds recovered slightly by the end of trading.

Venezuelan **bond prices** have been under pressure in recent weeks as investors began to worry that the cash-starved government was edging closer to default. Some worried that tough U.S. sanctions could push it over the edge.

When the Trump administration on July 31 announced sanctions on Mr. Maduro but not, as many feared, on Venezuela's oil industry, many investors piled back into debt that offers double-digit yields.

News of another round of sanctions has raised the anxiety level around Venezuelan bonds again.

"I would not touch them with a 10-foot pole," said Diego Ferro, co-chief investment officer at Greylock Capital Management, referring to any new bonds issued by the Maduro government and certain other existing debt.

Goldman Sachs Group Inc. ran into criticism after its asset-management unit this year purchased $2.8 billion of debt held by the country's central bank at a deep discount. Venezuelans accused Goldman of raising fresh cash for Mr. Maduro. Goldman has said it purchased them through an intermediary and didn't interact with the Venezuelan government directly.

The backlash from the trade has led some emerging-market bond analysts and traders to refer to such deals as "hunger bonds," for their support of a regime that has restricted the flow of food and medicine so drastically to pay its debts that its people are starving.

U.S. investors are barred from holding debt of countries such as Syria and North Korea, which are subject to comprehensive sanctions from the U.S. that bar all trade, said Judith Lee, head of the international-trade practice of law firm Gibson, Dunn & Crutcher.

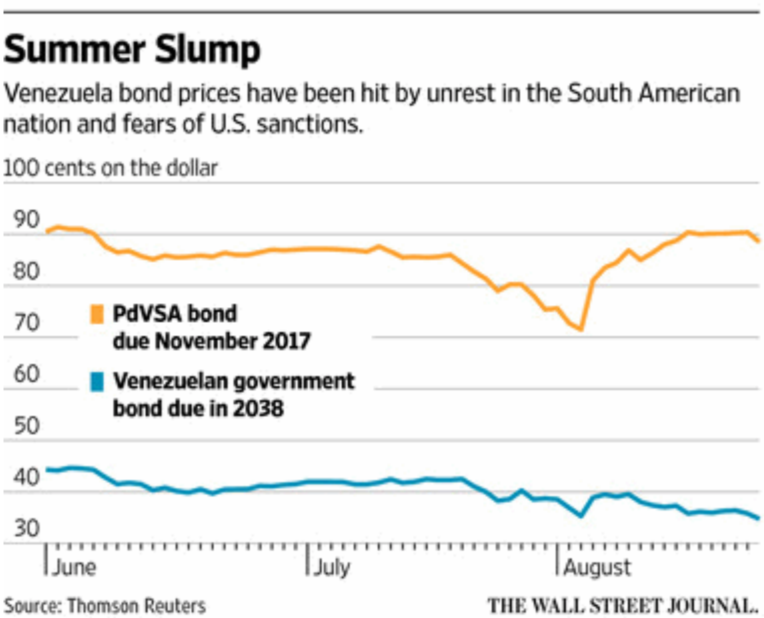
Such blanket sanctions could be problematic in Venezuela because the country sells much of its oil to the U.S. and owns Citgo Holding Inc., which has refineries and pipelines in the U.S.

Treasury considered implementing a similar blockade on trading of Russian government bonds after Moscow intervened militarily in Ukraine but dropped the idea to avoid hurting U.S. bondholders, according to a person familiar with the matter.

Instead, Treasury barred U.S. banks from underwriting any new bond sales for Russia. Moscow circumvented the measure by issuing new debt through Russian banks.

Freezing trade of Venezuelan bonds would hit a number of emerging-market investors, since the country comprises 1.55% of the benchmark emerging-market bond index operated by J.P. Morgan Chase & Co. A spokeswoman for J.P. Morgan declined to comment on how a ban might affect Venezuela's role in the index.

Ian Talley contributed to this article.



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The New York Times

Business/Financial Desk; SECTB
Wall Street Is Dragged Down by Declines In Advertising Companies and Retailers

By THE ASSOCIATED PRESS
702 words
24 August 2017
The New York Times
NYTF
Late Edition - Final
3
English

Stocks retreated on Wednesday and gave back some of their gains from a day earlier, when the **Standard & Poor's 500**-**stockindex** had one of its best days of the year.

Advertising companies and retailers had some of the steepest drops on worries about their earnings, while prices for Treasury bonds and gold rose modestly as investors sought safer ground. It was the latest decline for a **stock market** that has fluctuated since setting a high earlier this month.

The **S**.**&P**. **500** fell 8.47 points, or 0.3 percent, to 2,444.04, giving up about a third of its big gain from Tuesday. After all its back and forth, the **S**.**&P**. **500** is still within 1.5 percent of its record.

The **Dow Jonesindustrial average** fell 87.80 points, or 0.4 percent, to 21,812.09, and the **Nasdaq composite** lost 19.07, or 0.3 percent, to close at 6,278.41.

Advertising companies had the biggest losses in the **S**.**&P**. **500** after an industry giant, WPP, cut its forecast for revenue this year. WPP warned that its clients were feeling pressure to control their spending, and its shares plunged 10.9 percent in London. In the United States, the Omnicom Group fell $5.47, or 7 percent, to $72.66, and the Interpublic Group lost $1.32, or 6.3 percent, to close at $19.58.

Lowe's, the home-improvement retailer, also dragged down the **S**.**&P**. **500** after it reported profit and revenue for the latest quarter that were weaker than analysts expected. It also gave a profit outlook for the year that fell short of Wall Street's forecast. Its stock fell $2.81, or 3.7 percent, to $73.01. A Commerce Department report showing that sales of new homes were weaker in July than economists expected did not help.

Worries about politics have been a big reason for the market's stumbles in recent weeks. Investors are concerned about whether the government can push through tax cuts and other pro-business policies that were considered slam dunks early this year. Now, the market seems to have little or no expectation that much help will come from Washington, said Katie Nixon, chief investment officer at Northern Trust Wealth Management.

''Actions speak louder than words, and when we see actual action, you'll see markets sit up and take notice,'' she said. ''But so far, it's been a rhetorical exercise.''

The government is coming close to some crucial deadlines, including one to increase its borrowing authority to avoid a default on its debt, and another to prevent a government shutdown.

Besides Washington, investors are also looking toward Wyoming, where central bankers from around the world are gathering. The heads of the Federal Reserve and the European Central Bank are expected to speak at a symposium, which begins on Thursday, and investors are waiting to hear whether any change is coming in their support for the global economy.

Most analysts expect to hear nothing surprising from the meeting. The Fed has already begun raising interest rates and is preparing to pare back the $4.5 trillion in Treasury bonds and other investments it has amassed.

Prices for Treasury bonds rose, which in turn pushed down yields. The yield on a **10**-**year Treasury bond** fell to 2.16 percent from 2.22 percent late Tuesday.

The dollar fell to 109.01 Japanese yen from 109.52 yen late Tuesday. The euro rose to $1.1821 from $1.1752, and the British pound fell to $1.2804 from $1.2828.

Benchmark United States crude oil rose 58 cents to settle at $48.41 a barrel. Brent crude, the international standard, rose 70 cents to $52.57 a barrel.

Gold rose $3.80 to settle at $1,288.90 an ounce. Silver gained 6 cents, to $17.05 an ounce, and copper slipped a penny, to $2.98 a pound.

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

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THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Trump Shutdown Talk Roils GOP --- House speaker says he supports Trump's border wall but wants government kept open

By Kristina Peterson and Siobhan Hughes
663 words
24 August 2017
The Wall Street Journal
J
A4
English

WASHINGTON -- President Donald Trump's threat to shut down the government if Congress doesn't approve funding for a wall along the Mexico border raised alarm among some GOP lawmakers, injecting new **volatility** into an already uncertain political climate this fall.

Lawmakers returning to Washington in early September have a dozen days with both the House and Senate in session before the government's current funding expires on Oct. 1. Lawmakers from both parties had expected Congress to pass a stopgap two- or three-month spending bill, but Mr. Trump's remarks raised fresh questions about the path forward.

The GOP president said Tuesday night that he was prepared to dig in over his request for $1.6 billion toward the border wall, one of his signature campaign promises.

"We're going to get our wall," Mr. Trump said at a rally in Phoenix. "If we have to close down our government, we're building that wall."

Mr. Trump's push quickly hit resistance within his own party.

"I don't think anyone's interested in having a shutdown," House Speaker Paul Ryan said at a stop at an Intel Corp. facility in Oregon on Wednesday.

Mr. Ryan (R., Wis.) said he agreed with Mr. Trump that a physical barrier was needed in places along the border. Still, he said: "I don't think a government shutdown is necessary, and I don't think most people want to see a government shutdown, ourselves included."

Mr. Ryan said he expected lawmakers would need to pass a short-term spending bill in September to give them more time to work out a broader budget agreement later this year.

While some conservatives have backed Mr. Trump's demand for a wall, it is controversial among many Republicans, some of whom think it isn't the most effective way to tighten security. And after this year's protracted and unsuccessful struggle to roll back and replace much of the Affordable Care Act, few Republicans are eager to shut down the government now that they control the White House and both chambers of Congress.

"A government shutdown hurts Republicans -- it's the last thing I want," said Rep. Trent Franks (R., Ariz.), a member of the House Freedom Caucus who was at Mr. Trump's rally Tuesday. "It is a political liability of profound significance to us."

Many GOP lawmakers worry a shutdown or a failure to raise the government's borrowing limit -- another deadline they are facing this fall -- could harm their chances of retaining the House majority in next year's midterm elections. Treasury officials have said Congress must raise the government's borrowing limit at some point near the end of September.

If Congress doesn't raise the debt ceiling to allow new borrowing, the U.S. could default on its debt or miss payments for benefits and salaries.

Fitch Ratings said Wednesday that a failure to raise the U.S. debt limit in a "timely manner" would prompt a review of the country's credit rating for possible downgrade. Fitch said a government shutdown would have no direct impact on its rating but would "highlight how political divisions pose challenges" to the budget process.

Democrats, whose votes likely will be needed in both chambers, swiftly rejected Mr. Trump's demand Wednesday. Spending bills need 60 votes to pass in the Senate, where Republicans hold 52 seats.

"If the president pursues this path, against the wishes of both Republicans and Democrats, as well as the majority of the American people, he will be heading towards a government shutdown, which nobody will like and which won't accomplish anything," said Sen. Chuck Schumer of New York, the chamber's Democratic leader, in a statement.

Chris Dieterich contributed to this article.

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THE WALL STREET JOURNAL.
U.S. EDITION

Shares Are Crawling Their Way to Highs

By Akane Otani and Ken Jimenez
302 words
24 August 2017
The Wall Street Journal
J
B11
English

U.S. stocks remain near record territory even with some recent setbacks.

Just don't thank big one-day moves for that.

The **Dow Jones Industrial Average** hasn't closed up 1% or more since April 25, which was 84 trading sessions ago. That is the longest such streak for the index since the 102 trading days ended in March 2007.

It is the latest sign of how dull stock trading has been for much of 2017. While major indexes have recently jumped in response to corporate-earnings reports, perceived changes in the prospects for tax overhauls, and news around staffing changes at the White House, the moves have been largely muted, something some investors and analysts have attributed to the lukewarm enthusiasm for stocks in general.

What's not to like? Stock valuations have climbed above their historical averages, skeptics warn the rally has gotten long in the tooth, and some investors worry that pockets of the U.S. economy, including auto sales, have shown signs of weakness in recent months.

The blue-chip average also managed to go for quite some time without a big decline this year. It went 63 sessions without moves of 1% or more in either direction before the streak ended with a 1.2% drop last Thursday. The stretch was the longest since a 69-day period in 1995.

Indeed, for every counterargument to buying stocks, there are reasons to remain in the market: Treasury yields are still too low to offer a compelling alternative to stocks; the global economic outlook has brightened in recent months, fueling corporate-earnings growth, and central banks don't look like they'll rush to raise rates soon.

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THE WALL STREET JOURNAL.
U.S. EDITION

Banks Lend Like Rates Won't Rise

By Rachel Louise Ensign
1,040 words
23 August 2017
The Wall Street Journal
J
A1
English

After years of waiting for interest rates to rise, some banks are lending as if that day will never come, loading up on a record amount of loans and securities that carry low rates for long periods.

The percentage of bank assets that won't mature or change rates for more than five years reached a new high in the second quarter, according to Federal Deposit Insurance Corp data released Tuesday. That means banks are allowing more borrowers to lock in low rates for long periods, a potential risk should rates move sharply higher.

"The interest-rate environment and competitive lending conditions continue to pose challenges for many institutions. Some banks have responded to this environment by 'reaching for yield' through higher-risk and longer-term assets," FDIC Chairman Martin Gruenberg said in remarks accompanying the data.

Banks largely make money in two ways: from lending and fees. Midsize and smaller lenders tend to rely more on lending profits than bigger banks that have fee businesses like wealth management. Lending profits typically come from the difference between what banks pay out on deposits and what they earn on loans and securities.

But rock-bottom interest rates following the financial crisis eroded those margins across the industry, leading some banks to lend for longer so they can capture more yield. Growing their volume of loans also helped them compensate.

"It's a struggle for everybody in the industry," said Denny Hudson, chief executive of Stuart, Fla.-based Seacoast Banking Corp. of Florida, which has $5.3 billion in assets. He said his firm tried to keep its lending in check, but added there is a downside to being too careful.

"You could be smart all day long waiting for rates to increase, and you'll get killed by investors" rooting for loan growth, Mr. Hudson said.

Regulators and investors typically worry about interest-rate risk because banks borrow money at low rates on a short-term basis, usually by taking deposits, and lend it out at higher rates for a longer term. That can create a mismatch if rates move sharply higher.

An added worry: much of this lending for longer is in the booming area of commercial real estate, where borrowers finance offices and apartment buildings typically with loans that have fixed-rate periods from three to 10 years.

"Every meeting I went to, bankers said, 'We're not going to go past five years" on commercial real estate, said Scott Hildenbrand, chief balance sheet strategist at Sandler O'Neill + Partners. Within a year or so, the bankers were saying, 'We're not going to go past 10 years."

Englewood Cliffs, N.J.-based ConnectOne Bancorp, Inc., for instance, has grown quickly in recent years largely through commercial real estate lending. These loans made up more than half of the bank's assets at the end of 2016 and most of them were originated in the past three years, the bank said.

Competition for such borrowers was fierce, though it has slowed a bit in recent months after regulators raised concerns about the sector broadly, Chief Executive Frank Sorrentino said in an interview. While Mr. Sorrentino said his bank, which has $4.7 billion in assets, has expertise in the sector that serves it well, his firm has recently started to diversify lending.

"There's risk in everything that we do," Mr. Sorrentino said of banking. "That's what we do, take credit risk and interest-rate risk."

Across all banks, the percentage of total assets that are at a fixed rate for more than five years was 27.5% in the second quarter of 2017, its highest since the FDIC started tracking it in 1984. The metric reached 33.7% in the second quarter at banks with $1 billion to $10 billion in assets.

Commercial real-estate loans made up 31.5% of assets at those midsize and smaller banks in the quarter, up from 25.7% in the second quarter of 2012. The figure is lower at bigger banks, at 6.4%, and has remained steady in recent years.

So far, the reach for yield hasn't proven a problem as long-term rates have remained low, despite the Federal Reserve increasing short-term rates. The yield on the benchmark U.S. **10**-**year Treasury** has been around 2.20% of late and hasn't touched the 3% mark since early 2014. At the same time, credit quality of loans has stayed strong.

Indeed, the FDIC said in its report Tuesday that U.S. banks' earnings rose 10.7% to $48.3 billion in the second quarter from a year earlier, indicating the sector is continuing its postcrisis recovery. Nearly two-thirds of banks reported earnings were up from a year ago.

The FDIC cautioned that the pace of loan growth is waning. U.S. banks had about $9.4 trillion in net loans and leases in the second quarter. While that was up 4% from a year earlier, the rate of growth is down from a 7% pace in much of 2016.

Problem loans also continued to decline, with banks reporting a 6.7% decrease in loans that were 90 days or more past due in the second quarter compared with a year earlier.

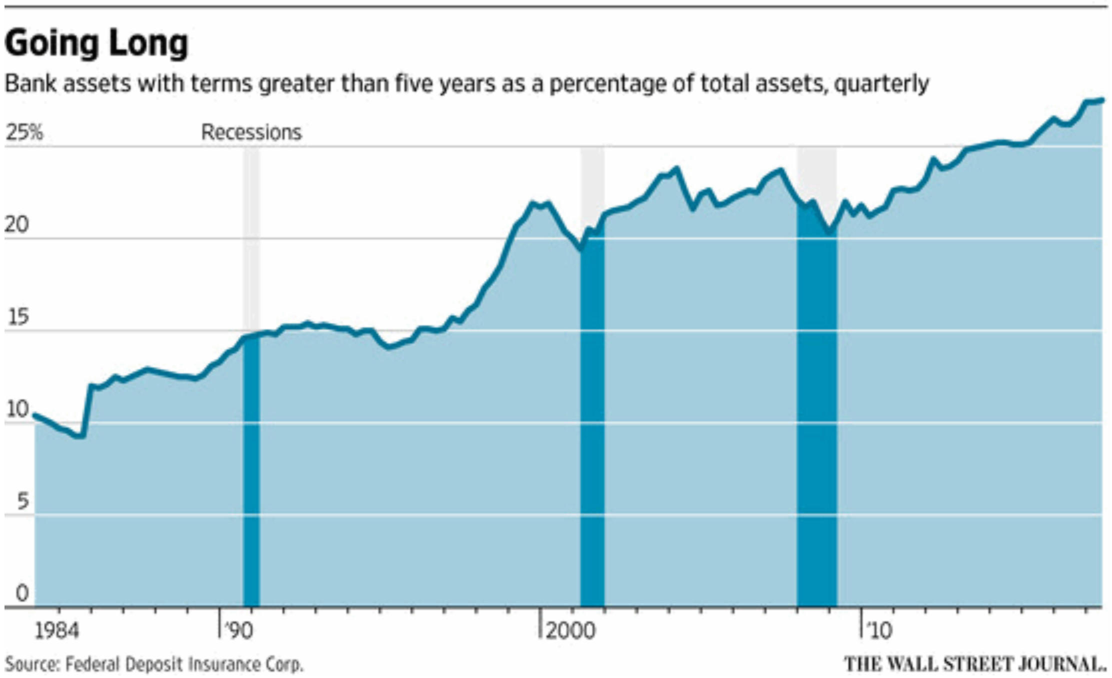
Still, regulators have warned that the growing share of longer-term and commercial-real estate loans at some banks could be risky.

By locking in longer terms for loans at lower rates, banks could face a profit squeeze if they have to raise deposit rates sharply in the future. And a heavy concentration in commercial real-estate loans could become an issue if credit issues begin to crop up.

Between 2015 and early 2017, commercial real-estate loans generally grew at a pace above a 10% annual rate at smaller lenders, according to Federal Reserve data.

The growth rate for commercial real-estate loans, now around 9%, has helped banks compensate for a slowdown in general business lending, much of which is floating rate, meaning the interest rates on the loans rise and fall with market rates.

Rachel Witkowski contributed to this article.



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THE WALL STREET JOURNAL.
U.S. EDITION

Equities: Trump Adds to Pakistan's Market Woes

By Saumya Vaishampayan and Steven Russolillo
526 words
23 August 2017
The Wall Street Journal
J
B15
English

President Donald Trump's hard line on Pakistan is the latest drag on the country's beaten-up **stock market**, already a standout as a weak performer in a strong year for global equities.

Pakistan's benchmark **stock index**, the KSE 100, fell as much as 2.6% Tuesday, before clawing back ground to close down 0.4%, after Mr. Trump said he would take a tougher stance on Pakistan as part of a broader effort to expand the U.S.'s role in neighboring Afghanistan.

"We can no longer be silent about Pakistan's safe havens for terrorist organizations, the Taliban and other groups that pose a threat to the region and beyond," Mr. Trump said.

The tough rhetoric is likely to compound a challenging period for Pakistan's **stock market**, which has stumbled in recent months after being one of the brightest performers among emerging markets in recent years.

The KSE 100 index slumped into **bear-market** territory this week, having lost more than 20% of its value since May.

That pullback has come after the index surged roughly 50% in 2016. It has nearly tripled over the past five years.

"We are getting signals that U.S. policy toward Pakistan may not be as favorable" as it once was, said Saad Hashemy, chief economist and director of research at Topline Securities, a Karachi-based brokerage firm. "Trump's speech formalized that tone."

Pakistan is already mired in political turmoil that has diminished the allure of its stocks. The country's Supreme Court in late July removed Prime Minister Nawaz Sharif from office after an investigation into alleged corruption. The ruling party said it would nominate Shehbaz Sharif, the ousted prime minister's younger brother, to succeed him, and elections are expected next year.

There is also concern about the health of the Pakistani rupee after it declined suddenly against the U.S. dollar this summer; the currency had traded in a narrow range against the dollar since late 2015. A slump in the rupee could lead to higher inflation and put pressure on the country's central bank to raise interest rates, said Gareth Leather, senior Asia economist at Capital Economics in London.

"There is confusion in Pakistan right now," Mr. Hashemy said. "Given the political uncertainty, I expect the market will continue to be in a **bearish** trend. But after the past few years, this is not a bad level to take some profits."

The struggle for Pakistani stocks has come despite leading index provider MSCI's decision to upgrade the country to an emerging market from a frontier market. The official reclassification into the MSCI Emerging Markets Index took place June 1, which many expected would have been a boon for the country's **stock market**.

Instead, stocks have fallen, a pattern that Mr. Hashemy said is similar to what transpired when the U.A.E. and Qatar were upgraded to emerging-market status in May 2014. Both countries' stock markets slumped in the subsequent months before bouncing back.

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THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
Why ECB Can't Catch a Break on the Euro

By Richard Barley
438 words
23 August 2017
The Wall Street Journal
J
B1
English

[Financial Analysis and Commentary]

Does gravity work differently in bond and foreign-exchange markets? At the start of July, both German bond yields and the euro were moving higher. But in August they have diverged, with bond yields off the boil but the euro maintaining its poise. The answer to the paradox may lie outside the euro-zone.

German bond yields and the euro rose sharply after a June speech by European Central Bank President Mario Draghi that pointed to less-accommodative monetary policy in the future. By mid-July, 10-year German yields stood at 0.6%, their highest since the end of 2015. But they have since fallen back some 0.2 percentage point, moving back into the narrow range that had held for much of the year.

The euro, however has continued to fly high. At $1.175, it is close to its peak for the year against the dollar. Against sterling, it has reached a seven-year high.

That is a worry for the ECB: The account of its July monetary-policy meeting betrayed concerns about the rising euro while sounding far less fazed by higher bond yields.

There may be a common explanation: Global markets have been more jittery of late, with stocks off their highs and **volatility** off its lows. German bunds are playing a traditional haven role, amplified by ongoing ECB bond purchases.

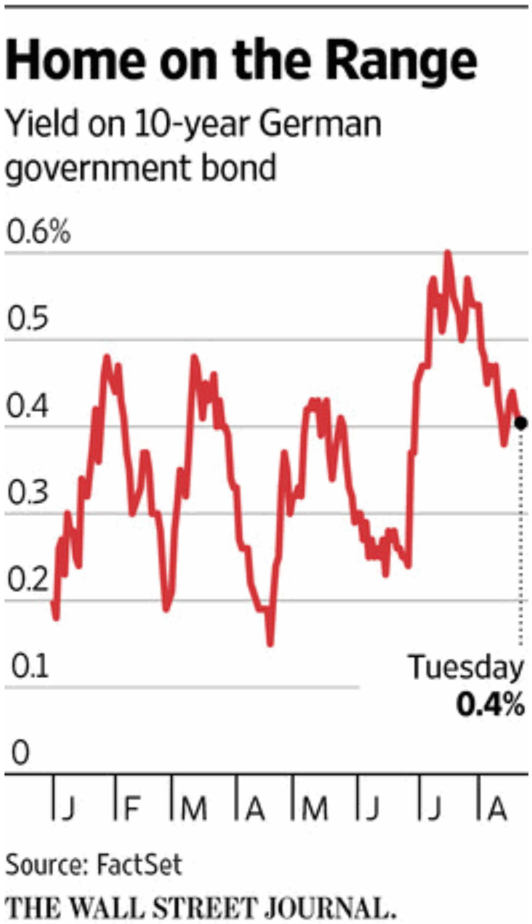
But the source of these jitters isn't in the eurozone, unlike earlier in the year, when European elections dominated attention. Instead, uncertainty has risen around the U.S. The White House is in turmoil, and soft inflation has markets doubting whether the Federal Reserve will press on with lifting interest rates.

The U.K., meanwhile, is struggling to reconcile the political and economic challenges of Brexit. Such uncertainty tends to support the euro against the dollar and the pound.

What might ease the ECB's concerns? Better economic data from the U.S. might lend the dollar some support and provide reassurance that political theater isn't damaging growth.

In particular, if U.S. inflation shows signs of life, that might make the market assign a higher probability to U.S. rate increases. What Fed Chairwoman Janet Yellen does or doesn't say at this week's Jackson Hole meeting may matter as much as Mr. Draghi's words.

Unhappily for the ECB, that may leave the currency mostly outside its control. For now, it may not be able to catch a break from the stronger euro.



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THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
Home Builders Are Too Built Up

By Justin Lahart
492 words
23 August 2017
The Wall Street Journal
J
B16
English

[Financial Analysis and Commentary]

Building homes is a good business, just not nearly as good a business as investors think it is.

S&P Dow Jones Indices' broad index of home-building shares has risen 31% this year versus a gain of 9.5% for the **S&P 500**. On a price-to-book basis, the shares of many home builders looked relatively cheap at the start of the year.

But the rally has taken valuations into rarefied air. Meanwhile, home builders are facing rising costs that, low rates or not, they will find difficult to pass on to home buyers. As investors wake up to that, the prices of their shares and those of exchange-traded funds such as the iShares U.S. Home Construction ETF could drop significantly.

Finding workers is a problem that is getting worse for builders. In a recent survey conducted by the National Association of Home Builders, 19% of respondents said there was a serious shortage in workers across nine construction trade groups. That was the highest percentage since 2000. In the same survey, builders reported that labor costs were up an average of 4.5% versus a year earlier, far more than overall U.S. labor costs.

Materials costs are rising, too. Ready-mix concrete prices were up 3.2% from a year earlier in July, and prices for gypsum products were up 9.9%. Prices for lumber, which represent about one-tenth of builders' costs, have risen sharply after tariffs were placed on Canadian softwood lumber imports.

To preserve profit margins, builders could raise prices, but those are already so high that it could prove difficult. The median price for a new home was $315,000 in the second quarter, according to the Commerce Department, which compared with $236,000 five years earlier. The NAHB's measure of new-home affordability, which is based on prices, family income data and mortgage rates, has fallen to its lowest level since 2008. If mortgage rates rebound, then new home prices will be even further out of reach for many buyers.

Meanwhile, stock valuations have steepened. Among the top 10 home builders by market capitalization, the median price-to-book ratio, based on analysts' expected book value over the next year, is 1.2, compared with 1.06 at the start of the year, according to FactSet.

And, on a price/earnings basis, the group looks downright expensive. Among those 10 top home builders, nine were publicly traded during the housing bubble. Their median P/E ratio, based on analysts' expected earnings over the next year, is 11.3. In July 2005, when home-builder stocks reached their peak, that P/E was 8.5. It wouldn't take much -- a move higher in interest rates, say, or the dream of lower taxes going away -- for them to get nailed.

Wood Woes

Composite framing lumber prices, per thousand board feet

Source: Random Lengths

THE WALL STREET JOURNAL.

Document J000000020170823ed8n00013

The New York Times

Business/Financial Desk; SECTB
Shares Surge as Markets Calm After Two Nervous Weeks

By THE ASSOCIATED PRESS
675 words
23 August 2017
The New York Times
NYTF
Late Edition - Final
2
English

Stocks jumped on Tuesday, and the **Standard & Poor's 500-stockindex** had one of its best days of the year as markets put a shaky last couple of weeks further behind them.

Shares of technology companies and retailers helped lead the way. And with markets in a less nervous mood, prices for Treasury bonds, gold and other go-to investments for turbulent times fell.

The **S.&P. 500** rose 24.14 points, or 1 percent, to 2,452.51 for its fourth-biggest gain of the year. It took just two days for the index to recoup half the loss it sustained in the two weeks since it set a record on Aug. 7. Those two weeks were a jolt for markets, as worries rose about political strife in Washington and abroad.

The **Dow Jonesindustrial average** rose 196.14 points, or 0.9 percent, to 21,899.89 on Tuesday, and the **Nasdaq composite** gained 84.35, or 1.4 percent, to close at 6,297.48.

It's the latest example of investors seeing drops in the market as opportunities to buy, not reasons to unload stocks.

''We've seen these blips of **volatility** this year, and we have tended to calm down very quickly afterward,'' said Jon Adams, senior investment strategist at BMO Global Asset Management.

He pointed in particular to increased optimism that Washington would avoid a default on the federal debt. The Senate majority leader, Mitch McConnell, Republican of Kentucky, said on Monday that there was ''zero chance'' that Congress would vote against increasing the country's borrowing limit.

Many analysts are expecting markets to drift in coming weeks, with few market-moving events on the calendar.

One highlight could be the symposium for central bankers from around the world at Jackson Hole in Wyoming at the end of this week. The Federal Reserve is raising interest rates and is preparing to pare back the $4.5 trillion it holds on its balance sheet. Investors wonder when the European Central Bank will follow suit.

The heads of both the Fed and the European Central Bank are expected to speak at the symposium, and if either suggests a more aggressive pace than investors are expecting, it would probably mean another tumble for markets. But investors say the Fed in particular has been meticulous in setting expectations so that markets are not taken by surprise.

''We wouldn't expect much market-moving over all,'' Mr. Adams said.

Macy's had one of the largest gains in the **S.&P. 500 index** on Tuesday after it said an eBay executive, Hal Lawton, would become its president. Traditional retailers have struggled to compete with online rivals. Macy's also said it would restructure its organization to increase sales and cut costs. Its stock rose 89 cents, or 4.6 percent, to $20.42.

The shoe retailer DSW surged $2.74, or 17.5 percent, to $18.43 after it reported stronger earnings and revenue for the latest quarter than analysts had forecast.

The ebullient tone led investors to sell Treasury bonds, which are considered among the safest investments. That in turn pushed up yields. The yield for the **10**-**year Treasury** note rose to 2.22 percent from 2.18 percent late Monday.

The dollar rose to 109.55 Japanese yen from 108.89 yen late Monday. The euro fell to $1.1758 from $1.1809, and the British pound fell to $1.2819 from $1.2895.

Benchmark United States crude rose 27 cents to settle at $47.83 a barrel. Brent crude, the international standard, gained 21 cents to settle at $51.87 a barrel.

Gold fell $5.70, to $1,285.10 an ounce. Silver fell 3 cents, to $16.98 an ounce, and copper rose a penny to $2.99 a pound.

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

Document NYTF000020170823ed8n0004z

THE WALL STREET JOURNAL.
U.S. EDITION

Stock Trading Went Dark During Eclipse, Too

By Ben Eisen
399 words
23 August 2017
The Wall Street Journal
J
B15
English

It isn't your imagination: The market actually slowed to a crawl as the moon covered the sun on Monday.

Trading volume on the exchanges owned by New York Stock Exchange and **Nasdaq** marked the third-slowest full day of the year on Monday, with 5.2 billion shares changing hands.

Sure, it was a summer day in August, when trading volume is typically muted as Wall Streeters get out of town for vacation. But with the market action relatively calm, many of the remaining traders, investors and analysts left their desks and put on their eclipse glasses.

"The distraction was welcome on a day when many struggled to keep their eyes open regardless of whether or not they were focused on the sun," said BMO Capital Markets rate strategist Ian Lyngen in a note to clients.

During the half-hour period between 2:30 p.m. and 3 p.m. Eastern time, when the eclipse peaked in New York, just 138.7 million shares changed hands on the New York Stock Exchange, the lowest for any comparable period since July 14. On average during that stretch of the trading day, 188.1 million shares changed hands this year, according to The Wall Street Journal's Market Data Group.

Financial types weren't the only ones abandoning their posts. Employees of all stripes took to the streets Monday to watch as the eclipse crossed the country. The eclipse break was expected to cost employers about $694 million, according to an estimate last week by executive coaching firm Challenger, Gray & Christmas Inc., which analyzed Bureau of Labor Statistics data.

On Wall Street, it wasn't just the **stock market** that powered down. In the market for junk, or high-yield, bonds, trading volume was the seventh-slowest of the year. In the high-grade corporate-bond market, it was the sixth-slowest day, and would have been slower if not for a slate of new debt sales, according to Bank of America Merrill Lynch.

"A lot of people -- especially in [high yield] -- took the opportunity to observe the solar eclipse in the afternoon," wrote Hans Mikkelsen, a credit strategist at the bank, in a research note. He watched the eclipse in New York's Bryant Park, reporting that it was "very impressive."

Document J000000020170823ed8n0000r

THE WALL STREET JOURNAL.
U.S. EDITION

Tide Shifts: Cash Exits Emerging Markets --- Long streak of inflows for stock, bond funds is snapped; investors turn more neutral

By Steven Russolillo and Saumya Vaishampayan
689 words
22 August 2017
The Wall Street Journal
J
B12
English

Investors yanked money out of emerging-market funds for the first time in months, a sign of trouble in what has been a sturdy corner of the market for much of the year.

Emerging-market debt funds and stock funds both had outflows for the week ended Aug. 16, according to fund-data tracker EPFR Global, as many global investors turned more cautious on risk. Before that, money had poured into emerging-market stocks for 21 straight weeks and into emerging-market debt funds for 28 consecutive weeks.

The outflows came as threats of nuclear warfare ramped up between the U.S. and North Korea. Concerns over more political instability in the U.S. following President Donald Trump's response to violence at a white-nationalist rally in Charlottesville, Va., further fueled investor trepidation.

While investors acknowledge the recent bumps, many say it isn't time to call an end to the rally in emerging-market stocks and bonds. Instead, they say, the outflows are indicative of the typical **volatility** in emerging markets. Rising global tensions and political turmoil in the U.S. also had sparked a pullback in U.S. markets, with the **Dow Jones Industrial Average** on Thursday notching its biggest decline in three months.

A net $1.6 billion fled emerging-market equities in the week ended last Wednesday, the largest outflow of the year, according to EPFR Global. It marked the first time investors pulled money from those funds since mid-March.

Investors also pulled cash out of emerging-market debt funds, snapping the longest streak of consecutive weekly inflows since 2013. And $2.3 billion poured out of high-yield-bond funds, the most in almost six months.

Cracks were forming in emerging markets last month as major central banks started to discuss winding down years of stimulus.

One worry, according to JC Sambor, deputy head of emerging-market fixed income at BNP Paribas Asset Management, is that if Treasury yields rise, U.S. government bonds would become more attractive. That could trigger outflows from U.S. dollar-denominated emerging-market debt.

Mr. Sambor said that while he has become more cautious, he continues to like local-currency government bonds in India, Malaysia and Indonesia. "We think Asia is on very sound footing," he said, describing growth as improving but "not too hot and not too cold."

Asian stock and bond markets have been some of the biggest beneficiaries of the return to risk this year. Now, there are signs that those markets are beginning to cool. Foreigners pulled money out of Asian emerging-market stocks in July for the first time this year, selling a net $800 million in shares in the region, excluding China, according to ANZ.

Foreign investors continued to buy Asian emerging-market debt last month, though their net purchases of $4.7 billion, excluding China, marked the smallest monthly amount since March.

"I'm encouraged by this increase in risk aversion," said Stephen Corry, head of investment strategy, Asia Pacific, at LGT Bank in Hong Kong.

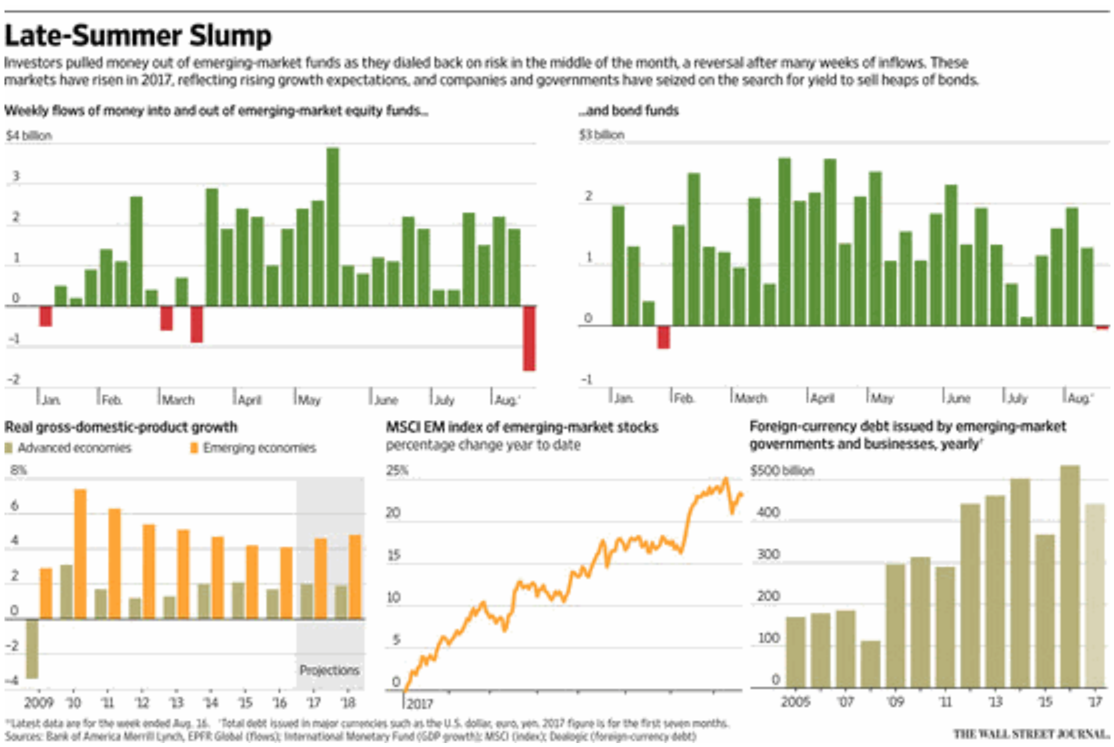
Mr. Corry said he is positive on both emerging-market equities and debt. "Several indicators were getting frothy on a short-term basis," he said. "But we keep telling clients if you see weakness, buy more."

And even with the recent outflows, emerging markets have had a strong year, consistently defying events originally seen as stumbling blocks.

Money has a history of flowing out of emerging markets when the U.S. Federal Reserve is tightening policy. The Fed has raised interest rates four times since late 2015, including twice this year. But the tightening cycle has been slow and predictable, and hasn't spooked investors.

"We remain relatively optimistic about the outlook for emerging-market capital flows," the Institute of International Finance wrote in a note late last week. "However, the pace of emerging-market inflows . . . does highlight the risk of periodic setbacks."

Carolyn Cui contributed to this article.



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THE WALL STREET JOURNAL.
U.S. EDITION

U.S., Russia Duel Over Gas Exports to Europe

By Georgi Kantchev
870 words
22 August 2017
The Wall Street Journal
J
B1
English

U.S. attempts to export natural gas into Europe's energy market are facing stiff resistance from the region's dominant competitor: Russia.

A tanker arrived in Lithuania on Monday carrying the first shipment of U.S. liquefied natural gas to a former Soviet republic. It follows a handful of other shipments of U.S. gas to Europe and comes after widespread predictions that American exports would help break Russia's dominance of Europe's energy market.

Russia is moving quickly to contain the new competition to its largest energy market. Its state-run energy companies are lowering prices, changing sales methods and developing their own LNG facilities. Moscow is also pushing ahead with a pipeline opposed by Washington and Brussels.

While European governments are eager to reduce Russia's chokehold and its resulting political leverage, the region's consumers are looking beyond politics for the lowest prices. That favors Russia. Last year, Russia exported record levels of gas to Europe, helped by lower prices and falling domestic production elsewhere in Europe.

"We are tracking the situation on the global gas market and the growth of U.S. shale-gas production," Russia's energy minister, Alexander Novak, said in an interview last month. "Recently we have allocated a lot of efforts to boost our presence on the LNG market."

Many analysts still expect the nascent U.S. exports to eat into Russia's share of the European market, which is about one-third.

The U.S. shale revolution has unlocked vast energy reserves, and the country is expected to become a net natural-gas exporter next year. Since the start of 2016, the U.S. has been exporting gas globally, from Latin America to Asia.

The prospect of such exports has been welcomed in Brussels, where the European Commission -- the European Union's executive arm -- has sought to limit the influence of Russian energy on the Continent by imposing multiple regulations on the operation and ownership of Moscow's gas infrastructure.

Some lawmakers and officials in Washington have also talked about energy exports to Europe having a geopolitical, as well as commercial, benefit. The U.S. has long criticized what it considers to be Russian interference in Eastern Europe.

In July, President Donald Trump told representatives of a dozen European nations that the U.S. is eager to export energy supplies to them.

Poland last month became the first Eastern European country to receive U.S. LNG. After a meeting with Mr. Trump, Polish President Andrzej Duda said he expected to sign a long-term deal for LNG supplies from the U.S. to reduce its reliance on Russian "blackmailing."

Lithuania expects another shipment in September.

"The arrival of U.S. gas is making Russia nervous. And they should be nervous," said Jason Bordoff, director of the Center on Global Energy Policy at Columbia University and a former energy official in the Obama administration.

The European market makes up 75% of Russia's overall gas exports, according to the U.S. Energy Information Administration. It is an essential industry for Russia, where oil-and-gas revenue accounts for more than 40% of the federal budget.

The country's main advantage is price. Russia's gas is piped into Europe, a generally cheaper transportation method than LNG, because that gas has to be liquefied, shipped and regasified at arrival. U.S. LNG cost $6.29 per million British thermal units, according to S&P Global Platts data based on an average of cargo coming into Europe in the past year. Over the same period, Russian gas delivered into Germany cost an average of $4.86 per mmBtu.

A July opinion poll conducted on behalf of Wintershall, a German company involved in Russian energy projects, found that affordability was the main priority for Germans. The survey also found that only 6% of people in Germany believe that the country, and Europe, should import less Russian gas and more U.S. LNG. Germany imports nearly half of its gas from Russia.

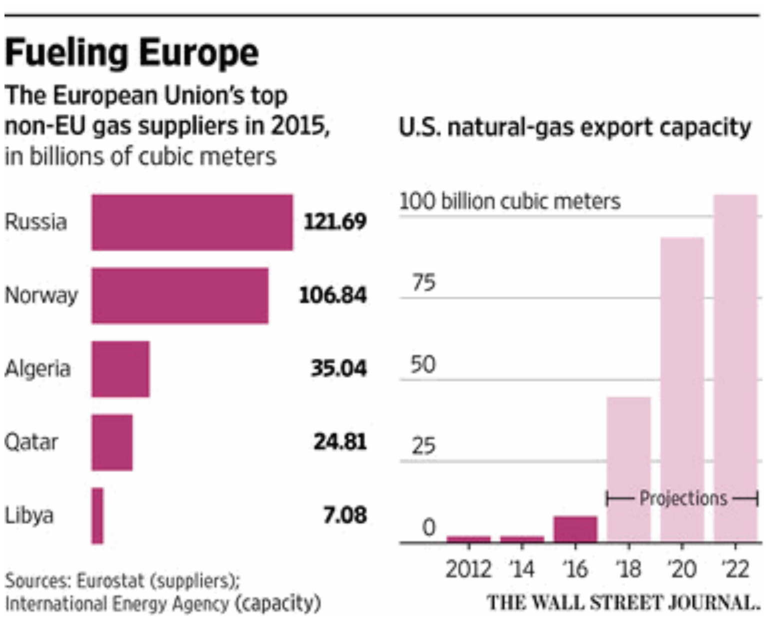
There are signs that Moscow is looking to make its gas exports more competitive. State-owned PAO Gazprom has in recent years been experimenting with auctions, where gas is offered to the highest bidder. That is a departure from Russia's traditional model of locking customers into long-term contracts linked to **oil prices**.

"Energy exports, and gas in particular, have always been Russia's lifeline and a source of influence in Europe, so they will do everything in their power to hold on to it," said Agnia Grigas, senior fellow at Atlantic Council, a Washington-based think tank.

Russia is building up its own LNG export capacity. A natural-gas facility on the Yamal Peninsula, just above the Arctic Circle, is scheduled to open by the end of this year, and Mr. Novak, Russia's energy minister, said Russia is working on other LNG projects.

Russia is also charging ahead with a plan to build Nord Stream 2, a Gazprom project to transport gas into Europe through a 750-mile pipeline beneath the Baltic Sea.

Nathan Hodge contributed to this article.



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THE WALL STREET JOURNAL.
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Heard on the Street
Monetary Policy Loses Its Edge

By Richard Barley
450 words
22 August 2017
The Wall Street Journal
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B12
English

[Financial Analysis and Commentary]

The Jackson Hole gathering of central bankers of recent years has been an opportunity for policy makers to pledge extraordinary support for economies, in particular via quantitative easing. But this year looks different. As Janet Yellen and Mario Draghi prepare for this week's event in Wyoming, persistence looks like it is paying off.

The big question is whether economies that are gaining resilience still need such large amounts of central-bank support and whether monetary stimulus is pushing risky markets up too far. That is balanced against inflation, which is still proving softer than policy makers would like in both the U.S. and the eurozone, but may be providing false comfort to markets.

Recent communications from both the Federal Reserve and European Central Bank hint at this. In the U.S., the Fed minutes last week noted continued easy financial conditions despite the gradual rise in rates that the Federal Open Market Committee has put in train. One argument is that if other factors in markets are offsetting the Fed's actions, then tighter monetary policy might be warranted: The central bank has more room to maneuver.

In Europe, meanwhile, the account of the ECB's July meeting included a reference to the idea that a broader and more self-sustaining recovery is less dependent on monetary policy, a new strand of thought in Frankfurt this year.

These issues run through both **financial markets** and the economy. In effect, a stronger growth and inflation picture compared with previous years means that still-loose monetary policy may be providing more stimulus and getting more traction, and that central bankers are getting a bigger bang for their buck.

Europe is the test case. The ECB's policy settings are still at emergency levels, with a negative deposit rate and bond purchases running at 60 billion euros ($70.5 billion) a month. But slack is being used up, with unemployment falling. Eurozone capacity utilization has picked up to a level not seen since before the global financial crisis, and the European Commission's business survey has shown an uptick in companies citing equipment and labor as factors limiting production.

Meanwhile, negative rates may be more effective in spurring risk-taking. That is because for as long as interest rates were falling, investors could generate strong returns from risk-free assets such as government bonds. But that process likely came to an end last year.

This year's Jackson Hole event comes against a backdrop of continued central-bank largess, but markets need to think about policy makers doing less, and soon.

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THE WALL STREET JOURNAL.
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Tesla Bonds Fall on Investors' Concerns

By Matt Wirz
434 words
22 August 2017
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J
B1
English

Tesla Inc.'s first bonds have fallen more than 2% in price since their issuance 10 days ago, a sign of Wall Street's ambivalence over the electric-car maker.

The Palo Alto, Calif., company sold $1.8 billion of low-rated bonds on Aug. 11 to help pay for the Model 3, its first mass-market car.

Tesla took advantage of investors' thirst for higher-yielding securities, selling debt at an annual yield of 5.3% -- more than 3 percentage points above comparable Treasurys.

Many investors sat out the deal, questioning the wisdom of buying bonds from a company that hasn't turned an annual profit and is drastically increasing its spending in a bid to break into the capital-intensive auto market.

"God love them, they took advantage of a super strong market to get superlow financing," said Jack Flaherty, a bond portfolio manager at GAM Holdings AG who didn't buy into the new deal.

A spokesman for Tesla declined to comment.

The price of the bond dropped to 97.63 cents on the dollar in late Monday trading, pushing the yield up to 5.65%, according to data from MarketAxess. Bond yields rise when prices fall.

Trading has been heavy. Tesla bonds were the most actively traded junk bonds Monday, with about $96 million of the debt changing hands, according to MarketAxess.

The bonds are being closely watched by investors because Tesla has become a **stock-market** favorite.

Tesla shares are up 58% this year despite a 2.8% decline Monday.

The company until this month had never issued traditional bonds that must be paid off at maturity. Instead Tesla has raised $6 billion by selling shares or bonds convertible into stock.

Many high-yield **bond prices** fell last week, as investors pulled about $1 billion from junk-bond funds, according to Thomson Reuters Lipper data.

Investors cited a perception that uncertainty tied to policies in Washington and events around the globe has been rising.

The average yield of corporate bonds rated single-B was unchanged last week, according to the Bloomberg Barclays U.S. High Yield Index.

Tesla bonds declined more than similarly rated ones because they pay less interest, investors said, though a person familiar with the Tesla bond sale pointed out that some other recent bond issues have also declined.

"It's more attractive now, but it's not a level I'm willing to step into yet," Mr. Flaherty said.

Charley Grant and Sam Goldfarb contributed to this article.

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The New York Times

EDITORIAL
Editorial Desk; SECTA

Why Is the Fed So Scared of Inflation?

By THE EDITORIAL BOARD
607 words
22 August 2017
The New York Times
NYTF
Late Edition - Final
20
English

When the world's central bankers meet this week in Jackson Hole, Wyo., the topic on the table will be how to foster a dynamic global economy. For America's central bank, the Federal Reserve, the biggest problem is at home, not abroad, and its latest view on the economy, released last week, shows it may not have a handle on it.

As Fed officials try to make sense of how low unemployment, which should drive up wages and prices, persists side by side with low inflation, most simply assume that inflation will rise by next year as labor demand lifts wages and higher wages lead to rising prices. This belief has led to two interest rate increases so far this year, in effect tapping the brakes on growth to fight inflation, with another rate increase expected this year. A more plausible view is that persistently low inflation shows the economy is more fragile than policy makers want to admit, and needs to be helped, not handicapped.

Core inflation, which excludes **volatile** food and energy prices, has fallen short of the Fed's 2 percent target every month for five years, and decent pay raises for most working people have been few and far between, even as unemployment has dropped by nearly half, to 4.3 percent. The Fed has had to continually pull back its inflation projections.

Another sign of weakness is that eight years into an economic expansion, the share of employed workers ages 25 to 54 is less than before the Great Recession.

Much of this is beyond the Fed's control. Among the barriers to employment are the rising use of opioids and dismal job prospects for people who have been arrested or imprisoned. Better drug treatment and health care, and sentencing reform, could help, but they are not within the Fed's purview. The Fed also cannot create a plan to bolster jobs by rebuilding the nation's infrastructure. Nor can it enact an immigration plan to compensate for an aging population and smaller labor force that can restrict economic growth.

The Fed is also not responsible for advancing labor standards that help to lift wages. Republicans oppose a meaningful rise in the minimum wage, which was already inadequate when the current $7.25 hourly rate took effect in 2009. The Trump administration is undermining an Obama-era effort to lift middle-class pay by updating rules for paying time-and-a-half for overtime to salaried workers.

That said, the Fed should acknowledge the weakness in the job market and keep rates low until clear signs of wage and price increases emerge. Instead, the Fed seems to be grasping at straws to support the assumption that low unemployment will automatically lead to higher inflation.

In recent months, Fed officials have taken to attributing low inflation to ''idiosyncratic'' factors, including a decline in cellphone service prices, as if a one-off oddity can explain entrenched low inflation. Similarly, recent Fed research has argued that wage growth looks worse on average than it actually is because of baby boom retirements, in which relatively high-paid people leaving the labor force are replaced by younger, lower-paid workers. If baby boom retirements are to blame, though, how does one explain poor wage growth, with labor income lagging productivity gains, for most of the past 40 years?

The Fed has been a deft steward of the economy since the Great Recession. But many Americans are still struggling, and careful thinking, not wishful thinking, is needed.

DRAWING (DRAWING BY JEANNIE PHAN)

Document NYTF000020170822ed8m0005u

The New York Times

Business/Financial Desk; SECTB
After Some Bumps, Markets Return to Smoother Ride

By THE ASSOCIATED PRESS
720 words
22 August 2017
The New York Times
NYTF
Late Edition - Final
4
English

NEW YORK -- Stocks inched higher on Monday, as the Standard & Poor's 500-stockindex steadied following back-to-back losses the last two weeks.

This week may be calmer for the stock market, after an uncharacteristically bumpy stretch shook what had been an incredibly smooth ride higher for stocks this year. Few market-moving events are on the calendar this week, and the highlight is likely to arrive when central bankers from around the world gather in Wyoming as the weekend approaches.

2,428.37+2.82+0.12%

21,703.75+29.24+0.13%

The S.&P. 500 rose 2.82 points, or 0.1 percent, to 2,428.37 after it and other indexes flipped between small gains and losses all day. The Dow Jonesindustrial average gained 29.24, or 0.1 percent, to 21,703.75, and the Nasdaq composite index slipped 3.40 points, or 0.1 percent, to 6,213.13.

The modest moves were a return to form for the market. It's had just four days this year where the S.&P. 500 has dropped by more than 1 percent, which is well below the typical number in recent decades. But half those instances occurred in the last two weeks, stoked by worries about discord in Washington and the potential for war abroad.

"One of the reasons the market has held in and performed well recently -- although it's wobbled a bit in the last two weeks -- has been earnings," said Ernie Cecilia, chief investment officer at Bryn Mawr Trust. "Without the earnings that we saw, it would have been a much more difficult period of time for the market."

Companies are mostly done reporting their results for the spring quarter, and their growth in profits was stronger than analysts expected. Not only that, businesses also reported higher revenues. That's encouraging given the struggles many companies have had in recent years to grow while the global economy remained sluggish.

One potential market mover could be the upcoming gathering for central bankers, economists and policy makers in Jackson Hole, Wyo. The Federal Reserve chairwoman, Janet L. Yellen, and the European Central Bank president, Mario Draghi, are both expected to speak at the symposium, which begins Thursday and is hosted by the Fed's regional bank in Kansas City, Mo.

Mining companies helped to lead the market after prices for metals and other commodities rose. Freeport-McMoRan had the biggest gain in the S.&P. 500, up 58 cents, or 4.1 percent, to $14.73. Not far behind was Newmont Mining, which rose 78 cents, or 2.2 percent, to $36.61.

Gold rose $5.10 to settle at $1,296.70 an ounce, silver rose 2 cents to $17.02 an ounce and copper gained 4 cents to $2.98 a pound.

Dividend-paying stocks were also strong, with real-estate investment trusts the best-performing sector of the 11 that make up the S.&P. 500. Investors snapped up dividend-paying stocks as bond yields fell on Monday.

The yield on the 10-year Treasury note dipped to 2.17 percent from 2.20 percent late Friday. The two-year yield slipped to 1.30 percent from 1.31 percent, and the 30-year yield fell to 2.77 percent from 2.78 percent.

On the losing side of the market, again, were stocks of athletic-gear companies. Shares had tumbled across the industry on Friday after Foot Locker and Hibbett Sports said revenue fell last quarter. Foot Locker fell $2.56, or 7.4 percent, to $31.82 for Monday's biggest loss in the **S**.**&P**. **500**. It plunged 27.9 percent on Friday.

The dollar dipped to 108.85 Japanese yen from 109.26 yen late Friday. The euro rose to $1.1813 from $1.1760, and the British pound rose to $1.2901 from $1.2876.

Benchmark United States crude fell $1.14 to settle at $47.37 a barrel. Brent crude, the international standard, lost $1.06 to $51.66 a barrel.

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

Document NYTF000020170822ed8m00057

THE WALL STREET JOURNAL.
U.S. EDITION

Warning Signs Mount as Stocks Stumble --- Uncritical optimism of postelection rally fades as selloffs disrupt market's calm

By Michael Wursthorn and Corrie Driebusch
954 words
21 August 2017
The Wall Street Journal
J
B1
English

Investors are running out of reasons to keep buying U.S. stocks, exposing a growing number of warning signs.

The historic calm that enveloped U.S. stocks for much of this year has been upended twice in the past two weeks. The **Dow Jones Industrial Average** posted its biggest decline in three months on Thursday, one week after a selloff of similar scale sent stock indexes tumbling around the world. It is too soon to call the end of the eight-year **bull market**, investors, traders and analysts say, but many agree the indiscriminate optimism that characterized the postelection rally is evaporating.

With corporate earnings season winding down and the global economy humming along, sentiment has shifted: There is now more that can go wrong than right, many say.

Political rifts, including President Donald Trump's deteriorating relationship with several business leaders in the wake of the Charlottesville, Va., demonstrations, have magnified investors' doubts about the administration's ability to accomplish its agenda, in particular the tax cuts they had anticipated would boost corporate profits. Those expectations contributed to a **stock-market** rally that has sent the **S&P 500** up 13% since Election Day.

Shares of small-capitalization stocks in the U.S., among the market's biggest postelection winners, have given up virtually all their 2017 gains. The Russell 2000 is up just 0.05% for the year and is down 6.4% from a high hit in late July. Such shares rose to records late last year as investors bet that Mr. Trump's plans to roll back regulations and taxes and pump money into infrastructure projects would benefit smaller, more domestically focused firms.

The Dow Jones Transportation Average, a 20-**stock index** that tracks some of the largest U.S. airlines, railroads and trucking companies, has fallen nearly 6.7% since July 14.

Analysts say if the transports lag, it can presage broader stock declines, as these companies represent the breadth of the goods shipped across the country and are an indicator of production and consumption.

U.S. government bonds have strengthened this year, reflecting investors' continuing demand for relatively safe assets and their doubts about the prospect of supercharged U.S. economic growth and inflation under Mr. Trump. The yield on the **10**-**year Treasury** note settled at 2.196% Friday, down from a peak above 2.6% in March and compared with 2.446% at the end of last year.

"How the market has behaved since Nov. 9 in many ways seemed like a disconnect from reality," said Kristina Hooper, global market strategist at Invesco. "Investors are starting to recognize that."

Nearly 33% of investors surveyed by the American Association of Individual Investors said they expected stock prices to fall over the next six months, the highest level since May. About 34% of investors had a **bullish** outlook, according to the most recent survey. More than 40% of investors had **bullish** outlooks for nine consecutive weeks after the election, prior surveys said. AAII polls its roughly 175,000 members weekly, asking them for their take on whether they expect markets to rise or fall.

Investors point to concerns about pockets of the economy, the Federal Reserve's plan to raise interest rates and unwind its balance sheet, and doubts that earnings can continue to grow at a solid pace.

The Fed's annual economic symposium in Jackson Hole, Wyo., this week could provide clues about global central bankers' latest thinking. Chairwoman Janet Yellen is scheduled to speak, as well as European Central Bank

President Mario Draghi. Though inflation has remained stubbornly low in places like the U.S. and the eurozone, several major central banks have signaled their intention to gradually tighten monetary policy.

"Two things usually happen before markets get into trouble," said Bruce Bittles, chief investment strategist for Robert W. Baird. "Interest rates go up significantly or consumers spend more."

U.S. household debt reached a record last quarter, driven by rising mortgage debt, auto-loan originations and larger credit-card balances, which reached their highest level since 2009. Some analysts worry about growing debt because it can suggest people need their credit cards to finance daily expenses, while others say credit-card debt is a normal part of an economic expansion.

New worries have emerged: the looming battle in Washington, D.C., over raising the debt ceiling and increasing divisions in the White House, which has had trouble pushing its agenda through Congress.

Billionaire investor Carl Icahn resigned his position as special adviser to the president on Friday, saying he didn't want "partisan bickering" to cloud the work of the administration.

The recent selloffs also have coincided with some mixed corporate earnings and rising global tensions, including threats between the U.S. and North Korea and terror attacks in Spain.

Declines so far have been short-lived, with many investors viewing them as an opportunity to buy.

But for others, the cascade of negative developments is a sign they can't rely on the enthusiasm that underpinned the market for months.

Concerns over lofty valuations have caused some investors to already trim their exposure to U.S. stocks, instead favoring valuation multiples of companies based in Europe.

"The U.S. has been priced for perfection," said Steven Wagner, chief executive of Aventura, Fla., advisory firm Omnia Family Wealth that has moved more of its clients into European stocks from those in the U.S. over the past year. "People are starting to get uncertain and rethink" U.S. stock valuations, he added.

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THE WALL STREET JOURNAL.
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Volatility Plays Draw Wagers

By Chris Dieterich
386 words
21 August 2017
The Wall Street Journal
J
B8
English

Bets on **stock-market volatility** are gobbling up a record share of U.S. stock trading.

A frenzy of trading in the five largest exchange-traded products that profit either when **volatility** spikes or declines accounted for 7.2% of total composite **stock-market** volume Thursday, an unprecedented feat for these products, according to WSJ Market Data Group.

Friday's trading of these products represented 5.5% of total trading, third-highest ever.

The flurry of activity in CBOE**Volatility** Index products ramped up as the **Dow Jones Industrial Average** was headed toward itsbiggest declinein three months Thursday, a swing that sent the VIX up 32%.

The VIX, an options-based measure of expected U.S. **stock-market** price swings, declined 8.3% Friday. It is dubbed the "fear gauge" for its tendency to rise when stocks fall.

A surge in bets on **volatility** shows traders' affinity for financial products that exhibit big price swings at a time of extreme calm in the broader U.S. **stock market**. The Dow's decline Thursday snapped the longest streak without a 1% daily move in the blue-chip index in more than two decades.

Trading volume in the $1.2 billion iPath **S&P 500** VIX Short-Term Futures ETN, which rises in price when the VIX goes up, hit 274 million shares Thursday, a record. The product turned over 10 times more than shares of Apple Inc. It trades about double the volume in Apple on the average day.

The VelocityShares Daily Inverse VIX Short-Term ETN had its biggest share turnover of the year, accounting for 41.7 million shares traded. It was also the second time in a week that more than $3 billion traded in the ETN, according to FactSet data. The inverse product rises in price when the VIX falls.

Selling **volatility**, a trade expressed by owning inverse VIX ETFs, has been among the hottest trades this year with the VIX stubbornly below its long-term average. Analysts have warned for months that the easy money has been made and shorting **volatility** now is an especially risky gamble.

"Selling VIX has become crowded and is fraught with danger," wrote Peter Tchir, head of macro strategy at Brean Capital.

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THE WALL STREET JOURNAL.
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Reversal Hits Small Caps --- Russell 2000 index falls for fourth week in a row, longest slide since October 2014

By Ben Eisen
402 words
21 August 2017
The Wall Street Journal
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B8
English

In one of the most pronounced postelection bets, investors pushed up shares of companies with small market values far beyond their large-cap counterparts.

Not anymore.

The small-cap Russell 2000 index fell for a fourth consecutive week, its longest losing streak since October 2014. That brings the index's postelection gains to 13.6%, narrowing its gap with the **S&P 500**, which has risen 13.4% index's Election Day. The Russell's performance also turned negative for the year Friday morning. It is up 0.05% in 2017, versus 8.3% for the **S&P 500**.

It is one more of the Trump trades that have fallen by the wayside in 2017 as the president's pro-business policy agenda stalls and turmoil engulfs the White House.

After the election, the Russell 2000 marched higher for 15 days in a row, its longest win streak since 1996, as investors bet that smaller companies would benefit more than large companies from President Donald Trump's business-friendly slate of policy priorities.

Cuts to the corporate tax rate, for example, were expected to benefit smaller, domestically focused companies, which typically have a higher effective tax rate. Small-cap companies pay an effective rate of 32% versus 26% for large-cap companies, according to research earlier this year from Nuveen Asset Management.

Nine months later, the administration's planned tax-code changes are still in the early stages, and plans for other business-friendly policies such as infrastructure spending and widespread deregulation are still being ironed out.

Last week, two councils of chief executives disbanded following Mr. Trump's comments after demonstrations in Charlottesville, Va., that left a woman dead. The reaction could continue to eat into expectations, some analysts said.

"The fallout is likely to reverse the improvement in economic expectations recorded across all political affiliations in early August," said Richard Curtin, chief economist for the University of Michigan's consumer sentiment survey. The August figures he referenced, released early Friday, showed sentiment rose in the first half of August among consumers, who were mostly polled before the attacks. In recent months, investors have instead been piling into big multinational firms that benefit from a strengthening global economy and weaker dollar.

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THE WALL STREET JOURNAL.
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The Lure of Emerging-Market Debt --- New ETF shows rising appetite despite worry about the effect on thinly traded securities

By Asjylyn Loder and Carolyn Cui
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B9
English

Direxion, the firm behind popular exchange-traded funds that offer leveraged bets on gold-mining companies, **oil prices** and Chinese stocks, launched a new ETF on Thursday that seeks to triple the returns of emerging-market bonds.

The Direxion Daily Emerging Markets Bond Bull 3X ETF reaches the market amid growing investor appetite for debt from countries such as Mexico, Indonesia and Turkey. Emerging-market debt ETFs have taken in a record $6.7 billion since the start of the year, pushing assets to $23.4 billion, according to Morningstar.

The increased demand has sparked concerns about the impact the funds could have on the smaller and thinly traded market. A leveraged ETF such as Direxion's must buy $3 of bond exposure for every $1 invested in the fund. Emerging-market debt can be harder to buy and sell than heavily traded securities like U.S. Treasurys or stocks.

"It's definitely something that we look at. We felt there was sufficient liquidity, taking into account that the ETF could be very popular and grow into the billions of dollars," said Sylvia Jablonski, managing director at Direxion.

ETFs can be forced to trade during periods of market stress. ETFs own baskets of securities such as stocks and bonds but trade on an exchange just like company shares. A turnabout in investors' sentiment can trigger a sudden inrush or outflow of assets, which in turn forces the ETF to buy or liquidate the underlying securities.

"We feel that passive investing in this asset class is a particularly poor choice," citing ETFs' underperformance and lack of distinction of the underlying bonds they own, James Barrineau, co-head of Emerging Markets Debt at Schroder Investment Management, wrote in an April research note.

Earlier this year, a leveraged Direxion ETF was caught up in unruly trading that roiled gold-mining stocks. The Direxion Daily Junior Gold Miners Index Bull 3X ETF, which seeks to triple the daily price moves of small gold-mining companies, is part of a complex of gold-mining ETFs that swelled to $20 billion after investor demand surged, triggering price gyrations in stocks from Sydney to Toronto.

After the problems with the gold ETFs, Direxion expanded the universe of underlying securities that its leveraged gold fund invests in, and created similar safety valves for several of its other ETFs as well, Ms. Jablonski said.

While emerging-market debt ETFs are growing quickly, they are still just a fraction of the market. Total emerging-market bonds included in the three main J.P. Morgan indexes were valued at $2.9 trillion as of the end of July, according to the Wall Street bank.

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U.S. News: Consumer Sentiment Is Highest In Months

By Josh Zumbrun and Sarah Chaney
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J
A2
English

U.S. consumer sentiment rose in the first half of August to its highest level since January, as Americans increasingly placed their hopes on the economy's future.

Expectations could soften given recent events including political turmoil after the violence in Charlottesville, Va.

The University of Michigan on Friday said its preliminary reading on consumer sentiment during August was 97.6, up from 93.4 in July. Economists surveyed by The Wall Street Journal had expected an August figure of 94.5.

An index that tracks expectations about the future rose in August, while one that gauges confidence in the current economic situation fell.

"With jobless claims continuing to trend lower, gasoline prices subdued, and the **stock market** only falling a few percent from its recent record highs, consumer sentiment is likely to remain buoyant for the months ahead," Michael Pearce, U.S. economist at Capital Economics, said in a note to clients.

Still, signs of unease are brewing.

Richard Curtin, the Michigan survey's chief economist, said too few interviews were conducted after the racially charged protests in Virginia to gauge how much the events will affect consumer sentiment.

"The fallout is likely to reverse the improvement in economic expectations recorded across all political affiliations in early August," Mr. Curtin said.

The **Dow Jones Industrial Average** recorded its biggest drop in three months Thursday and fell Friday, another potential blow to sentiment.

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THE WALL STREET JOURNAL.
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Weekend Profile: A Veteran Investor Embraces Crisis --- Emerging-markets pioneer Michael Conelius is bullish on Venezuela

By Carolyn Cui
1,099 words
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B1
English

A growing number of bond investors have eliminated their exposure to Venezuela, which they worry is increasingly likely to default or erupt into further chaos.

Then there is Michael Conelius.

A pioneer in emerging-markets investing, Mr. Conelius agrees that a default looks likely. But his T. Rowe Price Emerging Markets Bond fund has taken a bullish position: He has accumulated so much debt issued by Venezuela's government and state-owned oil company that he has become one of the country's largest foreign creditors, according to Morningstar Inc.

"People tend to get fixated on a situation that is deteriorating," he said of Venezuela, and about emerging-markets investing more broadly. "But if you can identify a crisis that is actually going to be the catalyst for some political change or economic reform . . . then the good news is more obvious."

When Mr. Conelius began investing in emerging-market bonds, his fund was immediately slammed by the 1994 Mexican peso crisis. Not long after that, emerging markets got flattened by the Asian currency crisis and then hammered by the Russian default.

But after more than 22 years of analyzing risk and studying how cash-strapped governments respond to crisis, Mr. Conelius is one of the last emerging-market bond investors from the 1990s still around, according to Morningstar.

Some observers say his crisis experiences are a big reason he has become one of the top-performing bond managers.

"He hasn't simply studied stress periods," said Emory Zink, a fund analyst at Morningstar, "he managed through stress periods."

His $6.6 billion bond fund has returned 5.6% annually during the past three years, beating 95% of his peers, according to Morningstar. Over a 15-year period, he has outperformed three-quarters of the group.

Mr. Conelius ramped up his Venezuelan holdings a few years ago when the bond prices began to fall alongside the price of oil, the country's main export. His wager on Venezuela helped his recent performance, as the country defied expectations of default and kept servicing its debt while offering double-digit yields. Venezuela accounted for 5% of his fund's assets at the end of July, roughly double the country's weighting in the industry benchmark index.

He figures if there is a regime change, the situation is more likely to improve than deteriorate. The new administration could adopt more market-friendly policies -- such as floating exchange rates and opening up its oil sector -- to raise money from the capital markets.

The 53-year-old bond manager is known for his stoic demeanor. Peers and rivals can't recall him ever losing his temper or raising his voice, not even when emerging-market bond prices plunged after Russia's 1998 default or were rocked by China's surprise devaluation two years ago.

Mr. Conelius got his start managing bonds in a roundabout way. After he earned a degree in economics at Towson University of Maryland, he struggled to land a job in high finance. The closest he could get was as a budget analyst for the U.S. Navy.

He took a similar position at T. Rowe Price in 1988, a few months after the Black Monday **stock-market** crash when Wall Street was shedding jobs.

His big break came a few years later when his boss moved over to analyze credit risk of the firm's investments and took Mr. Conelius with him. The former Navy budget man became the group's first analyst of emerging-market debt, a job Mr. Conelius recalls few if anyone else at the firm seemingly wanted.

In those days, emerging-market debt was considered an exotic but highly risky way to try to make money. Aside from GMO LLC, T. Rowe Price and Fidelity Investments, most mutual-fund companies stayed away.

"It probably wasn't very attractive to many people, but I found it very exciting," Mr. Conelius recalls.

He has taken some hits along the way.He bought too early during Ukraine's 2015 debt crisis, suffering losses before the government's debt restructuring began to pay off. In Brazil, a 2015 government corruption scandal and credit downgrade to junk status caused the prices of Brazilian local currency bonds to plummet. T. Rowe Price quickly swooped in. The bonds eventually rebounded as he predicted, but sharp declines in commodity prices caused the Brazilian real's value to weaken against the dollar, eating into his gains.

As for Venezuela, **bond prices** have tumbled recently, after the U.S. imposed new sanctions on President Nicolas Maduro. Mr. Conelius said he was "torn" about adding to his position given all the **volatility**, but responded by buying more Venezuelan debt anyway.

"I have never seen a country that has such potential wealth with such bad policies," he said.

The Rise of a New,

Volatile Asset Class

Emerging-market debt began to take off in the late 1980s, when then-U.S. Treasury Secretary Nicholas Brady proposed that debt-plagued Mexico restructure its defaulted commercial-bank loans into tradable bonds.

In the following years, a number of countries, including Argentina, Brazil, Panama, Russia and Venezuela, issued hundreds of billions of dollars of "Brady bonds," marking an upswing in the issuance of emerging-market debt, according to the Trade Association for Emerging Markets.

That period has led to one of the fastest-growing asset classes on Wall Street. At the end of 2016, total debt outstanding in emerging markets exceeded $20 trillion, or about 20% of the global bond market, according to Ashmore Group.

In the early days, trading emerging-market bonds was regarded as a highly risky undertaking and had only a few players. J.P. Morgan & Co. was among the first banks to start making markets for such bonds, while GMO LLC, Fidelity Investments and T. Rowe Price Group Inc. were pioneers in the investment community. When the firms launched some of the first mutual funds of emerging-market bonds in the 1990s, few believed they would take off among retail investors because of their **volatile** nature.

Between 1995 and 1997, emerging-market bond funds returned more than 100%, but lost 25% in 1998 when Russia defaulted, Morningstar Inc. says. These funds suffered steep losses in 2008 as a result of the global financial crisis, but the asset class drew unprecedented inflows in the years that followed, as investors in the U.S. and other developed markets hunted for yields.

-- Carolyn Cui

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THE WALL STREET JOURNAL.
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China Puts Investment Controls In Writing

By Kate O'Keeffe
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China announced formal measures to curb outbound investment as the government seeks to establish firmer control over corporations whose international shopping spree has rattled China's currency and foreign-exchange reserves.

Chinese officials have been cracking down on what they call "irrational" overseas investment since the end of 2016, tightening controls on capital leaving China and scrutinizing some of the country's most aggressive dealmakers, but the measures Friday marked the first time the cabinet has published such controls in the form of official guidance.

Government statistics indicate the crackdown has already sent China's foreign direct investment down over 40% this year. The latest move shows that it is trying to clamp down in a more systematic way, according to analysts who track Chinese investment.

"We now know that China will not any time soon return to liberal outbound [foreign direct investment] policies," said Thilo Hanemann, an economist at New York-based Rhodium Group.

The new rules could have an outsize impact on investment in the U.S., which was the largest recipient of China's foreign direct investment flows last year, taking in $46 billion, or triple the previous year, Rhodium said.

And the new restrictions could impair China's strategy of trying to win political points with local U.S. officials, such as governors and mayors, eager for foreign investment that can create jobs. At the same time, the rules are unlikely to dampen U.S. officials' concerns about threats to national security, as they don't restrict Chinese investment in sensitive sectors like technology.

Already the Committee on Foreign Investment in the U.S., known as CFIUS, has toughened its scrutiny of Chinese investment, which it increasingly sees as a threat, throwing into question billions of dollars in high-profile Chinese bids to buy U.S. companies in recent months. The multiagency panel led by the U.S. Treasury can approve deals or recommend the president block them based on national security concerns.

China will restrict overseas investment in sectors such as property, hotels, cinema, entertainment and sports teams, the State Council said in guidelines released on the main government website Friday.

By contrast, Beijing wants companies to continue buying overseas technology and supporting initiatives such as President Xi Jinping's "One Belt, One Road" project, a massive global infrastructure investment plan to establish China as the dominant world-trading power.

China's enthusiasm for Hollywood deals has been cooling for nearly a year as capital controls took hold. Talks broke down between Metro-Goldwyn-Mayer Studios and several Chinese companies in late 2016. And deals that would have placed Dick Clark Productions Inc. and Voltage Pictures LLC, the production company behind "The Hurt Locker," under Chinese control fell apart this year.

More recently, Chinese state scrutiny of Dalian Wanda Group Co. has raised questions in executive suites across Hollywood: The real-estate conglomerate has been the most visible Chinese player to enter the U.S. entertainment industry.

Wanda owns Legendary Entertainment LLC, the production company behind "Kong: Skull Island," and AMC Entertainment Holdings Inc., the world's largest movie-theater chain. AMC has said its finances aren't affected by

Wanda's turmoil. A Legendary spokeswoman said the government investigation hasn't affected the company's balance sheet. "Wanda has never failed to satisfy any of its funding obligations owed to Legendary," she said.

Chinese capital has also played a significant role in the global hotel industry in recent years, with Chinese investors pouring nearly $8.5 billion into U.S. hotels last year, according to Real Capital Analytics Inc., up from $2.6 billion in 2015. Amid the capital-outflow clampdown this year, China's investment in U.S. hotels has been less than $500 million, Real Capital added.

Chinese insurance companies were among the most prominent dealmakers last year. Anbang Insurance Group in 2014 purchased New York's Waldorf-Astoria hotel for $1.95 billion and last year acquired a portfolio of hotels from Blackstone Group LP for $5.5 billion.

China will also restrict the establishment of equity-investment funds and any investment platforms that aren't linked to a specific project, according to new measures jointly drafted by the country's top economic planner, Commerce Ministry, central bank and Foreign Ministry.

U.S. officials and a bipartisan group of lawmakers are increasingly wary of Chinese companies' U.S. deals, alleging they pose disproportionate risks to U.S. national security because China is a chief economic and military rival.

Ultimately, China's new rules won't resolve those concerns since they don't restrict investment in critical technologies such as computer chips, said Derek Scissors, a China scholar at the American Enterprise Institute in Washington D.C.

In Washington, Mr. Scissors said U.S. policymakers' reaction to the new rules is likely to be along these lines: "Fine, play around with your investment rules if you like. You're still going to be trying to buy the things we don't want to sell. And meanwhile China is not more open to U.S. investment so it doesn't address the reciprocity issue."

At the local level, it will be a different story, said Nancy McLernon, president of Organization for International Investment, in Washington, D.C., which promotes foreign investment in the U.S. She pointed to Rhodium data published in April indicating that Chinese companies employ more than 140,000 workers in the U.S., a more than ninefold increase over 2009. "With these new restrictions laid out, governors may need to rethink their strategies to increase investment in the U.S.," she said.

Beijing's crackdown on foreign investment comes as big private businesses and others have been amassing capital and influence that challenge the Chinese government's firm hold on the economy.

After a 2015 **stock-market** crash, Chinese investors looked abroad for better returns, pressuring China's tightly controlled currency. Beijing burned through nearly a trillion dollars in foreign-exchange reserves trying to steady the yuan, ultimately prompting government regulators to move to control the money leaving the country and to scrutinize proposed offshore investments.

The crackdown is starting to bear fruit, with China's outbound direct investment outside the financial sector declining 44.3% over the first seven months this compared with a year earlier, with investment in property down 81% and entertainment down 79%, the commerce ministry said Tuesday.

China's foreign-exchange reserves rose for the sixth straight month in July, and the yuan rose 4% against the dollar so far this year, following a drop of 7% last year.

Liyan Qi, Carolyn Cui, Chris Kirkham and Erich Schwartzel contributed to this article.

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The New York Times

Strategies
Business Day
The Stock Market Has Been Magical. It Can't Last.

By JEFF SOMMER
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English

Some things just can't last. The nearly magical **stock market** that has persisted so valiantly this year is one of them.

The **bull market** that started in March 2009 seems to have gone on forever, but that's only a small part of the story. What is astonishing is the way that stocks have risen in 2017.

The **stock market** has been so placid that declines of a mere 1.5 percent have been treated like real news. The **Standard & Poor**'**s 500**-**stockindex** dropped that much on Thursday. Days like that can be unsettling, but in the span of market history, they amount to the slightest of headaches.

The deeper news isn't immediately visible day to day, but it is this: The **stock market** has been operating in an extremely rarefied world of heightened calm, one that is unlikely to continue. It is as if, after the election in November, Wall Street entered an enchanted zone. That is bound to end.

Several statistical measurements demonstrate how unusual this market environment has been.

The most obvious is the **bull market**'s longevity, fueled largely by the Federal Reserve's ultralow interest rates and voracious bond buying. The upward trend in stocks already ranks as the second longest in American history since 1900 and the third highest in percentage gains, according to a tally by Bespoke Investment Group. From the trend's start, in 2009, through its latest high, on Aug. 7, the Standard & Poor's 500 has risen 267 percent.

But that's not all. By one standard — the market's average daily movement, measured against its trend for that year — stocks so far in 2017 are the steadiest they have been since 1965, when Lyndon B. Johnson was in the White House and the Rev. Dr. Martin Luther King Jr. was leading an epochal civil rights march from Selma to Montgomery, Ala. On Wall Street that year, a young man named Warren Buffettgained effective control of a textile firm called Berkshire Hathaway, making it the vehicle for a legendary investing career.

"That was so long ago that there are very few people left who were active then and still actively trading now," said Salil Mehta, the statistician who performed that calculation (technically, he found the average absolute deviation of the **S**.**&P**. **500 index**) at my request.

"It is difficult to appreciate how unusual 2017 is," Mr. Mehta said, "or to use the distant past to draw lessons about it." Clearly, though, neither then nor now, political turmoil had little or no effect on the pervasive calm in the **stock market**.

Mr. Mehta, the former director of research and analytics for the Treasury's Troubled Asset Relief Program and the federal Pension Benefit Guaranty Corporation, pointed to several other indicators of uncanny market placidity this year.

For example, the VIX index, widely known as Wall Street's gauge of fear, has remained very low, on a historical basis, despite recent spikes. Data from the Chicago Board Options Exchange shows that even when the VIX has risen this year, it has not even reached its average since 2004.

And despite occasional bursts of market-driven angst, the downturns so far in 2017 have been paltry. Ryan Detrick, a senior market strategist for LPL Financial, has found that the **S**.**&P**. **500** through Friday has not had a 5 percent decline, from peak to trough, since June 28, 2016. That sell-off, 6.1 percent over several days, occurred after Britain's surprise vote on June 23, 2016, to leave the European Union.

Amid the panic that week, I wrote that markets had already appeared to have bottomed: "One day, perhaps three or four months from now, they are likely to look even better, until the next crisis comes." That turns out to have been an understatement. There has not been another downturn that big since then, though there have been plenty of political crises. Going all the way back to 1950, Mr. Detrick has found, the current streak is the fourth longest in history without a 5 percent decline.

Other measurements show the same pattern. For the three weeks through Aug. 10, the closing levels of the **S**.**&P**. **500** never had a daily swing of more than 0.3 percent, Mr. Detrick said: "That never happened before in the history of the **S**.**&P**. **500**." And for 2017 so far, the average daily trading range has been 0.55 percent, the lowest ever.

"We have been living in a very unusual world," Mr. Detrick said, "and I don't think we are going to stay here for very long."

Similarly, Mr. Mehta said that this stretch of smooth sailing has gone on for so long that it has become statistically improbable. That isn't a firm prediction of a decline because the future is uncertain. But, he said, it is quite likely that a **stock market** decline of at least 5 percent — from peak to trough — will be coming in the not-too-distant future.

"Mere reversion to the mean is likely," Mr. Mehta said. "From a probability standpoint, the run we've been on is very rare, and it's likely that we'll return to something more normal relatively soon."

Will there be a downturn big enough to derail the **bull market**? Of course. But, alas, no one knows when it will happen.

In traditional Wall Street parlance, a **bull market** ends and a bear begins with a drop of 20 percent from the market's last peak, which happens to have occurred on Aug. 7, when the S.&.P. closed at 2,480.91. The market has dropped 1.9 percent since then. It hasn't had a 3 percent decline since before the November election, in the longest such streak since 1995, Mr. Detrick said.

We are long overdue, he said, adding that he expected "a very healthy decline of 5 percent or more," which would be "a buying opportunity for people who have stayed out of the **stock market**." Stock valuations are stretched, he said, but when you factor in low interest rates and low inflation, current prices are reasonable, in his view.

"Bull markets don't die of old age, they die of excesses," Mr. Detrick said. And there is no indication, he added, that an end to the market's long-term rising trend is imminent.

Still, the **stock market** is linked, even if tenuously, to the real economy. And like the **bull market**, the economic recovery from the last recession has gone on for an extremely long time. The economic expansion in the United States is already the third longest since 1854, according to Alan Blinder, the Princeton economist, citing data from the National Bureau of Economic Research. If there is no recession until June 2019, he said, this will become the longest period without a recession.

One of these days, these various streaks will end. A big **stock market** decline could well precede and predict a recession. But barring a disastrous geopolitical, economic or financial shock — there are plenty of possibilities, take your pick — it is likely that both the **bull market** and the economic recovery will keep grinding on for a while.

But don't count on it. We are pushing our luck. Even if you believe in magic, the markets rarely stay calm and buoyant for such an exceedingly long time.

Twitter: @jeffsommer

By one standard, stocks so far in 2017 are the steadiest they have been since 1965, when Lyndon B. Johnson was in the White House. | Associated Press

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The New York Times

Business/Financial Desk; SECTB
Markets Tumble After Midday Rally Fades

By THE ASSOCIATED PRESS
570 words
19 August 2017
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NYTF
Late Edition - Final
2
English

Stocks slumped in the final minutes of trading on Friday and ended a rough week with more losses. Bad news from sporting goods retailers weighed on the market.

A day before, stocks had taken their biggest loss in three months. They opened lower after Foot Locker and Hibbett Sports gave dour quarterly reports. The losses eased and stocks briefly turned higher following reports that President Trump's chief strategist, Steve Bannon, left his White House post. Investors felt that made it a bit more likely that the administration could achieve at least some of its pro-business agenda.

Major stock indexes are at their lowest levels since early July as investors respond to tensions between the United States and North Korea, two terrorist attacks in Spain on Thursday and mounting challenges to the Trump agenda of tax cuts, infrastructure spending and reduced regulation. But the market has not had a severe reaction to all that news. The **Standard & Poor's 500-stockindex** is only 2.2 percent below its record high earlier this month.

''There is a tremendous amount of optimism that is supporting the market even in the face of extraordinary stress,'' said Brad McMillan, chief investment officer at Commonwealth Financial Network.

The **S.&P. 500** lost 4.46 points, or 0.2 percent, to 2,425.55. The **Dow Jonesindustrial average** fell 76.22 points, or 0.3 percent, to 21,674.55. The **Nasdaq composite** shed 5.39 points, or 0.1 percent, to 6,216.53.

The athletic gear retailer Foot Locker plunged to its biggest loss in almost nine years. The company said some high-priced sneakers did not sell as well as it hoped. It plans to close at least 135 stores, up from 100. The stock dropped $13.32, or 27.9 percent, to $34.38 in heavy trading.

Hibbett Sports cut its annual forecasts and its stock fell 60 cents, or 5.2 percent, to $10.90. It is down 71 percent this year, and Foot Locker has fallen 52 percent. Companies that make athletic goods also lost ground, and Nike sank $2.51, or 4.4 percent, to $54.95.

Energy companies rose as benchmark United States crude oil jumped $1.42, or 3 percent, to $48.51 a barrel in New York. Brent crude, the international standard, added $1.69, or 3.3 percent, to $52.72 a barrel in London.

Stock indexes in Europe fell further after terrorist violence in Spain. The Ibex in Spain 35 lost 0.6 percent, and the FTSE 100 index in Britain declined 0.9 percent. In France, the CAC 40 fell 0.6 percent, and the DAX in Germany closed down 0.1 percent.

Bond prices finished about where they started. The yield on the **10-year Treasury** note remained at 2.19 percent.

Early on, gold rose to its highest price since before the presidential election in November, but it finished down 80 cents at $1,291.60 an ounce. Silver dipped 5 cents to $17 an ounce. Copper remained at $2.94 a pound.

The dollar fell to 109.26 yen from 109.67 yen. The euro rose to $1.1760 from $1.1742.

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

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Streetwise: Let's Prevent ETFs From Eating the Economy

By James Mackintosh
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B1
English

If investors continue to pile their money into passive index-tracking, at some point markets will stop doing their job of allocating resources efficiently in the economy. Perhaps they already have.

The threat is big enough that the world's largest pension fund is preparing to put more of its money with active managers -- who charge more and on average underperform -- in an attempt to keep markets functioning properly.

Hiromichi Mizuno, chief investment officer of Japan's $1.4 trillion Government Pension Investment Fund, worries that market efficiency will be damaged by the rise of passive funds, which rely on trading by active investors to set the price of stocks. Since the signals from market prices are vital to determining the movement of capital around the economy, less efficient signals would hurt growth and lead stock indexes to rise by less than they otherwise would.

"We are long term and a universal owner, so we need to make sure that the market will continue to be efficient," he said.

The problem crops up again and again in finance. It makes sense to be a free rider on someone else's work, but once everyone realizes that, there is no one left to do the work. In markets, the work is identifying which companies will do best, which can harness greed to deliver the social goal of divvying up resources for their best use. Unfortunately, the work isn't just hard, it is zero-sum: For every investor who beats the market by $1, someone must underperform by $1. Why bother when it is easier and cheaper to buy an index?

Those who dislike markets may respond that markets often fail to allocate capital to the right parts of the economy because of bubbles and busts, and they have a point. But even worse is to not even try; as AB Bernstein analyst Inigo Fraser-Jenkins memorably put it a year ago, "passive investing is worse than Marxism."

For now there is little sign that the U.S. is suffering much, if at all, from the rapid rise in index funds. Jack Bogle, who as founder of index-fund manager Vanguard did more than anyone else to boost indexing, points out that there has been no breakdown in the link between the stock prices of companies in the **S&P 500** -- where indexing is much more popular -- and the rest of the market. If indexing were truly affecting prices, there should be a greater impact on those with more index-fund ownership, and so a change in their relationship with less-indexed stocks.

"So far it looks like the market system's working pretty well," Mr. Bogle said from his holiday home in the Adirondacks. "When [passive] gets to 50%, I might want to think about it a little more, but I just don't see that the problem is even on the horizon."

In the U.S., that is true, with credit-ratings firm Moody's Investors Service calculating that 29% of assets under management in the U.S. are now passive. But the share is rising rapidly: Moody's reckons that index funds will take a majority of the market by 2024.

Japan is further advanced in the move to passive investing, in part thanks to the Bank of Japan, which owns 14.9 trillion yen ($135 billion) of exchange-traded funds, or ETFs, tracking Japanese indexes and has bought another $4.3 billion worth already this month.

So far, big investors elsewhere are showing little concern about the damage passive investment might one day do to the market economy. They are probably right to think that they can free-ride on active managers for several years yet. But no one knows at what point markets will be impaired, or even how we will be able to tell.

Elroy Dimson, a finance professor at London Business School, said that in previous decades academics also fretted about the growth of passive management and postulated critical levels beyond which it would impair the market. Yet we have zoomed past them, without any obvious signs of trouble. "It's plucking numbers out of the air" to put a figure on it, he said.

The uncertainty in itself is a reason for caution. Perhaps the market economy could work well even if only a few hundred active investors were involved in setting prices, but I suspect not. The point of tapping the wisdom of crowds is that it needs a crowd, and the smaller the crowd is, the less effective it is likely to be.

It is time other big investors started thinking like Japan's GPIF, because if the rise of passive does undermine economic growth, it will do a lot more damage to their portfolios than a bit of active underperformance.

(See related letter: "Letters to the Editor: ETFs Not Eating the Economy or the Market" -- WSJ Aug. 30, 2017)

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U.S. Hub Sets Tone For Gas Prices

By Alison Sider and Christopher M. Matthews
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ERATH, La. -- An unassuming confluence of pipelines here in the heart of Cajun Country is becoming the most important place in the world for natural-gas prices.

The Henry Hub has for years been a benchmark for U.S. contracts. Now it is helping to set prices from Mozambique to Japan, as a wave of U.S. natural gas being unlocked by shale drillers reaches Europe, South America and Asia.

In the first half of the year, there was a 31% increase in the volume of Henry Hub natural gas futures traded outside of typical U.S. trading hours, compared with the same period last year, according to CME Group, which owns the New York Mercantile Exchange. That is a sign that traders abroad are increasingly dabbling in the U.S. gas benchmark.

Henry Hub's growing prominence underscores how the burgeoning trade in liquefied natural gas is weaving disparate regions together into an increasingly unified global marketplace, more like that for crude oil. That could transform what has been a niche market that swings on slight shifts in the weather forecast into a reflection of the global economy.

"The U.S. is going to be the price setter for majority of the freely traded market," said Peter Keavey, global head of energy at CME. "You're exporting the Henry Hub benchmark to the rest of the world."

U.S. LNG exporters are hoping Henry Hub will emerge as the global price setter because it would remove significant risk from their business model. These exporters buy all of their natural gas at Henry Hub prices and could stand to lose money if they have to sell it to their customers at oil-linked prices if the margins are unfavorable.

Until recently, natural gas markets remained staunchly regional. But that is changing rapidly. Analysts say the U.S. is set to become the world's swing supplier of LNG as construction is completed on several new terminals that will chill natural gas until it turns to a liquid that can be carried away on tankers.

The actual shipments from those terminals may rise and fall depending on global supply and demand, analysts say. And since cargoes departing from the U.S. Gulf Coast can typically be rerouted and resold on a growing spot market -- a relatively new development -- that could help pull other regional prices down toward Henry Hub levels and keep them closely aligned.

"The economics suggest that U.S. gas prices will act as a natural anchor," said Spencer Dale, chief economist at BP PLC.

Henry Hub entered the global marketplace when Cheniere Energy Inc. signed the first export contract of U.S. liquefied natural gas from the U.S. Gulf in 2011. Before that, almost all LNG was sold at prices tied to oil, around 98% in 2000.

Cheniere predicts the share of Henry Hub-indexed contracts will rise to 30% by 2025 as U.S. LNG export facilities come online. Shipments from Cheniere's Sabine Pass export terminal began last year.

"We have seen interest around the world in accessing Henry Hub indexed natural gas because it comes from a stable source, it is affordable, and U.S. LNG has the most flexible contract terms in the market," said Jack Fusco, chief executive of Cheniere. "The world is becoming more knowledgeable and comfortable with Henry Hub."

It isn't only U.S. LNG that is being priced at Henry Hub. Anadarko Petroleum Corp. has signed deals to sell LNG from gas discoveries off the coast of Mozambique at Henry Hub prices, according to Mitch Ingram, Anadarko executive vice president.

Though it has become more prominent globally, there are challenges to Henry Hub's growing influence. Falling **oil prices** have slowed Henry Hub's progress. Even Cheniere has noted that the lower price of oil has generated renewed interest in linking LNG contracts back to oil. Asian buyers have become more reluctant to buy LNG at prices linked to Henry Hub, according to analysts.

And since European buyers have options between coal, gas delivered on pipelines and liquefied gas that arrives on tankers, demand there will help determine global prices.

"The market is much too rigid and sticky at the moment. There are too many barriers," said Liz Bossley, chief executive of the Consilience Energy Advisory Group Ltd.

Still, the growing connection between these hubs is a sign of how the gas market is evolving. The anticipated rise in U.S. exports of liquefied gas will strengthen the links between the U.S. and global gas markets, analysts said.

Analysts at Societe Generale expect European gas prices to "show signs of convergence to Henry Hub" by the middle of next year as more LNG from the U.S. floods the market.

Tom Earl, chief commercial officer for Venture Global LNG, is **bullish** on Henry Hub's prospects and predicts it could take on the prominence Brent crude or West Texas Intermediate crude hold for oil markets. Venture plans to build two export facilities in Louisiana.

"It's a phenomenally deep and liquid pricing mechanism that can be relied on," Mr. Earl said. "It's driven by an abundant and enduring supply in the U.S. and it now has a track record as an index that is trusted by the market."

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THE WALL STREET JOURNAL.
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Equities: Stock Buybacks Lose Some Speed --- Slowdown has some analysts worried as companies wrestle with their debt levels

By Chris Dieterich
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A perennial market worry is back under the spotlight: U.S. companies are buying back their own shares at a slower pace.

The trend has stoked concerns that a key pillar of the **bull market** is fading and could leave stocks vulnerable.

However, corporations remain the largest buyers in the **stock market**, and strong demand for bonds means that companies could cheaply borrow to ramp up repurchases again if they want.

S&P 500 companies spent 7.6% less on buybacks in the second quarter than in the year-earlier period, according to a preliminary tally from S&P Dow Jones Indices. It is the second quarterly slowdown in a row; buybacks by **S&P 500** companies fell 18% to $133.1 billion in the first quarter.

Corporate share repurchases have helped lift the U.S. **stock market** in recent years, as many companies used buybacks to juice per-share earnings, especially when their profits stagnated. Ultralow borrowing rates encouraged companies to issue bonds to fund the repurchases.

The drop-off in buybacks worries some analysts, particularly those with a close eye on mounting debt levels. Andrew Lapthorne, head of quantitative equity research at Societe Generale, noted this week that a separate measure of buybacks by U.S. companies over the past year is down 20%.

"Perhaps overleveraged U.S. companies have finally reached a limit on being able to borrow simply to support their own shares," he said.

But the letup in corporate repurchases hasn't hindered the **stock market** this year. The **S&P 500** has notched 30 records in 2017 and finished Wednesday less than 1% below this month's record.

And despite the first-quarter slowdown, stock buybacks were the single biggest driver of U.S. equity demand, according to Goldman Sachs Group's analysis of Federal Reserve Board data.

This week's huge bond offering from Amazon.com Inc. shows that big investors, including pension funds, are eager to lap up new credits, said Brian Reynolds, an analyst at Canaccord Genuity.

Amazon sold $16 billion in bonds to fund its purchase of Whole Foods Market this week at lower yields than expected. The 10-year portion of the offering fetched a 0.9-percentage-point yield-premium to Treasurys, lower even than the average yield premium on investment-grade corporate bonds. To Mr. Reynolds, such demand suggests that there will be plenty of appetite for debt to fund future buybacks, or acquisitions.

"The success of this deal indicates the power of this credit boom," he says. "It tells us there is overwhelming demand for corporate bonds."

These days, many large companies don't need to support their stock or boost their per-share earnings with buybacks. But if circumstances in the **equity market** change, the bond market appears poised to help.

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Commodities
Oil Prices Turn Up as Stockpiles Decline

By Alison Sider and Christopher Alessi
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U.S. crude-**oil prices** rose, snapping a three-day losing streak as the market rebounded from a three-week low amid signs that a supply glut is shrinking.

The U.S. crude-futures contract for September delivery rose 31 cents, or 0.7%, to $47.09 a barrel. Brent, the global benchmark, rose 76 cents, or 1.5%, to $51.03 a barrel on ICE Futures Europe.

"It just looks like a bounce off the recent weakness," said Donald Morton, senior vice president at Herbert J. Sims & Co., who oversees an energy trading desk.

U.S. government data released Wednesday showed that the amount of stored crude oil in the U.S. fell nearly 9 million barrels last week.

Oil stockpiles have fallen in nine of the past 10 weeks, and while stockpiles are still above the five-year average, they stand below last year's level.

Still, prices had tumbled after those figures from the U.S. Energy Information Administration were released because the data also showed that U.S. oil production topped 9.5 million barrels a day.

The prospect of rising oil output in the U.S. "took the wind out of the sails" of the **bullish** data, said Gene McGillian, research manager at Tradition Energy.

But signs of a tightening market helped lift prices Thursday, analysts and investors said. Contracts for Brent crude to be delivered in October have been trading higher than the subsequent months -- a market configuration known as backwardation, indicating a tightening in supplies available for immediate delivery.

The Organization of the Petroleum Exporting Countries and 10 other oil-producing nations, including Russia, agreed late last year to cap their production at around 1.8 million barrels a day lower than peak October 2016 levels in an effort to rein in a global supply glut and boost prices. Despite an extension of the deal in May, through March 2018, the market has remained subdued.

Also helping to lift prices Thursday was a fire in a unit of Royal Dutch Shell PLC's Deer Park refinery. The company said the fire has been extinguished. Still, the disruption could see "a little bit of tightness come back into the gasoline market," said John Kilduff, founding partner at Again Capital. That helped lift prices for fuel, and oil followed, Mr. Kilduff said.

Gasoline futures gained 2.31 cents, or 1.5%, to $1.5869 a gallon. Diesel futures increased 0.76 cent, or 0.5%, to $1.5820 a gallon.

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THE WALL STREET JOURNAL.
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U.S. News: Builders Pull Back as Apartment Boom Fades

By Laura Kusisto
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English

The apartment-construction boom is coming to an end, and builders aren't ramping up single-family construction quickly enough to fill the void.

Developers for the past several months have slowed down on new apartment projects, reversing a five-year trend in which rental construction boomed while for-sale home construction has lagged behind.

For apartment dwellers and landlords, that suggests a recent slowdown in rent growth might be short-lived.

"For landlords it means there won't be as much of this fear of overbuilding, but unfortunately for renters . . . it just shows that the market is going to remain tight," said Jay Lybik, vice president of research services at Marcus & Millichap, a commercial real-estate firm.

Overall U.S. housing starts declined for the fourth time in five months in July, the Commerce Department reported Wednesday. Total housing starts decreased 4.8% from the previous month to a seasonally adjusted annual rate of 1.155 million.

While starts edged 0.5% lower for single-family construction, they plummeted 17.1% for construction on buildings with five or more units.

Housing starts data are **volatile** and often are subject to large revisions, but a clear pattern has emerged over the past few months of slowing activity driven by a drop in apartment construction and only gradual improvement in single-family building.

Taking into account population growth, single-family housing starts are 17% below the 50-year average, according to Ralph McLaughlin, chief economist at housing search website Trulia.

Economists said single-family starts are being constrained by a lack of construction workers and land. That is likely to mean continued gradual recovery in the sector rather than a turbocharged expansion.

"If we could overcome those hurdles, the demand is there," said Gus Faucher, chief economist at PNC Financial Services Group.

Starts reached a postrecession peak in October 2016. Since then the pace of building has slowed despite growing confidence among builders and consumers, a rising **stock market** and low unemployment -- all factors that should support construction.

Banks have been pulling back on apartment lending, which is weighing on construction.

Starts in the first seven months of the year were up 2.4% from the period in 2016, including an 8.6% jump in single-family construction. Apartment and condominium starts for buildings with five or more units are down 10.4% so far this year.

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STOCKS & BONDS
Business/Financial Desk; SECTB
Retail Rallies on 2 Positive Earnings Reports

By THE ASSOCIATED PRESS
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3
English

Stocks rose slightly on Wednesday as Urban Outfitters and Target helped retailers rally. That was enough to cancel out more losses for energy companies.

Urban Outfitters and Target did better in the second quarter than analysts had expected, and Target raised its forecasts for the year. That helped all retailers. Technology companies and businesses that make and sell household goods also traded higher.

Shares of a variety of retailers sank on Tuesday based on weak earnings reports. With Walmart and Ross Stores set to report results on Thursday, investors could change their minds again.

''This sector is not for the faint of heart,'' said J J Kinahan, chief strategist for TD Ameritrade.

He said turbulence for retailers would be a constant as online competition kept growing and customers wanted more features like same-day delivery.

The **Standard & Poor's 500**-**stockindex** picked up 3.50 points, or 0.1 percent, to 2,468.11. The **Dow Jonesindustrial average** added 25.88 points, or 0.1 percent, to 22,024.87. The **Nasdaq composite** index gained 12.10 points, or 0.2 percent, to 6,345.11.

Urban Outfitters had a better second quarter than Wall Street had expected, and analysts said there were signs that its business was recovering after years of struggles. The stock rose $2.94, or 17.5 percent, to $19.76. Even with those gains, it is down 31 percent this year and recently traded at eight-year lows, far below its price of $45 a share in early 2015.

Target gained $1.96, or 3.6 percent, to $56.31. The company raised its annual estimates after doing better in the second quarter than analysts had expected.

Gap climbed 50 cents, or 2.3 percent, to $22.57. Express added 27 cents, or 4.8 percent, to $5.84. Retailers struggled on Tuesday after poor results and lower forecasts from Dick's Sporting Goods and Advance Auto Parts. The **S**.**&P**. **500 index** of retailers climbed 1.7 percent Wednesday after a 2.3 percent plunge the day before.

Benchmark United States crude lost 77 cents, or 1.6 percent, to $46.78 a barrel in New York. Brent crude, used to price international oils, dipped 53 cents, or 1 percent, to $50.27 a barrel in London. That pulled energy companies down further. EOG Resources fell $2.04, or 2.3 percent, to $84.98, and Marathon Oil fell 34 cents, or 2.9 percent, to $11.19.

Stocks made bigger gains earlier in the day, but they slipped after a group of chief executives, including the leaders of 3M and Campbell Soup, said they were leaving a manufacturing jobs group over comments by President Trump about the racially charged violence in Charlottesville, Va., on Saturday.

Mr. Trump then posted on Twitter that he was ending that council and a strategy and policy group.

After an early gain, the dollar dipped to 110.16 yen from 110.58 yen. The euro rebounded to $1.1769 from $1.1734.

Bond prices turned higher. The yield on the **10**-**year Treasury** note fell to 2.23 percent from 2.27 percent.

With bond yields falling, banks and financial companies also declined. Lincoln National fell $1.03, or 1.4 percent, to $71.14, and Bank of America gave up 28 cents, or 1.1 percent, to $24.19.

Gold rose $3.20, to $1,282.90 an ounce. Silver climbed 23 cents, or 1.4 percent, to $16.94. Copper jumped 6 cents, or 2.4 percent, to $2.95 a pound.

CHARTS: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Wednesday. (Source: Reuters); Housing Construction: New private housing starts and permits authorized during the month, at a seasonally adjusted annual pace. (Source: Commerce Department)

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THE WALL STREET JOURNAL.
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Fed Split On Plan For Next Rate Hike

By David Harrison
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New concerns over sagging inflation in the past few months are driving a split at the Federal Reserve about the timing of the next increase in interest rates.

The internal debate raises the possibility that the Fed could deviate from its plans for a third rate increase this year. Soft inflation has continually bedeviled Fed officials, forcing them to pull back on plans to raise rates multiple times in 2015 and 2016.

Minutes from the Fed's most recent meeting July 25-26, released Wednesday, reveal growing concern among some officials that recent soft inflation numbers could be a sign that something has fundamentally changed in the economy, leading them to suggest holding off on raising rates again for the time being.

But officials also agreed to soon begin the yearslong process of shrinking the central bank's securities holdings, perhaps as early as September, according to the minutes released following the customary three-week lag.

The Fed has raised its benchmark short-term rate twice this year and in June penciled in one more for 2017, without indicating when that might occur. But some officials at the July meeting argued against another increase until the data "confirmed that the recent low readings on inflation were not likely to persist and that inflation was more clearly on a path toward" the 2% target.

The Fed "could afford to be patient under current circumstances," they said.

Others, however, worried that the strong labor market could produce a spurt of inflation above 2% that could be difficult to control. This group cautioned that waiting too long to raise rates "could result in an overshooting of the [Fed's] inflation objective that would likely be costly to reverse," the minutes said.

Yields on the **10**-**year Treasury** note fell following the release of the minutes, and the dollar weakened.

For now, the position of Fed Chairwoman Janet Yellen and other top Fed leaders hasn't changed. In congressional testimony last month, she dismissed weakening inflation as a temporary phenomenon caused by cheaper cellphone plans and prescription drugs.

But the minutes suggest Ms. Yellen's position has its skeptics within the Fed, and officials have publicly aired their disagreement since the meeting.

On. Aug. 11, Dallas Fed President Robert Kaplan said he wanted to see "more evidence" of progress toward the inflation goal before he would support another rate increase, adding that the current 1% to 1.25% range for the Fed's benchmark short-term interest rate was "appropriate." He spoke a day after Chicago Fed President Charles Evansurged officials to "be very careful in assessing the future [rate] moves." Both hold a vote on the Fed's policy-making committee this year.

New York Fed President William Dudley,meanwhile, said in an interview with the Associated Press this week that he "would be in favor of doing another rate hike later this year."

The central bank earlier this year appeared poised to finally begin steadily raising rates as the booming labor market and nascent signs of price increases suggested the economy was heating up.

The Fed managed just a single, quarter-percentage-point rate increase in each of the past two years. In June, Fed officials indicated they expected to raise rates a total of three times this year and three next year.

The Fed's preferred inflation gauge, the Commerce Department's personal-consumption-expenditures price index, breached the bank's 2% target in February, after undershooting it for almost five years. Since then, however, price pressures have ebbed even though the labor market continued to power along.

Prices rose 1.4% in June over the previous year, down from 1.5% in May, according to the Fed's preferred inflation gauge. Meanwhile, employers added a healthy 209,000 jobs in July and the unemployment rate ticked down to 4.3%, matching the lowest level in 16 years.

The split has left markets uncertain about the future. As of Wednesday afternoon, following the release of the minutes, investors saw a roughly 50% chance the Fed would hold rates steady through the end of the year, according to CME Group.

Fiscal policy could make matters still more complicated. At the start of the year, some Fed officials anticipated the Republican-controlled Congress and the Trump administration would enact a tax overhaul and new infrastructure spending programs that would deliver a short-term economic boost that might call for higher interest rates to keep inflation in check.

Those expectations have deflated as lawmakers and the White House struggle to coalesce around legislation. Some Fed officials at the July meeting saw lower odds of fiscal stimulus or predicted it "would be smaller than they previously expected," the minutes said.

Ms. Yelle nhas a chance to weigh in on all these questions at the Kansas City Fed's annual economic conference in Jackson Hole, Wyo., this month.

Economists have found it difficult over the past few years to reconcile booming job growth with weak price pressures. Under standard economic theory, a better labor market would lead to higher wages and consumer prices. That hasn't happened.

Some officials in July said they thought the standard theory "was not particularly useful," while others believed it remained valid.

Puzzled policy makers talked through possible explanations for the disconnect, including possible structural changes in the labor market, imprecise data or the effect of globalization on prices, according to the minutes.

The minutes also indicated greater consensus around officials' plans to slowly reduce their $4.5 trillion portfolio of bonds and other assets.

Some were ready to announce the start of the portfolio whittling in July, but "most preferred to defer that decision until a coming meeting" to gather more information, the minutes said.

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More Sunny Days Are Likely Ahead for the U.S. Economy

By Alan S. Blinder
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A15
English

Every op-ed should have a simple take-away, one that's easy for readers to remember. Here's mine: Economic expansions don't die of old age -- they go on until something kills them.

As the current expansion approaches its 100th birthday (measured in months), many observers assume its days are numbered. The National Bureau of Economic Research, whose chronologies date to 1854, shows only two U.S. expansions that lasted longer than this one, which began in June 2009.

The great expansion of the 1960s went on for 106 months. We'll almost certainly beat that. But the granddaddy of them all was the remarkable 120-month expansion from 1991 to 2001. To top that, the economy would have to continue growing past June 2019 -- a very tall order.

The good news is that the end isn't nigh: Economic indicators suggest growth will continue for the foreseeable future. These signals aren't entirely reassuring, however, because recessions can't be predicted well in advance. But economists do understand how they begin and end. Therein lies the better news: No serious threat is in sight.

The most common cause of U.S. recessions in the postwar era has been monetary tightening by the Federal Reserve as a means to fight inflation. If policy makers execute perfectly, they can engineer a "soft landing" from today's low interest rates. That's what the Fed did in 1994-95, when skillful monetary tightening led into a boom. More historical instances of Fed tightening, however, have been followed by recessions. In some cases central bankers actually sought that outcome, as when Paul Volcker sent interest rates skyrocketing to vanquish inflation in the 1980s. In others, they just goofed.

Will the Fed kill the current expansion? That seems unlikely. There's no inflation in sight. Janet Yellen and her colleagues are trying to extend the good times by raising interest rates as gradually as possible, ready to pull back if signs of a slowdown emerge. The Fed is fallible, obviously; it could make a mistake. But I doubt it would be a big one.

Other recessions have been caused by "oil shocks" -- sharp increases in **oil prices** that hurt businesses and consumers. Big oil shocks preceded the world-wide recessions in 1973 and 1979, spurred by the Arab oil embargo and then the Iranian revolution.

Will an oil shock end the current expansion? Your guess is as good -- or, more accurately, as worthless -- as mine. Oil shocks are unpredictable. That said, neither markets nor experts seem to expect one.

What about a financial ruction of some sort, such as a **stock-market** crash? Many of today's worry warts focus on the long and allegedly excessive run-up in stock prices since 2009. I won't enter the debate over whether stocks are overvalued, because no one can predict the market. But a far simpler point is germane: It takes one hell of a **stock-market** crash to cause a recession.

Recall the way the economy reacted when the tech bubble burst in 2000-02. The Standard & Poor's 500 fell by almost half, and some $9 trillion of wealth was wiped out. But the subsequent recession lasted only eight months and was so mild that annual data show no drop in real gross domestic product.

What about 1929? Didn't the Great Crash beget the Great Depression? Not quite. The stock collapse was one of many causes of the Depression -- and by no means the most important. In their monumental "Monetary History of the United States," Milton Friedman and Anna Schwartz placed more blame on the Federal Reserve, which allowed the supplies of money and credit to contract violently. Ben Bernanke echoed that criticism while serving as a Fed governor in 2002, when he said at Friedman's 90th birthday party: "You're right, we did it. We're very sorry. But thanks to you, we won't do it again."

If any financial calamity does derail the current expansion, it will be more likely to emanate from the credit markets -- as happened in both the Great Depression and the Great Recession. Fortunately, there are few signs of credit markets behaving badly, unlike in 2007. Households and businesses are less leveraged, banks hold a lot more capital, and financial regulations are much tougher. Those of us who lived through 2008 will never say "never." But if a credit volcano is rumbling beneath the surface, it's pretty quiet.

What's left on the worry list? Every once in a while, for reasons that become obvious only after the fact, something shakes consumer or business confidence, causing spending to plummet. When that happens, a recession is all but inevitable. Right now, Americans and companies are both feeling sunny. But as storm clouds gather over North Korea and investigations threaten the White House . . .

As I said, expansions don't die of old age -- they go on until something kills them.

Mr. Blinder is a professor of economics and public affairs at Princeton University and a visiting fellow at the Brookings Institution. He was formerly vice chairman of the Federal Reserve.

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Banking & Finance: Amazon Raises $16 Billion in Bond Market

By Sam Goldfarb
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16 August 2017
The Wall Street Journal
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Amazon.com Inc. sold $16 billion of bonds Tuesday to help fund its purchase of Whole Foods Market Inc., meeting strong demand from investors as it made a rare trip to the debt market.

Amazon sold a $3.5 billion 10-year bond at a 0.9-percentage-point yield premium to Treasurys, below the 1.1-percentage-point guidance set by underwriters earlier in the day, according to a person familiar with the deal. The e-commerce giant benefited from similarly favorable price adjustments across six other maturities, ranging from three-years to 40-years, the person said. In its entirety, the sale added up to the fourth-largest U.S. corporate bond deal of the year, according to Dealogic.

Earlier this week, Moody's Investors Service affirmed Amazon's Baa1 rating and changed its outlook to positive from stable, saying the benefits of the Whole Foods acquisition outweighed the extra debt being taken on to fund the deal. The debt sale is just Amazon's fourth since 1998 and first since December 2014, according to Dealogic.

Compared with other companies with similar credit ratings, Amazon has relatively little debt outstanding, "making it a good opportunity for a lot" of debt investors, said Rajeev Sharma, director of fixed income at Foresters Investment Management Company.

Excluding lease obligations, Amazon reported $7.68 billion of long-term debt and more than $21 billion of cash and marketable securities as of June 30.

Expected to close in the second half of the year, Amazon's purchase of Whole Foods has the potential to reshape the grocery industry as the company makes its first major entry into brick and mortar. Amazon has said little about plans for the more than 460 stores it is acquiring, in part because the deal came together in about six weeks. But former Amazon executives expect it to reduce prices, integrate some back-end operations and add some Prime membership benefits.

Amazon has struggled to gain a foothold in the grocery industry for years. Meanwhile, traditional grocers such as Kroger Co. and Albertsons Cos. have been struggling with **volatile** food prices and competition from discounters.

The company is taking advantage of favorable borrowing conditions. As of Monday, the average yield premium on investment-grade corporate bonds relative to Treasurys was 1.11 percentage points, not far above the post-financial crisis low of 0.97 percentage point set in 2014, according to Bloomberg Barclays data.

Amazon's existing 4.8% bonds due 2034 traded Tuesday at just below 113 cents on the dollar, translating to a yield-premium to Treasurys of 0.93 percentage point, according to MarketAxess.

Laura Stevens and Justina Vasquez contributed to this article.

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Heard on the Street
New Haven Is Same as the Old One

By Justin Lahart
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The Wall Street Journal
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English

[Financial Analysis and Commentary]

When the world looks stormy, investors' first reaction is to flock to the safety of American assets. But what will they do when the U.S. is where the tempest is brewing? Maybe just flee to America, nonetheless.

The potential for U.S.-centric risks to rise in the weeks ahead is unfortunately not theoretical. When it reconvenes next month, Congress must in short order raise the U.S. debt limit or put the government at risk of not being able to pay what it owes. At the same time, there are a series of geopolitical risks, including the standoff with North Korea, that directly involve the U.S.

When investors get nervous, they typically buy Treasurys. The Treasury market is large, liquid and backstopped by the U.S. government, which historically made it a safe place to ride out trouble. Buying Treasurys means buying dollars so money that flows into them also flows into the greenback.

But if the trouble is in the U.S., it is easy to imagine that Treasurys and the dollar might not be so appealing. Say, for example, that internecine conflicts make it so that House Republicans can't raise the debt ceiling without Democrats' help, and the process of trying to hash out a bipartisan agreement takes too long. If the U.S. government guarantee on Treasurys becomes suspect, investors could look for someplace safer for their cash.

Ray Dalio of Bridgewater Associates, the world's biggest hedge fund, has suggested the best protection against the prospective risks from the debt-ceiling negotiations and North Korea isn't Treasurys or the dollar, but gold. "[I]f you don't have 5%-10% of your assets in gold as a hedge, we'd suggest that you relook at this," he wrote in a recent LinkedIn post.

Another option that wouldn't have been on the table until recently is the euro. The euro counts as the world's second-most-important currency, and euro-area **financial markets** are highly liquid. Plus, with Europe's economy no longer as fragile as it was a couple of years ago, investors ought to be more comfortable stashing their money there.

Investors may still stick to their old scripts. During the debt-ceiling imbroglio in the summer of 2011, when the **S&P 500** fell 16% in just two weeks, the dollar gained ground against other currencies, and Treasury prices rose. Similarly, at the height of the 2008 financial crisis, investors flooded into Treasurys and the dollar, even though the U.S. was ground zero for the trouble. Habits can be hard to break.

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Consumers Ramp Up Spending; Debt Rises

By Josh Mitchell and Josh Zumbrun
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U.S. consumers ramped up spending last month, supported by low unemployment, rising confidence and a sense their personal finances have been repaired a decade after the housing crisis spurred a mission to pare back debt.

But there is a catch: Households are again running up debt, and they are saving less, which could constrain spending in the future.

Sales at U.S. retailers rose a larger-than-expected 0.6% in July, the biggest monthly gain since December, the Commerce Department said Tuesday. Americans shelled out more for cars, furniture, home-improvement supplies and, more than anything, online goods, including purchases during Amazon.com Inc.'s annual "Prime Day" event. Retail sales in June were also far higher than previously reported.

"You have a good **stock market**. Employment numbers are good. Wages are outpacing inflation. That's all bringing us consumer-spending numbers that are stronger," said Chris Christopher, executive director of U.S. economics at IHS Markit.

Economists responded to the reports by lifting projections for economic growth in the current quarter. Forecasters said the latest figures suggest the economic-growth rate could reach 3% or more in the quarter, a pace the economy hasn't hit since early 2015 and a pickup from a 2.6% pace in the second quarter.

Reaching 3% growth in the third quarter -- if achieved -- would be a milestone for President Donald Trump's administration, even as there has been a lack of movement in Washington on a tax-overhaul plan and a Republican bid to change the health-insurance system.

That pace may be unsustainable in the long run, given an aging population and slow workforce-productivity growth.

Stronger consumer spending boosted profits at Home Depot Inc., which said sales in stores open at least a year rose 6.3% in the most recent quarter, led by 6.6% growth in the U.S. Carol Tome, Home Depot's chief financial officer, told analysts that growth stemmed in part from millennials forming families and moving into homes they needed to equip.

She also had an optimistic view on the economic outlook.

"There is no recession in sight," she said in an interview.

Still, it is a mixed landscape for retailers broadly. TJX Cos., parent of the discount retailers T.J. Maxx, Marshalls and HomeGoods, reported sales gains. But shares of Dick's Sporting Goods Inc. and Coach Inc. were hammered when they reported disappointing earnings numbers. Despite an increase in consumer spending, the retail sector itself is being punished by competition from online sales.

The latest positive spending trends carry some risks. A big chunk of spending of late has been covered by debt: Total credit-card balances grew $20 billion in the second quarter to $784 billion, the highest since late 2009, the New York Federal Reserve said in a separate report Tuesday. Overall debt -- including mortgages, auto loans and student loans -- hit a record $12.8 trillion.

Americans have also dramatically reduced their savings over the past year.

The personal-saving rate fell to 3.8% in June, down from a recent peak of 6.3% in October 2015 and not far off from prerecession lows.

The dual trends of lower saving rates and higher debt indicate that animal spirits -- a desire to spend and invest -- are rising among households. That might be getting fueled by higher stock prices.

For now, low interest rates are keeping a lid on the amount of money consumers must devote to paying off the debt each month. Debt-service payments account for about 10% of Americans' disposable income, hovering near the lowest levels on record, Federal Reserve data show. Just before the recession, such payments peaked at above 13%. Also, consumer debt, when adjusted for inflation and population size, hasn't reached the balances of 2008 that contributed to the crash.

But unforeseen developments -- such as **stock-market** declines or a quicker-than-expected rise in interest rates -- could leave consumers in precarious positions. Even without any major shocks, some consumers are showing distress, with credit-card delinquencies rising.

"I would not be comfortable seeing further increase in debt-to-income ratios," said Ian Shepherdson, chief economist at Pantheon Macroeconomics. "The interest servicing burden on households looks very favorable and sustainable. The risk is if interest rates have to rise further than [investors and lenders] think. What if the Fed raises rates as much as they say they're going to? Then the picture will look much different."

While the amount of debt in delinquency has dropped over the past decade, the trend appears to be turning for some types of debt. Auto-loan delinquencies have been slowly rising for several years, and the annualized share of credit-card balances becoming 30-days delinquent climbed to 6.2% in the second quarter from 5.1% a year earlier, the New York Fed said.

J.P. Morgan Chase economist Michael Feroli said the latest pickup in spending won't last long without healthier developments, such as a pickup in productivity.

"The saving rate can't decline indefinitely," Mr. Feroli said in a note to clients this month. "In the absence of an ever-declining saving rate, real income growth will have to remain strong for consumers to continue carrying the economy," he said.

Suzanne Kapner contributed to this article.

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The New York Times

Business/Financial Desk; SECTB
Retailers Stumble, but Indexes Change Little

By THE ASSOCIATED PRESS
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English

Stock indexes finished on Tuesday close to where they started as technology companies and household goods makers rose. But weak reports from sporting goods and auto parts retailers left a lot of smaller companies with steep losses.

Dick's Sporting Goods and Advance Auto Parts both disclosed disappointing second-quarter results and cut their annual forecasts, which affected numerous other companies. Other retailers also dropped, including Home Depot, which posted strong results. Other groups of stocks managed modest gains.

"Especially in the month of August, when not as many investors are around, you get a lot of this group trading," said Brian Nagel, an analyst who covers retailers for Oppenheimer & Company.

Mr. Nagel said the struggles of Dick's and Advance Auto Parts did not say anything about retailers in other industries, but if investors grew pessimistic they might sell all kinds of retailers.

The **Standard & Poor's 500-stockindex** lost 1.23 points, or less than 0.1 percent, to 2,464.61. The **Dow Jonesindustrial average** picked up 5.28 points to 21,998.99. The **Nasdaq composite** fell 7.22 points, or 0.1 percent, to 6,333.01.

Dick's Sporting Goods cut its annual forecast after a weak second quarter. The company said that athletic apparel sales were weak and that it planned to do more marketing and cut prices as it tried to keep its market share. Its stock plunged $8.04, or 23 percent, to $26.87.

Foot Locker fell $2.19, or 4.4 percent, to $47.13, and Hibbett Sports dropped $2.30, or 16.5 percent, to $11.65. Athletic apparel companies also lost ground. Nike shed $1.22, or 2 percent, to $58.56, and Under Armour lost 45 cents, or 2.6 percent, to $16.66.

Advance Auto Parts tumbled after it slashed its annual forecasts. The company and its competitors face weakening demand because car sales are slowing from a recent record pace. At the same time, online competition is growing. Advance Auto Parts dropped $22.24, or 20.3 percent, to $87.08. AutoZone sank $9.19, or 1.7 percent, to $516.13, and O'Reilly Automotive gave up $2.44, or 1.2 percent, to $196. All three have taken steep losses this year.

Coach, the luxury retailer, tumbled after its fourth-quarter sales and its profit forecast for the current fiscal year came up short of analyst estimates. Its shares fell $7.28, or 15.2 percent, to $40.64.

Bond prices fell. The yield on the **10-year Treasury** note rose to 2.27 percent from 2.22 percent. Fifth Third Bancorp rose 34 cents, or 1.3 percent, to $27.02, and Discover Financial Services added $1.37, or 2.3 percent, to $61.87.

Transocean, an offshore oil drilling rig company, said it would buy Songa Offshore for $1.2 billion in cash. The deal expands Transocean's backlog as it continues to deal with low **oil prices**, but it will saddle the company with even more debt. Transocean had about $6.6 billion in long-term debt at the end of June, and investors value the company at about $3 billion. Its stock gave up 48 cents, or 5.7 percent, to $7.91.

United States crude oil lost 4 cents to $47.55 a barrel in New York. Brent crude, the international standard, added 7 cents to $50.80 a barrel in London. Energy companies fell as well. Schlumberger fell 51 cents to $63.44, and Occidental Petroleum declined 62 cents, or 1 percent, to $60.62.

Gold fell $10.50, to $1,273.70 an ounce. Silver lost 41 cents, or 2.4 percent, to $16.71 an ounce. Copper shed 2 cents, to $2.88 a pound.

The dollar rose to 110.54 yen from 109.65 yen. The euro fell to $1.1739 from $1.1784.

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

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

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Banking & Finance: Berkshire Made $1.5 Billion on GE

By Thomas Gryta
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Warren Buffett managed to make more than $1.5 billion by investing in General Electric Co., a stock that has rewarded few in recent years.

The billionaire investor's Berkshire Hathaway Inc. lent GE $3 billion in the depths of the financial crisis -- a time when the industrial conglomerate was straining under the weight of its huge financial-services business and tight credit markets.

The $1.5 billion in profit for Berkshire is surprising partly because GE's stock isn't associated with large returns. In the past 12 months, the stock is down 19% and has been the worst performer in the **Dow Jones Industrial Average** so far this year.

Under the terms of the 2008 deal, Mr. Buffett lent the money in exchange for getting $3.3 billion paid back, plus $300 million in annual dividends, and a warrant that allowed him to buy $3 billion in GE stock for $22.25 a share for five years.

In 2011, GE paid off the loan by paying Berkshire $3.3 billion and had already shelled out three full years of dividends at $300 million apiece. Together, they accounted for a profit of about $1.2 billion.

In 2013, as his warrant to buy the GE stock was to expire, GE settled so Berkshire wouldn't have to shell out the $3 billion to buy the stock, which was then trading above the $22.25 exercise price. Instead, it gave Berkshire 10.7 million shares, which was equal to the total amount he would receive over the $22.25 exercise price of the warrant.

Mr. Buffett sold all those shares in this year's second quarter, according to a newly released regulatory filing. We don't know when exactly they were sold, but the shares were valued at $315 million at the end of March.

Add in about $30 million in regular dividends paid over the time he held the shares, and the $1.2 billion in profit from 2011, and Berkshire got a total of about $1.545 billion in cash for lending $3 billion for three years. Not a shabby return.

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World News -- China's World: Trump Walks Dangerous Line With Beijing on Two Fronts

By Andrew Browne
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English

SHANGHAI -- By ordering his first trade action against Beijing, while amping up pressure on Chinese leaders to rein in Pyongyang's nuclear menace, President Donald Trump is bringing to a head two of the most intractable problems that bedevil U.S.-China relations.

There are hints that Mr. Trump's hard-nosed strategy could be having an impact -- at least in the near term. After repeated North Korean threats to launch missiles toward Guam, Pyongyang suddenly backed away from that threat Tuesday. And China has signed on to U.N. sanctions that will slash North Korea's meager foreign revenues.

But Mr. Trump's strategy comes with risks; each issue -- trade and North Korea -- is **volatile** enough to upend the relationship.

Mismanaged, one could ignite a trade war, the other trigger scenarios that could lead to military conflict.

To avoid these dangers, the two sides would have to reconcile clashing views on Asian security, which shape their divergent approaches to North Korea, and incompatible economic systems, which drive trade frictions.

The Chinese economy is now powerful enough to withstand any trade sanctions; it is less dependent on exports, whereas U.S. corporations are more reliant than ever on access to China's consumer markets. A trade war would hurt both sides.

Meanwhile, Chinese President Xi Jinping, riding a wave of assertive nationalism, aims to diminish the U.S. presence in Asia and weaken its alliance system. He has no interest in any kind of arrangement for the Korean Peninsula that would strengthen America's position there.

White House officials insist there is no linkage between the North Korea issue and Monday's presidential order to examine whether an investigation is warranted into Chinese requirements that U.S. companies give up technology in return for market access, as well as outright intellectual property theft.

Yet Mr. Trump has explicitly made the connection. This was the grand bargain he dangled to Mr. Xi: Help me on North Korea, and I'll go easy on trade. He's rapidly losing patience, though. "Our foolish past leaders have allowed them to make hundreds of billions of dollars a year in trade," Mr. Trump tweeted, "yet they do NOTHING for us with North Korea, just talk."

That's been the U.S. complaint for years. Now, North Korea is on the point of perfecting intercontinental ballistic missiles able to strike the U.S. mainland.

And mercantilist policies, like forced technology transfers, have become an integral part of China's state-led industrial model, imperiling America's long-term economic prospects.

We're moving toward a climax on two fronts in a crisis atmosphere.

To be sure, Mr. Trump is acting cautiously and deliberately, despite heated rhetoric. An investigation into alleged Chinese trade abuses could take up to a year, leaving ample room for compromise.

On North Korea, he has stressed the need for cooperation, although his threat to unleash "fire and fury" against Kim Jong Un was as much intended to scare Beijing into action as to rattle the Korean dictator.

Avoiding worst-case scenarios is a challenge as great as any the U.S. and China have faced since diplomatic normalization in 1979.

Henry Kissinger, an architect of that breakthrough, writes in The Wall Street Journal that instead of subcontracting to Beijing the task of achieving American objectives on North Korea, the only feasible approach is "to merge the two efforts and develop a common position."

But the gap between Beijing and Washington remains immense.

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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB

Stocks Jump as North Korea Tension Eases

By THE ASSOCIATED PRESS
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English

Stocks rallied on Monday as technology companies and banks helped companies regain much of the ground they lost last week, although the calm that has defined the market this year was not restored.

Almost 90 percent of the **Standard & Poor's 500-stockindex** finished higher. Technology stocks outpaced the rest of the market after a strong report on Japan's economy. Last week, amid rising tensions between the United States and North Korea, stocks had some of their biggest losses in 2017. That eased on Monday after officials said fighting was not imminent.

''What the market really reacted negatively to on Thursday was Trump's somewhat incendiary comments about 'fire and fury,''' said David Lafferty, chief market strategist of Natixis Global Asset Management. ''The administration sort of walked back Trump's comments over the weekend.''

Although stocks climbed, investors did not loosen their grip on some traditionally safe investments. **Bond prices** slipped only slightly and gold finished a little lower, while silver prices rose.

The **S**.**&P**. **500** jumped 24.52 points, or 1 percent, to 2,465.84. The **Dow Jonesindustrial average** gained 135.39 points, or 0.6 percent, to 21,993.71. The **Nasdaq composite** index added 83.68 points, or 1.3 percent, to 6,340.23.

Among technology companies, Apple added $2.37, or 1.5 percent, to $159.85, and Microsoft rose $1.09, or 1.5 percent, to $73.59. After two days of losses, Nvidia jumped $12.44, or 8 percent, to $168.40 as chip makers generally made outsize gains.

Bond prices turned lower. The yield on the **10**-**year Treasury** note rose to 2.22 percent from 2.19 percent late Friday. That helped banks, as higher bond yields mean higher interest rates and greater profits on mortgages and other loans.

Bank of America climbed 56 cents, or 2.3 percent, to $24.42, and JPMorgan Chase gained $1.07, or 1.2 percent, to $92.49.

United States crude oil lost $1.23, or 2.5 percent, to $47.59 a barrel in New York. Brent crude, the international standard, shed $1.37, or 2.6 percent, to $50.73 a barrel in London. Energy companies finished with modest losses.

Many companies used the weekend to complete deals.

Target is buying Grand Junction, a delivery logistics company, to help it offer same-day delivery service to in-store shoppers. It did not say how much it would pay for Grand Junction, which connects retailers with about 700 delivery companies around the country that take items to customers from distribution centers.

Target climbed 76 cents, or 1.4 percent, to $55.79. Amazon.com rose $15.31, or 1.6 percent, to $983.30.

VF Corporation, which owns North Face, Vans and other clothing and shoe brands, said it would buy the work clothes maker Stocks & Bonds for $820 million. Its stock rose $1.92, or 3.1 percent, to $63.50.

The drilling technology developer Tesco said it would be acquired by Nabors Industries, a drilling contractor, in an all-stock deal. The companies said Tesco was being valued at $4.62 a share. Tesco added 50 cents, or 12.8 percent, to $4.40. Nabors lost 16 cents, or 2.4 percent, to $6.64.

Fiat Chrysler climbed after Automotive News reported that a Chinese carmaker had offered to buy the company. It did not identify that company and said Fiat Chrysler had rejected the offer as too little, but investors hoped for another bid. Fiat Chrysler stock gained 99 cents, or 8.5 percent, to $12.60.

Gold fell $3.60 to $1,290.40 an ounce. Silver added 5 cents to $17.12 an ounce. Copper dipped 1 cent to $2.90 a pound.

The dollar rose to 109.63 yen from 109.04 yen. The euro fell to $1.1782 from $1.1824.

CHARTS: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Monday. (Source: Reuters); 3-Month Treasury Bills: High rate at weekly auction. (Source: The Bond Buyer)

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Heard on the Street
China Growth Slowdown Arrives

By Nathaniel Taplin
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[Financial Analysis and Commentary]

After a year of positive surprises, the specter of a China slowdown is back.

During the first half of 2017, deflation was banished, debt defaults slowed, and growth rebounded.

Nonetheless, China watchers have long warned that tighter credit would eventually mean slowing growth again. This month, the first real evidence of that arrived: China's official purchasing managers index was sharply lower than expected, and July industrial-production and retail-sales data released Monday were the weakest since February. Investment growth was the weakest since December.

After buoyant second-quarter data, sentiment on China is at its most **bullish** in years. But the very gradual ramp down in credit growth -- far softer than in previous tightening cycles -- still likely means a moderate, rather than drastic, economic slowdown in the closing months of 2017.

The weakness revealed by Monday's numbers was broad-based -- with the notable exception of the steel sector. Real estate and infrastructure investment both weakened, with the former growing at its slowest pace since June 2016. Growth in China's massive information-technology sector -- a good indicator of export strength -- also slowed.

There are, however, two big reasons to expect a mild rather than sharp slowdown. The first and most important is credit growth, which nearly always leads the overall growth trajectory in China. Here the news is good: In contrast to past tightening cycles in 2010 and 2013, the slowdown in credit growth has been quite mild. Growth in total debt-and-equity finance outstanding for households and nonfinancial firms, including local government bonds, has only slowed by around 2 to 3 percentage points since its early 2016 peak.

The other reason for optimism is the political calendar. China is about to hold a key Communist Party meeting this fall to select its next generation of leaders. President Xi Jinping and his allies want slower growth and lower leverage, but they don't want a dramatic drop at such a sensitive time.

The odds remain good that 2018, rather than late 2017, will be the year when China worries start to plague markets again. But investors should still expect some **volatility** in the days ahead as markets digest the first clear signs of stumbling growth in China this year.

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Equities: Fear Gauge Falls As Turmoil Eases

By Chris Dieterich
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Market **volatility** melted away quickly on Monday. Again.

The **S&P 500** rebounded 1% in Monday's trading session, sending the CBOE**Volatility** Index plunging 20.5%, the most in nearly four months. The index, known as the VIX, is an options-based measure of demand for **S&P 500** portfolio insurance over the next 30 days.

It was a major reversal from last week, when U.S. stock benchmarks suffered their biggest declines in months amid tit-for-tat threats between the U.S. and North Korea. The VIX briefly surged last Thursday to its highest level since Election Day, an indication of the rush to buy protection as stocks fell.

Last week's VIX spike proved an opportune chance, yet again, for bettors to wager that the market turmoil wouldn't last. Steadily rising stocks in mostly placid trading has made shorting **volatility** -- effectively betting on continued calm -- one of this year's most profitable trades.

"Just like that, the vicious selloff that we saw last week in global equities has reversed sharply," said Paul Weisbruch, vice president of ETF and options trading at Street One Financial.

The VIX is dubbed the "market's fear gauge" for its tendency to fall when stocks rise and vice versa. There has been little fear of late.

Monday's VIX decline was the steepest since April 24, when the first round of France's presidential election defused worries that a candidate skeptical of France's role in eurozone might win.

The epicenter of the short-VIX trade has been heavily traded exchange-traded funds and notes. The VelocityShares Daily Inverse VIX Short-Term ETN, better known by its ticker, XIV, a backward rendering of the fear gauge, jumped 12.6% Monday. It was the biggest one-day pop since 2011 and second-biggest since the product launched in 2010.

Last week saw huge trading volumes in popular **volatility** exchange-traded products. The number of shares traded last Thursday in the iPath **S&P 500** VIX Short-Term Futures ETN, which rises price when the VIX goes up, hit a record, according to FactSet.

"VIX price action today is confirming that the **volatility** spike week is starting to resemble the several we have had over the past couple of years -- sudden thunderstorms which leave as quickly as they arrive," wrote Michael Purves, head of equity derivatives research at Weeden & Co.

"It is always hard to call an 'all clear' this early in the process," he said, "but the VIX market and cross-asset behavior are suggesting this dip will continue to be bought."

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Streetwise: Bets on Market Volatility Resemble Gambling

By James Mackintosh
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English

When the capital development of a country becomes a byproduct of the activities of a casino, the job is likely to be ill-done.

-- John Maynard Keynes

The **stock-market** selloff last Thursday was a classic example of Casino Capitalism. President Donald Trump descend-ed into a war of words with North Korea's Kim Jong Un, and analysts decided nuclear apocalypse wasn't funny at all.

Stocks fell a bit, but the focus was on whether geopolitics meant that the era of superlow **volatility** was coming to an end, rather than on the prospects for individual companies.

Trading in three big exchange-traded funds and notes pegged to **volatility** futures totaled $9.3 billion -- higher than in any single stock, and second only to the main **S&P 500** ETF. Individually, the three funds ranked 10th, 11th and 12th among the most-traded companies by value in the U.S.

There is a decent case to be made that being short **volatility** -- that is, betting against the so-called VIX index of implied **volatility** -- is a solid long-run investment, akin to selling insurance policies. It comes with big occasional losses, but the hope is that over time losses are more than offset by the steady premiums collected. I'm skeptical that the argument holds after the incredible gains made by the strategy in the past year, with the main vehicle for betting against the CBOE**Volatility** Index, or VIX, up 104%, after losing 21% last week. But even for true believers, there is no need to trade furiously.

Left-wing critics have spent much of the past decade blaming the 2007-2008 financial crisis on rampant speculation, even though the problems lay more in banking and debt than in the equity markets. Yet, **stock-market** transactions today are dominated by traders with a get-rich-quick mentality, not by investors hoping quietly to accumulate savings for the long run.

The short-term nature of most trading is shown best by the **volatility** funds, where daily trading is as close to gambling as to make no difference. It isn't only **volatility** funds, and isn't only Thursday: This year, the junior gold miners' ETF has been the 24th most-traded stock in the U.S., even though by value it wouldn't even feature in the **S&P 500**.

It shows up in some of the most speculative stocks, too: Trading in Tesla Inc. this year has been five times its market value, while trading in Nvidia Corp. has been four times its market value. Some people might be trying to make sensible assessments of the long-run cash flows from Tesla's electric cars or Nvidia's graphics chips, but a lot have just been betting on how sentiment toward the companies will change.

There are three obvious questions about market speculation. First, does it matter? Second, is there anything to be done about it? And third, how can those who recognize it profit?

Clearly excessive speculation matters. The market fulfills a social function as well as a way to make money, and the social function is to provide a way to raise capital, and a guide to asset allocation. Successful companies are rewarded with a higher share price, and the effort to make money -- or greed, if you are on the left -- pushes more capital toward that area.

Tesla is able easily to raise new equity to finance electric-vehicle development because its shares are in demand; at the same time, investors' interest in electric cars pushes the rest of the auto industry toward battery power, too.

Excessive speculation would mean markets become less effective at directing capital toward profitable endeavors, harming the economy as effort is wasted on projects such as dot-com disaster Pets.com.

But that doesn't mean anything should be done about it. Keynes advocated a trading tax to reduce speculation, an idea recently revived by the European left. The 81 years since have given countries with stock markets the biggest uplifts in living standards of any period in history -- mostly without such taxes.

Some speculation is essential, to provide the ease of trading that makes a listed stock more attractive to buyers than an identical private investment.

Investors should try to avoid behaving like Capt. Renault in "Casablanca," who was "shocked -- shocked! -- to find that gambling is going on in here." If speculators are putting the wrong price on a stock, that is an opportunity to buy it cheap or sell it above its value. The long-term investor has to accept that share prices can always become even further removed from reality, but they should regard excessive speculation as an opportunity, and hold their nerve.

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Heard on the Street
Shadow Fed Is Glum on U.S. Stocks

By Asjylyn Loder
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[Financial Analysis and Commentary]

The economic predictions from the annual gathering known as Camp Kotok resemble two smart people trying to steer a canoe: lots of zigging and zagging to get back to the same place.

Every year, David Kotok, chief executive of Sarasota, Fla.-based Cumberland Advisors, invites about 50 economists, money managers, former central bankers and others to a fishing camp at the northern edge of Maine.

The highlight of the trip is a betting pool predicting how the economy will fare in the coming year. While the individual forecasts remain anonymous, their collective prediction doesn't. This year's guesses offer widely divergent views, but the consensus often looks like more of the same.

The predictions for core inflation, for example, averaged 1.9%, with a high of 3.2% and a low of 1%. In other words, the consensus expectation is for little change. Likewise, a marginal bond selloff will push yields on 10-year Treasurys to 2.57% and U.S. benchmark **oil prices** will be $50.20 a barrel or barely changed.

The one bold and surprising prediction is for a modest retreat in stocks over the next year. The forecasts for the **S&P 500** were as low as 1800, a 27% drop from today's levels, while the average was just 2416.

Should readers be reassured by the mostly status quo predictions? Not really. Groups of smart people often get blindsided by reality.

Contrarians may take solace from some campers' **bearish** call on stocks too. As any angler knows, though, those who go looking in the weeds sometimes land the big one.

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THE WALL STREET JOURNAL.
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Fund's Target Is Far, Far Away

By Daisy Maxey
860 words
14 August 2017
The Wall Street Journal
J
B1
English

Vanguard Group is urging investors to think far ahead when it comes to retirement planning.

The Malvern, Pa., asset manager recently launched Vanguard Target Retirement 2065, a target-date fund geared to investors 18 to 22 years old who would be in line to retire about 50 years from now.

It is believed to be the first such fund pegged to a year that far out and is one of the longest-dated funds from inception to target with a 48-year investment runway.

Billed as one-stop solutions for passive retirement investors, target-date funds generally take an aggressive initial allocation heavy on stocks. Then they automatically shift their asset allocations to what the industry considers a more age-appropriate, conservative mix of stocks and bonds and sometimes other assets as an investor ages and his or her expected year of retirement, or target, approaches.

The funds are commonly used as defaults in many retirement plans for workers who don't choose from among their investment options, but are also chosen by investors and used by financial advisers. Assets in target-date mutual funds have grown to $959 billion in this year's first quarter from $133 billion in the first quarter of 2007, according to the Investment Company Institute. Of those assets, 67% are in employer-sponsored defined-contribution plans, it says.

William Koehler, president of FCI Advisors, an investment firm in Overland Park, Kan., says the funds offer a predetermined, thoughtful and diversified allocation and make sense for a lot of investors. "As a father of an 18-year-old, 48 years is a long time horizon and a [stock-heavy] mix is not inappropriate for someone with a half-century time horizon," he says.

But critics say target-date funds' allocation paths could disrupt retirement-savings success in certain market scenarios.

For instance, critics say, funds with a 2010 target date lost 30% on average in 2008, and their losses ranged as high as 41%, a big hit for an investor who had planned to retire in just a few years. The **S&P 500** lost more than 38% in 2008.

Jude Boudreaux, founder of Upperline Financial Planning LLC in New Orleans, says the problem with target-date funds is that they are in large part very aggressive. Investors need steady performance that they can live with in a downturn, Mr. Boudreaux says. "For somebody in their early 20s, that's probably going to happen 10 or more times between now and retirement," he says.

His concern is that investors in an aggressive target-date fund "are going to freak out and sell at the worst possible time [and] that's going to do far more damage" than the benefit they'll get "from a really high stock allocation," he says.

Like Vanguard's other Target Retirement funds, the 2065 fund, launched last month, will invest only in broad-market Vanguard index funds. Currently, 54% of its assets are in Vanguard Total **Stock Market** Index Fund, 36% are in Vanguard Total International **Stock Index** Fund, 7% are in Vanguard Total Bond Market Index Fund and 3% are in Vanguard Total International Bond Index Fund. At 0.16% for individual investors, the fund's expected expense ratio is below the 0.96% current average expense ratio for the retail funds in the target-date 2060+ funds category, according to Morningstar Inc.

The goal is to ensure that employers have a default investment option that is appropriate for new hires who are automatically put into workplace retirement plans, says John Croke, head of multiasset-product management in Vanguard's portfolio-review department. About 75% of Vanguard's target-date assets are invested through employer-sponsored plans, while the remaining 25% are from individual investors, he says.

Matthew Tuttle, portfolio manager at Tuttle Tactical Management in New York, says he has no problem with a 25-year-old putting all of his or her money in stocks today as long as he or she is prepared to sell when the market gives a warning, something a target-date fund won't do.

"The market-timing hall of fame is always going to be empty, but you can react to what the market is telling you," Mr. Tuttle says. Target-date funds fail to do so, he says.

Still, target-date funds have their uses for some investors, says Cheryl Costa, founding principal of Woodside Wealth Management in Framingham, Mass. She uses them sparingly for clients with small account balances or for those who have limited options in their 401(k) plans, she says.

Even if young investors are investing today at a **stock-market** high-water mark, they will likely be holding their investments for decades, and they will benefit from being invested in stocks over that time, Ms. Costa says.

But most investors should probably spend the time to invest their portfolio, look at it once or twice a year, then rebalance it occasionally, she says. They will probably do better that way over the long term, she says.

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THE WALL STREET JOURNAL.
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MoneyBeat: Blue Chips Hold Steady

By Ben Eisen
319 words
14 August 2017
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English

Rising tensions between the U.S. and North Korea have barely dented the **Dow Jones Industrial Average**'s march to records this year.

The blue-chip Dow has gone 60 days without a move of 1% or more in either direction. The streak matched a run in 2007 for the third-longest in a half-century and is nearing a stretch of 69 days set in 1995, according to WSJ Market Data Group.

The Dow industrials came close to breaking that streak last week. The index fell 0.9% on Thursday, a day the **S&P 500** lost 1.4%, marking its first 1%-plus move in either direction in 59 days. The Dow closed Friday down 1.2% from its record of 22118.42 hit a week ago.

Thursday's moves are the most recent example of the divergence between the Dow industrials and the **S&P 500**, the two most closely watched U.S. stock benchmarks. High-price components like Boeing Co. and McDonald's Corp. have buoyed the price-weighted Dow recently. Meanwhile, tech giants like Amazon.com Inc. and Facebook Inc., which have some of the biggest market values, have dragged on the market-cap weighted **S&P 500**. Tech firms underperformed in Thursday's selloff.

All told, the Dow is up 19% since the presidential election on Nov. 8, while the **S&P 500** is up 14%. Though the two indexes are constructed differently, they have usually moved in lockstep. Some investors believe that means the Dow's outperformance can't continue.

The Dow's stretch of sub-1% days is also a sign of how quiet the **stock market** has been this year. The index has moved up or down by 1% only five times in 2017. That is the fewest for any comparable period since 1965.

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THE WALL STREET JOURNAL.
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Heard on the Street
Overheard

168 words
14 August 2017
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English

[Financial Analysis and Commentary]

American investors may be cheering on the rally in U.S. stocks this year, but they would have been better off putting their money almost anyplace else.

Take Belgium, where the MSCI index gained 15.1% through Thursday in dollar terms, versus 9% for the U.S. index. Or Mexico, which is up 27.2%. Austria has soared 39.9%.

Indeed, of 48 developing and emerging-market countries covered by MSCI, only nine have performed worse than the U.S. MSCI's index of global stocks excluding the U.S. is up 13.5%.

Even the U.S. stock rally is mostly a global affair. Large multinationals with major operations abroad have been driving America's **stock-market** gains as improving overseas economies fuel profit gains. Meanwhile, shares of smaller, domestically oriented companies have been faring worse.

Investors who have focused solely on the U.S. have let a world of opportunity pass them by.

Document J000000020170814ed8e0000y

The New York Times

FUTURE TENSE
Style Desk; SECTST
The Cryptocurrency Clique

By TEDDY WAYNE; 's most recent novel, ''Loner,'' is just out in paperback.
2,218 words
13 August 2017
The New York Times
NYTF
Late Edition - Final
2
English

Most readers have probably heard of Bitcoin, the digital coin that dominates the cryptocurrency market. It has gained notice both because of its skyrocketing value (from less than a cent in early 2010 to around $2,600 currently) and because it is frequently a key player in hacking- and black-market-related stories, from the looting of nearly half a billion dollars in coins from the Mt. Gox exchange in 2014 to the recent demand for payment in Bitcoin in the WannaCry ransomware attack. (For the uninitiated, here is a useful primer on Bitcoin.)

But do you know Ethereum , with a total value of coins in circulation of close to $20 billion? Bitcoin Cash, which split off from the original Bitcoin on Aug. 1, lost about half its value within hours, then nearly quadrupled by the next day? Or, rounding out the Big Four, Ripple -- whose currency is known as XRP -- which shot up to about 40 cents by mid-May from less than a cent at the end of March? (Full disclosure: I owned but unloaded three of these currencies before writing this article.) Then there are over 800 lower-value and often creatively named coins among those listed on Coinmarketcap.com. One can buy FedoraCoin (its jaunty symbol being the Justin Timberlake-approved hat), CannabisCoin (one guess what it looks like) or, to choose one of many bringing up the rear, Quartz, currently priced around three-thousandths of a cent. (Bad news for those who bought it at just under $2 at the end of May.)

After years as a niche market for technologically sophisticated anarchists and libertarians excited about a decentralized financial network not under government control, digital coins may be on the verge of going mainstream. ''It's the wild, wild West,'' said Ron Ginn, 35, founder of a private photo-sharing service called Text Event Pics in St. Augustine, Fla., who has taken all his money out of the **stock market** and put it into Ripple and real estate. ''This is like getting to invest in the internet in the '90s. I'm obviously very **bullish**, but I expect to make a couple million dollars off very little money. This is the opportunity of a lifetime. Finance is getting its internet.''

Cryptocurrency has understandable appeal to millennials who came of age during the 2008 financial crisis and are now watching the rise of antiglobalist populism threaten the stability of the international economy.

''There's a low cost for entry, you don't pay a lot of fees and millennials are the most tech-savvy,'' said John Guarco, 22, a recent Duke graduate living on Staten Island who, like most of the people interviewed for this article, asked that names of the coins in which he has invested not be published for fear of being targeted by hackers.

Unlike previous generations, many of these greenhorn investors don't have pensions or 401(k)'s, are mistrustful of socking money away in mutual funds and are fully accustomed to owning digital assets that have no concrete properties. As traditional paths to upper-middle-class stability are being blocked by debt, exorbitant housing costs and a shaky job market, these investors view cryptocurrency not only as a hedge against another Dow Jones crash, but also as the most rational -- and even utopian -- means of investing their money.

Sebastian Dinges, 33, the director of operations for Cheeky, a company that makes mealtime products, started his first job after college in 2007. Once he had enough money to invest in the **stock market**, he said, he ''wanted to be risky and get a big return.'' Within six months, the market crashed.

''So there's definitely disillusionment,'' he said.

The majority of Mr. Dinges's holdings are now in cryptocurrency. His skepticism of traditional markets is shared by a number of cryptocurrency enthusiasts in his age bracket who have observed the recent political and economic upheavals.

"I do feel we've reached a new level where nobody knows what's going to happen," said Gabe Wax, 24, who runs the Rare Book Room recording studio in Brooklyn. "The things we've been able to rely on aren't as reliable and we have a president who knows absolutely nothing about how the economy works, and he's appointed people who have twisted views about how it works. That, more than anything, is what scares me."

Mr. Wax was still in high school when the 2008 crisis unfolded, but he was paying attention to the headlines. So was Mr. Guarco, who said cryptocurrency was a "safeguard against the **volatility** in the rest of the world."

"Investing in cryptocurrencies is a hedge," he continued. "We're entering a period of long-term deregulation and tax cuts to the wealthiest. It's not the best recipe for stability."

Mr. Wax also invests in cryptocurrency to shore up his finances as a freelancer in the precarious music industry.

"I constantly feel like I'm looking over the edge of a cliff," he said. "I don't like the idea of money just sitting in a savings account -- with the way inflation works and how low interest rates are, you're losing money. There's less money than there's ever been in the history of recorded music, so that gives me anxiety. It's weird to say that owning cryptocurrency soothes that anxiety, because it's counterintuitive, but it does."

He is far from the only one hoping cryptocurrency will assuage his financial worries. Internet forums and Twitter accounts devoted to the subject abound with speculators who view digital coins as a lottery ticket, forecasting "moonshots" with, perhaps, irrational exuberance. For office drudges, the underemployed or those crushed by college loans, the slim chance that a $100 investment may someday reap close to $100 million -- as would have happened with an investment of that amount in Bitcoin in 2010 -- is too enticing to pass up.

But there are plenty of dissenters who are less sanguine about the future of cryptocurrency, arguing that we are in the midst of the biggest bubble yet, fueled by speculative trading in Japan and South Korea, and pointing to previous Bitcoin crashes as justification for their skepticism.

Nevertheless, it's not just twentysomethings in the gig economy who are losing faith in traditional investment tools. Mr. Ginn quit working at Fidelity Investments the day before the market crash in 2008.

"It's not investing," he said of his old job. "It's just sticking money somewhere. The investment advisory industry has to give out watered-down, averaged-out advice. When you get into mutual funds, you lose a lot of the ability to beat the markets."

Tom Berg, 44, a founder of BloKtek Capital in Northbrook, Ill., which invests in digital currencies and assets, said: "I got out of the **stock market** years ago. "My personal opinion was I'm not going to fight for 2 or 3 percent. It's a conservative place." By contrast, digital currencies -- his preferred term to cryptocurrency, which he says carries the stigma of black-market money laundering -- have disrupted the internet and created a major opportunity for those willing to jump in early, Mr. Berg believes. "At first it was an internet of information," he said. "Then it evolved to an internet of things -- social media, I can buy this, I can sell stuff. Now it's the internet of value."

In his view, cryptocurrency left the "dark ages" six months ago, when it was still the domain of "a lot of people who believed in anarchy." He thinks that cryptocurrency is a good five years from going mainstream and that the bubble will burst some time after that, at which point he will sell his assets.

"If my landscaper ever asks me about crypto, that's the day I get out," he said.

There are some barriers to mass popularity. Investors must have enough familiarity with and trust of the internet to send money through a cryptocurrency exchange, such as Coinbase or Poloniex. Some of the exchanges also have elaborate and slow identity-verification processes, and certain states do not permit users to invest on them yet. But it's continually getting easier, and various exchanges allow credit cards for speedy purchases.

Once one has bought digital coins, the threat of hacking remains a serious concern. Even users savvy enough to use two-factor authentication on their phones may not have the know-how to set up "cold storage," or a system of storing coins offline (such as on a computer or dedicated piece of hardware not connected to the internet). There is no Federal Deposit Insurance Corporation insuring lost money; once it's gone, it's gone.

Assuming one's money is protected, there are, of course, the standard risks of investing, amplified by the **volatility** of cryptocurrency. It's common for a coin to fluctuate double-digit percentages within a day, often because of "pump-and-dump" techniques from coordinated users trying to manipulate prices in completely unregulated free markets.

For this reason, none of the investors I spoke with engage in short-term trading but instead choose, in the online parlance of cryptocurrency enthusiasts, to "hodl" (a misppelling of "hold" on a 2013 Bitcoin forum that came to mean "hold on for dear life" rather than sell off for temporary gains). Mr. Dinges and his wife recently bought a house in Los Angeles, but he didn't use his Bitcoins to help with the renovations.

"This is a great opportunity to pull it out and put it toward fixing the house," he said, "but the future potential is not worth it."

Mr. Berg would agree, advising BloKtek Capital clients to "set it and forget it" and not fall prey to the temptation to make short-term transactions.

"My wife and I use it as our bank account," he said. "Every paycheck, we put a percentage into long-term holdings. We do not expect to become rich overnight. That's a way to become very poor in one hour." (Though his wife works at his company, it bears mentioning here that the vast majority of cryptocurrency investors seem to be male, and their Twitter discourse tends to be less than refined, with insults often lodged at devotees of rival currencies.)

Even those in it for the long haul, however, admit to monitoring the prices compulsively, scratching the gambler's itch.

"If I have a moment where the price has left my mind, I'll want to reinsert it," Mr. Wax, the record producer, said. "I check it as much as any social media. It's become as distracting as anything else on my phone."

As he works in the cryptocurrency world, Mr. Berg maintains an even more observant -- and most likely exhausting -- regimen.

"I'm always watching the markets," he said. "The saying is, 'Crypto never sleeps.' It's 24/7, it's global, it doesn't have a **stock market**, it doesn't have a bell.

"I sleep about four hours a day."

Beyond its potential long-term financial rewards, many holders of cryptocurrency view it as a vehicle for social change. While many coins have no value beyond serving as a potential alternative currency, or began as larks that have since been popularized by speculators (such as Dogecoin , whose logo is an internet-meme dog and which now has a market capitalization of about $200 million), others -- namely Ripple and Ethereum -- have meaningful real-world utility and are being adopted by banks and financial institutions.

"The financial gain is fun, but it's really about improving the world, improving the financial system, transparency, cost, increased speed," Mr. Ginn said. "It's the double-sided tape for society. When **financial markets** collapse, the tape rips people apart and you have a system collapse. Finance got away with it in '08; it almost took the world down, and nothing changed." In lieu of more stringent government oversight, he believes that Ripple can help "reduce systemic risk."

That safety-net altruism drives Yoni Saltzman, 24, who designs robotic mechanisms for aerospace and medical applications. Mr. Saltzman has holdings in four different cryptocurrencies and is working with a small team in New York to develop a digital coin it hopes to introduce within a year. "It's not just about making money," he said. "We like the idea of not only changing the world, but saving the world."

This is, of course, the same vaguely idealistic rationale Silicon Valley executives routinely trot out to justify their ventures, not all of which seem especially concerned with the greater good. In the meantime, those who have boarded the crypto-train frequently proselytize to friends and family. Unsurprisingly, they have more luck with their younger peers. Mr. Guarco, the Duke graduate, has persuaded a few friends to take the plunge.

His older relatives, however, unaccustomed to coins that one can't pluck out of a lint-filled pocket, are a harder sell.

"They usually respond, 'Crypto-what?'" he said.

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DRAWING (DRAWING BY JAMES HEIMER)

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The New York Times

STRATEGIES
Money and Business/Financial Desk; SECTBU
Why the Dow Isn't Really the Stock Market

By JEFF SOMMER
1,248 words
13 August 2017
The New York Times
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Late Edition - Final
6
English

Despite a few rocky days recently, the stock market is having a great year. But exactly how great depends on what you mean by "the stock market."

Are you talking about the Dow Jonesindustrial average, the oldest and best-known measuring stick for the American stock market? If so, that one has risen more than 18 percent over the last 12 months, a spectacular return.

Or are you referring to the Standard & Poor's 500-stockindex, the benchmark for large companies used by many stock professionals? If so, that market has been far less impressive, with a gain in the last 12 months of a little over 12 percent.

Or do you mean something else entirely?

The divergence between the two big indexes began in November, when the Dow started to surge ahead of the S.&P. 500. Though the shift in the indexes was little noticed at the time, the Dow has gained more than 20 percent since then, while the S.&P. is up about 15 percent. A gap of this magnitude is unusual: The two indexes usually move within a percentage point or two of one another. Why has this happened? To a surprising extent, the divergence depends on just two stocks, Apple and Boeing, and on the ways in which the two indexes are constructed.

Both companies have had outstanding performances recently. Boeing stock, which trades at about $235, is up roughly 50 percent for the calendar year. Apple, which trades at roughly $157, has risen about 36 percent. But what may appear puzzling is that while Boeing has had a barely noticeable impact on the S.&P. 500, it has provided a gigantic lift to the Dow.

According to data supplied by Howard Silverblatt, a senior index analyst at S.&P. Dow Jones Indices, Boeing accounts for one quarter of the Dow's entire increase for 2017. That's almost double Apple's contribution.

Yet Apple is the most valuable company in the entire stock market; its market capitalization is more than $800 billion. Boeing, while hardly small, has a market capitalization of only about $135 billion. Such considerations are critical in the S.&P. 500. Stocks with a bigger market cap have a proportionately bigger impact on the index. That's why it is known as a "market-weighted index," and why professionals use it much more widely than the Dow.

"The S.&P. tells you much more about how the market is really doing," said Jeremy J. Siegel, a finance professor and market historian at the Wharton School. "Modern indexes that track stock markets are generally market weighted."

The Dow is not a modern index. It is old and simple, created more than a century ago by Charles Dow, who was the co-founder of Dow Jones and the first editor of The Wall Street Journal. For many , the Dow is synonymous with the American stock market. "If you say, how many points did the market move today, you're talking about the Dow," Professor Siegel said. "But it's a crazy way to measure the market."

Only 30 stocks are included in the index, which uses a measuring system so simple that it seems arbitrary: Stocks are weighted by price. That means that the highest-priced share of a stock -- which happens to be Boeing at the moment -- has the greatest sway in the index.

Consider the implications of using that kind of index. Imagine that you are creating a food index based on all of the items you have bought in the last year.

You purchased one jar of caviar and 1,000 cans of tuna fish. In a price-weighted index, caviar will have the biggest overall impact because it's the most expensive item you've bought, even though you spent far more money on tuna. The rise and fall of caviar is the powerhouse that controls your price-weighted food index, even if you never buy caviar again in your life.

''No one would build a **stock market** index that way today,'' Professor Siegel said. ''But remember, Charles Dow did it without computers, and it basically works. It tells you how the market performed and it requires relatively little calculation.'' It has some idiosyncrasies, though. ''You can't put a $1,000 stock in it,'' he said. ''You can't put a stock like Amazon in it without all kinds of adjustments because its price is too high and it will change the index too much.''

Consider what the Dow looks like now. Through Thursday, Boeing's weighting in the index -- based entirely on the price of a single share of Boeing stock -- was 7.3 percent, Mr. Silverblatt said. Close behind were Goldman Sachs at a 7.07 percent weighting; 3M, with a 6.47 percent weighting; United Health, at 6.04 percent; and McDonald's, at 4.91 percent. Apple was only in sixth place in the Dow, with a weighting of 4.85 percent.

Because of this price-weighting system, Boeing has more than nine times the stature in the Dow as General Electric. Yet G.E.'s total value -- its market capitalization -- is much greater than Boeing's. No matter. Boeing has a far bigger impact on the Dow, and on ''the market,'' if we are using the Dow as a shorthand way of talking about all stocks, than G.E. does.

Is there a better way of defining the **stock market**? Absolutely. There are many other indexes. The **S**.**&P**. **500** does a good job of measuring large-capitalization stocks but it misses thousands of smaller ones.

For the purpose of measuring the entire United States market, including small stocks, many academics and professional investors prefer another market-weighted index: the CRSP U.S. Total Market Index maintained by the Center for Research in Security Prices at the University of Chicago. Vanguard uses that index as the benchmark for its Total **Stock Market** Index Fund. The goal, Vanguard says, is to match ''the investment return of the overall **stock market**.''

By that broader and no less precise definition, the market is not doing quite as well as either the Dow or the S.&P. would have you believe. The CRSP index is trailing the Dow by more than 2 percentage points this year, and is behind the S.&P. by more than three quarters of a percentage point. That may be why your stock portfolio, if it is diversified enough to capture the entire market, isn't turning in a performance as spectacular as the daily news reports may suggest.

The problem may just be that everybody is talking about the Dow. They are not really talking about the **stock market**.

Twitter: @jeffsommer

CHARTS: Boeing Lifts the Dow: Boeing alone accounted for 24 percent of the entire rise in the **Dow Jones industrial average** for the year. Boeing shares happen to be the most expensive in the Dow, and the Dow is a price-weighted index, giving Boeing an outsize impact.; Two Stocks, Two Indexes: Boeing accounted for nearly a quarter of the rise in the entire **Dow Jones Industrial Average** this year. That's because the Dow is a price-weighted index. In the **S**.**&**.**P**. **500**, a maket- weighted index, Boeing's role was much more modest and Apple was the heavyweight. (Source: S.& P. Dow Jones Indices)

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Intelligent Investor: When Lower P/E Ratios Of Funds Mean Nothing

By Jason Zweig
702 words
12 August 2017
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English

Corrections & Amplifications

State Street Global Advisors accounts for money-losing companies when calculating average valuation at its exchange-traded funds, but it lessens their impact by adjusting how it calculates average valuation. The Intelligent Investor column on Saturday incorrectly said State Street ignores such firms in the calculation.

(WSJ Aug. 17, 2017)

(END)

How's this for an investing optical illusion?

As of June 30, according to S&P Dow Jones Indices, the stocks in the **S&P 500 index** traded at a price/earnings ratio of 23.56 -- meaning that their combined price was almost 24 times the net earnings all those companies had generated over the past year.

Three ETFs holding those same stocks claim to have significantly different P/Es.

On their websites, based on June 30 data, the iShares Core **S&P 500** ETF recently reported that its portfolio was valued at 21.69 times earnings; the Vanguard **S&P 500** ETF, 21.5 times; and the SPDR **S&P 500** ETF, 18.65 times.

All three portfolios are indistinguishable from each other and from the index they seek to replicate.

These ETFs seem to be at a discount to the index of stocks they hold. That could make them look attractively cheap in a market that many analysts regard as overvalued. But the apparent bargain is an illusion.

Stock indexes, and by extension the funds that are based on them, are averages. You can calculate an average in many different ways, and deciding which method to use is part science, part art and part opinion. Investment regulators say that fund companies are free to calculate and report an average valuation any way they wish, so long as it doesn't mislead or deceive investors.

So you should pay attention to how these funds report valuations.

State Street Global Advisors, which manages the SPDR **S&P 500** ETF, bases its P/E ratio not on the profits companies have earned over the past 12 months, but on the earnings that analysts estimate will roll in over the year to come.

Matthew Bartolini, head of SPDR Americas research, says the firm uses that multiple of estimated profits because "the market is forward looking" and the projected P/E "tells investors how much they're paying for forthcoming earnings."

State Street also ignores money-losing companies when it calculates average valuation. Including "massive outliers," a few companies with huge profits or monstrous negative earnings, can severely distort the P/E of an index, Mr. Bartolini says.

PowerShares, too, adjusts its calculations of average values to lessen the impact of extreme results. That, says John Frank, a product strategist at the firm, "provides a cleaner result not distorted by earnings."

Depending on how you calculate the average, subtracting the large losses of a few companies from the combined profits of the others can leave a much smaller total of net earnings to go around. That can make the index look more expensive than it effectively is.

The iShares and Vanguard ETFs also knock unprofitable companies out when they calculate valuation ratios, those firms say.

S&P Dow Jones Indices, which calculates the **S&P 500 index**, doesn't do that. "These earnings reflect what companies actually did make or did not make," says Howard Silverblatt, a senior index analyst there. "If earnings are distorted to some degree by negative earnings from some companies, well, maybe that needs to be taken into account. It's in there."

Fidelity uses an independent firm to calculate the valuation ratios on its own ETFs and on those it offers from other managers, so different ETFs investing in the same index display highly similar valuation ratios on Fidelity's website. That provides "a consistent apples-to-apples comparison," says spokeswoman Nicole Goodnow.

Rich Powers, head of ETF product management at Vanguard Group, says it uses FactSet, an independent research firm, to calculate measures like P/E, eliminating negative earnings from the average.

Still, "using different methodologies may be introducing a level of noise," says Dorothy Lariviere, an analyst and product specialist at iShares. "Across the fund providers that claim to have the same exposure to the same index, it probably would make some sense to have more standardization."

Until that happens, don't let yourself imagine that one ETF is "cheaper" than another that follows the same index -- or that either is cheaper than the index itself.

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THE WALL STREET JOURNAL.
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U.S. News: Low Inflation Defies A Growing Economy

By Sarah Chaney
436 words
12 August 2017
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A2
English

WASHINGTON -- U.S. inflation was subdued in July, held down in part by weakness in hotel rates, which perpetuates a soft trend that is puzzling Federal Reserve officials who expected an improving economy to be pushing consumer prices up at a faster rate.

The consumer-price index, which measures what Americans pay for everything from ice cream to doctor visits, increased 0.1% in July from the prior month, the Labor Department said Friday. Excluding the often-**volatile** categories of food and energy, so-called core prices also rose 0.1%. From a year earlier, overall consumer prices climbed 1.7%, as did core prices, below the Fed's 2% goal for inflation.

Five months of 0.1% growth or lower in core prices marks "a remarkable run in the context of an economy that is clocking above-trend growth and a labor market that has moved well into tight territory," said Stephen Stanley, chief economist at Amherst Pierpont.

The cost to consumers of lodging away from home, which includes hotels and housing at schools, fell 4.2% in July from a month earlier, the biggest one-month decline since records began in 1997. Over the past year, these prices have declined 2.4%.

Analysts say this could be an anomaly, and STR Inc. figures on hotel rates in the U.S. illustrate growth in the average price per room of more than 2% in the first half of 2017 from the year-earlier period.

"Hotel room rates are notoriously **volatile** and, consequently, we would normally expect July's fall to be reversed in August," said Paul Ashworth, chief economist at Capital Economics, in a note to clients.

Other special factors held down prices earlier in the year, including a big drop in rates for cellphone services.

July saw gains in some areas that had been weak, including airfares, apparel, physicians' services and prescription-drug prices. That might portend some pickup down the road. Overall prices grew month-over-month for the first time since April.

Despite some upsides, overall prices have grown at a seasonally adjusted annual rate of 0.9%, while core prices have risen just 1.3% through the first seven months of this year. Although this isn't the Fed's preferred inflation measure, it nonetheless shows a weakened inflation outlook.

If they persist, the low inflation numbers could give the central bank pause when considering whether to raise its benchmark interest rate later this year.

Josh Mitchell contributed to this article.

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The New York Times

YOUR MONEY
Business/Financial Desk; SECTB
When Stocks Are Soaring, Think Negative

By RON LIEBER
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1
English

Every week brings a new worry, something or another that could finally, truly, end our eight-year-plus **bull market** in American stocks.

If it's not conflict with North Korea, then it's concern over a damaging showdown in Congress over the federal debt. And if it's not debt, it's the possibility of a trade war or a hurricane season to end all hurricane seasons.

Then again, even in years past, there has always been something to fret about. For a while, it was fear of rising interest rates. Brexit set off market alarms, too. And I spent hours after midnight on election night last year writing a column counseling people through what turned out to be a **stock market** hiccup.

Given how little anyone can know about what will end the **bull market** and when, most people should try to avoid making predictions, let alone investing based on them. But there is one group of people who deserve to worry at any particular moment: those who will need most or all of their investment money soon.

Consider the people who are trying to scrape together a down payment but who also want their savings to keep up with the rise in real estate prices, if possible. Or the parent -- say, me -- who hopes to send a firstborn child off to college in seven years. How much money should any of us have in stocks right now?

If you poll investment experts, there is no consensus about a perfect mix of stock, bonds and cash. There never is. But there is probably an answer that is right for you, as long as you know how comfortable you are with the possibility of losing some money and have thought through every detail of what you're willing to sacrifice if you do.

Figuring out how low your portfolio's value might drop ought to be much easier than it is. In a perfect world, every brokerage firm and 529 college savings account administrator would have two buttons on their web pages.

The first, a "What if?" button, would let you see how much portfolio pain you'd be in for if your stock investments fell by 10 or 20 percent -- or some more apocalyptic amount -- and if bonds earned nothing over some period. The second, a "What are the chances?" button, would let you input the portfolio percentage decline of your choosing and then set the site to work estimating the odds of anything like that happening based on what has happened in the past.

If you don't have access to anything like that, you can at least approximate the "what if" math yourself if you know what's in your portfolio. (With the age-based funds that some people put their 529 money into, it can take a little digging to figure out what percentage of the investments are in stocks.)

A good financial adviser will put the numbers in front of you and demand that you reckon with them. Paul V. Sydlansky, a financial planner in Binghamton, N.Y., recently went through this exercise with a couple who hope to buy a home in Spain in two to four years. And because it could indeed take 48 months, they don't want to leave their money in cash, earning very little, for that long.

So Mr. Sydlansky put it to them this way: If they have $180,000 split equally between stocks and bonds, a 30 percent **stock market** decline would leave them with $153,000. How would that feel if the perfect house came along? Not good, they decided, and they elected to have just 30 percent of their money in stocks.

This conversation probably gets harder if you're a first-time homeowner. Sure, you could hope that housing prices in your area would fall as much as your portfolio, but there is rarely precise alignment in the choreography of market corrections and crashes.

So, would you be comfortable passing up the perfect property if your down payment account had fallen by 10 or 20 percent? How would it feel to sacrifice the dream of buying your "forever" home and settle for a starter one? What about buying the bigger house in the second-choice suburb? And let's say you have a spouse. Better be sure that you two are on the same page. Have you asked?

Or perhaps you would just borrow more. Easy, right? But could you afford it, if interest rates are a point or two higher then? That could happen. And how much would all that extra interest cost you over time? Or would the bank even lend you that much?

And don't forget this possibility either: How much would you kick yourself over the lost **stock market** gains if the market continues to rise? If you have all of your down payment money in cash for years while the housing market outruns you, as it has for many people in expensive coastal markets this decade, it wouldn't feel so good.

Now, consider a college savings account, perhaps for a middle-school student. You're reasonably sure that there will be some kind of **stock market** calamity between now and when the kiddo leaves home. How bad might things get?

It's tempting to consider how you reacted to the **stock market** declines at the end of the last decade in figuring out how you might react in the future. If you had decent nerves back then when your child was in preschool, perhaps you were betting that you were buying stocks on sale.

That's how I consoled myself in 2009, at least. But now that my 11-year-old is seven years away from college (or eight if she takes a gap year), riding another market wave like the one we all rode in 2008 and 2009 seems like a sure path to stomach ulcers.

How bad could things get over the next 10 years? Given how rough things got last time, I asked Howard Silverblatt, senior index analyst at Standard & Poor's Dow Jones Indices, to calculate what people might have seen if they'd been looking back at total **S**.**&P**. **500** returns (including reinvested dividends) over a previous 10-year period. Any decade ending between January 2009 and September 2010 would have been negative, he said. In the first four months of 2009, you would have been facing a decade-long decline between 21 and 29 percent.

You'd hope that few with children about to start college were invested entirely in large United States stocks then. One benefit of diversification, as Preeti Shah, an accountant and financial planner in Matawan, N.J., reminded me this week, is that even over the four years of college, you can pull from the investments that aren't hurting as much (say, the bond or cash portion of your portfolio) during the first year or two. Then, you cross your fingers that the stocks will recover during the latter part of your child's undergraduate years. Indeed, stocks nearly doubled from their March 2009 lows within two years.

This summer, what felt right in my household was to cut the stock allocation in our 529 account by about 10 percentage points. That put us about halfway between what Vanguard does in its aggressive 529 account and what it does in its moderate one for people with children the same age as my daughter.

But something more conservative may be better for you. Again come the pressing questions, perhaps even more emotion-laden since they involve your son or daughter: How much more could you pay out of pocket if your college savings portfolio suffered a big loss? What if your employer cast your aging self off during the recession that might come with a big **stock market** decline?

Perhaps you attended a private college and hope to give your child a shot at the same thing. Would you insist upon the state university where you live -- and nothing else more expensive -- if your aggressive portfolio took a big dive? Or have you made a promise to your overachieving teenager about ye olde alma mater that you couldn't bear to break? Would you want to borrow? What could you do now to limit the debt in that event?

Again, none of the answers dictate a precise asset allocation. And sure, some people could address any potential losses by earning more, saving more or spending less.

But many of us aren't that lucky. An untimely **stock market** decline could hurt, badly. A **bear market** will emerge eventually, so imagining the pain of its severe bite is one of the healthiest things you can do for your finances when the **stock market** continues to seem so sunny.

Twitter: @ronlieber

The University of California, Irvine. Consider how much you could pay out of pocket for your child's education if your portfolio took a big hit. (PHOTOGRAPH BY DAVID MCNEW FOR THE NEW YORK TIMES) (B2) DRAWING (DRAWING BY ROBERT NEUBECKER)

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The New York Times

Business/Financial Desk; SECTB
Markets Halt a Three-Day Tumble

By THE ASSOCIATED PRESS
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2
English

Gains among technology companies helped end a three-day losing streak for stocks on Friday, though the market ended with its worst weekly loss since March.

The modest rebound came at the end of a turbulent week on Wall Street as escalating tensions between the United States and North Korea rattled global markets.

In the first four days of the week, the **Standard & Poor's 500-stockindex** swung from reaching its latest high to posting its biggest single-day drop in nearly three months.

The negative headlines provided many investors with an opportunity to pocket some of their recent gains following a string of record highs fueled by strong corporate earnings.

''It's been a bit of a roller coaster this week, with all the rhetoric between the U.S. and North Korea,'' said Jeffrey Kravetz, regional investment strategist at U.S. Bank Wealth Management. ''That did temporarily shake investors' complacency, but we think markets are ready to move higher in the back half of the year, and earnings and economic data are going to drive that.''

The **S.&P. 500** rose 3.11 points, or 0.1 percent, to 2,441.32. The **Dow Jonesindustrial average** gained 14.31 points, or 0.1 percent, to 21,858.32. The **Nasdaq** added 39.68 points, or 0.6 percent, to 6,256.56.

The recovery fit a recent pattern of investors using dips to put more money in stocks.

Despite the past week's decline, the major indexes are in positive territory so far this year, led by the **Nasdaq**, which is up 16.2 percent. The **S.&P. 500** is up 9 percent, while the Dow is up 10.6 percent.

Tensions between the United States and North Korea continued to simmer early Friday. On Twitter, President Trump warned of military action ''should North Korea act unwisely,'' noting that the United States is ''locked and loaded.''

Still, there were fewer signs of anxiousness in the markets on Friday. Bond and gold prices, traditional havens for nervous investors, were little changed, and the VIX, a measure of how much **volatility** investors expect in stocks, fell 3.3 percent following a 44.4 percent jump the day before. It is still the highest it has been since May.

Investors also drew encouragement from new government data showing that inflation at the consumer level inched higher last month. A 0.1 percent increase in consumer prices in July suggests that the Federal Reserve may be less likely to raise interest rates next month.

Seagate Technology, a digital storage company, gained 2.3 percent after the activist investor ValueAct disclosed that it had acquired a 7.2 percent stake. Seagate shares rose 74 cents to $32.29.

Traders sold off financial stocks as speculation rose that the Fed will decide to hold off on raising interest rates next month. Higher interest rates can help bolster banks' revenue from loans. Regions Financial shed 23 cents, or 1.6 percent, to $14.07.

The department store chain J. C. Penney sank 16.6 percent after it reported quarterly results that fell short of Wall Street expectations. The company also said sales at its established stores declined for the fourth straight quarter. The stock lost 78 cents to $3.93.

Bond prices rose. The yield on the **10**-**year Treasury** note slipped to 2.19 percent from 2.20 percent late Thursday.

Benchmark United States crude rose 23 cents to settle at $48.82 a barrel on the on the New York Mercantile Exchange. Brent crude, used to price international oils, rose 20 cents to $52.10 a barrel in London.

Gold added $4 to settle at $1,287.70 an ounce. Silver gained 1 cent to $17.07 an ounce. Copper rose 1 cent to $2.91 a pound.

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

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Business/Financial Desk; SECTB
Nuclear Tensions Spur Global Sell-Off

By PRASHANT S. RAO
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LONDON -- A sell-off in global markets accelerated on Friday as tensions between the United States and North Korea escalated, driving investors toward havens.

Asian stock markets closed lower and European indexes opened sharply down on fears that the verbal back-and-forth between Washington and Pyongyang had raised the risk of actual conflict.

Hong Kong's benchmark Hang Seng Index fell 2 percent, and South Korea's main share index also dropped. Stock markets in Britain, France and Germany were all lower by noon in London.

Investors moved their money into what they apparently deemed safer assets. The Japanese yen and Swiss franc were both stronger, and the price of gold rose for the third consecutive day. The yields on British and European bonds, which move inversely to the price, fell.

The jitters in the stock markets followed tougher talk from Washington and Pyongyang. President Trump said on Thursday that his warning about the United States potentially hitting North Korea with ''fire and fury'' may not have been tough enough, after North Korea responded by threatening to launch a missile strike at Guam, an American territory in the Pacific.

''Despite attempts by some U.S. officials to calm sentiment, fears of escalating military tension between North Korea and the U.S. are dominating market attention,'' Dirk Willer, the head of emerging markets strategy at Citigroup, said in a research note on Friday.

Still, Mr. Willer said, ''thus far, the market response has been modest.''

The reaction, he said, reflected investors' experience ''that geopolitical rhetoric can quieten as quickly as it escalates'' and a belief that ''the true risk of military confrontation is minimal.''

Concern in the markets was a shift from the general upswing in stocks during the Trump administration. Despite the geopolitical uncertainty and tumult in the White House, American stocks had been reaching new highs, driven by strong corporate profits and optimistic executives.

The VIX, Wall Street's so-called fear gauge, which measures expectations of **volatility** in stock markets, had held at uncharacteristically low levels for much of the year. It began to rise sharply this week.

Follow Prashant S. Rao on Twitter @prashantrao.

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Finance & Markets: Markets Calm Amid War Talk

By Steven Russolillo and Gregor Stuart Hunter
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English

Investors heard the threats hurled between the U.S. and North Korea this week and upheld a time-honored tradition: They panicked and sold stocks.

But in other ways, **financial markets** didn't react the way many investors would expect.

The U.S. dollar, which normally rallies in times of turmoil, stayed weak. Emerging markets, often the first place from which global money flees, held up better than many developed markets. China's currency, whose weak outlook helped trigger global market routs during the past two years, has strengthened.

Plenty of markets did react in predictable ways to the saber-rattling from President Donald Trump and North Korea. Traditional havens such as gold, the Swiss franc and the Japanese yen rose. The CBOE's **Volatility** Index, known as the VIX, surged 44% on Thursday, hitting its highest level since the U.S. election in November.

But some investors suspect the U.S. and North Korea won't exchange more than hot air and they are eschewing a full flight to safety.

"If this turns into a full-blown crisis, you would see much more dramatic moves in gold and the dollar," said Christian Gattiker-Ericsson, head of research and investment solutions at Swiss private bank Julius Baer. "But we haven't seen anything close to that yet."

Here's a look at four markets that aren't acting as though war were imminent:

Backed by the world's most powerful military, the global reserve currency typically gets a boost amid geopolitical turmoil. Not in 2017.

The U.S. dollar remained near its lows for the year, as doubt remains over when the Federal Reserve will raise rates again. Mixed economic data and stubbornly low inflation have weighed on the dollar all year.

Investors remain **bearish** on the dollar. So far, the threat from North Korea hasn't shaken that trend.

The weak dollar has helped emerging-market equities outperform U.S. stocks this year, a trend that remained intact this week.

Investors closely follow emerging markets as a gauge for how other popular risky investments might react to changes in monetary policy or political tensions.

A stronger U.S. dollar tends to result in tighter financial conditions across emerging markets, and they were among the biggest losers in 2013 when the Fed said it would slow its bond-buying program. But analysts say they are better positioned this time as the U.S. central bank starts to shrink its balance sheet.

The Chinese yuan, which two years ago sparked a global selloff after an unexpected devaluation, has emerged as one of the few Asian currencies to have rallied recently.

That is because the People's Bank of China has guided the yuan stronger during the past few weeks, after saying in May it would add a "countercyclical" factor to the method it uses to determine the yuan's value. Weakness in the U.S. dollar has also lifted the value of China's foreign-currency reserves.

Bitcoin prices have rallied to highs following the launch of a network protocol intended to ease transactions.

The digital currency has historically shrugged off developments in the real world, and this week was no exception. Even some investment banks are starting to recommend bitcoin to their clients.

"Cryptocurrencies are good diversification vehicles, as their returns show virtually no correlation with financial assets," analysts at Bank of America Merrill Lynch wrote to clients this week.

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The New York Times

Business Day; DealBook
Wall Street's Patience With Retailers' Turnaround Efforts Runs Thin

By MICHAEL CORKERY
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English

The last time Macy's increased its sales, Donald J. Trump had not started running for president and the Chicago Cubs still had not won a World Series in more than a century.

For more than two years — 10 consecutive quarters, to be exact — that storied retailer has reported declining sales.

Traditional department stores like Macy's have been trying to reinvent themselves, shedding stores and expanding their e-commerce operations to try to compete with Amazon and other online retailers. But this week, Wall Street's patience with such turnaround efforts wore thin, amid a string of unsettling earning reports by brick-and-mortar retailers.

After Macy's reported another sales decline in the second quarter on Thursday, its share price fell more than 10 percent.

On Friday, J. C. Penney shares hit their lowest price in a decade, falling 16 percent after the company said its profit margins had softened more than analysts had expected. Kohl's also fell on Friday after it reported earnings. And some analysts expect Sears to report a third consecutive double-digit decline in same-store sales for the second quarter.

Before releasing second-quarter earnings this week, the retailers had raised Wall Street's hopes that the industry was showing signs of a comeback.

"The expectations were getting higher that maybe things were starting to improve," said Paul Lejuez, a retail analyst at Citigroup. "But the results didn't meet those expectations."

When J. C. Penney announced on July 10 that its chief financial officer was leaving, the company said that it expected to report "significantly improved top line results this quarter versus the first quarter."

Other glimmers of improvement appeared across the department store industry. Foot traffic in malls was still down, but not as much as in previous quarters. Credit card data, which investors scour for clues about the retail sector, showed more people shopping in big department stores.

That brightening outlook put pressure on a group of investors — mostly hedge funds — that have been shorting retail stocks, or betting that the share prices will fall.

The retail sector is the second most actively shorted industry in the **stock market** behind the software and internet sector, according to S3 Partners, a financial analytics firm. And short bets on retailers have increased 18 percent since Jan. 1.

Short sellers have kept up their warnings. In one recent article, a hedge fund manager compared the fallout of the retail downturn to the collapse of the subprime mortgage market in 2007.

Other investors and industry specialists have dismissed such apocalyptic warnings as overblown. While some of the weaker companies with large debt loads may collapse, stronger brick-and-mortar retailers — not just Amazon — will take market share, these people say.

“This is going to be the best of times for retailers that are well capitalized,” said Burt P. Flickinger III, managing director of Strategic Resource Group, a retail consulting firm.

Then came the actual second-quarter results this week. J. C. Penney said its sales rose in the quarter, but its gross profit margins were far lower than what analysts had predicted.

The company was hit particularly hard because it is more indebted than many retailers and has been losing money.

Like Macy’s, J. C. Penney has been selling many of its stores. But analysts say the quality of its real estate is not as high as that of Macy’s, which has prime locations in New York and San Francisco.

The results announced by Macy’s were slightly better than expected, but analysts noted that challenges in the company’s fundamental retail business of selling clothing and home goods were being masked by profits it was generating through the sale of stores and from the income it collects on Macy’s credit cards.

Morgan Stanley’s retail analyst described the Macy’s results in a research note Friday as “less bad, but not enough.”

Nordstrom’s, which also reported results this week, has been able to win over more investors to its strategies for integrating its stores and e-commerce sites.

Nordstrom’s, which is based in Seattle, said on Thursday that it was expanding the number of cities where shoppers can reserve clothing item online and try it on in a store — a service that few other retailers offer.

On Wall Street, the reality is setting in that reinventing a business model that dates back generations will be time-consuming and expensive at best, and may not work.

Retailers are gaining from finding new uses for unprofitable stores. But the costs of creating a network of e-commerce warehouses and top-flight digital capabilities are eating into precious profit margins.

“A big challenge changing from one channel to another,” said Christian Buss, a retail analyst at Credit Suisse, “is the expense.”

Macy’s flagship store in Herald Square in Manhattan. The storied retailer has reported declining sales for more than two years. | John Taggart for The New York Times

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Streetwise: New Financial Crisis: We Forgot Last One

By James Mackintosh
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11 August 2017
The Wall Street Journal
J
B1
English

The measure of a true financial crisis is that money itself comes into question. The global financial crisis began 10 years ago this week, when a French bank suspended three money-market funds. What savers thought was money turned out to be merely credit, and the realization rapidly trashed U.S. money-market funds and the global banking system.

There is little risk of a repeat any time soon. While there is plenty of financial innovation going on, the amounts being parked in modern money alternatives are relatively small, at least outside China. Cryptocurrencies like bitcoin and peer-to-peer lenders are obviously more risky than the money alternatives of 2007.

So much for the good news. The bad news is that it doesn't take a once-in-a-lifetime financial crisis to put a big dent in your savings, merely a perfectly ordinary mismatch between expectations and reality. The way markets are being priced suggests there is just such a mismatch -- and even if nothing bad happens, investors could still be disappointed.

The near-universal expectation is that inflation will stay low, central banks will be cautious about tightening monetary policy, corporate debt costs will stay low and profit margins will stay high. If the assumption proves right, long-term returns will be much lower than in the past. If the assumptions are wrong, short-term losses could be very nasty indeed.

The problem isn't with reality, where the global economy continues to hum along and nuclear apocalypse probably won't be triggered from one of President Donald Trump's golf courses.

The danger is that investors are complacent to an extraordinary degree.

There is no margin of error, and if investors turn out to be wrong, it will be a nasty shock. It isn't just that **volatility** is very low, although it is. Options on the **S&P 500** suggest less than a 1-in-10 chance of a 20% rise or fall in the market over the next year, lower than any time since at least the start of 2007, according to calculations by the Federal Reserve Bank of Minneapolis. The markets are pricing almost no risk of big moves in bonds or gold, either.

Behind the sense of security is a belief that deflation is behind us and there is no risk of inflation.

Derivatives known as inflation caps and floors are pricing the lowest risk of U.S. inflation being out of the Fed's comfort zone in the next five years -- that is, above 3% or below 1% -- since the financial crisis hit.

Economists are similarly confident that U.S. inflation will be well-behaved, with much less variation than usual around the average forecast for next year of 2.08% collected by Consensus Economics.

Of course, just because markets are priced for perfection doesn't mean bad stuff will happen. But the outlook for returns is pretty dismal.

U.S. government bonds offer 2.23% for 10 years. U.S. equities are richly valued, at a time when profit margins are already exceptionally high and the corporate sector heavily indebted. Future returns are likely to be weaker than in the past.

Corporate bonds offer little protection against a rise in defaults, either. The top-rated U.S. junk bonds yield just 2.2 percentage points above Treasurys, according to a Bank of America Merrill Lynch index of BB-rated bonds, the lowest since the day the BNP Paribas money-market funds were suspended.

We can be pretty sure that the future will hold surprises, and the markets aren't ready. It makes sense to be more cautious than usual.

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Equities: 'Fear Gauge' Of Stocks Hits A High for 2017

By Gunjan Banerji
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A measure of stock **volatility** rose to its highest level of the year, spurring some traders and investors to wager that turbulence will return after a prolonged period of calm in equities.

The CBOE**Volatility** Index, or VIX, jumped 44% to 16.04, hitting its highest level since the U.S. election in November.

It was a dramatic shift for the index known as Wall Street's "fear gauge," which fell to a record low in recent weeks. The VIX uses **S&P 500 index** options to measure expectations of stock swings over the next 30 days and tends to rise when investors are anxious and stocks are falling.

Equity markets sank on Thursday as investor fears about geopolitical tensions intensified. Tensions between the U.S. and North Korea escalated this week after President Donald Trump spoke of bringing "fire and fury" to the Asian country. He said later in the week that such talk "maybe wasn't tough enough." The **S&P 500** decreased 1.4% on Thursday.

Meanwhile, it was the busiest day ever for VIX options trading, according to Trade Alert data.

Volume of **bullish** call options on the VIX also hit a record, far outpacing the number of **bearish** options that changed hands, the data show. Some of the most active options would pay out should the VIX hit a level of 28, 75% higher than Thursday's close, Trade Alert data show.

"The move that we've seen in the VIX is one of the largest explosions in history," especially relative to the move in equity prices, said Christopher Cole, the Austin, Texas-based founder of Artemis Capital Management, which manages $200 million in **volatility** strategies.

"This is an example of the dangerous effects" of the widespread popularity of the short-**volatility** trade, he said. "When everyone is on one side of a boat, it can easily tip into the sea."

Shorting **volatility** entails betting against the VIX through options and exchange-traded funds. It has been among the most popular and profitable trades on Wall Street this year.

The spot level of VIX rose higher than futures contracts tracking the gauge, climbing above the levels of contracts from August through December. This price relationship is a rare occurrence, since investors tend to price in greater uncertainty further out in time.

People could be buying shorter-dated VIX contracts to hedge, instead of longer-dated ones, said Peter Tchir, head of macro strategy at Brean Capital, which is based in New York. "To me that's an indicator that there really is actual fear," said Mr. Tchir.

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COMMON SENSE
Business/Financial Desk; SECTB

A Year of New Heights For the Dow, Led by Boeing

By JAMES B. STEWART
1,381 words
11 August 2017
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1
English

Move over, FANG stocks -- the listings powered by Facebook, Apple, Netflix and Google. Here's a one-word explanation for why the **Dow Jonesindustrial average** and **Standard & Poor's 500-stockindex** hit a new high on Monday despite geopolitical tensions, turmoil in the White House and the threat of higher interest rates:

Boeing.

While investors have been piling into high-tech growth stocks, the giant commercial aircraft manufacturer and defense contractor has quietly emerged as the best-performing stock in the Dow. This week its shares rose above $240, and even after falling back with the broader market on Thursday, they've gained 50 percent this year.

That's way ahead of second-place Apple, which is up about 34 percent.

And it's better than Netflix, which is up 37 percent. Facebook and Alphabet, Google's parent, can't match it, either.

When it comes to valuation, there's only one thing stock investors really care about, which is earnings. And the broad economic forces driving Boeing's gains are lifting the earnings at many large multinational companies, which is in turn driving the major stock indexes to new heights.

Boeing had Wall Street analysts scrambling to upgrade their recommendations late last month after it reported $2.5 billion in earnings for the second quarter and raised estimates for future earnings and cash flow. The company reported an order backlog that totaled 5,700 aircraft, or about seven full years of deliveries. That will lock in profits and cash flow for years to come.

Seth Seifman, a J.P. Morgan analyst, called the quarter a ''watershed.''

Dennis Muilenburg, a Boeing veteran who took over as chief executive in 2015, is reaping praise for increasing profit margins and improving tense labor relations. But in many ways, the company is simply cashing in on the same dynamics that are driving earnings -- and stock prices -- of many of the biggest components of the market indexes.

Here are the key elements.

Global Growth

''Boeing definitely represents one of the big multinational companies that is benefiting from global economic growth,'' said Michael Arone, a managing director and investment strategist at State Street Global Advisors. ''We're having a more global, synchronized recovery.''

He noted that Europe had outpaced the United States in economic growth this year, and that earnings at **S.&P. 500** companies had shown double-digit growth for the first time in six years. In emerging markets like India and China, rising incomes are driving demand for leisure travel. ''Global travel demand is rising much faster than its historical norm,'' said Richard L. Aboulafia, a longtime aviation and aerospace analyst at the Teal Group.

In Boeing's earnings conference call last month, Mr. Muilenberg noted that air passenger traffic had outpaced global economic growth this year, and that air cargo traffic was up a solid 10 percent for the first five months of the year. Demand for Boeing products "is more geographically diverse and balanced across the globe," he said.

Cost Cutting

Few companies have proved more adept than Boeing at managing costs, something it had done in part through expanding operations in nonunion South Carolina and establishing what it calls "partnerships" with suppliers. (Boeing workers in South Carolina rejected a union organizing effort in February.) "They've done a great job on costs, crunching suppliers and labor while simultaneously increasing revenue," Mr. Aboulafia said. "That's impressive."

This is especially true of the once-troubled 787 Dreamliner, whose delays, cost overruns and other problems now seem behind it. Mr. Seifman's report said the 787's performance had exceeded "even the more **bullish** estimates."

But Boeing isn't alone. "At a time of sluggish growth in the economy and top-line revenue growth, companies have been very adept at managing costs and maintaining margins," Mr. Arone said.

That, of course, is one reason that higher corporate profits have been so slow to trickle down to the rank and file and that wage growth has been so stubbornly low. The biggest beneficiaries have been shareholders. Boeing increased its share buyback program to $10 billion this year and raised its dividend by 30 percent.

Low Interest Rates

"Boeing is a huge beneficiary of low interest rates," said Mr. Aboulafia, especially when fuel prices are high. Customers "have every incentive to replace aging planes with more fuel-efficient versions."

And the purchase of an aircraft is a large capital investment typically financed by borrowing. "That's true of many large manufacturers," Mr. Arone said, which is why large-capitalization stocks have done better this year than their small-cap counterparts, which typically don't make products that require large capital expenditures.

Low interest rates also mean that investors seeking income have few alternatives to stocks. That's driven all the indexes higher.

The White House

As with many companies with global markets, Boeing's future was clouded by President Trump's vow to renegotiate trade deals and risk a trade war. He threatened to kill the Export-Import Bank, such a major lender to Boeing customers that it's sometimes called "Boeing's Bank." After he took aim at Boeing in a series of tweets last December, threatening to cancel a contract to replace the aging Air Force One, it was a "heart attack moment" for Boeing shareholders, Mr. Aboulafia said.

Six months and one charm offensive later, Mr. Trump is singing Boeing's praises. In February he posed in front of a newly minted 787 Dreamliner at Boeing's sprawling manufacturing plant in North Charleston, S.C., saying he was there "to celebrate jobs." He added, "God bless Boeing."

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While in South Carolina, the president promised a big order of Boeing Super Hornet fighter jets, and in May, the federal government followed through with $1.1 billion in this year's budget for 14 of the planes.

In April he pledged not only to maintain the Export-Import Bank, but also to revive it.

Even the president's threat to renew sanctions on Iran has had minimal, if any, effect on Boeing. Iran has placed two big orders for more than $20 billion in new commercial aircraft.

The Road Ahead

To what degree the president deserves credit for the rise in stock prices remains a subject of debate, but so far, he has been far more market-friendly than his campaign pronouncements suggested. "There's been a lot of tough talk, but not much follow-through on the issues investors care about most," like immigration and trade, Mr. Arone said.

And investors are still hoping for tax reform and a cut in the corporate tax rate. Last year Boeing paid $1.2 billion in federal tax, an effective rate of 23 percent.

Can all of this continue, given increasingly high valuations and an aging **bull market**? ''That's the dilemma,'' Mr. Arone said. Boeing, for example, isn't exactly cheap at nearly $240 a share, and its price-to-earnings ratio for the trailing 12 months is pushing 30, far above the market average. Cost cutting can only go so far. That hasn't stopped the analysts from raising their target prices on Boeing: to $300 (Cowen & Company), $280 (J.P. Morgan) and $275 (Bank of America Merrill Lynch).

As for other large multinationals and the broader market indexes, Mr. Arone sees no immediate threat to further gains. None of the warning signs he looks for -- more-frequent market corrections, higher interest rates and widening credit spreads -- have yet materialized. ''None is flashing red,'' he said. ''Not even yellow.'' While conceding the **bull market** ''is getting long in the tooth,'' he said, ''Bull markets don't die of old age.''

The Boeing factory near Seattle where 787s are being assembled. The company has an order backlog totaling 5,700 aircraft. (PHOTOGRAPH BY TEGRA STONE NUESS FOR THE NEW YORK TIMES) (B1); Boeing's logo at a trading post on the floor of the New York Stock Exchange. (PHOTOGRAPH BY RICHARD DREW/ASSOCIATED PRESS) (B4)

Document NYTF000020170811ed8b00069

The New York Times

Business/Financial Desk; SECTB
Stocks Tumble and Volatility Index Skyrockets Amid Global Tensions

By LANDON THOMAS Jr.
823 words
11 August 2017
The New York Times
NYTF
Late Edition - Final
2
English

Exit greed, enter fear.

After a record-breaking run of buoyant market behavior, investors appeared unnerved on Thursday by a series of provocative remarks by President Trump and increasing tensions with North Korea.

The tech-heavy **Nasdaq** 100 index closed the day down 2.13 percent, and the broader **Standard & Poor**'**s** **500**-**stockindex** fell by 1.45 percent as investors sold out of such high-flying stocks as Amazon, Facebook and Netflix. It was the sharpest daily decline in the benchmark **S**.**&P**. **500** since May 17.

Gold held at $1,283.70 an ounce after its strong run of late, and the Nikkei 225 index in Japan steadied from its fall on Wednesday, closing at 19,730. The relative safety of United States Treasury securities continued to appeal, with the yield on the 10-year note falling to 2.20 percent from 2.25 percent on Wednesday. (Yields and prices move in opposite directions from each other.)

At the root of investors' nervousness was a jump in the VIX, the Chicago Board Options Exchange**Volatility** Index. Known as Wall Street's fear gauge, the index measures investor expectations that stocks will experience sharp moves in the future.

On Thursday, the VIX surged 44 percent from its historically low levels to close the day at 16.04, its highest close since Election Day in November.

For many weeks this year, the VIX hovered persistently in single-digit territory, unusual for a barometer that historically trades around 20.

The index's long period of placidity amid constant upheaval in Washington has posed a persistent riddle for Wall Street prognosticators.

Some analysts warned that expectations of low **volatility** had lured a rush of recent investment, particularly from retail investors piling into exchange traded funds tied to the **S**.**&P**. **500**, the **Nasdaq** and other indexes and strategies.

A sharp upward trend in the VIX could well prompt many of those newcomers to flee at the same time, which could turn a market downturn into something more severe.

The potential risks extend beyond those who are new to the party. In recent years, hundreds of billions of dollars have flowed into risk parity and other machine-driven funds that are programmed to start selling stocks and bonds once **volatility** rises sharply.

In a period of investment calm and artificially low interest rates, automated funds, which churn out consistent if unspectacular returns, have become very popular among yield-hungry investors.

''By definition, investors tend to be long the most risk when **volatility** is at its lowest levels,'' said Julian Brigden of Macro Intelligence 2 Partners, an independent research company based in Vail, Colo., that advises large money management firms on global investments. ''So the question is: How much more **volatility** do we need to see before funds start to disgorge assets mechanically?''

After many years in which investors made a mint by betting against the VIX, a number of investors have begun to argue that the time has come to wager on the VIX -- not against it.

Jeffrey Gundlach, a well-known bond investor at DoubleLine, predicted that his company would see large returns on a "bull call on **volatility**."

Supporting that contention, one of the best performing investments on Thursday was an exchange traded vehicle that tracks the VIX -- the iPath **S**.**&P**. **500** VIX, which soared 17.9 percent, according to the data gathering firm Y Charts.

Of course, it may be too early to predict the end of one of the longest bull markets in financial history. The global economy continues to grow, and companies in the United States remain highly profitable, with earnings and sales in the quarter that ended in June handily beating expectations.

The VIX's sharp move could also simply be a reversion to its mean and not a sign of panic in the markets.

Analysts noted that a long period of **stock market** calm is highly unusual and that a correction should not come as a shock.

Charlie Bilello, an analyst with Pension Partners, a financial advisory firm, said that before today's sell-off, the **S**.**&P**. **500** had experienced only two down days of more than 1 percent this year; the last similarly long period of financial calm was in 1964.

What remained to be seen was whether investors, as they have done in the past, would buy the dip, snapping up financial assets in the wake of a minor downturn.

That reserve of buying power, be it retail or institutional, has cushioned **stock market** drops in the past, and optimists are hoping that it will do so again.

CHARTS: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Thursday. (Source: Reuters); Freddie Mac Yields: Average for some Federal Home Loan Mortgage Corp. securities. (Source: F.H.L.M.C.)

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THE WALL STREET JOURNAL.
U.S. EDITION

Fed Has 6,200 Tons of Gold in New York Basement -- Or Does It? --- Central bank's parsimony with details feeds endless conspiracy among gold bugs

By Katy Burne
1,201 words
11 August 2017
The Wall Street Journal
J
A1
English

Eighty feet below the streets of lower Manhattan, a Federal Reserve vault protected by armed guards contains about 6,200 tons of gold.

Or doesn't.

The Fed tells visitors its basement vault holds the world's biggest official gold stash and values it at $240 billion to $260 billion.

But "no one at all can be sure the gold is really there except Fed employees with access," said Ronan Manly, a precious-metals analyst at gold dealer BullionStar in Singapore. If it is all there, he said, the central bank has "never in its history provided any proof."

Mr. Manly is among gold aficionados who wonder if the bank is hiding something about what it is hiding.

Other theorists suspect the gold beneath the New York Fed's headquarters at 33 Liberty St. may be gold-plated fakes. Some conspiracy-minded investors think the Fed has been secretly leasing out the gold to manipulate prices.

"There has to have been a central bank spewing their gold into the market," said John Embry, an investment strategist for Sprott Asset Management in Toronto until 2014 who once managed its gold fund.

"The gold price didn't act right" during the time he was watching it and the likely explanation for the movement was Fed action, he said.

Fed officials have heard theories about their gold holdings for many years and find them absurd. After this article was published digitally, a Fed spokeswoman said the Fed doesn't own any of the gold housed at the New York Fed, which "does not use it in any way for any purposes including loaning or leasing it out."

The Fed has been selective in giving details about the contents of the vault and in the past has said it can't comment on individual customer accounts because of confidentiality agreements. Former Fed Chairman Alan Greenspan said in a July interview: "When you deposit your funds in a bank, should that bank make your account balances available to whomever asks?"

Seeking a better glimpse inside the vault and at Fed procedures and records, The Wall Street Journal filed Freedom-of-Information requests with the New York Fed. Among the Journal's findings, from a heavily redacted tour-guide manual provided by the Fed: Tour guides are informed that "visitors are excitable" and should be asked to "please keep their voices down."

Three Fed staffers must be present when gold is moved or a compartment opened, even to change a lightbulb, and no attempts have been made to break in, documents state.

New York Fed President William Dudley told a March gathering in Queens, N.Y., that the fictional raid by drilling through from a subway tunnel in the 1995 movie "Die Hard With a Vengeance" was far-fetched.

The Fed gives some information about the vault on a website and offers tours. A guide on one tour gave some details: Inside is enough oxygen for a person to survive 72 hours, should someone get trapped; custodians wear magnesium shoe covers to help prevent injuries, should they drop 27-pound bars; the Fed charges $1.75 a bar to move gold but nothing to store it; most of the gold is owned by foreign governments.

Along with the foreign gold, the Fed's Manhattan vault holds about 5% of America's roughly $11 billion in gold reserves and coin, valued at the statutory rate of $42.22 per fine troy ounce, according to the U.S. Mint. The U.S. government keeps the rest in Denver, Fort Knox, Ky., and West Point, N.Y.

Elaborate theories build on what the Fed doesn't say about goings-on in its vault's 122 compartments.

It doesn't report when bars enter or leave and doesn't let in outsiders -- other than auditors and account holders -- to count the bars or review records.

Visitors on vault tours see only a display sample and can't verify bars up close.

"All you see is the front row of gold bars," said James Turk, co-founder of Goldmoney, a gold custodian. "There's no way of knowing how deep the chamber is or how many rows there are."

Mr. Turk, based in London, believes much of the gold has been "hypothecated," or lent out to other parties, and then rehypothecated, or lent to multiple parties at once. In doing so, he says, "central banks actually own less gold than people believe."

Some gold bugs -- investors **bullish** on the yellow metal -- think the Fed secretly lends it out to suppress prices, partly to protect the dollar's value. In theory, the Fed can feed gold into the market through swaps with other countries.

James McShirley, who owns Sulphur Lumber in Sulphur Springs, Ind., and has traded gold, believes investment banks, probably as agents for the Fed, act to lower prices when gold futures gain 1%. "It's totally logical that in addition to maintaining artificially low interest rates," he said, "it would be imperative to keep gold suppressed as an inflationary barometer."

Then there's the purity question. Mr. Turk said there are "questions in gold circles as to what's in an actual bar." One theory, he said: They could be gold-plated tungsten, which would weigh almost the same. "I think the gold they have there is real gold," he said, "but until you do random sampling you don't know for certain."

In a 2012 audit of U.S. gold at the Fed's vault, the U.S. Mint and the Treasury's Office of Inspector General sent 367 samples to an independent lab for testing. All but three samples came back within 0.13% of the purity recorded by the government, within standard industry tolerance, according to the Mint and Treasury.

Since then, annual government audits of the Fed's vault have inspected only the locks and joint seals on the compartments to check they haven't been tampered with, a Mint spokesman said.

That isn't enough, said Peter Boehringer, founder of the German Precious Metals Society. The problem, he said, is the "complete lack of a transparent, full, independent, external audit in the Fed's vaults by a sworn-in auditor."

New legislation, nicknamed the "Audit the Fed" bill, could allow the Government Accountability Office to audit the Fed's vault, said a spokesman for the bill's Senate sponsor, Rand Paul (R., Ky.). GAO lawyers wouldn't speculate on the bill's reach. Mr. Paul's spokesman said the senator has arranged a personal visit to Fort Knox this fall.

Former U.S. Rep. Ron Paul, the senator's father, has been outspoken about what he says is taxpayers' need for more transparency about gold from the Fed. "Even if you could walk into that vault and see a lot of gold, you wouldn't know . . . whether it's been loaned out or sold," he said. "They haven't convinced me that we have total control of it."

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THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Economists Fear Fiscal Disarray

By Josh Zumbrun
161 words
11 August 2017
The Wall Street Journal
J
A4
English

The risks of a budget crisis or fiscal mishap in Washington are rising, economists say, which could weigh on **financial markets**.

Forecasters in The Wall Street Journal's monthly survey of economists see on average a 22% chance of the government shutting down at the end of next month and a 17% chance that the Treasury will, at least temporarily, skip payments on government payroll or Social Security checks.

The survey pointed to rising angst about land mines awaiting lawmakers when they return from their August recess. Two crucial fiscal deadlines are drawing nearer: The Treasury has estimated Congress must act by Sept. 29 to address the nation's debt ceiling, and Sept. 30 is the end of the fiscal year, and thus the deadline for Congress to authorize legislation to keep the government functioning when the new fiscal year begins Oct. 1.

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THE WALL STREET JOURNAL.
U.S. EDITION

OPEC Output Rose in July --- Cartel's efforts to curb production fall short as Libya, Nigeria and Saudis pump more

By Christopher Alessi
576 words
11 August 2017
The Wall Street Journal
J
B11
English

LONDON -- OPEC crude-oil production rose further in July, in the latest sign the cartel's efforts to reduce output and drain a global supply glut are falling short.

Organization of the Petroleum Exporting Countries output increased by roughly 0.5%, to 32.87 million barrels a day last month, up by 172,600 barrels from June.

The uptick, which was smaller than the prior month's increase, was driven by higher production in Libya, Nigeria and Saudi Arabia, according to OPEC's monthly market report.

The report comes as Saudi Arabia -- OPEC's largest member and the world's biggest crude exporter -- has been pressuring other members of the cartel for better compliance with an agreement to curb output.

OPEC and 10 producers outside the cartel including Russia first agreed late last year to cap their production at around 1.8 million barrels a day lower than peak levels of October 2016, with the aim of alleviating a global oversupply and boosting depressed **oil prices**.

But the deal, which was extended in May through March 2018, has failed to have a significant impact on prices.

Libya and Nigeria were exempt from the deal because their industries had been crippled by civil unrest but output has soared in both countries over the past few months, OPEC has signaled it could revise the agreement to include them.

Some deal participants convened in Abu Dhabi earlier this week to discuss compliance issues, targeting both Iraq and the United Arab Emirates for not meeting their output reduction goals.

But those two countries showed production declines in July -- even if short of their promised levels -- according to the report. Iraq's output fell 33.1 thousand barrels a day, to 4.5 million barrels a day, while the U.A.E. pulled back by 6.7 thousand barrels a day, to 2.9 million barrels a day.

At the same time, Saudi Arabia, which exceeded its output limit of 10.058 million barrels a day again in July, committed this week to cutting exports to most buyers in Asia by up to 10% in September in an effort to comply with the deal, two Saudi oil official said Tuesday. The kingdom traditionally has high domestic oil demand in the summer that increases its output.

Nonetheless, a consistent increase in U.S. production, as well as weak conformity to the output cut deal by some OPEC members, has kept prices between $45 and $55 a barrel for much of the past year.

Prices have rallied somewhat over the past month, though, in part due to falling U.S. stocks. On Wednesday, the U.S. Energy Information Administration reported that the country's crude oil inventories had fallen by 6.5 million barrels to 1.15 billion barrels for the week ended Aug. 4.

Brent, the international benchmark, gained 1% to $53.22 a barrel on London's ICE Futures exchange in midmorning trade Thursday. West Texas Intermediate, the U.S. benchmark, gained 0.65% to $49.88 a barrel on the New York Mercantile Exchange.

OPEC's report also highlighted non-OPEC oil supply, revising its growth forecast for 2017 down by 28,000 barrels a day, to an average supply growth of 780,000 barrels a day this year.

Document J000000020170811ed8b0000r

THE WALL STREET JOURNAL.
U.S. EDITION

Lawmakers Raise Concerns Over Closing-Auction Plan

By Alexander Osipovich
465 words
11 August 2017
The Wall Street Journal
J
B11
English

Two members of Congress have written the head of the Securities and Exchange Commission to voice worries about an exchange's proposal to shake up the crucial 4 p.m. closing auctions that determine the final end-of-day prices of thousands of stocks.

The Wednesday letter from Rep. Sean Duffy (R., Wis.) and Rep. Gregory Meeks (D., N.Y.), shows how a dispute between exchange operators has become a high-stakes fight drawing in index giant S&P Dow Jones Indices and companies like Procter & Gamble Co.

Bats, a unit of Chicago-based CBOE Holdings Inc., is seeking to create an alternative to the closing auctions run by the New York Stock Exchange and **Nasdaq** Inc. Such auctions are an important source of revenue for NYSE and **Nasdaq**, which have both lobbied against their rival's proposal.

In June, NYSE President Thomas Farley attacked the Bats plan in testimony before members of the House Financial Services Committee. Messrs. Duffy and Meeks are both committee members. Both have accepted donations from the political-action committee of Intercontinental Exchange Inc., owner of NYSE, according to OpenSecrets.org.

Bats's plan "could disrupt the closing auction process for determining the closing price of listed companies, which today is viewed as an incredibly well-functioning part of the capital markets," they wrote in the letter to SEC chairman Jay Clayton, seen by The Wall Street Journal.

More than a dozen NYSE-listed corporations have criticized the Bats closing-auction plan in letters to the SEC, including P&G, FedEx Corp. and gas and electric utility Southern Co.

S&P Dow Jones Indices, which calculates indexes that underpin more than a trillion dollars' worth of exchange-traded funds, voiced skepticism about the Bats proposal in a letter filed with the SEC in July. The index provider relies on exchanges' closing prices to calculate its official closing index values each day. Bats is a major listing exchange for ETFs.

NYSE and other critics have said that allowing Bats to implement the proposal would introduce unnecessary complexity into the U.S. **stock market** and create new opportunities for market manipulation. Bats has rejected such criticism. Last week it filed a response with the SEC accusing NYSE and **Nasdaq** of "fearmongering".

Bats declined to comment on the letter from the two congressmen.

Mr. Meeks denied that the letter was aimed at sinking the Bats proposal. "Nowhere in this letter did we take a position on the proposal,'" he said, in an statement emailed by his spokesman. "Any indication to the contrary would be a clear and blatant mischaracterization of our intent, which was to encourage the SEC to weigh the impact on 'Main Street.'"

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International New York Times

business

As Boeing Goes, So Goes the Stock Market; Common Sense

By JAMES B. STEWART
1,426 words
10 August 2017
International New York Times
INHT
English

Move over, FANG stocks — the listings powered by Facebook, Apple, Netflix and Google. Here's a one-word explanation for why the **Dow Jonesindustrial average** and **Standard & Poor**'**s 500**-**stockindex** hit a new high on Monday despite geopolitical tensions, turmoil in the White House and the threat of higher interest rates:

Boeing.

While investors have been piling into high-tech growth stocks, the giant commercial aircraft manufacturer and defense contractor has quietly emerged as the best-performing stock in the Dow. This week its shares rose above $240, and even after falling back with the broader market on Thursday, they've gained 50 percent this year.

That's way ahead of second-place Apple, which is up about 34 percent.

And it's better than Netflix, not a Dow component, which is up 37 percent. Facebook and Alphabet, Google's parent, can't match it, either.

When it comes to valuation, there's only one thing stock investors really care about, which is earnings. And the broad economic forces driving Boeing's gains are lifting the earnings at many large multinational companies, which is in turn driving the major stock indexes to new heights.

Boeing had Wall Street analysts scrambling to upgrade their recommendations late last month after it reported $2.5 billion in earnings for the second quarter and raised estimates for future earnings and cash flow. The company reported an order backlog that totaled 5,700 aircraft, or about seven full years of deliveries. That will lock in profits and cash flow for years to come.

Seth Seifman, a J.P. Morgan analyst, called the quarter a "watershed."

Dennis Muilenburg, a Boeing veteran who took over as chief executive in 2015, is reaping praise for increasing profit margins and improving tense labor relations. But in many ways, the company is simply cashing in on the same dynamics that are driving earnings — and stock prices — of many of the biggest components of the market indexes.

Here are the key elements.

Global Growth

"Boeing definitely represents one of the big multinational companies that is benefiting from global economic growth," said Michael Arone, a managing director and investment strategist at State Street Global Advisors. "We're having a more global, synchronized recovery."

He noted that Europe had outpaced the United States in economic growth this year, and that earnings at **S**.**&P**. **500** companies had shown double-digit growth for the first time in six years. In emerging markets like India and China, rising incomes are driving demand for leisure travel. "Global travel demand is rising much faster than its historical norm," said Richard L. Aboulafia, a longtime aviation and aerospace analyst at the Teal Group.

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This is especially true of the once-troubled 787 Dreamliner, whose delays, cost overruns and other problems now seem behind it. Mr. Seifman’s report said the 787’s performance had exceeded “even the more **bullish** estimates.”

But Boeing isn’t alone. “At a time of sluggish growth in the economy and top-line revenue growth, companies have been very adept at managing costs and maintaining margins,” Mr. Arone said.

That, of course, is one reason that higher corporate profits have been so slow to trickle down to the rank and file and that wage growth has been so stubbornly low. The biggest beneficiaries have been shareholders. Boeingincreased its share buyback program to $10 billion this year and raised its dividend by 30 percent.

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PHOTOS: The Boeing factory near Seattle where 787s are being assembled. The company has an order backlog totaling 5,700 aircraft. (PHOTOGRAPH BY TEGRA STONE NUESS FOR THE NEW YORK TIMES) (B1); Boeing’s logo at a trading post on the floor of the New York Stock Exchange. (PHOTOGRAPH BY RICHARD DREW/ASSOCIATED PRESS) (B4)

* Iran May Get First New Boeing Jetliner a Year Ahead of Time

* Trump Talk Rattles Aerospace Industry, Up and Down Supply Chain

* Tech, Fed, Trump: So Many Reasons to Worry About the Market

* Buy? Sell? Politics May Move the Market, but Rarely for Long

Document INHT000020170811ed8a00005

Search Summary

Text	S&P 500 index or Dow Jones index or Bond yield or oil price or stock index or stock market or DJIA or SPX or equity market or Dow Jones Industrial Average or S&P 500 or Standard & Poor's 500-stock index or U.S. treasury rates or U.S. treasury yield or stock price or earnings suprise or earnings surprises or oil prices or Nasdaq Composite or standard & poor's 500 index or 30-year Treasury bond or 10-year Treasury bond or 30-year Treasury or 10-year Treasury or Bond prices or bull market or bear market or bull market or bear market or bullish or bearish or financial markets or financial market or volatile or volatility or Nasdaq
Date	08/01/2017 to 08/31/2017
Source	The New York Times - All sources Or The Wall Street Journal
Author	All Authors
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