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The Bounty Hunter of Wall Street

By JESSE BARRON
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Correction Appended

A month after the 2016 election, the stock trader Andrew Left went out to the Madison Club in La Quinta, Calif., to lick his wounds and play golf. The way Left invests, he can make a killing in a **bear market** while everyone else on Wall Street suffers. But in December, even dubious stocks were rising, lifted by the promise of incipient deregulation. Reading the news on his phone between holes, Left happened upon an interview with President-elect Donald Trump, the purveyor of all this optimism, in Time magazine. “I’m going to bring down drug prices,” Trump said. “I don’t like what’s happened with drug prices.” Left hurried back to the clubhouse and gave his ticket to the valet.

In the finance world, Left, 46, is what is known as an “activist” short-seller. After he places a bet against the price of a stock, he then publishes research designed to torpedo the company’s value, often by airing accusations of fraud or abuse. This is entirely legal, as long as what he publishes is not itself fraudulent. Left takes short positions in companies across a whole range of industries — Tesla, Valeant, GoPro — and though he makes mistakes, he has an unusually high success rate.

For a year he had been assembling a file on Express Scripts, a pharmacy-benefits manager with $100 billion in revenue. Pharmacy-benefits managers occupy an eye-glazingly complex netherworld in the prescription-drug supply chain, serving as intermediaries between drug makers and insurers. Express Scripts ostensibly exists to keep drug prices low, by negotiating with drug makers on behalf of insurers, but Left believed that the company was actually inflating them, because higher prices meant larger rebates from the drug makers, which meant more profit. He believed that this was true of all pharmacy-benefits managers, but especially of Express Scripts, the most powerful. Its second-largest customer was the Department of Defense; downward pressure on drug pricing from the government could seriously threaten its bottom line.

By rights, then, Trump’s threat in the interview should have tanked Express Scripts’ stock. That the price remained unchanged indicated to Left that many people on Wall Street had no clue what a pharmacy-benefits manager does. Trump, he thought as he pulled out of the Madison Club, had given his stale, year-old story a fresh hook. (A spokesman for Express Scripts denied Left’s claims, noting that “roughly 90 percent of rebates go directly to our clients.”)

Fifteen minutes later, Left was driving west on Interstate 10 in his black Bentley Continental GT. From the car, he placed a call to a hedge-fund manager, a man who was already short Express Scripts and therefore had a stake in providing Left with information. Express Scripts, this man reminded Left, did not disclose the amount it made in rebates, while some of its operating metrics exceeded those of Apple; something seemed wrong.

Left heard “rebates” and thought “kickbacks.” Express Scripts was, in Left’s mind, “the man behind the man”; it was “the mob.” If he went public with a short position tomorrow, he wagered, he could sour Wall Street’s perception of the company, transforming it from a sure thing into a noisy, chaotic mess. That attention might in turn attract regulators, further driving down the share price. He called his web designer, Mike Leznik, and told him that he wanted to buy a domain name to host his research on Express Scripts. An hour later the road snaked above Studio City, and he arrived at Mulholland Estates, his gated community in Beverly Hills.

The next morning, Left stood in his home office and put CNBC on the television. The anchors were discussing the "Trump bump," as the recent stock rally was being called. "They sit around all day long without ever knowing anything," Left said. "It's so annoying to watch them." Seated beneath the TV was Leznik, a sweet-natured Angeleno in jeans and blue-suede sneakers. Leznik lacked the macho swagger that made Left, with his money and filthy mouth, the center of a room. Nowhere was this truer than in his office. A giant desk dominated the back half. On the credenza sat cigar boxes from Enron and Madoff Securities — a short-seller's version of trophy antlers.

"What should I register the domain name as?" Leznik asked.

"Your mother is a whore dot com?" Left said.

"The real story of — " Leznik suggested.

"The real story of your mother being a whore?" Left said.

Leznik settled on TheRealExpressScripts.com, then asked Left for his credit card to buy the URL.

"What are you, my wife?" Left said.

There were several obvious comebacks to this — "You wish" being the absolute minimum — but none occurred to Leznik, who after fumbling for a moment said, "I could be, if you had enough room." A whiff. The room was silenced.

At 10 a.m., having placed his bet against the stock the night before, Left put out his first tweet, which he misspelled and deleted four times. Such is his mystique in the world of finance, however, that one of his followers assumed that the misspellings and deletions were part of a premeditated scheme to exploit Twitter's visibility algorithms. Finally the corrected version of the tweet came out from Left's handle, @CitronResearch, followed moments later by another: "When @RealDonaldTrump goes after $ESRX," it read, using the ticker symbol for Express Scripts, "heads will roll." We sat back and waited, eyes on CNBC. Twenty minutes passed. Suddenly a news flash interrupted the show. "Express Scripts shares are falling sharply on a spike in volume," the anchor said. "Citron Research, run by Andrew Left, tweeted about the stock. They're now down by 9 or 10 percent, about 9.2 million shares so far." Left's tweet appeared in the corner of the screen. In the office, the atmosphere went taut.

We watched as the stock came down, dollar after dollar, from 75 to 74 to 73; 72, 71, 70. Left wrote two more tweets, including a promise to appear on television with further revelations. Soon, the phone started ringing — reporters calling. Linette Lopez from Business Insider texted for quotes. CNBC booked him for 2 p.m. that day. "The question is," Left told a journalist from Bloomberg, "is the new administration serious? He's going to rein in drug pricing. O.K., Mr. Trump, here's my advice: I know the industry. Go after Express Scripts."

"Do you have a short position?" the reporter from Bloomberg asked.

"Yes, I do," Left said.

"Express Scripts, as we're talking, continues to drop," the anchor on CNBC said.

In 15 minutes, $6 billion of market capitalization vanished. (Five months later, the **stock price** is still down 13 percent.) Left considered the circus around him. "See," he said, "some guys know this stuff better than me. But I know how to put it in [expletive] tweets."

To understand short-selling, start by visualizing a share of stock as a physical certificate. If Express Scripts is trading at $74, you can trade in your certificate for $74. Now imagine you want to bet against the price, because you believe it will drop to $69 tomorrow. You go to someone who already owns a certificate, and you borrow it. For the privilege, you pay the lender a fee. Instead of holding onto your certificate, though, you turn around and sell it. Now you have $74 in cash. A day passes. The stock declines. You go to the market and buy the certificate you owe for $69, returning it to the person who lent it to you. That $5 difference, minus the fee, is your profit. Now imagine doing that with tens of thousands of shares at a time.

At any given moment, someone, somewhere, has a short position in whatever stock you can think of — 99 percent of all stocks in the world, by some estimates. Blue-chip stocks like Apple and Google are being shorted.

Shake Shack is being shorted to an unhealthy degree: Almost half its shares are borrowed. As you read this, people are short on The New York Times. Almost uniquely among Wall Street maneuvers, short-selling entails what traders call infinite downside. While potential profit is constrained by the distance between the current share price and zero, the potential loss is not, because the shares, once borrowed, can rise in price indefinitely, which means the cost of returning them can, too. It's unsurprising that short-sellers tend to be aggressive men who are convinced that they see what other people miss and are comfortable with — or addicted to — risk.

For many years that risk was taken on in secret: Short-sellers would make their bets and passively wait for the market to move in their direction. The figure of the activist, who goes public with his positions, emerged into prominence in recent years. One crucial event in Wall Street history provided the foundation. In 2001, James Chanos, a hedge-fund manager, discovered an accounting scandal at Enron, then a little-known energy company in Texas, and shared his information with journalists from Fortune. The journalists got a best seller, Chanos got his money and Jeffrey Skilling, Enron's chief executive, got 24 years at the Federal Prison Camp in Montgomery, Ala.

Short-sellers of Left's generation are following this example but cutting out the middleman. You don't need an office in a flashy building in the Battery, they have realized, or the validation of the press. If you build enough of a reputation, all you need are some Twitter followers and a website. Left has emerged at the forefront of this new guard. Unlike Chanos, who managed billions of dollars of other people's money, Left invests his own, which exempts him from disclosing his holdings to the public. And now that his work has brought him national attention, he has found that others are willing to make it easier, by leaking documents to him and passing tips. In many cases, Left's dossiers against his targets are not wholly his own but built using information from a confidential source. He is, in this sense, a bit like a journalist.

He also makes it look easy. One result of Left's fame is that today's younger traders believe that they, too, could be him. Wuyang Zhao, a professor at the University of Texas, Austin, who wrote his dissertation on activist short-selling, told me: "People read Andrew Left, and they're like: 'Oh, my God, it's not impossibly difficult. It's not a lot of work, and you can bring down a big company.' " One of Left's friends recalled a visit Left made to a university to give a lecture. In the hallways afterward, the students swarmed him. "It was like he was Mick Jagger," the friend said.

From 2006 to 2015, the number of activist short campaigns rose by 1,300 percent, to 1,289. In the past three years, the number of activist short-sellers working globally has nearly doubled, to 72 from 39. Very few have a positive track record. Left does. On average, the value of companies he writes about drop 10 percent in a year, and some drop as much as 95 percent.

One morning last spring, Left and I stood in his lush backyard while he smoked a Marlboro Light. Beyond the swimming pool, the land fell sharply into the valley, and Los Angeles lay prone in the heat. We could see DJ Khaled's recently purchased house over the fence to our left. Tan and unshaven in loafers, Left possessed the vaguely louche charisma of a club promoter, which is what you might mistake him for were it not for his eyes — green, wet, melancholy eyes, which, because they cannot but project sincerity, are his greatest tools on television. His eyes are the reason he could stand in his million-dollar lawn and say to me, without irony, "I'm an investigative journalist who trades on his information."

I observed that most investigative journalists could not count DJ Khaled as a neighbor.

"The difference between this and journalism is you can make millions of dollars," he conceded. "But you can lose millions of dollars, too."

I met Left for the first time last May. After leaving my job as a fact-checker at a magazine — the pay was terrible, but the business cards said "Assistant Editor" — I was padding out my freelance income with some part-time work for finance types, editing letters and writing reports. The door creaked ajar into a totally different world. I started reading short-seller blogs at night, obsessed with the feeling that invisible forces controlling my life were flashing into visibility. That's why my wife's prescription cost $300 a month. That's why the world was how it was. I wrote Left in April and asked if we could meet. In May, he sent a text: He had dirt on an online postage seller. Did I want to come to Los Angeles?

When I found him at the airport, he was wearing distressed jeans and a golf shirt, barking into an iPhone. He had just flown back from a vacation in Florida. During the 45-minute drive to his house, Left, never hanging up, floated and discarded a variety of plans. They were: exposing a jewelry chain as a subprime lender in disguise; shorting a maybe-fraudulent media company in Canada; and withdrawing a million-dollar cashier's check from his bank, made out to a pharmaceutical company, to be offered as a donation to the charity of its choice if it could prove to him the efficacy of a drug for multiple sclerosis, still in trials, which Left had on authority from the "rabbi of M.S." didn't work.

The man on the other end of the line was a hedge-fund manager, this one a very close associate of Left's, at the center of his circle of sources. His relationship with Left was completely informal. His role was to trade ideas back and forth, sometimes shorting the companies they discussed. In exchange for sharing his insight and institutional muscle, Left's source avoided the legal liability that came from going public with a position. (A short campaign based on faulty information leaves you open to accusations of market manipulation, something Left has never been charged with in the United States.) Left has a number of sources on Wall Street, and during the months I spent reporting on him, he took care to keep their names from me, lest he burn them.

Left also got tips as many journalists do, in large quantities, most of them useless. Business-school wannabes emailed him to get noticed. E-Trade cowboys offered schemes "for your eyes only." Hedge funds sent him research and ideas, most often because they wanted him to catalyze a short position they already held, by taking it public. What many of these people failed to grasp was that a bad company wasn't necessarily a good story. One morning, I watched him read his emails. "Gildan T-shirts," he snorted. "That idea does nothing for me. Who gives a [expletive] about Gildan?"

Then there was a third set of sources he used: tips of no discernible origin. In March 2012, for instance, a package without a return address landed on his doorstep. Inside were 68 pages of research claiming that a Chinese real estate company, Evergrande, was perpetrating an accounting fraud and would collapse. An odd tone pervaded, as if a very strait-laced stock analyst were trying to loosen up and channel Left's combative voice ("Chairman Hui's pet projects are comically off-strategy ... the endgame is nearing ... a maze of Ponzi-esque debt"). Left hired a fact-checker, became convinced that the claims were accurate, updated some figures and published. The stock instantly dropped 7 percent. He covered a portion of his position two hours later, taking $280,000 in profit.

But the profit was only the beginning of the story. In Hong Kong, the Securities and Futures Commission sued Left for "false and misleading claims," a failure to adequately support his accusations with evidence. The judge found him guilty and barred him from trading on the Chinese markets for five years. (Left objects to the decision on free-speech grounds and is appealing the ruling.) He refused to give up the name of his fact-checker. As to the identity of the anonymous sender, there was nothing to give up: Left had no idea who it was, except someone who almost certainly had a short position in Evergrande and made a fortune off the publication without the hassle of appearing in court. That was the point of using physical paper. Courts can subpoena your emails, but good luck tracing the mail backward from your gated community in Beverly Hills.

As careful as Left must be to fact-check, hesitation hurts, too. If you're slow, other shorts can scoop you, which is exactly what happened with the online postage seller: A competitor had published a version of Left's thesis on a finance blog, and the stock's price had fallen too far to short. Back at his home office, Left tried to work, but the atmosphere was lazy, diffuse. He called a source. "What do you think?" he said, asking about the postage stock. "Will it bounce?" The source replied that it would not.

Left squinted at CNBC. Then he roared. It began as a self-mocking "Why me?" exasperation but expanded into something more unhindered, a primal American shriek. "UugghHHAAAAHHHHHHHHHHHHHHHHHHHH."

When he was through, he said, almost to himself, "There has got to be an easier way to make money."

There is, of course. Be born to wealthy parents, attend Harvard, get a job at Goldman Sachs. Left was born in Detroit and raised in Coral Springs, Fla., the second son of parents who divorced when he was 5, after which his father moved back to Michigan and out of Andrew's life. His mother, Rhoda Left Black, scraped together an income. During the day, she was an office manager at the public school. In the evening, she gave Hebrew lessons. She sold encyclopedias door to door, then eel-skin purses. "Anything I could do that was legal and moral and made a buck," Black, now 73, told me. When Left asked her why she didn't leave her secretarial job for something better, she said, "We need the insurance." He had no idea what that meant. At the grocery store, they found the dented cans to get the discount at the register.

Recognizing his ability to dazzle an audience at a young age, Black wanted her son to become a lawyer or a rabbi. Instead, he was accepted at Northeastern and chose political science. Boston confronted him for the first time with people who had always had money. They knew that Beverly Hills was an actual place in California, not a made-up city on TV. They wore black. They didn't drink Bartles & Jaymes.

After graduating in 1993, Left responded to a newspaper ad from an outfit called the Universal Commodity Corporation, offering $100,000 a year for work in what the advertiser knew not to call a boiler room. Boiler rooms are cold-call centers for stocks, where men in bare-walled offices put the screws on unsophisticated marks. (As in: "This is a once-in-a-lifetime opportunity, Mrs. Jones. I'd hate to see your husband miss out.") Roberta Karmel, a former Securities and Exchange Commission regulator who policed the Long Island boiler rooms in the 1980s, described to me a typical employee. "He tended to go to lesser schools for college," she said. "Or not go to college at all. And a lot of them were kind of scrappy personalities who thought: Well, I'm just as smart as the people at the white-shoe firms. I can make a lot of money, too."

Maybe — if you're good at it. Left was not. He would meander off script and lose the sale. He quit after nine months, ejecting himself into the mid-'90s froth, where there was very little oversight and, almost everywhere you looked, a thick layer of scumminess. These were the years when the future "Wolf of Wall Street" author Jordan Belfort ran a brokerage firm on Long Island, taking small companies public. Left started flipping penny-stock I.P.O.s, including Belfort's — he would call up the "bucket shops," or storefront stock exchanges, ask for shares before a company went public and then sell them later at a profit.

At the time, the Long Island bucket shops were pumping obscure stocks to whoever would buy them. The typical scam involved inflating the price by lying to your customers, then selling your own shares as close to the peak as possible before those customers got wiped out. (In 1999, a judge sentenced Belfort to four years for fraud. He served 22 months.) In the back of Left's mind, a realization glimmered. With the money he had saved from a few successful trades, he started shorting Belfort and the others, covering his positions after the price bottomed out — in effect profiting from their fraud. He was just getting the hang of it when the market crashed. He moved to California.

In the mid-'90s, traders were just beginning to publish their theses online. An idea occurred to Left: Take the short positions he wielded against the Long Island companies and aim them up at big companies, the more elite the better, using the internet to disseminate the research. Instead of writing in the mode of a traditional stock analyst, he would distill his arguments down to internet-friendly length. The word "blog" was just starting to enter the lexicon. Left registered a domain name. He decided to stay in California. He would come to talk about frauds the way surfers talk about waves.

In 2015, Left got a call from one of his frequent collaborators, Xuhua Zhou, a 25-year-old Ph.D.-program dropout who had graduated from Emory in two years with a double major (accounting and finance) and a minor (math). Zhou was also a finance blogger and trader himself. He had taken note of Martin Shkreli, the 32-year-old chief executive of Turing Pharmaceuticals, who had been in the news for buying the rights to Daraprim, an antiparasitic drug often prescribed to AIDS patients, and raising its price 56-fold. The story persuaded Zhou that "something was fiercely wrong" with a much larger and more important player in the same sector, Valeant Pharmaceuticals.

To its fans on Wall Street, Valeant represented a brand-new model for the drug business. It didn't spend money on research and development, as most drug companies did. Instead, it bought valuable patents for drugs that others had developed, then jacked up the prices. To critics, Valeant was an abusive acquisition machine that produced nothing of value and would choke on its own debt. Senator Bernie Sanders lambasted it. Shares traded above $200.

On Sept. 28, 2015, Left released his first report on the company. "This article is not for you hedge-fund managers who think that this quarter's profit is more important than human decency," it read. "This article is for the millions of Americans who together can mandate change." He continued: "While the whole country is in an uproar about Turing Pharmaceuticals, a one-drug start-up pharma company attempting to raise prices on a single AIDS drug, the real issue is a $100 billion monster only Wall Street could love — an extremely leveraged company that set the standard for this type of abuse, while being cheered on by a cadre of Wall Street high-rollers too wealthy to fret over their own personal health care costs, and its posse of hedge-fund operators." A second report followed, demanding that Congress subpoena Valeant's executives.

Together the reports got Left on TV and alerted potential sources that if they knew anything about Valeant, he was the man to leak to. While news of his short position shot around the internet, Left retreated with Zhou to read more about the company and wait for a break. At the same time, a finance journalist named Roddy Boyd was himself growing curious about Valeant. A dusky corner of the enterprise drew his attention. Valeant earned 40 percent of its revenue from a network of specialty pharmacies: businesses that dispense particularly expensive, complex treatments. The largest of these was called Philidor. Though it seemed like a legitimate business, with offices in Pennsylvania and logos and a website, there was something very odd about it — at least 90 percent of Philidor's revenue came from sales of Valeant drugs. That October, Boyd got a scoop. Another specialty pharmacy, a small one in California called R&O, was billed by Valeant for $69 million for drugs it did not buy. Further, Boyd reported, that pharmacy appeared to be closely related to Philidor.

Left was ruminating on all this when The New York Times reported that Michael Pearson, Valeant's chief executive, had set up an option to purchase Philidor. Now that was really weird. What company of Valeant's size would bother with buying a regional pharmacy? Filling prescriptions was a totally separate business from selling medicines; you don't see Toyota acquiring car dealerships. Unless, Left thought, the point was never to purchase it. Unless the point was to prove, by pretending to prepare to acquire it, that Philidor was a separate company to begin with.

Trying to weave the threads into a narrative, Left released his third report. Valeant, he wrote, was the "pharmaceutical Enron." Just as Enron established shell companies to inflate its balance sheets, he wrote, Valeant maintained a network of "ghost ship" pharmacies designed to buy product that no one had actually ordered, a form of fraud known as channel stuffing. Left's explanation would turn out to be inaccurate — the real fraud, if anything, was more tangled — but the swagger of his TV appearances represented the layup at the end of Boyd's better-researched assist. Introducing the word "Enron" was the key, because it forced the news media to debate with great earnestness a question that, as of the day before, had never been asked. "Is Valeant the pharmaceutical Enron?" Fortune wondered. "Report alleges Enron-like fraud," CNN said.

Pearson called the comparison "erroneous" and asked the S.E.C. to investigate Left. But as any public-relations agent knows, if you're denying, you're already on the back foot. By the time the company announced an emergency news conference the following morning, the stock was down 40 percent. "Andrew erased the idea that buying Valeant was a smart strategy," Boyd said. "I just thought it was a good story. Andrew knew it was a ball of gasoline-soaked rags. He threw a match on it."

Among those who smelled smoke was the United States attorney for the Southern District of New York, Preet Bharara. In November 2016, he indicted two men on charges of wire fraud and kickbacks: Gary Tanner, a senior executive at Valeant, and Andrew Davenport, the chief executive of Philidor. For all intents and purposes, the indictment alleges, Philidor was not an independent company. That much Left had suspected. What was shocking was the nature of the relationship between the businesses. It was not simple channel stuffing, the indictment alleges, but theft. According to the document, Tanner would sell Davenport millions of dollars of drugs. Then Davenport would share with Tanner the incentive payments he received from Valeant, moving the money through a shell company. Meanwhile Tanner misled his Valeant colleagues into believing that a competitor wanted to buy Philidor. The ultimate goal, the indictment claims, was to inflate Philidor's value until Valeant acquired it at a huge markup, at which point the two would split the millions that Davenport would earn from the sale as Philidor's largest stakeholder. (Through a representative, Valeant said it was the victim, not the perpetrator, of the fraud. "It's important to note the indictment involved one former employee," the company wrote, adding that it has increased R.&D. investment by 26 percent.)

In its news release, the Department of Justice gave a hat-tip to "investor websites" for revealing "suspect aspects of ... Valeant's connection to Philidor." No one doubted which website they had in mind. The unraveling accelerated through the following year. Today, Valeant trades around $13, from a high of $250. Left says he shorted at over $200 and exited at $70, taking a profit in the millions. Tanner and Davenport have pleaded not guilty; if convicted, they could face 25 years each. Pearson left Valeant last August after liquidating his stock options for somewhere in the nine-figure range.

On the morning of Dec. 9, Left pulled up to the Bloomberg television studios in Los Angeles and ditched his Bentley curbside for the valet. The station had called to ask him to do a spot on Express Scripts.

We rode the elevator to a silent floor, where the receptionist clocked him as he entered. "Hey, Andy." Desks sat empty; the morning crew was here to shoot the 9:30 spots for the New York market, but in Los Angeles the day hadn't started. A tech came out to lead us to the studio. He was a gentle man in middle age, soft-featured, wearing cargo pants and thick black sneakers, a big brown mustache, warm eyes. He knew Left from the Valeant short and liked to watch him stick it to the Wall Street bosses. All day, people came through the studio rattling off finance acronyms, Ebitda this and Gaap that. Left spoke English.

The tech set Left up on a director's chair. A screen behind his head projected a slightly more outdated version of the skyline than was visible through the floor-to-ceiling windows off-camera to the left and right. Left opened his notes and put his earpiece in. A few seconds into the interview, the anchor fell into a trap. "How much do you think Express Scripts makes off rebates off a high-priced drug?" he asked.

"It's amazing," Left said. "Why would I have to answer that question? Isn't it something they should answer?" Left was rolling now. "If a company does not disclose something, there's a reason they do not disclose it." He said: "There's a machine." He said: "$40,000 a vial." He said: "Two words. Express. Scripts. They are the gatekeeper to high-priced pharmaceuticals in this country."

He asked the anchor to look at Express Scripts' profits. "The amount of money they make, it is obscene," he said. "The money is being made on rebates. And before you defend it, any of the analysts, or the company, come out and give actual numbers." The interview concluded.

The tech was looking at Left. "You're our best guest," he said. "Our most controversial guest."

"But not the handsomest," Left said.

"We're in West Hollywood," the tech apologized. On-screen, the anchors moved on to the morning's next story, the appointment to the Trump administration of the president of Goldman Sachs. Left rode the elevator down to the lobby and slipped outside, where the blue glass tower dwarfed him.

One thing Left shares with the financiers he routinely assails is a certain ambivalence about Trump. During the campaign, Trump repelled Wall Street — with some exceptions — for the fact that he introduced an element of unpredictability that is anathema to long-term investing. One contradiction of his young presidency, then, has been the eagerness with which the same people who saw the apocalypse in his ascent are now watching as the **Dow Jonesindustrial average** breaks records. Though Trump has not accomplished much of substance, like tax reform or an infrastructure bill, he has nevertheless made good on promises to limit crucial government functions. A threatened change to the fiduciary rule, for example, would make it legal for personal financial advisers to operate against the interests of their clients. It is widely believed that Trump will limit the power of the Consumer Financial Protection Bureau or eliminate it entirely. Hundreds of key positions in the executive branch remain unfilled. Americans have seen this pattern before. When a sector of society weakens, Wall Street conquers it as a profit. In a town with a dozing sheriff, vigilantes become the agents of order.

Claire Stovall, a researcher at the industry analyst Activist Shorts, told me that the situation was not necessarily to be feared. "The market is often quicker than the government at catching frauds," Stovall said. And most successful activist short campaigns produce no regulatory action anyway. But Zhao took a dimmer view. "If you create a deregulated boom not supported by fundamentals," he said, "you will have a disaster. The activist short-sellers will make a fortune. But sometimes, as a member of society, you don't want to have a total collapse."

In retrospect, it is not coincidental that 2015 was the year Left became famous. His tactics matched our mood. Most of us do not care about a random pharmaceutical company meeting its debt covenants. We care about getting medicine at a price we can afford. We don't care about organic versus inorganic growth, but we worry that our kids will have no coverage if the Trump administration repeals Obamacare. Left's very timely gift is to connect our daily human concerns to the convoluted operations of the economy, wrapping financial analysis in a moral, populist language that is calibrated precisely to draw maximum attention in a media environment in which screaming is the only way to be heard.

As for those being screamed at, the banks and the business schools that feed them, Left represents at best an interesting character and at worst a nuisance. American high finance is extraordinarily good at absorbing attacks on it. Just a few months ago, Left delivered a keynote speech at Harvard Business School's annual investment conference, where students who could afford the $72,000 tuition calmly imbibed Left's strategies, which were once considered fringe. He texted me a photo of himself in Harvard Yard, looking comfortable and middle-aged, smiling, his eyes closed.

Jesse Barron is a journalist based in New York. He last wrote for the magazine about the benefits of segmented sleep.

Correction: June 25, 2017, Sunday

This article has been revised to reflect the following correction: An article on June 11 about a short-seller referred incorrectly to Daraprim, the drug whose price was increased 56-fold by Turing Pharmaceuticals. The company bought the marketing rights, not the patent, to the drug.

Illustration by Tim Lane | Illustration by Tim Lane | Illustration by Tim Lane

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Surging U.S. Exports Reshape Oil Market --- Pace of up to 1 million barrels a day puts downward pressure on crude prices

By Lynn Cook
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American oil exports are emerging as a disruptive new force in global markets.

The U.S. exported 1 million barrels of oil a day during some months this year -- double the pace of 2016 -- and is on track to average that amount for all of 2017, according to a Wall Street Journal analysis of data from the U.S. Energy Department and International Trade Commission.

In another era, a domestic glut and low prices, currently hovering under $50 a barrel, might have caused companies to slow the pace of drilling. But since Congress lifted a ban on oil exports at the end of 2015, shipments out of Texas and Louisiana have skyrocketed, taking the fruits of the U.S. fracking revolution to new markets.

"The glut of crude around the world, coupled with extremely low prices to rent oil tankers, is upending petroleum flows," said Kurt Barrow, vice president at consulting firm IHS Markit.

While U.S. exports make up just 1% of global oil volumes, they are a new factor helping to tamp down prices and keep them between $45 and $55 a barrel. U.S. **oil prices** on Wednesday declined 5.1% to $45.72 a barrel -- the second-lowest level of the year -- after weekly inventory data showed a surprise increase in stockpiles. It was the biggest single-day decline since March.

Exports represent a relief valve for U.S. drillers, which are ramping up production at a pace to surpass 10 million barrels a day -- which would be a record -- by next year if not sooner.

The U.S., which shipped more than 110 million barrels to foreign buyers from January to April, according to ITC data, is benefiting in part from a decision by the Organization of the Petroleum Exporting Countries to temporarily reduce output.

The U.S. still imports a lot of foreign crude, averaging 10 million barrels a day last year, because it is the world's No. 1 oil consumer. But that level has dropped sharply in recent years.

A major reason that U.S. exports are rising is that American crude has been selling at a discount of roughly $2.50 a barrel to Brent, the international **oil-price** benchmark, for much of this year.

That spread makes it profitable to pay to transport U.S. oil to farther-flung locales. If U.S. oil's discount to Brent gets bigger, American shipments will grow. If it shrinks, less U.S. oil will flow overseas.

Another big reason for the increase in exports is what is called backhaul economics, said Mason Hamilton, an analyst with the Energy Department. Tankers carrying crude from the Middle East to Texas used to unload and go home empty. Now U.S. oil can be loaded on those tankers and make a pit stop in Europe on their way back.

In May, Occidental Petroleum Corp. successfully tested docking a supertanker that can hold more than 2 million barrels of crude. The test at its shipping terminal in the Port of Corpus Christi was part of a plan to eventually export bigger shipments from Texas to Asia and Europe.

The U.S. still ships out nine times more refined petroleum -- such as gasoline, diesel and propane -- than it does raw crude oil. But that could start to change.

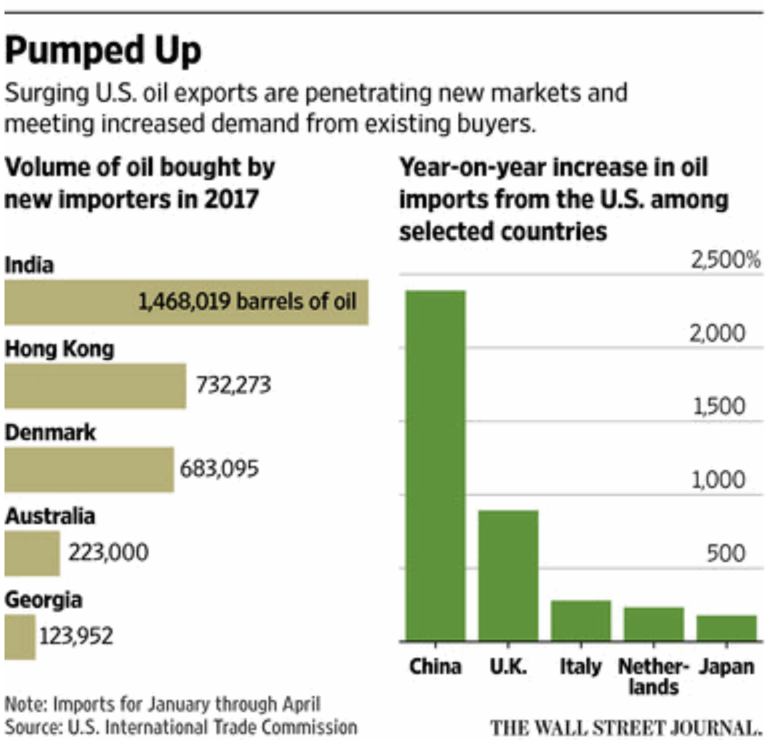
"It takes years to establish markets," Mr. Hamilton said. "Refiners are protective of their refineries. They want a consistent quality stream -- no mystery crudes -- so they are testing it out."

In 2013, 99% of the small trickle of oil that flowed out of the U.S. on special permits went to Canada. Since the lifting of the export ban, American oil has flowed to more than 30 countries, with China, Colombia and the U.K. emerging as big buyers.

So far this year, Asian buyers have taken 39% of U.S. shipments as Canada's share has dropped to 30%, according to the latest federal data, which run through April. European refiners have bought 22% and Latin America 9%.

China, the world's largest oil importer, traditionally gets more than half of its crude from OPEC members such as Saudi Arabia, Angola and Iran. But China, which imported a record 8.6 million barrels a day in December 2016, is stepping up imports of U.S. oil, as well as crude from Brazil, after its own production dropped significantly last year, according to the Energy Department.

"We believe that more U.S. oil production will be needed to meet future global demand and offset production declines in China and Mexico during 2017 and 2018," said Rob Thummel, managing director for Tortoise Advisors, an energy investment adviser with $16.8 billion under management.



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The New York Times

National Desk; SECTA
Debt Ceiling Looms Over G.O.P. Agenda, Revealing 'Almost Theological' Fissures

By ALAN RAPPEPORT
1,144 words
8 June 2017
The New York Times
NYTF
Late Edition - Final
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English

WASHINGTON -- This summer was supposed to be a heady time for Republicans, who would be repealing and replacing the Affordable Care Act, cutting taxes and simplifying the tax code, and reining in the reach of government.

But now the party, rife with divisions, faces a familiar fight of its own making: raising the government's statutory borrowing limit.

Once a distasteful but manageable task for Congress, the debt ceiling has become a battle Washington seems unable to escape.

By law, Congress must periodically raise the cap on the amount of money that the government can borrow on international lending markets. Republicans transformed the once-routine task of lifting the debt ceiling into high-stakes games of chicken during the Obama presidency -- edging the economy toward so-called fiscal cliffs to extract policy concessions such as budget cuts and spending caps.

With Republicans in control of both houses of Congress and the Oval Office, some thought that the debt ceiling would be an easy lift.

Instead, it has become an obstacle threatening to further stall an agenda that has already fallen well behind schedule. The Treasury Department wants the debt ceiling raised before Congress leaves for its August recess, a demand that could consume many of the 13 legislative days on the calendar next month.

''It's going to complicate the ability to pass a budget, and it's going to complicate tax reform because of the internal tensions that they have to struggle with,'' said Ed Lorenzen, senior adviser for the Committee for a Responsible Federal Budget, a bipartisan group.

Time is running short. Republicans must finish their health care legislation under the Senate's budget process in the coming weeks and pass a 2018 budget resolution before they can move on to the tax legislation that they have promised to approve this year. This fall, they will have to cut a deal with Democrats to fund the government. And all of that must happen against the backdrop of investigations into Russia's meddling in the presidential election.

Fears over a looming debt ceiling fight were fanned late last month when Mick Mulvaney, the White House budget director, noted that tax receipts were coming in more slowly than had been anticipated and that the limit needed to be raised this summer rather than in the fall. The Congressional Budget Office revealed why in its monthly budget review on Wednesday: tax receipts were $60 billion to $70 billion short of what was projected at the beginning of the year. This was most likely the result of taxpayers' delaying their tax filings in anticipation of big tax cuts.

The accelerated timetable to raise the debt limit has laid bare a difference of opinion within the White House about how it should be raised -- whether it should be lifted without policy encumbrances or if it should be tied to other policy changes.

Mr. Mulvaney, who led the debt ceiling brinkmanship in his previous job as a Republican representative from South Carolina, explained last week that he would like to see concessions such as spending cuts or budget process changes tied to any bill that would raise the debt ceiling. But Steven Mnuchin, the Treasury secretary, has urged Congress to raise the borrowing limit as quickly as possible, with no strings attached, to avoid roiling **financial markets** and putting the economy at risk.

While the administration has not taken an official stance, President Trump signaled in a meeting with the Republican leadership this week that Mr. Mnuchin, not Mr. Mulvaney, was leading debt ceiling negotiations.

Still, those negotiations will not be easy. After years of arguing that debt limit increases should be paired with spending cuts, conservative Republicans may be unwilling to raise the ceiling without a price. Many House Republicans insist that inaction on the debt ceiling would not result in a government default, as Treasury secretaries from both parties have consistently warned.

After Mr. Mnuchin warned in May that time to raise the cap was running short, the House Freedom Caucus panned his request, saying, ''We demand that any increase of the debt ceiling be paired with policy that addresses Washington's unsustainable spending by cutting where necessary, capping where able and working to balance in the near future.''

Steve Bell, a former Republican staff director of the Senate Budget Committee, said the party's difficulties raising the debt limit were emblematic of its current state of dysfunction.

''This is the reality of the Balkanization of the Republican Party,'' said Mr. Bell, now with the Bipartisan Policy Center. ''It is almost theological, and this is not something that is going to cement the party back together.''

The infighting means that Republicans will need support from across the aisle to raise the debt limit, but Democratic leaders do not appear eager to help. The party out of power in the White House has, by tradition, been reluctant to shoulder that political burden.

''I don't have any intention of supporting lifting the debt ceiling to enable the Republicans to give another tax break to the wealthy in our country, to further exacerbate the challenge that is created when they have their trickle-down economics,'' Representative Nancy Pelosi, the House minority leader, said last week.

On Wednesday, Democrats including Ms. Pelosi and Representatives Nita Lowey of New York and John Yarmuth of Kentucky, the ranking members on the Appropriations and Budget Committees, assailed Republicans for failing to get their fiscal priorities in order, particularly their inability to produce a budget or consider spending bills. They warned that the Republican Congress was ''dithering toward disaster.''

Similar concerns have been expressed in the Senate, where 60 votes are needed to pass debt ceiling legislation unless Republicans try a parliamentary tactic called budget reconciliation that requires only a simple majority.

''It's going to be a lot harder to get the debt ceiling raised if our Republican colleagues insist on raising the deficit dramatically by huge tax cuts for the wealthiest of Americans,'' Senator Chuck Schumer, the Democratic leader, said Tuesday.

Democrats have not decided whether to demand concessions of their own in exchange for helping to raise the debt ceiling.

For veterans of the borrowing limit battles of the Obama years, small policy concessions are not worth risking economic calamity.

''It shouldn't be an issue regardless of who is in the White House and regardless of who controls the Congress,'' said Alan Krueger, former chairman of President Barack Obama's Council of Economic Advisers. ''The responsible thing is for Congress to raise the debt ceiling.''

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Mick Mulvaney, White House budget director, before the House Budget Committee last month. (PHOTOGRAPH BY AL DRAGO/THE NEW YORK TIMES)

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THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
In Biotech Business, No News Is Bad News

By Charley Grant
326 words
8 June 2017
The Wall Street Journal
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B12
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[Financial Analysis and Commentary]

Biotech stocks have a special need for catalysts. The relative absence of them of late should concern investors.

The American Society of Clinical Oncology annual meeting passed without much of a stir, at least from an investor's point of view.

There were exceptions, like Loxo Oncology, whose shares rocketed 40% Monday after the company presented encouraging preclinical data. But that didn't translate into a broad stock rally; the S&P Biotechnology Select Industry Index essentially hadn't budged through Tuesday.

At first blush, that shouldn't be too concerning. The index is up 19% this year. But the lack of a stronger rally isn't something to dismiss altogether. The majority of stocks within the index aren't profitable and depend heavily on positive sentiment to attract investors.

Major medical meetings, like the recent ASCO one, are generally the best place to find such catalysts that attract investor interest. In true bull markets, like the one observed from 2013 to 2015, data presented at the meeting send the biotech index sharply higher.

Without such obvious factors on the horizon, biotech stocks are at risk for a reversal. Companies with obvious catalysts should continue to turn in a strong performance. Vertex Pharmaceuticals, the top-performing stock in the **S&P 500** in 2017 as of Wednesday's close, will have hotly anticipated cystic fibrosis data later this year. Regeneron Pharmaceuticals shares are up more than 25% this year as its blockbuster dermatology drug Dupixent hits the market.

Expected blockbuster drug launches are in relatively short supply this year. Just three drugs being introduced this year are expected to top $2 billion in annual sales by 2022, according to research firm Evaluate Pharma.

For investors holding companies without such a hook, it is likely that no news will eventually turn into bad news.

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Business Day; DealBook
5 Big Tech Stocks Build Market Euphoria, and Jitters

By LANDON THOMAS Jr.
1,311 words
7 June 2017
01:07 PM
NYTimes.com Feed
NYTFEED
English

Facebook. Amazon. Apple. Netflix. Google.

Not only do they dominate our daily lives, but as their stocks continue to soar, these technology giants may be dictating our financial futures as well.

In just three years, their share prices have risen far beyond the major market indexes — Amazon leads the way, up 206 percent; Apple trails the pack with a 67 percent return — as investors of virtually every stripe have piled into these companies.

But this gold-rush mentality, reminiscent of investor frenzies for Nifty 50 stocks in the late 1970s and the dot-com boom and bust at the end of the last century, is now giving investors pause. Not because they think these companies will crack, as many did in previous market corrections, but because in the parlance of the industry, the trade has become very crowded.

“There is valuation anxiety out there, that is for sure,” said Ed Yardeni, an independent investment strategist who often highlights the influence of these stocks in his research notes. “No one is feeling totally comfortable holding stocks that are this expensive.”

Despite some nervousness about a potential bubble building, stock indexes remain near recent record highs (without adjustment for inflation). On Wednesday morning, stocks were slightly higher in cautious trading on the eve of several potentially market-moving events on Thursday, including the British election and testimony from James B. Comey, the former F.B.I. director.

Other markets have been robust of late, including gold, a traditional safe haven, and the virtual currency Bitcoin. But **oil prices** and the United States dollar have weakened, with the Bloomberg dollar spot index at its lowest levels since the Nov. 8 election.

During the late stage of any **bull market**, investing in highflying momentum stocks requires investors to balance conflicting sentiments of greed and fear. Everyone wants to keep making money, but everyone also lives in fear of the party suddenly coming to an end.

According to FactSet, a data provider, since 2012, mutual fund, pension fund and hedge fund holdings in these five stocks have more than doubled to $1.4 trillion from $558 billion — a consequence of investors buying up stocks that are rapidly increasing in value.

As is its wont, Wall Street has given voice to this unease with a nickname: Faang, an acronym for the five stocks that evokes a gruesome end more than it does the exuberance of the moment.

The push into these stocks has been driven by retail investors via traditional mutual funds, exchange traded funds and owning the stocks directly.

Through these channels, retail investors now own from 60 to 70 percent of these stocks — an exposure of very large amounts of money to a small selection of stocks that investment experts say is unprecedented.

It is also dangerous, as a prolonged bout of selling in such a small number of stocks could spur a wider sell-off in the market.

“In terms of magnitude, we have not seen this,” said Jim Paulsen, an independent stock market strategist.

In Mr. Paulsen’s view, a long period of subpar economic growth since 2009 has given the Faang stocks their special aura. Most companies have struggled to show consistent earnings and sales growth over this period.

So, when Facebook’s net earnings leap to $10 billion from $1.4 billion in four years or Amazon’s sales jump to $135 billion from $74 billion, investors take notice.

“You have this small cadre of companies that are showing extraordinary growth in a very sluggish economy,” Mr. Paulsen said. “So yes — you can see how valuations would get extended.”

Stock market historians say that it would be unfair to compare today’s technology companies to the more speculative names that characterized the dot-com boom and bust in 2000. Progress can easily be measured via earnings and the cash-generating abilities these companies have, as opposed to counting eyeballs on the web, which was the norm during that earlier era.

Still, the question remains: How much more can the stock market valuations of these companies grow relative to the earnings they are producing?

For example, the current stock market size of the Faang companies is $2.4 trillion, or about 13 percent of the size of the United States economy. By comparison, their combined earnings were just $77 billion last year — with more than half that amount coming from Apple, the world’s richest company.

Of course, in many cases investors are calculating that in the long term, earnings growth will catch up with sales expansion as well as heavy investment spending aimed at putting competitors out of business.

Amazon, whose $2.3 billion in earnings last year supports a market capitalization of $483 billion, is the most profound example in this regard.

Still, it is not today’s earnings you are betting on, but tomorrow’s, the argument goes.

Surprisingly, some of the most passionate advocates for these companies are value investors. These investment professionals have won reputations for snapping up companies trading at deep discounts to the market, not chasing stocks that fly high above it.

Bill Nygren, a value investor for more than 30 years, oversees the $5.8 billion Oakmark Select Fund, and his No. 1 holding in the fund right now is Google’s parent, Alphabet.

Mr. Nygren contends that the company is trading at a bargain to the market as opposed to a premium if you take into consideration Google’s cash pile and the potential of YouTube to make a lot of money in the future.

“I have not heard anyone advance the argument that the Google search engine is not even an average business,” Mr. Nygren said. “Yet that is how the market is pricing it.”

Another well known value manager who is betting big on Faang stocks is Chris Davis, the lead stock picker for the $11.8 billion New York Venture Fund, where Amazon is his top position.

While skeptics see just $2 billion in earnings, he and his analysts see a company that has generated more than $15 billion in cash and is now ready for a higher market rating because of the profitability of Amazon’s web services division.

“Amazon is more fully valued than when we bought it,” Mr. Davis said. “But we have never seen a company with such competitive advantages.”

As these stock prices continue to surge higher, analysts agree that investors have little choice but to stick to their guns.

That is because the Faang stocks have become such large components of the major stock market measures. For a manager not to match the share of an Apple or an Amazon in a benchmark would result in an actively managed fund trailing its index and its peers.

And as investors pour billions of dollars into exchange traded funds — a record $314 billion in the last year alone — no active manager can afford to to lag the competition for too long these days.

So be it a mutual fund, hedge fund, sovereign wealth fund or family office, the strategy has been consistent — put aside your fears and stay invested.

“It’s like you are riding a missile that you know could explode at any moment beneath you,” said Julian Brigden of Macro Intelligence 2 Partners, an independent research company based in Vail, Colo. He has warned in his reports that some of these stocks have entered a stage of mania. “But you have no choice but to be sucked into the trade.”

* Apple Piles On the Features, and Users Say, ‘Enough!’

* A Price Amazon Is Content to Keep High: $1,000 a Share

* Can Facebook Fix Its Own Worst Bug?

* How Google Cashes In on the Space Right Under the Search Bar

* In Global Expansion, Netflix Makes Friends With Carriers

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THE WALL STREET JOURNAL.
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Heard on the Street
High Seas Are Set to Deliver a Shock to Energy Sector

By Spencer Jakab
520 words
7 June 2017
The Wall Street Journal
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English

[Financial Analysis and Commentary]

Circle January 2020 on your calendar for what could be a major disruption to the energy market and a jolt to the global economy.

The origin of the problem isn't some oil cartel's machinations, a looming war or even a technological shift; it is a bureaucratic body that few people have heard of: the International Maritime Organization. Just 30 months from now the cargo vessels that are the lifeblood of global trade will be required to cut the sulfur content in their fuel from 3.5% to 0.5%.

Ships move more than 10 billion tons of cargo a year and do it far more efficiently than road or rail, but it comes at a high cost in terms of overall pollution because ships use fuel oil, which is just about the cheapest, dirtiest stuff to come out of refineries. About 9% of all sulfur dioxide emitted globally comes from ships, contributing to acid rain and many premature deaths. Even the new cap is 500 times the sulfur content of most road diesel.

But the sudden cut may have a significant global impact. "The shipping industry sees this as a shipping problem, and it isn't," said Martin Tallett, president of refining specialist EnSys Energy, which has studied the issue for years.

While standards have changed for many fuels, the rapid nature of the switch means that if shippers fully comply, there could be price spikes.

Ships that currently use cheap high sulfur fuel oil will have to switch to some other source higher up in the product slate that comes out of refineries. Even with significant investment, refiners may not be ready and ships may have to burn more expensive marine diesel.

"Marine diesel affects land diesel which affects jet fuel which affects gasoline," explains Mr. Tallett. That could cause the prices of those fuels to go up by 10% to 20%.

The only solution may be to simply refine more oil, which means increasing overall demand, to get enough low-sulfur fuel out of the world's refineries.

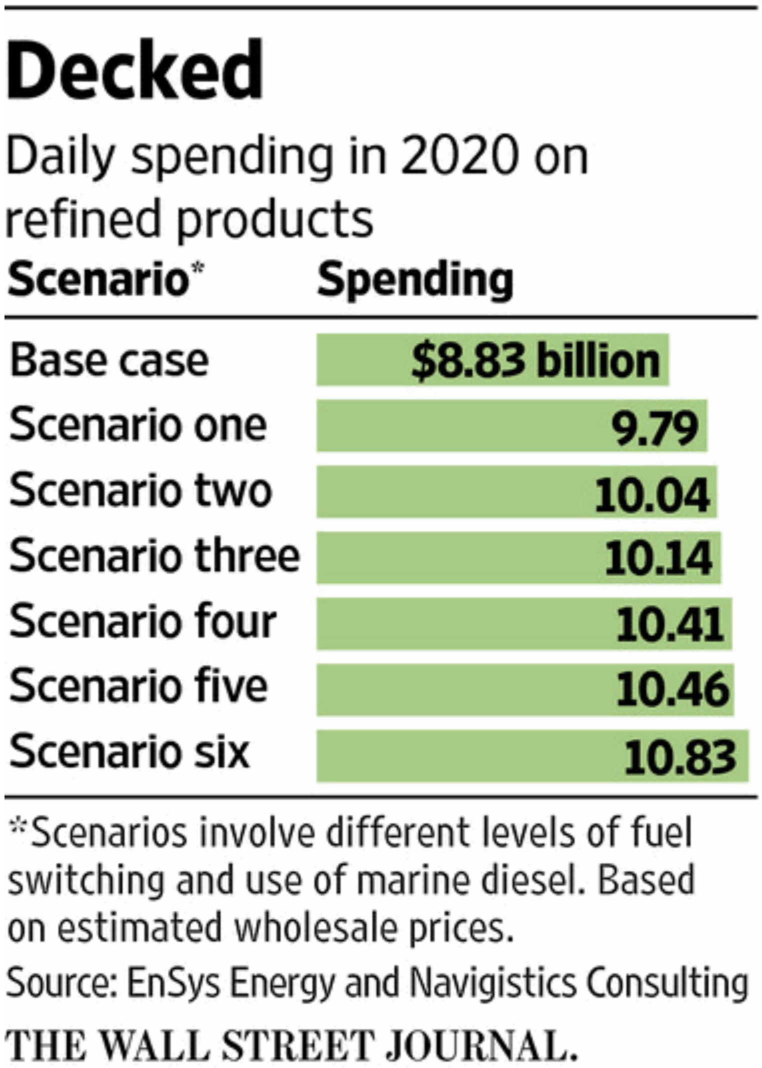
The International Energy Agency worried about the impact in a February report, yet it assumes many ships will install marine scrubbers to clean the dirty fuel and that refiners will add units to reduce sulfur content -- both expensive propositions.

The drain on U.S. motorists alone would be $1 billion a year for each penny-per-gallon increase. Furthermore, goods would get more expensive, particularly those transported by ship. Even **oil prices** might rise by about $1 a barrel because of the extra cost to ship it using the cleaner fuel.

Is the threat real? While energy traders mainly focus on the next several months, derivative prices indicate it is.

For example, crude futures expiring in July 2020 are just 1% more expensive than those expiring in July 2017. In contrast, Rotterdam high sulfur fuel oil is 16% cheaper and New York ultralow sulfur diesel is 10% more expensive.

Watch this space.



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The New York Times

Business/Financial Desk; SECTB
Retailers' Gloomy Outlooks Lead a Slide

By THE ASSOCIATED PRESS
766 words
7 June 2017
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NYTF
Late Edition - Final
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English

Retailers led a modest slide in stocks Tuesday as Wall Street eased back for the second day in a row, pulling it further below record highs set late last week.

Macy's sank more than 8 percent after warning that its profit margins could be weaker than the company had forecast. Several other retailers, including Conn's and Casey's General Stores, also slumped after issuing disappointing quarterly results or outlooks.

Banks and other financial companies also posted losses as the yield on the **10**-**year Treasury** slipped to 2.15 percent, the lowest level since November.

Energy stocks notched the biggest gain as crude **oil prices** rebounded.

"This is a market that's taking a breather and is prepared to move, the question is in which direction?" said Quincy Krosby, a market strategist at Prudential Financial. "Perhaps the move is going to be, in the short term, a pullback -- and perhaps that's another reason we have money going into the Treasury markets as a hedge."

The **Standard & Poor**'**s500 index** fell 6.77 points, or 0.3 percent, to 2,429.33. The **Dow Jonesindustrial average** slid 47.81 points, or 0.2 percent, to 21,136.23. The **Nasdaq composite** index lost 20.63 points, or 0.3 percent, to 6,275.06.

Despite the two-day market slide, the major indexes remain near their most recent record highs set Friday.

The Labor Department provided some encouragement early on, reporting that job openings rose 4.5 percent in April to more than 6 million, the most since December 2000, when the government began tracking the data. Still, hiring fell 4.8 percent.

On Friday, the government reported that employers added just 138,000 jobs last month, about one-third below last year's average monthly gain.

Investors found little encouragement in the latest crop of outlooks from several big retailers Tuesday.

In a presentation to investors, Macy's chief financial officer, Karen Hoguet, said the company's gross margins could fall more than the company expected a couple of months ago, with the first half of the year especially weak. The company continues to grapple with too much holiday inventory and a lot of discounts on beauty products.

Macy's was the biggest decliner in the **S**.**&P**. **500**, losing $1.96, or 8.2 percent, to $21.90.

Other department store chains also fell. Kohl's slid $2.19, or 5.8 percent, to $35.73. Nordstrom gave up $1.51, or 3.6 percent, to $40.14.

Conn's sank 9.1 percent after the furniture and mattress retailer issued a disappointing second-quarter outlook for sales at its established stores. The stock declined $1.73 to $17.15.

Casey's General Stores slid 8.4 percent after the convenience store operator's latest quarterly report card fell short of analysts' expectations. The stock fell $9.84 to $106.66.

Not all retailers had a bad day.

G-III Apparel Group, the owner of Wilsons Leather and G.H. Bass stores, climbed 15.2 percent after it posted better-than-expected quarterly results. The company also raised its estimates for the year. G-III Apparel shares added $3.03 to $22.92.

A weak report on retail sales in the 19-country eurozone weighed on European stocks. The DAX in Germany was down 1 percent, while the French CAC 40 was 0.7 percent lower. The FTSE 100 in Britain was flat ahead of an election on Thursday. In Asia, the Japanese benchmark Nikkei 225 dipped nearly 1.0 percent, while the Hang Seng in Hong Kong edged up 0.5 percent. South Korean markets were closed for a holiday.

In energy futures trading, crude **oil prices** rebounded after an early slide. Benchmark crude gained 79 cents, or 1.7 percent, to close at $48.19 a barrel in New York. Brent crude, used to price international oils, added 65 cents, or 1.3 percent, to finish at $50.12 a barrel in London.

Among metals, gold added $15.10, or 1.2 percent, to $1,294.40 per ounce. Silver rose 13 cents to $17.71 per ounce, while copper lost a penny to $2.55 per pound.

In currency trading, the dollar weakened to 109.41 yen from 110.45 yen on Monday. The euro increased to $1.1276 from $1.1254.

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

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THE WALL STREET JOURNAL.
U.S. EDITION

Markets Rally in Unusual Lockstep --- Worry increases about vulnerability to sharp reversal as economy grows weakly

By Min Zeng and Ben Eisen
1,066 words
7 June 2017
The Wall Street Journal
J
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English

Stocks, bonds, gold and bitcoin -- assets that rarely move in unison -- have all been surging this spring, an everything rally that leaves investors confounded about how to play the plodding U.S. expansion and vulnerable to sharp reversals in fortune.

Major U.S. stock indexes have soared to records this month, reflecting some investors' confidence in the continued U.S. economic recovery along with expectations that large technology firms will accrue further market-share gains. At the same time prices of bonds, which often decline when stocks are rising, have risen lately, as U.S. inflation readings cooled off alongside a slowdown in some key industries.

Gold has gained following terror attacks in the U.K., and turmoil in U.S. politics centering on the administration's legislative prospects and a key congressional hearing this week featuring former FBI director James Comey.

The simultaneous gains have begun to concern some investors. Many point to a wave of money that is driving up asset prices, tied in part to lower bond yields and a lower dollar -- a confluence of events they say feels good while it lasts but can't go on forever.

"We do think there are distortions" in the markets, said Iman Brivanlou, who oversees high-income equities at asset manager TCW Group Inc.

The Dow Industrials this month have posted two record closes, their first since March, and the 30-**stock index** remains just 0.33% below its all-time high despite a decline Tuesday of 47.81 points to 21136.23.

The **Nasdaq Composite** Index has hit more than three dozen new highs this year, reflecting the surge of red-hot tech stocks such as Alphabet and Amazon.com, both of which this month have surpassed $1,000 a share. Bitcoin has tripled this year, hitting a record high Tuesday.

At the same time, 10-year U.S. Treasury yields on Tuesday sank to their 2017 low at 2.147%, and the price of gold, long viewed as a barometer of market concern about potential risks ahead, settled at $1,294.40, its highest in seven months.

A Goldman Sachs Group index of financial conditions that takes into account credit spreads, equity prices and other market gauges, this month suggested the easiest conditions since early 2015, before the Federal Reserve began lifting rates. Another measure of stress in U.S. money markets fell to near its lowest in seven years, while measures of expected **stock-market** swings have been at the lowest in a decade.

While low interest rates and expansive stimulus of the Federal Reserve, European Central Bank and Bank of Japan are viewed as supporting the recovery of markets since the crisis of 2008, Mr. Brivanlou of TCW and others worry that rising asset prices signal complacency at a time when many drivers of the U.S. rebound -- including key measures of the health of the housing, auto and retail sectors -- are in decline.

Central-bank stimulus typically drives down lending costs, encouraging borrowing and pushing investors to take more risks in search of income. Many worry that after years of those supportive policies, a market view has taken hold that central bankers will come to the rescue when markets fall.

Mr. Brivanlou said it has become more difficult to find high-dividend stocks to buy for his portfolios in this environment. Right now, he favors real estate investment trusts, not because they are inexpensive but because they are simply less expensive than other assets such as utility stocks.

Higher valuations leave markets vulnerable to potential shocks, many say, and leave the Federal Reserve with the tricky task of trying to normalize monetary policy in a way that limits risk taking without unduly unsettling markets. Investors widely expect the Fed next week to raise its interest-rate target for the fourth time since the crisis.

"You got some sort of a goldilocks environment right now for markets: reasonable growth, benign inflation and highly accommodative central bank policy," said John Stopford, a money manager at Investec Asset Management.

One factor that has reduced potential market stress has been a weakening dollar this year, down 5.3%. A stronger dollar between the summer of 2014 and the end of last year had hurt U.S. corporate earnings from overseas markets, reduced the U.S.'s edge in global trade and generated capital flight out of many developing countries. China's central bank for one has been forced to sell Treasury debt to stabilize the local currency and stem outflows.

Now a lower dollar breaks the negative feedback loop and represents another sign of easing financial conditions.

Some money managers say the goldilocks mentality and belief that central banks stand ready to respond to any shock breed complacency in markets. This partly explains why the U.S. stock markets have been so resilient and **volatility** so low.

"There is a tremendous amount of complacency in the markets right now," said Gene Tannuzzo, senior portfolio manager at Columbia Threadneedle. In recent months, he has cut back holdings of junk bonds and moved cash into higher-quality fixed income such as mortgage-backed securities. He also bought Treasury debt when the 10-year yield rose to this year's high in March.

Signs are rife the U.S. is in the late stages of the economic growth cycle. Recently, auto sales and home sales have fallen. And despite strong job growth that's pushed the unemployment rate to its lowest in 16 years, employee wages have only increased moderately. Retail shares have been hammered repeatedly, including Tuesday, when Macy's Inc. warned about slow progress in clearing inventories.

Even so, few anticipate a downturn will hit the U.S. over the next 12 months. Michael Collins, senior portfolio manager at PGIM Fixed Income, points to an improving global picture that provides support for risk takers. The eurozone and Japan's growth have both regained some momentum in their economies, and many emerging-market economies are buoyant.

Still, many are turning cautious. Scott Mather, chief investment officer of U.S. Core Strategies at Pacific Investment Management Co., has taken a more defensive positioning last year and this year in the Total Return Fund that he helps oversee.

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Heard on the Street
For the Fed, One Rate Rise May Be Enough

By Justin Lahart
576 words
7 June 2017
The Wall Street Journal
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[Financial Analysis and Commentary]

The facts have changed. Will the Federal Reserve change its mind?

There is no such thing as a sure thing, but a Fed rate increase next week is close. Officials at the central bank have made it clear they plan to lift their target range on overnight rates, and futures markets are putting the odds at better than 90% that a move will be made at the meeting that ends June 14.

But when Fed policy makers look beyond next week, they will have to consider a few inconvenient facts: First, even though unemployment is low, wage growth remains weak and inflation has cooled. Second, the economy remains stuck in a slow-growth rut. And third, the chances of near-term tax cuts and fiscal stimulus, which could provide a meaningful economic boost, have fallen.

That is the message not just from the data and the headlines, but from the market. The yield on the **10**-**year Treasury** note on Tuesday slipped to its lowest in more than half a year -- an indication that bond investors have downgraded their growth and inflation expectations.

None of these developments are likely to prevent a rate rise next week, but they could prompt the Fed to rethink its projected rate increases through next year and its plan to begin winding down its balance sheet.

At the outset of the year it seemed as if the economy might be shifting into higher gear, with the election of President Donald Trump bringing about a burst of optimism at many businesses. But the good vibes didn't translate into better growth. Gross domestic product increased at just a 1.2% annual rate in the first quarter. Most economists reckon it will rebound to about a 3% rate in the current quarter.

The underlying trend remains around 2%, about the growth rate the economy has shown over the past several years. If policy makers at the Fed thought growth was going to run meaningfully faster in 2017, they shouldn't anymore.

There is, of course, the possibility that there will be tax cuts and a stimulus plan. But with no concrete proposals in place, and with the White House snarled by distractions, the chances seem slimmer than they did at the start of the year.

For the Fed, that matters. Minutes from its December rate-setting meeting indicate Fed staff economists incorporated an assumption of more expansionary government policy in their forecasts, as did half the central bank's policy makers. If they have come to think the economy isn't about to get a shot in the arm, they should at least reconsider their plans.

Finally, early signs that wages and inflation were heating up have evaporated. Last week's job report showed that average hourly earnings were up 2.5% on the year last month, versus a gain of 2.9% in December. Excluding food and energy, the Fed's preferred measure of inflation showed consumer prices were up 1.5% from a year earlier in April, marking the smallest gain in over a year.

The danger for investors is that while the Fed has exhibited a tendency to change course when presented with softer data, it has also been dogged about sticking to its plans until it caves. Markets could be in for an interesting summer.

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The New York Times

Breakingviews
Business Day; DealBook
Victory Over Einhorn Provides Little Solace to General Motors

By TOM BUERKLE
447 words
6 June 2017
03:39 PM
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NYTFEED
English

David Einhorn's financial engineering effort has hit a dead end at General Motors.

His Greenlight Capital's proposal to increase the automaker's value by issuing a new class of dividend shares got a drubbing from investors at Tuesday's annual meeting. Mary T. Barra, the chief executive of General Motors, can't afford to gloat, however. The company's stock is flatlining, and plenty of speed bumps lie ahead.

Mr. Einhorn contended that splitting the stock into one class of shares entitled to the company's dividend in perpetuity and a separate class entitled to any additional profit generated by growth would attract more investors. He also argued that it would lift the company's $52 billion market value by as much as $38 billion.

General Motors countered that the plan would reduce its financial flexibility while doing nothing to improve the fundamentals of its business. It helped that Moody's labeled the idea "credit negative" and that the proxy advisers Institutional Shareholders Services and Glass Lewis recommended that shareholders reject it. They did so overwhelmingly; more than 91 percent of those voting — 96 percent if Greenlight's stake is excluded — backed the company.

The valuation issue that prompted the hedge fund manager's intervention hasn't gone away, though. G.M. shares trade at just 5.59 times consensus earnings expectations for 2017, the lowest multiple of any profitable company in the **Standard & Poor**'**s 500**-**stockindex**. At just over $34 a share, the stock is barely above the price at its initial public offering in November 2010.

Ms. Barra hasn't been standing still. She is aggressively refreshing the company's vehicle lineup, agreed in February to sell the European business to the PSA Group for $2.2 billion and expects to return $7 billion to shareholders this year through buybacks and dividends.

The company is heading toward nasty-looking traffic, though. United States auto sales are softening and discounts are spreading to the sport utility vehicles and light trucks that generate a large chunk of Detroit's profit. Spending heavily to develop electric cars and self-driving technology will make it even harder to maintain current levels of profitability.

Ms. Barra can take some comfort from Tuesday's shareholder support. But she has only to look at her crosstown rival, Ford Motor — which abruptly ejected Mark Fields last month — to realize how quickly that can evaporate. Steering General Motors to the future could yet be a rocky road.

* G.M. Shareholders Reject Bid to Restructure Stock

* G.M. Wants to Drive the Future of Cars That Drive Themselves

Document NYTFEED020170606ed66006pp

Another View
Business Day; DealBook
Why Regulators Are Needed to Handle Failed Banks

By MARK J. ROE
894 words
6 June 2017
11:40 AM
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NYTFEED
English

One of the major reforms to avoid the recurrence of the severity of the financial crisis was a set of mechanisms by which the regulators could wind down and restructure failed banks.

The House of Representatives is set to vote to repeal this measure and replace it with a bankruptcy that only the bankers themselves could decide to enter. These are dangerous actions that can risk turning a tumultuous bank failure into a deep and full financial crisis, like that of the 2008-9 financial panic. Bankruptcy alone cannot handle a financial crisis emanating from collapsed banks.

Adding a robust bankruptcy channel makes much sense. But repealing the regulatory-led system and replacing it with bankruptcy is unwise. Replacing it with the narrow, limited bankruptcy structure moving forward in the House is exceedingly unwise.

First off, the House bankruptcy-for-banks bill bars the regulators from initiating the bankruptcy; only bank management can. But bank executives have reason to “gamble for resurrection,” putting off a day of reckoning when they will be out of a job and disgraced, in hopes that the economy or the bank will recover first. That delay could be fatal in a crisis.

If the megabank continues to sink, it could take down the economy with it. Lehman Brothers waited too long to file for bankruptcy in 2008 and ran out of cash. Its resulting disorderly bankruptcy seriously damaged the economy.

The House bill’s supporters trust the judgment of the failed bank executives over that of the United States to keep the economy steady. They seek to avoid a bailout but put considerable power into the hands of those it fears would be bailed out.

Worse, in a broad financial crisis with many megabanks tottering, the government’s response needs to be coordinated and coherent. Bankruptcy judges cannot caucus and come up with a common policy.

For megabanks with international operations, the regulators need to coordinate actions with regulators abroad. Even if the bankruptcy courts can quickly restructure a United States bank’s failed American operations, creditors on the bank’s London subsidiaries might still run, taking down the United States operations no matter what the bankruptcy judge does. Bankruptcy judges cannot coordinate a systemwide response and to develop international understandings. That response needs staff and financial experience, which the regulators have.

The House bill aims to restructure the bank over a 48-hour weekend, by closing it on Friday evening, turning the bank complex’s nondeposit debt into stock during the weekend, then reopening the bank on Monday in a stable way without a government bailout. This is the best outcome if it works; but it’s at risk of failing when it’s needed. To succeed, the bankrupt bank complex needs to have enough of the right kind of debt in place — debt that can be eliminated over a weekend to stabilize the bank by Monday morning.

Bankruptcy judges cannot assure in advance that enough of that kind of debt is in place. The regulators can, but the House banking committee’s substitution proposal would end the regulators’ official means of doing so.

Such a 48-hour high-wire giant bankruptcy has never been tried, much less succeeded. But the House bill doesn’t steady the situation with a backup if the bank cannot be stabilized enough to reopen on Monday morning. There is no safety net and a chaotic free-for-all would ensue, like that of the Lehman bankruptcy’s initial days, with

financial markets worldwide in disarray, sharply worsening the nascent recession. The economy needs a regulator backup. But the House bill does away with that one we have.

There are too many unknowns about bankruptcy for banks, and they will not be resolved until there is crisis. Bankruptcy judges, for example, lack the full judicial power of the United States, so a hedge fund creditor of the bank complex about to be knocked out, who wants to be bought off or bailed out, would challenge the bankruptcy court's authority.

The Monday morning headline — "Megabank Restructured, but Judge's Constitutional Authority Challenged. Supreme Court to Decide Next Week." would induce creditors who can cash out to do so on Monday morning, not wait a week. They will run and bring the bank down.

Financial stability in a crisis is critical enough to have two viable institutional channels for resolution. Let's add a robust bankruptcy channel. While we shouldn't expect a bankruptcy bank restructuring to become as routine as bankruptcy has become for airlines, we can get closer to that limit than we are now. But the House bill, by tying a new bankruptcy channel to repealing the current regulatory one, is taking grave risks that the country may pay for if we are threatened by another financial crisis.

Mark Roe is a professor at Harvard Law School. Mr. Roe and Jeffrey Gordon, of Columbia Law School, wrote a letter to congressional leaders arguing that bankruptcy is not ready to substitute for regulatory authority in restructuring failed bankruptcy complexes. The letter was co-signed and supported by 120 academics.

The Lehman Brothers bankruptcy's initial days sent the worldwide **financial markets** into disarray and sharply worsened the budding recession. | Bryan R. Smith/Agence France-Presse — Getty Images

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THE WALL STREET JOURNAL.
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This Rally Has Legs, and Broad Reach, Too --- Gains in the S&P 500 show advances across the board, not just in large tech companies

By Ben Eisen
569 words
6 June 2017
The Wall Street Journal
J
B12
English

Technology giants may grab all the headlines, but the market rally of 2017 has been spread across a wide range of stocks.

Gauges of how broad-based the rally has been, known in technical lingo as breadth, show that stocks are gaining across the board this year. More than 70% of the shares in the S&P 500 were trading above their respective 200-day moving averages at Monday's close. Surpassing such a measure is typically a sign of increasing momentum.

Nearly half of the index's 505 stocks were beating the benchmark's 8.8% gain this year, according to WSJ Market Data Group.

Investors had been becoming concerned about the dominance of a few highflying names. Facebook Inc., Amazon.com Inc., Netflix Inc., and Apple Inc. are all up by more than 30% this year, leading to questions about whether a reversal in their shares would drag the market down.

Meanwhile, the Class A shares of Google parent Alphabet Inc. on Monday closed above $1,000 for the first time since the company split its shares in 2014, at $1,003.88. Amazon finished above $1,000 on Friday and ended at $1,011.34 on Monday.

The S&P 500 is weighted by market capitalization, which means the biggest companies exert the most pull, with firms like Apple and Amazon contributing disproportionately to the rise in the index. But in a sign that the rally hasn't left smaller companies behind, an equally weighted version of the index is up nearly as much.

Healthy measures of breadth are reassuring some investors, who view the participation of a wide range of companies as a sign stocks can continue to rally.

"We think that breadth of market performance has been sufficiently diffuse to allay investor fears of narrow performance," said equity strategists at Morgan Stanley, led by Michael Wilson, in a note to clients on Monday.

Deteriorating breadth can indicate trouble is brewing below the market's surface. The advance-decline line, a measure of the cumulative number of New York Stock Exchange companies whose shares are rising relative to those that are falling, turned sharply lower ahead of the last two big market crashes.

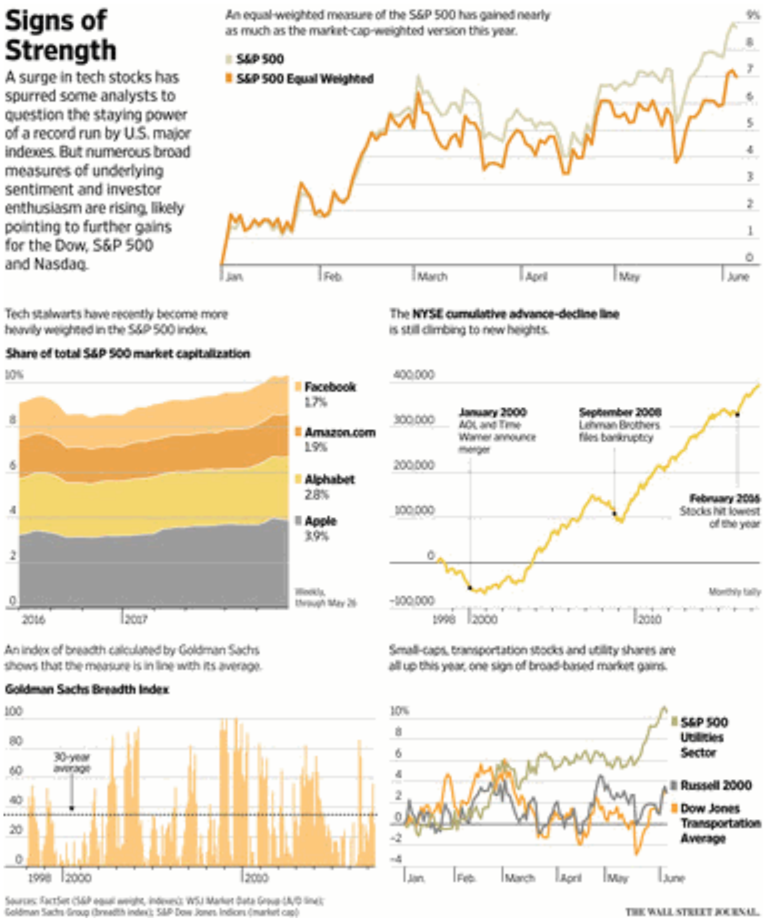
This year, it has continued to hit fresh records, according to WSJ Market Data Group numbers going back to 1998. New highs in that measure tend to extend "the life expectancy of the bull market," said Doug Ramsey, chief investment officer of Leuthold Group in Minneapolis.

Different corners of the market are all up this year, including the Russell 2000 index of small-cap stocks and the utilities sector of the S&P 500. It is unlikely the eight-year-old bull market will end when a diverse array of sectors are hitting new highs, Mr. Ramsey said.

Still, the biggest firms do make up an ever larger share of the total value of major indexes. The 10 biggest stocks in the S&P 500 account for nearly one-fifth of the index, according to Goldman Sachs Group Inc.

But Goldman's research analysts find that breadth is still in line with its average from recent years.

Ken Jimenez and Tom DeStefano contributed to this article.



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The New York Times

Business Day; DealBook
Movers: G.M.’s Annual Meeting and a German Food Delivery I.P.O.

By THE NEW YORK TIMES
265 words
6 June 2017
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NYTFEED
English

We’re following major market developments throughout the day.

What to Watch For: G.M.’s Annual Meeting

• Results of a fight between General Motors and the hedge fund Greenlight Capital will be announced at the automaker’s annual shareholder meeting in Detroit. The fund wants to split the automaker’s stock and change its board of directors.

• Don’t forget to read the DealBook Morning Agenda.

German Food Delivery Company Plans I.P.O.

Delivery Hero, a German online-ordering company, said on Tuesday that it planned an initial public offering in the coming months on the Frankfurt Stock Exchange.

The company, which was founded in Berlin in 2011, said that it planned to raise 450 million euros, or about $507 million, in its offering of newly issued shares.

“Going public and listing our shares on the **stock market** will further enable us to develop the company and provide us with additional capital to expand our leadership positions in the online food ordering and delivery market,” Niklas Östberg, the Delivery Hero chief executive, said in a news release.

Delivery Hero has more than 6,000 employees and provides delivery services in more than 40 countries.

About 35 percent of the company is indirectly held by Rocket Internet, the German technology company, and about 10 percent is held by Naspers, the South African internet company and technology investor.

Citigroup, Goldman Sachs and Morgan Stanley are acting as joint global coordinators on the offering.

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THE WALL STREET JOURNAL.
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Index Funds Still Beat 'Active' Portfolio Management

By Burton G. Malkiel
859 words
6 June 2017
The Wall Street Journal
J
A17
English

A recent report from Standard & Poor's adds impressive support to the large body of evidence suggesting the superiority of simple index investment strategies over traditional stock picking. At the start of every year, "active" portfolio managers declare that the current year will be the "year of the stock picker." But the results consistently fail to support that view.

For years S&P has served as the de facto scorekeeper demonstrating the dismal record of "active" portfolio managers. During 2016, two-thirds of active managers of large-capitalization U.S. stocks underperformed the **S&P 500** large-capital index. Nor were managers any better in the supposedly less efficient small-capitalization universe. Over 85% of small-cap managers underperformed the S&P Small-Cap Index.

When S&P measured performance over a longer period, the results got worse. More than 90% of active managers underperformed their benchmark indexes over a 15-year period. Equity mutual funds do beat the market sometimes, but seldom can they do it consistently, year over year.

The same findings have been documented in international markets. Since 2001, 89% of actively managed international funds had inferior performance. Even in less efficient emerging markets, index funds outperformed 90% of active funds. Indexing has proved its merit in various bond markets as well.

The logic behind the empirical results is irrefutable. In any national market, all the securities are held by someone. Thus if some investors are holding securities that do better than average, it must follow that other investors do worse than average. Investing has to be a zero-sum game. For every winner there will be a loser.

But in the presence of costs, the game becomes negative-sum. The index investor will achieve the market return with close to zero cost. Actively managed funds charge management fees of about 1% a year. Thus, as a group, actively managed funds must underperform index funds by their difference in costs. And empirical evidence suggests that active funds underperform index funds by approximately the difference in their costs. Moreover, actively managed funds tend to realize taxable capital gains each year. Passive index funds are more tax-efficient, making the after-tax gap even larger.

In 2016 investors pulled $340 billion out of actively managed funds and invested more than $500 billion in index funds. The same trends continued in 2017, and index funds now account for about 35% of total equity fund investments. Now a new critique has emerged: Index funds pose a grave danger both to the **stock market** and to the general economy.

In 2016 an AB Bernstein research team led by analyst Inigo Fraser-Jenkins published a report with the provocative title "The Silent Road to Serfdom: Why Passive Investment Is Worse than Marxism." The report argued that a market system in which investors invest passively in index funds is even worse than an economy in which government directs all capital investment. The report alleges that indexing causes money to pour into a set of investments without regard to considerations such as profitability and growth opportunities. Detractors also accuse index funds of producing a concentration of ownership not seen since the days of the Rockefeller Trust.

What would happen if everyone began investing in index funds? The possibility exists that they could grow to such a size that they would distort the prices of individual stocks. The paradox of index investing is that the **stock market** needs some active traders to make markets efficient and liquid.

But the substantial management fees that active managers charge give them an incentive to perform this function. They will continue to market their services with the claim that they have above-average insights that enable them to beat the market, even though they cannot all achieve above-average market returns. And even if the proportion of active managers shrinks to a tiny percentage of the total, there will still be more than enough of them to make prices reflect information.

Americans have far too much active management today, not too little. The S&P report reveals that ever-increasing percentages of active managers have been outperformed by the index. If anything, the **stock market** is becoming more efficient -- not less so -- despite the growth of indexing.

It is true that there will be a growing concentration of ownership among the index providers, and they will have increased influence in proxy voting. The possibility of excessive market power needs to be monitored by antitrust authorities, but index funds don't have an incentive to use their votes to encourage anticompetitive behavior.

Index funds have been of enormous benefit for individual investors. Competition has driven the cost of broad-based index funds nearly to zero. Individuals can now save for retirement far more efficiently than before by assembling a diversified portfolio of index funds. There is no better way to preserve and grow one's savings.

Mr. Malkiel, chief investment officer of Wealthfront, is the author of "A Random Walk Down Wall Street" (W.W. Norton), now in its 11th edition.

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THE WALL STREET JOURNAL.
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MoneyBeat: Stock Pickers Rebound

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B9
English

Soaring technology stocks this year are providing a boost to stock pickers

Much maligned active stock managers are off to their best start to a year since the end of the financial crisis. Some 52% of domestic large-cap stock mutual funds are beating their benchmarks this year, their best performance since 2009, according to Goldman Sachs stock strategists headed by David Kostin.

Most actively managed U.S. stock funds have failed to beat their market benchmarks over the past decade and a half, according to the latest S&P Indices Versus Active funds scorecard. Such performance has made it difficult for active stock managers to justify their higher management fees, and in turn, investors have flooded into lower-cost index-tracking funds that aim to mimic, rather than beat, the **stock market**.

Some $1.2 trillion has flowed out of actively managed U.S. stock funds over the last decade, while nearly the same amount, $1.1 trillion, has moved into passive U.S. stock funds, according to Morningstar Inc.

A surge in the shares of the biggest tech firms this year is the reason behind the improved performance. The **S&P 500** tech sector is up 21% in 2017, while the **S&P 500** has gained 8.9%. Apple Inc. and Facebook Inc. are up more than 30% apiece.

Funds owning outsize stakes in those firms have generated the best returns. Fully 63% of large-cap growth funds, which are most exposed to tech shares, have beaten the Russell 1000 Growth index in 2017, compared with the 10-year average of 38%. Growth funds buy shares of companies with rapid earnings growth.

Fund types that haven't bulked up in tech continue to lag. Just 37% of core stock funds have topped the **S&P 500** this year. A core fund aims for a diversified basket of stocks. Goldman's analysis of these portfolios found core funds, on average, own slightly fewer tech stocks than the indexes they aim to beat.

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The New York Times

Sketch Guy
Your Money
Ask the Sketch Guy: Should I Finally Buy Some Bitcoin?

By CARL RICHARDS
525 words
5 June 2017
01:44 PM
NYTimes.com Feed
NYTFEED
English

Last week, I announced the beginning of a semiregular "Ask the Sketch Guy" service. Send me your questions, but not just any questions. I want to explore the deep, dark conversations that we don't hear on the financial pornography network, like how we feel about money and how money makes us feel.

To kick off things, Shawn Cook from San Diego asked a question about Bitcoin. (For an explainer on Bitcoin, see this article by Nathaniel Popper of The New York Times, who literally wrote the book on the topic.) His hipster friend is constantly bugging him to invest in the cryptocurrency. It's making Shawn wonder: Should he ditch his boring old index fund?

Shawn, this is a great question because who among us doesn't have a hipster friend who is always talking about how he is killing it with his investments in Bitcoin, Apple and Tesla? Those people have all the fun! They seem to know exactly what's going to happen in whatever market they're investing in and have this aura of self-assurance that is really annoying. It's enough to cause even the most rational, non-hip among us to doubt our boring, old-style investing.

In fact, I remember feeling a bit this way back in 1999. I was surrounded by tech people with their BlackBerries and Hotmail accounts. I resisted the siren call of the **Nasdaq** and the technology bubble — until I finally gave in. Then, I took some hard-earned money out of a boring diversified investment and bought Infospace.

Remember that? If you do, it may not be pleasant. In fact, I can't remember the exact details because they're too painful, but I know I invested a lot of money (for me) back then. When I sold, I didn't have enough to pay for a burrito and a Coke. I even considered buying more on "the dip." Except I didn't have any more money to invest, and this wasn't a dip. The stock never recovered to anything close to what I had paid to buy it. Today, I still have the stock certificate as a reminder of that valuable lesson.

So, Shawn, the moral of the story is that your friend just might be right. But then again, he might be flat-out wrong.

What he is talking about is speculation at best, and it's probably closer to gambling. If you have some spare money and you feel like gambling, fire away.

But here's an alternative idea. Keep your low-cost, boring, diversified investments, and have a T-shirt made (black, with white text) that says: "I own Bitcoin. How you like me now?" I'll even provide the sketch.

Keep the questions coming via your voice messages!

Carl Richards, a certified financial planner, is the author of "The Behavior Gap" and "The One-Page Financial Plan." His sketches and essays appear weekly. Have a question for him? You can submit it here. Follow him on Twitter: @behaviorgap

Carl Richards

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THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News --- THE OUTLOOK: For ECB, Halting Easy Money Is Hard

By Tom Fairless
888 words
5 June 2017
The Wall Street Journal
J
A2
English

As the eurozone economy gathers pace, European Central Bank officials are plotting a route back to normality from an era of exceptionally easy money policies.

It could be a complicated path.

The ECB has indicated it will follow the U.S. Federal Reserve's game plan for unwinding its policies, first by phasing out a 60 billion euro-a-month ($68 billion) bond-purchase program known as quantitative easing and then turning to increase short-term interest rates, which have been negative since 2014.

But a debate has broken out inside the central bank about whether that sequence is right. Some officials suggested at their March meeting starting to raise rates first, to get them out of negative territory, before ending bond purchases, a person familiar with the matter said. Other officials, notably the bank's chief economist, Peter Praet, believe the Fed's sequence has a strong logic and are wary of shifting from that approach.

It might sound esoteric, but the path the ECB chooses could have big consequences for bank stocks and lending, market **volatility** and the outlook for the euro. The two policies are different in part because they affect different kinds of interest rates. The negative-rate policies affect short-term rates, while bond purchases hit long-term rates.

The distinction matters in the markets. The euro jumped and eurozone bonds tumbled in March on reports that ECB policy makers had considered raising interest rates before ending the bond purchases.

ECB officials will meet in Estonia on Wednesday and Thursday to consider their next moves. Mario Draghi, the bank's president, is expected to express greater confidence in the economy after the meeting. He could announce a review of different exit strategies.

The officials will meet amid signs of an economic pickup. Growth in the 19-nation bloc outpaced that in the U.S. in the first quarter, unemployment has fallen to an eight-year low of 9.3%, and inflation has risen from less than zero to 1.4% over the past 12 months, approaching the ECB's target of just below 2%.

Some eurozone bank executives have chafed under negative interest rates and would like the ECB to halt the policy as soon as possible, even before bond purchases end. They say negative rates undermine their profits -- because they aren't able to pass the costs on to customers in the form of deposit fees -- and thus curb their ability to lend.

That is crucial in an economy where businesses depend on banks for about 80% of their borrowing, compared with just 20% in the U.S. Some economists suggest negative rates also encourage people to save money rather than spend it, thereby stunting economic growth.

ECB officials are weighing mixed evidence as they consider whether to raise rates first. Despite bank complaints about the impact of negative rates, bank lending to eurozone companies grew at the fastest pace in almost eight years in April, rising by 2.4% year over year.

Still, some officials worry about the longer-running effects. "We see the negative impact being accumulated over time. . .in terms of reducing the interest margin of banks," ECB board member Benoit Coeure said in New York in April.

In Germany, negative rates have become an object of scorn in some political and media circles, which refer to them as "Strafzinsen," or "penalty rates."

Crucially, though, Germany's influential central bank takes a different view. The Bundesbank is less worried by negative rates than by bond purchases, which it argues reduce pressure on eurozone governments to carry out economic reforms.

To compensate for an early rate increase, the ECB might decide to extend its bond purchases. That would likely win favor among central-bank governors from southern Europe because the ECB's purchases of government debt hold down their borrowing costs. But it would displease Bundesbank President Jens Weidmann, who voted in favor of cutting rates below zero in June 2014, but has never voted for government bond purchases.

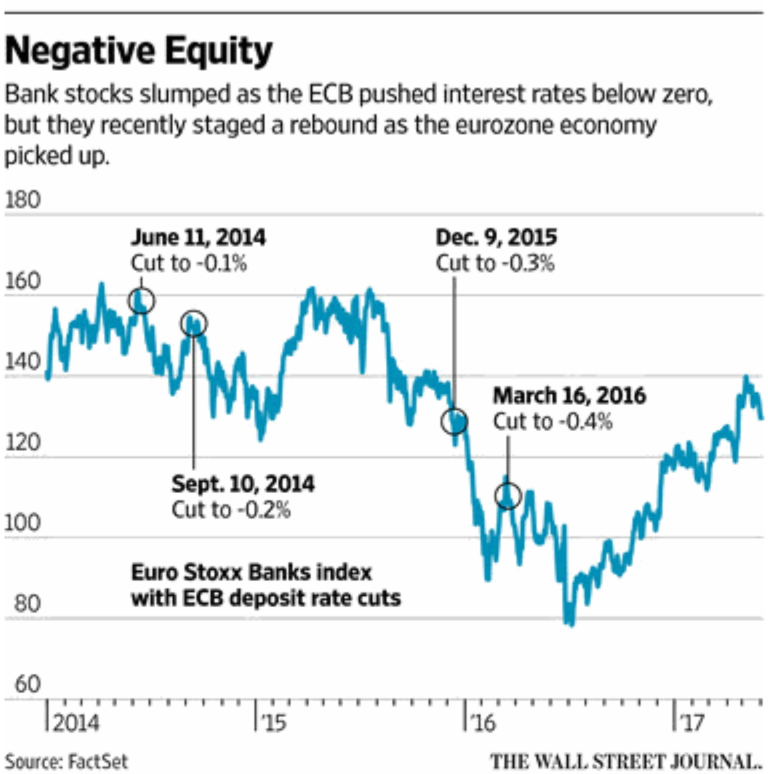
Nor is it clear how much longer the ECB can continue bond purchases, under which it has already amassed around 2 trillion euros of bonds. The program is due to run through at least December, but constraints on its design mean the ECB could struggle to find enough to buy next year, particularly German bunds.

Within the ECB, the debate is likely to hinge on the overall impact of negative rates on the economy. Late last year, top ECB officials appeared to cool toward the policy, warning that it could, over time, cause banks to reduce lending.

More recently, though, ECB officials have appeared to change tack, arguing that the effects of negative rates have been mostly positive. The change in tone coincides with a recovery in eurozone bank stocks, which have risen by about 40% since October.

"We've seen the initial impact of our negative-rate policy being clearly positive," Mr. Coeure said. The policy anchors short-term borrowing costs at low levels, stabilizes financial conditions and encourages banks to lend rather than leave excess funds at the central bank, he said.

"At some point we might change our conclusion," Mr. Coeure said. "We're not there."



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THE WALL STREET JOURNAL.
U.S. EDITION

Investing in Funds & ETFs: A Monthly Analysis --- Need to Know: A Fund's 'Peak' Performance Matters --- We found the active funds that did best in the complete bull-bear cycle

By John Coumarianos
935 words
5 June 2017
The Wall Street Journal
J
R5
English

Many investors don't look at how funds performed during the complete cycle of a bull and **bear market**, instead relying on typical industry yardsticks such as one-, three- and five-year returns.

But in doing so, investors may be missing an important gauge of a fund's performance -- as we discovered in our own analysis.

The argument for a complete-market-cycle yardstick was made by Ryan Leggio and Steven Romick of FPA Funds, a Los Angeles fund manager, in an article in the Fall 2015 issue of the Journal of Portfolio Management. The two authors define a full market cycle as a "peak-to-peak period that contains a price decline of at least 20% over at least a two-month period from the previous market peak, followed by a rebound that establishes a new higher peak."

The authors rely partly on Berkshire Hathaway's 2013 shareholder letter, in which Warren Buffett remarked that Berkshire's book-value increase exceeded the return of the **S&P 500 index** from year-end 2007 through 2013. In the letter, Mr. Buffett also said that he expected Berkshire's performance to exceed that of the index over subsequent full-market cycles, and that investors have recourse to index funds if it doesn't.

In subsequent reports, however, Mr. Buffett has maintained a more-conventional presentation, showing Berkshire's calendar-year returns versus those of the **S&P 500 index**.

Still, following the lead of Messrs. Leggio and Romick, we decided to apply a peak-to-peak approach to the performance of the 100 largest nonbond, actively managed funds, from 2008 through the first quarter of 2017, making sure a single manager or team was responsible for the performance. We are still living in the cycle that Mr. Buffett mentioned in his 2013 letter since it hasn't suffered a major extended decline beyond that of 2008 and early 2009.

From 100, we narrowed the list by stripping out sector funds, small-cap funds, midcap funds, and allocation funds, since most people have the bulk of their stock exposure to domestic large-cap funds. That left us with 60 funds that invested in large-cap domestic and/or foreign stocks.

Of the 60 funds, 41 beat the **S&P 500**, the MSCI EAFE or the MSCI ACWI from 2008 through the first quarter of this year. That is a strong performance, compared with studies showing a much smaller percentage of active funds typically beating their relevant indexes. Nevertheless, one-third of our largest active funds, holding more than $1 trillion, couldn't beat their index.

Among the domestic funds beating their index by the highest margin were value funds such as AMG Yacktman Fund (YACKX) and growth funds such as Fidelity Growth Company (FDGRX). The value funds made it on the list mostly for holding up in the **bear market** of 2008 and early 2009. Yacktman's lowest point, a peak-to-trough decline of 39.7%, reflects its relative resiliency in bad times. But its most recent portfolio shows it is hunkered down with around 23% in cash along with many consumer-staples companies such as Procter & Gamble and PepsiCo, and stodgier information-technology names such as Cisco and Oracle. Consequently, it looks subpar on three-year and five-year comparisons, supporting Messrs. Leggio and Romick's point that a shorter time frame can sometimes mask longer-term excellence.

The growth funds, meanwhile, show impressive results regardless of the time frame. But they can still have problems. Indeed, they owe much of their full-cycle performance to the past few years when growth stocks have rallied. Fidelity Growth counts Apple, Amazon.com, Google parent Alphabet and Facebook among its top holdings. These investments have helped it produce a 14.2% annualized return for the past five years, helping overcome a peak-to-trough plunge of 47% during the financial crisis.

The late-cycle dominance of the growth funds may mask earlier stumbles, but Messrs. Leggio and Romick's point is that the full cycle is more important than any of its individual parts. Fidelity Growth held up well enough in a part of the cycle unfavorable to its style to allow its performance during the beneficial part of the cycle to catapult it to index-beating full-cycle returns. Investors should note, however, that the fund's Sortino ratio, a measure of **volatility**-adjusted returns, was the lowest among the top-five funds. That means investors had to stomach more **volatility** to reap rewards.

A full cycle view can help investors avoid dismissing funds with a subpar three- or even five-year performance versus an index. Although there can be some anxiety associated with trailing the index in the last stages of a **bull market**, some downside protection in a **bear market** can make up for that lag both in lower drawdowns and better long-term performance.

It may well be that low-cost index funds are the most appropriate choice for most investors. But those contemplating alternatives should know how to judge them properly. To assist that effort, fund companies and ratings services should display full-cycle return data along with the current standard one-, three-, five- and 10-year data points.

Mr. Coumarianos, a former Morningstar analyst, is a writer in Laguna Niguel, Calif. He can be reached at reports@wsj.com.

Dancing Peak-to-Peak | Funds that beat the S&P 500 by the biggest margin over a full cycle

FUND	TICKER	MORNINGSTAR CATEGORY	2008 TO 2017* RETURN (PCT.)	S&P 500 RETURN (PCT.)	EXCESS ANNUALIZED RETURN FOR CYCLE (PCT. PTS.)	3-YEAR ANNUALIZED EXCESS RETURN (PCT. PTS.)	5-YEAR ANNUALIZED EXCESS RETURN (PCT. PTS.)	MAX DRAWDOWN (PCT.)	RETURN OVER 'BAD' VOLATILITY (SORTINO RATIO) 2008 TO 2017*
AMG Yacktman I	YACKX	Large Blend	10.57%	7.59%	2.98	-2.95	-2.70	-39.73%	1.17
Oakmark Select Investor	OAKLX	Large Blend	10.27	7.59	2.68	-2.35	0.40	-46.76	0.89
Oakmark Investor	OAKMX	Large Blend	10.14	7.59	2.55	-1.35	0.82	-45.28	0.93
Vanguard Primecap Core	VPCCX	Large Growth	10.07	7.59	2.48	1.01	2.41	-40.82	1.02
Fidelity Growth Company	FDGRX	Large Growth	9.84	7.59	2.25	1.67	0.89	-47.26	0.88
S&P 500 index			**7.59%**					**-48.45**	**0.76**

*through March 31 Source: Morningstar

THE WALL STREET JOURNAL.

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THE WALL STREET JOURNAL.
U.S. EDITION

Investing in Funds & ETFs: A Monthly Analysis --- Exchange-Traded Funds: Biotech ETFs Are Getting Hearts Pumping Again --- Risks remain despite this year's 11% bounceback

By Gerrard Cowan
919 words
5 June 2017
The Wall Street Journal
J
R6
English

Biotech stocks took a pounding in 2016 but have bounced back since, with a range of exchange-traded funds benefiting from the resurgence.

The biotechnology sector harnesses biological processes to create technologies and products for a wide variety of challenges, from expanding crop sizes to treating disease. Pharmaceutical-focused firms are a major component of biotech funds, with names like Celgene Corp. and Gilead Sciences Inc. often among their top 10 holdings.

Last year, the Nasdaq Biotechnology Index, or NBI, fell about 21%. Politics was a major contributor, analysts say, as drug prices became a punching bag in the presidential campaign. In September 2015, for example, a Hillary Clinton tweet on "price gouging" sent stocks tumbling.

Things have turned around this year, with the NBI up 11% so far. Mutual funds and ETFs measured by Lipper's health/biotechnology category are likewise up 11% in 2017 after falling 10% last year.

Politics, some fund managers say, has played a role in the turnaround, as well.

More specifically, Donald Trump's victory in the presidential election made investors more optimistic, they say. Although Mr. Trump also criticized high drug prices during the campaign, investors believed Mrs. Clinton was more likely to bring in tougher measures aimed at controlling prices, says Michael Cohick, product manager at VanEck, which runs VanEck Vectors Biotech ETF (BBH), a $645 million fund that has gained 9.18% this year through May.

Investors also expected Mr. Trump would be in favor of streamlining the Food and Drug Administration's drug-approval process. There also has been innovation in areas like immunotherapies, Mr. Cohick says, with more products in clinical trials.

Politics may have played a role in the biotech rebound in other ways, says Matt Bartolini, head of SPDR Americas research at State Street Global Advisors, which runs SPDR S&P Biotech ETF (XBI), a $2.95 billion fund with a year-to-date gain of 14.47% through May. Mr. Trump's tax plans and efforts to bring back profits held offshore could spur merger and acquisition activity in the sector, he says, as many of the large biotech names have cash holdings overseas. The sector benefited from M&A in 2015, he says, and "a return to that could be a nice tailwind for the segment."

That point is echoed by Neelarjo Rakshit, an analyst for ETFdb.com, who says the number of M&A deals in biotech in 2016 was the lowest in six years. "There is increasing anticipation that M&A activity will increase, which is raising the overall price-to-earnings ratio in the sector."

Then there is the fact that last year's drop in biotech stocks led to significant reductions in companies' valuations, says Dave Gedeon, vice president and head of index research and development for Nasdaq Global Information Services. Many of these firms have continued to generate healthy earnings, he says, so they "start to actually look very favorable from a valuation perspective."

Still, the biotech sector has a number of vulnerabilities that investors need to keep in mind, analysts say. One of the biggest is that it remains susceptible to political developments. Mr. Cohick points to a dip in biotech stocks in recent months that may have been driven by factors including a tweet from President Trump pledging to bring drug prices "way down" and uncertainty around the repeal of the Affordable Care Act. Some companies also have missed earnings expectations.

The sector also tends to be **volatile**, with stocks experiencing dramatic moves based on drug approvals. For some who want to invest in the health-care sector, taking a more-diversified approach might be more sensible, says Ben Johnson, director of global ETF research at Morningstar. There are a number of broader ETFs that focus on health care as a whole, he says, which could provide more-stable returns.

Biotech has always been a difficult sector to value, says Tushar Yadava, an investment strategist at BlackRock Inc.'s iShares unit, which runs the largest biotech ETF in the U.S.: iShares **Nasdaq** Biotechnology ETF (IBB), a $7.75 billion fund that is up 7.97% this year.

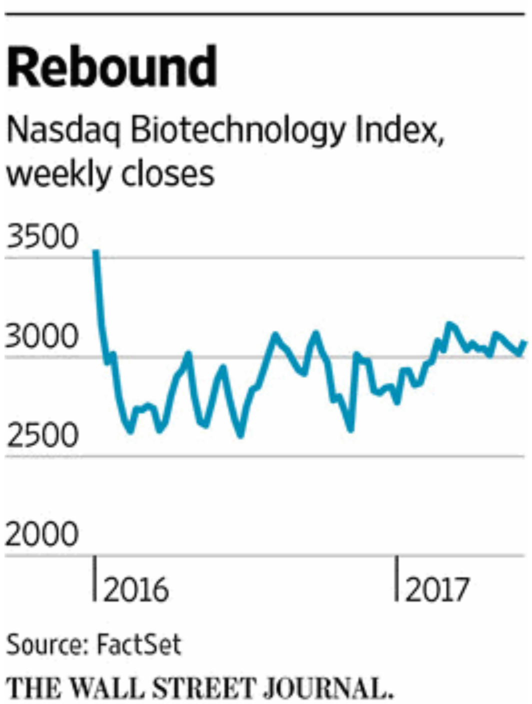
On the one hand, the outlook for companies can be relatively clear in that there is patent protection, and a defined customer base. But there is also that "regulatory overhang": Any change to the drug-pricing landscape would turn companies' revenue models upside down, he says.

Still, "when you look at the companies and their underlying fundamentals -- especially the large-cap biotechs -- you've got a pretty good backdrop of solid earnings and solid revenue," he says. "That lends itself well to investing in biotech. You just have to weather the storms of momentum, of valuation and regulation."

In the long run, the sector holds some key attributes, says Ryan Issakainen, senior vice president and ETF strategist at First Trust Advisors, whose $931 million First Trust NYSE Arca Biotechnology Index Fund (FBT) is up 15.07% this year.

Some of the biotech sector's products are aimed at the biggest challenges in society, from expanding food supplies to tackling the health problems of aging populations. "They're certainly at the cutting edge of innovation," he says.

Mr. Cowan is a writer in Northern Ireland. He can be reached at reports@wsj.com.



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THE WALL STREET JOURNAL.
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Investing in Funds & ETFs: A Monthly Analysis --- Fundamentals of Investing: Why Momentum Investing's Death Has Probably Been Exaggerated --- Here's the case for still using the much-maligned strategy

By Mark Hulbert
949 words
5 June 2017
The Wall Street Journal
J
R4
English

Momentum strategies have turned in disappointing performance for nearly the past decade. But there are still plenty of reasons for momentum investors to stay the course.

With a momentum strategy, the investor favors stocks with the best trailing-12-months returns and shuns those that have performed worst. Some of those approaches explicitly base their strategies on price movements, while others do so implicitly by focusing on factors such as earnings momentum, trends in analyst revisions and so forth. But anyone who sells their losers and holds on to their winners is at least partly a momentum investor.

The past 10 years have been frustrating for followers of this approach. According to data compiled by Eugene Fama, a finance professor at the University of Chicago Booth School of Business, and Kenneth French, a finance professor at Dartmouth College's Tuck School of Business, the decile of stocks with the highest momentum beat the **S&P 500** by just 1.3 percentage points over the 10 years through March 31 of this year (before transaction costs). That is less than one-fifth as much as the strategy's average annual advantage over the past 90 years, and almost certainly not enough to pay the considerable expenses -- both brokerage commissions and bid-offer spreads -- involved in the high turnover of a momentum portfolio.

This frustrating decade has been particularly evident in the real-world performance of a momentum newsletter that, in mid-2007, had the best long-term record of any of the services monitored by the Hulbert Financial Digest: NoLoad FundX, edited by Janet Brown.

This service's approach to capturing momentum is to recommend those no-load mutual funds with the best performance over the trailing 12 months. Over the 25 years through mid-2007, it was in first place for performance among any of the nearly 200 that were monitored. Since then, however, it has lagged behind the market by 3.1 annualized percentage points.

Ms. Brown, while acknowledging that the past decade hasn't been favorable to momentum approaches, says she doesn't believe the strategy has permanently lost its market-beating potential and, therefore, she and her firm are sticking with it.

There are several reasons to agree with Ms. Brown. First, despite a decade of market-lagging performance, momentum strategies are still ahead of the market over the long term. According to the Fama-French data, for example, from 1927 through March 31 of this year the top decile momentum portfolio beat the **S&P 500** by 6.6 annualized percentage points (before transaction costs).

Also, a decade of disappointing performance isn't unprecedented for momentum strategies. Something broadly similar occurred in the late 1930s and early 1940s, according to Kent Daniel, a finance professor at Columbia University who has extensively studied momentum strategies.

Yet another reason not to give up on momentum comes from Tobias Moskowitz, a Yale University finance professor and a principal at AQR Capital Management, a firm that manages a number of momentum-oriented funds. Prof. Moskowitz says he and fellow researchers haven't detected any overwhelming increase over the past couple of decades in the amount of money invested in the highest-momentum stocks. Had there been such an increase, we would worry that momentum had stopped working because too much money had killed the goose that lays the golden egg.

Absent too much money chasing it, momentum would stop working only if its underlying causes disappeared. One of the most significant of those causes, Prof. Moskowitz says, traces to human psychology, and in particular to our tendency to react irrationally when confronted with new information. He says he has seen no evidence that there has been any change in investor psychology that would call into question momentum's long-term potential.

Meanwhile, there is a relatively simple way to improve the profitability of momentum investing, according to Prof. Daniel. The strategy derives from two discoveries that he and others have made: Momentum works best when market **volatility** is low, and periods of high **volatility** tend to be clustered together. Taken together, he explains, this means a trader should be able to improve returns by having a high allocation to momentum stocks when **volatility** is low, and investing instead in an index fund when **volatility** is high.

Prof. Daniel adds that he hasn't translated his research into a set of specific trading rules. But a simple rule of thumb would be to focus just once a month on the CBOE's **Volatility** Index, or VIX. If it is below its historical median (17.7 at the end of May), and assuming the future is like the past, allocate an above-average portion of your equity portfolio to momentum strategies. He reported that, in his simulations, an approach such as this would have markedly increased momentum's past profitability -- even over the past decade.

If you follow this strategy, keep transaction costs low by using exchange-traded funds. The momentum-based ETF in the U.S. **equity market** with the most assets under management is iShares Edge MSCI USA Momentum Factor ETF (MTUM), with an expense ratio of 0.15% (or $15 per $10,000 invested). When shifting funds away from momentum, Vanguard Total **Stock Market** ETF (VTI) has an expense ratio of just 0.04%.

Mr. Hulbert is the founder of the Hulbert Financial Digest and a senior columnist for MarketWatch. Email him at reports@wsj.com.

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U.S. News: When Low Jobless Rates End Badly

By Josh Zumbrun
799 words
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A2
English

There have been only three fleeting periods in the past half-century when the U.S. unemployment rate was as low as it is today. This would be cause for celebration but for one disturbing fact: Each was associated with boiling excesses that led to serious economic trouble.

Low unemployment of the late 1960s preceded an inflation spiral in the 1970s. The late 1990s bred the dot-com bubble and bust. The mid-2000s saw the buildup and collapse of U.S. housing.

While there is reason to believe today's economy isn't boiling over as in the past, those episodes call for caution.

"It's not a matter of superstition, it's a matter of being mindful of the history of what such a low unemployment rate usually is followed by," said Michael Feroli, chief U.S. economist of J.P. Morgan Chase & Co.

While initially a welcome development, low unemployment in the 1960s laid the groundwork for a buildup of wage and price pressures, spurred on by low interest rates and aggressive government spending programs.

The unemployment rate dropped to 4.3% in September 1965 and then below 4%. Today's unemployment rate, also at 4.3%, could drop below 4% in the next year if it maintains its present trajectory.

Unemployment fell again to 4.3% in January 1999. This time the inflation rate remained below 2% and it seemed that, unlike the late 1960s, the economy wasn't overheating.

But asset prices -- the **stock market** in particular -- soared after what had already been a long climb. The **Dow Jones Industrial Average** shot above 10000 for the first time in March 1998. Highflying tech companies commanded billion-dollar valuations with no profits to report. In hindsight, an internet bubble grew out of control.

Economic theory draws clear linkages between low unemployment and inflation. As companies compete for scarce workers, they bid up wages and raise prices on goods and services to protect profit margins. The textbooks don't spell out such a connection between low unemployment and financial bubbles. The tech boom of the late 1990s might have been dismissible as a one-off event had it not been for what happened next.

Unemployment fell back to 4.4% by October 2006. It coincided with a home-price boom that happened even though broader inflation measures remained stable. When housing prices fell, a financial sector deeply exposed to mortgage credit collapsed and the economy entered the longest and deepest recession since the Great Depression.

Each of those episodes was different, making it hard to map out a systematic connection with low unemployment.

"I don't think we can compare the rate of unemployment now and the rate of unemployment 10 or 20 years ago," said Eugenio Aleman, a senior economist with Wells Fargo. "The rate is similar, yes, and it's calculated the same way, but they don't represent the same thing. The economy is very different than 20 years ago."

Though prices for houses and stocks are rising again now, the get-rich-quick mania of the dot-com and housing bubbles isn't so ubiquitous today. Importantly, Americans aren't loading up on debt and, in fact, have spent much of the past 10 years reducing their debt burdens.

Wage dynamics also have changed. Hourly wages increased more than 6% a year in the late 1960s. They rose over 4% a year in the late '90s and in the waning days of the housing bubble. Today, wage growth has been stuck around 2.5%.

"Hitting a low point on the unemployment rate, compared to history, isn't a sufficient condition to say we're near a recession," said Gregory Daco, the head of U.S. Macroeconomics at Oxford Economics. "The wage-inflation dynamic has not picked up, and that's clearly something different from the past."

Other measures suggest the economy remains on a more even keel. The Congressional Budget Office estimates that after all these years of sluggish economic growth, today's economy is still producing goods and services at a slower rate than it is capable of producing.

Other measures support this conclusion. In the 1990s and from 2005 to 2007, U.S. industries operated at more than 80% of their capacity, according to Federal Reserve data. In the 1960s, they were churning out goods at nearly 90% of factory capacity. By contrast, U.S. industrial capacity utilization maxed at just 79% in 2014 before an oil bust and industrial slowdown idled many factories and refineries.

There is no telling how long this low unemployment period will last. Still, the broader historical lesson looms: Eventually these low unemployment cycles end.

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Investing in Funds & ETFs: A Monthly Analysis --- Monthly Monitor: U.S.-Stock Funds Rise, but Many Investors Look to Bonds

By William Power
503 words
5 June 2017
The Wall Street Journal
J
R2
English

There's an old Wall Street expression about long stock rallies: It's too early to leave the party, but stay close to the door.

Many investors seem to be following that approach. While the **stock market** continued to hit records in May -- boosting U.S.-stock mutual funds and ETFs by an average of 0.4% -- investors fear they've seen the best of the corporate-earnings gains that drove the market in the beginning of the year, and they are looking to the bond market and overseas instead.

"The whole 'reflation trade' is history," says Marc Chaikin, founder and chief executive officer of Chaikin Analytics in Philadelphia, referring to investors who had been selling bonds and buying stocks after the November election of Donald Trump. The bet was that the new president's expected moves to stimulate the economy would lead to higher inflation.

While stocks do continue to hover at highs, bonds have come back from that postelection selloff. Mr. Chaikin says, "In 20 of [the past] 21 weeks, money has been flowing into bonds. So that's pretty interesting since the assumption after the Trump victory is we'd be seeing money flowing out of bonds, and that hasn't been the case."

The stock-fund gains in May have left investors with a solid 6.4% year-to-date average return, according to Thomson Reuters Lipper data.

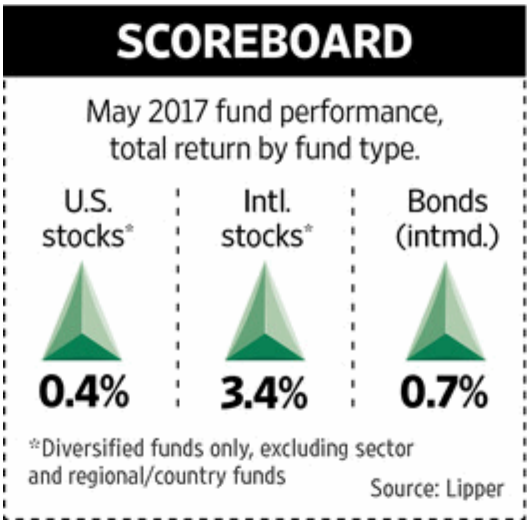
The bond-market rally boosted funds focused on intermediate-maturity, investment-grade debt (the most common type of fixed-income fund) by an average of 0.7% in May. The funds are now up 2.5% for the year to date.

The bond-fund buying has been intense despite the Federal Reserve's telegraphing of what it plans to do with rate increases. Another increase is expected in mid-June. **Bond prices** move in the opposite direction of yields, yet investors generally expect the Fed's increases to be gradual -- not generating a sharp rise in yields.

International-stock funds, meanwhile, rose 3.4% in May, and are up nearly 15% for the year to date. Many investors have followed the advice to park at least some of their portfolio in overseas stocks. The U.S. market's gains have often undercut that strategy. So far this year, though, the international diversification has paid off.

"Growth stocks [in the U.S.] performed very well last month, but value stocks were down -- in Europe everything was up across the board," says Mr. Chaikin. "Money is going into Europe. I call this a momentum trade because Europe has really outperformed since the beginning of the year -- France, Germany, Italy and the U.K. Fund money is chasing the European economy."

Mr. Power is a Wall Street Journal news editor in South Brunswick, N.J. Email him at william.power@wsj.com.



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THE WALL STREET JOURNAL.
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U.S. News: Border Retailers See Sales Decline

By Jim Carlton
950 words
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J
A3
English

SAN YSIDRO, Calif. -- For decades, this border community has prospered because of Mexican shoppers crossing into the U.S. to buy everything from shoes to phones.

But a few years ago the value of the peso against the dollar fell by half as **oil prices** plunged. American big-box stores that opened in Mexico siphoned customers away from U.S. shops.

Business owners in this San Diego district of about 30,000 people say the decline has worsened in the last five months over a new factor: economic and political tension between the U.S. and Mexico.

President Donald Trump came into office based in part on pledges to beef up security on the Mexican border by building a wall and renegotiating what he called unfair trade pacts like the North American Free Trade Agreement. Business groups have cautioned the Trump administration to avoid putting Nafta's benefits at risk.

Since Robert Lighthizer was approved by the Senate to be the U.S. trade representative in May, the Trump administration has softened its rhetoric on Nafta toward modernizing the agreement rather than a wholesale "rethinking the issue of trade" that Mr. Trump promised on the campaign trail.

The peso got a 4% bump after Mr. Trump's inauguration, then tumbled as tensions escalated between the U.S. and Mexico. Late Friday the dollar stood at 18.68 pesos. The fluctuations have made it less attractive for Mexicans to cross the border to shop.

All along the border, American retailers are reporting sharp drops in sales this year that many attribute to tough trade and immigration policies.

Mr. Trump has insisted that Mexico would pay for a border wall, launched a renegotiation of the Nafta and tightened deportation rules.

Stepped-up deportations and border enforcement, merchants say, have discouraged many Mexicans from venturing north to shop at stores that often feature better prices and selection on everything from women's apparel to electronics.

"It's like a chilling effect," said Denise Ducheny, senior policy adviser at the University of California, San Diego's Center for U.S.-Mexican Studies.

"It's depressing," said Eric Pineda, co-owner of a Cricket Wireless outletin San Ysidro. He estimates his store has seen a 50% drop in sales so far this year compared with last year.

Still, some Mexican shoppers said Mr. Trump's tough talk doesn't faze them. "He's just another president," Arlette Mendez, a 43-year-old visitor from Mexico City, said as she entered a discount outlet mall in San Ysidro in April in search of brand-name clothing.

In Texas, the state's five biggest border metropolitan areas -- Brownsville, McAllen, Del Rio, Laredo and El Paso -- combined received 2.7% less sales tax allocations in the first quarter than the same quarter a year earlier, according to estimates by the Texas Comptroller's office. Allocations are a proxy for local retail spending.

Those numbers fell to $96.8 million from $99.5 million, even as cities statewide in Texas saw a 2.44% jump in the sales tax allocations over the same period.

The same data on sales tax allocations showed gains in most other Texas cities that aren't on the border, including Dallas, up 3.8%, Fort Worth, up 7.2%, Austin, up 4.5%, and San Antonio, up 2.6%.

In Texas, the steepest decline in shopping was reported in the Rio Grande Valley city of McAllen, where sales tax allocations fell 6.4%.Earlier this year, a social media campaign called #AdiosMcAllen was launched, calling on Mexican shoppers across the border in Reynosa to boycott the border city.

Economists say much of the shortfall represents Mexicans either making fewer shopping trips into the U.S., or none at all.

"A lot of visitors say they no longer feel welcome in the U.S. or safe," said Tom Fullerton, a professor of economics at the University of Texas at El Paso. "They worry they will be subject to searches by uniformed officials and are concerned they could have their visas or passports confiscated."

White House officials didn't return a call for comment.

Mr. Fullerton said retail sales from Mexicans account for about 10% of El Paso County's $12 billion in annual retail sales, or between $1.1 billion and $1.2 billion when those sales peaked in 2014. The sales fell to about $1 billion last year due in part to the peso problems and will likely fall below $1 billion this year, he said.

Hard-Hit Businesses

Look to Stay Afloat

The sales slowdown is having an outsize impact on San Ysidro,a community in the city of San Diego where about 650 of 800 businesses are stores that cater mainly to Mexicans, said Jason Wells, executive director of the San Ysidro Chamber of Commerce. He said 60 stores have closed in the 18 months though May -- half of them since the election.

"That started with the peso devaluation, but the rhetoric has exacerbated that," he added.

Political leaders in San Diego and Tijuana -- a binational metropolis of about five million people -- have worked in recent years to forge closer ties.

Binational efforts have been launched to open a new land port of entry and extend a rail line into the U.S. In 2015 the Cross Border Xpress pedestrian bridge opened, allowing airline passengers to walk from the U.S. to board flights at Tijuana's airport.

"We will survive, but there will be damage to the economy," said James Clark, a cross-border business consultant in Chula Vista, Calif.

-- Jim Carlton

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THE WALL STREET JOURNAL.
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Banking & Finance: Citigroup Adds a Quant Trader

By Telis Demos
403 words
5 June 2017
The Wall Street Journal
J
B8
English

Citigroup Inc. has tapped a quantitative trading veteran to help the bank vault into that hot category, as part of a broader build-up of its equities unit.

Thomas Chippas will join as global head of quantitative execution, the bank said Friday.

Mr. Chippas previously led quant-trading units at Barclays PLC and Deutsche Bank AG, before leaving for jobs beyond Wall Street, most recently as chief operating officer of blockchain-technology startup Axoni Inc.

The return to Wall Street for someone who left to work at a tech startup is an indication of the growing importance of the highly complex and tech-heavy "quant" style of trading. Banks are trying to keep up with clients who are increasingly shifting away from fundamental trading strategies to ones dictated by data and patterns. The shift comes as banks' equity trading desks have struggled with low **volatility** and a growing emphasis on low-cost forms ofpassive trading.

"I would categorize the environment as being okay, but low **volatility**," Citigroup CEO Michael Corbat said an at industry conference Thursday, echoing other bank chief executives who were expecting a dip in trading revenue in the second quarter.

The pressure led banks across Wall Street to invest in quant trading and prime brokerage, which provides technology and financing for clients.

Citigroup in particular has said that despite the tough environment for stock trading, it believes it can sharply grow its market share -- which has lagged behind peers in recent years -- in large part byinvesting in prime brokerage, which also provides clearing services for complex quant trading.

"We called ourselves out a few years ago" for being too small in equities, Mr. Corbat said Thursday. "I think you've seen us continually taking revenue share."

Citigroup's first quarter equity revenue rose 10% from a year ago, versus smaller gains or falls among its larger rivals.

Mr. Chippas will oversee the global expansion of systems that allow hedge funds and asset managers to rapidly put on or take off trades based on quantitative signals, known as "low-latency execution," the bank said. He will report both to the head of cash trading and the head of prime finance.

Such quant trading is "critical in continuing the momentum of our prime and equities businesses," saidAdam Herrmann, Citigroup's global head of prime finance.

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THE WALL STREET JOURNAL.
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Investing in Funds & ETFs: A Monthly Analysis --- Spotlight / MainStay Convertible Fund: A Convertible Fund Has Its Own Rewards, Risk

By Gerrard Cowan
418 words
5 June 2017
The Wall Street Journal
J
R9
English

Torn between bonds and stocks? There's a mutual fund for both.

MainStay Convertible Fund (MCOAX) invests in convertible corporate bonds, which are debt instruments that can be converted into the underlying stock of the issuer, usually when they reach maturity.

MCOAX's approach is designed to limit downside potential, while allowing a virtually unlimited upside, says fund manager Edward Silverstein. A convertible bond pays less in interest income than one would expect from a similar, nonconvertible bond with a similar rating (typically BB or BB minus, Mr. Silverstein says). For example, a standard bond that pays 6% to 8% interest would pay only about 2% to 3% in its convertible form.

The potential upside of the convertible bond, however, more than compensates for the difference, Mr. Silverstein says. Say an investor pays $1,000 for the bond, with an agreement that he or she can opt for 20 shares of the company at maturity, rather than take back the principal. If those shares combined are valued at more than $1,000, the investor profits. If the value of the shares is less than the principal, the investor can simply take back the initial investment.

The latter scenario shouldn't be viewed as a good investment, Mr. Silverstein says, as the investor wouldn't see a great return. Still, the convertible approach allows investors to potentially benefit from a surging **stock price**, without having to invest in the stock itself. "You get equity-like returns, without taking equity risk."

The $1.1 billion fund is up about 4.98% this year through May. The fund managers decide whether to take back the principal or invest in shares based on simple math, Mr. Silverstein says. If they opt for stock, the shares generally are sold right away, and the proceeds used to invest in more convertible bonds.

Convertible bonds are generally non-investment-grade, or "junk" bonds, Mr. Silverstein says, just as the nonconvertible high-yield versions are. The convertible bonds have greater **volatility**, however, because ultimately they are linked to the performance of a share price, which tends to move around much more than the price of a bond. "The risk with convertibles is definitely a little bit greater than you would see on a high-yield bond," Mr. Silverstein says. "But it's certainly lower than equities."

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THE WALL STREET JOURNAL.
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Investing in Funds & ETFs: A Monthly Analysis --- 'Ultrashort' Bond Funds Beckon

By Bailey McCann
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5 June 2017
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R9
English

With the Federal Reserve's next interest-rate rise all but certain in June and the **stock market** at or near highs, some investors are taking a more-defensive approach.

Historically, that has meant money-market funds. But new rules have placed liquidity constraints on those funds. Rising interest rates also mean that investors could see fees creep up, effectively neutralizing much of the yield that makes money-market funds attractive.

As a result, "ultrashort-duration" bond funds and exchange-traded funds are becoming more popular. About $13 billion is in ultrashort bonds year-to-date through May 24, compared with $8.2 billion at the end of 2016, according to Morningstar data.

Ultrashort-duration bonds are bonds that are due to come to maturity in less than two years. These securities can sometimes be removed from bond indexes once the maturity date drops below one year, creating an opportunity for short-term investors to pool them and capture the yield at maturity. The resulting performance of an ultrashort-duration bond product often looks similar to or slightly better than that of a money-market fund.

"We view this product as a way to help advisers and ETF strategists with their tactical cash management," says Joseph Barrato, CEO and director of investment strategies at Arrow Funds. "The yield is higher than a traditional money-market fund, with similar liquidity."

Still, there are key differences. For one, investors in the bond category will be taking on credit risk, however briefly. Vanguard Group, for example, advises investors in its Ultra-Short-Term Bond Fund (VUBFX) to hold off on tactical moves as a way to manage some of this risk. "We discourage people from entering and exiting before the bonds reach maturity," says Chris Philips, head of Vanguard Institutional Advisory Services. "Exiting early increases the amount of churn and cost in the holdings."

Karen Schenone, a fixed-income-product strategist in BlackRock's Global Fixed Income Group, isn't so sure. She says the basket of securities in an ETF or fund offers diversity, which lowers the risk and mitigates the need for advisers or investors to manage individual securities selection. "We ask people to . . . look at what they need in terms of immediate liquidity," she says. "Anything over and above that could go into an ultrashort-bond position, say on a six- to 18-month timeline."

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THE WALL STREET JOURNAL.
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Investing in Funds & ETFs: A Monthly Analysis --- Fixed-Income Investing: What Some Star Bond Managers Are Doing --- Interest rates are expected to rise, thanks to the Fed, but mutual-fund managers differ on the strategy

By Tim Mullaney
1,201 words
5 June 2017
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R9
English

Nothing about the bond market is ever simple -- not even the best way to play this year's expected rise in interest rates.

As markets look for the Federal Reserve to raise rates three or even four times this year, star bond managers have embraced different strategies. Much of their differences boil down to a simple question: Do they share the economic optimism that fueled the so-called Trump Bump (the surge of market enthusiasm that followed Donald Trump's election win) or not?

For every manager like Loomis Sayles's Dan Fuss, betting on corporate bonds, believing defaults will be rare in a strong economy, another is adding less-glamorous mortgage securities that allow for more weakness. Pros like Bryan Whalen, co-manager of MetWest Total Return (MWTIX), say the corporate-bond rally is overdone despite a recent downtick, and postelection optimism is, too.

"We have felt that earnings growth, real economic growth, real income growth, have been insufficient to support the debt load that has built up," Mr. Whalen says. "You can ignore fundamentals for a long time, but not forever."

We talked to major investors about how they're approaching the bond market, and why. Here are some highlights.

Elaine Stokes, Loomis Sayles Bond

The managers of the $14 billion Loomis Sayles Bond Fund (LSBRX) think the economy is healthy enough to take some credit risk on bonds to boost returns.

To a degree, that has meant acting and thinking something like stock pickers -- not surprising, since nearly a quarter of the fund is in high-yield (or junk-rated) debt, an investment that requires detailed knowledge of company fundamentals and an appreciation of how sentiment can move short-term values.

Co-manager Ms. Stokes and her partners -- Mr. Fuss, Matt Eagan and Brian Kennedy -- also are weeding out bonds from challenged industries such as retailing in favor of financial-company bonds, which have been bolstered by stiffer capital requirements so unpopular in Washington.

One note of caution: Citing "political risk," Mr. Fuss said in March that the fund is focusing on shorter-term bonds, a shift Loomis says is mostly within its government-bond holdings. The fund is still adding corporate bonds, confident that credit conditions are solid, Ms. Stokes say.

Sometimes it works, sometimes it doesn't: Ms. Stokes concedes the fund was too early in 2015 to bet on energy bonds' resurgence, when low **oil prices** increased repayment risks. Loomis's fund beat its benchmark by 6.9 percentage points in the year through May 31 , but its performance ranks low among comparable funds over three years through May.

"We're long-term investors," she says. "We're more into buying into down markets and not as worried about staying close to the benchmark."

Scott Mather, Pimco Total Return

Pimco's $74 billion Pimco Total Return fund (PTTAX) is now run by three managers, including Mr. Mather, and pretty conservatively. Only 19% is in corporate credit, and only 3% represents high-yield debt. Instead, the fund's holdings are concentrated in government-related securities and mortgage-related paper, categories that overlap because of Washington's role in mortgage-bond markets.

To Mr. Mather, this is a logical reaction to the 9% run-up in corporate debt prices in the first half of 2016, and it has paid off modestly: Total Return is beating its benchmark with a 3.16% gain this year through May, after trailing in 2014 and basically matching it for the 2013-15 period overall, according to Morningstar data. Within corporates, Pimco favors conservative plays such as insurance firms, as well as mortgage bonds in both residential and commercial sectors, except for debt from real estate built for retailers, which are losing customers to online rivals. The managers also are skeptical of developed-market non-U.S. corporate debt.

"High quality is more affordable and lower quality is less affordable after the repricing," Mr. Mather says. (The 9% run-up in corporate-debt prices was especially pronounced in high-yield bonds.) And "if [stimulus] is coming, it's likely to be smaller and to take a lot longer,"" he says, referring to the administration's tax-cut and infrastructure-spending proposals.

Michael Collins and Robert Tipp, Prudential Total Return

Like Loomis Sayles, Prudential's $24 billion Prudential Total Return Bond fund (PDBAX) is heavy on corporates and light on Treasurys: The 8% of its assets in Treasurys is a fraction of their weight in the benchmark index. The fund is overweight (relative to its benchmark) in corporate debt, including high-yield, emerging-markets bonds and asset-backed securities.

Prudential feels good about credit risk, and it will add risk to get yield, says Mr. Collins, senior investment officer at Prudential. But it isn't infinite: The fund, which is up 3.75% this year through May, has pared junk holdings by a third, a move Mr. Collins mostly chalks up to profit-taking after the rally in corporate **bond prices** over the past year.

"We made most of our trims, on valuation mostly, earlier in the year," says Mr. Collins. "The U.S. data has been a little weaker, and there has been more appreciation lately that it's going to be hard to implement a lot of the administration's pro-growth agenda."

Rick Rieder, BlackRock Inc.

Few oversee more bond assets than Mr. Rieder, chief investment officer for global fixed income at the world's largest asset manager. He says he is using hedging instruments and global diversification to avoid too heavy a macro bet in either direction -- but BlackRock is betting that paper with maturities of two to five years will outperform short-term Treasurys as rates rise.

BlackRock has added inflation-protected Treasurys to lower the interest-rate sensitivity of its $1.6 trillion portfolio, including the flagship $28 billion BlackRock Strategic Income Opportunities (BASIX) fund, which is up 2.02% this year through May. It also is reducing exposure to principal losses from rising U.S. rates by adding debt from countries where interest rates are still falling.

The most eye-catching part of the BASIX fund may be its concentration in derivatives, which account for more than half of the fund. Lower **volatility** has made it possible to trade 10-year options on **U**.**S**. **Treasuryrates**, for example, letting BlackRock take interest-rate risk with more downside protection, Mr. Rieder says. Heading into spring, the fund was beginning to increase exposure to investment-grade corporate bonds and shave exposure to junk, he says. At BlackRock, risk is in, exuberance isn't.

"One thing that's distinct about fixed-income is the extraordinary variety of tools you can use," Mr. Rieder says. "We diversify like crazy. We want a stable yield and a fund that isn't as **volatile** as the benchmark."

Mr. Mullaney is a writer in Maplewood, N.J. He can be reached at reports@wsj.com.

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Investing in Funds & ETFs: A Monthly Analysis --- Spotlight / Reality Shares DIVS: An ETF That Counts on the Dividend Stream

By Gerrard Cowan
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R6
English

Stock investors looking for some stability in this market might find it in overall dividend growth.

That's the thinking behind Reality Shares DIVS ETF (DIVY), a $53.4 million exchange-traded fund that is up 3.01% this year through May.

The idea is to invest in the aggregate growth rate of dividends of companies in the **S&P 500**, rather than the growth in value of the shares themselves or any other metric, says Reality Shares Chief Executive Eric Ervin.

The fund is based on the **S&P 500** as a whole: The index is imagined to be one gigantic stock, with DIVY looking to benefit from the growth rate of the combined dividends across the index. This is largely achieved through the use of tools like dividend-swap contracts. These are financial instruments that are arranged with another institution -- for example, an investment bank -- in which Reality Shares makes a payment based on the estimated future value of the index dividend, and the counterparty ultimately pays Reality Shares the actual value of the index dividend at maturity. DIVY gains in value if the actual rate of dividend growth is higher than the estimated level.

Dividends provide a stable return stream, Mr. Ervin says, growing on average by about 6.5% to 7% annually. Dividends have contracted only three times across the index as a whole in the past 45 years, and always by much less than the value of stocks, he says. This stability comes from their close link to earnings: If a company's earnings grow by 10%, then it's likely the dividends will grow, too, he says.

Sometimes **volatility** is the investor's friend, producing outsize gains relative to the company's actual performance, Mr. Ervin says.

DIVY is aimed at investors who may have the bulk of their portfolio invested in stocks, but "are looking for an alternative that's potentially a bit more stable. That's what DIVY is based on: the historical stability of the dividend stream."

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The New York Times

ECONOMIC VIEW
Money and Business/Financial Desk; SECTBU
Cut Taxes, Sure. But Remember the Budget Deficit.

By N. GREGORY MANKIW
1,046 words
4 June 2017
The New York Times
NYTF
Late Edition - Final
3
English

In the debate about federal tax policy, one question looms large: Should we have a tax cut that increases the budget deficit?

President Trump says he wants "a massive tax cut ... maybe the biggest tax cut we've ever had." But the Senate majority leader, Mitch McConnell, who is clearly worried about the growing national debt, says tax reform "will have to be revenue-neutral." The stage is set for another Republican showdown.

Democrats, meanwhile, are likely to sit this one out. The Senate minority leader, Chuck Schumer, argues that passing a tax bill is going to be hard until the president releases his tax returns. Don't hold your breath.

Mr. Trump wants to cast himself in the role of a tax-cutting Republican president, along the lines of Ronald Reagan and George W. Bush. But before drawing a comparison with these predecessors, let's recall the economic circumstances they faced.

When Mr. Reagan moved into the Oval Office in January 1981, the economy had recently experienced a recession. The recovery was just six months old. Unemployment was still elevated at 7.5 percent.

Worse yet, another downturn was on the horizon. Within six months, the economy would again be in recession. Unemployment rose to 10.8 percent at the end of 1982, its highest level since the Great Depression.

In August 1981, Mr. Reagan signed into law a bill that phased in tax cuts over three years. These cuts helped usher in a robust recovery. By the end of 1988, as Mr. Reagan was leaving office, the unemployment rate had fallen to 5.3 percent.

To be sure, these large tax cuts, together with the deep recession, reduced government revenue and led to sizable budget deficits. Later in his administration, with the economy in better shape, Mr. Reagan agreed to some tax increases to shrink the deficit. And when he and Congress took up the task of tax reform in 1986, they aimed to make it revenue-neutral. Lower rates were achieved by closing loopholes.

When George W. Bush became president in January 2001, he faced a situation that, in some ways, was similar to that of 1981. (Disclosure: I was one of his economic advisers from 2003 to 2005.)

The economy was heading toward a recession, attributable largely to the bursting of the dot-com bubble. From March 2000 to April 2001, the tech-heavy **Nasdaq composite** average lost about two-thirds of its value. A recession officially began in March 2001. Unemployment rose from 3.9 percent at the end of 2000 to 6.3 percent by the middle of 2003. Without the tax cuts President Bush signed into law, unemployment would have probably gone higher.

The Reagan and Bush tax cuts combined the logic of supply-side economics and of Keynesian stimulus. Supply-siders argue that lower marginal tax rates give people more incentive to work and invest. Keynesians argue that leaving more money in people's pockets, rather than in government coffers, increases spending and that greater demand for goods and services expands employment. When the government enacts deficit-financed tax cuts, the two channels can work simultaneously.

Yet Mr. Trump faces a vastly different set of circumstances. The economy has not experienced a recent recession. The recovery from the financial crisis and Great Recession of 2008-2009 is now eight years old.

Moreover, there is no sign we are heading into another recession. Over the past year, unemployment has fallen from 5.0 to 4.3 percent, and the **stock market** is up about 20 percent. Some firms are complaining about labor shortages.

The Federal Reserve is responding to these events by raising interest rates. It believes, correctly in my judgment, that incipient inflation is a greater risk than recession. Keynesian pump-priming is not what the economy needs now.

The main macroeconomic problem the nation faces is slow productivity growth, which in turn leads to slow growth in average incomes. Increased budget deficits would only make this problem worse. They would cause the Fed to raise interest rates even faster than otherwise. Higher interest rates would discourage capital investments, further depressing productivity.

In short, Mr. Trump finds himself not in the position of Ronald Reagan in 1981 or George W. Bush in 2001 but rather of Ronald Reagan in 1986. He should follow the Reagan of the later period and aim for revenue neutrality. He should broaden the tax base, lower rates and reform the tax code to promote saving, investment and growth.

A key question is how revenue neutrality is to be judged. Traditional analyses of the effects of tax proposals rely on what is known as static scoring, a method based on the simple but dubious assumption that changes in the tax code do not alter the path of national income. An alternative approach, called dynamic scoring, accounts for the possibility that lower tax rates will promote growth.

Dynamic scoring is potentially more accurate, but it is also more easily abused by those who want to promote their policies with an unhealthy dose of wishful thinking. Tax cuts rarely pay for themselves. My reading of the academic literature leads me to believe that about one-third of the cost of a typical tax cut is recouped with faster economic growth.

Of course, not all tax cuts are typical. One virtue of dynamic scoring is that it would apply a different discount to different tax changes. For example, research suggests that modest reductions in the corporate tax rate would most likely be the most self-financing, while increases in the standard deduction would probably do little to improve incentives and promote growth.

When judging revenue neutrality, policy makers will need to rely on a credible, impartial arbiter, like the Congressional Budget Office. In this era of alternative facts, it would be far too easy to pass irresponsible tax cuts and hand the bill to future generations.

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N. Gregory Mankiw is a professor of economics at Harvard.

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THE WALL STREET JOURNAL.
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U.S. News: Fed Critics May Get Nod for Its Board

By David Harrison and Peter Nicholas
443 words
3 June 2017
The Wall Street Journal
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A2
English

President Donald Trump is considering nominating Marvin Goodfriend, a former Federal Reserve economist and current Carnegie Mellon University professor, for a spot on the Fed's board of governors, according to people with knowledge of the situation.

If nominated and confirmed by the Senate, Mr. Goodfriend would fill one of three vacancies on the Fed's powerful, seven-member board.

As reported in April, Randal Quarles, a top Treasury Department official in the George W. Bush administration, is expected to be nominated for another position on the Fed board, as its vice chairman for bank supervision.

Both Mr. Goodfriend and Mr. Quarles have been critical of aspects of the Fed's response to the 2007-09 financial crisis. The fact that both are under consideration suggests a willingness by the Trump administration to rein in some of the Fed's ability to stimulate the economy in downturns and to take unprecedented action in a crisis.

Messrs. Goodfriend and Quarles couldn't immediately be reached for comment. The Federal Reserve declined to comment. A White House spokeswoman said, "We have no announcement at this time."

The New York Times reported Friday that Mr. Goodfriend was under consideration for a Fed board seat.

He has criticized the Fed's buying of mortgage-backed securities as part of its postcrisis asset purchases aimed at lowering long-term interest rates. He has said the Fed should limit its bond-buying to Treasury securities except in limited circumstances.

In a March appearance before the House Financial Services Committee , Mr. Goodfriend said the Fed should welcome more oversight from Congress to enhance its credibility. He also recommended that Fed officials compare their policy decisions against a mathematical rule such as the so-called Taylor rule.

Mr. Quarles -- who runs the Cynosure Group, a Salt Lake City-based investment firm he co-founded -- also says the Fed should hew closer to monetary policy rules. In a 2015 Bloomberg television interview, he said the Fed's current approach was generating uncertainty in **financial markets**.

Fed officials, including Chairwoman Janet Yellen , oppose legislative proposals to require the Fed to adopt such a policy rule, saying it would limit their flexibility to set interest rates.

Mr. Goodfriend also has criticized Fed loans to struggling financial institutions during the 2007 crisis, arguing in 2014 congressional testimony that such lending "exposes taxpayers to losses if the borrower fails subsequently."

He served as research director at the Federal Reserve Bank of Richmond from 1993 to 2005.

The final open position is expected to be filled by a community banker.

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Emerging Markets: Emerging Markets Thrive As Currencies Take Off

By Saumya Vaishampayan
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English

Emerging-market currencies have been on a tear this year. But the central banks that manage them have proven unusually happy to sit on their hands.

The Korean won, new Taiwan dollar, Indian rupee, Russian ruble and Mexican peso have all advanced more than 5% against the U.S. dollar so far in 2017, bolstered by an influx of cash into emerging markets. Foreigners poured an estimated net $20.5 billion into emerging markets in May -- the sixth consecutive month of net inflows -- with the bulk of it going to Asian countries, according to the Institute of International Finance.

Friday, the U.S. dollar slid after a disappointing U.S. jobs report added to uncertainty about the path for higher U.S. interest rates. The WSJ Dollar Index, which measures the U.S. currency against 16 others, fell 0.5% to 88.28.

The rush of funds into emerging markets has pushed some currencies to eye-watering levels. The Indian rupee was at its most expensive on record at the end of April, according to its real effective exchange rate, which reflects a currency's value against several trading partners, adjusted for inflation. The new Taiwan dollar was at its highest in a decade, while the Korean won recently hit its richest level since 2008, according to the Bank for International Settlements. The Mexican peso and Russian ruble still look cheap compared with their long-term averages, despite their gains.

While data for May aren't yet available, most of these currencies kept rising against the U.S. dollar last month. The rupee slipped 0.3% against the greenback, but the muted decline likely leaves it at a still-expensive overall level.

Normally, strong currencies are a headache for emerging countries. Export-driven economies like Korea and Taiwan can find that their goods are less competitive globally. Countries like India that normally run current-account deficits can see them widen as imports rise. Rising currencies also hit corporate earnings, as money earned overseas is translated back into the stronger domestic currency.

But so far this year, most emerging-market economies have kept growing. The IIF recently lifted its 2017 forecast for emerging markets' economic growth to 4.6% from 4.4%, and now expects a rate of 4.9% next year. That is taking the heat off normally trigger-happy central banks.

"So far, I don't think these movements pose a threat to central-bank policies," said Aidan Yao, senior emerging Asia economist at AXA Investment Managers in Hong Kong, referring to currency gains in Asian emerging markets. "If the trend continues and shows a bigger detachment from economic fundamentals, then central banks will have to react."

Besides encouraging economic data, central bankers are having to weigh the side effects of strengthening currencies with the unfavorable optics of currency intervention. President Donald Trump has frequently leveled accusations of currency manipulation against other countries, though he has yet to take any punitive action.

Few central banks have even commented on their currencies recently. Taiwan's central bank acknowledged in March that a stronger new Taiwan dollar "has put domestic financial conditions under strains," and said it would step in if capital flows lead to extreme **volatility** or disorderly moves.

Asian central banks have in the past been quite aggressive in intervening to slow currency gains, especially during periods of dollar weakness. That usually entails buying up foreign currencies, which boosts their reserves.

But there is evidence that they are now stepping back: Foreign-exchange reserves in Taiwan rose just 1.2% in April from a year earlier, the smallest increase since November 2015, according to central-bank data. The pace of year-over-year reserve accumulation has slowed for India and Korea since a recent peak in the summer of 2014, when the dollar had been declining in the preceding months.

There are some advantages to having a stronger currency. Debt denominated in foreign currencies becomes easier for governments and companies to repay. In India's case, the rise in the rupee is helping the central bank control inflation.

With central banks staying on their hands, and trends such as resilient growth in global trade continuing, analysts say emerging-market currencies' lofty valuations don't necessarily presage a pullback soon.

"For many emerging markets, the currencies can trade away from what the models would suggest as 'fair value' for sustained periods of time," said Sameer Goel, head of Asia macro strategy at Deutsche Bank in Singapore.

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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
Bonds Sink as Jobs Report Falls Short of Expectations

By THE ASSOCIATED PRESS
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2
English

Bond yields dropped Friday to their lowest level of the year, and the dollar's value fell against rivals after the nation's job growth slowed in May. But Wall Street stock indexes chugged to record heights again, led by technology companies and dividend payers.

Yields fell immediately after the government said employers added 138,000 jobs last month, which was short of economists' expectations and a decline from hiring in April. The yield on the **10**-**year Treasury** note dropped to 2.15 percent from 2.21 percent late Thursday, hitting its lowest level since mid-November.

The government's jobs report also said that hiring was weaker in March and April than earlier reported. The unemployment rate fell to 4.3 percent last month, its lowest level since 2001.

Stocks were higher nearly all day. The Standard & Poor's 500-share index rose 9.01 points, or 0.4 percent, to 2,439.07. The **Dow Jonesindustrial average** gained 62.11, or 0.3 percent, to 21,206.29, and the **Nasdaq composite** index added 58.97, or 0.9 percent, to 6,305.80. All three indexes added to records set Thursday.

Many economists said they did not expect the jobs report to dissuade the Federal Reserve from raising interest rates again at its next policy meeting in two weeks. The job market and inflation remain strong enough, they said. The Fed has raised rates twice since December in an effort to pull them gradually off their record low after the Great Recession.

Friday's jobs report adds to mixed economic reports that show continued modest gains. The economy grew at an annual rate of 1.2 percent in the first three months of the year, for example. That is a relatively weak showing but better than first estimated.

Friday's drop in interest rates helped boost stocks in industries that pay big dividends. Real estate investment trusts rose twice as fast as the overall **S**.**&P**. **500**, for example. Dividends look more attractive to income investors when bonds are paying less in interest.

Technology stocks gained the most on Friday. Those in the **S**.**&P**. **500** rose 1 percent. It was the latest gain for the sector, which was up 21.3 percent for the year.

Broadcom, the chip maker, jumped to the biggest gain in the **S**.**&P**. **500** after reporting stronger quarterly revenue and profit than analysts had forecast. It rose $19.94, or 8.5 percent, to $254.53.

Lululemon, the athletic apparel company, gained $5.62, or 11.6 percent, to $54.29 after reporting better results for the latest quarter than analysts expected.

Energy stocks deepened their losses for 2017 after the price of oil sank. Benchmark crude oil fell 70 cents, or 1.4 percent, to settle at $47.66 a barrel. Brent crude, used to price international oils, dipped 68 cents to $49.95 a barrel.

Energy stocks in the **S**.**&P**. **500** lost 1.2 percent Friday, and were down 14 percent for the year when the overall index was up 8.9 percent.

Gold rose $9.80 to $1,276.80 an ounce, silver added 24 cents to $17.53 an ounce and copper lost 1 cent to $2.57 a pound.

The dollar fell to 110.50 Japanese yen from 111.33 yen late Thursday. The euro rose to $1.1276 from $1.1214, and the British pound rose to $1.2880 from $1.2876.

Japan's Nikkei 225 index rose 1.6 percent to exceed 20,000 for the first time since 2015. Hong Kong's Hang Seng Index rose 0.4 percent, and South Korea's Kospi jumped 1.2 percent.

In Europe, Germany's DAX gained 1.2 percent, and the French CAC 40 rose 0.5 percent. The FTSE 100 in London added 0.1 percent.

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

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The New York Times

Business/Financial Desk; SECTB
Jobs Report Finds Rate Is Lowest In 16 Years

By PATRICIA COHEN
1,180 words
3 June 2017
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1
English

Unemployment sank to 4.3 percent in May, its lowest level in 16 years, the government reported Friday, but halfhearted wage growth and a shrinking labor force revealed the economy's stubborn weak spots.

While the downsides sent **bond prices** lower, the report is unlikely to deter the Federal Reserve from raising interest rates when its policy makers meet in Washington this month. ''It is not enough to derail the Fed at all,'' said Dan North, chief economist at the credit insurer Euler Hermes North America.

The milestone on the jobless rate came with a middling increase of 138,000 in payrolls and revisions that reduced the gains in the previous two months. It mainly reflected a decline in the share of working-age adults who have a job or are in the market for one.

The judgment of what constitutes strong or tepid job growth has shifted as the expansion ages. With more baby boomers retiring each year, economists estimate that the monthly addition of roughly 100,000 jobs should be enough to absorb those entering the work force, including newly minted graduates.

''Even though job growth slowed, it's still well above where it needs to be to keep up with the working-age population growth,'' said Jed Kolko, chief economist at Indeed, an online recruiting site. ''It's inevitable that we would start to see a slowdown in the payroll numbers. Month-after-month job gains in the 200,000 range are not sustainable longer term. The working-age population is growing too slowly to support that.''

Only twice in the last eight months has that 200,000 figure been reached; the average over the last three months has been 121,000. Analysts are split on whether the slower pace is a sign of the labor market's tightness or its slack. Those who believe the economy is reaching full capacity, or is already there, argue that there are just not that many available workers left.

''Since 2012, this has been a tremendous period of steady, solid job growth -- historic in many ways -- that has slowly absorbed most if not all of the underemployed and unemployed people last year,'' said Alan MacEachin, chief corporate economist at Navy Federal Credit Union.

Employers continue to complain about how difficult it is to hire workers. ''We have 50 to 60 openings in Pennsylvania and probably close to 100 openings across the country,'' said Mark Traylor, president of the Ames Companies, whose wheelbarrow factory in Harrisburg recently played host to President Trump.

''We've really had to change our tactics of how we source associates,'' Mr. Traylor said. His company has begun working with high schools and community colleges to interest students in entry-level manufacturing and distribution jobs -- paying about $15 an hour -- which have been particularly hard to fill.

Skeptics argue that if the labor market were truly stretched, wages would be rising faster. Instead, year-over-year wage growth has declined since the end of last year to 2.5 percent, just a nose in front of inflation.

''That's more of a softening than a tightening story,'' said Jared Bernstein, who was chief economic adviser to Vice President Joseph R. Biden Jr. early in the Obama administration.

The skeptics included bond traders who drove yields down on Friday, betting that even if the Fed goes ahead with a rate increase this month, it will think twice about further moves in the second half of the year.

Also troubling is the decline in overall participation in the labor force, which has trudged along below 63 percent during the recovery, compared with more than 66 percent before the recession. Some of the tiny gains that had been made were knocked off in May, showing more people were dropping out of the labor force than returning.

''That's always ugly,'' said Mr. North, the Euler Hermes economist.

Moreover, he added, those who have been out of the job market for a while or lack up-to-date skills may have less bargaining power when they re-enter. Low wages and fluctuating schedules have also sown anxiety among many Americans.

Among political leaders, responses predictably split along partisan lines.

''We're not worried about slowing job growth,'' Gary D. Cohn, director of the White House's National Economic Council, told CNBC. He pointed out that the Labor Department's broadest measure of unemployment, which includes part-time workers who would rather have full-time jobs and those too discouraged to search, dropped to 8.4 percent, its lowest level since 2007.

By contrast, Representative Nancy Pelosi of California, the House Democratic leader, said, ''May's jobs report is a sobering wake-up call for President Trump and House Republicans, who continue to push a disastrous agenda that targets hard-working American families and endangers economic growth.''

Job recruiters continue to see a divergence in the fortunes of workers with advanced skills and those without them.

''The hiring for very specific skilled and highly skilled workers is at an all-time high right now,'' said Jim Guerrera, managing director at SC Novi in Michigan, a recruiting firm specializing in the industrial and automotive sectors. ''But people who don't have a differentiated skill set are having a harder time finding a position.''

He said that while large corporations were willing to train workers, smaller firms were more wary. ''Less and less people are willing to train,'' Mr. Guerrera said. Younger people tended to change jobs more frequently in the past, he said, so companies do not want to make the investment only to see their new hires leave in a couple of years.

Sectors with the largest gains included health care, professional and business services, leisure and hospitality, and mining.

The government -- once a pillar of steady, middle-class employment -- shrank by 9,000 jobs, while the retail sector lost more than 6,000. During much of the recovery, retail could be depended on to churn out more jobs. But it has disappointed in 2017, with heavy losses. This week, the clothing company Michael Kors announced that it would close 100 to 125 stores in the next two years.

''Retail isn't dying, but traditional retail is dying,'' Mr. North said. ''There is creeping Armageddon for brick and mortar.''

The transformation of the retail business wrought by online commerce has caught the attention of employers across sectors. ''There's an overriding concern with everybody I talk to,'' said Frank Friedman, chief operating officer of the international accounting and consulting firm Deloitte. ''How is technology going to disrupt -- if at all -- my business?''

Follow Patricia Cohen on Twitter: @PatcohenNYT

Workers with Gov. Andrew M. Cuomo at the opening of the Kosciuszko Bridge in April. The jobless rate hit 4.3 percent in May, but hiring slowed with an increase of 138,000 in payrolls. (PHOTOGRAPH BY JOSHUA BRIGHT FOR THE NEW YORK TIMES) (B3) CHARTS: The Labor Picture in May (Source: Bureau of Labor Statisics) (B3)

Document NYTF000020170603ed630004m

The New York Times

Business/Financial Desk; SECTB
Japan's Market at 18-Month High, but Concerns Persist

By JONATHAN SOBLE
497 words
3 June 2017
The New York Times
NYTF
Late Edition - Final
2
English

TOKYO -- Japan's main **stock index** surged to an 18-month high on Friday, breaking the 20,000 level for the first time since late 2015.

Shares have surged on the back of stronger economic growth in Japan and in the United States, as well as improved corporate profits. But analysts have raised concerns that the rally could soon lose steam, arguing that company earnings have been bolstered by tax cuts rather than improved bottom lines.

The benchmark Nikkei average gained 1.6 percent on Friday to close at 20,177, the first time it topped the symbolic 20,000 mark since December 2015. Markets in Hong Kong, mainland China, Australia and India also rose.

The Nikkei has gained 10 percent since mid-April, as the country's domestic economy has looked healthier of late. Output expanded for the fifth consecutive quarter at the start of 2017, the longest period of growth for more than a decade.

A modest decline in the value of the yen has helped. A weaker currency makes Japanese multinationals like Toyota and Hitachi more profitable, by increasing the value of the revenue they earn outside Japan.

Buoyed by robust global demand, earnings at publicly traded Japanese companies during the most recent fiscal year, which ended in March, rose to their highest levels since the 2008 global financial crisis. The gains in the Japanese **stock market** on Friday were widely shared, with businesses as diverse as steel makers, insurance companies and department stores attracting investors.

A strong American economy has also pushed global markets higher, and any sign that the pace of growth in the United States was slowing could undercut those advances.

Japanese stocks have in effect been playing catch-up, as well. In spite of the recent surge in share prices, Japan has still underperformed other big markets this year.

Some analysts expect the rally to lose steam.

One reason is taxes. Profits at Japanese companies have been strengthened in part by falling corporate income tax rates. The government has cut taxes three times since 2013, a change that has been the largest contributor to earnings gains over the past five years, analysts at UBS said in a note to clients this week.

Another small tax cut is planned for next year, but the overall momentum for cuts is slowing, UBS noted. That would mean companies will have to find ways to improve their bottom lines on their own, or see the earnings growth that has drawn investors to the Nikkei fade.

The gains in Asia on Friday also came before the release of disappointing jobs data in the United States. The American economy created 138,000 jobs in May, the Labor Department said. That was fewer than economists had expected, although the unemployment rate nonetheless fell to 4.3 percent, its lowest level since 2001.

Follow Jonathan Soble on Twitter @jonathan_soble.

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THE WALL STREET JOURNAL.
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Intelligent Investor: Where Are You Investing? Try Again

By Jason Zweig
789 words
3 June 2017
The Wall Street Journal
J
B1
English

When you send your money outside the U.S., some of it bounces right back.

In May, U.S. investors added $23 billion to exchange-traded funds holding international stocks, estimates FactSet, even as they pulled almost $2 billion out of U.S. stock ETFs. So far in 2017, U.S. investors have poured $75 billion into foreign-stock ETFs.

But several ETFs specializing in Korea hold at least 20% of their assets in a single stock, Samsung Electronics Co., which derives about a quarter of its revenue from the U.S. and almost none from Korea.

Or take the second-largest holding in many India funds, Infosys Ltd., which does more than 60% of its total sales in North America and only 3% in its home country.

And forget about Finland, where Nokia Corp., the telecommunications firm, and Kone Corp., the maker of elevators and escalators, account for 38% of the total market value of the MSCI Finland index, even though both firms do most of their business outside of Scandinavia.

A new study in the Financial Analysts Journal finds that investors can slightly improve risk and return by shopping for stocks abroad not on the basis of where they are based but, rather, on where they do most of their business.

That research is based on 10 countries, mostly in Europe, and covers a relatively short period, from 1998 to 2012. The authors, finance scholars Cormac Mullen and Jenny Berrill of Trinity College in Dublin, weren't available to comment.

Murray Stahl, chairman of Horizon Kinetics LLC, an investment firm in New York that manages about $5.4 billion, has been pondering what he calls "country misrepresentation" for years.

"Decades ago, more companies did the bulk of their business within their own national boundaries," he says. "But globalization has deterritorialized a lot of companies. Being listed or headquartered in a particular country doesn't mean they give you exposure to that country's economy."

Sensing that, many investors buy global giants like Coca-Cola Co., Procter & Gamble Co., Swiss-based Nestle SA or British-based Unilever PLC to capture a cut of their sales in emerging markets. Mr. Stahl is more interested in the dozens of local subsidiaries or affiliates.

Among such domestic versions of global companies are British American Tobacco Malaysia, Coca-Cola Embonor SA (Chile), Guinness Nigeria PLC, Hindustan Unilever Ltd. (India) and Wal-Mart de Mexico SAB.

Advanced Portfolio Management, an investment firm in New York, has launched a strategy (for institutional clients only) that will invest in Indian companies catering to consumers there, not here.

"We want a pure play on India's consumers. We think it's going to be the fastest-growing large economy in the world over the next few years," says Robert Kiernan, Advanced Portfolio Management's chief executive.

At heart, diversification works best when it relies on common sense.

Many traders sold British stocks in the wake of last year's Brexit vote, thinking that companies in the U.K. would be hurt by its intent to leave the European Union.

But the top 100 British companies derive roughly 72% of their revenue overseas, according to Paul Marsh, a finance professor at London Business School who studies long-term investment returns around the globe. Even small stocks in the U.K. get about 45% of their sales from abroad, he says.

So the correct, if counterintuitive, decision, was to buy -- not sell -- British stocks, especially the biggest exporters. Between the vote to exit the EU in June 2016 and the end of the year, domestic-oriented British companies gained 1% on average, says Prof. Marsh. Those with the greatest overseas exposure gained an average of 30%.

Over long periods, however, the potential extra gain from a basket of local companies around the world isn't likely to be great. And buying nothing but mononationals amounts to "the exclusion of broad segments of the market," says Marlena Lee, head of investment research at Dimensional Fund Advisors in Austin, Texas.

S&P Dow Jones Indices estimates that among those companies in the **S&P 500** reporting sufficient data, only 42 got less than 15% of revenue from outside the U.S. in 2015. A pure U.S.-only portfolio would have to exclude not just Amazon.com Inc. and Apple Inc. but even such firms as Costco Wholesale Corp. and Home Depot Inc., all of which do significant business abroad.

Buying purely domestic companies is probably best-suited for trading on geopolitical events or the growth prospects of a specific country. But it's not worth overhauling your whole portfolio for.

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THE WALL STREET JOURNAL.
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Heard on the Street
The Yuan's Rally Doesn't Have Far to Run

By Nathaniel Taplin
362 words
2 June 2017
The Wall Street Journal
J
B12
English

[Financial Analysis and Commentary]

After a sleepy start to 2017, China's yuan is in the news again -- and for the opposite reason as last year. Rather than sliding, the onshore-traded currency has gained about 1% against the U.S. dollar in the three days to Thursday, thanks in part to strong market intervention by state banks.

The yuan's surge also has come after China's central bank last week made another tweak to the way it sets the midpoint for the yuan's daily trading range -- suggesting to some that Beijing may be willing its currency still higher.

In fact, investors shouldn't expect a new yuan **bull market**, for which there are few fundamental reasons. Instead, the recent big moves look like warning shots across the bow of speculators considering heavy bets against the yuan. Adding to concerns about growth, Thursday's gauge of May factory activity from Caixin also moved into contraction for the first time in nearly a year.

The recent calm in China's foreign-currency markets masked some worrying signs. First, capital outflows rose to about $25 billion in April from $17 billion in March, Julian Evans-Pritchard of Capital Economics estimates. And despite higher dollar earnings from net exports in April, central-bank foreign-currency sales barely slowed, implying that overall demand for dollars strengthened. Bets on a weaker yuan also have risen: Investors speculating on the yuan in offshore forward markets started betting on sharper depreciation again in mid-May.

China's newly fortified capital controls will likely prevent a repeat of last year's capital exodus, unless growth slows far more quickly than expected.

But with Moody's recent downgrade of China's debt weighing on sentiment, capital outflows re-emerging and regulators pumping more cash into the banking system again, the central bank has clearly concluded it is better to be safe than sorry.

Sowing a little confusion about its intentions now to avoid shelling out $1 trillion to support the currency must look like a price worth paying.

Document J000000020170602ed620001l

The New York Times

Economic Trends
The Upshot
We May Be Closer to Full Employment Than It Seemed. That's Bad News.

By NEIL IRWIN
866 words
2 June 2017
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NYTimes.com Feed
NYTFEED
English

The May job numbers raise a depressing possibility: That this is as good as it will get for the United States labor market.

At first glance, the new numbers seem like a bit of a mystery. The unemployment rate fell to a 16-year low, yet job creation slowed and the number of people who are neither working nor looking for work rose. But the data aren't really inconsistent with each other. Rather, they point to a job market that is pretty close to full employment—where workers who want a job can find one fairly easily, but low unemployment isn't pulling workers into the labor force en masse.

The big headline is a drop in the unemployment rate to 4.3 percent. That's lower than it ever fell during the mid-2000s expansion, and you now have to go back to the start of the 2001 recession to find a moment as good. But the details of why the rate fell in May are terrible; the unemployment rate dropped for all the wrong reasons.

Instead of the jobless rate falling because more people are employed, the number of people who reported themselves as having a job actually dropped by 233,000. Meanwhile, the number of people not in the labor force at all — neither working nor actively looking for work — soared by 608,000.

Those are **volatile** numbers, and any one month probably doesn't mean much. But even over a longer horizon, the trend is also looking pretty soft. The great weak spot in the labor market in the last few years has been labor market participation — fewer adults have sought work at all, so are not working but do not count as unemployed. And while there had seemed to be some progress earlier in the year, the labor force participation rate is now only a tick above where it was a year ago. That rate rising from 62.6 percent to 62.7 percent over the course of an entire year is not much of an improvement.

Meanwhile, employers reported adding 138,000 jobs in May, fewer than analysts had expected. Over the last three months, the United States added an average of only 121,000 jobs — the lowest that three-month average has been since 2012. That's higher than the level of job creation that would be expected based on growth in the population, but not by much, and that figure was above 200,000 as recently as February.

These trends — labor force participation that is barely rising, fewer jobs being added, and a quite low unemployment rate — are all consistent with each other. They're what you would expect to see if the job market were close to full employment, a state where nearly everyone who wants a job can get one, and the great constraint on growth is the number of workers.

On one hand, that's the goal — if the Federal Reserve judges that's where the economy stands, for example, it would view its task of healing the job market as having been accomplished.

But one of the great hopes for the United States economy over the last few years has been that an improving labor market would pull many of the millions of people who left the labor force in the aftermath of the 2008 recession back in. At a micro level, that would mean more people earning a living; at the macro level, it would increase the economic potential of the nation.

And to be clear, there is still room for that to happen. The ratio of 25-to 54-year-olds who are employed fell in May, to 78.4 percent from 78.6 percent, but it is still plausible that it could rise back to its levels above 80 percent before the 2008 recession, or even to its all-time highs near 82 percent back in 2000.

You can imagine plenty of things that might cause that shift, including wage growth (working is more appealing if the paycheck is higher), and training programs to try to help people enter the work force. But the reality over the last year is that there isn't much evidence that this happening.

So there is still hope for America's armies of nonemployed. But if we keep getting monthly reports like the one for May, we will have to grapple with the possibility that a low unemployment rate and plentiful jobs aren't going to be enough to pull them into the labor market.

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* May Jobs Report: Unemployment at 16-Year Low, With Gain of 138,000

* A Proven Way to Win in Business: Have a Daughter, Hire Women

* A Revitalized Pittsburgh Suggests the President Used a Rusty Metaphor

* The **Stock Market** Is Weirdly Calm. Here's a Theory of Why.

Operating a forklift at a building supply company in Salt Lake City. | Kim Raff for The New York Times

Document NYTFEED020170602ed62005bp

The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB

Shares Gain After Increase in Hiring, Pushing Major Indexes to Record Highs

By THE ASSOCIATED PRESS
674 words
2 June 2017
The New York Times
NYTF
Late Edition - Final
5
English

A broad push higher for stocks sent indexes to records on Thursday following more signs that the job market continues to improve.

The **Standard & Poor's 500**-**stockindex** pierced the 2,420-point level for the first time in the morning and kept rising. It ended at 2,430.06, up 18.26 points, or 0.8 percent. The **Dow Jonesindustrial average** gained 135.53, or 0.65 percent, to 21,144.18, and the **Nasdaq composite** index rose 48.31, or 0.8 percent, to 6,246.83. All three indexes set records.

A report indicating that employers increased hiring last month drove stocks higher. The payroll processor ADP said private businesses added 253,000 jobs in May, more than economists had expected.

The increase appeared reassuring, particularly when growth of the overall economy has remained tepid.

The government's more comprehensive report on jobs is due Friday. It will include hiring by all nonfarm employers, and economists say they expect it to show growth of 176,000 jobs in May.

President Trump's announcement late in the trading day that the United States would withdraw from the 195-nation agreement on climate change had little effect on markets.

Other reports on the United States economy were mixed on Thursday. Manufacturing growth increased last month and was stronger than economists had been expecting, but construction spending unexpectedly weakened in April. A separate report showed that the number of workers filing for unemployment benefits rose last week, which could indicate that layoffs are rising. The number remains low by historical standards.

The **stock market**'s gains were widespread, and all 11 sectors of the **S**.**&P**. **500** rose. Health care and financial stocks led the way. Producers of raw materials and companies that sell nonessentials to consumers were also particularly strong.

The discount retailer Dollar General jumped to one of the biggest gains in the **S**.**&P**. **500** after reporting stronger earnings for the latest quarter than had analysts expected. Its shares climbed $4.80, or 6.5 percent, to $78.19.

Deere rose $2.24, or 1.8 percent, to $124.70 after it agreed to buy Wirtgen Group, a German maker of road construction equipment, for about 4.6 billion euros, or $5.2 billion, including debt.

Hewlett-Packard Enterprise had the largest loss in the **S**.**&P**. **500** after reporting quarterly results that disappointed investors. Its shares fell $1.29, or 6.9 percent, to $17.52.

The yield on the **10**-**year Treasury** note held steady at 2.21 percent. A stronger job market gives the Federal Reserve more leeway to raise interest rates, and its next meeting on rate policy is in two weeks.

The Fed has been gradually pulling rates off their record low after the Great Recession, and it has raised them twice since December.

The dollar rose to 111.33 Japanese yen from 110.72 yen late Wednesday. The euro fell to $1.1212 from $1.1231, and the British pound was unchanged at $1.2883.

Benchmark crude oil rose 4 cents to settle at $48.36 per barrel. Brent crude, used to price international oils, fell 13 cents to settle at $50.63 a barrel.

Gold fell $5.00 to $1,267.00 an ounce, silver dropped 13 cents to $17.28 an ounce, and copper added a penny to $2.59 a pound.

The French CAC-40 gained 0.7 percent, the German DAX advanced 0.4 percent and the British FTSE 100 added 0.3 percent. Tokyo's Nikkei 225 advanced 1.1 percent, Hong Kong's Hang Seng rose 0.6 percent, and South Korea's Kospi shed 0.1 percent.

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.
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Business News: Should Bar Be Lifted on CEO Bonuses?

By Theo Francis and Joann S. Lublin
586 words
2 June 2017
The Wall Street Journal
J
B3
English

Investors have pressed for years to get companies to tie executive pay more closely to performance, and boards have increasingly complied. But now, some investors are questioning just how high they set the bar.

Median pay for chief executives of **S&P 500** companies reached $11.7 million in 2016, up from $10.8 million a year earlier and a postrecession high, according to a Wall Street Journal analysis. Roughly 60% of their pay came from stock and stock-option awards, most of which are tied to performance targets.

Companies have wide latitude in choosing performance hurdles. Take FedEx Corp.: For more than a decade, the company has used the same 12.5% target for average earnings-per-share growth as a threshold for its executives to earn their target long-term incentive payments -- even as Wall Street analysts have forecast substantially higher growth at the start of many of those years.

FedEx has gone on to exceed the target in four of the past five performance periods and has paid out the maximum cash bonus in three. Chief Executive Fred Smith was paid $16.8 million last year, up 21% from a year earlier.

A FedEx spokesman said the target reflects the company's long-term goal of 10% to 15% annual per-share earnings growth and serves to reward executives for building long-term shareholder value.

"It has to be the right measure and the right achievement level," said Glenn Booraem, who handles corporate governance for more than $2 trillion of U.S. equity investments at mutual-fund giant Vanguard Group.

Mr. Booraem said he is concerned some boards set the bar too low, allowing CEOs to earn "premium payouts in the absence of compelling performance relative to the market."

Last year, about 250 **S&P 500** companies paid CEOs cash incentives above the levels they promised for meeting certain performance goals, averaging 46% higher, according to data from Institutional Shareholder Services, the biggest U.S. proxy-advisory firm. Meanwhile, 150 paid bonuses below the target.

For two-thirds of **S&P 500** companies, the overall pay CEOs received over the past three years proved higher than initial targets, according to an ISS analysis. That is typically because performance triggers raised the number of shares CEOs received, or stock gains lifted the value of the original grant. On average, compensation was 16% higher than the target.

The values companies disclose for CEO equity awards also show that about one-third of CEOs start the fiscal year expecting to beat the performance targets that determine the size of those stock grants, ISS said.

In some cases "the company is setting goals they think the CEO is going to clear," said John Roe, head of analytics at ISS. "It's a tip-off to investors."

In March, General Electric Co. modified its bonus program for top executives to tie pay more closely to specific performance goals, including the level of cost reductions over the next year. The company said the changes came out of discussions with activist investor Trian Fund Management, which had called for more stringent targets.

In comments to investors last week, CEO Jeff Immelt said the company's bonus and long-term incentive plan keep executives' interests aligned with those of shareholders. Last year, Mr. Immelt received 80% of his projected bonus because the company missed operating-profit targets.

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China Steps Up Currency Support

By Carolyn Cui and Saumya Vaishampayan
883 words
2 June 2017
The Wall Street Journal
J
B1
English

The decision by the People's Bank of China to sharply increase the value of the yuan against the dollar at its daily fixing Thursday surprised many investors, particularly those in the West who have long valued state-directed currency movements less for their immediate direction than for signs of the underlying policy that the central bank appears to be pursuing.

In this case, many investors said they believed China was seeking to build confidence in its economy at a time of deepening concern about the possible ripple effects from a long-running debt buildup and a state crackdown on loose lending in certain sectors. Those concerns were intensified in April, when capital outflows were estimated to have picked up after moderating in the first quarter. And last week, Moody's Investors Service downgraded China's sovereign-debt rating, the first such cut since 1989.

At the same time, many investors said they continued to expect that China would succeed in its efforts to manage its way out of the debt buildup without significantly reducing its growth or increasing **volatility** in **financial markets**.

On Thursday, the central bank set the dollar's daily midpoint for trading at 6.8090 yuan, the strongest level since Nov. 10. The sharply higher "fix," which came on top of the currency's surge a day earlier, has helped the yuan register a 2% gain against the dollar so far this year. The central bank sets the yuan's rate against the U.S. dollar each day in the domestic market, and the currency is allowed to trade 2% above or below that level. On Friday, the central bank held the rate steady, at 6.8070 yuan.

The central bank's latest move came on the heels of a flurry of actions by the central bank in recent days. Last Friday, the bank decided to tweak the mechanism for setting the yuan's daily fix, a change that would smooth out fluctuations in the currency.

This week, the central bank was also seen to be intervening in the offshore market, mostly in Hong Kong, by jacking up the borrowing costs for the currency, essentially squeezing out trading positions betting against the yuan.

"What the PBOC is telling investors is that the [yuan] can appreciate against the U.S. dollar," said Larry Hu, China economist at Macquarie Group Ltd.

Soaring borrowing costs for the yuan in Hong Kong have also propelled the Chinese currency higher outside of China, where it trades more freely. The overnight yuan borrowing rate hit 42.82% on Thursday, up from 21.08% on Wednesday. The offshore yuan rose as much as 0.3% from its level late Wednesday before giving up its gain. On Thursday, it was down 0.1% at 6.7500 to the dollar.

Keeping the yuan relatively stable versus the dollar is critical for Beijing at a time when the ruling Communist Party is heading into its twice-a-decade congress in which leadership shifts at the highest level are expected to occur.

Authorities also have been cracking down on excessive leverage in the financial sector, a move that has already wreaked havoc on the country's bond market, property sector and commodities.

"What you don't want to see is that the asset markets in China are simultaneously tanking, while at the same time there's expectation of depreciation," said David Loevinger, a former China specialist at the Treasury Department who now is a managing director at TCW Group. "The risk there is that the outflows will start picking up."

China's capital outflows moderated significantly in the first quarter, thanks to the government's strict capital controls and an improving economy. But there are signs that money is fleeing again.

According to the Institute of International Finance, China's net capital outflows declined to $21.6 billion in the first quarter, from $161.3 billion during the fourth quarter of 2016. However, outflows picked up in April, with the institute estimating that $20 billion left the country during the month.

The central bank's moves "suggest that coping with capital outflows remains a key challenge for Chinese authorities," said Emre Tiftik, an economist at the Institute of International Finance who said that April's outflow was small relative to last year.

Some investors said the trigger for recent moves was Moody's downgrade.

The cut raised concerns about potential further downgrades by other ratings firms, as well as lower ratings on China's corporations. Downgrades could hamper China's attempts to lure more global investors to its $9.7 trillion bond market.

The government is counting on foreign capital to offset some of the outflows from Chinese companies and investors.

Meanwhile, the Chinese yuan has weakened considerably against other currencies, helping its exports recover and deflationary pressure ease.

A stronger yuan could also lessen the heat on U.S.-China relations ahead of the release of a Commerce Department report and the Group of 20 summit of industrial and developing nations in July in Germany. President Donald Trump has accused China of exploiting the yuan's value to gain advantages over its trading partners.

Shen Hong contributed to this article.

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THE WALL STREET JOURNAL.
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Bookshelf
The Depression Goes Global

By John Steele Gordon
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2 June 2017
The Wall Street Journal
J
A13
English

A Rabble of Dead Money

By Charles R. Morris

(PublicAffairs, 389 pages, $29.99)

In September 1929, the total valuation of New York Stock Exchange securities was $82.1 billion. Three years later, in July 1932, it had dropped to $12.7 billion -- that is, to just 15% of its former value. In 1929, the U.S. unemployment rate was 2.9%. By 1933, nearly a third of the American labor force was out of work. Banks were closed in 38 states, exports had declined by 78% and starving farm families demanded Red Cross relief at gunpoint.

The causes of this despair are, we think, well known: the 1929 **stock-market** crash, the tragedy of the Dust Bowl, the protectionism of the Smoot-Hawley tariff. But in "A Rabble of Dead Money," Charles R. Morris digs deeper and finds the roots of the calamity planted firmly in Europe. While American market trends and policies probably made a painful recession inevitable during this period, the Depression was the culmination of decades of trans-Atlantic events.

To make his case, Mr. Morris necessarily takes in a broad swath of history. Indeed, while the subtitle is "The Great Crash and the Global Depression: 1929-1939," the book is actually an economic history of the first four decades of the 20th century. Mr. Morris reaches back to the turn of the century, noting how electricity and the internal-combustion engine transformed the U.S. economy from a powerhouse of heavy industry -- one dominated especially by steel and railroads -- into a consumer-oriented system. By the 1920s, radio, cinema and household appliances like vacuum cleaners and washing machines were revolutionizing the lives of the middle class. Thanks to Henry Ford, the automobile was now within the budgets of average families, and growing demand placed upward pressure on the production of materials like plate glass, rubber and sheet steel. The need for paved roads and garages drove the construction industry.

Meanwhile, in New York, the **stock market** soared. The benefits accrued mostly to brokers and bankers, who formed pools to manipulate individual stocks. Insider trading was not only rife but mostly legal. By 1925, real estate, too, was overheated: In the epicenter of Miami, fashionable parcels of land that sold for $7,000 in June were going for $35,000 six weeks later.

Yet as business boomed in the cities, rural areas began to struggle. American agriculture had thrived during World War I, when European farmers went off to war and Russia's huge grain exports were blockaded. But as Europe's output revived in the early 1920s -- and as the amount of land needed to produce fodder crops fell drastically in both Europe and the United States (a fact unmentioned by Mr. Morris) -- prices fell, farm foreclosures mounted and rural banks began to fail in increasing numbers.

By mid-1929, as the real economy began to slow, a **stock-market** bubble began to inflate. Correction was inevitable, and it came infamously in late October. But what turned an ordinary -- if especially severe -- market downturn into the utter disaster of the Great Depression?

Mr. Morris lays fundamental blame on World War I, and he has a strong point. The war traumatized Western societies and accelerated the relative decline of Great Britain as a world military and financial power. The reparations demanded of Germany by the Treaty of Versailles destabilized the world financial system. "All of the tangled threads that twisted together to create the catastrophe of the Depression originated in Europe and can be traced through the choices made by the governments of the United States, Great Britain, Germany, and France," Mr. Morris argues.

Of all those choices, Mr. Morris contends that the most devastating was the determination of the United States and France to maintain the gold standard. It prevented central banks from applying the usual (and correct) remedy for a market panic, which is to "flood the Street with money." It also caused severe deflation -- the dollar appreciated by about one-third between 1929 and 1933 -- increasing the burden on debtors, especially families that had participated in the large run-up in home mortgages preceding the crisis. Rapidly falling food prices and the collapse of international trade as country after country adopted beggar-thy-neighbor tariff policies did the rest.

Mr. Morris, the author of over a dozen books, many on economic subjects, knows how to tell a story. A fine writer, he tells this one well, if somewhat discursively. Though centered on the Depression, "A Rabble of Dead Money" covers Prussian military strategy, the drinking habits of Scott and Zelda Fitzgerald, the highlights of research literature in finance, and the engineering of the Ford Model T. It includes mini-biographies of Herbert Hoover, Franklin Roosevelt and Ivar Kreuger, the Swedish match manufacturer. Mr. Morris doesn't get around to the crash itself until one-third of the way through the book.

There are a few niggling errors. The Woolworth Building in New York is neo-Gothic in style, not Art Deco. Richard Whitney was only acting president of the New York Stock Exchange when he bid up stocks in an attempt to head off the crash, and he was never head of the New York Yacht Club. Mary Pickford was hardly a new star in the mid-1920s. Nick Carraway, Fitzgerald's narrator for "The Great Gatsby," went to Yale, not Princeton.

American historians have tended to treat the Great Depression as an American phenomenon, and Mr. Morris's argument that it was a global one is a valuable corrective. It might have been even more forceful had it been 100 pages shorter. Regardless, "A Rabble of Dead Money" is a great and informative read about a singularly important era in world history.

Mr. Gordon is the author of "An Empire of Wealth: The Epic History of American Economic Power."

Document J000000020170602ed620000w

THE WALL STREET JOURNAL.
U.S. EDITION

Markets & Finance: Pimco Takes a Step Back From Risk

By Christopher Whittall
256 words
2 June 2017
The Wall Street Journal
J
B11
English

Pacific Investment Management Co. has dialed down the risk in its portfolios in recent months as rallying **financial markets** have reduced returns on assets with a riskier profile, according to a senior investor at the giant fund company.

Portfolio managers at the $1.5 trillion fund company don't see any immediate reason for markets to take a nose dive, but they highlight a number of potential pitfalls over the medium term. That includes the removal of the huge central-bank stimulus that has buoyed asset prices in recent years and China's slowing economy.

"You've seen risk assets perform well pretty much across the board. That makes us more cautious," said Andrew Balls, chief investment officer for global fixed income.

"Today, things need to go well in order to justify current valuations," he added.

Mr. Balls said the Newport Beach, Calif.-based fund company had been reducing its overall exposure to credit risk over the past year, particularly in Europe, where he said corporate-bond valuations look the most expensive.

On average, the gap in yield between eurozone investment-grade corporate debt and ultrasafe government bonds is 1.1 percentage points, according to Bloomberg Barclays bond indexes. That is down from 1.3 percentage points a year ago. Asset prices in developed markets simply aren't compensating investors as much for the risks they are taking compared with several years ago, said Mr. Balls.

Document J000000020170602ed620000r

THE WALL STREET JOURNAL.
U.S. EDITION

World News: Canadian GDP Growth Led G-7 in 1st Quarter

By Paul Vieira
295 words
1 June 2017
The Wall Street Journal
J
A9
English

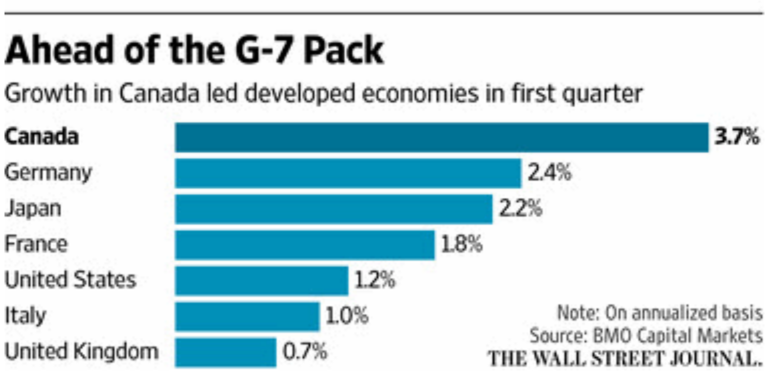
OTTAWA -- Canadian economic output advanced at a robust pace in the first quarter, making Canada the best-performing economy among Group of Seven countries in early 2017 on the strength of consumer spending and a long-awaited rebound in business investment.

Growth in the first quarter, while strong, fell short of **bullish** market expectations, but largely in line with the Bank of Canada's forecast. Regardless, it will reinforce a belief that Canada's economy is on a roll and has entered a new stage after shaking off the negative fallout from lower commodity prices.

Canada's gross domestic product, or the broadest measure of goods and services produced in an economy, rose at a 3.7% annualized rate in the first quarter, to 1.81 trillion Canadian dollars (US$1.35 trillion), Statistics Canada said Wednesday. Market expectations were for a 4.2% advance, according to economists at Royal Bank of Canada.

The economy got a boost from business investment, which had faltered amid the swoon in commodity prices that began in earnest in mid-2014. Capital spending by firms rose 2.9% on a nonannualized basis in the first quarter, or the biggest gain since the start of the decade. Central -bank officials are closely watching capital-spending data for signs that the economy is close to reaching full potential.

"These are big gains in business investment and they are a long time coming given the underperformance during the **oil-price** shock," said Eric Lascelles, chief economist at RBC Global Asset Management. Mr. Lascelles added that leading indicators remain strong in Canada and that "this is an economy that's genuinely moving well."



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THE WALL STREET JOURNAL.
U.S. EDITION

Doubts About Junk Bonds Are Piling Up --- Despite nervousness, a global search for returns continues to push up valuations

By Matt Wirz
915 words
1 June 2017
The Wall Street Journal
J
B12
English

Unease is starting to grip the junk-bond market: Even as yield-hungry investors buy in, many traditional buyers are selling out.

Almost 20% of high-yield investors said in May that they hold below-average positions in junk debt, the highest such response since June 2008, according to a Bank of America Corp. survey.

Meanwhile, the bonds have returned 4.8% this year through Tuesday. The average yield of high-yield debt was 5.5% on Tuesday, compared with a 10-year average of 8.3%, according to data from Bloomberg Barclays Index Group. Yields fall as **bond prices** rise.

The dissonance between investor sentiment and market performance is a result of widespread worries caused by geopolitical uncertainty at a time when a global reach for yield continues to push valuations higher.

"No one is really comfortable with current valuations, but you have a fear of selling a bond because you may not be able to buy it back tomorrow," said Michael Contopoulos, a high-yield strategist at Bank of America. A moderate downturn in junk debt is likely this summer, simply because prices have risen too far, Mr. Contopoulos said.

"Broadly speaking, nothing is cheap, everything is overvalued and it's very hard to find good opportunities," said Kathleen Gaffney, manager of the Eaton Vance Multisector Income Fund, which can invest in a mix of corporate and government debt as well as stocks.

Last year, Ms. Gaffney invested about one-quarter of the $541 million fund in U.S. high-yield and convertible bonds, which rebounded along with commodities prices. Now she has reduced that exposure to 15% and increased her cash allocation to 15% from about 5% a year ago.

Nearly half of the investors surveyed in the Bank of America poll reported holding above-average amounts of cash, the highest since March 2016, just after falling **oil prices** triggered a wave of defaults and a junk-market crash.

Keeping large sums idle in cash drags down bond-fund performance over the long term but gives portfolio managers ballast in sharp downturns, as well as dry powder to buy with when prices fall back to bargain levels. The urge to raise cash is especially strong now, Ms. Gaffney said, because most debt and stock markets are trading at or close to records, making them ripe for a fall.

Investors, most of them individuals, pulled about $9 billion from high-yield mutual funds so far this year, the largest outflow since 2015, according to data from fund tracker Lipper.

Typically, such moves push **bond prices** down and yields up. But investors and analysts say the low level of yields around the world is underpinning demand for high-yield debt.

International investors, in particular, are hungry for U.S. junk bonds. "When you talk to people in Europe and Asia, they see 5.5% in U.S. high yield, and there's no way for them to obtain that at home," said Oleg Melentyev, head of U.S. credit strategy for Deutsche Bank AG. Even emerging-market corporate bonds, which usually yield 1.5 percentage points above U.S. junk bonds, now yield a premium of only half a percentage point, he said.

And some investors are still **bullish** on junk bonds since the biggest risk to high-yield bondholders -- a rise in corporate defaults -- seems far off.

Junk bonds are "still very attractive," said Joanna Bewick, co-manager of an $8.4 billion fund for Fidelity Investments that buys a mix of high-yield debt and government bonds with investment-grade credit ratings. The fund is about 47% invested in junk-rated bonds and loans, slightly more than average for the fund, she said.

Some fund managers also aren't selling to meet redemptions or reduce exposure, portfolio managers and analysts said. Instead, they are opting not to reinvest interest and principal payments received from bonds they hold and using the money to pay redemptions or build cash buffers.

But corporate-bond selloffs become more likely when yields draw closer to interest rates of Treasury bonds, the so-called risk-free rate, making bonds of companies less attractive compared with government debt. The "spread" between yields on junk bonds and Treasurys has fallen by 2.38 percentage points over the past 12 months to 3.63 percentage points, according to data from Bloomberg Barclays Index Group.

The spread has been that narrow only twice in the past decade -- in the summer of 2014 before oil tumbled and in the summer of 2007 before the financial crisis.

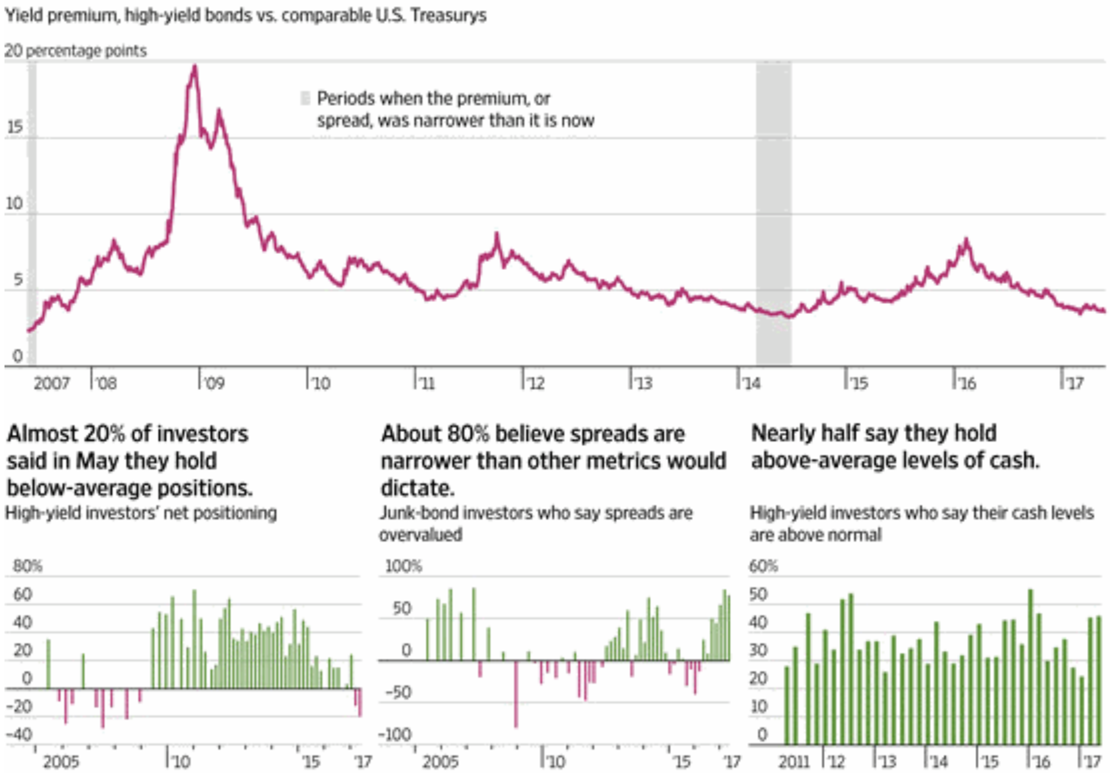
If President Donald Trump fails to deliver comprehensive reform before the August recess in Congress, stocks are likely to fall, triggering a decline in junk bonds, Bank of America's Mr. Contopoulos said.

Elaine Stokes, co-manager of the $14 billion Loomis Sayles Bond Fund, cut the fund's exposure to stocks in anticipation of further **volatility**. Though its 24% allocation to high yield is about average, the fund has sold out of some corporate bonds with the lowest credit ratings and boosted cash holdings to about 20%, she said.

"The main concern today is Trump," said Ms. Stokes. To understand what changes to regulation and legislation are most likely to pass and when, "we're spending a lot more time talking to political types," she said.

Signs of Skittishness

Junk-bond prices have continued to rise, pushing yields down to their lowest level in years and raising concerns among some investors that a longstanding rally may have gone too far, potentially making the debt vulnerable to a selloff.



Sources: Bloomberg Barclays (spread); Bank of America (positioning, overvalued, cash levels)

THE WALL STREET JOURNAL.

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The New York Times

Business/Financial Desk; SECTB
Tech Companies and Banks Drag on Markets

By THE ASSOCIATED PRESS
707 words
1 June 2017
The New York Times
NYTF
Late Edition - Final
4
English

Stock indexes on Wall Street edged lower for the second day in a row Wednesday as a sharp drop for banks and a rare loss for technology companies canceled out gains for drugmakers and consumer-focused companies.

Banks fell hard as executives from JPMorgan Chase and Bank of America said their trading businesses are having a rough second quarter. An eight-day winning streak for technology companies ended. Energy companies fell with **oil prices**. Investors picked consumer-focused companies, drugmakers, and high-dividend utilities and household goods companies.

The **Standard & Poor's 500**-**stockindex** lost 1.11 points, or less than 0.1 percent, to 2,411.80. The **Dow Jonesindustrial average** dropped 20.82 points, or 0.1 percent, to 21,008.65. The **Nasdaq composite** fell 4.67 points, or 0.1 percent, to 6,198.52.

Banks skidded a day earlier as bond yields dropped, which hurts banks by forcing interest rates on loans lower. Yields were little changed Wednesday, but financial firms fell again as investors worried that banks' revenue from trading stocks, bonds and currencies would weaken in the second quarter.

At a financial industry conference in New York, Marianne Lake, JPMorgan Chase's chief financial officer, said JPMorgan's trading revenue is down about 15 percent this quarter because of a drop in fixed-income trading. She said that was because of low interest rates and remarkably low market **volatility**.

''There is not a lot to trade around,'' she said. ''People have cash but no conviction.''

JPMorgan Chase fell $1.75, or 2.1 percent, to $82.15 and Bank of America lost 43 cents, or 1.9 percent, to $22.41. Capital One slumped $1.36, or 1.7 percent, to $76.92 and Goldman Sachs, which saw its vaunted trading business hit a speed bump in the first quarter, gave up $7.16, or 3.3 percent, to $211.26.

The yield on the **10**-**year Treasury** note remained at 2.21 percent.

Technology companies turned lower. The tech sector has reached its highest levels since the dot-com boom and companies like Apple, Google parent Alphabet and Facebook have done far better than the rest of the market in 2017. Apple and Facebook are up 32 percent this year, and Alphabet is up 25 percent. All three slid Wednesday.

Pfizer rose 52 cents, or 1.6 percent, to $32.65 and Irish drugmaker Perrigo climbed $4.93, or 7.3 percent, to $72.85 after its first-quarter report was better than expected. Health care products maker Johnson & Johnson advanced $1.14 to $128.25.

Benchmark crude lost $1.34, or 2.7 percent, to $48.32 a barrel in New York. Brent crude, the standard for international **oil prices**, fell $1.53, or 3 percent, to $50.31 a barrel in London.

Solar power companies sank as investors wondered if President Trump would seek to remove the United States from the Paris climate change accords. Officials from the European Union said its members and China would maintain their commitments to the pact.

Shares of First Solar, the largest United States solar company, declined 99 cents, or 2.5 percent, to $38.51. SunPower fell 28 cents, or 3.4 percent, to $7.87 while solar wafer maker Canadian Solar retreated 73 cents, or 5.4 percent, to $12.81.

The dollar slipped to 110.72 yen from 110.74 yen. The euro rose to $1.1231 from $1.1187.

Gold rose $9.90 to $1,272 an ounce. Silver fell 2 cents to $17.41 an ounce. Copper gained 2 cents to $2.58 a pound.

European stocks gave up an early gain. The DAX in Germany remained up 0.1 percent, but France's CAC 40 lost 0.4 percent and the British FTSE 100 fell 0.1 percent. Japan's Nikkei 225 index dipped 0.1 percent and South Korea's Kospi gained 0.2 percent. The Hang Seng in Hong Kong inched down 0.1 percent.

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

Document NYTF000020170601ed6100051

The New York Times

Business/Financial Desk; SECT
Movers: Clouds Over Wall Street Trading

By THE NEW YORK TIMES
568 words
1 June 2017
The New York Times
NYTF
The New York Times on the Web
English

We're following major developments in the markets throughout the day. Check below for the latest updates.

Clouds Over Wall Street Trading

The trading of bonds, commodities and currencies drove strong performances by Wall Street banks (with one surprising exception) in the first three months of the year, but that business has apparently weakened since in more subdued markets.

At a Deutsche Bank conference on Wednesday, Marianne Lake, the chief financial officer of JPMorgan Chase, said that the bank's trading business for the second quarter was so far down about 15 percent from the quarter a year ago.

''I feel like the performance is quite good, but there is not a lot to trade around right now,'' she said. ''And so there's not a lot of market things. There haven't been that many idiosyncratic events, and we need a few more of them.''

At another industry conference, held by Sanford Bernstein, Brian T. Moynihan, the chief executive of Bank America, also told participants that revenue would be down in the second quarter from the quarter a year ago, noting that the 2016 period ''was the strongest quarter of the year.'' Markets were **volatile** in late June of last year following Britain's vote to leave the European Union.

On Wednesday afternoon, shares of JPMorgan were down more than 2 percent, while Bank of America's **stock price** was down 2.7 percent. Shares of Goldman Sachs, considered by many to be Wall Street's premier trading shop, slumped about 3.7 percent. Morgan Stanley and Citigroup were both off more than 2 percent.

Barclays Sells Stake in African Business

Barclays said on Wednesday that it would sell a 22 percent stake in its African business in an offering to institutional investors as part of a long-anticipated move that would mean it would no longer have a controlling stake in the business.

The British bank said it would seek to sell 187 million shares in Barclays Africa Group after it received approval from South African regulators on Wednesday.

As part of his efforts to turn around the bank, James E. Staley, the Barclays chief executive, said last year that the bank wanted to reduce its ownership stake in the African business in order to reduce the regulatory and capital drag on its balance sheet.

Barclays sold a 12.2 percent stake in the African business last year.

Following the sale, Barclays would own about 28 percent of the business. It has a long-term target of reducing its ownership stake to about 15 percent.

Shares of Barclays closed up less than one percent in trading in London on Wednesday.

What to Watch For: Fed Speakers, the Beige Book and Exxon

Fed speakers: The president of the Federal Reserve Bank of Dallas, Robert Kaplan, takes part in a question-and-answer session in New York City. Lael Brainard, a Fed governor, said on Tuesday that the central bank should raise its benchmark interest rate ''soon.''

The Fed also releases its Beige Book, a summary of economic conditions, named for the color of its cover.

Exxon Mobil, the energy giant, holds its annual meeting in Dallas. Investor pressure is building for the company to provide more information on its strategy for climate change.

Don't forget to read the DealBook Morning Agenda.

Document NYTF000020170601ed6100049

THE WALL STREET JOURNAL.
U.S. EDITION

Crude Prices Drop To a 3-Week Low

By Alison Sider
263 words
1 June 2017
The Wall Street Journal
J
B11
English

Oil prices fell to three-week lows, extending their recent slide as investors remained skeptical that production cuts by major producers will make a dent in global crude stocks.

Crude for July delivery fell $1.34, or 2.7%, to $48.32 a barrel on the New York Mercantile Exchange, its lowest settlement since May 12. Brent, the global benchmark, dropped $1.53, or 3%, to $50.31 a barrel on ICE Futures Europe.

Brent declined 2.7% in May, its fifth straight month of losses, and is down 11% this year.

Nymex crude ended the month down 2% and has dropped 10% in 2017.

The sharp downturn follows last week's decision by the Organization of the Petroleum Exporting Countries and other big producers to extend a joint supply cut through March 2018.

While that move was widely anticipated, many investors had bet they would be more aggressive in an effort to work off a glut that has weighed on the market for nearly three years.

Investors had bet heavily on rising **oil prices** heading into OPEC's meeting last week. Money managers increased their net **bullish** position on U.S. **oil prices** by nearly 20%, according to data from the Commodity Futures Trading Commission.

Many investors had begun to expect OPEC would agree to even deeper reductions in output and are now unwinding those bets, said Donald Morton, senior vice president of Herbert J. Sims & Co., who oversees an energy trading desk.

Document J000000020170601ed610000t

The New York Times

Business Day; Economy
Steady Jobs, but With Pay and Hours That Are Anything But

By PATRICIA COHEN
1,405 words
31 May 2017
09:47 PM
NYTimes.com Feed
NYTFEED
English

Mirella Casares has what used to be considered the keystone of economic security: a job. But even a reliable paycheck no longer delivers a reliable income.

Like Ms. Casares, who works at a Victoria's Secret store in Ocala, Fla., more and more employees across a growing range of industries find the number of hours they work is swinging giddily from week to week — bringing chaos not only to family scheduling, but also to family finances.

And a new wave of research shows that the main culprit is not the so-called gig economy, but shifting pay within the same job.

This **volatility** helps unravel a persistent puzzle: why a below-average jobless rate — 4.4 percent in April — is still producing an above-average level of economic anxiety. Turbulence has replaced the traditional American narrative of steady financial progress over a lifetime.

"Since the 1970s, steady work that pays a predictable and living wage has become increasingly difficult to find," said Jonathan Morduch, a director of the U.S. Financial Diaries project, an in-depth study of 235 low- and moderate-income households. "This shift has left many more families vulnerable to income **volatility**."

Ever-changing schedules at Victoria's Secret, for example, make it difficult for Ms. Casares, 27, to find care for her 2-year-old and 6-year-old and to cover the bills. "The lowest hours I've gotten is 15 and the highest I've gotten is 39," said Ms. Casares, who started in October, earning $10 an hour. The schedule is usually posted a month in advance, she said, but there are frequently last-minute changes.

Stability is worth a lot to workers. On average, employees are willing to give up a fifth of their weekly wage to avoid a schedule set by an employer on a week's notice, according to a field experiment where workers were offered a range of alternative hours at different pay levels.

"That is totally the story," said Mr. Morduch, who watched household incomes in his study rise and fall. "And that instability and insecurity are increasingly a part of middle-class life, too."

In the course of a year, for example, the monthly income of a California family with one child that Mr. Morduch's team tracked jumped to $5,279 from as low as $1,175. (Strict ethics protocols prohibit the release of participants' names.) The husband supplemented his steady $400-a-week salaried construction job with extra remodeling work that could add from $323 to $1,588 a month to his total. His wife picked up from zero to $1,824 a month from babysitting, and from selling jewelry, clothing and flowers.

Monthly expenses can pendulum as much as income, but the two do not necessarily move in tandem. An analysis of 250,000 bank accounts by the JPMorgan Chase Institute, a nonprofit research arm of the bank, found that roughly 80 percent of households had an insufficient cash buffer to manage the mismatch between income and expenses in a given month.

Few people can comfortably ride out the inevitable financial bronco ride. "Only households that earn $105,000 or more a year are secure against the **volatility** they are exposed to," said Diana Farrell, the institute's president and chief executive. "It's not just about the unemployed or the poor."

Middle-income households, for example, saw their monthly expenses deviate by nearly $1,300, the equivalent of a month's rent or mortgage payment. And one uh-oh expense — usually in the form of a medical, tax or car repair bill — can wreck a family's balance sheet for a year or more.

Even a single month's **volatility** can have a cascading effect. One month, a family copes by using the money earmarked for, say, the utility bill to cover the cost of replacing a busted water heater. The next month, it's the telephone company that goes unpaid as the family struggles to make up the missed utility bill plus late fees and interest — and so on. Emergencies are not the only source of expense spikes. So are bridal showers, Christmas gifts and outgrown winter coats.

May turned out to be an expensive month for Tomika Waggoner, 44, a nursing home aide in Newport, Ky. Her daughter was graduating from high school, and she needed a few hundred dollars to pay for her cap and gown, commencement fees, a prom ticket and a dress.

Ms. Waggoner's work schedule depends on her ability to find care for her 15-year-old son, who has epilepsy. So sometimes she works a weekend at $17 an hour and sometimes three $15-an-hour weekdays.

For the Waggoner family, and many others with low and moderate incomes, a tax refund offered a once-a-year lifeline. That $700 check and a contribution from her mother covered most of the graduation costs and helped pay off the debt on some furniture. (Doctor's visits and medical payments are frequently scheduled to coincide with tax refunds, according to the JPMorgan Chase Institute.)

"I also went to a couple of food pantries," Ms. Waggoner added. "We ate a lot of bologna."

Rather than causing jolts in income, the gig economy is, for many people, what smooths them out. Only about 0.5 percent of the labor force is working in the gig economy. And while bonuses, extra commissions and overtime bump up a worker's average income, unwelcome reductions in hours, particularly at the lower end of the income ladder, more often shrink an expected paycheck.

"Stable, predictable work schedules are essential to economic security," said Susan J. Lambert, a professor at the University of Chicago who is studying new data supplied by the General Social Survey, a respected national survey that began asking in-depth questions about work schedules only last year.

The latest data shows that 41 percent of all hourly workers say they are not given more than a week's notice of their schedule; nearly half have little or no say on their work hours.

"It's not just service, or female-dominated jobs, but some of the most challenging schedules are production and construction jobs," Ms. Lambert said.

The ubiquity of the phenomenon has frequently been masked by annual measures of income and spending or one-time snapshots of savings and debt that fail to capture fluctuations week to week or month to month.

Ms. Casares said that when she had to turn down an inconvenient shift at Victoria's Secret, like staying until midnight to close, her schedule the following week would suffer. "I would be facing fewer hours," she said.

To supplement the light weeks, Ms. Casares started picking up a shift as a part-time server at Olive Garden ($5.39 an hour plus tips).

The number of Americans living comfortably or doing all right financially has grown since the recession. Still, the new Fed report found that 30 percent — roughly 73 million adults — say they are finding it difficult to get by financially, or are just getting by.

To Mr. Morduch and his co-author, Rachel Schneider, the rise in income **volatility** is an indication of how businesses in an era of advancing technology and global competition have shifted risk onto employees.

Consider the cost of saving for retirement and medical care. When health insurance premiums for employers soared between 2003 and 2013 (before the Affordable Care Act went into effect), workers picked up 93 percent of the extra cost.

Asked whether her job at Victoria's Secret provided benefits, Ms. Casares said it did: "We're given three bras and a bottle of Bombshell, their No. 1 selling perfume." Health or retirement contributions are not part of the package.

Follow Patricia Cohen on Twitter: @PatcohenNYT

* Expecting a Big Economic Bump? It's Looking Less Likely

* The Question Isn't Why Wage Growth Is So Low. It's Why It's So High.

* Lack of Workers, Not Work, Weighs on the Nation's Economy

* Jobless Rate at 10-Year Low as Hiring Grows and Wages Rise

Tomika Waggoner, a nursing home aide, outside her apartment in Newport, Ky. Her work schedule depends on her ability to find care for her 15-year-old son, who has epilepsy. | Mark Lyons for The New York Times

Document NYTFEED020170601ed610012x

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