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Streetwise: A New Way To Look At Crazy Valuations

By James Mackintosh
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28 February 2017
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B1
English

The swinging price of oil has played havoc with forecasts for the economy and inflation over the past two years. Now, it may also be messing with the heads of investors by pushing the most popular tool for U.S. **stock-market** valuation to the highest in more than a decade.

The **S&P 500** stands at almost 18 times estimated operating earnings, the highest forward price/earnings ratio since 2004 and a figure that was higher before that only during the late 1990s dot-com bubble and its aftermath.

Yet, the valuation has been inflated by a collapse in profits for oil companies. Because analysts expect little in the way of earnings over the next year, but a recovery later, the forward price/earnings ratio for oil stocks is elevated. The energy sector stands at more than 30 times Thomson Reuters IBES's estimate of operating earnings over the next 12 months, higher than any time from when the sector data started in 1995 up to last year, when it briefly reached an extreme of almost 60 times.

There are other reasons to think future returns from stocks might be low, but investors who rely on the overall valuation of the index as a signal for future returns would be misled if they ignore the collapse in oil-sector profits.

Howard Silverblatt, senior index analyst at S&P Dow Jones Indices, puts the overall market at 18.1 times this year's estimated operating earnings. When the energy sector -- containing six of the seven S&P companies forecast to lose money this year -- is excluded, the forward P/E stands at 16.6, a much less frightening figure.

There are lots of ways to compute the forward P/E, and the gap is slightly narrower on IBES figures used by Societe Generale SA's quantitative equity team. But either way, valuations are lower when the oil sector is stripped out and look little different than two years ago.

There are both conceptual and practical objections to taking this as a signal that stocks are at a reasonable level. The conceptual problem is that it looks like manipulation of the figures to justify buying shares, a practice with a long and dishonorable history on Wall Street.

In reality, whether to include or exclude the oil sector amounts to a question about whether its profits will recover. If **oil prices** and profits plunge again, then the sector is truly expensive, and it should be included in the overall figures. Excluding energy from valuations amounts to an assumption that oil-sector profits will recover, implying prices won't fall much below $50 a barrel.

The practical issue is more worrying. Even without energy, valuations are pretty high.

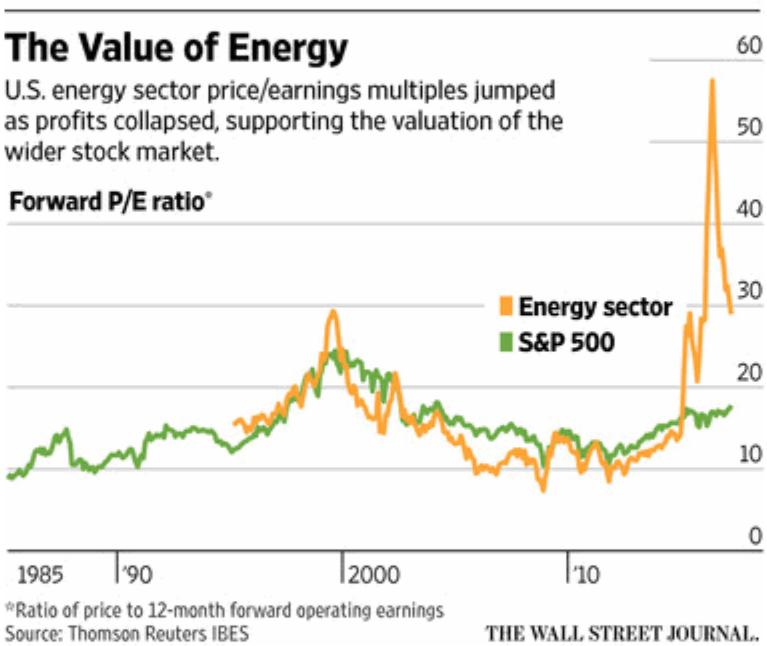
Stocks were expensive two years ago and are still expensive today, with valuations high compared with most of history. Investors are pricing in a lot of good news for earnings, notably U.S. corporate tax cuts, and not a lot of bad news.

The main explanation for pricey shares is the same as it was two years ago, too. Low interest rates tend to lead to higher valuations, because the same future profits are worth more when discounted back into today's money. Profit margins are elevated by cheap debt, and investors think that will continue. The Federal Reserve may have started raising U.S. interest rates, but it has barely kept up with the rise in inflation, and investors expect money to remain easy pretty much forever.

If today's market is a bubble, it is a particularly joyless one. Cheap money has pushed every sector to be pricey, but none to be extraordinary. Indeed, the most expensive sector after energy is consumer staples, made up of boring-but-reliable earners.

We are promised news on Donald Trump's "phenomenal" tax cut in his speech Tuesday, which could reverse at least some of the postelection stock rally if the corporate tax plans disappoint. The real threat to valuations, though, would come if it looks like inflation was running out of control and the Fed is forced to get serious with rate increases.

Investors expect oil to stay calm, energy-sector profits to recover and inflation to be subdued. If any of those turn out to be wrong, high valuations may yet be a problem.



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STOCKS & BONDS
Business/Financial Desk; SECTB
Wall Street Closes With New Highs, Again

By THE ASSOCIATED PRESS
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NYTF
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7
English

Wall Street reached another set of milestones on Monday as the Dow Jonesindustrial average closed at a record high for the 12th consecutive time, the longest winning streak for the 30-company average in 30 years.

The Standard & Poor's 500-stockindex, the benchmark favored by professional investors, also closed at a record high.

The latest push into the record books came on an indecisive day for stocks that sent indexes wavering between small gains and losses for much of the day. They ultimately eked out tiny gains, led by energy stocks, which climbed as the price of crude oil rose. Phone companies lagged the most.

The Dow Jonesindustrial average rose 15.68 points, or 0.1 percent, to 20,837.44. The S&P 500 gained 2.39 points, or 0.1 percent, to 2,369.73. The Nasdaq composite index added 16.59 points, or 0.3 percent, to 5,861.90. Small-company stocks fared better than the other indexes, sending the Russell 2000 index up 13.44 points, or 1 percent, to 1,407.97.

During a meeting with governors on Monday, Mr. Trump noted that his coming budget would include a big increase in military spending. The White House separately said that the budget would include a $54 billion increase in military spending while imposing corresponding cuts to domestic programs and foreign aid.

Talk of more military spending gave a lift to defense contractors. Raytheon added $1.35, or 0.9 percent, to $154.83. Northrop Grumman gained $3.55, or 1.4 percent, to $248.60. Lockheed Martin climbed $5.18, or 2 percent, to $269.36.

Expectations that the Trump administration will ramp up infrastructure spending projects also gave materials companies a boost. Martin Marietta Materials rose $5.21, or 2.5 percent, to $215.26, and Vulcan Materials added $2.78, or 2.4 percent, to $120.60. Summit Materials gained 50 cents, or 2.1 percent, to $24.25.

Major stock indexes overseas were mixed.

Benchmark crude rose 6 cents to close at $54.05 a barrel in New York. Brent crude, used to price international oils, slipped 6 cents to close at $55.93 in London.

Bond prices fell. The 10-year Treasury yield rose to 2.37 percent from 2.32 percent late Friday.

In Europe, Germany's DAX rose 0.2 percent, and France's CAC-40 was flat. London's FTSE-100 added 0.1 percent. In Asia, Tokyo's Nikkei 225 index fell 0.9 percent. Hong Kong's Hang Seng slid 0.2 percent. Seoul's Kospi shed 0.4 percent. Sydney's S&P-ASX 200 lost 0.3 percent.

The dollar rose to 112.80 yen from Friday's 111.98 yen. The euro rose to $1.0589 from $1.0565.

Among metals, the price of gold edged up 60 cents to $1,257.40 an ounce.

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

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U.S. News: U.S. Watch

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MINNESOTA

Police Officer Pleads

Not Guilty in Death

A Minnesota police officer who fatally shot a legally armed black motorist in July pleaded not guilty to manslaughter and other felony charges.

Jeronimo Yanez, a St. Anthony, Minn., police officer, entered the plea on Monday.

A trial for Mr. Yanez is scheduled to start onMay 30, according to a court official.

Mr. Yanez is facing these charges in connection with the shooting of 32-year-old Philando Castile during a traffic stop.

When Mr. Castile informed the officer that he had a firearm that he was legally permitted to carry, Mr. Yanez told him not to reach for it and after a brief exchange fired seven shots into the vehicle.

Mr. Castile's girlfriend was in the car and streamed the shooting's aftermath on Facebook Live in a video that was watched by hundreds of thousands of people. Her 4-year-old daughter was also in the car at the time.

-- Shibani Mahtani

GEORGIA

Effort to Legalize

Casinos Fails Again

Efforts to legalize casinos in Georgia, one of the last major regional markets that is off limits to gambling, came to a halt Monday when legislators failed to get a bill out of committee.

Legislation has to move forward by the end of this week, meaning a casino bill can't be revisited until next year. Gambling is barred under Georgia's constitution, but major casino corporations in recent years have viewed the state as a ripe opportunity for growth in the U.S.

Other regional markets have become saturated as commercial casinos have spread into nine new U.S. states over the past 15 years. Georgia, the eighth-most populous state, is bordered by South Carolina and Tennessee, which also have no casinos.

Legalizing gambling in the state would involve a constitutional amendment requiring the approval of two-thirds of legislators in the state Senate and House and a majority of voters.

This marks the second year in a row that casino-legalization efforts in the state have fizzled.

-- Chris Kirkham

NORTH CAROLINA

Sex Offenders' Use of

Social Media Argued

The Supreme Court on Monday appeared skeptical of a North Carolina criminal law that prohibits sex offenders from visiting social-media websites.

Justice Elena Kagan, during an hourlong oral argument, cited President Donald Trump's frequent use of Twitter as a reason why the broad state law was problematic. "A person in this situation, for example, cannot go onto the president's Twitter account to find out what the president is saying today?" Justice Kagan asked.

Robert Montgomery, North Carolina's senior deputy attorney general, defended the law as preventing sex offenders from anonymously gathering information about minors that could be used to commit future offenses. A ruling is expected by the end of June.

-- Brent Kendall

ECONOMY

Aircraft Sales Boost

Manufacturing

Orders for long-lasting factory goods climbed last month because of purchases of military and civilian aircraft, overshadowing a weak start to 2017 for business investment in new equipment.

Orders for durable goods -- products, such as airplanes and dishwashing machines, that are designed to last at least three years -- increased 1.8% in January from the prior month to a seasonally adjusted $230.35 billion, the Commerce Department said Monday. The rise came after two consecutive months of declining orders and largely reflected jumps in two **volatile** categories: a 69.9% surge in orders for civilian aircraft and parts, and a 59.9% increase in orders for defense aircraft. Excluding the transportation segment, orders fell 0.2% from December.

-- Ben Leubsdorf

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Breakingviews
Business Day; DealBook
Buffett's $1 Trillion Target for Apple Is in Sight

By ROBERT CYRAN
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Warren Buffett 's $1 trillion target for the iPhone maker Apple is in sight. Mr. Buffett, the Berkshire Hathaway boss, has bought more stock in Apple — whose market capitalization at Friday's closing price was $717 billion — and reckons it may become the first company with a 13-digit valuation. Breakingviews first suggested that back in 2011. Growth has slowed, but the company still looks undervalued.

The tech giant, led by Timothy D. Cook , now trades at about 15 times estimated earnings for its financial year to September 2017. The **Standard & Poor's 500-stockindex** trades at about 19 times projected earnings for the same period. Moreover, Apple has nearly $250 billion of cash and equivalents, such a huge pot that most of it is invested in long-term securities — a category excluded from standard cash and net debt calculations.

The quantum and treatment are so unusual that it is worth valuing Apple and its hoard of ready money separately. Put the company's underlying business on the same price-to-earnings multiple as the S.&P. and it is worth around $850 billion. Add back cash, net of the company's almost $90 billion of debt, and the company's potential market cap tops $1 trillion.

Investors worry that the global smartphone market is saturated. Analysts think Apple 's revenue will increase at a fairly modest 6 percent this financial year. However, as Mr. Buffett noted on CNBC on Monday, the company's products are "sticky," meaning most customers stay with the brand when they replace their phones. Services like apps, online data storage, payments and music are steadily growing. Heavy investment in developing new products may yet produce another Apple hit, too.

There is also the concern that Apple will make big, overpriced acquisitions. Yet there is no evidence for this. Mr. Cook is stingy — the company's largest acquisition in 40 years was its $3 billion purchase of Beats Electronics in 2014. It pays out roughly that amount every quarter in dividends, and on average about three times as much in buybacks.

Perhaps investors simply can't get their heads around such a big number. If so, that could also be an issue for Saudi Arabia's state oil company Aramco, which is working toward floating an offering with a possible valuation of $2 trillion. It wouldn't take much of a shift in investors' attitude to get Apple to the $1 trillion mark first.

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The New York Times

Contributing Op-Ed Writer
Opinion
Mischaracterizations, Misrepresentations and Lies

By STEVEN RATTNER
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There he goes again. Donald Trump may be a month into his presidency, but his public remarks continue to be laden with the same mischaracterizations, misrepresentations and, yes, lies as his campaign.

Mr. Trump’s alternate reality has been on vivid display in venues ranging from an airplane hangar in Melbourne, Fla., to a gathering of conservatives last week just outside the nation’s capital.

All in all, it’s been a kind of greatest hits of his favorite, factually challenged remarks — with more likely to come in his address to Congress on Tuesday night.

“Jobs are already starting to pour back in,” he yelled to the crowd in Florida. “Obamacare covers very few people,” he insisted in Maryland

The small problem with these “facts” and so many more in his florid rhetoric is that they are not true.

He has extolled, for example, announcements by General Motors, Ford, Fiat Chrysler and Intel to hire tens of thousands of workers in the United States instead of in Mexico.

But each of these companies was already planning to make the employment moves or did them for business reasons unrelated to Mr. Trump.

“All of these decisions,” said Pat Morrissey, a G.M. spokesman, “have been in the works for some time.”

Then there are the Keystone and Dakota Access pipelines, which Mr. Trump contended will create as many as 42,000 jobs.

That’s more than a little misleading. For one thing, the Dakota Access pipeline is nearly built. For another, the State Department calculated that Keystone would create only 3,900 direct construction jobs and a maximum of 16,000 total jobs on an annual basis.

And those are just temporary jobs; the permanent job count at Keystone will be 35.

The only jobs that he could legitimately claim to have preserved would be the 800 Carrier jobs in Indiana that were “saved” with the help of $7 million in state subsidies.

As for the Affordable Care Act, by every estimate, more than 20 million Americans have received health insurance through it.

Then there’s Trump as cost cutter, congratulating himself for saving “over $1 billion” on the purchase of replacements for Air Force One. On Friday, the Department of Defense, which is in charge of procuring the new planes, said it had no idea what the president was talking about.

As for Lockheed Martin and the F-35 fighter jet, which has indeed been a troubled program, the company had already agreed to reduce the cost of each plane as production ramped up.

“All President Trump did was elevate attention to the issue,” said Steve Ellis, vice president of Taxpayers for Common Sense. “He’s not responsible for the savings; they were already in the pipeline long before he came on the scene.”

In Melbourne, Mr. Trump also took a victory lap for the rising **stock market** and the “great spirit of optimism” that is “sweeping all across the country.” So how does he explain his 43 percent approval rating?

To be sure, he’s correct to note that the **stock market** has been hitting record highs, and various measures of business confidence have also been on the rise.

But those positive signals result not from anything Mr. Trump has done to make America Great Again but from a bunch of stuff he’s promising to do to make business great again.

You don’t have to be a **stock market** expert to appreciate that when a president says he’s going to significantly cut business taxes and emasculate regulations that may be limiting profitability, of course stocks are going to go up.

Indeed, the sectors that have shot up the most — including financials, steel, oil services and coal — are precisely the ones most likely to benefit from Trumponomics.

Some investors — including myself — wondered whether Mr. Trump’s **volatile** style would scare the markets more than his planned giveaways to corporate America would buoy them. That verdict is in (at least for now).

But both **stock market** indexes and business confidence have benefited from recent data suggesting that economic growth began accelerating modestly well before Mr. Trump took office.

Indicators like retail sales and factory output have been on the rise. Meanwhile, outside the United States, sclerotic Europe has managed to inch its growth rate up close to ours, while key emerging economies like China — a perennial worry for markets — seem to be on a sustained upward trajectory.

What markets should worry about is whether Mr. Trump will be able to deliver on his overwhelmingly pro-business agenda. If he falls short, look for the **stock market** to wobble and perhaps swoon.

At least in the meantime, however, Mr. Trump is busily trying to take credit for positive signs that were in fact nurtured on Barack Obama’s watch.

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President Trump speaking at the Conservative Political Action Conference last week. | Doug Mills/The New York Times

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U.S. News --- THE OUTLOOK: Surveys Show Split on Party Lines

By Josh Zumbrun
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A2
English

There's more to the U.S. economy than the occupant of the Oval Office, but you might not know that looking at confidence surveys.

Since the election of President Donald Trump, consumer confidence and business sentiment surveys have been scrambled like never before along partisan lines. Confidence among Republicans has soared while it has crumbled for Democrats, even though most measures show little change in how the actual economy is behaving.

"When you see how the partisan details have changed in recent months it really makes you question the usefulness of these data," Jim O'Sullivan, chief U.S. economist of High Frequency Economics, said of confidence metrics.

Measures of consumer confidence are widely followed economic indicators, due to their correlation over time with consumer spending and the strength of the economy. Large downturns in confidence tend to coincide with economic downturns, and vice versa. Now, surveys designed to ask about the economy resemble a Rorschach test; people see the president and their view of him in everything.

Gallup's measure of economic confidence among Republicans has increased dramatically since before the election. The difference between those who said they weren't optimistic and those who said they were optimistic was 46% in October.By January that flipped: The optimists outnumbered the pessimists by 27%. That reversal sent the confidence index for Republicans up 73 points. The index for confidence among Democrats dropped 23 points over this period.

Eight years ago, when President Barack Obama had just taken office, the confidence index among Democrats climbed just 13 points in the same three-month window, while Republican confidence fell just 6 points.

Looking back even further is the University of Michigan's survey of consumer sentiment. Republican expectations are at an index reading of 120 this month. Since 1952 the overall sentiment index has never topped 112. Democrats, by contrast, were at 55.5, a level not seen since the worst of the financial crisis, when the economy was shedding more than 2 million jobs per quarter. Thus, by Michigan's measure, Republicans are collectively counting on the best economy in post-World War II history, while Democrats expect something as bad as the worst days of the 2008 financial crisis.

Taken at face value, one would expect heavily Republican areas of the country to strengthen as this confidence leads to a surge in spending and investment, while mostly Democratic areas would weaken for the opposite reasons.Few economists expect such an outcome or see signs that it's emerging.

"If you look at the swings, before and after the election, they're not yet substantiated by many real changes in the economy," said Gregory Daco, head of U.S. economics for Oxford Economics.

Most Americans have their economic fortunes tied to their job, and nearly all workers have the same job now as before the election. About 3.5% of Americans switched jobs in November and December and started a new one, according to Labor Department data. Wages have been rising somewhat faster over the past year, but most of the gains have been eaten by rising inflation.

Some measures of economic sentiment may be capturing something quite different than in the past.

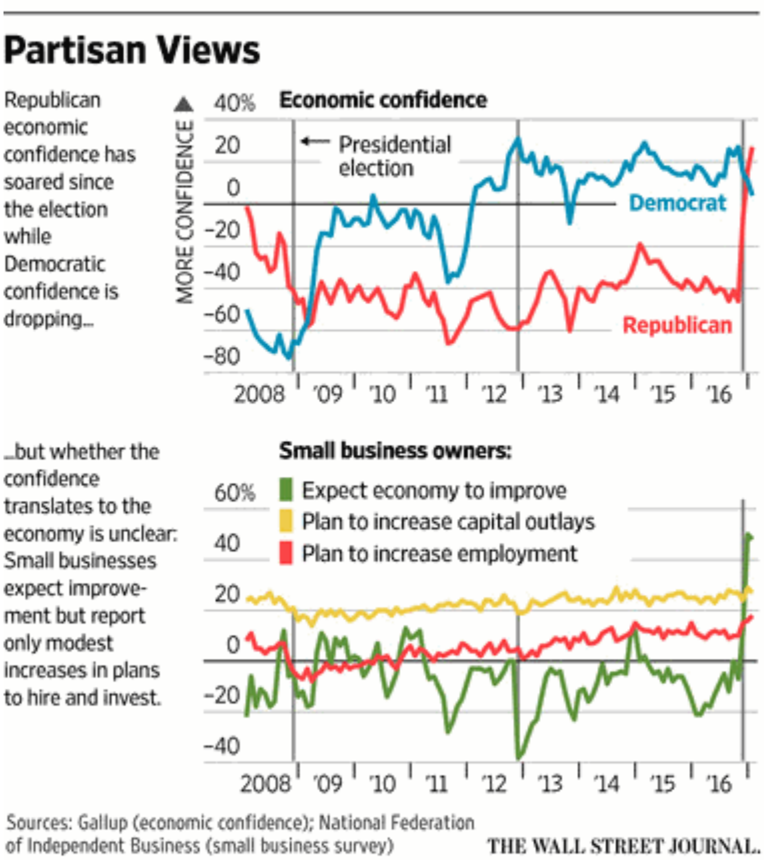
"Our level of confidence is a function of our perceptions of certainty and control," said Peter Atwater, president of Financial Insyghts, a research firm studying social mood and confidence. Republicans may be responding to a sense of relief that somebody with a similar worldview is in the White House, and vice versa for Democrats.

Sentiment is especially buoyant at small businesses. An index of small-business optimism from the National Federation of Independent Businesses has climbed 57 points since before the election. Yet the increase in the share of small businesses planning to increase their hiring was more modest, and there has been little increased planning for greater capital investment, according to the survey.

Three big drivers of business enthusiasm have been hopes for corporate tax reform, less regulation and the prospect of major infrastructure spending. Treasury Secretary Steven Mnuchin has said that tax reform could take until August. Regulations could also take years to roll back.

Investors, like Republicans, are inferring in Mr. Trump a high probability of success despite obstacles he faces. The **stock market** is up more than 10% since the election. Andrew Liveris, chief executive of Dow Chemical Co., participated in a round table of business leaders who met with Mr. Trump last week. Afterward, he said "to have the U.S. government speak the language of business is a completely new experience."

In the end, expectations will need to square up with the economy's real performance.



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Two Rallies, Two Views on Trump

By Saumya Vaishampayan
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English

HONG KONG -- Stocks in the U.S. and emerging markets are on a tear, despite diverging views on how U.S. President Donald Trump's economic plans will fare.

Following a slump after the U.S. election in late 2016, the MSCI Emerging Markets Index, which includes big exporters such as South Korea and Mexico, has surged nearly 10% this year through Friday.

Investors have poured nearly $6 billion into U.S. exchange-traded funds tied to emerging-market stocks in 2017 through Feb. 15, after pulling out a net $1.86 billion in November and December, according to research firm Morningstar Inc.

The markets have benefited from some less-hawkish rhetoric from the Trump team on areas such as trade and currencies. In addition, signs of divisions in the Republican Party that could slow the progress of key tax legislation is encouraging some investors to believe that emerging-market stocks will be hit less hard than was feared immediately after Mr. Trump's surprise victory.

Conversely in the U.S., expectations that the new president will be able to implement smoothly plans including tax changes and higher infrastructure spending continue to underpin the "Trump trade" that has buoyed stocks. The **S&P 500** has advanced 5.7% this year, notching 11 records along the way.

Investors "are almost picking and choosing the script that they feel the most comfortable with and ignoring the bits that don't quite add up," said Colin Harte, a multiasset portfolio manager at BNP Paribas Investment Partners in London.

Some are starting to notice the contradictions. Federal Reserve officials, in the minutes of their latest meeting released this week, flagged as a risk the possibility that Mr. Trump's plans won't materialize.

Jean-Louis Nakamura, chief investment officer for Asia Pacific at Swiss wealth manager Lombard Odier, which manages $160 billion, said he has this week to cut exposure to the U.S. and other developed markets while maintaining a substantial allocation to emerging-market stocks.

"We believe that markets have been front-running a lot of promises from the new administration in the U.S. and that many of these promises will be difficult to implement," Mr. Nakamura said.

Investors who are **bullish** on emerging markets appear less worried now about the possibility of a trade war that would hurt big exporters such as China.

Some point to Japanese Prime Minister Shinzo Abe's recent trip to the U.S. as evidence thatMr. Trump could be softening his protectionist approach. The U.S. president has previously criticized Japan's economic policies, saying it manipulates its currency to gain a trade advantage, but there was little such talk during the meeting with Mr. Abe.

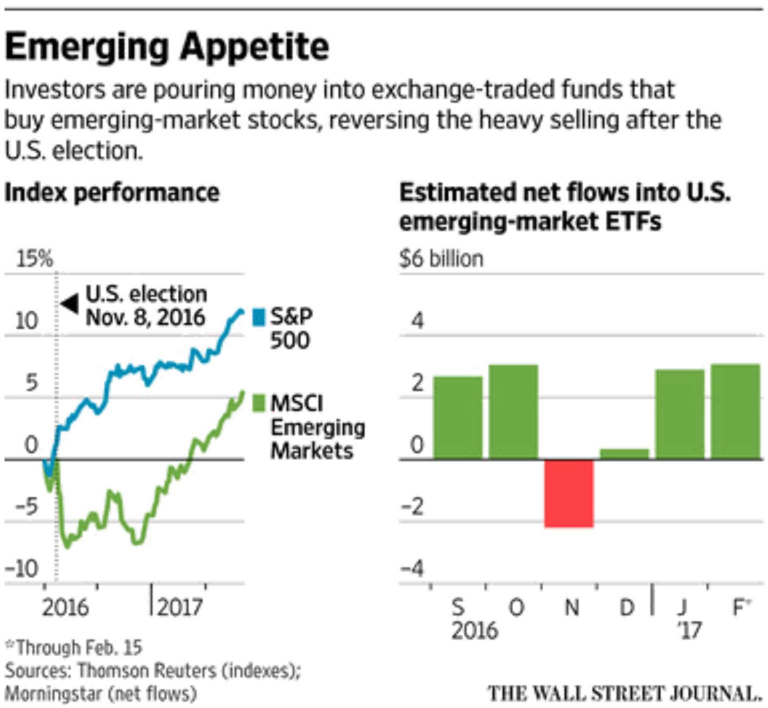
While Mr. Trump has maintained some of his blustery rhetoric on China, his administration has yet to follow through on a pledge to label the country a currency manipulator. It has, however, affirmed the U.S.'s longstanding "One China" policy. On the domestic front, Republicans and businesses remain divided over the idea of "border adjustment" -- taxing imports but not exports -- that is key to House Republicans' current tax plan.

A quick implementation of such measures would have boosted the dollar further, analysts say, dimming the allure of companies in emerging economies, many of which have hefty debt burdens denominated in dollars.

The **stock-market** rallies aren't only about Mr. Trump's potential policies. Fourth-quarter earnings for the **S&P 500** are on track to rise 4.6% from a year ago, helping propel the index higher.

Economic growth in emerging markets has picked up and **oil prices** have recovered in the past year, boosting prospects for better corporate earnings. Stimulus measures have aided growth in China, in turn boosting other regional economies including South Korea and Taiwan, said Mark Wills, head of the investment solutions group for Asia Pacific at State Street Global Advisors.

But sentiment is a powerful driver for stocks. Any indication that Mr. Trump's plans are stalling -- for example, Treasury Secretary Steven Mnuchin said the administration is aiming to push through its tax overhaul by August -- could trigger declines in U.S. shares.



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Stocks Have Froth but No Bubble --- High valuations are at risk of a fall, but that doesn't mean there is irrational exuberance

By Justin Lahart
530 words
27 February 2017
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English

Stock valuations are looking bubbly. But nothing else about the **stock market** is.

The rally in stocks since the election of President Donald Trump has taken valuations from expensive to extraordinarily dear.

The **S&P 500** now trades at about 18 times expected earnings, according to FactSet, putting it at its loftiest level in more than a dozen years.

As a percentage of gross domestic product, the value of U.S. stocks is approaching the peak it reached in early 2000.

It is the sort of situation that can get you thinking the market is getting frothy. But other than paying high prices, investors aren't behaving at all the way they typically do during bubbles.

One hallmark of a bubble is that stock trading becomes frenzied. In 1999, trading volume rose sharply, and dot-com stocks made up to 20% of the shares exchanging hands.

But trading is looking pretty staid at the moment -- indeed, daily volume since Mr. Trump was elected is below its year-earlier level.

Another bubble tell: leverage. When irrational exuberance takes hold, investors buy more stock using borrowed money in hopes of magnifying their gains. Margin debt is up, but as a share of the **stock market**'s value it has remained steady. In the dot-com bubble, it shot higher.

Rich Bernstein of Richard Bernstein Advisors, who as a Merrill Lynch strategist was deeply **bearish** during the dot-com bubble, argues the current rally is rational.

"When has Washington ever talked about tax cuts and fiscal stimulus when the economy is as healthy as it is today?" he said. "You don't have to get a big package to make this thing take off."

Imagine, for example, that a corporate tax cut raises profit margins at **S&P 500** companies by 1 percentage point over the next year from the 10.6% analysts polled by FactSet expect.

Earnings-growth expectations for the current year would go from about 10% to about 20%. And the index's forward price/earnings ratio slips to a more reasonable 16.5 or so.

But such calculations carry risks. Margins are already historically high, and with the job market getting tight and wages picking up, labor costs could soon be pushing margins lower. The recent run of good economic data, and the run-up in stock prices, could push the Federal Reserve to raise rates by more than the modest amount investors expect this year.

The biggest risk is that Mr. Trump and Congress won't be able to put through as aggressive a package as investors expect.

With retailers and other industry groups pushing back against it, the border-adjusted tax that plays a key role in House Republicans' tax reform is looking iffy. And since that tax is supposed to help fund the corporate-tax cut, the big margin boost investors are hoping for could be on shaky ground.

The **stock market** might not pop, but it can still fall pretty hard.

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The New York Times

DealBook
Business Day; DealBook
Buffett Asks Big Money: Why Pay High Fees?

By ANDREW ROSS SORKIN
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Poof: $100 billion disappeared.

That's the figure that Warren E. Buffett recently calculated that pension funds, endowments and wealthy individuals have lost over the last decade to hedge funds and other money managers that charge sky-high fees.

"I believe my calculation of the aggregate shortfall is conservative," Mr. Buffett wrote in his annual letter, released on Saturday to the shareholders of his conglomerate, Berkshire Hathaway.

The letter, which ricocheted around Wall Street to the consternation of some and the applause of others, was Mr. Buffett's most damning assessment of the hedge fund industry to date, and it came amid a growing debate about whether professional money managers are capable of outperforming the **stock market** on even a semiregular basis.

As many investors know, recent failures of these managers to do so has caused all manner of problems — a devastation that Mr. Buffett described pointedly in his note.

"Much of the financial damage befell pension funds for public employees," he wrote. "Many of these funds are woefully underfunded, in part because they have suffered a double whammy: poor investment performance accompanied by huge fees. The resulting shortfalls in their assets will for decades have to be made up by local taxpayers."

For the past several years, Mr. Buffett has told anyone who will listen to avoid attempting to beat the **stock market** by investing in hedge funds or actively managed funds. Instead, he has counseled buying a low-cost **S**. **& P**. **500 index** fund. (He has said he plans to put 90 percent of the money he leaves to his wife after he dies into an **S**. **& P**. **500 index** fund and the rest into government bonds.)

However, much of the biggest money in the nation hasn't taken his advice and continues to pay enormous fees for underperformance.

In his letter, Mr. Buffett offered an unusually cogent, honest and blunt appraisal of the human behavior that drives individuals with money to avoid index funds — and their willingness to pay huge fees.

"The wealthy are accustomed to feeling that it is their lot in life to get the best food, schooling, entertainment, housing, plastic surgery, sports ticket, you name it," Mr. Buffett wrote. "Their money, they feel, should buy them something superior compared to what the masses receive."

He continued, "The financial 'elites' — wealthy individuals, pension funds, college endowments and the like — have great trouble meekly signing up for a financial product or service that is available as well to people investing only a few thousand dollars."

Mr. Buffett said that wealthy individuals get drawn in by consultants selling them big promises. "Can you imagine an investment consultant telling clients, year after year, to keep adding to an index fund replicating the **S**. **& P**. **500**?" he wrote. "That would be career suicide. Large fees flow to these hyper-helpers, however, if they recommend small managerial shifts every year or so."

That advice, Mr. Buffett added, “is often delivered in esoteric gibberish that explains why fashionable investment ‘styles’ or current economic trends make the shift appropriate.”

Mr. Buffett’s index-loving advice may seem counterintuitive coming from a man who is considered the most successful investor in history — and who became so by actively making individual bets in the market.

It also may be hard to square given that millions of people follow Mr. Buffett’s words — and tens of thousands of them make an annual pilgrimage to Omaha to his annual meeting — looking for pearls of wisdom that they can use themselves to beat the market.

Mr. Buffett has long offered guidance about investing, and he often makes it sound easy. “Success in investing doesn’t correlate with I.Q. once you’re above the level of 25,” he once said — but it seems even he recognizes that some investors who follow his principles may not succeed.

“There are, of course, some skilled individuals who are highly likely to outperform the S. & P. over long stretches. In my lifetime, though, I’ve identified — early on — only 10 or so professionals that I expected would accomplish this feat,” he wrote.

Perhaps Mr. Buffett’s advice is being taken: Last year, according to Morningstar, about $505 billion flooded into index funds and exchange-traded funds; $340 billion was pulled from active money managers.

Of course, if everyone buys index funds, what would it do to the market?

Seth Klarman, a hedge fund investor whose recent letter to shareholders was much talked about, said of the trend toward passive investing: “The inherent irony of the efficient market theory is that the more people believe in it and correspondingly shun active management, the more inefficient the market is likely to become.”

And therein lies the rub: That inefficiency is where active investors like Mr. Buffett make money. “I’d be a bum on the street with a tin cup if markets were efficient,” Mr. Buffett once said.

Still, Mr. Buffett is not convinced the big money will take his advice and buy index funds — thereby giving up the dream of trying to beat the market.

“Human behavior won’t change,” he wrote. “Wealthy individuals, pension funds, endowments and the like will continue to feel they deserve something ‘extra’ in investment advice. Those advisers who cleverly play to this expectation will get very rich.”

Mr. Buffett observed, “This year the magic potion may be hedge funds, next year something else. The likely result from this parade of promises is predicted in an adage: ‘When a person with money meets a person with experience, the one with experience ends up with the money, and the one with money leaves with experience.’”

I will be among several journalists and research analysts who will ask questions of Mr. Buffett and his partner Charlie Munger at Berkshire Hathaway’s annual meeting on May 6. A live webcast of the meeting will be available on Yahoo Finance. If you have questions you’d like to suggest, please send them to me: arsorkin@nytimes.com.

* Warren Buffett, in Annual Letter, Offers Hymn to U.S. Economy

* A Quiet Giant of Investing Weighs In on Trump

* ‘Becoming Warren Buffett’ Goes Beyond a $74 Billion Fortune

Warren E. Buffett, the chairman of Berkshire Hathaway, in 2015. This year, his annual letter to Berkshire shareholders contained a harsh assessment of the hedge fund industry. | Kevin Lamarque/Reuters

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THE WALL STREET JOURNAL.
U.S. EDITION

Buffett Keeps His Batting Average

By Nicole Friedman
854 words
27 February 2017
The Wall Street Journal
J
B1
English

Warren Buffett was dismissive of professional money managers in his widely read letter to Berkshire Hathaway Inc. shareholders. But the billionaire reasserted his belief in his own ability to pick winners and losers.

"Every decade or so, dark clouds will fill the economic skies, and they will briefly rain gold," he wrote in the letter, which was released Saturday. "When downpours of that sort occur, it's imperative that we rush outdoors carrying washtubs, not teaspoons. And that we will do."

The prediction that Berkshire would be ready to profit from the next downturn was one of several active-management assertions from the 86-year-old investor, who became one of the world's richest people due to bets on cheap stocks and companies. Mr. Buffett signaled a willingness to sell longtime Berkshire holdings and declared Bank of America Corp. to be undervalued.

It is an approach that is no longer in vogue in the asset-management world as investors seek out cheaper funds that mimic market indexes while retreating from managers who promise to beat the market. Investors pulled a net $342.4 billion from U.S.-based actively managed funds last year, according to Morningstar, while pouring a record $505.6 billion into U.S.-based passively managed funds.

Mr. Buffett himself recommends that investors use low-cost index funds rather than placing their money with active managers that charge higher fees. More than $100 billion, he said in his letter, has been wasted on bad investment advice over the last decade. He also declared victory in a $1 million bet with another asset manager that an **S&P 500 index** fund would outperform a basket of hedge funds over a 10-year period.

"He's certainly not saying that there are no . . . Warren Buffetts out there," said Roger Lowenstein, author of a biography of Mr. Buffett and a director at mutual fund Sequoia Fund Inc. "What he's saying is that the average investor is not going to do better than average."

Mr. Buffett is one of the world's most successful active managers. From 1965 through 2016, Berkshire's market value rose at a compounded annual gain of 20.8%, compared with 9.7% for the **S&P 500** including dividends. Berkshire doesn't pay dividends -- another sign of Mr. Buffett's confidence in his investing abilities.

Berkshire now owns so much that its overall holdings, which include retailers, utilities and manufacturers, are often seen as a proxy for the overall U.S. economy. Its 2016 financial results, which were also released Saturday, revealed that certain industrial businesses are slowing.

Berkshire reported that its earnings for the year were basically flat -- $24.07 billion, compared with $24.08 billion in 2015. That was largely the result of disappointing results for its railroad, which struggled due to slowing demand for coal.

Berkshire's book value, a measure of assets minus liabilities that is Mr. Buffett's preferred yardstick for measuring net worth, rose 11% in 2016. But that was less than the 12% total return in the **S&P 500**, including dividends.

Berkshire's insurance operations and investments did well, helping offset weakness in its industrial operations.

Within Berkshire, Mr. Buffett has doubled down on his actively managed approach. Berkshire hired two investment managers, Ted Weschler and Todd Combs, who rely on the same value-oriented, long-term approach that Mr. Buffett uses.

Berkshire has long profited from Mr. Buffett's willingness to hold some stock positions, including Wells Fargo & Co., American Express Co. and Coca-Cola Co., for years without selling them. But he noted in the letter that anything could be up for sale, raising questions among some Berkshire followers about whether a meaningful holding could be under scrutiny.

"It is true that we own some stocks that I have no intention of selling for as far as the eye can see," he wrote. "But we have made no commitment that Berkshire will hold any of its marketable securities forever."

Berkshire bought large stakes in Apple Inc. and four major U.S. airlines in 2016, all of which have risen in recent months. The holdings came as a surprise, because Mr. Buffett has previously shunned technology stocks and criticized airlines as losing investments. The company also sold most of its stake in Wal-Mart Stores Inc. last year.

In another signal of his active-management approach, Mr. Buffett singled out one holding, Bank of America, for praise and said Berkshire would convert its preferred Bank of America shares to common shares if the bank raised its dividend enough.

While Mr. Buffett remains active in his stock picking, Berkshire's stock portfolio has grown less important to its overall performance as he has added more companies to the conglomerate.

"Berkshire is no longer primarily in stocks," said Lawrence Cunningham, a law professor at George Washington University who has written about Berkshire. "What . . . readers can learn from Warren these days is less about value investing and stock picking than about corporate culture and management organization."

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THE WALL STREET JOURNAL.
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Heard on the Street
A Warning Sign in Bank Lending

By Aaron Back
270 words
27 February 2017
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J
B12
English

[Financial Analysis and Commentary]

Lending growth has recently been slowing in the U.S., a potentially ominous economic signal. Policy uncertainty under President Donald Trump may be partly to blame.

Total loans and leases by U.S. commercial banks are currently rising at an annual pace of about 5%, based on weekly seasonally adjusted data from the Federal Reserve. That is down from a 6.4% pace for all of last year and peak rates of around 8% in mid-2016.

The deceleration has been broad-based across business, real estate and consumer lending and is at odds with the idea of a stronger economy and rising sentiment. The slowdown has been particularly stark in commercial and industrial lending.

There are two possible causes, says Barclays analyst Jason Goldberg. One is that companies are selling more bonds to lock in cheap financing before rates rise.

Indeed, corporate debt issuance in January was up 43% from a year earlier, according to data from the Securities Industry and **Financial Markets** Association. However, this number may be somewhat misleading since it comes off a low base in the year-earlier period, when global markets were in turmoil.

The other, more worrisome explanation is that political uncertainty is causing companies and banks to put off big decisions until the outlook for trade and tax policy is clearer. The lending slowdown began showing up clearly just before the election. If uncertainty persists, caution on the part of lenders and borrowers could become a growing drag on the economy.

Document J000000020170227ed2r00016

The Week Ahead
Business Day
Guilty Plea Coming From Takata, and G.D.P. Estimate Will Be Revised

By THE NEW YORK TIMES
769 words
26 February 2017
09:00 PM
NYTimes.com Feed
NYTFEED
English

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

AUTO INDUSTRY

Japanese airbag maker heads to court to fulfill agreement.

Lawyers for Takata, the Japanese manufacturer whose rupture-prone airbags have been linked to 11 deaths and over 100 injuries in the United States, are set to appear before a federal judge in Detroit on Monday to enter a guilty plea to criminal charges in a Justice Department case. Takata agreed last month to plead guilty to charges of wire fraud for its handling of the defect, to pay a $1 billion fine and to set up a victims' compensation fund. The Justice Department has also separately charged three Takata executives thought to be at the center of Takata's efforts to manipulate airbag safety data. The airbags can explode when triggered in a crash, sending metal fragments toward the driver or passengers. Hiroko Tabuchi

TECHNOLOGY

Thousands are expected for the Mobile World Congress.

More than 100,000 people are expected to gather Monday in Barcelona, Spain, for the weeklong Mobile World Congress, which will bring together the worlds of telecommunications, the news media and technology. As these industries increasingly overlap, executives and national policy makers are battling for control over how people use their mobile devices to communicate and watch online content. Mark Scott

ECONOMY

Commerce Department will release durable goods data.

The Commerce Department will release data on Monday morning for durable goods orders in January. Economists are looking to for an increase of 1.5 percent over all, after a slight decline in December. Core demand for durable goods, which excludes the **volatile** aircraft category, is thought to have risen by 0.5 percentage point. There have been signs of a pickup in business confidence lately, and a stronger-than-anticipated core reading would provide additional evidence of that trend. Nelson D. Schwartz

PRIVATE EQUITY

Leading investors gather for the annual SuperReturn International.

Private equity leaders from around the world will gather in Berlin this week to discuss investments and possibly some deals at SuperReturn International, an annual showcase for the industry. The speakers include Leon Black, the founding partner of Apollo Capital Management; William E. Ford, the chief executive of General Atlantic; and David Rubenstein, a co-founder of the Carlyle Group. Chad Bray

ECONOMY

Estimate of fourth-quarter growth is expected to rise.

On Tuesday at 8:30 a.m., the Commerce Department will release its revised estimate of economic growth, or gross domestic product, in the fourth quarter of 2016. Economists expect the government to increase its estimate of growth in the period to 2.1 percent from an initial 1.9 percent reading. Additional data suggests the economy had a bit more momentum at the end of the year, and many experts are looking for slightly faster expansion in 2017. Nelson D. Schwartz

TECHNOLOGY

Executive pay will be a big topic at Apple shareholders meeting.

Apple will hold its annual shareholders meeting on Tuesday at its Cupertino, Calif., headquarters. Shareholders have little to complain about this year, since the stock is up more than 40 percent in the past 12 months. Executive pay will be a big topic, with Apple seeking shareholders' blessing for its compensation plan and shareholders voting on a proposal that would require executives to hold on to 75 percent of their stock. Another proposal would make it easier for shareholders to band together to nominate two directors to the company's eight-member board. The company also faces shareholder votes on proposals to disclose more about its charitable contributions and diversify its board of directors and senior management. This could be the last meeting held at Apple's current headquarters, since the company will start moving into Apple Park, its new spaceship-style campus, in April. Vindu Goel

ECONOMY

The Fed's top two officials will deliver head-to-head speeches.

The Federal Reserve's top two officials will deliver speeches about the economy on Friday, offering two chances to judge the Fed's intentions ahead of its next policy-making meeting in March — but creating an unusual dilemma for Fed watchers. At 1 p.m. Eastern time, Janet L. Yellen, the Fed's chairwoman, will address business executives in Chicago, while Stanley Fischer, the Fed's vice chairman, will speak at a monetary policy conference in New York. The economy is off to a good start in 2017, and the Fed has so far maintained its prediction of three rate increases this year. Binyamin Appelbaum

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The New York Times

National Desk; SECTA

Buffett, in Annual Letter, Offers Hymn to U.S. Economy and Praises Immigrants

By LANDON THOMAS Jr.
663 words
26 February 2017
The New York Times
NYTF
Late Edition - Final
12
English

Warren E. Buffett, the billionaire investor, on Saturday lauded the "miraculous" qualities of the United States economy in highlighting another stellar year for his company, Berkshire Hathaway.

Mr. Buffett, whose record of beating the **stock market** over the past 50 years is unparalleled, is known for being persistently optimistic about the prospects of the American economy.

But his usual hymn to the dynamism of the American economy in his annual letter to Berkshire Hathaway shareholders that was released on Saturday morning reached new heights. "Americans have combined human ingenuity, a market system, a tide of talented and ambitious immigrants, and the rule of law to deliver abundance beyond any dreams of our forefathers," Mr. Buffett wrote.

He was a vocal supporter of Hillary Clinton during last year's presidential campaign and he did not mention President Trump in his letter. But his celebration of the American economy's ability to deliver growth stands in stark contrast to President Trump's darker descriptions of the country's economic prospects.

That Mr. Buffett went out of his way to give credit to a "tide of talented and ambitious immigrants" was also worthy of note in light of the Trump administration's crackdown on immigrants.

Last year was another outstanding one for the man known widely as the Oracle of Omaha. Berkshire Hathaway's **stock price** was up 23 percent in 2016, about double the return on the **Standard & Poor**'**s500 index**.

Berkshire's operating companies, which include the insurance firm Geico, the railroad company BNSF and numerous others, also performed well in an improving economy, with operating earnings increasing to $17.5 billion in 2016 from $17.3 billion in 2015.

Mr. Buffett's investment letters, which accompany Berkshire's report, are highly anticipated. After all, he is 86 years old, sitting on a mountain of $85 billion in cash and, as a recent documentary about his life made clear, showing little sign of slowing down.

Mr. Buffett also revealed in his letter that a recent bet on Apple had paid quick dividends. He owns a 1.1 percent stake in the company that he purchased at a total cost of $6.7 billion. His 61 million shares are now worth over $8 billion.

Over the years, Mr. Buffett has had a complicated relationship with Wall Street. He has been a withering critic of the culture of high pay, group think and excessive fees yet he has also swooped in to buy big stakes in investment firms when they hit rough times.

In his 2016 letter, Mr. Buffett took special aim at hedge funds, which in recent years have faced persistent outflows of investor money because of poor performance, stubbornly high fees and a broad move toward cheaper, passive options like index funds and exchange-traded funds.

Underscoring his long-held thesis that, over time, highly paid hedge-fund hotshots lose out to a cheap index fund, Mr. Buffett presented the latest results of a bet he made nine years ago. Since then, a standard S & P index fund overseen by Vanguard is up 85 percent, easily outpacing the hedge funds' return of 22 percent. Annually, the gap is just as wide: 7 percent for the index fund and 2.2 percent for the hedge funds.

As usual, Mr. Buffett did not mince words in expressing his astonishment as to how elite investment professionals could register such mediocre returns while raking in steep fees.

"I'm certain that in almost all cases the managers at both levels were honest and intelligent people. But the results for their investors were dismal -- really dismal," he wrote. "And, alas, the huge fixed fees charged by all of the funds and funds-of-funds involved -- fees that were totally unwarranted by performance -- were such that their managers were showered with compensation over the nine years that have passed."

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The New York Times

Business/Financial Desk; SECTB
Indexes Close a Bumpy Day With High Notes

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

A late push helped stocks on Wall Street finish higher Friday after indexes spent most of the day lower. There was far more selling than buying on Wall Street overall, but the **Dow Jonesindustrial average** managed to extend its winning streak to an 11th day.

Energy companies and banks struggled. Investors continued to buy safer assets like government bonds, gold and stocks that pay large dividends, such as utility and telephone companies. That's been a pattern over the last few days.

The Dow fell as much as 76 points during the day but recovered to gain 11.44 points, or just under 0.1 percent, to 20,821.76. The **Standard & Poor's 500-stockindex** rose 3.53 points, or 0.2 percent, to 2,367.34. Both indexes are at record highs. The **Nasdaq composite** rose 9.80 points, or 0.2 percent, to 5,845.31.

Bond prices sank again. The yield on the **10-year Treasury** note slid to 2.32 percent from 2.37 percent. Investment banks and insurers traded lower as well.

Investors bought utility stocks and phone company stocks, which pay large dividends similar to bonds. Exelon gained $1.20, or 3.3 percent, to $37.18 and NextEra Energy rose $2.77, or 2.2 percent, to $130.96. AT&T picked up 41 cents, or 1 percent, to $42.36.

Gold and silver continued to rise. Gold picked up $6.70, or 0.6 percent, to $1,256.80 an ounce. Gold is trading at its highest price since just after the presidential election, though it is down sharply from last summer. Silver added 22 cents, or 1.2 percent, to $18.34 an ounce, and copper picked up 4 cents, or 1.4 percent, to $2.70 a pound after a steep loss the previous day.

Benchmark crude oil fell 46 cents to $53.99 a barrel in New York. Brent crude, the standard for pricing international oils, fell 59 cents, or 1 percent, to $55.99 a barrel in London.

Nordstrom jumped after it disclosed a better-than-expected quarterly profit with help from strong sales online and at Nordstrom Rack. Its shares gained $2.52, or 5.7 percent, to $46.46. Kohl's also rose $2.08, or 5.1 percent, to $42.99. That helped consumer-focused companies climb higher.

Hewlett Packard Enterprise, which sells data-center hardware and other commercial tech gear to big organizations, slumped after it cut its profit estimate for the year. Its business was hurt by the strong dollar, expenses, and other problems that it called ''near-term.'' HP Enterprise's quarterly sales dropped 10 percent. Its stock fell $1.70, or 6.9 percent, to $22.96.

For-profit prison operator Geo Group rose $1.55, or 3.3 percent, to $48.92 and CoreCivic added $1.03, or 3 percent, to $35.03. The companies operate detention centers used by Immigration and Customs enforcement as well as prisons, and much of their revenue derives from contracts with the federal government. On Thursday, Attorney General Jeff Sessions directed the federal Bureau of Prisons to continue doing business with private prison operators, reversing an Obama administration policy that sent the stocks tumbling when it was announced in August.

CoreCivic has climbed 147 percent since the election and Geo Group has doubled in value.

The dollar slid to 112.07 yen from 112.72 yen. The euro fell to $1.056 from $1.058.

The DAX in Germany fell 1.2 percent and the CAC 40 in France slumped 0.9 percent. In Britain the FTSE 100 shed 0.4 percent. The Nikkei 225 in Japan lost 0.5 percent and in South Korea, the Kospi fell 0.6 percent.

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

Document NYTF000020170225ed2p0004r

The New York Times

BREAKINGVIEWS
Business/Financial Desk; SECT
He Who Lives by the Stock Market Rally ...

By GINA CHON
435 words
24 February 2017
The New York Times
NYTF
The New York Times on the Web
English

Steven Mnuchin's **stock-market** brag could turn out to be a double-edged sword. The new Treasury secretary says the postelection rally in the equities market reflects faith in President Trump and his promises for tax changes and fiscal stimulus. Both plans need approval from Congress, and may be accompanied by higher inflation. Anti-immigrant and trade policies could also mute market gains.

Secretary Mnuchin told CNBC on Thursday that he hoped to have a tax-overhaul bill passed by Congress by August. That is an ambitious timetable, even with Republicans controlling Congress and the White House. There are major differences between the House of Representatives and the Senate, which will most likely come up with a separate proposal. One senator said current House tax proposals would be lucky to draw 10 votes out of 100. The administration will use its own rosy growth forecasts rather than the Congressional Budget Office estimates on which lawmakers rely.

Congress already has a full agenda. Its first priority is repealing and replacing Obamacare, but lawmakers have yet to present a plan as disagreements continue. The Senate is also considering Supreme Court nominee Neil Gorsuch, who needs 60 votes to beat a filibuster. Republicans are eight votes shy of that number. Lawmakers are already considering pushing President Trump's plan to spend $1 trillion on infrastructure to next year, and Secretary Mnuchin did not highlight it on Thursday.

Yet investors betting on a fiscal stimulus and tax overhaul have pushed the **S**.**&P**. **500**-**stock index** up by more than 10 percent since the November election. Secretary Mnuchin said the performance reflected confidence in President Trump's policies. ''This is a mark-to-market business, and you see what the market thinks,'' he said.

Carrying out President Trump's campaign pledges could spur inflation, which is already creeping up. Consumer spending has been healthy, and the Federal Reserve Bank of Cleveland reported last week that inflation expectations hit 1.92 percent. That is still shy of the central bank's 2 percent target but higher than the 1.6 percent reported at the end of December. Rising inflation could put the Fed on a quicker path for raising interest rates.

While action on taxes and infrastructure remains iffy, President Trump's concrete moves to crack down on immigration and pull out of trade deals will hit the economy. When stock prices fall, as stock prices do, Secretary Mnuchin may find claiming credit for the market's rise was a risk not worth taking.

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

305 words
24 February 2017
The Wall Street Journal
J
A2
English

DELAWARE

State Sees Prison

Staff Resignations

In the wake of a deadly hostage standoff at a Delaware prison this month, about three dozen workers, including nurses and correctional officers, have resigned, increasing pressure on a penitentiary already struggling with staffing shortages.

A union representing Delaware prison workers has complained that top state officials haven't done enough to address chronic prison staffing shortages.

Since the incident that left one correctional officer dead at the James T. Vaughn Correctional Center in Smyrna, Del., 29 contract medical workers have resigned, said Jayme Gravell, a spokeswoman for the state Department of Correction.

In addition, eight correctional officers have resigned, and 10 officers -- six of whom were assigned to Vaughn -- have submitted their retirement paperwork, as has one teacher, Ms. Gravell said. She noted that the department loses 11 correctional officers a month on average. "These retirements cannot be directly attributed to the hostage event in Smyrna," she said.

A spokesman for the contractor, Connections Community Support Programs Inc., referred questions to state corrections officials.

The Delaware State Police are conducting a criminal investigation of the siege.

-- Scott Calvert

ECONOMY

Jobless Claims Signal

Labor Market Health

A measure of layoffs across the U.S. fell to the lowest level in more than four decades last week, an indication that the labor market continues to add jobs at a healthy clip.

The four-week moving average of initial jobless claims, a calculation that evens out week-to-week **volatility** in the numbers, fell by 4,000 to 241,000 in the week ended Feb. 18, the Labor Department said Thursday. That was the lowest level since July 1973.

Initial jobless claims, a proxy for layoffs, have remained below 300,000 for 103 consecutive weeks.

-- Jeffrey Sparshott

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THE WALL STREET JOURNAL.
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Heard on the Street
Skeptics of Trump Rally Hold Fire

By Justin Lahart
276 words
24 February 2017
The Wall Street Journal
J
B12
English

[Financial Analysis and Commentary]

Some big investors are worried about what President Donald Trump's actions might do to the **stock market**. That doesn't mean they will bet against the rally. At least not yet.

Mr. Trump's polarizing stances on trade, immigration and foreign policy plus reports of disarray at the White House have raised concerns among some big investors. Among those voicing worries are Elliott Management's Paul Singer, Baupost Group's Seth Klarman and Bridgewater Associates' Ray Dalio.

But the **stock market** is soaring on Mr. Trump's promises to stimulate the economy. Investors skeptical of Mr. Trump appear to be unwilling to fight the tide.

That leaves them with two options. The first is to reduce their bets, **bullish** or **bearish**.

To some extent, this appears to be happening: Among respondents to a weekly hedge-fund survey conducted by Evercore ISI, gross exposure -- the share of investors' portfolios long or short the market -- is near its lowest level of the past year.

The second is to ride the market to capture returns and be ready to sell at the first sign of trouble.

Some evidence for that: Short interest as a share of market capitalization has fallen to its lowest level in five years.

In either case, stocks face less selling pressure than they otherwise might, and so they keep on climbing. The rally may not end until big investors gain confidence that if they attack, they won't be attacking alone.

And then it could fall in a hurry.

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THE WALL STREET JOURNAL.
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Equities -- Streetwise: Wounds of the Financial Crisis Heal

By James Mackintosh
738 words
23 February 2017
The Wall Street Journal
J
B11
English

It is 10 years since the U.S. subprime crisis began, and everything is wonderful on Wall Street.

A decade after the world began to notice the losses on derivatives linked to the toxic waste of structured subprime mortgages, American stocks have produced such big returns that the biggest crash in generations barely registers.

The 10-year average compound return on U.S. shares was 4.9% a year after inflation at the start of 2016, only slightly below the average for world stocks since the end of the Gilded Age in 1900, according to calculations for Credit Suisse by Elroy Dimson, Paul Marsh and Mike Staunton of London Business School.

The same isn't true for the rest of the world. British stocks made only 3% after inflation, including dividends, in the past decade, while real Japanese returns were barely positive and French shares delivered less than 2%. German stocks weren't quite so bad thanks to its export powerhouses, and their 4.3% return adjusted for inflation is in line with the very long-term return from the world outside the U.S.

This global divergence is covered up by the highs of global stocks in the past week. On Wednesday in London, the MSCI All-Country World index set another high after breaking the 2015 record a week ago.

Look below the headline, and the high is all about the U.S., which makes up more than half of the market value of the global benchmark. Japanese, European and emerging-market stocks all remain below their postcrisis highs, let alone their precrisis highs, in both dollars and local currency.

Delve into the figures and American shares lose some of their shine -- although the rest of the world still looks worse. U.S. stocks only beat bonds by 0.3 percentage point a year over the past decade, with dividends and coupons reinvested, far below the long-run global average of 3.2 points a year. That is a paltry reward for the extreme **volatility** of holding on to risky shares through a crash that wiped out more than half of the **S&P 500**'s value.

British, French, German and Japanese shares were all even worse, with their country's bonds beating local stocks over a decade. Returns on British long-dated bonds are ahead of the FTSE 100 since the Big Bang deregulation of the London **stock market** in October 1986, while Japanese 10-year bonds -- big winners from deflation -- beat Japanese shares since at least 1983.

The return on U.S. shares looks better by comparison but was still worse than the long-run U.S. average of 6.4% a year. Mr. Marsh points out that the U.S. long-term performance is helped by being one of the "lucky countries" not to have been occupied by a foreign power. Other countries beating the world average since 1900 include the U.K. and Sweden, as well as resource-rich Canada, New Zealand, Australia and South Africa.

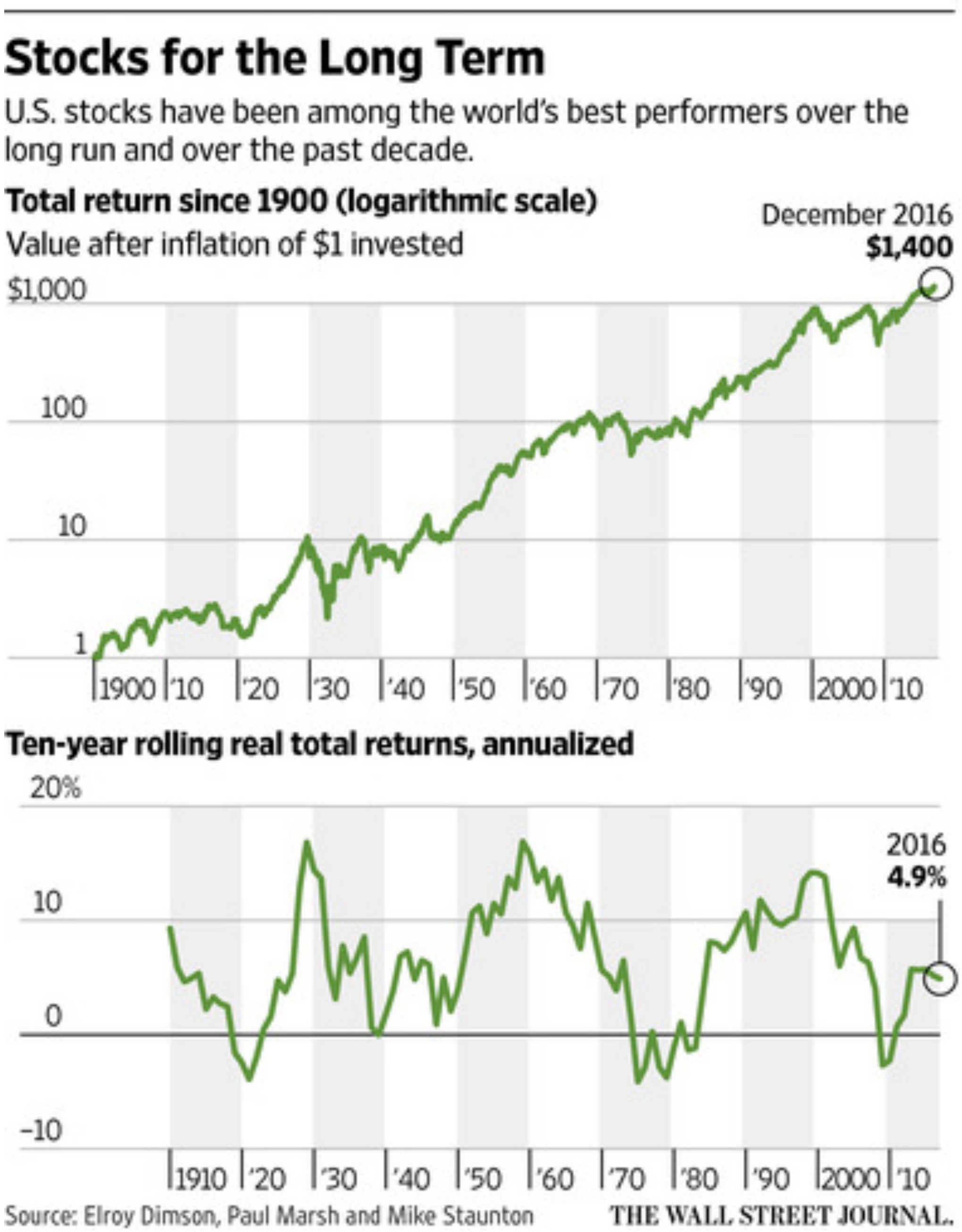
Mr. Marsh argues that future returns are likely to be lower than in the past. He expects long-term returns, again including dividends and adjusted for inflation, to be below 4% in all the major markets, based on a premium above cash of 3% to 3.5% for holding equities. Because cash, measured by short-term government bills, yields so little, the base is low.

"If you look just at the U.S. [history], you're exaggerating the returns investors could earn world-wide and you're almost certainly exaggerating the return Americans can look forward to as well," he said.

This seems overly harsh; world stocks produced a higher premium over cash from 1900 to now even taking into account two world wars and the 1917 and 1949 confiscation of Russian and Chinese shares, which once constituted a decent chunk of the global market.

It is true that the global order is looking shaky and trade is under attack, while demographics are less supportive of the economy than before. It is also true that U.S. stocks in particular stand at high valuations today, making future gains harder.

But the real stock-market lesson of the past century is that the key to solid performance is to avoid dictatorship or a catastrophic war. Fingers crossed.



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The New York Times

Business/Financial Desk; SECTB
Shares Slip After a Record-Setting Run

By THE ASSOCIATED PRESS
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23 February 2017
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Late Edition - Final
2
English

Stocks on Wall Street slipped on Wednesday after their recent record-setting run. Energy companies stumbled, but makers of basic materials rose as investors expressed hope that two large deals would win regulatory approval.

While energy stocks fell with the price of oil, most other sectors did not make big moves. Technology companies made a small gain. They have risen every day this month to reach their highest level since 2000. DuPont and Dow Chemical also rose after Reuters reported that European officials might soon approve their merger.

The **Dow Jonesindustrial average** registered its ninth straight gain, rising 32.60 points, or 0.2 percent, to 20,775.60. The **Standard & Poor**'**s500 index** lost 2.56 points, or 0.1 percent, to 2,362.82. The **Nasdaq composite** index shed 5.32 points, or 0.1 percent,

to 5,860.63. The Russell 2000 index of small-company stocks slid 6.49 points, or 0.5 percent, to 1,403.86. More stocks fell than rose on the New York Stock Exchange.

DuPont climbed $2.66, or 3.5 percent, to $79.80, and Dow Chemical gained $2.45, or 4 percent, to $63.67. Reuters reported that regulators in the European Union were close to approving the companies' $62 billion combination. The deal remains subject to the approval of antitrust officials in the United States and elsewhere.

Investors appeared to grow more optimistic about a second deal in the chemical industry that is also awaiting regulatory approval: the combination of Monsanto and Bayer. Monsanto, which has accepted a $57 billion offer from Bayer, rose 84 cents to $111.38.

The minutes from a recent meeting the Federal Reserve Board showed that officials had discussed the importance of raising the primary interest rate soon, especially if the economy stays strong. Some Fed officials expressed concern that if interest rates remained too low, the expanding economy could cause inflation to rise too quickly.

Although investors do not generally expect the Fed to raise interest rates at its next meeting in March, **bond prices** changed course, rising. The yield on the **10**-**year Treasury** note fell to 2.42 percent from 2.43 percent late Tuesday.

Energy companies traded lower as benchmark United States crude lost 74 cents, or 1.4 percent, to $53.59 a barrel in New York. Brent crude, the standard for pricing international oils, fell 54 cents to $56.12 a barrel, in London.

The oil and gas company Concho Resources slid $9.65, or 6.8 percent, to $131.70 after a weak fourth-quarter report, and Newfield Exploration declined $3.42, or 8 percent, to $39.07 as analysts expressed concerns about its forecasts for the current year.

Technology companies wavered but finished with a small gain thanks to Facebook, which jumped $2.40, or 1.8 percent, to $136.12. The **S**.**&P**. **500**'s technology index, which has gained ground every trading day in February and is up 10 percent this year, reached its highest level since July 2000, four months after the dot-com boom peaked.

The dollar slipped to 113.06 yen from 113.61 yen. The euro rose to $1.0564 from $1.0543.

Gold slipped $5.50 to $1,232 an ounce. Silver lost 5 cents to $18.02 an ounce. Copper fell 1 cent to $2.73 a pound.

Britain's FTSE 100 gained 0.4 percent, and Germany's DAX added 0.3 percent. In France, the CAC 40 picked up 0.2 percent. The Japanese Nikkei 225 finished essentially unchanged, while South Korea's Kospi added 0.2 percent. The Hang Seng Index in Hong Kong jumped 1 percent.

CHARTS: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Wednesday. (Source: Reuters); 5-Year Treasury Notes: High yields at auction. (Source: Treasury Department)

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The New York Times

Business/Financial Desk; SECTB
Some Fed Officials Support Raising Major Rate 'Fairly Soon,' Minutes Say

By BINYAMIN APPELBAUM
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WASHINGTON -- The American economy appears to be avoiding the kind of winter swoon that has become an annual event in recent years, a turn for the better that could encourage the Federal Reserve to start raising its benchmark interest rate sooner.

At the Fed's most recent meeting, on Jan. 31 and Feb. 1, ''many participants'' wanted to increase the benchmark rate ''fairly soon'' if the economy continued to grow, according to minutes published Wednesday.

But the minutes stopped short of suggesting a rate increase was likely at the Fed's next meeting, in mid-March. They said that a core group of Fed officials remained cautious about the economic outlook, seeing balanced risks of faster and slower economic growth.

''The committee has been quite patient, and I believe that has served us well,'' Jerome H. Powell, a Fed governor, said in separate remarks on Wednesday. But now, the risks seem more in balance, he said, and ''I see it as appropriate to gradually tighten policy as long as the economy continues to behave roughly as expected.''

The minutes of the Fed meeting, published after a standard three-week delay, portrayed an economy that appears to be gaining strength, although it is still far from booming. The unemployment rate was little changed in the last year, standing at 4.8 percent in January, even as the economy added an average of 190,000 jobs a month in the second half of 2016, indicating that more people were returning to work.

The minutes also cited ''a high level of optimism'' among business executives, which was attributed to ''the expectation that firms would benefit from possible changes in federal spending, tax and regulatory policy.'' For the most part, however, companies were still waiting for Washington. Although a few companies had reported increased capital spending, the minutes said that most, ''while optimistic, intended to wait for more clarity about federal policy initiatives before adjusting their capital spending and hiring.''

Financial markets also remained calm. Things were so quiet that some Fed officials had turned to fretting about the lack of excitement. By some measures, financial conditions are easier now than before the Fed raised its benchmark rate in December.

Some officials worried, the minutes said, that ''the low level of implied **volatility** in equity markets appeared inconsistent with the considerable uncertainty attending the outlook.''

The Fed left rates unchanged in February after raising its benchmark rate in December to a range of 0.5 percent to 0.75 percent and predicting three rate hikes in 2017. Fed officials at the meeting discussed whether improving conditions warranted faster movement, but ''participants generally characterized their economic forecasts and their judgments about monetary policy as little changed since the December meeting,'' the minutes said.

In recent weeks, investors have assessed the Fed as more likely to raise rates in the first half of the year, although the chances that it will do so at its next meeting, in March, remain low.

''It's not obvious that 'fairly soon' means March,'' said Samuel D. Coffin, an economist at UBS. He said that the Fed was ''growing gradually more confident in its economic expectations'' but that there was little sign of urgency in the account of the meeting.

The minutes portrayed some of the 12 presidents of regional reserve banks as increasingly ready to move faster on rates. But the minutes also indicated that the voting members -- five governors and five of the presidents -- felt less urgency. That core group appeared to remain committed to ''gradual adjustments in the stance of monetary policy.''

Patrick T. Harker, president of the Federal Reserve Bank of Philadelphia and one of the voters this year, said in a speech Tuesday that his outlook had not changed.

''Given the state of the economy -- more or less back to normal -- I continue to see three modest rate hikes of 25 basis points each as appropriate for 2017, assuming things stay on track,'' Mr. Harker said. He added, however, that a March increase remained possible.

One major question is whether the labor force will continue to grow. Some officials see room for stronger economic growth to continue pulling people into the work force: The share of American adults between 25 and 54 who are working or seeking work remains low by historical standards. But other Fed officials contend that the Fed's stimulus campaign has reached its limit. They worry that maintaining low interest rates could drive unemployment down to an unsustainable level and lead to more inflation.

The minutes said the Trump administration's economic plans had injected ''considerable uncertainty'' into the business of forecasting economic growth. But Fed officials have emphasized that they will wait to see what happens before adjusting their plans.

The Fed also announced a few housekeeping changes, primarily of interest to its close watchers. Fed officials are now prohibited from speaking about monetary policy for 10 days before a policy-making meeting, rather than one week. The Fed also said it would expand the information provided with its quarterly economic forecasts to include an illustration of the uncertainty surrounding the projections.

Janet Yellen, who leads the Federal Reserve, addressed a Senate panel last week. Minutes of the Fed's latest meeting, on Jan. 31 and Feb. 1, were released Wednesday. (PHOTOGRAPH BY BRENDAN SMIALOWSKI/AGENCE FRANCE-PRESSE -- GETTY IMAGES)

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STREET SCENE
Business/Financial Desk; SECT
In Valeant Stake, Still Unresolved Questions for Activist Investor

By WILLIAM D. COHAN
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23 February 2017
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The New York Times on the Web
English

The so-called Trump Bump, the **stock market** rally that has unexpectedly ignited the **Dow Jonesindustrial average** to soar close to 21,000 since President Trump's election, has swept up in its powerful force lots of stocks, especially those of Wall Street firms like Goldman Sachs and JPMorgan Chase, which are at, or near, record highs.

Then there is Valeant Pharmaceuticals. It is trading near its record low, at around $16 per share, and at levels not seen in seven years. That has meant big financial trouble for one of its largest shareholders, Pershing Square Capital Management, the hedge fund company managed by the billionaire William A. Ackman, whose efforts to salvage Valeant -- and his reputation as a savvy investor -- are looking increasingly desperate. While Mr. Ackman hailed Mr. Trump's victory in a November interview with Andrew Ross Sorkin of The New York Times, he cannot be pleased that Valeant has been left behind in the latest round of market euphoria.

Valeant has had a very rough 18 months or so: several management changes at the top; scandals involving Philidor, its specialty pharmacy subsidiary (two executives were indicted in November); and the scrutiny of a congressional panel on its practice, not unique in the industry, of driving up the prices of lifesaving drugs.

What was once a market darling, favored by the best and brightest hedge fund managers, has fallen on some hard times. In August 2015, the stock reached over $260. Just a few months before hitting that milestone, Mr. Ackman's Pershing Square, worth roughly $11 billion, had poured some $3.2 billion into Valeant's stock, at an average price of around $190 per share. Pershing Square still owns around 18.1 million shares, a 5.3 percent stake, currently worth about $301 million. At its peak, Mr. Ackman's stake in Valeant was worth around $4 billion.

Valeant's collapse has put a serious dent in the publicly traded Pershing Square Holdings' 2016 performance, which was down 13.5 percent, net of fees. During the same 12 months, the Dow was up 13.4 percent, and the broader market index, Standard & Poor's 500, was up nearly 12 percent. In 2015, Pershing Square Holdings's returns plummeted 20.5 percent. Needless to say, this is not the kind of performance investors pay top dollar to receive. (Known for his flamboyant, and frequent, television appearances, as well as lengthy public presentations about his latest investments, Mr. Ackman seems to be taking a different approach so far this year. Without disclosing their names, he has made two large investments recently, equal to 13 percent of his capital, or around $1.4 billion. The first one, he informed investors, is already up 22 percent through Jan. 24.)

At first, Mr. Ackman's involvement with Valeant made him look like a genius. But it also raised serious -- and still unresolved -- questions that could come back to haunt him.

In February 2014, a Pershing Square colleague introduced Mr. Ackman to J. Michael Pearson, Valeant's chief executive at the time. They soon agreed to a partnership through which Pershing Square would back Valeant's hostile bid for Allergan, the maker of Botox. Armed with the knowledge that Valeant intended to make an unsolicited bid, Mr. Ackman spent $3.2 billion to buy a 9.7 percent stake in Allergan. He agreed to vote those shares for the Valeant deal.

In April of that year, Valeant announced its $45.6 billion stock-and-cash bid for Allergan. The Allergan stock surged. In two months, Mr. Ackman made a profit of $1 billion. But Allergan fought back and found a white knight in Actavis, a pharmaceutical company based in Dublin, which agreed to buy Allergan for $66 billion. Mr. Ackman still owned his Allergan shares, and his profit on them rose to around $2.6 billion after the acquisition. By prior arrangement, Pershing Square kept $2.2 billion of that profit and forked over $400 million to Valeant.

That trade has raised valid questions about what feels to me like insider trading. After all, Mr. Ackman knew about Valeant's intention to make a hostile bid for Allergan and traded on it, netting a huge profit. Not so fast, Mr. Ackman has repeatedly argued in interviews. In 2014, he told me that Robert S. Khuzami, the former director of enforcement at the Securities and Exchange Commission, had advised him his trade had not violated insider-trading laws and that he had done nothing wrong. He has steadfastly maintained that view. But Allergan sued Valeant, Mr. Ackman and Pershing Square in a California court, which is looking into whether he engaged in insider trading by teaming up with Valeant to go after Allergan. (Actavis dropped the lawsuit after taking over Allergan but other plaintiffs carried it on.)

Mr. Ackman may be less confident of the outcome of that litigation these days, or he could just be preparing for its eventual settlement. On Feb. 10, he and Pershing Square entered into a litigation management agreement with Valeant, whereby Valeant agreed to cover 60 percent of any settlement regarding the California litigation; Pershing and Mr. Ackman agreed to cover the remaining 40 percent of any settlement. Mr. Ackman also agreed to give up any claims he had against Valeant as a suffering shareholder. Why reach this agreement if he were so confident he would prevail in the litigation?

Had he not reached an agreement with Valeant, , Mr. Ackman could have sold his stake and joined a class-action shareholder lawsuit. That, of course, would have been bad news for both Mr. Ackman, who would have perfected his loss in Valeant, and for Valeant, which would have to watch nearly helplessly as its largest shareholder sold millions of shares into the market, the consequence of which would most likely have been to drive Valeant's **stock price** down even further. Both sides had the incentive to avoid that outcome.

For now, as a result of the agreement with Valeant, both Mr. Ackman and Stephen Fraidin, Pershing Square's vice chairman, still hold seats on Valeant's board of directors, presumably where they can continue to try to salvage the hedge fund's worst-performing investment. It won't be easy.

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DAKOTA ACCESS PIPELINE

Protesters Arrested

As Evacuation Begins

Ten protesters opposed to the Dakota Access Pipeline were arrested Wednesday as law-enforcement authorities began the evacuation of the main protest campsite in North Dakota.

The evacuation began largely without incident, as law-enforcement officials and protest organizers worked for a calm resolution to what has often been a **volatile** monthslong standoff.

But a small group of protesters refused to leave and were arrested, according to Gov. Doug Burgum. Some protesters set fire to teepees and other structures before they left the camp, according to social media posts from the site and the governor.

Law-enforcement officials didn't enter the campsite Wednesday, Mr. Burgum said Wednesday evening, but he added that officials would move in Thursday at 9 a.m. to continue with cleanup efforts.

Thousands of protesters have gathered near Cannon Ball, N.D., since August to protest the $3.8 billion pipeline, which the tribe says threatens sacred sites and drinking-water supplies.

-- Will Connors

SUPREME COURT

Black Inmate's Death

Sentence Rejected

The Supreme Court threw out an African-American inmate's death sentence, finding Texas state-court proceedings were flawed by a psychologist's testimony that blacks were more prone to violence than members of other races.

"Our law punishes people for what they do, not who they are," Chief Justice John Roberts wrote for the court. By a 6-2 vote, the justices found it likely that Duane Buck, convicted of a 1995 double murder, was sentenced to death rather than life imprisonment because of statistical evidence from psychologist Walter Quijano that blacks and Hispanics committed a disproportionate number of violent crimes.

Chief Justice Roberts was joined by Justices Anthony Kennedy, Ruth Bader Ginsburg, Stephen Breyer, Sonia Sotomayor and Elena Kagan.

The court based its decision on the Sixth Amendment right to effective assistance of counsel, something Mr. Buck was denied when his own attorney called Dr. Quijano to testify at the penalty phase of the trial.

The case returns to the Fifth U.S. Circuit Court of Appeals in New Orleans, which is expected to formally overturn the death sentence.

-- Jess Bravin

ECONOMY

Home Sales Rise

Despite Higher Prices

Home sales rose in January to the highest level since February 2007, a sign that last year's momentum extended into 2017 despite a limited supply of properties for sale and rising prices.

Purchases of previously owned homes, which account for the vast majority of U.S. sales, increased 3.3% from December to a seasonally adjusted annual rate of 5.69 million last month, the National Association of Realtors said.

Warm weather and slightly lower mortgage rates helped fuel better-than-expected demand.

Inventory rose 2.4% at the end of January from the end of December, when supply hit the lowest level since the Realtors association began tracking all types of supply in 1999.

-- Laura Kusisto and Eric Morath

IRS

Audits of Individuals

Fell Again in 2016

Tax audits of individuals declined for the fifth straight year in 2016 to the lowest level since 2003, showing the effects of budget cuts at the Internal Revenue Service.

The IRS, which has lost 30% of its enforcement staffing since the 2010 peak, audited 0.7% of tax returns in the fiscal year that ended Sept. 30, according to preliminary data. That means the IRS audited roughly one in every 143 individual tax returns, down from one in 90 in 2010.

Audits declined even for high-income households, which have been an enforcement priority for the IRS.

-- Richard Rubin

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Mnuchin Sees Tax Overhaul By August

By Rebecca Ballhaus and Nick Timiraos
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English

Treasury Secretary Steven Mnuchin laid out ambitious goals to secure a U.S. tax-code overhaul by August and to deliver economic growth at rates not seen in more than a decade.

Mr. Mnuchin, in his first interview since his confirmation last week as Treasury secretary, said slower economic growth since the financial crisis had primarily been an anomaly and a result of Obama administration policies that can be reversed. He said the Trump administration is aiming for a sustained 3% or higher annual growth rate, a projection not widely shared by other forecasters.

"We think it's critical that we get back to more normalized economic growth. More normalized economic growth is 3% or higher," Mr. Mnuchin said.

Sustained growth at rates above 3% could be difficult to achieve. The Federal Reserve projects a long-run annual growth rate of 1.8% and the Congressional Budget Office has a similar view.

The U.S. faces slower economic growth in part because the labor force is expanding less briskly than in the past as baby boomers retire. Slow worker productivity growth has also held back the economy. Output has grown about 2% on average annually over the past decade, and other wealthy economies facing similar demographic challenges have seen slower growth rates.

Still, a strong reversal of weak productivity growth or an upturn in labor-force growth could send output growth higher. The Trump administration is betting tax and regulatory reform could spark such changes.

Stronger growth would make it easier for the Trump administration to balance competing goals of cutting taxes and boosting spending on the military and infrastructure without sending deficits much higher. The new administration is working on a budget blueprint due out next month that will be a first step toward reconciling its objectives.

"We will have our own set of financial projections," he said.

Mr. Mnuchin said the administration was working with House and Senate Republicans to smooth over differences among them on tax policy, with the aim of passing major legislation before Congress leaves for its August recess. He added, "that's an ambitious timeline. It could slip to later in the year."

In his first week on the job, Mr. Mnuchin has spoken with around 10 foreign counterparts and other leaders, including International Monetary Fund Director Christine Lagarde. He also has met with Mel Watt, the director of the Federal Housing Finance Agency, the independent regulator of mortgage companies Fannie Mae and Freddie Mac, which are under the effective control of that agency and the U.S. Treasury as a result of their 2008 bailouts.

Mr. Mnuchin, whose confirmation process was the longest for a Treasury secretary of a new administration in U.S. history, brought a handful of advisers to the agency with him, but it will likely be months before other senior positions that require Senate confirmation are filled. The White House hasn't nominated anyone for other posts at the department that require Senate approval.

The secretary has been in close contact with National Economic Council director Gary Cohn, his former colleague at Goldman Sachs Group Inc., who emerged as a powerful economic policy maker while Mr. Mnuchin awaited confirmation.

One big question is whether the Trump administration will go along with House Republican plans to make a tax overhaul revenue neutral -- meaning lower tax rates won't add to the deficit. Mr. Mnuchin wouldn't discuss the administration's view on that and instead pointed to stronger economic growth as an engine that will reduce the urgency for major trade-offs in any tax bill.

The House GOP plan doesn't count solely on growth. It also features limited deductions and a border-adjustment provision that taxes imports and removes taxes from U.S. exports. The plan is projected to generate about $1 trillion over a decade.

The border adjustment provision has run into criticism from large retailers and other importers. U.S. senators have piled on, too, leaving the idea in trouble without a major presidential push that hasn't happened and might never come.

Mr. Mnuchin said the administration is "looking seriously" at the House plan that includes border adjustment and was well aware of concerns raised by specific industries. The Treasury Department had its own concerns, he added, "about what the impact may be on the dollar" from a border-adjusted tax. His comments underscored the challenge the new administration and congressional Republicans face reconciling competing objectives.

With the House plan in potential trouble, a Senate plan nonexistent and the Trump plan incomplete, the GOP's tax agenda is in search of a guidepost at a crucial moment. Mr. Mnuchin called for a combined plan that would address developing fractures in the party over tax policy.

As Treasury secretary, Mr. Mnuchin also takes on the role as the Trump administration's leading voice on U.S. currency policy, meaning his every word on the dollar will be closely followed in **financial markets**.

Mr. Trump has expressed frustration that other countries -- notably China -- have used weak currency policies to boost exports. The comments carried with them an implication that the new administration might favor a weaker currency to support the U.S. trade position.

But Mr. Mnuchin avoided taking confrontational positions on the dollar. He said the strong U.S. dollar is a reflection of confidence in the U.S. economy and its performance compared with the rest of the world and was a "good thing" in the long run.

The dollar has appreciated by 23% over the past three years and added to those gains since the November election.

"I think the strength of the dollar has a lot to do with kind of where our economy is relative to the rest of the world, and that the dollar continues to be the leading currency in the world, the leading reserve currency and a reflection of the confidence that people have in the U.S. economy," Mr. Mnuchin said.

The past several administrations have mostly signaled support for a strong dollar, even though at times an appreciation of the currency has hurt exports.

Mr. Mnuchin demurred when asked about China's currency and said he looked forward to "healthy bilateral relations" with the world's second- largest economy.

Richard Rubin contributed to this article.

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Fed Eyes Aggressive Rate Increases --- Minutes show officials might raise rates 'fairly soon,' signaling a possible March move

By David Harrison
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A1
English

Federal Reserve officials sent the strongest signals yet that they could raise short-term interest rates as early as next month, citing in minutes from their latest policy meeting an improving economy and the possibility of more spending and less taxing by the Trump administration.

While markets largely shrugged after the minutes were released Wednesday afternoon, the language indicated that the central bank could adopt a more aggressive course of increases this year than officials currently expect. Policy makers said they could raise rates "fairly soon" and suggested that proposed tax cuts and new spending could prompt them to lift rates further to keep a lid on inflation, according to minutes of the Jan. 31-Feb. 1 meeting.

Since that meeting, several Fed officials have sounded increasingly willing to lift rates perhaps as early as their gathering on March 14-15. Fed governor Jerome Powell said Wednesday a rate increase at that time was on the table, echoing a statement Tuesday from Philadelphia Fed President Patrick Harker.

Fed Chairwoman Janet Yellen suggested the bank might raise rates as soon as March when she told Congress last week that an increase might come "at our upcoming meetings."

Officials will see new inflation and employment data before that gathering. If the numbers show continued economic improvement, that could make officials more comfortable with moving next month. Ms. Yellen is scheduled to speak on March 3, an opportunity to send a clearer signal on rates.

For now, markets still see a March increase as unlikely. Investors pegged the probability of a move next month at around 22% Wednesday afternoon, up from about 18% on Tuesday, according to CME Group data.

But action in March "should not be dismissed out of hand," said Roberto Perli, a partner at Cornerstone Macro LLC, in a note to clients. "At this point it would take a convincing change of pace in the data to derail another rate hike," he said.

President Donald Trump's plans for tax cuts, new spending and deregulation have buoyed market hopes of faster economic growth and higher corporate profits. But Fed officials at the meeting underscored their uncertainty about the details and effects of the potential policy changes, according to the minutes.

If the White House's fiscal policies send inflation surging and unemployment falling too low, officials might have to raise rates more than expected to prevent the economy from overheating, central-bank officials noted. On the other hand, a strengthening dollar could push inflation down and lead officials to raise rates less than anticipated, the minutes said.

Fed policy makers in December raised their benchmark federal-funds rate to a range of between 0.5% and 0.75% and penciled in three quarter-percentage-point increases this year. At their recent meeting, they left rates unchanged and saw little reason to change their plans for the year ahead.

The statement released after their recent meeting gave no hint about whether a March increase might be coming. Behind closed doors, however, officials were laying the groundwork for raising short-term borrowing costs, the minutes showed.

After the bank increased rates just once in each of the past two years, a couple of officials were concerned that markets didn't believe policy makers' projections for a more aggressive path of increases this year.

The Fed's communications "might be misunderstood as a commitment to only one or two rate hikes per year," they warned.

A few policy makers also worried that investors betting on tax cuts "which might not materialize" had pushed up equity prices too much. The **Dow Jones Industrial Average** has closed at record highs in recent days.

The Fed's growing readiness to raise rates partly reflects a firming economy, particularly in the weeks since the February statement. The latest jobs report, released Feb. 3, showed employers added 227,000 jobs last month while the labor-force participation rate -- the share of adults holding or seeking jobs -- ticked up to 62.9%. A measure of annual inflation also moved up to 2.5% in January, the largest increase since March 2012. A separate inflation measure that is preferred by the Fed has also been moving up but remains at 1.6%, still below the 2% target.

The minutes also showed Fed officials expect to start talking "at upcoming meetings" about when and how to begin shrinking the central bank's large asset portfolio -- a process that would likely push long-term rates higher.

The Fed boosted its portfolio, or balance sheet, since the crisis through three rounds of asset purchases aimed at bolstering the economy by lowering long-term rates. The central bank maintains the portfolio's size -- now at $4.5 trillion -- by reinvesting the proceeds of maturing securities. When it comes time to shrink the balance sheet, the Fed plans to scale back its reinvestments, letting the maturing assets run off.

Some regional Fed officials have appeared eager to start discussing when and how to reduce the portfolio. But Ms. Yellen's recent remarks suggest she is in no hurry to start the process. She said last week she would prefer to wait until interest rates have risen further.

"Once we start running off the balance sheet, it creates some drag and we want to make sure that the economy's robust enough" and officials have enough room to cut short-term rates if needed to respond, she told the House Financial Services Committee on Feb. 15.

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Equities: IEX Offers Free Web Data Feed

By Alexander Osipovich
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Upstart stock exchange IEX Group Inc. has begun distributing a market-data feed free over the internet, throwing down a gauntlet to rivals such as the New York Stock Exchange and **Nasdaq** Inc. for which such data feeds are a big source of revenue.

IEX said Wednesday that it had launched a new web-based tool that broadcasts the best price at which traders in its marketplace are willing to buy or sell a stock or exchange-traded fund, along with the last price at which that stock or ETF was traded on IEX.

Until now, people who wanted such "top-of-book" data from IEX had to get it from a third party, which would typically charge for it, or set up a direct connection with IEX, which could involve hefty technology costs, even though IEX has a policy of giving away its market data.

The impact of IEX's announcement may be largely symbolic. Only about 2% of U.S. stock trading takes place on the startup exchange, and much of the time the prices displayed on other exchanges are better than those being quoted on IEX. Moreover, investors can already find such prices on websites such as Yahoo Finance.

In addition, the brokers and trading firms that use stock exchanges' market-data feeds are unlikely to use a relatively slow web-based interface to track activity on IEX.

The move by IEX comes as banks and electronic-trading firms have become critical of NYSE and **Nasdaq** for the mounting costs of the exchanges' market-data feeds and the computer linkups needed to connect to them.

Intercontinental Exchange Inc., the parent company of NYSE, and **Nasdaq** have said that their data and connectivity fees are reasonable and justified.

Last year, a judge at the Securities and Exchange Commission dismissed a legal challenge from a Wall Street industry group that had attacked the two exchange groups' pricing policies as monopolistic.

"Legacy stock exchanges obstruct transparency and create an uneven playing field by overcharging for market data on orders they did not create," IEX co-founder and Chief Executive Brad Katsuyama said.

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Growth Stocks Make a Comeback --- Value shares ruled the roost in 2016, but the tables have turned in the new year

By Chris Dieterich
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22 February 2017
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B16
English

Value stocks snapped out of a slump last year, rising in tandem with an improving U.S. economy. While growth stocks have reclaimed the lead so far this year, thanks largely to technology shares, it is too early to call value a runner-up.

The Russell 1000 Growth Index is up 7.5% in 2017, compared with 4.2% for its value-stock counterpart. The outperformance of growth stocks is typical of recent years, when investors have favored companies with higher earnings potential over companies that typically are considered to be undervalued by the market, or cheap relative to their fundamentals.

One reason that growth is on top this year is that investors have piled into some of the largest U.S. technology stocks, making tech the best-performing sector in the **S&P 500** so far this year. Netflix Inc. and Facebook Inc., both in the Russell 1000 Growth Index, are each up more than 15%.

It isn't all tech, however: Tesla Inc. has climbed 30% since the end of 2016.

That marks a reversal from last year, when value stocks outperformed as yields on government bonds began to climb, the U.S. economy improved and inflation showed signs of picking up. Large-capitalization U.S. value stocks, which generally rely more on the overall economy to power earnings growth, rose 14% last year, compared with 5.3% for growth stocks.

President Donald Trump's surprise election victory acted as an accelerant for value stocks, driving renewed interest particularly in the financial and industrial sectors -- those that are expected to benefit from fiscal policies under the Trump administration. United States Steel Corp. shares have risen more than 90% since the election.

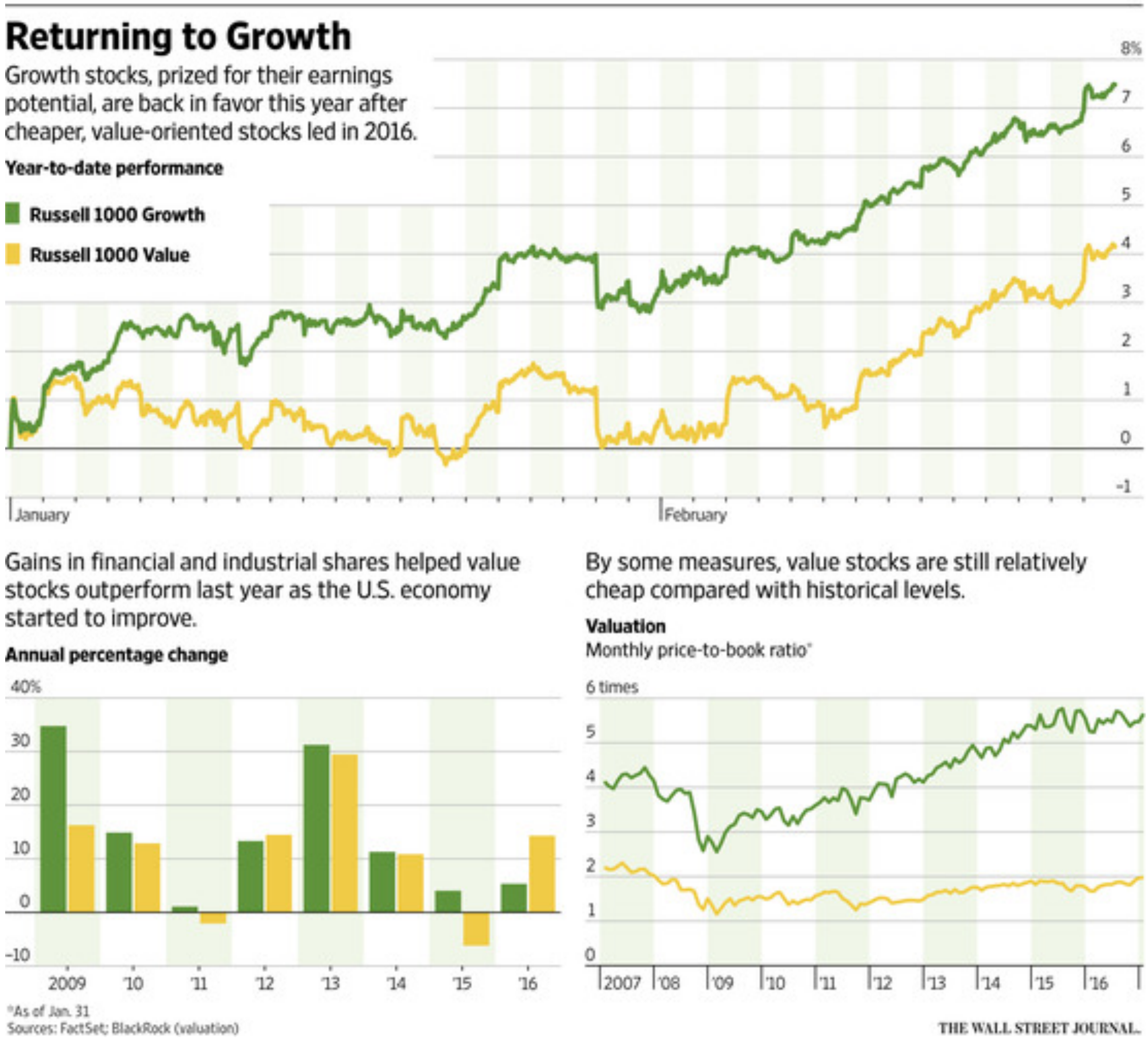
Value stocks were out of favor in the years leading up to 2016. With government-bond yields pinned near all-time lows and a stagnant U.S. economy, investors sought out growth stocks and bid up dividend-paying shares from industries including utilities and consumer staples.

The Russell 1000 Growth Index advanced, on average, 16% a year from 2009 through 2015, compared with an 11% annual gain for the Russell 1000 Value Index, according to The Wall Street Journal's Market Data Group.

An improving U.S. economy or the implementation of tax cuts and infrastructure spending could reignite the rally in value stocks. Plus, they are relatively cheap by historical standards.

The Russell 1000 Value Index's price-to-book ratio -- a valuation measure that compares share price with book value, or the firm's intrinsic worth -- was 1.92 at the end of last week, according to BlackRock Inc., slightly below its average since 1995. Growth, at 5.22, is above its long-term average of 4.83.

"Valuation spreads are still extreme even after there was a real scramble in the fourth quarter to get exposure to value," said Michael Barakos, a portfolio manager at J.P. Morgan Asset Management. "Valuations and earnings momentum coming from deep-value stocks suggest that, over the medium to long term, recent strength in value could be just the tip of the iceberg."



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THE WALL STREET JOURNAL.
U.S. EDITION

Equities: Global Investors Pass Over China Rally --- Fears over risk of dispute with U.S. on currency and trade keep many away

By Carolyn Cui
760 words
22 February 2017
The Wall Street Journal
J
B15
English

Many global investors are missing out on China's strongest **stock-market** rally in years, the latest sign that a potential clash with the U.S. over trade and currency policy looms over the world's most populous nation.

As of Tuesday's close, the MSCI China index is up 11.6% this year, making it the fourth-best performer among the 23 countries tracked by the MSCI Emerging Markets Index. That index is up 9.8% through Tuesday's close. China's early gains put the market on pace for its best year since 2012, when its **stock index** rose 19%.

Yet many foreign investors say they are waiting to add to Chinese investments, citing concerns about capital flight, mounting debt and slowing economic growth.

China's economy last year expanded at a 6.7% clip, its slowest in 26 years. President Donald Trump's threats to label China a currency manipulator and reshape U.S. trade relations with China have added political uncertainty.

China-focused stock funds have had outflows of $815 million in 2017 through Feb. 16, according to EPFR Global. That compares with $7.6 billion that flowed into emerging-markets funds that include China.

Should rising global tensions over trade and currency policies spill over into **financial markets**, Chinese investments could be hit hard, many investors say.

A confrontation with the U.S. isn't necessarily the most likely outcome, many analysts say. But the risk of a clash between two of the world's leading economies remains one of the most significant sources of uncertainty when the global order is being recast by political upsets such as the Brexit vote in the U.K. and Mr. Trump's election in the U.S.

"China is the most likely source of global economic shocks over the next two to three years," said Sharmin Mossavar-Rahmani, chief investment officer of Goldman Sachs Private Wealth Management Group.

Ms. Mossavar-Rahmani's primary concern about China is the country's rapid debt buildup. China's reading on its total social financing, a broad measure that includes bank loans and shadow lending, surged to a record $545 billion in January, more than double the previous month despite government efforts to rein in lending.

Heading into last year, Ms. Mossavar-Rahmani said she didn't expect China to have a hard landing in 2016 or 2017. Now her assessment is that China is unlikely to avoid a financial crisis over the next three years.

Western investors continued to pull back from China last year as outflows persisted. China equity funds had $9 billion in redemptions last year, while investors pulled $21.2 billion out of those funds in 2015. By contrast, broader emerging-market stock funds took in $20 billion in 2016, buoyed by an improving growth and earnings outlook in much of the developing world.

China also continues to suffer outflows, albeit at a slower pace since it tightened capital controls on corporations and individuals late last year. In January, China's foreign-exchange reserves dropped below $3 trillion as authorities sought to stem the currency's decline.

Many investors are unnerved by the Trump administration's aggressive stance toward China.

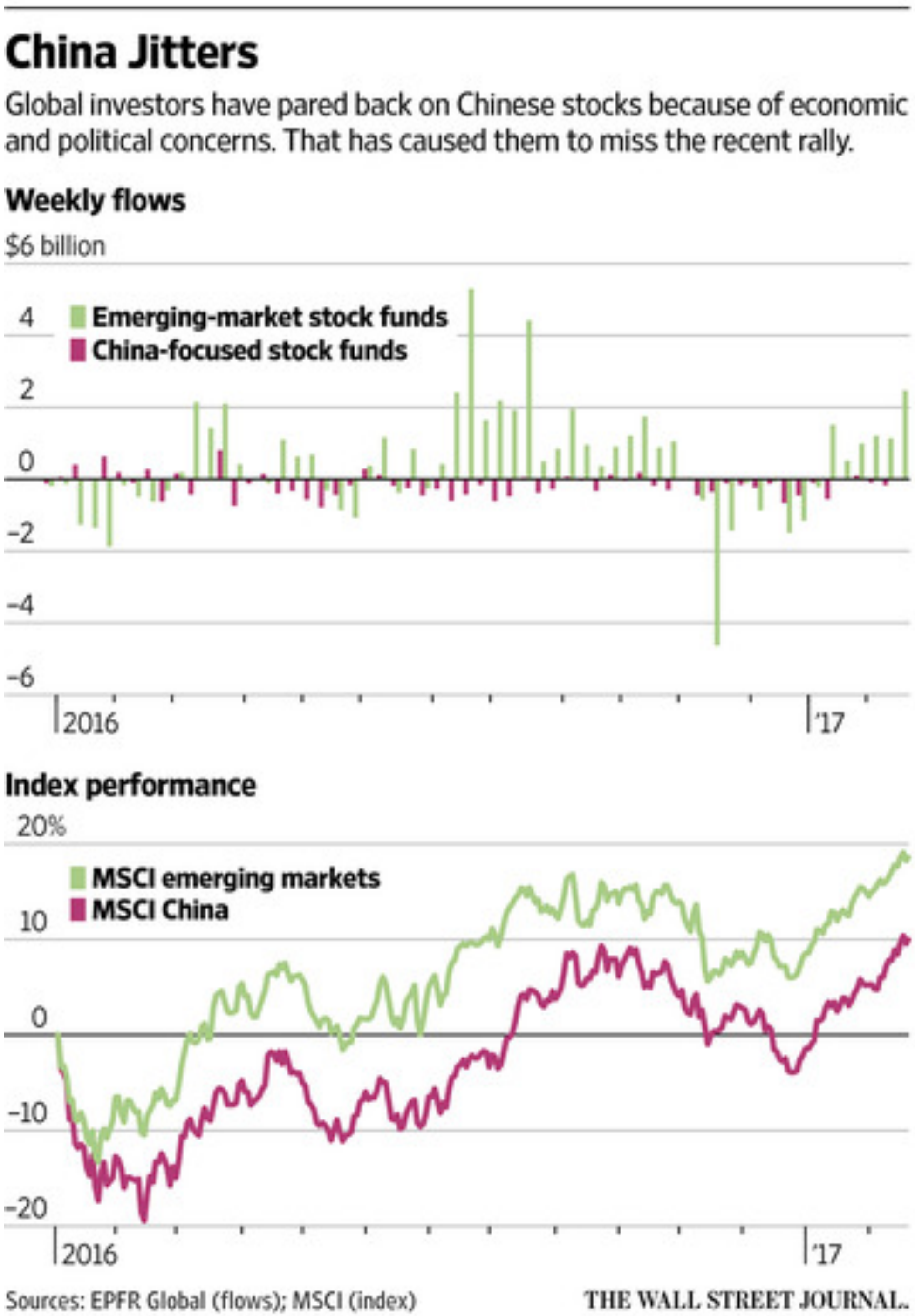
"It's a known unknown," said David Semple, portfolio manager at the $1.1 billion VanEck Emerging Markets Fund. "It's not just the actual impact of what occurs at the end of the day; it's the fact that there'll be headlines and tweets that will make people concerned."

As a result, foreigners are light on Chinese stocks. Just 18% of the 120 biggest global emerging-market funds held more Chinese stocks than the benchmark emerging-markets index at the end of January, according to Copley Fund Research.

Investors also worry that China's problems could reverberate broadly across the developing world. China is integral to the global supply chain, with many components made and assembled there before being shipped to other countries.

"Clearly, any sort of trade protectionist policies emanating from the new U.S. administration would have a negative impact on overall global trade," said Prakriti Sofat, an emerging-market portfolio manager at Goldman Sachs Asset Management, which has an underweight bias toward China.

Any further slowdown in Chinese growth would also hurt commodity-exporting economies such as Brazil, Russia and South Africa, said Paul McNamara, an investment director at GAM.



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The New York Times

Business/Financial Desk; SECTB

Stocks Continue to Soar as Unilever Deal Crumbles

By THE ASSOCIATED PRESS
715 words
22 February 2017
The New York Times
NYTF
Late Edition - Final
5
English

Stocks again broke records on Tuesday as investors came back from a long weekend hungry for deals. While Kraft Heinz and Unilever could not complete a proposed $143 billion merger, food and household goods makers rose as investors bet that other deals are coming.

Companies that make packaged foods, everyday household items and other consumer goods are usually seen as stable investments and rarely take center stage on Wall Street. But on Tuesday they did just that, as investors bet the failed Kraft Heinz-Unilever sale will be replaced by other deals. Oreo maker Mondelez and jam maker Smucker made the largest gains.

The **Dow Jonesindustrial average** climbed 118.95 points, or 0.6 percent, to 20,743. The **Standard & Poor's 500-stockindex** rose 14.22 points, or 0.6 percent, to 2,365.38. The **Nasdaq composite** gained 27.37 points, or 0.5 percent, to 5,865.95. All three indexes are at record highs after rising nine times in the last 10 days. The Russell 2000 index of smaller companies added 10.48 points, or 0.7 percent, to 1,410.34, also a record.

Kraft Heinz and Unilever both slumped after Kraft withdrew its offer to buy its rival. Unilever said the price was too low, and the companies said Kraft Heinz was giving up its effort. Unilever declined $3.70, or 7.6 percent, to $45.09. Kraft Heinz gave up $1.78, or 1.8 percent, to $94.87.

Mondelez, which was once part of Kraft, climbed 5.8 percent and J.M. Smucker rose 4.4 percent, while cereal makers General Mills and Kellogg gained 3 percent and 2.5 percent. Household goods makers Colgate-Palmolive, Kimberly-Clark and Clorox all jumped.

Walmart rose $2.08, or 3 percent, to $71.45 after the company said its online business surged in the fourth quarter and it reported more business in the United States during the holiday season. Walmart recently bought web-based retailers Jet.com and Moosejaw to strengthen its online sales, which have improved over the last two quarters.

Amazon continued to set record highs as it rose $11.37, or 1.3 percent, to $856.44.

Restaurant Brands International, the company that owns the Burger King and Tim Hortons brands, agreed to buy Popeyes Louisiana Kitchen for $1.8 billion. Restaurant Brands agreed to pay $79 a share for Popeyes, which climbed $12.61, or 19.1 percent, to $78.73. Restaurant Brands' stock jumped $3.70, or 6.9 percent, to $57.60.

Benchmark crude oil rose 66 cents, or 1.2 percent, to $54.06 per barrel in New York. Brent crude, used to price international oils, added 48 cents to $56.66 a barrel in London.

Scripps Networks, the parent of Food Network, Travel Channel and HGTV, climbed after it reported better ratings and stronger ad sales. Its stock gained $5.46, or 7.2 percent, to $81.50 while Discovery Communications, the parent of TLC and Animal Planet, picked up 94 cents, or 3.3 percent, to $29.62. News Corp, which owns the Fox cable channels, rose 25 cents, or 1.9 percent, to $13.33.

The dollar rose to 113.61 yen from 112.9 yen late Friday. The euro sank to $1.0547 from $1.0606.

The yield on the **10-year Treasury** note fell to 2.43 percent from 2.45 percent.

Gold dipped 10 cents to $1,237.50 an ounce. Silver lost 3 cents to $18 an ounce. Copper rose 4 cents to $2.75 a pound.

After a survey showed the economy of the 19-country eurozone is growing at its fastest pace in almost six years, the DAX in Germany advanced 1.2 percent while the French CAC 40 rose 0.5 percent. In Britain, the FTSE 100 retreated 0.3 percent. The Nikkei 225 in Tokyo rose 0.7 percent. The Hang Seng in Hong Kong retreated 0.8 percent.

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

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THE WALL STREET JOURNAL.
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World News -- China's World: Seoul's Predicament: Protection or Prosperity

By Andrew Browne
704 words
22 February 2017
The Wall Street Journal
J
A18
English

SEONGJU, South Korea -- It is no small irony that U.S.-China rivalry at the outset of the Trump era is playing out on -- of all places -- a golf course hidden in pine-covered mountains around here.

Or that just weeks into his term, Donald Trump has already handed a crucial advantage to Beijing.

South Korea picked the golf retreat to host a U.S. antimissile system known as Terminal High Altitude Area Defense, or Thaad, under an agreement with Washington to counter a nuclear threat from North Korea. However, China fears the system's radar will snoop on its own nuclear force, and is piling pressure on South Korea to abandon the shield.

Without announcing any formal sanctions or labeling their moves as reprisals, Chinese authorities have blocked shipments of South Korean cosmetics, squeezed tourist flows, turned away K-pop singers, and harassed the China operations of the golf course owner, Lotte group.

Though relatively mild, the measures remind South Korea of China's power to disrupt its export-led economy. Thus Seoul is caught between its all-important defense alliance with the U.S. and burgeoning trade relations with China.

"It's the South Korean nightmare," says John Delury, a Chinese Studies professor at Seoul's Yonsei University.

The implications for other U.S. partners in the region are just as alarming. All rely on the U.S. for security but increasingly depend on exports to China for growth. None wish to be forced into the choice that South Korea now faces: the U.S. or China, protection or prosperity.

South Korea ships one-quarter of its exports to China, Australia one-third. Taiwan's economy would stall without the mainland's vast markets for high-tech electronics. That makes the region highly susceptible to Chinese political pressure.

Moreover, China's economy, while slowing, is still expanding four times as fast as America's.

If China can bend South Korea to its will through economic coercion, it would send a chilling message to a region beset by new unpredictability.

North Korea is close to acquiring nuclear-tipped ballistic missiles able to strike its neighbors and reach as far as the U.S. West Coast.

Mr. Trump's arrival in the White House at this **volatile** moment intensified a debate in capitals around the Asia-Pacific about how to balance between the U.S. and China.

To worried Asian allies, his strident "America First" rhetoric suggested a retreat from Washington's global commitments, even as his hawkish aides seemed to be spoiling for a fight with Beijing.

Although Mr. Trump's friendly call with Chinese President Xi Jinping, followed by "golf diplomacy" with Japan's Prime Minister Shinzo Abe in Florida, soothed some nerves, doubts remain.

U.S. friends and allies are dismayed by his decision to pull the U.S. out of the Trans-Pacific Partnership, a giant free-trade deal, ceding even more economic influence in the region to China, which is now promoting its own trade arrangements.

In South Korea, meanwhile, public opposition to Thaad has exposed some of the fault lines in America's relations with a key ally.

A steeply winding road to the Lotte golf course is festooned with protest banners: "Go Away Thaad!" "Send Thaad to the U.S.!"

President Park Geun-hye, whose government agreed to the Thaad deal, is under impeachment and a likely successor, Moon Jae-in, wants to defer a decision on the deployment.

The wider question for the region is whether Mr. Trump's America will remain a reliable, steady partner. Nobody wants to return to an ancient "tribute system" that Beijing seems anxious to restore in its backyard, with South Korea and Vietnam acting as Chinese vassals and more distant neighbors taking their place in a Sinocentric order.

Nor does the region desire confrontation between the world's two largest economies.

Mr. Trump didn't create the dilemma that South Korea and other partners now face, torn as they are between two great powers, but he's made their choices starker.

Min Sun Lee contributed to this article.

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THE WALL STREET JOURNAL.
U.S. EDITION

Equities -- MoneyBeat: Nasdaq Parties Like 1999

By Chris Dieterich
188 words
21 February 2017
The Wall Street Journal
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English

The U.S. stock indexes continue to garner new superlatives as they march to new highs daily. None more so than the **Nasdaq Composite** Index.

The tech-heavy **Nasdaq** capped a 1.8% weekly advance Friday with its 18th record close of 2017. With only 34 trading days on the books this year, the **Nasdaq**'s number of record tallies is already the most of any year since 1999, when it notched 61 for the full year.

After the dot-com bubble burst in March 2000, the **Nasdaq** went roughly 15 years without closing at an all-time high.

But beginning in 2015, the belief that the biggest tech companies had built virtually unassailable franchises with massive revenue caused investors to pile into their shares.

Apple Inc. and the FANG quartet -- Facebook Inc., Amazon.com Inc., Netflix Inc. and Google parent Alphabet Inc. -- have driven this year's record run. Last week Apple hit a record and is up 17% this year. Facebook is up 15%, Netflix 16% and Amazon 13%.

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International New York Times

business
Texas Oil Fields Rebound From Price Lull, but Jobs Are Left Behind

By CLIFFORD KRAUSS
1,800 words
19 February 2017
International New York Times
INHT
English

Related Slideshows

MIDLAND, Tex. — In the land where oil jobs were once a guaranteed road to security for blue-collar workers, Eustasio Velazquez's career has been upended by technology.

For 10 years, he laid cables for service companies doing seismic testing in the search for the next big gusher. Then, powerful computer hardware and software replaced cables with wireless data collection, and he lost his job. He found new work connecting pipes on rigs, but lost that job, too, when plunging **oil prices** in 2015 forced the driller he worked for to replace rig hands with cheaper, more reliable automated tools.

"I don't see a future," Mr. Velazquez, 44, said on a recent afternoon as he stooped over his shopping cart at a local grocery store. "Pretty soon every rig will have one worker and a robot."

Oil and gas workers have traditionally had some of the highest-paying blue-collar jobs — just the type that President Trump has vowed to preserve and bring back. But the West Texas oil fields, where activity is gearing back up as prices rebound, illustrate how difficult it will be to meet that goal. As in other industries, automation is creating a new demand for high-tech workers — sometimes hundreds of miles away in a control center — but their numbers don't offset the ranks of field hands no longer required to sling chains and lift iron.

So while there is a general sense of relief in the oil patch that a recovery is gaining momentum, discussions at company meetings and family kitchen tables are rife with aching worries, especially among those who are middle-aged with no more than a high school education.

Roughly 163,000 oil jobs were lost nationally from the 2014 peak, or about 30 percent of the total, while **oil prices** plummeted, at one point by as much as 70 percent. The job losses just in Texas, the most productive oil-producing state, totaled 98,000.

Several thousand workers have come back to work in recent months as the price of oil has begun to rise again, but energy experts say that between a third and a half of the workers who lost their jobs are not returning. Many have migrated to construction or even jobs in renewable energy, like wind power.

"People have left the industry, and they are not coming back," said Michael Dynan, vice president for portfolio and strategic development at Schramm, a Pennsylvania manufacturer of drilling rigs. "If it's a repetitive task, it can be automated, and I don't need someone to do that. I can get a computer to do that."

Indeed, computers now direct drill bits that were once directed manually. The wireless technology taking hold across the oil patch allows a handful of geoscientists and engineers to monitor the drilling and completion of multiple wells at a time — onshore or miles out to sea — and supervise immediate fixes when something goes wrong, all without leaving their desks. It is a world where rigs walk on their own legs and sensors on wells alert headquarters to a leak or loss of pressure, reducing the need for a technician to check.

And despite all the lost workers, United States oil production is galloping upward, to nine million barrels a day from 8.6 million in September. Nationwide, with a bit more than one-third as many rigs operating as in 2014, production is not even down 10 percent from record levels.

Some of the best wells here in the Permian Basin that three years ago required an **oil price** of over $60 a barrel for an operator to break even now need about $35, well below the current price of about $53.

Much of the technology has been developed by the aviation and automotive industries, along with deepwater oil exploration, over more than a decade. But companies drilling on land were slow to adapt until **oil prices** crashed and companies needed to get efficient quickly or go out of business.

All the big companies, and many smaller ones, have organized teams of technicians that collect well and tank data to develop complex algorithms enabling them to duplicate the design for the most productive wells over and over, and to repair valves and other parts before they break down.

The result is improved production and safety, but also a far smaller work force, and one that is increasingly morphing from muscle to brain power.

Pioneer Natural Resources, one of the most productive West Texas producers, has slashed the number of days to drill and complete wells so drastically that it has been able to cut costs by 25 percent in wells completed since early 2015. The typical rig that drilled eight to 12 wells a year just a few years ago now drills up to 16. Last year, the company added nearly 240 wells to its Permian Basin inventory without adding new employees.

The faster operations, Pioneer executives say, are due in large part to more effective well planning and drill steering. Both have been made possible by the real-time computer connections between the rig and top geoscientists back at corporate headquarters and intense analysis of the data gathered at every well.

The laborious task of checking tank levels by climbing a flight of steps and popping open a series of latches, for instance, has been replaced by pressing a few icons on a computer touch screen. A fully automated water pump station installed last summer is intended to save hundreds of truck trips every day hauling water for hydraulically fracturing wells, yielding diesel and labor cost savings.

“We want to transform our work force to the point where we need to hire fewer people,” said Joey Hall, Pioneer’s executive vice president for Permian operations. Improved computing streamlines operations, he noted, and lets technicians optimally space their wells and more accurately perforate the sweet spots of shale veins to squeeze every drop of oil out of the ground.

“We’re heading toward artificial intelligence and machine learning, analyzing thousands of algorithms,” Mr. Hall added, sounding more like a Silicon Valley futurologist than a wildcatter. “Through repetitive operations, you learn the patterns, and through patterns you learn to make automated decisions.”

With the loss of manual jobs has come a transformation in the job force, with demand growing for more data analysts, math scientists, communications specialists and robotic design engineers. In the last two years, ABB, the Swiss technology company, has opened two plants in Houston for assembling and packaging robotics and integrating advanced instrumentation into oil field operations.

GE Oil and Gas opened a technology center in Oklahoma City in October to place scientists closer to the oil fields to research and apply new digital industrial technologies for exploration and production. Among its many projects is an experiment to use drones to inspect equipment and identify methane leaks on oil sites. Nabors, the oil services giant, has 100 employees developing software, 10 times the number it had only a few years ago.

“With the adoption of all this gee-whiz software and stuff, we’ve had to bring in a lot of new technicians,” said Dennis A. Smith, a Nabors vice president.

A typical new oil company employee is Andre Nel, a 25-year-old mechanical engineer who is a rising star at Pioneer Natural Resources. In less than two years, he has helped rewrite computer software to instruct workers on the best designs for hydraulic fracturing, optimizing the amounts of fluids, sand and chemicals pumped into the wells.

Now, connected by computers to technicians in the field, he is monitoring the production of 950 wells, instantly checking the maintenance history and production trends of every well with the click of a mouse.

“I’m lucky and happy that the tech revolution in the oil field has created the need for engineers like me with backgrounds in computer science,” he said.

But smaller companies and their workers are struggling to keep up.

S.O.C. Industries, a small local pump truck operator and chemical services provider, is forced to invest $100,000 a year to keep up with the computer programs and monitoring equipment its clients request. The added expenses are one reason the company has let go 15 of the 60 field workers employed three years ago. Another is that well operators that once hired five or six people on a drill site to mix chemicals and drilling fluids as well as clean up spills are now hiring only three as mechanization has sliced their drilling time in half.

Some of the remaining S.O.C. employees are straining to keep up with new computerized pump truck monitors and GPS systems.

“It’s a struggle,” said Rodrigo Urias, 59, an S.O.C. truck driver, who for many years only had to look at a needle on a gauge to monitor flow pressures. Now he needs to reset computer screens, take work orders on a computer tablet and sometimes do algebraic calculations.

“A lot of the guys can’t operate these new technologies, tablets and instruments, and they keep whining,” he added. “They want to know why we can’t do things like we used to.”

Manufacturing executives say they are trying to minimize the complexity for field workers, and sometimes design their equipment with the advice of video game makers.

That’s a good thing for Michael Manga, 34, an employee of Latshaw Drilling, an Oklahoma company active here. A college dropout, he knocked around from job to job before finding his way to the oil patch. Now, playing video games like Call of Duty and Mario Kart with his friends over the years has paid off, giving him the eye-hand coordination to monitor and operate the control panels and joy sticks that control the drilling rig.

“We do such a good job now,” he said, “we’re drilling ourselves out of a job.”

Follow Clifford Krauss on Twitter @ckrauss

PHOTOS: At work on a Latshaw Drilling rig in Midland, Tex. The state lost 98,000 jobs in the oil industry from the peak in 2014. (A1); Top left, Rodrigo Urias once monitored flow pres- sures with a gauge. Now he uses computer screens and tablets. Top right, a mural in Midland, Tex., depicted pump jacks. Middle, pumps and rigs dot Midland’s landscape. Above, at Pioneer Natural Resources in Midland, control room operators managed drilling sites. (PHOTOGRAPHS BY ILANA PANICH-LINSMAN FOR THE NEW YORK TIMES) (A13)

* Land Rush in Permian Basin, Where Oil Is Stacked Like a Layer Cake

* Big Oil Slowly Adapts to a Warming World

* Oil Glut? Here Comes Some More!

* Newer Tech, Fewer Jobs

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The New York Times

Business Day; Energy & Environment
Texas Oil Fields Rebound From Price Lull, but Jobs Are Left Behind

By CLIFFORD KRAUSS
1,887 words
19 February 2017
12:35 PM
NYTimes.com Feed
NYTFEED
English

MIDLAND, Tex. — In the land where oil jobs were once a guaranteed road to security for blue-collar workers, Eustasio Velazquez's career has been upended by technology.

For 10 years, he laid cables for service companies doing seismic testing in the search for the next big gusher. Then, powerful computer hardware and software replaced cables with wireless data collection, and he lost his job. He found new work connecting pipes on rigs, but lost that job, too, when plunging **oil prices** in 2015 forced the driller he worked for to replace rig hands with cheaper, more reliable automated tools.

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"We're heading toward artificial intelligence and machine learning, analyzing thousands of algorithms," Mr. Hall added, sounding more like a Silicon Valley futurologist than a wildcatter. "Through repetitive operations, you learn the patterns, and through patterns you learn to make automated decisions."

With the loss of manual jobs has come a transformation in the job force, with demand growing for more data analysts, math scientists, communications specialists and robotic design engineers. In the last two years, ABB, the Swiss technology company, has opened two plants in Houston for assembling and packaging robotics and integrating advanced instrumentation into oil field operations.

GE Oil and Gas opened a technology center in Oklahoma City in October to place scientists closer to the oil fields to research and apply new digital industrial technologies for exploration and production. Among its many projects is an experiment to use drones to inspect equipment and identify methane leaks on oil sites. Nabors, the oil services giant, has 100 employees developing software, 10 times the number it had only a few years ago.

"With the adoption of all this gee-whiz software and stuff, we've had to bring in a lot of new technicians," said Dennis A. Smith, a Nabors vice president.

A typical new oil company employee is Andre Nel, a 25-year-old mechanical engineer who is a rising star at Pioneer Natural Resources. In less than two years, he has helped rewrite computer software to instruct workers on the best designs for hydraulic fracturing, optimizing the amounts of fluids, sand and chemicals pumped into the wells.

Now, connected by computers to technicians in the field, he is monitoring the production of 950 wells, instantly checking the maintenance history and production trends of every well with the click of a mouse.

"I'm lucky and happy that the tech revolution in the oil field has created the need for engineers like me with backgrounds in computer science, he said.

But smaller companies and their workers are struggling to keep up.

S.O.C. Industries, a small local pump truck operator and chemical services provider, is forced to invest $100,000 a year to keep up with the computer programs and monitoring equipment its clients request. The added expenses are one reason the company has let go 15 of the 60 field workers employed three years ago. Another is that well operators that once hired five or six people on a drill site to mix chemicals and drilling fluids as well as clean up spills are now hiring only three as mechanization has sliced their drilling time in half.

Some of the remaining S.O.C. employees are straining to keep up with new computerized pump truck monitors and GPS systems.

“It’s a struggle,” said Rodrigo Urias, 59, an S.O.C. truck driver, who for many years only had to look at a needle on a gauge to monitor flow pressures. Now he needs to reset computer screens, take work orders on a computer tablet and sometimes do algebraic calculations.

“A lot of the guys can’t operate these new technologies, tablets and instruments, and they keep whining,” he added. “They want to know why we can’t do things like we used to.”

Manufacturing executives say they are trying to minimize the complexity for field workers, and sometimes design their equipment with the advice of video game makers.

That’s a good thing for Michael Manga, 34, an employee of Latshaw Drilling, an Oklahoma company active here. A college dropout, he knocked around from job to job before finding his way to the oil patch. Now, playing video games like Call of Duty and Mario Kart with his friends over the years has paid off, giving him the eye-hand coordination to monitor and operate the control panels and joy sticks that control the drilling rig.

“We do such a good job now,” he said, “we’re drilling ourselves out of a job.”

Follow Clifford Krauss on Twitter @ckrauss

* Land Rush in Permian Basin, Where Oil Is Stacked Like a Layer Cake

* Big Oil Slowly Adapts to a Warming World

* Oil Glut? Here Comes Some More!

The oil-producing landscape of Midland, Tex., is rife with pumps and rigs. | Ilana Panich-Linsman for The New York Times | A view of a Latshaw Drilling pumpjack in Midland. | Ilana Panich-Linsman for The New York Times | Eustasio Velazquez at his home in Andrews, Tex. He has lost oil jobs as the technology in the industry advances. | Ilana Panich-Linsman for The New York Times | Ryan Grant is a control room operator for Pioneer Natural Resources in Midland, helping manage all of the company’s drilling sites in 21st-century style. | Ilana Panich-Linsman for The New York Times | Rodrigo Urias has been working in the oil industry since the early 1980s. He drives a pump truck, and said he had struggled to keep up with changing technologies. | Ilana Panich-Linsman for The New York Times | Cristo Flores, left, a driller, and Michael Manga, a rig manager, addressing an issue in a drillers’ cabin in Midland. Their rig, two years old, requires a smaller crew than in the past. | Ilana Panich-Linsman for The New York Times

Document NYTFEED020170219ed2j002mh

The New York Times

ECONOMIC VIEW
Money and Business/Financial Desk; SECTBU
Too Many Regulations? Let's Not Be Hasty

By ROBERT J. SHILLER
1,215 words
19 February 2017
The New York Times
NYTF
Late Edition - Final
6
English

President Trump intends to pare back a vast array of government regulations in fields like environmental protection, food and drug safety, and consumer finance. On Jan. 30 he ordered that for every new regulation it imposes, the government must get rid of two old ones.

It is an interesting idea but a misguided one. Even if government regulations are sometimes a burden, they are clearly critical to the functioning of a modern economy and society.

Yet while Mr. Trump's approach is wrongheaded, there is logic to it. The concept has backing in some behavioral economics and business circles, and is certainly popular among many of his followers, who are quite hostile to what they see as massive over-regulation. The emotional part of the issue is important, reflecting a long-term societal schism between highly business-oriented people and those of other persuasions.

I can personally attest to the emotional side of the argument, since I see it reflected in my own extended family, where the Trump supporters tend to have strong business connections and seem to take regulation as a personal affront, as if it stands as a barrier to their self-actualization and personal fulfillment. They tend to disparage regulators, while I view these officials as unsung heroes. This division appears to be a core issue in our society, and if not dealt with properly, it could lead to the destruction of our immensely valuable regulatory framework.

Putting emotions aside for a moment, there is indeed a problem -- one recognized by both major political parties for decades -- involving the need for incentives to get the level and tone of regulation right. Mr. Trump's executive order builds on a deregulation movement that gained considerable momentum with Milton Friedman's book ''Capitalism and Freedom'' in 1962 and the beginnings of the Thatcher-Reagan revolution in the 1980s.

Mr. Friedman underscored problems of asymmetry in regulation: People who especially benefit from a particular regulation will be inclined to lobby or bribe government officials for it. On the other hand, members of the general public, who might suffer from such regulations, will not be attentive to the many rules that affect them, each in a small way. And once regulations are imposed, government officials may have little interest in deleting those that are mistakes. In short, government regulators may not always be properly incentivized to make sure the accumulated body of rules is actually benefiting the public, not just specific interest groups.

In reaction to a growing clamor for deregulation, Congress passed the Regulatory Flexibility Act, with bipartisan support, more than 30 years ago. Signed into law by President Jimmy Carter in 1980 and still ensconced in the United States Code, it calls on agencies to periodically review, and prune, existing regulations. Critics have charged that regulators have not been giving them thoughtful reviews, have suffered from ''willful blindness'' and have just allowed the regulations to pile up. There are a number of bills in Congress now that seek to correct the problem.

Mr. Trump's two-for one executive order might be considered an application of behavioral economics to deal with an intractable dilemma. Tying the culling of old regulations to the imposition of new ones can be seen as a strategy for forcing regulators to overcome their inability to see problems created by past regulations that remain in force. The order might motivate them to divert time and energy away from their presumed enthusiasm for creating new regulations, using it to clean up the errors their predecessors left behind.

But translating this attentional device into good regulatory policy will be difficult if not impossible, because the issues intrinsic to regulation are so subtle.

As I argued with George Akerlof in a 2015 book, ''Phishing for Phools: The Economics of Manipulation and Deception,'' regulators must steer around a minefield of complex deceptions and subterfuges set up by special interests, distortions that become accepted as an everyday reality, to the detriment of consumers. Assuming a reflexive pro-business bias -- assuming that businessmen can do no wrong and that regulations can be pared back mechanically -- is inconsistent with making difficult judgments about subtle deceptions.

The United States has historically wavered in its views of regulation and we are in danger of taking a wild swing once again. In the 19th century, for example, they were minimal. The first major federal regulator, the Interstate Commerce Commission, was created in 1887 to control fares charged by railroads. It was the beginning of the Progressive movement, which favored increasing regulations to protect the interests of the general public, sometimes irking the wealthy elite.

By the Roaring Twenties, during the presidency of Calvin Coolidge, Progressivism was in retreat and regulations were in disfavor. Mr. Coolidge generally opposed government intervention in the economy on libertarian grounds, and some of his policies have a certain resonance in the Trump era: After all, Coolidge cut taxes on high-income people; appointed a very wealthy man, Andrew Mellon, as Treasury secretary; and restricted immigration by region of origin.

In some respects, Coolidge was nothing like President Trump. Coolidge was a bland speaker, for example, who upheld decorum and traditional, even puritanical, values as the nation enjoyed a burst of personal and sexual liberation and extravagance. But he professed a faith in American business similar to that of the current president's, a tendency to think that not only could business do no wrong, but also that businessmen were the only people who matter.

Coolidge, for example, spoke reassuringly about the burgeoning brokers' loans that helped to fuel the **stock market** boom in the 1920s, and said that America's business outlook was tremendous, building public confidence -- until the crash came, and confidence collapsed.

There was a swing back to a much stronger regulatory regime in the 1930s, with far tighter controls over banks and securities firms, and we still benefit from many of those changes. After further zigzags, we are now facing what could be a dangerously anti-regulatory environment.

But we must remember that government needs to step in where private markets cannot function fairly on their own. Regulation is in the public interest in dozens of areas. Of course, we need to listen to aggrieved parties who feel that they are hurt by over-regulation and, when they have a good case, we should do something about it. But we shouldn't make the mistake of abandoning trust in the good works of regulators.

The real solution to the problems that are the focus of the two-for-one rule is to provide better rewards, making government regulation a more attractive and respected career. The world is far too complex to make it possible to count up regulations meaningfully and impose a two-for-one rule.

The Upshot provides news, analysis and graphics about politics, policy and everyday life. Follow us on Facebook and Twitter. Sign up for our newsletter.

Robert J. Shiller is Sterling Professor of Economics at Yale.

Calvin Coolidge, another president who was no fan of regulations, in the 1920s with his wife, Grace, and a neighbor's child on the porch of his home in Northampton, Mass. (PHOTOGRAPH BY BETTMANN)

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THE WALL STREET JOURNAL.
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Gas Glut Emerges as Drivers Tap Brakes --- Gasoline sales sank in January, leaving tanks brimming; 'it kind of ruins your whole year'

By Timothy Puko and Alison Sider
937 words
18 February 2017
The Wall Street Journal
J
B10
English

A gasoline glut brought on by drivers buying less at filling stations is emerging as one of the biggest threats to the yearlong **oil-price** rally.

U.S. gasoline consumption plummeted last month, nearly matching a 15-year low, government estimates show. It fell to as low as 8.2 million barrels a day, averaged over the four-week period ended Jan. 27.

January sales at the pump fell 4.4% from a year ago, according to data from the **Oil Price** Information Service. That has led to a record amount of surplus gasoline, the U.S. Energy Information Administration said Wednesday. Storage levels swelled last week to 259 million barrels, the highest in EIA records dating to 1990.

"It was a poor January by any stretch of the imagination for gasoline," said Tom Kloza, the **Oil Price** Information Service's global head of energy analysis.

This drop-off in demand would be unlike any other outside of a recession, according to Goldman Sachs Group Inc. It is leaving many analysts befuddled. Some question the data. Others attribute the decline to storms and poor weather. Drivers may be put off by pump prices 31% higher than a year ago, according to the EIA. Many analysts expect demand to rebound in coming weeks.

The country's cost of living did increase in January by the most in four years in big part from rising gasoline prices, the Labor Department said Wednesday. Its data showed pump prices up 7.8% from December to January.

Those prices may have to fall to boost consumption. Otherwise, oil markets may be faced with budget-conscious consumers leaving a glut lingering for months, maybe until the late spring or summer, when driving peaks.

"It kind of ruins your whole year potentially," said Sam Margolin, an analyst at Cowen. "Demand growth appears to be the riskiest element of the oil equation in 2017, and the rally could pause until driving season."

Money managers have been betting on rising **oil prices** at a record rate. They held 10 **bullish** bets for every one **bearish** bet as of Feb. 14, according to Commodity Futures Trading Commission data released Friday. That puts the market in a risky spot because traders may feel compelled to sell quickly on any sign that oil's oversupply isn't ending.

Crude futures edged up Friday. But for the week, light, sweet crude for March delivery dropped 46 cents, or 0.9%, to $53.40 a barrel on the New York Mercantile Exchange.

U.S. drivers account for 9% of total global oil demand, according to Cowen. They helped steady the market a year ago when they took advantage of lower prices to drive at record lengths. Motorists drove an additional 85 billion miles in the first 11 months of last year, compared with 2015, according to federal data.

But with gasoline consumption now down to levels rarely seen since the early 2000s, a glut has been building. There is enough gasoline in storage to cover 31 days of U.S. driver demand -- the most in 22 years, according to the EIA. A similar situation played out a year ago and left a glut lingering for months, weighing on crude prices.

Refiners had been running hard to take advantage of rising prices for gasoline futures, which rose 32% from mid-November to late December. That activity may be slowing.

Valero Energy Corp., the largest U.S. refiner, said last month that there is a glut of winter-grade gasoline that will have to be sold off before summer. "We're producing more diesel and gasoline than the market can absorb," said Gary Simmons, Valero's senior vice president of supply.

Refineries have already slowed their utilization rate to 85.4% from 93.6% in about a month for maintenance they typically do in the winter. The amount of gasoline in storage has continued to rise anyway, another possible indication of weak demand.

Some analysts question whether the fall in gasoline consumption is as bad as some data indicate.

The U.S. is near full employment, and consumer confidence was at a 15-year high going into January. These factors usually mean more people are driving to work and shops.

Economic activity was so strong that gasoline demand likely fell by somewhere between 30,000 and 150,000 barrels a day last month, compared with January 2016, according to Goldman Sachs estimates. EIA data, by contrast, put that drop-off at about 450,000 barrels a day.

The government's estimate "is perhaps a little too large to be fully credible and flies in the face of other indicators," said Paul Horsnell, head of commodity research at Standard Chartered PLC.

Robert Merriam, director of EIA's Office of Petroleum and Biofuels Statistics, said much of the data in question is an estimate based on figures from gasoline suppliers, which are a proxy for actual drivers and retailers.

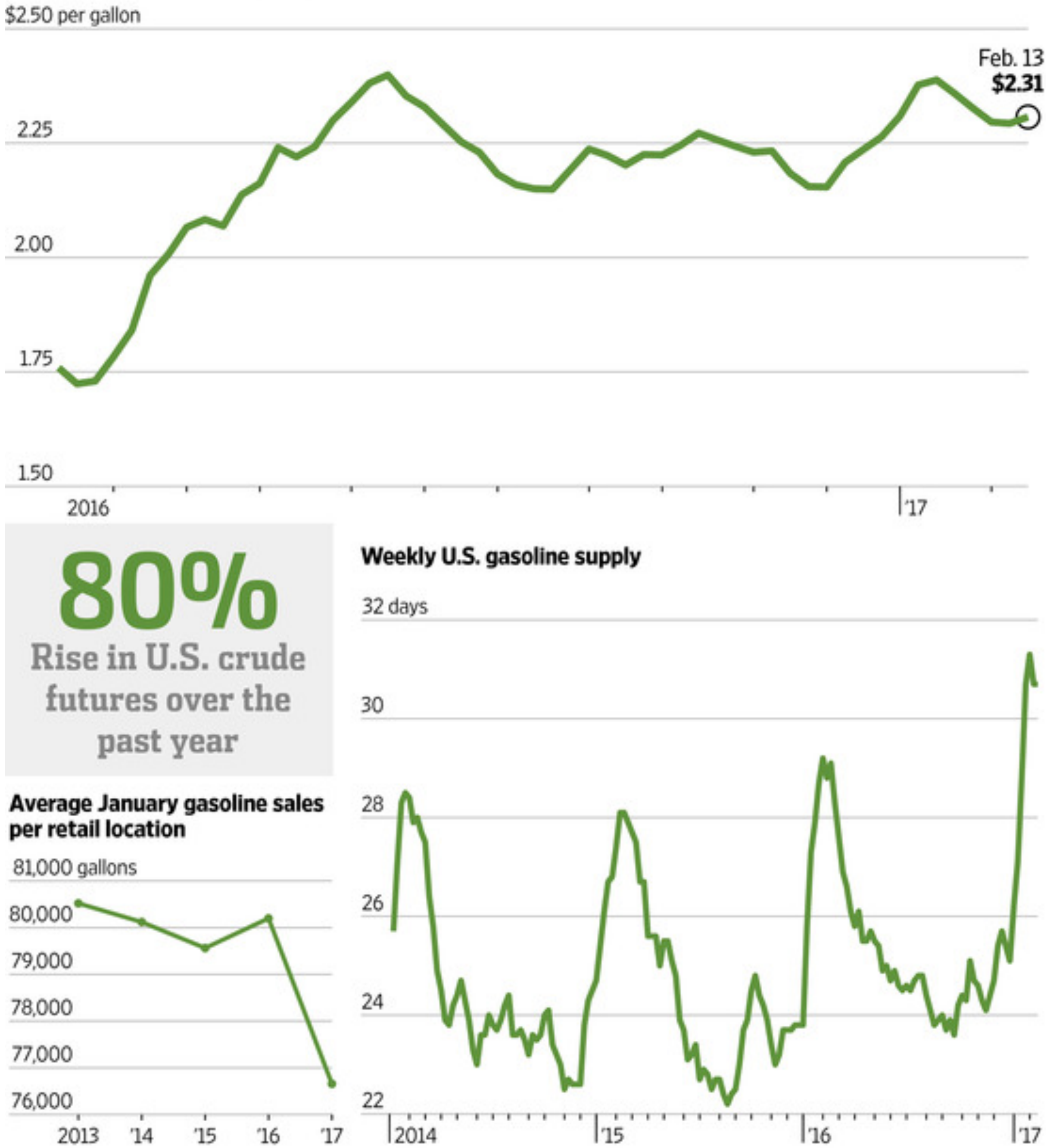
Even so, others anticipate long-term problems. BNP Paribas said it is hard to imagine where additional annual increases in demand could come from. Refiners could eventually cut the amount of oil they buy if consumers don't increase consumption by a million barrels of gasoline a day, said Donald Morton, who runs an energy trading desk at HJ Sims.

"If we don't see gasoline demand pick up to those levels, we're going to have issues," he said.

Plentiful

Gasoline prices are up 31% from a year ago, which may have kept drivers off the road in January and led to a record surplus.

Weekly retail price for regular gasoline



Sources: Oil Price Information Service (sales); U.S. Energy Information Administration (price, supply)

THE WALL STREET JOURNAL.

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The New York Times

Op-Ed Columnist
Opinion; Sunday Review
Beltway Panic, Wall Street Zen

By ROSS DOUTHAT
910 words
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THE most grounded fears about a Donald Trump presidency have always involved incompetence rather than malevolence, the perils of a catastrophically weak presidency rather than the prospect of a near-dictatorship.

So far many of these fears are being vindicated. Trump's policy rollouts have been botched, his appointments mismanaged, his White House is a feuding mess, his legislative agenda is lost in the fog. He's in wars with the press, the intelligence community, the bureaucracy and the courts, and he isn't obviously winning any of them.

But those of us who feared a flailing Trump administration didn't fear it for its own sake. We feared the second-order consequences — global instability, domestic unrest, constant economic jitters.

There are hints of the first in North Korea's missile test and various Russian maneuvers, signs of the second in the spasms of anti-Trump protest since Election Day.

But the third is nowhere to be seen. While political journalists and Washington hands freak out daily over the Trump presidency, the **stock market** keeps acting like everything is fine, or better than fine, or even (if you will) just great again.

A growing economy is compatible with creeping authoritarianism, of course, as Trump's most alarmist critics are fond of pointing out. But is it compatible with outrageous presidential incompetence, with a White House that can't hit a target with a Super Soaker from six inches away?

That's what we'll find out. In effect, the Trump era is pitting the wisdom of one elite crowd against the wisdom of another — the crowd of D.C. politicos against the herd of brokers and analysts and financiers just an Acela ride away. It's the crowd of experts that totally failed to predict the rise of Trump against the crowd of experts that managed to miss the biggest financial meltdown since the Great Depression.

The best case for the Wall Street perspective runs as follows: Most presidents have less power over the economy than one might assume from presidential campaigns and voter expectations. If this is true of administrations whose carefully calibrated economic programs have all the weight of wonkery behind them, why shouldn't it be true of administrations that find themselves unable to accomplish much of anything? If what matters is the fundamentals, and his White House is more likely to be balked and baffled than frenetically transformative, why not just bet those fundamentals and assume you'll win?

There is historical evidence for this proposition, in the sense that the link between political and economic crises is more uncertain than direct. The financial crisis struck at a low ebb in George W. Bush's effectiveness, but the Great Depression hit with a popular and (at that point) famously competent Herbert Hoover at the helm. The political turmoil of the late 1960s coincided with low unemployment rates and strong G.D.P. growth. Watergate was rough on the **stock market**, but the Clinton impeachment, not so much, and markets mostly weathered the gridlock and debt-ceiling brinksmanship of the Obama years. If Trump is impotent or if he's impeached, there is precedent for the markets simply shrugging, for the economy to keep chugging right along.

However: This argument assumes that Trump's level of incompetence stays within at least hailing distance of normal bounds, and/or that no crisis comes unlooked-for that the Trump White House fumbles into something much, much worse. Gridlock in Washington need not damage the economy, but a botched response to terrorism, a mismanagement of the next Ebola, or a buffoonish response to financial hiccups could be a different matter. So, too, with a Watergate-level constitutional crisis, a civilian-military conflict, and so on down a list of all-too-plausible Trump-era tests.

It is possible we will pass four years without such a test. (Eight is tougher, but let's not get ahead of ourselves.) And the investor class's bet, right now, is that if you combine the chances of avoiding a major test entirely, the chances of the Trump White House somehow finding its footing, and the chances that Trump semi-accidentally handles his biggest test O.K., you get a probability high enough to justify betting on continued prosperity and growth instead of freaking out about the daily White House meltdowns.

Except probably it's not really that rational and calculated; it's animal spirits and all that. But then again, irrationality cuts both ways: As the economist and columnist Tyler Cowen likes to point out, if political observers were really so confident in our alarm, we would all be dumping our portfolios (or at least buying put options, or trying to set up a big Trump short).

If you're a Trump-panicked reader with a nest egg and you haven't, ask yourself why not. Because as long as you don't, your mind may be with the panicked political class, but your money is with the Zen of Wall Street.

I invite you to follow me on Twitter (@DouthatNYT).

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President Donald Trump delivering remarks to officers and enlisted personnel during a visit to CENTCOM at McDill Air Force Base, February 6, 2017. | Stephen Crowley/The New York Times

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The New York Times

Business/Financial Desk; SECTB
S.&P.'s Upward Streak Continues

By THE ASSOCIATED PRESS
709 words
18 February 2017
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2
English

Stock indexes inched ahead to record highs Friday, barely, after a late-afternoon push erased losses from earlier in the day. It caps the fourth straight week of gains for the **Standard & Poor's 500-stockindex**, its longest such streak since July.

Reports through the week showed that the economy is improving and corporate profits are growing more quickly than analysts expected. The encouraging data, along with hopes for lower taxes and other business-friendly policies from Washington, pushed the **S.&P. 500** up by 1.5 percent last week, its best weekly performance since the first week of January.

The **S.&P. 500** rose 3.94 points Friday, or 0.2 percent, to 2,351.16. The **Dow Jonesindustrial average** edged up by 4.28 points, less than 0.1 percent, to 20,624.05 and also set a record. The **Nasdaq** rose 23.68, or 0.4 percent, to 5,838.58, its own record high.

Slightly more stocks fell than rose on the New York Stock Exchange.

The last two days have been lackluster for stocks, with the **S.&P. 500** dipping on Thursday, in comparison to the strong run they had been on. That slowdown was more a result of investors looking to cash in some profits than on any fear or need to get out of the market, said J.J. Kinahan, chief market strategist at TD Ameritrade.

''People don't want unnecessary risk heading into a three-day weekend,'' he said. ''This is more about taking off risk than about aggressive selling.''

United States markets will be closed Monday for Presidents' Day.

Kraft Heinz surged to the biggest gain in the **S.&P. 500** after it made an offer to buy European consumer goods giant Unilever. Unilever rejected the bid, which offered 18 percent more than where Unilever's shares closed on Thursday, and called it too low.

Kraft Heinz, which is behind the Lunchables and Oscar Mayer brands, jumped $9.37, or 10.7 percent, to $96.65. United States-listed shares of Unilever, which sells Breyers ice cream and Dove soap, surged $5.96, or 14 percent, to $48.53.

Campbell Soup had the biggest drop in the **S.&P. 500** after the company surprised analysts by reporting weaker revenue in its latest quarter than a year earlier. Its earnings were better than Wall Street had forecast, however. Shares fell $4.07, or 6.5 percent, to $58.48.

General Mills fell $2.31, or 3.8 percent, to $59.23 after it warned of tougher times ahead. It said weaker-than-expected sales of yogurt and soup in the United States pushed it to cut its sales and profit forecast for its fiscal year, which ends in May.

Treasury yields gave back some of the gains they made earlier in the week. The yield on the **10-year Treasury** note fell to 2.45 percent from 2.5 percent on Thursday. The two-year yield dipped to 1.19 percent from 1.21 percent, and the **30-year Treasury** yield sank to 3.02 percent from 3.05 percent.

In European stock markets, the French CAC 40 index fell 0.7 percent, the German DAX was virtually flat and the British FTSE 100 rose 0.3 percent. In Asia, the Nikkei 225 index in Japan fell 0.6 percent, the Hang Seng in Hong Kong fell 0.3 percent and, in South Korea, the Kospi index slipped 0.1 percent.

The dollar fell to 112.90 Japanese yen from 113.21 yen late Thursday. The euro fell to $1.0606 from $1.0673, and the British pound fell to $1.2411 from $1.2486.

Benchmark crude oil rose 4 cents to settle at $53.40 a barrel. Brent crude, the international standard, fell 16 cents to close at $55.81 a barrel.

Gold fell $2.40 to settle at $1,237.60 per ounce, silver fell 4 cents to $18.03 per ounce and copper fell 1 cent to $2.71 per pound.

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

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THE WALL STREET JOURNAL.
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Returns Weaken For Investors In Online Loans

By Peter Rudegeair
662 words
18 February 2017
The Wall Street Journal
J
B1
English

For online lenders, 2016 was an arduous year marred by layoffs, executive departures and falling share prices. For the funds that purchased their loans, it wasn't much better.

Two of the largest investment managers in the sector, LendingClub Corp. subsidiary LC Advisors and Colchis Capital Management, reported the lowest returns in their main funds since each launched in 2011, according to investor documents reviewed by The Wall Street Journal. Publicly listed funds that buy online loans, such as P2P Global Investments PLC, are trading at deep discounts to their net asset value.

At LC Advisors, the Broad Based Consumer Credit (Q) Fund returned 1.83% in 2016, down from 5.76% in 2015 and 8.02% in 2014, according to the investor documents. That was worse than the 2.65% return of the Bloomberg Barclays U.S. Aggregate Index, a broad measure of performance of various fixed-income securities that LC Advisors uses as a benchmark.

The sluggish returns have been a disappointment for investors who were hoping the online consumer space would offer fatter yields. Part of what is hurting performance: higher-than-expected defaults on older batches of unsecured consumer loans. Online lenders rely on outside money managers to buy their loans, and diminished returns could prompt some managers to shift into other asset classes.

To keep loan investors engaged, lenders raised rates for borrowers several times last year and cut off riskier loan customers. Fourth-quarter results released this past week by online business lender On Deck Capital Inc., however, showed that loan quality is still shaky, which led to a sharp decline in its shares.

The lenders' maneuvers also created an additional drag on returns for fund investors. Under accounting rules, money managers are required to assign lower values to existing holdings of lower-yielding credits when borrowers' interest rates rise. While purchasing the newer, higher-yielding loans will boost returns over time, it can take months or years for that to offset the markdowns.

"A lot of people thought this was a way to get excess yield," said Joseph Drozd, director of research at Matrix Capital Advisors, a Chicago-based investment-advisory firm that has been reducing exposure to online loans for about a year. Performance issues "pushed some people to the fringes from making an investment and made people re-examine their thesis," he said.

LendingClub said in a securities filing in January that it was seeing signs of a stabilization in delinquencies after it raised rates on borrowers. The Broad Based Consumer Credit (Q) Fund has outperformed its benchmark by more than 2 percentage points over the past three years.

Colchis's P2P Income Funds, which have $1.3 billion in assets under management, posted a 2016 return of 6.2%, according to investor documents. Colchis's returns exceeded 9% in each of the preceding four years but were weighed down in 2016 in part because of weak debt-collection efforts at LendingClub and Prosper and a new accounting regime introduced earlier in the year, according to the documents.

Colchis declined to comment.

Meanwhile, P2P Global Investments, which is managed by a unit of U.K. hedge-fund firm Marshall Wace LLP and listed on the London Stock Exchange, returned 4.1% in 2016, down from 6.6% the year prior. The fund's most recent quarterly newsletter discussed a tougher environment of higher funding costs due to **volatility** in currency markets and "impairment" in its book of U.S. consumer loans, which accounts for more than half of its roughly GBP 850 million ($1.06 billion) of assets.

At the end of the year, the fund's shares traded at a roughly 20% discount to its net asset value. Managers said in a recent newsletter that P2P Global Investments would likely lessen exposure to U.S. consumer loans and buy back more of its shares.

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Heard on the Street
Parsing the Market's Partisan Divide

By Justin Lahart
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18 February 2017
The Wall Street Journal
J
B1
English

[Financial Analysis and Commentary]

If the **stock market** ends up performing poorly under President Donald Trump, it might not be his fault. It's just that he is a Republican.

A striking feature of the U.S. **stock market** is that it persistently does better under Democratic presidents than Republican ones. In a 2003 paper, Pedro Santa-Clara and Rossen Valkanov found that regardless of how they sliced the data, returns were substantially better for Democrats. Since then, with the poor returns under President George W. Bush and the strong returns under President Barack Obama, the effect has only become stronger.

Messrs. Santa-Clara and Valkanov couldn't come up with a satisfactory explanation for the presidential puzzle. But in new research, University of Chicago Booth School of Business economists Lubos Pastor and Pietro Veronesi think they have come up with the answer.

The two economists created a model where people have a choice between being entrepreneurs and working for the government, and of voting for a political party that favors lower taxes or higher taxes.

When risk aversion is low, more people want to be entrepreneurs and to vote for the low-tax party. When risk aversion is high, the opposite is true.

It is a highly simplified version of U.S. politics and economics. But the implications for stock prices are interesting. The low-tax party gets elected when risk aversion is low, and then if risk aversion merely returns to the mean, stocks suffer. For the high-tax party, the opposite is true.

Mr. Trump is in many ways not a conventional Republican, says Mr. Pastor. "But he is in the important sense that he is pushing for lower taxes. In that respect, he fits our model very well."

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THE WALL STREET JOURNAL.
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A Fund's Sharp Loss Is Talk of the Street

By Chris Dieterich and Gunjan Banerji
1,028 words
17 February 2017
The Wall Street Journal
J
A1
English

It is the buzz of Wall Street: a five-day, 15% plunge in a U.S. mutual fund whose **bearish** bets were undone by the **S&P 500**'s latest run to fresh records.

The decline of Catalyst Hedged Futures Strategy fund, a $3.4 billion fund employing complex derivatives, is topic du jour on trading desks fixated on the surprising resilience of the postelection U.S. stock rally and the long decline of **volatility**, or price swings.

Many investors have been surprised by the **S&P 500**'s 9.7% run-up following the Nov. 8 election of Donald Trump as president. The Catalyst fund typically uses options positions in a configuration that seeks to maximize gains from stable or gently rising markets, or else shield investors from sudden declines.

Its weak spot, badly exposed in recent weeks, is a fast-rising market that punishes the portion of the strategy that is effectively a wager against the market.

U.S. stocks carry lofty valuations, and trading has been unusually placid, even as high-profile investors warn that rapid shifts in the political environment will likely add to investment risks.

"We've had a pretty unprecedented market run here, and the **volatility** is at record lows," said Jerry Szilagyi, chief executive of the fund's adviser, Catalyst Capital Advisors. "This is the type of market that is the worst type of environment for the fund."

Here's how Catalyst got into trouble: The Catalyst fund's strategy uses options on the **S&P 500 index**, contracts that allow investors to buy or sell at set prices over fixed time frames. In this case, the fund employed a "butterfly spread" that benefits the fund if the market remains stable, rises slightly or declines in any magnitude.

The fund's manager, Edward Walczak, said that a portion of the fund's portfolio set up before the rally was effectively left "short" versus the **S&P 500** after the market burst higher over the past week.

Losses accelerated in recent days because the options were set to expire Friday, meaning there was little time for the market to reverse and return the bet to profitability.

Declines became so extensive that the firm chose to unwind its money-losing bets, Mr. Szilagyi and Mr. Walczak said. The fund lost $600 million in assets in the week ended Thursday, Morningstar Inc. data show.

"We took them off of the books over the past few days," Mr. Szilagyi said. "We weren't forced to sell. We have certain tolerances for losses and we decided to take off the positions."

This week, **volatility** rose even as stocks rallied, an unusual juxtaposition that prompted some traders to speculate that the fund's efforts to extricate itself were rippling through the market. Others noted that the CBOE**Volatility** Index readings, in the low double digits, have recently been so low as to make large upward moves more likely in the event of any unusual market action, some analysts say.

Some analysts said they believed the Catalyst fund's efforts to rapidly wind down bets against the **S&P 500** helped fuel the index's rise this week to fresh records. Before Thursday, the **S&P 500** rose for five straight days -- gaining 2.5% over that span -- and 10 days out of 11. The index dropped 0.1% Thursday.

Mr. Walczak has for more than a decade used combinations of options with the aim of riding modest stock gains while profiting from regular fits of **volatility**. The methodology has generated more than 9% a year for investors over the past decade, about two percentage points a year above the **S&P 500**, according to Morningstar.

Catalyst didn't explicitly wager on the election's outcome, but its expectations for relatively flat or declining markets echo concerns voiced by other high-profile investors since the election. Seth Klarman of Baupost Group and Paul Singer of Elliott Management Corp. are among those to warn of deep political uncertainties that could derail the market at any time.

Christopher Cole at Artemis Capital Management noticed the spike in the VIX on Wednesday. He said significant dislocations in the options market have the potential to cause waves in the **S&P 500** futures market and spill over into the regular market.

He said he was "suspicious that there was a liquidity event going on," in which order imbalances cause prices to swoon and surge, rather than a fundamental movement reflecting expected changes in prices and economic conditions.

A liquidity squeeze can happen when dealers are forced to buy **S&P 500** futures contracts and options to offset the risk taken by closing out a fund's positions, traders said.

Chatter about the fund's troubles was heavy on Twitter Wednesday, highlighting investor anxiety over the idea that some trigger, however minute, could shatter the market's recent calm.

For example, "if there is an incremental bad data point, it's not going to take a lot for the market to start selling" said Amy Wu Silverman, equity derivatives strategist at RBC Capital Markets.

But the fund manager, Mr. Walczak, said that he thought it was unlikely that his fund played a role. The **S&P 500** is near $20 trillion in market value and the futures markets host billions of dollars in trades every day.

Looking at that backdrop, he said, "I'm hard pressed to imagine that a $4 billion fund is moving the entire market."

Mr. Walczak moved up the timing of a conference call with clients originally set up for next week to help explain the rough patch of performance. And he doesn't anticipate making major changes to the strategy that has served him well.

"These aren't circumstances that happen very often," he said. "It's not what you'd like to happen certainly, but as a manager you exit the positions, you reassess and move on."

Corrie Driebusch contributed to this article.

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THE WALL STREET JOURNAL.
U.S. EDITION

Equities -- Ahead of the Tape: Washington's Chaos Leaves Wall Street Happily Untouched

By Steven Russolillo
476 words
17 February 2017
The Wall Street Journal
J
B11
English

Chaos in Washington, champagne on Wall Street.

A turbulent start to Donald Trump's presidency hasn't stopped the U.S. **stock market** from once again setting records with minimal **volatility**.

The second-longest **bull market** on record, set to reach its eighth anniversary next month, has shown few signs of slowing. And yet, the latest charge higher has been greeted with more than a fair share of skeptics.

The further the market climbs, the more they wonder how stocks can keep rallying if the scene in Washington only gets messier.

But here is another thought: What if the market's rally isn't as irrational as it might seem?

Investors often cite Mr. Trump's business-friendly policies and the expectation of more infrastructure spending, lower corporate taxes and looser regulation for the postelection surge.

What doesn't get enough credit are the fundamental underpinnings of the rally. As Nicholas Colas, chief market strategist at Convergex, tells it, slow-but-steady economic growth, low interest rates, reliable earnings and predictable monetary policy have been potent ingredients for this low-**volatility** market.

The Chicago Board Options Exchange's **Volatility** Index, known as the VIX, has remained lower for much longer than many anticipated. Not even Brexit or Mr. Trump's election victory have been able to push the VIX substantially higher for any length of time.

Over the past five years, the VIX has averaged about 15, much lower than its long-run average of about 20. And the average since Mr. Trump's victory has been 12, around where it sits currently.

"Despite all the 'surprises' of 2016 and the last five years generally, there has been precious little **volatility** in the key drivers of corporate earnings and the discount rates used to determine the fair value of equity assets," Mr. Colas says.

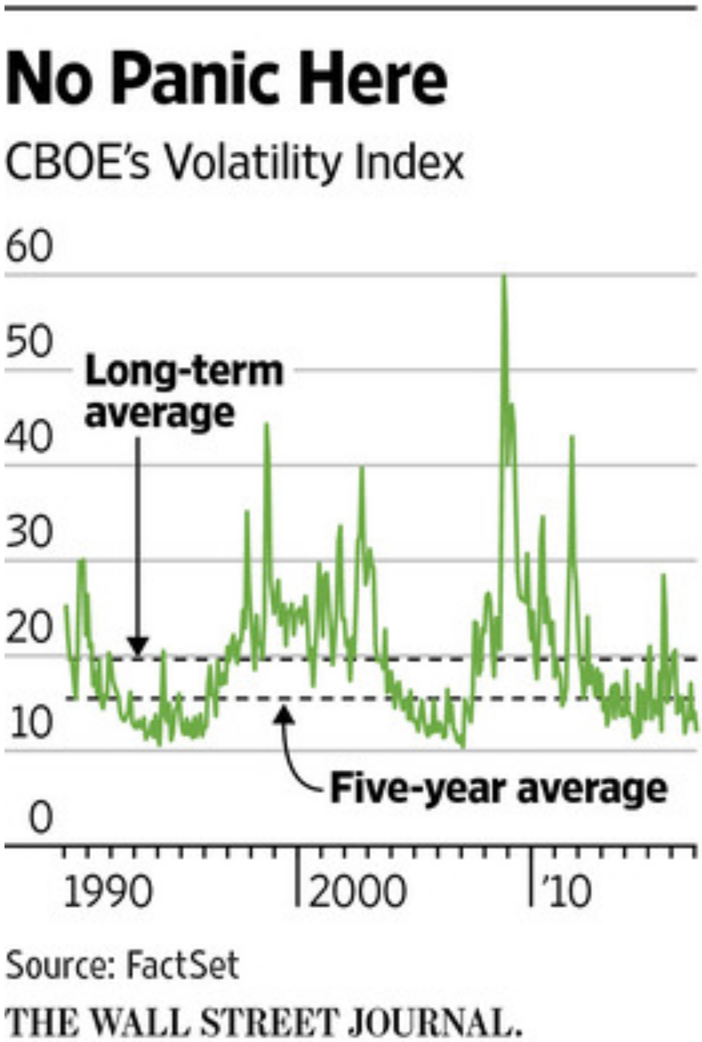
Now, evidence is mounting that the domestic economy is gaining momentum. On Thursday, a regional survey by the Federal Reserve Bank of Philadelphia surged to its highest in more than 33 years. That followed strong data earlier in the week, including a robust retail-sales report, an uptick in factory output and firming inflation.

Risks are receding around the globe, too. Conditions in Europe, Japan, China and elsewhere have turned more optimistic in recent months. This all bodes well for the rally's sustainability.

And the VIX itself might be in the sweet spot for future market gains.

Since 1990, the **S&P 500**'s average forward returns over three-, six- and 12-month time horizons have been above averagewhen the VIX has been in the range of 10 to 15, as it is today, according to Strategas Research Partners.

Volatility in Washington just isn't catching.



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THE WALL STREET JOURNAL.
U.S. EDITION

Markets Veer Off, Altering Return Calculus --- Correlation among asset classes falls to lowest level since 2006, analysis shows

By Christopher Whittall
934 words
17 February 2017
The Wall Street Journal
J
B12
English

The tight synchronization that has characterized **financial markets** for much of the past decade is breaking down, presenting investors with opportunities and risks they haven't grappled with in years.

Global stocks, bonds, currencies and commodities have parted ways in recent months, after largely rising in lockstep for most of the postfinancial-crisis period.

Correlation among assets recently fell to its lowest level since 2006, according to a Morgan Stanley analysis of 34 indicators tracking the relative performance of different asset classes and regions.

Developed-world stock and **bond prices** climbed in the summer of 2016 on a belief that weak growth would persuade central banks to keep their massive stimulus programs in place for longer. But, as expectations cranked up for higher growth and less stimulus, differentiation made a comeback. **Bond prices** crumbled and stocks surged.

Markets that once moved closer together were parting ways. U.S., small-cap stocks outperformed large caps. Commodities remained resilient despite a rising dollar, which makes these assets more costly. Emerging-markets investments dived as investors anticipated greater protectionism following the election of U.S. President Donald Trump.

Past indications of lower correlation haven't turned into a more lasting breakdown. But the vast central-bank stimulus that investors say spurred the correlations is either beginning to tail off or is expected to, reducing its sway on markets, some investors say. That could create a rare opening for active-fund managers, many of whom suffered significant outflows in recent years as money migrated toward simple, low-cost, index-tracking funds.

"When central banks were easing, you could pick any [asset class] and you'd look a hero. Now asset allocation does matter," said Paul O'Connor, head of multiasset investments at Henderson Global Investors.

Correlations typically spike during periods of turbulence, as investors shed anything they consider risky and head into safer markets en masse. The synchronicity declines as nerves calm and investors take diverging views on prospects. That happened during the global financial crisis of 2008 and Europe's sovereign-debt crisis from 2010 to 2012.

Central banks' response to those troubles ensured the correlation continued. By lowering interest rates toward and below zero, and buying trillions of dollars of bonds, central-bank action pushed government-bond yields lower across the board. Investors fanned out across markets in search of returns, pushing prices higher in equities and other investments.

During the Federal Reserve's quantitative-easing programs, which started in November 2008 and ended in October 2014, global, U.S. and emerging-market stocks all earned investors returns of 15% or more a year, as did high-yield bonds. Oil, nonprecious metals, emerging-market debt and high-grade corporate debt all gained more than 8% annually.

Since October 2014, performance has been more mixed. Investors in emerging markets and commodities have generally lost money. Yearly returns for equities on average have been positive, but lower, at 10% for the **S&P 500** and 5.6% for the MSCI All Country World Index.

"This is the end of QE lifting all boats," said Jean Medecin, a member of the investment committee at Carmignac.

Active managers' sales pitch to clients is simple: Making money requires greater skill when asset prices can go down as well as up.

There is some early evidence that active managers are starting to outperform. Over half of large-capitalization U.S. fund managers beat their benchmark in January, potentially signaling a better environment for these investors after nearly a decade of underperformance, according to a recent report from Bank of America Merrill Lynch.

Active managers of world-allocation funds -- which invest in a mixture of stocks, bonds and cash -- on average returned 1.6% from September to the end of January, according to Morningstar. That compares with an average of 0.06% for similar passive funds over that period. That reverses a trend of passive funds outperforming in the first eight months of last year.

There also has been differentiation within bonds and equities among individual firms, said Michael Hintze, founder of hedge fund CQS, which manages around $12 billion in assets.

Given heightened political risk in Europe with elections in France and potentially Italy, Mr. Hintze sees opportunities in the region's financial sector, where he said there will be more variation between the performance of German companies and their French and Italian counterparts.

Still, with only a short period to go on, it is too early to say active managers are set to make a comeback.

"In theory, there is a better backdrop now, but obviously those fund managers would still need to pick the right things," said Andrew Sheets, chief cross-asset strategist at Morgan Stanley.

Despite the steep decline in correlations, U.S. actively managed funds still recorded their 21st consecutive month of net outflows in January, according to Morningstar. Meanwhile, lured by lower fees, many investors continue to pour money into passive funds, which notched their 36th consecutive month of inflows.

Cosimo Marasciulo, head of European fixed income at Pioneer Investments, said less correlation is good news for active managers such as himself. Among other things, he is betting on rising inflation hurting global bonds as well as that jitters in European debt markets over political risk are overdone.

But Mr. Marasciulo is wary that markets can soon turn, particularly if there is a bout of turbulence. "You have to be cautious, because correlations are unstable," he said.

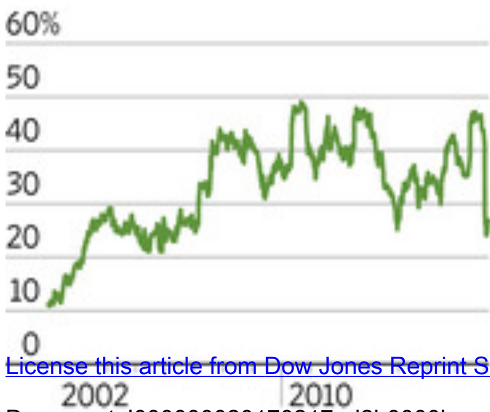
Markets Diverge

Returns have spread apart since the end of the U.S. Fed's bond-buying stimulus program...

Annualized change*

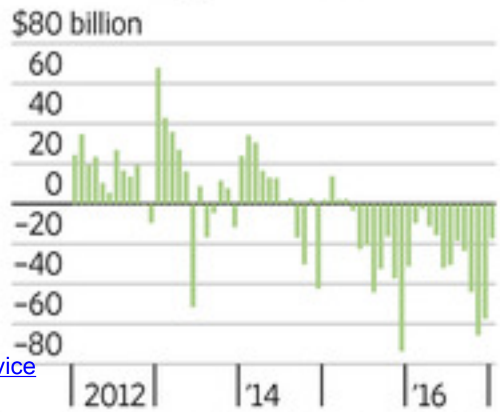
... and a smaller share of assets are moving in sync...

Cross-asset correlations†



...but investors are still moving out of actively-managed funds.

Net flows into U.S. open-end and exchange-traded funds‡



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*U.S. dollar returns on the MSCI AC World and Emerging-Markets indexes, Bloomberg Barclays 5–10 year U.S. TIPS index, J.P. Morgan GBI-EM Global Diversified Composite and BofA Merrill Lynch Global Original Issue High Yield and Global Corporate indexes; prices on current-month FOB Brent crude oil and the LMEX index †Based 50% on cross-asset correlations, such as stocks vs. bonds, and 50% on cross-region correlations, such as U.S. bonds vs. European bonds, through Feb. 13 ‡ Excluding money-market funds; monthly through January

Sources: Henderson Global Investors (concept) and Thomson Reuters Datastream (data) for returns, except TIPS and Bloomberg Barclays Indices (TIPS returns); Morgan Stanley (correlation index); Morningstar (flows)

THE WALL STREET JOURNAL.

THE WALL STREET JOURNAL.
U.S. EDITION

Streetwise: Politicians, Not Fed, Now Sit at The Helm

By James Mackintosh
806 words
17 February 2017
The Wall Street Journal
J
B1
English

Fund managers like predictability, and they like free money. So they loved having asset prices set by a central bank drawn from the same intellectual elite as themselves, communicating on a fixed timetable and -- at least for the past eight years -- keeping interest rates close to zero.

The shift in leadership from monetary to fiscal policy changes all this. Instead of the well-understood views of academic policy makers, investors have to come to grips with the vagaries of a new breed of populist politicians, while rising bond yields suggest free money is a thing of the past.

Yet, the prospect of a fiscal handout under President Donald Trump has electrified stocks, and investors are excited about the idea of a handover from monetary to fiscal policy.

Why? One answer is that investors were more worried about deflation then inflation. Unfunded tax cuts mean the Fed doves will no longer be alone in trying to prevent the economy falling into a deflationary abyss. Politicians and policy makers will be working together to make America great again!

A more cynical view is that investors are delighted with the idea of a tax giveaway because it will be mostly given away to them. Corporate tax cuts boost profits, while the personal tax cuts Mr. Trump set out during the campaign would give the most to the richest, who are likely to use the savings to buy more shares.

There is something in both views, but either way more fiscal means a bigger government debt and so, probably, higher bond yields.

Republican Sen. Bob Corker summed up the positive view of more fiscal in a question to U.S. Federal Reserve Chairwoman Janet Yellen on Wednesday, saying "people have always sort of hinged their futures on what you have to say, and I guess it's somewhat thankful now that it looks like you have a little bit of a partner."

Mr. Trump and Ms. Yellen are unlikely partners, to put it mildly. Rather than a partnership, many investors think the leadership has changed. After years of the Fed setting the agenda for markets, it has been relegated to responding to the politicians.

"It's what he says not what she says that matters," says Tim Haywood, head of fixed income at fund manager GAM.

That is tricky for investors. At its most basic, it raises the chances of a surprise in the news schedule, whether a 4 a.m. tweet from Mr. Trump or the unknown timing of the impending congressional battles over tax and spending. More importantly, the shift away from the Fed also increases the uncertainty about the direction of policy.

Mr. Trump said last week that he would unveil a "phenomenal" tax shake-up in the next few weeks, but what it will be remains a mystery. Worse, the scale of opposition in Congress also is unknown. Fiscal hawks are concerned about the budget deficit, while House Republicans might bridle at Mr. Trump's dismissal of their own detailed corporate tax plan as "too complex."

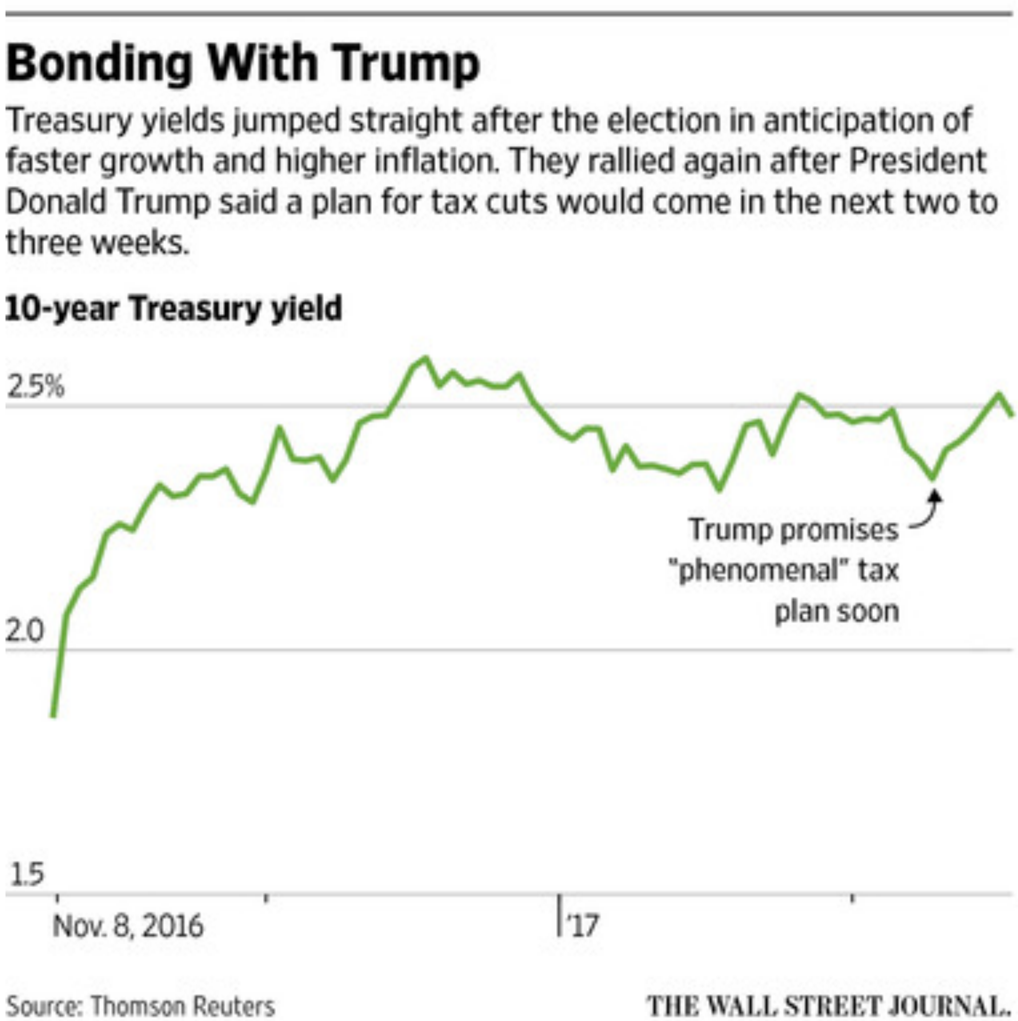
Investors awoke to the concerns early this year, as Mr. Trump focused on social issues, immigration and the problems he sees with trade. The "Trump rally" faded. But since he promised to set out the tax plan, bond yields have risen again and bank stocks have resumed their leadership of the equity rally.

Monetary policy always matters, as it determines the price of money against which every asset is evaluated. The question for investors is whether the Fed will become the unofficial opposition to Mr. Trump, increasing rates more rapidly than expected to offset his fiscal giveaways (if they happen), or merely respond after the event.

Markets think Mr. Trump matters a whole lot more than the Fed. Ms. Yellen told Mr. Corker that there was too little clarity on Mr. Trump's policies "to really clearly factor those policy changes into the economic outlook," even though investors are obviously factoring Trump policies into stock and **bond prices**.

The Fed might seize the initiative at its March meeting and raise rates, although it is unlikely that there will be much clarity by then on the speed with which Mr. Trump's plan will navigate Congress. But the markets doubt it, with federal-funds futures priced for only a 31% probability of rates going up then, and less than a 50% chance of the Fed fulfilling its own forecast of three increases this year, according to calculations by CME Group.

We probably won't see pictures of Mr. Trump taking Ms. Yellen by the hand the way he did British Prime Minister Theresa May. But the markets are betting that for the moment at least the White House has the lead.



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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
Standard & Poor's 500 Declines, Ending 7-Day Streak

By THE ASSOCIATED PRESS
619 words
17 February 2017
The New York Times
NYTF
Late Edition - Final
2
English

The **Standard & Poor's 500**-**stockindex** dipped on Thursday to break a seven-day winning streak, its longest in three and a half years, though it remained near its high.

Stock markets around the world paused, after a torrid run linked to an improving economy, stronger corporate earnings and hopes for more business-friendly policies from Washington. The value of the dollar also dipped against rival currencies, and Treasury yields fell as **bond prices** rose.

The **S**.**&P**. **500** fell 2.03 points, or 0.1 percent, to close at 2,347.22. The **Dow Jonesindustrial average** rose 7.91 points, less than 0.1 percent, to set another record at 20,619.77. The **Nasdaq composite** index dipped 4.54 points, or 0.1 percent, to 5,814.90. Four stocks fell for every three that rose on the New York Stock Exchange.

The greatest loser in the **S**.**&P**. **500** was TripAdvisor, which fell $5.78, or 11 percent, to $46.92 after reporting weaker revenue and earnings for its latest quarter than analysts had forecast.

Avon Products, a direct seller of cosmetics, also plunged after reporting weaker-than-expected results. The company said the number of sales representatives, who sell its products door to door, slipped from a year earlier. The stock dropped $1.09, or 18.6 percent, to $4.77.

More companies reported stronger results for the last three months of 2016 than Wall Street forecast.

The medical-waste company Stericycle experienced the biggest gain in the **S**.**&P**. **500** after its earnings and revenue for the latest quarter topped analysts' estimates. Its stock rose $5.96, or 7.7 percent, to close at $83.35.

Kate Spade, which makes handbags and other products, climbed after saying it was considering options that could include a sale. Its stock, which traded near three-year lows in December, jumped $2.89, or 14.7 percent, to $22.56.

Treasury yields returned some of their recent increase. The **10**-**year Treasury** yield fell to 2.45 percent from 2.50 percent late Wednesday. The two-year Treasury yield fell to 1.21 percent from 1.25 percent. The 30-year yield fell to 3.05 percent from 3.08 percent.

Yields fell in spite of more positive economic reports. Homebuilders broke ground on slightly more projects in January than economists had predicted, though activity declined from December. A measure of manufacturing in the Philadelphia region suggested that growth was improving.

Foreign stock markets also slowed Thursday. The CAC 40 of France fell 0.5 percent, the DAX index of Germany fell 0.3 percent and the FTSE 100 of Britain slipped 0.3 percent. The Nikkei 225 index of Japan fell 0.5 percent and the Kospi of South Korea dipped 0.1 percent. The Hang Seng in Hong Kong rose 0.5 percent.

United States crude rose 25 cents to settle at $53.36 a barrel. Brent crude, the international standard, fell 10 cents to $55.65 a barrel.

Gold rose $8.30 to settle at $1,240 an ounce, silver rose 11 cents to $18.07 an ounce and copper fell 2 cents to $2.72 a pound.

The dollar fell to 113.21 yen from 114.26 late Wednesday. The euro rose to $1.0640 from $1.0591, and the British pound rose to $1.2490 from $1.2445.

CHARTS: Freddie Mac Yields: Average for some Federal Home Loan Mortgage Corp. securities. (Source: F.H.L.M.C.); The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Thursday. (Source: Reuters)

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The New York Times

Business Day; DealBook
A Little Birdie Told Me: Playing the Market on Trump Tweets

By NATHANIEL POPPER
929 words
16 February 2017
04:56 PM
NYTimes.com Feed
NYTFEED
English

SAN FRANCISCO — Analyzing Twitter for market-moving information has been a business for years. High-frequency trading firms have even built such analysis into their trading strategies.

Then along came @realdonaldtrump.

A month into Donald J. Trump's presidency, the best algorithmic minds on Wall Street and in Silicon Valley are still scrambling to come to grips with the phenomenon.

"Trump's tweeting habits seem to be as erratic as everything else about him," Max Braun, an employee of the Google-affiliated research laboratory known as X, said in a recent interview.

Mr. Braun has built an automated bot — Trump2Cash — that analyzes Mr. Trump's tweets and then automatically places a trade on the companies the president names.

But like others in his field, Mr. Braun has learned that Mr. Trump's behavior on social media does not always play out the way the science would predict.

After the president criticized Nordstrom for dropping his daughter's clothing line, the bot predicted that Mr. Trump's negative comments about the retailer would cause its **stock price** to go down, but instead it rose 4.2 percent by the end of the trading day. As of Thursday, however, the bot's overall returns are in the green, according to a benchmark Mr. Braun is keeping.

The science of trading based on Twitter predates President Trump.

Yet the president "is a **volatility** machine," said Joe Gits, the chief executive of Social Market Analytics, which produces automated analysis of social media for professional investors. "He generates more **volatility** than anything in the world right now, so these stocks are going to move one way or the other."

Mr. Gits noted that in the long run — or even within a few weeks — almost all the companies that have been hit by Mr. Trump's jabs appeared to have recovered from the damage, suggesting that investors are discounting Mr. Trump's resolve to act against the companies.

Shares of Boeing, which was attacked by Mr. Trump in December over the cost of producing Air Force One, initially dropped in price, but they are now 12 percent higher than they were on the day of the tweet.

But Mr. Gits said that any firm doing short-term trading had to take Mr. Trump's statements into account. It has not been easy.

In the seconds after Mr. Trump's Nordstrom tweet, for instance, before people would have had enough time to respond, it was evident that automated trading algorithms had crunched the information and begun either selling or betting against the stock. The company's share price fell 1 percent within a minute. But that decline quickly reversed, and by the end of the day the stock had made strong gains.

That complicated response is, in part, a result of the fact that professional traders are not the only ones trying to play the Trump markets — tens of thousands of armchair investors are watching the president's account and placing trades.

Rachel Mayer is the co-founder of a New York start-up, Trigger Finance, that creates automatic trading triggers for small-time investors, based on real-world events. The company has created triggers for all sorts of market-moving signals — like changes in Federal Reserve policy and big **stock price** moves — but the triggers that Ms. Mayer's company has built around Trump's Twitter account have been by far the most popular, gaining 10,000 subscribers.

Ms. Mayer, who used to be a currency trader at JPMorgan Chase, said there were a number of indications that many of her subscribers saw the tweet about Nordstrom and decided to buy the stock as a form of protest, just as many consumers said they would support the store after the president's attack.

Ms. Mayer said that over time the market responses to Mr. Trump's proclamations seemed to be more restrained, which may reflect a recognition that the president's bark is worse than his bite.

"The market doesn't seem to think that he's going to do anything else except complain," she said.

Trump2Cash, Mr. Braun's bot, is set to hold the stock only until the end of the same trading day as the tweet. If the sentiment is negative, it places a short sale, or a bet that the price will fall, to take advantage of the stock going down.

Mr. Braun has continually tweaked the rules governing Trump2Cash. He has, for instance, programmed the bot to ignore mentions of media companies, including The New York Times Company, because they amounted to more market noise than signal.

But Mr. Braun says he will not mind if the bot ends up losing money — he is thinking about Trump2Cash as more of an art project than an investing strategy, and he plans to donate any money he makes from the few thousand dollars he has invested to Planned Parenthood and the American Civil Liberties Union, as a rebuke to Mr. Trump's politics.

"I have a very particular set of skills, skills that allow me to have some fun with Mr. Trump's emotional incontinence and maybe effect positive change along the way," Mr. Braun wrote in a Medium post introducing the bot.

Rachel Mayer, left, and Zafrir Schop are co-founders of Trigger, which creates automatic trading triggers for small investors. The ones it has built around President Trump's Twitter account have 10,000 subscribers. | Joshua Bright for The New York Times

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THE WALL STREET JOURNAL.
U.S. EDITION

BofA Misses Big Options Payday

By Liz Hoffman and Tom McGinty
964 words
16 February 2017
The Wall Street Journal
J
B1
English

Bank of America Corp.'s top executives were sitting on the right to buy 400,000 shares of the bank's stock at $53.85, a perk handed out by its board a decade ago.

The problem is, the stock trades at $24.58.

Those stock options expired worthless on Wednesday, a sign of the lingering effects of the financial crisis and the huge gap between banks that have recovered fully from that era and those still far from the targets set during Wall Street's better times.

Unlike executives at Goldman Sachs Group Inc. and J.P. Morgan Chase & Co., whose options haveby and large paid out, Bank of America Chief Executive Officer Brian Moynihan this week will forgo 200,000 options, which accounted for about one-fifth of his total pay in 2006. Banks, like other public companies, detail options grants and their terms in public filings with the Securities and Exchange Commission.

Stock options, which guarantee executives the right to buy shares at a fixed price in the future, have long driven tech-industry paydays and were once a large part of Wall Street bonus packages. The idea was to motivate officials to boost the **stock price**, thereby giving them the right to get stock at a discount years later.

Options have become less popular recently in response to shareholder pressure, accounting-rule changes and the financial crisis, which left employees at many companies holding the equivalent of worthless lottery tickets. The main concern: Options generated an obsession with the **stock price** that led to risky behavior.

But some old options doled out in the middle part of the last decade -- some of the last large options grants that remain on Wall Street -- are now expiring, an event that separates executives into winners and losers.

In the former camp are those at Goldman and J.P. Morgan, whose shares both hit closing highs Wednesday. The recent rally has pushed millions of dollars of options at those banks "into the money," that is, exercisable for the executive at a gain.

Rivals at Bank of America, Citigroup Inc. and Morgan Stanley, meanwhile, have watched millions of options expire worthless as the firms' share prices languish below targets set during peak years for bank profits.

Of 182 sets of options issued by the five largest Wall Street firms since 2003, more than half have expired worthless because the banks'shares were trading below what executives would have had to pay to take hold of the shares.

The best options batting average belongs to Goldman. Out of seven options series the bank has granted since 2003, five have expired and all of them were in the money on their expiration dates, though about $200 million of options that expired in late November needed the **stock-market** rally that followed the 2016 presidential election to give them value.

The group laggard is Morgan Stanley. Just one of its 19 options grants since 2003 that have expired ended up in the money, though two set to expire next year are comfortably in the money. Over the same period, Bank of America executives saw about 90% of the 8.1 million shares underlying their option grants expire worthless

The Bank of America options that expired Wednesday were granted in February 2007, a couple of months after the Charlotte, N.C.,bank's stock hit what would prove to be its all-time high of $54.90. Mr. Moynihan was granted the options as part of his pay for 2006, when he was running the bank's wealth-management business.

While Bank of America's share price has languished, its market value is nearly at precrisis highs. The difference between the firm's overall value and that of individual shares reflects the large amounts of stock the bank had to issue to do things like repay government bailout funds, resulting in huge dilution of shares.

Options are being phased out across Wall Street in part because more shareholders have viewed them as ill-fitting for banks whose executives should be worried about taking excessive risks.

Many startups and tech firms still embrace options because they reward big ideas that can drive a surging **stock price** but expire worthless if the company falters or just treads water.

Banks are different, though. Because failed banks can create more widespread problems than a tech startup going under, regulators and bank boards have encouraged pay plans that reward not only a rising **stock price**, but a flat one over a sinking one.

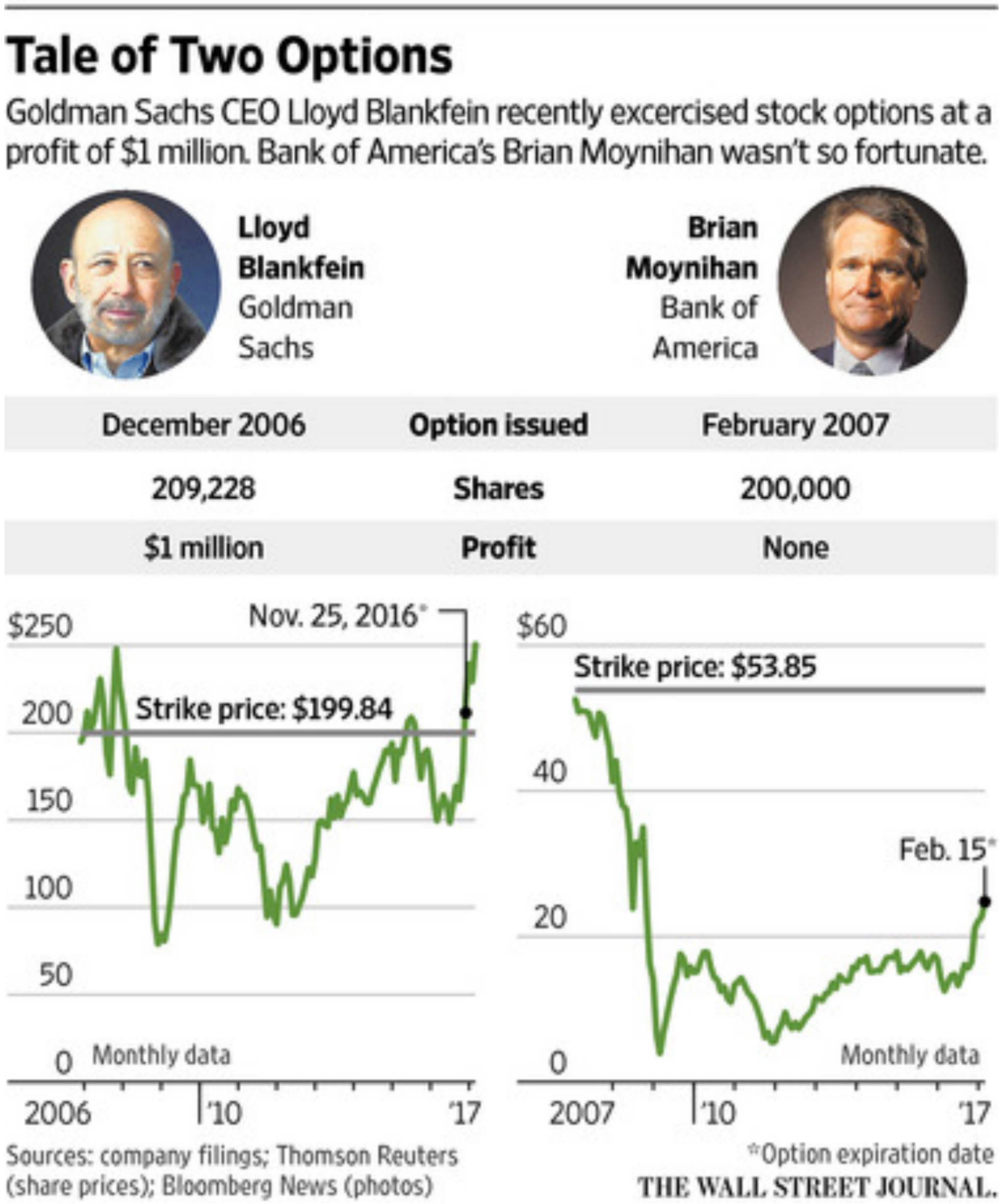
In 2001, options accounted for 51% of total compensation for the average financial-services CEO, according to Kevin Murphy, a professor at the University of Southern California. In 2015, it was about 10%.

The five largest Wall Street firms have stopped issuing options altogether; the last was Morgan Stanley, which gave out five-year options to top executives in 2013.

Recently, banks, along with other big U.S. companies, have shifted toward outright stock grants that are more closely linked to company performance. Such shares, essentially nonexistent before 2006, accounted for 31% of bank CEO pay in 2015, according to Mr. Murphy.

Goldman Sachs last year shifted half of CEO Lloyd Blankfein's bonus to stock units that he receives based on the firm's return on equity. This year, it moved to 100% performance-based stock.

At Morgan Stanley, the percentage of CEO James Gorman's pay that is performance-based stock has doubled since 2010, his first year on the job. At Bank of America, half of Mr. Moynihan's 2015 pay was in stock units that depend on the bank's financial performance over the next three years.



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THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News -- Capital Account: Around the World, Economic Risks Recede

By Greg Ip
825 words
16 February 2017
The Wall Street Journal
J
A2
English

It's tempting to see surging U.S. stock prices and business confidence as all coming in response to President Donald Trump's election.

But the upswing is global: In Europe, Japan, China and elsewhere, business surveys and markets have turned markedly more optimistic.

This is partly because investors hope that any fiscal stimulus Mr. Trump enacts will spill over to other countries. Yet a confluence of other factors is also at work: **Oil prices** are on an upswing thanks to production cuts by the Organization of the Petroleum Exporting Countries. Chinese and European economic activity picked up in the second half of last year. And, economically speaking, populism has so far been a wet firecracker.

"It's a mosaic," said Ed Hyman, chairman and economist at Evercore ISI, a brokerage firm. "Trump is the most discussed part of the mosaic but not necessarily the most important part."

A few weeks after Mr. Trump's election, OPEC agreed to cut production and its member countries have largely abided by their pledges. **Oil prices**, which fell below $30 a barrel a year ago, have remained above $50 since the agreement. As a result, the number of oil and gas drilling rigs operating in the U.S. has jumped 80% since June, according to Baker Hughes, an oil field services company.

Firmer energy prices have pushed actual and expected inflation higher. U.S. inflation hit a five-year high in January. Ordinarily that's bad, but it is now welcomed by central bankers who worried that too-low inflation can easily become destructive deflation. In mid-July, bond markets expected inflationin five to 10 years' time to average 1.2% in the U.S., 1.4% in the eurozone, and 0.1% in Japan. Those figures have since risen roughly half a percentage point.

Mohamed El-Erian, an adviser to the German insurance company Allianz, thinks the OPEC agreement will likely keep oil between $50 and $60 a barrel. He said that plus hopes for fiscal stimulus under Mr. Trump and a Federal Reserve continuing to err on the side of raising rates too slowly, rather than too quickly, are why expected inflation has risen.

Global growth is also on a firmer footing. A year ago, as China struggled to stem surging capital outflows and a weakening currency, an index of economic activity compiled by IHS Markit slipped into contractionary territory. Then Chinese authorities encouraged banks to crank up lending and clamped new controls on capital outflows. By December, the borrowing boom had driven the index to nearly a four-year high.

Evercore ISI projects annual growth in nominal Chinese gross domestic product -- economic growth plus inflation -- will reach 11% in the current quarter, up from less than 7% a year earlier. This growth traditionally has correlated closely with oil and industrial prices.

Even Europe shows signs of shaking off its torpor. "Relative to expectations in October, Europe is much stronger both in terms of real business volumes and upside surprises on inflation than the U.S.," said Jason Thomas, director of economic research at Carlyle Group, a private-equity manager. From 2009 to 2014, all of Europe's growth came from exports. In 2015, the commodity price plunge battered exports and domestic spending carried growth.

The improved outlook for inflation and growth has taken the pressure off central banks in Europe and Japan to lower interest rates further or increase bond buying, and this week Fed Chairwoman Janet Yellen said the bank could raise rates again in coming months. This comes as a relief to commercial banks, whose lending margins have been squeezed.

Finally, political uncertainty hasn't been the confidence killer that many feared. Britain's vote to leave the European Union has damped business investment plans but consumers have shrugged off the uncertainty. Mr. Trump has prioritized rolling back regulations; he has yet to act on his harsh protectionist rhetoric. In meetings with the prime ministers of Japan and Canada, he praised economic ties with the two. His administration is exploring alternatives to branding China a currency manipulator.

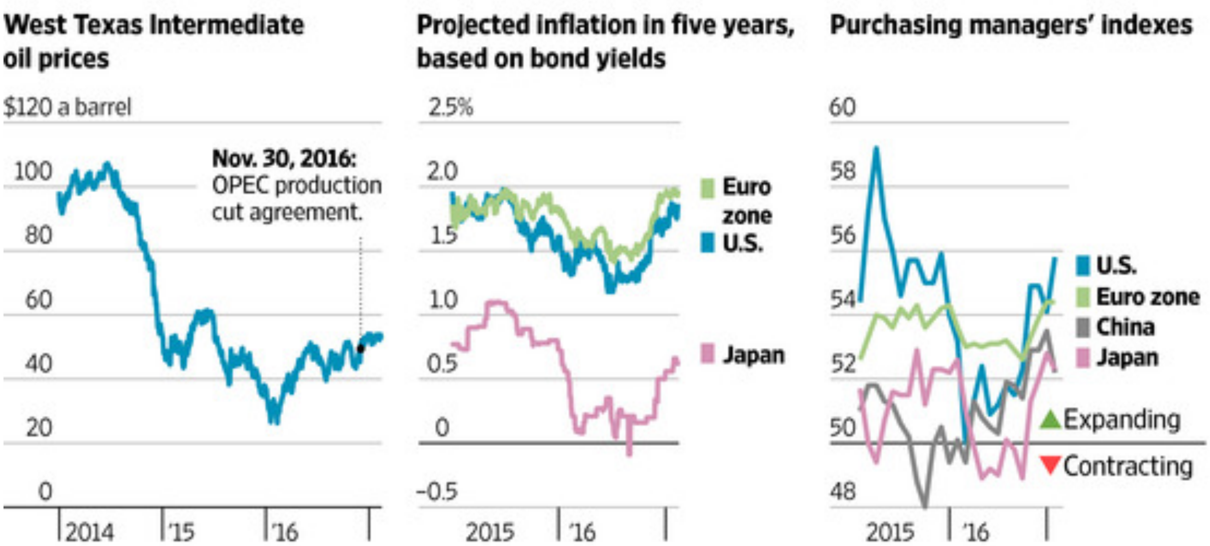
Whether the world can sustain this increased confidence remains to be seen. The global economy is still likely to grow just 3.4% this year, according to J.P. Morgan, better than last year but in line with the sluggish trend of the prior five years.

While political uncertainty hasn't hurt much yet, that could change if the anti-euro National Front wins France's presidential election this spring. China may owe its rebound to a debt bubble that could soon burst. Mr. Trump's tumultuous presidency could make tax cuts harder to pass while providing ample opportunity for geopolitical shocks.

Still, after a year when worst-case scenarios seemed all too plausible, a return to a modest normal is cause for relief.

A Synchronized Upswing

Rising commodity prices have helped revive expectations of inflation, while industrial output is accelerating in most major economies.



Sources: WSJ Market Data Group (oil prices); J.P. Morgan (bond market breakeven inflation rates); Markit (PMI)

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Economy Picks Up Momentum, Boosting Odds of Rate Increase

By Ben Leubsdorf
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16 February 2017
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J
A1
English

Robust consumer spending, an uptick in factory production and firming inflation are pointing to a healthy start in 2017 for the U.S. economy and another interest-rate increase by the Federal Reserve, potentially as soon as next month.

The Commerce Department on Wednesday reported stronger-than-expected growth in retail sales in January, and the Fed reported factory output increased last month. The Labor Department said a closely watched gauge of U.S. inflation rose to its highest annual level in nearly five years, the latest sign that years of sluggish price growth could be coming to an end.

Together with Fed Chairwoman Janet Yellen's statement this week that the central bank may raise rates "at our upcoming meetings," the inflation uptick boosted the odds of a rate increase in mid-March. Fed-funds futures tracked by CME Group on Wednesday signaled a roughly 1-in-4 chance of a Fed move at next month's policy meeting, double the probability before Ms. Yellen's congressional testimony on Tuesday.

Both stocks and government-bond yields moved higher Wednesday on greater confidence in U.S. growth. The **Dow Jones Industrial Average** rose 107.45 points, or 0.5%, to a record close of 20611.86. The yield on the **10-year Treasury** note registered its fifth consecutive daily increase, climbing to 2.502%, a three-week high, from 2.470% Tuesday.

Ms. Yellen told lawmakers it "would be unwise" to wait too long to raise rates, because it could force the Fed to tighten policy more quickly down the road and potentially cause a new recession in the process.

The **stock market** jumped following the Nov. 8 presidential election, along with surveys of consumer confidence and business sentiment, raising hopes for a pickup in overall economic growth.

Still, it is too soon to declare a clear breakout for the modest U.S. economic expansion now in its eighth year. Economists said the latest reports suggested economic output is growing at about the 2% annual rate that has prevailed for years.

"What really matters are the fundamentals: jobs, income, that sort of thing," said Gus Faucher, deputy chief economist at PNC Financial Services Group. Rising sentiment in anticipation of tax cuts and other policy shifts "may provide a little bit of a boost," he said, but "it needs to be pretty apparent that we're going to get these policies to have a really sustained impact on growth."

Forecasting firm Macroeconomic Advisers on Wednesday projected first-quarter gross-domestic-product growth at a 2.0% pace, and the Federal Reserve Bank of Atlanta's GDPNow model estimated GDP growth at 2.2% in the first quarter. In the fourth quarter, GDP grew at a 1.9% annual rate, near its average since the recession ended in mid-2009.

Many economists believe it could be difficult for U.S. growth to exceed that pace in a sustained fashion due to demographic trends, including an aging population that is putting downward pressure on the labor-force participation rate, and long-subdued gains in worker productivity. Mr. Trump has said he hopes to achieve 4% annual growth by overhauling the tax code, boosting infrastructure spending, rolling back federal regulations and negotiating new trade deals.

Ace Hardware Corp. Chief Executive John Venhuizen said he anticipated "solid and steady" momentum in consumer spending, despite weak sales at his chain last month that he attributed to warm weather curbing demand for salt, shovels and other winter gear across the Midwest and Northeast.

He said he hopes for a pickup in U.S. economic growth, but he is not expecting one just because there is chatter about tax cuts and regulatory overhaul under the Trump administration. "Talk is cheap," Mr. Venhuizen said.

The Commerce Department on Wednesday reported that sales at U.S. retail stores and restaurants increased 0.4% in January from the prior month, with spending steady or up in most categories outside of a pullback in automotive purchases. Excluding both autos and gasoline, retail sales were up 0.7% last month, which was the strongest reading since last April.

Total retail sales in January rose 5.6% from a year earlier. The data were adjusted for seasonal variations but not inflation, so some of the increase in sales reflected rising prices.

The consumer-price index, a broad measure of what Americans pay for everything from seafood to shelter, increased a seasonally adjusted 0.6% in January from a month earlier, the Labor Department said Wednesday. That was the biggest gain since February 2013, boosted by rising prices for gasoline.

From a year earlier, overall prices rose 2.5% in January, the largest 12-month increase since March 2012. Prices were up 2.3% on the year when excluding food and energy.

Inflation has been subdued for years amid lackluster economic growth and a stretch of low energy prices. That era may be coming to an end as unemployment falls, demand picks up and **oil prices** stabilize.

The Fed targets 2% annual inflation but favors the Commerce Department's personal-consumption-expenditures price index, which rose 1.6% in December from a year earlier.

Meanwhile, the Fed on Wednesday reported that industrial production -- a measure of output at American factories, mines and utilities -- declined 0.3% in January from a month earlier. Unseasonably warm temperatures cooled demand for utilities, but underlying figures showed modest progress for the manufacturing sector.

Factory output, the biggest component of industrial production, rose 0.2% in January. Output for motor vehicles and parts fell but production increased for most other categories, including machinery, textiles and petroleum and coal products.

The mining index, which includes oil and natural-gas extraction, was up 0.4% from a year earlier last month. The annual increase is significant because the sector had dragged on economic growth in recent years.

"The turnaround in mining is real," Mr. Faucher of PNC said. "That's due to higher prices for commodities, and that is spilling over into manufacturing."

Jeffrey Sparshott and Eric Morath contributed to this article.

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The New York Times

Business Day; DealBook
Investors Look Past Headlines as Bull Market Roars Ahead

By LANDON THOMAS Jr.
1,046 words
15 February 2017
08:25 PM
NYTimes.com Feed
NYTFEED
English

Markets hate uncertainty. It is one of the oldest saws in finance.

Yet even as a series of political scandals flare up in President Trump's nascent administration, raising questions about his ability to pursue an investor-friendly agenda of tax cuts, deregulation and fiscal spending, the **stock market** just roars ahead.

Over the past two weeks, with the president's immigration policies and Russia ties dominating headlines, the benchmark **Standard & Poor**'**s 500**-**stockindex** has been setting new highs regularly.

For the most part, the stumbles by the administration have not been related to promises that Mr. Trump made — and that investors embraced — to recharge an economy that most economists believe is growing at subpar levels.

Still, that investors have chosen to ignore the chaos in Washington highlights just how deep is the belief (others might consider it wishful thinking) that Mr. Trump, at his root, is a president who will deliver market-friendly policies.

"I fully get the euphoria — there has probably never been a more business-friendly president," said Adrian Helfert, the head of global fixed income at Amundi Smith Breeden. "Lower taxes and less regulations are good for corporations and equity holders."

Since Election Day, the **S**.**&P**. **500 index** is up over 9 percent, and with money continuing to pour into stocks from bond and money market funds, the **bull market** is showing few signs of letting up.

On Wednesday, stocks continued their run for a seventh consecutive session — the longest winning streak since September 2013, according to Bloomberg data. The **S**.**&P**. **500** gained 0.5 percent, led by health care and financial stocks.

But as the markets climb and corporate borrowing rates remain historically low, Mr. Helfert worries that investors are taking too lightly the possible pitfalls of this high-risk, high-return Trump presidency.

"He is pulling out all the stops," he said, "and I just don't think that investors are being compensated for the downside risks."

Mr. Helfert points to the VIX index, or Wall Street's "fear gauge," which measures the expectations investors have that markets will convulse sharply in the future. Since Mr. Trump became president, the index has been trading at very low levels, unperturbed by political histrionics.

Indeed, it has been a source of confusion and curiosity for many market analysts that the most **volatile** president in recent memory is now presiding over a market that has been largely free of **volatility** since mid-November.

Of course, it is also true that a market that goes up for a sustained period, without the wild swings that have characterized past run-ups, will not set off **volatility** alarm bells.

And in that regard, Mr. Trump's political supporters on Wall Street say they are not surprised by the market's willingness to charge ahead.

What is driving enthusiasm, some investors say, is not so much that Mr. Trump is pressing down on the gas pedal with promises to increase spending and cut taxes, but rather his desire to take his foot off the brake and remove investor and business restrictions. Mr. Trump has repeatedly said his top priorities include rolling back regulations put in place by former President Barack Obama to keep large banks and funds in check.

That Gary D. Cohn, the former Goldman Sachs president, has emerged as one of Mr. Trump's closest and most influential advisers in this regard, is also seen as sign that deregulation will remain at the core of Mr. Trump's economic agenda.

And risk takers have not just taken heart in the administration's pledge to dismantle the 2010 Dodd-Frank financial overhaul. Some smaller loosening of financial regulations has also provided encouragement.

This week, the Commodity Futures Trading Commission, the main derivatives regulator, said it would not penalize institutions for violating new derivatives standards.

And a Dodd-Frank rule that required energy companies to disclose whether they made payments to foreign governments was recently voided by Congress.

These are by no means giant moves, but they send a powerful signal all the same to investors frustrated by Obama-era restraints.

One money manager and active fund-raiser for Mr. Trump during the election said that while many have seen disorder and disarray in the White House, he has seen a man of action doing whatever is needed to get the economy to grow faster.

But here is another thought.

Perhaps investors, after 10 years of living in constant fear over a succession of financial and political cataclysms, have finally decided to tune out the headlines and focus instead on an economy that, while not great, is not doing so bad, either.

Ed Yardeni, a **stock market** strategist, calculates that savings deposits and money market funds, the two safest and lowest return options for the risk-wary, doubled to nearly $9 trillion at the end of last month from $4.5 trillion in early 2009.

A lot of this caution was driven by the trauma of the financial crisis, of course, but it has been sustained in the years since by persistent worries (political and otherwise) that the markets will collapse again or the economy will tank. These anxieties have been reflected in persistent swings in the VIX index in recent years.

Now, a lot of this pent-up cash earning close to zero in terms of interest rates is looking for higher returns in the **stock market** — with pension funds in particular leading the way.

“The reality is that the real G.D.P. of the economy has never been higher and that consumer spending per household is at an all-time high,” said Mr. Yardeni, who has been arguing for some time that markets have been obsessing needlessly over worrying headlines.

“Throughout all these corrections, people have been talking about an end game,” he said. “Maybe people have figured out that you can watch the news all you want and get upset, but that has nothing to do with earnings and the valuation of earnings in the **stock market**.”

Outside the New York Stock Exchange last week. Since Election Day, the Standard & Poor's 500 is up more than 9 percent. | Spencer Platt/Getty Images

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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB

Bank Shares Gain as Indexes Again Rise to Records

By THE ASSOCIATED PRESS
671 words
15 February 2017
The New York Times
NYTF
Late Edition - Final
6
English

Bank stocks jumped Tuesday on hopes for bigger profits, and Wall Street indexes again pushed to record highs.

Stocks had been mostly lower when trading began, but indexes reversed course after Janet L. Yellen, the Federal Reserve chairwoman, told a Senate committee that the central bank could raise interest rates next month. Bond yields jumped immediately and caused bank shares to rise. Banks can benefit from higher rates by charging more for loans.

The Standard & Poor's 500 share index rose 9.33 points, or 0.4 percent, to 2,337.58 for its sixth straight day of gains. Earlier on Tuesday, it was down as much as 0.3 percent. The **Dow Jonesindustrial average** rose 92.25 points, or 0.5 percent, to 20,504.41. The **Nasdaq composite** index rose 18.62, or 0.3 percent, to 5,782.57.

Ms. Yellen's testimony on Capitol Hill was much anticipated, but she said little to alter most investors' expectations. The Fed raised interest rates in December for the second time in a decade, and Ms. Yellen said the strengthening job market and a modest gain in inflation should warrant continued, gradual increases in interest rates.

Waiting too long to raise rates ''would be unwise'' and could eventually force the Fed to raise rates rapidly to catch up, Ms. Yellen said. But she also repeated the word ''gradual'' to describe expectations for increases.

Stocks have had a strong run, driven by expectations that Washington will be more helpful to businesses, an improving economy and unexpectedly strong corporate earnings. The **S**.**&P**. **500** is up 9.3 percent since Election Day.

A demonstration of how much optimism is feeding into markets: Small-business owners say they have not felt so encouraged in 12 years, according to a monthly survey released by the National Federation of Independent Business on Tuesday. Optimism rose sharply after the election, and more small businesses say they plan to hire.

Ms. Yellen's testimony helped the yield on the **10**-**year Treasury** note rise to 2.47 percent from 2.44 percent late Monday. The yield on the two-year Treasury rose to 1.24 percent from 1.21 percent, and the **30**-**year Treasury** yield climbed to 3.06 percent from 3.03 percent.

While higher bond yields can help banks, they can also mean less demand for stocks that pay big dividends. Utility stocks in the **S**.**&P**. **500**, which are some of the market's highest yielders, fell 0.7 percent. It was the largest loss among the 11 sectors that make up the index. Real estate investment trusts, which have relatively big dividend yields, were also weak.

General Motors jumped $1.72, or 4.8 percent, to $37.24 for one of the biggest gains in the **S**.**&P**. **500** after news that France's PSA Group, maker of Peugeot and Citroen cars, was exploring a deal to buy Opel, GM's money-losing European business.

Stocks were relatively steady worldwide. In Europe, the German DAX index was virtually flat, while the French CAC 40 rose 0.2 percent and the British FTSE 100 edged down 0.1 percent. In Asia, the Hang Seng Index in Hong Kong was nearly flat, while the South Korean Kospi index dipped 0.2 percent and the Japanese Nikkei 225 index fell 1.1 percent.

Benchmark United States crude oil rose 27 cents to settle at $53.20 a barrel. Brent crude, the international standard, rose 38 cents to $55.97 a gallon in London.

Gold fell 40 cents to settle at $1,225.40 an ounce.

The dollar rose to 114.22 Japanese yen from 113.62 late Monday. The euro declined to $1.0572 from $1.0600, and the British pound fell to $1.2465 from $1.2529.

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

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The New York Times

Economic Trends
The Upshot
U.S. Economy Shows More Signs of Heating Up

By NEIL IRWIN
839 words
15 February 2017
06:24 PM
NYTimes.com Feed
NYTFEED
English

You could be forgiven for not noticing it, but the United States economy is gaining momentum.

It may not be as dramatic as the torrent of political news out of Washington; an improving economy, after all, announces itself through a series of data releases that are just a little bit better than people were expecting. But that's exactly what has happened. In consumer spending, the job market and manufacturing, the economy seems to be enjoying consistent, broad-based growth to start the year.

There could always be a setback, of course, but the momentum is almost uniformly positive as the Trump era gets underway.

Some of the factors at work may turn out to be temporary. Energy prices were near recent lows a year ago, and their recovery since has meant oil exploration and related fields are recovering. Similarly, the effects of a steep run-up in the value of the dollar from 2014 to early 2015 have now worked their way through the economy and aren't holding back manufacturing the way they once were.

An unusually warm winter is probably a factor in some of the good numbers, as people who in a normal year would have hunkered down amid snowstorms instead went shopping. But the positive tenor of the latest data has been building for months, and includes some data sets that shouldn't be too affected by the weather.

Think of the numbers released Wednesday as the latest strong signals, not in isolation. Retail sales rose 0.4 percent in January, the Commerce Department said, and a booming 0.8 percent when **volatile** auto sales are excluded. American consumers are powering ahead in the eighth year of the expansion.

The Consumer Price Index rose 0.6 percent, the Labor Department said; even excluding **volatile** food and energy, it was up 0.3 percent. The index is now up 2.3 percent over the last year excluding food and energy, suggesting that inflation is now in the ballpark of the 2 percent mark that the Federal Reserve aims for (the Fed focuses on a different inflation number that still shows readings below 2 percent).

And while overall industrial production fell 0.3 percent in January, according to new Fed data, that was only because the warm winter depressed energy demand and thus output by utilities. Manufacturing output rose 0.5 percent. To cap off a day of good data pointing to an economic surge, the Federal Reserve Bank of New York said its survey of business activity soared to its highest level in two years.

This all continues a recent theme. The economy added 227,000 jobs in January despite an unemployment rate that is already low. The number of people filing new claims for jobless benefits each week keeps hitting lows not seen since the 1970s.

The improving data — and particularly the uptick in inflation — does create a puzzle for the Federal Reserve. In testimony this week, the Fed's chairwoman, Janet Yellen, made clear that an interest rate increase was on the way, though she left ambiguity on whether it would happen at the Fed's March meeting or later in the spring or summer.

If the Fed indeed raises interest rates this spring in an effort to keep the economy from overheating and inflation from taking off, it will be the third rise since December 2015 — but would signal that a faster pace of rate increases was on tap.

On one hand, the Fed's policies work with a lag, so it must act with an eye toward where the economy is going, not where it has been. On the other, after years of trying to slog out of a deep recession, Ms. Yellen and her colleagues don't want to act prematurely and stop the expansion in its tracks.

"Waiting too long" to raise rates, Ms. Yellen told Congress this week, would be unwise because it might require the Fed "to eventually raise rates rapidly, which could risk disrupting **financial markets** and pushing the economy into recession."

The **stock market** has reached new highs in recent days based on a mix of positive economic data and optimism that the Trump administration will bring business tax cuts and profit-friendly deregulation. Granted, a trade war or other disruptions could be damaging, and markets could turn quickly if some of the anticipated goodies don't materialize from Washington.

But the steady flow of improving economic data is a reminder that things are looking pretty good for 2017 if President Trump and Ms. Yellen can avoid messing it up.

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Bookstore sales have been strong, contributing to the vitality of the American economy. | David Ryder/Bloomberg | Shoppers have continued to buy, which has kept the American economy moving. | Steve Griffin/The Salt Lake Tribune, via Associated Press

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Boom Time for Bank Stocks As Goldman Regains Peak

By Liz Hoffman and Christina Rexrode
935 words
15 February 2017
The Wall Street Journal
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Shares in America's banks are booming again, with Goldman Sachs Group Inc., J.P. Morgan Chase & Co. and Bank of America Corp. hitting fresh trading milestones Tuesday that seemed unreachable during the crucible of the financial crisis.

Investor expectations of higher interest rates, lower taxes, lighter regulation and faster economic growth under the Trump administration have added $280 billion in combined market value to the nation's six largest banks since Nov. 8.

On Tuesday, shares of Goldman hit a record high, passing a bar first set in 2007 before the financial crisis. J.P. Morgan also hit an all-time closing high.

Meanwhile, Bank of America traded in line with its net worth -- or the difference between its assets and liabilities -- for the first time since late 2008. The bank had been trading as low as 15% of this level in March 2009.

Bank stocks overall have outperformed broader stock markets since the election. The roughly 27% gain since Nov. 8 for the KBW **Nasdaq** Bank Index is around three times that of the **S&P 500**. Markets rose further Tuesday; the **Dow Jones Industrial Average** climbed 92.25 points, or 0.45%, to close at 20504.41.

One reason for such investor optimism: After years of hacking away at expenses -- shedding businesses, cutting staff and investing in technology that can be ramped up and down cheaply -- expenses are near all-time lows across Wall Street. That means that if revenue does grow as many investors expect, the payoff could be especially big.

Essentially, all the belt-tightening at banks means each extra dollar of revenue should be more profitable than the last. "They've come out of this thing lean and mean," said Ed Wachenheim of Greenhaven Associates, a $6 billion investment firm that counts Goldman, Citigroup Inc. and J.P. Morgan as its three biggest holdings. Once revenue starts increasing, "there's a ton of upside," he said.

Hopes for such positive "operating leverage" -- when revenue grows at a faster pace than expenses -- were in evidence during the bank-earnings season that wrapped up last month. The phrase was mentioned 11 times on Bank of America's call with analysts, nine times on Goldman's and six times on Citigroup's.

Indeed, expenses at the six biggest U.S. banks in 2016 are down 13% from 2013, while revenue is roughly flat. Savings are coming from all corners of the financial firms.

Last year, the six biggest U.S. banks booked a combined 23 cents of every dollar of revenue as profit, up from 15 cents five years ago.

Employees at Morgan Stanley are taking a nickel less out of each revenue dollar than they did in 2010. Bank of America cut the equivalent of 15 Empire State Buildings from its real-estate footprint over five years. J.P. Morgan stopped paying for employees' BlackBerrys.

At Goldman, noncompensation expenses are their lowest since 2007. "This represented a lot of work," Goldman Chief Executive Lloyd Blankfein said at an industry conference last week. "We've taken a lot of costs out -- not to hunker down, but to give ourselves a lot of operating leverage, frankly."

Investors hope profits will gain even further if revenue growth materializes. Bank of America shares, for instance, are up more than 41% since the election, the most of any big, U.S. bank.

That is partly a function of its focus on U.S. consumers and its large pool of rate-sensitive mortgage securities. These tie its fortunes more closely to potential increases in U.S. interest rates than many peers.

The share-price gains led Bank of America's stock to trade at book value, or the firm's intrinsic worth, for the first time since October 2008. The shares were valued below this level as the bank was sucked into the financial crisis and then as it struggled with legal fines, credit losses and lackluster returns since then.

Despite the stock's higher valuation, the share price is still less than half of its precrisis peak of $54.90. And the bank's return on equity, a closely watched measure of profitability, is still below the 10% level investors typically demand.

Citigroup is now the only one of the big, U.S. banks to trade at a discount to book value, at about 81% of this level, according to FactSet data. Even so, it, too, hit a milestone Tuesday: Stock options granted to executives in 2011 expired on Tuesday "in the money," that is, exercisable at a gain, the first time that has happened since August 2007.

Goldman shares, meanwhile, closed at an all-time high of $249.46, beating by more than a dollar a share the previous record set on Halloween 2007. Shares are up 37% since the election.

Its fuel is different than Bank of America's. Goldman, with few consumer-facing businesses and a smaller portfolio of loans, won't get the same boost from higher interest rates.

Rather, investors are betting on Goldman's once-mighty trading desk, which has been hurt by postcrisis regulations and quieter markets. **Volatility** has returned, helped by diverging interest rates around the world, swings in **stock-market** sectors and the occasional presidential tweet.

President Donald Trump has promised to trim trading regulations that ban some lucrative trading activities and require banks to hold extra capital. A Goldman alumnus, Gary Cohn, is the face of the administration's deregulation push.

A Whisker Away

After more than a decade, Bank of America's market value is on the cusp of retaking its all-time high.

Source: FactSet

THE WALL STREET JOURNAL.

Wall Street Walk

Almost 10 years later, Goldman Sachs's share price has reclaimed precrisis levels.

Source: FactSet

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THE WALL STREET JOURNAL.
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A Remarkable Turnaround for Stocks --- Market has reversed from year-ago's trough to racking up record highs 3 days in a row

By Ben Eisen and Akane Otani
323 words
15 February 2017
The Wall Street Journal
J
B16
English

Last February, U.S. stocks were tumbling. Now, they are at all-time highs.

The **Dow Jones Industrial Average**, the **S&P 500**, the **Nasdaq Composite** and the Russell 2000 index of small-capitalization companies closed at records on the same day for the third straight session Tuesday.

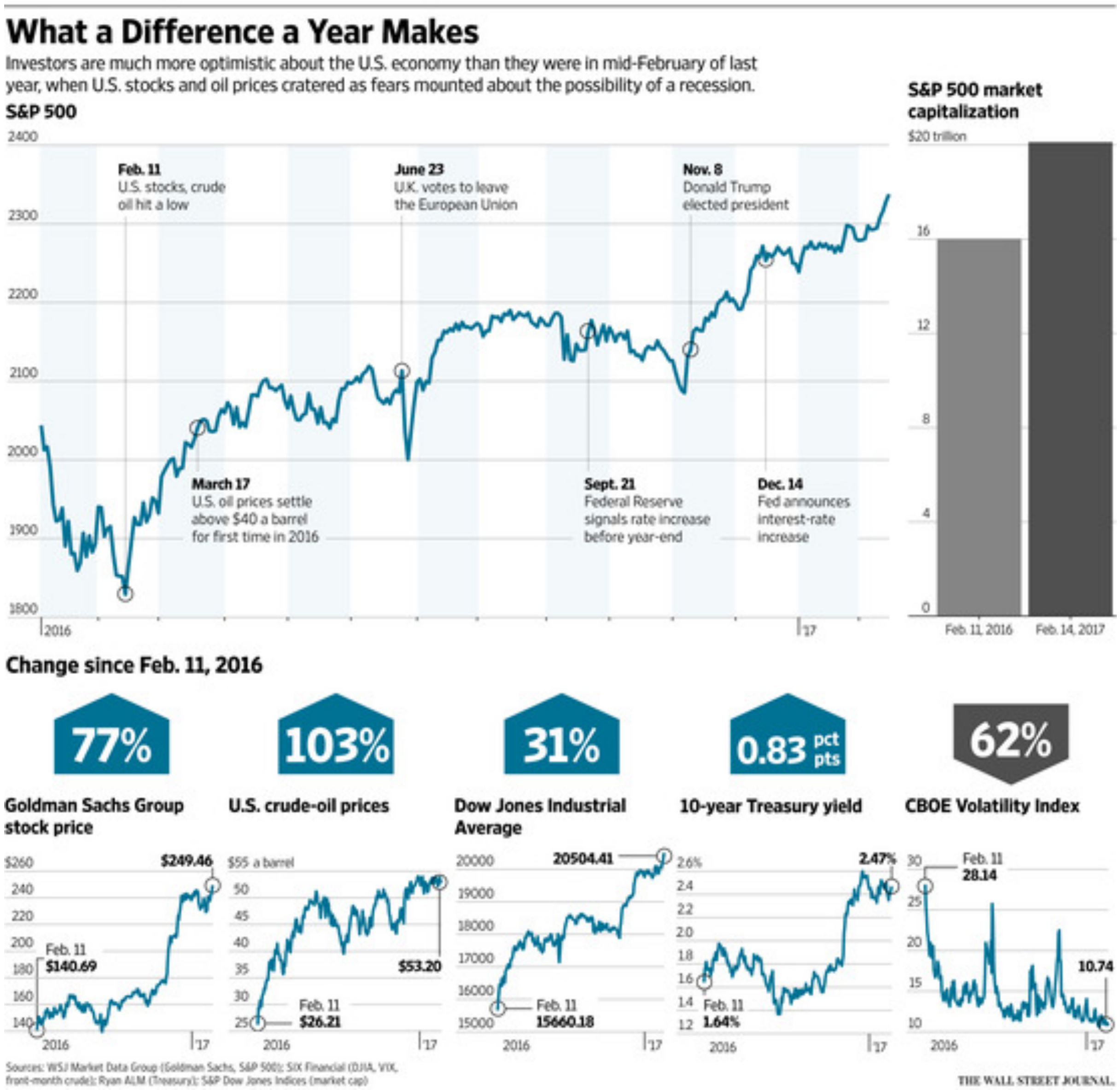
That is quite a turnaround from mid-February of last year, when a barrage of selling sent the **S&P 500** to its lowest close since April 2014. Fears about falling **oil prices** and an economic slowdown in China helped drive the **S&P 500** down more than 10% from the end of 2015 to its February trough.

Since then, markets have reversed with the kind of force that few predicted at the time.

The **S&P 500** has posted several records and passed $20 trillion in market value for the first time ever Monday, according to the S&P Dow Jones Indices. The **S&P 500** has climbed 28% from a low on Feb. 11, 2016, helped by solid U.S. economic data, improvement in corporate earnings and a rebound in **oil prices**, which have doubled from a nearly 13-year low.

U.S. indexes have weathered surprise events such as the U.K.'s vote to leave the European Union in June and President Donald Trump's victory in November -- the latter of which has given stocks their latest jolt higher. The **S&P 500** has gained 9.3% since the Nov. 8 election.

The magnitude of the snapback is one reason why some investors are worried that the rally has gone too far too fast. But so far, this February is a far cry from the last one.



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The New York Times

Business/Financial Desk; SECTB
Credit Suisse to Cut Jobs After Another Yearly Loss

By CHAD BRAY
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15 February 2017
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Late Edition - Final
2
English

LONDON -- Credit Suisse said on Tuesday that it planned to eliminate more than 5,500 jobs by the end of this year as Tidjane Thiam, its chief executive, looks to further reduce costs and improve the lender's prospects as it fell to its second consecutive annual loss.

The job reductions, in addition to 7,000 positions eliminated last year, come as the Zurich-based bank, like much of the industry, struggles with low interest rates around the globe and a lack of confidence among investors for much of last year cut into its results. Turmoil in the **financial markets** in 2015 sent Credit Suisse in 2015 to its first annual loss since 2008.

Investor sentiment improved in the fourth quarter, and the bank said it had positive inflows in its wealth management business in January.

Under Mr. Thiam's leadership, Credit Suisse is shifting its business model away from riskier, capital-intensive trading and banking businesses. The bank, which has large operations in New York and London, has shrunk the size of its investment bank and is placing greater emphasis on its wealth management business, particularly in Asia and other emerging markets.

After joining the bank in 2015, Mr. Thiam announced plans to raise $6.3 billion in new capital and reduce its costs by billions of dollars by the end of 2018.

Credit Suisse had 47,170 employees at the end of the fourth quarter. The bank also reported an annual loss of 2.4 billion Swiss francs, or $2.39 billion, for 2016.

''We will not relent on the pace of cost reductions going forward,'' Mr. Thiam said during a conference call with analysts on Tuesday.

A spokesman said that the bank first targeted consultants and contractors as part of its job reductions and that those jobs reflected the majority of last year's cuts.

Mr. Thiam had previously served as the chief executive of the British insurer Prudential. The restructuring has led to some tensions among Credit Suisse's bankers.

In March, the bank said it would accelerate its cost-cutting and shrink its investment bank, with Mr. Thiam saying that the size of the positions on the bank's trading book ''was a surprise for a number of people and was not a widely known fact.''

In December, the bank said that it would further reduce costs by an additional 1 billion Swiss francs.

On Tuesday, Credit Suisse reported a fourth-quarter loss of 2.35 billion francs, compared with a loss of 5.8 billion francs in the period a year earlier. Revenue increased 24 percent, to 5.4 billion francs.

About 2.17 billion francs of the loss stemmed from litigation provisions primarily related to a $5.3 billion settlement reached with the United States Justice Department in December over the packaging and sale of toxic mortgages before the global financial crisis.

The settlement, which was completed last month, resolved claims that Credit Suisse, like many other financial institutions at the time, bundled together unsuitable mortgages into securities that contributed to the financial crisis in 2008, when the American housing market collapsed.

The industry as a whole has paid tens of billions of dollars to resolve claims over the sale of those securities.

The fourth quarter of 2015 also included a write-down of 3.8 billion francs after Credit Suisse reassessed the value of its investment bank.

Mr. Thiam also said that the bank remained on track with its preparatory work for a partial initial public offering of its Swiss unit in the second half of this year but said that the bank would examine other potential options in light of the regulatory environment.

''We have a plan,'' Mr. Thiam said. ''The fact that we always look at other options has not diminished or diluted that we have a plan and we are implementing it. It's our job to look around.''

Follow Chad Bray on Twitter @Chadbray.

Tidjane Thiam, chief of Credit Suisse, at the bank's headquarters in Zurich on Tuesday. Under his leadership, the bank is shifting its strategy. (PHOTOGRAPH BY MICHELE LIMINA/BLOOMBERG)

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Heard on the Street
Overheard

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15 February 2017
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B15
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[Financial Analysis and Commentary]

Small businesses are super-excited about the economy under President Donald Trump. That should worry investors.

On Tuesday, the National Federation of Independent Business said its index of small-business optimism reached its highest level in a dozen years last month, ticking up to 105.9.

There has been a massive jump in the measure since the election.

The burst of enthusiasm might seem like good news for the **stock market**. The record, however, suggests otherwise.

Figures from FactSet going back to the mid-1970s show that when the small-business optimism index is 105 or higher, the **S&P 500** has risen an average of just 4.7% over the next year. When it is 85 or lower, the index has gained 38%.

Maybe by the time the good economic feelings trickle down to Main Street, it is time to bail out of Wall Street.

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The New York Times

Business Day; DealBook
A Victory for Trump Is a Victory for Big-Name Traders

By ALEXANDRA STEVENSON and MATTHEW GOLDSTEIN
1,135 words
14 February 2017
08:39 PM
NYTimes.com Feed
NYTFEED
English

Carl C. Icahn is one of several billionaire investors who have bet big on a Donald J. Trump presidency.

So **bullish** was Mr. Icahn that he said he made $1 billion worth of bets in the **stock market** the morning after Mr. Trump won the election.

In a regulatory filing on Tuesday with the Securities and Exchange Commission, Mr. Icahn, 80, revealed some of the other bets he made in the last three months of 2016. He loaded up on shares of his company, Icahn Enterprises, which invests in a variety of industries. Mr. Icahn also increased his position in Herbalife, the beleaguered vitamin supplements company in which he already owned more than 20 percent of the outstanding shares.

Mr. Icahn’s stock trading since the election has interested some Democratic senators, who recently raised concerns about potential conflicts of interest given his role as a special adviser to Mr. Trump on overhauling regulation.

In a letter to the White House on Monday, seven Democratic senators sought assurances from the White House that Mr. Icahn would not recommend regulatory changes that could personally benefit some of his investments in a variety of industries.

It is not just Mr. Icahn who is betting big on Mr. Trump. More broadly, Wall Street has turned **bullish** in the wake of Mr. Trump’s victory, pinning its hopes on a new administration — with a Republican-controlled Congress — delivering big tax cuts and rolling back regulation.

The American **stock market** has risen to a record high even as the White House has come under scrutiny for a ban on immigration from seven mostly Muslim countries — blocked while the matter is argued in court — and the resignation on Monday of Michael T. Flynn as national security adviser over concerns about conversations he had with Russian officials before Mr. Trump was sworn into office.

In the months since the election, the **Standard & Poor**’**s500 stockindex** has soared about 9 percent. Banks and other financial stocks have risen about 20 percent, while industrial stocks, including manufacturing and construction firms, have risen about 11 percent. Consumer company shares have gained roughly 9 percent.

Mr. Icahn was one of hundreds of hedge fund and other investment fund managers to make their quarterly declarations to the S.E.C. about which stocks they bought in recent months. Known as 13-Fs, these reports offer investors a glimpse at where these professional traders placed their bets during a given quarter, though they are filed roughly 45 days after the quarter ends.

But the filings offer an imperfect window into the holdings of money managers because they are a snapshot of the past. They include only stocks traded in the United States but do not include short positions, or bets a manager might have made that a stock will fall in price. They also do not include bets on the future direction of the market, a favorite trade of Mr. Icahn and his firm.

This time, however, the regulatory filings reveal the big rush of money into the market over a quarter that coincided with Mr. Trump’s election victory.

Many of the hedge fund managers jumping on the so-called “Trump Bump” trade loaded up on financial stocks in the final quarter of the year, riding shares of banks like Goldman Sachs Group, which are up more than 37 percent since the election, and Bank of America, which has had a more than 40 percent gain over the same period. Some of the big-name managers whose firms added stakes in financial stocks in the final months of 2016 included Daniel S. Loeb, Julian Robertson, David Tepper and O. Andreas Halvorsen.

Nelson Peltz's firm, Trian Fund Management, took a big 4.86 percent stake in Procter & Gamble, one of the largest manufacturers of family, personal and household care products. Mr. Peltz has a reputation as an activist investor who takes stake in companies and then pushes for corporate changes to increase shareholder value. His firm also added shares of Bank of New York Mellon.

Shares of Fannie Mae and Freddie Mac, the giant mortgage finance firms that the federal government placed in conservatorship during the financial crisis, also have surged since Mr. Trump's election. Shares of Fannie, for instance, are up more than 160 percent. The rally has been prompted in part by comments from Steven T. Mnuchin, Mr. Trump's Treasury secretary and a former hedge fund manager.

Mr. Mnuchin said he favored the recapitalization of the two firms and would plan to cut the government's hold over them. Mr. Mnuchin, confirmed by the Senate on Monday, made those comments a day after Mr. Trump nominated him.

His early comments on Fannie and Freddie were welcome news to a group of hedge fund managers, like Paulson & Co. and William A. Ackman's Pershing Square Capital Management, that bet on mortgage finance firms. Mr. Ackman's firm acquired big stakes in shares of both Fannie and Freddie in late 2013 and the stocks are two of his firm's big winners in 2016 — a year in which one of Pershing Square's portfolios lost a little more than 13 percent.

Paulson & Co, a firm led by John Paulson in which Mr. Trump and Mr. Mnuchin have been investors at various times, reported trimming its bet on gold through an exchange traded fund. The firm also bought a new stake in the drug company GlaxoSmithKline.

But Mr. Icahn's bet will be of most interest with politicians in Washington, where Senators have sought assurances from the White House that safeguards would be put in place to ensure Mr. Icahn does not have access to information that is not public and could be used to make a profitable trade.

Icahn Enterprises, Mr. Icahn's firm, has several large investments in companies that are directly affected by regulations, which he has described as stifling. In the fourth quarter, he acquired another 2.9 million shares of his company.

It is his majority investment in CVR Refining, an oil refiner that is a core investment of Icahn Enterprises, which is of biggest concern to lawmakers. CVR is required by the Environmental Protection Agency to blend its oil or buy credits, something that Mr. Icahn has called "completely totally absurd."

Mr. Icahn, who did not return phone calls seeking comment, has blamed the E.P.A. for the bankruptcy of several oil refineries in the United States.

Still, in Tuesday's filing, he did not report any change in the number of shares his firm has in CVR.

* For Hedge Fund Investors, Calm Uncertainty Over Trump's Direction

* Herbalife Settlement With F.T.C. Ends Billionaires' Battle

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Heard on the Street
Corporate-Debt Drought Looms Under U.S. Tax Proposal

By Justin Lahart
489 words
14 February 2017
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B11
English

[Financial Analysis and Commentary]

If the Republican-led U.S. Congress has its way, the supply of new corporate bonds might soon dwindle.

The corporate-tax overhaul that House Republicans drew up last June has become a source of market enthusiasm and anxiety since the election of President Donald Trump. The focus has largely been on the possibility of lower corporate taxes and a tax on imports.

Bond investors should instead look at another part of the plan, which would let multinational firms repatriate foreign profits and deny most deductions for interest.

Years of rock-bottom interest rates made the corporate-bond market one of the few places in which income-oriented investors have been able to make money. Their demand for corporate debt helped fuel a flood of issuance: U.S. investment-grade corporate-bond issuance was $1.3 trillion last year versus $900 billion a decade earlier, according to the Securities Industry and **Financial Markets** Association.

But companies' willingness to feed that demand might be about to cool.

Under the House Republican proposal, U.S. companies would no longer be taxed on their foreign income, instead paying taxes on goods imported into the U.S. That means companies could repatriate any future profits earned overseas penalty-free. As a result, companies are more likely to bring overseas cash home to pay for U.S. acquisitions and investments than to fund them with borrowed money.

The House plan would also tax the trillions of dollars in uninvested profits companies have sitting overseas at 8.75%. That would encourage companies with substantial overseas cash hoards, such as Apple, to bring their money home.

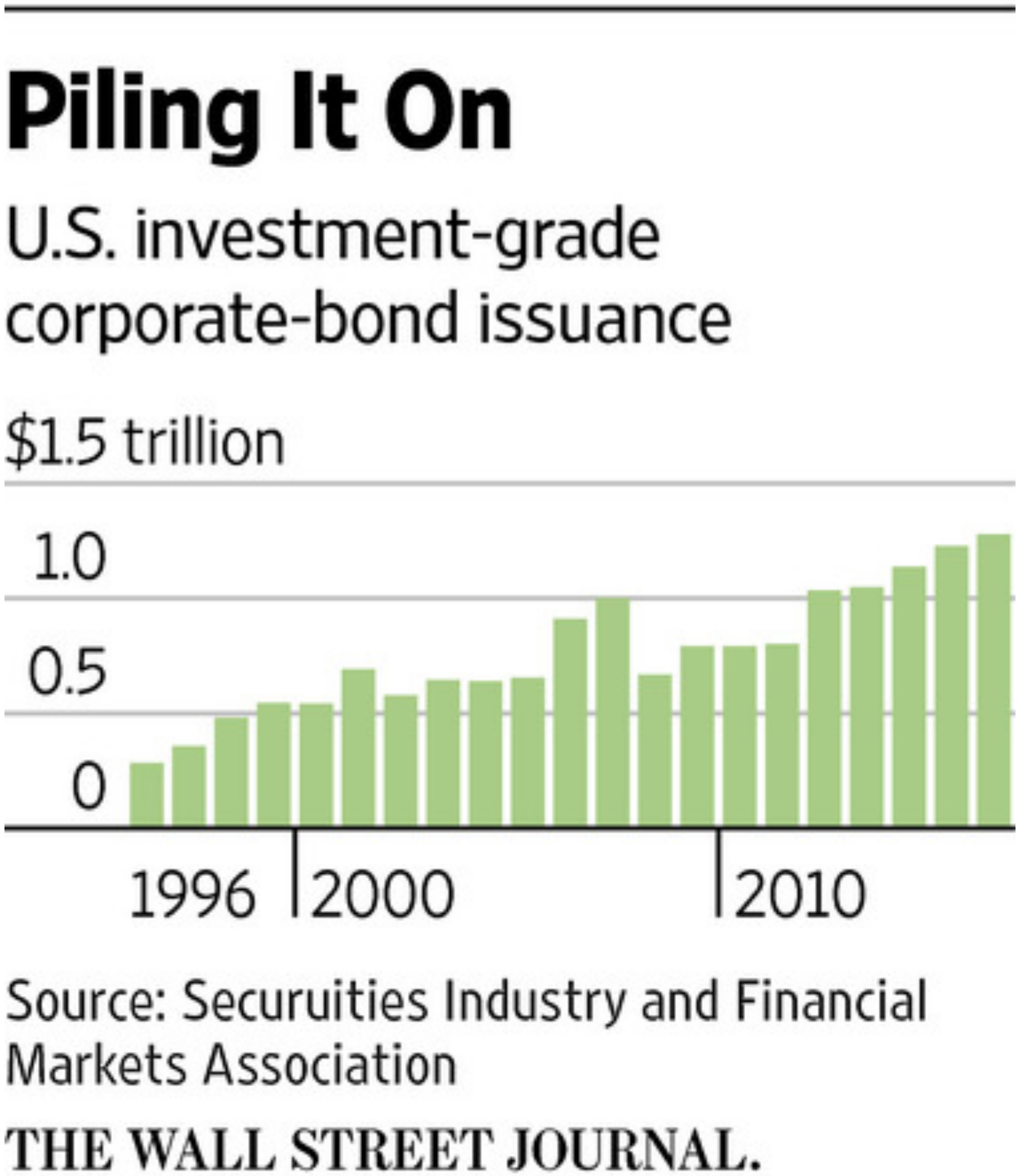
As a result, companies would have one less reason to issue bonds. On its fourth-quarter earnings call this month, Visa said it has over $8 billion in offshore cash and said it would wait to see what the new repatriation plans are before issuing any more longer-term debt.

Another feature of the House plan is that companies would no longer be able to deduct net interest costs as an expense. Interest deductibility is controversial because it gives preferential treatment to debt financing over equity financing.

John Graham, an economist at Duke's Fuqua School of Business who has studied the tax advantage of debt financing, says the change would lead to "a notable reduction in the issuance of debt."

If some form of these plans makes it into law, it could set off a drought in corporate bonds. The result could be a rally in the market, a shift by investors to riskier assets and a chance for companies that still want to issue debt to do it at very low rates.

The consequences, intended or not, of a tax overhaul could change the way investors think about corporate bonds.



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Peso: Currency in Crisis: Border-Tax Plan Draws Few Bettors

By Chelsey Dulaney
847 words
14 February 2017
The Wall Street Journal
J
B10
English

A Republican tax plan has analysts predicting seismic shifts in global markets, from a double-digit surge in U.S. **oil prices** to the strongest dollar since the 1980s. But so far, few investors are willing to bet on it.

Markets are struggling to size up the impact of the border adjustment, which would tax imports at a rate of 20% while exempting exports. The aim is to make the U.S. a more attractive place for businesses to invest, while also raising $1 trillion to offset Republicans' proposed tax-cut plans.

Markets face big changes if the proposal becomes law. The dollar could rally 25% to levels not seen since the 1980s, according to economists including Harvard University's Martin Feldstein. U.S. **oil prices** could surge to $65 a barrel from a recent $54, Goldman Sachs Group Inc. analysts project, reflecting a sharp tightening in the supply-demand balance in the U.S. market. The Federal Reserve's preferred inflation gauge, the personal-consumption-expenditures price index, could jump to 2.4% or higher from a recent 1.6%, by Goldman's estimate.

"The border tax is the biggest policy story in years," said Greg Anderson, global head of foreign-exchange strategy at BMO Capital Markets.

Yet investors have been hesitant to bet on these moves, in part reflecting uncertainty over whether a border adjustment will become law or what form it might take. The proposal has faced criticism from U.S. companies and politicians in recent weeks. Rep. Kevin Brady (R., Texas), one of the architects of the proposal, has said he is listening to objections and looking at ways to smooth the transition for taxpayers.

Goldman Sachs analysts said last month that pricing in global oil markets reflected just a 9% chance of the border adjustment becoming law.

President Donald Trump has expressed concern about the tax plan, calling it "too complicated," in an interview with The Wall Street Journal in January.

The administration has since said a border adjustment is one option for paying for Mr. Trump's proposed wall on the U.S.-Mexico border, but skepticism remains on Wall Street.

"The tax doesn't seem to be on the first round of the administration's priorities," said Alvise Marino, a foreign-exchange strategist at Credit Suisse.

On Thursday, Mr. Trump said he would make an announcement that would be "phenomenal in terms of tax" within the next three weeks.

Still, uncertainty over tax policy has weighed on the dollar, which has fallen 2% this year against a basket of major peers, relinquishing roughly half of its postelection rally.

The border tax is expected to boost the dollar because U.S. companies, now exempt from taxes on their exports, would be able to sell more products abroad. When foreigners buy U.S. exports, they must buy dollars and sell their local currencies, driving up the U.S. currency's value. At the same time, the tax could reduce U.S. appetite for foreign goods, which would curtail demand for foreign currencies and boost the dollar.

Advocates say the dollar would likely rise enough to offset the proposed tax, citing how currencies responded to similar tax systems abroad, so consumer prices would remain steady. For example: a 20% import tax on car parts made in Mexico would be met with a similar depreciation in the Mexican peso, so prices would remain stable for both importers and consumers.

But many analysts warn that these projections are based on economic theory. In the real world, the dollar likely wouldn't rise quickly or high enough to offset negative impacts.

Daragh Maher, head of U.S. foreign-exchange strategy for HSBC Holdings PLC, said the value of the dollar and other foreign currencies is driven mostly by demand for assets such as stocks and bonds. Trade makes up only 1.4% of daily trading in the U.S. dollar, according to HSBC.

Analysts say some companies could choose to move jobs and production back to the U.S., as the import tax would temper the cost savings from outsourcing.

"These firms moved their operations to a place like Mexico because it was cheaper to build things there," said Mr. Marino of Credit Suisse. "The tax is supposed to make these firms indifferent between using their Mexico facilities and making things in the U.S."

A tax would be especially painful for emerging-market nations such as China. In addition to diminished demand for its exports, the dollar's strength would add to downward pressure on the Chinese currency, the yuan.

Credit Suisse estimates that a border adjustment would reduce merchandise exports from Asia by 3% to 4%, denting the region's growth by around 0.5 percentage point.

"Less global trade, whether through a border tax adjustment or something else, is bad for Asia," said Eric Stein, co-director of global income at Eaton Vance.

Richard Rubin and Sara Germano contributed to this article.

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Bond Buying Soars, Yields Tighten --- Investors pack into corporate bonds even as spreads get thinner, prices hit recent highs

By Chris Dieterich
683 words
14 February 2017
The Wall Street Journal
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English

The reach for yield is alive and well.

Investors are snapping up U.S. corporate bonds at a time when the yield available to cushion them from losses is the thinnest in more than two years.

Some $2.1 billion rolled into U.S. investment-grade corporate-bond mutual and exchange-traded funds in the week ended Feb. 8, the third most since 2010, according to fund tracker EPFR Global. A week earlier, $2.8 billion moved into high-grade corporate bonds, the biggest one-week influx in at least seven years.

Heavy buying is evident in riskier junk bonds, too. Some $1 billion moved into junk-bond funds last week after a $1.5 billion influx in the previous week, the largest two-week inflow since the middle of December.

While defaults are low and a strengthening U.S. economy should limit any upswing in the foreseeable future, these narrow spreads are making many analysts and traders skeptical that **bond prices** have much more room to rise from current levels.

For now, investors in both the bond and stock markets are diving in at prices that are near multiyear highs.

In the past, investors flocked to bond funds after market selloffs created value and lifted yields. But the extra yield demanded by investors to own speculative-grade bonds instead of risk-free government debt ended last week at 3.9 percentage points, near the lowest since September 2014, according to Federal Reserve economic data. For investment-grade bonds, the "spread" is just 1.3 percentage points, also near the lowest since 2014.

A year ago, after crude-**oil prices** plunged to 12-year lows and wreaked havoc on the credit of energy-sector bond issuers, junk-bond investors demanded 8.9 percentage points more in yield over comparable Treasurys, more than double the current spread.

In the summer of 2013, during the "Taper Tantrum" bond selloff set off by concerns that the Fed would pull back on its monthly bond buying, the high-yield bond spreads topped 5 percentage points over Treasurys.

Investors said recent demand reflects a brightening outlook for the U.S. economy and the reality that Treasury bonds appear acutely vulnerable to rising interest rates, leaving some with little choice but to target corporate debt.

"There's no question that high yield is expensive but, in fixed income, there's not a whole lot of value anywhere," said Marc Pfeffer, senior portfolio manager at CLS Investments. "The best you can hope in high yield is to collect your coupon, which is lower than it was last year."

Defaults in the junk market fell last month to 5% over the past 12 months, down from 5.1% in December, according to S&P Global Ratings. The credit-grading firm expects that rate to hold steady through September.

Rob Glownia, a fixed-income portfolio manager at RiverFront Investment Group, agrees that corporate bonds are richly priced but owns them in part because economic growth is poised to accelerate.

"Spreads are tight, but there's a strong backdrop of corporate earnings and we're under the assumption that we're not going to see many defaults," said Mr. Glownia.

Even so, tight spreads don't leave much room for error, especially given the unknowns about tax policy and infrastructure spending from the Trump administration. And France's April presidential election might inject more instability in the European Union.

Strong inflows recently also suggest that fund investors may be quick to retreat and withdraw money if bond funds start to take losses. Junk-bond spreads have had a strong relationship with stock **volatility**, as measured by the CBOE**Volatility** Index, over the past 20 years. Higher VIX readings and lower stock prices almost always hit the prices of corporate bonds. With both junk-bond spreads and VIX readings at multiyear lows, some investors are nervous about adding more money to the market.

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Streetwise: What VIX Is Really Telling Markets

By James Mackintosh
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14 February 2017
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English

The last time U.S. **stock-market volatility** started the year this low was in 2007, shortly before the subprime crisis hit. Before that, it was 1994, a year when the Federal Reserve shocked markets and hedge funds blew up.

The historical parallels are scary because when investors anticipate that **volatility** will be low, it can be a sign of excessive complacency. But there are good reasons not to worry too much about the low level of the VIX -- the Chicago Board Options Exchange's **Volatility** Index -- and one good reason to keep a close eye on it nonetheless.

Here's why the VIX scares people: complacency. One of the things measured by the VIX is the balance between supply and demand for options. It's a proxy (though not a perfect one) for the cost of protecting an **S&P 500** portfolio against loss over the next 30 days. When it is very low, it suggests there are lots of people willing to sell insurance policies against a market fall and few people wanting to buy protection.

"When it goes wrong it's going to go spectacularly wrong because everyone's on the same side of the trade," says Jonathan Tepper, founder of macro researcher Variant Perception. He suggests **volatility** is being suppressed because the stimulus measures of major central banks are flooding the market with cash. Easy money encourages investors to pick up pennies of insurance premium in the options market and to buy the dips in the **S&P 500**, the equivalent trade in stocks.

Investors looking for reassurance should look below the headline level of the VIX. The VIX doesn't only gauge supply and demand for options. It is a measure of implied **volatility** over the next 30 days, so it can be thought of as the current **volatility** plus a premium to cover any further rise in **volatility** from, well, stuff that happens.

When stuff is scheduled to happen, such as elections or important central-bank decisions, the premium is higher. But the real complacency measure is the size of the premium for what Donald Rumsfeld, former U.S. defense secretary, called "unknown unknowns."

It's hard to strip this out perfectly, but one close measure is the gap between the realized **volatility** -- how much the market moved in the past -- and the **volatility** priced in to the VIX. In effect, this quantifies how much of a rise in **volatility** investors are allowing for. If they're prepared for only a slim rise, they are more likely to get a nasty surprise.

At the moment, the gap between realized and implied **volatility** is normal. Investors are prepared for some rise in **volatility**, but from an abnormally low level.

The puzzle then isn't why the VIX is so low, but why the market has been so calm for the past couple of months. Why hasn't there been a 1% move up or down in the **S&P 500** since Dec. 7? Bears might go back to central banks: When money is easy, people buy the dips. Bulls can look to President Donald Trump, as bets on his policies have been good for many stocks, but bad for others. The gains and losses aren't especially low at the stock level, but often canceled out when combined into the index.

"Single stock risk is at moderate levels, but index [**volatility**] has collapsed," said Tim Edwards, senior director of index investment strategy at S&P Dow Jones Indices. "Correlations are lower."

There's a further technical support for the bulls, from the high skew in the options market.

The price of put options used to protect a portfolio is higher than of calls used to bet on rising prices, so there's less complacency than the VIX taken alone suggests. None of this will be any help if one of the unknown unknowns materializes, of course.

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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
Indexes Keep Rising, in U.S. and Abroad

By THE ASSOCIATED PRESS
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14 February 2017
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5
English

Wall Street indexes again hit new highs on Monday, joining global stock markets in an upward march.

Strong gains for Citigroup and other financial stocks helped the **Standard & Poor's 500-stockindex** rise 12.15 points, or 0.5 percent, to 2,328.25. It was the third straight day the index had set a record. The **Dow Jonesindustrial average** gained 142.79, or 0.7 percent, to 20,412.16. The **Nasdaq composite** climbed 29.83, or 0.5 percent, to 5,763.96.

Earlier in the day, markets rose across Europe and Asia.

Stocks have resumed their rally in recent days after stalling for a couple of weeks. Stronger-than-expected profit reports from companies, continued improvement in the United States economy and expectations for business-friendly policies from Washington have helped propel the market.

The **S.&P. 500** has climbed for five straight days and is up 8.8 percent since the election of Donald J. Trump in November.

Companies whose profits are most dependent on the strength of the economy were some of Monday's biggest gainers. Financial stocks in the **S.&P. 500** rose 1.1 percent, the biggest gain among the 11 sectors that make up the index. Industrials rose 1 percent.

The biggest stock in the **S.&P. 500**, Apple, was also at a record closing high: $133.29, after it rose $1.17, or 0.9 percent. Apple's performance carries extra weight for many 401(k) accounts because of its status as the biggest publicly traded company in the world.

The chemical company Chemours jumped $4.01, or 14.3 percent, to $32.14 after it announced an agreement with DuPont to jointly pay $670.7 million to settle roughly 3,500 personal-injury claims related to the release of perfluorooctanoic acid from a West Virginia plant. DuPont rose 99 cents, or 1.3 percent, to $77.82.

The only category in the **S.&P. 500** to fall on Monday was the telecommunications sector, which sank on worries that more pricing wars could be on the way.

Verizon unveiled an unlimited-data plan for its customers, and its stock dropped 43 cents, or 0.9 percent, to $48.55. Its competitors fell more: AT&T lost 75 cents, or 1.8 percent, to $40.65, and Sprint fell 12 cents, or 1.3 percent, to $8.84.

Several things could shift the market's momentum. Janet Yellen, chairwoman of the Federal Reserve, will offer testimony on Capitol Hill on Tuesday and Wednesday to update the Senate and the House of Representatives on monetary policy. The government will also give updates on the state of inflation, on both the consumer and the wholesale levels.

Treasury yields have been on an upward trend since Election Day, in part because of expectations for higher inflation. The yield on the **10-year Treasury** note rose to 2.44 percent on Monday, from 2.41 percent late Friday. Two-year and **30-year Treasury** yields also notched higher.

Stocks climbed in other markets around the world. In Asia, Japan's Nikkei 225 index rose 0.4 percent, the Hang Seng in Hong Kong gained 0.6 percent and South Korea's Kospi index added 0.2 percent. In Europe, the French CAC 40 index jumped 1.2 percent, Germany's DAX climbed 0.9 percent and Britain's FTSE 100 added 0.3 percent.

Benchmark United States crude oil fell 93 cents, or 1.7 percent, to settle at $52.93 a barrel. Brent crude, the international standard, fell $1.11, or 2 percent, to $55.59 a barrel.

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

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The New York Times

Business/Financial Desk; SECTB
OPEC Deal to Cut Production Is Lifting Oil Prices. Can It Last?

By STANLEY REED
1,118 words
14 February 2017
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3
English

When OPEC and other major oil exporters agreed late last year to limit production as a way to bolster teetering prices, many saw it as a shaky deal by a spent force.

That perception, though, has changed. And **oil prices** are up 20 percent since the agreement was reached.

New data published on Monday by the Organization of the Petroleum Exporting Countries shows that the cartel's 13 members have largely complied with the production cut.

''So far this is holding up way better than any previous agreement had,'' said Bhushan Bahree, an OPEC analyst at the research firm IHS Markit.

Still, questions remain about how such a disparate group of countries will be able to hold together, and how much clout OPEC has in a market that has changed radically in recent years.

Here is a quick rundown of the deal, its implementation, and its implications:

What made it possible?

In short: financial pain.

Oil prices began falling in late 2014, when OPEC decided not to cut production as a way to stabilize prices. From a high above $100 a barrel earlier that year, prices fell below $30 a barrel in early 2016 before recovering modestly.

That played havoc with the government budgets of major oil producers, pushing even Saudi Arabia -- OPEC's biggest member by oil output -- to borrow large sums in **financial markets** and to risk antagonizing its citizens by raising energy prices and cutting government salaries.

What followed was a year of sometimes cliff-edge negotiations to reach the deal that was eventually announced in Vienna on Nov. 30.

Had the producers not agreed, prices could have fallen further. ''People got pretty close to the abyss and looked down, and it was pretty deep,'' Daniel Yergin, an oil historian, said in an interview. ''As a consequence they stepped back and did something.''

Russia's shift to looking for production curbs was crucial, OPEC officials say. It gave the Saudis, who had insisted they would not cut output on their own, the comfort to agree to limits.

Are producers complying?

The early results indicate, for the most part, yes.

The estimates released by OPEC on Monday showed that its members made more than 90 percent of the agreed cuts in January, the first month that the deal was in force. OPEC says the figures are based on secondary sources, rather than on data from the members themselves, and that the figures largely confirm data published on

Friday by the International Energy Agency in Paris. That monitoring group said OPEC had reduced its production 3 percent, equivalent to 90 percent compliance.

''We are pretty confident that the picture we have come up with in January is not going to change very much,'' said Neil Atkinson, head of oil markets at the agency.

Big countries appear to be holding to the deal. Saudi Arabia cut its output by more than it had initially promised, to less than 10 million barrels per day. Kuwait, Iraq and the United Arab Emirates also made large reductions, although Iraq and the U.A.E. both fell short of their pledges.

Russia, which is not a member of OPEC but which did sign the deal to cut production, also lowered its output in line with promises, according to the International Energy Agency. How much was cut by other producers outside the cartel is not yet clear.

Is it working?

In a narrow sense, it is. Prices rose after the deal was announced, and they have largely held steady, around $55 a barrel.

But oil producers also had another goal: to drain the huge stocks of crude oil and refined products, like gasoline, that have built up in recent years and are blamed for keeping prices low.

It is unclear, however, if that strategy will work.

The I.E.A. estimates that if OPEC maintains its current level of compliance with the Vienna deal, demand would outpace supply, helping to reduce those stocks. But, the agency says, it could take more than a year to bring inventories down to longer-term averages.

And while OPEC and Russia are cutting back, other producers are trying to take advantage of the higher prices.

The United States, where production fell by 1 million barrels per day between April 2015 and September 2016, is now raising output again. Increases in North America, Brazil and elsewhere may at least partly offset the impact of the cuts by OPEC and Russia.

Will they stick together?

That depends. Most analysts think they will stay relatively close to the agreed targets for the next few months. And there is also a good chance that the agreement will be renewed when it expires at the end of June, especially if it is seen as working but in need of more time.

''Saudi Arabia and other producer countries are feeling the pain of low **oil prices** and thus will likely stay the course if cuts prop up prices,'' said Jason Bordoff, director of the Center on Global Energy Policy at Columbia University. ''But the deal may unravel if those cuts are just offset by strong non-OPEC production growth in places like the U.S., Canada and Brazil that keeps prices low.''

In the longer term, keeping output low may not be in the interests of major producers like Saudi Arabia and Russia. Those countries have large reserves and can extract oil at low costs.

In the past, they have calculated that oil in the ground would be worth at least as much in the future. But that trade-off has shifted as new technology has made more oil available and as renewable energy and electric cars have appeared to reduce long-term demand.

It may make more sense for the major producers to pump as fast as they can, to try to gain market share rather than risk leaving oil in the ground.

What does it mean for consumers?

A lot.

Gasoline prices in the United States have risen about 7 percent since the deal was made, to an average of $2.29 per gallon for regular gasoline, according to the United States Energy Information Administration.

Crude oil accounts for a little over half the price of gasoline, with the rest coming from costs like refining, distributing and marketing the product, as well as taxes.

Therefore, gasoline prices are likely to follow those of crude. And **oil prices** also influence the costs of other energy sources like natural gas.

OPEC ministers meeting in Vienna last November. Members of the cartel have largely complied with their production curbs. (PHOTOGRAPH BY RONALD ZAK/ASSOCIATED PRESS)

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The New York Times

The Week Ahead
Business Day
Trudeau and Trump Are to Meet, and Yellen Will Address Congress

By THE NEW YORK TIMES
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Here's a look at what's coming up this week.

ECONOMY

Keystone oil pipeline and trade are likely topics.

Prime Minister Justin Trudeau of Canada will head down on Monday for his first meeting with President Trump. While the two men are polar opposites politically and in style, the economic importance of the United States to Canada has meant that Mr. Trudeau has studiously refrained from directly criticizing the new president or his policies. Their meeting follows a parade of Canadian cabinet minsters last week to Washington. Mr. Trump's protectionist stance on trade is a particular worry to Canada, which counts on exports to the United States for about a quarter of its gross domestic product . While Chrystia Freeland, Mr. Trudeau's foreign minister, warned the Trump administration not to impose a border tax during her visit to Washington, Canada has said it would welcome reopening the North American Free Trade Agreement to make some changes. The two leaders may also discuss Mr. Trump's decision to conditionally approve the Keystone XL oil pipeline project form Alberta's oil sands , a project blocked by the Obama administration. Ian Austen

OIL INDUSTRY

A look at OPEC 's first output figures since cuts.

On Monday, the Organization of the Petroleum Exporting Countries is expected to publish members' oil output numbers for January, the first month of cuts in oil production that producers agreed to late last year. The cuts were aimed at propping up petroleum prices. Analysts expect the report to show that OPEC members are making most of the agreed trims. On Friday, the International Energy Agency , the monitoring group based in Paris, said compliance was about 90 percent. The agreement by OPEC , Russia and other large exporters to restrain output has helped lift prices , Russia and other large exporters to restrain output has helped lift of Brent crude to about $57 a barrel from around $45 a barrel in late November. Stanley Reed to about $57 a barrel from around $45 a barrel in late November.

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Fed chief will go before House and Senate committees.

Janet Yellen , the Federal Reserve chairwoman, will testify before Congress on Tuesday and Wednesday for the first time during the Trump administration . Some congressional Republicans, emboldened by the new president, are likely to see an opportunity to sharpen their long-running attacks on the Fed's performance as a financial regulator. Both Democrats and Republicans will also probably seek Ms. Yellen's blessing for their views on fiscal policy. But the formal reason for her visit is to deliver to Congress a biannual report on the Fed's conduct of monetary policy. Ms. Yellen will appear before the Senate Banking Committee on Tuesday and the House Financial Services Committee on Wednesday. Binyamin Appelbaum

BANKING

Credit Suisse 's fourth-quarter earnings are coming.

Earnings will again be in focus as Europe's largest banks continue to report their annual results. Credit Suisse will be the latest lender to update investors on its performance, announcing its fourth-quarter results on Tuesday. The Swiss bank had previously said it would take a pretax charge of $2 billion in the fourth quarter after it agreed in December to pay $5.3 billion to settle an investigation by the United States authorities into the packaging and sale of mortgages ahead of the global financial crisis. Chad Bray

MEDIA

Time Warner shareholders will vote on the AT&T merger.

Time Warner shareholders will meet Wednesday to vote on the company's proposed $85.4 billion merger with AT&T . A "yes" vote is expected. The tie-up brings together two industry titans and, if approved by federal regulators, is expected to reshape the media and telecommunications industries. President Trump said in October that his administration would block the deal, stating that it would result in "too much concentration of power." Jeffrey L. Bewkes , the chief executive of Time Warner, said on a conference call last week that he was confident the deal would be approved this year. Emily Steel

ECONOMY

Energy prices are expected to raise Consumer Price Index.

On Wednesday at 8:30 a.m., the Labor Department will release the Consumer Price Index for January. The index rose by 0.3 percent in December , pushing the year-over-year increase in up to 2.1 percent from 1.7 percent. The core rate — which excludes food and energy prices because they are believed to be more **volatile** — increased by 0.2 percent, bumping the 12-month increase up a notch to 2.2 percent from 2.1 percent. A continuing rise in energy prices should further raise the index, analysts say, by another 0.3 percent in January. They expect the core rate to rise by 0.2 percent, as consumer goods import prices have declined. Patricia Cohen

European lawmakers are expected to approve a trade deal with Canada.

Justin Trudeau , the Canadian prime minister, is scheduled to address the European Parliament on Thursday, a day after lawmakers meeting in Strasbourg, France, are expected to ratify a landmark trade deal with Canada. The Comprehensive Economic and Trade Agreement took years of tortuous negotiations and would cut many tariffs on industrial goods and on farm and food items, as well as open up the services sector in areas like cargo shipping, maritime services and finance to European firms. The deal was nearly derailed last year by Wallonia, the French-speaking region of Belgium, which used its veto to temporarily withhold Belgium's approval of the deal. Yet the Walloon protest also reflected how globalization has fallen out of favor with many citizens in the West, and there could be further hurdles ahead for the deal as it still must be ratified by national and some regional parliaments across the European Union to go fully into force. James Kanter

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THE WEEK AHEAD
Business/Financial Desk; SECTB
Trudeau to Meet Trump; Yellen Heads to Congress

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

Janet Yellen plans to testify on Tuesday and Wednesday. (PHOTOGRAPH BY AARON P. BERNSTEIN/GETTY IMAGES); Prime Minister Justin Trudeau visits Washington and France. (PHOTOGRAPH BY CHRIS WATTIE/REUTERS)

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International New York Times

business
Oil Producers Comply With OPEC Deal to Cut Output, but for How Long?

By STANLEY REED
1,141 words
13 February 2017
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INHT
English

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PHOTO: OPEC ministers meeting in Vienna last November. Members of the cartel have largely complied with their production curbs. (PHOTOGRAPH BY RONALD ZAK/ASSOCIATED PRESS)

* Russia and Others Join OPEC in Rare, Coordinated Push to Cut Oil Output

* Not Everyone’s So Sure Low **Oil Prices** Will Stay Put

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THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
Investors Will Need Patience as Markets Seek Direction

By Richard Barley
493 words
13 February 2017
The Wall Street Journal
J
B10
English

[Financial Analysis and Commentary]

The experience of 2017 so far in markets suggests investors will need a quality that can be in short supply in today's fast-moving world: patience.

Many popular trades inspired by the hope of stronger growth have faced a test in the opening weeks of the year.

The dollar has weakened, with the WSJ Dollar Index falling 2.3%. Long-dated government bonds, which plummeted last year, have recovered some poise, with Bank of America Merrill Lynch's index of U.S. Treasurys maturing in 15 years or more up 1.3%.

Stocks have made headway, but it has been a jerky process, with swift gains followed by extended periods of sideways motion. In the past three months, the **S&P 500** has only moved by more than 1% on one occasion -- back in December. Credit markets have been becalmed, with corporate-bond spreads over risk-free rates hardly budging.

The end of this week has brought new fuel for the market. Investors have been waiting for some word from the new U.S. administration on a key element of the growth trade: President Donald Trump's plans for tax and spending.

On Thursday, Mr. Trump said there would be a "phenomenal" tax announcement within the next three weeks. That helped the **S&P 500** inch up to a record and pushed both bond yields and the dollar up, although they are still below their recent peaks.

Still, the market pattern shows the risk of a gap emerging between expectations and reality. The market has been buoyed by evidence of stronger global growth at the end of 2016 and the start of 2017, but this is likely to have been generated by forces and events that were in play at the start of last year, in particular stimulus from China.

That makes the handover from monetary policy to fiscal policy -- one of the factors that has shifted markets away from last year's panic about deflation toward a focus on rising growth and inflation -- a potentially fragile period. Politics don't operate to the same timetables as monetary policy and have a multitude of competing priorities. While investors have been waiting for signals from the U.S. on fiscal policy, it has been a dispute about immigration policy that has dominated the headlines.

Meanwhile, markets will be vulnerable to any signs that momentum in the economy is fading. New policy measures will take time to come into effect. Meanwhile, European politics are heating up, with the end of the first quarter and start of the second likely to see investors' attention grabbed by the Dutch and French elections.

This mix risks more stop-and-go action in markets. The path for stock prices, bond yields and the dollar looks like a bumpy one.

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The New York Times

Market Timing
The Upshot
It’s Probably a Bad Idea to Sell Stocks Because You Fear Trump

By NEIL IRWIN
1,027 words
13 February 2017
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English

Correction Appended

“So should I cash out of the **stock market**?”

This is the question I’ve heard from several liberal-leaning friends in the last few months. I get a few emails in this vein every time the **stock market** hits new highs, as it did on Friday.

They are worried that the combination of high share prices and an erratic president mean that the only direction for stocks is down. They are considering shifting some of their assets into cash or bonds.

The short and safe answer to give them is: “I don’t know.” But there’s also a long answer.

Letting one’s political opinions shape investing decisions is a good way to lose money. Whether a given chunk of your savings should be in stocks, bonds or cash depends on your appetite for risk and when you’re going to need that money. It shouldn’t be shaped by whether you love or hate the current occupant of the White House.

We all have a tendency to fall for motivated reasoning. If you think President Trump and his policies are bad, there’s a natural tendency to think that will soon be reflected in share prices. That could turn out to be true. But politics makes us stupid. It can cause us to overweight the risks and perils we want to see, and underweight the possibility that, at least in terms of markets, things could go quite well.

First, much of the movement in stocks has little to do with what the president of the United States does. It would be silly to credit Bill Clinton with the dot-com boom that took place during his presidency, or to blame George W. Bush for the collapse of it.

But even when the action out of Washington is driving markets, it is easy to be blinded by your political opinions. The response to the financial crisis by the Obama administration and the Federal Reserve in early 2009 succeeded at ending the recession and setting the United States economy on an expansion that continues to this day. Conservatives tended to malign the **stock market** rally everystepoftheway. But those who put their money where their mouth was — that is, into cash instead of stocks — lost out on a 182 percent gain in the Standard & Poor’s 500 during the Obama presidency.

Liberals are just as susceptible to this motivated reasoning. Barry Ritholtz of Ritholtz Wealth Management recalls hearing left-leaning friends in the hedge fund industry confidently assert in 2003 that the Bush tax cuts would be bad for markets by blowing out the budget deficit and failing to create jobs. Instead, the **stock market** rose steadily from that point until late 2007.

There’s certainly no guarantee that the **stock market** will continue to rise under the Trump administration. There are ways that the outlook for investors could get better, and also plenty of ways for them to get worse.

It’s very likely there will be corporate tax cuts and deregulation, both of which benefit companies’ bottom lines in a pretty direct and measurable way. It was optimism about those policy priorities that has driven the market rally since Election Day. Throw in some extra government spending on the military and public infrastructure, and you have a recipe for speedier growth.

Maybe the pragmatic, pro-business figures in the Trump administration will prevail in internal battles, meaning that, whatever you think of the broader policy agenda, there could be boom times for corporate bottom lines.

There are, of course, darker possibilities.

President Trump could spark a trade war that could turn into a global recession. Military conflict could break out with a major trading partner like China or disrupt oil supplies in the Middle East. And a small crisis could spiral into something bigger because of Mr. Trump's seat-of-the-pants management style.

Whatever probability you assign to positive and negative outcomes, it's hard to dispute that the range of possibilities for what the global economy looks like four years from now is uncommonly large. All else being equal, more variation in the economic future means that stocks are riskier.

It's also true that by many measures stock valuations are high. Investing $100 in the **S**.**&**.**P 500** buys only about $4.69 in annual earnings, down from $5.06 before the election. There is always the possibility of a major correction — something that would be true no matter who was in the Oval Office.

If that scares you, your money probably shouldn't be in the **stock market**. If you are planning to tap into those investments in the next few years and a 25 percent drop would be devastating, that's all the more reason to limit your exposure to the market. Stocks tend to offer good long-term returns, but can deliver low or negative returns for many years at a time.

Moving money out of stocks because you need it within the next few years and can't stomach that kind of risk is one thing. But making a move just because you lack confidence in President Trump could be a case of letting ideology trump investing discipline.

The Upshot provides news, analysis and graphics about politics, policy and everyday life. Follow us on Facebook and Twitter. Sign up for our newsletter.

Correction: February 13, 2017, Monday

This article has been revised to reflect the following correction: An earlier version of this article misstated the professional affiliation of Barry Ritholtz. He is with Ritholtz Wealth Management, not FusionIQ.

* Is the U.S. Economy Too Dynamic, or Not Dynamic Enough?

* Should Dollar Rise or Fall? The Trump Team's Message Is Garbled

* Trump Said the Unemployment Rate Wasn't Real. Here Are Some Other Options.

* Ivanka Trump, Nordstrom and an Ill-Fitting Approach to the U.S. Economy

The New York Stock Exchange last Thursday. Much of the movement in stocks has little to do with what the president does. | Mark Lennihan/Associated Press

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THE WALL STREET JOURNAL.
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Dow ETF Attracts Crowd of Investors

By Chris Dieterich
510 words
13 February 2017
The Wall Street Journal
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B1
English

One of the oldest brands in the U.S. **stock market** is suddenly a hot trend.

No U.S. stock exchange-traded fund has pulled in more money in 2017 than the SPDR **Dow Jones Industrial Average** ETF, a relatively small fund that is nonetheless the most popular means of wagering on the 120-year-old **Dow Jones Industrial Average**.

That ETF grabbed $2.6 billion in new assets this year through Thursday, more than the $2.4 billion that has gone into the Vanguard **S&P 500** ETF, according to data firm XTF.

Recent popularity of the Dow-tracking ETF began after Election Day and persisted after the blue-chip benchmark last month topped 20000 for the first time in its history. Renewed demand for the Dow comes although more fund dollars hew to indexes including the **S&P 500**.

Some $36 billion in assets were indexed directly to the Dow at the end of 2015 in funds and products, less than 2% of the $2.1 trillion for the **S&P 500**, according to S&P Dow Jones Indices.

Money continues to flow into the Dow ETF though many financial professionals consider the Dow to be anachronistic because it uses an unusual methodology to ordering its stocks: The Dow's price weighting gives greater influence to components with the highest prices.

Strategists say that the Dow's quirky composition of 30 stocks is uniquely placed to excel in the current environment, where investors expect relaxed regulations, higher interest rates and increased spending on infrastructure under the Trump administration.

Jonathan Golub, chief equity strategist at RBC Capital Markets, last month recommended that investors target ETFs linked to Dow instead of the **S&P 500** for the foreseeable future because the Dow is top-heavy with financial and industrial stocks that are likely to benefit most from policy changes. The Dow is up 11% since Nov. 8, versus 8.3% for the **S&P 500**.

Component stocks of the Dow are selected by the index committee that includes editors of The Wall Street Journal, which is published by Dow Jones & Co., a part of News Corp. Dow Jones sold a majority stake in its index business in 2010 and the remaining stake in 2013.

Recent flows indicate that the Dow ETF is stoking interest from mom-and-pop and institutional investors alike. For example, some $992 million poured into the Dow ETF on Feb. 3, the biggest one-day influx since April 2008, according to data from FactSet. While there is no way to know for sure, the one-day windfall is so far beyond the typical demand for the ETF that it suggests that at least one large institution jumped on board.

"Given the voracity of the fund flows, these appear to be from all walks of life, from retail to institutional," said Matt Bartolini, head of SPDR Americas research at State Street Global Advisors.

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The New York Times

ECONOMIC VIEW
Money and Business/Financial Desk; SECTBU
Why It's So Hard to Fix the Tax Code

By NEIL IRWIN
1,270 words
12 February 2017
The New York Times
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English

House Republicans have an ambitious plan for overhauling the way American businesses are taxed.

A short list of the plan's potential benefits looks awesome: It would give companies more incentive to keep jobs in the United States, less to overextend themselves on borrowed money and provide vast savings by reducing what companies spend on tax lawyers, who help them game the current system.

Yet these changes could also set off a cascade of more harmful effects. The plan could shift trillions of dollars of wealth from Americans to foreigners; set off an emerging markets financial crisis; wreak havoc in global oil markets; and cause sustained harm to the American higher education and tourism industries (including, as it happens, luxury hotels with President Trump's name on them).

Welcome to the real world. The tax code has been flawed and inefficient for a very long time, precisely because fixing it could be so terribly disruptive. In a nutshell, the corporate tax issue provides an excellent case study of the problem of "path dependency" in public policy.

The United States might well have a better, more efficient tax code today if, starting a century ago, lawmakers had designed it so that businesses were taxed on where their sales and expenses take place, as the Republicans' plan calls for.

But that is not what happened. Instead, lawmakers took what seemed to be a logical approach: They focused on taxing businesses on their profits. Today, that choice shapes arrangements in every corner of the economy. It affects the values of currencies and financial assets. Every business has devised its structure and organization to maximize its advantage within the existing system.

Given all that, any fundamental change in the corporate tax code will create powerful ripples -- some quite predictable, others less so -- across the business and financial landscape. Essentially, for a politician trying to decide whether to support the new legislation, the question boils down to whether you think the potential long-term gains are big enough to justify the probable short- and medium-term disruptions.

A closer look at the disruptions that moving toward a "destination-based cash flow tax" would create makes clear why it would be no small event.

The tax has a feature called "border adjustment," under which exports are not taxed but imports are. That, at first glance, may seem to penalize companies that import goods, like retailers, and subsidize those that export, like makers of jumbo jets. But economists believe the change in the tax code would lead to shifts in the currency markets that offset those moves, namely to a sharp rise in the value of the dollar compared with other currencies.

The most vigorous opponents of the plan include retailers and consumer goods companies, which worry that currency adjustments won't fully offset the damage they will suffer (they have a newly formed group fighting it, Americans for Affordable Products).

But beyond the obvious problems, the proposed change in the tax code would cascade through the economy in many other ways.

A 25 percent rise in the value of the dollar, the most widely used currency on the planet, would have enormous consequences. Supporters think the dollar will rise that much if the plan is enacted -- indeed, it must happen, to avoid sticking Americans with much higher prices for imported consumer goods.

But according to calculations by Michael J. Graetz, a Columbia law professor, a currency shift of that scale implies that Americans who hold foreign assets would lose $6.1 trillion, and foreign holders of assets in the United States would gain as much as $8.1 trillion. Meanwhile, because the dollar is the world's benchmark currency, many businesses and governments outside the United States borrow in it, especially in emerging-market countries where confidence in the domestic currency is low.

That means that a steep run-up in the value of the dollar generally makes those debts more onerous, and causes big trouble for countries including China, South Korea and Turkey. Consider that the Asian financial crisis in 1998, the Latin American crisis in 2001 and an emerging markets slump in 2015 all had their roots in debt problems and a spike in the dollar.

What's more, global markets in oil and other commodities are priced in dollars, so a dollar spike could unleash hard-to-predict reactions from commodity producers. Oil would become much more expensive, and **oil price** shocks have helped set off recessions in the not-too-distant past.

Perhaps the most irony-rich consequence of such a tax overhaul -- which would, presumably, be signed by President Trump -- would be the damage to the tourism and education sectors in the United States. These businesses would have a serious problem, unlike conventional exporters -- companies that ship things overseas, say.

For the exporters, the disadvantages caused by a run-up in the dollar would just cancel out the advantage received from changes in the tax system. But businesses that are not exporting anything across the border would suffer from the damage of a more expensive dollar without receiving advantages from border adjustment.

As Stan Veuger of the American Enterprise Institute has noted, that applies to any organization that serves a large number of foreign customers within the United States' borders. Think of, say, a Trump international hotel, or amusement parks like Disney World, or any American university that bolsters its finances with foreign enrollment at full-price tuition.

All of these sectors would see their prices rise because of the dollar run-up, without any countervailing tax benefit.

Lest any of these ripple effects seem like academic abstractions, keep in mind that tax changes can have powerful spillover effects. Some obscure provisions around depreciation rules in the 1986 tax reform act set off a downturn in the commercial real estate industry that, in turn, was a major factor in the 1990 recession.

The problem of policy path dependency isn't limited to the tax system, of course. The Obama administration faced it when it began to overhaul the health care system eight years ago. Many liberals argued that the United States should move toward a Canadian-style system in which the government pays for all health care, called a single-payer system. The Obama team saw that approach as appealing in theory, but too disruptive in practice; so many Americans had become accustomed to receiving health insurance through their employer that it didn't seem feasible to make a wholesale shift to a new and, perhaps, more efficient system.

In other words, decisions that lawmakers made decades or even a century ago have essentially locked us into ways of doing things, as the cost of changing looms more heavily than the potential benefits of trying something different.

And people who have much to fear from a change tend to be louder than those who have something to gain, a central dynamic that tilts policy in the United States toward small-c conservatism.

All of this is frustrating for anyone who believes that the existing system, whether for corporate taxes or health care, is broken and needs radical reform. But the bigger the change, the bigger the side effects.

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The Dumbo the Flying Elephant ride at Disney World. Amusement parks would suffer from the damage of a more expensive dollar. (PHOTOGRAPH BY EDWARD LINSMIER FOR THE NEW YORK TIMES)

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STRATEGIES
Money and Business/Financial Desk; SECTBU
How to Take a Cosmic View on a Trump Stock Market

By JEFF SOMMER
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12 February 2017
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The Trump **stock market** rally has displayed formidable staying power, yet there are reasons to be uneasy.

The potential troubles are not bubbling up from the economy or from the market itself, but from the world of politics. That raises ticklish questions for the millions of people who rely on the **stock market** to secure their retirement, buy a home or educate their children.

After all, history shows that stocks have provided the best returns of all publicly available asset classes over long periods, and the conventional wisdom is that they will continue to do so, regardless of transitory things like presidential elections or even wars and recessions.

Yet Mr. Trump is making many people nervous. "The risks are rising fast," Brad McMillan, the chief investment officer at Commonwealth Financial Network in Waltham, Mass., wrote in late January. "Politics remains the focus here, not economics."

There are plenty of political controversies at the moment. Mr. Trump's policies on immigration, oil, financial deregulation, Mexico, NATO, Russia, China and Australia have all set off furors. Take your pick. Let's just assume that you are concerned -- and wondering whether your money is safe.

Based on the long history of the **stock market**, it's possible to conclude that Mr. Trump's behavior in office doesn't matter. This requires a cosmic perspective, however, and assumes that history will be relevant in the future.

For a truly long-term investor, the overall **stock market** actually hasn't been all that risky since 1926. But that statement is reasonable only with some very important caveats. You must have held a diversified portfolio, and you must have been willing to absorb enormous short-term paper losses and hold onto your stocks, come what may.

If you had been able to do all of that for at least 15 years, you would have been fine, because for every 15-year period since 1926, the **stock market** has never declined, said Sebastien Page, head of asset allocation for T. Rowe Price. That's great if you didn't need your money for 15-year stretches.

But of course the market has declined -- and with devastating impact -- in many calendar years within those 15-year periods. In 2008 alone, the **Standard & Poor's 500-stockindex** dropped 38.5 percent. In 2002, it fell 23.4 percent. And it fell by double digits in the 2001 and 2000 calendar years, too.

That's why it's been difficult to remain serene about stocks -- and why pure stock holdings have been dangerous for people who have actually needed to use their money. Globally diversified portfolios containing stocks and bonds have made more sense for most people, Mr. Page said.

In 2008, for example, the worst year in recent market history, diversified portfolios with stocks and bonds generally fared better. A portfolio comprising 60 percent stocks and 40 percent bonds, exemplified by the Vanguard Balanced Index Fund, fell only 22.2 percent. And a more conservative portfolio with one-third stocks and two-thirds bonds, like the Vanguard Wellesley Income Fund, fell only 9.8 percent.

These numbers provide a compelling argument based on history for diversification and long-term investing, despite whatever worries you may have about the current state of American politics.

"Our best advice is stay diversified, stay the course and remember the role of stocks in your portfolio," said Joe Davis, global chief economist and head of the investment strategy group at Vanguard.

For, say, a 20-year-old with money that she won't need for 50 years, a portfolio containing only diversified stock investments may make sense. For a 70-year-old facing retirement, a large dollop of diversified, high-quality bonds may be smart, even though bond returns may be constrained or negative, with interest rates possibly rising from current low levels. (**Bond prices** and interest rates move in opposite directions; while higher rates mean more income, they also imply lower prices on bonds.)

In a **stock market** downturn, high-quality bonds are likely to perform well, Mr. Davis said. "Bonds have been negatively correlated with the **stock market**, and that's very valuable," he said.

Based on the past, the outlook for the next five to 10 years isn't wonderful. Valuation measures for both stocks and bonds suggest that returns will be lower than they have been, but that has little to do with Mr. Trump. It was the consensus before the election results came in, and it was based mainly on the relatively high levels of asset prices and on the slow growth expected for the economy. It implies that investors should exercise patience and self-restraint.

All of this also implies that history is relevant, of course -- and that could be a mistake. It is possible that Mr. Trump will throw America onto a new path that isn't captured by past market statistics.

How likely is that? No one knows. For what it's worth, the **stock market** isn't predicting a dystopian future. To the contrary, despite political turmoil, stocks have been extraordinarily steady, performing as though there were no clouds on any foreseeable horizon.

Consider that the **Standard & Poor's 500**-**stockindex** hasn't dropped 1 percent in a single day since Oct. 11. That's unusual. There hasn't been a comparable stretch since 2006, according to Bespoke Investment Group, an investment advisory firm based in Harrison, N.Y., and, before that, it last happened in 1995.

The market has generally not had major declines soon after such periods -- though big declines have occurred sooner or later. The problem is that it is very difficult, if not impossible, to know in advance when such a decline is about to start.

If we are on the brink of one now, cash would be better than stock, but pulling out of the market carries a major risk of its own -- missing out on stellar returns.

So far, the **stock market** has loved Mr. Trump. Bets on specific sectors like banks, private prisons and oil companies have paid off handsomely. The rally could continue for months or years -- there's no way of telling -- and if you get out now, you may not know when to jump back in.

"There are people who exited the **stock market** in 2008 and never returned," Mr. Davis said. They missed one of the greatest rallies in history. From the start of 2009 through January, the overall market has tripled in value, including dividends. That bears out the claim that it has been better to stay in the markets -- as long as you have been able to hold on for very long periods.

But if you are rattled now and determined to liquidate your holdings, he said, it's important to decide in advance what it will take for you to return. It could be a specific political outcome or a market drop of, say, 20 percent. Whatever it is, Mr. Davis said, write it down.

Beyond that, remember that a long-term and well-diversified bet on the **stock market** is an investment in long-term economic growth. Unless we head into another dark age, that's a good bet.

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Business/Financial Desk; SECTB
Wall St. Ends Week With More Highs

By REUTERS
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Wall Street capped a week of milestones on Friday with a rally that pushed the major stock indexes to new highs for the second day in a row.

Small-company stocks did better than larger ones, nudging the Russell 2000 index to a record high for the first time since December.

Mining companies and other producers of raw materials led the gainers. Rising crude **oil prices** also gave energy companies a big boost. Consumer goods stocks were essentially flat.

The **Dow Jonesindustrial average** rose 96.97 points, or 0.5 percent, to 20,269.37. The **Standard & Poor's 500-stockindex** gained 8.23 points, or 0.4 percent, to 2,316.10. The **Nasdaq composite** index added 18.95 points, or 0.3 percent, to 5,734.13. All told, the **Nasdaq** closed at a record high four times this week, as well as on Feb. 3.

The Russell 2000 picked up 10.32 points, or 0.8 percent, to 1,388.84.

Strong company earnings and investor optimism over the Trump administration's promises of tax cuts, less government regulation and other policies helped fuel the market's gains much of the week. News that OPEC is largely adhering to a recent pact to cut crude oil production has also helped to lift markets. The daily market moves have been mostly small, but big enough to push indexes to new heights.

''We had a drought for a very, very long time,'' Randy Frederick, vice president of trading and derivatives at Charles Schwab, said, adding, ''Now we're back to what I would say is more of a typical move, where you get record highs consistently.''

Earnings are on track to mark the second consecutive quarter of growth after a five-quarter losing streak.

Investors bid up shares in companies that turned in better earnings or outlooks than Wall Street was expecting, including the footwear company Skechers, the video game publisher Activision Blizzard and the real estate investment company CBRE Group.

Skechers gained $4.51, or 19.3 percent, to $27.78, while CBRE Group climbed $2.43, or 7.7 percent, to $34. Activision Blizzard was the biggest gainer in the **S&P 500**. The maker of ''Call of Duty,'' ''Candy Crush'' and other video games jumped $7.50, or 18.9 percent, to $47.23.

Investors also welcomed a huge cost-savings initiative from Sears. The troubled department store chain said on Friday that it will slash at least $1 billion a year in costs by selling stores, cutting jobs or selling some of its well-known brands. The stock leapt $1.42, or 25.6 percent, to $6.96.

Benchmark crude rose 86 cents, or 1.6 percent, to close at $53.86 a barrel in New York. The contract rose 66 cents on Thursday. Brent crude, the benchmark for international **oil prices**, gained $1.07, or 1.9 percent, to close at $56.70 a barrel in London.

Major stock indexes in Europe closed mostly higher.

Britain's FTSE 100 added 0.4 percent, while Germany's DAX rose 0.2 percent. France's CAC 40 was flat. Greece's **stock market** gained 2.5 percent as its creditors met to find a way to ease concerns about the future of its bailout program.

In Asia, investors welcomed strong January trade data from China. Hong Kong's Hang Seng rose 0.2 percent, while South Korea's Kospi added 0.5 percent. Australia's S&P/ASX 200 jumped 1 percent. Japan's benchmark Nikkei 225 index surged 2.5 percent as the yen weakened against the dollar, lifting shares of exporters.

Bond prices fell. The **10**-**year Treasury** yield rose to 2.41 percent from 2.39 percent late Thursday.

The dollar strengthened to 113.32 yen, up from 113.23 yen on Thursday. The euro weakened to $1.0637 from $1.0661.

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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International New York Times

upshot
A Tax Overhaul Would Be Great in Theory. Here's Why It's So Hard in Practice.; Economic View

By NEIL IRWIN
1,326 words
10 February 2017
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English

House Republicans have an ambitious plan for overhauling the way American businesses are taxed.

A short list of the plan's potential benefits looks awesome: It would give companies more incentive to keep jobs in the United States, less to overextend themselves on borrowed money and provide vast savings by reducing what companies spend on tax lawyers, who help them game the current system.

Yet these changes could also set off a cascade of more harmful effects. The plan could shift trillions of dollars of wealth from Americans to foreigners; set off an emerging markets financial crisis; wreak havoc in global oil markets; and cause sustained harm to the American higher education and tourism industries (including, as it happens, luxury hotels with President Trump's name on them).

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But that is not what happened. Instead, lawmakers took what seemed to be a logical approach: They focused on taxing businesses on their profits. Today, that choice shapes arrangements in every corner of the economy. It affects the values of currencies and financial assets. Every business has devised its structure and organization to maximize its advantage within the existing system.

Given all that, any fundamental change in the corporate tax code will create powerful ripples — some quite predictable, others less so — across the business and financial landscape. Essentially, for a politician trying to decide whether to support the new legislation, the question boils down to whether you think the potential long-term gains are big enough to justify the probable short- and medium-term disruptions.

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But beyond the obvious problems, the proposed change in the tax code would cascade through the economy in many other ways.

A 25 percent rise in the value of the dollar, the most widely used currency on the planet, would have enormous consequences. Supporters think the dollar will rise that much if the plan is enacted — indeed, it must happen, to avoid sticking Americans with much higher prices for imported consumer goods.

But according to calculations by Michael J. Graetz, a Columbia law professor, a currency shift of that scale implies that Americans who hold foreign assets would lose $6.1 trillion, and foreign holders of assets in the United States would gain as much as $8.1 trillion. Meanwhile, because the dollar is the world's benchmark currency, many businesses and governments outside the United States borrow in it, especially in emerging-market countries where confidence in the domestic currency is low.

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PHOTO: The Dumbo the Flying Elephant ride at Disney World. Amusement parks would suffer from the damage of a more expensive dollar. (PHOTOGRAPH BY EDWARD LINSMIER FOR THE NEW YORK TIMES)

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THE WALL STREET JOURNAL.
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Investors Watch for Dollar-Yen Clues --- Meeting of Trump, Abe comes amid tension over currency policy, conflicting forces

By Saumya Vaishampayan
902 words
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The Wall Street Journal
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While pundits assess the state of U.S.-Japan ties when President Donald Trump and Prime Minister Shinzo Abe meet this week, investors will be watching for clues over another key relationship -- that between the dollar and the yen.

After Mr. Trump's election win in November, the greenback surged to a 10-month high against the Japanese currency, as bets on higher U.S. growth and inflation mounted. This year, though, the yen has risen 3.3% against the dollar as the postelection market euphoria fades.

Guessing what happens next isn't simple. Big questions loom over Mr. Trump's precise economic plans and the sustainability of Japan's latest move into unorthodox central banking.

That is against the backdrop of tension that has seen the leaders of the two countries recently exchange barbs over whether Japan has been weakening the yen to gain a trade advantage. Mr. Trump last week alleged the U.S. had sat back "like a bunch of dummies" as both Japan and China devalue their currencies.

The jitters are clear in the pattern of market bets on the yen. Hedge funds and other leveraged funds started betting heavily on a yen decline in aggregate after the U.S. election, a reversal from much of 2016, according to Commodity Futures Trading Commission data.

Since the number of net yen-**bearish** futures and options contracts peaked on Jan. 3, leveraged funds have slashed those bets by nearly half.

"In the near term, political risk is the biggest thing" for the exchange rate, said Maoko Ishikawa, foreign-exchange strategist at J.P. Morgan in Tokyo.

The Trump-Abe meeting comes as concern grows that major countries may be drawn into competitive currency devaluations. On Thursday, New Zealand's central-bank chief, Graeme Wheeler, said a decline in his country's exchange rate is needed to keep its growth balanced.

The current climate resembles a currency "cold war," Joachim Fels, global economic adviser at fund manager Pimco, said in a note this week, arguing that actions taken by the European, Japanese and Chinese central banks in the last half of 2016 contributed to the depreciation of their currencies.

For Japan and the U.S., the situation is complicated by some contradictions between their words and actions.

Mr. Abe and other Japanese officials say their priority is stoking domestic inflation higher. But analysts say it is getting hard to argue that their policies don't look like currency intervention.

One of the Bank of Japan's key policies is to tether the yield on the 10-year Japanese government bond near zero. When the yield goes too high, that means it must step in to buy government bonds.

Keeping the 10-year Japanese government-**bond yield** low is becoming more difficult with the Federal Reserve expected to raise interest rates multiple times this year. As U.S. rates rise, investors seeking better returns may sell Japanese bonds and buy Treasurys, driving yields on JGBs higher and forcing Japan's central bank to buy bonds to maintain its yield target.

That, in turn, means the difference in yields between Treasurys and JGBs could widen, putting downward pressure on the yen.

That scenario played out on Feb. 3, when the Japanese central bank was forced to boost its bond purchases by more than $6 billion after the 10-year yield spiked to 0.150%. Its move weakened the yen, albeit temporarily.

"From the outside, it looks like they're manipulating the currency," said J.P. Morgan's Ms. Ishikawa.

Investors are now watching for signs of further U.S. pressure on Japan over its currency.

"What the market is questioning is not the ability of the Bank of Japan to contain long-term rates, but its willingness or commitment to keep long-term rates close to zero if this becomes a political issue," said Hiroshi Shiraishi, senior economist at BNP Paribas in Japan.

There are conflicting forces for the U.S., too. Recent comments from Mr. Trump and other members of his administration suggest they don't want the dollar to get too strong.

Yet economists say Mr. Trump's plans for corporate-tax cuts and higher fiscal spending could drive U.S. inflation higher, forcing the Fed to raise interest rates more quickly. In turn, that would put upward pressure on the dollar against all currencies, including the yen. On Thursday, the dollar rose 1.2% to 113.26 yen.

Mr. Trump's attitude on trade is another key factor. Talk of a new border tax on imports is dollar-positive, for example, as it would likely crimp imports by U.S. companies, thus curbing their demand for foreign currencies. Adding to the confusion is a lack of clarity over the timing and extent of any trade measures by the Trump administration -- and how other countries will respond.

Pimco's Mr. Fels says the rational response for Japan and other major countries now is to try to allow further appreciation of their currencies, in the hope of persuading the U.S. not to resort to protectionism.

"Whether this is enough to prevent the administration in Washington from pushing the nuclear tariff button remains to be seen," he said. "Time and tweets will tell."

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Business/Financial Desk; SECTB
Investors Reward Earnings and Indexes Hit New Records

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Strong company earnings put Wall Street investors in a buying mood Thursday, lifting the major stock indexes to record highs.

Banks and other financial companies led the rally as bond yields rose. Energy also notched big gains as crude **oil prices** rose. Utilities and materials lagged the broader market.

The **Dow Jonesindustrial average** rose 118.06 points, or 0.6 percent, to 20,172.40. The **Standard & Poor**'**s 500**-**stockindex** gained 13.20 points, or 0.6 percent, to 2,307.87. The **Nasdaq composite** index added 32.73 points, or 0.6 percent, to 5,715.18. The **Nasdaq** has now set a record high three times this week (in addition to last Friday).

The Russell 2000 index of small-company stocks outpaced the rest of the market. It climbed 19.79 points, or 1.5 percent, to 1,378.53.

Investors bid up shares in companies that turned in better earnings or outlooks than Wall Street was expecting. Gannett, publisher of USA Today and other newspapers, added 35 cents, or 4 percent, to $9.05, while Kellogg gained $2.95, or 4 percent, to $76.44. Dunkin' Brands climbed $2.16, or 4.2 percent, to $54.13.

Traders also welcomed Viacom's latest quarterly results and the media giant's plans to turn its business around. Viacom, owner of BET, Comedy Central, MTV, Nickelodeon and the Paramount film studio, rose $1.82, or 4.3 percent, to $43.89.

Yum Brands also got a lift thanks to stronger United States sales at its KFC and Taco Bell chains, which offset weakness at the company's Pizza Hut restaurants. Its shares gained 80 cents, or 1.2 percent, to $67.39.

Results from several companies failed to impress investors. Twitter slumped 12.3 percent after the social media company's latest quarterly earnings, which topped analyst expectations, were overshadowed by a weak profit forecast. The stock fell $2.31 to $16.41. Coca-Cola traded lower after its profit fell 55 percent in the most recent quarter. The stock lost 77 cents, or 1.8 percent, to $41.25.

Dun & Bradstreet tumbled 16.8 percent after the business information provider said it expected less revenue from a partnership with Salesforce this year. The stock was the biggest loser in the **S&P 500**, sliding $20.59 to $101.88.

The major stock indexes in Europe also notched gains Thursday. Germany's DAX rose 0.9 percent, while France's CAC 40 gained 1.3 percent. Britain's FTSE 100 added 0.6 percent.

In Asia, Japan's Nikkei 225 **stock index** slid 0.5 percent ahead of meetings Friday between Prime Minister Shinzo Abe and President Trump, but Hong Kong's Hang Seng Index gained 0.2 percent, while the Kospi in South Korea was almost flat. Australia's S&P ASX/200 rose 0.2 percent.

Benchmark crude rose 66 cents, or 1.3 percent, to close at $53 a barrel in New York. Brent crude, the benchmark for international **oil prices**, gained 51 cents, or about 1 percent, to close at $55.63 a barrel in London.

The dollar rose to 113.33 yen from 112.05 on Wednesday. The euro fell to $1.0658 from $1.0687.

Bond prices fell. The **10**-**year Treasury** yield rose to 2.39 percent from 2.34 percent late Wednesday.

The price of gold fell $2.50 to $1,235.10 an ounce. Silver rose 4 cents to $17.74 an ounce. Copper slid 1 cent to $2.65 a pound.

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

Document NYTF000020170210ed2a0005m

THE WALL STREET JOURNAL.
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Foreigners Dump Debt, Putting Pressure on Rates

By Jon Sindreu
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Foreign buyers, led by China, are taking a smaller slice of the debt issued by the U.S. and other major economies, a change that may test the long-held belief that overseas money has kept interest rates low in the developed world.

For much of this century, the world's money increasingly sought the harbors of the bond markets of big, Western nations, principally the U.S. but also Germany and Britain. During that period those countries, and their citizens and companies, borrowed money at remarkably low interest rates.

The receding foreign tide comes amid other momentous changes for the global economy and interest rates, including a turn in many political corners away from the free-trading ethos that has defined modern capitalism and glimmers of inflation that are encouraging major central banks to pare back their unprecedented economic stimulus measures.

Foreigners are steadily pulling back: As of November, for the first time since 2009, less than 30% of the $20 trillion market for U.S. government debt was held overseas, according to the latest official data, released in January, from the Treasury Department and Federal Reserve. In the U.K., it is now 27%, compared with a record of 36% in 2008. In Germany, it is 49%, down from a peak of 57% in 2014.

The consequences from this shift are uncertain. Strong demand helps push up prices, and lower yields, of government bonds, at least in the short term. And buyers such as the Chinese state have been ravenous sources of demand. Between 2000 and 2014, Chinese authorities built up a $4 trillion currency reserve, mainly through buying Treasurys to keep the yuan weak and help the country's exporters. In January, its reserves fell below $3 trillion, the lowest level in almost six years. China is now trying to boost its currency, and its Treasury holdings fell by about $200 billion between May and November.

"You create an environment where yields are manipulated lower by captive investors," said Paul Donovan, chief economist at UBS Wealth Management. "There is now a shift going on here, which is most significant for the U.S."

One change implied by the foreign pullback from the debt of developed-nation governments is a retreat in buyers such as pension funds, sovereign-wealth funds and central banks, who are mandated to stash some of their money in the world's safest assets. But ultralow yields have diminished the appetite of even these risk-averse investors.

In the U.S., Chinese and other reserve managers "were doing safety purchases to protect their country and their currency," said Charlie Diebel, head of rates at Aviva Investors. "If there's less involvement from reserve managers, then someone else will have to absorb the supply that the U.S. government is putting out there, and it becomes much more of an economic decision."

In the longer term, the decline in foreign buyers might not matter so much. For countries that print their own currency, bond yields -- and thus the price of bonds -- are strongly determined by where investors believe central banks will set interest rates in the future. In theory at least, bonds whose prices are pushed up or down excessively by supply-and-demand forces will eventually correct to correspond to interest-rate expectations.

Moreover, in the Treasury market, if large overseas investors suddenly sell bonds, domestic and other foreign investors could move in.

Robert Stheeman, chief executive of the U.K. Debt Management Office, which sells and manages British government bonds, said less foreign participation in gilt markets might make bond yields **volatile** or lead to short-term scarcities. Fickle buying by foreigners causes markets to bounce around, said Daniel Loughney, fund manager at AllianceBernstein Holding LP. "You don't really want the percentage that they hold to be too **volatile**, that is, either too large or too small," he said.

Ultimately, however, Mr. Stheeman said, the U.K. issues the pounds in which those bonds are repaid, so gilts would return to being broadly guided by where the Bank of England sets interest rates.

In Japan, the central bank now directly fixes 10-year borrowing costs for the government at 0%. There, foreigners own just 9.2% of the government debt market; yet bond yields have stayed at record lows for decades, despite a government debt load amounting to 229% of Japan's economy that has elicited repeated warnings from ratings companies.

In the 2010 eurozone debt crisis, intervention by the European Central Bank managed to stabilize public debt markets. But eurozone countries don't have full control over their currency, so yields ratchet up every time investors get nervous about a country's ability to pay back debts. The exception is Germany, which investors see as being in control of the euro.

Foreigners' waning desire to own Treasurys and other developed-market government bonds have several causes. For one thing, returns on such bonds have been so low that even risk-averse foreign-based investors are looking to developing markets for extra yield. On average, between a quarter and a third of local-currency government bonds in major developing economies are now owned by foreigners, according to data from Amundi, one of Europe's largest asset managers. Ten years ago it was less than a fifth.

In those markets, where there are fewer buyers and sellers, yields can fluctuate more.

Frederic Lamotte, chief investor at Indosuez Wealth Management, the Paris-based asset-management arm of Credit Agricole SA, is gloomy about the U.S. He says he believes President Donald Trump's antifree-trade rhetoric could end up denting its dominance over the world economy. Yet, if the yields on the **10**-**year Treasury** start really rising, he plans to start buying.

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U.S. News: Worker Layoffs Remain at Low Level

By Ben Leubsdorf
327 words
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English

The number of Americans applying for unemployment benefits fell last week, a sign that layoffs continue to hover at a historically low level consistent with a healthy U.S. labor market.

Initial jobless claims, a proxy for layoffs across the U.S., declined by 12,000 to a seasonally adjusted 234,000 in the week ended Feb. 4, the Labor Department said Thursday. That was the lowest reading in 12 weeks.

"The improvement in initial claims data mirrors the broad-based improvement in labor market conditions in recent months" across a number of measures, Barclays economist Michael Gapen said in a note to clients.

The economy is enjoying an unusually long stretch of scarce layoffs. Jobless claims have remained below 300,000 for 101 consecutive weeks, the longest such streak since 1970 -- when the U.S. workforce and population were far smaller than they are today.

Data on unemployment applications tend to be **volatile** from week to week. A more stable measure, the four-week moving average for initial claims, fell by 3,750 last week to 244,250, its lowest level since November 1973.

The latest decline "does not prove that the trend in claims is falling again, but it is consistent with the idea that business confidence has risen since the election," said Ian Shepherdson, chief economist at Pantheon Macroeconomics, in a note to clients.

The agency said continuing unemployment claims, reflecting benefits drawn by workers for longer than a week, rose by 15,000 to 2.078 million in the week ended Jan. 28.

The U.S. labor market started 2017 on solid footing, with joblessness remaining below 5% alongside continued job gains. Nonfarm payrolls rose by a stronger-than-expected 227,000 in January from the prior month, the Labor Department reported last week, and the unemployment rate last month was 4.8%.

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Treasury Auctions

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The Treasury Department will auction $69 billion in securities next week, comprising $7 billion in new debt and $62 billion in previously sold debt. Details (all with minimum denominations of $100):

-- Monday: $34 billion in 13-week bills, a reopening of an issue first sold on Nov. 17, 2016, maturing May 18, 2017. Cusip number: 912796KZ1.

Also, $28 billion in 26-week bills, a reopening of an issue first sold on Aug. 18, 2016, maturing Aug. 17, 2017. Cusip: 912796KF5.

Noncompetitive tenders for both issues must be received by 11 a.m. EST Monday and competitive tenders, by 11:30 a.m.

-- Thursday: $7 billion in **30**-**year Treasury** inflation-protected securities, dated Feb. 28, 2017, maturing Feb. 15, 2047. Cusip number: 912810RW0. Noncompetitive tenders must be received by noon EST Thursday; competitive tenders, by 1 p.m.

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THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News -- Capital Account: Trump Fixes Flaw in Banking Regulations

By Greg Ip
760 words
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The Wall Street Journal
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A2
English

When President Donald Trump ordered a comprehensive review of financial regulations last week, brows furrowed. "Very worrisome," fretted Mario Draghi, president of the European Central Bank. Will banks "blow up our economy again?" asked Democratic senator Elizabeth Warren.

The worriers should relax. In the 10 years since the financial crisis began, the regulatory pendulum has moved relentlessly in the direction of tougher restrictions on finance. Mr. Trump's order reverses the direction of the pendulum but there is little sign his administration wants it back to where it was in 2007.

His order does, however, address a serious flaw in the post-crisis regulatory crackdown: In pursuit of financial stability and consumer protection, it largely ignored the costs of forgone lending, economic growth and consumer choice. Mr. Trump has signaled those costs must now be taken into account. He has asked his Treasury Secretary (now awaiting confirmation) to report back in 120 days on how well current regulations promote growth, efficiency and competitiveness. Over time, thatcould generate a better balanced supply of credit to a wider range of companies and households without making the financial systemmuchriskier.

The Dodd-Frank Act, the financial overhaul law that Barack Obama championed and Congress passed in 2010, prescribed rules on mortgage underwriting and derivatives, and heightened oversight of "systemic" financial institutions,including thosethat aren't banks. It also imposed limits on speculative trading by banks and created the Consumer Financial Protection Bureau.

Dodd-Frank is just part of the picture. The CARD Act, passed in 2009, imposed new restrictions on credit cards. Internationally negotiated rules have raised how much capital andliquid assetsbanksmust hold. Civil and criminal enforcement has also brought new scrutiny to mortgages, international money transfers and auto loans. The Department of Labor's new fiduciary standard strongly discouragesinvestment advisers fromcharging commissionsfor trading inretirement accounts.

Yet regulators never attempted to quantify how much this reduced the risk of a crisis, or at what cost. Banks are certainly safer thanks to higher capital, but it's unclear what, if any, benefit provisions such as the ban on proprietary trading have delivered.

In theory, more regulation would raise the cost of credit and reduce growth. But it is difficult to measure because so many factors determine credit growth.

The most notable hit has been to mortgages to less-creditworthy home buyers. In a 2014 study,Goldman Sachs found the cost of credit where regulation and litigation have bit hardest, such as small- and medium-size business loans, credit cards and home equity loans, had risen relative to loans with comparatively less regulatory burden, such as autos and large companies. In a 2015 followup, Goldman argued regulation has created a "two-speed" economythat favors big companies over small business and startups.

Regulations combined with near-zero interest rates have carved into banks' profitability; their share prices today remain24% below their pre-crisis peak while the overall market is upabout 50%.

Karen Petrou, who runs the financial-services consulting firm Federal Financial Analytics, says banks have been forced to prioritize fee-generating business, often with wealthy customers. Financial companies, many web-based, can service smaller businesses and lower-income consumers. But some charge far more than banks. Moreover, Ms. Petrou notes, they may not survive the next downturn.

Mr. Trump's order demands more "rigorous regulatory impact analysis" that is a better assessment of the costs and benefits of new rules, and more consideration to allowing investors "informed choices."

He also signaled skepticism of the Labor Department's fiduciarystandard, which restricted financial advisers from charging transaction-based fees toretirement savers. TheObama Administration claimed this would save investors $17 billion a year in fees. But the Securities Industry and **Financial Markets** Association, an industry group, disputed that figure, saying it ignored the benefit those fees may have paid for, such as advice.

Theregulatory change with the best chance of preventing another financial crisis is the dramatic increase in capital that banks must hold to absorb future losses.While the Trump administration may discourage capital requirements from rising further, it doesn't appear to plan on rolling them back much. "We don't want to go back to the good old days," Gary Cohn, director of Mr. Trump's National Economic Council, told The Wall Street Journal last week. "In fact, one of the big competitive advantages that we have in the United States . . . is that we have the best, most highly-capitalized, banks in the world."

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THE WALL STREET JOURNAL.
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Bond Wager: U.K. Growth to Lag --- To investors, Brexit looks worse than Trump for respective countries' economies

By Jon Sindreu
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B12
English

Economic growth has been robust in the U.S. and the U.K., and inflation is picking up strongly on both sides of the Atlantic. Yet British government bonds yield far less than their American counterparts. What gives?

In short, investors are betting that U.S. economic conditions after President Donald Trump's election will be better than the U.K.'s post-Brexit.

Bond yields broadly track interest rates set by central banks, so they are usually lower when growth is expected to be weak. Central banks lower rates to stimulate growth.

On Wednesday, British 10-year government bonds, or gilts, closed at a yield of 1.213%, and 10-year U.S. Treasurys settled at 2.349%. For 30-year debt, the yields were 1.906% and 2.959%, respectively.

Part of the explanation for the gulf is simply that there is a gap in current interest rates: The U.S. Federal Reserve is targeting an overnight rate of between 0.5% and 0.75%; the Bank of England's key policy rate is 0.25%.

What's more, recent history suggests that the BOE is less likely to raise rates in response to rising inflation than is the Fed. "The market is biased to try to look through it," said Daniel Loughney, fund manager at Alliance Bernstein.

But growth is key. Even though the U.K.'s vote last June to leave the European Union has so far supported growth by triggering a 17% fall in sterling against the U.S. dollar, "this benign effect could begin to fade as markets once again start to worry about the costs of a 'hard' departure from the EU with few if any trade concessions," said Pictet Asset Management chief strategist Luca Paolini. Pictet recently increased its exposure to British debt. Prices of bonds rise when yields fall.

Prime Minister Theresa May recently acknowledged that the U.K. would have to forego access to the European single market when leaving the bloc.

Money managers mostly follow the lead of economists in believing free trade to be a good thing, and dislike Mr. Trump's proposals of imposing tariffs on foreign goods and shredding trade deals. After his unexpected victory on Nov. 8, however, they focused on his pledges to cut regulation and lower taxes. Stock markets rallied and bonds sold off.

While British equities have been fairly robust, the fact that gilts have outperformed Treasurys reflects that investors don't think shedding European regulations will provide a similar boon to the U.K. economy.

Protectionism would likely hit Britain harder: The U.K.'s exports add up to 28% of its economy, while in the U.S. they are less than 14%, data by the Organization for Economic Cooperation and Development show.

The main driver of global bonds selling off in recent months has been signs that inflation is picking up. In both the U.K. and the U.S., expectations of long-term inflation -- measured by derivatives called five-year five-year inflation-linked swaps -- have risen by broadly the same amount since June 23, the day of the Brexit referendum. That evening, U.K. 10-year gilts closed at a yield of 1.375%, much nearer to U.S. Treasurys' 1.742%.

But the expected price increases in Britain and America could be of different sorts.

"Should protectionist forces build, which seems likely, inflation will reappear. But, it will be the 'wrong sort' -- cost-push, led by tariffs, goods and labor shortages," said Neil Williams, economist at Hermes Investment Management. "Central banks will thus turn a blind eye."

But inflation expectations in the U.S. seem to be driven more by belief in stronger growth -- the kind that boosts salaries -- rather than Mr. Trump's protectionism. As a result, the Fed is likely to keep nudging up borrowing costs, analysts say, dragging Treasury yields with them. This inflation trade has recently weakened, with **10-year Treasury** yields falling Wednesday to a three-week low.

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The New York Times

Personal Tech; SECTB
Investors Turn to Familiar Havens, Income Generators, as Markets Rise

By THE ASSOCIATED PRESS
598 words
9 February 2017
The New York Times
NYTF
Late Edition - Final
6
English

Utilities, real estate and other big-dividend-paying companies led Wall Street stocks mostly higher Wednesday, pushing the **Nasdaq composite** to a record for the second day in a row.

The gains came as bond yields fell, making those traditional havens more attractive to investors seeking income. Banks and other financial stocks were the market's biggest laggards.

The **Standard & Poor's 500**-**stockindex** rose 1.59 points, or 0.1 percent, to 2,294.67. The **Dow Jonesindustrial average** fell 35.95 points, or 0.2 percent, to 20,054.34. The **Nasdaq** added 8.24 points, or 0.2 percent, to 5,682.45. The index also closed at a record high on Tuesday and last Friday. The Russell 2000 index of small-company stocks fell 2.32 points, or 0.2 percent, to 1,358.74.

While investors have been focused in recent weeks on companies reporting their quarterly results, they are also trying to size up whether the Trump administration will deliver on expectations of business-friendly policies that helped fuel the market rally last fall.

Bond prices rose. The **10**-**year Treasury** yield fell to 2.34 percent from 2.40 percent late Tuesday. That yield is a benchmark used to set interest rates on many kinds of loans including home mortgages.

Benchmark United States crude rose 17 cents, or 0.3 percent, to close at $52.34 a barrel in New York. Brent crude, the benchmark for international **oil prices**, climbed 7 cents, or 0.1 percent, to close at $55.12 a barrel in London.

Investors grabbed shares in companies that posted better-than-expected quarterly results and outlooks.

Strong fiscal third-quarter earnings propelled Microchip Technology 6 percent higher, making it the biggest gainer in the **S**.**&P**. **500**. The stock climbed $4.18 to $73.80.

Myriad Genetics jumped 7.3 percent after the diagnostic test maker said sales of hereditary cancer tests have resumed rising, driving revenue to the highest level in three years. The stock gained $1.12 to $16.52.

Panera Bread's latest results and forecast helped the bakery chain gain $18.63, or 8.7 percent, to $232.90.

Botox-maker Allergan also got a lift from its quarterly report card, adding $8.56, or 3.7 percent, to $241.17.

Several companies released earnings and forecasts that fell short of Wall Street's expectations, sending their shares lower.

Akamai Technologies tumbled 10.6 percent after the cloud services company's latest guidance disappointed investors. The stock was the biggest decliner in the **S&P 500**, sliding $7.57 to $63.55.

Gilead Sciences slumped 8.6 percent after the biotechnology company forecast disappointing sales of its hepatitis C drugs. The stock gave up $6.30 to $66.83.

Zillow Group slid 7.6 percent after the online real estate information company posted quarterly results that included a tally of monthly unique users that fell short of Wall Street's expectations. The stock lost $2.83 to $34.33.

More than half of the companies in the **S&P 500 index** have reported quarterly results so far, and roughly 60 percent have posted earnings that beat financial analysts' estimates.

The price of gold added $3.40 to $1,239.50 an ounce.

CHARTS: **10**-**Year Treasury** Notes: High yield in monthly refunding auction. (Source: Treasury Department); The **Nasdaq** Minute by Minute: Position of the **Nasdaq Composite** Index at 1-minute intervals on Wednesday. (Source: Bloomberg)

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THE WALL STREET JOURNAL.
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Markets & Finance: NYSE Parent Warns of Suit --- Big Board's owner says SEC may bring enforcement action over 2015 glitch

By Alexander Osipovich and Anne Steele
575 words
8 February 2017
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B12
English

The owner of the New York Stock Exchange warned that U.S. regulators may sue the company over its handling of a July 2015 glitch that halted trading on the NYSE for nearly four hours and raised worries about the fragility of U.S. **financial markets**.

Intercontinental Exchange Inc . disagrees with the Securities and Exchange Commission 's legal arguments and has a "lot of defenses" against them, Chief Executive Jeffrey Sprecher said Tuesday on a conference call with analysts.

"At the end of the day, it was a technology outage," he said. "It was very unfortunate and it was embarrassing and a black eye, but we don't believe that it actually violated the law."

Mr. Sprecher said the NYSE had provided "a lot of timely and accurate communication" during the outage and had tried to keep customers in the loop as it identified the technical issues behind the event.

ICE received in December a Wells notice from the SEC tied to the matter, the company said in a filing released Tuesday. A Wells notice indicates the agency may bring a civil enforcement action against the company and allows defendants the opportunity to argue why the charges aren't merited before they are filed.

The potential SEC enforcement action focuses on "how NYSE responded on July 8, 2015, to the circumstances leading into the suspension of trading that day," ICE said in the filing. A spokeswoman for the company declined to comment further. An SEC spokesman declined to comment.

ICE disclosed the warning as it reported that its revenue climbed more than analysts projected in the final quarter of 2017. The company's stock rose 2.4% to $59.93.

Overall, ICE 's profit in the latest quarter fell 4.9%, to $352 million, or 59 cents a share, down from $370 million, or 66 cents a share, a year earlier.

Revenue for the fourth quarter climbed 22%, to $1.48 billion, while revenue less transaction-based expenses, a metric followed by exchange-industry analysts, surged 30%, to $1.14 billion.

Mr. Sprecher said the company hit record revenue for an 11th consecutive year amid "a **volatile** and dynamic environment."

The outage stemmed from a faulty software upgrade to the NYSE 's matching engine, a critical piece of technology that links orders to buy and sell securities, the exchange operator said at the time. The glitch caused communication problems between traders and the exchange. As a result, the NYSE halted trading on its flagship exchange and its smaller NYSE MKT exchange at 11:32 a.m., a suspension that was not fully lifted until 3:10 p.m. that day.

Trading on rival exchanges such as **Nasdaq** Inc . and Bats Global Markets Inc . continued while the NYSE was down, meaning the outage was a nonevent for most investors.

But the incident sparked fears of what would have happened if the NYSE had stayed down until 4 p.m., when the exchange runs closing auctions for NYSE-listed stocks that are used to determine their daily closing price, a key piece of financial information disseminated across the markets.

In the wake of the incident, the NYSE and **Nasdaq** agreed on a plan to act as each other's backups in case one of the exchanges failed to hold a closing auction.

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THE WALL STREET JOURNAL.
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Ultralong Debt Is Selling Despite Politics --- Flurry of Europe sales underlines appetite for yield even amid concern of pickup in inflation

By Christopher Whittall and Emese Bartha
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B14
English

Political risk is on the rise in Europe and bonds have been selling off. But that hasn't stopped investors from snapping up ultralong-dated debt -- a trend that emerged in 2016 when investors were more concerned with hunting for returns than shielding themselves from losses.

Belgium on Tuesday became the latest eurozone country to sell long-dated bonds, including one slug of debt that doesn't come due until 2057. It follows a string of long bonds that France issued in January, despite the country facing presidential elections in April that this week helped push yields on the country's 10-year government bond to their largest premium over German yields since late 2012, according to Tradeweb.

Other countries have found buyers for long-dated debt despite bond yields moving higher in recent months from their record lows reached last summer. Yields rise when **bond prices** fall.

Some of the largest U.S. companies are also still raising money at long maturities. In the U.S., where the $13 trillion U.S. Treasury market led the lurch higher in global yields, January marked the busiest start to the year on record for high-grade dollar-denominated corporate debt issuance, according to Dealogic data going back to 1995.

Last week alone, Apple Inc., AT&T Inc. and Microsoft Corp. sold $37 billion of bonds between them, including tranches of debt that didn't mature for 40 years in some cases.

The flurry of long-bond deals underlines the strong appetite for yield despite widespread concern that bonds could continue to weaken over the course of the year if global inflation starts to pick up.

Inflation erodes the value of the payments that fixed-rate bond investors receive over many years.

Also fueling demand for longer-dated bonds are investors such as pension funds or insurance companies that need to match lengthy liabilities.

"Fixed income is still a place investors want to be," said Lee Cumbes, head of public-sector debt for Europe, Middle East and Africa at Barclays.

Meanwhile, issuers still want to take the opportunity to "term out [their] debt whilst the demand for that yield and duration is there," Mr. Cumbes added. Duration is the sensitivity of a bond's price to changes in interest rates.

That demand was again evident in Belgium's bond deal Tuesday. There were more orders for the 2057 bond than foranother tranche of debt maturing in 2024, according to bankers on the deal, allowing Belgium to lower the interest rate it paid on the bond to around 2.3% from initial guidance that was slightly higher.

Belgium is no stranger to long-dated debt issuance. Last year, it sold a 100 million euro ($107.5 million) century bond in a privately placed deal, as well as 30-year and 50-year debt in public markets.

That put the eurozone's sixth-largest economy at the forefront of a trend that also saw Italy and Spain issue 50-year debt for the first time and Austria sell a 70-year bond.

Finland has hired banks for a dual bond transaction, looking to issue new bonds that mature in 2022 and 2047, according to a deal announcementon Tuesday.

Other prominent long-dated deals in 2017 include 30-year and 26-year bonds issued by the European Stability Mechanism and European Financial Stability Facility, respectively, two of the euro area's bailout funds.

The average maturity for all euro-denominated debt sales in 2016 was 10.4 years, according to Dealogic, compared with an average of 7.9 years for the previous five years. The average maturity so far in 2017 is 9.5 years.

The continued demand for long debt comes despite heightened debate over when the European Central Bank may scale back its stimulus, which has supported bond markets in recent years, and growing political risk on the Continent.

For many, the French elections are a major source of concern. The leader of France's far-right National Front party, Marine Le Pen, who supports the removal of France from the euro, is riding high in the polls, though she isn't currently projected to win the country's presidency.

The gap in yield between the 10-year bonds of France and Germany has risen to more than 0.7 percentage point, compared with around 0.2 percentage point in September.

Still, France auctioned 20-, 30- and 50-year bonds in January and investors then placed 23 billion euros of orders for an inaugural 22-year "green" bond from the country later that month, suggesting the securities are still in high demand from some quarters. Proceeds of the green bond go toward environmentally friendly projects.

French debt out to 5 1/2 years in maturity yields less than zero, underlining the strength of the European Central Bank's stimulus and the impetus for investors to purchase longer-dated debt that is offering positive returns.

Political risks have also failed to shut some countries out of capital markets -- a contrast to the height of the eurozone's sovereign-debt crisis of 2010 to 2012.

Italian bonds have been hammered as the chances have grown of elections later this year that could see the antiestablishment 5 Star Movement win a large slice of the vote. Even so, Italy managed to sell a 15-year bond in January.

Political risks have hardly affected the Netherlands despite coming elections in which another euroskeptic party will be on the ballot.

On Tuesday, the Dutch Treasury sold 5.7 billion euros in new 10-year bonds at a yield of 0.707%.

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THE WALL STREET JOURNAL.
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Emerging Markets Shake Off Trump Fear

By Georgi Kantchev and Gregor Stuart Hunter
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Emerging markets were expected to suffer the most from Donald Trump's election victory, but developing-world assets have been among the biggest winners this year.

Emerging-market currencies, bonds and shares fell sharply on Mr. Trump's November election victory, as investors anticipated rising U.S. interest rates, a stronger dollar and more barriers to trade.

But the MSCI Emerging Markets Index of stocks has gained about 7% this year through Monday, compared with a 2.4% gain in the **S&P 500**. The MSCI China **stock index** is up about 4% since the election. In currencies, Brazil's real is now stronger than it was before the U.S. vote, and even the Mexican peso, which has been particularly sensitive to Mr. Trump's rhetoric, has rallied in recent weeks.

Many investors now believe that the worst is priced in. They are, instead, focusing on the benefits for developing countries of strong global growth, near-record-low valuations and rising commodity prices.

"Much of what Trump is promising to do has already been priced in, and chances are that he underdelivers" on promises like a border tax, said Jan Dehn, head of research at emerging-markets asset manager Ashmore Group. "This in turn means . . . a less hostile environment for emerging markets."

Still, big risks remain, not least if commodity prices fall again and Mr. Trump follows through on policies such as increased tariffs.

For now, though, investors like Tim Love are seeing good returns. The emerging-markets investment director at GAM Holding AG said his best trades this year include buying the shares of Russian aluminum company United Co. Rusal PLC and Brazil's Banco do Brasil SA.

"Emerging-market assets were already too low . . . then Trump came in and they were pummeled further. [So] emerging markets are now the ugly duckling on the market," said Mr. Love, whose firm manages $120 billion. "It's worth taking a few more bets."

Money managers poured $1.4 billion into emerging-market shares in the week to last Wednesday, the most in 16 weeks, according to data provider EPFR Global. Investors have also warmed up to emerging-market bonds, with inflows to debt funds rising for four of the past five weeks, according to EPFR data.

In the weeks after the U.S. election, investors yanked more than $5 billion from emerging-market stock funds.

Much of that money returned to the U.S. as Mr. Trump's talk of fiscal spending and tax cuts sparked a rally in stocks and sent yields on Treasurys sharply higher. Bond yields rise when prices fall.

Expectations rose for higher interest rates, which then pushed up the dollar. Higher U.S. interest rates and a stronger greenback are typically bad news for emerging markets, whose debt and commodity exports are often denominated in dollars.

The Trump trade has shown signs of waning. The WSJ Dollar Index, which measures the greenback against a basket of 16 currencies, is down 2.3% since the start of the year.

As that trade turns, investors are having another look at emerging markets.

They have other reasons, too. The prices of commodities like metals and sugar have risen and oil has stabilized above $50 a barrel.

Big commodity producers like Russia are benefiting. The International Monetary Fund expects that country's economy to expand by 1.1% this year after two years of recession.

The IMF expects emerging economies as a whole to expand by 4.5% this year, up from 4.1% last year and more than double the rate in advanced economies.

In Asia, companies are signaling that earnings have stabilized, said Rahul Chadha, co-chief investment officer at South Korea's Mirae Asset Global Investments, which manages $90 billion. Corporate earnings in Asia had fallen for several years.

"As people see earnings upgraded and all this rhetoric on protectionism [by Mr. Trump] gives way to more practical solutions, I think the flows are going to come here," said Mr. Chadha.

For the first time in five years, Mr. Chadha recently went overweight on South Korean stocks, meaning he aims to hold a larger share of them than a benchmark portfolio would suggest.

Emerging-market stocks are also coming off a low base. They have underperformed against their developed-world peersfor more than two years, dragged lower by weak commodity prices, the higher dollar and worries about the consequences of Mr. Trump's "America First" platform.

Share market valuations, measured by the price/earnings ratio, in developing countries are close to their lowest levels on record, according to data going back to 2005 by the Institute of International Finance. Valuations on mature markets are near their highest since 2008, according to the IIF.

"Combine [rising commodity prices] with much cheaper valuations plus the lack of upside in developed markets and . . . well, that all adds up to a compelling investment proposition," said Ashmore's Mr. Dehn.

Some investors, however, are cautious given what they see as the difficulties in predicting Mr. Trump's actions.

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THE WALL STREET JOURNAL.
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Big Firms Cut Back Property Holdings

By Peter Grant
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The Wall Street Journal
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English

Some prominent real-estate investors are reducing their holdings and getting more selective about new deals, in a sign that the eight-year **bull market** for U.S. commercial property may be coming to a close.

Asset managers at pension funds and endowments, as well as private-equity firms and other big investors, are throttling back on new acquisitions, selling more assets and shifting to less risky strategies as a way to protect against potential losses in a downturn.

Additional selling could put stress on the market because demand for property has started to flag. Commercial real estate deal volume decreased by $58.3 billion, or 11%, in 2016, the first annual decrease since 2009, according to data firm Real Capital Analytics, a sign that investor appetite is waning.

Caution among investors in the $11 trillion U.S. commercial-property sector is being driven by lofty prices, the length of the market cycle so far and the recent rise in interest rates, which makes bonds look more attractive compared with commercial property.

Also, developers are adding new supply of some property types at the fastest rate since the recovery began.

Few investors predict a crash along the lines of the 2008 downturn because debt levels aren't nearly as high and the economy continues to show signs of strength.

But certain property types are weakening. Under siege by online shopping, retail space saw "signs of a correction" last year with 30 metropolitan areas showing an increase in vacancy over 2015, according to Reis Inc., a data firm.

In the office market, the largest commercial real-estate sector in terms of value, tenants occupied an additional 38.5 million square feet in 2016, thanks to the expanding economy, Reis said. But that was down from 44.5 million square feet of absorption in 2015.

Investors that have picked up the pace of selling to lock in profits include private-equity firm Blackstone Group LP, real estate giant Brookfield Asset Management, United Parcel Service Inc.'s pension trust and Harvard Management Co., which manages Harvard University's endowment.

When these big investors do buy, they are focusing more on niche properties such as self-storage warehouses and biomedical facilities, which haven't seen the sharp price rise of trophy office buildings and rental apartments.

"We definitely have a risk-off mentality," said Judy McMahan, a portfolio manager for UPS's $32 billion pension trust. "We're being careful."

The pension trust sold more property than it bought last year, and its new acquisitions included senior housing and industrial space in the U.K., Ms. McMahan said.

Brookfield also increased the pace of its selling, unloading about $3 billion in property in 2016 compared with about half that much in 2015. The firm is using the capital to buy niche property types that haven't seen such sharp increases in pricing, like self-storage facilities and student housing in the U.K.

The company recently put on the block a 49% stake in its sprawling Brookfield Place complex in Manhattan. The complex just finished overhauling its retail space and filling the 2.5 million square feet of office space emptied in 2013.

"We think now is an opportune time to reduce some of our exposure to that asset," said Brian Kingston, Brookfield senior managing partner.

Since 2009, investors have been handsomely rewarded for purchases of office buildings, warehouses, apartment buildings and other commercial property.

Thanks to low interest rates and the improving U.S. economy, a valuation index published by Green Street Advisors has increased 107% since hitting its crash-era low in May 2009. But that growth is slowing. The Green Street index, which focuses on top-quality U.S. commercial property owned by real-estate investment trusts, has stayed flat since mid-2016, according to Green Street.

Another closely followed metric -- an index compiled by the National Council of Real Estate Investment Fiduciaries -- showed total returns from commercial real estate rising 9.2% in the year ended Sept. 30, 2016, a sharp decline from 13.5% for the 12 months ended in the third quarter of 2015 and growth ranging from 11% to 14% in each of the previous five years.

Fund investors are pulling back as well. Quarterly distributions and redemptions from open-ended funds that buy low-risk properties, a popular investment vehicle among institutional investors, doubled during the first nine months of 2016, after ticking up just 11% in 2015, according to the council.

Much of the **bull market** has been fueled by low interest rates, which encouraged investors to forsake bonds and stretch for more yield. But rates have jumped since Election Day. Real-estate investment trusts took the first hit, with equity REITs declining 2.9% in the fourth quarter of last year compared with a gain of 5.3% for the **S&P 500**, according to Green Street.

This year through Monday, equity REITs have had a total return of 0.38%, compared with 1.9% for the **S&P 500**, Green Street said.

Until recently, the rise in property values was fueled by developers keeping new supply in check. But that, too, is beginning to change with certain property types. For example, more than 378,000 new apartments are expected to be completed across the country this year, almost 35% more than the 20-year average, according to real estate tracker Axiometrics Inc.

Private investors say the real estate they are chasing these days often is either less risky or properties that can be improved and sold quickly, rather than those -- like developments -- that might not be finished until the economy is well into the next down cycle.

For example, private-equity giant KKR & Co. moved quickly to find a buyer last year after it purchased the landmark Sullivan Center in the Chicago Loop for $267 million. A few months after the deal closed, KKR sold the retail portion of the 946,000-square-foot building to Acadia Realty Trust.

"Given we are in the later stage of the real estate cycle, we have been focused on business plans that require less time to create value," said Chris Lee, co-head of real estate credit at KKR.

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The New York Times

Business/Financial Desk; SECTB
Nasdaq Rises to Record on Quiet Day

By THE ASSOCIATED PRESS
699 words
8 February 2017
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NYTF
Late Edition - Final
2
English

Wall Street ended a subdued day of trading Tuesday with a tiny gain and another milestone.

After spending much of the day drifting between small gains and losses, stock indexes closed slightly higher, nudging the **Nasdaq composite** index to another high, eclipsing the record it set last Friday.

Consumer goods makers and technology companies rose. Energy companies fell with the price of crude oil.

The **Dow Jonesindustrial average** rose 37.87 points, or 0.2 percent, to 20,090.29. The **Standard & Poor's 500**-**stockindex** added 0.52 points, or 0.02 percent, to 2,293.08. The **Nasdaq** gained 10.67 points, or 0.2 percent, to 5,674.22. The Russell 2000 index of small-company stocks fell 5.60 points, or 0.4 percent, to 1,361.06

For the most part, investors continued to focus on the latest batch of company earnings and outlooks. But traders also have an eye on lawmakers in Washington to gauge whether expectations of business-friendly policies, which helped fuel the market rally last fall, will be fulfilled.

''Certainly earnings have been supportive, but the other thing that's been supportive is the hope that we'll get some policy stimulus,'' said Mike Baele, managing director at the Private Client Reserve at U.S. Bank. ''Now we're waiting to see if that hope is justified or not.''

Several oil and gas companies slumped as crude prices fell. Chevron fell the most among the 30 companies in the Dow, shedding $1.59, or 1.4 percent, to $111.39. Other big energy decliners included Newfield Exploration, which slid $1.69, or 4.2 percent, to $39.02, and Murphy Oil, which gave up $1.14, or 3.9 percent, to $27.95.

Energy sector stocks were the best performers in 2016, riding a rebound in **oil prices** to gain 23.7 percent. This year, the sector is off 5.1 percent; only phone companies have fallen more.

Benchmark crude slid 84 cents, or 1.6 percent, to close at $52.17 a barrel in New York. Brent crude, used to price international oils, fell 67 cents, or 1.2 percent, to $55.05 a barrel in London.

Disappointing quarterly results or outlooks weighed down several stocks, including Michael Kors. The luxury retailer, which gave weak guidance for its current quarter and cut its estimates for the year, was the biggest decliner in the **S**.**&P**. **500**. The stock slumped $4.46, or 10.8 percent, to $36.82.

General Motors fell 4.7 percent after it said earnings declined in the fourth quarter as costs increased. The stock gave up $1.73 to $35.10.

Traders bought shares in companies that posted better-than-expected results, including health insurer Centene, which climbed $3.37, or 5.3 percent, to $67.

Emerson Electric gained 4.5 percent. The company, which makes process controls systems, valves and analytical instruments, also raised its estimates for the rest of the year. The stock rose $2.68 to $62.54.

The major stock indexes in Europe were mixed.

The DAX index in Germany added 0.3 percent, while the CAC 40 in France was 0.5 percent lower. The FTSE 100 index of leading British shares was up 0.2 percent. Earlier in Asia, the Nikkei 225 index in Tokyo lost 0.4 percent, while S&P-ASX 200 in Sydney rose 0.1 percent. In Seoul, the Kospi slid 0.1 percent, and Sensex in India shed 0.6 percent.

Bond prices rose. The **10**-**year Treasury** yield fell to 2.39 percent from 2.42 percent late Monday.

In currency trading, the dollar rose to 112.19 yen from 111.83 on Monday. The euro fell to $1.0696 from $1.0748.

Among metals, the price of gold added $4.20 to $1,234.20 an ounce. Silver added 6 cents to $17.76 an ounce. Copper fell 2 cents to $2.63 a pound.

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 New York Times

DealBook
Business Day; DealBook
A Quiet Giant of Investing Weighs In on Trump

By ANDREW ROSS SORKIN
1,426 words
6 February 2017
08:17 PM
NYTimes.com Feed
NYTFEED
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Correction Appended

He is the most successful and influential investor you have probably never heard of. His writings are so coveted and followed by Wall Street that a used copy of a book he wrote several decades ago about investing starts at $795 on Amazon, and a new copy sells for as much as $3,500.

Perhaps that's why a private letter he wrote to his investors a little over two weeks ago about investing during the age of President Trump — and offering his thoughts on the current state of the hedge fund industry — has quietly become the most sought-after reading material on Wall Street.

He is Seth A. Klarman, the 59-year-old value investor who runs Baupost Group, which manages some $30 billion.

While Mr. Klarman has long kept a low public profile, he is considered a giant within investment circles. He is often compared to Warren Buffett, and The Economist magazine once described him as "The Oracle of Boston," where Baupost is based. For good measure, he is one of the very few hedge managers Mr. Buffett has publicly praised.

In his letter, Mr. Klarman sets forth a countervailing view to the euphoria that has buoyed the **stock market** since Mr. Trump took office, describing "perilously high valuations."

"Exuberant investors have focused on the potential benefits of stimulative tax cuts, while mostly ignoring the risks from America-first protectionism and the erection of new trade barriers," he wrote.

"President Trump may be able to temporarily hold off the sweep of automation and globalization by cajoling companies to keep jobs at home, but bolstering inefficient and uncompetitive enterprises is likely to only temporarily stave off market forces," he continued. "While they might be popular, the reason the U.S. long ago abandoned protectionist trade policies is because they not only don't work, they actually leave society worse off."

In particular, Mr. Klarman appears to believe that investors have become hypnotized by all the talk of pro-growth policies, without considering the full ramifications. He worries, for example, that Mr. Trump's stimulus efforts "could prove quite inflationary, which would likely shock investors."

And he appears deeply concerned about a swelling national debt that he suggests could undermine the economy's growth over the long term.

"The Trump tax cuts could drive government deficits considerably higher," Mr. Klarman wrote. "The large 2001 Bush tax cuts, for example, fueled income inequality while triggering huge federal budget deficits. Rising interest rates alone would balloon the federal deficit, because interest payments on the massive outstanding government debt would skyrocket from today's artificially low levels."

Much of Mr. Klarman's anxiety seems to emanate from Mr. Trump's leadership style. He described it this way: "The erratic tendencies and overconfidence in his own wisdom and judgment that Donald Trump has demonstrated to date are inconsistent with strong leadership and sound decision-making."

He also linked this point — which is a fair one — to what "Trump style" means for Mr. Klarman's constituency and others.

“The big picture for investors is this: Trump is high volatility, and investors generally abhor volatility and shun uncertainty,” he wrote. “Not only is Trump shockingly unpredictable, he’s apparently deliberately so; he says it’s part of his plan.”

While Mr. Klarman clearly is hoping for the best, he warned, “If things go wrong, we could find ourselves at the beginning of a lengthy decline in dollar hegemony, a rapid rise in interest rates and inflation, and global angst.”

Mr. Klarman is a registered independent and has given money to politicians from both parties. He has donated to Jeb Bush, Chris Christie, Marco Rubio, John McCain and Rudolph W. Giuliani as well as Hillary Clinton, Cory Booker and Mark Warner.

While he has remained largely outside the public eye, Mr. Klarman surprised some of his friends and peers over the summer when he issued a statement after Mr. Trump criticized a judge over his Mexican heritage, saying he planned to support Mrs. Clinton: “His words and actions over the last several days are so shockingly unacceptable in our diverse and democratic society that it is simply unthinkable that Donald Trump could become our president.”

In his recent letter, he explained for the first time his decision to say something publicly. “Despite my preference to stay out of the media,” he wrote, “I’ve taken the view that each of us can be bystanders, or we can be upstanders. I choose upstander.”

From the letter, it is hard to divine exactly how Mr. Klarman is investing his fund’s money. His office declined to comment on the letter, which I obtained from a source. His fund currently has more than 30 percent of its funds in cash. He has lost money in only three of the past 34 years.

What investors say publicly and what they do in the markets can be different things. Mr. Buffett campaigned publicly against Mr. Trump, but he has nevertheless invested in the market since his election — about $12 billion, according to a recent disclosure. George Soros, who also actively campaigned against Mr. Trump, bet — wrongly so far — that the stock market would fall; he lost about $1 billion.

Most hedge funds have found themselves on the losing side of trades over the past several years, a point Mr. Klarman addressed in his letter. Noting that hedge fund returns have underperformed the indexes — he mentioned that hedge funds had returned only 23 percent from 2010 to 2015, compared with 108 percent for the Standard & Poor’s index — he blamed the influx of money into the industry.

“With any asset class, when substantial new money flows in, the returns go down,” Mr. Klarman wrote. “No surprise, then, that as money poured into hedge funds, overall returns have soured.”

He continued, “To many, hedge funds have come to seem like a failed product.”

The lousy performance among hedge funds and the potential for them to go out of business or consolidate, he suggests, may become an opportunity.

Perhaps the most distinctive point he makes — at least that finance geeks will appreciate — is what he says is the irony that investors now “have gotten excited about market-hugging index funds and exchange traded funds (E.T.F.s) that mimic various market or sector indices.”

He says he sees big trouble ahead in this area — or at least the potential for investors in individual stocks to profit.

“One of the perverse effects of increased indexing and E.T.F. activity is that it will tend to ‘lock in’ today’s relative valuations between securities,” Mr. Klarman wrote.

“When money flows into an index fund or index-related E.T.F., the manager generally buys into the securities in an index in proportion to their current market capitalization (often to the capitalization of only their public float, which interestingly adds a layer of distortion, disfavoring companies with large insider, strategic, or state ownership),” he wrote. “Thus today’s high-multiple companies are likely to also be tomorrow’s, regardless of merit, with less capital in the hands of active managers to potentially correct any mispricings.”

To Mr. Klarman, “stocks outside the indices may be cast adrift, no longer attached to the valuation grid but increasingly off of it.”

“This should give long-term value investors a distinct advantage,” he wrote. “The inherent irony of the efficient market theory is that the more people believe in it and correspondingly shun active management, the more inefficient the market is likely to become.”

How Mr. Klarman wants investors to behave in the age of Trump remains an open question. But here’s a hint: At the top of his letter, he included three quotations. One was attributed to Thomas Jefferson: “In matters of style, swim with the current; in matters of principle, stand like a rock.”

Correction: February 11, 2017, Saturday

This article has been revised to reflect the following correction: The DealBook column on Tuesday, about the investor Seth A. Klarman, referred incorrectly in some copies to a statement he issued criticizing Donald J. Trump last year. It was related to Mr. Trump’s criticism of a judge’s Mexican heritage, not a recording in which Mr. Trump talked about groping women.

* Manager Frets Over the Market, but Still Outdoes It

Seth A. Klarman appears to fear that investors, charmed by talk of pro-growth policies, are not considering the full ramifications. | Scott Olson/Getty Images

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THE WALL STREET JOURNAL.
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Hedge-Fund Managers Bombed in '16

By Laurence Fletcher
463 words
7 February 2017
The Wall Street Journal
J
B2
English

Hedge-fund managers' reputations and pay depend on the quality of their trading ideas. Recently they haven't looked so clever.

Hedge funds betting on stocks -- a group running around $850 billion in assets globally -- lost money for their investors in 2016, stripping out gains from simply tracking the market. This is the first year this has happened, according to a client memo from Morgan Stanley reviewed by The Wall Street Journal, since at least 2010, when the bank began tracking this data.

More simply, these hedge-fund managers would be better off doing nothing. Early data for January show these stock pickers still lagging behind the **S&P 500 stock index**, according to figures from Chicago-based data provider HFR.

Funds from John Burbank's Passport Capital in San Francisco to Crispin Odey's Odey Asset Management and Lansdowne Partners in London are among funds to have racked up big losses.

Picking rising and falling stocks, or long-short equity trading, is "a challenged strategy," said Robert Duggan, partner at New York-based SkyBridge Capital, which invests in hedge funds and manages $12 billion in assets.

Mr. Duggan, whose portfolio has been running very low exposure to long-short funds for most of the time since the end of the credit crisis, pointed to the growth of passive investing and index funds. Their influence in the market can mean moves in a **stock price** are now less linked to a company's financial performance, he said.

The ability to generate so called "alpha" -- industry jargon for the extra returns managers make over and above the market's performance -- is the most highly prized skill in fund management.

That is meant to justify hedge funds' high fees. And it supposedly distinguishes them from "beta" -- passively riding the market's ups and downs. This is regarded as requiring little obvious skill and can be done far more cheaply.

Many funds have complained that trillions of dollars of quantitative easing by central banks has caused many stocks to move in the same direction, making it hard to distinguish the winners from the losers.

Many hedge-fund managers have found themselves researching a stock but then having to guess the effect that politics and central-bank policy would have on it, said Kenneth Heinz, president of HFR.

Or else they "didn't think enough about it and were victimized by wild swings in policy and uncertainty," he said.

However, some people in the industry see a brighter outlook for these funds.

President Donald "Trump will mean change," said Christoph Englisch, portfolio manager at EnTrustPermal.

"Change begets uncertainty, and that's good for long-short equity managers," he said.

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THE WALL STREET JOURNAL.
U.S. EDITION

Equities: Share Performance Diverges in Asia

By Gregor Stuart Hunter
521 words
7 February 2017
The Wall Street Journal
J
B11
English

HONG KONG -- A stark divergence in the performance of Asian stocks since the U.S. election is becoming clear, even as investors scratch their heads over how the policies of President Donald Trump's administration will affect the region.

Among the themes are a preference for companies that are relatively unaffected by global trade and for those that could benefit from increased U.S. government spending.

Overall moves in Asian stocks since the U.S. election on Nov. 8 haven't been dramatic. The MSCI Asia ex-Japan Index is up 1.7% since then, trailing a 7.4% rise for the **S&P 500**.

But disparities among individual stocks are growing.

Take Sun Art Retail Group Ltd., a Chinese hypermarket group listed in Hong Kong, whose large market share at home has insulated the company from concerns about talk from Washington of higher tariffs on Chinese exports. Its shares have surged almost 44% since the U.S. election.

By contrast, factory middleman Li & Fung Ltd., which generates more than 60% of its revenue from the U.S. through sales of apparel and other goods to companies including Wal-Mart Stores Inc. is perceived as vulnerable to a trade war. Its shares are down 13%.

"We've seen stock dispersion pick up to levels we've not seen since 2009," said Joshua Crabb, head of Asian equities at Old Mutual Global Investors. "Stock picking is coming back into fashion."

The question now is whether some of the sharp moves in stocks since Mr. Trump's win have gone too far, given uncertainty over details of his policy agenda and the timing of its implementation. On trade, it is still unclear what the extent and nature of any new tariffs would be.

Meanwhile, some investors are focusing on fundamentals such as corporate earnings.

"I'm not seeing that picture where markets are pricing in a trade war at the moment," said Jack Siu, investment strategist for Asia-Pacific at Credit Suisse. "Equity markets are actually focusing on earnings results, which have been outperforming so far."

A recent tendency for Asian stocks to move broadly in unison broke down after Mr. Trump's election victory, largely because the U.S. interest-rate outlook has changed, said Olivier d'Assier, managing director for Asia-Pacific at Axioma, which sells risk-management tools to the financial-services industry. Mr. Trump has promised corporate-tax cuts and higher fiscal spending, which analysts think could drive inflation higher, forcing the Federal Reserve to counter with rate increases.

With government-bond yields rising, stocks that traditionally offer investors high dividend returns have become less attractive, particularly in the telecom and utilities sectors. HK Electric Investments Ltd., a Hong Kong-listed utility, is down 15% since the U.S. election, while Indonesia's Tower Bersama Infrastructure, which leases telecommunications towers, is down 12%.

Meanwhile, companies that could gain from infrastructure spending and a rise in commodity prices have benefited, such as Jiangxi Copper Co., whose shares are up 36%.

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THE WALL STREET JOURNAL.
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Heard on the Street
China Faces Trickier Path To Growth

By Nathaniel Taplin
263 words
6 February 2017
The Wall Street Journal
J
B10
English

[Financial Analysis and Commentary]

"The sky has unexpected storms," a Chinese maxim goes. It fits the surprise election of Donald Trump -- and China's just-released manufacturing purchasing manager's index.

The January PMI from Caixin, whose survey focuses on the private sector, showed the biggest fall in 18 months. It adds to recent data showing the manufacturing sector cooling quicker than expected following last year's record stimulus and inconveniently comes just as the People's Bank of China shifts more aggressively into tightening mode.

The central bank has signaled increasing unhappiness with some side effects of that stimulus, such as massive debt issuance by struggling industrial companies and rising leverage in the interbank bond market. It lifted its guidance for interbank rates Friday, after raising longer-term borrowing costs before the weeklong Lunar New Year holiday.

Chinese bonds sold off sharply Friday on the news, with the benchmark **10**-**year treasury** yield hitting its highest since August 2015.

The Caixin numbers weren't all bad. New export orders rose at their fastest pace since September 2014, adding to evidence of a global pickup in trade.

An export boom could prop up manufacturing. But Chinese exports have been strongest recently precisely to the most inconvenient place: the U.S.

If January's export data later this month continue that pattern, expect more rumblings from across the Pacific. Mr. Trump isn't one to pass up on a convenient source of leverage.

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Investing in Funds & ETFs: A Monthly Analysis --- In Translation: Normalization

By Simon Constable
304 words
6 February 2017
The Wall Street Journal
J
R5
English

Increasingly we are hearing market professionals talk about "normalization." Usually they are referring to interest rates on government securities, which have been anything but normal over the past few years.

Since the financial crisis, the government's cost to borrow money has been low by historical standards. For short-term borrowing, the benchmark federal-funds rate, set by the Federal Reserve, has been near zero. For longer-term borrowing, a government bond-buying program known as quantitative easing has kept the **10**-**year** **Treasury** rate low. The yield is now 2.496%.

Now that the economy is healthier and inflation is starting to rise, it seems the era of extraordinarily low rates is ending. In other words, it is normalizing. The thing is, it isn't altogether clear what normal means anymore in terms of interest rates.

That "has to be fine-tuned," says Michael Gayed, portfolio manager at investment adviser Pension Partners in New York.

Mr. Gayed says that normal rates likely won't be as high as they were in the past. In the 1990s, the 10-year rate for government borrowing rarely dipped below 5%, and in the decade preceding the financial crisis, it mostly remained above 4%.

Normal rates likely won't return to that level because inflation is so much lower than it once was, thanks in part to improved economic efficiency, he says. "There has been a generic shift down on rates due to efficiency. People who talk about rising rates aren't necessarily understanding the shift in rates due to technology."

In short, the new normal might not be the old normal because new tech has allowed the economy to grow without surges in prices.

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THE WALL STREET JOURNAL.
U.S. EDITION

Trump Makes 'Smart Beta' Look Smart --- ETFs focusing on value are popular, but some worry investors will be led into new mistakes

By Asjylyn Loder
529 words
6 February 2017
The Wall Street Journal
J
B10
English

The Trump Trade has been a boon for "smart beta," the hottest trend in exchange-traded funds.

ETFs that pick undervalued U.S. stocks have swelled to record size since the election, buoyed by the gains in financial and technology stocks that followed President Donald Trump's victory. Value ETFs that invest in big U.S. companies have taken in $15 billion since the start of November, though inflows slowed in January, according to Morningstar Inc.

Smart beta, a term popularized by a consulting firm, has become a catchall for funds that pick stocks based on traits like value, growth or **volatility**, as opposed to traditional index products that invest in proportion to company size.

Issuers are looking to smart beta to help bolster profits, charging fees that can be as much as five times the cost of traditional index ETFs. The smart-beta category has added 208 new U.S. ETFs since the start of 2015, according to Morningstar. Despite its rising popularity, there is still considerable confusion about how smart beta works, how best to harness it and even what it means.

"There's a huge range of possibilities in the smart-beta world, and they can't all be that smart," said Yves Choueifaty, chief executive of Tobam, a Paris-based asset manager.

Money managers and quant traders have used the strategies for decades, and value and growth "style" ETFs have been around for years. It is only recently that asset managers like BlackRock Inc. and Invesco Ltd. began marketing ETFs under the smart-beta moniker.

Smart beta's purported benefit is that it avoids the built-in hazards of traditional funds that apportion their investments based on company size, where bigger companies and industries are larger shares of the pie. Smart-beta adherents say that weighting based on company size forces investors to pay inflated prices.

"Market-cap-weighted benchmarks are simply very dumb," Mr. Choueifaty said. "The benchmark only buys what is fashionable, and there's a price for that." For example, the **S&P 500**'s exposure to information-technology stocks peaked in 2000 at almost 35%, right before the tech bubble burst. It is now 21.3%.

Smart beta does it differently. Instead of weighting investments based on the size of the company, a smart-beta index might give equal weight to stocks; focus on companies with share prices considered cheap relative to profits; or try to build portfolios that aim to muffle market swings.

But the industry's popularity, along with the proliferation of new funds, has sparked concern that smart beta will lead investors into new mistakes. The recent surge into value ETFs at the expense of last year's vogue for low-**volatility** funds, in the view of some analysts, is a sign that investors are using smart beta to chase the latest fad.

"People are making classic mistakes with a shiny new set of toys," said Ben Johnson, head of ETF research for Morningstar.

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Investing in Funds & ETFs: A Monthly Analysis --- ETFs vs. ETNs: There Are Different Risks

By Simon Constable
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When it comes to investment products, sometimes a slight difference in a name means a lot of difference in risk.

A case in point: The difference between an exchange-traded fund and an exchange-traded note.

"ETFs and ETNs are as different as a dog and a cat," says Steve Hanke, professor of applied economics at Johns Hopkins University. "And if you get a bad ETN, then it could be a dog."

Confusion could leave some investors more exposed to risk than they think they are if they own ETNs. And that applies to more investors -- the ETN market is now $22 billion, up from $4.7 billion at the end of 2007.

Here's what investors need to know: Both ETFs and ETNs track the price of things like baskets of stocks, bonds or commodities, but they do so differently. ETFs own a portion of the assets they track -- an **S&P 500** ETF, for instance, owns stocks that are included in the index. ETNs don't own a portfolio of assets. They are simply debt issued by banks that promise a return to the investor linked to the performance of the assets they track.

That difference is important in a worst-case scenario. The assets of an ETF are held in trust for the fund's investors. With an ETN, there is no such protection. If the issuer goes bust and can't pay off debt, investors could lose it all. In any case, the price of the notes can fluctuate with the issuer's credit rating.

ETN issuers make these risks clear.

For those who decide ETNs are worth the risk: "You want to make sure that the ETN issuer is solid, just like you would with a bond," says Jeff Carbone, managing partner at Cornerstone Financial Partners in Charlotte, N.C.

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The New York Times

Business Day
I.M.F. to Talk of Greek Bailout, and Trump Will Meet Japan's Leader on Trade

By THE NEW YORK TIMES
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09:00 PM
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NYTFEED
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Here's a look at what's coming up this week.

ECONOMY

Fund faces a deadline for a deal with Greece's creditors.

The International Monetary Fund will hold a crucial board meeting on Monday to discuss whether it will participate in Greece's current bailout program, the country's third in seven years. The I.M.F. has been squaring off with Greece's European creditors over debt calculations and austerity conditions that Greece must meet to receive badly needed loan payments. If both sides don't reach an agreement by Feb. 20, when European finance ministers are to meet in Brussels to review the program, the bailout could be thrown off course, pushing Greece into another potentially disastrous situation. Liz Alderman

A bank leader will discuss Trump's effect on the eurozone.

Mario Draghi, the president of the European Central Bank, will speak to members of the European Parliament in Brussels on Monday and will probably face questions about what President Trump means for monetary policy and political unity in the eurozone. So far, Mr. Draghi has avoided commenting on Mr. Trump, but he may become more outspoken after Mr. Trump's tumultuous first days in office. Mr. Draghi may also face questions about whether rising inflation in the eurozone will prompt the central bank to begin withdrawing its economic stimulus measures. Jack Ewing

December trade balance estimates are coming.

On Tuesday at 8:30 a.m., the Commerce Department will release its estimate of the trade balance for December. Economists expect to see a net deficit of $45 billion, slightly narrower than the $45.2 billion gap in November. The strengthening of the dollar in recent months could eventually hurt exports by making them more costly overseas, while bolstering imports as they become cheaper for American buyers. While economists don't expect much change in the trade balance from the preceding month, they will be watching closely for any sign of the dollar's impact. Nelson D. Schwartz

BANKING INDUSTRY

Several European lenders will report their 2016 results.

Investors will again have their eyes on European banks this week as several of the region's largest lenders report their results for 2016. BNP Paribas and Société Générale of France and Unicredit of Italy are among the banks expected to update investors on their fourth-quarter and full-year results. Unicredithas already warned that it would post a loss of 11.8 billion euros, or about $12.7 billion, for 2016, with the bank taking €12.2 billion in charges in the fourth quarter as it seeks to clean up its balance sheet. Chad Bray

ECONOMY

Mexican banking leaders will meet as the peso weakens.

Mexico's central bank board will meet on Thursday amid expectations that it will announce a rate increase to address rising inflation. A weakening peso and the government's decision to deregulate gasoline prices at the beginning of the year led to the sharpest spike in inflation in almost two decades. Now the fuel shock is beginning to spread as prices of basic goods are rising and analysts forecast that inflation could surpass 5 percent. The peso has recovered some ground after hitting a historic low two weeks ago in the face of uncertainty about relations with the United States, which buys almost 80 percent of Mexican exports. That uncertainty puts more strain on the Mexican economy, as companies may delay investment plans while waiting to see what comes of talks to renegotiate the North American Free Trade Agreement. Elisabeth Malkin

TECHNOLOGY

Twitter will announce its 2016 earnings.

Twitter will report its financial results for the fourth quarter of 2016 and the full year on Thursday. Wall Street expects the beleaguered social media company to announce revenue of $736 million for the fourth quarter. As always, analysts will closely watch the company's user growth figures, a point of difficulty for Twitter since its initial public offering in 2013. Mike Isaac

ECONOMY

Trump and Japan's prime minister are poised to meet.

President Trump is scheduled to meet Prime Minister Shinzo Abe of Japan on Friday, with trade and currency issues high on the agenda. Mr. Abe's goal is to defuse accusations by Mr. Trump that Japan benefits unfairly from trade with the United States, partly by keeping the yen artificially cheap. He may offer to channel Japanese investment into American industries in hopes of forestalling protectionism. Much is at stake: The United States is Japan's most important overseas market, and the meeting could set the course for future bilateral trade negotiations. That is especially crucial, now that Mr. Trump has said Washington will no longer participate in the Trans-Pacific Partnership trade deal, negotiated by the Obama administration. Jonathan Soble

Consumer sentiment estimates are on the way.

On Friday at 10 a.m., the University of Michigan will release its initial estimate of consumer sentiment for February. The University of Michigan's index hit a 13-year high last month, 98.5, and economists expect a slight decrease to 97.7. That is still a healthy reading, as income gains, steady hiring and a surging **stock market** have improved consumers' outlook. Nelson D. Schwartz

Mario Draghi is the president of the European Central Bank. | Yves Herman/Reuters

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President Signals New Era For Banks

By Ryan Tracy and Michael C. Bender
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English

WASHINGTON -- President Donald Trump ushered in a friendlier era for Wall Street's relationship with Washington, calling for an end to eight years of rising regulations and publicly embracing some of the industry's top leaders.

At a White House meeting, Mr. Trump promised Friday to undo a bevy of restrictions on financial firms put in place after the 2008 financial crisis, while praising the CEOs of BlackRock Inc . and J.P. Morgan Chase & Co .

The president thanked Larry Fink , chief executive of BlackRock, the world's largest asset management firm, for doing a "great job for me."

"He managed a lot of my money," Mr. Trump said.

The president then pointed to James Dimon , chief executive of J.P. Morgan, the largest U.S. bank by assets, as he discussed making changes to the Dodd-Frank law.

"There is nobody better to tell me about Dodd-Frank than Jamie," the president said.

Mr. Trump's moves sent shares of banks with large brokerage units up sharply Friday, helping push the **Dow Jones Industrial Average** to its biggest one-day gain in nearly two months. Morgan Stanley jumped 5.5%, while Goldman Sachs gained 4.6%. Retail brokerage Charles Schwab rose 2.6%.

Republicans and many in the financial industry cheered Mr. Trump's moves, saying they gave momentum to their long-sought goal of dismantling the 2010 Dodd-Frank financial overhaul and reducing regulatory costs for financial firms. Many Democrats panned the move as a shortsighted attempt to undo regulations that were a necessary response to the 2008 financial crisis.

The developments seemed improbable only months ago, when then-President Barack Obama's administration was putting the finishing touches on a broad regulatory crackdown on the industry, and populist, anti-Wall Street rhetoric from both Mr. Trump, a Republican, and Hillary Clinton , his Democratic rival, played a role in the 2016 presidential campaign.

Mr. Trump's directives on Friday set in motion an administration game plan for scaling back what he views as overly burdensome financial rules.

One directs regulators to identify costly rules and laws, including the 2010 Dodd-Frank financial-overhaul. Another paves the way for rolling back an Obama-era retirement-savings rule that was on track to take effect in April.

The financial industry's influence in Washington has blossomed as Mr. Trump moved to hire top Wall Street executives as senior officials.

White House National Economic Council Director Gary Cohn , whose tenure as a senior executive at Goldman Sachs Group Inc. ended less than 40 days ago, engineered the administration's deregulatory plan.

Mr. Trump's actions on Friday could benefit Wall Street, especially investment advisers. His most immediate action was directing the Labor Department to review a recently completed rule restricting how retirement advice is provided.

In a memo, Mr. Trump directed the Labor Secretary to study the rule's impact and rescind or revise it if it is inconsistent with the administration's priorities. The memo doesn't delay the rule's effective date, but the Labor Department has that power.

The industry had unsuccessfully fought the rule during Mr. Obama's tenure. Backers say it protects investors, while critics say it limits their choices.

Mr. Trump also signed an executive order outlining regulatory principles, including preventing bailouts and making sure that regulatory policies foster economic growth.

The president ordered the treasury secretary and top financial regulators to come back to the White House with a report in 120 days evaluating how existing laws and rules comply with the principles.

Mr. Trump reiterated on Friday his promises to dismantle the Dodd-Frank law.

"I have so many people, friends of mine, that had nice businesses. They can't borrow money. They just can't get any money because the banks just won't let them borrow it because of the rules and regulations in Dodd-Frank."

Data show bank lending is growing, although some believe banks would be lending more without the new rules. Many data suggest it has been a lack of demand, not supply, that is tamping down borrowing by U.S. companies.

Obama-era financial rules have raised the cost of doing business for financial firms, causing them to pull back from offering certain loans and other products. Whether those changes were worth it in the name of financial stability is a matter of intense debate.

The White House said its goal isn't to let Wall Street run wild, but to cull back specific rules it believes are impeding economic growth without meaningfully making the financial system or consumers safer.

"We want to do it in a smart, regulated way," Gary Cohn , director of the White House National Economic Council, said.

Mr. Trump's regulatory review order won't by itself roll back financial regulations. Some policy changes will need approval from Congress, while others must be implemented by financial regulators whom Mr. Trump hasn't appointed yet.

Rep. Ann Wagner (R., Mo.) a leading opponent of the fiduciary rule, exclaimed "Woo-hoo!" after watching Mr. Trump sign the executive actions. House Financial Services Committee Chairman Jeb Hensarling (R., Tex.) described the president's moves as "the beginning of the end of Dodd-Frank."

Senate Banking Committee Chairman Mike Crapo (R., Idaho) called the moves "a step in [the] right direction to get financial regulation right," without offering a timeline for considering legislation.

Democrats swiftly criticized Mr. Trump's actions, previewing what is likely to be a drawn-out political battle.

"Donald Trump talked a big game about Wall Street during his campaign -- but as president, we're finding out whose side he's really on," said Sen. Elizabeth Warren (D., Mass.), a prominent Wall Street critic who helped craft parts of Dodd-Frank.

She said his actions "will put two former Goldman Sachs executives in charge of gutting the rules that protect you from financial fraud and another economic meltdown," referring to Mr. Cohn, who was until recently Goldman's president, and Steven Mnuchin , a former Goldman banker who is Mr. Trump's choice for Treasury secretary.

Those men have said their goal is to boost the economy, not help Goldman.

"These latest actions from the Trump administration should show the American public that Trump and his cabinet of billionaires is putting the interests of Wall Street above the needs of the rest of us," said Rep Maxine Waters (D., Calif.), the top Democrat on the House Financial Services Committee .

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Bonds: Foreign Bonds Lose Appeal --- Japanese, eurozone investors are selling more global bonds than they are buying

By Mike Bird
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English

After years of splurging on international debt, the world's two large economies with negative interest-rate policies are showing tentative signs of losing their appetite for foreign bonds.

Investors in Japan and the eurozone have both recently sold more global bonds than they have bought. That comes after years of snapping up foreign debt, as negative central-bank interest rates at home sent money abroad in search of higher returns.

How that trend develops will have a significant impact on international markets, particularly in foreign exchange and fixed income.

Data from Japan's Ministry of Finance confirmed this past week that Japanese investors sold around 1.3 trillion yen ($11.52 billion) in foreign bonds between Jan. 21 and Jan. 28, taking net sales for the past 12 weeks to more than 3.7 trillion yen, the largest amount since April 2014.

Investors in the eurozone, for which data is more delayed, sold 15.99 billion euros ($17.2 billion) more in foreign bonds than they bought in the three months through November, becoming net sellers for the first time since 2012.

The reversal is a puzzle for international markets, since the spread between U.S. bond yields and yields in the eurozone and Japan has only grown -- which should make American debt more attractive to global investors.

However, many investors, especially risk-sensitive buyers such as pension funds and insurance companies, want to hedge their exposure to currency movements. And high global demand for U.S. debt has raised the cost of hedging to borrow in dollars. That cost heavily reduces the benefit of buying Treasurys for both European and Japanese buyers.

"For bond-market investors, one of the key things you need to bear in mind is the **volatility** of exchange rates," said Mika Inkinen, analyst at J.P. Morgan. "It's not enough to just look at the yield differential, you need to look at what's happened to the cross-currency basis."

One hedging tool, cross-currency basis swaps, allows an investor to swap cash flows in one currency for cash flows in another. But for a buyer with euros, the costs of such swaps have widened markedly over recent years.

At the end of January, a 10-year U.S. bond yielded around 2 percentage points more than its German equivalent and 2.4 percentage points more than a Japanese bond.

But if investors fully hedged themselves against currency exposure, the pickup in yield would disappear completely. After that cost, a U.S. 10-year bond would offer a yield 0.06 percentage point lower than a domestic equivalent for an investor with euros, and 0.7 percentage point lower for a Japanese investor.

"The relative attractiveness hasn't increased as much as the nominal difference in yields suggests," added Mr. Inkinen.

Hedging an investment mutes its impact on the exchange rate, but if Japanese and European investors want to benefit from higher yields on bonds elsewhere in the world -- particularly U.S. Treasurys -- they would have to buy more bonds unhedged against currency risk.

So how large an impact global flows have on the dollar from now on depends on whether investors will hedge their currency exposure.

If a Japanese or European investor buys a U.S. Treasury bill and fully hedges, the impact on the exchange rate will be much more muted. But if investors continue buying U.S. bonds, and stop hedging, the demand for dollar-denominated debt could fuel a rally in the U.S. currency.

"Foreign buying of U.S. credit has been a key, and growing, source of demand ever since the 'taper tantrum' set in motion increasing divergence between U.S. and foreign monetary policies," wrote Nathaniel Rosenbaum, credit strategist at Wells Fargo in a recent research note. (The taper tantrum was when U.S. bond yields briefly surged in 2013 after Federal Reserve officials signaled they would soon end stimulus.)

That demand has reduced U.S. yields, too. According to analysis by Morgan Stanley strategists, yields on U.S. 10-year Treasurys are around half a percentage point lower than would be expected to be based on normal macroeconomic factors.

Recent growth figures show the eurozone's economic expansion in line with that of the U.S. in 2016. A pickup in growth in Europe could be another factor making international debt less appealing to local investors.

"In that event, the euro's decline could eventually come to an end versus the greenback," said Mr. Rosenbaum. "We could see a sharp pullback or even a reversal in European demand for American corporate bonds."

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U.S. News: Jobs Data Point to Economic Leeway

By Josh Mitchell
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A2
English

Despite brisk hiring, the U.S. unemployment rate rose in January and wages grew modestly, evidence for the Trump administration and the Federal Reserve that the economy has room to grow before it risks overheating.

The backdrop of a steady but unspectacular labor market is likely to keep the Fed cautious about raising interest rates and could prevent the central bank from colliding with President Donald Trump as he aims for faster economic growth.

Employers added 227,000 jobs last month, the biggest gain since September, the Labor Department said Friday. Job growth over the past three months averaged 183,000, in line with the trend earlier in 2016.

Still, the jobless rate rose to 4.8% in January from 4.7% a month earlier, as more Americans came off the sidelines and actively looked for work, pushing up the count of unemployed. In one sense that is a positive development, suggesting increased optimism about the prospects of eventually finding work.

Fed officials have said they believe the economy is near full employment, meaning the jobless rate is low enough to start driving up wages and inflation. But Friday's report suggests the broader economy has room to run a little hotter before it produces higher inflation pressures that the Fed policy makers would need to tamp down. That means the era of very low interest rates might not be at an end.

"We're a good ways down the road toward full employment, but we're not quite there yet," said Richard Moody, chief economist of Regions Financial Corp.

Those with jobs still aren't seeing the big wage gains that characterized more prosperous economic expansions of the past. The average hourly paycheck grew just 3 cents over the month -- and 2.5% over the year -- despite millions of workers receiving raises under minimum-wage laws across 19 states at the start of the year. It is better, however, than the 2% rates that prevailed earlier in the expansion.

Beyond the modest wage growth, Mr. Moody pointed out that nearly 6 million Americans are working part time because they can't find full-time jobs. That is about a million more than economists usually expect at full employment, Mr. Moody said. The average workweek of 34.4 hours is also relatively low. "There's more slack than that headline unemployment number suggests," he said.

Stocks rose sharply in part on investors' hopes that the report will keep the Fed cautious about proceeding with interest-rate increases that could slow growth and hiring. The **Dow Jones Industrial Average** closed 186.55 points higher.

The central bank has penciled in three quarter-percentage-point increases in interest rates for 2017, depending on how the economy performs. Friday's number makes a move at bank officials' next meeting in March less likely, with traders in futures markets placing a 91% probability on the Fed keeping rates steady next month.

If the bank does act three times this year, it might have to pack the moves into the second half of the year.

A slower-moving Fed potentially would be good news for Mr. Trump, who has said he hopes to achieve faster economic growth of 4%.

The jobs numbers could also give him leverage in pushing for an infrastructure-spending plan and other measures to try to achieve his growth goal, which is roughly double the average rate of economic expansion since the recession.

The economy grew 1.9% in the fourth quarter compared with a year earlier.

Mr. Trump, who met with corporate CEOs on Friday to shape his economic agenda, said he was "happy" with the jobs numbers, which he called "big league."

"We're bringing jobs back," he told reporters.

The data Friday showed weak job growth in a sector at the center of Mr. Trump's economic plans: manufacturing. Factories added just 5,000 jobs last month, despite other signs that the sector is experiencing higher demand.

Some economists have argued that Mr. Trump's goal of lifting growth to 4% would be too rapid, given the economy's current capacity, and could ultimately require an intervention by the Fed, which might have to raise interest rates more quickly to prevent excessive inflation.

"The more aggressive fiscal policy is, the more aggressive the Fed will be," said Nomura economist Mark Doms, former chief economist at the Commerce Department.

Quicker action on interest rates would ultimately prevent the economy from achieving Mr. Trump's economic target. "If you have the Fed hitting the brakes really hard, he's not going to get as much bang as he had hoped" for his economic plans, said Mr. Doms. The latest jobs data, with a higher unemployment rate and modest growth in wages, "may head off the collision" between the central bank and the president in the near term, he said.

Businesses, for their part, appear to have gained confidence in recent months, in part due to Mr. Trump's pledge to reduce regulations but also because of a broader sense of economic stability. The long labor-market expansion has delivered jobs to millions of Americans who are in turn spending their money at retailers, car dealerships and restaurants.

"I'm knocking on my desk, on wood, it's gone very well," said Dennis Archer Jr. of business at Central Kitchen and Bar, a downtown Detroit restaurant he opened in 2015. He is benefiting from urban redevelopment, a trend seen in many cities across the U.S.

Mr. Archer is planning to open another restaurant and a lounge this year, and he expects soon to hire staff to run them. "I think that 2017 is going to be just as strong, if not stronger, than 2016," he said. "My optimism is high to very high."

But his business's expansion also represents a disappointing aspect of the recovery: Many of the jobs being created are on the lower-paying end.

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Economic View
The Upshot
Is the U.S. Economy Too Dynamic, or Not Dynamic Enough?

By NEIL IRWIN
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If you're an economic technocrat staring at a dashboard of official indicators of how the United States is doing, these look like pretty good times.

The unemployment rate is low. Gross domestic product is growing. Wages are rising a good bit faster than inflation, which is very modest. These may not be all-out boom times, but as far as economic policy goes, it looks like a job well done.

Your countrymen, it is amply clear, do not agree.

In polls, nearly twice as many Americans viewed the nation as being on the wrong track as the right one, and as recently as early November many more people saw the economy as getting worse than getting better. Those economic assessments have flipped since the election, driven by Republicans apparently feeling better about things, mainly because President Trump has promised to change the country's direction.

Let's consider Mr. Trump's rise, the anti-establishment energy behind the presidential campaign of Senator Bernie Sanders, and parallels in the politics of Britain and other advanced nations. It takes no grand leap of logic to conclude that something is rotten in many people's economic lives that hasn't been picked up by the headline data that government statistical agencies publish every month.

But what exactly has gone so wrong?

One set of answers boils down to this: The economy has become too **volatile** and uncertain. Perhaps the dissatisfaction is driven by globalization, automation and the decline of employers' implicit promises to offer workers jobs through thick and thin. These factors have made it harder for people to get good-paying jobs and to hold onto them for decades. High levels of inequality mean many of the benefits of growth don't accrue for people at the middle and bottom of the pay scale.

All of this has hammered people without an advanced education and left them feeling unmoored and without opportunity, even if by narrow measurements jobs are plentiful and compensation is rising.

Robert Johnson, the president of the Institute for New Economic Thinking, argues that the cumulative impact of rapid technological change and shifts in work can have downsides that economists should try to account for more rigorously.

"When firms invest in technical change that disrupts employment structures," Mr. Johnson said, "their decisions focus solely on private profit and neglect the costly side effects that society must bear. When one small firm adopts a new technology displacing workers, this may not be a societal crisis. When many firms do this at the same time, the changes in the nature of production and employment across the nation become a profound social problem."

Economists speak of "negative externalities" — what happens, for example, when a firm pollutes the air, making everyone else worse off. In this argument, rapid change, when it takes place across many industries at once, is a negative externality that we need to try to account for, particularly "when the economic insecurity leads to a desperate and extreme politics," Mr. Johnson said.

In short, one could summarize this set of complaints as the economy's having become too dynamic for its own good.

But a different line of research offers an alternate theory.

A new report from the Economic Innovation Group, a research outfit funded largely by technology executives, suggests that the real problem isn't too much dynamism but too little. The authors describe trends that have blocked the formation of new businesses and jobs and that are having a stultifying effect on the economy.

They cite federal data showing that in 1977, more than 16 percent of firms in the United States were less than a year old, a figure that had fallen to half that by 2014. New businesses have similarly done less to power new jobs than they once did, while the biggest, oldest firms account for a rising share of economic activity. Market concentration increased for two-thirds of industries between 1997 and 2012, the report found. That coincided with a steady rise in corporate profits as a share of gross domestic product, and in a decline in the share going to workers' wages.

The job market has become less fluid. The proportion of workers who change jobs in a given year has fallen from 12 percent in 2000 to 7 percent in 2015. Workers are also less likely to migrate within the country. In the 1970s, more than 3 percent of the population moved across state lines in a given year; since 2006, the number has hovered around 1.5 percent.

Most startlingly, the creation of new companies has been concentrated in a small number of metropolitan areas: Dallas, Houston, Los Angeles, Miami and New York. From 2010 to 2014, those five regions created as many new businesses as the rest of the country combined. If you didn't live in them, or were unwilling to move to them, you were out of luck.

"The debate is so thoroughly dominated by the idea that there is too much change, too much churn, too much disruption," said John Lettieri, a co-founder of the innovation group. "And it may feel that way to many people. But we think that what they're really feeling is a lack of creation of new businesses and new jobs."

Old industries have always faced pressure from various forces. The rise of computers obliterated countless jobs for clerks from the 1960s through the 1990s. New steel-making technology rendered old plants obsolete in the 1980s.

But in those earlier eras, new industries and new jobs were emerging quickly to take their place. Now, that entrepreneurial ferment, except for in a few megacities, isn't happening as rapidly.

Both the "too much dynamism" and the "too little dynamism" narratives for what ails American workers have different potential remedies, which cut across ideological lines.

If you believe that increased market concentration is a central problem, you might consider tougher antitrust enforcement, a favorite of liberals, but also explore conservative arguments that complex regulation creates an unfair advantage for big companies that can employ scores of lawyers.

If you look at globalization as the main problem, you might see some Trumpian renegotiation of trade deals and arm-twisting to get companies to keep jobs at home as being in order. But you could also argue for a more generous social safety net and government funding for retraining.

Of course, the too much versus too little dynamism diagnoses aren't mutually exclusive; there are probably elements of truth in both. Maybe the economy really isn't working for many Americans because globalization, automation and changing labor practices have thrown them to the wolves. But maybe there are also deep-seated structural shifts preventing communities and individuals from tapping the great opportunities the modern economy offers.

Regardless, as the seismic political events of 2016 make clear, the data alone may not tell you much about how the economy looks to millions of people or what might be done to make life better for them.

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* Economists Discuss the Predictions That Divide Them

* Faster Growth? Two Things Trump Supporters Won't Like

* With Steady Gains in Economic Outlook, Fed Leaves Interest Rate Unchanged

* Jobs Roar Back With Gain of 287,000 in June, Easing Worry

Yarek Waszul

Document NYTFEED020170204ed24002s1

The New York Times

Fair Game
Business Day
The Trump Effect: What's an Investor to Do?

By GRETCHEN MORGENSON
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NYTFEED
English

When Donald J. Trump won the presidential election, investors seemed positively giddy about what he was going to do to improve the nation's economy. Believing that his promises to reduce corporate taxes and curtail costly regulations would unleash economic growth, investors pushed stock indexes to new heights.

Hope always plays a powerful role in the **financial markets** — and then reality sets in. So, as President Trump gets down to work, investors are now scratching their heads trying to figure out what his presidency will really mean for their portfolios.

The recent flurry of executive orders from the new president provides a taste of what may lie ahead. This much is clear to many strategists: Mr. Trump's mercurial tendencies will bring heightened **volatility** to individual stocks as well as to the securities markets over all. Let's just say that fastening your seatbelt is probably a smart move.

Because stock and bond markets usually dislike surprises, bombshells coming by way of executive orders are not very likely to be well received. Witness the 1 percent drop in the **Dow Jonesindustrial average** and the even larger declines in foreign stock markets immediately after Mr. Trump's executive order on immigration.

Mr. Trump prides himself on being a disruptor. So investors had better get used to this approach and the **volatility** it will bring.

Professional traders love **volatility**, of course, darting in and out of positions to take advantage of precipitous price moves. But buy-and-hold investors often find this action disorienting, and it can chase them out of their holdings at the wrong time. For them, rising **volatility** is a risk.

By the most popular measure, **volatility** still remains low. The index that measures the implied **volatility** in the **Standard & Poor's 500-stockindex**, known as the Vix, stood at around 12 recently, very near the low for the range during the last year.

But David Kotok, chairman and chief investment officer of Cumberland Advisors in Sarasota, Fla., contends the Vix is the wrong place to look for evidence of rising risks in the markets. "Vix is now ubiquitous, and it has no forecast value," he said in an interview. "You need to look elsewhere for the measures of **volatility** that are giving us messages of rising risk."

Mr. Kotok points to widening spreads between interest rates such as the prevailing London Interbank Offered Rate (or Libor) and the rates on forward loan contracts traded by banks and corporations. These contracts allow institutions to protect against changes in rates or to speculate on such moves.

"Those levels are double and triple where they were a year or two ago," Mr. Kotok said of forward loan contracts. "If Libor is the same and the interest rate in forward rate agreements is rising, under that construction you are seeing a rising risk premium."

With stock markets generally down from their recent highs, it may seem that investors are questioning Mr. Trump's commitment to growing the nation's economy. That probably isn't the case. Instead, they may be fearful that his bludgeon-force management style will imperil his goals.

"It feels like what investors had signed up to was fiscal stimulus and downplaying of protectionism, and what we've got is a playing up of protectionism," said Paul Ashworth, chief United States economist at Capital

Economics in Toronto. “If that has alienated the Senate in particular, then that could put at risk the chances of getting a timely fiscal stimulus through by the middle of this year.”

What makes this period especially difficult for investors is Mr. Trump’s apparent willingness to make big decisions without weighing the far-reaching and longer-term consequences.

Consider, for example, the perhaps surprising effect that the order banning entry to people from seven countries will have on American colleges and domestic students.

As college costs have rocketed in recent years, foreign students, who typically pay in full for tuition, have become an increasingly significant group on American campuses. The number of international students in the country has grown 70 percent over the past decade — to 5 percent of total enrollment, or more than one million students, said Patricia Healy, a portfolio manager at Cumberland Advisors who specializes in municipal bonds.

International students contribute mightily to the revenues at educational institutions; as such, they help subsidize other students who are unable to cover the cost of college, including those from the United States.

“Many institutions, especially private ones in urban settings and those that are research-oriented, would be significantly affected by a drop-off in international enrollment,” Ms. Healy wrote to clients in a research note. “The ban may not have an immediate effect on the finances of universities, unless there are expenses to aid displaced students; but it will have negative ramifications for these and other institutions in the long run if foreign students reconsider coming to the U.S. for their education.”

According to the Institute of International Education, China and India sent the greatest percentage of students — a combined 47 percent of foreign attendees — to American universities in 2016. Neither of those countries was subject to the immigration order. But Iran was, and it sent 12,269 students, or 1.2 percent of foreign students, to American institutions last year. Those students are now scrambling for alternatives.

Fewer international students enrolling at American universities will mean that fewer domestic students may receive the tuition help they need to pursue their degrees or to conduct research. This is just one of the consequences of restricting the travel of international students.

Given how markets react to the kind of disruption that Mr. Trump revels in, how can investors protect themselves?

Consider reducing risk exposures by retreating to higher-quality instruments. After years of low interest rates, investors have flocked to lower-grade bonds in search of higher yields. Now is the time to rethink that approach, because of the potential for **volatility** and higher interest rates.

“Higher-quality bonds could be a bit of a buffer if rates go up and news events cause more **volatility**,” Ms. Healy said in an interview. “These investments have the strength to withstand it.”

Investors should also acknowledge that we are in uncharted territory. “It is remarkable that the markets still see a Trump presidency as positive,” Mr. Ashworth of Capital Economics said. “Political **volatility** has never been higher, and market **volatility** has never been lower. It’s an interesting contrast.”

Twitter: @gmorgenson

The New York Stock Exchange last month. The **Dow Jones industrial average** dropped 1 percent immediately after the president’s executive order on immigration. | Justin Lane/European Pressphoto Agency

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THE WALL STREET JOURNAL.
U.S. EDITION

Technology
Facebook Gets Lift on Accounting Change

By Michael Rapoport
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Facebook Inc.'s 2016 earnings got a boost of more than $900 million from an accounting change, and the same change could help lift earnings at other tech companies.

Facebook said Wednesday after the market closed that its full-year earnings reflected a $934 million reduction in its income-tax provision, including $214 million in the fourth quarter, from a new rule affecting the accounting for stock payments to employees. The tax reductions contributed to big increases in the company's fourth-quarter and 2016 net income.

The change, which accounting-rules makers enacted last March, is expected to increase the earnings of companies like Facebook that are heavy users of employee stock compensation and have seen their stock prices rise. Microsoft Corp. and Alphabet Inc. have already adopted the change and saw increases in earnings.

"It's a windfall," said Jack Ciesielski, president of accounting-research firm R.G. Associates.

David Wehner, Facebook's chief financial officer, said on the company's fourth-quarter conference call that the move was "purely an accounting convention change and doesn't change the cash taxes we pay." A Facebook spokesman declined to comment further.

The Financial Accounting Standards Board, which sets U.S. accounting rules, approved the change in an attempt to simplify companies' accounting for employee stock payments. The accounting is changing in several different ways, but most of the effect on earnings has to do with the tax benefits that companies get when their employees exercise stock options.

That is a compensation cost to the company, and it is tax-deductible. When options are exercised, it is typically after the company's **stock price** has risen, making them more valuable, and so the company recognizes "excess tax benefits," the deductions over and above those it expected to realize when the options were granted. Under the old rules, those excess tax benefits go into the company's shareholder equity. But under the FASB change, they will be recognized on the income statement immediately, and that reduces the company's provision for taxes, boosting net income.

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Equities -- Ahead of the Tape: Get Ready For More Clarity On Jobs

By Steven Russolillo
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The labor market got a dose of good news earlier this week. It has a decent chance of translating into Friday's closely watched jobs report.

Private-sector hiring was much stronger than expected to start the year, according to Automatic Data Processing Inc. and forecasting firm Moody's Analytics. Their data showed U.S. private-sector payrolls rose by 246,000 in January from a month earlier, well above the 164,000 estimated by economists. That marked the biggest beat relative to expectations since December 2012.

Economists and investors have spent years trying to glean what, if anything, ADP's numbers mean for the Labor Department's monthly jobs figures. ADP's data are typically released a few days before the government's employment report with far less market impact. For Friday's report, economists expect nonfarm payrolls -- which include both private-sector and government hiring -- rose by 174,000, with the unemployment rate remaining at 4.7%.

Historically, ADP data had tended to diverge significantly from the government's official report. More recently, though, the two have become more similar.

Since October 2012, when ADP began collaborating with Moody's Analytics on the data and revised its methodology, the average absolute difference between ADP and the private-sector figures of the government's initial monthly employment data has been 43,000, according to data provided by Jim O'Sullivan, chief U.S. economist at High Frequency Economics Ltd. That is much better than the four years before that, when the difference was an average of 75,000 each month.

ADP changed its methodology again late last year, and the early results have mostly been good. ADP was off by fewer than 10,000 jobs compared with the government's private-sector data in two of the three monthly reports since.

Granted, a strong jobs report is far from guaranteed, especially considering the **volatile** nature of the report and the revisions that follow.

Nevertheless, the ADP report offers more evidence that the labor market remains on healthy footing. The number of Americans applying for weekly unemployment benefits remains at a historically low level. People are finally getting paid more, too, with wages increasing 2.9% in December from a year earlier, the best annual gain since 2009. The unemployment rate finished 2016 at its lowest point to end a year in a decade.

Further improvement will only put more pressure on the Federal Reserve, which stood pat on interest rates at this week's policy meeting and offered no hint about when the next rate rise might come. Fed officials have forecast three quarter-percentage-point rate increases in 2017.

If the market starts to price in a more aggressive Fed after Friday's report, remember where you heard it first.

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This Room's Elephant Gets Noticed --- Talk on quarterly earnings calls turns to business impact of Trump presidency

By Theo Francis
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English

The biggest U.S. companies are reporting improved profits for the final quarter of 2016 -- and touting rosier prospects for 2017 -- but much of the discussion this earnings season has centered on President Donald Trump.

From Apple Inc. to Exxon Mobil Corp., conversations between executives and investors about iPhone shipments and **oil prices** have made room for questions about the new president and the potential for major federal tax, regulatory and spending initiatives.

Of the 242 companies in the **S&P 500 index** that held conference calls or other investor events in January, half mentioned Mr. Trump directly or indirectly, according to a Wall Street Journal analysis of transcripts. And, despite uncertainty over new proposals, most of the companies urged patience -- and optimism.

"We don't know anything specific yet," Southwest Airlines Co. Chief Executive Gary Kelly told investors, "but we sure like what we're hearing so far."

Insurance broker Arthur J. Gallagher & Co. said earnings could rise 10% under some proposals to cut the federal corporate income tax, but utility holding company NextEra Energy Inc. warned differing approaches could raise earnings by 6% or reduce them by as much as 3% for 2017.

Faced with proposals to tax imports, several companies -- including manufacturing conglomerate United Technologies Corp. and credit-card giant Mastercard Inc. -- stressed their status as net exporters of products or services. Others such as Chevron Corp. warned of unintended consequences for consumers, and drug distributor AmerisourceBergen Corp. said the move could raise prices for basic supplies like gauze and syringes.

With nearly half of **S&P 500** companies reporting fourth-quarter results, adjusted earnings -- excluding write-downs, restructurings and other items considered unusual -- are expected to rise 7.5% from the fourth quarter of 2015, according to Thomson Reuters. Revenues are expected to increase 4.3%.

The profit gains would mark the best showing since 2014 and the second quarter of growth after four quarters of declines. Excluding the energy sector, earnings are on pace to rise 7.8%, with revenues up 4.4%. The figures reflect actual results for companies that have reported so far and analyst expectations for others.

The gains have been propelled by the biggest Wall Street firms, Silicon Valley players and smaller losses in the energy patch. Earnings growth slowed from the third quarter's pace in several sectors, including industrial, consumer discretionary, health care, materials and telecommunications.

There is real optimism about the economy, though in part founded on the assumption that lawmakers in Washington will successfully reduce taxes, simplify regulation and boost infrastructure spending, said Mike Ryan, chief investment strategist for UBS Wealth Management Americas.

"It's less about whether they like the policies now," Mr. Ryan said. "It does depend on what the administration is able to deliver."

When CEOs or analysts discussed Mr. Trump on conference calls, indirect references were more common. Mr. Trump's name was used about a third of the times that participants mentioned him or his administration. Half the time, participants simply invoked the "new administration."

Most references to the new president were full of praise, and criticism was muted.

United Parcel Service Inc. CEO David Abney expressed disappointment that Mr. Trump had canceled U.S. participation in the Trans-Pacific Partnership trade pact -- an agreement UPS supported -- but stressed that his approach was likely to prove nearly as beneficial.

"President Trump is really not against trade agreements," Mr. Abney told investors on Tuesday. "We don't believe that the world is falling off a cliff -- we think that there will be trade agreements. We think that global trade is still going to continue to grow."

Mr. Trump came up most in calls held by Ford Motor Co., Boeing Co. and Lockheed Martin Corp. The president has criticized all three companies since the election, over Ford's U.S. and foreign workforce, and over government-contracting costs at Boeing and Lockheed.

Leading policy priorities of the president and his congressional allies -- including corporate tax reform, proposals for a border-adjusted tax and efforts to increase employment in U.S. manufacturing -- also have received significant attention.

"Tax reform" was cited most, mentioned at a third of companies. Most executives lauded plans to cut corporate tax rates, even if accompanied by the loss of some business tax breaks.

Proposals for a border-adjusted tax -- which would effectively tax imports and exempt exports -- also figured heavily. The topic was hottest at AT&T Inc., with 17 mentions, followed by drugmaker Pfizer Inc. and alcohol distributor Constellation Brands Inc., with a dozen mentions each.

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Text	S&P 500 index or Dow Jones index or Bond yield or oil price or stock index or stock market or DJIA or SPX or equity market or Dow Jones Industrial Average or S&P 500 or Standard & Poor's 500-stock index or U.S. treasury rates or U.S. treasury yield or stock price or earnings suprise or earnings surprises or oil prices or Nasdaq Composite or standard & poor's 500 index or 30-year Treasury bond or 10-year Treasury bond or 30-year Treasury or 10-year Treasury or Bond prices or bull market or bear market or bull market or bear market or bullish or bearish or financial markets or financial market or volatile or volatility or Nasdaq
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Results Found	120
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