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U.S. Markets
Markets

Strong Earnings Bolster Stocks; Stocks' streak of outsize moves continues; investors look ahead to Friday employment numbers

By Jessica Menton and Michael Wursthorn
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U.S. stocks climbed Thursday, extending a recent rally that has helped investors recoup some of their losses after a bruising October.

Strong earnings in the U.S. and Europe continued to buoy stocks after last month's selloff drained about $4.5 trillion from shares of companies in the U.S., Europe and Asia. As November begins, investors are watching to see whether major indexes can gain some momentum.

Stocks' streak of outsize moves continued: The **Dow Jones Industrial Average** rose 264.98 points, or 1.1%, to 25380.74. The **S&P 500** added 28.63 points, or 1.1%, to 2740.37. The **Nasdaq Composite** climbed 128.16 points, or 1.8%, to 7434.06, its seventh consecutive move of at least 1% higher or lower.

But Apple's results after the closing bell suggest the beaten-down technology sector could face more turbulence. The iPhone maker posted its fourth consecutive quarter of record revenue and profit. But its shares tumbled in after-hours trading as the company's guidance for the current holiday quarter disappointed some investors.

Those declines weighed on other stocks in the tech sector after hours, including Amazon.com, Google parent Alphabet and Netflix. All three have posted double-digit declines over the past month as some investors soured on the growth stocks that led much of the 2018 **stock-market** rally.

Before Thursday's report, Apple was thought to be immune from some of those concerns; its shares are down a more modest 2.2% over the past month.

Troy Gayeski, senior portfolio manager at SkyBridge Capital, said technology was one of the most crowded trades in the active-management and hedge-fund space. He said October's steep slide in technology stocks made sense amid tightening monetary policy that could dent corporate profits.

"When there is a shift in forward outlook from the Fed, the response is much more violent in the markets than one would typically think," Mr. Gayeski said. "For us, it's a reset. We don't think this **bull market** is over."

Investors also were looking ahead to Friday's employment report for October. Economists surveyed by The Wall Street Journal estimated employers added 188,000 jobs last month and that unemployment held steady at 3.7%.

Analysts are monitoring wage figures in the report following renewed concerns that the Federal Reserve will need to raise interest rates at a faster pace if inflation continues to firm.

"So far, we do feel like the Fed has been taking a sensible stance," said Lisa Erickson, head of the traditional investment group with U.S. Bank Wealth Management. "The key thing to watch is whether they get more hawkish from here."

Materials shares led the **S&P 500** higher on Thursday, with the group climbing 3.1% as DowDuPont shares jumped $4.35, or 8.1%, to $58.27. The industrial conglomerate reported a stronger-than-expected profit when excluding the costs related to the company's plans to split into three companies.

The index's heath-care sector, meanwhile, rose 1.3%, helped by Cigna, which added 2.47, or 1.2%, to 216.28 after the health insurer raised its sales and profit targets for the year.

Companies in the U.S. and Europe are on track to report double-digit profit growth in the third quarter, which investors hope will give stocks a crucial pillar of support. Earnings from the more than 350 companies in the **S&P 500** that have reported results are up nearly 24% from a year earlier, topping the 20% estimate that analysts had been forecasting for the broad index earlier in the reporting cycle, according to FactSet.

Investors also were parsing comments from President Trump on Thursday after he said on Twitter that he had a "long and very good conversation" with President Xi Jinping of China and signaled progress on a trade dispute.

The ramifications of trade tariffs continue to hang over companies, causing some to incur higher costs, while rising commodities costs and other inflationary pressures have eaten into corporate results, blemishing an otherwise upbeat quarter of strong earnings.

"Investors are on edge and reacting to any signs that a growth slump could be on the horizon," Chris Hyzy, chief investment officer in Bank of America's global wealth unit, wrote in an investor note. "Is it time to panic and completely exit the markets? No."

Elsewhere, the Stoxx Europe 600 climbed 0.4%, its fourth straight day of advances.

In Asia on Thursday, Hong Kong's Hang Seng added 1.7% to notch a second straight day of gains and help pare its losses for the year to 15%, while China's Shanghai Composite added 0.1% for its third consecutive session of advances. However, Japan's Nikkei Stock Average dropped 1.1% to halt a two-day run of gains as the U.S. dollar edged down against the yen.

The WSJ Dollar index, which measures the dollar against a basket of currencies, dropped 0.9%.

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Treasurys Get Boost From Falling Oil Prices; Yields on benchmark 10-year note settled at 3.144%

By Sam Goldfarb
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U.S. government**bond prices** edged higher Thursday as a slide in **oil prices** pushed down inflation expectations.

The yield on the benchmark 10-year U.S. Treasury note settled at 3.144%, compared with 3.155% Wednesday.

Yields, which fall when **bond prices** rise, were flat to slightly higher overnight through the start of the U.S. trading session. They began falling in the late morning along with U.S. crude prices, which reached their lowest intraday level since April amid growing concerns of a return to a global oil surplus.

Lower energy prices tend to deflate inflation expectations, increasing the appeal of long-term Treasurys, which are sensitive to changes in consumer prices because rising prices diminish the purchasing power of their fixed payments. A measure of annual inflation expectations known as the 10-year break-even rate, which is based on the yield premium on the 10-year U.S. Treasury note over the comparable Treasury inflation-protected security, fell to 2.04% from 2.07% Wednesday, according to Tradeweb, reaching its lowest level since January.

Traders bought Treasurys Thursday even as stock prices climbed, breaking a recent pattern in which yields have pushed higher or lower depending on the prevailing appetite for riskier assets.

The moves have still been modest. The 10-year yield is off the 3.2% level it reached at the start of October. But it has managed to stay safely above 3% despite steep declines in stocks prices, pointing to continued confidence in the U.S. economy and the Federal Reserve's commitment to raising interest rates.

Investors will get more insight into the U.S. economy Friday when the Labor Department releases its latest jobs data.

If the report shows a healthy rise in average hourly earnings, it would likely be "negative for long-end **bond prices**," as it would increase the threat of inflation and bolster the Fed's case for rate increases, said Kevin Giddis, head of fixed income capital markets at Raymond James.

Last month's jobs report showed average hourly earnings rose 0.3% in September from the previous month and 2.8% from a year earlier. Economists surveyed by The Wall Street Journal anticipate earnings rose 0.2% in October.

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Credit Suisse Shares Drop After Results Miss Mark; Swiss bank moves a step closer to its first annual profit in four years, but the results are seen as disappointing

By Brian Blackstone and Pietro Lombardi
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ZURICH—Credit Suisse Group AG reported profit and revenue for last quarter that fell short of expectations, sending its shares lower and highlighting the challenges the Swiss lender faces as it completes a three-year restructuring process.

Swiss banks have struggled in recent years as they shifted their business models away from **volatile**, but at times very profitable, investment banking and toward managing money for wealthy clients around the world. The costs associated with these strategic changes have been exacerbated by negative interest rates in Switzerland and stringent regulations that have capped growth in parts of their businesses.

Net profit at Credit Suisse for the third quarter rose roughly 74% to 424 million Swiss francs ($421.3 million), Switzerland's second-largest bank said Thursday. Revenue was 4.89 billion Swiss francs, down from 4.97 billion francs a year earlier.

Combined with profits in the first half of the year, the latest results put Credit Suisse another step closer to its first annual profit in four years. Still, the results were seen as disappointing by some analysts, with profit below analysts' expectations of a 447 million Swiss francs and revenue below forecasts of 5.02 billion francs.

The results "are uninspiring, worse compared with peers," said analysts at Vontobel Research. "Global Markets disappoints again and keeps underperforming its peers."

Pretax income rose about 6% from a year earlier at the bank's international wealth-management business, while its investment-banking division doubled its pretax income to 70 million francs. However, the bank's global markets unit posted a pretax loss of 96 million francs.

Credit Suisse shares were down over 4% in early trading but recouped some of those losses to close down 2.1% on the day. Analysts at Citigroup called the share-price drop "overdone" and pointed to areas of strength outside the global markets unit, including a rise in new money in wealth management.

"The environment was challenging this summer," said Credit Suisse Chief Executive Tidjane Thiam, citing **volatility** in emerging markets, higher U.S. interest rates, trade tensions and "significant political uncertainties."

"This led to a drop in client activity that compounded the usual, expected summer slowdown," he said, which allowed the bank to "demonstrate the resilience of our new operating model."

Credit Suisse is in the final stretch of a three-year overhaul launched by Mr. Thiam soon after he joined the bank, under which it boosted its wealth-management business while streamlining investment banking. But the process has been bumpy as Credit Suisse wound down toxic assets and paid billions of dollars in settlements to U.S. authorities related to crisis-era mortgage-backed securities.

Credit Suisse's crosstown rival UBS Group AG, Switzerland's largest bank, has also struggled to convince investors that it is on a steady growth path. Its own revamp toward wealth management came years before Credit Suisse's, and while its profitability and share price have performed better in recent years its share price is still down 25% over the past three years.

Last week, UBS Chief Executive Sergio Ermotti bought one million shares of UBS stock for around 13 million Swiss francs a day after the bank's earnings and investor update.

In Credit Suisse's case, the cascade of restructuring charges, legal settlements and, last year, U.S. tax changes that forced many banks to write down the value of deferred-tax assets, pushed the Swiss lender to three-straight annual losses. Barring an unforeseen shock this quarter, Credit Suisse should break that streak this year.

But doubts remain in the market as to whether the restructuring process has put Credit Suisse on track for strong growth. Although its share price is up from the summer of 2016, when it dipped below 10 francs a share, it is still around 40% below from three years ago.

Some of this was due to new share issuance in 2017, when the bank raised capital. The bank's chief financial officer, David Mathers, flagged another issue: The broad weakness in the neighboring European Union has rippled over to Switzerland.

"The trends that we see in Switzerland are vastly more positive than we see in the EU," he said. "Nonetheless, we are priced and valued as a European bank notwithstanding the strength of our business elsewhere."

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THE WALL STREET JOURNAL.

Business
Wayfair Shares Fall as Losses Widen; Home-decor company posts third-quarter loss of $151.7 million

By Allison Prang
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English

Wayfair Inc.'s stock fell 14% Thursday afternoon after the online home-decor retailer fell short of profit expectations on sharply higher costs.

Wayfair, whose family of websites includes Joss & Main, AllModern and Birch Lane, posted a third-quarter loss of $151.7 million, or $1.69 a share, compared with a loss of $76.4 million, or 88 cents a share, for the same period last year.

Excluding stock-based compensation and other items, Wayfair's loss was $1.28 a share for the quarter. Analysts polled by Refinitiv were expecting a loss of $1.09 a share.

Wayfair's U.S. business wasn't profitable in the third quarter and executives on a conference call Thursday said the segment would post a loss in the fourth quarter containing the key holiday shopping season as well. Adjusted Ebitda for the U.S. segment was positive in the year-earlier quarter and the second quarter.

Tom Forte, managing director for D.A. Davidson & Co., said he expects "more downside risk ahead" for Wayfair's stock.

"The basic story of Wayfair has been we're going to invest for growth today and our growth will be so significant that in the future when we scale our investment spending, our profitability…will be so much greater," Mr. Forte said. But the company needs to spend more to keep growing sales at the current rate, he said.

Net revenue rose 42% to $1.71 billion, as the revenue from the U.S.—which accounts for the bulk of total revenue—rose 40%. Analysts polled by Refinitiv were expecting $1.67 billion in net revenue.

On the company's earnings call Wayfair Chief Financial Officer Michael Fleisher guided fourth-quarter net revenue to be between $1.92 billion and about $1.97 billion.

Analysts also noted that Wayfair spent more on advertising than they expected, with costs rising 43% for the third quarter.

Total operating expenses rose 52% to $538 million. Costs rose by more than 50% for expenses including technology and operations as well as customer service and merchant fees.

Laura Champine, senior consumer analyst at Loop Capital Markets, said Wayfair's earnings were worse than she expected and her firm lowered its price target on the stock to $145 from $160. However she thought the stock's decline was tied to how investors have been reacting in the market lately.

Ms. Champine isn't guiding for the company to report positive earnings per share until 2022.

"When investors are **bullish** on tech stocks this trades on revenue trends and they've done a phenomenal job" with revenue, she said. "When tech stocks are under pressure (Wayfair) is under more because it's not making money."

Despite Thursday's stock decline, shares in Wayfair have gained 19% in 2018.

Carlo Martuscelli contributed to this article.

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GE Shows What Happens When Dividend Investing Goes Wrong; Shareholders focus far too much on the payouts and forget whether the business can sustain them

By James Mackintosh
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If you invested in General Electric for the dividend, you discovered your mistake on Tuesday when the payout was slashed from 12 cents to 1 cent a share each quarter. You were in good company in your error: Investors focus far too much on dividends, distorting corporate behavior and making it easy to forget that what matters isn't the payout, but whether the business can sustain it.

GE cut the dividend because it needs to hoard cash as it restructures and shrinks. Yet, even the token penny payout is a sign of the distortions the demand for dividends creates. The decision to maintain it is clearly down to the excessive value shareholders place on dividends.

There were plenty of warning signs that the dividend was unaffordable. Dividends are a way to return profits to shareholders, but GE's net income has been higher than the dividend cost in only four of the past 15 quarters—compared with all but two quarters in the entire period from 1989 to Lehman's failure in 2008.

Even excluding this week's monster $22.8 billion loss, GE has paid out almost twice as much in dividends since 2012 as it made in net income. Every shareholder should have realized that the dividend was getting riskier, even if they weren't looking at the falling amount of cash the business was producing.

In parallel, GE slashed its capital spending from $15 billion in 2012 to about $8 billion over the past 12 months, taking it back to where it stood in 1998—before inflation. The business has been eating its seed corn recently, partly to maintain the dividend.

Dividends do, of course, matter. The prospect of eventual future dividends is the main reason shares have any value at all. Their reinvestment has accounted for the bulk of long-term returns on stocks. Better still, dividends can instill discipline on executives, preventing them from indulging their wildest flights of fancy by reminding them that they have to generate the cash to pay stockholders. Chief executives given a free rein and plenty of money have an unfortunate tendency to engage in value-destroying takeovers, build fancy new headquarters and diversify into trendy new businesses about which they know little. Better to pay dividends or buy back shares than fritter the money away.

However, dividends should be the result of a successful business throwing off cash, not something that executives strive to maintain even when the cash could better be used elsewhere. GE is a classic case of the dividend being prioritized in the hope that something comes up.

For the major oil companies, something did come up, making it look as though steady dividends could be justified. Consider Royal Dutch Shell, the Anglo-Dutch oil company that is among the world's most reliable dividend payers. It resorted to borrowing to pay its dividend in 2015 and 2016 as it was hammered by the **oil-price** slump, with earnings below the cost of the dividend for six quarters in a row.

To save cash Shell offered investors the option to take their dividend in the form of new shares, and like GE it and other oil companies took an ax to capital spending. Unlike GE, Shell was rescued by the **oil-price** recovery, and is now generating enough cash both to pay the dividend and to buy back the shares it issued.

Shareholders like the regular Shell dividend, and can argue that Shell was right to keep paying it, since it all worked out OK. But even here it would have been less risky for the company and its long-term value had it scrapped the dividend when trouble hit, and borrowed less. Investors who need cash should sell some of their shares (for some of the smallest investors trading costs might be a bar, but at $10 a trade this is irrelevant for most). Instead, their irrational attachment to steady payments pushes companies to borrow and to cut back the business in bad times to maintain the payment.

Those eagerly anticipating their next dividend check might be spluttering into their latte in horror at these views. But whether the dividend is paid out or not should make no difference to them. Shareholders own the company. When it pays out money to shareholders, it is worth less—by precisely the amount of the dividend. The shareholder's pocketbook is unchanged. Somehow investors still fail to notice this.

In an ideal world, companies would pay out cash when they have no good uses for it, and invest it in new projects only when justified by expected future profits. In an ideal world, shareholders would trust the board's judgment, and executives wouldn't be swayed by the latest fashions. In reality shareholders swing from encouraging massive overinvestment to demanding all cash be returned (now!) while managers frequently ignore solid projects to game some ratio currently in vogue with Wall Street, or set out on empire-building projects to boost their egos.

Demanding a solid dividend has merit as a way to limit empire-building, but investors should beware companies that make it a target to be met at all costs. Shareholders need to keep an eye on much more than the quarterly payout to avoid their investments going the way of GE.

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Markets

The Global Debt Boom Looks Like It's On Borrowed Time; U.S. investment-grade issuance slipped 34% from September, according to Dealogic

By Joe Wallace
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English

Companies are finding it harder to issue new debt, as the **volatility** battering global stocks adds to existing concerns in credit markets.

Corporate **bond prices** have declined throughout the year and October's global market rout triggered massive outflows from credit funds.

U.S. investment-grade issuance slipped 34% from September, according to data-provider Dealogic, while high-yield issuance was down 50% from October last year. Even before October's selloff, American companies had been raising less money. By the end of September, total investment-grade issuance in 2018 was down 12% compared with the first nine months of last year, and high-yield issuance had fallen by almost a third.

The value of new investment-grade corporate bonds in Europe was 75% lower in October than in September and down 40% from October 2017. High-yield issuance slumped 82% from a year ago.

Investors pulled $3.1 billion from investment-grade corporate-bond funds last week, according to Bank of America Merrill Lynch, bringing outflows over the past two months to a record $25.2 billion. High-yield funds have also seen big withdrawals. By contrast, equity funds drew in $8.5 billion last week despite stocks' fall.

"From a fixed-income perspective 2018 is rapidly turning into a year best forgotten," said David Oliphant, an executive director at Columbia Threadneedle Investments. "We're getting to the end of a very protracted and mature credit cycle."

Bond prices have drifted lower through much of the year, after a years' long rally. Last month some of the concerns hitting credit, such as slowing global growth and fears of a trade war, caught up with equity markets, pushing major U.S. indexes near or into correction territory.

Credit markets had also benefited from a decade of monetary stimulus that is now being withdrawn. The European Central Bank is set to end its bond-buying program and the Federal Reserve is raising interest rates and winding down its balance sheet.

The selling in bonds was less dramatic than in stocks over October.

But on Wednesday, oil and gas company GEP Haynesville became the third speculative-grade company to cancel a U.S. bond sale in recent days, following pulled deals from brokerage firm INTL FCStone Inc. and environmental services businesses GFL Environmental Inc. Both GEP Haynesville and INTL FCStone had been hoping to raise cash to repay existing revolving-credit borrowings.

Looking to fund a merger with Waste Industries, GFL Environmental was able to raise the requisite funds in the leveraged-loan market, which has generally stood up better than the bond market in recent weeks.

On Wednesday, the spread between yields on investment-grade bonds and those on safer government debt had still reached 1.5 percentage points in the U.S. and 1.46 points in Europe, according to IHS Markit's iBoxx indexes. That is up from postcrisis lows of 1.08 and 0.82 points reached in early February.

High-yield bonds, until recently a rare bright spot in fixed income, have declined particularly sharply in recent weeks. The spread on the Bloomberg Barclays U.S. Corporate High-Yield index has shot up 0.54 percentage points since Sept. 20, the day the **S&P 500** closed at a record high.

In this environment, bankers say they have advised clients to hold back on issuing new debt until markets calm down. Bonds have become more sensitive to disappointing corporate news such as a string of profit warnings by European auto makers, a further incentive for companies to hit pause on funding.

For example, the spread on BMW AG's euro-denominated 2028 bond is up 0.22 percentage points since the German firm said new rules for emissions testing would hurt 2018 profits on Sept. 25. Daimler AG's 2028 bond has seen its spread widen by 0.32 percentage points since the first of two profit warnings this year.

To be sure, corporate bonds still have much lower spreads than they did during the selloff of early 2016, let alone the global financial crisis. Bankers also say refinancing risk for the corporate world is relatively low since many companies locked in funding early this year, anticipating that markets would move against issuers during 2018.

But some investors believe that corporate spreads will continue to head higher, even if **volatility** falls in equity markets. The same factors that have pressured this market are still there, including slowing global growth, less monetary stimulus and concerns over trade.

"Credit is entering a new regime and transitions tend to be difficult," said Wolfgang Bauer, co-manager of the Absolute Return Bond Fund at London-based M&G.

Sam Goldfarb contributed to this article.

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WSJ PRO CENTRAL BANKING

Economy

South Korea's Inflation Speeds Up to 13-Month High; The economy started the final quarter with strong inflation and trade prints, but concerns over growth linger

By Kwanwoo Jun
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English

SEOUL—South Korea's economy started the final quarter with strong inflation and trade prints. Still, concerns over growth linger.

The headline inflation accelerated to a 13-month high in October to touch an annual target, strengthening the case for the central bank to tighten policy soon.

The benchmark consumer-price index rose 2% from a year earlier—faster than the previous month's 1.9% pace. The latest October reading—the highest since in September 2017—beat the median market forecast for a 1.9% increase.

Gains in global **oil prices**—alongside higher vegetable prices—were largely behind the faster-than-expected inflation, officials said.

Analysts said the solid data belied the weak demand-led price pressures. Australia and New Zealand Banking Group said Korea's underlying price pressures are "still benign" amid concerns over growth. ANZ expects Seoul's temporary fuel-tax cut, effective this month, would likely soften inflation.

Compared with the prior month, the index fell 0.2% in October and missed market expectations for a 0.4% increase. In September, it rose 0.7%.

Core CPI, which strips out **volatile** energy and food prices, rose 1.1% in October from a year ago, slightly down from a 1.2% increase in the previous month. It gained 0.1% sequentially in October, slower than a 0.3% rise in September.

President Moon Jae-in asked parliament on Thursday to swiftly pass the 2019 budget plan, which calls for the biggest budget increase in a decade, to spur growth. In a televised policy speech to lawmakers, he stressed the need for fiscal stimulus to deal with such challenges as slow job growth, deep income disparity, low birthrates and an aging population.

Mr. Moon feared the economy would be stuck in below 3% growth. Last month, the central bank cut its 2018 growth forecast to 2.7%, slower than last year's 3.1% expansion.

He noted that U.S.-China trade disputes—on top of the Federal Reserve's tightening policy—were weighing on Korea's export-reliant economy.

Yet the rise of global protectionism in trade have yet to take a significant toll on Korea.

South Korean exports rebounded strongly in October due to brisk demand and the fact that the month had more working days this year.

Overseas shipments surged 22.7% from a year earlier, following an 8.2% fall in September. Demand for petrochemicals, machinery and memory chips led to solid growth in exports, and Korean shipments to most major global markets grew last month. That is an indication the U.S.-China trade tensions have yet to put a substantial dent in the economy.

The Bank of Korea has recently hinted that it intends to tighten policy, and most market analysts expect it to lift the base rate in November.

Financial imbalances caused by cheap borrowing costs and high household debt have put pressure on the bank to increase rates. Widening rate differentials between Korea and the U.S. are adding pressure on the bank in sync with the Federal Reserve's gradual tightening.

The bank expects inflation to average 1.6% this year before gradually picking up to 1.7% next year. It keeps a 2% annual inflation target.

Inflation averaged 1.9% in 2017, up from an average of 1% in 2016.

Nomura said in a report to clients that the data were just strong enough for a rate increase next month. "Higher inflation and export growth in October should support the case for a dovish rate hike," the investment bank said.

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WSJ PRO VENTURE CAPITAL

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Digital Currency Volatility Has Crypto Startups Playing Wealth Managers; As they grapple with a cryptocurrency market downturn, software companies may lose their tech focus, some venture capitalists say

By Tomio Geron and Yuliya Chernova
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English

This year's reversal in fortunes for virtual currencies is causing distractions for crypto startups.

Scores of the software-focused companies have raised hefty sums of **volatile** cryptocurrencies in initial coin offerings. Now some venture capitalists worry that entrepreneurs are bogged down in so-called crypto treasury-management strategies and focusing more on financial engineering than software engineering.

"We've seen lots of founders where they will play with investor money, speculating on the markets," said Joey Krug, co-chief investment officer at Pantera Capital. "I think that's the wrong mentality. The money was always for the development of the software."

The **volatility** of digital currencies like bitcoin and Ethereum has prompted some startups, still in the seed stage, to juggle complex market strategies that can affect operating capital. This has sparked debates among companies and their investors about staying focused on their tech mission in the face of market risk, especially as cryptocurrency values plunged this year.

By bringing tens or hundreds of millions of dollars of bitcoin or Ethereum onto their books, these startups are tackling market strategies that are associated more with hedge-fund managers than software engineers.

Some startups have done well in managing the capital—even pocketing a sizable profit—while others have lost money.

Generally, crypto startups appear to have managed their crypto assets well in the face of this year's downturn, when prices for ether cratered some 70%. That's according to a report by crypto exchange BitMEX, which found that 221 companies or projects generated a net gain of $659 million from sales of ether originally raised via token sales.

For instance 0x, a decentralized-exchange startup, raised about $24 million of ether in a token sale last August, at a time when ether was worth about $290. 0x was backed by Blockchain Capital, Pantera Capital and Polychain Capital.

Since then, the startup sold its ether for $27 million, for a gain of about $3 million, or 13%, and some ether remains on the startup's books, according to an analysis of 0x's public wallet by crypto research firm Santiment Inc.

A representative for 0x declined to comment.

Because of the large amounts of capital involved, some startups have gone as far as recruiting specialized financial professionals to manage their crypto assets.

Filecoin, which raised about $250 million from investors including Union Square Ventures through a token sale last year, posted a job listing earlier this year seeking someone to manage its "target asset allocation and investment style across cash, crypto-assets and other investments."

Filecoin hired Chris Brocoum, formerly vice president of finance at LendingClub Corp., as its head of finance this year, according to his LinkedIn profile, which says he is responsible for Filecoin's "capital allocation" strategy. Mr. Brocoum didn't respond to a request for comment.

Juan Benet, chief executive of Protocol Labs, the company that launched Filecoin, declined to comment.

Several investors in Filecoin's token sale, including VCs contacted by WSJ Pro, said they don't know how much cash or tokens Filecoin now has or what it did with the crypto assets it raised.

Last year, venture-backed startup Bitspark held a small token sale, raising funds in a combination of bitcoin, ether and a lesser-known cryptocurrency called BTS.

Bitspark was planning to hold on to those assets, paying out salaries in crypto and selling some of it to cover expenses, said George Harrap, chief executive of the Hong Kong-based startup. With the market improving, he said, "There was no rush."

But when the crypto market started to tumble earlier this year, Bitspark converted all of its crypto into U.S. and Hong Kong dollars, as well as crypto stablecoins. It ended up with about $2.8 million at the time of conversion in the first quarter of this year, more than the equivalent of $1.3 million it had at the end of its token sale last year.

"We did that so that we could have a predictable accounting for the next couple of years ahead, to be able to formulate road maps," Mr. Harrap said.

Another startup, Omni, raised funding in XRP tokens in 2017. The startup sold an undisclosed sum of its XRP and has converted a preset amount of it to standard currencies daily over time, said Thomas McLeod, chief executive at Omni.

But some venture investors frown on active management of crypto assets by crypto startups that raised money to develop new software.

"Startups are incredibly risky," said Bart Stephens, co-founder and managing partner of Blockchain Capital. "If you layer on top of that hedge-fund risk, the risks become multiplied."

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THE WALL STREET JOURNAL.
U.S. EDITION

October's Wild Ride Jolts Investors --- Two-day rise still leaves portfolios down sharply; bond prices also are hit in a rare double blow

By Michael Wursthorn
1,100 words
1 November 2018
The Wall Street Journal
J
A1
English

Stocks rebounded Wednesday, but a second consecutive day of gains did little to ease the pain of a brutal October marked by wild swings that have tested investors' faith in the nine-year bull market.

Even after the S&P 500 rallied nearly 3% over the month's final two days, the index in October still notched its biggest pullback in more than seven years. Stocks around the world lost about $4.5 trillion in value, according to S&P Dow Jones Indices, as shares in Europe and Asia also tumbled.

The tumult left the Dow Jones Industrial Average and S&P 500 clinging to slim gains for the year as a whole. The indexes finished the month down 5.1% and 6.9%, respectively. It was the worst October for the S&P 500 since 2008.

Adding to the stock market's anxieties has been a rare simultaneous drop in bond prices that pushed yields near their highest levels in years. The dual breakdown in stock and bond prices has upended investors' traditional safety move of buying Treasurys during periods of volatility, leaving many with losses.

Investment portfolios of 60% equities and 40% bonds lost more than 3% in October and are down 1.2% this year, on pace for a rare annual loss that was last seen in 2008, as well as during volatile periods in 1990, 2001 and 2002, said Luca Paolini, chief strategist at Pictet Asset Management, which manages $191 billion.

Even investors who are heavier on fixed-income securities are in the red. Portfolios of 75% bonds and 25% stocks fell more than 2% in October to drag their performance down 1.1% for the year.

"There's no real place where investors can hide," Mr. Paolini said. "This is one of the worst years in a long time for diversification."

A laundry list of problems sent stocks reeling in October, erasing the hefty gains major indexes notched over the summer. Concern that the U.S. economy is on the verge of overheating pushed up bond yields, inducing the stock market's first bout of volatility earlier in the month as investors were forced to rethink the rich valuations in some pockets of the equities market.

Then, signs of slowing corporate growth among highflying companies like Amazon.com Inc. and Google parent Alphabet Inc., along with ongoing trade tensions between the U.S. and China, extended losses in stocks and bonds globally.

Shares in Europe didn't fare much better during the month, with the Stoxx Europe 600 declining 5.6%, its biggest drop in more than two years. Major indexes in Asia also notched steep losses, one of the worst being Hong Kong's Hang Seng, which suffered its biggest percentage decline since January 2016.

With losses mounting, the MSCI world equal-weighted index, which gives the stocks of 23 countries the same amount of clout regardless of market value, is down 14% from its closing high in late January.

Declines in bond prices, meanwhile, have exacerbated investors' pain. Annualized losses among U.S. Treasurys and investment-grade bonds are at 9.7% and 4%, respectively, the third-steepest declines since 1970, according to a Bank of America Merrill Lynch report.

"The market is convinced we're at the end of the cycle," said Steve Chiavarone, who runs Federated Investments' global allocation fund. "Investors think fiscal policy is going to be less accommodative; therefore, that's going to lead to inflation picking up and the [Federal Reserve] is going to be more aggressive."

The Federated fund, which owns stock and bonds in developed and emerging markets, fell 7% in October. Although that slide knocked Mr. Chiavarone's fund into negative territory for the year, the fund manager remains **bullish** on equities and bought depressed shares of growth companies during October's harsh selloff.

"We would be more concerned if equity **volatility** was confirmed elsewhere, such as with rising jobless claims or inflation surging," he added.

Some investors have been unwilling to wade into the **volatility** to buy depressed assets, whether they be stocks or bonds, several money managers said. Instead, October's rough patch has pushed some investors to load up on cash.

Cash allocations among Bank of America's wealth-management clients rose to 10.4% of assets in the most recent week, up from 10% at the end of September. Meanwhile, 174 global fund managers overseeing $518 billion are, on average, holding cash balances of 5.1%, well above the 10-year average of 4.5%, according to recent reports from the bank.

Others have shifted toward gold and other assets, such as shares of utility companies and consumer staples that pay rich dividends and tend to hold up better during times of economic distress. Still, the sliver of gains among those assets hasn't been enough to buoy diversified portfolios.

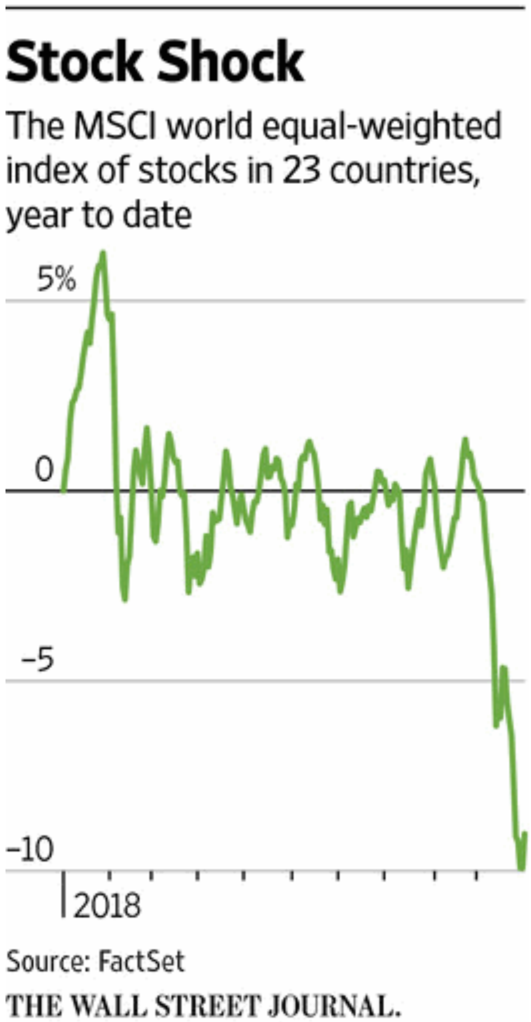
"We've been moving to be a little more defensive," said Mike Balkin, a William Blair & Co. portfolio manager, who has pared back his fund's exposure to technology and other growth stocks that had extreme valuations. He has shifted some of that money into shares of consumer and health-care companies. "In a downdraft like this, you're not going to escape the carnage," he said.

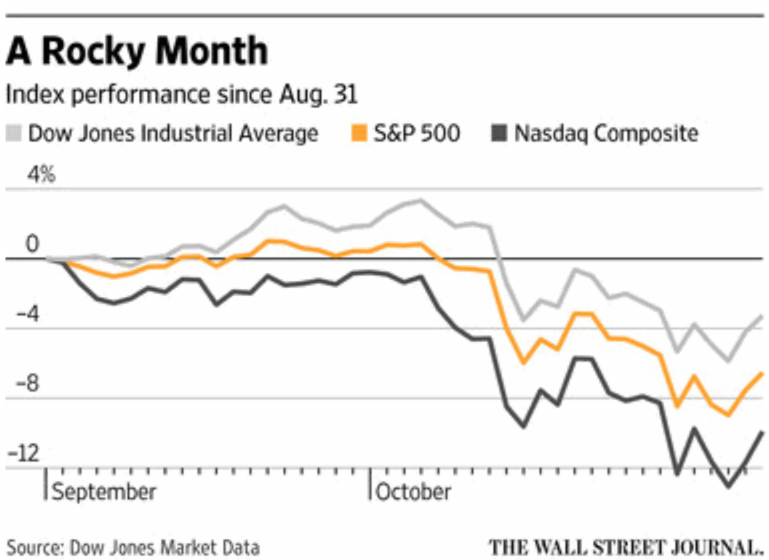
Even with the losses among bonds, some money managers moved to increase exposure to them, willing to bear the declines over the short term for greater stability in their portfolio. Of the past seven bear markets, only two caused portfolios split 60/40 between equities and bonds to fall more than 20%, UBS Group AG said in a recent note.

Mark Haefele, chief investment officer of the bank's global-wealth arm, said in a recent note to investors that global growth will slow in 2019 as the Fed and other central banks unwind their balance sheets and the benefit of last year's U.S. corporate tax cut fades.

Wells Fargo Investment Institute has been also recommending that investors stay diversified and continue to carry bonds despite short-term pain.

"This isn't going to end tomorrow. If an investor can stomach another 5% to 10% drawdown, hang tight," said Liz Young, a senior investment strategist at BNY Mellon Investment Management, which oversees $1.8 trillion. "If someone's skittish and can't handle it, rotate into those safe-haven assets where you can try to hide out."


Stock Shock
The MSCI world equal-weighted index of stocks in 23 countries, year to date
5%
0
–5
–10
2018
Source: FactSet
THE WALL STREET JOURNAL.


A Rocky Month
Index performance since Aug. 31
Dow Jones Industrial Average
S&P 500
Nasdaq Composite
4%
0
-4
-8
-12
September
October
Source: Dow Jones Market Data
THE WALL STREET JOURNAL.

Document J000000020181101eeb10001x

THE WALL STREET JOURNAL.

Markets

Gold Rebounds With Dollar Sliding; Some analysts expect the dollar's strength and higher interest rates to continue hurting gold prices moving forward

By David Hodari and Amrith Ramkumar
313 words
1 November 2018
02:37 PM
The Wall Street Journal Online
WSJO
English

Gold prices rose Thursday to end a three-session losing streak with the dollar falling.

Front-month gold for November delivery added 2% to $1,236 a troy ounce on the Comex division of the New York Mercantile Exchange. A stronger dollar, which makes gold more expensive for overseas buyers, and higher Treasury yields, which make the metal less attractive for investors, have hurt prices throughout the year, pulling them down 9.3% from their January peaks.

But on Thursday, the WSJ Dollar Index, which tracks the dollar against a basket of 16 other currencies, slumped 0.9%.

Still, some analysts expect the dollar's strength and higher interest rates to continue hurting gold prices moving forward unless another surge in **stock-market volatility** pushes more investors toward the haven asset. Gold got a slight boost from last month's **stock-market** declines but is still down about 6% for the year.

Elsewhere in precious metals, most-active silver futures rose 3.5% to $14.777 a troy ounce. Platinum added 2.3% to $862.80, and palladium closed up 1.2% at $1,081.40.

Among base metals, front-month copper for November delivery added 2.2% to $2.7215, though the industrial metal remains near **bear-market** territory amid worries about a slower global economy.

In London, aluminum for delivery in three months climbed 0.6% to $1,966 a metric ton. Zinc rose 1.9% to $2,540, tin was little changed at $19,100, nickel climbed 2.5% to $11,785 and lead was up 1.5% at $1,953.

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Document WSJO000020181101eeb1002jp

THE WALL STREET JOURNAL.

Heard on the Street
Markets

New Credit Suisse Still Hasn't Escaped Market Swings; The Swiss bank has tried to bolster more reliable, recurring business lines, but it remains more exposed than it would like to market forces

By Paul J. Davies
514 words
1 November 2018
10:38 AM
The Wall Street Journal Online
WSJO
English

Tidjane Thiam always pledged to focus on what he can control and worry less about what he can't as Credit Suisse's chief executive.

The Swiss bank has much lower costs and has been trying to add more interest income and recurring fee revenue. But investors can see that Credit Suisse still has to rely on what it can't control—better sentiment and activity in markets—if it is to beat its return targets and deserve a higher valuation. The worry is that investment banking and trading revenue may already be as good as it gets for this cycle because rising U.S. interest rates are testing the nerves of investors and corporate leaders.

Credit Suisse is near the end of its three-year restructuring program, but it is still an open question whether the bank will hit its return on tangible equity target of 10%-11% next year, excluding costs for legal settlements or other one-offs. Its return on this basis is 6.3% annualized from the first nine months of 2018, which the bank reported on Thursday.

Mr. Thiam's strategy has lifted profits by more than 50% so far this year compared with the first nine months of 2017, which shows it is definitely headed in the right direction.

A mixture of cost cutting and shifting private-bank clients into products that pay regular interest and fees rather than relying on commissions from their trades has helped. But transactional revenue from private and corporate banking, plus its investment banking and markets revenue, still made up 56% of total net revenue from its divisions in the first nine months, down barely 1 percentage point from nearly 57% in 2016. Overall revenue also disappointed in the third quarter as the bank's markets division struggled to make money, spurring a 4% drop in its stock Thursday morning.

The trouble is that, even as repeatable revenue and investment bank advisory fees have grown, Credit Suisse's markets and other trading revenue have stumbled, especially in Asia. In the markets division, the bank is far from its aim of getting $6 billion in annual revenue this year—it looks like it will fall up to $1 billion short.

Credit Suisse's revenue growth from advisory and underwriting work around the world far outstripped European rivals in dollar terms and was only bested in the U.S. by Morgan Stanley. But the bank is more reliant than most on the booming leveraged loan markets that are attracting concerns from regulators.

Credit Suisse is far less reliant on **volatile** markets and trading commissions than it was in the past. That still leaves it more exposed to them than crosstown rival UBS. This helps explain a valuation difference between the two that looks hard to close.

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Document WSJO000020181101eeb1004s9

THE WALL STREET JOURNAL.

Heard on the Street
Markets

Shell Needs to Produce Energy, Not Just Cash; Third-quarter earnings were up a full 51%, but overall production was down—again

By Nathaniel Taplin
401 words
1 November 2018
08:17 AM
The Wall Street Journal Online
WSJO
English

This was the quarter that Royal Dutch Shellshowed investors the money.

Third-quarter earnings were up a full 51% from a year earlier, on a current-cost-of-supplies basis, while cash flow from operations was up nearly 60%. Still, overall production was down for the second quarter in a row, highlighting what now looks like Shell's main challenge: fully reaping the benefits of an unexpectedly strong cyclical uptick in energy prices while still acceding to investor demands to keep paying down debt and unloading assets. Shell's shares were down 1.7% in midday trading in London on Thursday.

The return to strong cash generation from the core business, after year-over-year falls in the first two quarters, removes one big investor concern. The steep fall in the second quarter was mostly about Shell's having more cash tied up in pricey oil inventories after crude's big bull run: Excluding such inventory changes, cash flow from operating activities would actually have risen nearly 20%. This quarter, Shell managed to raise cash flow even with an additional $1.7 billion needed for inventory. That should reassure investors concerned that Shell's big refining division is a millstone when **oil prices** are high.

Unfortunately the company didn't do much to reassure on another big concern: production. Its output of liquids, including crude oil and natural-gas byproducts like ethane, was off 2% from a year earlier. Natural-gas production was down 1%. And overall production on an oil-equivalent basis was down 2%, the second consecutive year-over-year fall. Management cited maintenance in its integrated gas division—last quarter, gas output was 2%. And upstream output would have risen 4%, excluding divestments.

Rivals aren't standing still. Total's third-quarter output was up 8.6%. BP's was flat, but its underlying production—excluding divestments and entitlement impacts in its production-sharing agreements—was up 6.8%.

Shell is creating lots of cash again, but still struggling to balance shareholder payouts, cutting debt and investing for the future. New deep-water projects in the pipeline should help, but investors could do with seeing the company's output rise again sooner.

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Document WSJO000020181101eeb10030d

THE WALL STREET JOURNAL.

World

Brazil's Industrial Output Slips, Hurt by Weak Economy; Production has been volatile since May, when a truckers' strike blockaded highways nationwide, forcing many factories to shut

By Jeffrey T. Lewis
311 words
1 November 2018
08:29 AM
The Wall Street Journal Online
WSJO
English

SÃO PAULO—Brazilian industrial output declined in September from August as demand was hit by the country's weak economy and high unemployment.

Industrial production fell 1.8% in the month, and dropped 2% compared with September 2017, Brazilian statistics agency IBGE said Thursday. In August production fell 0.3% from July and grew 2% from a year earlier.

Brazilian output has been **volatile** since May, when a 10-day truckers' strike blockaded highways around the country, stopping deliveries of supplies from reaching their destination and forcing many factories to close down.

The strike was a blow to the momentum that the country's sluggish economy was gaining at the time, and gross domestic product ended up growing just 0.2% in the second quarter from the third. Unemployment is slowly declining, but still in double digits at 11.9% in the three months through September.

"Brazil's economy is expanding, but it's gradual and erratic," said Jankiel Santos, an economist at Haitong Banco de Investimento do Brasil SA. "We're still feeling some of the repercussions from the strike."

Uncertainty about the outcome of Brazil's presidential elections in October has also hurt growth and demand, Mr. Santos said. Now that the elections are over, with market-friendly conservative Jair Bolsonaro the winner, economists say growth should start to pick up again.

Production of durable goods, which consumers often avoid buying during difficult times, dropped 5.5% in the month and fell 4.5% from a year earlier, while output of capital goods fell 1.3% in the month and rose 3.9% in the year.

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Document WSJO000020181101eeb10035x

THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News -- Capital Account: The Riddle of 3% Growth

By Greg Ip
860 words
1 November 2018
The Wall Street Journal
J
A2
English

President Trump and his advisers have long argued that their agenda of tax cuts, deregulation and new trade deals would deliver sustainable growth of 3%, far above the sub-2% that independent economists think possible.

Lo and behold, the economy grew exactly 3% in the 12 months through September. Mission accomplished?

Not yet. The key word is "sustainable," a rate that can in theory go on indefinitely without exhausting finite resources, such as labor, or requiring one-off stimulants. A dissection of what went on in the economy in the past year suggests that the bar hasn't yet been met.

Running out of workers

If unemployment is falling, then the supply of available workers is shrinking and the economy is running ahead of its long-run sustainable pace, also called potential growth. In the year through September, the unemployment rate dropped half a percentage point to a 49-year low of 3.7%. Mr. Trump justifiably trumpets that milestone as good news, but it runs counter to the claim that 3% growth is sustainable: To keep this up, the unemployment rate would have to go negative in eight years, a mathematical impossibility.

To sustain such brisk growth without pushing unemployment lower requires a bigger labor force, which did expand by 844,000 (or 0.5%) in the year through September. But that was far outstripped by nonfarm payrolls, which expanded by 2.5 million, or 1.7%.

The labor-force participation rate (those working or looking for work as a share of the working age population) has hovered at just below 63% since 2014. That is a big improvement over the steady declines in prior years but not good enough: To sustain the current pace of job creation without running out of workers, participation has to go up.

Tax cut demand boost has happened, supply boost elusive

The sweeping personal and business tax cuts that Republicans passed last year and took effect in January should show up in two ways. First, as take-home pay goes up, people should spend more, generating a demand stimulus. Second, a lower tax rate on profits and the ability to write off new equipment immediately raises the return on new projects. That should encourage companies to invest, raising worker productivity, the economy's capacity to supply goods and services, and its growth potential.

The demand stimulus has happened. In the first quarter, after-tax incomes jumped 1.8%. At first, Americans saved the tax cut:Saving jumped to 7.2% of disposable personal income in the first quarter of 2018 from 6.3% in the fourth quarter of 2017. Since then, it has fallen back to 6.4%, as Americans spent their tax cut.

Eventually this boost will fade. Even without another tax cut Americans could further reduce their saving, but as with unemployment, saving can't fall forever.

Lower tax rates probably will eventually raise investment and potential growth, but it is hard to pinpoint that effect amid countless other forces at work. Capital spending slumped in 2015 and has since reaccelerated in great part because mining, oil and gas investment collapsed then rebounded. Excluding mining, oil and gas, business spending on structures such as offices, factories and stores did jump in the first quarter, perhaps because of the tax cut, but then cooled. Spending on equipment doesn't seem to have responded: It was solid from early 2017 but has weakened in recent months.

Markets giveth & taketh

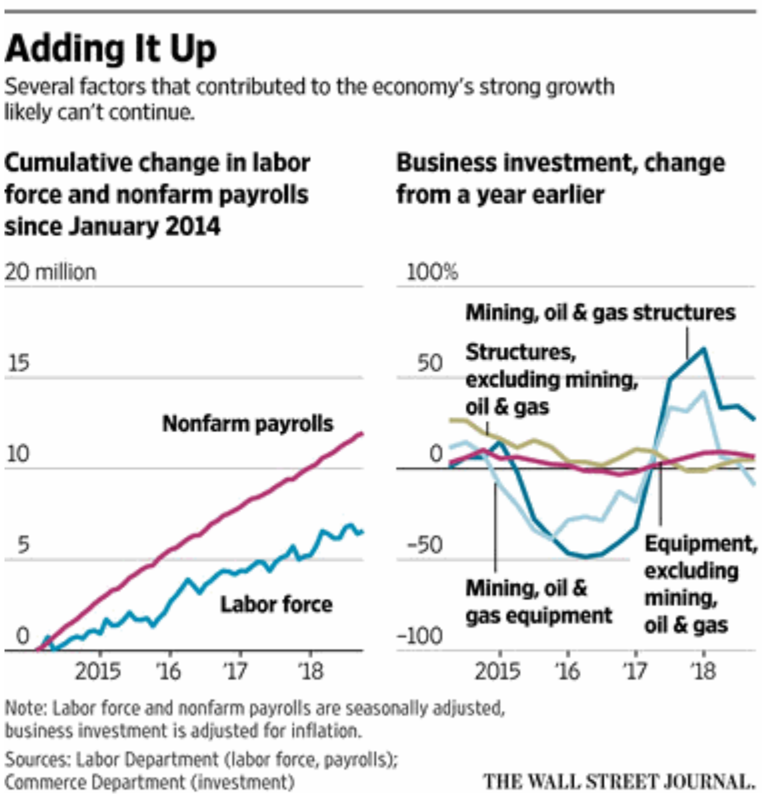
Stocks, bonds, interest rates and the dollar all influence economic performance. Rising stocks, for instance, encourage households to spend, while a cheap dollar helps exports and low interest rates boost housing. Economists at Goldman Sachs estimate that easier financial conditions helped bolster growth throughout 2017, led by surging stocks. In 2018 that contribution ebbed, as stocks plateaued and then in recent weeks dropped. Combine flat to lower stocks with higher bond yields and a generally firm dollar, and Goldman estimates financial conditions are now subtracting from rather than adding to growth, and that drag will peak in mid-2019.

There is good news on long-term growth, if not as good as the administration hopes. Okun's law, an economic rule of thumb that teases out potential growth from changes in output and unemployment, suggests potential averaged a little over 1% from mid-2009 through mid-2017 and has since picked up to almost 2%.

For that, thank productivity: It rose 1.7% in the year through September, according to Macroeconomic Advisers, the best since 2014.

Further improvements may be in store: The oft-promised payoff of robotics, artificial intelligence and other technological breakthroughs is long overdue. Despite worries over tariffs and wobbly stocks, business confidence remains high, thanks in part to Mr. Trump's pro-business agenda.

So sustainable growth may top 2% in coming years. But absent another tax cut, oil boom, **bull market** or some other stroke of luck, a slowdown from the last 12 months' 3% pace seems inevitable -- no matter the outcome of next week's midterm election.



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THE WALL STREET JOURNAL.
U.S. EDITION

Banking & Finance: Market Cheats Get Caught More Often

By Gabriel T. Rubin
495 words
1 November 2018
The Wall Street Journal
J
B10
English

Federal regulators have ramped up their pursuit of traders who use a bluffing tactic known as spoofing to manipulate market prices, enforcement officials said, leading to a record number of manipulation cases.

As part of the push, the Commodity Futures Trading Commission earlier this year quietly began receiving daily sets of market data from the world's largest futures exchange, CME Group Inc.

CME handles around 85% of total U.S. futures-markets trading by volume. Regulators for the first time now have access to daily trading data with a one-day delay, giving them a much broader window into trading activity -- and possible manipulation. Previously, the CFTC largely relied on CME staff and whistleblowers to spot spoofing.

The data-sharing agreement, effective as of February, comes as the CFTC and Justice Department both pursue traders engaged in spoofing, a practice outlawed by the 2010 Dodd-Frank Act. When spoofing, traders place fake orders to create the illusion of supply or demand, causing prices to swing up or down. The traders then profit as the market reverts to normal levels.

The CFTC brought a record 26 cases related to manipulative conduct and spoofing in the fiscal year ended Sept. 30. Several of those civil cases were accompanied by criminal charges filed by the Justice Department. Between 2009 and 2016, the average number of such cases brought was just five a year.

While spoofing is a problem in stock, bond and futures markets, it has been a particular focus of futures regulators and exchanges since the 2010 **stock-market** flash crash. Navinder Sarao, a British trader whom U.S. authorities charged with fraud, used an automated trading program to manipulate the market for **S&P 500** futures contracts.

Regulators say having broader access to trading data makes it easier to identify market manipulations.

"Our ability to evaluate that data has helped us identify misconduct," said James McDonald, the CFTC's enforcement director.

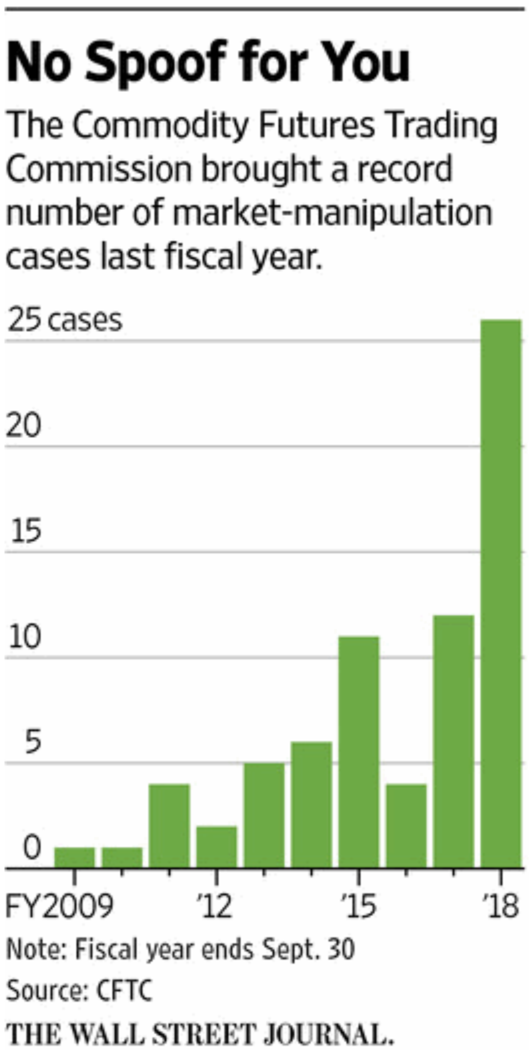
In one recent case, the Justice Department charged three traders with manipulating stock-futures contracts that resulted in more than $60 million in losses for the firm that traded with them.

The data-sharing deal with CME came after the CFTC in 2014 pressed CME-operated exchanges to "continue to develop strategies to detect spoofing."

Regulators and exchanges typically use statistical analysis to determine if a trader's strategy relies on spoofing. In addition, they examine emails and other communication for signs of intent to spoof. CME also has implemented new automated programs to monitor trader-messaging activity.

"Policing the market for disruptive trading practices continues to be a huge part of our regulatory investment and effort," Thomas LaSala, CME's chief regulatory officer, said in an email.

Cooperation between federal agencies was boosted by the conviction of Mr. Sarao, whose 2016 guilty plea to criminal charges set a precedent for future spoofing cases.



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THE WALL STREET JOURNAL.
U.S. EDITION

Options Signal No Panic by Stock Investors

By Gunjan Banerji
508 words
1 November 2018
The Wall Street Journal
J
B12
English

An unusual dynamic in options markets is signaling that investors aren't panicking despite October's **stock-market** drubbing: Expectations for **volatility** are greater in individual companies than the broader market.

This earnings season, options investors are pricing in some of the biggest swings from specific stocks since 2015, according to Credit Suisse Group AG. They have been singling out names such as Facebook Inc. and General Electric Co. in expectation of outsize moves after earnings reports.

Meanwhile, the **S&P 500** in October posted its worst month since September 2011. Historically, when the market is in such turmoil, moves by stocks and sectors become tightly correlated, spurring investors to use **bearish** options on major indexes for protection from further losses.

Lately, though, investors haven't been doing that, a potentially positive sign, analysts say.

"There's not a lot of broad-based panic," said Joanne Hill, chief adviser for research and strategy at Cboe Vest Financial. "People aren't as nervous about holding [the **S&P 500**] than they are an overweight position in Facebook."

The heightened **volatility** in individual shares is an indication that the October stock swoon has been driven more by idiosyncratic concerns related to specific company earnings than widespread worries about the economy, according to Mandy Xu, a derivatives strategist at Credit Suisse, in a note this week.

Of course, some investors are worried about global growth and are selling shares because of these concerns. And it can take time for economic headwinds to trickle into company earnings and depress the outlook of investors.

But in options markets, at least, there hasn't been a stampede into benchmark protection.

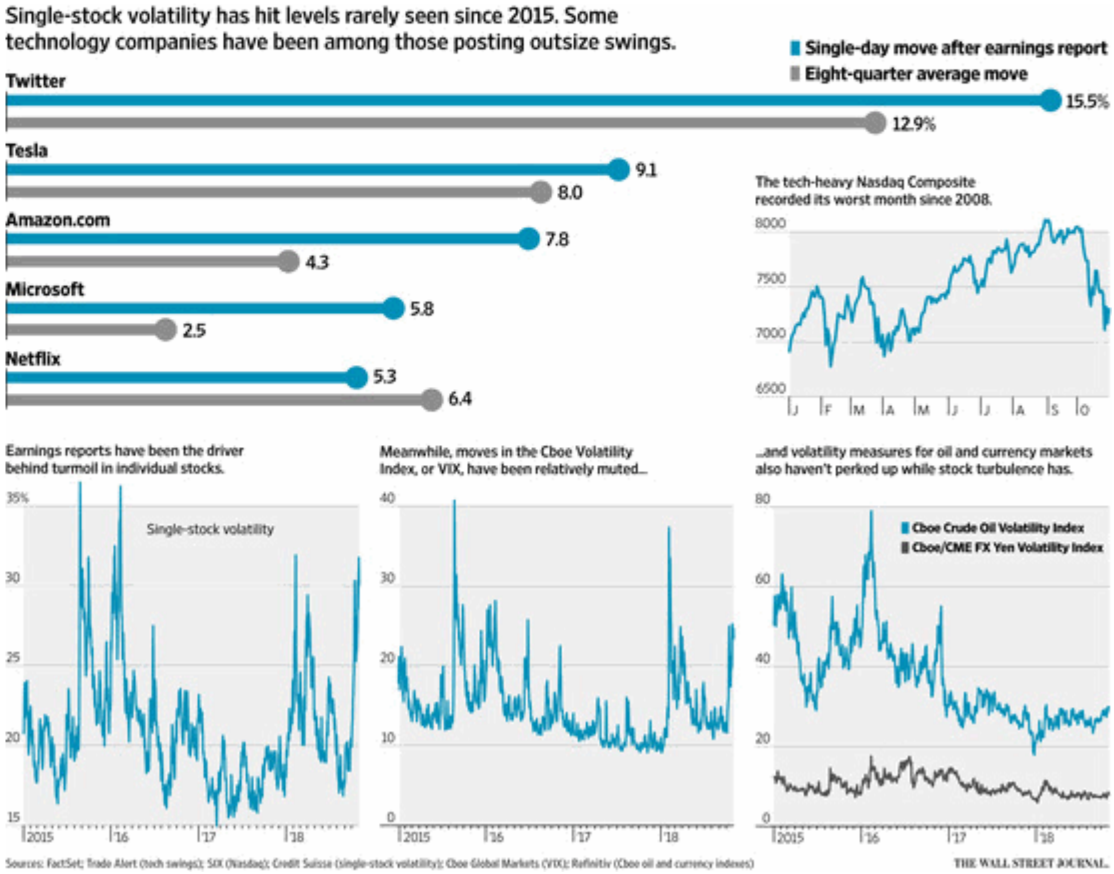
Ms. Hill said the recent market **volatility** appears to be driven by investors rotating out of companies dependent on high growth, like technology stocks. For example, a greater number of stocks actually advanced than declined on Monday. A few heavyweights such as Amazon.com Inc., Microsoft Corp., Apple Inc. and Alphabet Inc. made up the bulk of losses in the **S&P 500**, according to Wells Fargo Securities.

Meanwhile, moves in the Cboe **Volatility** Index have been relatively muted compared with the fall by stocks, analysts say. The measure known as VIX tracks expected swings in the **S&P 500** and is known as Wall Street's fear gauge.

Separately, an options measure called skew, which tracks the cost to protect against declines, has fallen for the iShares Russell 2000 index Fund, which tracks small caps, according to Credit Suisse.

Measures of **volatility** in oil, currencies and U.S. interest rates also remain relatively low -- another sign that investors aren't as fearful as the month's declines might indicate.

"Despite continued weakness in equities, both the credit market and the equity [**volatility**] market are telling us that this selloff remains an equities event, rather than the start of something systemic," wrote Pravit Chintawongvanich, an equity-derivatives strategist at Wells Fargo Securities, in a note Tuesday.



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THE WALL STREET JOURNAL.
U.S. EDITION

From Coke To Clorox, Inflation Hits Home

By Austen Hufford and Annie Gasparro
901 words
1 November 2018
The Wall Street Journal
J
A1
English

U.S. companies are raising prices on everything from plane tickets to paint, passing on to customers higher costs for fuel, metal and food after years of low inflation.

Clorox Co. said it raised prices in the latest quarter on such products as cat litter, and Coca-Cola Co. reported higher prices for the quarter. Other goods makers, as well as airlines, also have announced price increases over the past week.

The higher prices have effectively ended a long period of low inflation that led the Federal Reserve to keep short-term interest rates near zero for years.

"We think 2019 will be more inflationary than we have seen historically since the recession," Kellogg Co. Chief Executive Steve Cahillane said in an interview Wednesday.

It is a tricky moment for the U.S. economy. Unemployment is at the lowest point in decades, and economic growth is strong. Inflation is near the Fed's 2% target, but price rises could pick up if pressure from labor shortages and tariffs intensify in a still-robust economy. Alternatively, other factors could offset such pressures, including the stronger U.S. dollar, which makes imports cheaper.

At some point, higher prices could damp the economy's growth. Investors worry that a pickup in inflation will prompt the Fed to raise interest rates more quickly to prevent the economy from overheating.

Oreo cookie and Ritz cracker maker Mondelez International Inc. plans to raise prices in North America next year. Chief Executive Dirk Van de Put said in an interview Monday that consumers and retailers in the region have become more amenable to paying more.

"The consumer environment is strong," Mr. Van de Put said.

The rising costs companies face are various. Mondelez said price hikes on some of its cookies and crackers are in response to rising ingredient and transportation costs. Airlines are paying about 40% more for jet fuel than they were a year ago. Trucking costs were up 7% annually in September, as trucking companies passed along their own higher labor costs. Private-sector wages and salaries in the September-ended quarter rose 3.1% from a year earlier, the strongest gain since 2008, the Labor Department said Wednesday.

Meanwhile, U.S. manufacturers are paying roughly 8% more for aluminum and 38% more for steel than a year ago as the metal producers adjust to tariffs the Trump administration levied on imports of those materials. Also, a 10% tariff the administration imposed in September on $200 billion worth of various goods from China is weighing on businesses that buy those imports.

Steven Madden Ltd. said this week it was raising prices on handbags and other products it imports from China and that it would shift production to other countries to avoid the tariff. The leather-goods maker said prices on items made in China could rise by as much as 10% at company-owned stores.

"These are all things that point to prices going up," said Diane Swonk, chief economist at Grant Thornton. "We might see a pop of inflation in the first quarter."

Sensing that consumers are getting used to higher prices, some companies are also charging more to improve profits. Arconic Inc. said it had widened operating margins on its rolled-aluminum products by charging more as the tariff boosted prices overall. Apple Inc. recently raised prices on new MacBook Air and iPad Pro products by about 20% and 25%, respectively.

Rebekah Tull, an interior designer for Whiski Kitchen in Royal Oak, Mich., said she is paying 15% more for Chinese-made quartz countertops and 10% more for imported cabinets because of U.S. tariffs. Higher supply costs added $500 to one client's $25,000 renovation recently.

"It's going to be more of a challenge to get the looks they see on Pinterest for their budgets," she said.

Businesses including Coke and major U.S. airlines have said their higher prices aren't denting demand.

"The economy is healthy," Delta Air Lines Inc. Chief Executive Ed Bastian said in September. "To the extent **oil prices** were to continue to rise, we expect to be able to pass along the cost of that."

Delta, JetBlue Airways Corp. and American Airlines Group Inc. have all raised fares or fees to cover higher fuel costs.

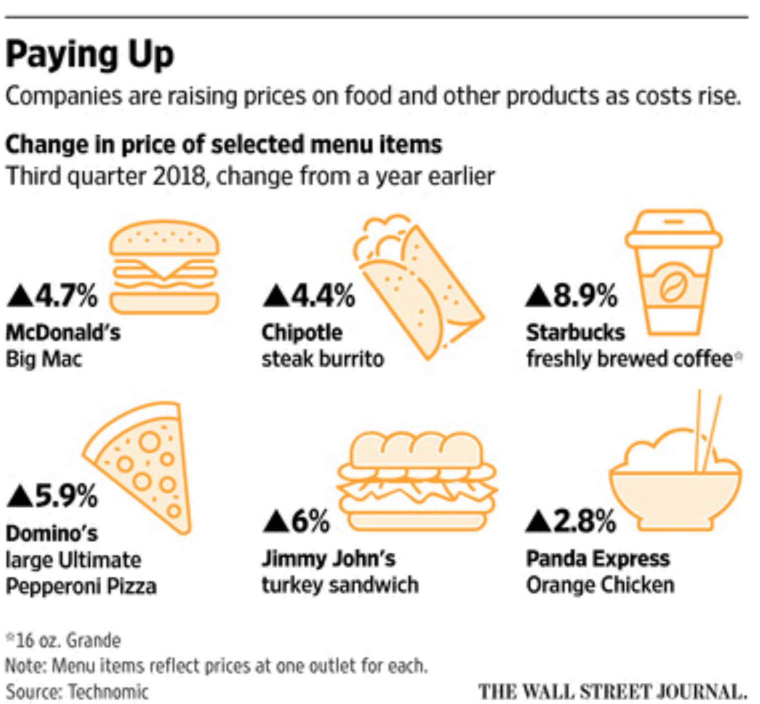
Some smaller airlines say they can't risk alienating customers with higher fares. Budget carrier Allegiant Travel Co. said its passengers were more sensitive to price hikes than those of big carriers. Allegiant is cutting some off-peak flying to trim costs.

Paint makers Sherwin-Williams Co. and PPG Industries Inc. in recent weeks said they would keep raising prices next year to cover the steeper climb in costs for ingredients such as titanium dioxide, a pigment used to make paint white. Sherwin-Williams raised prices in its own stores by as much as 6% in October.

Some restaurant companies are raising prices even as they try to attract customers with deals. McDonald's Corp.'s 2.4% same-store sales growth in the U.S. in the third quarter was fueled by higher-priced burgers.

Brinker International Inc. said it raised the price of the two-entrees-and-an-appetizer deal at its Chili's Grill & Bar chain to $25 from $22.

Julie Jargon contributed to this article.



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THE WALL STREET JOURNAL.
U.S. EDITION

Bitcoin Turns 10 and Still Isn't All Grown Up

By Paul Vigna
846 words
1 November 2018
The Wall Street Journal
J
B11
English

It has been a decade since the digital currency bitcoin was born, and in that time it has become a source of fascination for investors, speculators, true believers and skeptics around the world. What it hasn't become, though, is the one thing it was built to be: a payments system.

Bitcoin's roots go to Oct. 31, 2008, when a person or group using the pseudonym Satoshi Nakamoto released a white paper describing a "peer-to-peer electronic cash system." The paper outlined a way for consumers to pay each other on a digital platform that mimicked cash transactions -- but without the need for the government backing required for traditional currencies.

After a few years as mainly a techie project, it broke into the mainstream around 2013. Stories of overnight fortunes were matched by stories of drug traffickers and Ponzi schemers. Tools for using it were clunky, but the system did work. And with bitcoin trading under $200, a lot of people started experimenting.

At the time, bitcoin looked like it had a promising path to broad acceptance. Dell Technologies Inc. and Microsoft Corp. began accepting bitcoin in their online stores, as did Overstock.com Inc. Expedia Group Inc. started accepting it for hotel bookings.

"I felt like we were on the path to inevitability," said Derek Magill, who created a website dedicated to the writings of Nakamoto.

Soon, the trend hit a wall.

Jeff Klee, chief executive of online ticket-booking service CheapAir that started accepting bitcoin in 2013, said that he is still fond of it. Bitcoin customers, he said, are more loyal, adding that it is cheaper for him to process bitcoin payments than credit-card payments, as merchants pay a fee to card companies whenever customers pay via card.

Bitcoin, though, remains a small part of the company's business. For most consumers, the benefits of bitcoin are outweighed by the perks with credit cards, like loyalty points or miles, he said.

"Apart from the group who are passionate about it for ideological reasons," Mr. Klee said, "it hasn't caught on."

A protracted fight among developers contributed to short-circuiting bitcoin's payments growth. The bitcoin network was built in a way that it could process only about seven transactions per second, a technical limitation inserted by Nakamoto. If that limit was hit, users could pay a voluntary fee to essentially skip the line.

Nakamoto stopped writing publicly under that name in 2010 with the limit in place. Lead developers such Gavin Andresen and Mike Hearn argued for changing bitcoin's code to increase the limit but found firm opposition to the idea. Without Nakamoto's moral authority, neither side would budge. Both men reluctantly abandoned their roles, with Mr. Hearn calling bitcoin a "failed experiment."

Then bitcoin's price went on a manic rally in 2017, soaring from under $1,000 to nearly $20,000 and attracting a whole new crowd of novice investors. Surging traffic on the network led to widespread bottlenecks, with the fees rising as high as $54 per transaction in late 2017. At that level, bitcoin was useless for small purchases, and the rising price just encouraged hoarders.

The fees have since come down, to under 50 cents, amid bitcoin's 70% price crash from its December 2017 peak, but the incident severely damaged bitcoin's popularity as a payments system.

Dell dropped bitcoin in 2017. Expedia dropped it in May 2018. CheapAir still accepts it, but bitcoin sales on the site are stuck in the low single digits, Mr. Klee said.

Bitcoin's backers are now touting it not as a payments network but as a store of value and a place to park assets. Most of the regulated crypto-exchange businesses, such as Gemini Trust Co., Coinbase Inc. and Circle Internet Financial Ltd., are courting institutional investors. Money manager Fidelity Investments Inc. is preparing to build a trading desk for hedge funds and other professional investors.

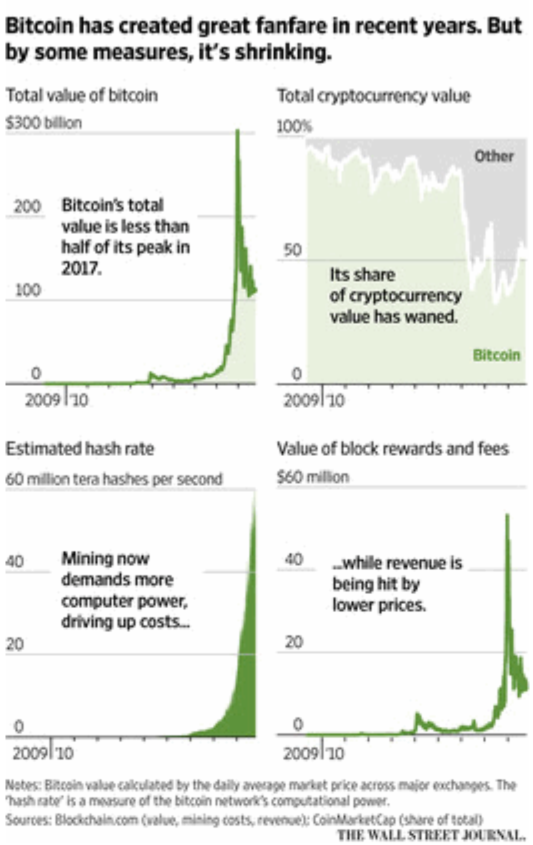
"It's a millennial's version of a Swiss bank account, for every person in the world," said Meltem Demirors, chief strategy officer at crypto-investment services firm CoinShares.

But that could be a hard sell, especially for nonmillennials.

Bitcoin doesn't currently have most of the elements of a traditional store of value, said Michael Minter, a financial adviser at Minter Financial in Tampa, Fla. Its price is **volatile**, and determining its underlying value is difficult. Mr. Minter doesn't buy it on behalf of clients, given the risk of violating securities laws.

"Is it worth $6,000?" Mr. Minter asked. "I don't know. I don't think anyone does." Bitcoin was trading at about $6,300 this week.

Meanwhile, there are more than 2,000 altcoins trying to be the next bitcoin, and the underlying technology, popularly called the "blockchain," is being applied to fields as varied as supply-chain management, capital-markets trading and voting. Most applications, though, are still just experiments.



Document J000000020181101eeb10000h

THE WALL STREET JOURNAL.

Markets

China's Monster Money Fund Shrinks, and Rivals Reap Rewards; Regulators put the squeeze on Ant Financial's Tianhong Yu'e Bao, and other funds benefit

By Stella Yifan Xie
870 words
31 October 2018
10:18 PM
The Wall Street Journal Online
WSJO
English

Beijing is forcing the world's largest money-market fund to shrink, creating a bonanza for others.

At one point this year, assets under management at the Tianhong Yu'e Bao fund—run by China's largest financial-technology company, Ant Financial Services Group, an affiliate of e-commerce behemoth Alibaba Group Holding Ltd.—were twice those of their biggest U.S. peer. They rivaled those of the giant exchange-traded fund known as SPY, which tracks the **S&P 500 index**.

But Chinese regulators grew uneasy about the systemic risk of so large a fund. To aid its downsizing, Ant in May started adding money-market funds overseen by other domestic asset managers to its Yu'e Bao investment platform, helping send tens of billions of dollars their way.

Between March and the end of September, assets under management at Tianhong Yu'e Bao fell by a fifth, to $190 billion from $244 billion, while assets in a dozen other money-market funds connected to Ant's platform surged by about $80 billion, according to Wind Information Co.

One fund overseen by a Chinese joint venture of U.S. firm Invesco Asset Management grew over that period to 55.3 billion yuan ($7.9 billion) from just 548 million yuan. The fund, created in 2013, began taking money from Alipay's customers in mid-June.

China's money-market mutual fund industry has boomed since Ant created the Tianhong Yu'e Bao fund in 2013, with assets hitting 8.9 trillion yuan ($1.3 trillion) at the end of August, according to the Asset Management Association of China.

Growth this year, 33% through August, has been driven in part by **stock-market** turmoil. Shen Qijun, an employee at Shenwan Hongyuan Securities in Shanghai, said he has been cutting positions in Chinese stocks this year and has up to 80% of his cash in money-market funds.

"Stock disasters have happened too many times," said Mr. Shen, adding that he finds money-market funds attractive because they are typically "highly liquid" and "safe."

Some of the flood of money is going to a dozen funds that Ant has added to Yu'e Bao. The platform is on Ant's online and mobile payments network Alipay, used by hundreds of millions of Chinese to shop online, pay bills and make everyday purchases in stores all over the country. As mobile-phone usage in China has surged in recent years, so has the flow of cash into Ant's investment platform.

Alipay customers can move money in and out of Yu'e Bao money-market funds instantaneously without transaction fees. This makes them function much like bank sweep accounts. Many customers have thousands of dollars in escrow with the firm.

Tianhong Yu'e Bao (yu'e bao means "leftover treasure") was a financial innovation that changed the way everyday people in China invest in money-market funds, which traditionally had been sold by banks and asset managers. Ant's fund platform provided a place for individuals to park their pocket change, idle cash and online savings, and earn investment returns before using the money for online shopping or to purchase things like air tickets and train rides. Better yields than those offered on bank deposits were another draw.

Last year, however, after assets in the flagship money-market fund rose rapidly, Chinese financial regulators began pressuring Ant to shrink it. Another concern: The fund was stretching for returns by investing heavily in assets that couldn't be easily sold, like high-yielding bank certificates of deposits, according to its reports to investors.

Ant increased its holdings of safer, lower-yielding investments like Chinese government debt and took measures slow inflows into the flagship fund. Earlier this year, for example, it imposed a "daily aggregate quota" to limit the total amount invested in Tianhong Yu'e Bao. Then in May it began adding the other money-market funds to its platform.

Tianhong Yu'e Bao fund's investment yield is now lower than those of most of the money-market funds available on Alipay. Its seven-day annualized yield was 2.59% recently, down from over 4% earlier this year, as Beijing has injected more liquidity into the financial system and Ant has shifted more of the fund's assets into lower-yielding instruments.

Xu Zhen, a salesman for a Chinese internet company in Hangzhou, said he had been putting his monthly salary into Yu'e Bao since 2013. But three months ago he switched to another fund on the platform that is managed by a different domestic asset manager.

"There was a time when I had to set an alarm at 9 a.m. in order to invest in Tianhong Yu'e Bao," he said, only to find the daily quota sometimes already full. His new fund has no restrictions on investment sizes or withdrawals.

Write to Stella Yifan Xie at stella.xie@wsj.com

More

* Yields Over 13% and a Boss Chipping In $1 Billion: China Stress Shows in Bond Market

Document WSJO000020181031eeav001mg

THE WALL STREET JOURNAL.

Markets

Yuan's Drop Pressures Chinese Companies Borrowing Overseas; Chinese companies that borrow in dollars but make most of their sales at home are suffering as the yuan weakens

By Manju Dalal
340 words
1 November 2018
02:34 AM
The Wall Street Journal Online
WSJO
English

Chinese companies that borrow in dollars but make most of their sales at home are suffering as the yuan weakens.

What's Happening

The yuan recently hit its weakest in a decade against its U.S. counterpart, nearing a psychological threshold of 7 to the dollar. The fall matters as Chinese companies are among the biggest issuers of dollar debt in Asia--and their interest costs and debt burdens rise as the yuan weakens.

CreditSights analysts track 19 Chinese companies, excluding property developers and financial institutions, that have sold dollar bonds. They said many of these enterprises don't fully hedge their currency exposure, and most reported foreign-currency losses in the first half.

What It Means

"Foreign-currency risk is back in the spotlight," said Sandra Chow, senior analyst and head of Asia research at CreditSights. She said many companies had ignored this issue as the yuan had been less **volatile** than other Asian currencies such as the Indonesian rupiah or the Indian rupee. Ms. Chow said it was now too expensive for companies to purchase currency hedges.

Foreign-exchange swings add to the raft of challenges faced by Chinese bond issuers. They are also grappling with an economic slowdown, tighter financial conditions at home, a U.S.-China trade dispute, a hefty schedule of hard-currency debt coming due in the years ahead and investor concerns about an uptick in defaults.

Some issuers, including China Evergrande Group and Hainan Airlines Hong Kong Co., have recently been forced to pay double-digit interest rates to borrow in dollars.

Write to Manju Dalal at manju.dalal@wsj.com

Asia Markets Snapshot

* Hong Kong's main index rose 1.8% while Shanghai's added 0.1%

* Japan's Nikkei fell 1.1%, weighed down by telecom stocks

* The offshore yuan strengthened 0.4% to 6.9472 per dollar

Document WSJO000020181101eeb10012x

The New York Times

Business/Financial Desk; SECTB
Market Soared On Tech's Back, Then It Soured All on Its Own

By MATT PHILLIPS
999 words
1 November 2018
The New York Times
NYTF
Late Edition - Final
1
English

The world's largest technology companies drove the **stock market** to record highs earlier this year. As stocks have tumbled, though, it's more like they're just along for the ride.

Unlike the rally, the rout that started in late September and dominated trading in October was a broad-based affair. That suggests that investors are less concerned that the tech giants' shares rose too far too fast, and are instead worried about the fundamentals of the United States economy and the continuing profitability of companies of all kinds.

October was particularly painful for investors. At its worst, the **Standard & Poor's 500-stockindex** was down more than 9 percent during the month. A late charge took some of the sharp edge off: The **S.&P. 500** was up around 1 percent on Wednesday, its second straight gain, helping to cut losses for the month to around 7 percent.

"I think there's something that's bothering the markets and I think it's fears about earnings estimates," said Randy Watts, chief investment strategist with the investment advisory firm William O'Neil & Company.

After a nearly decade-long **bull market**, investors have been increasingly skittish about how long the push higher could extend. And sweeping declines like the one that roiled stocks during October have prompted some to consider whether the rally that began in March 2009 is indeed under threat.

The **S.&P. 500** topped out on Sept. 20, up 9.6 percent for the year, and roughly half of the increase was fed by the performance of five huge tech companies: Apple, Amazon, Microsoft, Netflix and Google's parent company, Alphabet. But in the weeks since that peak, the gains experienced by the benchmark **stock index** over the previous nine months were largely wiped out.

And only about 20 percent of the slump can be tied to the tech giants, compared with the 50 percent of the gain they were responsible for earlier in the year.

The **S.&P. 500** has been dragged down disproportionately by smaller, domestically focused companies, cyclically sensitive industrial firms and global manufacturers like Caterpillar. And companies like the fertilizer and chemical giant DowDupont and the home-improvement retailer Home Depot have pulled the **S.&P. 500** down by more than they ought to have, based on their size.

There are plenty of factors worrying investors: President Trump's trade war with China; the Federal Reserve's stated plans to keep raising interest rates; signs that labor and other costs could climb; and slowing growth in Europe and China. And the tax cuts that increased growth in profits this year will not have the same year-over-year effect in 2019.

Chemical and materials companies have experienced steep declines faced with mounting concerns over global trade. DowDupont is still waiting for Beijing to approve one of its bioengineered soybeans to be imported into China, the world's largest soybean market. The approval process may be more complicated now that soybean exports from the United States to China are subject to a 25 percent tariff imposed by Beijing over the summer in response to Mr. Trump's tariffs on Chinese-made goods.

DowDupont is only the 39th largest company in the **S.&P. 500**, but its nearly 16 percent drop in October made it among the larger contributors to the index's downturn, according to the market data firm FactSet.

Home Depot is the 23rd largest company in the **S**.**&P**. **500**, but it played the ninth-largest role in the October sell-off through Monday. Its shares were down about 15 percent in October as climbing interest rates slowed the housing market, a key factor in home improvement spending.

Bank of America, JPMorgan Chase, Mastercard and Visa -- financial firms whose fortunes are closely linked to the economy's overall health and are sensitive to rising interest rates -- have also helped pull down the market.

''Despite the fact that earnings are exceptional by any objective measure, investors are concerned that they will slow more dramatically than expected next year,'' said Jason DeSena Trennert, managing partner at Strategas Research Partners, a markets and economic analysis firm.

The biggest tech companies have also played a part in the broad decline, of course. The **stock market** benchmarks, such as the **S**.**&P**. **500**, are weighted by market value, meaning the vast size of Apple, Amazon, Alphabet and Microsoft give them significant influence over how the index moves.

Amazon's 20 percent drop in October -- much of it coming after an earnings report that contained a disappointing outlook for the holiday season -- helped make it the single biggest drag on the **S**.**&P**. **500** during the recent sell-off.

Microsoft shares dropped more than 6 percent in October. Alphabet fell around 9 percent. Facebook was down more than 7 percent for the month after rebounding on Wednesday upon the release of its quarterly earnings report.

The only big tech company left to report for the quarter is Apple, which is scheduled to release its results on Thursday. The company's **stock price** was off about 3 percent in October, faring far better than the overall market.

The tech companies' declines are not minor, but they are not big enough to signal that investors are overly concerned about the health of the stocks that fueled so much of the gains of the past decade.

Even with companies like Amazon, Microsoft and Alphabet having outsize sway over market benchmarks, the losses in other sectors suggest that when it comes to the falling indexes, the tech giants' tumbles have been more of a symptom than a cause.

Technology giants were responsible for 50 percent of gains, but 20 percent of losses. (PHOTOGRAPH BY BRENDAN MCDERMID/REUTERS) (B2) CHART: The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Wednesday. (Source: Reuters) (B2)

Document NYTF000020181101eeb10005h

The New York Times

Foreign Desk; SECTA
U.S. Push Against Iran Faces Steep Obstacles As a Deadline Looms

By GARDINER HARRIS
1,261 words
1 November 2018
The New York Times
NYTF
Late Edition - Final
9
English

WASHINGTON -- President Trump called on world leaders in September to slash their purchases of Iran's oil before the imposition on Nov. 5 of major sanctions, the last major pieces of the administration's blockade of the Iranian economy.

''We ask all nations to isolate Iran's regime as long as its aggression continues,'' Mr. Trump said at the United Nations.

But less than a week before the crucial deadline this Monday, the campaign against Iran is facing severe challenges. China and India, the largest buyers of Iranian oil, will continue making huge purchases, with Turkey and perhaps Russia following suit. Britain, France and Germany have promised to continue doing business with Tehran.

And Saudi Arabia, the administration's crucial partner in its anti-Iran efforts, is facing global censure and threats of sanctions from Congress after the killing of Jamal Khashoggi, a journalist and Saudi dissident. Penalties against Saudi Arabia could undercut efforts to keep global **oil prices** stable as Iran's exports plunge.

The problems have piled up as European diplomats and oil analysts say that even after the sanctions go into effect, Iran will most likely sell at least one million barrels of crude oil a day -- a sharp decline from last year but perhaps enough to sustain its economy and wait out Mr. Trump's term.

The administration's stated goal for its sanctions campaign is for Iran to make a dozen fundamental changes to its domestic and foreign policies, including ending its support for Hezbollah in Lebanon, Hamas in Gaza and the Houthi rebels in Yemen. Few analysts believe the present Iranian government could fulfill the demands and survive.

''There is no way the Trump administration will be able to achieve its 12 stated objectives because they're utterly unrealistic,'' said Robert Einhorn, a senior fellow at the Brookings Institution. ''Unless significant changes are made, it's a policy destined to fail.''

But efforts to tighten the screws on Tehran in the coming months could further alienate European allies, freight the relationship with China with yet another difficult dispute, undermine decades of efforts to woo India, and impede the stabilization of Syria and the battle against the Islamic State.

Administration officials dismiss these risks in part because earlier warnings by critics about the downsides of leaving the Iran nuclear deal largely proved false.

Iran

At the heart of Iran's financial future are its oil and gas exports, and Trump administration officials have adamantly said for months that they intend to reduce those exports to zero and penalize any country that continues purchases after Nov. 4 -- which would effectively destroy Iran's economy. On Tuesday, a State Department spokesman retreated from those implacable demands.

''Our goal remains to get to zero oil purchases from Iran as quickly as possible. That's not changed,'' the spokesman, Robert Palladino, said during a press briefing, adding, ''But we are prepared to work with countries that are reducing their imports on a case-by-case basis.''

The Nov. 5 sanctions target Iran's central bank, oil sales and shipping companies, and come on top of a set of sanctions that went into effect in August. Administration threats have already persuaded buyers in Europe, Japan and South Korea to largely stop purchasing from Iran.

As a result, Iran's crude oil exports loaded on tankers plunged by more than 20 percent to 1.8 million barrels per day in September, down from 2.3 million in May. Oil exports continued to decline in October, according to IHS Markit, an energy analytical firm.

But during the United Nations General Assembly in September, foreign ministers from Britain, France, Germany and the European Union joined those from Russia, China and Iran in promising to collaborate on the creation of a ''special purpose vehicle'' independent of the dollar to continue commercial relations. Trump administration officials reacted to the announcement with derision and fury.

Even in Europe, economists and officials doubt the new financial channel will yield significant economic benefits for Iran or threaten the global dominance of the dollar anytime soon. And yet its symbolism was profound. Any sanctions on the new channel or other European efforts to save the nuclear deal would worsen already seriously strained trans-Atlantic ties.

China, India and Turkey

Beijing presents another challenge. China is the largest buyer of Iranian oil and, although Beijing recently instructed two large state oil companies to stop purchases for a time, China will most likely remain the biggest buyer. The Trump administration has given Beijing ''no reason to be in compliance with U.S. law on Iran,'' said Sung-Yoon Lee of Tufts University's Fletcher School of Law and Diplomacy in Medford, Mass. Oil executives and analysts agree.

Some are predicting that the administration will announce penalties against some Chinese entities on Nov. 5 to show toughness against Beijing, popular with Mr. Trump's voters, ahead of the midterm elections the next day. But such sanctions will most likely be largely symbolic. Tariffs against China have already spooked Wall Street and lowered global growth projections. Broad sanctions could set off a panic.

In India, the second-largest buyer of Iranian oil, private companies like the energy giant Reliance have largely stopped buying it. Government entities ramped up purchases over the summer so they could show reductions next year, analysts said. But significant purchases will most likely continue.

Prime Minister Narendra Modi's re-election campaign, scheduled for next spring, will prevent him from acceding to American demands on Iran, said Mohan Guruswamy, a distinguished fellow at the Observer Research Foundation in India.

''Modi can't be seen as buckling on Iran since public sentiment is not with the U.S. on these new sanctions,'' Mr. Guruswamy said.

Heather Nauert, the State Department's spokeswoman, recently called India's continuing purchases of Iranian oil ''not helpful'' and said that ''India will find out'' if sanctions result.

But sanctions against India would do violence to a host of American priorities, including efforts to bolster Afghanistan; counter China and Pakistan; and ramp up sales of American oil, natural gas and military equipment.

Turkey, which gets most of its oil and natural gas from Iran and Russia, will continue oil purchases and other commercial relations with Iran, diplomats and analysts said. A recent warming between Ankara and Washington after the release from detention of an American pastor would be dashed by penalties, said Soner Cagaptay, director of the Turkish Research Program at the Washington Institute for Near East Policy.

Victory Lap

Sanctions have caused pain, but they have yet to produce clear strategic victories for the Trump administration. Despite sanctions on North Korea, Russia and Venezuela, Pyongyang has so far shown no signs of slowing its nuclear and ballistic missile weapons production, President Vladimir V. Putin has only grown bolder and Venezuela continues to slide into anarchy.

But administration officials will take a victory lap on Nov. 5. They are mindful that when Mr. Trump announced in May that he was walking away from the Iran nuclear deal, critics predicted that Tehran would soon restart its nuclear program, that **oil prices** would soar, and that sanctions would never truly bite without the support of others in the deal.

None of those warnings proved true, giving administration officials a great sense of confidence in their policy.

A bazaar in Tehran in July. The Trump administration plans to impose sanctions on Iran on Nov. 5.
(PHOTOGRAPH BY EBRAHIM NOROOZI/ASSOCIATED PRESS)

Document NYTF000020181101eeb100044

International New York Times

opinion
The Economy Is Great, Really, for Now

By RUCHIR SHARMA
960 words
1 November 2018
International New York Times
INHT
English

Whatever one thinks of President Trump, it's hard to deny that much of America is feeling great again.

Surveys show that consumers have been this confident only twice before, at the height of the economic booms of the 1960s and 1990s, and their mood is bright across income groups, not just among the rich. Small business confidence has not been higher since the surveys began nearly five decades ago. The misery index, invented in the 1970s to describe the agonizing combination of inflation and unemployment, is now just 6 percent, matching the lowest levels of the last half century.

This year in particular, the economy has performed exceptionally well. Among major economies, only the United States has accelerated significantly in 2018, while Europe, Japan and many emerging economies have slowed markedly. The Commerce Department reported Friday that the economy grew at a very strong pace of 3.5 percent in the third quarter, putting it on track for its best year in more than a decade. This raises a question: Why has the **stock market**, which normally rises when investors anticipate strong economic growth, been gyrating wildly?

Investors may now be expecting America to peak after a hot decade. Even with recent setbacks, the performance gap between the United States **stock market** and the rest of the global markets is close to a 100-year high. Money flowing into the United States has also driven up the value of the dollar, which has never been more dominant as the world's preferred currency.

Trump doubters say that this boom began before he took office, in the aftermath of the global financial crisis of 2008, and they have a point. With its more flexible economic system, the United States responded faster than its peers to the debt problems exposed by the crisis. The United States forced households and troubled financial institutions to rapidly reduce their debt, and easy money provided by the Federal Reserve allowed them to start spending again. Money flowed into the giant tech companies that have underpinned the American economic surge.

Just as the 1980s belonged to Japan and the 2000s to emerging nations, the last decade belonged to America. Still, the gap in performance between America and the rest of the world has widened in the last two years under Mr. Trump, as his tax cuts and deregulation turbocharged the American economy and its markets. His policies have spurred consumption, and have incentivized companies to buy back more of their stock and bring home some of the money they had stashed overseas.

But economies that are hot in one decade rarely stay hot in the next. Every boom eventually creates excesses that sow the seeds of its own destruction, and the excesses that could end the American decade are coming into view.

The United States economy has been expanding for nine years in a row and if this streak carries on until August next year it will be the longest economic expansion in the country's history. Within a few years after the crisis of 2008, American companies had started running up debts again. It's not unusual for companies to get overconfident and become saddled with heavy debts late in an expansion. But it is unusual to see the government follow suit, as it has this time. Owing in part to the Trump tax cuts, the United States budget deficit is now around 4 percent of gross domestic product — the highest it has been outside the immediate aftermath of a recession or a war.

That will make it very hard for the government to keep stimulating the economy. Growth is expected to slow next year as the impact of the tax cuts fades and the strong dollar cuts into exports. The Fed has been raising rates, and the end of the long easy money party is starting to have an impact on the housing and stock markets, helping to explain the recent correction.

Nonetheless, the United States **stock market** is still swollen — and it seems unlikely to keep expanding from here. The **stock market** is now 60 percent larger than the American economy, a scale it has reached only twice in the past century, during the manias of the 1920s and late 1990s. Moreover, the giant tech companies that have been driving the economy and markets now face a regulatory backlash that could cut into their extraordinarily high profit margins.

Trump haters may be tempted to conclude from all this that he is about to lead America into a sudden decline, but that is not the point. This American decade started under President Obama, continued under Mr. Trump and survived congressional gridlock throughout, showing that the economy often rises above politics. The economy is driven less by ideology than by its own internal cycles, and this cycle has been turning in America's favor for so long that it is unlikely to last much longer.

While the excesses of corporate exuberance and government debt are rising in the United States, countries from France to Brazil are in the cleanup phase that often precedes an economic comeback. Most are a long way from working out the excesses of the last decade, and they may suffer further setbacks. But they are approaching the start of a new cycle, while the United States nears the end of an old one. If history is any guide, the next decade is less likely to be great for America than it is for the rest of the world.

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* How the Next Downturn Will Surprise Us

* Worried About Turkey's Economic Problems? China's Could Be Worse

Document INHT000020181031eeb10000w

International
New York Times

business
Eurozone Growth Slips to Four-Year Low, Fueling Crisis Fears

By JACK EWING
1,113 words
1 November 2018
International New York Times
INHT
English

FRANKFURT — Economic growth in the eurozone has fallen to its slowest pace in more than four years, and Italy is not growing at all, according to figures released Tuesday. The snapshot is likely to sharpen political divisions in the European Union and make the region more vulnerable to the forces rattling **financial markets**.

The eurozone grew 0.2 percent from July through September compared with the previous quarter, according to the European Union statistics agency. Separately, Italy's government statistics office said growth during the third quarter was zero as manufacturing slumped.

Both numbers were unexpectedly poor. Eurozone growth in the quarter was only half as fast as it had been in the previous three-month period, and the rate of growth has fallen each of the last three quarters.

Italy's stagnation is likely to heighten the dispute between the populist government in Rome and officials in Brussels. The European Commission has said that Italy's proposed budget — full of debt-financed welfare programs — flouts spending limits that countries in the European Union are supposed to observe.

One of the European Commission's criticisms of the Italian budget is that it was based on overly optimistic estimates of future economic growth. Now those estimates look even less realistic.

Investors registered their disappointment by bidding up the market interest rate on Italian government bonds on Tuesday. That will only amplify the country's problems.

The rates on government bonds serve as benchmarks for the rates that Italians pay on business or consumer loans. Higher rates will squeeze spending and lead to yet slower growth.

"It's a self-defeating cycle," said Lorenzo Codogno, chief economist at LC Macro Advisors in London. "The government is shooting itself in the foot."

But Mr. Codogno said he doubted that the populist parties governing Italy would retreat from their campaign promises, such as increases in pensions. To do so, he said, "would be political suicide."

And Italy is not the only country in the eurozone facing political instability.

Germany is facing a difficult transition after Angela Merkel, the chancellor for 13 years, said on Monday that she would give up leadership of her conservative party in December and not seek re-election in 2021. The surprise announcement came after elections in the state of Hesse underlined a migration of voters from centrist parties to parties on the far left and far right.

The eurozone growth figure published Tuesday was a first estimate and contained no detail about what sectors led to the slowdown. Still, the causes are obvious enough.

They include the prospect that Britain's separation from the European Union will be disruptive; a trade war with the United States that has interfered with trans-Atlantic commerce; and rising interest rates as central banks roll back the stimulus programs they used to combat the last financial crisis.

Those risks are accumulating at the same time that **financial markets** are unusually nervous. Daily fluctuations in the prices of stocks, bonds, currencies and commodities like gold and copper are at their most extreme levels since 2008, when the last global financial crisis began, according to data compiled by analysts at the German bank Berenberg.

The one somewhat bright spot in the numbers Tuesday was France, which registered growth of 0.4 percent from the previous quarter. But, coming after two weaker quarters, even that above-average result was not enough to achieve the 1.7 percent pace of expansion that economist say President Emmanuel Macron needs to validate his program of business-friendly reforms.

The reforms have not yet brought widespread economic gains or job creation, damaging Mr. Macron's popularity with voters. The government needs the economy to expand by around 1.7 percent in each of the next four years if it is to maintain a pledge to cut unemployment to 7 percent, from more than 9 percent today, by the next presidential election, economists say.

The disappointing growth in the eurozone as a whole was partly caused by factors that aren't likely to repeat, leaving room for hope that growth will pick up toward the end of the year.

For example, European car sales slumped 24 percent in September as auto manufacturers struggled to comply with new, stricter emissions standards. Cars were slow to reach dealers because of delays in getting regulators to certify vehicles for sale. Manufacturers such as BMW and Daimler have also been caught in the crossfire of President Trump's trade war with China.

The slowdown in the car industry rippled through the eurozone and was probably most pronounced in Germany, the Continent's largest economy and motor of growth. Registrations of new Volkswagens slumped by nearly half in September, according to the European Automobile Manufacturers Association. The company at least temporarily lost its long-held status as the Continent's largest auto manufacturer to PSA of France, the maker of Peugeot and Citroën cars.

The brake on growth caused by the auto industry should dissipate soon, "and the euro economy is likely to grow more strongly again," Christoph Weil, an economist at Commerzbank in Frankfurt, said in a note to clients Tuesday.

But many other risks will remain, particularly Italy and a government seen by investors as reckless and determined to defy Brussels. The ultimate question facing the eurozone, and the world for that matter, is whether the problems of Italy and the tremors in **financial markets**signal another crisis.

Bernd Meyer, chief strategist for wealth and asset management at Berenberg, pointed out that prices for tech stocks or real estate were not at the extreme levels that preceded past meltdowns.

During a meeting with reporters Tuesday, Mr. Meyer argued that market pressure on Italy will eventually force the government to relent on its spending plans. But, he added, "they will only back down when they are staring into the abyss."

Others are less sanguine about the eurozone's prospects. Nicola Nobile, lead economist at Oxford Economics, a consulting firm, noted that the European Commission's survey of economic sentiment also slipped Tuesday, though it remains well above crisis levels.

"Recent surveys," Mr. Nobile said in a note to clients, "are painting a rather bleak picture of eurozone growth."

Liz Alderman contributed reporting from Paris.

PHOTO: A sweater factory in Solomeo, Italy. The nation's economy is flat. (PHOTOGRAPH BY NADIA SHIRA COHEN FOR THE NEW YORK TIMES)

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business

The Number 7 Could Make China's Currency a Trade-War Weapon

By KEITH BRADSHER

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BEIJING — As the United States and China swap threats and mete out increasingly punishing tariffs, the world is watching to see whether Beijing turns to one of its most potent economic weapons. It involves the number 7.

China's currency, the renminbi, has been gradually losing value since mid-April, and on Tuesday it was at its weakest point in a decade. If the currency weakens any further, it could fall below the psychologically important level of 7 renminbi to the dollar. The last time it took more than 7 renminbi to buy a dollar was in May 2008, as the world was slipping into a financial crisis.

The Trump administration doesn't like the idea of a weaker Chinese currency. That could give what it considers an unfair advantage to China's exporters. In the arsenal of trade disputes, currencies can be potent weapons.

But China has good reason to keep its currency from weakening, and it appears to have acted in recent weeks to prop it up. Currencies may be potent weapons, but they are blunt ones — and they can boomerang against those who use them.

What happens if the renminbi falls past 7 to the dollar?

There is nothing particularly threatening about the number 7 itself. The renminbi at 7.002 to the dollar is pretty similar to the currency at 6.998 to the dollar.

But passing that number would be significant symbolically. It would suggest China is prepared to let its currency weaken further still. That would give China's factory owners an advantage when they sell their goods in the United States. It would also undermine the tariffs the Trump administration has levied on more than $250 billion in Chinese-made products.

How would that help China?

Say you own a Chinese factory making lawn ornaments, and you sell a lot of pink flamingos to an American retailer. You price each at $1 — they may sell for far more in the United States, but shipping and storage account for most of that. When the renminbi is 6 to the dollar, that translates to 6 renminbi in sales.

But when the currency depreciates to 7 to the dollar, that $1 flamingo is worth 7 renminbi in sales to you. Or you can cut the price — say, from $1 to 85.7 cents — and still make your original 6 renminbi in sales. Your American competitor, who has to buy and sell in dollars, has to grudgingly cut prices to compete.

(It's a lot more complicated in the real world. The plastic and metal for the plastic flamingo may have been imported to China and are priced in dollars. But bear with us.)

A weaker currency can also help Chinese exporters beat President Trump's tariffs. Right now, the United States imposes tariffs of about 10 percent on a wide variety of Chinese goods that arrive at an American port. If the renminbi has fallen 10 percent, the tariff is basically nullified.

What's driving the decline?

Some politicians in the United States and elsewhere have long said that China manipulates its currency, even though Washington officials — including in the Trump administration — have stopped short of official accusations. But in this case, many of the forces weakening the currency are beyond Beijing's immediate control.

China's financial system is firmly controlled by the government, giving the country's leaders a great degree of control over how much the renminbi is worth. Officials set a daily benchmark rate for the renminbi and allow its value to move a smidgen above or below that level in currency markets. Chinese officials say each day's trading activity helps determine the value they set for the renminbi the next day, but they disclose few details about how that works.

On Tuesday, Beijing set that guidepost at 6.9574, just a hair's breadth stronger than 7. In the world of foreign exchange, a higher number means a weaker currency.

Right now, traders are sending Beijing a single message: The renminbi should be worth less. The people and companies that hold the currency have become increasingly nervous about China's slowing economic growth, slumping **stock market**, fragile real estate market and seemingly intractable trade war with the United States. Inflation has begun to tick upward, and rising prices tend to make holding the relevant currency less attractive.

There are other reasons. Since late July, Beijing has tried to prop up the economy by having the state-controlled banking sector increase lending, making money more available. That means even more renminbi sloshing around, weakening the currency's value.

While China hasn't raised interest rates, the Federal Reserve in Washington has. That makes it attractive for many people to sell their renminbi and buy dollars. Would you rather have a one-year renminbi certificate of deposit that pays 1.5 percent interest now, or a one-year dollar C.D. that pays out 2.6 percent or more?

Is the drop deliberate on Beijing's part?

Not quite. If anything, Beijing is trying to keep the renminbi from falling too fast.

China has a number of ways to bolster the currency's value. One option is to follow the Fed's example and raise interest rates. That would give Chinese families and companies more incentive to keep their money in China. But that would raise the cost of borrowing in China, just as the economy is slowing.

Beijing could buy up its own currency instead. Like anything else, the renminbi's value rises when it is scarcer.

Thanks to the way it has managed its currency over the years, China has amassed the world's largest foreign exchange reserves — a $3 trillion stash of money it keeps in dollars, euros, pounds, yen and other currencies. It has begun to tap that stash. When China's central bank released its monthly balance sheet a week ago, it showed a drop of almost $20 billion in foreign currency just during September.

"Selling almost $20 billion in a month won't break the bank," said Brad W. Setser, an economist at the Council on Foreign Relations in New York. "But it does indicate the direction of current market pressure."

What are the broader risks?

Three years ago, as its economy slowed, China devalued the renminbi in part to give its factories a helping hand. The financial world was shocked. Markets plunged.

As Chinese officials hurried to explain themselves, people and companies began shifting their money — money that China's economy needed — outside the country. A year later, China had spent more than $500 billion from its reserves in an effort to shore up the renminbi. It later tightened controls on the financial system to shut off many ways people used to get money out of the country.

Should the trade war intensify, China may look to make more aggressive moves with its currency. But as history shows, there can be a price to pay.

Follow Keith Bradsher on Twitter: @KeithBradsher.

DRAWING (B1); CHART: China Is Flirting With 7 Again: Renminbi per dollar (Sources: People's Bank of China, via CEIC Data) (B2)

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