THE WALL STREET JOURNAL.
U.S. EDITION

Streetwise: A Muted Buy Signal For Europe Stocks

By James Mackintosh
781 words
9 May 2017
The Wall Street Journal
J
B1
English

There is a tendency for British and American investors to look down their noses at France. The bureaucracy, 35-hour workweek, aggressive trade unions, pushy farmers and protection of national champions -- even in yogurt -- attract derision, and the country is often held up as among Europe's most resistant to change.

France has problems, part of the reason for one-third of votes for president going to far-right nationalist Marine Le Pen.

But France has a lot going for it economically. It is rich, educated and highly productive. Output per person is the same as in the U.K. (adjusted for purchasing power), despite having an unemployment rate more than twice as high.

Workers in France are far more productive, allowing them both to work less and produce more than British workers.

Those who laugh at the 35-hour week tend to forget both that it is only the basis before paid overtime kicks in, and that the average worked in the U.S. is even lower, with last week's nonfarm-payrolls report showing private workers put in 34.4 hours.

Even French growth hasn't been that bad. Since 1980, Thatcherite reforms have given Britain the fastest growth in output per head of the Group of Seven leading nations, but from 1980 to 2006 France grew almost exactly in line with Germany, Italy and Canada. Since then, Italy has become poorer, Germany a lot richer, while France and Canada have both put in slow growth.

France needs reform. Her young people are frustrated, with pre-election polls showing far more support for Ms. Le Pen among youth than among older voters, a demographic reversal of the Brexit and Donald Trump votes with which her populist National Front is often grouped. The labor market needs shaking up so it can create more jobs for young workers. Corporate taxes are high, too, deterring both job creation and entrepreneurs. But France is hardly the only country with that problem.

President-elect Emmanuel Macron is acutely aware of the challenge, but still needs to win a mandate for reform in parliamentary elections next month.

The presidential election was fought mainly as a battle between an inward-looking nationalist viewpoint and an outward-looking embrace of Europe.

For investors, Mr. Macron's victory matters mostly because of who he isn't. For the next five years, there is no risk of France quitting the euro, taking away much of the risk priced into French bonds in the buildup to the election.

Mr. Macron's plans for mild reforms in France are hard to get excited about, even if they survive the traditional French test of violent street protests.

More relevant now is that investors can stop worrying about "Frexit," a French exit from the euro, and focus on the European economy.

The eurozone economy has grown a little faster than the U.S. since the end of 2014, and in the first quarter expanded twice as fast. Unemployment is still high, at 9.5%, but it is the lowest in eight years.

Equally, core inflation is still only 1.2%, but is the closest it has been to the European Central Bank's 2% target in four years.

Even as the U.S. has lost momentum, European data continue to beat forecasts at close to the highest rate since the first Greek bailout in 2010, according to Citigroup's economic surprise index.

The ECB remains dovish, but it is widely expected soon to signal a retreat from its controversial policies of buying bonds and holding interest rates below zero.

Investors appear finally to have accepted that European growth has taken hold, so a move away from negative rates should help bank stocks, and do little harm to other equities.

However good the data, it is hard to get truly excited about Europe.

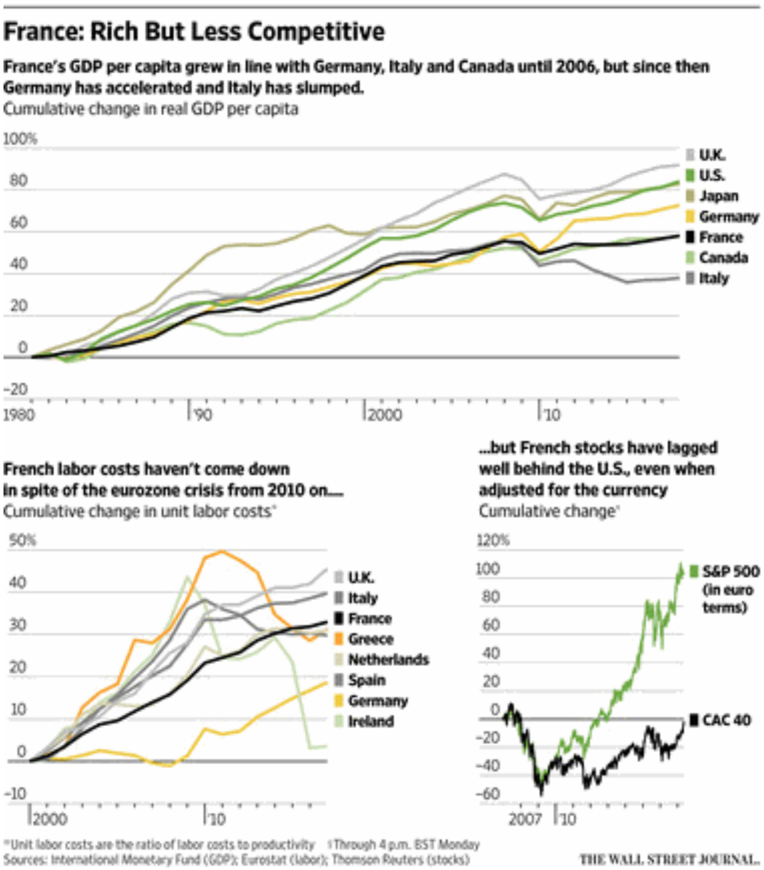
Investors have been hit too many times by political ructions and surprise bank failures in the past seven years to be entirely calm. Italy's populist 5 Star Movement is neck and neck with the ruling Democratic party, so the Italian election next year will test nerves.

Outside the banks, stocks aren't particularly cheap, either.

French stocks are up 11% this year even after a pullback on Monday, or 16% in dollar terms, compared with a 7.2% gain for the **S&P 500**.

Mr. Macron's victory is good news for investors, Europe is recovering perfectly well and investors ought to have some exposure to the region.

Like Mr. Macron's voters, it is hard to be any more enthusiastic.



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Document J000000020170509ed590001v

U.S. EDITION

Investor Anxiety Drops to New Low

By Gunjan Banerji
912 words
9 May 2017
The Wall Street Journal
J
A1
English

Investors are as sanguine about the **stock market** as they have been in almost a quarter of a century, according to one indicator, despite months of global political turmoil, showing comfort in strong corporate earnings and signs that the jobs market is humming.

Sunday's election in France of centrist candidate Emmanuel Macron as president over far-right rival Marine Le Pen helped remove a major market overhang and gave investors confidence that stocks are unlikely to face a big selloff anytime soon.

The relative calm drove a widely watched measure of anxiety, the CBOE**Volatility** Index, or VIX, to its lowest level since 1993 on Monday. On Friday, the **S&P 500** and **Nasdaq Composite** both hit new highs and were little changed Monday.

"People are not worried about a market selloff," said Randy Swan, chief executive officer of Swan Global Investments, which manages $4.2 billion in options-based strategies. "I think the market's going to go higher over the next several months," he said.

Still, some investors interpret the VIX's decline as a contrary indicator of where the market will go. Their view is that the VIX's slumber-- it has been stuck below its long-term average for months -- suggests investors have grown too complacent. And some say investors are turning to other financial instruments to protect against a downdraft in stocks.

Former Federal Reserve Gov. Kevin Warsh warned Monday at the Sohn Investment Conference that market risks haven't vanished. "I would not take comfort; I would take fear," he said of the VIX's low level.

The VIX, which typically moves opposite from stocks, fell to 9.77 Monday, the lowest close since Dec. 27, 1993, according to The Wall Street Journal's Market Data Group. The index at one point Monday dropped as low as 9.67.

The VIX is based on prices of bets on the benchmark **S&P 500 index**, known as options contracts. It is designed to measure investor expectations for market turbulence one month in the future, and it is used to hedge against **bullish** wagers on stocks.

Since the financial crisis, during which the VIX reached a record 80.86 in November 2008, it has become one of the most widely watched and used financial tools on Wall Street. More than 40 exchange-traded products track the VIX with more than $3.7 billion in assets under management, according to Goldman Sachs Group Inc., and futures and options on the gauge have exploded in popularity.

The most conventional way to interpret the VIX's recent moves is that, despite questions about whether President Donald Trump will be able to boost growth, investors are turning more optimistic about the American economy. Recent events have helped: U.S. companies reported their best quarterly profits in five years, and a report this month showed the economy added 211,000 jobs in April, surpassing projections.

Geopolitical concerns have also eased, after last year when Britain's vote to exit from the European Union and Mr. Trump's election as U.S. president rattled investors about the rise of populist sentiment. Mr. Macron's victory in France on Sunday helped to fuel the VIX's decline Monday, investors said.

Uncertainty remains as to whether the Trump administration can overhaul taxes and deliver on other campaign promises. But, investors say, the calendar is free of major events in the near term that could cause a dramatic market selloff.

Kevin Kelly, chief investment officer of investment-management firm Recon Capital, said in an interview that he received calls, texts and emails last week from people asking him if the VIX's low signaled the market was due for a selloff. "Everybody is astonished," Mr. Kelly said.

Yet, he noted, one of investors' biggest misconceptions is that the VIX can indicate the market's next direction. "It's absolutely not the perfect insurance," Mr. Kelly said.

Some investors are hedging in other ways besides **S&P 500** options that drive the VIX. One reason, they say: Betting that the VIX will rise has been a money loser for months.

One large exchange-traded product tracking futures contracts on the VIX has lost 45% this year. Conversely, an exchange-traded product betting that **volatility** will fall has been a winner, gaining 69% in 2017.

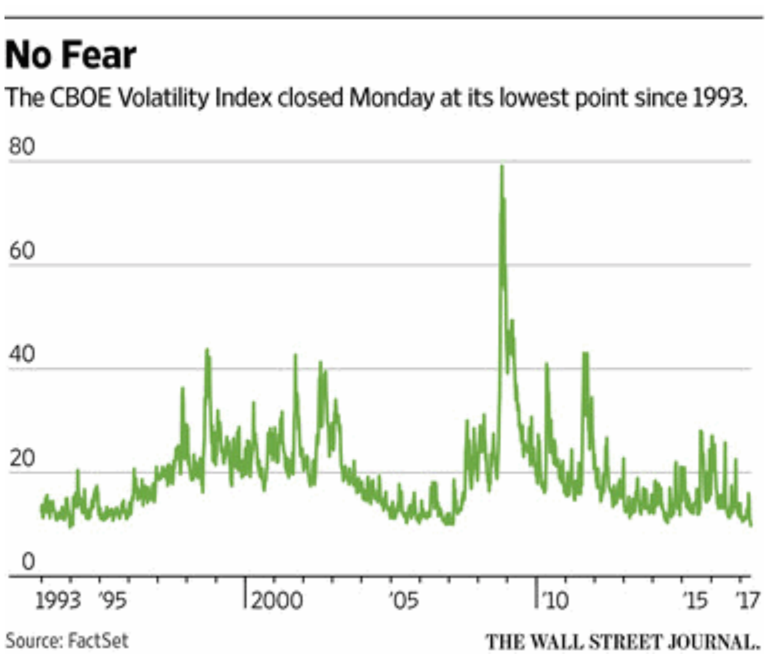
In a sign of how extreme the VIX's slide has been, its decline this month to a level below 10 prompted the Chicago Board Options Exchange, which manages the VIX, to add additional strike prices to VIX options -- the value at which investors can exercise the options. Now, investors can wager with options that the VIX will fall to 9 or 9.5, according to a CBOE spokeswoman.

Monday was yet another example of how the VIX isn't behaving as investors traditionally expected it to -- moving opposite to stocks. Stocks were little changed Monday, yet the VIX had a big move down.

When investors benefit from the **stock market** going up, they are less concerned about their hedge not paying off, said Russell Rhoads, director of education at CBOE.

Prolonged periods of low **volatility**, like the one the market is in, can be the "calm before the storm," said Gerald Lucas, senior trading strategist at UBS Wealth Management. "But the calm can last a long time," he added.

Chris Dieterich contributed to this article.



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THE WALL STREET JOURNAL.
U.S. EDITION

Investing in Funds & ETFs: A Monthly Analysis --- Portfolio Strategy: A Closer Look at a Popular Fund for Yield --- Franklin Income Fund has been hard to judge, but now we can try to with ETFs

By John Coumarianos
874 words
8 May 2017
The Wall Street Journal
J
R8
English

Some mutual funds are harder to judge than others because they have no obvious benchmark to measure them against. But we found a way to evaluate the performance of one such fund, the $80 billion Franklin Income Fund (FKINX), by creating a portfolio of exchange-traded funds to act as a benchmark.

The result: The Franklin fund falls short of the benchmark's returns.

The nearly 70-year-old Franklin Income fund hasn't had a clear benchmark for all those years because most of its investments are in five different asset classes -- domestic and foreign dividend-paying stocks, investment-grade bonds, high-yield (or junk) bonds and convertible bonds -- to generate current income and capital appreciation. The picture is even muddier because the asset mix can shift dramatically over time, and some of the convertibles can be "synthetic" -- swaps that give the fund an enhanced yield on a common stock in exchange for forgoing some potential price appreciation but accepting all potential depreciation.

To judge the fund, we compared it with a portfolio of ETFs that mimics the long-term average of the fund's asset weightings. We lumped convertible bonds, synthetic or not, into the high-yield category and boosted the investment-grade corporate bond allocation slightly in lieu of the fund's holdings of small amounts of cash and miscellaneous securities.

Our portfolio consisted of the iShares iBoxx $ High Yield Corporate Bond ETF (HYG), at 54% of assets; the iShares Select Dividend ETF (DVY) at 30% of assets; the iShares International Select Dividend ETF (IDV) at 10%; and the iShares iBoxx $ Investment Grade Corporate Bond ETF (LQD) at 6%.

Fund sponsor Franklin Templeton Investments said, "The Franklin Income Fund has consistently delivered both a strong uninterrupted income stream and long-term growth to investors for over 65 years. A makeshift combination of passive ETFs, selected with the benefit of hindsight, may be able to mimic the total returns of our fund over a specific time period, but it doesn't deliver a comparable income stream in terms of either consistency (monthly) or level (distribution yield), which is the fundamental objective of this actively managed fund. Therefore these ETFs, in isolation, cannot be used as an effective benchmark."

We tested the performance of the Franklin Income fund and our portfolio over nine years (37 quarters), starting in 2008 and ending March 31, 2017. We chose this time frame instead of 10 years because some of the ETFs we thought mimicked the fund best didn't have longer histories. We rebalanced our ETF portfolio annually, although Franklin manages the fund's asset-class weightings more opportunistically.

For the 37 quarters through the end of March 2017, the Franklin Income fund produced a 5.45% total annualized return, while our ETF portfolio produced a 6.21% total annualized return, according to data from fund researcher Morningstar.

A $10,000 investment on Jan. 1, 2008, became $16,355 in Franklin Income on March 31, 2017, and $17,460 in the ETF portfolio, not including taxes for the fund or the ETFs.

Franklin Income dropped 31% in 2008 versus a 24% loss for the ETF portfolio, and 7.8% in 2015 versus a 4.5% loss for the ETF portfolio. But, despite those bigger calendar-year losses, Franklin Income's standard deviation of returns for the period -- a measure of **volatility** -- was 12.4% for the entire period versus 12.5% for the ETF portfolio.

While Franklin Income aims to deliver superior income, the total-return approach is valid because emphasizing income only can be myopic if principal is fluctuating.

Still, with data from Bloomberg, we managed to separate the fund's and the ETF portfolio's total returns from their price changes over the 37-quarter period, giving us the portion of the returns representing distributions. The fund delivered a 72% cumulative total return from distributions; for the ETFs, a 69% cumulative total return from distributions. Distributions include both income and capital gains (or losses), so they aren't a perfect measure of income. But one can infer that the income profiles of Franklin Income and the ETF portfolio are at least similar.

One reason Franklin Income's overall total return has underperformed the ETF portfolio is because of the fund's 0.61% expense ratio. The ETF portfolio would cost investors 0.45% annually.

However, that 0.16 percentage point difference doesn't account for all of the 0.76 percentage point difference in annualized return.

It would require some effort and discipline for investors to rebalance a four-fund portfolio annually. But Franklin Income has provided its parent with more than $4 billion in revenue over the past decade, based on annual total net-asset statistics provided by Morningstar. Now that ETFs are available to track its underlying asset classes, investors can better gauge its performance.

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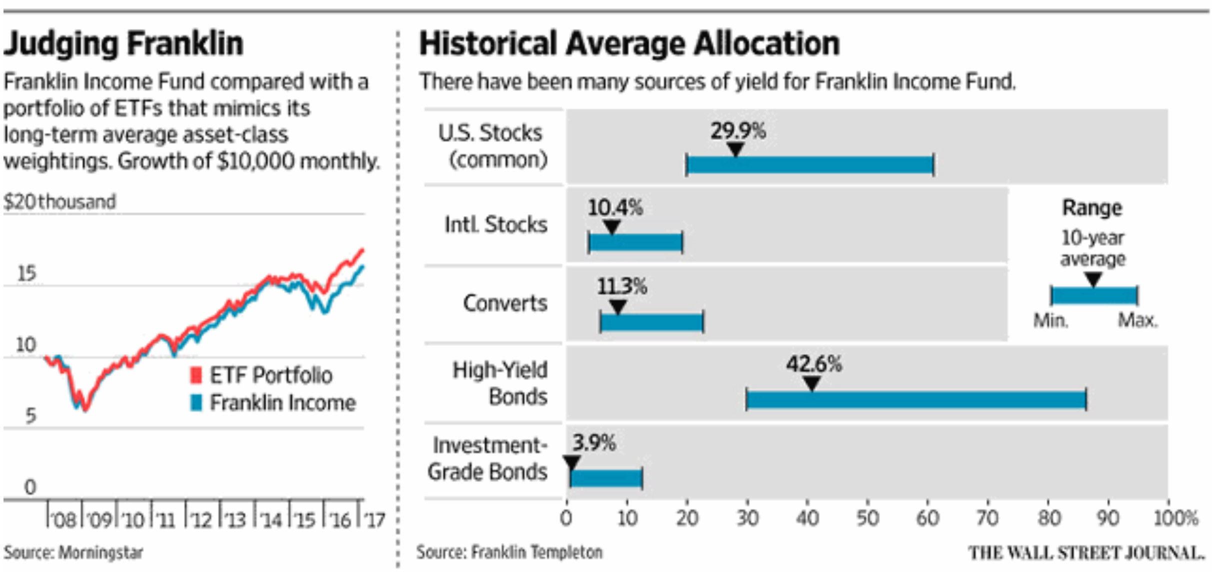

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Document J000000020170508ed5800006

THE WALL STREET JOURNAL.
U.S. EDITION

Investing in Funds & ETFs: A Monthly Analysis --- 6 Questions for Bond Investors: As interest rates rise, finding the right fixed-income strategy is crucial

By Michael A. Pollock
1,361 words
8 May 2017
The Wall Street Journal
J
R1
English

The Federal Reserve is raising interest rates, and there are several questions that savers and bond investors would like answered.

For example, to be blunt: Is my savings account going to pay any worthwhile interest at some point?! (The answer: probably not soon. But there are alternatives.)

If this all sounds familiar, it should: Many bond-market strategists had expected bond yields would be a lot higher by this point in the economic recovery, perhaps even making a savings account desirable. But a climb in rates seems to be getting closer.

With inflation ticking higher, the Fed now anticipates lifting short-term rates more rapidly. Officials also are discussing winding down the Fed's huge bond portfolio, accumulated during the recession to damp yields. Such a move would eliminate a major source of demand for government bonds, whose prices fall as yields rise.

And meanwhile, Washington lawmakers are talking about tax cuts and infrastructure spending that could stoke growth and lift inflation.

Amid such developments, "you need to be really careful about how you invest the fixed-income part of your portfolio," says Terri Spath, chief investment officer at Sierra Investment Management in Santa Monica, Calif.

She and others say there are some smarter ways to play this: Avoid putting any cash that might be needed soon into bonds. Keep additional funds around to invest later, at potentially higher rates. Dial back on rate-sensitive holdings, and further limit risk by owning a range of U.S. and foreign bonds.

Here are six questions for savers and those who own bonds or are considering buying them:

1. What risks do rising rates pose for bonds now?

One threat is to short-maturity bond funds and exchange-traded funds, which some investors may think are immune to rate risk. These commonly have average maturities of around two years and aim to generate 1% to 2% in annualized yield.

After raising rates twice since last fall, Fed officials expect to boost rates another five or six times by the end of 2018, lifting the Federal Reserve's rate target to around 2.25%-2.5% from about 1% now.

Bond yields move the opposite way as prices. Although short-term funds are less affected by yield changes than those that own longer maturities, many have a rate sensitivity of around two. If yields rose by one percentage point, that would result in a 2% decline in principal value -- more than an investor would get back in interest paid by such a fund.

"If you are an investor who really can't stomach any losses, you should be in a money-market fund" where principal value would remain steady, says Emory Zink, analyst at fund-trackers Morningstar Inc.

2. Where can investors get reasonable returns on cash?

Although short-term rates are rising, banks -- not the market -- decide what rate of interest they will pay on savings. The national average rate today is just 0.08%, and banks will raise rates slowly since doing so will boost their profitability.

Some money-market funds yield closer to 1%. Their yields will rise gradually, though lagging behind the Fed's rate increases.

For the best combination of yield and safety, investors might consider putting money into a high-yielding, federally insured bank savings account, says Bankrate.com chief financial analyst Greg McBride. Such accounts are offered by virtual institutions that are courting depositors. Two such banks, Goldman Sachs Group Inc.'s GS Bank and the CIT Bank unit of CIT Group, are advertising rates above 1%.

3. Which bonds offer some protection against rising rates?

One way to diversify against U.S. rate risk is with bonds issued in other countries whose rate cycles aren't in sync with that in the U.S. Raman Srivastava, managing director for global fixed income at Standish Mellon Asset Management Co., cites emerging-markets bonds as among "the more compelling opportunities" after investors fled such bonds several years ago. Yields can top 5%, offering a bigger offset to the impact of rising yields.

Moving lower on the U.S. credit ladder is another solution. High-yield bonds (or junk bonds) issued by companies with weaker credit ratings can yield more than 6%.

But be cautious about loading up on such securities to the exclusion of higher-quality bonds. While higher-yielding bonds are less vulnerable to rising yields, they are very sensitive to worries about defaults and can be **volatile**, notes Scott Kimball, portfolio manager of BMO TCH Core Plus Bond Fund (BATCX). In 2015, he says, some high-yield bonds issued by energy companies plunged in price during the oil-market swoon.

4. How can investors lock in better income as rates rise?

Traditionally investors did that by building a ladder of bonds having sequential maturities. As the nearest matured, the proceeds were reinvested in a new bond due to mature several years later, when the investor hoped to reinvest at an even higher yield.

Alternatively, an investor could build a ladder with defined-maturity bond ETFs, says David Berman, chief executive of Baltimore-based wealth manager Berman McAleer. Unlike conventional bond ETFs, which periodically buy new bonds to replace maturing ones, defined-maturity ETFs own bonds with closely bunched maturities. After all the bonds mature, the ETF repays principal and interest.

Mr. Berman uses Guggenheim BulletShares ETFs, which are available in either investment-grade or high-yield corporate versions. BlackRock's iShares unit offers defined-maturity ETFs that own taxable corporate bonds or tax-exempt municipal bonds.

5. What are the alternatives to fixed-rate bond funds?

Floating-rate funds -- sometimes called senior-loan or bank-loan funds -- can be a good defensive play when rates are rising.

Such funds own loans made by banks to companies with lower credit ratings and yield 4% or more. The rates on the loans periodically adjust up or down, based on changes in a benchmark index such as the London interbank offered rate, or Libor, so a fund's yield moves higher as rates rise.

One concern is that surging demand for such funds is enabling companies now to get much more lenient borrowing terms, says Frank Ossino, who oversees Virtus Senior Floating Rate Fund (PSFRX) at Newfleet Asset Management, in Hartford, Conn. Mr. Ossino cautions that another downturn eventually could spark defaults on lower-grade loans, denting a fund's returns. Funds that yield more than peers may own a larger percentage of such loans, he says.

Among senior loan funds that Morningstar rates highly are Eaton Vance Floating-Rate (EVBLX), Lord Abbett Floating Rate (LFRAX) and Fidelity Floating Rate High Income (FFRHX).

6. Are mutual funds or ETFs better at this point in the cycle?

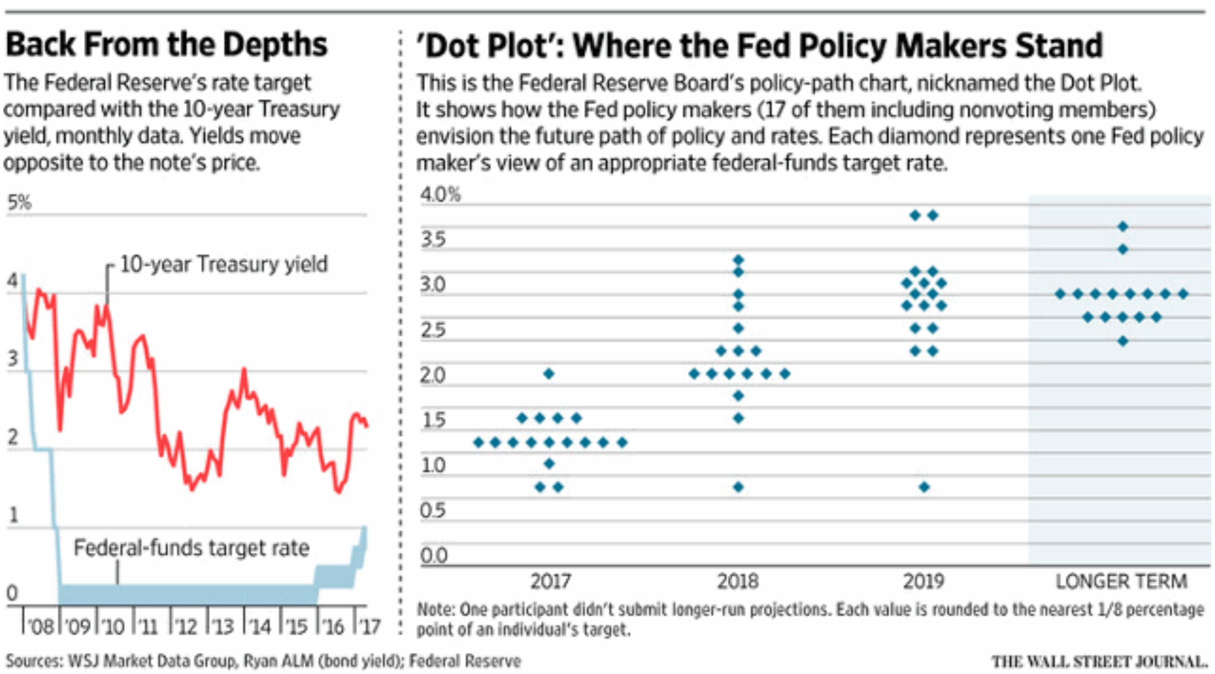
Active managers can reposition a portfolio to trim rate risk, moving to bonds that are less rate-sensitive. But ETFs may be a good choice because they charge much lower management fees -- a benefit at times when bond returns are slim by historic standards.

Still, people who plan to buy an ETF need to understand what they are getting, says Josh Jalinski, an adviser in Toms River, N.J. ETFs that focus on certain narrower sectors, such as iShares 20+ Year Treasury Bond ETF (TLT), can be **volatile**, posing more risk of mistiming a purchase or sale, he says.

Some ETFs hedge against rising rates. They include WisdomTree Barclays Interest Rate Hedged U.S. Aggregate Bond Fund (AGZD), which yields about 2%, and Deutsche X-trackers Investment Grade Bond Interest Rate Hedged ETF (IGIH), which recently yielded about 3 1/4%.

Hedged funds outperform when rates rise, but may underperform when rates are falling, says Todd Rosenbluth, director of ETF and mutual-fund research at CFRA, a New York-based provider of investment research. "By hedging, you protect against something, but also you can miss something," he says.

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



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THE WALL STREET JOURNAL.
U.S. EDITION

Market Fuels an IPO Push But Biggest Names Hold Off

By Corrie Driebusch and Maureen Farrell
971 words
8 May 2017
The Wall Street Journal
J
A1
English

A soaring **stock market**, historically low **volatility** and a rally in technology stocks has fueled a rebound in the market for initial public offerings. But the biggest, highest-profile startups are still hanging back, reflecting broader concerns about whether they can match the rich valuations offered by private investors.

A slew of companies are preparing to go public later this year, as the volume of new listings reaches levels not seen since 2014. U.S.-listed IPOs raised more than $18 billion in the first four months of the year, more than four times as much as in the same period last year and nearly double the comparable 2015 total, according to Dealogic.

Among the companies preparing for IPOs, according to people familiar with the matter, are MongoDB Inc., which has hired Goldman Sachs Group Inc. and Morgan Stanley to lead an offering that's expected to value the data-analytics provider at more than its last valuation of $1.6 billion; Switch Ltd., an operator of data-storage facilities that recently hired Goldman and J.P. Morgan Chase & Co. for a debut that's expected to carry a valuation of more than $2 billion; and Axiom Global Inc., a tech-based legal-services provider that recently held a bakeoff for potential underwriters.

Altice USA filed paperwork last month for an offering that could raise more than $1 billion and value the Cablevision owner at more than $20 billion.

"It feels like some companies are rushing to go because there's a window in the market," said Jim Callinan, portfolio manager at Osterweis Capital Management in San Francisco.

Yet the market still has a long way to go to return to full health. Conspicuously missing from the current IPO pipeline are some of the highest-profile private companies, such as Uber Technologies Inc. and Airbnb Inc., which aren't expected to come to market before 2018. Several investment bankers say there have been fewer bakeoffs than they'd expect given the favorable market conditions.

Shares of newly public companies are performing well, with this year's batch of IPOs trading 11% above their offering price on average through Friday's close, according to Dealogic. Last year's batch of IPOs have gained an average of 29%, Dealogic data shows.

The flurry of activity is a sign the new-issue market that's languished in recent years may be in the midst of a sustained rebound. Snap Inc. successfully debuted in March at a valuation of $24 billion, far above the Snapchat parent's latest private funding round. Although the shares have fallen from their highs, they still trade well above the price at which they were first offered to the public.

It's a change from much of last year and late 2015, when investors and corporate boards stepped back from the IPO market, wary that the **stock market** would value their companies at less than prior fundraising rounds. That fear still permeates private-company boards, bankers, investors and analysts say. And together with cheap funding that's widely available for private companies, it helps explain why many richly valued startups and others aren't rushing to go public.

"The good news is we have an IPO market," said Matthew Sperling, a managing director who runs the equity advisory business at Rothschild & Co. "But issuers and owners are looking at it with a measured level of enthusiasm."

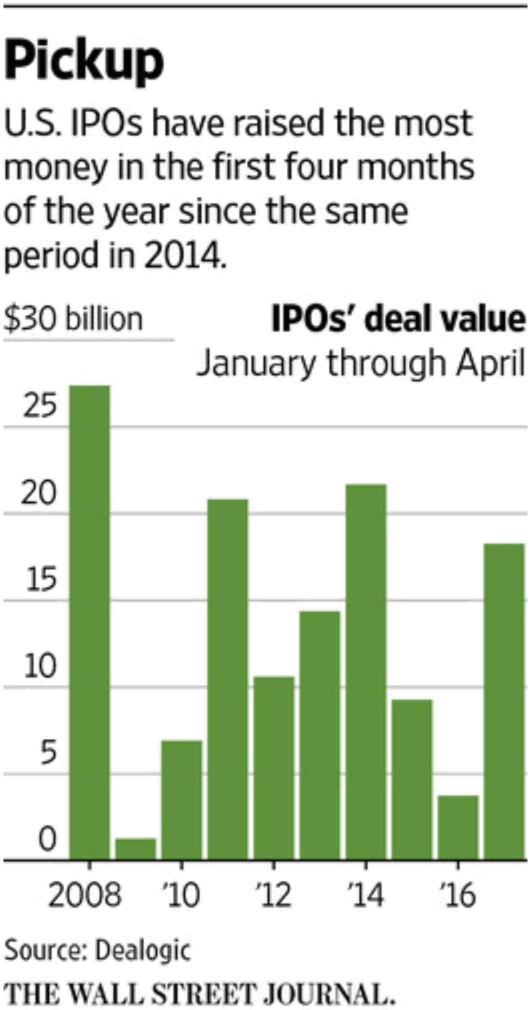
Cloudera Inc. stoked those concerns last month when the big-data software startup debuted at a level far below its last private valuation of more than $4 billion. Meanwhile, shares of Twilio Inc., a software company that went public last June, fell 27% last week on the back of soft first-quarter results. Still, the company remains valued at more than $2 billion, well above its last private round.

So far the IPOs that have debuted "have been priced to sell, but once investors get a taste of success, the companies that come next don't have to offer quite as much of a discount," said Scott Sandell, a managing general partner at venture-capital firm New Enterprise Associates. He added that he expects a robust pipeline for IPOs in the balance of the year, but warned that some companies could still get scooped up by corporate buyers who are sitting on piles of cash and seeking new growth opportunities in a sluggish economy.

Indeed, some investors and underwriters say there's concern that the public markets are being used as a last resort. Some of the companies debuting have tried to sell themselves and failed. It's symptomatic of a decadeslong trend that's seen the total number of public companies in the U.S. decline sharply as more entrepreneurs and others choose to avoid the increased disclosure and other perceived drawbacks of broad ownership.

One of the most closely watched private companies, shared-office-space provider WeWork Cos., is soon expected to close on a new round of private funding in excess of $3 billion -- more than any U.S.-listed IPO has raised this year and last, other than Snap. The investment will likely keep WeWork from tapping the public markets for more than a year, according to people familiar with its plans.

The likely path for Spotify AB, the music-streaming service last valued at $8.5 billion, is yet another sign of the antipathy some companies have toward raising money in the public markets and the IPO process. Spotify is considering a so-called direct listing of its shares, in which -- unlike in a typical IPO -- the Swedish company wouldn't sell stock and raise capital or use underwriters, The Wall Street Journal has reported.



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THE WALL STREET JOURNAL.
U.S. EDITION

Options Traders Head For Exits

By Gunjan Banerji
887 words
8 May 2017
The Wall Street Journal
J
B1
English

Falling volumes and spiraling costs are pushing trading firms out of U.S. options, raising concerns about fragility in a market that investors rely on to protect portfolios.

Trading has dwindled in most areas of the market, and investors and traders are grappling with increasing fragmentation.

Liquidity has deteriorated, according to interviews with market participants and data reviewed by The Wall Street Journal, making it harder to trade most options without significantly moving prices. Options on key indexes, exchange-traded funds and high-volume stocks dominate trading. but activity has diminished in the rest of the listed U.S. options world.

The stresses, which have made trading riskier and less profitable, prompted at least six prominent options market makers to exit from the business since 2012. Market makers are firms willing to both buy and sell using automated programs.

Thomas Peterffy, a pioneer of electronic options trading, said in March that his firm, Interactive Brokers Group Inc., would pull the plug on options market making. KCG Holdings announced its exit from retail options market making last year, while UBS Group AG and Credit Suisse Group AG have also left automated options market making. J.P. Morgan Chase & Co. and Bank of America Corp. made similar decisions in 2014, according to people familiar with the matter.

"Most market makers congregate in the highly traded products," Mr. Peterffy said in an interview. "It's difficult for a market maker to maintain hundreds of thousands of bids and offers all the time."

It is hard to pinpoint what triggered the trader exodus, but industry experts say as firms leave, liquidity gets further drained, which spurs more market makers to retrench. The dangerous feedback loop could sap appetite for options, key derivative securities that investors use to manage risk in their portfolios.

"We could ill afford to lose any more market makers at this junction," said Alan Grigoletto, who previously worked at the Boston Options Exchange, and now runs Grigoletto Consulting Group while trading options in his retirement account.

Data show the liquidity bifurcation. Index and exchange traded fund options volume rose in April by 28% and 4%, respectively, data from Options Clearing Corp. show. Meanwhile, total equity options volume shrank by 10% from the prior year. While volume isn't an exact equivalent to liquidity, it is easier for the options market to absorb trades when an individual asset trades more.

Ultra-active options include those on the SPDR **S&P 500** Trust ETF, the PowerShares QQQ ETF, Apple Inc. and Facebook Inc. On the flip side, on an average day in March, there was zero options activity on about 1,400 individual equities, ETFs or indexes, data from analytics firm Hanweck Associates show.

Ironically, the options industry's willingness to give users more choices is adding to the overall liquidity problem. Investors can trade options for more hours now, and exchanges have boosted the number of products, introducing wider ranges in both expirations and strikes, the prices at which options can be exercised. But this makes it more challenging for market makers who need to continuously provide quotes across an ever-increasing range.

"The existing pool of liquidity has been stretched thinner and thinner across expirations and strike prices and exchanges," said John Kinahan, chief executive of Group One Trading, an options market maker. "We still post markets on a lot of different exchanges, just not as aggressively as we used to."

One barometer of liquidity is the difference between the price buyers would like to purchase an option for and what sellers are willing to exchange at. The measure, known as the bid-ask spread, has grown by 30% in the past five years and peaked in 2014, according to data from Hanweck, which calculated a weighted average of the spread across quotes on all options.

While options market makers are closing shop, the number of options exchanges has ramped up to 15 from nine just five years ago.

Smaller firms sometimes can't afford fees to connect with multiple exchanges alongside the technology costs necessary to keep trading speeds in line with competitors, said Hazem Dawani, chief executive of OptionsCity Software, a trading systems and analytics provider. Some exchanges also have tiered fee structures that favor bigger firms that trade more.

"We've seen customers pulling out of equity options and trying to trade other products," Mr. Dawani said.

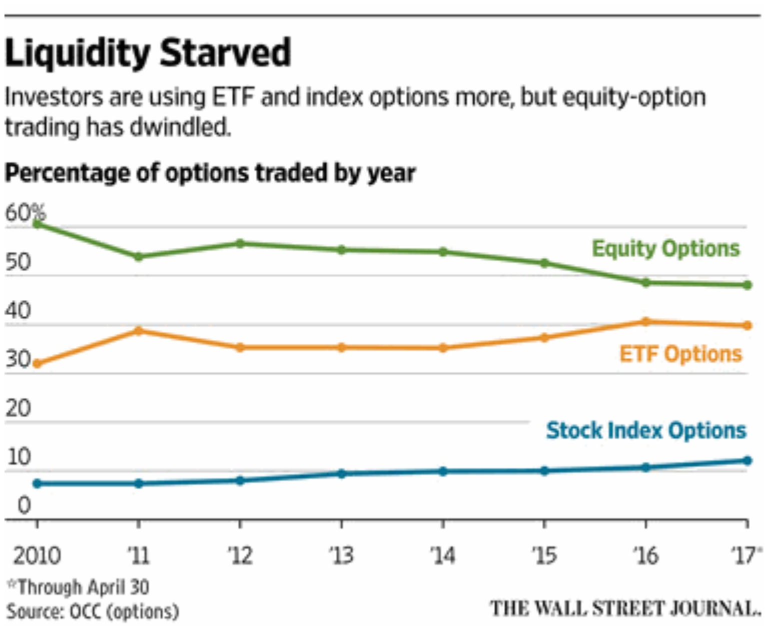
For example, customers are shifting to futures contracts, he said. Options Clearing Corp. data show a 42% increase in futures volume during April.

Mr. Peterffy expressed optimism, saying options are still an "excellent vehicle for traders," and that exchanges will eventually consolidate.

"Right now we are in a transition period," he said. "The broken market structure will be fixed."

A lightning-rod issue in options trading has been auctions designed to provide the best prices for investors by redirecting some retail orders into a separate auction process. They have curtailed market makers' ability to interact with retail orders, giving them less incentive to provide quotes, traders say.

Higher **volatility** could drive volumes and make contracts more expensive, some say. But diminished liquidity signals there is less cushion in the market. A period of severe market stress could scare investors from trading altogether.



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Document J000000020170508ed580002n

THE WALL STREET JOURNAL.
U.S. EDITION

Investing in Funds & ETFs: A Monthly Analysis --- Monthly Monitor: Steady Gains: U.S.-Stock Funds Rose 1% in the Month, Push This Year's Gain to 5.9%

By William Power
373 words
8 May 2017
The Wall Street Journal
J
R2
English

At this pace, mutual-fund investors are going to feel fine about 2017, though not giddy.

The lukewarm economic expansion continues to boost both stock and **bond prices**, and with them, U.S.-stock funds and bond funds. In April, U.S.-stock funds registered a total return of 1%, according to Thomson Reuters Lipper data. That has left stock funds sitting on a 5.9% year-to-date return through April.

They aren't dot-com-mania numbers, but steady enough. For all of 2016, in comparison, stock funds gained 10.8%.

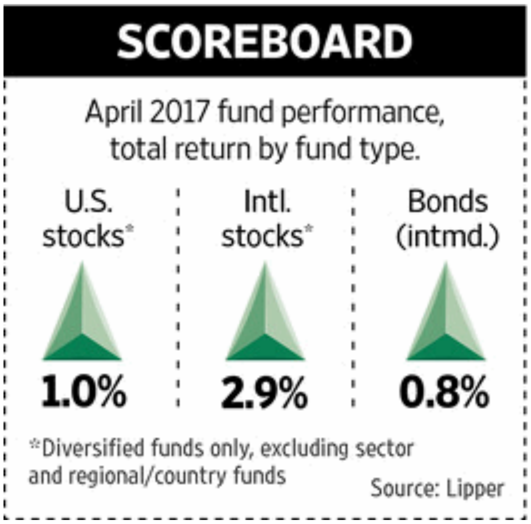
Omar Aguilar, chief investment officer for equities at Charles Schwab Investment Management, says Friday's "pretty good" jobs report was the latest sign that the "overall global economic recovery seems to be pretty stable. The U.S. seems to be on the path to slowly but surely growing."

Investors also continued to warm to international-stock funds in April, as nervousness about political developments in the U.K., France and the Netherlands seemed to recede. Such funds, which meandered to only a 0.7% average gain last year, perked up in April with a 2.9% advance -- putting their year-to-date rise at 11.1%.

The combination through the end of April of stable commodities, a weaker dollar, economic recoveries in developed markets and a rotation toward growth assets helped investors feel comfortable, says Mr. Aguilar. "We saw a lot of interest by our clients in our international products" in April, he says.

However, May has started out a bit differently for commodities, he notes. Prices are down, and there is a pickup in the dollar.

Bond funds also rose modestly in April, though investors are keeping a wary eye on the Federal Reserve. The Fed has left the door open for an interest-rate increase as soon as June. Funds focused on intermediate-maturity, investment-grade debt, the most commonly held type of bond fund, were up 0.8% for the month, and up 1.7% year-to-date.



Document J000000020170508ed580000j

THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News --- THE OUTLOOK: Fiscal Plans Could Fuel Rate Surge

By Josh Zumbrun
847 words
8 May 2017
The Wall Street Journal
J
A2
English

Two of the most powerful economic forces in Washington could be aligning in coming years to put considerable upward pressure on long-term interest rates.

President Donald Trump is flirting with tax and spending plans that could widen the budget deficit, just as the Fed considers plans to shrink its $4.5 trillion portfolio of bond and other holdings. Larger deficits could mean that the supply of U.S. Treasury securities hitting the market rises just as demand for these securities diminishes with the Fed unwinding.

More supply and less demand tends to mean lower prices, and with bonds, lower prices mean higher yields and interest rates. "The bond market is about to get hit all at once," said Stephen Stanley, chief economist of Amherst Pierpont Securities.

This would be a remarkable reversal.

The U.S. deficit exploded during the 2007-09 recession as tax receipts collapsed. In 2009, the deficit topped $1 trillion for the first time in history. It began to narrow but remained over $1 trillion from 2010 to 2012, as tax collections remained depressed from the era of high joblessness, and as President Barack Obama enacted an $800 billion stimulus plan.

During that era of high deficits, demand soared world-wide for the safety of U.S. government bonds. The Treasury also had a big buyer for its debt in the form of the Fed, which began purchasing billions of dollars a month worth of Treasury securities in March 2009, under the program that became known as "quantitative easing," or QE.

Though not intended to finance the deficit, the Fed's first QE program sucked in $300 billion of Treasury debt. The second program, launched in 2010, added another $600 billion. In the third round of QE, from 2012 to 2014, the Fed added $800 billion more. Deficits eventually started narrowing, thanks to a reduction in crisis-era spending and new caps on spending combined with rising tax revenue.

Now the tide is poised to turn.

The Congressional Budget Office projects deficits will reach $1 trillion again by 2023 under current law. This owes largely to the baby boom generation hitting retirement en masse and claiming Social Security and Medicare benefits. Medicaid and Medicare spending are set to rise to 7.3% of gross domestic product over the next decade, from 5.8% now, according to CBO estimates. Social Security is set to rise to 6% of GDP from 5%. Mr. Trump has said he doesn't plan to alter these entitlements.

Some plans, such as for tax cuts, could widen deficits. The University of Chicago regularly polls leading academic economists on important public policy issues. Asked this month if Mr. Trump's tax plan would pay for itself through higher economic growth, not one respondent thought that it would. Instead, it could force the Treasury to issue significantly more debt.

"Absent offsetting tax increases, it would be a fiscal disaster," said David Autor, a Massachusetts Institute of Technology economist.

One estimate from the Penn Wharton Budget Model, which calculates the effects of tax plans, projects the current version of Mr. Trump's tax plan would raise U.S. debt by 31% more than current policy.

This could all happen at precisely the moment the Fed is getting out of the market. Since its large-scale bond-buying program ended in 2014, the Federal Reserve has continued to buy new Treasury securities when its existing holdings mature.

Fed officials are eager to move away from these crisis-era policies and are considering allowing their bondholdings to mature later this year, without being replaced. That will leave about $400 billion of debt hitting the market as it rolls off the Fed balance sheet, according to a Fed estimate.

"We will have to see the specifics of the Fed's implementation of balance-sheet reduction, but all indications are that they will be very cautious and gradual," said Roberto Perli, a former Fed economist and partner at Cornerstone Macro. "If true, that should reassure markets and reduce the odds of any tantrums."

Treasury Secretary Steven Mnuchin and his staff are already considering how to handle the challenge of raising large amounts of debt.

Last week, the Treasury sought the counsel of its Borrowing Advisory Committee, composed of major Wall Street bond market participants.

The committee cautioned that under plausible scenarios, the Treasury might have to more than double the amount of debt it auctions for 10-year and 30-year bonds.

Right now, the markets seem unperturbed by all of this.

Yields on **10**-**year Treasury** notes, at 2.35%, aren't far from historic lows, held down by a range of forces including low inflation and global demand for safe assets.

Most forecasters have long expected rates to rise, and been embarrassed by those forecasts when interest rates stayed stuck in a rut.

But the market risks becoming complacent about the idea that the old logic of low rates will last forever.

Document J000000020170508ed580001i

THE WALL STREET JOURNAL.
U.S. EDITION

Investing in Funds & ETFs: A Monthly Analysis --- Money Management: Some Stock Pickers Pick a Political Party, Too

By Jeff Brown
544 words
8 May 2017
The Wall Street Journal
J
R12
English

Mutual-fund managers are paid to ferret out the best stocks with hardheaded analysis. But a new study suggests that their judgment can be clouded by politics.

A paper by University of Kansas researchers finds that fund managers are more inclined to buy shares in companies where a preponderance of board members and executives share their political views, and that this bias undercuts the funds' returns.

"Funds with more partisan bias suffer from higher levels of idiosyncratic **volatility** than those with less bias," the researchers say in their study. "Partisan bias is more evident when the fund manager is less experienced, in firms with more opaque information environments, and when the president of the U.S. comes from the fund manager's own party."

The authors, Associate Professor Jide Wintoki and graduate student Yaoyi Xi, looked at 1,298 actively managed mutual funds' holdings in 16,655 U.S. stocks from 2000 to 2015, and determined political affiliations by looking at contribution records of fund managers and of top executives at the firms they invested in.

The research found that "the typical share of total net assets invested in Republican-leaning firms by Republican-leaning managers is about 8% higher than that invested by Democratic-leaning fund managers [in Republican-leaning firms]," though there should be no difference if bias were not at play.

"In contrast," the study says, "the typical share of total net assets invested in Democratic-leaning firms by Republican-leaning managers is about 3% lower than that invested by Democratic-leaning fund managers." Overall, the study says, managers invest 7% more of their assets in companies with a preponderance of leaders who share their political leanings.

Managers' stock picks should be free of issues unrelated to stock performance, the authors write. Bias related to political views could reflect "in-group favoritism," with people believing others of like views "are superior to outsiders," their study says. Or it could mean that fund managers have better access, professionally and socially, to executives of like political views, and thus obtain better information. But if that were the case, political bias would improve fund performance, and the authors found that it did the opposite. Favoritism, rather than better information, therefore explains the biased investments, they conclude.

In an email response to questions, the authors say, "It was a bit of a surprise that such biases may affect the decisions of managers that are paid, at least in part, to avoid such personal bias in their portfolio allocation."

They say their results also add weight to arguments favoring passive, index-style investing over actively managed funds. Index-fund managers simply buy stocks in the underlying index like the **S&P 500** and thus do not have the opportunity to let political bias influence their picks.

"These [bias effects] are costs that investors do not face when investing in passive funds, and may be another one of the many reasons for investors to carefully think about investing in actively managed funds," they say.

Mr. Brown is a writer in Livingston, Mont. Email him at reports@wsj.com.

Document J000000020170508ed580000a

THE WALL STREET JOURNAL.
U.S. EDITION

Investing in Funds & ETFs: A Monthly Analysis --- Sector Strategy: Fund Investors Place Big Bets on Infrastructure --- The payoff might be years away, and there are risks, but proponents see the trend on their side

By Bailey McCann
902 words
8 May 2017
The Wall Street Journal
J
R13
English

Emboldened by President Donald Trump's campaign promise of a $1 trillion infrastructure-spending package, investors have plowed more than $460 million into related U.S. mutual funds and exchange-traded funds so far this year, according to data from Morningstar Inc.

At the end of the first quarter, the amount sitting in such funds stood at $16.1 billion, up 12% from a year earlier, though the euphoria has eased as the market begins to digest just how much stands in the way of an infrastructure package -- from shifting priorities in the White House to opposition in Congress.

Still, those who focus on infrastructure investing say things are looking up, even if it takes a few years for Washington to deliver a big spending package.

"For a manager focused on industrials and materials, the environment is about as good as it has been in over a decade," says Tobias Welo, who manages the $960 million Fidelity Select Industrials Portfolio (FCYIX) and the $1.6 billion Fidelity Select Materials Portfolio (FSDPX). "We've seen the commodities recovery happening in Asia; U.S. residential and nonresidential construction has come back."

The Fixing America's Surface Transportation (FAST) Act, passed by Congress and signed into law by President Barack Obama at the end of 2015, sets up the next five years of spending for federal transportation projects. Meanwhile, voters approved some $200 billion of infrastructure-related ballot initiatives during November's election, Mr. Welo says, adding that such projects are as close to a slam dunk as a government-backed project can get.

So while Washington negotiates its spending plans, investors can position themselves to take advantage of these FAST Act-funded efforts, as well as those at the state and local level, the pros say.

Indeed, last month private-equity firm Blackstone Group LP announced that it was preparing to launch a unit that would invest in toll roads, bridges and other infrastructure projects.

The U.S. isn't the only country getting ready to write fat checks. Sectors associated with infrastructure have seen valuations creep up globally as governments seek to expand airports, bridges and road in response to growing populations. Many infrastructure ETFs are constructed with this global view in mind, says Brandon Rakszawski, a New York-based product manager at Van Eck Global who oversees the firm's hard-assets ETF product lines.

"Most infrastructure ETFs are global in nature, so investors need to realize that if they are choosing that option for their portfolios, they may only be getting 40% or so U.S.-specific names," Mr. Rakszawski says. Taking a global approach can help diversify a portfolio, he says.

Beyond geography, the key to succeeding in this sector is knowing what it means to you, says Mr. Rakszawski.

"It is important for investors to decide what they see as infrastructure -- is it energy, transportation, utilities, or some combination of those?" he asks. "Once they decide, they can start to target more specific exposures and products that are going to give them what they want."

As investors weigh specific subsectors, they need to be mindful of risk.

If you invest in engineering and construction companies, for example, "you need to factor in a certain amount of commodities risk," because many of the companies also are heavily tied to **volatile** oil-and-gas or mining-related capital spending, says Andrew J. Wittmann, a Milwaukee-based senior analyst at Robert W. Baird & Co, which manages $171 billion in assets.

Another red flag is turnover within mutual funds and ETFs.

Infrastructure projects are large and slow-moving. Once contracts are awarded for projects, it's relatively easy to forecast what the next three to five years will look like. Tayfun Icten, a Chicago-based analyst with Morningstar, says a high level of turnover within a fund could signal a manager or strategy that isn't operating with conviction.

"Investors in infrastructure mutual funds need to be clear about what types of opportunities they are getting access to," Mr. Icten says.

So, what of Mr. Trump's trillion? Fidelity's Mr. Welo expects to see a more-nuanced approach emerge from Congress. That could mean several billion dollars in project financing annually over the next 10 years, plus changes in tax policy, he says.

"The gas tax could be a key policy area to watch both at the state and federal level as policy makers start looking at ways to pay for these projects."

Meanwhile, municipal-bond investors may also see a rise in new issuance, as the asset class has historically been the go-to place for project financing. State and local governments have been using low interest rates to refinance existing debt, but issuance isn't keeping up with maintenance needs or expansion plans.

John Miller, co-head of fixed income and head of the municipal-bond investing team at Nuveen Asset Management in Chicago, says the muni market is showing signs of recovery and default risk is lower.

"Investors who have been skewed toward short duration and high quality can benefit from considering longer durations or slightly lower credit quality in this environment," he says.

Document J000000020170508ed5800003

THE WALL STREET JOURNAL.
U.S. EDITION

Investing in Funds & ETFs: A Monthly Analysis --- News Challenge: Funds and Investing: Test Your Smarts on...Gold Investing

By Victor Reklaitis
920 words
8 May 2017
The Wall Street Journal
J
R14
English

There is nothing quite like gold, especially if you want to start an argument among financial advisers.

The debate never stops over what role the precious metal should play in investment portfolios. The commodity also tends to grab the spotlight whenever a geopolitical shock hits and helps send gold futures higher.

Gold bugs enjoy highlighting this famous line from Wall Street legend Gerald Loeb: "The desire for gold is the most universal and deeply rooted commercial instinct of the human race." Skeptics favor quotes on the metal like this one from Warren Buffett: "I have no views as to where it will be, but the one thing I can tell you is it won't do anything between now and then except look at you."

For the year to date, through April, gold-oriented mutual funds have a 5.9% total return on average, despite a 3.6% decline in April.

Regardless of where you stand on the gold-bug-to-hater spectrum, how much do you know about the commodity? Let's find out:

1. When did gold prices hit their all-time high? We mean their highest nominal value in dollars.

A. 1980

B. 2001

C. 2011

D. 2016

ANSWER: C. Gold futures peaked in 2011, when they traded above $1,900 an ounce, according to FactSet. Looking at inflation-adjusted data, the peak came in 1980.

2. True or false: All of the gold ever mined still exists as aboveground stock, and there are no signs of that changing.

ANSWER: False. Gold may be getting "consumed" for the first time. The metal is now used in such small quantities by the technology sector that it may no longer be economical to recycle it, according to British Geological Survey findings that the BBC has highlighted.

3. True or false: Gold is the rarest precious metal.

ANSWER: False. Rhodium, iridium and ruthenium count among the precious metals that are more rare than gold, according to the U.K.'s Royal Mint.

4. How much have gold futures wiped away from their value in retreating from their all-time high?

A. Less than 1%

B. Around 10%

C. About a third

D. Roughly half

ANSWER: C. Gold futures are trading at $1,224.80 an ounce, as of Friday's settlement. That represents a drop of 36% from their peak of $1,923.70 an ounce reached in intraday trading Sept. 6, 2011, according to FactSet data.

5. True or false: The SPDR Gold Trust (ticker symbol: GLD), the largest gold ETF, is a top 10 ETF in terms of assets under management.

ANSWER: False. GLD had more assets under management than any other ETF at one point in 2011, but it now is no longer in the top 10, according to ETF.com data. It ranks 13th with $35.4 billion in assets under management.

6. Which of the following isn't an often-given reason for owning gold?

A. It tends to move independently of other asset classes.

B. Its price could rise thanks to growing demand from China and India's middle classes.

C. It can help hedge against inflation.

D. It has consistently paid interest.

ANSWER: D. Gold doesn't pay interest like bonds do, and analysts tend to turn **bearish** on the metal when interest rates are rising.

7. Fill in the blank: Wall Street Journal columnist Jason Zweig once got many gold enthusiasts buzzing by likening the commodity to ___________.

A. A rare Beanie Baby

B. A must-have bobblehead

C. An unwanted Chia Pet

D. A pet rock

ANSWER: D. Mr. Zweig suggested in a July 2015 Intelligent Investor column that gold shouldn't have a big role in any investment portfolio, then doubled down a year later even though gold had gained 20%, saying "it's still a pet rock."

8. How have gold prices and U.S. stocks performed from Election Day through early May?

A. Gold is up 9%, while the **S&P 500** is down 3%.

B. Gold is roughly flat, while the S&P is up 7%.

C. Gold is down 4%, while the S&P is up 12%.

D. Gold is down 4%, while the S&P is up 16%.

ANSWER: C. Gold futures, at $1,224.80 an ounce currently, are down nearly 4% from their settlement on Election Day at $1,274.50. The **S&P 500** has climbed to about 2399 from around 2140 on Nov. 8.

9. How much have gold prices increased over the past 20 years?

A. Nearly quadrupled

B. Almost tripled

C. Roughly doubled

D. About 40%

ANSWER: A. Gold prices are about 3.6 times higher, according to FactSet data, rising to around $1,224.80 an ounce from $343 two decades ago.

10. Fill in the blank: Gold is so malleable that an ounce of it (about the size of a quarter) can be beaten into a thin sheet covering __________.

A. 270 square feet (about the size of a micro-apartment)

B. 100 square feet (a large office cubicle)

C. 30 square feet

D. 5 square feet

ANSWER: B. A single ounce can yield a continuous sheet measuring about 100 square feet, according to the American Museum of Natural History in New York.

Mr. Reklaitis is a markets writer for MarketWatch in London. Email him at vrek@marketwatch.com.

Document J000000020170508ed5800002

THE WALL STREET JOURNAL.
U.S. EDITION

Investing in Funds & ETFs: A Monthly Analysis --- Spotlight / ETF Industry Exposure: The ETF of the ETF Business

By Gerrard Cowan
397 words
8 May 2017
The Wall Street Journal
J
R11
English

The ETF industry has secured that hallmark of a growing market sector: its own ETF.

The ETF Industry Exposure & Financial Services (TETF) exchange-traded fund was launched April 20. It tracks the Toroso ETF Industry Index, which includes a range of companies from index and data providers to fund issuers and exchanges.

The index was set up by New York-based Toroso Investments with the aim of providing investors with exposure to the industry as a whole, says Toroso's chief investment officer, Mike Venuto.

"We thought of the industry as not just being the issuers, but the ecosystem making money off of ETFs," he says.

The index is made up of four tiers. Tier One, which accounts for half of its exposure, includes companies with substantial participation in ETFs that provides a direct financial impact to their shareholders. It includes such names as BlackRock, Invesco and WisdomTree.

A quarter of the index is in Tier Two; this comprises companies with a substantial participation in the industry that provides an indirect financial impact to shareholders, including **Nasdaq** and Intercontinental Exchange. Tier Three takes up 15% of exposure, and includes companies with a moderate level of exposure to ETFs, such as FactSet and Bank of New York Mellon. The remaining 10%, in Tier Four, covers companies that are new to the industry or participate in a smaller way relative to their overall business. This tier features names like Eaton Vance and Goldman Sachs.

Many of the companies have much broader focuses than the ETF sector alone, even in Tier One. However, ETFs often represent a large and growing chunk of their business, Mr. Venuto says. He also expects more companies that are more narrowly focused on ETFs to enter the index as the industry matures, with more ETF-focused companies going public and more smaller firms growing enough to meet the minimum $200 million market capitalization required to be included in the index.

The index currently focuses on U.S.-listed companies, though Mr. Venuto says Toroso is open to including foreign companies in the future, depending on currency or geopolitical risks.

"There are definitely a few non-U.S. names that we have on our watch list," he says.

Document J000000020170508ed5800001

THE WALL STREET JOURNAL.
U.S. EDITION

Jobless Rate Falls in Sign of Revival --- Increased hiring points to economic pickup, as sinking rate suggests coming wage pressures

By Eric Morath
939 words
6 May 2017
The Wall Street Journal
J
A1
English

Corrections & Amplifications

The highest category of unemployment was 7.5% or more in charts showing the relationship between unemployment and other indicators in a graphic with a Page One article on Saturday about the April jobs report. In the x-axes of the charts, the category was incorrectly labeled as 8% or more

(WSJ May 11, 2017)

(END)

Hiring increased in April, and the unemployment rate fell to its lowest level in a decade, signs the U.S. economy is rebounding after a lackluster winter.

The unemployment rate dropped 0.1 percentage point to 4.4% in April, matching the low point reached in the last economic expansion in May 2007, not long before a brewing housing bust sent the economy and financial system into a decadelong crisis and recovery.

The pickup in hiring last month was broad-based, with particularly strong gains in business services and health care.

The falling unemployment rate suggests wage pressures could start to build as businesses compete for scarcer workers, though so far wage increases have been modest. It also means the Federal Reserve is likely to raise short-term interest rates for the second time this year at its next policy meeting in June, and then likely again in September, before beginning to wind down a $4.5 trillion securities portfolio late in the year.

The Fed's objective is to gently pull back the stimulus it pumped into the economy during and after the crisis now that it appears to be on a more even footing. Still, the Fed sees the economy stuck on a growth path of about 2% this year, meaning that officials don't expect to push short-term rates as high as they have tended to go in the past when unemployment was this low.

The Labor Department reported that businesses added 211,000 jobs in April, after adding just 79,000 jobs the month before. The pickup in hiring underpinned projections that economic growth is set for an upturn. Output grew at an annual rate of just 0.7% in the first quarter. After seeing the latest numbers, economists at forecasting firm Macroeconomic Advisers increased their projection for second-quarter growth to 4%.

U.S. stocks rose modestly after Friday's jobs report and some positive corporate earnings. The **Dow Jones Industrial Average** gained 55.47 points, or 0.26%, to 21006.94. The **S&P 500** and the **Nasdaq Composite** both rose 0.4% to record closes. The yield on the **10**-**year Treasury** note settled at 2.352%, compared with 2.354% on Thursday.

"This is an unambiguously strong economic report and suggests that consumers will have the wherewithal to increase spending in the second quarter," said David Berson, economist at Nationwide Mutual Insurance Co.

The report was greeted as a win by the Trump administration, even though President Donald Trump was a frequent critic of jobs data when he was campaigning for office in 2016. "Steady and sustained increase in job creation equals new paychecks for American workers and income for American families," Labor Secretary Alexander Acosta said Friday.

Mr. Trump tweeted, "JOBS, JOBS, JOBS!"

The economy has added an average 185,000 jobs a month in 2017, roughly matching 2016's pace of job creation and a slower pace than in 2014 and 2015. During former President Barack Obama's tenure, the unemployment rate fell from an October 2010 peak of 10% to below 5%.

The early months of the Trump administration have been a bit of a puzzle to economists because many measures of household, business and investor confidence have surged while growth remained lackluster.

Though it is still early to say momentum can be sustained, some signs that so-called animal spirits are invigorating spending and hiring are emerging.

"I'm excited about the manufacturing environment," said Vicki Holt, chief executive of Proto Labs, a Maple Plain, Minn. company that uses 3-D printing and injection molding to make prototypes for manufacturing customers. It added 17 workers to its staff in April. Ms. Holt said the firm often sees orders increase ahead of a broader improvement in factory output.

"I'm looking forward to seeing a couple more quarters of strength to show this is going to be sustainable," she said.

The company raised wages for its entry-level workers, jobs that typically required a high-school diploma, because a recently opened Amazon.com Inc. distribution center made it more difficult to attract workers. Those jobs now pay about $12 an hour.

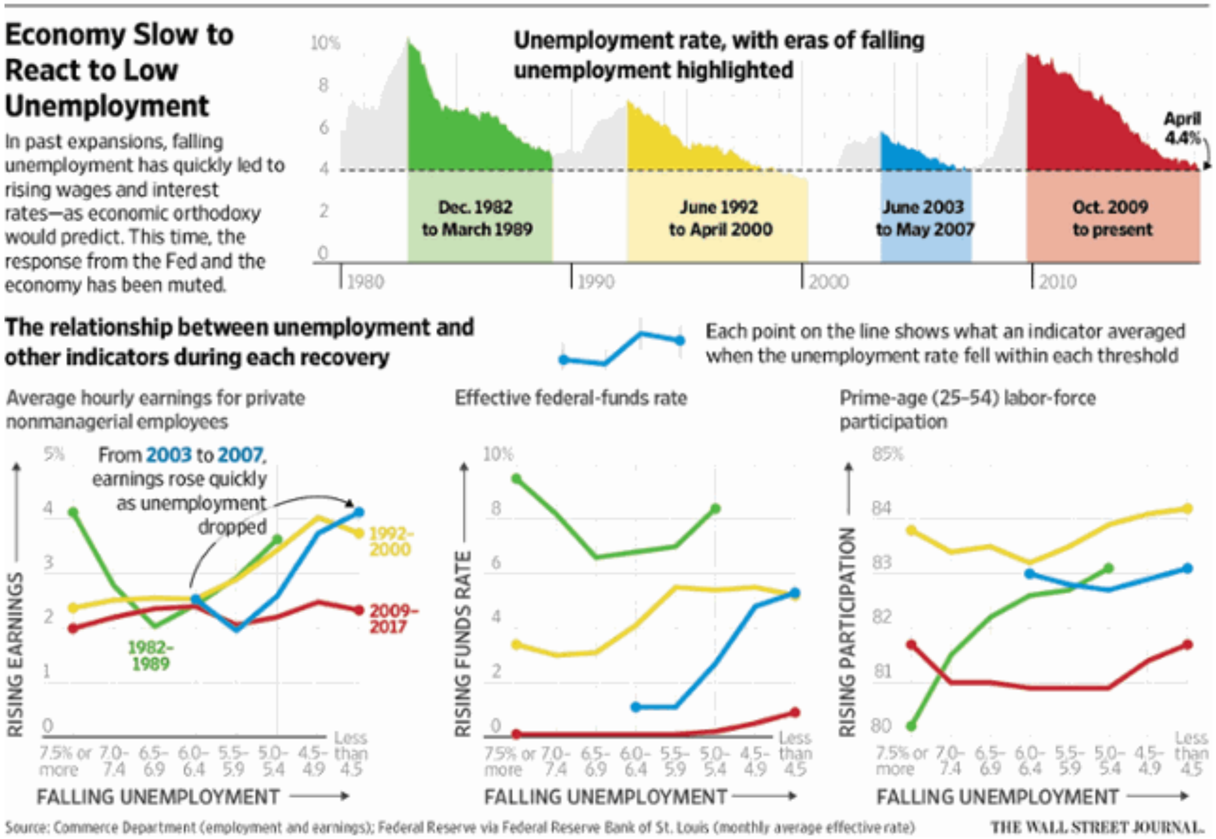
In theory, a stronger jobs market should pull nonparticipants off the sidelines, expanding the pool of available workers. But the low unemployment rate now comes with a caveat: A smaller share of Americans are participating in the labor force compared with a decade ago, partly a result of retiring baby boomers. The labor-force participation rate ticked down to 62.9% in April, and it is little changed over the past four years. The rate remains only narrowly above a four-decade low.

As a result, the size of the labor force was virtually unchanged last month, causing employers to draw down the ranks of the unemployed.

So far, there is only modest evidence that the low unemployment rate is putting upward pressure on incomes and inflation. Average hourly earnings for private-sector workers rose 2.5% in April compared with a year earlier. The growth rate of pay increases has slowed in recent months but remains near the fastest pace since the recession ended.

Consumer prices have grown nearly as fast, meaning inflation-adjusted wages are little changed.

One explanation for why wages haven't grown even faster is that worker productivity has declined so far this year. Low productivity makes it difficult for businesses to generate higher profits, invest and raise workers' pay.



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Document J000000020170506ed560002z

THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
Overheard

145 words
6 May 2017
The Wall Street Journal
J
B10
English

[Financial Analysis and Commentary]

From the people who didn't exactly cover themselves in glory during the financial crisis come some not-very-reassuring words about South Korea. Moody's Investors Service thinks that a military conflict with North Korea would be "credit negative" for its southern neighbor.

Moody's gives South Korea's vibrant economy a relatively high AA2, between the ratings placed on peaceful, prosperous Austria and Belgium and the same as Kuwait's. The country's main **stock index** just hit a record.

But calling a military conflict "credit negative" puts reassurances about subprime mortgages being "contained" to shame should a conflict actually come to pass. Aside from its 10 to 20 nuclear warheads, North Korea has one of the world's largest militaries.

Sounds far scarier than a basket of liar loans.

Document J000000020170506ed5600018

THE WALL STREET JOURNAL.
U.S. EDITION

Business & Finance
What's News
Business & Finance

188 words
6 May 2017
The Wall Street Journal
J
A1
English

Hiring increased in April and the unemployment rate fell to its lowest in a decade, signs the economy is rebounding after a slow winter.

The largest U.S. companies are posting their strongest quarterly profits in five years as they reap the benefits of belt-tightening.

Solid corporate earnings and a healthy jobs report lifted the **S&P 500** and **Nasdaq** to fresh records.

Firms are fighting CFPB enforcement actions more often, as Republican control of the White House has put the agency's future in doubt.

Canada's Trudeau said he would consider retaliatory measures in response to the U.S. imposing a 20% tariff on lumber imports.

Syngenta's shareholders approved a $43 billion takeover by ChemChina, which now faces challenges in integrating the Swiss firm.

Berkshire Hathaway sold about a third of its shares in IBM this year, Buffett said. Berkshire's net fell 27%.

J&J was hit with a $110 million verdict in favor of a woman who said talc in the firm's baby powder gave her ovarian cancer.

Document J000000020170506ed5600031

The New York Times

Business/Financial Desk; SECTB
Jobs Report and Oil's Recovery Lift Markets

By THE ASSOCIATED PRESS
654 words
6 May 2017
The New York Times
NYTF
Late Edition - Final
6
English

Solid hiring last month helped push the **stock market** to record highs on Friday. The major indexes were driven by gains by energy, technology and industrial companies.

Energy companies rose as the price of oil recovered from earlier in the week. Media companies like CBS and Charter Communications also recovered from their losses earlier in the week.

Technology companies rose, but IBM shares fell after the billionaire investor Warren Buffett said he sold a large part of his stake in the company.

Scott Wren, senior global equity strategist at Wells Fargo's Investment Institute, said stocks benefited from the combination of greater hiring and slower wage growth because, if wages rose too quickly, they would affect corporate profits.

''The market is likely to be concerned about wage gains and the impact on corporate margins as we move into 2018,'' he said.

The **Standard & Poor's 500-stockindex** added 9.77 points, or 0.4 percent, to 2,399.29. The **Dow Jonesindustrial average** rose 55.47 points, or 0.3 percent, to 21,006.94.

The **Nasdaq composite** went up 25.42 points, or 0.4 percent, to 6,100.76, which beat a record it set earlier this week.

Employers in the United States added 211,000 jobs in April, according to the Labor Department. That comes after slow hiring in the first three months of the year and sluggish economic growth.

Energy companies regained some ground as the price of oil steadied. After two steep losses in three days, benchmark crude oil futures for June delivery jumped 70 cents, or 1.5 percent, to $46.22 a barrel in New York. Brent crude, the standard for international **oil prices**, added 72 cents, or 1.5 percent, to $49.10 barrel in London.

Oil prices had fallen earlier this week as investors wondered if OPEC would extend a deal that trimmed oil production.

Occidental Petroleum rose $2.38, or 4.1 percent, to $60.40 and Transocean jumped 84 cents, or 8.1 percent, to $11.18. Baker Hughes gained $1.92, or 3.3 percent, to $59.33.

Apple jumped $2.43, or 1.7 percent, to $148.96, another record for the world's most valuable publicly traded company. That helped tech stocks move higher.

CBS announced a bigger profit and more revenue than analysts expected, and its stock gained $1.35, or 2.1 percent, to $65.20. Media companies had struggled the last few days as investors worried about declining cable ad revenue. Charter Communications, Scripps Networks and Tegna all traded higher.

Stocks of biotechnology companies slipped. Biogen dropped $6.45, or 2.4 percent, to $262.15 and Incyte sank $2.69, or 2.1 percent, to $122.41. Celgene fell $2.05, or 1.6 percent, also closing at $122.41.

Bond prices held steady. The yield on the **10-year Treasury** note remained 2.35 percent.

Gold prices for May delivery dipped $1.70 to $1,224.80 an ounce. The precious metal fell more than 3 percent this week for its biggest decline since right after the presidential election.

The dollar rose to 112.46 yen from 112.35 yen. The euro climbed $1.0995 from $1.0984.

The CAC 40 in France jumped 1.1 percent as investors hoped centrist candidate Emmanuel Macron would be elected president over the weekend. The CAC 40 is at its highest level since early 2008. In Britain, the FTSE 100 was up 0.7 percent, and in Germany, the DAX added 0.5 percent.

The Hang Seng in Hong Kong lost 0.8 percent. Markets in Japan and South Korea were closed for holidays.

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

Document NYTF000020170506ed5600051

Strategies
Your Money
The Fabulous Apple Cash Machine

By JEFF SOMMER
1,365 words
5 May 2017
05:02 PM
NYTimes.com Feed
NYTFEED
English

Great things are expected of the most valuable company on the planet.

Apple, which has a world-beating market capitalization of $776 billion, is still meeting those expectations, but barely. And that could cause headaches down the road for investors and for the **stock market** as a whole.

Apple shares, among the most widely held in the world, hit a new record on Friday, yet the company's sales have been so-so and no new game-changing gadgets other than a revamped iPhone are in sight.

"Apple has ushered itself squarely into a new normal of pedestrian growth," Edison Investment Research said, summing up the market reaction to Apple's latest quarterly earnings report on Tuesday.

In a nutshell, after a stumble last year, Apple started to grow again late in the year and continued to do so in the first three months of this year, but not by much. Revenue in the first quarter was 5 percent higher than over the same period a year earlier — a respectable but hardly eye-popping performance, and one that won't restore Apple's old reputation as a paradigmatic "growth company."

Yet Apple's stock rose last week, after increasing more than 28 percent this year. The company generates profits on a barely conceivable scale. So what's the problem? It is simply that Apple's standing in the **stock market** has largely been built on that aging little object, the iPhone.

A major iPhone rejuvenation is expected in September, the 10th anniversary of its birth. That is likely to spur greater sales, for a while at least. But how long can the iPhone wield its financial magic, and will the company come up with another invention with awesome monetary powers?

It may seem unfair to quibble this way, given Apple's technological accomplishments and financial position. The company makes useful and reliable, if expensive, products. I'm typing on a Mac, have an iPhone in my pocket and an iPad tucked away in my backpack, and all have served me well. The Apple Watch has its aficionados, though I'm not one of them. But whatever your relationship with Apple devices, the company has not come up with a technological game changer in years.

That hasn't prevented its share price from powering upward. For the moment, the **stock market** remains entranced with what Apple is doing financially, and for understandable reasons. Apple may no longer be a great growth company but it is still extraordinary, said Aswath Damodaran, a New York University finance professor, who has analyzed Apple's earnings closely since 2010. Come what may, he said, Apple churns out staggering quantities of money with metronomic regularity.

"Apple is the greatest corporate cash machine in history," he said in an interview. "We should appreciate that amazing achievement. The problem is, it's not growing much. It's a slow-growth cash-generating machine."

On Tuesday, the company provided fresh details of how great a cash machine it is. In just three months, after expenses and investments and payouts to shareholders, Apple's already colossal pile of cash and marketable securities grew another $10.8 billion, reaching a nearly unfathomable $256.8 billion.

In the scheme of things, how big is that? Consider that $256.8 billion is more than the value of every other American company except Microsoft, Alphabet, Facebook, Exxon Mobil, Johnson & Johnson, Berkshire

Hathaway and JPMorgan Chase, according to Howard Silverblatt, senior index analyst at S & P Dow Jones Indices.

Apple has enough cash for an outright purchase of General Electric or Wells Fargo or AT&T, the data shows. There is speculation that Apple will make a major acquisition: Companies like Netflix, Disney, Hulu and Tesla are on analysts' lists.

But there is little sign right now that Apple intends to dispose of its money that way, in a gigantic acquisition. Instead, the company announced on Tuesday that it would expand its program of returning cash to shareholders in the form of dividends and stock buybacks. The numbers here, too, are so immense that they are hard to grasp.

In a conference call with stock analysts, Luca Maestri, Apple's chief financial officer, said that since 2012, Apple's buybacks and dividends amounted to $211.2 billion: The buybacks alone total $151 billion. Without those buybacks, which reduce Apple's shares and total value, Apple's market cap might already be as high as $900 billion (though without the buybacks, Apple's **stock price** would be lower, so such calculations are inherently imprecise).

Furthermore, in the next two years, Mr. Maestri said, the company intends "to return $89 billion to our investors, which represents about 12 percent of our market cap at the current **stock price**."

All of which is to say that if Apple's cash machine keeps clicking, it could well become the first company with a $1 trillion market cap. But it would probably get there much faster if it were not sending so much cash back to investors.

The fact that it is doing so is great for shareholders, Mr. Damodaran said. It is displaying commendable discipline, he said, because Apple has had no better use for the money, either internally or with a big acquisition of a less-profitable or money-losing company.

Apple is already investing as much as it can in useful research and development, the company said on Tuesday. "We know how much we need to invest in the business," Mr. Maestri said in the conference call. "We will never underinvest in the business. We're in a very fortunate position that we generate cash beyond the needs that we have."

It stashes nearly $240 billion of its cash offshore, out of reach of the Internal Revenue Service. Much of it will presumably return to the United States if the Trump administration lowers corporate tax rates, as it has proposed. Mr. Maestri said the company's current plans for its cash reflect "the current tax legislation in this country, and there's a lot that still needs to happen there, and we'll see. Obviously, we will reassess our situation if things change."

Toni Sacconaghi, an analyst with Bernstein Research, said a favorable tax deal could add another $9 or so to Apple's shares, which are now trading at about $149. The expected redesign of the iPhone should also help the stock in the next several months, he said, because "we've found that Apple's share price rises in the three to six months before the new phone comes out." Apple stock is in that sweet spot now, he said.

Like Mr. Damodaran, however, he remains skeptical about Apple's longer-term growth prospects. "The company is so big that it takes a lot to move the needle for growth," he said. Apple's global base of iPhone users is growing ever larger, which implies rising income from music and apps and headphones and the like, and it's even possible that the company will come up with a new Big Thing in technology. Even if it does not, he said, the share price is still attractive.

Mr. Damodaran takes a more gimlet-eyed view. Back in February, when Apple shares were still trading at $130, he calculated Apple's value based on metrics like cash flow and declared that the company was "fully deserving of its market value." But when the **stock price** reached $140, he sold his own shares. "It's still a great company," he said in an interview. "But I don't like the price."

It isn't a crazy price, not if you expect that Apple will remain disciplined and highly profitable and, maybe, even have another growth spurt next year. But unless the old Apple magic returns, the company right now is not a bargain.

Twitter: @jeffsommer

* Trump's Tax Plan: Low Rate for Corporations, and for Companies Like His

* Apple Won't Always Rule. Just Look at IBM.

* Trying to See Apple From a Different Angle

* Buybacks by Companies Like Apple May Signal Danger, Not Growth

Minh Uong/The New York Times

Document NYTFEED020170505ed550099d

Business Day; DealBook
Movers: Jobs Report and Oil Prices

By THE NEW YORK TIMES
692 words
5 May 2017
08:30 AM
NYTimes.com Feed
NYTFEED
English

We're following major developments in the markets throughout the day. Check below for the latest updates.

IBM Dips After Buffett "Revalues" the Stock

As Warren Buffett goes, so go the markets. Ahead of Buffettpalooza, a.k.a. the Berkshire Hathaway annual meeting this weekend in Nebraska, the Oracle of Omaha told CNBC that he had dumped about a third of this massive stake in IBM this year. The news sent Big Blue stock down more than 4 percent in premarket trading.

"I don't value IBM the same way that I did 6 years ago when I started buying... I've revalued it somewhat downward," Buffett told CNBC. "When it got above $180 we actually sold a reasonable amount of stock."

Basically, Mr. Buffett said he was losing faith that IBM could keep up with the competition

"I think if you look back at what they were projecting and how they thought the business would develop I would say what they've run into is some pretty tough competitors," Buffett said. "IBM is a big strong company, but they've got big strong competitors too."

Mr. Buffett said he still owned more than 50 million shares of IBM, valued at roughly $8 billion, and that he had stopped selling. For now.

What to Watch For:

• The United States saw hiring pick up in April, with 211,000 new jobs created. The unemployment rate fell to 4.4 percent, its lowest level since 2007. Read our full story.

• The Federal Reserve vice chairman, Stanley Fischer, speaks at the Hoover Institution's Monetary Policy Conference, and the Federal Reserve Bank of San Francisco's president, John Williams, gives the keynote address at a Manhattan Institute event.

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

Oil Prices Under Pressure

Oil prices have come under intense pressure in recent days, falling close to 15 percent since mid-April — West Texas Intermediate briefly dipped below $45 in Asian trading, while Brent crude fell below $47 before recovering.

The Organization of Petroleum Exporting Countries has largely implemented agreed production cuts, but they are not doing the job of reducing supplies, and producers in the United States are also increasing output, further spooking the markets.

OPEC is likely to extend the cuts for six months when the group meets on May 25 in Vienna, but that may not be enough to lift prices, analysts say. — STANLEY REED

ChemChina Gets Shareholder Approval for Syngenta Deal

Syngenta said that investors owning more than 80 percent of its shares had accepted China National Chemical Corporation's takeover bid, surpassing the minimum level for the $43 billion deal to proceed.

ChemChina agreed to acquire Syngenta in February 2016, about six months after Syngenta, a Swiss supplier of agricultural chemicals and seeds, rejected a $47 billion bid by Monsanto.

It is one of a wave of deals among the biggest producers of seeds and chemicals designed to protect crops.

ChemChina is set to take control of the Swiss company on May 18 and would seek to delist the Syngenta's shares in Switzerland and its American depositary shares in New York "as soon as permitted by law and applicable regulations."

Shares of Syngenta rose less than 1 percent in midday trading Switzerland on Friday. — CHAD BRAY

Anthem Taking Merger to Supreme Court

Anthem said on Friday that it has asked the United States Supreme Court to review a lower court ruling that blocked its $48 billion merger with rival health insurer Cigna.

Judge Amy Berman Jackson of the Federal District Court for the District of Columbia blocked the deal in February, agreeing with the Justice Department's arguments that putting the two insurers together would harm customers. Her decision came two weeks after another federal judge blocked a proposed $37 billion merger between Aetna and Humana on antitrust grounds.

Anthem said "that 1960s-era merger precedents relied upon by the courts below must be updated to reflect the modern understanding of economics and consumer benefit."

Shares of Cigna rose 2 percent in premarket trading on Friday. — CHAD BRAY

Document NYTFEED020170505ed55003xp

THE WALL STREET JOURNAL.
U.S. EDITION

Why the VIX Is Showing No Fear --- Options index, a key hedging tool, is lowest in years; investors find protection elsewhere

By Gunjan Banerji
690 words
5 May 2017
The Wall Street Journal
J
B12
English

Volatility has nearly vanished in stocks, but investors wary about shares are hedging in other ways.

Despite geopolitical uncertainties and a mixed outlook for the U.S. economy, the CBOE**Volatility** Index, called the VIX, sank to a decade low on Monday, fueling concerns about whether investors have become complacent and if the absence of turbulence is sustainable.

The VIX is based on options prices on the **S&P 500 index** and tends to move in the opposite direction of the stocks gauge. Dubbed the "fear gauge," the VIX is a widely watched measure of investor anxiety but has drawn scrutiny in recent years because of its persistently low levels.

The VIX's low this week suggests investors are relying less on **S&P 500 index** options for protective insurance on their portfolios. Market watchers say investors are instead using alternative ways to manage risk in their holdings, such as options strategies that generate income as well as options on U.S. government bonds.

"I don't think the current levels in the VIX reflect the risks in the system," said Josh Thimons, a portfolio manager at Pacific Investment Management Co. He said some who have "become disenchanted with equity puts have looked to find other markets they think will offer more of a hedge."

Call options on Treasurys is one way investors have sought protection recently, according to Mr. Thimons. Calls give investors the right to buy an asset at a later date, while puts give the right to sell.

Bullish call options on **10**-**year Treasury** futures have seen a flurry of activity recently. The number of contracts linked to a 1.36% yield has increased almost sixfold since mid-April, according to data from CME Group Inc. and QuikStrike. In comparison, the yield on the **10**-**year Treasury** note was at 2.354% Thursday, suggesting investors are using the Treasury call options to protect themselves in case of a sharp market reversal. **Bond prices** rise when yields fall.

Meanwhile, income-generating strategies, which include covered calls, have become so popular in recent years that they are keeping a lid on **volatility** itself, says Thomas Peterffy, founder and chief executive of Interactive Brokers Group Inc., considered a pioneer of options trading.

Covered calls involve selling a **bullish** option, a call, on a stock the investor already holds.

What keeps **volatility** muted in covered-call strategies is the person on the other side of the trade -- the buyer of the calls. The call-buyer can hedge the options trade by selling shares of the underlying stock, a strategy meant to keep him or her more neutral to swings in equity prices.

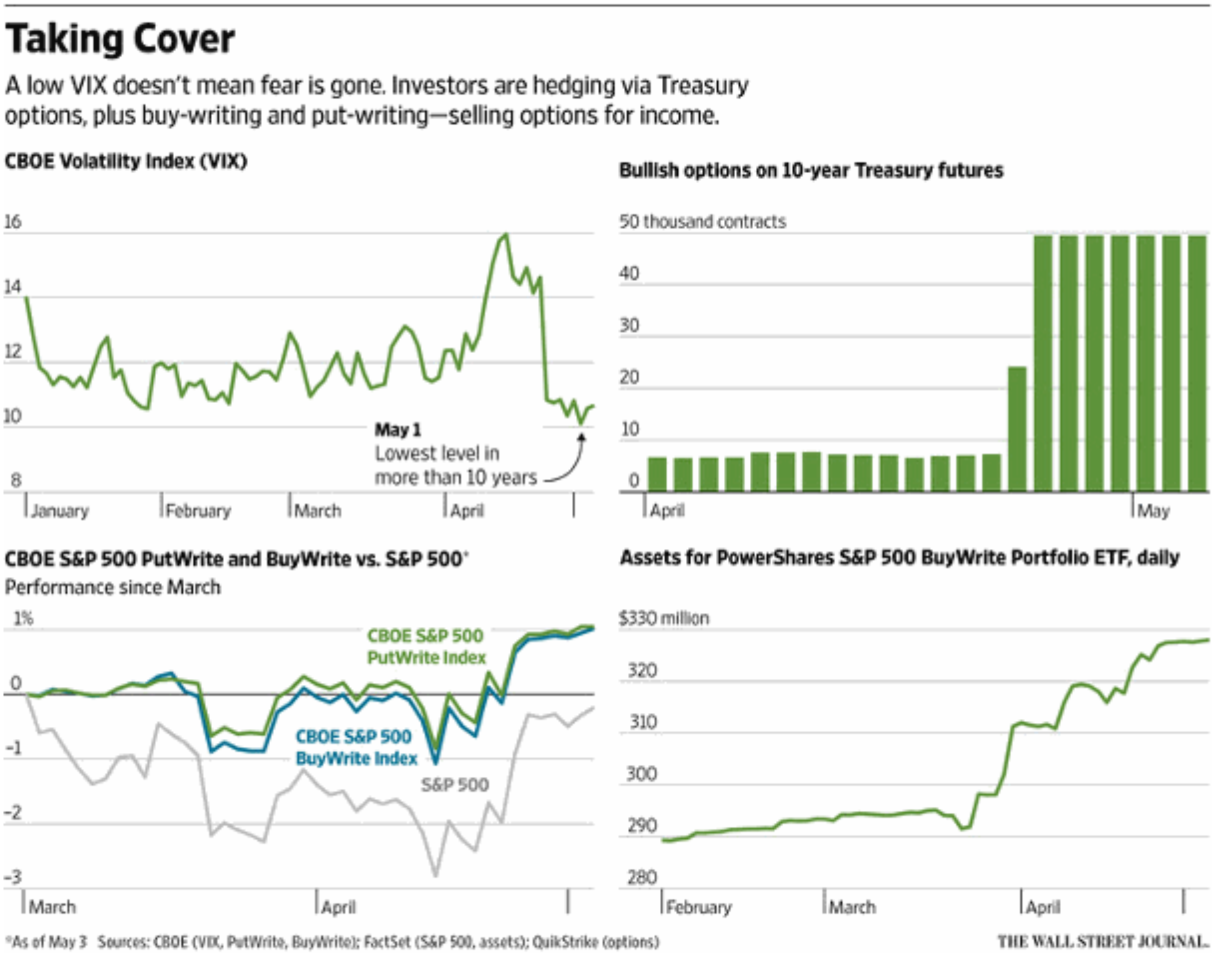
When the stock's price goes up, the call option's value also goes up, leading the call-buyer to sell more stock. As the stock's price falls, he or she buys more stock.

"That's why the market gets lugged into a trading range," said Mr. Peterffy, who said he has seen his customers positioning through these options strategies. "The result of that is the market stops moving," he said. "When it starts moving up, there's more and more selling pressure. As it falls, there's more and more buying pressure."

Exchange-traded funds that track the options strategy give a snapshot of its popularity. The PowerShares **S&P 500** BuyWrite Portfolio ETF has lured $31 million in 2017, about one-tenth of its total assets.

And it has paid off recently. The CBOE**S&P 500** BuyWrite Index has risen 1.04% since March 1, while the **S&P 500** itself declined 0.27% through Thursday, FactSet data show. Buy-write strategies are similar to covered calls, except instead of already holding the stock, investors have to buy it in the same transaction.

Mr. Peterffy cautioned that if the broader **stock market** snaps out of its slumber, the call buyer "will be out of ammunition, and the market will just fluctuate wildly."



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Document J000000020170505ed550000v

THE WALL STREET JOURNAL.
U.S. EDITION

Nasdaq's Blueprint for a New Era of Trading

By Adena Friedman
875 words
4 May 2017
The Wall Street Journal
J
A17
English

With the **Nasdaq** index above 6000 and the **bull market** in its ninth year, many investors are looking to tax reform as the next economic driver. That's a good bet. Last year the managing director of S&P Global Market Intelligence estimated that every percentage-point reduction in the corporate tax rate could boost **S&P 500** profits by 1%.

But tax reform isn't the only change needed to open a new era of growth in equities. Reforming **financial markets** is crucial too. Make no mistake: America's capital markets are the envy of the world. Investors can buy and sell thousands of companies safely and at low cost. Businesses can tap the deepest pool of public capital anywhere in the world. This catalyzes innovation, creates jobs and keeps the economy humming.

There is reason to worry, however, that years of tranquility have masked growing structural problems. Businesses that would traditionally have gone public increasingly choose private financing instead. This newspaper, citing figures from Dealogic, reported that 2016 was the slowest year for initial public offerings in more than a decade. It isn't difficult to envision the ramifications if this continues. Investors who cannot put money into attractive businesses will see lower returns. Innovative companies that shun capital markets will expand more slowly. About 92% of job creation in young firms comes after they go public, according to estimates from IHS Global Insight.

These disturbing prospects are entirely avoidable. On Thursday, **Nasdaq** is introducing a blueprint for the reforms needed to maintain America's global leadership. We believe the path forward hinges on three core principles:

-- Modernize the market structure. New technological tools, such as real-time access to stock prices via the internet, have helped make trading more efficient. But markets have also become fragmented. Trading that used to be aggregated in a handful of core markets is now spread across dozens of markets and venues. This can widen spreads and make trading more **volatile**. Smaller companies that are most affected by the lack of central liquidity should have the choice to trade on a single exchange. That would consolidate liquidity and allow supply and demand to find a healthy balance -- resulting in better price discovery and higher efficiency for both investors and companies raising capital.

-- Reconstruct the regulatory framework. There is broad agreement that the regulatory patchwork governing **financial markets** is outdated and, in some cases, arbitrary. SEC rules allow any investor who has held $2,000 of stock for a year to offer a shareholder proposal, even if it is not material to the company's business. This enables a small group of agitators to flood public companies with agenda-driven proposals. A study sponsored by the Manhattan Institute reported that one-third of shareholder-led proxy proposals in 2016 were driven by six small investors and their families. The ownership threshold should be raised to 1% of voting stock held for three years. That would reduce the burden and ensure that proposals represent a meaningful share of the company's long-term owners.

The complex Form 10-Q that the SEC requires should be eliminated in favor of quarterly earnings releases, coupled with semiannual or annual government filings. The Form 10-Qs are often duplicative and bureaucratic, with very little value to shareholders. Politically motivated disclosure requirements -- such as to provide data on conflict minerals -- should be eliminated if not tied to companies' bottom lines.

-- Promote long-term thinking. The rising pressure to satisfy short-term investors to the detriment of long-term benefits is one of the greatest threats to modern markets and the broader economy. This is a complex problem that requires a range of solutions. One is to provide companies and investors with better visibility into investor strategies that could create short-term pressure points. For instance, investors who short a company, and thus would profit from a decline in its value, should be required to report publicly their positions in a filing to the SEC.

Additionally, some have called for eliminating dual-class stock in favor of "one share, one vote." But the flexibility that dual-class stock offers is critical to attracting innovative companies to participate in public markets. It should continue to be permitted so long as investors are fully informed of any limitations or differences between share classes.

Given the complexity of modern markets, deep reform will take time, cooperation and debate. **Nasdaq** is a neutral market provider, principally interested in bringing buyers and sellers together on equal footing. But this does not mean we are neutral in our view of markets.

American equities markets are built on timeless principles, but they must be driven by modern, evolving practices. Their continued strength hinges on the willingness of lawmakers, public companies, investors, exchanges and other stakeholders to find common ground. Let's be as innovative and forward-thinking in reforming markets as America's great entrepreneurs are in building the companies that drive the economy.

Ms. Friedman is president and chief executive officer of **Nasdaq**.

(See related letter: "Letters to the Editor: Many Reasons for Decline in IPO Numbers" -- WSJ June 1, 2017)

Document J000000020170504ed540000n

THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News --- CAPITAL ACCOUNT: How Ultralow Interest Rates Could Backfire

By Greg Ip
812 words
4 May 2017
The Wall Street Journal
J
A2
English

When the Federal Reserve raises interest rates, the **stock market** usually takes it badly. These days, though, one big sector is praying for tighter monetary policy: banks.

Lenders' stocks have been on a tear, rising 24% since the November election, and not just on hopes the Trump administration will reduce regulation. After all, banks have rallied almost as much in Europe. Rather, it reflects two Federal Reserve rate increases, expectations of more, and confidence the European Central Bank won't push rates further into negative territory or expand its bond buying.

That is the opposite of the usual relationship. Rising rates typically hurt banks by raising their cost of funds and damping demand for loans.

The inversion of this historic relationship is ominous. It suggests that central banks' use of interest rates near or below zero to revive stagnant economies can backfire by undermining bank profits and capital and, thus, their ability to lend. Two Princeton University economists, Markus Brunnermeier and Yann Koby, have coined the term the "reversal rate" for the rate at which easy-monetary policy switches from stimulative to contractionary.

The idea is controversial. Fed officials have disputed the link, and in Europe, banks report that while low rates have hurt profits, they have also helped lending. Nor is the U.S. now near such a reversal rate. The economy is growing solidly and the Fed has signaled it hopes to raise short-term rates this year by another half percentage point from the current target of between 0.75% and 1%.

But the reversal rate, if it does exist, casts a large shadow over the future. Structural forces, such as weak productivity growth and a glut of global savings, likely mean central banks will have to push rates close to zero more often than in the past. There may be circumstances when this does more harm than good.

Standard economics says that as rates drop, they increase demand for credit and investment, raise stock prices and thus wealth, and weaken the exchange rate, which is good for exports.

In theory, interest rates shouldn't lose their potency as they fall below zero. Yet a study presented at the International Monetary Fund last fall found some evidence that they do.

Precisely why is unclear, but the likeliest culprit is the impact on commercial banks. They profit from the margin between what they charge on loans and what they pay depositors for the funds they lend out. When central banks push their policy rates below zero, commercial banks are reluctant to impose that on their depositors by charging them a negative rate on their accounts.

For example, between early 2015 and mid-2016 Sweden's Riksbank pushed its policy rate from zero to minus 0.5%. Loan rates by commercial banks also dropped, but not as much, and their deposit rates, which were already at zero, barely fell at all.

This also affects bank profits. A study by two Chicago Fed economists found that lower interest rates tend to depress banks' returns on assets. That study did find that this effect was more than offset by stronger loan growth, more fee income and lower loan-loss provisions.

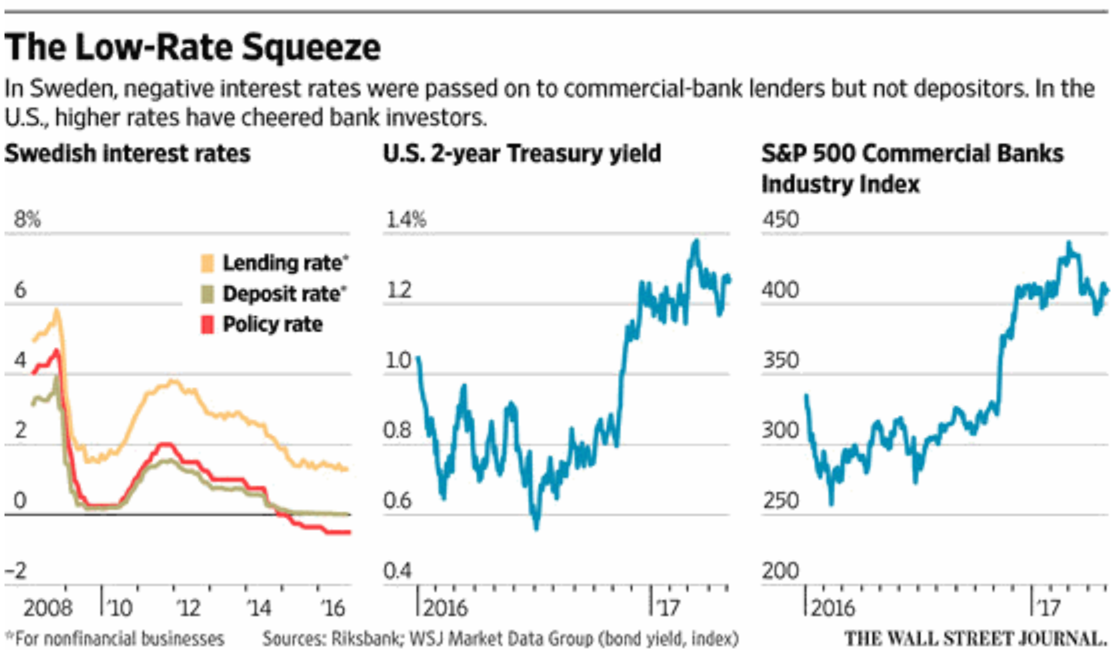
But those offsets may diminish over time. Research by the Swiss-based Bank for International Settlements found that in 2009 and 2010, falling interest rates bolstered bank profits, but from 2011 to 2014 they had the opposite effect. The BIS also looked at 108 global banks and found that as interest rates drop, lending rises -- until rates reach very low levels, when lending starts to shrink.

When interest rates dropped to zero, central banks turn to another tool for stimulating demand: buying bonds, which reduces long-term rates. This compresses the spread between long-term and short-term interest rates, i.e. the yield curve. Because loans are linked to long-term rates and deposits to short-term ones, a flatter yield curve also erodes profits.

The BIS authors caution that it is difficult to disentangle any negative effects of low interest rates and a flatter yield curve on banks from the overall weak economic environment.

With economic growth now picking up, central banks don't have to worry as much about the health of commercial banks. Nonetheless, the longer the ECB keeps rates negative, the harder it will be for commercial banks to recover.

And the Fed, which is debating when to start shrinking its balance sheet, may want to consider the effect on banks. Selling some of its $4 trillion in bonds should push up long-term rates, which would restrain growth, but it would steepen the yield curve and bolster banks' incentives to lend. That should provide some comfort as the Fed slowly returns monetary policy to normal.



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Document J000000020170504ed540001l

THE WALL STREET JOURNAL.
U.S. EDITION

A Rare Bright Light in Retailing --- Home-improvement stocks ride rising house prices, booming construction activity

By Ryan Dezember and Corrie Driebusch
634 words
4 May 2017
The Wall Street Journal
J
B12
English

Home-improvement stocks are rising alongside booming U.S. house prices and construction, making the shares a rare success story in the depressed world of retailing.

Among the biggest gainers are big-box retailers Lowe's Cos. and Home Depot Inc., which are up 20% and 16% this year, respectively. Paint maker Sherwin-Williams Co. is up 24%, and tile and hardwood retailer Floor & Decor Holdings Inc. last week rose 53% from its initial public offering price on its first day of trading, the largest IPO gain in 2017.

The **S&P 500** is up 6.7% this year and the SPDR S&P Retail exchange-traded fund, which doesn't include the home-improvement chains, has lost 2.4%.

Behind the rally: rising home prices and booming construction, as the housing market recovery from the 2008 crisis advances. Rising home prices can give homeowners equity they tap to splurge on cabinets, floors and appliances. Accelerating construction and transactions can tempt sellers to spend on sprucing up properties, while a shortage of new homes often prompts shoppers to renovate instead of moving.

"We're finally at the stage of the housing recovery where homeowners are taking on larger projects," said Brad Hunter, chief economist with IAC's HomeAdvisor unit, which matches homeowners with contractors and handymen. "Home improvement is the shining star within retail."

Some on Wall Street believe the stocks will rise further. Credit Suisse Group AG on Tuesday raised its price target for Lowe's shares roughly 13% and those of Home Depot about 6%.

Both companies still have valuations below the **S&P 500**, based on their price compared with their past 12 months of earnings, according to FactSet.

Further gains are no sure thing. The shares could fall if home buying and building fizzle, if, for instance, interest rates rise faster than expected. Home-improvement firms also run the risk of opening too many stores, something that has plagued retailers in other segments.

Other U.S. retailers are closing stores at a record pace as shoppers spend more of their money online.

Home-improvement retailers have proved resilient to the migration to online shopping. For big-ticket items and major renovations, like a revamped kitchen or new tile floors, customers often prefer to see goods in person and may need help installing.

"These are things that don't lend themselves to the internet," said Stifel analyst John Baugh, who estimates that home-improvement retail sales rose 7% through March.

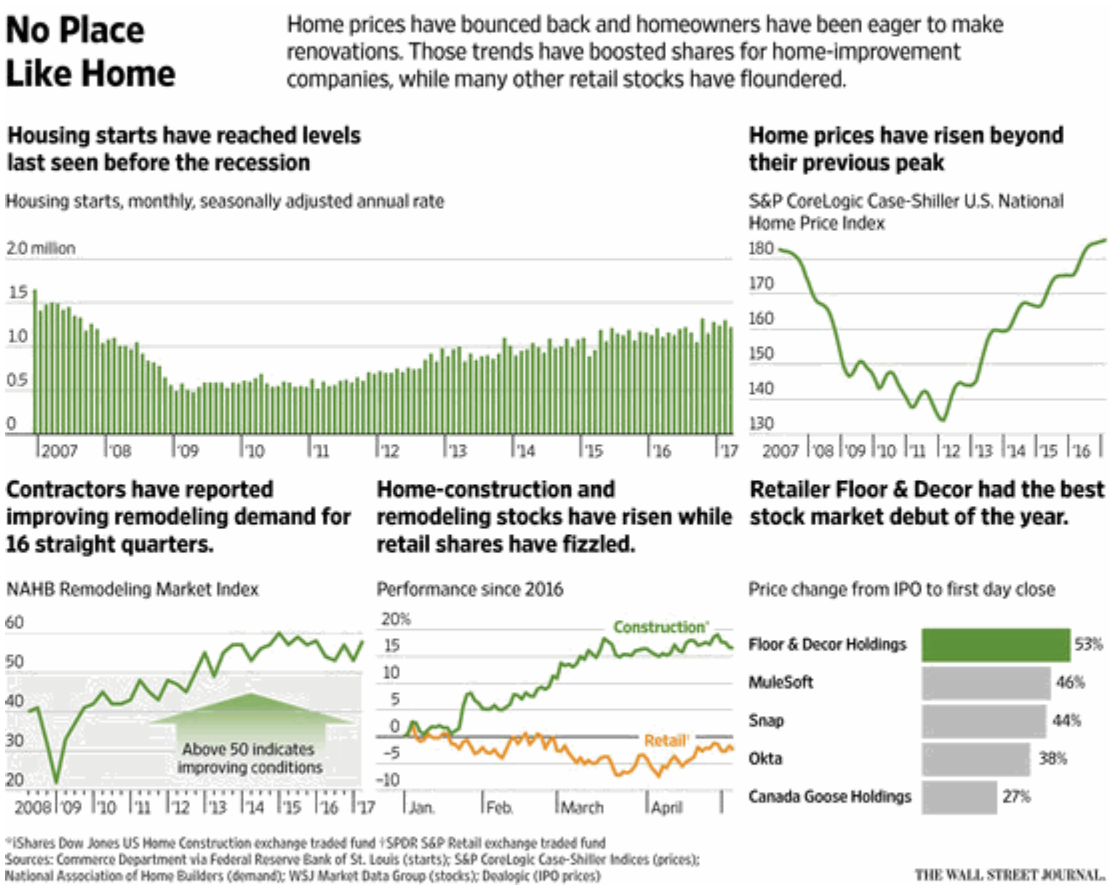
The good news for these firms is that the national housing-market recovery continues to advance. In many markets home prices have surpassed their 2006 peaks. Even those that haven't, such as Cleveland and Chicago, have climbed more than 20% since their 2012 lows, according to the S&P CoreLogic Case-Shiller home price indexes.

Home equity, or a property's value minus mortgage debt, has more than doubled since 2011, to roughly $13 trillion, according to a CoreLogic analysis of federal data.

"If we see home price appreciation you can say that it's creating wealth," said Neal Austria, senior research analyst at money manager ClearBridge Investments, which owns shares of Home Depot and Lowe's.

Mr. Hunter of HomeAdvisor recently published a study that found homeowners on average spent $5,157 on home repairs and renovations during the 12 months that ended in February, up more than 50% from the prior 12 months.

Home Depot has been opening new stores, and Floor & Decor told investors it plans to add to its 72 locations at a clip of about 20% a year, with a target of eventually reaching 400.



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Document J000000020170504ed540000w

THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
Fed Will Fight Even Slow Economy

By Justin Lahart
443 words
4 May 2017
The Wall Street Journal
J
B12
English

[Financial Analysis and Commentary]

Nothing can stop the Fed.

So far this year the economy hasn't lived up to investors' hopes and dreams, with the Commerce Department announcing last week that gross domestic product expanded at just a 0.7% annual rate in the first quarter. Economists expect things to pick up, but the second quarter is off to an inauspicious start. The Institute for Supply Management's manufacturing report on Monday indicated factory activity slowed in April, and car companies' April sales reports Tuesday fell short of forecasts.

Federal Reserve policy makers don't seem worried and view slower first-quarter growth as transitory.

At the least, it seems policy makers are sticking by the projection they made when they tightened in March that they would be raising rates two additional times this year. Yet investors seem doubtful. Futures have one rate increase priced in this year, but put the chances of a second one at only about 50%.

The skepticism may be misplaced. True, the Fed has over the past several years shown a tendency toward skittishness, dialing back its plans on rate increases whenever markets looked shaky. But with global economic growth improving, markets around the world have been tranquil lately, and the threat of financial crises spinning out of Europe or emerging markets seems diminished. Nor would a drop in a pricey-looking U.S. **stock market** likely phase the Fed.

The current situation is a test for the Fed's view that what would have been considered slow growth in the past could still boost inflation to levels that call for higher rates.

Policy makers' projections for long-term GDP growth -- the economy's just-right speed for employment and inflation -- are now centered on just 1.9% versus 2.65% six years ago. Many economists put the pace even lower. Morgan Stanley, for example, has it at 1.5%.

Crucial to the Fed's view is the economy's strong record of adding jobs even though economic growth has been tepid. What matters now is that unemployment has fallen to the point that there appears to be little slack left in the labor market, and employers have to pay up for the workers they need.

The Labor Department reported last week that its employment cost index -- a broad range of wages and benefits -- rose 0.8% in the first quarter, marking its biggest gain in nearly a decade.

For investors, this has the makings of an unfamiliar world where even an uninspiring economy inspires the Fed to raise rates.

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THE WALL STREET JOURNAL.
U.S. EDITION

Squeeze on Car Loans Deepens Sales Drop --- By AnnaMaria Andriotis and Christina Rexrode

869 words
4 May 2017
The Wall Street Journal
J
B1
English

Big banks are pulling back sharply from auto loans, helping drive a drop in car sales and raising fears the slump might deepen.

Wells Fargo & Co., one of the largest U.S. auto lenders, last month reported a 29% fall in its auto-loan originations for the first quarter compared with a year earlier. The decline, the biggest for the San Francisco-based bank in at leastfiveyears, was part of a common refrain in quarterly announcements from lenders including J.P. Morgan Chase & Co., Ally Financial Inc. and Santander Consumer USA Holdings Inc.

Bankers' caution is increasingly showing up in car sales, which Tuesday came in worse than expected for April. The declines are mostly occurring in lending to riskier borrowers, in particular those with low credit scores, where lending had ramped up for years.

"A very accommodating finance environment had been in place for some time," said Bruce Clark, lead auto analyst and senior vice president at Moody's Investors Service. "What you're seeing right nowis a pullbackand the resultingpressure on unit vehicle sales."

Some banks, including regionals Fifth Third Bancorp and Citizens Financial Group Inc., are beginning to retreat from higher-quality "prime" auto loans as new risks emerge. "It's been an overheated sector," said Fifth Third Chief Executive Greg Carmichael. "The auto business just isn't as attractive right now."

Some anticipated the market would cool off after record new car sales in 2015 and 2016. But banks are also posting higher losses on defaulted auto loans, hit by a mix of more borrowers falling behind on payments and the declining value of used cars.

When lenders repossess cars, they resell the vehicles and use the proceeds from the sale to recover as much of the unpaid balance as possible. Declining values mean that lenders are recouping a smaller share of those balances. Lenders who are repossessing cars tied to prime auto loans that were securitized in 2015 are recovering about 51% of the unpaid loan balances on average, down from 56% for 2014 loans and 65% for 2011 loans, according to S&P Global Ratings.

"There is a more cautious tone across the industry," said Christopher Halmy, chief financial officer at Ally Financial, on the bank's earnings call last week. Ally also warned about the auto market in March, when it lowered its growth expectations for the year. The comments contrast with Ally CEO Jeffrey Brown's statement last summer that he was "**bullish**" on auto lending and the bank didn't have reasons to be concerned about the loans it was originating.

The slowdown in loan volume marks a turnaround for the auto-loan sector, where originations grew consistently in recent years. It also calls into question whether the **bullish** run in auto lending is coming to an end.

Car loans have been among the fastest-growing consumer-lending categories since the last recession. Banks and other lenders began increasing originations about seven years ago in search of more revenue as the mortgage market slumped.

As competition intensified, lenders loosened underwriting standards by courting borrowers with lower credit scores and extending repayment periods on loans. Small nonbank lenders also jumped in, relying on the bond market as an outlet to sell their loans.

But increasing losses have sapped some banks' enthusiasm. Annualized net losses on securitized subprime auto loans increased to more than 10% late last year, the highest level since February 2009, according to Fitch

Ratings. The figure slipped back to 9% in March, but that was the highest loss reading for that month since at least 2001.

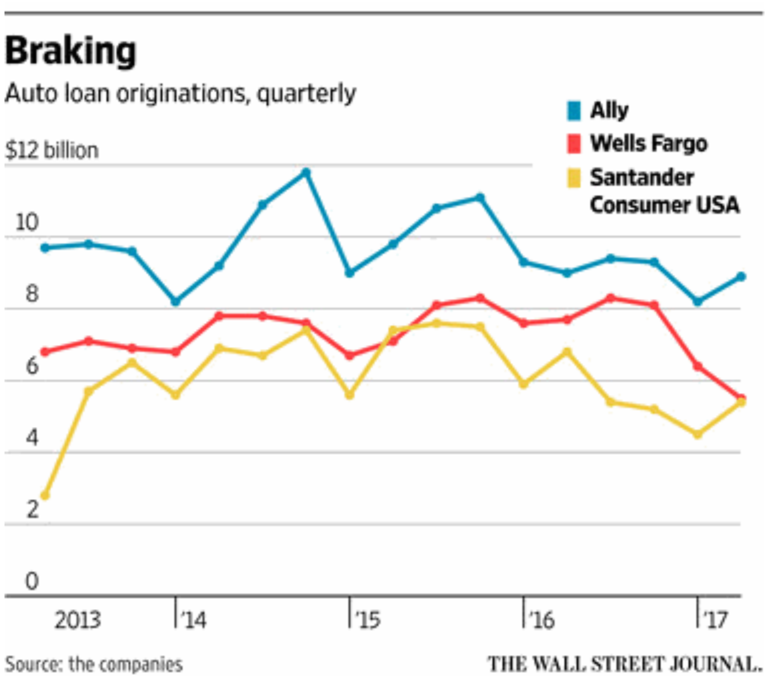
The worsening performance is occurring despite unemployment remaining low. It may continue to worsen, even if the jobs picture remains bright. Fitchin Decemberlowered its outlook performance forsecuritizedsubprime auto loans for 2017, even though it isn't forecasting a broader slump.

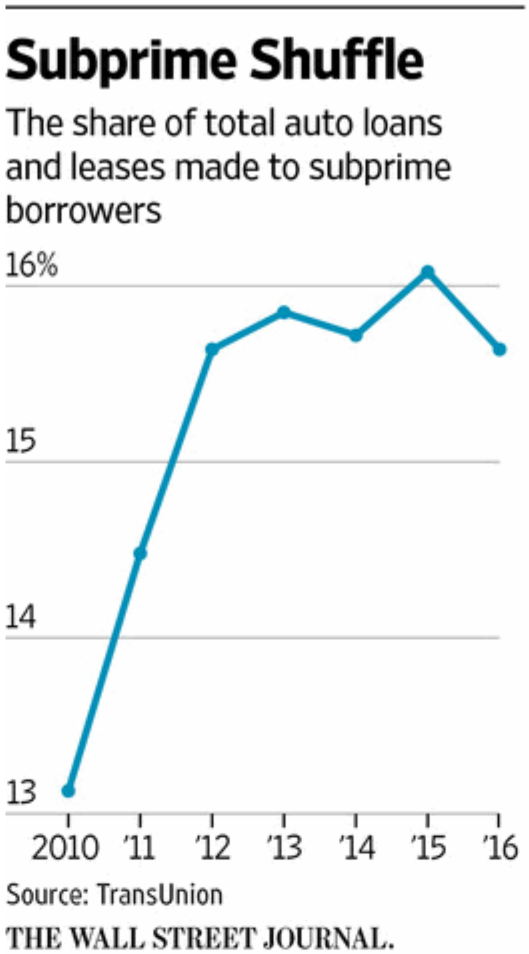
Wells Fargo said it expects its auto portfolio to decline in size this year. Ally has been expanding into other loans, including mortgages and credit cards, as it tries to diversify beyond autos. Citizens said on its earnings call that it recently stopped buying auto loans from Santander Consumer as part of the Providence, R.I., bank's strategy to shrinkits auto loan book. Santander Consumer, a unit of Spain's Banco Santander SA, has been paring back on lending. The company reported a 21% drop in auto-loan originations in the first quarter from a year earlier, following a 20% decline for all of 2016.

"We're seeing . . . some pulling back in terms of origination volume across the whole market," said Amy Martin, lead analyst for auto loan securitizations at S&P Global Ratings. "That's a function of these companies seeing the impact of their liberalized credit standards."

In recent years auto sales have relied heavily on the flow of easy credit. Now, subprime borrowers have fewer loan options and face higher interest rates. This is being felt at dealerships, especially with used cars.

"We're at the beginning stages," said Kevin Barker, senior equity analyst at investment bank Piper Jaffray. "Less credit will reduce incremental demand for vehicles."





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Document J000000020170504ed540002m

THE WALL STREET JOURNAL.
U.S. EDITION

100-Year Treasurys? No Thanks --- Advisers to agency say the ultralong debt wouldn't find much favor among investors

By Josh Zumbrun
841 words
4 May 2017
The Wall Street Journal
J
B11
English

A committee of Wall Street advisers is pouring cold water on a proposal by Treasury Secretary Steven Mnuchin to issue 50-year and 100-year U.S. government bonds, arguing that the big pension funds and insurers expected to buy the securities won't have much interest.

The Treasury's Borrowing Advisory Committee, composed of representatives from some of the largest financial institutions that participate heavily in the bond market, told the Treasury that "the committee does not see evidence of strong or sustainable demand for maturities beyond 30 years."

The committee meets quarterly, in advance of a regular release by the Treasury on its plans for financing the U.S. debt. Currently, the U.S. Treasury issues no debt longer than 30 years. Mr. Mnuchin has argued that ultralong bonds could be a useful tool for locking in today's low borrowing costs for a long time. Last month, the Treasury requested that the advisory committee analyze the viability of bonds longer than 30 years.

Monique Rollins, the acting assistant secretary for **financial markets**, said that despite the advisory committee's cool response, the Treasury would continue to study longer-term bonds and seek input from a broad community beyond just those on the committee. An update will be provided at a future quarterly announcement, the Treasury said.

The idea of ultralong bonds has riveted Wall Street. When Mr. Mnuchin first floated the idea in a November interview on CNBC, it sent long-term interest rates climbing higher as investors anticipated that rates would need to rise to accommodate a greater volume of longer-term debt.

The 30-year bond strengthened Wednesday after the advisory committee cast doubt on the idea of 50- and 100-year bonds. The yield on the **30**-**year Treasury** sank to 2.955%, from 2.982% on Tuesday. Yields fall as **bond prices** rise.

The Treasury needs neither legislative changes nor the advisory committee's approval to move forward with ultralong bonds. Still, the committee's opinion is likely to weigh heavily on the Treasury's decision. The members of the advisory committee include several primary dealers -- the institutions authorized to participate directly in Treasury auctions -- and some of the world's largest hedge funds and asset managers, such as Vanguard Group and BlackRock Inc.

One question for the Treasury is what types of investors would buy ultralong bonds, especially if the members of its advisory committee aren't interested. Relatively few individual investors have 100-year or even 50-year investing horizons.

Due to pension funds, insurers and index funds, "there will be underlying structural demand for 50 years, but it could be at the expense of other longer-date Treasury issuance," said Gemma Wright-Casparius, a principal senior portfolio manager at Vanguard Fixed Income. In other words, the success of a 50-year bond could come at the expense of a 30-year bond.

While the longest U.S. bond now is 30 years in duration, the Treasury has experimented with longer bonds in the distant past. President Dwight Eisenhower had a campaign pledge of "stretching out" the national debt, and his Treasury Department issued two 40-year bonds. From 1955 to 1963, a total of seven ultralong bonds were issued. Early in the 1900s, the Treasury issued 50-year bonds to fund the construction of the Panama Canal.

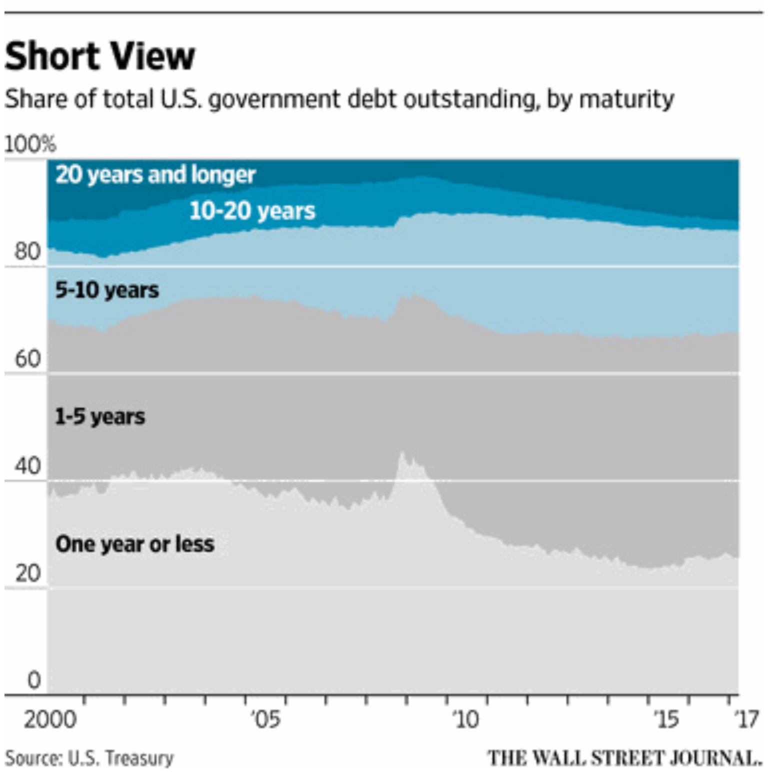
Over the years, however, the Treasury concluded it could most efficiently finance large amounts of debt through regular auctions of 30-year bonds.

A number of countries have issued small numbers of long-term bonds. Canada has a 50-year bond, Austria has sold 70-year bonds. Ireland, Mexico and Belgium are among countries that have issued 100-year bonds.

Most of these offers, however, have been sporadic or one-time issuances that would have little impact on those nations' long-run borrowing costs. The U.K. relies most heavily on ultralong-term debt, but the nation also has regulations that require its pension funds to buy the debt, so there is no question in the U.K. that there is demand for such bonds. Due to the demand forced by these regulations, the yield on 50-year bonds is generally lower than the yield on 30-year bonds.

The U.S. advisory committee said pension plans, life insurers and annuity companies are a potential source of demand, because such firms have liabilities that may be due long into the future. But the committee said pension plans would "not be a large or reliable source of demand for ultralong issuance" and that most insurers would prefer to have more 20-year bonds.

Given the likelihood of limited demand for 50-year bonds, the committee said their yield would likely be higher than that on 30-year bonds. This would make the long bonds less attractive as a way to reduce U.S. borrowing costs.



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Document J000000020170504ed540002n

THE WALL STREET JOURNAL.
U.S. EDITION

Puerto Rico to Square Off With Creditors

By Andrew Scurria and Heather Gillers
1,150 words
4 May 2017
The Wall Street Journal
J
A1
English

Puerto Rico was placed under court protection on Wednesday in what amounts to the largest-ever U.S. municipal bankruptcy, a stark illustration of the depth of the economic crisis afflicting a U.S. territory with more than three million inhabitants.

Puerto Rico and its agencies owe $73 billion to creditors, dwarfing the roughly $9 billion in bond debt owed by the city of Detroit when it entered what was previously the largest municipal bankruptcy in 2013.

The move by a federal oversight board installed by Congress is the culmination of years of economic distress and heavy borrowing that more recently has pitted Wall Street creditors, hungry for payments, against the struggling island.

The officials' decision sets up a showdown with Wall Street firms, including mutual-fund giants Franklin Resources Inc. and OppenheimerFunds Inc., hedge funds Aurelius Capital Management LP and Monarch Alternative Capital LP and some bond insurers. The federal action could mean deeper losses on bonds than analysts have anticipated, though some investors purchased bonds at lower prices and Puerto Rico **bond prices** were largely unchanged on Wednesday.

It also further complicates the island's bid to improve its relationship with Washington lawmakers, which has grown more fraught as Puerto Rico officials sought aid critical to ending a decadelong economic swoon -- aid U.S. officials were loath to provide. Analysts said the bankruptcy could provide a forum for the orderly allocation of Puerto Rico's resources.

The Puerto Rico Financial Oversight and Management Board, installed last year by Congress, on Wednesday invoked a law that puts the standoff with creditors before a federal judge in San Juan in a restructuring process known as Title III that doesn't involve the U.S. bankruptcy court system.

The maneuver itself is unlikely to immediately change day-to-day life in Puerto Rico -- an island already beset by an unemployment rate above 12% -- more than twice the national average.

Sprawling bureaucracy and high electricity costs have stunted business investment, while government cutbacks have closed everything from schools to social-service providers. The departure of some citizens has sapped its tax base, further squeezing budgets.

"What I see all around me is uncertainty. People sometimes just leave the key in the house or the car in the airport and just go," said Nancy Madden, founding director of an educational nonprofit in Humacao, Puerto Rico.

The territory has been in recession for most of the past decade. For years, federal tax credits helped cultivate a robust manufacturing sector and steer the island away from agriculture after World War II. But Congress ended those incentives in 2006, and the economy fell into a recession. Puerto Rico has struggled to create jobs ever since.

As the loss of jobs damped the economy, local leaders strained to cut spending and boost tax collections.

For over a decade, Puerto Rico's government and its municipal corporations borrowed more to buy time to stave off deeper economic overhauls. With government payrolls down over the past decade, pension funds have fewer workers contributing and the plans are now underfunded by an estimated $45 billion.

For years, investors overlooked these fiscal and demographic problems because Puerto Rico's bonds offered high yields and because they believed the island's economy would eventually recover.

But Puerto Rico began to lose access to the credit markets three years ago, when its ratings were downgraded. The door closed for good in 2015 when the island's governor declared the debts unpayable.

Unrest has been growing on the island over installation of the oversight board and cutbacks by government. A massive blackout last year left half the island without power at one point. When the Zika virus landed on Puerto Rico last summer, the government had limited funds to fight back.

When the board first convened last year, about 50 demonstrators surrounded the entrance to the Alexander Hamilton U.S. Custom House in downtown Manhattan, where the meeting was held.

Protests continued as recently as Monday, affecting services at Puerto Rico's largest public hospital, paralyzing the bus system and forcing many businesses to close, the Associated Press reported.

Puerto Rico was in marathon closed-door talks this month toward a global deal with various groups of creditors battling for top repayment priority in a restructuring. Hedge-fund creditors holding defaulted general obligation bonds were on the verge of completing an agreement late Tuesday before the oversight board intervened to stop negotiations, a spokesman for those creditors said.

Federal officials last month approved a wide-ranging framework for government spending that would scale back expenditures and allocations to creditors. Wednesday's move represents a step toward implementing the plan.

The plan "imposes pain everywhere," said Ignacio Alvarez, president and chief operating officer of Banco Popular de Puerto Rico in San Juan. "The cuts to the health system are massive. The cuts to the universities are large."

The Trump administration has largely embraced the oversight-board framework established by the Obama administration. Following a meeting with Gov. Ricardo Rossello in February, Treasury Secretary Steven Mnuchin said Puerto Rico should continue to work with the oversight board, and a Treasury spokeswoman said the department supported the board's decision to invoke its Title III authority.

Kate Davidson contributed to this article.

Filing Affects Range

Of Funds, Insurers

Puerto Rico's bankruptcy will ripple through a large universe of U.S. hedge funds, mutual funds and bond insurers that lent to the island commonwealth or guaranteed its borrowing.

Puerto Rico was long attractive to prominent money managers because its bonds offered high yields and investors believed the island's economic problems would eventually abate. Now these U.S. mutual funds and hedge funds face a lengthy legal fight to recoup as much as they can.

Mutual funds held about $14 billion of Puerto Rico's bonds outstanding as of March, according to Morningstar Inc. Two fund families, OppenheimerFunds and Franklin Templeton Investments, held most of the debt. About 7% of Franklin's debt was insured as of mid-March, a person familiar with the matter has said.

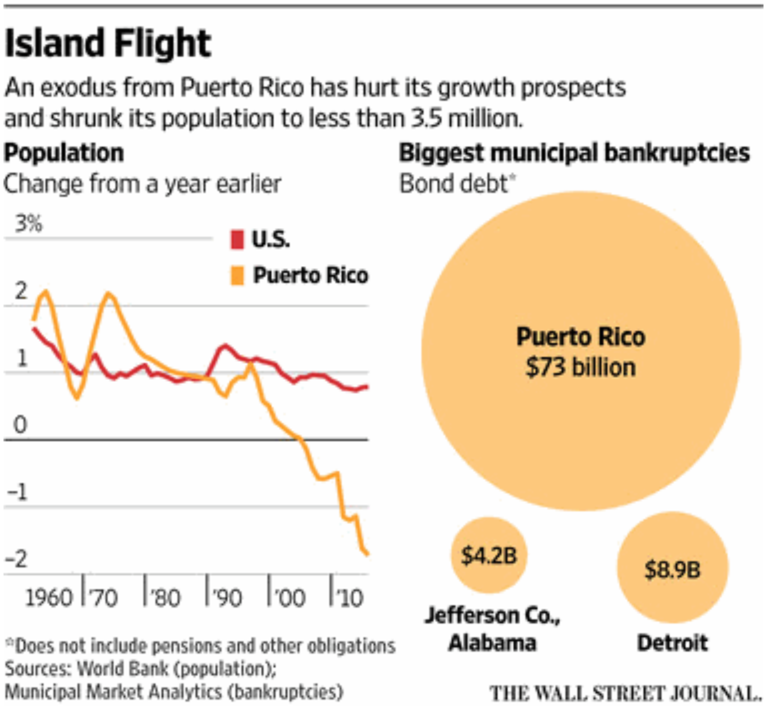
Other investors that have owned Puerto Rico debt include Aurelius Capital Management LP, Autonomy Capital and Monarch Alternative Capital LP, which own general obligation bonds, according to court filings.

Scoggin Capital Management LLC, GoldenTree Asset Management LP, Merced Capital LP, Tilden Park Capital Management LP and Whitebox Advisors LLC have held Cofinas, senior bonds backed by sales tax revenues, according to court filings and people familiar with the matter.

Roughly $12 billion of the island's $70 billion in outstanding debt is insured, according to insurers' filings. Insurers cover payments when local governments that sold the debt fail to pay.

Those with biggest exposure include Ambac Financial Group, National Public Finance Guarantee Corporation, and Assured Guaranty Ltd.

-- Heather Gillers



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The New York Times

Business/Financial Desk; SECTB

Fed Holds Rates, But Stays Positive

By BINYAMIN APPELBAUM
906 words
4 May 2017
The New York Times
NYTF
Late Edition - Final
1
English

WASHINGTON -- A few pieces of disappointing economic news in recent weeks have not shaken the Federal Reserve's confidence that the economy is in good health.

The Fed, as expected, did not raise rates on Wednesday after a two-day meeting of its policy-making committee. But it remains likely to raise rates in the coming months.

The Action

The Federal Reserve left its benchmark rate in a range from 0.75 percent to 1 percent.

Officials are not worried about the slow pace of growth during the first three months of the year. The Fed said the slowdown was ''likely to be transitory,'' meaning it expects a rebound.

The Fed remains on course to raise rates at least two more times this year. Investors expect an increase at the Fed's next meeting, on June 13 and 14.

The Takeaway

The government estimates that the economy grew at an annual pace of just 0.7 percent in the first quarter, and prices continue to rise more slowly than Fed officials would prefer.

But the Fed, in a statement issued Wednesday after the meeting of its committee, said the economy's engine was still looking good, even if the car was moving a little slowly.

Consumer spending, the bulk of economic activity, slowed in recent months, but the Fed's statement said ''the fundamentals underpinning the continued growth of consumption remain solid.''

So, too, for the broader economy. The Fed did not explain why it thought growth had slowed in the first quarter but said it continued to expect the economy would expand at a moderate pace.

The statement was backed by a unanimous vote of the Fed's policy-making committee, the Federal Open Market Committee.

The Background

Internal debates have been subdued in recent months; most Fed officials are in broad agreement on the economic outlook and the proper course of monetary policy.

The Fed raised its benchmark interest rate in December and again in March. Many investors are anticipating another rate increase at the committee's meeting in June.

The steady decline of unemployment is the primary reason the Fed is on the move. The unemployment rate fell to 4.5 percent in March, the lowest level since 2007. (The government is set to release the April jobs report on Friday.)

Most Fed officials have concluded that unemployment has returned to a normal level, and continued job growth will put upward pressure on inflation. But the Fed's benchmark rate remains at a level that supports growth by encouraging borrowing and risk taking.

Accordingly, the Fed wants to raise interest rates by the end of the year to a level that does not encourage or discourage growth.

Fed officials have also discussed the details and timing of ending a related stimulus program, the Fed's vast investments in Treasuries and mortgage-backed securities. The Fed has indicated it could begin to reduce those holdings by the end of the year.

There are, however, some reasons for hesitation. Despite the Fed's fears of future inflation, actual inflation remains stubbornly sluggish. The Fed's preferred gauge of price pressures, the Commerce Department's index of personal consumption expenditures excluding food and energy, rose 1.6 percent over the 12 months ending in March. The Fed would like prices to rise at an annual pace of 2 percent.

The Fed is less concerned about the slow pace of economic growth in the first quarter, perhaps because there is evidence the government has systematically underestimated first-quarter growth in recent years. Growth over the last 12 months has remained around 2 percent, the mediocre but steady pace the economy has maintained in recent years.

Janet L. Yellen, the Fed's chairwoman, said recently that the combination of rapid job growth and slow economic growth was "a big problem." The slow growth appears to reflect the slow pace of improvement in the productivity of the average American worker.

That, however, is a problem the Fed cannot solve by holding down rates.

The Reaction

The Fed's statement made little impression on **financial markets**. The **Standard & Poor's 500**-**stockindex** lost 0.13 percent on the day, closing at 2,388.13. The yield on the benchmark **10**-**year Treasury** rose to 2.32 percent, from 2.29 percent. Investors also modestly increased their assessment of the chances that the Fed will raise rates in June -- to 70 percent, from about 67 percent.

Michael Feroli, chief United States economist at JPMorgan Chase, noted the Fed's steady optimism, saying: "The postmeeting statement acknowledged the recent disappointments in growth and inflation but chose to view those developments in a favorable light. This glass-half-full statement leaves the door wide open to a June hike, provided, of course, that the recent data letdowns are indeed transitory."

Michael Gapen, chief United States economist at Barclays, said the Fed's confidence in the face of disappointment was a recent shift.

"In the past, a soft patch in the data or a shift in market sentiment caused the Fed to alter course," he said, adding, "The new Fed seems driven to lead and, at least for the moment, to be determined to follow its chosen path."

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THE WALL STREET JOURNAL.
U.S. EDITION

Fed Sees Growth Rebounding, Stays on Track for Rate Rises

By Nick Timiraos
780 words
4 May 2017
The Wall Street Journal
J
A1
English

WASHINGTON -- The Federal Reserve said it expected economic growth to rebound after a soft first quarter, signaling the central bank is likely to continue gradually raising short-term interest rates this year if it is right.

Officials voted unanimously to hold their benchmark rate steady in a range between 0.75% and 1%, after a two-day policy meeting Wednesday.

The Fed's postmeeting policy statement was fairly upbeat. It said slower growth in the January-to-March period was "likely to be transitory," echoing officials' recent public comments suggesting the bar to knock the central bank off its policy path is higher now than in previous years.

Policy makers gathered Tuesday and Wednesday set to ramp up internal deliberations over when and how to reduce the Fed's large holdings of mortgage and Treasury securities.

While the Fed neither changed rates nor offered details on the securities portfolio discussion, the outcome of Wednesday's meeting was nevertheless "extremely important," said Michael Gapen, chief U.S. economist at Barclays, in a note to clients.

"It signaled that it would maintain its normalization path this year" without "any tone of uncertainty over the state of the economy or hesitation over the path of policy," he wrote.

In each of the last two years, the Fed has been forced to shelve its plans to raise rates gradually due to economic shocks, especially from abroad, and it lifted short-term rates just once at the end of each year. So far this year, more resilient global growth has given the Fed more room to stick with its strategy.

When officials raised rates at their March meeting, they penciled in two additional quarter-percentage-point increases this year. Many analysts expect those to happen in June and September.

Because the Fed hadn't been expected to raise rates Wednesday, investors were instead focused on signals about whether recent softness in inflation and consumer spending might alter plans for the next meeting, June 13-14. Traders in futures markets placed a 70% probability of a move at that meeting following Wednesday's statement, according to CME Group.

Central bank officials "went into this meeting with the intention of not upsetting the apple cart, and they succeeded," said Tom Porcelli, chief U.S. economist at RBC Capital Markets, a global investment bank.

Yields on the benchmark **10**-**year Treasury** edged higher after the meeting, to 2.32%, while stocks were little changed, with the **Dow Jones Industrial Average** closing up 0.04%, or 8.01 points, to 20957.90.

The big question now is whether the economy will perform in line with the Fed's expectation. Gross domestic product grew at a feeble 0.7% annual rate in the first quarter as consumers reined in spending despite recent surges in household confidence surveys and an increase in stock prices.

Economic growth is widely expected to pick up this spring, though the results so far have been mixed. Personal spending rose in March after two months of declines, but auto makers reported demand in April turned surprisingly sluggish.

Forecasts from Macroeconomic Advisers currently track GDP growth for the second quarter running at about a 3.8% annual rate, while a model from the Atlanta Fed shows a 4.3% pace.

Inflation also weakened in March. While some officials had expected inflation to ease due to energy prices, the Fed's preferred measure of inflation showed that prices excluding the more **volatile** food and energy categories also rose more slowly in March. Compared with a year earlier, overall prices rose 1.8% in March, while prices excluding food and energy rose 1.6%, below the Fed's 2% target.

While progress on the inflation front has been uneven, economists increasingly believe the central bank has neared its congressional mandate to seek full employment, meaning the economy provides as many jobs as possible without triggering inflation. The unemployment rate fell to 4.5% in March, the lowest level in nearly a decade. The Fed's policy statement Wednesday emphasized continued job gains, which it characterized as "solid."

Officials also noted firmer spending from businesses, which has lagged behind in recent quarters. The statement noted modest gains in household spending but said the fundamentals underpinning personal consumption "remained solid."

Financial conditions have been mixed since the Fed last met in March, with stocks pulling back from their highs and bond yields falling, in part as investors recalibrate their expectations about President Donald Trump, a Republican, and the GOP-controlled Congress's ability to deliver on their fiscal policy promises.

Document J000000020170504ed540002d

THE WALL STREET JOURNAL.
U.S. EDITION

Politics & Ideas: The Clinton Economy, the Left's Ingratitude

By William A. Galston
880 words
3 May 2017
The Wall Street Journal
J
A13
English

The Democratic Party is in the early stage of a much-needed debate about its economic agenda. But reshaping the future is no reason to rewrite the past. That's what many self-styled progressives are now doing with their no-holds-barred rejection of Bill Clinton's economic legacy.

The latest participant in this self-defeating historical amnesia is AFL-CIO President Richard Trumka, who said in a recent interview that the Clinton administration was "the beginning of the schizophrenic days, when they needed workers' votes but wanted Wall Street money, so they tried to serve two masters but were successful at neither."

This gets it exactly backward. In fact, both "masters" -- indeed, all segments of the economy -- prospered during Mr. Clinton's eight years in office. Economic growth during his presidency averaged about 3.5% and exceeded 4% in each year of his second term. Overall employment rose vigorously, from 109.8 million jobs in January 1993 to 132.7 million in January 2001, an average gain of 2.9 million per year. Unemployment fell from 7.4% in December 1992 to 3.9% in December 2000. Unemployment among African-Americans fell from 14.3% to 7.4%.

During this period, despite the "giant sucking sound" H. Ross Perot predicted would follow the implementation of the North American Free Trade Agreement, manufacturing jobs increased slightly, from 16.8 million to 17.1 million.

Whether they know it or not, Democrats who believe that the Clinton years witnessed the collapse of U.S. manufacturing are reading back the first decade of the 21st century into the last decade of the 20th. Between January 2001 and December 2007, the last month before the onset of the Great Recession, we lost 3.4 million manufacturing jobs. From then until the employment trough in March 2010, we lost an additional 2.3 million. In the seven years since, we've regained about 1 million.

For those keeping score by administration, here's the tally: Mr. Clinton added 300,000 manufacturing jobs; George W. Bush lost 4.5 million; and Barack Obama lost 200,000.

Despite the job gains of the Clinton era, Mr. Trumka maintains, "people still weren't getting wage increases. The economy was still moving away from us." Data from the Bureau of Labor Statistics contradict this claim as well. Hourly wages of nonsupervisory workers rose from $10.93 in January 1993 to $14.29 in January 2001, a substantial gain even after taking inflation into account. During this period, real median annual household income (expressed in 2015 dollars) rose 14%, from $50,725 to $57,790.

These gains were broadly shared across income, racial and ethnic lines. Real median household income for the lowest fifth of earners rose by 18%. Latino households improved their incomes by 18%; African-Americans by 31%. The poverty rate fell from 14.8% in 1992 to 11.3% in 2000.

During the eight Clinton years, Wall Street -- the other "master" Mr. Trumka cites -- did pretty well too. The **Dow Jones Industrial Average** rose from 3242 to 10588, even faster than during the Reagan/Bush 41 years, while the Standard & Poor's 500 increased from 435 to 1336. These gains reflected underlying trends. Corrected for inflation, aggregate profits on the S&P more than doubled.

Despite this vigorous and sustained growth, inflation remained in check, and long-term interest rates fell substantially. One reason: a sound fiscal policy that steadily reduced the budget deficit Mr. Clinton inherited and enabled him to finish his presidency with three consecutive years of budget surpluses, reducing the national debt significantly as a share of GDP.

This policy combined spending restraint with redistributive revenue increases. As a share of gross domestic product, federal spending fell from 21.1% in the final year of George H.W. Bush's presidency to 17.4% in Mr. Clinton's last year. Meanwhile, revenues increased from 16.7% of GDP to 19.7%. The gains reflected rapid economic growth, but also an increase in the top rate for high-income taxpayers.

Mr. Clinton coupled the increase at the top with the largest expansion of the earned-income tax credit in history. The EITC, which supplements incomes for low-wage workers, redeemed the president's promise to "make work pay" and contributed to an increase in the labor-force participation rate to 67%, the highest in our nation's history. (It now stands at 63%.)

I do not mean to suggest Mr. Clinton's economic policies were without flaw -- or that the U.S. could regain its economic dynamism by reinstating them. We face new challenges. Globalization and technological change, economic tailwinds in the 1990s, are headwinds today. The same goes for demographic change, which rapidly expanded the U.S. workforce in the 1990s but slows it now, and will for the foreseeable future.

Still, a strong agenda for the future rests on an accurate understanding of the past. False indictments of the Clinton era contribute nothing to the broad-based economic renewal we seek.

(See related letter: "Letters to the Editor: Bill Clinton Was Lucky, Had a GOP Congress" -- WSJ May 17, 2017)

Document J000000020170503ed530000s

The New York Times

Business/Financial Desk; SECTB
6 Largest U.S. Automakers Say Sales Fell, Knocking Their Shares Down

By THE ASSOCIATED PRESS
733 words
3 May 2017
The New York Times
NYTF
Late Edition - Final
4
English

Despite strong results from industrial companies, stock markets in the United States could not get momentum going Tuesday after automakers said their sales were shrinking.

Cummins, an engine maker, sent shares of manufacturers and other industrial companies higher after reporting solid first-quarter earnings.

But Ford, General Motors and Fiat Chrysler all fell after they said sales declined in April. In addition, the price of oil fell to its lowest price in almost six months.

Chris Zaccarelli, chief investment officer for Cornerstone Financial Partners, said auto sales had weaker sales because lenders were hesitating to make car loans.

''It's more a story-specific to the auto sector as opposed to a slowdown in consumer spending,'' he said.

Thanks to an upturn in the last few minutes of trading, the Standard & Poor's 500-sock index rose 2.84 points, or 0.1 percent, to 2,391.17. The **Dow Jonesindustrial average** added 36.43 points, or 0.2 percent, to 20,949.89.

The **Nasdaq composite** set another record as it picked up 3.76 points, or 0.1 percent, to 6,095.37.

The six largest automakers in the United States all reported that their sales fell in April. Vehicle sales have set records the last few years and analysts are worried that the streak is ending and that car companies are relying too much on discounts and incentives to keep their sales numbers high.

Ford stock lost 50 cents, or 4.4 percent, to $10.92 and GM gave up $1, or 2.9 percent, to $33.20, while Fiat Chrysler fell 49 cents, or 4.3 percent, to $10.92. Shares of car retailers, rental companies and parts suppliers slipped as well.

Industrial companies made some of the biggest gains. Cummins reported a far bigger profit and better sales than analysts expected, and its stock climbed $9.23, or 6.1 percent, to $160.56. The company said demand from construction and mining sales grew compared with the same period a year ago, but truck production in North America fell.

Benchmark crude futures for June delivery lost $1.18, or 2.4 percent, to $47.66 a barrel in New York. That is its lowest price since mid-November. Brent crude shed $1.06, or 2.1 percent, to $50.46 a barrel in London.

Health care stocks shook off an early loss. Merck climbed after it reported strong sales of newer medications including its cancer drug Keytruda and hepatitis C drug Zepatier, and its stock gained 32 cents to $62.70.

Technology stocks continued their gains. The **S**.**&P**. **500**'s technology index, which includes 69 major companies, is at its highest levels since March 2000, the peak of the dot-com boom. However it is still well below the records it set back then.

Apple stock lost 2 percent in aftermarket trading after the company reported results that included slightly disappointing quarterly iPhone sales. Its guidance also was not as strong as analysts predicted.

Angie's List, the consumer reviews website, soared after it agreed to be bought by the media company IAC/InterActiveCorp. IAC/InterActive wants to combine Angie's List with its HomeAdvisor.com business, which offers resources for home repair and improvement projects.

Bond prices headed higher. The yield on the **10**-**year Treasury** note fell to 2.29 percent, from 2.32 percent.

Gold prices for May delivery rose $1.80 to $1,255.10 an ounce.

The dollar rose to 112.02 yen from 111.77 yen. The euro rose to $1.0924 from $1.0898.

In Europe, Greece and its creditors agreed that the country should make another round of pension cuts in 2019 and commit to a budget target when its current bailout program ends next year. That deal will restart bailout loan payments, meaning Greece will not face default.

European stocks also rallied. The CAC 40 in France added 0.7 percent while the FTSE 100 index in Britain gained 0.6 percent. In Germany, the DAX rose 0.6 percent.

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

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

Document NYTF000020170503ed5300053

The New York Times

Business/Financial Desk; SECTB
An Industry in Reverse

By NEAL E. BOUDETTE; Bill Vlasic contributed reporting.
1,084 words
3 May 2017
The New York Times
NYTF
Late Edition - Final
1
English

For seven years, the steadily expanding auto industry has helped drive the American economy forward, racking up billions in profit and paying workers hefty bonuses, all while consumers flocked to dealerships and drove sales to record heights.

It is a boom that President Trump has been counting on to add more jobs. But the industry's ability to do so is now in question.

On Tuesday, automakers reported the fourth straight monthly retreat in sales of new cars and light trucks, the longest stretch of declines since 2009, when the industry was embroiled in crisis and bankruptcies. The slump underscores the view of many that auto sales have peaked and are set to trend downward.

''The market is tapped out,'' said Adam Silverleib, vice president of Silko Honda, a dealership in Raynham, Mass. ''It's no longer expanding at the rate the manufacturers thought it would.''

He added that the more optimistic consumer sentiment recorded since Mr. Trump's election ''hasn't translated into what's happening in dealerships where we're trying to sell cars.''

Moreover, the top six automakers in the American market all reported declines from their April sales a year ago, and in every case the falloff exceeded analysts' forecasts. Wall Street took notice: Shares of Ford Motor and Fiat Chrysler Automobiles were down more than 4 percent, and General Motors shares fell almost 3 percent.

In April, automakers sold 1.43 million cars and trucks, down from 1.5 million a year ago. But even before those totals were reported, automakers had started preparing to trim the number of vehicles they are making, which almost always means jobs are eliminated.

Some 1,100 workers at a General Motors plant in Lansing, Mich., are being laid off this month and will be out of work for at least the next five months, although about 700 of them are expected to be rehired by the end of the year. Three other G.M. plants are eliminating shifts, moves that will idle more than 3,000 other workers.

''We are very cognizant that we operate in a cyclical industry, and we are in the eighth year of expansion,'' the company's chief financial officer, Chuck Stevens, said in a conference call last week after the company reported first-quarter earnings. ''We are very focused on acting like we are in a downturn.''

The automakers' comeback since the 2009 crisis had been driven in large part by low gasoline prices that have fed Americans' tastes for sport utility vehicles and trucks -- particularly profitable categories, and the models more likely to be assembled in the United States rather than Mexico. Sales also benefited from pent-up demand as recession turned to recovery.

Now consumers seem to be holding off on spending more broadly -- not just on cars, but on other big-ticket items, a primary factor in the economy's tepid first-quarter performance.

Ford Motor and Fiat Chrysler both saw their sales fall 7 percent or more in April, while Honda's fell 6.3 percent and General Motors' 5.8 percent. Toyota declined 3.5 percent, and Nissan dipped 2 percent. (Those figures exclude the Japanese makers' luxury brands.)

For General Motors, the domestic downturn compounds difficulties it is dealing with abroad. It has announced plans to sell off its Opel and Vauxhall operations in Europe, and on Tuesday it said it would take a $100 million charge to write off the value of its factory in Venezuela, which was seized by authorities in the **volatile** country two weeks ago.

Like G.M., Fiat Chrysler has idled several thousand workers this year while it retools factories in Toledo, Ohio, and Belvidere, Ill.

Further production cuts may be coming. Many analysts have forecast that auto sales will suffer a small decline this year -- to about 17.2 million vehicles from the record of 17.5 million sold in 2016. But some expect the industry to see larger declines after that. AlixPartners, a consulting firm with a large automotive practice, is predicting that auto sales will decline to 16.6 million vehicles in 2018, and 15.2 million in 2019.

Mark Wakefield, a managing partner at Alix, said such declines would force manufacturers to lower production further. ''They're doing it already,'' he said. ''When the manufacturers take capacity out, that means less overtime, or actual layoffs.''

The trend toward lower production runs counter to the wishes of Mr. Trump, who has been pushing carmakers to make more cars in the United States and import fewer from other countries, including Mexico and Canada.

Slowing sales is not the only trouble the industry is facing. Inventories on dealer lots are rising. As of the end of April, G.M. had enough cars to last 100 days at the current rate of sales. The industry considers 60 days ideal.

Interest rates, if they rise later this year as the Federal Reserve intends, could crimp sales further.

Automakers are also resorting to ever sweeter incentives to sell models like small and midsize cars, which have been eclipsed by larger vehicles. In April, Hyundai Motor, the South Korean automaker, offered discounts of $5,000 or more on its Sonata sedan. ''Midsized cars are really struggling,'' said Andrew DiFeo, owner of a Hyundai franchise in St. Augustine, Fla.

Another challenge comes from the increasing supply and falling prices of late-model used cars. Some 3.6 million leased vehicles are due to be turned in this year, according to Manheim, an auto auction company. Another 4.1 million are due back in the market next year. Most of those will end up on dealer lots, where they make enticing and less expensive alternative to new cars.

Mr. Silverleib, the Honda dealer in Massachusetts, is seeing the impact already. In April, his dealership sold 104 used cars, compared with 65 a year ago. It sold 99 new vehicles, four fewer than a year ago.

''What that tells me is new sales are stagnant,'' he said.

Robots painting a car body at the Chrysler plant in Sterling Heights, Mich. Fiat Chrysler sales fell 7 percent in April. (PHOTOGRAPH BY JIM WEST/REPORT DIGITAL REA/REDUX PICTURES) (B1); Henry Gonzalez, a salesman at the Doral, Fla., CarMax lot, showing a car to Wendy Morales. Late-model used cars are in increasing supply, crimping new-car sales. (PHOTOGRAPH BY SCOTT MCINTYRE FOR THE NEW YORK TIMES) (B6)

Document NYTF000020170503ed530003e

THE WALL STREET JOURNAL.
U.S. EDITION

Investors Tune Into French Debate --- Money managers say TV battle Wednesday could prove pitfall for front-runner Macron

By Jon Sindreu
903 words
3 May 2017
The Wall Street Journal
J
B15
English

Is the rise of populism in Europe fading or is there space for a comeback? Many investors expect the French presidential debate Wednesday to provide some answers.

Far-right candidate Marine Le Pen's few remaining chances to clinch a last-minute victory in the second round of the French presidential election Sunday, investors say, will depend on her television performance. While research suggests the impact of debates is often limited, money managers see it as a potential pitfall for pro-business candidate Emmanuel Macron, who is leading comfortably in the polls but remains politically inexperienced.

"That debate will be key," said Holly MacDonald, chief investment strategist at Bessemer Trust, a New York-based wealth manager with more than $100 billion under its wing. Mr. "Macron is somewhat of an untested candidate."

Mr. Macron managed to hold his own against Ms. Le Pen during the first televised debate in March but shared the airtime with four other candidates. Conservative Francois Fillon and socialist Benoit Hamon now back Mr. Macron in a bid to defeat the far-right candidate. This, analysts say, dents his antiestablishment credentials.

In a note to clients last week, Citigroup Inc. warned that the debate could swing votes toward Ms. Le Pen, who is "likely to focus her attacks on Macron's investment-banking past, his establishment status, relative lack of experience, acceptance of immigration, globalization and the diktat of the European Union."

The importance of the debate in investors' minds can be gauged by the implied **volatility** of options offering insurance against future swings in the euro versus the dollar. Two weeks ago, as one-week contracts started maturing after the first round of the election, their implied **volatility** shot up to 0.17 percentage point from 0.07. But yet another rise happened when the options started maturing after the debate, going up to 0.2 percentage point.

The cost of insurance plummeted across the board after Mr. Macron finished ahead in the first round on April 23 with 24% of the vote, against Ms. Le Pen's 21%. The CAC-40 **stock index** is up 4.8% since, and the extra compensation investors demand to hold French 10-year sovereign debt over German paper has fallen to around 0.5 percentage point from more than 0.7.

Yet, the spread remains double what it was before French election jitters started settling in and has slightly edged up again over the past week.

"I expect more **volatility**," said Nicolas Forest, global head of fixed-income management at Candriam Investors Group, who highlighted the debate as "the big important event for markets."

The widespread belief remains that Mr. Macron will have an easy win: The latest polls show he is set to win around 60% of the vote, a distance seen by analysts as insurmountable.

Whether televised debates can deliver election swings has been thoroughly researched in the U.S. but remains unclear.

According to University of Wisconsin-Milwaukee professor of political science Thomas Holbrook, even though there is "pretty thin evidence" that debates steer election outcomes, they can sometimes "change the narrative" of a campaign.

In last year's U.S. presidential campaign, Democratic candidate Hillary Clinton appeared to get a boost in the polls after each of the three debates she had against Donald Trump, but she lost the election. Research for the 2012 campaign that pitted Barack Obama against Mitt Romney found that much of these moves aren't due to people changing their minds on who to vote for, but rather because the winner's supporters become more eager to answer pollsters.

"When you have three or four debates, typically the net effect tends to wash out," said Robert S. Erikson, professor of political science at Columbia University, but short-term effects can be more powerful, which in this case might work in Ms. Le Pen's favor.

"What could be interesting is how many people will watch the debate," said Didier Saint-Georges, managing director and member of the investment committee at Carmignac, a French asset manager with 56 billion euros ($61 billion) under its wing. "If viewing is very low, it could be perceived as a preview of a low turnout on election day," which could conceivably give Ms. Le Pen a fighting chance.

Even if he wins Sunday, Mr. Macron could struggle to secure enough support for his upstart platform En Marche ("On the Move"), which is barely a year old, if he can't field strong enough candidates in the legislative elections in June. This could hamper his pro-market agenda, investors say.

Meanwhile, Ms. Le Pen's simple presence in the debate is "important, symbolically, in the long run," said Bastien Drut, strategist at Paris-based Amundi, Europe's largest money manager with more than 1 trillion euros under supervision, because it shows that Europe might grapple with anti-globalization parties for years to come.

When Ms. Le Pen's father, far-right firebrand Jean-Marie Le Pen, got through to the second round in 2002, his contender, Jacques Chirac -- who ended up winning with 82% of the vote -- refused to debate with him at all.

"Fifteen years ago, this was unthinkable," Mr. Drut added.

Riva Gold contributed to this article.

Document J000000020170503ed530000g

The New York Times

Business Day; DealBook
Political Turmoil Is High, but Wall Street's Fear Gauge Is Very Low

By LANDON THOMAS Jr.
913 words
2 May 2017
07:38 PM
NYTimes.com Feed
NYTFEED
English

It has become one of the knottier puzzles on Wall Street.

As political risks have increased at home and abroad, complacency among investors has rarely been so widespread.

This trend, which began soon after President Trump's victory in November, culminated on Monday, when the VIX index, known widely as Wall Street's fear gauge, dipped briefly below 10 — the first time it had done so in more than 10 years, in the months before the financial crisis.

The VIX measures investor expectations that stock markets will move sharply up or down.

On Tuesday, the VIX turned up, to close at about 10.6 — but still sharply lower than its historical average of roughly 20. At current levels, the VIX reflects a striking sense among investors that the persistent rise in stocks would continue, regardless of election fears in Europe and concerns here that Mr. Trump might not deliver on his ambitious economic agenda.

"The pricing of risk is at near historic lows, and the pricing of the **stock market** is at near historic highs," said Julian Emanuel, a stock and derivatives specialist at the investment bank UBS. "And all of this at a time when political risk is very elevated — at home and abroad."

Since the VIX reached a recent peak of 22 in the days before the election in November, it has fallen sharply as equity markets have rallied in the belief that the president's promises to slash regulations, cut taxes and spend money on infrastructure would buoy the economy.

The gauge generally moves in the opposite direction of the **stock market**. So with the major stock indexes having hit highs, it would make sense that the VIX would reach these unusual lows.

But what is less clear is why investors have been so willing to ignore so many outcomes that would send stocks reeling.

Mr. Emanuel contends that what is driving the decoupling of increased political risks and investor lack of worry is a rock-solid belief in the market that the surge in so-called soft economic data (such as a broad increase in animal spirits among investors and businesses) will be followed by better hard economic data — like a sustained improvement in wages, investment and ultimately economic growth.

This means that even as Mr. Trump has difficulties in getting his bills passed, investors are not abandoning the **stock market**, but are switching out of stocks tied directly to a Trump recovery, for example, banks and industrial companies.

In their place, investors are loading up on other sectors, like technology. Consider, for example, the recent record close of the **Nasdaq composite** index with its heavy weighting in stocks like Amazon, Facebook and Google.

The net effect of this rotation is a **stock market** that goes up and a VIX that goes down.

"There has been this epic disconnect between soft and hard economic data," Mr. Emanuel said. "And investors are just not willing to sell out of their stocks right now."

Russell Rhoads, the director of education at the VIX's home, the Chicago Board Options Exchange, calls the high level of faith investors have shown in the president's promise to reinvigorate the economy the Trump put.

When Alan Greenspan was chairman of the Federal Reserve, traders came to believe that he would bail out a sinking market by cutting interest rates, thus allowing them to take more risks — an approach that came to be known as the Greenspan put. A put is an option to sell at a particular price.

Now, Mr. Rhoads says, investors are making a similar wager on Mr. Trump.

"We used to have the Greenspan put, maybe it is the Trump put now," Mr. Rhoads said, citing a propensity of investors to stay in the market despite political ups and downs. "He is so business-friendly — there is a view that whatever happens he will do things that spur economic growth."

Unlike a **stock index** like the **Standard & Poor**'**s 500**-**stockindex**, the VIX is not driven by stock prices but by the prices of options to buy or sell the S.&P. For that reason, it is a forward-looking indicator — 30 days to be precise — that measures how **volatile** traders think the market will be before the option expires.

One reason for the gauge's recent equanimity, Mr. Rhoads said, is that even when investors purchase options to sell the S.&P. index at a certain level (betting that the market will fall) to insure against a sell-off, they are at the same time keeping their broad exposure to stocks.

It is this tricky balancing act that has kept the VIX at these low levels.

Mr. Rhoads, a student of **financial market** history, noted that the index is what is known as "a means reverting vehicle." This means that even if it stays at these low levels for a while, the index will spike up when the next bout of fear hits the market.

"It's like a rubber band that stretches and stretches until it pops," Mr. Rhoads said. "Everyone might be too confident right now."

* The Trump Effect: What's an Investor to Do?

* Profits? Nice, but for These Investors, Conscience Matters More

Traders in the **Standard & Poor**'**s 500**-**stockindex** options pit at the Chicago Board Options Exchange in March. | Scott Olson/Getty Images

Document NYTFEED020170502ed5200899

THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News -- Capital Account: A Reality Check on Cuts and Growth

By Greg Ip
747 words
2 May 2017
The Wall Street Journal
J
A6
English

Last week, President Donald Trump proposed slashing the corporate tax rate to 15% as the centerpiece of a tax plan designed to boost growth.

He is in good company. Between 2000 and 2016, most of the U.S.'s largest trading partners cut corporate rates. But their experience offers a reality check. There is little compelling evidence any enjoyed substantially faster growth as a result, and certainly not on the scale of Mr. Trump's ambitions; he wants to push the U.S. long-term growth rate to 3% from its current 2%.

This doesn't undermine the case for a lower corporate rate: All else equal, it almost certainly would help. But it is a warning to officials counting on rate cuts to generate so much growth they pay for themselves. Many forces operate on the economy, including demographics, the business cycle, technology and regulation. Taxes are just one factor, and often less potent than advocates advertise.

The theory is straightforward and uncontroversial. A tax cut makes it cheaper to finance investment in new projects. More spending on equipment, buildings and intellectual property should contribute to growth in the short run and create lasting payoffs by boosting worker productivity in the long run.

In 2000, the U.S. federal rate of 35%, combined with state taxes, was in the middle of the advanced-economy pack. Today, it is the highest in the 35-nation Organization for Economic Cooperation and Development because so many others have cut theirs.

Britain reduced its corporate rate to 19% now from 30% in 2007. A 2013 study by the British Treasury predicted the tax cuts since 2010 would eventually boost the level of gross domestic product by 0.6%. That is certainly worth having, but spread out over, say, six years, would boost the growth rate by a barely noticeable 0.1 percentage point.

British investment as a share of GDP is actually lower than before 2007, and productivity growth -- the ultimate determinant of living standards and where higher investment should leave its mark -- averaged 0.6% from 2010 to 2015, according to the OECD, one of the worst among major countries. Treasurynoted Britain has been hit by the euro crisis, the financial crisis and surging **oil prices**, all of which likely delayed the benefits of the corporate tax changes.

Canada cut its corporate rate from 28% in 2000 to 21% in 2004. While growth from 2000 to 2004 was about half a percentage point faster than the prior decade, it has since slowed. Canada's annual productivity growth since 2000 has been about 1%, slower than in the 1990s.

Jack Mintz, a tax expert at the University of Calgary, said Canada would have grown more slowly without the tax changes. Aging alone, he said, has knocked a percentage point off underlying growth since the 1990s. Nonetheless, he said, Canada's lackluster performance flummoxes him.

Several studies find that tax cuts boost investment. One study of Canada's tax cuts teased out the effect by comparing service industries, which benefited from the cuts with manufacturing, which already enjoyed a low rate and thus had less to gain. Services investment was highly responsive.

A 2004 study of 85 countries by Andrei Shleifer of Harvard and four others suggests a 10-percentage-point reduction in the effective corporate rate raises investment's share of gross domestic product by 2 percentage points.

Still, while these studies suggest lower corporate taxes have the predicted effect on investment, they don't show national growth rose as a result.

Of course, no two tax cuts are alike. Other countries may not provide a reliable road map for the U.S. Many raised other levies, such as the value added tax, to pay for corporate cuts. Mr. Trump, a Republican, hasn't proposed significantly raising any taxes other than limiting some personal tax breaks, and would cut personal income-tax rates, which in theory incentivizes more work.

His plan comes with another caveat: It would be paid for with a dramatic increase in government deficits, which in theory should raise interest rates and crowd out the private investment, neutralizing some of the benefits of lower taxes. Interest rates haven't responded to deficits lately because private investment has been so lackluster.

If those dynamics change, Mr. Trump's growth plans could face yet another impediment.

Document J000000020170502ed520001v

THE WALL STREET JOURNAL.
U.S. EDITION

Business News -- CFO Journal: Global Drought Hits Deal Making --- Companies held back by proposed changes to tax and trade rules, higher valuations

By Richard Teitelbaum
818 words
2 May 2017
The Wall Street Journal
J
B5
English

Corporate deal making has hit a rough patch despite robust stock and bond markets that in the past have led to a deluge of such activity.

Mergers and acquisitions this year have slid to their lowest level globally in nearly 20 years because valuations as well as political and economic uncertainty are making potential buyers wary.

The number of deals world-wide involving publicly traded targets this year fell to 793 as of April 28, according to Dealogic, down 20% from 991 in the comparable period last year and the lowest number since 1998.

Meanwhile, companies are paying higher multiples for acquisitions and investments. Buyers paid an average of 12.8 times the target's earnings before interest, taxes, depreciation and amortization, or Ebitda, this year, up from 12.1 for the comparable period in 2016 and the highest year-to-date multiple since 1997. The value of deals globally, however, is up 13.9% year to date at $479.8 billion. Dealogic figures exclude spinoffs, and include minority investments.

Prospects for overhauls of U.S. corporate tax and trade policy along with concerns about Britian's plan to leave the European Union are prompting management to hit the pause button on deal activity. Rising stock prices and deal valuations are adding to their hesitation.

Executives today want more clarity on issues such as tax reform and trade policy, said Robert Profusek, global head of mergers and acquisitions at law firm Jones Day.

They are taking the attitude of "don't shoot until you have to," he said. Ongoing debates about tax reform, trade policy and corporate regulation have left companies unsure about business prospects, either their own or that of potential targets.

The uncertainty encourages companies to focus only on high-priority deals, for which they are willing to pay top dollar. "This could kill or delay the marginal deals," said Brian Langenberg, principal at research firm Langenberg & Co.

Last month, medical-supplies maker Becton, Dickinson & Co. said it would buy C.R. Bard Inc. for $24 billion, or more than 20 times the 2016 Ebitda and 6.4 times sales, according to Dealogic. Research firm Morningstar Inc., in an analyst note, said the price represented a 60% premium to its stand-alone valuation of C.R. Bard. Acquirers typically have paid between 4 and 4.5 times sales for medical-products companies, according to Morningstar.

"We are confident that the Bard acquisition represents full and fair value for Bard's high-quality, high-growth prospects and rich margin profile," Becton Dickinson said. C.R. Bard didn't respond to a request for comment.

In the past, high **stock-market** levels often have coincided with robust deal activity, as they did in 1999 and 2007. But the current slowdown in deal activity comes as the **S&P 500** has surged.

The index is up 6.7% this year. Pricey markets can also make it difficult for executives to persuade their boards to approve an acquisition.

The rising deal prices make executives gun-shy, too.

"Things are a little bit expensive out there, so we're being cautious," said Honeywell International Inc. Chief Executive Darius Adamczyk on the company's first-quarter earnings call on April 21.

"That's frankly why maybe we haven't announced. . .any deals this year." Mr. Adamczyk made the comments before it was reported that Third Point LLC held a stake in Honeywell and called for the conglomerate to spin off its aerospace business.

Industrial gas maker Praxair Inc. has also pulled back.

"You saw this quarter we really didn't do any acquisitions," said finance chief Matthew White on the company's first quarter earnings call last week. "Things are getting expensive."

Last year Praxair spent $363 million on acquisitions, including five industrial gas businesses with combined 2015 sales of more than $40 million. In December, the company and rival Linde AG announced a merger of equals with a combined market value of $66.6 billion at the time.

In April, Verizon Communications Inc. topped AT&T Inc.'s $1.6 billion bid for Straight Path Communications Inc. with a $1.8 billion offer.

Straight Path owns a swath of wireless spectrum thought to be at the forefront of next generation networks. The company lost money in its fiscal second quarter when it had revenue of $200,000. Straight Path didn't return a phone call seeking comment. Verizon and AT&T declined to comment.

Some big serial acquirers may feel less pressure to buy because they have been doing well even without acquisitions. "Organic growth is coming in stronger than expected," said Morningstar equity analyst Barbara Noverini, citing the examples of Honeywell, General Electric Co. and 3M Co.

Document J000000020170502ed5200016

THE WALL STREET JOURNAL.
U.S. EDITION

Oil Shares Are Running Low on Energy --- Slumping crude prices sink valuations even as many producers are posting profits again

By Akane Otani
567 words
2 May 2017
The Wall Street Journal
J
B14
English

Energy shares have been the **stock market**'s worst-performing sector this year, weighed down by slumping crude prices even as many oil-and-gas companies return to profitability.

Shares of energy companies are down 10% in 2017, making the sector one of only two **S&P 500** groups posting losses this year, along with the telecommunications sector. The broader index has risen 6.7%.

Oil-and-gas companies' laggard performance marks a reversal from last year, when these companies gained more than any group in the S&P index. A doubling in **oil prices** from their February lows helped propel the sector 24% higher in 2016, while supply cuts from OPEC members and other major oil-producing nations set a **bullish** tone going into 2017.

But **oil prices** have slipped 9.1% this year as shale producers have ramped up production, raising angst again about an oversupplied market. Investor concerns that energy stocks look overvalued after last year's big run is also hurting shares, analysts said.

Sluggish **oil prices** can affect a broad range of companies beyond the major oil producers. Long slumps can hurt profits for those dependent on spending by the oil industry, such as steel, equipment and machinery companies, said Mike Wilson, chief U.S. equity strategist at Morgan Stanley.

Many investors have been counting on strong corporate earnings for the first quarter to reverse the recent share price skid. Exxon Mobil Corp. and Chevron Corp., the U.S.'s biggest oil companies, reported their highest quarterly profits in more than a year last week, driven by the recovery in **oil prices** from their 2016 lows, revenue from new projects, and cost-cutting measures.

But strong initial results that have mostly beaten analyst expectations have done little to lift energy stocks, and the group's shares were mostly flat on Monday. The S&P energy sector slid 0.2%, while Exxon shares were up 0.5% and Chevron fell 0.7%. U.S. crude prices lost 1% to $48.84 a barrel and are now down 3.6% over the past 30 days.

"The uncertainty of the outlook for oil has really put pressure on energy stocks," said Karyn Cavanaugh, senior market strategist at Voya Investment Management.

Oil prices rallied late last year after the Organization of the Petroleum Exporting Countries reached a November deal to cut production, with U.S. crude jumping 8.7% between the agreement and year-end.

But this year U.S. refiners have ramped up output and are processing more crude oil than ever before. That has led to big increases in gasoline stockpiles, which could become a drag on crude and could undermine OPEC's attempts to combat a global supply glut.

The number of rigs drilling for oil in the U.S. remains double the low it fell to less than a year ago, according to data from industry group Baker Hughes.

High valuations for oil-and-gas companies also have weighed on sentiment. Energy stocks in the **S&P 500** trade at 28 times the profits analysts expect companies to earn over the next 12 months, according to FactSet. The broader **S&P 500** trades at 18 times earnings estimates, according to FactSet.

Document J000000020170502ed5200014

The New York Times

CONTRIBUTING OP-ED WRITER
Editorial Desk; SECTA
Voodoo Economics, Then and Now

By STEVEN RATTNER
874 words
2 May 2017
The New York Times
NYTF
Late Edition - Final
27
English

As a young New York Times reporter nearly four decades ago, I helped chronicle the rollout of what proved to be among our country's greatest economic follies -- the alchemistic belief that huge tax cuts can pay for themselves by unleashing faster economic growth.

Buoyed by this idea, Congress passed the largest tax reductions in history just seven months after Ronald Reagan's inauguration. I was deeply skeptical of the illogical notion that tax cuts could somehow pay for themselves, so much so that I was attacked by name on the Wall Street Journal op-ed page. That, in turn, caused consternation among my editors in an era when reporting was meant to be less analytical.

Nonetheless, I felt no joy as the plan immediately made a bad economy worse.

Now comes Donald Trump, essentially trying to revive that same supply-side credo (famously branded ''voodoo economics'' by George H. W. Bush) with his proposal for $5.5 trillion of tax giveaways, mostly for business. Even some of the outsize personalities that I encountered in 1981 are back, most notoriously the concept's godfather, Arthur Laffer, who advised the Trump presidential campaign.

What proved a bad idea then is a worse one now. Unemployment was 7 percent and rising when President Reagan took office. Today, with unemployment at just 4.6 percent, broad-based fiscal stimulus isn't likely to create much new employment.

For its part, the Reagan tax cut increased the budget deficit, helping elevate interest rates over 20 percent, which in turn contributed to the double-dip recession that ensued. The **stock market** fell by more than 20 percent. Fiscally, the revenue loss totaled 2.9 percent of the average gross domestic product between 1981 and 1985.

But perhaps the greatest damage inflicted by the Reagan tax cuts was to our political psyche, making respectable -- particularly among Republicans -- the terrifying notion that high deficits resulting from tax cuts don't matter because faster economic growth will quickly close the gap. (At the time, this idea was called supply-side economics, but it has now been rebranded with the phrase ''dynamic scoring.'')

In 2002, while trying to justify another set of irresponsible tax cuts, Vice President Dick Cheney reportedly said, ''Reagan proved deficits don't matter.'' By the end of George W. Bush's tenure, the surpluses that he had inherited were squandered, and as the financial crisis raged, the deficit soared to $511 billion before peaking at $1.6 trillion in 2009 (all figures in 2016 dollars).

Deficits have left a lasting mark in the form of vast piles of national debt -- $14 trillion currently, up from $712 billion when Mr. Reagan took office, an almost 20-fold increase. Big deficits can sometimes be advisable, as they were in aiding recovery from the 2009 recession. But incurred pointlessly, as Mr. Trump is proposing, large fiscal gaps simply mean more debt that will be left to our children and grandchildren to pay off.

A large deficit is another significant difference in the state of the economy compared with 36 years ago and helps explain why Mr. Trump's business-heavy proposals are not only grossly unfair to middle-class Americans but also terrible policy.

After dropping to $444 billion in 2015, the federal deficit is again marching upward. By 2026, it is projected to be $1 trillion. In normal times, economists consider a deficit of about 3 percent of G.D.P. -- where it is now -- to be appropriate.

The Trump plan isn't all bad. I understand our need to lower the corporate tax rate to compete with other countries and adjust other provisions to keep companies and jobs here. Critics are correct that our business-tax structure encourages companies to ship jobs and even themselves overseas. But in return for that concession, which would significantly benefit shareholders, we should be raising the 23.8 percent capital gains rate closer to the top rate of 39.6 percent on earned income, not lowering it.

Should Mr. Trump's proposal become law, I'll bet the denouement resembles that of Reagan's: In 1982, just a year after those cuts, Congress enacted new provisions that recovered about a third of the lost revenues, and by the end of Reagan's administration, additional tax increases raised that figure to about two-thirds.

Don't get me wrong -- we have significant economic challenges (as reflected in our anemic sub-2 percent growth rate), and thoughtful tax policy can play a positive role. We haven't had a serious attack on loopholes, complexities and egregious deductions since 1986, and we desperately need another one.

But what we don't need -- and can't afford -- is another round of huge, unpaid-for tax reductions that saddle us with large amounts of new debt without producing the growth levels being predicted. Changing the sales slogan from ''supply-side economics'' to ''dynamic scoring'' won't do anything to shield us from the painful consequences.

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Document NYTF000020170502ed520002t

THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Consumers Set To Spend Again, Report Indicates

By Josh Mitchell
463 words
2 May 2017
The Wall Street Journal
J
A2
English

WASHINGTON -- Americans' spending grew steadily in March after accounting for inflation, positioning the economy to rebound from another winter slowdown.

But consumer prices fell, a sign of underlying weakness that could give the Federal Reserve pause as it considers further increases in its benchmark interest rate.

Personal consumption, a measure of what households spent on everything from groceries to dental care, rose 0.3% after inflation, the Commerce Department said Monday. That followed two months of declines. Without accounting for inflation, spending was flat.

The figure, combined with gains in Americans' incomes, offers early evidence the economy's first-quarter slowdown may have been a blip and that growth could pick up this spring. Weak consumer spending led U.S. economic output to grow a tepid 0.7%, at an annual rate, in January through March, but Friday's report hinted at momentum at the end of the quarter.

"The fundamentals on robust consumer spending are in place, such as elevated levels of consumer confidence, rising real disposable income, and increasing household net worth," IHS Markit economist Chris G. Christopher Jr. said in a note to clients.

Some economists believe temporary factors led to weak spending in the first quarter, including a warm winter that drove down Americans' heating bills compared with prior years and a delay in tax refunds that gave them less money to spend.

Spending is expected to pick up this spring largely because of rising incomes. Personal income -- measuring wages, salaries, investment returns and government assistance -- rose 0.2% in March from a month earlier. Real disposable income -- or the money left over after inflation and taxes -- grew 0.5%, the strongest gain since late 2015.

Americans also appear to have given themselves a bigger financial cushion, with the personal saving rate climbing to 5.9% in March, up more than half a percentage point since December.

But Monday's report also offered signs of underlying economic sluggishness -- a drop in consumer prices. The Fed's preferred inflation gauge, the price index for personal-consumption expenditures, fell 0.2% in March from a month earlier. Core prices, which exclude **volatile** food and energy components, declined 0.1%, falling for the first time since 2001. The overall price index briefly hit the Fed's annual 2% target in February but slipped below it again in March. Compared with a year earlier, overall prices rose 1.8% in March, while core prices climbed 1.6%.

"The weakness in inflation, especially in the core measure, has to induce some caution as far as the Federal Reserve deliberations this week," economist James Marple of TD Economics said in a note to clients.

Document J000000020170502ed520002a

THE WALL STREET JOURNAL.
U.S. EDITION

Equities: VIX Sinks to Decade Low

By Gunjan Banerji
337 words
2 May 2017
The Wall Street Journal
J
B13
English

A measure of expected stock **volatility**, known as Wall Street's fear gauge, slid to its lowest level in more than a decade.

The CBOE**Volatility** Index on Monday slumped 6.6% to 10.11, its lowest level since February 2007.

In a rare occurrence, the gauge, called the VIX, briefly fell as low as 9.9 for the second time in 2017, after more than eight years without dipping below 10, said Russell Rhoads, director of education at the Chicago Board Options Exchange.

Low VIX levels could "indicate a level of complacency," said Nicholas Colas, chief market strategist at New York-based brokerage Convergex. "You can get really sticky, low **volatility** for quite some time. All you know is that it doesn't rebound for the reasons you think it should."

The measure has fallen about 30% after the outcome in the French presidential election's first round last month mitigated concerns about the eurozone.

The VIX is based on options prices on the **S&P 500 index** and tends to move in the opposite direction of stocks.

Monday's close of 10.11 was below the low in July 2014, right before a stretch of calm in U.S. stock markets was hit by a surge of **volatility**. Following the July 2014 bottom, the VIX went on to surge about 150% through Oct. 15 that year.

Despite the VIX's low reading, some investors remain wary after a number of economic indicators signaled growth would be slower than expected. Apollo Global Management's Joshua Harris said Monday at the Milken Institute Global Conference in California that public markets are overvalued because of global central-bank intervention, calling it a "very treacherous environment."

The VIX's drop on Monday was large, given the **S&P 500**'s relatively small increase of 0.2%. Prices of monthly VIX futures contracts through November 2017 all declined on Monday, FactSet data show.

Document J000000020170502ed520000m

THE WALL STREET JOURNAL.
U.S. EDITION

Small Business (A Special Report)
The Money Game --- The Feeling Is Mutual: More funds are pumping money into small firms

By Simon Constable
698 words
1 May 2017
The Wall Street Journal
J
R3
English

It used to be that almost all mutual funds invested their capital only in securities of public companies. But that's been changing -- which could be good news for some small businesses that have big plans.

Thirty-six percent of firms going public in 2016 received mutual-fund financing before their IPO, according to a recent research paper by Michelle Lowry and Sungjoung Kwon, both at LeBow College of Business, Drexel University, and Yiming Qian at the University of Iowa.

This practice of investing in private firms has become increasingly widespread. Specifically, the authors say, fewer than 15 funds invested in private companies each year through 2000, compared with around 90 unique funds in 2015 and 2016. The research used data from 16 fund families from 1995 to 2016.

"The interest of mutual funds is driven by two things: the possibly of investing in unicorns and the fact that these firms are going public later and later," says Jose-Miguel Gaspar, professor of finance at Essec Business School in Paris. In other words, mutual funds want to get in early on companies with potential for fast growth.

If this trend continues, it's likely to be good for some, but not all, small businesses. To get an investment from a mutual fund, a company will need to offer something rather special. "I am not sure this is a development for the average startup," says Prof. Gaspar.

On top of that, the level of mutual-fund investment in private firms, while growing fast, is still relatively small and likely to stay that way. "Under the terms of a law from 1940, mutual funds are allowed to own 15% of their assets in private firms; guidance that came later suggested 10%," says Richard Evans, professor of finance at the University of Virginia's Darden School of Business in Charlottesville. "They can only put a small allocation in such firms."

But for those companies that can get a mutual fund interested, there is plenty of good news.

Lower cost of capital. Prof. Evans notes that the availability of more capital to fund businesses ultimately means a lower cost of capital for the businesses. It goes back to economics 101 -- more supply lowers the price of the capital needed. In this case, the potential returns that the investors want to see in the companies they buy will be lower.

Stay private longer. "What the paper shows is that having mutual-fund investors shows that companies can stay private 1 1/2 to 2 1/2 years longer than otherwise," says Prof. Lowry.

That allows the firms the potential to grow without the pressure of reporting earnings each quarter. That means that profits can be reinvested into the business and so help boost longer-term growth.

Less regulatory filing. Public companies must file many documents each year. Staying private allows managers to concentrate on growing the business rather than filling in government forms. The longer they stay private, the longer they can avoid the paperwork.

Help with growing pains. Any small company that wants to grow will see growing pains, but with a mutual-fund investor, there are seasoned managers available to offer advice.

IPO prep. The advice isn't just there when there is a misstep. Perhaps most important, the advice and coaching can help companies with their debut on the **stock market**, aka the IPO.

"The transition [from private to public] can be quite a big change," says Sonu Kalra, portfolio manager of the Fidelity Blue Chip Growth Fund. He adds, "The leaders are used to sitting in a room with a few people, whereas when they are public, it will be with a big group of people."

Mr. Kalra says he and his team try to prepare company managers for what to expect when their stock is listed. They hold mock earnings conference calls, and mock roadshows where company leaders will talk with investors.

Mr. Constable is a writer in New York. Email him at reports@wsj.com.

Document J000000020170501ed5100006

The New York Times

THE WEEK AHEAD
Business/Financial Desk; SECTB
Fed Will Update Outlook; April Jobs Data Is Ahead

By THE NEW YORK TIMES
1,030 words
1 May 2017
The New York Times
NYTF
Late Edition - Final
2
English

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

ECONOMY

Just ahead, March personal income data.

On Monday at 8:30 a.m., the Commerce Department will report on personal income and spending for March. Economists expect a 0.3 percent increase in income and a 0.2 percent rise in spending.

If the consensus for income is correct, it will mark a slowdown from faster gains in January and February, but after a tepid jobs report for March, some reversal may have occurred. As for spending, economists will be closely watching that figure after a report on Friday on economic growth in the first quarter showed a decline in consumption early in the year. Nelson D. Schwartz

MEDIA

Hollywood writers could be headed for a strike.

A decade of labor peace in Hollywood could be shattered on Tuesday if negotiators for unions representing television and movie writers fail to come to terms on a new three-year contract with studios. The unions, the Writers Guild of America, East, and the Writers Guild of America, West, have been locked in discussions with studio representatives over the past week, with sticking points that include a faltering health care plan and pay for short-form series, in particular those for cable networks and streaming series. If no deal is reached before 12:01 a.m. Pacific time on Tuesday, when the current contract expires, the unions have promised to strike, sending late-night shows into immediate reruns and threatening the industry's ''upfront'' ad sales presentations, scheduled for mid-May in New York. Brooks Barnes

ECONOMY

No action is expected out of Federal Reserve's meeting.

Financial markets are increasingly confident that the Federal Reserve will raise its benchmark interest rate in June, as it did in December and March. But first, the Fed has a meeting on Tuesday and Wednesday, when, it is widely expected, nothing will happen. Fed officials are planning to continue discussing the next phase in the Fed's return to normal: reducing the central bank's huge investments in Treasuries and mortgage bonds. But no decision is expected until later this year. The Fed will also update its economic outlook in the statement it will publish on Wednesday. Continued confidence that the economy is in good health would set the stage for a June increase. Binyamin Appelbaum

AUTO INDUSTRY

Volkswagen will elaborate on its first-quarter earnings.

Volkswagen will provide details about first-quarter earnings on Wednesday, elaborating on a bare-bones preliminary report on April 18. The carmaker said then that operating profit had risen 28 percent to 4.4 billion euros ($4.79 billion) because of improved profitability at the core Volkswagen brand, but gave no details about the performance of other units like Audi or Porsche. Then, on Friday, Volkswagen executives will hold a news conference in Wolfsburg, Germany, to further outline plans to revive the company's brand, which has long suffered from high production costs and meager profits. Jack Ewing

BANKING

HSBC and two French banks are set to update investors.

HSBC and the French banks BNP Paribas and Société Générale are expected to update investors on their first-quarter results this week. The quarter has been positive one for many lenders, with the Swiss banks Credit Suisse and UBS reporting strong gains last week and the Royal Bank of Scotland posting its first profit since the third quarter of 2015.

UBS and Standard Chartered will also hold their annual meetings of shareholders this week. Chad Bray

MANUFACTURING

China is debuting a new commercial jet.

Move over, Boeing and Airbus: Like Western giants in a number of other industries, you are about to have competition from China. Most likely late this week, China plans to conduct the maiden public flight of its new commercial jet, the Comac C919. A single-aisle jet that can carry 150 to 190 passengers depending on how tightly they are packed together, it will compete with the Boeing 737 and the Airbus A320. Almost all of the initial orders are from Chinese airlines, but China hopes to start exporting the new jet and has already begun promoting it in Africa. Keith Bradsher

ECONOMY

Analysts anticipate a slight rise in unemployment.

On Friday at 8:30 a.m., the Labor Department is scheduled to release its report on the nation's hiring and unemployment for April. After the government posted a somewhat disappointing initial estimate of 98,000 new jobs in March, economists are expecting payrolls to recover. Initial jobless claims dipped, and Wall Street analysts are predicting 193,000 new jobs for April, with a slight tick up in the unemployment rate to 4.6 percent from 4.5 percent. The increase could reflect upbeat economic appraisals and indicate that more people are rejoining the work force because they are more hopeful of finding a job. The average hourly wage is expected to climb by 0.3 percent, bringing the year-over-year increase to 2.7 percent. If the past couple of months are a guide, watchers can expect that a low hiring figure will pass mostly unremarked upon by the Trump administration, whereas a good one will be an opportunity to claim success. Patricia Cohen

INVESTING

Buffett is poised to address investors at their annual meeting.

Thousands of investors are expected to descend upon Omaha on Saturday for Berkshire Hathaway's annual shareholders meeting, long called the Woodstock for capitalism. The chief attraction, of course, is the chance to hear live from Berkshire's chief executive, Warren E. Buffett, and his longtime partner, Charles Munger. Mr. Buffett is expected to face questions about President Trump and about Wells Fargo, one of Berkshire's biggest investments, which is still dealing with fallout from its scandal over fraudulent accounts. Also expected: the usual query about who will succeed him as chief executive. Michael J. de la Merced

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

Volkswagen issued a preliminary earnings report on April 18. (PHOTOGRAPH BY CHRISTIAN CHARISIUS/REUTERS)

Document NYTF000020170501ed510003e

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