The New York Times

Fair Game
Business Day
Meet the Shareholders? Not at These Shareholder Meetings

By GRETCHEN MORGENSON
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Companies can use technology to be open and transparent with their stakeholders, or they can deploy it to go underground. Now, as this year's shareholder meeting season begins, investors are taking aim at directors whose companies use technology as a shield against accountability.

At issue is the increasingly common corporate practice of holding annual meetings that offer only online participation for shareholders. A change in Delaware law in 2000 allowed companies incorporated there — which include a majority of American public companies, and two-thirds of the Fortune 500 — to conduct their annual shareholder events remotely. Other states also allow such meetings, but some, including Massachusetts and New York, do not.

Virtual meetings, some investors say, cede far too much control to corporate managers during the sole event each year when they must look owners in the eye and listen to their views. Managers presiding at virtual-only confabs, critics say, can cherry-pick which shareholders' questions to answer and prevent investors from communicating one on one with management.

Shareholder meetings may seem like highly ritualized events that only pretend to offer meaningful interactions between companies and the investors who own them. But it is undeniable that these events are the only time each year when investors can direct questions to company officials and air their praise or grievances.

Timothy Smith is the director of environmental, social and governance share owner engagement at Walden Asset Management, which oversees $3 billion. He often attends shareholder meetings and presents proposals on issues to be voted on by investors.

"These are not management's meetings, they are the meetings of the owners of the company," Mr. Smith said. Online-only events give company officials "tremendous power over controlling, censoring and really limiting the engagement of share owners with the board and management."

For decades, companies' meetings were actual gatherings, often held at headquarters or nearby. In recent years, companies have added online functions, allowing increased participation by shareholders who cannot travel to the events. Investors have welcomed these hybrids.

But a growing number of companies have moved to online-only shareholder meetings. Last year, 154 companies conducted such events, up from 21 five years earlier, according to Broadridge Financial Solutions, which sells virtual shareholder meeting services.

Many of the companies limiting their meetings to the virtual world are small, and switched because shareholders rarely attended their in-person events. But e-meetings are also rising among companies in the **Standard & Poor**'**s 500**-**stockindex** that have throngs of interested shareholders. Last year, 14 of these companies held online-only meetings.

It is too soon to tell how many companies will do so in 2017; companies typically advise shareholders about their meetings only when they file their proxy statements. But early indications suggest further growth this year. At least half a dozen large companies have said they will join the ranks of those offering virtual-only meetings in 2017. They include Ford Motor, Alaska Air, Duke Energy, ConocoPhillips and the GEO Group, a private prison operator.

Scott M. Stringer, comptroller of New York City and overseer of city pension funds with $170 billion in assets, hopes to stop this trend. His office recently began communicating with companies that held online-only meetings last year and whose shares the pension funds own. If they continue down this path, he said, the comptroller's office will vote against the election of all directors sitting on corporate governance committees at the companies.

Duke Energy is one company that has heard about the new policy. On March 24, Mr. Stringer's office wrote to Duke criticizing the company's plan to have an online-only shareholder meeting on May 4. A number of shareholder proposals opposed by management are scheduled to come up at the meeting, and some investors are concerned they will get short shrift. One proposal calls on Duke to issue a report on the public health risk associated with its coal use, and another asks it to assess the impact on its portfolio of limiting the global increase in temperature to 2 degrees Celsius, a goal agreed to in the 2015 Paris accord.

I asked Catherine Butler, a Duke Energy spokeswoman, why the company had switched to a virtual-only meeting. She said Duke was doing so in part because other companies were. The major reason: "We have a worldwide shareholder base, and we want to make sure the majority of shareholders have the ability to participate," she said. The company's response to Mr. Stringer's office made the same case.

Of course, a hybrid meeting would also allow Duke's shareholders around the globe to participate. But never mind that.

"It's one of the great markers of American enterprise — whether you own one share or one million, you can speak at a company's annual meeting," Mr. Stringer said in a statement. "Except now, in this interconnected world, companies are using technological tools to whittle away at investors' rights and hide from accountability. If boards shirk this responsibility, share owners should join us in holding them accountable."

Mr. Stringer is not alone in his dislike for virtual-only meetings. The Council of Institutional Investors, a nonprofit group of corporate, public and union employee benefit funds and endowments, has urged companies using virtual meetings to do so only as a supplement to in-person gatherings.

Gary Lutin heads the Shareholder Forum, which convenes independent workshops to help investors make sound decisions. A 2010 program examined online-only shareholder meetings.

"Hybrid meetings allow shareholders to show up and participate any way they want to," Mr. Lutin said. "There's no reason to make it a pure virtual meeting other than to control the communication, and if that's the purpose, that's not consistent with annual meeting requirements."

Investors have tried other methods to slow the e-meeting trend. Last fall, Mr. Smith hoped to put forward a shareholder proposal at Comcast, the media company, recommending that it have a hybrid meeting rather than just an online version. But Comcast received permission from the Securities and Exchange Commission to exclude the proposal from its proxy, so shareholders will not be voting on it this year.

Mr. Smith said he objects to virtual-only meetings in part because he's had problems participating in them. At the 2012 annual meeting of United Natural Foods, a distributor of organic and specialty foods, his phone line went dead while he was commenting on a shareholder proposal.

Halie O'Shea, a United Natural Foods spokeswoman, said that after the 2012 meeting, the company moved to the hybrid model. "The company has high regard for Mr. Smith and is responsive to stockholders' views and concerns," she said in a statement. "The proposal which Mr. Smith spoke in support of at the 2012 annual meeting was ultimately implemented by our board."

United Natural Foods did the right thing. But given that a growing number of companies seem to like what virtual-only meetings offer, withholding votes from their directors may be necessary to slow the trend. Individual investors who suspect that their companies are using e-meetings to armor themselves against shareholders may want to withhold votes as well.

Twitter: @gmorgenson

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Scott M. Stringer, the New York City comptroller, hopes to stop the trend of shareholder e-meetings. | Hiroko Masuike/The New York Times

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The New York Times

Economic View
The Upshot
Caution Signals Are Blinking for the Trump Bull Market

By ROBERT J. SHILLER
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Despite an eight-day losing streak that ended on Tuesday, the **stock market** has generally been buoyant in the opening weeks of the Trump administration. The **bullish** mood could be a self-fulfilling prophecy and lead to continuing gains for a while.

Yet important measurements — some of which I developed — tell us that the market is quite expensive and that investor optimism is tinged with plenty of worry. None of this tells us where the market is going tomorrow, but it suggests that some caution is advisable, and that returns over the next decade or so are likely to be constrained.

Consider first the evidence from what is often called the Shiller CAPE ratio.

What is CAPE, or the cyclically adjusted price-earnings ratio, exactly? Bear with me. This is a bit technical: It is real, or inflation-adjusted, **stock price** divided by a 10-year average of real earnings. It is usually measured using the price and earnings of the **Standard & Poor**'**s 500**-**stockindex**, adjusted for inflation with the Consumer Price Index. In 1988, John Y. Campbell (now at Harvard) and I showed in a joint article that such a ratio has, since 1881, forecast returns somewhat well in the **stock market**. That "somewhat" is important because the ratio has its limits as a forecasting tool.

We found back then that averaging earnings over 10 years smoothed short-run or cyclical fluctuations, providing a better indicator of fundamental value. The CAPE ratio has successfully explained about a third of the variation in real 10-year **stock market** returns in United States history since 1881.

This is the important point: In 1988, we found that CAPE had averaged about 15 since 1881. In years when CAPE was lower than that, subsequent 10-year returns for the **stock market** tended to be good. In years when it was higher, the 10-year returns tended to be bad.

That's why today's CAPE is sending a troubling message. The ratio is now almost 30. Using monthly data, it has been higher only in 1929, when it reached 33, and in the few years around 2000, when it reached 44. In both instances, sharp market declines followed those very high readings. The current level of CAPE suggests a dim outlook for the American **stock market** over the next 10 years or so, but it does not tell us for sure nor does it say when to expect a decline. As I said, CAPE is useful, but it does not provide a clear guide to the future.

Investor sentiment is another factor, and current readings also give us cause for concern.

I have been involved in regular opinion surveys of institutional and individual investors in the United States since 1989. These surveys are undertaken and published online by the Yale School of Management. From these data, I created a Valuation Confidence Index, which is the percent of respondents who think the domestic **stock market** is not overvalued; a Crash Confidence Index, which is the percent who think that a 1929- or 1987-style crash in the next six months is highly unlikely; and a One-Year Confidence Index, which is the percent who think the **stock market** will go up in the next year. The indexes are measured in six-month intervals, and our latest data are for the six months through February, which includes the election of President Trump on Nov. 8, 2016.

Valuation confidence in February was quite low. The only time it has been lower was in the years surrounding the market peak of 2000. In February, crash confidence was quite low too, though it has been slightly lower on a number of occasions since 1989. These two indicators might seem to confirm the apparent signal of the CAPE ratio: trouble ahead. They are certainly saying that investors aren't confident that current prices are reasonable or that the market is stable.

But one metric went the opposite direction. One-year confidence is at a record high for institutional investors, and it is at the highest level since 2007 for individual investors. (That means, by the way, that in 2007, the eve of the Great Recession and financial crisis, most people had no clue that big problems were imminent.)

It is hard to reconcile these results. One possible interpretation might be that respondents perceive a **stock market** bubble: They think valuations are high and there is a non-negligible probability of a crash. At the same time, they are hanging in because they think the Trump boom will probably last for at least another year.

That doesn't provide much reassurance. The high fraction of our survey respondents who think that the **stock market** is unlikely to fall in the next year may simply reflect a failure of imagination about how a Trump **bull market** could suddenly end. There are scores of ways, of course. Just because people can't picture a big decline doesn't mean that they won't react very badly if the market comes under real stress.

Many people appear to believe that a business-oriented president will preside over a long **stock market** boom. At a glance, there appears to be some precedent for this, first with the 1920 election that brought in President Warren G. Harding and Vice President Calvin Coolidge (who took over when Harding died in 1923) and then with the 1980 victory of Ronald Reagan. These elections were followed by the Roaring Twenties of 1921 to 1929 and the Millennium Boom market of 1982 to 2000.

But in both cases, during the initial election campaigns the economy was in recession and the CAPE ratio was extremely low — around 5 in 1920 and 9 in 1980.

We are in a very different situation now. The economy has largely recovered from the last recession, and CAPE shows us that stocks are now relatively expensive.

There is no clear message from all of this. Long-term investors shouldn't be alarmed and shouldn't avoid stocks altogether. But my bottom line is that the high pricing of the market — and the public perception that the market is indeed highly priced — are the most important factors for the current market outlook. And those factors are negative.

We don't know where the market will go this month or this year. It could well rise a lot. But investors should not let themselves be tempted to bet aggressively on the Trump **bull market**.

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

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Chris Koehler

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THE WALL STREET JOURNAL.
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U.S. News: Corporate Profits, Economy Continue to Grow

By Ben Leubsdorf
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English

U.S. corporate profits extended their rebound in late 2016 as the broader economy remained on a trajectory of steady, modest growth.

A measure of after-tax corporate profits jumped 22.3% in the fourth quarter, compared with a year earlier, the Commerce Department reported Thursday. The measure's strongest year-over-year gain in nearly five years partly reflected a low base in the final months of 2015, when earnings plunged amid a slump in energy prices, weakness in the manufacturing sector and BP PLC's massive settlement with the U.S. government over the 2010 Deepwater Horizon oil spill in the Gulf of Mexico.

As a share of the total economy, profits were 9.2% of gross domestic product in the fourth quarter, below record levels seen earlier in the expansion but up from 7.8% a year earlier.

It is "a good recovery from the bottom, but we are not back to where we were," said Howard Silverblatt, senior index analyst at S&P Dow Jones Indices.

Earnings deteriorated in 2015 as exporters, energy companies and other firms were pressured by forces including a strong dollar, falling commodity prices and weak global growth. But **oil prices** stabilized last year and the global outlook has brightened.

For all of 2016, profits rose 4.3% after falling 8.5% in 2015. In the fourth quarter, profits climbed 3.7% from the prior three months -- the fourth consecutive quarter of growth.

Looking forward, profits are expected to continue firming. Mr. Silverblatt said companies in the **S&P 500** are estimated to post year-over-year earnings growth of 21.7% in the first quarter, with more moderate gains going forward.

The **stock market**'s rally since November "definitely had some merit to it, because earnings were already getting better," he said, though he said it is also owed much to expectations about tax cuts and other policy changes under the new Trump administration.

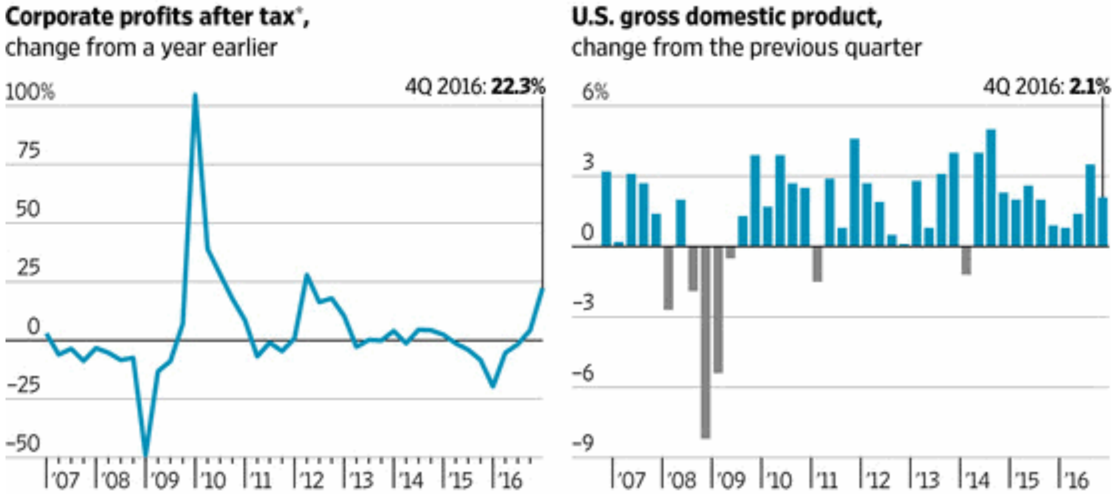
Overall economic growth in the fourth quarter was revised up from earlier estimates. GDP, a measure of the goods and services produced across the economy, expanded at an inflation- and seasonally-adjusted annual rate of 2.1% in the final three months of 2016, according to Thursday's report. The government had earlier estimated growth at a 1.9% pace.

Consumer spending in the fourth quarter was stronger than previously thought, offset in part by downward revisions for business investment, net exports and spending by state and local governments.

Thursday's report "paints a picture of a healthy consumer, likely fueled by ongoing gains in employment, modest increases in wages, and solid balance sheets," Barclays economist Blerina Uruci said in a note to clients. "However, fixed investment remains soft."

Picking Up the Pace

U.S. corporate profits are rebounding after a rough stretch while the pace of overall economic growth remains close to its postrecession average.



Note: Data are seasonally adjusted and annualized. *Profits without inventory valuation and capital consumption adjustments

Source: Commerce Department

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Streetwise: 'Trump Trade' Mojo Has Lost Its Charm

By James Mackintosh
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English

The "Trump trade" has become market shorthand for stocks up, dollar up, bond yields up, and while it has had a rough ride recently, shares remain more than 10% above Election Day.

This isn't a vote of confidence in Donald Trump. It pays to tease out the details of market performance, which show just how disheartened investors are about the prospects of the new president getting his policies through.

The basic distinction is between global growth, which was happening anyway and has sped up this year, and a U.S. boom induced by Mr. Trump's promised policies. In the aftermath of the election, investors bet on American greatness, but the effect has faded. Other Trump trades have also dwindled and in some cases vanished entirely.

U.S. growth. The idea that the U.S. would power ahead of the rest of the world was reflected in sharp U.S. **stock-market** outperformance, as well as the stronger dollar. No longer. U.S. share performance since the election is now merely in line with the rest of the world and slightly behind Europe, in constant currency terms, while the dollar has given back about half its postelection gains.

Corporate tax cuts. The hope that a lower tax rate would boost profits put a rocket under share prices, but has now faded entirely. Companies with the highest tax rates ought to be the biggest beneficiaries of a simpler and smaller tax, but after initially soaring, their shares are now lagging behind the **S&P 500** since the election, according to an index created by Goldman Sachs Group Inc. Alternative measures such as the shares of smaller companies, which tend to be more domestic and so have fewer opportunities to dodge taxes via complex offshore transactions, have also been underperforming since mid-December as tax-cut hopes fade.

Trade restrictions. Mr. Trump's (since broken) promise to name China as a currency manipulator on day one of his administration helped the dollar gain more than 3% against trade-sensitive Asian currencies in the six weeks after the election. The dollar has fallen back almost to where it started, according to J.P. Morgan Chase & Co.'s Asian Dollar index. The Mexican peso has regained almost all the ground it lost in the postelection emerging-market rout.

Health care. The Republican failure to agree on a replacement for Obamacare helped patch up the wounds inflicted on shares of hospital groups by the election. The managed health-care stocks that might be beneficiaries of "Trumpcare" gave back some of their gains but remain ahead. The sectors are small and politics isn't the only driver, but it looks like investors expect further attacks on Obamacare.

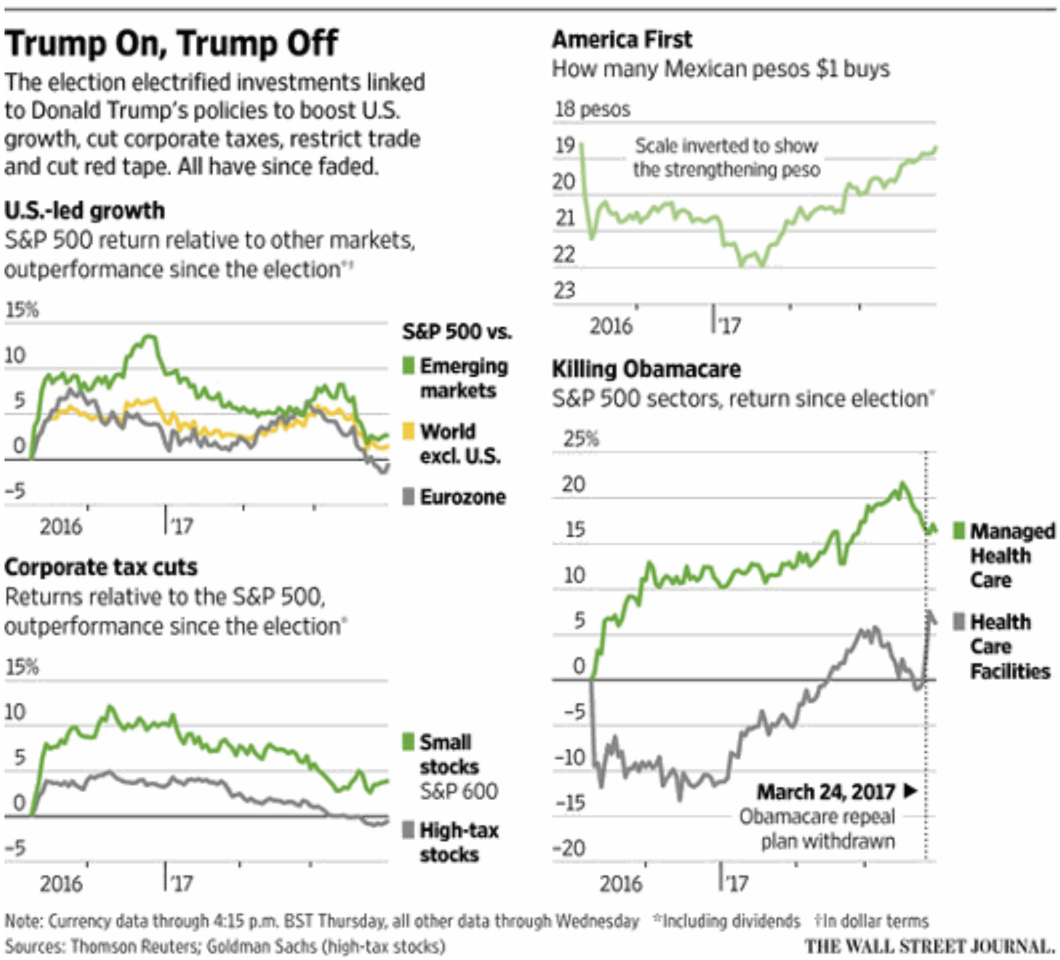
Bank red tape. It is hard to split out bank stocks from bond yields, as the two have moved tightly together recently, but an administration packed with former Wall Street executives pledging to slash financial bureaucracy ought to be great for banks. Investors are still giving credence to the idea of a bonfire of regulations, with U.S. bank stocks 12% ahead of the market, about double the outperformance of banks in the eurozone.

Trumpflation. Economists think tax cuts and infrastructure spending when unemployment is low lead to inflation, and the markets reacted accordingly: Expectations for inflation, already on the up since the summer, leapt after the election. The "Trumpflation" trade has been slowly declining since late November, as measured by inflation swaps for the five years starting in five years' time, a common measure used to strip out short-term fluctuations. A comparison with Europe suggests it is now mostly about global growth, not Trumpflation, with the rise since the election in expected inflation identical in the eurozone and the U.S., although from a lower base.

Coal. There has been a rally in U.S. coal stocks in the past week as Mr. Trump followed through on his vow to roll back environmental regulations. But they remain lower than on Election Day and have fallen 25% since their postelection peak, because the price of the main alternative fuel, natural gas, matters much more.

Infrastructure. The most obvious winners of the infrastructure and "buy American" push by Mr. Trump were suppliers of steel and other materials needed if roads, bridges and a border wall are to be built. The postelection bounce has faded, and U.S. steel stocks, while up, are no longer ahead of European or Japanese steel, with the notable exception of U.S. Steel Corp.

The fading Trump trades don't have to be bad news for investors so long as global growth picks up the slack. They also present an opportunity for those who think the president and congressional Republicans will overcome the divisions the health-care debate revealed, as it is now cheaper to bet on tax cuts or infrastructure coming through after all. But only so long as optimism about global growth continues to insulate the overall market from Trump disappointment.



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THE WALL STREET JOURNAL.
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Banks' Revenue From Stock Trading Takes a Hit

By Telis Demos
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English

Stocks have climbed to records over the past year, but the business of trading shares is in a slump.

Stock-trading revenue at U.S. banks fell 13% in 2016 from the previous year, according to recent figures from the Office of the Comptroller of the Currency. The slide contrasts with a 9% rise in overall trading driven by interest-rate and currency products. Globally, the biggest dozen banks had a 13% drop in stock trading in 2016, the first meaningful annual decline since 2012, according to research firm Coalition.

Now, as the first quarter wraps up this week, bankers say the weakness experienced last year is continuing. That is prompting concerns about whether banks should be preparing for a longer-lasting decline in the business, rather than a cyclical dip.

"Client volumes are down . . . that's an industry issue," said Morgan Stanley President Colm Kelleher at a conference in late March. When comparing Morgan Stanley's first quarter of this year with the last quarter of 2016, he concluded that the stocks business was "not doing as well."

Stock trading isn't as big at many Wall Street banks as bond and currency trading. But it still accounted for $28 billion in revenue for the top five U.S. banks in 2016, or more than 10% of their total revenue.

Banks generate equities revenue in a variety of ways: from executing trades to buying and selling stock-related derivatives to services such as locating shares for clients to bet against.

The stock-trading-revenue falloff is deepening despite higher volumes and big index price swings in the wake of the U.K.'s vote in June to exit from the European Union and November's U.S. presidential election.

Overall, subdued **volatility** in stock markets leads more trades to be executed via the cheapest electronic means, rather than by banks' traders or through more expensive and complex derivatives. Equity-derivatives revenue fell 21% last year globally, according to Coalition, which works with banks to track industry trends.

Morgan Stanley and Oliver Wyman estimated in a recent report that some $15 billion in expected equity revenue has vanished, due to "changes in client behavior and the growing role of electronic trading."

Plus, they said, about 15% of the fee pool in the biggest, most liquid markets, such as stocks, has moved to nonbank firms. Those firms can cheaply execute standard trades such as moving in and out of exchange-traded funds.

Banks tend to earn more money when investors are willing to pay more to get trades done quickly or at guaranteed prices due to worries over unpredictable price movements. Those fears have dropped. Expectations of stock **volatility** fell in both the U.S. and Europe overall last year, and has dropped further in 2017.

Virtually all trading today involves electronic algorithms in some fashion, but some are more complex than others. Banks charge clients about four times the rate for the most complex individual "high-touch" trades than ones that simply follow a preset portfolio strategy, according to Greenwich Associates.

Meanwhile, investment firms have balked at paying higher trading fees to banks because of a shift by their own clients to index funds, which command much lower fees.

"If asset-management fees and revenue are under pressure, how can their suppliers do well?" said Christian Edelmann, head of the global investment-banking and asset-management practices at Oliver Wyman.

The shift away from active trading has also hurt some of Wall Street's best clients. Some hedge funds, which typically generate big fees for banks, have been shutting down.

Banks had already been responding to some of the changes. Over the past decade, banks shifted resources from human trading and research to high-speed electronic markets.

For a while, that pivot paid off. From 2012 to 2015, stock-trading revenue at banks either rose or stayed relatively stable, a contrast to fixed-income trading, which was hurt by regulatory changes and central banks' low interest-rate policies.

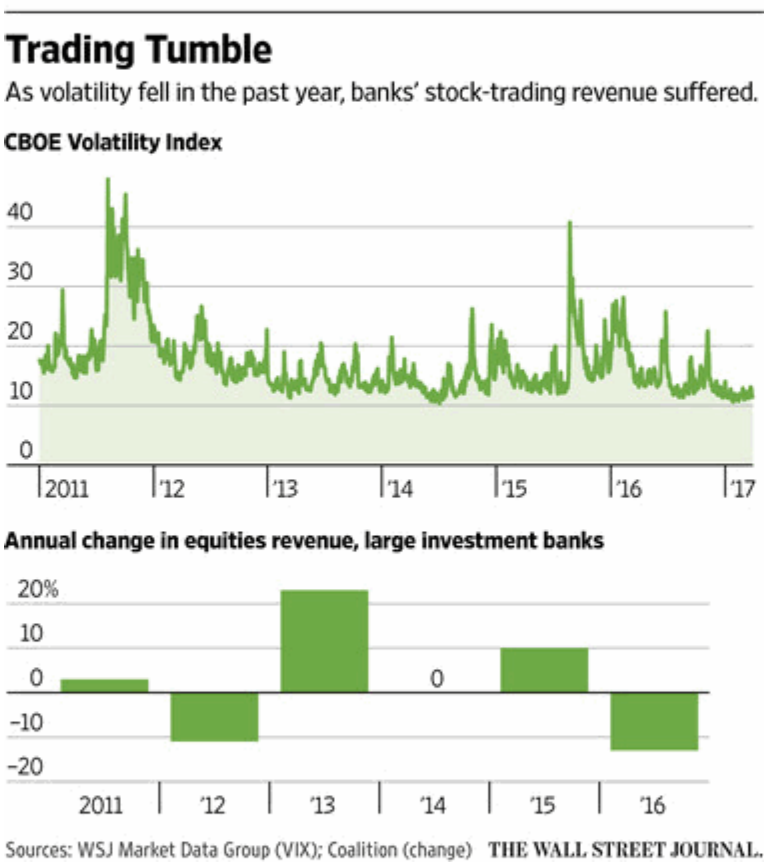
The respite didn't last for stocks. As revenue tumbled in 2016, operating margins in stock trading also dropped to 23% from 36% the prior year, according to Coalition.

The operating margins for completing stock trades fell to just 5% last year, according to Amrit Shahani, research director at Coalition. It was more than 7% in 2015 and more than 10% before the financial crisis.

Several banks in the past year have retrenched. U.K.-based Barclays PLC has closed its "high-touch" stock sales-and-trading desks in Asia. Japan's Nomura Holdings Inc. cut its research and derivatives in European stocks. CLSA, a unit of China's Citic Securities Co., closed its U.S. stock-research team.

Meanwhile, the biggest banks in stock trading are trying to expand market share in the prime brokerage business, in which banks lend money to clients who sometimes bet against stock prices.

Mr. Kelleher of Morgan Stanley said the bank could stave off declines in stock revenue globally with its strong prime brokerage. Citigroup Inc. said it hopes to gain share in equities by expanding its prime brokerage offerings.



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The New York Times

Business/Financial Desk; SECTB
Financial and Energy Sectors Lift Markets

By REUTERS
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Wall Street gained ground on Thursday, led by financial shares, after data showed economic growth was stronger than previously reported last quarter, helped by robust consumer spending.

The energy sector rose for a third straight day, supported by stronger **oil prices** and a 8.8 percent gain for ConocoPhillips after it agreed to sell oil and gas assets. Oil futures closed above the $50 a barrel mark.

The **Standard & Poor's 500**-**stockindex** rose for a third straight day, rebounding from last week's drop.

Growth in the United States economy slowed less than previously reported in the fourth quarter as robust consumer spending provided a boost, the Commerce Department said. Gross domestic product increased at a 2.1 percent annualized rate instead of the previously-reported 1.9 percent pace.

A record-setting rally for stocks in the wake of President Trump's November election stalled somewhat this month, with some investors pointing to risks to Trump's agenda, including a tax overhaul, after his fellow Republicans failed to pass a health care bill.

The G.D.P. report is ''basically an affirmation that, hey, at the end of the day, Washington will do and say whatever they are going to do, but the economy is marching forward,'' said Karyn Cavanaugh, senior market strategist at Voya Investment Management in New York.

''It's not just the U.S. economy, but we do see definitely improvement throughout the world,'' Ms. Cavanaugh said.

The **Dow Jonesindustrial average** rose 69.17 points, or 0.33 percent, to 20,728.49, the **S**.**&P**. **500** gained 6.93 points, or 0.29 percent, to 2,368.06 and the **Nasdaq composite** added 16.80 points, or 0.28 percent, to 5,914.34.

The **Nasdaq** closed at a record high after rising for a fifth straight session.

Financial shares surged 1.2 percent, with Bank of America and Citigroup helping the **S**.**&P**. **500**.

Investors are also turning their attention to the impending first-quarter earnings season to justify lofty valuations for stocks. The **S**.**&P**. **500** is trading at about 18 times earnings estimates for the next 12 months against its long-term average of 15.

First-quarter earnings for **S**.**&P**. **500** companies are expected to rise 10.1 percent, according to Thomson Reuters.

''We continue to see decent-to-improving economic data primarily in employment,'' said Tim Ghriskey, chief investment officer of Solaris Asset Management in New York. ''We are likely to see a good quarter in terms of earnings, so I think there is some anticipation perhaps in the market here.''

Oil futures for May delivery closed at $50.35, up 84 cents, in New York. Prices rose after Kuwait gave its backing to extend OPEC production cuts in an attempt to reduce global oversupply.

''There is a significant chance that a short-to-medium-term bottom has been found,'' said Tamas Varga, analyst at London brokerage PVM Oil Associates.

In corporate news, Lululemon Athletica shares plunged 23.4 percent after the yoga and leisure apparel retailer said first-quarter comparable sales were expected to fall.

The British pound bounced from a one-week low of $1.2375 hit on Wednesday, and was last trading at $1.2471, up 0.0031 on the day.

The dollar index ticked up 0.53 percent, with the euro down 0.80 percent to $1.0678, weakened by the inflation data.

The Mexican peso was on track to post its strongest quarter on record versus the greenback and its best month since at least June 2012, with a March gain of more than 7 percent.

Mexico's central bank raised its benchmark interest rate for the fifth time in a row on Thursday, taking borrowing costs to an eight-year high.

Gold futures for April delivery fell $8.70 to $1,245 an ounce.

CHART: The **Nasdaq** Minute by Minute: Position of the **Nasdaq Composite** Index at 1-minute intervals on Thursday. (Source: Bloomberg)

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U.S. News: National Debt Is Projected To Nearly Double in 30 Years

By Kate Davidson
505 words
31 March 2017
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A2
English

The national debt is on track to nearly double over the next three decades, the Congressional Budget Office said Thursday, highlighting a challenge for the Trump administration, which has yet to propose any policies to lower deficits.

President Donald Trump has signaled that he intends to pursue policies that may in fact drive deficits even higher, including a sweeping tax cut and infrastructure spending, while ruling out changes to the Social Security and Medicare programs, which are the biggest drivers of higher government spending.

The CBO's annual report on long-term federal spending and revenue shows the federal debt, which has doubled since 2008 to about 77% of gross domestic product, would reach 150% of GDP in 2047, the highest level since its post-World War II peak. That is up from an estimate of 145% made this past January.

"Such high and rising debt would have serious budgetary and economic consequences," the agency warned.

The increase reflects higher costs for health-care programs and Social Security, the result of an aging population, and higher interest payments on the federal government's debts.

The CBO also lowered its projections for GDP growth over the next 30 years -- in part because of slower productivity growth -- which boosted the estimates of debt as a share of GDP.

The report's estimates are based on the assumption that current laws will remain generally unchanged, and that potential GDP will grow 1.9% on average each year through 2047, significantly lower than the 2.9% average seen over the previous 50 years.

Lower interest rates than previously estimated are expected to soften the impact of larger deficits and slower economic growth by effectively offsetting the costs to the federal government. The latest CBO estimates envision the **10**-**year Treasury** rate, after inflation, reaching 1.5% over the long term, down from estimates of 1.9% last year and 2.2% in 2015.

Net interest costs are expected to average 2.1% of gross domestic product over the coming decade, according to Thursday's report, down from 2.5% last year. Despite the downward revision, however, those costs are expected to triple as a share of total federal spending over the next 30 years, from 7% today to 21% by 2047.

The Federal Reserve started lifting short-term interest rates in December 2015 after keeping them pinned near zero for nearly a decade. Thursday's CBO report assumes two Fed rate increases in 2017, including one earlier in March, and two increases in 2018.

CBO also significantly lowered its projections for immigration, mainly because of an apparent slowdown in unauthorized immigration in recent years, the agency said.

The CBO's forecasts have consistently shown health-care programs and Social Security will be by far the biggest drivers of federal spending in the coming decades as an aging workforce leaves fewer workers to support more retirees.

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THE WALL STREET JOURNAL.
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Oil Traders See Output Cuts Being Extended

By Sarah McFarlane
391 words
31 March 2017
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B11
English

Oil producers' efforts to cut production have fallen short of draining the overhang of stocks to the level they had targeted, meaning cuts are likely to go on longer, oil traders said.

The Organization of the Petroleum Exporting Countries is facing a familiar dilemma: limiting its own production to bolster world prices enough that the sacrifice is compensated sufficiently and stored oil is sold, while knowing that rival producers outside the deal are pumping more in response.

"Wrestling with that equilibrium, balance, is something that is going to prove testing for those OPEC producers which need a high **oil price** to balance their budgets," said Mike Muller, vice president of crude-oil trading at Royal Dutch Shell PLC.

OPEC's members will meet on May 25 and decide whether a deal to cut 1.2 million barrels a day of output for the first six months of this year should be extended. The group had said they wanted stored oil levels to drop by about 300 million barrels. But U.S. stocks, seen as a bellwether for global inventories, reached an all-time high on Wednesday, weekly data published by the U.S.'s Energy Information Administration showed.

Oil prices soared about 20% in the weeks following OPEC's announcement of planned cuts on Nov. 30, only to drop back to around $50 a barrel this month as doubts rose over the group's effectiveness in reducing global stock levels. On Thursday, U.S. crude prices rose 84 cents, or 1.7%, to $50.35 a barrel on the New York Mercantile Exchange.

Traders speaking at the FT Commodities Global Summit said that although some oil was being sold out of the most expensive storage, such as oil stored on ships at sea, U.S. supplies remained stubbornly high.

"If we're anywhere around here on price, I think they're likely to continue their current strategy of cuts," said Ben Luckock, co-head of Group Market Risk at Trafigura Pte. Ltd.

U.S. shale-oil producers have proved quick to respond to higher prices, ramping up output to the highest level in 13 months at more than 9.1 million barrels a day, EIA data showed. This is also capping the market.

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REVIEW & OUTLOOK (Editorial)
America's Growing Labor Shortage

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President Trump approved the Keystone XL pipeline on Friday, and good for him, but will there be enough workers to build it? That's a serious question. Many American employers, especially in construction and agriculture, are facing labor shortages that would be exacerbated by restrictionist immigration policies.

Demographic trends coupled with a skills mismatch have resulted in a frustrating economic paradox: Millions of workers are underemployed even as millions of jobs go unfilled. The U.S. workforce is also graying, presenting a challenge for industries that entail manual labor.

Construction is ground zero in the worker shortage. Many hard-hats who lost their jobs during the recession left the labor force. Some found high-paying work in fossil fuels during the fracking boom and then migrated to renewables when **oil prices** tumbled. While construction has rebounded, many employed in the industry a decade ago are no longer there.

According to the Bureau of Labor Statistics, there are nearly 150,000 unfilled construction jobs across the country, nearly double the number five years ago. The shortage is particularly acute in metro areas like Miami, Dallas and Denver, and the worker shortage is delaying projects and raising costs.

A January survey by the Associated General Contractors of America found that 73% of firms had a hard time finding qualified workers. More firms identified worker shortages as a big concern (55%) than any other issue including federal regulations (41%) and lack of infrastructure investment (18%). Demand and salaries for subcontractors (e.g., carpentry and bricklaying) are going through the roof.

On the current demographic course, the shortage will worsen. The average age of construction equipment operators and highway maintenance workers is 46. When middle-aged workers retire, there won't be many young bodies to replace them. Most high schools have dropped vocational training, and more young people are enrolling in colleges that don't teach technical skills.

The farm labor shortage is also growing, which has caused tens of millions of dollars worth of crops to rot in the fields. Farmers can't get enough H-2A visas for foreign guest workers, some of whom have migrated to higher-paying occupations. Workers also often arrive late due to visa processing delays by the Labor Department. The undocumented workforce has shrunk as more Mexicans have left the country than have arrived in recent years.

The Western Growers Association reports that crews are running 20% short on average. Boosting wages and benefits -- many employers pay $15 an hour with 401(k)s and paid vacation -- has been little help. Instead, employers are cannibalizing one another's farms. In 2015 the country's largest lemon grower Limoneira raised wages to $16 per hour, boosted retirement benefits by 20% and offered subsidized housing. But now vineyards in Napa are poaching workers from growers in California's Central Valley by paying even more.

Some restrictionists claim that cheap foreign labor is hurting low-skilled U.S. workers, but there's little evidence for that. One Napa grower recently told the Los Angeles Times that paying even $20 an hour wasn't enough to keep native workers on the farm.

A new paper for the National Bureau of Economic Research concludes that terminating the Bracero program, which admitted seasonal farm workers from Mexico during the 1940s and '50s, did not raise wages of domestic workers. Meantime, a 2014 study found that Arizona's E-Verify mandate on employers reduced "employment opportunities among some low-skilled legal workers."

This isn't surprising since producers have responded to the worker shortage by shifting to higher-value crops that require less labor. As a result, imports of some fruits and vegetables, especially processed and canned varieties, have increased. Tomato sauce imports increased by about a quarter in the last three years. Since the 1990s, imported frozen vegetables -- particularly asparagus, broccoli and cauliflower that require high levels of labor to pick and cut -- have more than tripled.

Dairies and slaughterhouses are also facing stiff competition from Canada and Mexico. And consumers are paying more for products that can't be substituted by imports (often for seasonal reasons). So the worker shortage is hurting U.S. employers, low-skilled workers and consumers.

President Trump would compound the problem by reducing legal immigration or deporting unauthorized immigrants whose only crime is working without legal documentation. Low-skilled immigrants (those with 12 years of education or less) are estimated to account for nearly a third of the hours worked in agriculture and 20% in construction.

If President Trump wants employers to produce and build more in America, the U.S. will need to improve education and skills in manufacturing and IT. But the economy will also need more foreign workers, and better guest worker programs to bring them in legally.

(See related letters: "Letters to the Editor: Building Trades Address the Labor Shortage" -- WSJ April 4, 2017)

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Equities -- Ahead of the Tape: Earnings Growth: A Reason for Cheer

By Steven Russolillo
475 words
30 March 2017
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English

Contrarian **stock-market** investors have no shortage of warning signs these days. One important indicator may supersede them all.

Stock indexes are near records and valuations are historically elevated. The CBOE**Volatility** Index, or VIX, is abnormally calm, sitting at a level lower than all but 3% of daily readings in its history. Several measures of investor and consumer confidence have soared. On top of all that, margin debt just moved back to another record.

In the ninth year of this **bull market**, it is natural to wonder how much longer it will last even if one isn't skeptical by nature. Panglossian types are quick to counter with rosy statistics about the economy or companies' health. Such protestations are loudest near market peaks, though. Ironically, the fact that projected earnings growth in the coming year is merely good, not stellar, is a reason to breathe easier.

With the first quarter coming to a close Friday, **S&P 500** companies are expected to report quarterly earnings per share increased 9.1% from the same period a year ago, according to FactSet. That would be the best performance since 2011 and the third consecutive quarter of growth.

The median expected one-year forward earnings growth rate for **S&P 500** companies is a good but not great 7.8%, according to data provided by Ned Davis Research Inc. This shows analysts haven't become overly optimistic about the earnings recovery.

Since 1985, when this median estimate has ranged between 3% and 14% as it does now, the **S&P 500** has risen at a 9.7% annualized pace. That slightly exceeds the overall market's 8.6% annualized gain over every year in that time frame.

When analysts get too upbeat about earnings is when the market often finds trouble. Ned Davis's data show that when this expected growth rate has topped 14%, the **S&P 500** has dropped at a 2.4% annualized rate.

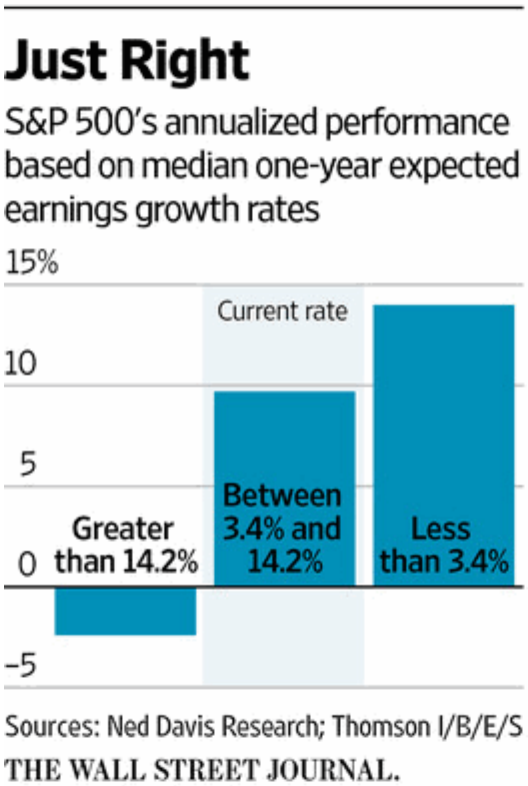
Conversely, environments when expected earnings growth is low or even negative often turn into great buying opportunities for investors. When analysts' median earnings estimate is below 3.4%, the **S&P 500** has averaged a 14% annual gain.

The **S&P 500** was mired in an earnings recession for five quarters through the middle of last year. Stocks perked up just as earnings have started growing again.

The **S&P 500** has risen 11% since the presidential election and 18% since the end of June 2016, which is, not coincidentally, when the earnings recession concluded.

Analysts will inevitably get ahead of themselves with their earnings forecasts and add to the long list of warning bells.

That may finally be a sign that investors need to curb their enthusiasm.



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The New York Times

Metropolitan Desk; SECTA
Pursuing Mansion Tax, Mayor Embraces a Snowball's Odds

By J. DAVID GOODMAN and WILLIAM NEUMAN
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For almost two years, Mayor Bill de Blasio has been arguing that Albany should allow New York City to levy a new tax on home sales above $2 million.

He talked about the so-called mansion tax in at least five separate events in one month in 2015, attempting to create momentum in Albany that never materialized. He has pushed it at a dozen events since rekindling the idea during a January budget address, and with increasing tenacity in recent weeks, including while chomping pickles at a diner with three older constituents on Facebook Live and during a mass conference call on Monday.

''If we speak loudly, Albany will listen,'' he said during his State of the City address.

It has not worked out that way.

The State Senate majority leader, John J. Flanagan, a Republican, has called the idea a ''non-starter.''

Likewise, Gov. Andrew M. Cuomo has seemed uninterested in helping out Mr. de Blasio, a fellow Democrat. ''That proposal was made in January,'' the governor said on Monday. ''It never went anywhere in January and it hasn't gone anywhere since.''

Nevertheless, Mr. de Blasio has persevered, eagerly playing the snowball to Albany's hell.

He has dismissed those who say it cannot get through the state capital, and compared it to universal prekindergarten, one of his signature initiatives as mayor, which initially met resistance in Albany. But whereas that effort ultimately succeeded, the main sticking point was in fact a new tax on high-income earners that Mr. de Blasio wanted to levy, to pay for it. The tax component quickly fell by the wayside, but not before the mayor's stubborn insistence, still near the outset of his term, set him permanently on the wrong foot with Mr. Cuomo and Republicans in the State Senate.

In this case, Mr. de Blasio has pushed for the proposed additional 2.5 percent tax on home sales by saying the revenue it would generate, an estimated $330 million, would be used to pay for rental assistance for older citizens, a key voting bloc as he campaigns this year for re-election. He held two news conferences last week to talk about it, one in Albany, where he had traveled for that express purpose, and one outside 432 Park Avenue, a towering hyper-luxury condominium with some of the most expensive apartments in the city. There, his focus on the issue clashed with the interests of reporters, who asked about other subjects.

For Mr. de Blasio, there are political advantages to raising the issue even if it goes nowhere. He can claim he took the high road on something he believes in -- taxing the wealthy to pay for services for the less fortunate -- and reach older voters, a key demographic during an election year. For the conference call on Monday, the city employed robocalls and other means to contact about 190,000 people about the proposal; the mayor's office said more than 26,000 people got on the line in some fashion.

Building a coalition in support of tax increases now could also help offset what are expected to be deep cuts in federal funding to the city and state when President Trump and the Republican Congress enact their budget this year.

"The $15 minimum wage was once declared dead on arrival," said Bill Lipton, the New York State director of the Working Families Party, which backs the mayor's effort. "Whether it's in the next few days or over the coming months, working families are going to demand that new taxes on the rich be part of the solution to Trump."

Mr. de Blasio was able to count a win on Tuesday in another area of housing policy: a state court judge preserved a freeze on rents in regulated apartments that had been championed by the mayor and opposed by landlords.

Mr. Cuomo, for his part, is negotiating with State Senate Republicans to extend a tax on those earning $1 million or more; if it were to lapse, the state would see its revenue fall by about $4 billion over two years. But the governor has not been open to tax increases. "I don't want to raise taxes," he said on Tuesday.

The median price of a home affected by the mayor's proposed tax would be $3.4 million, according to the Independent Budget Office. This is not so much the price range in the new residential towers high above midtown; it is closer to that of the Queens home that once belonged to Mr. Trump's family that was sold this month. Under the mayor's proposed tax, that sale, for $2.14 million would have generated about $3,500 in new revenue.

Some budget watchdogs have expressed caution at the proposal, and observed that the state already has a version of a mansion tax for homes over $1 million. "This type of transaction tax is **volatile** because it depends on the ups and downs of the market," said Carol Kellermann, president of the Citizens Budget Commission. "So if a regular source of new revenue is really needed, this is not good choice of a method to get it. And is it really needed?"

Along the way the mayor has managed to step on the toes of a natural ally on the issue: older citizens.

In Albany last week. Mr. de Blasio said that AARP, the advocacy group for people 50 and older, was helping to lobby legislators for his tax proposal. He repeated the assertion at his New York news conference.

But the group later put out a statement saying it was not true, and while it favored the goal of rent relief for older tenants, it had not taken a position on how that relief should be financed. In his weekly radio appearance on WNYC last Friday, Mr. de Blasio acknowledged the flub, saying, "I certainly will take responsibility for my team if we misunderstood that particular nuance in their position."

Brad Lander, a Democratic City Councilman who often stands shoulder to shoulder with the mayor, lamented on Tuesday the stranglehold that the state legislature has on many issues affecting the city, saying of the proposed tax: "It doesn't have a chance of passing and that's been clear from Day 1."

Asked why the mayor was spending so much time pushing an idea that not even his allies thought was viable, Mr. Lander shrugged and said, "Politics?"

Mayor Bill de Blasio, above, has seen little support from Gov. Andrew M. Cuomo over a proposed tax on home sales. (PHOTOGRAPHS BY JOSHUA BRIGHT FOR THE NEW YORK TIMES; NATHANIEL BROOKS FOR THE NEW YORK TIMES)

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The New York Times

Business/Financial Desk; SECTB
Oil Prices Continue Climb, Driving Indexes Up

By THE ASSOCIATED PRESS
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30 March 2017
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English

Wall Street stock indexes closed mostly higher on Wednesday after a sharp increase in crude **oil prices** helped drive market-leading gains for energy companies.

Banks and other financial stocks declined the most as bond yields headed lower, which translates into lower interest rates on loans and lower profits for banks.

The **Standard & Poor's 500**-**stockindex** added 2.56 points, or 0.1 percent, to 2,361.13. The **Dow Jonesindustrial average** fell 42.18 points, or 0.2 percent, to 20,659.32. The **Nasdaq composite** index gained 22.41 points, or 0.4 percent, to 5,897.55.

Bond prices rose. The **10**-**year Treasury** note's yield fell to 2.38 percent from 2.42 percent.

A day after Wall Street rallied on news that United States consumer confidence reached its highest level since 2000, the market got another dose of encouraging economic data.

The National Association of Realtors said more people signed contracts to buy homes last month as warm weather and rising confidence appeared to encourage consumers to look for houses. The association's pending home sales index climbed 5.5 percent in February to 112.3, its highest point since April and its second-highest point since 2006.

Investors are hoping that Congress and the White House will enact tax cuts and other business-friendly policies promised by President Trump during his campaign.

Outside of Washington, investors had their eye on the latest company earnings.

RH, formerly Restoration Hardware, climbed 14.9 percent a day after the home furnishings and décor retailer reported stronger earnings. It added $5.68 to $43.68.

Verint Systems jumped 10 percent after the software company reported better-than-expected quarterly results. Verint's stock rose $3.95 to $43.50.

Dave & Buster's Entertainment fell 3.4 percent after the arcade and restaurant chain announced disappointing sales at older locations. The stock gave up $2.10 to $60.09.

Depomed slid 3.1 percent after the drugmaker issued disappointing first-quarter sales guidance and replaced its chief executive and two board members to resolve a dispute with Starboard Value, an investment firm. The stock dipped 44 cents to $13.79.

Vertex Pharma vaulted 20.5 percent after the drugmaker disclosed results from two studies of a new cystic fibrosis treatment. The company said patients treated with a new experimental drug, plus its own Kalydeco, had improved lung function. The stock rose $18.34 to $108.01.

Several major overseas stock indexes closed higher.

In Europe, the DAX in Germany climbed 0.4 percent, while the CAC 40 in France added 0.5 percent. In Britain, the FTSE 100 gained 0.4 percent as the country triggered the start of its exit from the European Union. The formal step kicks off two years of negotiations that will have wide-ranging consequences in the region.

Earlier in Asia, Tokyo's benchmark Nikkei 225 index edged up 0.1 percent. In South Korea, the Kospi rose 0.2 percent. The Hang Seng in Hong Kong added 0.2 percent. In Australia, the S.&P./ASX 200 rose 0.9 percent to 5,873.50.

In currency trading, the dollar weakened to 110.97 yen from 111.10 yen. The euro fell to $1.077 from $1.0813.

Energy prices closed sharply higher as traders weighed remarks from Iran's oil minister, who said that the recent production cut deal would probably be extended, and that fighting in Libya was affecting its oil industry. **Oil prices** also climbed.

Benchmark crude oil futures rose $1.14, or 2.4 percent, to close at $49.51 a barrel in New York. The contract rose 64 cents on Tuesday. Brent crude, used to price international oils, climbed $1.09, or 2.1 percent, to close at $52.42 a barrel in London.

The price of gold slipped $1.90 to settle at $1,253.40 an ounce. Silver held steady at $18.25 an ounce. Copper was little changed at $2.68 an pound.

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

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The New York Times

Business/Financial Desk; SECTB
Looking for a 'Trump Bump'

By NELSON D. SCHWARTZ
1,129 words
30 March 2017
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English

Consumers are more confident. Stocks are up 5 percent since the start of the year. And from the president on down, there's talk of a Trump bump.

The only problem: The boom is apparent everywhere except in the economic data.

It's not that the economy is stalling -- far from it. But with the first quarter ending Friday, growth in the first three months of the Trump administration is looking much the way it did under President Barack Obama.

In fact, experts see the gross domestic product in the quarter coming in at only about 1 percent, on an annualized basis -- less than half the pace in the second half of 2016, and a far cry from President Trump's own 4 percent target.

''There is a temporal disconnect,'' said Ellen Zentner, chief United States economist at Morgan Stanley. ''There has been an incredible rise in sentiment, but the proof is in the pudding later.''

Ms. Zentner expects growth of 1 percent this quarter, and considers recent data ''solid,'' but added that the big gap between expectations and reality ''creates discomfort for economists and monetary policy makers.''

''The divergence is stunning,'' she added, drawing a distinction between ''soft data'' like consumer confidence and ''hard data'' like retail sales.

The pattern continued this week, when the Conference Board reported on Tuesday that its index of consumer confidence in March rose to its highest since December 2000. More hard data is expected Friday, when the Commerce Department releases new figures on personal income and spending in February.

Wall Street, which surged in the months after Mr. Trump's unexpected victory on hopes of tax cuts and deregulation, is coming to grips with the fact that at least in the short term, the outlook remains restrained. The **Dow Jonesindustrial average** has dropped on nine out of the last 10 trading days, the longest stretch of losses since 2011, albeit for a total decline of only 1.4 percent.

One quarter is only a snapshot, and official government data on the gross domestic product for the period will not be out for another month. What is more, the American economy is expected to pick up some speed later in the year, especially if the White House and Congress can agree on a package of promised tax cuts and new infrastructure spending.

The Federal Reserve raised interest rates this month and signaled two more rate increases later this year, indicating that the central bank is also in the faster-growth-around-the-corner camp.

Still, for all of 2017, the economy is expected to expand by roughly 2 percent, the rate of the recovery under Mr. Obama. The identical figures illustrate how much easier it is for a president to lift economic spirits, as opposed to actual growth rates.

If tax reform and other legislation in Washington suffer the same fate as the bid to roll back Mr. Obama's health care overhaul did last week, Ms. Zentner said, the Trump bump ''could be built like a house of cards that comes crumbling down.''

Part of the problem is that despite Mr. Trump's Oval Office sessions with chief executives and the return of what the economist John Maynard Keynes termed "animal spirits," corporate America is not investing heavily, at least so far, in new plants and equipment.

At the same time, demand in many industries is growing only modestly, while a few sectors like retail chains are having to make painful adaptations to a rapidly evolving consumer landscape.

Retail stores are top customers for Valdese Weavers, a century-old maker of high-end fabrics nestled in the Blue Ridge Mountains of North Carolina, but Michael Shelton isn't complaining.

"Business is better for us than it should be, because growth has been relatively flat for many of our customers," said Mr. Shelton, Valdese's chief executive. "We've been able to find a few pockets of new business, so growth is in the low single digits. It's nothing robust but at least we're up for the year and we're happy about that."

"I don't think politics or the election has affected our outlook," Mr. Shelton said. "While many of our customers have seen a Trump bump in terms of their **stock price**, the industry hasn't seen an effect on retail traffic."

One additional factor holding back economic growth nationally -- and in Burke County, N.C., where Valdese is based -- is the proportion of Americans now in the labor force.

Although unemployment in Burke County is half a percentage point higher than the national average, Mr. Shelton says finding workers with the technical skills Valdese needs is difficult.

"We could train an undereducated person in the past," he said. "But the textile industry has changed, and we need a higher level of competence in computers and math for specific skills."

As a result, only 56 percent of Burke County's working-age adults are in the labor force, well below the already-anemic national average of 63 percent. At the same time, only 17.2 percent of the county's residents have a bachelor's degree, half the national average, which holds back income growth.

There is still a chance that first-quarter growth could surprise the doubters. Although the widely followed GDPNow model of the Federal Reserve Bank of Atlanta calls for a 1 percent expansion rate in the first quarter, the New York Fed's Nowcasting Report is looking at 3 percent growth.

"The difference is larger than usual and is being driven by the fact that the New York Fed incorporates soft data into its tracking," said Ms. Zentner of Morgan Stanley.

The government's estimate of gross domestic product is based on specific data points for economic factors like monthly retail sales, inventories, trade and other hard data, which also count more heavily in the Atlanta Fed's model.

Whoever is right, most longer-term forecasts estimate growth for all of this year and 2018 to be in a range of 2 to 2.5 percent -- again, largely in line with the pattern of the last eight years.

"Sentiment has gotten stronger but business investment hasn't accelerated," said Michael Gapen, chief economist at Barclays. "To get it to translate to hard data, you'd need new policies like tax cuts, tax reform, and a major increase in infrastructure spending."

A worker on the factory floor at Valdese Weavers, a maker of high-end fabrics, in Valdese, N.C. (B1); An inspection at Valdese Weavers. The company's chief executive spoke of difficulty in finding workers with the needed skills. (PHOTOGRAPHS BY TRAVIS DOVE FOR THE NEW YORK TIMES) (B4)

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THE WALL STREET JOURNAL.
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Manhattan Apartment Sales Heating Up Again

By Josh Barbanel
691 words
30 March 2017
The Wall Street Journal
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A12B
English

A slowdown in Manhattan apartment sales last year eased in the first quarter of 2017, according to a Wall Street Journal analysis of public-sales records.

The number of sales closed in the first quarter of this year was just 4% below the same quarter in 2016, which was unusually strong.

In all, the first-quarter 2017 performance was the second strongest for a first quarter since 2008. The data are based on an analysis of sales recorded by the city's Finance Department as of seven days before the end of each quarter.

The latest data confirm earlier reports of a rebound based on increases in new contracts signed so far this year. Since many co-op and condo transactions take months to be finalized, the closing data suggest the market began strengthening toward the end of 2016.

Brokers and analysts said the recovery reflected renewed optimism by buyers after the **stock market** surged following the November presidential election.

A spate of price cuts by sellers, as well as buyers' eagerness to lock in before interest rates rose further also were factors, they said.

Through much of last year buyers were putting off decisions because of uncertainty, said Gregory J. Heym an economist at Terra Holdings, a real-estate firm that oversees brokerages Brown Harris Stevens and Halstead Property. "Sellers realize they can sell now if they get the prices where they should have been."

Lauren Muss, a broker at Douglas Elliman, said 2016 was a hard year. But the market has picked up in every price category up to $10 million, she added.

The recovering market was reflected in a Monday report by Olshan Realty Inc. showing that 330 contracts were signed with asking prices of $4 million or more in the first quarter, a 33% increase over the same period in 2016.

The closed-sales data show that the sales plunge began in the second quarter in 2016 and worsened through the year. Sales were down 17% during the fourth quarter of 2016 compared with the same quarter the year before.

The first quarter was marked by a 17% decline in sales in new developments compared with same quarter in 2016, offset by a 10.5% increase in sales of older condominiums. Sales of co-ops were down 2.5%.

While sales at new developments often vary with construction schedules, Shaun Osher, the founder and chief executive of CORE, a New York brokerage, said the decline this quarter reflected weakness in the market in the second half of last year. Now, he said, there is pent up demand, and projects and properties are selling "at very high numbers."

The median apartment price was $1.13 million, off less than 1% from record high prices in the first quarter of 2016 but above levels in the last three quarters.

The top sales of the quarter were closings at 432 Park Ave. Two full-floor apartments each sold for about $65 million. The third most expensive sale was a renovated limestone townhouse at 12 E. 73rd St., which sold for $41 million in January.

Tower Taps Into

Sales Sweet Spot

At 1399 Park Ave., studio prices start at about $670,000, one-bedrooms at more than $800,000 and two-bedrooms at just over $1 million.

The offerings are part of a rebound in the Manhattan residential market that brokers say is especially strong among buyers of lower-priced units in new developments following a deep slowdown through most of 2016.

In the last 10 days, Corcoran broker Lyon Porter said, seven contracts were signed, roughly 10% of the 72 apartments in the 23-story building.

The building went on the market last fall, but activity slowed after an initial burst of sales.

Wendy Maitland, a broker at Brown Harris Stevens, said well designed, lower-priced projects appeal to an "emerging demographic" of younger, more price-sensitive buyers.

"We are still a bargain compared to buildings five blocks south of here," Mr. Porter said. "This is less expensive than Central Harlem."

-- Josh Barbanel

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Heard on the Street
If Stocks Wobble, Will Bonds Be There to Absorb the Blow?

By Richard Barley
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29 March 2017
The Wall Street Journal
J
B16
English

[Financial Analysis and Commentary]

If stocks are hitting a sticky patch, are bonds bound to shine? That was certainly the case in the first half of last year, when sharp falls in stock markets helped push **bond prices** sky high. But the backdrop is different this time around.

So far, March's decline in stocks has been measured, with the **S&P 500** only 2.3% off its peak, but persistent: The **Dow Jones Industrial Average** on Monday notched its longest losing streak in nearly six years. A correction in stocks, after a big run-up following the U.S. presidential election, would arguably be a healthy development.

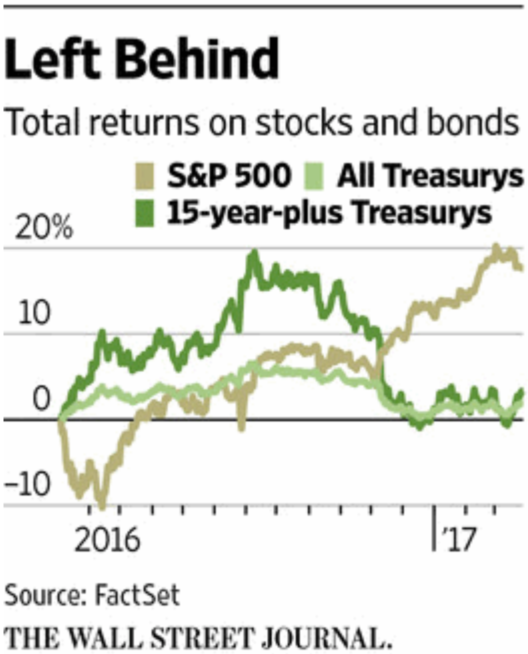
The last sharp correction in the **S&P 500** at the start of 2016 was certainly good for bonds. Long-dated debt benefited in particular, with returns on Treasurys maturing in 15 years or more reaching 10% as stocks bottomed, according to Bank of America Merrill Lynch data.

The correlation between moves in stock prices and bond yields has been rising, suggesting the swing between risk appetite and risk aversion that has been a frequent feature of markets in recent years is back in play. And after the selloff in the wake of the U.S. presidential election, bonds have restored some of their ability to act as a shock absorber when stocks get hit. But the bar for a big rally in bonds is higher than it has been.

Last year's market moves were driven by several forces, including worries about China, falling **oil prices** and the threat of deflation. Central banks responded to that: The Federal Reserve paused its rate increases, while the European Central Bank injected more stimulus. Inflation was well below target, and stuck at around zero in the eurozone. The stars were aligned for bond markets.

But since then inflation has picked up markedly and the global growth picture has improved, too, particularly in Europe. The period of ultraloose monetary policy is coming to an end; the Fed appears more determined to raise interest rates. The current market moves may just reflect the passing of a surfeit of optimism on the part of U.S. stock investors about President Donald Trump's administration. That is bad news for stocks but not necessarily a sustained reason for bond investors to party.

The real signal from bonds would come if short-dated yields started to decline, too. That would show broader risk aversion and a reappraisal of the path of U.S. monetary policy. But it will take a bigger shock to investor confidence for that to occur. Unless that happens, soggy stocks won't necessarily mean a sustained surge for bonds.



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The New York Times

Business Day; DealBook
Valeant Bet Was a 'Huge Mistake,' Hedge Fund Chief Ackman Says

By ALEXANDRA STEVENSON
902 words
29 March 2017
05:05 PM
NYTimes.com Feed
NYTFEED
English

Correction Appended

It is rare that William A. Ackman, the brash activist investor, apologizes for anything. As a successful hedge fund manager, Mr. Ackman has made billions of dollars for himself and his investors with bold and counterintuitive bets.

But this week he conceded that his firm's biggest wager yet — on Valeant Pharmaceuticals International — was "a huge mistake" that has cost his hedge fund firm, Pershing Square Capital Management, "a tremendous amount."

"I deeply and profoundly apologize," Mr. Ackman added in an annual letter to investors.

It was an unusual moment of contrition for Mr. Ackman and a stark contrast to his emphatic support of Valeant in recent years.

Mr. Ackman staked his own reputation on Valeant even as the company faced steep challenges and regulatory scrutiny for its aggressive pricing tactics. He went to bat for Valeant when its executives were questioned during a Senate hearing. He loaded up on the stock when everyone else was selling.

In May 2015, he said Valeant's acquisition strategy, which it was pursuing with Pershing Square's financial support, resembled "a very early-stage Berkshire," referring to Berkshire Hathaway, the conglomerate run by Warren E. Buffett. And late last year, he even held a four-hour marathon conference call to defend the company, taking swipes at the news media and those on Wall Street who he said relished "betting against him."

But the investment in Valeant ultimately led Pershing Square to double-digit percentage losses for two years in a row. After reaching a high of $257 a share in mid-2015, Valeant's share price plunged to $12.11 a share on March 13. That was the day when Mr. Ackman finally decided to throw in the towel and sell his firm's entire stake in Valeant, resulting in a $4 billion loss.

In his annual letter to investors, released on Tuesday evening, Mr. Ackman took the blame for the bad bet, acknowledging that the investment had "damaged the record of success of our firm."

"My approach to mistakes is that I personally assume 100 percent of the responsibility on behalf of the firm while sharing the credit for our success," he added.

Mr. Ackman also threw a jab at the very same Valeant executives he once praised.

"In retrospect, we misjudged the prior management team, and this contributed to our loss," he said.

In a separate letter, the board of Pershing Square Holdings, a publicly traded version of Mr. Ackman's hedge fund, reaffirmed its support for Mr. Ackman.

"The lessons learned from the investment have been discussed at length in prior communications," Anne Farlow, the board's chairwoman, wrote in the letter.

The board said it undertook a formal review of Mr. Ackman's performance last year, examining in particular his investment processes with regard to Valeant. In the end, Ms. Farlow said, the board concluded that it was in the best interest of the firm for Mr. Ackman to remain in charge of investments.

It was not so long ago that Valeant was one of the favorite stocks among hedge fund managers. Mr. Ackman began buying shares in 2015 and has told investors that he bought the stock at an average price of $196 a share. Around the same time, Valeant began to draw scrutiny for its unusual accounting practices, and it quickly became a political lightning rod for its aggressive drug pricing policy.

But Mr. Ackman stood by the company, joining Valeant's board together with another Pershing Square executive. They recruited 10 new directors, refinanced some of the company's $30 billion in debt and installed a new chief executive, Joseph C. Papa.

None of this was enough to stop the company's unraveling. By the end of last year, Pershing's stake in Valeant had lost 19.2 percent of its value, contributing to the firm's overall loss of 13.5 percent for 2016. In 2015, Pershing Square Holdings lost investors 20.5 percent.

In a concession for the poor performance, Mr. Ackman recently offered investors a new fee structure that would allow them to recover some of their losses before paying new performance fees. Like most other hedge funds, Pershing has charged investors 2 percent of overall assets under management for administration and 20 percent of any gain.

Mr. Ackman struck a more positive tone for the year ahead, pointing to new opportunities and saying, "We are well positioned for a strong recovery." The firm sold its holdings in Canadian Pacific Railway and Zoetis, the former animal health care arm of Pfizer, last year, freeing capital to make new investments.

And Ms. Farlow added that Pershing recently applied to move its public listing to London from Amsterdam, which would open the door to more investors if it were added to London's main **stock index**.

Pershing Square Holdings was down 2.5 percent for the year as of Tuesday.

Correction: March 29, 2017, Wednesday

This article has been revised to reflect the following correction: An earlier version of this article misstated the percentage of overall assets under management that Pershing charges investors. It is 1.5 percent, not 2 percent.

The billionaire hedge fund manager William A. Ackman says his investment in Valeant Pharmaceuticals International has "damaged the record of success of our firm." | Brendan McDermid/Reuters

Document NYTFEED020170329ed3t008hl

THE WALL STREET JOURNAL.
U.S. EDITION

Stocks' Reversal Blurs Outlook --- Market components offer clues to shares' path after sharp rise snaps a losing streak

By Aaron Kuriloff and Corrie Driebusch
569 words
29 March 2017
The Wall Street Journal
J
B16
English

The **Dow Jones Industrial Average** jumped more than 150 points Tuesday after eight consecutive sessions of declines, adding to recent confusion about where markets are headed.

Investor bets on higher growth and inflation that helped carry stocks to fresh highs in early March have started to unwind lately, leaving the Dow industrials drifting lower for 10 of the past 12 sessions.

Some of that pullback stemmed from diminished hopes for the rapid implementation of Trump administration priorities such as tax cuts and increased infrastructure spending in the wake of last week's health-bill failure.

The losing streak's longevity is more dramatic than the drop itself: Over the past 12 sessions, the Dow is only down 1%. On Tuesday, the Dow rose 0.7% to 20701.50, registering best day since March 1.

For clues about the market's trajectory, many look to internal components of the market -- the interplay between different types of stocks or other investments that drive movements in broader indexes.

Some observers likened it to looking under a car's hood to see which engine components are working correctly and in sync.

"What's important is to dig beneath the surface and examine patterns and anomalies," said David Rosenberg, chief economist and strategist at Gluskin Sheff & Associates. "If you can do that consistently, you'll make money over time and stay out of trouble."

Some analysts are watching the increasing premium investors are demanding to hold junk-rated corporate bonds, for example.

The average yield differential between junk-rated corporate bonds and U.S. Treasurys stood at 4.04 percentage points Monday, compared with 3.47 percentage points at the beginning of the month, according to Bloomberg Barclays data.

A larger differential suggests investors see junk-rated corporate bonds as riskier than they did a few weeks ago, a noteworthy development because the junk-bond market is widely watched for clues about the state of the U.S. economy.

Companies issuing junk debt have less financial flexibility than higher-rated firms, making their bonds especially sensitive to shifts in investor sentiment.

Investors also watch different areas of the **stock market** -- such as small-company stocks or shares of transportation firms -- which have served as bellwethers for investors' postelection hopes for economic growth.

The Dow Jones Transportation Average, which tracks 20 U.S. airlines, trucking and railroad companies, has fallen 3.4% in March.

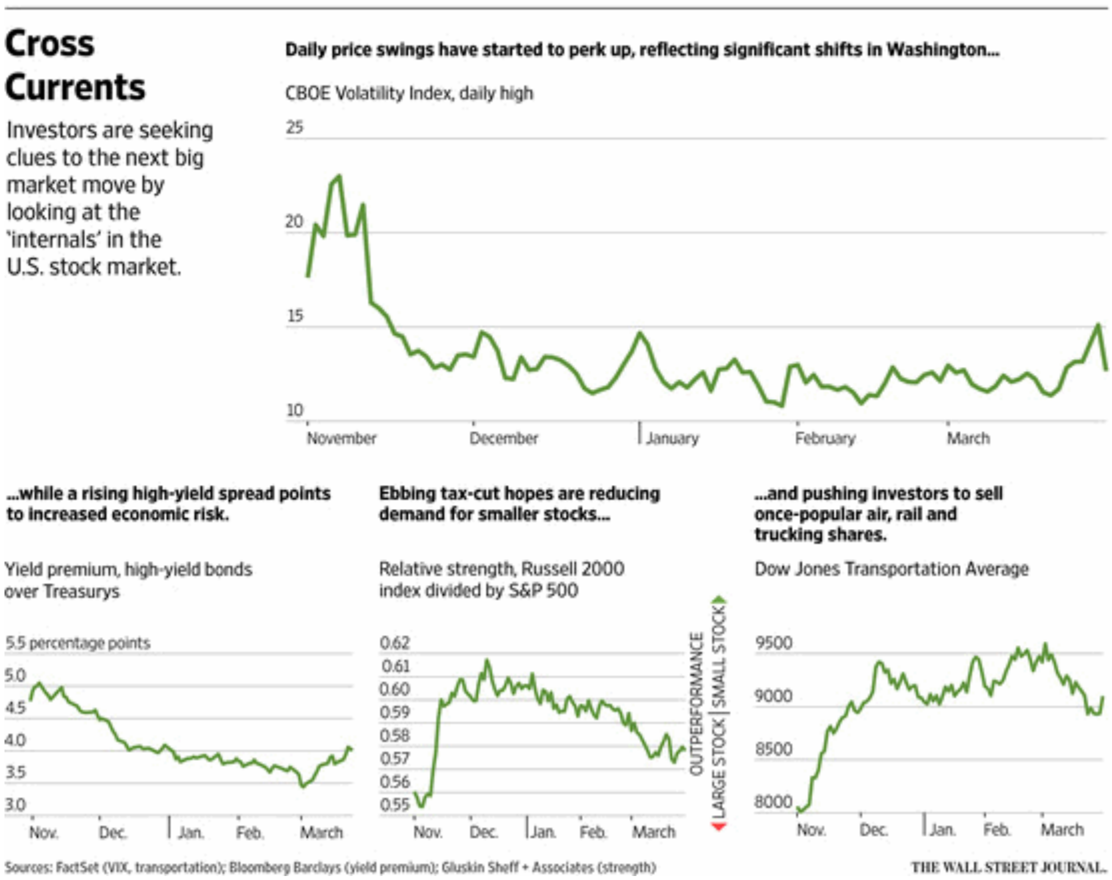
Small-capitalization stocks surged after the presidential election as investors bet that small domestically focused companies would do better than multinationals. That outsize performance has abated this month, with the Russell 2000 down 1.4% as the **S&P 500** has lost 0.2%.

There are signs investors expect sharper stock swings. On Monday, the CBOE**Volatility** Index, or VIX, rose above 15 for the first time since mid-November before retreating to 11.5 Tuesday.

Investors who buy VIX contracts are making a bet that **stock-price volatility** will go up in the next 30 days.

"It says there is a bit of concern that maybe some of the story that has been keeping **volatility** so low this year could be falling apart," said Rocky Fishman, equity derivatives strategist at Deutsche Bank.

Sam Goldfarb contributed to this article.



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Business Day; DealBook
E.U. Blocks Merger of London Stock Exchange and Deutsche Börse

By CHAD BRAY
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29 March 2017
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English

LONDON — The London Stock Exchange and Deutsche Börse have tried to merge three times since 2000, hoping to create a European **stock market** heavyweight. And now, after a ruling from European regulators on Wednesday, the third attempt has failed.

The $30 billion merger, announced more than a year ago, would have created Europe's largest **stock market** operator by far, leaving the combined company better positioned to compete with American rivals.

But the deal faced a number of questions, particularly after German regulators and politicians balked at the combined exchange having its headquarters in London even as Britain moves forward with plans to leave the European Union.

On Wednesday, the European Commission officially blocked the deal, with Margrethe Vestager, the bloc's competition commissioner, citing concerns that a merger would create a "de facto monopoly" in the clearing of bonds and fixed-income products.

"As the parties failed to offer the remedies required to address our competition concerns, the Commission has decided to prohibit the merger," she said.

The rejection came on the day that Britain began the two-year negotiating process for Britain to exit the 28-nation bloc.

While the shape of Britain's eventual trading relationship with the European Union following the so-called Brexit remains unclear, one thing is certain: The European authorities will maintain jurisdiction over many big mergers, even when they involve companies with headquarters outside the European Union, a category in which the London Stock Exchange will find itself as soon as March 2019.

Though the decision by European regulators ended a monthslong effort to combine the two operators, the announcement itself was widely anticipated.

Last month, the London exchange said that the deal was unlikely to be approved after European regulators — who had opened an investigation in September — unexpectedly added a condition that it sell a majority stake in MTS, an electronic platform for trading European government bonds and other fixed income products.

The London Stock Exchange called the remedy "disproportionate," arguing that any such sale would set off additional regulatory processes in Europe and the United States, and would be detrimental to its businesses in Italy, where it operates the Borsa Italiana.

German regulators and lawmakers had also become increasingly concerned in recent months about the combined company having its headquarters in London after last year's referendum in Britain on European Union membership. They have pushed for the headquarters to be in Frankfurt.

Prosecutors in Germany had also opened an inquiry into the timing of the purchase of Deutsche Börse shares by Carsten Kengeter, the Deutsche Börse chief executive who was set to head the combined company. The shares were purchased months before the exchanges announced their merger, but investigators are looking into whether they were secretly in talks at the time of the share purchase.

Joachim Faber, the chairman of Deutsche Börse's supervisory board, has said the accusations have no basis and Mr. Kengeter has called them "unfounded."

Deutsche Börse and the London Stock Exchange had hoped to create a potential European champion by combining stock exchanges in Britain, Germany and Italy, as well as several of Europe's largest clearinghouses. That would have helped the combined company compete with United States rivals like the Intercontinental Exchange, the owner of the New York Stock Exchange, and CME Group, which operates the Chicago Mercantile Exchange, Chicago Board of Trade and the New York Mercantile Exchange.

In seeking approval for the deal, the London Stock Exchange Groupagreed in January to sell LCH, the French operating arm of the LCH.Clearnet Group, after saying it was seeking to "address proactively antitrust concerns raised by the European Commission." The sale was contingent on the approval by European regulators of the Deutsche Börse-London Stock Exchange transaction. .

The Intercontinental Exchange had been seen as a potential rival in the deal for the London Stock Exchange, but it opted in May not to pursue an acquisition. The rejection of the Deutsche Börse merger, however, now raises questions about whether the Intercontinental Exchange would take another look at the London exchange.

Follow Chad Bray on Twitter @Chadbray.James Kanter contributed reporting in Brussels.

* London Stock Exchange Says Its Merger Is Unlikely to Win Approval

* Euronext Offers to Buy Unit of London Stock Exchange for $536 Million

* Regulators to Review London Stock Exchange-Deutsche Börse Merger

* London Stock Exchange and Deutsche Börse Agree on Merger

The $30 billion merger of the London Stock Exchange and Deutsche Börse would have created Europe's largest **stock market** operator. | Leon Neal/Agence France-Presse — Getty Images

Document NYTFEED020170329ed3t002s1

The New York Times

Business/Financial Desk; SECTB
Positive Consumer Confidence Data Lifts Shares From Recent Slump

By REUTERS
754 words
29 March 2017
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Late Edition - Final
8
English

Wall Street followed the worldwide gains in stocks on Tuesday after consumer confidence in the United States soared to a more than 16-year high and the dollar bounced from a four-month low to post its best day in nearly a month.

Crude **oil prices** rose after disruptions in Libya and as officials suggested an output-reduction deal could be extended to the end of the year.

On Wall Street, cyclical sectors led the way higher after the strong consumer confidence data added to investor views that the American economy is on its way to stronger growth.

The data ''underscore what has been going on really in this whole rally, and that is that confidence is pretty high and optimism is high, and that has kind of been underpinning the resiliency of the equity markets,'' said Jim Davis, regional investment manager at U.S. Bank Wealth Management in Springfield, Ill.

Markets continued to keep an eye on developments in Washington after the failure to pass a health care bill made investors nervous about the future of other legislation.

''After being down eight straight days, the Dow was due for a bounce,'' said Ryan Detrick, senior market strategist at LPL Financial in Charlotte, N.C. ''With Washington as the straw that stirs the drink, the big question is, 'Can this bounce last before the latest concerns over President Trump's proposals take over?'''

The **Dow Jonesindustrial average** rose 150.52 points, or 0.73 percent, to 20,701.5, the **Standard & Poor's 500-stockindex** gained 16.98 points, or 0.73 percent, to 2,358.57 and the **Nasdaq composite** added 34.77 points, or 0.6 percent, to 5,875.14.

The gains erased some of last week's losses when investors fretted over Mr. Trump's ability to enact his agenda after the failure of the Republican-led health care bill.

Investors appear to have shrugged off the setback, choosing instead to focus on the president's promise of reforming the tax code, which has been a key driver in the postelection record rally.

''You have got maybe some rethinking of the political calculus related to the demise of health care,'' and how that could affect tax reform, said Charles B. Carlson, chief executive at Horizon Investment Services in Hammond, Ind.

The financial and energy sectors, which have lagged in the broader market this year, led the gains in the **S.&P. 500** on Tuesday. The financial sector jumped 1.4 percent, with JPMorgan Chase and Bank of America helping the industry. Energy shares gained 1.3 percent, supported by stronger **oil prices**.

In corporate news, General Motors rose 2.4 percent after the activist investor David M. Einhorn's Greenlight Capital urged the automaker to split its stock into two classes.

Tesla rose 2.7 percent after disclosing that the Chinese technology giant Tencent Holdings had taken a 5 percent stake in the electric carmaker for $1.78 billion.

Darden Restaurants, which owns Olive Garden and other casual-dining chains, jumped 9.3 percent, making it the best performer on the **S**.**&P**. **500**. Darden announced quarterly results and said it would buy Cheddar's Scratch Kitchen for $780 million.

The **10**-**year Treasury** note yield hit a session high at 2.42 percent, up from 2.38 percent on Monday.

Oil prices rose as much as 2 percent after a severe disruption to Libyan oil supplies and as officials suggested the Organization of the Petroleum Exporting Countries and other producers could extend output cuts to the end of the year.

Crude oil futures for May delivery ended up 1.34 percent to $48.37 a barrel in New York. Brent, the international gauge for oil, traded at $51.32 in London.

Gold futures for April fell by 10 cents to $1,255.30 an ounce.

The dollar index gained 0.51 percent, the most since March 1. The euro fell 0.46 percent to $1.0813 and the pound dropped 0.0108 percent to $1.2456.

"Better consumer sentiment comes along with better consumption and spending, which is positive for the U.S. growth outlook," said Sireen Harajli, currency strategist at Mizuho Corporate Bank in New York.

CHARTS: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Tuesday. (Source: Reuters); Consumer Confidence: Index measures attitudes toward the economy, 1985 = 100. (Source: The Conference Board)

Document NYTF000020170329ed3t0005k

The New York Times

National Desk; SECTA
Investing Giant Casts Its Lot With Machine, Not Human, Minds

By LANDON THOMAS Jr.
1,177 words
29 March 2017
The New York Times
NYTF
Late Edition - Final
1
English

Score one for the machines.

The largest fund company in the world, BlackRock, has faced a thorny challenge since it acquired the exchange-traded-fund business from Barclays in 2009.

These low cost, computer-driven funds have exploded in growth, leaving in the dust the stock pickers who had spurred an earlier expansion for the firm. The rise of passive investing -- exchange-traded funds, index funds and the like -- has revolutionized the investment world, providing Main Street investors with greater opportunities at lower fees while putting pressure on even Wall Street's biggest money managers.

Now, after years of deliberations, Laurence D. Fink, a founder and chief executive of BlackRock, has cast his lot with the machines.

On Tuesday, BlackRock laid out an ambitious plan to consolidate a large number of actively managed mutual funds with peers that rely more on algorithms and models to pick stocks.

The initiative is the most explicit action by a major fund management firm in reaction to the exodus of investors from actively managed stock funds to cheaper funds that track every variety of index and investment theme.

Some $30 billion in assets (about 11 percent of active equity funds) will be targeted, with $6 billion rebranded BlackRock Advantage funds. These funds focus on quantitative and other strategies that adopt a more rules-based approach to investing.

''The democratization of information has made it much harder for active management,'' Mr. Fink said in an interview. ''We have to change the ecosystem -- that means relying more on big data, artificial intelligence, factors and models within quant and traditional investment strategies.''

As part of the restructuring, seven of BlackRock's 53 stock pickers are expected to step down from their funds. Several of the money managers will stay on as advisers. At least 36 employees connected to the funds are leaving the firm.

While BlackRock is proceeding gradually, in many ways the new plan is a direct attack on the cult of the brainy mutual fund manager, popularized in the 1980s and 1990s by Peter Lynch, a stock-picking wizard at the fund giant Fidelity.

Today, asset managers like Pimco, Franklin Templeton, Aberdeen and, of course, Fidelity continue to make the case that their bond and equity managers can outsmart the broader market -- and charge a premium price for doing so.

Since 2009, however, as the performance of these funds has suffered, millions of investors have rejected this proposition, abandoning their expensive mutual funds for better-performing funds that track various indexes at a fraction of the cost.

Now the biggest fund companies are Vanguard, the indexing pioneer, and BlackRock, which together oversee close to $10 trillion in assets.

BlackRock, with its fleet of iShares E.T.F.s, has certainly benefited from the investor revolution -- one that threatens to disrupt the mutual fund industry in the years ahead.

Still, the monster in the mutual fund room by far has been Vanguard, which, via index funds and exchange-traded funds, has had historic inflows.

Last year, for example, $423 billion left actively managed stock funds and $390 billion poured into index funds, according to Morningstar. Of that amount, Vanguard captured $277 billion, nearly tripling the amount that went to its nearest rival, BlackRock.

Mr. Fink has always professed to be agnostic as to whether a client bought a no-frills exchange-traded fund tracking low **volatility** stocks or an expensive mutual fund investing in small United States companies.

Let the client choose has long been his mantra.

Left unsaid has been the reality that at his root Mr. Fink is now a true believer in systematic investing styles that favor algorithms, science and data-reliant models over the stock picking smarts of individual portfolio managers.

In recent years he has hired Andrew Ang, a star finance professor from Columbia, to push BlackRock into factor-based investing, a theme-based approach to allocating assets.

And since last year, BlackRock's dyed-in-the-wool stock pickers have worked in the same division as its quants. These managers, many of whom have Ph.D.s, might buy (or sell) Walmart's stock on the basis of a satellite feed that reveals how many cars are in its parking lots as opposed to an insight gleaned from the innards of the retailer's balance sheet.

In sum, Mr. Fink has become convinced that BlackRock must bet big on the power of machines, be it Aladdin, the firm's risk management platform, robo-advisers, big data or even artificial intelligence.

Just about any interview or conference call with Mr. Fink bears this out: Invariably, the conversation comes around to technology, with scant mention of what the firm's stock pickers are doing.

But simply going all-in on machine-driven passive investing over active has not been an option for Mr. Fink. While the assets of the firm's actively managed stock funds have shrunk to $201 billion today from $208 billion in 2009, the business is still very profitable for BlackRock, representing 16 percent of total revenue.

According to data from Morningstar, only 11 percent of BlackRock's actively managed equity funds have beaten their benchmarks since 2009. Since 2012, $27.5 billion has left BlackRock actively managed mutual funds, per Morningstar data.

The new push, which is being overseen by Mark Wiseman, a top executive at Canada's top pension fund whom Mr. Fink hired last year to revamp his equity business, highlights strategies in which a portfolio manager makes big bets on a select group of stocks.

Still, there is no mistaking the larger message: Expensive, actively managed funds looking to make a mark picking United States stocks must adapt to the new realities at BlackRock.

Take BlackRock's Large Cap Core fund, which invests in big American companies. Since 2009, the fund's assets have halved, to $1.5 billion, trailing the index by 1.3 percent over the last three years.

The fund's lead manager will be replaced by three portfolio experts from BlackRock's quantitative investing team, where all varieties of computer models are crunched in pursuit of stock picking ideas. Fees will also be halved.

Of course, none of these moves are likely to immediately halt the outflows of the past years. In fact outflows are likely to increase, as few investors want to stick with a fund undergoing an existential makeover.

But as Mr. Fink and his new equity deputy see it, it is better to take the pain now than later.

''The old way of people sitting in a room picking stocks, thinking they are smarter than the next guy -- that does not work anymore,'' Mr. Wiseman said. ''These are stormy seas for active managers, but we at BlackRock are an aircraft carrier, and we are going to chart our way through these seas.''

Laurence Fink, chief executive of BlackRock, called for a greater reliance on big data and artificial intelligence. (PHOTOGRAPH BY DAMON WINTER/THE NEW YORK TIMES) (A22)

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THE WALL STREET JOURNAL.
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Saudi Arabia Puts U.S. Energy Producers to a Test -- and They Ace It

By Mark P. Mills
906 words
28 March 2017
The Wall Street Journal
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A17
English

Only a few years ago America's policy makers were wringing their hands about "peak oil" and dependence on imported fuels. Now headlines feature the return of oil gluts. What happened? Saudi Arabia undertook a "stress test" of America's oil-and-gas industry that produced unintended consequences.

We're witnessing the first signs of a new normal in oil markets. Call it Shale 2.0, characterized by a potent combination: eager and liquid capital markets funding hundreds of experienced (now-lean) small to midsize companies that can respond to modest upticks in price with a velocity unseen in oil markets in eons -- all using shale technology that is shockingly better than before and poised to keep improving.

This year sees the U.S. not only filling storage tanks to the brim but also exporting more than a million barrels of crude oil a day. Exports are at the highest level in American history, twice the previous crude export peak in 1958. The U.S. is exporting more oil than five of the Organization of the Petroleum Exporting Countries' 13 members.

The stress test that brought this about began two years ago, when Saudi Arabia decided it would try to tame American shale oil and gas production. The technology of hydraulic fracturing, which began to emerge barely over a decade ago, led to the fastest and largest increase in hydrocarbon production in history.

Oil prices started to collapse in 2014 because American shale businesses oversupplied markets. The Saudis responded by increasing production, which drove prices even lower. Their theory was that this would wreak havoc on small and midsize petroleum upstarts in states from Texas and Oklahoma to Pennsylvania and North Dakota.

The fall from the $120-a-barrel stratosphere to under $30 did take a toll on producers everywhere. Businesses reduced investments and staffing, and many went bankrupt. It also deprived OPEC member states -- and Russia, it bears noting -- of hundreds of billions of dollars in revenues, forcing them to tap sovereign-wealth funds and cut domestic budgets.

Something else happened. Little noticed outside the petroleum cognoscenti, shale technologies kept getting better. The productivity -- output per shale drilling rig -- has been rising by more than 20% a year. That means every 3 1/2 years the average rig produces twice as much oil or gas. No other energy technology of any kind is improving at that rate. Put another way, the cost to produce shale oil keeps falling.

As a result, with an assist from the recent modest increase in **oil prices**, shale investors and drillers are returning. Bad as that is for OPEC, the really frightening prospect is that software tools and techniques will now start to invade the shale domain, one of the least-computerized industrial sectors. "The cloud" will be just as much of an economic accelerant for shale as it has been for other complex and distributed industries.

Established tech companies such as Microsoft, IBM, Teradata and Splunk see the opportunity. The digital oilfield is also the animating logic of the huge merger of oil services giant Baker Hughes with General Electric's "industrial internet" and oil-and-gas business. Even more portentous, a new ecosystem of tech startups is chasing the prize of unlocking value in petabytes of untapped shale data.

Venture capitalists like to talk about "unmet needs" in "big markets." Oil is the world's biggest market in a traded commodity, and America's shale market went from near zero to $150 billion in a decade, largely without help from software.

For the Saudis and other oil oligarchs, the worrisome feature of Shale 2.0 is that software enhances the most remarkable feature of shale production: velocity. The thousands of small to midsize shale operators and investors make rapid individual decisions, each involving a tiny fraction of capital per decision compared with the supermajors. This fluid, chaotic, very American entrepreneurial environment operates in private markets, largely on private land, and can expand or pull back with a volume and velocity unseen in oil markets in a century.

Of course the U.S. still imports oil (for now), but net imports have declined by half. America is now the world's biggest natural-gas producer and has become a net exporter. Other places can gush hydrocarbons into markets. But they're all slow-moving, in some cases monopolistic, leviathans. As Ed Morse, Citi's head of global commodities, recently observed, OPEC "has lost its clout."

With all the hype over energy alternatives, one might conclude that hydrocarbons don't matter much. You can be sure that neither Russia nor OPEC thinks that. Nor does the Energy Information Administration or the International Energy Agency, whose forecasts see hydrocarbon demand rising for decades regardless of subsidies for alternatives.

It's hard to imagine a more potent combination than huge markets, willing investors and galloping software technology. It's entirely feasible for America to become a far bigger oil exporter, even one of the biggest. Such is the power of shale and software. It's not what the Saudis had in mind when they launched that stress test.

Mr. Mills is a senior fellow at the Manhattan Institute.

(See related letter: "Letters to the Editor: More Refineries Must Be Part of U.S. Energy System" -- WSJ April 10, 2017)

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The New York Times

Deal Professor
Business Day; DealBook
A Dearth of I.P.O.s, but It's Not the Fault of Red Tape

By STEVEN DAVIDOFF SOLOMON
1,343 words
28 March 2017
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English

The confirmation hearing last week for Jay Clayton, who has been nominated to head the Securities and Exchange Commission, focused on the continued sluggishness of the market for initial public offerings. Senators pushed the nominee to do something, anything, to revive it.

The problem is that there is no magic wand — including deregulation — that can fix the decline.

The problems were recently documented in a research note by Credit Suisse titled "The Incredible Shrinking Universe of Stocks." The bank documented that the total number of companies listed on the United States **stock market** plummeted by nearly half, to 3,671 last year from 7,322 in 1996.

Companies get bought or go out of business, but new companies are not replacing them. In 1996 there were 706 initial public offerings, but in 2016 there were only 105. The downturn affects all sectors, and last year there were only 30 new private equity offerings, the "lowest level since 2009," according to Credit Suisse.

Such shrinkage has prompted hand-wringing for over a decade. At Mr. Clayton's hearing, at least five senators brought it up, pointing to the regulatory burdens on companies going public.

There's only one problem with casting regulation as the villain: There's not much evidence for it.

In 2012, Congress took a stab at fixing the regulatory issues in the Jump-Start Our Business Start-Ups Act. The changes have been well-received by entrepreneurs. Some provisions, like the one allowing for confidential review with the Securities and Exchange Commission, have been particularly popular.

But the JOBS Act has not spurred initial public offerings in any meaningful way. One study found that it may — may — have resulted in 21 more new offerings a year, but given the small numbers in the analysis, that is questionable.

Moreover, the JOBS Act has done nothing to revive the market for small companies, those with a market capitalization of under $75 million. They still number less than a handful each year.

And while fingers get pointed at regulation like Sarbanes-Oxley and Dodd-Frank, the number of initial public offerings fell off the cliff in 1996 — years before either bill was passed. So there must be something more here.

Those who have examined this issue have come up with a number of possible reasons.

The first theory is that the decline is a result of structural changes in the market ecosystem. Jay Ritter, a professor at the University of Florida, has argued that the dearth of initial public offerings has been caused by companies selling out quicker.

The Credit Suisse paper also brings up this theory, noting that mergers are the major cause for companies to be delisted from a stock exchange. It appears that this deal activity has spread to the private markets, co-opting the process of taking companies public.

For example, Cisco Systems purchased AppDynamics on the eve of its market debut. And acquirers seem willing to pay top dollar in these instances, as research and development by many large corporations now consists largely of acquiring smaller, usually private, companies.

This is aptly illustrated by the buying sprees of Google and Facebook, which took candidates to go public — like Instagram, Nest, Waze and WhatsApp — out of contention.

Another possibility involves demand. In a paper that I wrote with Robert Bartlett and Paul Rose, we explore this theory. The drop-off in activity is largely attributed to the disappearance of the small offering.

In 1996, average proceeds for an initial public offering were $85.7 million, and 54 percent of these offerings were considered small, with a market capitalization below $75 million in inflation-adjusted dollars. In 2014, however, average proceeds were $186.4 million and only 4 percent of offerings were small.

The market for new issues has moved toward liquidity and bigger stocks. Mutual funds prefer making big investments rather than small ones for liquidity and administrative purposes — lots of small investments simply require more people and more monitoring.

A third possibility is that companies simply no longer need the public market. The private markets are more efficient, and financing is readily available from venture capitalists and banks.

There are even markets and mechanisms that exist not only to allow for financing, but to allow for selling employees' and founders' shares in private markets. In addition, the JOBS Act allowed companies to expand the number of shareholders and still be private, a change that encouraged companies to remain private.

There are other theories. One of these notes that the 1990s saw a surge in I.P.O. activity and that we are just back to what the activity was in the 1970s and '80s. Who is to say what is a normal market?

Another possible reason is that companies are shying away from the public markets to avoid shareholder activism, short-termism and the glare of public scrutiny.

Yet the growing use of dual class shares and staggered boards by new companies, measures that help founders retain control, argues against this need. And they are tools that can be used by any company — even Shake Shack went public with dual-class stock.

The bottom line is that while there might be rational reasons to reduce regulation on capital raising — to make it easier and less expensive — we are kidding ourselves if we think that simply deregulating will bring back initial public offerings.

The task is much harder. The Securities and Exchange Commission, for one, could help build an infrastructure for buying small company offerings. Allowing mutual funds more latitude to buy illiquid small investments and to change their compensation structures if they do would be a big step.

In addition, we could explore more novel ways of bringing companies to the public markets. Special purpose acquisitions companies — those created to buy a private company and bring it public — have attracted criticism, including from me. Yet a recent $900 million deal in the energy business shows one possible way to take more companies public, provided there are investor protections.

Then there is the argument that maybe we shouldn't do anything, given how hard it will be. The idea behind the public markets is to provide capital funding. But if the private markets are now efficient and capable of providing even less expensive capital at lower cost, maybe we should be fine with the current state of affairs.

Still, that overlooks the fact that for most of us, our retirement money is in the public markets. We should be worried about all of this money flowing into a smaller and smaller group of companies.

One answer is to allow mutual funds to invest more in private companies. Already 26 mutual fund groups had $11.5 billion invested in late-stage companies in 2016, according to Credit Suisse.

That's one answer, but that will result in yet more intermediaries. The better solution is to push more companies to the public markets. Deregulating is one thing, but the real work will require more innovative thinking from market regulators. That's your homework, Mr. Clayton.

On a personal note, I've been writing the Deal Professor column for DealBook for over nine years now, and this will be my last column before I take an extended sabbatical to work on other projects.

Steven Davidoff Solomon is a professor of law at the University of California, Berkeley. His columns can be found at nytimes.com/dealbook. Follow @stevendavidoff on Twitter.

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* Tax on Saudi Aramco Oil Profits Is Cut to Prepare for I.P.O.

* Cautious Optimism in Brazil as Appetite Returns for I.P.O.s

* Unicorn Investors Desperate for Growth, if Not I.P.O.s

* Snap, After Bursting Out of the Gate, Sees Its Shares Slip

Harry Campbell

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The New York Times

Business Day; DealBook
At BlackRock, Machines Are Rising Over Managers to Pick Stocks

By LANDON THOMAS Jr.
1,034 words
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NYTimes.com Feed
NYTFEED
English

Score one for the machines.

From the moment Laurence D. Fink, the chief executive of BlackRock, created the largest fund company in the world by snapping up the exchange-traded fund business from Barclays in 2009, he has faced a thorny challenge.

The explosive growth of these low cost, computer-driven funds has been leaving in the dust his firm's old school stock pickers, and investors have been fleeing in droves.

After years of deliberations, Mr. Fink has opted for the promise of the machine. On Tuesday, BlackRock laid out an ambitious plan to consolidate a large number of actively managed mutual funds with peers that rely more on algorithms and models to pick stocks.

Some $30 billion in assets (about 11 percent of active equity funds) will be targeted, with $6 billion rebranded BlackRock Advantage funds. These funds focus on quantitative and other strategies that adopt a more rules-based approach to investing.

As part of the restructuring, seven of the firm's 53 stock pickers are expected to step down from their funds. Dozens more are expected to leave the firm.

The initiative is the most explicit action by a major fund management firm in reaction to the exodus of investors from actively managed stock funds to cheaper funds that track every variety of index and investment theme.

"The democratization of information has made it much harder for active management," Mr. Fink said in an interview. "We have to change the ecosystem — that means relying more on big data, artificial intelligence, factors and models within quant and traditional investment strategies.

BlackRock, with its fleet of iShares E.T.F.s, has certainly benefited from the investor revolution — one that threatens to disrupt the mutual fund industry in the years ahead.

Still, the monster in the mutual fund room by far has been the indexing giant Vanguard, which, via its index funds and exchange-traded funds, has had historic inflows.

Last year, for example, $423 billion left actively managed stock funds and $390 poured into index funds, according to Morningstar. Of that amount, Vanguard captured $277 billion, nearly tripling the amount that went to its nearest rival, BlackRock.

Mr. Fink has always professed to be agnostic as to whether a client bought a no-frills exchange-traded fund tracking low **volatility** stocks or an expensive mutual fund investing in small United States companies.

Let the client choose has long been the BlackRock leader's mantra.

Left unsaid, however, has been the reality that at his root Mr. Fink is now a true believer in systematic investing styles that favor algorithms, science and data-reliant models over the stock picking smarts of individual portfolio managers.

In recent years he has hired Andrew Ang, a star finance professor from Columbia, to push BlackRock into factor-based investing, a theme-based approach to allocating assets.

And since last year, BlackRock's dyed-in-the-wool stock pickers have worked in the same division as its quants. Called scientific equity, these managers, many boasting Ph.D.s, might buy (or sell) Walmart's stock on the basis of a satellite feed that reveals how many cars are in its parking lots as opposed to an insight gleaned from the innards of the retailer's balance sheet.

In sum, Mr. Fink has become convinced that BlackRock must bet big on the power of machines, be it Aladdin, the firm's risk management platform, robo-advisers, big data or even artificial intelligence.

Just about any interview or conference call featuring Mr. Fink bears this out: Invariably, the conversation comes around to technology, with scant mention of what the firm's stock pickers are doing.

But simply going all in on machine-driven passive investing over active has not been an option for Mr. Fink. While the assets of the firm's actively managed stock funds have shrunk to $201 billion today from $208 billion in 2009, the business is still very profitable for BlackRock, representing 16 percent of total revenue.

According to data from Morningstar, only 11 percent of Blackrock's actively managed equity funds have beaten their benchmarks since 2009. Since 2012, $27.5 billion has left BlackRock actively managed mutual funds, per Morningstar data.

The new push, which is being overseen by Mark Wiseman, a top executive at Canada's top pension fund whom Mr. Fink hired last year to revamp his equity business, highlights strategies in which a portfolio manager makes big bets on a select group of stocks.

Still, there is no mistaking the larger message: Expensive, actively managed funds looking to make a mark picking United States stocks must adapt to the new realities at BlackRock.

Take BlackRock's Large Cap Core fund, which invests in big American companies. Since 2009, the fund's assets have halved, to $1.5 billion, lagging the index by 1.3 percent over the last three years.

The fund's lead manager will be replaced by three portfolio experts from BlackRock's quantitative investing team, where all varieties of computer models are crunched in pursuit of stock picking ideas. Fees will also be halved.

Of course, none of these moves are likely to immediately halt the outflows of the past years. In fact outflows are likely to increase, as few investors want to stick with a fund undergoing an existential makeover.

But as Mr. Fink and his new equity deputy see it, it is better to take the pain now than later.

"The old way of people sitting in a room picking stocks, thinking they are smarter than the next guy — that does not work anymore," Mr. Wiseman said. "These are stormy seas for active managers, but we at BlackRock are an aircraft carrier, and we are going to chart our way through these seas."

* At BlackRock, a Wall Street Rock Star's $5 Trillion Comeback

Laurence D. Fink, the chief executive of BlackRock, has become convinced that the company must bet big on the power of machines, be it Aladdin, the firm's risk management platform; robo-advisers; big data; or even artificial intelligence. | Damon Winter/The New York Times

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THE WALL STREET JOURNAL.
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Banking & Finance: Eurozone Stocks Beat U.S. --- Dissipating political risk lifts European shares as their peers across the ocean falter

By Mike Bird
628 words
28 March 2017
The Wall Street Journal
J
B10
English

Stocks in the eurozone are now outperforming their U.S. peers this year as local growth picks up and political concerns shift from Europe to the other side of the Atlantic.

Donald Trump's victory in last year's presidential election lifted U.S. stocks and the dollar, but investors now are questioning whether the new administration can deliver the business-friendly policies that helped propel those assets.

Despite a slower start to 2017, the Euro Stoxx index has risen by 4.7% this year to date. The **S&P 500** is now up by 4%, down from the 7% rise the index had notched by the beginning of March.

The underperformance is even more stark in dollar terms. Because the euro has risen 3.45% to $1.09 since the beginning of the year the Euro Stoxx is up by around 7% in dollar terms since the end of 2016.

The withdrawal of Mr. Trump's signature U.S. health-care reform plans has rattled markets just as perceptions of political risk have receded in Europe. Meanwhile, economic data and surveys in the eurozone are looking their healthiest in a long time and that is expected to help the region's battered banks outperform U.S. lenders.

"Markets are now worried they will get Trump without 'the good bits,'" said Trevor Greetham, who is responsible for asset allocation at Royal London Asset Management. "If he can't get a Republican Congress to repeal Obamacare, how can he get more contentious tax cuts and infrastructure spending bills passed?"

Dutch Prime Minister Mark Rutte defeated euro skeptic candidate Geert Wilders in elections in the Netherlands this month. Betting markets now suggest that anti-euro populist Marine Le Pen's chance of winning France's coming presidential election has declined to 19%, from more than 30% in February.

European markets are reflecting the receding fear of a breakup in the eurozone.

The spread between France's and Germany's 10-year bond yields, one measure of the political risk in markets, has narrowed from 0.78 in February to 0.58 percentage points now. Bond yields rise as prices fall.

Stronger economic data in Europe are also buoying equities. Businesses in the eurozone reported their strongest economic conditions in six years in the latest IHS Markit purchasing managers index in March. The U.S. composite PMI, by comparison, fell to 53.2 in the same month, a six-month low.

Some analysts believe the outperformance of European stocks will continue. In a note Monday, equity strategists at Morgan Stanley raised their forecasts for growth in earnings per share in the MSCI Europe to 16% from 12% this year. The bank is particularly positive about the performance of European financial companies, given their low valuations.

Eurozone companies are cheaper than their U.S. peers relative to their profits. The Euro Stoxx index has a price to earnings ratio of 16.2 over the past 12 months, compared with a ratio of 19.5 for **S&P 500** firms.

Analysts at J.P. Morgan Chase also believe that eurozone banks look like a better bet than those in the U.S. "We note that the gap between the loan growth of the two regions is narrowing. U.S. credit growth has stalled recently," the bank said in a note Monday.

In the eurozone, lending to corporations and households rose by 2% and 2.3% in the year to February. In the U.S., annual bank credit growth has dipped notably, falling from 8.3% in September to 4.8% this March.

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THE WALL STREET JOURNAL.
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Heard on the Street
Central Banks' Guidance Shift Could Leave Investors Lost

By Richard Barley
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28 March 2017
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B12
English

[Financial Analysis and Commentary]

Central-bank actions have counted for a lot in recent years, but words matter too. As central banks edge toward the exit, "forward guidance" may complicate their task.

Rate setters have long tried to steer market expectations through coded hints. In the wake of the financial crisis, they employed unusually explicit language to emphasize they would keep policy loose. For instance, the U.S. Federal Reserve in mid-2011 introduced calendar-based guidance, saying that rates would stay "exceptionally low" through at least mid-2013. Then they switched to linking policy to specific levels of unemployment and inflation.

Even now, markets appear focused more on the dot plot that signals the path of future rates than on Fed actions themselves. Guidance has helped tamp down **volatility** in interest rates.

In the process, it has generated challenges. The Bank of England had to do a rapid rethink as a swift fall in unemployment rendered its 2013 guidance invalid. There is a risk that history repeats itself for the BOE. To give itself room for maneuver, the bank has cut its estimate of the rate of unemployment that ignites inflation to 4.5% compared with 4.7% now.

Other central banks appear closer to meeting their targets, and policy makers may need more flexibility. Even the Fed may face a clash between reacting to incoming data versus the longer-term message it is sending about gradual rate rises. Markets didn't think a March rate increase was coming until Fed officials signaled it was likely.

The European Central Bank says it expects to hold rates at current levels or lower until after its bond purchases end, most likely no earlier than 2018. Yet its deposit rate at minus-0.4% increasingly looks like an emergency measure that is out of date. BNP Paribas notes that with inflation rising, the real deposit rate is now minus-2.4%. Markets wonder whether rates could rise before quantitative easing stops, but that would require the ECB to change guidance. In turn, that could raise doubts about the ECB's policies overall and risk tighter financial conditions. The eurozone recovery can't be taken for granted.

The problem is that forward guidance, if it is to have value, is relatively inflexible as a policy tool. Confusion about a central bank's signals could lead to market upheavals, especially as the world economy is enjoying a synchronized cyclical pickup in growth but still faces structural headwinds.

A change in central bankers' words could speak much louder than actions.

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The New York Times

DEALBOOK
Business/Financial Desk; SECTB
Trump's Take on Corporate Tax Rate Could Look Very Much Like Obama's

By ANDREW ROSS SORKIN
1,176 words
28 March 2017
The New York Times
NYTF
Late Edition - Final
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English

Just a few days after being sworn in as president, Donald J. Trump convened a meeting at the White House of some of the nation's most prominent chief executives to discuss how to improve manufacturing. Mr. Trump was joined by Elon Musk of Tesla, Mark Fields of Ford, Andrew Liveris of Dow Chemical, Marillyn A. Hewson of Lockheed Martin and Michael Dell of Dell, among others.

Before the meeting formally began, with cameras rolling, Mr. Trump wanted to talk about corporate tax rates -- specifically lowering them. During one debate with Hillary Clinton, he had told voters: ''Under my plan, I'll be reducing taxes tremendously, from 35 percent to 15 percent for companies, small and big businesses. That's going to be a job creator like we haven't seen since Ronald Reagan. It's going to be a beautiful thing to watch.''

He repeated the 15 percent figure over and over again.

However, when Mr. Trump spoke to the C.E.O.s that morning, he shifted the goal post slightly: ''We're trying to get it down to anywhere from 15 to 20 percent.''

Inside the White House, until last Friday, according to people involved in the conversations, the target rate had been bumped up again, to a minimum of 20 percent and very likely a bit more.

And now, given that the repeal of the Affordable Care Act is off the table -- and with it the $1 trillion in tax cuts over the next 10 years that the administration needed to help make its tax plan deficit neutral -- there is a good chance that any tax package would include a corporate rate that is even further from Mr. Trump's initial pledge, perhaps as high as 28 percent.

Don't take my word for it. That's the figure that Grover Norquist, the anti-tax activist who is the president of Americans for Tax Reform, and who has long sought the lowest rate possible, has calculated would be needed for the plan to be deficit neutral after 10 years. That way it could come under the heading of budget reconciliation, which would allow the Senate to pass legislation with a simple majority.

If the 28 percent corporate tax rate sounds familiar, that's because it is: It was the same rate that President Barack Obama proposed in 2012 and again in 2013, when he also proposed to lower the tax rate for United States manufacturers to 25 percent. He made the proposal again in 2014, 2015 and 2016. Each time, his tax plan was summarily dismissed by Republicans who called the rate too high and uncompetitive.

Now, Republicans may end up negotiating a tax package with a corporate tax rate that looks a lot like the one they rejected out of hand for the last five years.

Why is the rate so important?

Because almost all those on Wall Street -- and in corner offices throughout corporate America -- have been baking into their models a tax reform plan that they say will jump-start additional investments, leading to higher growth in the economy.

As an example, Randall Stephenson, the chief executive of AT&T, told analysts this year, ''We know at AT&T that if you saw tax rates move to 20 percent to 25 percent, we know what we would do: We would step up our investment levels.''

Some of those investments become harder to justify if the rate is higher, executives say. The Standard & Poor's 100-**stock index** already has an effective tax rate of about 28 percent, according to WalletHub.

The United States has the highest top statutory corporate tax rate among Group of 20 nations, according to a study by the Congressional Budget Office.

As evidenced by the **stock market**'s pullback on Friday and again on Monday, investors and analysts are redoing their math to account for the fact that tax reform may not happen as soon as they expected -- the Trump administration had said it would happen by August -- and that rates will not come down as much as had been anticipated.

Speaker Paul D. Ryan, who oversaw the effort to repeal Obamacare, acknowledged that the bill's failure would ''make tax reform more difficult.''

He has yet to publish a new set of corporate tax rates, but his original plan called for a rate of 20 percent. That plan depended not only on Obamacare's repeal, to save $1 trillion, but also on another plan that seems increasingly unlikely to gain support: a so-called border adjustment tax -- a euphemism for an import tax on all goods -- that was expected to raise another $1 trillion over 10 years.

The border adjustment tax, an obsession of Mr. Ryan's, has divided Mr. Trump's advisers. Stephen K. Bannon has been a proponent, seeing it as an incentive for more companies to make goods here in the United States. Others, like Gary Cohn, Wilbur Ross and Steven Mnuchin, have been more ambivalent, people involved in the discussions say, in part because other countries could retaliate, making it harder for United States manufacturers to export goods.

Many American retailers, like Walmart, and even some manufacturers -- including Ford and Fiat Chrysler, which make some car models in Mexico and Canada and import them into this country -- have expressed their anxiety about how a border adjustment tax would affect their business.

Given the squabbling within the Republican Party over the repeal of Obamacare, it's hard to imagine that a congressman with constituents including big retailers -- retail jobs outnumber manufacturing jobs in the United States by about four to one -- would vote in favor of a border adjustment tax.

''The border adjustment tax, the most controversial piece of current tax-reform discussions, is less likely to pass,'' Société Générale wrote in a note to clients over the weekend. ''If Congress fails to approve tax reform ahead of August, confidence is likely to slip. Congress could still pass a bill by the end of the calendar year, but even that could slip.''

Without the $2 trillion in revenue and tax savings that the border adjustment tax and Obamacare repeal would generate, it is virtually impossible to see how the Trump administration could find a path to a corporate tax rate anywhere near what it originally promised. (Of course, the administration could pull back on its pledge to lower taxes for the middle class, but that seems unlikely.)

The trillion-dollar question is whether lowering corporate taxes would ultimately have the desired effect.

''While there is no doubt that tax policy can influence economic choices,'' a study by the Brookings Institution determined, ''it is by no means obvious, on an ex ante basis, that tax rate cuts will ultimately lead to a larger economy in the long run.''

President Trump hosting business leaders in the White House shortly after his inauguration. (PHOTOGRAPH BY DOUG MILLS/THE NEW YORK TIMES) (B6)

Document NYTF000020170328ed3s0004p

The New York Times

Business/Financial Desk; SECTB
Doubt After Health Care Defeat Briefly Sends Stocks Tumbling

By KATE KELLY and ALEXANDRA STEVENSON
1,110 words
28 March 2017
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1
English

For a time on Monday, one question appeared to haunt **stock market** investors from Tokyo to Manhattan: Will President Trump be able to live up to his promises to reduce taxes and cut regulation?

Belief in such business-friendly, pro-growth measures has been driving a rally in stocks since the November election. But a weekend's worth of second-guessing over Washington's failure to move forward on health care legislation has injected some skepticism into the market.

''Friday's health care outcome was a reality check for investors,'' Rebecca Patterson, chief investment officer at the Bessemer Trust, a $63 billion private investment company, said in an email.

The market had seemed almost immune to political turmoil. For months, declines of 1 percent or more were unknown. Stocks sagged last week, however, amid signs of political obstacles to the replacement of the Affordable Care Act, and they opened sharply lower on Monday. The market recovered to end the day little changed.

The health care legislation by itself had not been seen as of huge significance to the markets. But traders and longer-term investors said Monday that the bill's failure was worrisome. Corporate and individual tax changes, a $1 trillion infrastructure investment and other items on the Trump agenda that have goosed the markets may now prove illusory, they added.

''The inability for him to pass health care reform casts doubt upon his ability to get large-scale tax reform passed,'' said Erin Browne, head of macro-investing for the O'Connor hedge fund division of the Swiss bank UBS.

Because the health care legislation was needed to help make tax cuts work within the current budget, the market is ''now looking at either a much more modest tax reform or at tax cuts, which are certainly not going to be as economically beneficial,'' Ms. Browne said.

Other markets suggested that many were unsettled by Mr. Trump's crash course in political science.

The United States dollar, as measured by a Bloomberg index that tracks it against other major world currencies, fell to a level unseen since days after the president's upset victory in the election. And the yield on the **10**-**year Treasury** note -- which falls when more people buy the notes, often as they gravitate toward lower-risk investments -- sank to its lowest levels in a month.

The **Standard & Poor**'**s 500**-**stockindex**, which fell as much as 1 percent on Monday, ended the day down just 0.1 percent. Since Election Day, the **S**.**&P**. **500** is up more than 9 percent.

The narrower **Dow Jonesindustrial average** closed 0.2 percent lower for its first eight-session losing streak since 2011 and only the third such streak since 1990, the Bespoke Investment Group said.

The **Nasdaq composite** index closed up 0.2 percent.

Overseas markets were generally lower, with Tokyo down 1.4 percent and London off 0.6 percent.

Volatility also reared its head for a while on Monday as the Chicago Board Options Exchange**Volatility** Index, or VIX, known as Wall Street's fear gauge, rose before retreating later in the day.

The truth, Ms. Patterson of Bessemer said in her email, is that "legislation is a tricky, messy process."

In some corners of the market, that acknowledgment has had a particularly sobering effect. Certain sectors that had reached stratospheric levels of late on hopes of promised regulatory rollbacks and other propulsive policy measures are now tumbling to earth.

Shares of Wall Street banks and other financial companies, which have benefited from Mr. Trump's executive order to reconsider the 2010 Dodd-Frank Act and are now down sharply since early March, are one example. Energy stocks, which have been harmed by the lack of detail on Mr. Trump's infrastructure plans and by falling **oil prices**, have also slid.

One beneficiary of the failed health care bill? Hospital operators like HCA. Its shares surged more than 5 percent Monday.

Some investors, of course, have simply decided to pocket the gains they have already earned in stocks. Others are liquidating positions to diminish their exposure to risk during a period many expect will remain **volatile**.

Ms. Browne, for one, said she had sold out of certain positions in the last week and would keep the proceeds out of the markets for now.

"Over the shorter term, I'm more cautious because I think the market needs to adjust to a potentially lower speed of the economy," she said.

She added, however, that it was important not to overstate the meaning of the recent policy hiccups, saying, "The outlook over the medium to longer term is still quite strong."

The postelection rise in stock prices itself may have been the outlier event -- not the recent retreat.

Many traders have spent recent weeks watching for signs of market weakness, waiting for a trigger event that would cause an expected downturn of 1 to 2 percent. Some placed wagers in the market intended to pay off if stocks began a substantial slide. To them, the question was when, not if.

Jason Ader, the chief executive and chief investment officer of the activist stock investment firm Spring Owl Asset Management, is taking the last week in stride.

This pullback "is warranted, healthy and normal," Mr. Ader said by email.

"If the Trump administration's pro-business, pro-growth agenda hits a bump, the alternative isn't so bad," he added, given that the **stock market** has also been "favorably disposed" at times of political gridlock as long as interest rates remain relatively low.

Even with more interest rate increases expected this year, the cost of borrowing remains within a historically low range. Corporate earnings have been solid. Growth indicators in Asia and Europe, and in the United States, have been encouraging, all of which argues for continued optimism in the market.

It may even be a good window in which to buy.

"As long as the broader economic trends are intact, which we think they are, these sell-offs are usually a great opportunity for investors looking to put cash to work," Ms. Patterson said.

A trader watched on Monday as President Trump signed bills undoing Obama-era rules on schools, purchasing and land use. (PHOTOGRAPH BY DREW ANGERER/GETTY IMAGES) (B3) CHART: The **Stock Market** Since the Election: After Donald J. Trump's surprise win, uncertainty in the **stock market** turned into exuberance as investors hoped that his campaign promises to spur the economy and cut taxes would bring higher returns. (Source: Reuters) (B3)

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THE WALL STREET JOURNAL.
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Oil Falls As Doubts On OPEC Pact Grow

By Neanda Salvaterra, Jenny Hsu and Timothy Puko
260 words
28 March 2017
The Wall Street Journal
J
B12
English

Crude prices inched lower Monday, weighed down by investor skepticism that major oil producers will extend a deal to curtail global supply beyond June.

Light, sweet crude for May settled down 24 cents, or 0.5%, at $47.73 a barrel on the New York Mercantile Exchange. Its intraday low of $47.08 a barrel was within 10 cents of a low dating to late November, but it pared losses in the late morning.

Brent crude, the global benchmark, lost 5 cents, or 0.1%, to $50.75 a barrel on ICE Futures Europe. Both benchmarks have lost ground in five of six sessions.

Over the weekend, a monitoring committee that oversees the Organization of the Petroleum Exporting Countries' compliance with a deal to cut global production by 1.2 million barrels a day issued a statement directing oil producers to "review the oil market conditions," regarding the possible extension of the cuts. Several OPEC members announced support for an extension.

Market participants may have expected the committee to immediately recommend an extension of the supply cut amid rising global inventories and soft **oil prices**. OPEC's ability to rein in its own high production and counteract rising inventories and output in the U.S. are in question, according to Chicago brokerage iiTrader.

The committee will reconvene in late April to complete its recommendation. The final decision will be taken by the oil cartel May 25.

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THE WALL STREET JOURNAL.
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Business News: Mexico's Vehicle Output Climbs --- Country gains heft in North America as U.S., Canadian plants scale back production

By John D. Stoll
486 words
28 March 2017
The Wall Street Journal
J
B3
English

The prospect of lowering the U.S. auto industry's reliance on "Made in Mexico" became thornier during the Trump administration's early days, as the number of popular pickups and SUVs flooding in from south of the border rose sharply in January and February.

Mexico's share of North American automotive production exceeded 20% through two months, gaining regional share amid falling output in the U.S. and Canada over the same period. Analysts expect Mexico's role in the North American Free Trade Agreement zone to grow as most auto makers have capacity increases planned for Mexico.

Mexico's momentum comes early in the tenure of a Trump administration vowing to take actions aimed at slowing car and truck imports coming to the U.S. While vehicle imports from some markets -- including Canada -- fell in January compared with the same period a year earlier, the flow of Mexican-made vehicles rose 10%, according to U.S. trade data.

Mexico registered a trade surplus in February as growth in exports outpaced that of imports, thanks to higher **oil prices** and strong exports of manufactured goods. Auto exports, increasing 4.9%, were a contributing factor.

The data, published by WardsAuto.com, reveals General Motors Co., Fiat Chrysler Automobiles NV, Nissan Motor Co. and Volkswagen AG scheduled significantly more Mexican light-truck production over the period, helping the country's auto plants post output increases at the same time the wider North American auto industry is paring back. Many plants in the U.S. and Canada have dialed back production of less popular passenger cars, such as the Chevrolet Malibu, resulting in layoffs at certain factories.

President Donald Trump has proposed a border tax on imported cars and trucks, and the Center for Automotive Research in Ann Arbor, Mich., predicts financial penalties would result in higher price tags for consumers. Many auto executives say they can adjust to tariffs or border taxes, but that becomes harder as the industry's dependence on Mexican factories grows.

Mexico's vehicle output rose 10% over the first two months of the year compared with January and February 2016, while Canada slipped 9% and the U.S. fell 2.9%, WardsAuto.com said. That tally doesn't include production of heavier-duty trucks.

Fiat Chrysler's decision to move production of the Jeep Compass sport-utility vehicle to a Mexican factory from the U.S., and Volkswagen's plans to start output of Audi Q5 luxury SUVs in Mexico, helped fuel the shift. Both auto makers are boosting jobs and investments at American plants amid a focus on building more trucks, but those plans are unlikely to lighten the companies' dependence on Mexican factories for U.S. sales.

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THE WALL STREET JOURNAL.
U.S. EDITION

CFO Journal: Proposal Aims to Ease Hedge Accounting --- FASB looks to simplify requirements and broaden the range of activities that qualify

By Tatyana Shumsky
714 words
28 March 2017
The Wall Street Journal
J
B5
English

One of the most Byzantine areas of corporate accounting is about to get simpler.

The Financial Accounting Standards Board is putting the finishing touches on new rules governing how companies report hedging activities, such as using futures and options to insulate profits from currency or interest-rate swings.

Current rules allow companies to delay recording the economic impact of a hedge on their income statement until the same period as the transaction involved is completed.

This typically results in less **volatile** earnings quarter to quarter.

The FASB's proposal aims to give companies more time to meet the strict documentation requirements needed to qualify for hedge accounting. The new rules also expand its application to a broader range of circumstances, simplify the way hedges are recorded and offer relief for companies that made small errors in applying the rules.

At stake for companies is the treatment of futures, options and other derivatives valued at billions of dollars that don't currently qualify for hedge accounting.

"It will simplify the documentation process, saving us time and money." said Tom Timko, vice president, controller and chief accounting officer at General Motors Co.

GM uses futures and other derivatives to hedge its foreign currency, commodity and interest-rate risk, but not all of these qualify for hedge accounting.

At the end of 2016, GM held derivatives not designated as hedges with $47.7 billion in total notional value, a measure of the amount covered when the hedge is triggered. The fair value of these contracts was insignificant at the end of 2016, according to regulatory filings.

GM is one of roughly three dozen companies, including Verizon Communications Inc. and Archer Daniels Midland Co., that have thrown their support behind the effort to make hedge accounting easier.

The new rules are expected to be completed this summer and become effective as early as 2018.

"There's still going to be rules, there's still going to be hurdles, but it's not going to be as onerous as it is now," said Rob Royall, partner in financial accounting and advisory services practice at Ernst & Young.

The commodities sector is expected to benefit from the proposal.

When a company such as Archer Daniels Midland agrees to mill wheat into flour and sell it to its customers in the future, the company might lock in the wheat price using futures, as no flour futures exist.

Current rules require companies like ADM to hedge the total price of its flour sales contract, without singling out the wheat-price risk on its own, and so such hedges may not qualify for hedge accounting treatment.

Changes in the price of derivatives that don't qualify as hedges must be recorded in the income statement each quarter, which can result in large earnings swings.

The result is that ADM's losses on derivatives not designated as hedges reduced earnings by $352 million, to $1.28 billion in 2016. The company held derivatives not designated as hedges with a fair value of $1.26 billion at the end of 2016.

By contrast, the economic impact of qualified hedges for expected sales or purchases is only recognized in the income statement at the same time as the relevant transaction is concluded, like the delivery of flour to the customer.

The proposal "would allow ADM increased ability to adopt accounting models that reflect the way risk is actually managed," said John Stott, corporate controller and principal accounting officer, in a letter to FASB.

Still, several companies said the changes could have gone further. Deutsche Bank AG called for better alignment between U.S. and international hedge accounting guidelines in a comment letter, saying that significant differences between the two impede comparability of financial statements.

All companies that attempt hedge accounting under the new rules will benefit from having to do less math, said Mark Scoles, partner in charge of the accounting principles group at Grant Thornton.

For example, FASB won't require companies to measure and record any discrepancy in how effective the hedge is at mitigating the relevant risks each quarter, as it currently does.

Document J000000020170328ed3s0000j

The New York Times

Business Day; DealBook
Stocks Briefly Tumble After Health Care Overhaul Falters

By KATE KELLY and ALEXANDRA STEVENSON
1,114 words
27 March 2017
11:23 AM
NYTimes.com Feed
NYTFEED
English

Correction Appended

For a time on Monday, one question appeared to haunt **stock market** investors from Tokyo to Manhattan: Will President Trump be able to live up to his promises to reduce taxes and cut regulation?

Belief in such business-friendly, pro-growth measures has been driving a rally in stocks since the November election. But a weekend's worth of second-guessing over Washington's failure to move forward on health care legislation has injected some skepticism into the market.

"Friday's health care outcome was a reality check for investors," Rebecca Patterson, chief investment officer at the Bessemer Trust, a $63 billion private investment company, said in an email.

The market had seemed almost immune to political turmoil. For months, declines of 1 percent or more were unknown. Stocks sagged last week, however, amid signs of political obstacles to the replacement of the Affordable Care Act, and they opened sharply lower on Monday. The market recovered to end the day little changed.

The health care legislation by itself had not been seen as of huge significance to the markets. But traders and longer-term investors said Monday that the bill's failure was worrisome. Corporate and individual tax changes, a $1 trillion infrastructure investment and other items on the Trump agenda that have goosed the markets may now prove illusory, they added.

"The inability for him to pass health care reform casts doubt upon his ability to get large-scale tax reform passed," said Erin Browne, head of macro-investing for the O'Connor hedge fund division of the Swiss bank UBS.

Because the health care legislation was needed to help make tax cuts work within the current budget, the market is "now looking at either a much more modest tax reform or at tax cuts, which are certainly not going to be as economically beneficial," Ms. Browne said.

Other markets suggested that many were unsettled by Mr. Trump's crash course in political science.

The United States dollar, as measured by a Bloomberg index that tracks it against other major world currencies, fell to a level unseen since days after the president's upset victory in the election. And the yield on the **10-year Treasury** note — which falls when more people buy the notes, often as they gravitate toward lower-risk investments — sank to its lowest levels in a month.

The **Standard & Poor's 500-stockindex**, which fell as much as 1 percent on Monday, ended the day down just 0.1 percent. Since Election Day, the **S.&P. 500** is up more than 9 percent.

The narrower **Dow Jonesindustrial average** closed 0.2 percent lower for its first eight-session losing streak since 2011 and only the third such streak since 1990, the Bespoke Investment Group said.

The **Nasdaq composite** index closed up 0.2 percent.

Overseas markets were generally lower, with Tokyo down 1.4 percent and London off 0.6 percent.

Volatility also reared its head for a while on Monday as the Chicago Board Options ExchangeVolatility Index, or VIX, known as Wall Street's fear gauge, rose before retreating later in the day.

The truth, Ms. Patterson of Bessemer said in her email, is that "legislation is a tricky, messy process."

In some corners of the market, that acknowledgment has had a particularly sobering effect. Certain sectors that had reached stratospheric levels of late on hopes of promised regulatory rollbacks and other propulsive policy measures are now tumbling to earth.

Shares of Wall Street banks and other financial companies, which have benefited from Mr. Trump's executive order to reconsider the 2010 Dodd-Frank Act and are now down sharply since early March, are one example. Energy stocks, which have been harmed by the lack of detail on Mr. Trump's infrastructure plans and by falling oil prices, have also slid.

One beneficiary of the failed health care bill? Hospital operators like HCA. Its shares surged more than 5 percent Monday.

Some investors, of course, have simply decided to pocket the gains they have already earned in stocks. Others are liquidating positions to diminish their exposure to risk during a period many expect will remain volatile.

Ms. Browne, for one, said she had sold out of certain positions in the last week and would keep the proceeds out of the markets for now.

"Over the shorter term, I'm more cautious because I think the market needs to adjust to a potentially lower speed of the economy," she said.

She added, however, that it was important not to overstate the meaning of the recent policy hiccups, saying, "The outlook over the medium to longer term is still quite strong."

The postelection rise in stock prices itself may have been the outlier event — not the recent retreat.

Many traders have spent recent weeks watching for signs of market weakness, waiting for a trigger event that would cause an expected downturn of 1 to 2 percent. Some placed wagers in the market intended to pay off if stocks began a substantial slide. To them, the question was when, not if.

Jason Ader, the chief executive and chief investment officer of the activist stock investment firm Spring Owl Asset Management, is taking the last week in stride.

This pullback "is warranted, healthy and normal," Mr. Ader said by email.

"If the Trump administration's pro-business, pro-growth agenda hits a bump, the alternative isn't so bad," he added, given that the stock market has also been "favorably disposed" at times of political gridlock as long as interest rates remain relatively low.

Even with more interest rate increases expected this year, the cost of borrowing remains within a historically low range. Corporate earnings have been solid. Growth indicators in Asia and Europe, and in the United States, have been encouraging, all of which argues for continued optimism in the market.

It may even be a good window in which to buy.

"As long as the broader economic trends are intact, which we think they are, these sell-offs are usually a great opportunity for investors looking to put cash to work," Ms. Patterson said.

Correction: March 27, 2017, Monday

This article has been revised to reflect the following correction: An earlier version of a graphic with this article misstated the years represented. They are 2016 and 2017, not 2006 and 2007.

* Dealt a Defeat, Republicans Set Their Sights on Major Tax Cuts

* G.O.P., Once Unified Against Obama, Struggles for Consensus Under Trump

* Democrats, Buoyed by G.O.P. Health Defeat, See No Need to Offer Hand

Document NYTFEED020170327ed3r0035z

THE WALL STREET JOURNAL.
U.S. EDITION

Equities -- MoneyBeat: Profits to Get Off Schneid

By Ben Eisen
216 words
27 March 2017
The Wall Street Journal
J
B9
English

Economic growth remains sluggish. Political uncertainty has clouded hopes for swift adoption of pro-business policies in Washington. Earnings, though, may be the best reason to think that stocks could chug higher yet.

Companies in the **S&P 500** are expected to report first-quarter profits grew by 9.1%, compared with the same quarter a year earlier, according to the latest analyst forecasts tracked by FactSet. If that holds up, it would be best quarter since the end of 2011 and a third straight quarter of earnings growth.

S&P 500 earnings per share "have been in a three-year funk and finally look ready to break out to the upside in 2017," said Citigroup equity analysts, led by Tobias Levkovich, in a note to clients.

After five straight quarters of declining profits, a brightening earnings outlook for corporate America's biggest companies comes at a welcome time.

Still, there are reasons to be cautious. The biggest contributor to elevated first-quarter earnings forecasts is the energy sector. Exclude the group and Factset forecasts **S&P 500** earnings rose just 5.2%.

This quarter is looking good for earnings. Investors should hope it isn't the peak.

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The New York Times

Business Day; Energy & Environment

Tax on Saudi Aramco Oil Profits Is Cut to Prepare for I.P.O.

By CLIFFORD KRAUSS
1,020 words
27 March 2017
04:23 PM
NYTimes.com Feed
NYTFEED
English

Saudi Arabia announced a sharp tax cut for its state oil company on Monday, part of an effort to make it more appealing to international investors in preparation for its promised initial public offering.

The tax rate is a vital piece in a puzzle the Saudis need to work out with investment bankers to determine the value of Saudi Aramco, the world's biggest producer of crude oil. Current valuation estimates, ranging from $400 billion to $2 trillion, depend on various calculations of the worth of operations, projections of commodity prices, and costs including taxes.

The Saudis hope to offer 5 percent of the company to foreign investors late next year, which would raise as much as $100 billion in what could be the biggest initial public offering in history.

The new tax rate for Saudi Aramco will amount to 50 percent, slashed from 85 percent, retroactive to Jan. 1, according to a royal order. The company also pays a 20 percent royalty on revenues.

"The new tax rate will bring Saudi Aramco in line with international benchmarks," Saudi Aramco's chief executive officer, Amin H. Nasser, said in a statement.

The tax cut was announced a couple of months after intensive discussions with international bankers in Riyadh about how the offering should be structured. Bankers and independent specialists said the cut would help increase the cash flow available for dividends to future investors and also suggested that various Saudi interest groups were reaching a consensus on how to proceed with the privatization.

"It is very much a positive move," said Jean-François Seznec, a Middle East energy specialist at the Atlantic Council's Global Energy Center. "It means the various Saudi parties involved — the state, the public investment fund and the royal family — are negotiating with the idea of coming to a solution."

Under a privatization, some combination of the government, the Saudi sovereign wealth fund, members of the royal family and individual Saudis would share 95 percent of profits and dividends. Dividing that pie is a delicate issue because the government depends on the company for most of its revenue and the company is involved in many social programs, like building hospitals and schools.

The Saudi finance minister, Mohammed al-Jadaan, said in a statement that the new tax code for Saudi Aramco would have no impact on government services because any tax revenue lost would be "replaced by stable dividend payments by government-owned companies and other sources of revenue, including profits resulting from investments."

Saudi Aramco does not publicly release information about earnings or the taxes and royalties it pays the government and others. Specialists say commodity prices and sales will determine profits and payments to shareholders, including the government and the royal family, with dividends taking the place of the higher taxes. The Saudis hope that new investment through the share offering will result in a bit of growth that will increase profits.

Saudi Aramco's ability to provide financing for the government has been sharply reduced in the last three years as world **oil prices** have collapsed. Even after cuts in subsidies and social programs, this year's government budget deficit is expected to be $53 billion. The Fitch Ratings agency this month downgraded the country's sovereign credit rating for the second time in a year, and foreign reserves are in worrisome decline.

Nevertheless, the taxation announcement was another sign that the initial public offering, which has been slow to get off the ground, may be gaining momentum. King Salman recently completed a three-week tour of Asia in which he advanced Saudi Aramco's campaign to become a major refining and petrochemical power in China, Japan, Malaysia and Indonesia. Mounting joint investments with some of Saudi Aramco's biggest customers should increase the value of Saudi Aramco to investors in the future, energy specialists said.

Saudi Aramco recently agreed to pay Royal Dutch Shell $2.2 billion in an arrangement splitting their United States refining and marketing business, Motiva Enterprises. That deal will put the refinery in Port Arthur, Tex. — the largest in the United States — totally under Saudi Aramco control. That should allow Saudi Arabia to expand, or at least stabilize, oil exports to the United States, which have been declining as American domestic production increases.

Energy specialists warn that the offering still faces hurdles. Saudi Aramco will need to be far more transparent to meet Securities and Exchange Commission disclosure requirements to be listed on the New York Stock Exchange, and members of the royal family may resist having shareholders from Western countries.

Failure to attract a large sum of capital for the offering would be deeply embarrassing to King Salman and his favorite son, Deputy Crown Prince Mohammed bin Salman, who is pushing the privatization as part of a sweeping reorganization of the national economy.

Mr. Seznec said that when he recently visited Saudi Arabia to lecture young middle managers at Saudi Aramco, he noticed a broad confidence that the offering would ultimately succeed.

"There is so much emphasis in the higher levels and lower levels within the kingdom that this I.P.O. will take place," he said. "Their vision is to make Saudi Aramco like Exxon Mobil, but much bigger."

* For I.P.O., Saudi Oil Company May Have to Give Up Some of Its Secrets

* Rise of Saudi Prince Shatters Decades of Royal Tradition

* Saudi Bid on a Houston Oil Refinery Is a Big Strategic Bet

* Saudis Moving to Reduce Dependence on Oil Money

Construction on Saudi Aramco's Al-Khurais central oil processing facility in 2008. The company's new tax rate will amount to 50 percent, slashed from 85 percent, according to a royal order. | Marwan Naamani/Agence France-Presse — Getty Images | King Salman, with President Xi Jinping of China, recently completed a tour of Asia in which he advanced Saudi Aramco's campaign to become a major refining and petrochemical power in China, Japan, Malaysia and Indonesia. | Pool photo by Lintao Zhang

Document NYTFEED020170327ed3r005v5

THE WALL STREET JOURNAL.
U.S. EDITION

Stock Retreat Has Its Fans --- After long rally, a correction could be good for the market, some investors say

By Aaron Kuriloff, Corrie Driebusch and Akane Otani
1,143 words
27 March 2017
The Wall Street Journal
J
A1
English

Investors don't typically root for stocks to fall, but some now think a period of declines might be healthy.

Many investors and analysts fear a postelection rally that has driven the **S&P 500** up roughly 10% has cleaved share prices from the underlying fundamentals that tend to drive gains over time, such as interest rates and corporate earnings.

What's due now, some investors say, is a correction: a 10% pullback from the indexes' March 1 highs. They contend such a retreat would tamp down speculation, deflate pockets of froth in popular investments and provide buying opportunities for those still on the sidelines.

Such declines serve an important function in a healthy market cycle, these investors say. By contrast, long periods without corrections can lead to unruly trading and end in larger, more disruptive declines.

"It's like dental work," said Michael Farr, president of the money management firm Farr, Miller & Washington. "You dread it. You don't want to get it. But you're glad when it's over and you feel better."

The **Dow Jones Industrial Average** fell 59.86 points Friday to 20596.72 and lost 317.90 points last week, its worst since September. The blue-chip index has fallen nine days in 10 and is 2.5% below its record on March 1.

There have been only four corrections during the eight-year **bull market** even as stock prices have tripled. On average, market corrections occur once each year, according to the WSJ Market Data Group, using data going back to the late 1980s.

Stock indexes have been working their way higher since recession fears spurred the last correction in early 2016, quickly rebounding from world-changing events such as the Brexit vote and the U.S. election.

While much of that rally reflects an evolution in the global economic outlook, which appears healthier now than it has in several years, some analysts fear that stocks' surge since the election has left corporate profit growth behind. That is becoming a bigger concern because U.S. interest rates are rising, increasing the appeal of other investments.

Analysts see earnings for **S&P 500** companies growing 9.1% in the first quarter of 2017 from the year-earlier period, according to FactSet, down from their Dec. 31 estimate for the quarter of 12.5%.

Companies in the **S&P 500** traded last week at an average of 21.5 times their past 12 months of earnings, ahead of the 10-year average of 16.5 times, according to FactSet. A March survey of portfolio managers by Bank of America Merrill Lynch found 34% said stocks were overvalued, the most who said so since the survey began in 2000.

Some analysts play down those concerns, wagering that Trump administration priorities like tax cuts, deregulation and increased infrastructure spending will over time boost profits at businesses ranging from lenders to barge firms.

But the administration's ability to push through such business-friendly policies was called into question last week, a shift that in part led to Tuesday's 1.2% decline in the **S&P 500**, the largest percentage drop since October.

The doubts grew after the failure Friday of the health-care bill.

In early Asian trading Monday, Japan's Nikkei 225 Stock Average was down 1.6% as the dollar fell 0.8% against the yen. A stronger yen hurts big Japanese exporters and depresses their stocks. S&P futures were down 0.7%.

If stocks rise "because of the economy getting better, then the rally makes sense. If it's purely because somebody's promised to cut regulations or taxes, then I think we have some issues coming if we don't see perfection in the delivery of those hopes and prayers," said Tom Stringfellow, chief investment officer at Frost Investment Advisors.

While corrections can be a precursor to bear markets, often defined as stocks falling 20% or more, or to recessions, many end without further ado.

Half of the corrections since the the late 1980s didn't involve either a **bear market** or a recession; those lasted an average of around 2 1/2 months, according to research by the investment firm Strategas. In those corrections, stocks on average fell roughly 14% at their lowest point, before rising more than 16% in the three months afterward.

Some investors say sectors that have outperformed the market since Nov. 8 could be vulnerable to further selling.

The KBW **Nasdaq** Bank Index of leading U.S. commercial lenders is up about 21% since Nov. 8. Bank of America Corp.'s stock has jumped 36% in that period. The bank posted its biggest annual profit in a decade in the fourth quarter, but revenue in the latest quarter came in lower than analysts expected.

Other investors have seen signs of weakness beneath the surface of improving economic data. Real average weekly earnings decreased 0.3% in February from the prior year, according to the Bureau of Labor Statistics. **Oil prices** have fallen around 11% in March, echoing a drop that helped spur the early 2016 selloff.

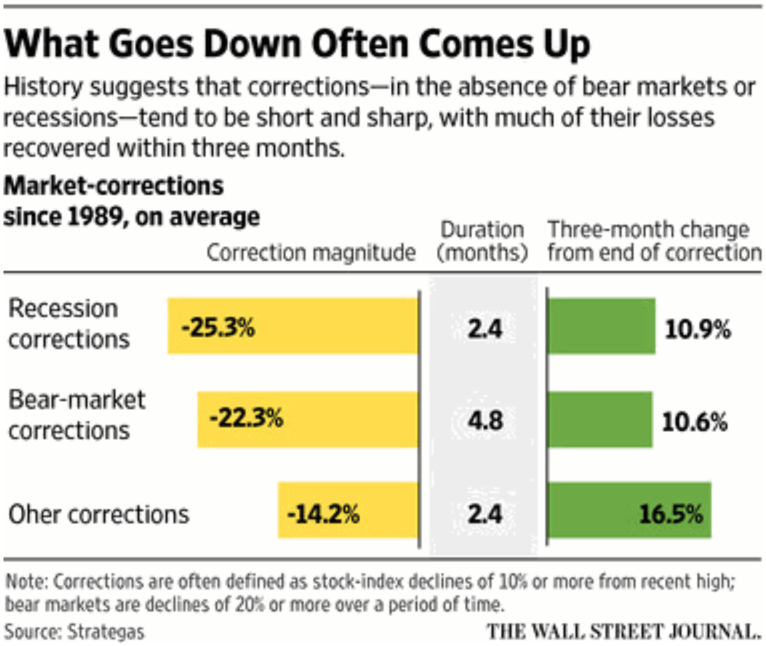
The Federal Reserve Bank of Atlanta's GDPNow tracker is forecasting economic growth for the first quarter at a 1% pace. Prior to its increase this month, the Federal Reserve raised interest rates five times since 1987 in quarters where GDP growth was 1.2% or below, according to research from UBS. After all five times, stocks fell between 3% and 12% over the following three months.

The investor euphoria that accompanied Mr. Trump's election has shown signs of waning. Investors are taking money out of stocks and moving into safe haven assets. Bond funds posted $7.8 billion in inflows in the week through Wednesday, while gold funds notched their largest inflows in five weeks, according to data from EPFR Global. U.S. equity funds posted their largest outflows in 38 weeks, with investors withdrawing $8.9 billion in the week through Wednesday.

"Stocks don't go up in perpetuity. At some point the market will correct," said Michael Scanlon, portfolio manager at John Hancock Asset Management.

He added: "A correction where expensive stocks with deteriorating fundamentals pull back and expensive stocks with improving fundamentals hang in there or outperform, that's a healthy correction."

Signs of long-term support for stocks remain. Fund managers continue to hold elevated levels of cash, which can be deployed during any dip. Investors are holding 4.8% of their portfolios in cash, according to the portfolio-manager survey by Bank of America Merrill Lynch. That's down from February but higher than the 10-year average of 4.5%.



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THE WALL STREET JOURNAL.
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Equities -- Ahead of the Tape: Why 'Trump Slump' Stings Investors

By Steven Russolillo
586 words
27 March 2017
The Wall Street Journal
J
B9
English

When the **S&P 500** fell 1.2% last Tuesday, individual investors probably fared even worse.

The drop made headlines for several reasons. Not only was it the biggest of the year, but it also snapped a streak of 109 trading days without a 1% decline, the longest span since the first Clinton administration. In a market that has churned higher since the election without much getting in the way, investors shouldn't be fazed by the first sign of **volatility**. The problem is, they usually are.

Such attention to one-day moves often triggers a rash of irrational investor behavior when retail investors would almost always fare better by ignoring the noise. History shows investors tend to pile into the market when it hits big, round numbers, such as Dow 20000, but also bail on stocks just as quickly at the first sign of trouble.

For instance, investors pulled nearly $8 billion from U.S. equity funds in the week after Brexit, one of the bigger weekly withdrawals of 2016, according to the Investment Company Institute. The **S&P 500** fully recovered from Brexit less than a month later, with many of those investors missing out on the rebound and locking in what should have been just a temporary paper loss.

This is a big reason why investors almost always underperform the actual market's returns. Consider a long-running study of investor returns by Dalbar, a financial-research firm in Boston. It found the average investor in U.S. stock mutual funds lost 2.3% in 2015, while the **S&P 500** was slightly positive that year, including dividends. Dalbar, which has published this study each year since 1994, plans to release an updated version this week.

And 2015 wasn't an anomaly. The gap between investors' returns and the market's performance is even wider over a longer time horizon. Equity-fund investors earned just 3.7% annually over the past 30 years through 2015 compared with a 10.4% annual return for the **S&P 500**.

Performances for market indexes and mutual funds are calculated from the beginning to the end of a measurement period, but people don't often invest in such linear fashion. Instead, they buy and sell along the way depending on market conditions or even life events.

Investors are already at a disadvantage due to poor mutual-fund performance. Only 19% of actively managed equity funds outperformed their respective benchmarks last year, according to Bank of America Merrill Lynch. And investors' propensity for buying high and selling low means they typically fare even worse than their funds' performances.

With the U.S. equity **bull market** in its ninth year, some say a decline is long overdue. Perhaps it is. But as analysts at Strategas Research Partners note, pullbacks tend to be the best buying opportunities. Since Black Monday in 1987, the **S&P 500** has suffered 21 corrections -- declines of at least 10% from a recent peak. Half of them haven't been associated with bear markets or recessions, according to Strategas. And the **S&P 500** has averaged a 14% gain three months after all these corrections have bottomed out. It is every investor's dream to get out before a market tumble slices their portfolio, but episodes like last week's tumble show that trying to do so is like death by a thousand cuts.

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The New York Times

STRATEGIES
Money and Business/Financial Desk; SECTBU
The Unlikely Currency Champ Is South of the Border

By JEFF SOMMER
1,015 words
26 March 2017
The New York Times
NYTF
Late Edition - Final
6
English

Can you guess which world currency has gained the most since Donald J. Trump's inauguration as president?

Here's a clue.

It has something to do with a ''big, beautiful wall'' on America's southern border.

Of all major currencies, the one that has strengthened the most since Jan. 20, the day Mr. Trump became president, is the Mexican peso. In his inauguration speech, Mr. Trump pledged to ''bring back our jobs'' and ''bring back our borders,'' in veiled references to Mexico. Since that day, the Mexican peso has gained more than 15 percent.

What's startling is that the peso served throughout the presidential campaign as a proxy for Mr. Trump's political fortunes. The connection isn't perfect, but the two have had a very close and extremely uncomfortable relationship. And at the moment, it has taken an unexpected turn.

Recall that on the night of Mr. Trump's stunning election victory, the peso immediately took a brutal beating, plunging 12 percent against the dollar. That move was consistent with patterns throughout the presidential campaign. Whenever Mr. Trump's prospects rose, the peso's dived. Whenever he raised the volume on promises to build a towering wall on the Mexican border or to stamp out ''bad hombres'' or to crack down on immigration, the peso lost some of its value.

That's why the data from the foreign exchange markets is so interesting. The peso isn't being battered these days. It has been getting much stronger.

The peso may still be a proxy for the Trump presidency. If so, the foreign exchange rates may be telling us that the Trump administration's policies are no longer being viewed as quite so harmful to Mexico -- and to other emerging markets.

There are several possible explanations for this.

For a start, now that some important members of the Trump administration are in place and beginning to get down to work, the statements of policy makers other than the president are turning out to be far less troubling than those of the president himself.

While the administration continues to call for a renegotiation of the North American Free Trade Agreement, Peter Navarro, Mr. Trump's top trade adviser, said on March 15 that the United States and Mexico can ''develop a mutually beneficial regional powerhouse,'' according to Bloomberg. What's more, Wilbur L. Ross, the new commerce secretary, said in an interview on CNBC, ''I believe that if we and the Mexicans make a very sensible trade agreement, the Mexican peso will recover quite a lot.''

No new trade agreement is in hand -- the process for a possible renegotiation of Nafta has barely started -- but the peso has indeed begun to recover. It trades at about 18.8 pesos to the dollar, almost within shouting range of where it stood just before Mr. Trump's election.

Mexican officials have been talking up the peso, too. On Thursday, Mexico's central bank governor, Agustín Carstens, told Bloomberg TV that the peso is still undervalued by up to 10 percent, even though "there's still an important unknown there, which is that we don't know how exactly the bilateral relationship between Mexico and the U.S. will shape up."

He added, however, "Even taking that into account, and given the other fundamentals of the Mexican economy, I think the peso is still undervalued." He also said that both the bank and the finance ministry are intent on stabilizing the peso. The central bank has raised interest rates in the last four meetings to 6.25 percent.

Since Inauguration Day, against a basket of world currencies, the peso was the top performer, with a gain of 15.2 percent, according to Bloomberg. Since the beginning of the year, it was second, with a gain of about 7.3 percent compared to 7.5 percent for the South African rand.

Other emerging-market currencies have fared well since the beginning of the year, too, and while the Mexican peso's rise may be the most striking, it didn't occur in isolation. The South Korean won, Taiwanese dollar and Brazilian real have had sizable gains, even though the United States Federal Reserve has been raising interest rates, a move that might have unnerved the currency markets.

Back in 2013 during the so-called taper tantrum, global investors pulled billions of dollars out of emerging-market economies after the Fed indicated that it would pull back on its expansionary monetary policies. That briefly set off fears of another deep financial crisis. This time around, the Fed has moved gingerly and **financial markets** have responded calmly.

The Mexican peso is the most widely traded of emerging-market currencies, and its buoyancy is partly a consequence of the rising tide for all such trades. The peso has also benefited from simple reversion to the mean -- it had weakened for a long while, even before its unfortunate tangle with Mr. Trump -- and was due for a jolt upward. Some analysts, including one at Goldman Sachs, say that the Mexican peso will probably head higher for a while.

Of course, there is an intriguing possibility. The strong peso may reflect an apparent disarray in the Trump administration, a situation that could easily be reversed.

During the campaign season, for example, the peso also surged. That happened in moments when Mr. Trump appeared to be weakest. On the evening of Sept. 26, for example, when Hillary Clinton performed particularly well in a debate and Mr. Trump performed poorly, the peso soared, along with **Standard & Poor's 500-stockindex** futures. Those moves were widely interpreted as an assessment of Mr. Trump's chances in the presidential election.

The **financial markets** may well be voting now. But in at least one respect, finance is not like politics. The markets will vote again and again, thousands of times a day. The peso's ascendancy won't last forever.

DRAWING (DRAWING BY MINH UONG/THE NEW YORK TIMES)

Document NYTF000020170326ed3q0009d

The New York Times

Business/Financial Desk; SECTB
Markets Cut Losses as Health Bill Falters

By THE ASSOCIATED PRESS
699 words
25 March 2017
The New York Times
NYTF
Late Edition - Final
3
English

Stocks on Wall Street flirted with sharp losses but managed a mixed finish after Republicans canceled a vote on their health care bill when it became clear it would fail. Investors did not trade much as they awaited answers on the state of President Trump's business-friendly agenda.

For the second day in a row, stocks started higher and wilted as it became clear the health care bill was in trouble. The **Dow Jonesindustrial average** plunged as much as 126 points in afternoon trading on reports of the bill's impending failure, though Wall Street cut its losses after the vote was canceled. Consumer-focused companies like Nike, Starbucks and the clothing company PVH rose.

The **Standard & Poor's 500-stockindex** fell 1.98 points, or 0.1 percent, to 2,343.98. The Dow lost 59.86 points, or 0.3 percent, to 20,596.72 as Goldman Sachs and Boeing sank. Technology companies inched higher and the **Nasdaq composite** index rose 11.05 points, or 0.2 percent, to 5,828.74.

The health care act, which became a proxy for the Trump agenda, dominated the market for most of this week, the weakest run for stocks since the week before the presidential election. Banks and small-company stocks, which made huge gains after Mr. Trump was elected, suffered their biggest losses in more than a year.

Mr. Trump and other Republican leaders said they were moving on from health care, and Michael Scanlon, a portfolio manager for Manulife Asset Management, said investors will be glad if that happens.

''You're going to see a very quick pivot to corporate tax reform,'' he said.

A corporate tax cut could give stocks a large boost by increasing profits, and it might also raise tax revenue.

Hospitals and insurers that do a lot of business with Medicaid celebrated the demise of the Republican bill. HCA Holdings, the largest United States hospital company, climbed $2.87, or 3.5 percent, to $86.04, and Community Health Systems jumped 84 cents, or 9.7 percent, to $9.54. Among Medicaid-focused companies, Centene and Molina Healthcare each gained about 5 percent.

With the 2010 Affordable Care Act left intact, insurance companies slumped. Cigna fell $3.36, or 2.3 percent, to $142.82, and Anthem shed $2.63, or 1.6 percent, to $126.77.

With Mr. Trump and the Republicans who control Congress unable to pass the first big item on their agenda, there was some concern that the president's proposals of tax cuts, infrastructure spending and regulatory cuts will take longer to enact. Those are aspects of his proposed agenda that Wall Street is excited about.

Vulcan Materials, a construction materials maker, sank $2.65, or 2.3 percent, to $112.74. The steel maker Nucor declined $1.50, or 2.4 percent, to $59.76. Construction and machinery companies also stumbled. The engine maker Cummins shed $1.45, or 1 percent, to $150.77, and Boeing sank $1.44, or 0.8 percent, to $175.82.

Bond prices rose slightly. The yield on the **10-year Treasury** note fell to 2.07 percent from 2.42 percent.

Crude oil futures rose 27 cents to $47.97 a barrel in New York. Brent crude, used to set international **oil prices**, added 24 cents to $50.80 a barrel in London.

The dollar inched up to 111.20 yen from 110.97 yen. The euro went to $1.0803 from $1.0782.

Gold rose $1.30 to $1,248.20 an ounce.

The DAX in Germany added 0.2 percent, while the CAC 40 in France dropped 0.2 percent and the FTSE 100 index in Britain dipped 0.05 percent. The benchmark Nikkei 225 index in Japan rose 0.9 percent following recent losses. The Kospi in South Korea shed 0.2 percent while the Hang Seng in Hong Kong reversed earlier losses to finish 0.1 percent higher.

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

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THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Airplanes Boost Demand at Factories

By Ben Leubsdorf
376 words
25 March 2017
The Wall Street Journal
J
A2
English

U.S. factory demand was boosted by big-ticket aircraft purchases in February for the second straight month, while a measure of future business investment in new equipment was largely stable.

The report offered the latest evidence that a surge in business and consumer confidence since Election Day hasn't translated into stronger capital spending or overall economic growth, at least for now.

Orders for durable goods -- products designed to last at least three years, such as cars and refrigerators -- increased 1.7% from the prior month to a seasonally adjusted $235.39 billion in February, the U.S. Commerce Department said.

Last month's rise in orders reflected a 47.6% increase for civilian aircraft and parts, following an 83.3% gain in January for the **volatile** category. Excluding the transportation segment, orders rose a modest 0.4% in February and 0.2% in January.

A closely watched proxy for coming business spending on new equipment, new orders for nondefense capital goods excluding aircraft, ticked down 0.1% in February after edging up 0.1% in January.

Data can be **volatile** from month to month, but the broader trend shows continued gradual improvement. Total durable-goods orders were up 1.6% in the first two months of 2017 over the same period a year earlier. Orders for nondefense capital goods excluding aircraft rose 1.3% over the past two months compared with January and February 2016.

"The good news is that core orders seem to be on a steady uptrend," said Stephen Stanley, chief economist at Amherst Pierpont Securities, in a note to clients. "The less-good news is that the trajectory of the uptrend is not especially exciting."

The U.S. industrial sector has found a steadier footing after a weak stretch in 2015 and 2016, when falling **oil prices** squeezed the domestic energy industry and a strong dollar restrained foreign demand for U.S. exports.

Manufacturing production jumped in the early months of 2017, Federal Reserve data show, and a key private-sector gauge of manufacturing activity produced by the Institute for Supply Management rose in February to its highest level since August 2014.

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THE WALL STREET JOURNAL.
U.S. EDITION

Fracking Sand Mounts a Costly Comeback --- Shale-oil drillers face higher prices for key ingredient as demand hits pre-bust levels

By Christopher M. Matthews and Erin Ailworth
895 words
24 March 2017
The Wall Street Journal
J
B1
English

Corrections & Amplifications

Evercore ISI is an independent investment bank. A Business & Finance article on Friday about the cost of sand used in fracking incorrectly said it was an energy investment bank.

(WSJ March 27, 2017)

(END)

The market for sand -- a key ingredient in fracking -- is surging once again as U.S. oil production rebounds, and the rising price of the tiny grains threatens to cut into energy companies' profits.

Now that crude oil is selling for about $50 a barrel, American shale companies have rushed back into the oil patch, and they are using more sand to help supersize their wells. Sand props open underground fissures, which allows oil and gas to escape to the surface.

But the millions of pounds of sand being poured down wells is pushing up sand prices, eroding some of the profits that energy companies have managed to regain since the oil bust ended. Some are concerned sand supplies, diminished during a two-year **oil-price** downturn, could stall the drilling renaissance.

"Companies are worried about it," said James West, a managing director at Evercore ISI, an energy investment bank. "I think the threat of a bottleneck, at this point, is probably understated."

The tightening market has already sent prices marching toward $40 a ton or above, by some estimates, up from $15 to $20 a ton in the second half of 2016. Increasing sand orders are also raising demand for railcars and trucks to transport it from mines in states like Wisconsin to shale fields in Texas and Oklahoma.

Some predict that demand for sand may outstrip supply by next year, creating a shortage that could linger for most of 2018. Tudor, Pickering, Holt & Co. estimates the sector will need 120 million tons of sand by next year, more than double the demand in 2014 at the height of the U.S. drilling boom.

Demand for sand has already returned to pre-bust levels, said George O'Leary, director of oil-field services research at Tudor Pickering, a Houston-based energy investment bank.

Sand accounted for between 5% and 7% of the cost of a well last fall, and Mr. O'Leary expects that percentage to rise as exploration and production companies use more of it this year. He thinks the price of sand could hit $50 a ton before year end, though that is still below the $60 to $70 a ton paid in the third quarter of 2014, before the bust really took hold.

To achieve efficiencies of scale during the two-year downturn, producers drilled megawells, which run underground for more than a mile horizontally, blasting larger quantities of sand down them to unleash more fossil fuels.

The biggest U.S. shale fields get fracked with about 30% more sand every year, according to Phillip Dunning, a technical adviser at Drillinginfo, which tracks oil-field supply use.

Frack sand use in the Delaware, one of the hottest parts of the Permian Basin in West Texas, has more than tripled since the start of 2012. By the end of 2016, producers were putting an average 1,919 pounds per foot down wells that measured 5,500 feet, according to Drillinginfo data.

In Louisiana, Chesapeake Energy Corp. recently pumped a record 50.2 million pounds of sand into a horizontal well roughly 1.8 miles long, piquing the interest of some rivals who are now weighing whether they can do the same.

A handful of oil producers, including Pioneer Natural Resources Co., have purchased their own sand mines to insulate themselves from bottlenecks. Pioneer, a prolific driller in the Permian Basin, plans to nearly triple its Texas sand production by the end of 2019.

Pioneer's sand use has surged 70% since 2013 to 1,700 pounds a foot. The company will test wells this year using 3,000 pounds a foot.

The expense is compounded by the logistics of moving sand from mines to well sites thousands of miles away. Drillers don't use sand found on a beach. They prefer fine white silica, much of it found in northern Midwest states. Shipping 5 million tons of sand can require 200,000 truck loads, according to a 2013 study by the University of Wisconsin.

Fracking a West Texas well in some sweet spots now takes 10 million pounds of sand, which requires 200 truckloads of the stuff.

David Adams, the head of Halliburton Co.'s well completion and production division, said sand costs break down into thirds, equally divided into the cost of sand, the cost of rail transport and the cost to truck the sand to the well. He expects a short-term bottleneck because during the protracted downturn, sand-mining companies slowed production and some canceled plans to open new mines.

Many sand producers are ramping back up, but expanding operations take time. U.S. Silica Holdings Inc., which is fetching 20% more for its sand today than it did in October, plans to double its mining capacity to more than 20 million tons in 2018.

Halliburton is trying to keep costs for its clients down by investing in its own train depots and storage facilities in major shale basins from Colorado to North Dakota. It also signed a deal with U.S. Silica in January to use its Sandbox trucks, which use a forklift to load and unload containers from a customized chassis.

Document J000000020170324ed3o0002a

THE WALL STREET JOURNAL.
U.S. EDITION

Streetwise: What Comes After the Trump Trade?

By James Mackintosh
701 words
24 March 2017
The Wall Street Journal
J
B1
English

Markets love a good story. The narrative this week has been about fear for the "Trump trade" of rising stocks and higher Treasury yields as the congressional battle over health care raised doubts about the prospects for the president's promised tax cuts.

A more nuanced tale involves a fragile rally increasingly reliant on share buying by private investors, even as Donald Trump's approval ratings fell and sophisticated investors became more concerned about how much hope was priced in to stocks.

A deeper analysis goes to the next level, trying to detect when the story itself is changing.

It is often obvious with hindsight: Last summer, U.S. stocks flipped from moving in the opposite way of the dollar to moving in the same direction as deflation fears faded. The **S&P 500** switched from being driven up by a hunt for yield to gaining from a hunt for growth, and economically sensitive cyclical stocks took the lead. Mr. Trump's election turbocharged the rally because a growth narrative took firm hold, shown by investors who started to like higher inflation-adjusted yields.

This year a subplot of global growth was added, helping U.S. stocks rise in January even as the dollar weakened. The most obvious Trump trade, betting against Mexico, went into a stunning reverse as the peso became one of the world's best-performing currencies. Better economic prospects for Europe and emerging markets supported the **S&P 500** and cyclical shares as the Trump effect faded.

The story is changing again. U.S. stocks have become less sensitive to economic factors as the year has gone on, and the explanatory power of macroeconomic influences fell close to zero at the start of this week, according to Quant Insight.

QI aims to model how the macroeconomic drivers of asset prices shift as market narratives change, using a variation on a statistical tool known as principal component analysis. It found previously tight links between U.S. stocks, inflation-linked bond yields and the dollar weakened recently.

"What's happened beginning in February and culminating now is a complete breakdown in what's driving the S&P," said QI co-founder and CEO Krishnan Sadasivam, a former hedge-fund manager. "When things break down, typically what that indicates is a flow move, because that's not really contingent on macro factors."

That sounds like the flippant answer brokers sometimes give clients demanding to know why the market fell: There were more sellers than buyers.

Yet, sometimes that is the only answer. Who really knows why shares fell on Tuesday by 1.2%, the most since the election? Often there is an obvious trigger, but not this week. Even the narrative of disappointment about Republican splits can't explain why it would have suddenly come to a head on Tuesday, given that ructions over health care have been clear for weeks.

In this case, it is also a bit unfair. Markets can be driven by stories about fundamental factors or by pure supply and demand. Knowing that the narrative about fundamentals has stopped working is useful for investors, particularly those who spent a lot of time trying to predict the fundamentals to work out what markets will do.

Unfortunately, what the new narrative will focus on can't be predicted from the statistics.

Congressional politics, hard to capture in quant models, is a natural part of the next chapter of the market story, and prospects for the budget and the debt ceiling may well start to matter again, too, to investors if politicians continue to squabble.

Alternatively, fights about Trumpcare could be quickly forgotten if the Republicans pull together, allowing investors to return to their favorite **bullish** story of tax cuts and growth.

It is worth bearing in mind that debt problems in China haven't gone away, and while I suspect Mr. Trump and U.S. politics are likely to dominate the narrative, China and commodities could come back on to the market's reading list at any time.

Whichever story eventually dominates, expect choppy markets until the next narrative emerges.

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THE WALL STREET JOURNAL.
U.S. EDITION

Markets Grow More Resilient to Attacks --- Stocks, bonds and the pound show little impact from terrorism Wednesday in London

By Riva Gold
867 words
24 March 2017
The Wall Street Journal
J
B12
English

Financial markets barely budged following Wednesday's deadly attack in London, underscoring investors' increasing conviction that such tragedies are unlikely to shake the businesses and economies of affected regions.

In the past, terror attacks on Western targets have spurred investors to dump stocks and regional currencies while rushing into haven investments such as government bonds. But such reactions have decreased as the incidents have become more regular.

Following Wednesday's news of the deadliest act of terror in the U.K. in more than a decade -- when a suspected Islamist terrorist was shot dead after killing four people outside Britain's Parliament -- it took the pound less than half an hour to recover from a slight dip against the dollar, trading late in Wednesday in New York at its highest since February. The British pound, which has been battered this year by uncertainty surrounding Brexit, continued to strengthen Thursday, driven largely by economic data. There also was no discernible impact on U.K. and global stocks, government bonds or gold.

"History suggests the impact [from terror attacks] can be short-lived, at least in very narrow market terms, even if the human cost can be devastating and painfully long-lasting," said Russ Mould, investment director at U.K.-based AJ Bell.

Following prior terror attacks, investors have sold local shares and currencies on the assumption such attacks could hurt tourism and damage consumer confidence.

After Sept. 11, 2001, the **Dow Jones Industrial Average** fell 7.1% on its first day of trading and ended the week down 14%. Investors jumped into haven assets such as government debt and gold, with that metal gaining 6.5% its first postattack trading day.

After explosions on trains in Madrid left nearly 200 people dead in 2004, Spain's IBEX 35 share index closed 2.2% lower, while the 10-year German bund fell 0.02 percentage point to 3.90%.

Following the July 7, 2005, attack on London's transport system, which killed 52 people, the FTSE 100 index closed down 1.4% after initially falling as much as 3.5%.

But more recent attacks have demonstrated that over time, investors have become increasingly sanguine about the impact of such events on **financial markets**, even as their human and political toll has lived on.

Last March, the Euro Stoxx 50 index quickly recovered to end the day higher following attacks in Brussels that killed dozens and came soon after attacks in France.

On Wednesday, the benchmark FTSE 100 index traded roughly in line with the rest of Europe, with much of its 0.7% loss for the day coming before the attack, while the more domestically oriented FTSE 250 pared losses from earlier in the session and largely inched higher after the attacks.

Investors now wait for hard evidence from consumer and business surveys and forward-looking economic data to link such events to future consumer-spending patterns, said Viraj Patel, currency strategist at ING. "Investors have to ask if it has any bearing on the fundamental economic outlook," he said.

To be sure, European airline stocks, traditionally the most sensitive to terror attacks, have continued to see setbacks in the immediate aftermath of such attacks. After the attack on July 7, 2005, shares of British Airways parent International Consolidated Airlines Group tumbled 4.2%.

On Wednesday, the carrier's shares fell 2.8%. But the bulk of Wednesday's declines came ahead the attack and were largely attributed to a regulatory debate around the airline industry. The shares rose 0.3% Thursday in London trading.

On Thursday, airline shares were the best performers in Europe, more than reversing Wednesday's declines. The FTSE 100 edged up 0.2% despite a stronger pound, and the FTSE 250 added 0.9%, higher than where it had ended Tuesday.

There could be other factors influencing investors' muted response to this week's London attacks. While the assault on Britain's Parliament was dramatic and brutal, there were fewer fatalities than in many recent terror incidents.

There were also technical factors involved in sterling and the euro's resilience to recent shock events. Both are highly liquid, haven currencies that tend to do well in times of uncertainty, said ING's Mr. Patel, while U.K. government bonds are typically held in global portfolios as a stable asset.

The lack of fluster in British markets was also reflected on the streets of the U.K. capital. London appeared to be operating as usual despite the attack, limiting the perceived impact on U.K. businesses.

The atmosphere around Parliament was relatively calm Wednesday, and public transport outside the direct area affected by the attack quickly returned to normal.

Kirsten Hurrell was at a newsstand across from Parliament at the time of the attack and praised the quick and calm reactions of the police. She credited the capital's stoicism with memories of the decades' long campaign of bombings from Northern Irish republican groups.

Mike Bird, Robert Wall and Jon Sindreu contributed to this article.

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THE WALL STREET JOURNAL.
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Equities -- Ahead of the Tape: Companies Are Finally Buying Durable Goods

By Steven Russolillo
496 words
24 March 2017
The Wall Street Journal
J
B11
English

America's economy seems more vibrant in these early months of the Trump administration. Far more important is just how durable it will be.

Several investor, consumer and executive surveys show confidence has soared since the election. The **stock market**, too, has jumped to near records.

But what people say is often far different than what they actually do. That is why Friday's report on monthly orders for durable goods, which includes an important measure on capital spending, is worth watching and should confirm some of the recent economic optimism.

Economists polled by The Wall Street Journal estimate durable-goods orders rose 1.5% in February from the prior month, which would be the second consecutive increase. Durable goods are equipment designed to last longer than three years, such as trucks, aircraft and washing machines.

The headline data tend to be **volatile** on a monthly basis. A less choppy indicator is orders for nondefense capital goods excluding aircraft. Commonly known as core capital-goods orders, they slumped over a two-year stretch before perking up recently. In December, they rose 3% from a year earlier, the biggest gain since September 2014. They stayed positive again in January, with economists expecting more of the same in the coming report.

Capital spending is a barometer of businesses' confidence in the economy. Higher spending tends to boost workers' productivity and help lift economic output over the long term.

One sign that companies might devote more resources to business investment is that they are spending less repurchasing their own shares. The dollar amount of buybacks among **S&P 500** companies fell in 2016 for a second year in a row, according to S&P Dow Jones Indices. Meanwhile, companies' capital spending exceeded their cash flows in the fourth quarter, according to the Federal Reserve. As wages rise, companies might buy even more labor-saving equipment.

All this makes sense in an environment in which corporate executives say they are getting more optimistic about the future. The Equipment Leasing and Finance Association, which represents a cross-section of the $1 trillion equipment-finance sector, publishes a monthly survey, which found business confidence spiked after the election and has remained at an elevated level ever since.

The nonprofit's confidence index has been above 70 all three months this year. The last time it had such a three-month streak was in early 2011.

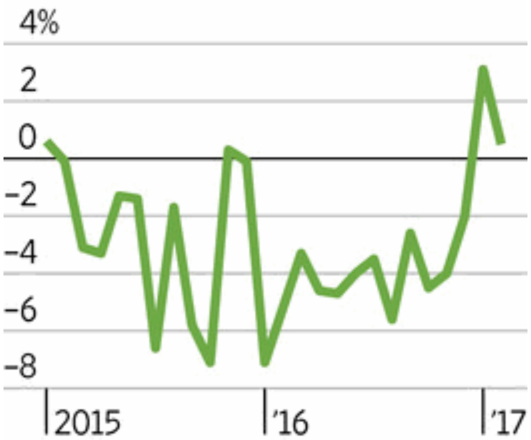
And a diffusion index of future capital expenditures, measured by the Federal Reserve Bank of Philadelphia, jumped to 34.5 this month, the highest since February 2000.

Joseph LaVorgna, chief U.S. economist at Deutsche Bank, notes that this index historically has been a good proxy for capital spending and should lead to an uptick in economic growth.

Friday's durable-goods report should show companies are finally putting their money where their mouths are.

Sturdier

Orders for nondefense capital goods excluding aircraft, change from a year ago



Source: Commerce Department

THE WALL STREET JOURNAL.

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The New York Times

Business/Financial Desk; SECTB

Major Indexes Fall After Delay of Health Care Vote

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

Stock indexes gave up an early rally and ended mostly lower Thursday after Republicans delayed a vote on their health care bill and left investors concerned about delays for the business-friendly agenda of President Trump.

The **Dow Jonesindustrial average** was up as much as 96 points just before 1 p.m., but doubts about the bill cast a shadow over the market as hard-line conservatives said they did not support it. Health care stocks turned lower.

Elsewhere, a growing boycott of YouTube advertising hurt Alphabet, Google's parent company. Smaller companies did better than the rest of the market, and more stocks rose than fell, a sign investors are still confident in the United States economy.

Near the close of trading, the House Republican leadership postponed a vote on the American Health Care Act because of a lack of support. Conservatives and more moderate Republicans had opposing concerns about the bill, which is widely disliked by House Democrats.

Jamie Cox, managing partner for Harris Financial Group, said investors were worried about how Congress and the White House would unite on issues including tax changes, raising the debt ceiling and increasing spending for infrastructure.

''If the Republicans are having such a difficult time making changes to something they universally agree upon, how on earth are they going to agree on the more complicated tax cut that is coming through later in the year?'' Mr. Cox asked.

The market losses were small, suggesting investors think some of those proposals will be delayed rather than abandoned.

The **Standard & Poor's 500**-**stockindex** fell 2.49 points, or 0.1 percent, to 2,345.96. The **Dow Jonesindustrial average** lost 4.72 points to 20,656.58. The **Nasdaq composite** index slid 3.95 points, or 0.1 percent, to 5,817.69. The Russell 2000 index, which tracks smaller companies, gained 7.83 points, or 0.6 percent, to 1,353.43.

Bond prices edged lower. The yield on the **10**-**year Treasury** note, which has skidded over the last few days, rose to 2.42 percent from 2.40 percent. That modest increase lifted shares of banks and other financial companies.

The **S**.**&P**. **500** banking index had plunged 5 percent over the previous four days as bond yields and interest rates decreased. Banks turned higher Thursday. SunTrust Banks added 67 cents, or 1.2 percent, to $54.85 and Huntington Bancshares rose 24 cents, or 1.9 percent, to $13.02.

Shares of Alphabet, the second-most valuable company on the **S**.**&P**. **500** after Apple, lost $10.15, or 1.2 percent, to $839.65, as a YouTube advertising boycott spread. Companies including Johnson & Johnson, AT&T and Verizon have suspended their YouTube ad campaigns in the last week because their ads were appearing beside offensive videos, including some that promoted terrorism. The ads are placed automatically and Google has said it will do more to block offensive videos. YouTube is one of the fastest-growing parts of Google's ad system.

Technology companies lagged the rest of the market.

Companies that run Medicaid programs, like Centene and Molina Healthcare, stumbled in afternoon trading and health insurance companies like UnitedHealth and Humana had small losses. Drug companies also fell. Hospital operators traded higher, as did medical device makers.

Five Below, a discount retailer, also climbed after its fourth-quarter results surpassed Wall Street projections. The stock rose $4.12, or 10.8 percent, to $42.25. Retailers have struggled recently, but consumer-focused companies did better than the broader market on Thursday. Nike, which plunged 7 percent a day earlier, recovered $1.45, or 2.7 percent, to $55.37.

Crude oil futures for May lost 34 cents to $47.70 a barrel in New York. Brent crude, used to set international **oil prices**, slipped 8 cents to $50.56 a barrel in London. That pulled energy companies lower.

Gold for March delivery fell $2.40 to $1,246.90 an ounce, which ended a five-day streak of gains. The dollar declined to 110.97 yen from 111.14 yen. The euro slid to $1.0782 from $1.0793.

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

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THE WALL STREET JOURNAL.
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Equities: Finance Watch

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English

CRUDE OIL

Oversupply Again

Pressures Market

Oil prices fell for the fourth-straight session, as oversupply concerns continue to weigh on the market.

U.S. crude has lost 11% in two weeks as rising U.S. inventories have caused traders to question whether the world's exporters are following through on promises of production cuts or if those cuts even matter. That selloff is continuing this week after the U.S. reported another unexpectedly large increase in stockpiles. Light, sweet crude for May settled down 34 cents, or 0.7%, at $47.70 a barrel on the New York Mercantile Exchange, the second-lowest settlement price of the year. Brent crude, the global benchmark, lost 8 cents, or 0.2%, to $50.56 a barrel on ICE Futures Europe.

-- Timothy Puko, Neanda Salvaterra

NATURAL GAS

Gas Extends Rally

On Speculative Bets

Natural-gas prices rose again, with traders continuing to bet on the emergence of **bullish** shifts in the market.

Natural gas for April delivery settled up 4 cents, or 1.3%, at $3.051 a million British thermal units on the New York Mercantile Exchange. The market is now up in 18 of 22 sessions. It has gained 19% since its low point of 2017 on Feb. 21.

Colder weather has helped drive heating demand in recent weeks at a time production is below last year's levels.

Speculators are also willing to bet again that gas will rise in the months to come because those factors could lead to undersupply as demand from power plants and export terminals keeps growing, analysts said.

-- Timothy Puko

PRECIOUS METALS

Gold Snaps 5-Session

Winning Streak

Gold prices fell after a week-long rally, as the dollar clawed back some of its recent losses and investors awaited news on the closely watched health-care bill.

Gold for April delivery settled down 0.2% at $1,247.20 a troy ounce on the Comex division of the New York Mercantile Exchange. For the year, gold is up 8.4%.

House Republicans on Thursday postponed a planned vote on their plan to overhaul the Affordable Care Act, leaving the effort in doubt. A defeat for President Donald Trump could mean that the precious metal's decline is short-lived, Marex Spectron's David Govett said. The vote's failure would be negative for the dollar and positive for gold, he said.

-- David Hodarisoft

COMMODITIES

Cotton Futures Fall

On Crop Worries

Cotton edged down, as worries over a larger crop next year sapped enthusiasm for strong overseas demand for U.S.-grown fiber.

Cotton futures for May delivery fell 0.1% to settle at 77.27 cents a pound on the ICE Futures U.S. exchange.

Some speculators who had flocked into the cotton market early this year were seen to be exiting ahead of the release of the Agriculture Department's prospective planting report. The report, scheduled to be out on March 31, is expected to show an increase of cotton acreage for the next crop year.

On average, traders and analysts expect the government to revise up the planting projection to 11.9 million acres from its initial projection of 11.5 million.

-- Carolyn Cui

Document J000000020170324ed3o00021

THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
Bank Stock Party Isn't Finished Yet

By Aaron Back
268 words
24 March 2017
The Wall Street Journal
J
B12
English

[Financial Analysis and Commentary]

The euphoria is fading, but the outlook for America's banks remains positive.

Before recovering slightly on Thursday, the KBW **Nasdaq** Bank Index had declined for four straight sessions, falling 6.2% compared with a 1.4% decline in the **S&P 500** over the same period.

Before the selloff, KBW's main bank index had risen 28% since the election, so perhaps a correction was due. Recent events have highlighted what could go wrong with the extreme bull case of ever higher interest rates and sweeping deregulation. Treasury yields retreated and doubts are rising over the odds of deregulatory moves.

Yet further progress is likely on both. The Federal Reserve appears set to raise rates two or three more times this year.

On regulation, many changes sought by small and medium banks, such as raising the asset-size threshold for annual stress testing, or lifting restrictions on debt card fees, would require legislation.

But it would be far simpler, for instance, to scale back enforcement of the Volcker rule barring proprietary trading by depository institutions. This, of course, would most benefit the biggest Wall Street banks, where some still present good value.

For example, Bank of America and Citigroup continue to trade at discounts to book value. The rest of the pack isn't demanding either, with the KBW bank index now fetching 1.2 times book. A standout in the postelection rally, banks still offer decent value relative to the rest of the market.

Document J000000020170324ed3o0000m

THE WALL STREET JOURNAL.
U.S. EDITION

Markets & Finance: MSCI Again Reviews Adding China Stocks

By Gregor Stuart Hunter
363 words
24 March 2017
The Wall Street Journal
J
B10
English

Index provider MSCI Inc. has kicked off its annual review to determine whether to add domestic Chinese shares to its global benchmarks, a step that could potentially divert billions of dollars of capital to Asia's biggest markets.

MSCI sent an updated consultation document to fund managers Wednesday after U.S. markets closed. The changes from last year's proposal include a two-thirds reduction in the number of stocks to be included initially.

The index provider will also consult the market on whether to reclassify Argentina as an emerging market and whether to put Nigeria in a stand-alone category outside its other benchmarks. Both are currently classified as frontier markets.

MSCI first formally consulted fund managers in 2014 on whether to include China A shares, or domestic listings denominated in onshore yuan, in its flagship emerging-market index. MSCI declined to include China's local-currency shares in June last year, citing difficulties accessing markets and concerns around stock suspensions.

China has since launched the Shenzhen Stock Connect, which allows global investors to directly buy stocks in the country's second-biggest **stock market** for the first time, reviving hopes that Chinese shares could be added this year.

The MSCI China Index is up 14% so far this year, outperforming both the company's Asian and emerging-market benchmarks. China is the biggest domestic market not featured in MSCI's flagship indexes.

MSCI's emerging-market Asia and China benchmarks include mostly Hong Kong-listed shares and U.S. listings of companies such as Alibaba Group Holding Ltd.

Chinese regulators haven't addressed several concerns raised by investors, but the odds of inclusion are increasing, said Hue Lu, senior investment specialist covering Asia-Pacific and Greater China equities at BNP Investment Partners.

Government support for MSCI inclusion in 2015 and anticipation of a rush of international investment were among the factors that helped stoke a market frenzy in China that spring, creating a bubble that burst a few days after the index provider said the country wasn't ready for inclusion.

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THE WALL STREET JOURNAL.
U.S. EDITION

Stimulus Skepticism Pressures the Dollar --- U.S. currency slides as health-bill drama leads to wariness about the prospects for tax cuts

By Ira Iosebashvili
747 words
23 March 2017
The Wall Street Journal
J
B14
English

The dollar dropped to a four-month low against the Japanese yen and fell against many other currencies Wednesday, the latest setback for investors who have been betting the U.S. currency would surge with the enactment in 2017 of stimulative Trump administration policies.

The latest decline highlights the sharp reversal of market sentiment in recent days as skepticism increases whether the White House will be able to push through promised fiscal stimulus and tax cuts in the next few months.

The U.S. currency ended the session down 0.5% at 111.16 yen, its lowest level since November and its seventh straight loss against the Japanese currency. It also lost ground against the Swiss franc and fell against the British pound. The Wall Street Journal Dollar Index, which measures the U.S. currency against a basket of 16 others, was down 0.1%, a more than four-month low.

The declines underscore the retreat, for now, of expectations that the U.S. currency will benefit from a surge in domestic growth thanks to government-policy shifts and a stepped-up pace of Federal Reserve rate increases. The WSJ Dollar Index rose more than 5% between the Nov. 8 election and year-end on anticipation of those trends.

"I don't think there is a huge upside left in the dollar," said Ugo Lancioni, head of currency management at Neuberger Berman Group LLC.

Many traders are closely watching Thursday's vote on a repeal of the Affordable Care Act to gauge whether President Donald Trump wields the political capital required to push through his fiscal policies in the near term.

"Certainly, the most optimistic views on fiscal reform have already deteriorated significantly," said Alan Ruskin, head of global G-10 strategy at Deutsche Bank AG.

A failure by the GOP to repeal the law would likely pressure the dollar further, as investors rein in expectations of fiscal stimulus and Fed rate increases, Mr. Ruskin said.

While expectations for a sharp dollar rally this year have moderated, with the Fed this month pointing to two additional rate increases as expected, many investors still are scrutinizing trading for signs that the currency could surge. Higher rates make the dollar more attractive to yield-seeking investors.

Some traders said a continued pullback in the U.S. **stock market**, which on Wednesday ended narrowly mixed following four straight declines, could spur flows to havens, which typically boost the dollar.

Investors pushed the dollar to a 14-year high in the weeks after the election, spurred by the new administration's promises to boost the economy through tax cuts and ramped-up infrastructure spending. As money managers grow more skeptical over how quickly Mr. Trump can enact these policies, they have begun to unwind some of their dollar bets, worried the U.S. may not grow fast enough to fuel more gains.

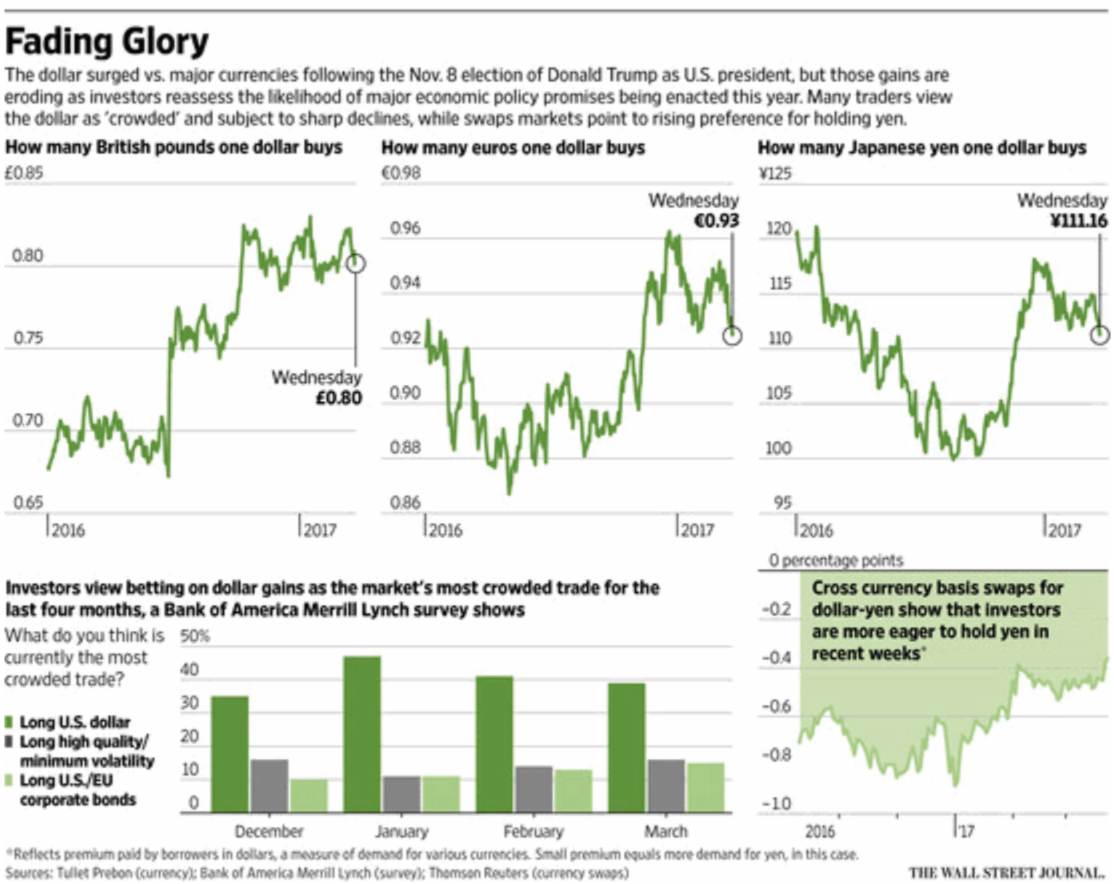
At the same time, accelerating growth in the U.K. and other parts of Europe make it more likely that the central banks there will roll back their own accommodative monetary policies, ending a period where the U.S. was the only large economy where policy is tightening.

Mr. Lancioni has recently added to bets that the yen will strengthen against the dollar, reversing a profitable foreign-exchange trade of 2016. He is also betting against the Australian dollar, which had followed commodity prices higher after the U.S. election.

Investors believe that betting on a rising dollar has been the market's most crowded trade in each of the last four months, a Bank of America Merrill Lynch Survey showed. As trades become more popular, they grow increasingly vulnerable to sharp reversals.

"The reality is that the move in the dollar last year was so fast," Mr. Lancioni said, referring to the postelection bounce. For all of 2016, the WSJ Dollar Index rose 3%.

Some investors have taken advantage of the dollar's weakness by piling into emerging markets, where yields are comparatively high. The MSCI Emerging Market Currency Index hit a near-two year-high this month, driven by currencies such as the Mexican peso, which has rallied 9% since the beginning of the year, and the South African rand, which has also risen 9% and now stands at its highest since July 2015.



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The New York Times

Business/Financial Desk; SECT
Morning Agenda: The 'Trump Trade' Faces a Test

By AMIE TSANG
514 words
23 March 2017
The New York Times
NYTF
The New York Times on the Web
English

The Trump trade is facing its first test.

The **Standard & Poor's 500-stockindex** closed down 1.24 percent on Tuesday, its sharpest daily decline since October.

Financial stocks, like Goldman Sachs, Bank of America and JPMorgan Chase, led the sell-off, and the **Dow Jonesindustrial average** and the **Nasdaq composite** index also declined.

Could investors' optimism and composure, so steady even through political **volatility**, be waning?

Are they now questioning President Trump's ability to pass market-friendly laws?

There are some troubling signs.

The Russell 2000 small-cap index tumbled on Tuesday -- an indication of concerns over tax overhaul (small businesses would benefit from a corporate tax cut).

The value of the dollar slid, and the yield on **10-year Treasury** notes slipped, indicating that investors were piling into safer government bonds.

The sinking feeling continued into the Asian trading day, with stocks dropping across the region. The Nikkei 225 closed down 2.13 percent.

European markets weakened too on Wednesday morning.

Shares in Akzo Nobel fell more than 2 percent on Wednesday after it said it had rejected another takeover bid from PPG. It had rejected an earlier bid, saying it undervalued the company. This time it pointed to a ''significant culture gap'' between the two companies.

Uber Stands by Kalanick

''Put very simply, change starts at the top.''

Those were the words of Arianna Huffington, a member of the board at Uber, who wanted to make it clear that Uber has a plan:

There will not be a change in chief executive. The board of Uber is standing by Travis Kalanick, the chief executive, and prioritizing the search for a chief operating officer to help him.

The board also wanted to show, during a hastily announced conference call with reporters, that executives had a plan to get the company back on track after a series of revelations that have left the company in turmoil.

The company intends to overhaul the human resources department, solicit feedback from concerned employees, issue a report on diversity and start an investigation into workplace culture.

Future of Sears in Doubt

Sometimes, no amount of deal making can help bricks-and-mortar stores face the challenges of online commerce.

Walmart Stores may have announced the creation of an investment arm that it hopes will help it compete in a world of retail that has been upended by e-commerce, but Sears Holdings is facing ''substantial doubt'' about whether it can survive at all.

''Our historical operating results indicate substantial doubt exists related to the company's ability to continue as a going concern,'' the company, which owns Sears and Kmart, said in a filing.

The two icons of American retail were brought together by Edward S. Lampert, a hedge fund manager who has since shut down stores, reorganized the company and pushed for a greater online presence. Sears also sold its Craftsman tool brands in an effort to make the company leaner.

Follow Amie Tsang on Twitter @amietsang .

Document NYTF000020170323ed3n0004i

THE WALL STREET JOURNAL.
U.S. EDITION

Business & Finance
What's News
Business & Finance

247 words
23 March 2017
The Wall Street Journal
J
A1
English

Federal prosecutors are building cases that would accuse North Korea of directing the theft of $81 million from Bangladesh's account at the New York Fed.

AT&T and Verizon joined a growing number of firms pulling much of their advertising from Google, expanding a controversy over the internet giant's ad placements.

Activist investor Elliott moved to boost pressure on Akzo to enter talks with U.S. suitor PPG, as the Dutch paint and chemical firm rejected a sweetened takeover offer.

Sears raised doubts about its ability to keep operating after seven years of losses, sending its shares tumbling and spooking landlords.

GE said it would double planned cost cuts in industrial operations over two years and more closely tie bonuses to profit in its core business.

The family of Jay Clayton, Trump's pick to head the SEC, owns a stake in a firm that sells services regulated by the agency.

The dollar dropped to a four-month low against the yen and fell against many other currencies, highlighting a sharp shift in sentiment.

Gains in tech shares buoyed the **S&P 500** as U.S. stocks stabilized. The Dow slipped 6.71 to 20661.30.

Hollywood received a wake-up call as a report showed the international box office edged lower in 2016.

Baidu's chief scientist said he was leaving the firm to explore a "new chapter" in artificial intelligence.

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THE WALL STREET JOURNAL.
U.S. EDITION

Equities: High-Speed Trading Hits Profit Pothole --- Industry is plagued by low volatility, higher costs and a host of competitive pressures

By Alexander Osipovich
860 words
22 March 2017
The Wall Street Journal
J
B13
English

The flash boys aren't as flashy as they used to be.

High-speed trading gained notoriety after Michael Lewis's 2014 book, "Flash Boys." These days, the industry is struggling with another problem: It is having trouble making money.

These firms use computers to buy and sell stocks, bonds or other financial assets in fractions of a second. The once-lucrative business is now fighting unfavorable market conditions, brutal competition and rising costs.

Revenue at high-speed trading firms from U.S. stock trading was an estimated $1.1 billion last year, down from $7.2 billion in 2009, according to research firm Tabb Group.

That is the backdrop behind last week's news that Virtu Financial Inc. had made a bid to buy rival KCG Holdings Inc., a proposed deal that would unite two of the biggest U.S. electronic-trading firms. Virtu's stock has shed about a fourth of its value since the company went public in 2015, while KCG's market-making business has lost money for the last two quarters.

Other industry heavyweights are exiting altogether. Thomas Peterffy, chairman and chief executive of Interactive Brokers Group Inc., said this month that he would end his firm's options market-making activities, a business he helped pioneer in the 1980s. Misha Malyshev, who once led global high-frequency trading for hedge fund Citadel LLC and left to start Teza Technologies LLC, said in November that Teza would exit its proprietary trading business.

Market making involves buying and selling in large volumes and collecting small profits from the difference between prices. It is a core strategy for high-speed trading, which accounts for just over half of average daily volume in U.S. stock trading, according to Tabb Group. Other strategies include exploiting fleeting disconnects between related markets, such as exchange-traded funds and futures contracts that both track the **S&P 500**.

Such strategies are more successful when markets are **volatile**, because big price swings offer traders more opportunities to capture profits. But **volatility** has come down significantly since the years just after the global financial crisis. The CBOE**Volatility** Index, or VIX, a measure of U.S. **stock-market volatility**, has averaged just 11.6 this year, down from 24.2 in 2011, according to the WSJ Market Data Group.

"In very **volatile** trading environments like in 2009 and 2010, it was just easier to find trading opportunities," said Michael Beller, chief executive of Tradeworx, a high-frequency trading and financial-technology firm in New Jersey.

High-speed trading became a hot-button political issue after "Flash Boys" alleged that firms were taking advantage of investors. Advocates reject such allegations and have said high-speed trading has reduced costs for the average investor.

It is an expensive arms race. When many high-speed traders got their start in the previous decade, the leading technology for transmitting data was fiber-optic cable.

But starting in 2010, the speediest firms began to use microwave networks, shaving milliseconds off the time it takes to transmit information on routes such as the Chicago-New York corridor. Upgrading to microwave networks -- and later millimeter-wave and laser technology -- added to the costs, traders said. All this hurt firms' bottom lines just as slumping **volatility** eroded top-line revenue.

"The cost of keeping up with the Joneses is quite high," said Jamie Selway, a managing director at New York-based brokerage ITG, a unit of Investment Technology Group Inc.

High-speed trading firms also grumble about mounting costs for the market data they buy from operators like the New York Stock Exchange and **Nasdaq** Inc., as well as for co-location, the practice of putting a computer server directly in the exchange's data center to cut down the time it takes to execute trades.

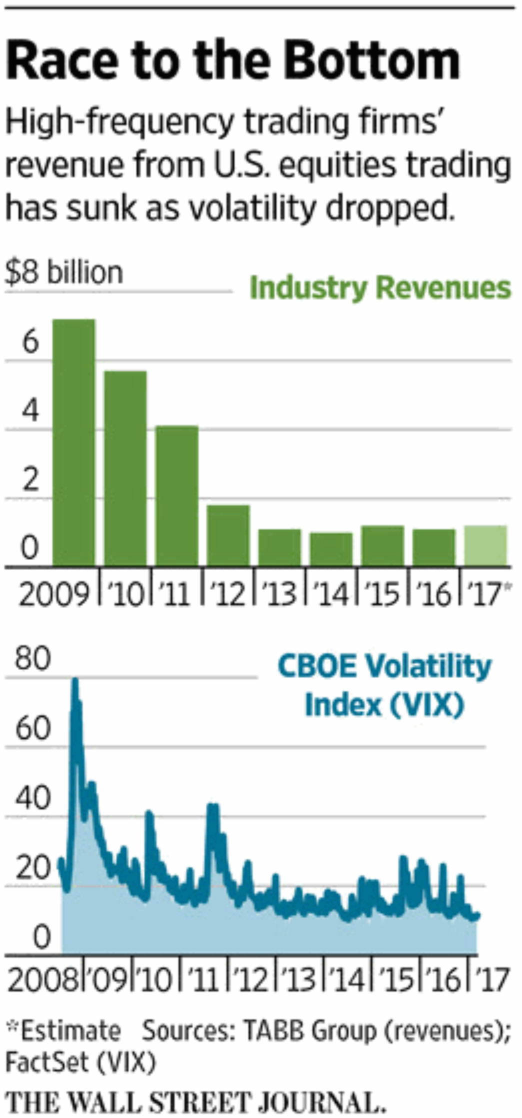
Chicago-based Wolverine Trading LLC told the Securities and Exchange Commission in December that its total costs related to NYSE**stock-market** data had more than tripled from 2008 to 2016. "This is a monopoly," Wolverine said in a letter to the SEC.

NYSE rejected the accusation, telling the SEC in January that firms like Wolverine had "chosen to build business models based on speed" and could choose not to buy NYSE's highest-speed data services. Intercontinental Exchange Inc., the owner of NYSE, and **Nasdaq** said the fees are reasonable.

Amid the crunch, the industry has consolidated and the most successful players have diversified across multiple asset classes, which makes it easier to weather stretches of low **volatility** in one market. Virtu, for instance, made less than a third of its trading profits from Americas equities last year, with the rest coming from European and Asian equities, currencies, commodities and other markets.

Some industry veterans also said profits have suffered because high-speed firms can no longer exploit structural flaws.

"The loopholes got cleaned up," said Haim Bodek, a former managing director and head of electronic **volatility** trading at UBS Group AG.



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THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
Why Trump's Tax Cut May Disappoint

By Justin Lahart
577 words
22 March 2017
The Wall Street Journal
J
B1
English

[Financial Analysis and Commentary]

The fight in Congress over health care could go on for a while. The more of the legislative calendar it chews up, the longer it will take for the corporate tax cut investors are banking on to come to the floor and the longer the odds on it becoming law. That, in turn, should be factored into stock prices.

The House is set to vote on the Republican health-care plan on Thursday, and even with the tweaks lawmakers have been making to it, passage looks iffy.

Moreover, if it does pass, the bill's prospects in the Senate aren't good. But before Senate Republicans can come up with their own version of the health-care legislation, they have a Supreme Court nominee to approve.

Then, if the Senate can pass a bill of its own, there will be a House-Senate conference to resolve differences.

It is a process that would come with significant hurdles even in normal times, much less today's distraction-riddled political climate. At the least, the health-care bill could be sitting on Capitol Hill for a long time.

For investors, this is hardly ideal. Beyond having little certainty on which companies will be health care's winners and losers, Republicans' tax-reform plans risk getting further into the future. That matters because a big reason the **S&P 500** has rallied about 10% since Election Day, pushing its forward price/earnings ratio to 17.8 from 16.5, is an expectation that some form of the blueprint House Republicans drew up last year would become law this year. That includes a drop in the corporate tax rate to 20% from 35% that Goldman Sachs estimates would lift S&P earnings by 10%. Other shareholder-friendly aspects of the plan, such as lowering the penalty for repatriating overseas profits, also would get delayed.

Indeed, while Treasury Secretary Steven Mnuchin last month told The Wall Street Journal that the administration was working with House and Senate Republicans to pass tax reform before Congress leaves for its August recess, it is looking as if the legislation might not land on President Donald Trump's desk until early next year.

If so, any boost to earnings that a tax cut brings also won't come until next year. Investors who are assuming a more aggressive timetable also are assuming companies will have stronger cash flows over the next 12 months than they are going to get.

The longer the health-care debate drags out, the harder it will be to craft a tax-cut package. There are time constraints, too, points out Kim Wallace, a policy analyst at Renaissance Macro Research. A year from now, when the midterm elections are looming, it will be hard for Congress to accomplish much of anything.

In the end, Republicans may have to settle for tax-reform lite. The contentious idea of taxing imports to help pay for tax reform might have to be dropped in an effort to speed passage. Republicans might have to settle for a shallower tax cut. If it is something closer to 30%, for example, Goldman estimates it would raise S&P earnings by just 4%.

Companies still would count that as a positive development. Investors, who have given stocks lofty valuations in expectation of something more, might not agree.

Document J000000020170322ed3m00016

THE WALL STREET JOURNAL.
U.S. EDITION

Bank and Biotech Stocks Suffer --- Damage from market's down day is most evident in financial and small-cap shares

By Chris Dieterich and Ben Eisen
639 words
22 March 2017
The Wall Street Journal
J
B14
English

Tuesday's U.S. stock declines punished onetime beneficiaries of the "Trump Trade," such as banks, manufacturers and domestically focused small companies.

The **S&P 500** dropped 1.2% to close at 2344.02, the benchmark's biggest slide of 2017. It was the first time the index fell more than 1% in a day since October, the longest such stretch since 1995. The **Nasdaq Composite** Index, which features riskier technology and biotechnology companies, tumbled 1.8%.

The KBW **Nasdaq** Bank index, which contains large slugs of Bank of America Corp. and J.P. Morgan Chase & Co. shares slid 3.9%, the worst since June 2016, shortly after voters in the U.K. approved a referendum to exit from the European Union. The Russell 2000 index of small U.S. companies fell 2.7%.

Some traders expressed concern that hurdles to enacting the Trump agenda of tax cuts, deregulation and fiscal stimulus in Washington could be giving bulls pause. A rancorous and prolonged fight over health-care policy could divide a Republican-controlled Congress before policies such as tax reform can be addressed, some investors said.

Hopes for pro-growth policies under the Trump administration stoked the **stock-market** rally in the weeks after the presidential election.

Following the initial pop, fund flows suggested that a groundswell of enthusiasm for rising stock prices coaxed in retail investors, a phenomenon sometimes called "animal spirits." This second-wave buying supported the recent leg higher for the **stock market**, even with valuations at their highest in more than a decade. Measures of actual and expected **stock-market volatility** have been anchored at multiyear lows, as the **S&P 500** soared 11% from Election Day through Monday.

The calm reversed in a big way Tuesday, with damage most evident in financial and small-cap stocks, groups that have benefited most from anticipation for the Trump administration's pro-growth policies.

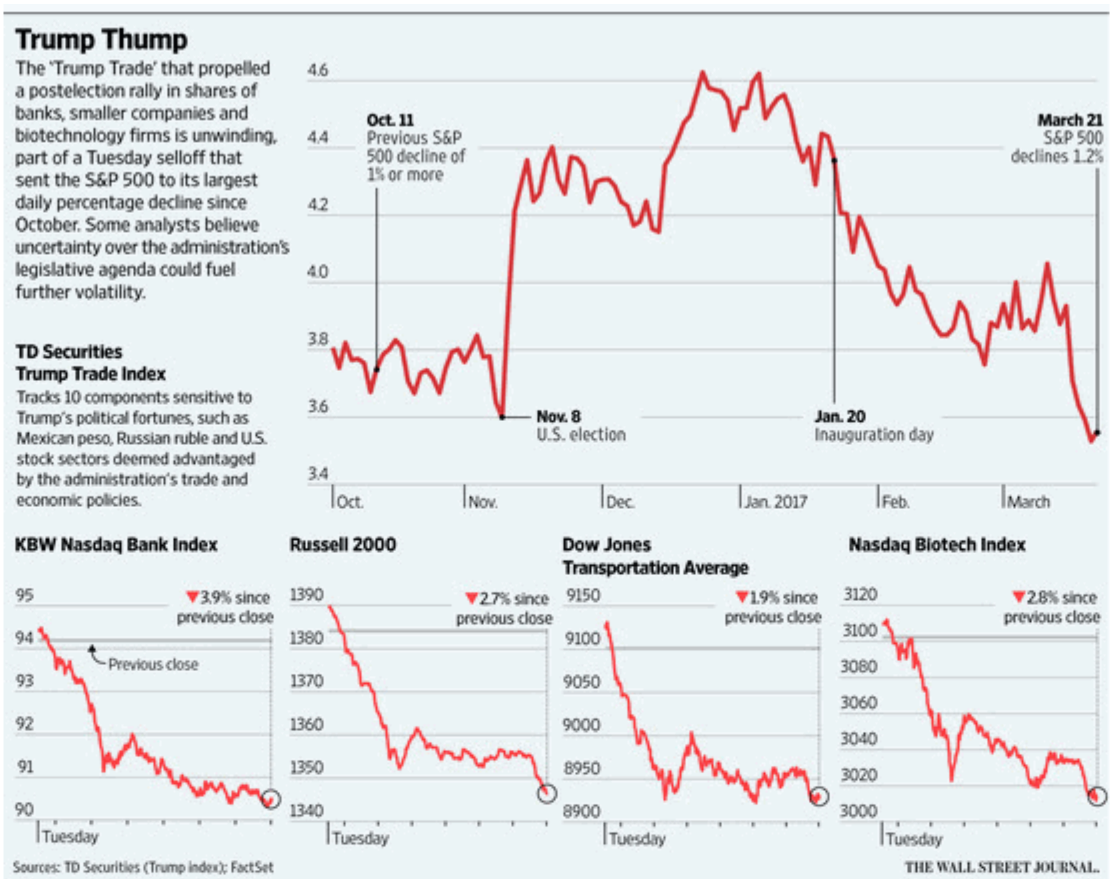
After the election, financials were catapulted higher by hopes that the Trump administration would cut taxes and dismantle financial regulations. These stocks also benefited from the presumption of higher interest rates, which tend to translate into higher lending profitability for banks. Smaller U.S. companies that do most of their business at home pay higher effective tax rates than multinational companies, meaning they would stand to benefit more from prospective corporate-tax cuts.

The outcome of a coming vote in the House of Representatives on Republicans' bill to dismantle and replace the Affordable Care Act will be "crucial" to determining investors' confidence, according to Greg Valliere, chief global strategist at Horizon Investments. "Make no mistake: a defeat in Thursday's vote would send a clear signal that the rest of Trump's agenda -- taxes, the budget, infrastructure, etc. -- is in trouble."

Other risky corners of the **stock market** were hit hard. The **Nasdaq** Biotechnology Index, which includes drugmakers Celgene Corp. and Amgen Inc., tumbled 2.8%. The Dow Jones Transportation Average, often regarded as a bellwether for economic strength because it owns companies that transport goods and personnel that power the U.S. economy, fell 1.9%.

Traders and investors stressed that the lengthy string of advances left the **stock market** looking stretched by any measure, and some stressed that Tuesday's fall would likely lure in buyers who have grown reticent about lofty prices and valuations. Still, other investors said the focus will be on Capitol Hill this week as lawmakers aim to forge a deal.

"It's an illustration that perhaps this isn't going to be a process whereby things that are proposed get rubber-stamped," said Mark Luschini, chief investment strategist at Janney Montgomery Scott.



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THE WALL STREET JOURNAL.
U.S. EDITION

Saudis' Oil-Market Clout Falls As Rivals Muscle In

By Sarah McFarlane, Benoit Faucon and Summer Said
1,051 words
22 March 2017
The Wall Street Journal
J
B1
English

Saudi Arabia is losing its grip on big oil markets it once dominated amid a deep production cut that has reshaped global petroleum trade routes and benefited rivals including Iran, Russia and the U.S.

As it pursues a steep production cut aimed at putting a floor under **oil prices**, the world's biggest crude exporter is ceding ground to American shale producers and hastening a retreat from the U.S., according to people familiar with current Saudi policy.

Saudi Arabia's crude exports to the U.S. for the week ended March 10 fell by 426,000 barrels a day from the previous week, according to the latest U.S. data. That represents the sharpest weekly drop in the time since the Organization of the Petroleum Exporting Countries decided in late November to cut production to raise **oil prices**.

The decline was by design, the people said, as the kingdom is looking instead to Asia for growth. But Saudi Arabia is falling behind Russia when it comes to supplying China, China's General Administration of Customs data show. China is one of the world's fastest-growing major oil consumers.

Elsewhere, the Saudi oil machine has been outmaneuvered by Iran and Iraq among big European customers in France, Spain and Italy, according to data from the International Energy Agency.

The Saudi retreat from an all-out battle for these markets reflects the compromises the kingdom is now making to achieve a higher **oil price** as it faces fiscal pressures from a burgeoning population and as the planned offering of its state oil company, Saudi Arabian Oil Co., or Saudi Aramco, nears.

"Saudi Arabia is under extraordinary pressure both internally and externally," said Dr. Jean-Marc Rickli, head of risks analysis at the Geneva Centre for Security Policy.

For years, maintaining market share was a major priority for Saudi Arabia. In 2014, when the price of oil plunged, the Saudis opted against an OPEC output cut to avoid surrendering its share of key markets.

Now, that strategy has changed in ways that would have been unimaginable just a few years ago.

Since Saudi Arabia and OPEC decided to cut production last November, American shale companies have taken advantage of the resulting higher prices to launch a comeback, adding 412,000 barrels a day of output, according to the U.S. Energy Information Administration. While some of that oil has gone to satisfy the U.S. market, American crude exports have surged to more than 1 million barrels a day this year.

In an interview, Saudi energy minister Khalid al-Falih said the return of U.S. production was "good" -- as long as it doesn't throw global supply and demand out of balance. "Extremes are not good," Mr. Falih said. "Saudi Arabia is for balance."

Saudi Arabia -- which throttled output to record levels to compete with a flood of U.S. oil two years ago -- has cut its production by nearly 800,000 barrels a day since October. That is 60% more than it promised to cut as part of the OPEC deal and signals its seriousness about stabilizing the oil market.

"This stabilization has meant sacrificing market share," said Alan Gelder, vice president of refining, chemicals and oil markets at Wood Mackenzie, an energy consulting firm.

The cuts in exports to the U.S. are the latest in a series of pullbacks in what was once the kingdom's most lucrative market. In the 1990s, Saudi Arabia accounted for almost one-third of all American crude imports, but it represented only 12% in November, according to the EIA.

To be sure, Saudi Arabia remains the world's dominant oil producer, able to influence prices because, as it says, the kingdom pumps about 2 million barrels a day below capacity. That means the country has the ability to quickly ramp output up and down, swaying prices.

The Saudi pullback has allowed rivals to pounce.

Russia, which isn't part of OPEC but agreed to cut output anyway, is pumping near post-Soviet highs. The group's second-biggest producer, Iraq, remains at near-record output levels. OPEC member Iran was allowed to keep increasing a certain amount of output.

Iraqi and Russian officials say they are committed to cutting production and not taking advantage of the Saudis. Iran's oil ministry declined to comment.

Even before the OPEC production cuts were announced, there had been a clear drop in imports of Saudi oil by major European economies. Shipments of Saudi oil to Spain, Italy and France fell by 11% between July and October, according to International Energy Agency data.

At the same time, Iran sent stored oil to the export market, with a sweetener: a 3% discount against crude from OPEC rivals, according to a rival producer.The result: Iranian oil shipments to Europe surged 45% in December compared with August, according to ship tracker Clipper Data.

"The Saudis are impacted by the OPEC cuts and not the Iranians, so that is helping Iranians to keep pushing a little bit against the Saudi crude," said Alfonso Mingarro, the head of trading at Spanish refiner Cepsa, which buys from both the Iranians and Saudis.

Saudi Arabia also has been bruised in Asia. In China, the kingdom accounted for 13% of imports in 2016, down from 15% in 2015, Energy Aspects said.

The kingdom has sought to shore up its Asian market after Russia flexed its muscles there. Last year, Russian state-owned oil company OAO Rosneft outbid Aramco for the second-largest Indian refinery, Essar Oil.

King Salman is on a monthlong Asian tour to promote the Aramco initial public offering and to secure outlets for Saudi crude, including a $7 billion refining agreement with Malaysia. Mr. Gelder of Wood Mackenzie said Saudi Arabia is working to nail down future market share, even as it pulls back today.

Saudi Aramco has revamped its Chinese operations, selling more to independent refineries there that prefer buying individual cargoes to sealing long-term contracts. The kingdom is also accelerating plans to rely more on refined products like gasoline, which are more profitable than crude.

Justin Scheck contributed to this article.

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The New York Times

Business/Financial Desk; SECTB
S.&P. 500 Ends Streak With a Dip of Over 1%

By LANDON THOMAS Jr.
843 words
22 March 2017
The New York Times
NYTF
Late Edition - Final
1
English

It had been one of Wall Street's more confounding streaks.

Until Tuesday morning, the stock market's benchmark, the Standard & Poor's 500-stockindex, had gone 64 consecutive trading days without declining more than 1 percent at any point in a trading session.

Making the streak even more remarkable, such extraordinary composure from investors had occurred in a period of political volatility as fresh controversies dogged the Trump White House and Europe braced for elections in France and elsewhere on the Continent.

This long period of market tranquillity highlights the confidence many investors and businesses have shown in President Trump's promise to ignite economic growth.

This optimism was tested Tuesday as the major market indicators ended down more than 1 percent, led by a sell-off in financial stocks.

''There is a saying that the market makes fools of us all,'' said Charlie Bilello, director of research at Pension Partners, an investment advisory firm. ''And that is true here because we have been in one of the most peaceful, calm periods in the history of the stock market.''

The question now is whether, after months of mostly ignoring political headlines, investors will weigh the possibility that problems with repealing the Affordable Care Act and the uproar over the Trump campaign's possible ties with Russia could weaken the president's ability to pass market-friendly laws.

On Tuesday, the S.&P. 500 closed down 1.24 percent, its sharpest daily decline since October. At 161 days, it was the longest period between closing declines of 1 percent or more in the index since June 1985.

In terms of intraday trading, the period without big drops in the index was the longest since 1962, beating by a wide margin the previous record of 34 days in mid-1995.

For the day, the narrower Dow Jonesindustrial average ended down 1.14 percent, and the Nasdaq composite index finished off 1.83 percent.

Large financial stocks like Goldman Sachs, Bank of America and JPMorgan Chase led the way down on Tuesday as investors began to show concern that President Trump's daily political battles might harm his ability to push through an ambitious economic agenda. The S.&P. financials index had its biggest fall since late June, in the wake of Britain's vote to leave the European Union.

The value of the dollar slipped against the euro and other major currencies.

The yield on the 10-year Treasury note declined to 2.41 percent, generally an indication that investors were selling riskier assets and piling into safer securities like government bonds.

Since November, the stock market rally has been fueled by expectations that President Trump, helped by Republican majorities in the House and the Senate, would be able to push through tax cuts, roll back regulations and kick-start a round of government-backed infrastructure spending.

No signs indicate those expectations have fundamentally changed. A one-day, 1.24 percent decline three months into one of the better starts to an investment year in recent memory is no indication that a correction could be imminent, market specialists said.

And many observers remain convinced that the combination of fiscal stimulus, a strong economy and low but gradually rising interest rates will remain a powerful lure for investors.

''This will be the first time since the mid-1960s that the federal government may provide a positive impulse to an economy that is at full employment,'' said Bob Miller, a senior bond investor at BlackRock.

Because interest rates are so low, a round of rate increases from the Federal Reserve is not likely to harm growth assets like stocks, Mr. Miller said.

It has been precisely this type of optimistic outlook that has kept the Chicago Board Options Exchange**Volatility** Index, or VIX -- also known as Wall Street's fear gauge -- at such historically low levels.

Low **volatility** readings are generally seen at the end of an economic expansion as confidence, wages and markets rise in unison.

Such is the case now, Mr. Bilello said, which ought to be a warning to investors that good times do not last forever.

Mr. Bilello is not predicting a major correction. He just notes that the prices for stocks relative to their earnings have been higher only in 1929 and 1999 -- two well-known market tops.

''This would be the ninth straight year that the S.&P. finishes the year higher than the year before,'' Mr. Bilello said. ''And if you combine that with very high valuations, it means that investors should expect more **volatility** going forward.''

The floor of the New York Stock Exchange. A sell-off in financial stocks on Tuesday helped produce the sharpest daily decline by the **Standard & Poor's 500**-**stockindex** since October. (PHOTOGRAPH BY DREW ANGERER/GETTY IMAGES) (B4) CHART: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Tuesday. (Source: Reuters) (B4)

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Markets & Finance: Exchange Glitch Renews Concern

By Alexander Osipovich
693 words
22 March 2017
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A botched software update that snarled trading in hundreds of securities in the New York Stock Exchange's Arca platform has renewed worries about the fragility in U.S. markets.

Monday's glitch on NYSE Arca, the largest listing marketplace for U.S. exchange-traded fund trading, resulted in 341 securities not completing their closing auction successfully, NYSE said in an email to clients Tuesday.

NYSE, owned by Intercontinental Exchange Inc., hasn't publicly released a list of the 341 affected securities. People familiar with the matter said they included popular ETFs from State Street Global Advisors, such as the SPDR Gold Trust, the largest gold ETF, as well as iShares and Vanguard ETFs.

The most heavily traded ETF -- the **stock market**-tracking SPDR **S&P 500** ETF Trust -- wasn't affected.

The closing auction, held in the last few minutes before 4 p.m. Eastern Time, is one of the most crucial events of the trading day because it determines the daily settlement price for each stock or ETF. Large investors and traders typically pile in with big orders as the clock ticks down to 4 p.m.

With the growing popularity of index-tracking ETFs and passive investment strategies, volumes at the close have risen: 5.5% of average daily volume on NYSE and **Nasdaq**-listed securities takes place in the closing auction now, up from 3.6% in 2011, according to research firm Greenwich Associates. That is because index-fund managers and others try to buy and sell at prices close to the settlement prices.

"There's so much dollar exposure in the last five minutes. Across the Street, you're talking significant exposure," said Enrico Cacciatore, a senior equity trader at Voya Investment Management.

Adding to the risk, closing auctions are held in just one place: the exchange where a particular stock or ETF is listed. That makes a failure at the close far more significant than one in the middle of the day, when securities can be traded on any of the dozen U.S. stock exchanges in operation.

"It's a single point of failure, and that's what makes people nervous," said Eric Noll, chief executive of Convergex, a New York-based brokerage firm.

That critical process went awry at Arca on Monday, as traders found themselves unable to fill orders they had intended to execute in the closing auction. That forced them to scramble to get their trades done by other means -- for instance, by connecting directly with other buyers or sellers.

Dave Lutz, head of ETF trading at JonesTrading, said his firm had a large customer order that needed to be executed at the close. They were only able to fulfill the order at around 4:45 p.m., he said. "We, like others, had ETFs we needed to execute on the Arca close," he said.

Unable to run the closing auction in hundreds of securities, NYSE used a backup method for determining their end-of-day price. That prevented potentially thorny disputes over what the right price should be. Still, traders said it resulted in confusion. Only in the early evening did NYSE release a list of official closing prices in all Arca securities.

NYSE later apologized and invited traders who lost money from the mishap to submit claims for compensation.

Traders said the scale of Monday's problems were minor compared to earlier exchange glitches such as the tumultuous trading session of Aug. 24, 2015, after which NYSE's opening procedures were criticized, or **Nasdaq** Inc.'s bungled initial public offering of Facebook Inc. in 2012.

One big bank estimated its losses from the Arca glitch at less than $10,000.

Some ETF issuers didn't receive a list of their affected funds until Tuesday afternoon, according to people familiar with the matter. "We communicated with the affected issuers as soon as we could on Monday and continued to provide them with timely information today as well," Kristen Kaus, a NYSE spokeswoman, said Tuesday.

Asjylyn Loder, Inyoung Hwang and Gunjan Banerji contributed to this article.

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The New York Times

Deal Professor
Business Day; DealBook
Dole Case Illustrates Problems in Shareholder System

By STEVEN DAVIDOFF SOLOMON
1,309 words
21 March 2017
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Correction Appended

The share ownership system in the United States is fraying. And while its shortcomings have been largely behind the scenes, now they are going to cost some innocent shareholders money.

The problems have become apparent as a result of a Delaware court case over the $1.2 billion buyout of Dole Food in 2013. A $115.7 million settlement was reached after a lawsuit that accused David H. Murdock — Dole's controlling shareholder and chief executive — and his lieutenants of conflicts of interest in taking the company private.

Former Dole shareholders will receive $2.74 a share — a nice chunk of change in addition to the $13.50 a share originally paid in the deal. Still, because of the shareholder ownership system, some of those Dole shareholders may not get that money.

The reason is that while shareholders think they own the shares they buy, they don't in a sense.

That may come as a surprise to those who check their online brokerage accounts daily or see traders on a floor of an exchange reacting to price movements. A market that in many ways is open and transparent is underpinned by a system of share ownership that can be anything but.

Share ownership in the United States is conducted through the Depository Trust Company, which was formed after the back-office scandal of the early 1970s. At that time, trading volume on Wall Street became too much to handle, and brokerage firms were swamped by paperwork, falling months behind.

The idea was to freeze ownership of company shares in one place. Now, when Apple or Microsoft look at their share register they see only the Depository Trust Company. When trading occurred, brokers would now transfer shares among accounts at the trust company. The brokers hold the shares on behalf of customers who were the ultimate beneficial owners.

The result was that the Wall Street firms could now more easily track shares by having to deal only with themselves and the Depository Trust Company. Companies were taken out of the process.

Because shareholders are actually only beneficial owners, lots of odd things can happen.

For example, instead of executing a trade in the market, a broker may just transfer shares among clients and mark the trade as a sale. (The broker is still required by the Securities and Exchange Commission to get the best price.)

Alternatively, if a person wants to short a stock by borrowing it and selling it in the market — betting that the **stock price** will drop — the broker may "lend" your shares without you knowing it.

These issues have been brought to the forefront by the Dole case. In the settlement, 4,662 people and entities claimed 49,164,415 shares at $2.74 per share.

There is just one problem: Dole had only 36,793,758 shares outstanding.

These are probably not false claims. They go directly to the problems with the share ownership system.

The first problem is that the Depository Trust Company sometimes doesn't keep track of shares. When this happens, it puts a "chill" on the shares, meaning that it stops tracking them because of established procedures for the final three trading days up to the closing of a merger.

Instead, the money in a merger is simply paid to the brokers who are supposed to filter it down to the investors. Usually this works, but apparently in the Dole buyout, there may have been some problems with this process.

The bigger problem, however, is the shorting issue. Normally, when someone shorts shares, they borrow them and then sell them. When the short position is closed, the investor buys back the shares and restores them to their lender.

In a merger, the shorting party simply pays the merger consideration.

There seemed to have been many shorts in Dole. Expectations that the company would obtain a higher sale price lifted Dole's shares above the terms of the buyout offer.

Other investors were apparently skeptical that would happen, and more than 2.9 million shares were shorted on the last day that the trust company tracked the trading of Dole shares.

How to deal with this was the subject of the opinion in the Delaware court case. Essentially, the judge threw up his hands, saying that the plaintiffs could pay the brokers their money and be done with it.

For good measure, the judge, Vice Chancellor J. Travis Laster of the Delaware Court of Chancery, noted that "it bears noting for future merger cases that the problems raised by short sales and trades during the three days before closing appear endemic to the depository system and hence likely infect every claims process.''

In other words, this happens every time. It became a problem in the Dole settlement only because with so much money being paid out, more shareholders than usual took the trouble to submit a claim.

But there is not enough money. When short sellers borrowed shares they sold them to other shareholders in the market. Under the ruling, those third parties who unknowingly bought shares that were shorted will now not be paid. Instead, the holders of the shares that were lent out will be paid. Those who bought shorted shares will be left to look to the shorters.

The investors who shorted the stock did so expecting to make a few cents a share: the difference between where Dole had been trading above the buyout price and the price just before the deal closed. Now, they could be on the hook for millions of dollars — if they can be tracked down. And that is a big if.

The Dole settlement highlights that as our capital markets become ever more complex, share trading and ownership are getting harder track. But in an age when computing power is cheap, why can't we keep track of shares?

Matt Levine of Bloomberg View, noting that the 40-year-old system "is starting to show its age," has suggested that blockchain technology could be the answer.

But is that really necessary? The system might be fixed just by adding some computing power to better trace shares. Of course, this would require the people who control the plumbing of the markets to invest millions and millions of dollars in improvements.

Alas, there is no profit to be made on an upgrade. This is an area where the nation's chief market regulator, the Securities and Exchange Commission, needs to step in.

But even this will not solve the shorting issue. When you sign up with your broker you are signing up to short shares, whether you like it or not. People are then buying shares without your knowledge.

This is a problem that the brokerage firms have created, and hopefully they will fix. At a minimum, they need to stand behind the shareholders here. After all, they helped create this mess.

Steven Davidoff Solomon is a professor of law at the University of California, Berkeley. His columns can be found at nytimes.com/dealbook. Follow @stevendavidoff on Twitter.

Correction: April 7, 2017, Friday

This article has been revised to reflect the following correction: The Deal Professor column on March 22, about a Delaware court case over shares of Dole Food, described incorrectly the capabilities of the Depository Trust Company, which provides clearing and settlement services to the **stock market**. The trust company does in fact have the ability to track the ownership of shares; it is not the case that the trust company does not track the shares because it is too hard or too expensive to do so. (In the case of cash buyouts like that of Dole, regulatory processes and practices dictate how payment is made on settled positions and unsettled trades.)

Harry Campbell

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THE WALL STREET JOURNAL.
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Snafu at NYSE Arca Hits ETFs --- End-of-day glitch affects dozens of funds; settlement prices are in question

By Asjylyn Loder
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English

A glitch snarled closing trading in dozens of exchange-traded funds late Monday at the New York Stock Exchange's Arca platform, in one of the largest trading snafus of 2017.

ETFs with market values exceeding $150 billion were affected, including SPDR Gold Trust, the largest gold ETF, according to a person familiar with the trading.

NYSE Arca, the largest listing exchange for ETFs, suffered a trading problem in the final minutes of trading Monday. "The underlying cause of the disruption has been identified and remediated," the exchange said in a Monday night alert, without specifying what the problem had been.

While securities can trade on any exchange throughout the trading day, trading typically reverts to the listing exchange in the last minutes of the day, in a process known as the closing auction, which determines the settlement price.

A failure to determine a settlement price could affect investors and traders across Wall Street, traders said. ETFs have been one of the fastest-growing products in the securities industry, and the trading difficulties could hit Arca's reputation.

"A lot of people rely on that closing price, especially with ETFs," said Joe Saluzzi, a partner at Themis Trading LLC in Chatham, N.J.

Canceled orders could leave market makers and other traders without proper hedges, Mr. Saluzzi said.

Other affected funds include SPDR **Dow Jones Industrial Average** ETF Trust, SPDR S&P Midcap 400 ETF, Energy Select Sector SPDR Fund, Financial Select Sector SPDR and iShares Russell 2000 ETF, according to the person familiar with the matter.

NYSE Arca sent a series of alerts starting at 4:07 p.m., seven minutes after the **stock market** closed.

The exchange said "all live orders will be canceled" and that a backup method would be used to determine settlement prices.

The exchange didn't say how many ETFs were affected or how many orders were canceled.

Kristen Kaus, a spokeswoman for NYSE, declined to comment beyond the exchange's published notices.

Arca is the listing venue for 1,511 ETFs that were valued at about $2.5 trillion at the end of February, out of about 2,000 U.S. listed ETFs.

Gunjan Banerji contributed to this article.

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Streetwise: Forecasts By the Fed Are Stuck In the Past

By James Mackintosh
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The Wall Street Journal
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English

Currency markets offer the perfect antidote to confident forecasters. The overwhelming consensus before Christmas was that the dollar was setting off on an early-1980s-style bull run, and investors should grab hold while they still could. The euro would fall to parity, and emerging markets needed to brace for turmoil as dollar debts would become harder to service.

Three months later, the dollar's weaker, the euro (and the less-discussed yen) is up strongly, and emerging-market stocks and currencies have leapt.

Understanding what went wrong with the forecasts is vital in pinning down what might happen next. But more important for the longer term are the Federal Reserve's predictions of weak growth forevermore -- and whether it is merely projecting the recent past into the indefinite future.

There were three major drivers of the dollar's reversal. First and probably most important was that the dollar had become a crowded trade, with pretty much everyone believing it would carry on up. Bets on dollar futures had rarely been higher, and the consensus in favor of the dollar was strong.

Underlying this positive sentiment were two fundamental arguments, neither of which has so far worked out: central-bank divergence and U.S. tax policy.

The Fed's December increase marked the resumption of its interrupted rate cycle, while the central banks of Europe and Japan were stuck with hopeless economies and no inflation, and so wouldn't raise interest rates in the foreseeable future. Investors were also convinced that the Republican-controlled House proposal for a border-adjusted tax would restrict imports while helping exports, giving a boost to the dollar.

As the year has worn on, all three forces behind the dollar's reversal have come under pressure. The crowded positions have unwound somewhat, most obviously in speculative bets on dollar futures. Signs of inflation and faster growth have shifted the European Central Bank out of easing mode, and talk of a European "taper" has begun. And the border-adjusted tax has been questioned by the White House and run into opposition from several Republican senators.

There have been only small shifts in economic forecasts, but they have been in the wrong direction for the dollar. The average prediction collated by Consensus Economics for U.S. growth has dropped from 2.3% to 2.2% in the past three months, while for Japan, the eurozone, the U.K. and Canada, they have risen 0.1 to 0.2 percentage point.

A bet on the dollar now could be based on the eurozone's inability to raise rates much, if at all, without threatening the solvency of its weaker members. It could be based on Japan's commitment to hold long-term rates at zero, ruling out an end to bond buying. It could even, less plausibly, be based on the border-adjusted tax being accepted by the Senate.

But for the long-term strong dollar bet, look to the Fed. The central bank is assuming the economy will experience a version of "secular stagnation," popularized in recent years by former Treasury Secretary Larry Summers. From this perspective, long-term growth will be weak, too much will be saved, and the "natural" interest rate will stay low. The dollar could still rise if the rest of the world is going to be worse, but it's hard to be truly **bullish** because the assumption of weak long-run growth makes the Fed err on the side of lower rates.

At last week's Fed meeting, policy makers held their long-run growth predictions for the economy at 1.6% to 2.2%, with a median forecast for long-run interest rates of 3%, equivalent to just 1% adjusted for inflation. Back in

2012, with the Lehman crash still fresh in the memory, the lowest Fed growth forecast was 2.2%, and the median expectation for long-run interest rates was above 4%.

"All these years they've had these **bullish** views and they've had to downgrade," says Stephen Jen, co-founder of Eurizon SLJ Capital. "Now, just as the world economy seems to be gaining traction, they are moving the other way."

Put another way, the Fed's economists may have fallen into the classic psychological trap of recency bias, putting too much weight on the postcrisis period. The history of secular stagnation suggests the Fed is far from the first to assume the good times are gone forever.

The term secular stagnation was coined by Alvin Hansen in 1938, on basically the same grounds as the idea is pushed today: weak productivity and population growth. He was badly wrong, as the surge in postwar technology and the baby boom soon demonstrated. Patrizio Pagano and Massimo Sbracia at the Bank of Italy showed that such a mistake has usually been made when growth has been weak, with the same concerns raised in the world-wide depression of the 1870s, in the stagflation of the 1970s and again as the 1980s boom came to an end.

I don't know if machine learning, biotechnology, robotics or even virtual reality will be the breakthrough that leads to faster growth in the future. Maybe all of them will, maybe none of them.But I'm certain that it's a mistake to put too much confidence in any long-term predictions of productivity or demographic change -- and that it won't take many good quarters of rising growth and inflation to see the Fed start revising up its expectations.

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Heard on the Street
Global Bonds: Risking a Rude Central-Bank Awakening

By Richard Barley
445 words
20 March 2017
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B10
English

[Financial Analysis and Commentary]

Markets spend a lot of time thinking about how central banks will react to the economic environment. Perhaps investors should be reflecting more about how they are reacting to central banks.

In the past week or so, a distinct shift has emerged from leading central banks around the world. The U.S. Federal Reserve lifted rates a quarter point and signaled it would keep on going. The European Central Bank injected a note of hawkishness into its otherwise dovish stance, with growth and inflation picking up.

Even the Bank of England managed to find a policy maker willing to vote for a rate increase and gave the minutes of its March meeting a less-dovish spin. The Bank of Japan, sticking to plowing a furrow of permanently loose policy, looks like the odd one out.

The U.S. March rate increase had to be telegraphed loud and clear to investors. Markets only realized that the move was coming after a campaign of communications from policy makers that couldn't be ignored. Then, investors appeared to take Fed Chairwoman Janet Yellen's comments after the increase as a sign they could relax again.

Perhaps as a result of the long period in which central banks seemed to be the only game in town, markets seem to be willing to be spoon-fed by policy makers instead of actively anticipating these changes, which raises risks around any shift in communications. That was clear in the U.K. as gilt yields jumped after the BOE minutes were published Thursday, even though the BOE might be the one central bank less likely to follow through given the uncertainties of the Brexit process in the coming months.

Of course, there are still reasons to worry about the outlook. The list of concerns includes fears about protectionism stifling trade, political disruption in Europe and lingering doubt about China's ability to sustain strong growth. Questions remain about whether the rise in inflation is transitory and might fade as last year's moves in **oil prices** drop out of the picture, or whether price pressures are picking up more broadly. Central bankers will have to reflect that in their communications, and policy does appear likely to move slowly.

Still, investors in bond markets may be generating risks for themselves if they are cherry-picking what they want to hear from central banks. If growth holds up, and underlying inflationary pressures continue to build, the tone from central banks should harden. Investors shouldn't feel too relaxed about that prospect.

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Big Issues in Personal Finance (A Special Report) --- Is It Prudent for Investors to Use Target-Date Funds for Retirement Savings?

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R2
English

The autopilot approach has made target-date funds an increasingly popular option in retirement plans. Many employer-sponsored retirement plans make target-date mutual funds the default investment when workers don't choose one from the menu of funds available to them.

Target-date funds automatically shift their asset allocations to a more age-appropriate, conservative mix as an investor ages and his or her expected year of retirement, or target, approaches.

Target-date mutual funds have grown in popularity over the past decade. Together they held some $880.4 billion in assets as of Dec. 31, up from $116 billion at the end of 2006, according to investment researcher Morningstar Inc.

Critics point out, though, that the funds, like all investments, are subject to market fluctuations. Their automation can lull investors into a false sense of security. Indeed, for all of their safety features, they are no guarantee against losses as an investor's target year of retirement approaches. The average return for a 2015-dated target-date fund was 6.1% last year, according to Morningstar. But it was a negative 1.3% in 2015.

YES:

These Funds Solve

Many of the Problems

That Investors Face

By Michael Guillemette

Target-date funds can help conquer some of the worst enemies a retirement saver can have.

There are other good reasons to use target-date funds, and I will get to them. But the biggest advantage, the one most talked about by investment pros, is that they do what many retirement savers are loath to: make decisions.

Perhaps the thinker Herbert Simon had target-date funds in mind when he created his theory of bounded rationality. The concept states that average investors have limited knowledge, information and time, and so should seek the satisfactory, as opposed to the optimal, investment.

Optimal solutions are rarely achievable without the help of an expert -- a certified financial planner, for example, who is held to a fiduciary standard. Few retirement savers have the inclination, or means, to use a planner.

All too common, meanwhile, are the suboptimal choices -- especially with regard to retirement savings. These include money-market funds and stock in one's own company. The former does not provide growth and exposes the investor to inflation risk, while the latter includes too much company-specific risk.

Target-date funds, by contrast, are the satisfactory solution because they address -- and solve -- many of the biggest problems retirement savers face. They rebalance asset allocations from stocks to bonds automatically over time, thus positioning investors for the best risk-adjusted asset classes for their age group. The automation features also help keep the expense ratios low, especially when index funds are part of the mix. And evidence strongly supports that active fund management does not outperform passive fund management net of fees over the long run. This may be why we are currently observing such a large inflow into passive index funds and out of active funds.

Target-date fund managers also make decisions about diversification of investments, which affords investors both further protection to reduce risk and the best opportunity to see their nest egg grow over time.

Concerns about increased retirement needs due to longer life expectancies have increased demand for products that provide lifelong income, leading some companies to include annuities in their target-date funds. The U.S. Treasury and the Internal Revenue Service have issued guidance on annuities in target-date funds, so it appears likely that a larger number of funds eventually will offer annuity payout options at retirement.

Detractors, meanwhile, say returns on bonds and U.S. stocks may decline in coming years, threatening to turn automated reallocations into a liability instead of an asset. I agree that current U.S. stock and bond valuations appear to be expensive. However, some equity markets outside the U.S. are not expensive based on metrics such as the cyclically adjusted price-to-earnings or price-to-book ratios. Therefore, it is important to choose a target-date fund (or any investment strategy) that avoids home-country bias.

It is best for retirement savers to receive advice from a fiduciary who creates an investment plan based on their goals and risk aversion. Absent such advice, retirement savers could do much worse than choosing a target-date fund given the benefits of low expense ratios, diversification, automatic rebalancing and annuitization.

Dr. Guillemette is an assistant professor in Texas Tech University's personal financial planning department. He can be reached at reports@wsj.com.

NO:

The Amount of Risk

Should Depend on the

Market, Not Age

By Matthew Tuttle

As investors approach retirement, they shouldn't take as much risk. That much we agree on.

But target-date funds don't work as advertised. They don't automatically lower risk for investors as they age. In fact, having them in 401(k) plans in the coming decades -- especially as the default option -- will lead to a retirement crisis as more retirees end up outliving their money.

The problem is this: The market doesn't care how old you are.

Target-date funds would have kept a 30-year-old fully invested in stocks from 2000 to 2002 and all during 2008. They also would have kept a 75-year-old invested mostly in bonds in 2009 and in 2013. The former positions would have caused substantial losses for the young investor, while the latter would have caused the older investor to miss out on two banner years for stocks.

The right amount of risk for an investor to take ought to be a function of what is going on in the market, not how old they are. Nobody should be taking risk in a **bear market** and everybody should be taking some risk in a raging **bull market**.

Active management tends to play a big role in some target-date funds for younger investors, which often are 100%, or nearly so, invested in equities. I am not a fan of actively managed funds that stay fully invested and just try to beat the indexes by picking better stocks. That doesn't work for most funds. A fund manager has more tools when he or she can also move the equity exposure of the fund up and down based on what is happening in the market.

Looking ahead, there is no way that bonds can produce the same returns they have for the past three decades. Interest rates are coming out of a period of historic lows and will be going higher. Thus, as target-date funds automatically move investors into supposedly conservative bonds, those bonds could very well be losing value as interest rates increase.

For younger investors, the outlook for target-date funds is similarly bleak. This is the eighth year of a **bull market** in stocks, and it is highly likely that **stock-market** returns over the next eight years will be much less.

Looking at what worked in the past and expecting it to work in the future is a recipe for disaster. Every prospectus says clearly that past performance doesn't predict future results, yet we still always believe it will.

Supporters argue that target-date funds with their automated features provide the discipline many investors need to meet retirement-savings goals. But trying to overcome procrastination or inertia by giving investors another bad option is not helping. Likewise, the low expenses charged by the funds are only an advantage when all other things are equal. If you have two bad options, then the one with lower expenses is certainly less bad.

Including annuity payouts is also not an advantage, given how low interest rates are. If you look at the risk of inflation and increasing life expectancies, annuity payouts are dangerous. For investors who insist on having annuity income in retirement, meanwhile, a better option would be to roll their 401(k) into an IRA at retirement and buy an annuity.

Participants in 401(k)s need help in choosing the right investment program. A better approach than target-date-funds would be a tactical fund that takes more risk during market upturns and less during market downturns. Such a fund would not try to predict what will happen. It would react to what is happening.

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Equities -- Ahead of the Tape: A Danger Lurks in Strong Economy

By Steven Russolillo
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B9
English

Good news keeps coming for the U.S. economy. For contrarian investors, this isn't exactly great news.

Consumers say they feel better about the economy than they have in the past 17 years. Optimism among small-business owners has surged since the election. Jobs are plentiful and wage growth is strengthening. New data coming this week, including reports on existing home sales, new home sales and durable-goods orders, should contribute to the positive trend.

Stocks have responded to the improving economy and President Donald Trump's promises to cut regulations and reduce taxes. The **S&P 500** is up 11% since Election Day and hovers near its record. But it is important to remember when markets historically perform best: not when the economy is booming but rather when its performance is exceeding diminished expectations. A good way to measure this is the Citigroup Economic Surprise Index.

This rolling indicator measures economic data relative to forecasts. This means that, when reports such as employment, inflation and manufacturing are beating estimates, the index usually moves higher. When data fall short of expectations, Citi's indicator typically moves lower. The index, which bounces above and below zero, has been on the upswing for months and rose to 58 last week, a three-year high.

Maintaining that trajectory won't be easy. That is because forecasters are getting more optimistic. For instance, economists surveyed in The Wall Street Journal's latest monthly poll expect economic growth of 2.4% this year and 2.5% in 2018. Both forecasts are up from 2.2% and 2% in pre-election surveys, respectively.

Since 2003, stocks perform best in the three-month period leading up to when the Citi index hits a short-term peak. The **S&P 500** often struggles when the surprise index trends lower from peak to trough but then often rallies as the index turns higher again.

Citi's index had been in negative territory for much of an 18-month stretch through last summer. Stocks were stuck in a fairly narrow trading range over that time frame but have risen almost 20% as the surprise index has rallied.

Since 2011, prior peaks for the Citi index have ranged between 72 and 93. If history is a guide, then this latest uptick might have more room to run -- an additional tailwind for stocks in the short run.

But the better the economy does, the more optimistic forecasters get. That means it gets tougher for data to keep beating expectations, which makes it harder for the Citi index to keep rallying.

Investors should watch this space. In this age in which markets keep rallying without much opposition, this is one leading indicator worth keeping tabs on.

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Bond Yields Signal Shift --- Treasury rates exceed dividend measure, could spark rethinking of stock investments

By Aaron Kuriloff and Min Zeng
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English

U.S. bond yields are topping a key measure of the dividends that large U.S. companies pay -- a shift that has broad implications for investors who have viewed higher stock yields as underpinning an eight-year-long **bull market**.

At 2.50%, the yield on the 10-year U.S. Treasury note on Friday exceeded the 1.91% dividend yield on the **S&P 500**, according to FactSet. The dividend figure reflects annualized payouts by companies in the index as a proportion of their current share price.

Rising bond yields generally send a signal that the economy is healthy and that demand for goods and services is rising. But increases in long-term yields over time also stand to shift investor preferences that recently have been strongly skewed in favor of stock investments.

It is a change with real ramifications. Just a year ago, when U.S. bond yields hit record lows, many investors were buying bonds for asset appreciation and stocks for yield, an inversion of longstanding investing principles.

Many investors say ultralow bond yields have played a major role in the postcrisis rally, which this month took the Dow industrials above 21000 for the first time. The Dow closed Friday at 20914.62.

"Low Treasury yields are the foundation of current high valuation of financial assets," said Zhiwei Ren, portfolio manager at Penn Mutual Asset Management Inc. A 3% yield on the **10**-**year Treasury** note "will start to spook the **stock market**," he said.

The **bond yield**-dividend yield comparison has recently been a crucial argument in favor of stocks. Comparing the yield on a company's stock or a market index with the Treasury rate showed higher dividend yields made stocks a better bet, an easy shorthand indicating investors could receive higher returns even if share prices decline.

The calculus has been distorted in recent years by economic and policy changes that took effect after the financial crisis, with slow economic growth and bond buying from the Federal Reserve driving bond yields sharply lower.

As a result, the **10**-**year Treasury bond yield** has spent much of the postcrisis period below the S&P dividend yield -- something that as of 2008 hadn't happened for roughly half a century.

Yet bond yields have been largely above dividend yields since the U.S. election. The increase in bond yields now appears to many analysts and investors to have staying power, the latest sign of the slow normalization of the financial world.

S&P dividend yields have generally stayed around 2%, which is below the historical average but looked almost generous at a time when bond yields were flirting with negative levels in many other major countries.

Gains in dividend-paying stocks last year helped propel the market's rise off its February lows. Investors flooded into shares of utilities and consumer staples, as well as companies like Johnson & Johnson and Apple Inc. -- demonstrating a willingness to sacrifice some safety for reliable income they weren't getting from bonds.

Oracle Corp., Wal-Mart Stores Inc. and General Dynamics Corp. are among 110 companies that have raised their dividends this year by an average of roughly 10%, according to data from S&P Dow Jones Indices.

At the same time, yields on longer-term bonds remain low enough that many investors are skeptical the debt will retain its value over time against inflation -- a view that bolsters demand for stocks.

Many analysts remain uncertain about the broader significance of higher bond yields, which could point to either stronger growth or rising inflation -- outcomes that would likely have vastly different ramifications for various asset classes.

If rising bond yields are "a signal of higher inflation in the future, it may be a bad sign for all financial assets," said Aswath Damodaran, a professor at New York University's Stern School of Business. "I am not sure that I'm ready to tag it yet."

If growth slows, climbing bond yields may weigh on equities and leave them vulnerable to shocks, analysts at Goldman Sachs Group Inc. wrote last week while cutting their three-month outlook for stocks to neutral.

In 1994, when the **10**-**year Treasury** yield surged by two percentage points driven by aggressive rate increases from the Fed, the **S&P 500** fell 1.5%. Yet in 2013, when the 10-year yield jumped by more than one percentage point amid anxiety over reduced bond buying from the central bank, U.S. stocks soared.

"U.S. stocks are not cheap," said Russ Koesterich, co-portfolio manager for BlackRock's Global Allocation Fund, who is avoiding yield-sensitive sectors of the market such as utilities stocks, which are known as bond proxies for their relatively high dividends, and leaning toward shares that do better in times of economic growth.

Prices for utilities in the **S&P 500** peaked last summer, though they helped lead the index's gains last week after the Fed signaled a gradual pace to interest-rate increases.

Apple was the most-sold stock by TD Ameritrade clients in 2016, according to data from the retail brokerage, though the iPhone maker remained clients' top holding.

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The New York Times

Strategies
Business Day

Gripes About Obamacare Aside, Health Insurers Are in a Profit Spiral

By JEFF SOMMER
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Correction Appended

Over the last few years, big managed care companies like UnitedHealth Group have contributed to the furor over the fate of the Affordable Care Act by saying that important parts of it are fundamentally flawed.

But Obamacare hasn't been a curse for the managed care companies. Over all, based on their share performance, it has been something of a blessing.

Since March 2010, when the Affordable Care Act was signed into law, the managed care companies within the **Standard & Poor's 500**-**stockindex** — UnitedHealth, Aetna, Anthem, Cigna, Humana and Centene — have risen far more than the overall **stock index**. This is no small matter: The **stock market** soared during that period.

The numbers are astonishing. The Standard & Poor's**stock index** returned 135.6 percent in those seven years through Thursday, a performance that we may not see again in our lifetimes. But the managed care stocks, as a whole, have gained nearly 300 percent including dividends, according to calculations by Bespoke Investment Group.

UnitedHealth, the biggest of the managed care companies, with a market capitalization that is now more than $160 billion, returned 480 percent, dividends included. An investment of $100 in the company's stock when Obamacare was signed into law would be worth more than $580.50 today.

"If Obamacare has been bad for the managed care stocks, why have they performed so well under it?" asked Paul Hickey, a founder of Bespoke Investment Group. "And do they really need to be rescued by Congress?"

The answers are complex but boil down to this: Basically, several analysts on Wall Street and in Washington said, the underlying businesses of the big managed care companies have actually done extremely well under Obamacare. They have run into some problems but are hardly in need of a rescue.

The companies have notched profits — from expansion of Medicaid , for example, and from services aimed at cutting medical costs — while learning how to insulate themselves from parts of the law that have crimped their income. They have diversified, earning money from businesses that include data management, outpatient clinics and surgical services, as well as traditional health insurance.

"The successful managed care companies, and UnitedHealth in particular, have figured out how to prosper in almost any environment — and to insulate themselves from issues that become a problem," said Gary Claxton, director of the health care marketplace project for the Kaiser Family Foundation, a nonprofit dedicated to health care policy. "They are making a lot of money from government programs like Medicaid and Medicare — and they are likely to keep doing so," he said, regardless of what happens in Washington.

UnitedHealth, the industry bellwether, has reduced its exposure to what was its biggest problem in Obamacare: money-losing insurance that it sold in public exchanges to individuals, who often received government subsidies.

Last April, it announced that in the face of mounting losses from individual policies sold in public exchanges under Obamacare, it would radically cut its participation in those markets. It disclosed in its annual report in January that in 2017 the company "will participate in individual public exchanges in three states, a reduction from 34 states in 2016." It also said that it would shed more than $4 billion in revenue from them, in an effort to cut its losses.

With those kinds of problems, you might think that the **stock market** has looked with disfavor at UnitedHealth and its competitors, and that investors have been counting on Congress to repeal Obamacare and replace it within something more palatable for the insurers.

But that assumption, which I made before looking at the performance of the companies' shares, couldn't be further from the truth.

UnitedHealth has bolstered its position, first by abandoning those profit-sapping exchanges wholesale. That move may have troubled the **stock market**, because it may seem to suggest that the company was giving up on what had been an important growth opportunity.

But a second maneuver, an accounting one, helped its standing in **financial markets** immensely, said Sheryl Skolnick, director of United States equity research for Mizuho Securities. In November 2015, UnitedHealth made an adjustment on its balance sheet, setting aside an initial "premium deficiency reserve" of $200 million for expected losses in those marketplaces.

Those losses have cumulatively swelled to more than $1 billion, Ms. Skolnick said, but because they have been segregated in the company's accounting, and because the company has been leaving those markets, investors have been able to easily assess the company's value "entirely separately from the problems it's had with the exchanges," she said. Other managed care companies have made similar provisions.

Wall Street has rewarded companies like UnitedHealth for steadily increasing profits in other businesses, and generally hasn't penalized them much for the public exchange losses, Ms. Skolnick said.

UnitedHealth's share price, in other words, has been relatively unscathed by its problems with Obamacare public exchanges, even as its statements about the unprofitability of the exchanges made headlines and contributed to public perceptions that Obamacare is in deep trouble. (The Congressional Budget Office's share price, in other words, has been relatively unscathed by its problems with Obamacare public exchanges, even as its statements about the unprofitability of the exchanges made headlines and contributed to public perceptions that Obamacare is in deep trouble. (The indicated Monday that some of these fears are overblown: The public exchange markets, it said, "would probably be stable in most areas under either current law or the legislation" to replace Obamacare in the House of Representatives.)

In Ms. Skolnick's view, the Affordable Care Act could indeed use some modifications, but the fundamental problem with the public exchanges is one of "adverse selection," in which relatively sick people have occupied an outsize part of those markets, making it difficult for insurance companies to come up with profitable pricing. But the root cause is that the "mandate," the requirement that everyone buy health insurance, is too weak, she said, not too strong. The House legislation would make matters worse by imposing a surcharge for people who have let their insurance lapse. "I think that's weaker," she said.

There are plenty of good things in Obamacare for these companies. The expansion of Medicaid has been a boon for them, said Lance Wilkes, an analyst with Sanford C. Bernstein. "It's not a high-margin business for the managed care companies, but it's a steady one and it has been a growing one," he said. The companies offer insurance to low-income residents in various states under Medicaid, he said, while Medicare plans for older people have also been a growth area.

Mr. Claxton of the Kaiser Family Foundation said, "As the baby boom population ages, people are leaving their workplace health care plans, which have been steady and profitable for the managed care companies but aren't growing, and going on Medicare in big numbers, and companies like UnitedHealth see this as an opportunity."

Direct government premiums from Medicaid and Medicare amount to 25 percent of UnitedHealth's revenue, and the company is moving rapidly into other areas: In January, it announced the $2.3 billion purchase of Surgical Care Affiliates, an outpatient surgery chain, as part of an aggressive move to provide direct medical services.

Expanding portfolios of businesses and deft moves to stanch losses may be why the managed care companies have, for the most part, been favored by the **stock market**. (The industry has endured some thwarted mergers — between Aetna and Humana , and Anthem and Cigna — and continuing headaches from public exchanges.)

Paul D. Ryan, the speaker of the House of Representatives, has said repeatedly that Obamacare is in a " death spiral ." That's a debatable proposition. But it seems irrefutable that the big managed care stocks are in a different kind of spiral — a profit spiral — that is twirling upward.

Correction: March 20, 2017, Monday

This article has been revised to reflect the following correction: An earlier version of this article misstated, at one point, the surname of a Kaiser Family Foundation director. He is Gary Claxton, not Clarkson.

* Trump Immigration Crackdown Is Great for Private Prison Stocks

* The **Stock Market** Has Gone So High, It's a Problem

* UnitedHealth to Pull Back From Insurance Exchanges, Citing Losses

Minh Uong/The New York Times

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Oil Demand Proves a Slippery Stat

By Georgi Kantchev
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English

Investors fretting about too much oil supply may get some cheer from demand, or at least the statistics that consistently underestimate it.

The International Energy Agency's annual estimates of global crude demand have been revised up for the past seven years by an average of 880,000 barrels a day, according to a Wall Street Journal analysis.

Investors and analysts believe that the IEA will have also underestimated demand this year, suggesting that more oil is being bought than the market currently believes.

"In recent years, we've seen oil demand being constantly revised higher and by the looks of it this year shouldn't be any different," said Rob Thummel, portfolio manager at Tortoise Capital Advisors, which manages $17 billion in energy assets. "This is a clear positive for **oil prices**."

U.S. **oil prices** last week fell 9.1% on data that showed American inventories were still rising.

The history of discrepancies underscores how oil markets often trade on incomplete data.

The demand revisions have amounted, on average, to less than 1% of a giant market in which about 97 million barrels of oil are sold daily.

But the difference, if repeated this year, is important. The oversupply that has pressured **oil prices** for almost three years was estimated at about 1% to 2% of the market in 2016.

To be sure, the IEA may get its prediction right this year, and others release demand predictions that are used by investors. Still, there is little evidence that those other forecasts are more accurate. The U.S. Energy Information Administration's forecasts have underestimated consumption over the past seven years, with the annual figures being revised up by an average of 2.3 million barrels a day, according to an analysis by The Wall Street Journal. A spokesman for the agency said the underestimation is due to lags in historical data and the lack of data from some countries, among other reasons.

The IEA's data, though, is the most closely watched and is often used by oil analysts in their own reports.

The agency estimates global oil demand based on data and statistical models. It then revises the statistics in monthly reports as more data become available. The Journal compared the IEA's predictions for annual demand made in January of each of the past seven years with latest available estimates for those years. Looking at predictions made in March and September over the seven years painted a similar picture of consistent underestimates.

Revisions of oil supply estimates are typically much smaller than for demand -- and are often about correcting overestimates for crude production. The IEA's supply data have been revised down 60,000 barrels a day on average over the past seven years, according to the Journal analysis. That means the oversupply usually ends up being smaller than initially thought, another positive for those wanting higher **oil prices**.

Matt Parry, a senior oil market analyst at the IEA, said demand is harder to estimate than supply.

It involves "billions of consumers world-wide and many millions of companies of all sizes, whereas supply can be estimated from the preannounced expansion plans of a much, much smaller number of companies," he said.

"Our accuracy has improved recently, but there are so many moving parts in the market," he said.

On Friday, oil for April delivery on the New York Mercantile Exchange rose less than 0.1%, to $48.78 a barrel. Brent crude, the global benchmark, also gained less than 0.1%, to $51.76 on ICE Futures Europe.

The IEA has already raised its 2017 demand forecast once this year, by 200,000 barrels a day. But going by past examples -- and with an upturn in global growth -- the number could still be increased substantially, analysts said.

"Continued upgrades to historic demand figures are particularly frustrating," analysts at Swiss bank UBS Group AG wrote in a recent report. The bank estimates that for 31 of the past 35 quarters, IEA data revisions have shown a tighter oil market than it initially estimated.

UBS believes that demand is also harder to pin down because about half of global oil consumption comes from countries outside the Organization for Economic Cooperation and Development, where statistical gathering isn't well developed. The U.S., an OECD member state and the world's biggest crude consumer, produces weekly demand estimates, and they are often later revised.

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U.S. News -- Analysis: Fed Plays Wait-and-See on Growth

By Greg Ip
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The Federal Reserve is a lot less exuberant than **financial markets** about the economic outlook, and the reason seems to be fiscal policy. Investors expect President Donald Trump and Congress to deliver a solid boost to growth. The Fed is much more agnostic. Based on what has come out of Washington lately, that agnosticism seems justified.

On Wednesday, the Fed raised its target range for short-term interest rates by a quarter of a percentage point. Investors hadn't expected the increase until officials signaled it two weeks ago, and many assumed that the Fed had turned more **bullish** on the economy.

It hasn't. The median projection of officials' forecast this year is for 2.1% growth, unchanged from December and right in line with the average for the last eight years. It still expects unemployment to average 4.5% over the next three years, down a little from 4.7% currently, and to increase interest rates two more times this year.

By contrast, stock markets have surged since Mr. Trump was elected president, and confidence among both small and large businesses has soared. Chief executives of the biggest companies expect much higher sales, hiring and capital spending than they did just three months ago. Shares of construction companies, for example, shot up on Mr. Trump's promise of a $1 trillion private-public infrastructure push. Mr. Trump is targeting growth in excess of 3% if all his plans are enacted.

Yes, fiscal policy could affect the outlook, Fed Chairwoman Janet Yellen told reporters on Wednesday. "If we were to see a major shift in [private] spending reflecting those expectations, that could very well affect the outlook. I'm not seeing it at this point."

Mr. Trump's budget this week proposed large increases in spending on defense and homeland security, but also largely offset them with proposed cuts to a broad array of domestic spending programs. If enacted, authorized federal discretionary spending, which excludes entitlements such as Medicare and Social Security, both this fiscal year and next would be $1.07 trillion, unchanged in nominal terms and lower adjusted for inflation. (The levels but not the growth rates would be higher once extra spending on overseas military operations is included.) While Congress is unlikely to agree to all of Mr. Trump's planned cuts, the overall package suggests rumors of the death of austerity have been exaggerated.

Meanwhile, Republicans' planned replacement for Obamacare would cut federal spending on health care by $336 billion more than it cuts taxes over the coming decade, according to the Congressional Budget Office. To satisfy dissident Republican legislators, the plan may have to be reworked to spend even less on health care.

Only once health care is out of the way is Washington likely to turn to tax reform. Gary Cohn, director of Mr. Trump's National Economic Council, recently said that tax reform would be revenue-neutral. That means any cuts to the corporate rate, after positive feedback from economic growth, would have to be made up through higher taxes or less spending elsewhere. A lower corporate rate would justify more optimism on investment and growth, but revenue neutrality makes success more elusive because it means that someone has to pay higher taxes or accept much less federal spending. For example, importing industries are fighting House Republicans' plan to pay for a corporate rate reduction by taxing imports.

And what of Mr. Trump's infrastructure push? "We think the order is health care, tax policy and then infrastructure," Mr. Trump's budget director, Mick Mulvaney, said.

That suggests it could be years before federal money flows into infrastructure. If it ever flows: Congressional Republicans remain deeply skeptical of such spending. Paul Ryan, speaker of the House of Representatives, has suggested that the federal government contribute as little as 2.5% toward a project's cost. If so, the only projects that go forward are those that likely would have anyway, based on private returns.

Even if Mr. Trump fails to deliver on taxes and infrastructure, his business-friendly stance, including rolling back regulation, would likely justify more investment and growth. Repealing Obamacare's taxes on investment income and watering down its means-tested subsidies should at the margin improve incentives to invest and work. Still, the benefits would probably take several years to show up.

To change the central bank's plans, they would have to spur a lot more spending and growth now. And until the Fed sees signs of that happening, it will stick to Plan A.

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The New York Times

BOOK ENTRY
Business/Financial Desk; SECT
Review: In 'Spider Network,' an Intriguing Tale of Complicity

By JONATHAN A. KNEE
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Mention Libor -- an acronym for the London interbank offered rate -- and even bankers' eyes are likely to glaze over.

In "The Spider Network: The Wild Story of a Math Genius, a Gang of Backstabbing Bankers, and One of the Greatest Scams in Financial History," David Enrich of The Wall Street Journal manages to make Libor interesting and demonstrates the continuing relevance of a financial scandal that enveloped many of the world's largest banks.

Created just over 20 years ago by a lobbying group representing the British banking sector, Libor was supposed to reflect the interest rate at which member banks could borrow from one another at any given time. Few knew precisely how the rate was calculated. There was even widespread confusion as to its very definition. Yet despite its murky origins and meaning, Libor became the indispensable global benchmark used to price things like credit card debt, variable rate mortgages, complex derivatives and corporate loans.

It was this combination of vast influence and obscure provenance that made Libor prone to widespread manipulation.

Mr. Enrich effectively uses the unique access he secured to the mildly autistic UBS trader, Tom Hayes, who became the fall guy for the unfolding scandal, to produce a surprisingly human narrative. But as entertaining as the colorful character portraits are, what makes "The Spider Network" truly memorable are the portraits of the various institutions that made the scandal not just possible but inevitable.

At bottom, the Libor scandal was not very complicated at all. Libor was calculated daily based on submissions made by relatively low-level bank employees with modest oversight by the banks, the private association collecting the data and the regulators. The value of banks' trading positions in derivatives and other Libor-influenced securities could be tremendously affected by even relatively small changes in the financial benchmark. The result was a mad scramble by market participants to influence the submissions in the hope of moving Libor in a direction favorable to their holdings.

In an ideal world, major institutions would feel an obligation to contribute to the long-term effective functioning of the **financial markets**. The institutions described in "The Spider Network" cared exclusively about optimizing the current value of their securities portfolio. The impact of these Libor movements on millions of borrowers, much less on public confidence in the integrity of markets, does not seem to have crossed their minds.

"The Spider Network" is at its most compelling when describing the quotidian activities of the "network" of traders and brokers who tirelessly concocted strategies to influence the benchmark rate -- or at least convince an important client that they had. Using not just exhaustive interviews with Mr. Hayes and others, but reams of text messages and transcripts amassed during various investigations and lawsuits, Mr. Enrich reveals a culture in which success is defined by the outcome of the next trade and the only relationships that matter are among the network participants and their enablers higher up.

And it is the behavior of these higher-ups -- all of whom professed shock that there was gambling going on at their casinos once the authorities decided to investigate -- that is the most eye-opening. Mr. Hayes may have been among the most aggressive in attempting to align Libor's direction to his trading strategies, but such practices were prevalent and encouraged in the industry. It seems clear that Mr. Hayes was recruited by every institution from Goldman Sachs to Citigroup, not in spite of his ferocity in manipulating Libor, but because of it.

Mr. Enrich's intense sympathy for Mr. Hayes -- his 14-year sentence is wildly disproportionate to his responsibility for the system's corruption -- has positive and negative consequences for the book.

On the positive side, Mr. Enrich is committed to revealing the perfidy and complicity of not just institutions and superiors but of the regulators who, for too long, turned a blind eye. Britain's authorities come in for particularly savage, but justified, treatment. In America, the former Goldman banker Gary Gensler, who during the Clinton administration had worked tirelessly to defang the Commodity Futures Trading Commission, would end up running the commission as the scandal unfolded during President Barack Obama's term. Mr. Enrich takes particular pleasure in pointing out the irony that Mr. Gensler falsely took credit for initiating the Libor investigation (it had been underway for a year before his installation at the agency) given his historic role in undermining the C.F.T.C.'s authority.

On the negative side, Mr. Enrich sometimes may go further than necessary to make the point that no one has clean hands. He tars even honorable government lawyers who played important roles in bringing the scandal to light for securing a ''fat payday'' in private practice later. More important, the narrative slows considerably after Mr. Hayes is fired and the focus is on his personal life and trial preparation rather than the insidious web of financial manipulation in which he had thrived.

These are minor considerations in assessing the contribution Mr. Enrich has made in providing such a vivid depiction of the ethos of the core financial institutions upon which the global economy depends. The new administration has articulated a commitment to eliminating unduly burdensome regulatory requirements on the financial services sector. Hopefully ''The Spider Network'' will be required reading for those designing the new system -- to gain a deeper understanding of both the cultures of those being regulated and the downside of relying on the invisible hand of market forces to protect the public.

Jonathan A. Knee is professor of professional practice at Columbia Business School and a senior adviser at Evercore Partners. His latest book is ''Class Clowns: How the Smartest Investors Lost Billions in Education.''

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World News: Markets Bet on Growth as Rates Rise

By Harriet Torry, Jason Douglas and Shen Hong
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Central banks around the world are signaling a move away from ultra-easy money, but financial markets are responding as if the low-interest-rate party isn't stopping.

A day after the Federal Reserve raised short-term interest rates a quarter percentage point, the People's Bank of China raised a suite of key short-term interest rates and the Bank of England signaled that an increase in rates may not be far off. Turkey also raised a lending rate, while central banks in Japan, Norway and Indonesia held rates steady.

The events marked a striking turn from the low-interest-rate policies many central banks ushered in as recently as last year to spur markets and slow-growing economies. Low rates make it cheaper for businesses and individuals to borrow, spend and invest and tend to push up the value of asset prices like stocks.

Markets sometimes shudder at the prospect of higher borrowing costs, but that isn't happening now. U.K. stocks ended at a record Thursday, and European and Asian indexes rallied.

Following Wednesday's Fed meeting, U.S. stocks climbed, benchmark bond yields sank and the dollar slid. Global stock markets as a whole have rallied over the past half year. The Dow Jones Global Index, which tracks 47 developed and emerging countries, has gained 9.7% since mid-September.

The reaction can be seen as a sign of growing confidence that global growth is picking up, lessening the need for central banks to prop up spending and investing with low rates.

The Bank of England held its benchmark interest rate steady at 0.25% Thursday.

Minutes of deliberations revealed signs of growing unease about the BOE's easy-money stance. One rate-setter on the nine-member Monetary Policy Committee voted for an immediate increase in the BOE's benchmark rate to 0.5%.

China raised several short-term interest rates for the second time this year, just hours after the Federal Reserve's latest monetary tightening.

The nearly simultaneous rate increase showed Beijing's desire to prevent capital from flowing outside the country toward places like the U.S. Higher rates are meant to tempt investors to keep deposits parked in domestic banks. Beijing is also trying to cool booming domestic markets.

Investors liken cheap money to a punchbowl at a cocktail party: Guests help themselves to as little or as much as they like, until someone takes the punchbowl away and ends the party.

The Fed started draining its punchbowl in December 2015 by raising its benchmark federal-funds off zero for the first time in seven years. It raised rates by a quarter-percentage point in 2016 and a third time this week.

Interest rates remain low by historical standards, but this week's rate increase moved the U.S. central bank into a new, more aggressive phase of withdrawing easy money from the financial system as the economy improves.

Central banks in other major economies are lagging behind but still seem to be moving in the same direction as the Fed.

"Places like the euro area are where the U.S. was maybe three years ago, so moving in the right direction, things are getting better, but still a ways to go," said Goldman Sachs economist Jan Hatzius.

European Central Bank President Mario Draghi last week left the central bank's policies in place and indicated that the ECB probably won't need to enact fresh stimulus.

Developments in the U.S. show how exuberant markets are offsetting central banks' shift away from easy money.

Even though the Fed raised rates Wednesday, U.S. financial conditions eased by the equivalent of a quarter-percentage-point rate cut, according to a Goldman Sachs index that measures the cumulative effect of stock, bond and currency movements on overall financial conditions.

Analysts attributed the U.S. reaction to the fact that the Fed stuck with its projection for nudging rates higher two more times in 2017. The Fed still sees inflation rising gradually back toward its 2% target.

"Reflation is good inflation, it's a proxy for economic growth and it's what the global economy has been waiting for for over a decade," said Douglas Cote, chief market strategist at Voya Investment Management.

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Streetwise: Trump Still Must Find Keys to Growth

By James Mackintosh
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Many on the left have accused President Donald Trump of pulling a con trick on voters. The question for investors is whether he can pull a confidence trick on the economy -- and goose growth as a result.

There is no doubt that Mr. Trump's election has stirred "animal spirits" in the U.S., at a time when signs of recovery in the world economy have become increasingly obvious. Measures of American consumer and small-business optimism have soared to multidecade or record highs, while confidence among chief executives and chief financial officers has jumped.

So far economists, including those at the Federal Reserve, seem less impressed with the jump in confidence than is the **stock market**.

"It's uncertain just how much sentiment actually impacts spending decisions, and I won't say at this point that I've seen hard evidence of any change in spending decisions based on expectations about the future," Fed Chairwoman Janet Yellen said on Wednesday after the central bank announced it would raise interest rates.

This is tricky for **bullish** investors. As hopes for early tax cuts and infrastructure spending from the new administration have faded, expectations of a resurgence of the economy have taken its place as a justification for higher stocks for many investors. The so-called soft data from surveys provide the support: Confident consumers spend, confident small businesses hire and confident CEOs invest. Or at least, so investors hope.

The problem is that the evidence so far is scant, as hard data haven't backed up the surveys. The hard data don't show the economy is in trouble, just that it is still stuck in a slow-growth rut.

Even as Fed policy makers were agreeingto Wednesday's 0.25-percentage-point rate increase, data on retail sales and consumer prices prompted the Atlanta Fed's GDPNow model to cut its prediction for first-quarter economic growth to below 1%. That compares with above 3% at the start of February, boosted by the positive manufacturing survey from the Institute for Supply Management.

Pat Higgins, creator of the GDPNow model, says the reliability of Atlanta's "nowcast" of GDP improves as soft survey data are replaced with harder data on what has actually been going on, although at this point in the quarter it still has an average error of about 0.8 percentage point up or down.

"The model gets more accurate as it goes on," he said.

The exact opposite story is being told by the New York Fed's "nowcast," which is similar to that of Now-Casting Economics Ltd. They predict growth above 3% this quarter, with their models putting a higher weight on surveys and other measures that aren't part of the official GDP calculation.

Investors shouldn't obsess too much about first-quarter GDP -- it is almost history, after all. But economists have a cautious outlook, too: The average prediction for U.S. growth for the full year from Consensus Economics has dropped slightly to 2.2%, only a little above this time last year and below the predictions made in March 2014 and 2015. Important measures such as bank lending have also been weak.

Economic forecasting tends to miss big turning points, so those who think that the economy is shifting and exuberant consumers and businesses will lead the way can reasonably hope for faster growth to appear at some point. After all, Mr. Trump is only just over halfway through his first hundred days, and economies move slowly.

The danger is that consumer and business confidence is dependent on Mr. Trump following through with tax cuts, spending increases and elimination of red tape. With health-care plans already bogged down in internecine Republican warfare in Congress and Democrats comprehensively alienated by Mr. Trump's rhetoric and early executive orders, that follow-through seems increasingly likely to be smaller and come later than first thought.

If the confidence trick works, that won't matter much. Surveys show more spending and investment are planned. If that happens, it should beget more spending and investment, and the economy would take off, at least in the short term. Confidence alone can sometimes perform wonders.

There is no way to know for sure, and political biases are hard to overcome when making forecasts. But at a minimum, investors should be worrying about the lack of hard evidence to support the idea that faster growth is on the way.

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The New York Times

Business/Financial Desk; SECTB
Markets Are Little Changed, as Bond Prices Return Some Gains

By THE ASSOCIATED PRESS
694 words
17 March 2017
The New York Times
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Late Edition - Final
7
English

Stocks held steady on Thursday, and **bond prices** gave back some of their big gains from a rally after the Federal Reserve increased a benchmark interest rate on Wednesday.

The **Standard & Poor's 500**-**stockindex** slipped 3.88 points, or 0.2 percent, to close at 2,381.38. The **Dow Jonesindustrial average** fell 15.55 points, or 0.1 percent, to 20,934.55. The **Nasdaq composite** index rose 0.71 points, or 0.01 percent, to 5,900.76.

Yields increased as **bond prices** fell. The yield on the **10**-**year Treasury** note rose to 2.53 percent from 2.50 percent late Wednesday. It had plunged 0.11 percentage points late on Tuesday, after the Fed doused speculation that would become more aggressive in raising rates.

The Fed hopes to lift rates gradually from record lows, where they stayed for seven years after the 2008 financial crisis. With economic data and inflation picking up recently, some investors began to consider the possibility that the Fed would try to raise rates four times this year. But the Fed held to its forecast for three.

That gradual pace is one reason investors remain enthusiastic about stocks despite rising rates, which historically have spooked stock owners because they can slow economic growth and corporate profits. With rates starting from such a low base and the pace set to be so slow, it may not be fair to call these Fed moves ''hiking'' or ''tightening,'' said Richard Taylor, a fixed-income client portfolio manager at American Century.

''We are in the beginning stages of a re-normalization of interest rates,'' Mr. Taylor said.

The slight rise in yields on Thursday dulled the appeal of dividend-paying stocks. Utility stocks in the **S**.**&P**. **500 index** lost 1.1 percent, the biggest loss among the 11 sectors that make up the index. Health care stocks were also weaker than the rest of the index, after a strong start to the year.

Technology stocks did better, led by Oracle, which reported stronger revenue and earnings for its latest quarter than analysts had expected. Oracle, a computer technology company, jumped $2.68, or 6.2 percent, to close at $45.73 for the biggest gain in the **S**.**&P**. **500**.

GoPro, which makes wearable cameras, surged after it announced a cost-cutting plan and said would stick to its forecast for 2017 profits. Its stock rose $1.16, or 15.8 percent, to $8.51.

Stock markets across the Atlantic were also strong, with the CAC 40 in France and the DAX in Germany up 0.6 percent. The FTSE 100 in Britain rose 0.6 percent and closed at a record high.

Investors had been nervous about the Dutch parliamentary election on Wednesday because candidates ran on pledges to get the Netherlands out of the European Union and to close borders to migrants from Muslim nations. After the British vote last summer to leave the European Union, investors worried that a wave of nationalism across Europe could eventually break up the European Union.

The party led by Dutch Prime Minister Mark Rutte won over Geert Wilders, who campaigned against the European Union.

In Asia, the Nikkei 225 index in Tokyo rose 0.1 percent, the Hang Seng in Hong Kong added 2.1 percent, and the Kospi in Seoul rose 0.8 percent.

Benchmark crude resumed its slide, slipping 11 cents to settle at $48.75 a barrel. It was the eighth drop for oil in the last nine days. Brent crude, which is used to price international oils, fell 7 cents to $51.74 a barrel.

Gold rose $26.40 to settle at $1,226.50 per ounce, silver rose 41 cents to $17.33 per ounce and copper rose 2 cents to $2.68 per pound.

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

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The New York Times

Business/Financial Desk; SECT
Morning Agenda: The Fed Raises Rates. Is More to Come?

By AMIE TSANG
596 words
17 March 2017
The New York Times
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The New York Times on the Web
English

The Federal Reserve raised its benchmark interest rate on Wednesday, inching toward the end of the economic stimulus campaign it began in the depths of the financial crisis.

So everything is great with the economy, right? Not so fast.

Janet L. Yellen, the Fed chairwoman, wants to make one thing clear -- the Fed does not share the optimism of **stock market** investors and business executives.

To be sure, the Fed is confident about the economy. But growth is still slow, and the central bank wants to have time to adjust its plans should President Trump and Congress cut taxes or spend massively on infrastructure.

If these policies materialize, the Fed could accelerate the pace of rate increases. If Congress gets bogged down, it can hold off.

Yahoo Hack

Yahoo has given scant details about the data stolen from 500 million of its accounts in 2014. The Justice Department, though, has taken action, charging two Russian intelligence officers and two other men with directing the scheme.

The Silicon Valley company disclosed the data theft in September. But the F.B.I. said its investigators had been looking into the case for two years. So why weren't Yahoo users informed about the breach during that time?

An internal investigation by the company's board found that some senior executives and information security personnel were aware of the breach shortly after it occurred, but ''failed to properly comprehend or investigate'' the situation.

The incident has already sliced $350 million off the value of Yahoo in its deal to be bought by Verizon.

More bad news may be coming: The F.B.I. is still investigating a breach of one billion Yahoo accounts that occurred in 2013 and was disclosed just three months ago.

William T. Walters Trial Begins

A high-rolling Las Vegas sports gambler, William T. Walters, went on trial on Wednesday in the most prominent insider trading case in Manhattan since the former McKinsey managing director Rajat Gupta was convicted of tipping off a hedge fund manager.

Prosecutors contend that Mr. Walters realized profits and avoided losses of more than $40 million from inside information he received on Dean Foods.

The source of those tips was Thomas C. Davis, the chairman of Dean Foods, who has admitted his participation in the scheme and become a witness for the government, the prosecutors said.

Mr. Walters' lawyers have maintained that his bets were the result of the acuity he had honed over the years as a sports bettor.

There is even a celebrity angle -- will the golfer Phil Mickelson testify? The federal authorities say he is one of the people on the receiving end of a stock tip that prosecutors accuse Mr. Walters of getting illegally.

Trading Firm Makes Bid for Rival

Virtu Financial has made a bid for KCG Holdings that would value the company at as much as $1.33 billion, The Wall Street Journal reports.

A deal would aim to help the two companies shore up business at a time when securities trading firms have been struggling to maintain revenue growth with low market **volatility**.

These firms buy and sell in large volumes to facilitate trading and earn a small amount on each transaction. But low **volatility** has squeezed profits.

Virtu, whose founder, Vincent Viola, recently withdrew himself as President Trump's nominee for Army secretary, is seeking to expand its client business. KCG said its board was evaluating the offer.

Follow Amie Tsang on Twitter @amietsang .

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THE WALL STREET JOURNAL.
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Equities: Stocks Pulled Lower by Health Care, Energy Shares

By Akane Otani and Riva Gold
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17 March 2017
The Wall Street Journal
J
B11
English

The **S&P 500** retreated, weighed down by declines in shares of health-care and energy companies.

Major indexes began the day with gains but were pressured later in the session by a resumption of **oil prices**' downward slide.

Some investors said it wasn't surprising to see a pause, with stocks trading near all-time highs and at higher-than-average valuations.

"The markets have priced in a lot of very good news -- better economic growth, a big fiscal package, deregulation and lower taxes," said Michael Arone, chief investment strategist at State Street Global Advisors. "My intuition tells me not all of those things are going to go as swimmingly as the market is anticipating and, as a result, you'll see some **volatility**."

The **Dow Jones Industrial Average** declined 15.55 points, or 0.1%, to 20934.55. The **S&P 500** edged down 3.88 points, or 0.2%, to 2381.38, while the **Nasdaq Composite** added just 0.71 point, or less than 0.1%, to 5900.76.

Shares of health-care companies were among the worst performers in the **S&P 500**. Thursday morning, the House Republican health plan, the main element in the effort by Republicans to replace most of the Affordable Care Act, advanced in Congress by a narrow committee vote.

"There's a fair amount of uncertainty about how the Obamacare redo will play out . . . and the market really hates uncertainty," said Timothy Anderson, managing director at brokerage firm MND Partners.

Health-care stocks in the **S&P 500**, last year's worst-performing sector in the index, fell 0.9%. The group remains up 9.7% in 2017. Biogen shares fell $13.68, or 4.7%, to $278.96 Thursday.

Energy stocks in the **S&P 500** slid 0.6%, following **oil prices** lower.

U.S.-traded crude oil for April delivery lost 0.2% to $48.75 a barrel, resuming a selloff that had sent it below $50 a barrel last week, as investors weighed concerns that production cuts wouldn't be enough to drain a global glut.

The yield on the **10**-**year Treasury** note rose to 2.526%, from 2.500% Wednesday. Yields rise as **bond prices** fall.

The Stoxx Europe 600 added 0.7% following a solid election victory for the Dutch political establishment.

Japan's Nikkei Stock Average gained 0.1% Thursday after the Bank of Japan held its own accommodative policies steady. Early Friday, the Nikkei was down 0.3%. The Shanghai Composite Index added 0.8% Thursday to reach its highest close this year after China raised a suite of key short-term interest rates for the second time since late January. The average was flat early Friday.

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THE WALL STREET JOURNAL.
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U.S. News: Economic Boost Seen Fading in Long Term

By Josh Zumbrun
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17 March 2017
The Wall Street Journal
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A2
English

Since the election of President Donald Trump, stocks have soared, bond yields have risen, and economists have raised their forecasts for economic growth and inflation.

Here's the catch: Most forecasters in The Wall Street Journal's monthly survey of economists believe the boost will be temporary and not a permanent reset of the U.S. economy's ability to grow.

"We have finally hit a sweet spot where economic gains are self-sustaining," said Diane Swonk of DS Economics, but when it comes to the economy's longer-term prospects, "potential growth is slowing."

In the early months of Mr. Trump's presidency, the forecasters in the survey have expressed optimism about the economy's prospects. Mr. Trump's goals of reducing regulation, overhauling the corporate tax code and implementing a major infrastructure package are policies many economists have long favored.

On average, forecasters expect 2.4% growth in 2017, compared with 2.2% before the election. Their increase for 2018 was more significant. They now expect 2.5% growth that year, compared with 2% in pre-election forecasts.

Those improved prospects help explain the increase in the **stock market** and in consumer confidence in recent months.

But in the long run? Economists expect growth to slow back down to 2.1% in 2019 and beyond, precisely the same as before the election.

The discrepancy arises from the different factors that can drive growth in the short term versus the long term. A temporary infrastructure push could pull hundreds of thousands into the workforce. A boost in the deficit can give the economy a stimulative jolt.

In the longer term, however, economic growth boils down to two factors: growth in the working population and the productivity of those workers.

There are certainly factors that many economists believe would boost long-run growth: "Meaningful tax reform would raise my long-run GDP forecast," said Robert Fry, former senior economist at DuPont Co. In theory, simplifying regulations and well-targeted infrastructure could allow firms to operate more efficiently, too.

Policies such as these, however, would ultimately require action from Congress and could be undermined by tax and regulatory policies of state and local governments.

Some economists also cited risks that restricted immigration could reduce the working population, or that trade disputes could harm the U.S. economy's global standing.

The survey of 61 academic, financial and business economists was conducted from March 10 to March 13.

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The New York Times

Business Day
The Fed Acts. Workers in Mexico and Merchants in Malaysia Suffer.

By PETER S. GOODMAN, KEITH BRADSHER and NEIL GOUGH
2,557 words
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NYTFEED
English

CIUDAD JUÁREZ, Mexico — Francisca Hervis Reyes and her family have persevered on the border, working in factories more than 1,300 miles from their hometown. They remained even as deadly warfare between drug cartels turned this city into one of the most dangerous on the planet.

But they may not endure the changing predilections of the Federal Reserve.

Ms. Reyes is paid in Mexican pesos, a currency that has been losing value as the Fed, the central bank of the United States, has signaled plans to raise interest rates this year. In the parched terrain just south of the United States border, the prices of food and other necessities follow the dollar, whose value has been climbing. It is as if the Fed has slashed her pay.

Like millions of other people from Southeast Asia to Africa to Latin America, Ms. Reyes and her family are absorbing the consequences of a major shift playing out in the global economy.

As the Fed lifted rates on Wednesday, it added momentum to a steady stream of money that has been abandoning emerging markets and flowing toward American shores. With further Fed increases expected this year, developing countries are bracing for additional impacts: more investment departing, more currencies falling, more economies weakening.

By mandate, the Fed is answerable to the people of the United States.

When times are lean and businesses are reluctant to hire, the Fed makes money more available by nudging down rates. When times are good and concern builds about elevated prices, it cools things off by lifting rates and tightening credit.

Yet in reality, the Fed is the central banker to the world.

The dollar is the money used most widely as the repository of savings and as the currency for trade. When the Fed lowers rates, it makes the dollar less attractive, encouraging investors to seek rewards elsewhere. When the Fed lifts rates, investors switch gears, yanking capital and selling off other currencies.

Across China, hundreds of millions of people who have plowed their savings into real estate are vulnerable if too much money washes out at once and housing prices drop. In Turkey, shopkeepers who have withstood an attempted military coup, a subsequent crackdown and relentless terrorist attacks now grapple with the plunge of the Turkish lira, which has lifted the price of imported wares.

In Malaysia, businesses struggle with higher costs for items priced in dollars as the local currency falls. In Mexico, families are buffeted by a **volatile** currency that was already flagging on threats from President Trump to tax goods coming over the border.

"Every time the peso goes down, we can afford less and less," Ms. Reyes said on a recent evening, as pale desert light gave way to chilly darkness. "We're thinking about going back to Veracruz. People are leaving the factories and going back to their towns."

The Fed forces can be traumatic, especially in less affluent places.

As the financial crisis unfolded in 2008, the central bank took extraordinary measures to keep credit flowing. The result was a surge of investment into emerging markets.

More than $259 billion poured into developing countries the next year, according to the Institute of International Finance, a trade association. From 2010 to 2015, the annual capital flows to those places averaged $328 billion.

In spring 2013, the Fed surprised markets with plans to slow its stimulus efforts. Investors then stampeded out of emerging countries, sending currencies plunging in Brazil, India, Indonesia, South Africa and Turkey. The episode became known as "the taper tantrum."

"The effect of interest rate increases on emerging countries is surprisingly strong," said Gary Clyde Hufbauer, an international trade expert at the Peterson Institute for International Economics. "It's a big thing."

Most economists assume the rate increases expected this year will play out far less dramatically. The Fed has telegraphed its plans, giving investors time to prepare. Many emerging countries have amassed larger reserves of dollars, giving them ammunition against a drop in their currencies.

Still, some countries are already showing strains.

Turkey's currency has dropped about 25 percent against the dollar since May, and its government is operating with relatively meager reserves. The Mexican peso has been falling as Mr. Trump threatens to renegotiate the North American Free Trade Agreement. China swiftly reacted to the Fed's action with its own interest-rate increase on Thursday.

Within the investing world, the peso functions as a proxy for all developing countries — the thing to bet against when sentiments go negative. "It's kind of the first port of call for anyone who thinks something bad is going to happen to emerging markets," said Mark Weisbrot, a director of the Center for Economic and Policy Research in Washington. "Mexico is vulnerable."

Barricading the Exits

Chinese leaders have long nursed fears about an uncontrolled exodus of cash.

A currency plunge would increase prices for Chinese consumers, generating public anger. It could pop the real estate bubbles that have developed in many Chinese cities. That would stick China's banks with billions in losses while eliminating wealth for masses of people who have come to see real estate as their ticket to enrichment.

Allen Zhang, an electrician who works at a coal mine in the mountains of central China, lives in a modest house on the edge of Jincheng, a gritty city whose population has roughly quadrupled over the last quarter-century, to about 500,000.

Mr. Zhang has sought to supplement his $290-a-month pay by satisfying new demand for housing. He has tapped into his savings and used his handyman skills to add six rooms to his family home, renting the new quarters out to factory workers.

A buyer recently offered $350,000 for the house — a sum equivalent to what Mr. Zhang would earn in the mines over a century. He turned it down.

"I want more," he said.

These are the expectations confronting Chinese officials as the Fed makes it more difficult to keep money inside the country.

During the 1990s, China ignored lectures from Washington on the merits of opening up capital markets. When the Asian financial crisis arrived in the late 1990s and investors pulled money out of the region, many economies were leveled. China suffered little, claiming vindication.

In the face of the Fed, China retains formidable powers to support the value of its currency. It is sitting on some $3 trillion in foreign exchange reserves, money it can use to buy its currency in world markets.

But supporting China's currency, the renminbi, entails tightly controlling who can take money out of the country, an approach that stifles business. In November, the government decreed that overseas transfers of $5 million or more required vetting by regulators.

“Money in China cannot get out without going through a lot of hoops,” said Zhu Ning, an economist at Tsinghua University.

For Vincent Lo, a billionaire real estate developer, such hoops amount to an operational problem.

Mr. Lo has long raised financing for projects in China by selling bonds in Hong Kong and Singapore. Before new controls, his companies had over $2 billion worth of renminbi sitting in bank accounts in mainland China — more than enough to pay his debts coming due outside the mainland.

But once China began imposing more limits on the movement of money, his cash and his debts were on different sides of the divide.

Mr. Lo has raised $500 million in recent weeks by selling dollar-denominated bonds in Singapore.

“I don’t want to get hit with not having the foreign currency to pay,” he said. “I might just get a couple hundred million more.”

What Could Go Wrong

A year ago, the lights were burning brightly for Vivy Yusof, a prominent Malaysian entrepreneur. So brightly that, on an episode of her reality show, she joked, “I’m Kim Kardashian.”

Ms. Yusof is at once a symbol of what has gone economically right in Malaysia and, with the Fed now raising rates, how much could go wrong.

She is part of a group of tech-savvy business leaders who have emerged as Malaysia tries to evolve beyond its traditional dependence on selling commodities like palm oil and petroleum.

Economic growth has been flagging, a reality playing out across Southeast Asia as the region adjusts to China’s slowdown. China is not buying commodities like it used to.

Malaysia faces potential political instability, as Prime Minister Najib Razak confronts accusations that people close to him harvested $1 billion from a state investment fund he oversaw. He denies wrongdoing.

Even before the Fed’s move, global investors were fleeing. Foreigners once owned more than half of Malaysia’s local bonds, but have sold off 17 percent of their holdings since August. Their nervousness grew in November as Malaysia imposed controls on the movement of money.

Malaysia’s currency, the ringgit, has lost 8 percent against the dollar in the last year. For Malaysia’s consumers — and for companies that serve them — imports are getting more expensive.

Ms. Yusof sells hijabs and other clothing, catering to cosmopolitan Muslims with a taste for distinctive patterns. Some of her garments are made in China. When the dollar rises, her profit margins are squeezed. And though online sales are brisk, business at her three mall stores has begun to slow.

“We used to do a lot better,” she said.

Southeast Asia’s leading budget airline, AirAsia, based in Malaysia, is preparing for worse. Its biggest costs are in dollars — fuel and jet leases. Yet most revenue is in local currencies, meaning that the airline is taking in less just as it must spend more.

AirAsia has increased its hedging — basically, insurance against whipsawing markets — to three-quarters of its dollar-based fuel costs, from about half. It hopes to raise $1 billion and reduce debt by selling an airline leasing business.

AirAsia’s founder and chief executive, Tony Fernandes, has been lobbying the Malaysian government to cut the fees it charges for airport slots. “I’m going around seeing varying cabinet ministers saying, ‘You’ve got to get your costs down,’” he said.

Across Asia, in a trendy Istanbul neighborhood along the Bosporus, shopkeepers complain that their sales have been savaged by the plunge in the Turkish lira, which has lifted their prices for imported sporting goods, luggage and clothing.

The chaos of a recent spate of terrorist attacks seems increasingly a memory, as college students have returned to the neighborhood of Kadikoy. But foot traffic is having little impact on the till.

“There is no decline in number of customers,” said Serdar Celik, who runs a luggage store that specializes in foreign brands. “But sales fell by 25 percent compared to last year. Prices rose by 20 percent for almost everything in the last month.”

Hunkering Down

In Mexico, Francisca Hervis Reyes has no way to cut her own costs, beyond putting less food on the table.

Born in southern Mexico, where her parents were farmers, she headed north nearly three decades ago, to the Mexican side of the Rio Grande, in a reach for upward mobility. The borderlands were buzzing with factories known as maquiladoras — plants that assemble components for American manufacturing operations. Soon, Nafta would fertilize more.

Ms. Reyes, 47, began making upholstery for car seats. Her wages purchased fresh fruit and meat. She hired a nanny to look after her three daughters.

These days, she makes auto parts that go into transmissions, earning 162 pesos per day, or about $8.40. Her husband earns 149 pesos per day — about $7.75 — making fuses for electrical boxes.

But as the peso has surrendered roughly one-fourth of its value over the last five years, their living standard has deteriorated.

Throughout Mexico, the weak peso has been lifting prices for everything from cars to cooking gas to tortillas. As of February, prices were rising at an annualized pace of nearly 5 percent, Mexico’s highest rate of inflation in seven years.

Mexico’s central bank has been steadily lifting rates to protect its currency in the face of a possible trade war with the United States. With the Fed adding pressure, many analysts expect Mexico’s central bank to deliver a fresh rate increase this month.

Chicken, beef, milk and vegetables have all risen in price, with many of these items imported from the United States. Ms. Reyes’s family subsists mainly on beans and pasta.

She pointed toward a bodega across a patch of gravel from her house. “Eggs are twice the price they were six months ago,” she said. “We’ve been buying less.”

She used to send money back to her family in Veracruz, where one of her sisters is blind. Not anymore.

Inside the concrete-block home she shares with her husband, their three daughters and three grandsons, the ceiling is stained from leaks. The walls are crumbling. Two windows are boarded up and held together by masking tape, having been damaged by a rock fight between two gangs.

As the family prepared to share a lone queen-size bed, positioning their bodies sideways to maximize space, they had no heat to cut the 44-degree chill.

“We use blankets,” Ms. Reyes said, “and what love we have.”

Follow @petersgoodman, @keithbradsher and @n_gough on Twitter.Peter S. Goodman reported from Ciudad Juárez, Keith Bradsher from Beijing and Neil Gough from Kuala Lumpur, Malaysia. Safak Timur contributed reporting from Istanbul.

* Fed Raises Interest Rates for Third Time Since Financial Crisis

* Yellen’s Message: My Work Here Is (Mostly) Done

* When the Fed Raises Rates, Credit Card Holders Feel It First

* Fed’s Challenge, After Raising Rates, May Be Existential

Francisca Hervis Reyes with her husband and grandchildren in her home in Ciudad Juárez, Mexico. “Every time the peso goes down, we can afford less and less,” Ms. Reyes said. | Ivan Pierre Aguirre for The New York Times | Allen Zhang, an electrician at a coal mine in China, has been offered $350,000 for his family home — an amount he turned down even though it was equivalent to what he would earn in the mines over a century, because he wanted more. But the Federal Reserve's actions could put pressure on China's frothy housing market. | Gilles Sabrie for The New York Times | Vivy Yusof, a prominent Malaysian entrepreneur, at one of her retail outlets in Kuala Lumpur. A rising dollar squeezes her profit margins, and business at her three mall stores has begun to slow. "We used to do a lot better," she said. | Sanjit Das for The New York Times | Clockwise from top left, Ms. Reyes in her room in Ciudad Juárez, where her family shares a lone bed, sleeping sideways to maximize space; her husband, Jose Armando Mendez, in their backyard; Ms. Reyes cleaning dishes, surrounded by her grandchildren; and factory workers producing mannequins at a manufacturing plant. | Ivan Pierre Aguirre for The New York Times | A bridge over the border between El Paso and Ciudad Juárez. Mexico's central bank has been lifting rates to protect its currency in the face of a possible trade war with the United States. | Ivan Pierre Aguirre for The New York Times

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THE WALL STREET JOURNAL.
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Heard on the Street
Fed, Investors on the Same Page for Now

By Justin Lahart
277 words
16 March 2017
The Wall Street Journal
J
B12
English

[Financial Analysis and Commentary]

The Federal Reserve and investors are in broad agreement over where interest rates are heading. Their views on the economy are another matter.

The Fed's rate-setting committee on Wednesday raised its target range on overnight rates by one-quarter of a percentage point, and released projections indicating the central bank will raise rates twice more this year. Interest-rate futures show investors' rate expectations match the Fed's.

Furthermore, a tweak to the Fed's description of its inflation goal in its policy statement suggested a willingness to let inflation temporarily rise above its 2% target. With the risk of the Fed slamming the brakes on the economy seemingly lower, investors sent stocks up and Treasury yields down.

While the central bank and investors agree on rates, they differ on the economic outlook. The bank's median forecast for growth this year was basically unchanged from December, with fourth-quarter gross domestic product up 2.1%, inflation at 2% under the Fed's preferred measure and unemployment down to 4.5%.

Stock-market investors, judging by this year's rally, see the economy growing more rapidly than the Fed does, which could push up growth and inflation and push down unemployment more than the central bank believes.

If investors are right, the Fed will need to choose between an uncomfortable increase in inflation and raising rates further. If investors are wrong, they have pushed the **stock market** too high. Either way, the friendly relationship between the Fed and investors might not last.

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Fed Raises Rates, Signals Gradual Increases Ahead

By Nick Timiraos and Kate Davidson
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16 March 2017
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J
A1
English

WASHINGTON -- The Federal Reserve said Wednesday it would raise short-term interest rates and keep lifting them this year, moving the central bank into a new, more aggressive phase of draining easy money from the financial system as the economy improves.

Officials said they would raise their benchmark federal-funds rate by a quarter percentage point to a range between 0.75% and 1%, and penciled in two more increases this year.

"The simple message is the economy's doing well," said Fed Chairwoman Janet Yellen in a news conference following the Fed's two-day policy meeting. "We have confidence in the robustness of the economy and its resilience to shocks."

Wednesday's policy statement and projections were perhaps less aggressive than markets had anticipated after Fed officials made clear in recent weeks they might raise rates soon.

Ms. Yellen was careful to note that the Fed hadn't significantly changed its forecasts for economic growth, unemployment or inflation, but it expected continued improvement.

Another reason for the decision: The Fed, in its policy statement released after the meeting, said inflation in recent quarters was "moving close" to its 2% target after undershooting that level for years.

The bank also said the target remains a "symmetric" goal, meaning that, though the Fed doesn't want inflation to run above or below that mark, it expects it will happen at times. "It's a reminder [that] 2% is not a ceiling on inflation. It's a target," Ms. Yellen said.

Officials' median expectation for the fed-funds rate showed few changes from projections released in December. In addition to three quarter-point increases this year, including the one announcedWednesday, the forecasts implied three more moves next year.

At the same time, raising rates without accelerating its projected path for rates shows the Fed "taking advantage of favorable **financial market** conditions as opposed to an opening step to a faster pace of rate increases," said Michael Gapen, chief U.S. economist at Barclays.

Markets welcomed the news, which sent stocks and **bond prices** higher. The **Dow Jones Industrial Average** climbed 112.73 points, or 0.5%, to 20,950.10. The Fed's cautious language in announcing the rate increase helped send the yield on the benchmark 10-year U.S. Treasury note to its largest one-day drop since June, falling to 2.500% from 2.595% Tuesday.

The new stage of monetary policy is being driven by a central bank now more focused on the possibility that the economy could outperform forecasts -- a shift from recent years, when the Fed's desire to raise rates was repeatedly thwarted by shocks, forcing the bank to point more often to risks that the economy might underperform.

The Fed's policy committee voted 9-1 to raise rates. Minneapolis Fed President Neel Kashkari dissented because he wanted to hold rates steady, the statement said.

The central bank had stood pat since December, when it raised rates by a quarter point -- just the second increase since June 2006. The Fed kept rates near zero from the end of 2008 through most of 2015, before lifting the benchmark rate once in late 2015 and in late 2016.

Many investors and analysts hadn't expected the Fed to move again so soon, but a drumbeat of commentary by officials in recent weeks signaled they were seriously considering an increase this month.

The new phase for the Fed could present new challenges, including when to start shrinking its large portfolio of securities, something Ms. Yellen said was discussed at the meeting.

The Fed boosted its portfolio, or balance sheet, after the 2008 financial crisis with asset purchases aimed at stimulating the economy by lowering long-term rates. The central bank maintains the portfolio's size -- now $4.5 trillion -- by reinvesting the proceeds of maturing Treasury bonds and mortgage-backed securities.

While the Fed began discussions about changes to reinvestment policy, officials have made clear they are in no hurry to scale back those reinvestments until rates are higher. Ms. Yellen said Wednesday the Fed doesn't have a "particular cutoff level" for rates that would trigger steps to reduce the portfolio.

The economy's more stable footing could bring other challenges. One danger is that officials take their foot off the monetary gas pedal too abruptly or too soon, potentially causing the economy to falter. Another risk is raising rates too slowly and letting the economy overheat.

Another risk is that the Fed's efforts to keep inflation under control could clash with the aims of President Donald Trump, who has promised to boost growth above levels seen in the last decade to draw idled workers into the labor force.

On Wednesday, Ms. Yellen played down the idea that the Fed might be on a collision course with the new administration. "We would certainly welcome stronger economic growth in the context of price stability," she said.

Ms. Yellen said the central bank hadn't "tried to map out" any response to potential tax, regulatory or fiscal policy changes by the Trump administration and the Republican-controlled Congress, and that it wouldn't do so "until we know more about what policy changes will go into effect."

Mortgage rates remain low by historical standards, currently about 4.5% for a 30-year fixed-rate loan.

Rate increases like that announced Wednesday "are having no impact whatsoever on our buyers," said Charles Schetter, chief executive of Smith Douglas Homes Inc., a privately held homebuilder in Atlanta. "The opposite is true: Confidence about the job market is swamping the minimal amount of monthly cost differential."

Others aren't as sanguine. With home prices rising sharply in supply-constrained metro areas, higher mortgage costs will create new affordability headwinds. "We haven't had [mortgage] rates above 4.5% for at least five years. No matter how crazy low these rates are, we're calibrated to it," said Lou Barnes, a mortgage banker in Boulder, Colo.

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THE WALL STREET JOURNAL.
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Market Rally Shows Fed Has More Room --- Reaction underscores upbeat backdrop for further rate increases by the central bank

By Min Zeng
652 words
16 March 2017
The Wall Street Journal
J
B12
English

U.S. government-**bond prices** posted their largest one-day gain since June on Wednesday after the Federal Reserve raised interest rates for the second time in three months.

Traders said investors bought stocks and bonds after the central bank released economic forecasts showing that Fed officials continue to expect two more rate increases this year. Some market participants had expected indications for a potential fourth rate increase this year, after the pace of economic gains picked up and some influential Fed speakers took a more hawkish tone in recent weeks.

The yield on the 10-year U.S. Treasury note tumbled to 2.50%, down from 2.595% on Tuesday. Yields fall when **bond prices** rise. Stocks surged, with the **Dow Jones Industrial Average** jumping 112.73 points, or 0.5%, to close at 20950.10.

The market reaction underscores the upbeat backdrop for the Fed deliberations. Rising asset prices, low interest rates and a stable U.S. dollar are translating into easy financial conditions that give the Fed room to raise rates without rattling markets and hurting the economy, analysts said.

"The Fed has some leeway to tighten policy without tightening financial conditions sharply," said Aaron Kohli, interest-rates strategist at BMO Capital Markets.

The St. Louis Fed Financial Stress Index was negative-1.335 this month, the lowest since May 2015. A negative reading on this gauge, which aggregates variables including interest rates, yield spreads on riskier bonds and stock prices, suggests below-average **financial-market** stress.

The National Financial Conditions Index from the Federal Reserve Bank of Chicago was negative-0.77 last week. It fell to negative-0.8 in February, the lowest since December 2014 and another sign financial conditions remain loose.

U.S. stocks trade near record highs set on March 1. The yield premium on investment-grade U.S. corporate debt relative to Treasurys remains near the tightest level since September 2014, which allows companies to refinance at historically favorable interest rates. The dollar has failed to gain traction, reducing the risk of capital flight out of emerging-market countries. Emerging-market stocks and bonds have both gained ground this year.

Analysts cite strong economic data in the U.S. and many other countries and the prospect of expansive fiscal policy in Washington, including tax cuts, large infrastructure spending and less onerous banking regulation.

Even with the Fed raising its benchmark federal-funds rate to a range of 0.75% to 1%, the real fed-funds rate -- subtracting inflation -- remains below zero, a sign of accommodative monetary policy.

In a press conference following the Fed's rate decision Wednesday, Fed Chairwoman Janet Yellen said she expects monetary policy to remain accommodative "for some time." Ms. Yellen said the central bank is confident in the economy's resilience to shocks.

"It is certainly a tough balancing act" for the Fed, said Eric Stein, money manager at Eaton Vance Management. "The Fed wants to slowly tighten financial conditions but do so in a slow and predictable way so the economy and markets don't get hurt too much."

Some investors say as long as the U.S. economy won't slip into a downturn, U.S. stocks are likely to stay resilient.

Economists in a monthly survey by The Wall Street Journal last month placed a 15% chance of a recession within the next year, down from 22% last July.

Analysts also point to the U.S. dollar, which often rises during tightening cycles but has declined this year. The ICE dollar index, which measures the dollar's value against a number of its main rivals, dropped more than 1% to 100.60 Wednesday, down from a 15-year high of 103.82 in early January.

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The New York Times

Business Day; DealBook
Morning Agenda: The Fed Raises Rates. Is More to Come?

By AMIE TSANG
648 words
16 March 2017
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NYTimes.com Feed
NYTFEED
English

The Federal Reserve raised its benchmark interest rate on Wednesday, inching toward the end of the economic stimulus campaign it began in the depths of the financial crisis.

So everything is great with the economy, right? Not so fast.

Janet L. Yellen, the Fed chairwoman, wants to make one thing clear — the Fed does not share the optimism of **stock market** investors and business executives.

To be sure, the Fed is confident about the economy. But growth is still slow, and the central bank wants to have time to adjust its plans should President Trump and Congress cut taxes or spend massively on infrastructure.

If these policies materialize, the Fed could accelerate the pace of rate increases. If Congress gets bogged down, it can hold off.

Yahoo Hack

Yahoo has given scant details about the data stolen from 500 million of its accounts in 2014. The Justice Department, though, has taken action, charging two Russian intelligence officers and two other men with directing the scheme.

The Silicon Valley company disclosed the data theft in September. But the F.B.I. said its investigators had been looking into the case for two years. So why weren't Yahoo users informed about the breach during that time?

An internal investigation by the company's board found that some senior executives and information security personnel were aware of the breach shortly after it occurred, but "failed to properly comprehend or investigate" the situation.

The incident has already sliced $350 million off the value of Yahoo in its deal to be bought by Verizon.

More bad news may be coming: The F.B.I. is still investigating a breach of one billion Yahoo accounts that occurred in 2013 and was disclosed just three months ago.

William T. Walters Trial Begins

A high-rolling Las Vegas sports gambler, William T. Walters, went on trial on Wednesday in the most prominent insider trading case in Manhattan since the former McKinsey managing director Rajat Gupta was convicted of tipping off a hedge fund manager.

Prosecutors contend that Mr. Walters realized profits and avoided losses of more than $40 million from inside information he received on Dean Foods.

The source of those tips was Thomas C. Davis, the chairman of Dean Foods, who has admitted his participation in the scheme and become a witness for the government, the prosecutors said.

Mr. Walters' lawyers have maintained that his bets were the result of the acuity he had honed over the years as a sports bettor.

There is even a celebrity angle — will the golfer Phil Mickelson testify? The federal authorities say he is one of the people on the receiving end of a stock tip that prosecutors accuse Mr. Walters of getting illegally.

Trading Firm Makes Bid for Rival

Virtu Financial has made a bid for KCG Holdings that would value the company at as much as $1.33 billion, The Wall Street Journal reports.

A deal would aim to help the two companies shore up business at a time when securities trading firms have been struggling to maintain revenue growth with low market **volatility**.

These firms buy and sell in large volumes to facilitate trading and earn a small amount on each transaction. But low **volatility** has squeezed profits.

Virtu, whose founder, Vincent Viola, recently withdrew himself as President Trump's nominee for Army secretary, is seeking to expand its client business. KCG said its board was evaluating the offer.

Follow Amie Tsang on Twitter @amietsang.

* Fed Raises Interest Rates for Third Time Since Financial Crisis

* Russian Agents Were Behind Yahoo Hack, U.S. Says

* With Phil Mickelson on Witness List, Gambler's Insider Trading Trial Begins

Janet Yellen, the Federal Reserve chairwoman, announced the board's decision on interest rates, on Wednesday. | Al Drago/The New York Times

Document NYTFEED020170316ed3g0038p

MONETARY POLICY
Business/Financial Desk; SECTB
The Fed's Message: Exhale

By NEIL IRWIN
908 words
16 March 2017
The New York Times
NYTF
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1
English

The economy will keep growing just enough to put more Americans back to work, but without overheating to generate excessive inflation. American workers will see gradual pay raises that keep compensation rising faster than inflation. Interest rates will rise gradually, while staying low by historical standards. And that's all before accounting for any major stimulative policies that may emerge from the Trump administration and Congress.

That was the view of the economy sketched by the Federal Reserve chairwoman, Janet Yellen, at her first news conference of 2017 on Wednesday. In short, the Fed believes that after nearly eight years of trying to nurse the economy back to health, its work is nearly done.

The general sense of rosiness isn't really anything new -- for years, Ms. Yellen and her predecessor, Ben Bernanke, have forecast that the economy will steadily converge toward a Goldilocks-like state of being neither too hot nor too cold.

Two things have changed. First, that day now feels imminent, with the unemployment rate at 4.7 percent and inflation closing on the 2 percent the Fed thinks best. That is a key reason the Fed raised its interest rate target Wednesday. Second, markets now believe the Fed's message that higher rates are on the way; bond markets suggest that the Fed will actually follow through with its intentions on gradual interest rate rises. You couldn't say that a year ago.

''The simple message is: The economy is doing well,'' Ms. Yellen told reporters.

The overwhelming message was of gradualism -- both on the rate of economic improvement and the Fed's own efforts to wind down its era of low interest rates.

She suggested no urgency toward a tightening of the money supply that might suggest a hair-trigger readiness to accelerate interest rate increases. Ms. Yellen evinced little fear that the Fed is behind the curve, suggesting that two more interest rate increases are on the way over the remainder of 2017.

This will, if these plans stay in force, remain the slowest cycle of interest rate increases in modern history.

She also displayed little of the fear of setback that has been pervasive at the Fed for years. The central bank has spent the last eight years trying to help the recovery along with a series of monetary interventions; more than any other institution in Washington, it owns the recovery.

That has also meant that the Fed has acted with haste to signs of softening. In the winter of 2016, for example, barely a year ago, the central bank backed off plans for more rate increases after a steep **stock market** sell-off and a rise of economic pessimism.

After years of persistently undershooting its 2 percent goal for inflation, the Fed explicitly, if subtly, raised the possibility on Wednesday of erring in the other direction. The central bank's policy committee said it would be monitoring ''actual and expected inflation developments relative to its symmetric inflation goal.''

In this context, ''symmetric'' implies that it aims for 2 percent inflation and would be equally displeased by inflation that was too high or too low. That implies that the Fed is not inclined to overreact to the possibility that inflation could drift slightly -- and in the Fed's view temporarily -- above 2 percent in the coming months.

After the announcement, the interest rates on Treasury bonds actually fell. That implies that markets were ready for signals of even more aggressive rate rises.

And the clearest signal that the Fed is in steady-as-she-goes territory was in how Ms. Yellen talked about the possibility of new tax cuts or infrastructure spending that might arrive in the months ahead.

There has been ''no reassessment'' of those odds, she said. Presumably if that happens, the Fed would indeed raise interest rates more quickly, but Ms. Yellen shows no desire to pre-emptively get ahead of what the rest of the government is doing.

Given the vagueness and uncertainty around those plans, that maintains options for officials at the Fed. If policies along those lines materialize, they can plug them into their models and accelerate the pace of rate increases; if Congress is bogged down in stalemate, they won't.

It has been a long time coming, and Ms. Yellen went out of her way to avoid mounting a metaphorical ''Mission Accomplished'' banner. But in the substance of her policies, it is evident that the Fed feels it has mostly accomplished its job.

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

''The simple message is: The economy is doing well,'' Janet L. Yellen, the Fed chairwoman, told reporters on Wednesday. (PHOTOGRAPH BY AL DRAGO/THE NEW YORK TIMES) (B1); The New York Stock Exchange on Wednesday. Markets rose after the Fed's announcement. (PHOTOGRAPH BY DREW ANGERER/GETTY IMAGES) (B5) CHARTS: Why the Fed Raised Rates: After widely signaling its intentions, the Federal Reserve raised its benchmark interest rate to a range between 0.75 percent and 1 percent. In the Fed's view, the economy is growing quickly enough and should not accelerate. However, the increase to the target rate is minor, and all types of interest rates remain very low. (Sources: Federal Reserve; Bureau of Labor Statistics; Bureau of Economic Analysis; Bankrate.com)

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The New York Times

Personal Tech; SECTB
Share Prices Jump, but With Fed Cautious, Bond Yields Drop

By THE ASSOCIATED PRESS
700 words
16 March 2017
The New York Times
NYTF
Late Edition - Final
8
English

Stocks on Wall Street rose Wednesday for their biggest gain in two weeks and easily absorbed the Federal Reserve's latest increase in interest rates, a move that was widely expected.

What was perhaps unexpected was the big drop in bond yields and the dollar's value against other currencies after the Fed's announcement. The central bank stressed that it planned to move gradually and stuck to its projection that it would raise rates a total of three times this year. That cooled expectations that the Fed might move more aggressively.

The **Standard & Poor**'**s500 index** jumped 19.81 points, or 0.8 percent, to 2,385.26. It had been up through the day, and the gains accelerated immediately after the Fed made its announcement.

The **Dow Jonesindustrial average** rose 112.73 points, or 0.5 percent, to 20,950.10. The **Nasdaq composite** picked up 43.23 points, or 0.7 percent, to 5,900.05.

The Fed raised short-term interest rates by a quarter of a percentage point, its third such move since the end of 2015. The move was widely expected after various Fed officials gave speeches telegraphing the increase and reports showed that the economy had continued to strengthen and inflation had picked up.

The encouraging data led some investors to speculate that the Fed might raise rates more aggressively. The yield on the two-year Treasury note, which is heavily influenced by changes in Fed policy, jumped on expectations for Fed action, for example. It climbed nearly a quarter of a percentage point in a little more than two weeks to 1.38 percent late Tuesday.

When the Fed said that it was sticking with its forecast for three rate increases this year, the two-year yield gave up nearly half of that increase in just a few minutes. It later pared its loss and sat at 1.29 percent late Wednesday.

The yield on the **10**-**year Treasury** fell to 2.49 percent from 2.60 percent late Tuesday, and the 30-year yield fell to 3.11 percent from 3.18 percent. Both remained higher than they were a few weeks ago, though.

The dollar sank to 113.22 Japanese yen from 114.72 yen late Tuesday. The euro rose to $1.0707 from $1.0632, and the British pound climbed to $1.2297 from $1.2145.

The drop in bond yields shined a warm light on stocks in industries known for paying relatively big dividends. Lower bond yields make the income provided by dividends more attractive, and real-estate investment trusts in the **S**.**&P**. **500** jumped 1.9 percent. Utilities rose 1.6 percent.

The day's biggest gains came from energy stocks. Those in the **S**.**&P**. **500** rose by 2.1 percent after the price of oil climbed Wednesday, the first time that's happened in more than a week. A barrel of benchmark crude rose $1.14 to settle at $48.86. The 2.4 percent jump was the largest since January. Brent crude, which is used to price international oils, added 89 cents to $51.81 a barrel in London.

The weaker dollar also helped to lift prices for metals. Gold settled early in the afternoon at $1,200.10 per ounce, down $1.80. But it climbed following the Fed's announcement and was trading at $1,221.20 late Wednesday.

The Labor Department said consumer prices were 2.7 percent higher in February than a year earlier. After excluding the costs of food and energy, inflation was 2.2 percent.

In overseas trading, the German DAX **stock index** rose 0.2 percent, the U.K. FTSE 100 index rose 0.1 percent, and the CAC 40 in France was 0.2 percent higher. Japan's Nikkei 225 **stock index** lost 0.2 percent, and South Korea's Kospi was little changed. The Hang Seng in Hong Kong edged 0.1 percent lower.

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

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The New York Times

National Desk; SECTA
Fed Nudges Interest Rates Higher in a Sign of Cautious Confidence

By BINYAMIN APPELBAUM
1,284 words
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1
English

The Federal Reserve, which raised its benchmark rate on Wednesday for the second time in three months, this time to a range between 0.75 percent and 1 percent, is finally moving toward the end of its nine-year-old economic stimulus campaign, which began in the depths of the financial crisis.

But Janet L. Yellen, the Fed's chairwoman, said at a news conference after the decision was announced that the Fed did not share the optimism of **stock market** investors and some business executives that economic growth is gaining speed. It still plans to move slowly because the economy continues to grow slowly. She suggested that the Fed would have plenty of time to adjust its plans should President Trump and Congress cut taxes or spend massively on infrastructure.

Her announcement was full of confidence. But it certainly was not ebullient. ''The data have not notably strengthened,'' Ms. Yellen told reporters. ''We haven't changed the outlook. We think we're moving on the same course we've been on.''

The Fed said that the United States economy continued to chug along, expanding at a ''moderate pace.'' Employers are hiring, consumers are spending and businesses -- the laggards in recent months -- are starting to plow a little more money into their operations, too.

The Fed's sobriety did not appear to make much of an impression on investors. The **stock market**'s heady march that began after Mr. Trump's election continued apace. The **Standard & Poor's 500-stockindex** rose 0.84 percent to close at 2,385.26 Wednesday, moving up sharply after the announcement. Some said the Fed was still a long way from doing anything that might hurt.

''The first four to eight rate hikes are the low-hanging fruit,'' said Deron McCoy, the chief investment officer at SEIA, a Los Angeles firm. ''The real test will be whether the economy can withstand positive real rates. And that still seems to be a 2019 topic.''

Some analysts said the Fed will want to see an impact from its actions. ''Policy makers hike rates to tighten financial conditions,'' said Ellen Zentner, the chief United States economist at Morgan Stanley. ''If this easing of financial conditions on the back of today's hike are sustained, that would tell policy makers they need to do more.''

Ms. Zentner said she expected the Fed to raise rates again at its June meeting. The Fed's policy-making committee next meets on May 2 and 3.

She noted that the Fed's longer-term outlook is less clear. Ms. Yellen's term as Fed chairwoman ends in February, and Mr. Trump could then replace her.

The Fed, charged with maximizing employment and moderating inflation, is close to achieving both goals. The unemployment rate fell to 4.7 percent in February, consistent with the normal churn of people moving among jobs. And after several years of concern that prices were not rising fast enough, inflation is reviving. The Fed's preferred measure rose 1.9 percent over the 12 months ending in January, close to its 2 percent annual target.

''The basis for today's decision is simply our assessment of the progress of the economy,'' Ms. Yellen said at the postmeeting news conference. ''And it's been doing nicely.''

The Fed, which had made more inflation a central objective, said on Wednesday that it was now focused on stabilizing inflation. Ms. Yellen took the opportunity to note that inflation may now rise a bit above 2 percent, just as it has been below 2 percent the last few years. ''It's a reminder 2 percent is not a ceiling on inflation,'' she said. ''It's a target.''

The Fed's increased confidence was reflected in a new round of policy forecasts it also published Wednesday. An increased number of Fed officials are expecting to raise rates at least twice more this year. Only three of the 17 officials who submitted forecasts expect the central bank to move more slowly. There was a similar coalescing around tighter policy for the following two years, marking the first time in recent years that the Fed's quarterly economic forecasts have shifted toward a prediction of tighter monetary policy.

This is the third time the Fed has raised rates since the financial crisis. The first hike came at the end of 2015 and the second almost exactly one year later. This time the Fed waited just three months. The benchmark rate remains below 1 percent, a very low level.

People with credit card debt are likely to see an immediate increase of about a quarter percentage point in their interest rates. The effect on longer-term loans is less direct, but the average rate on a 30-year mortgage rose by half a percentage point over the last year.

The nation's largest borrower, the federal government, will also feel the pinch of higher rates. The Congressional Budget Office expects federal interest payments, measured as a share of the economy, to double over the next decade.

Savers are unlikely to benefit immediately. Banks tend to raise interest rates on loans more quickly than they raise rates on deposits. Last week, the average rate on a six-month certificate of deposit was 0.14 percent. Last year at this time: 0.13 percent.

The Fed's move to raise rates puts it on course for a slow-motion collision with President Trump, who has repeatedly promised to increase economic growth through policies including cuts in taxation and regulation and more spending on infrastructure and defense.

Fed officials have emphasized that the economy is already growing at roughly its maximum sustainable pace; faster growth would therefore lead to faster increases in interest rates.

Some economists and liberal activists argue that the Fed is raising rates too quickly. Narayana Kocherlakota, an economist at the University of Rochester and a former member of the Fed's policy-making committee, noted that strong economic growth continued to pull people into the job market while wage growth remained relatively weak. That suggests, he said, that the economy has not yet returned to full employment.

''We should be seeing faster wage growth with this level of employment growth if we were close to full employment,'' Mr. Kocherlakota said on Twitter before the Fed's decision.

Mr. Kocherlakota's successor as president of the Federal Reserve Bank of Minneapolis, Neel Kashkari, cast the sole vote against raising rates on Wednesday.

The Fed's assessment of economic conditions remained quite measured. The economy expanded by just 1.6 percent in 2016, and there is little sign of an acceleration during the first quarter. Fed officials continue to forecast a Goldilocks economy, with the unemployment rate remaining at 4.5 percent and inflation around 2 percent for the next three years.

Ms. Yellen played down surveys showing a sharp rise in the optimism of consumers and business executives since the presidential election, noting there is little evidence that such surveys predict spending decisions.

She said that Fed officials spoke regularly to business leaders, and that many were undoubtedly in ''a much more optimistic frame of mind.'' But she added that many of those executives have adopted a wait-and-see attitude -- just like the Fed itself.

Follow Binyamin Appelbaum on Twitter @bcappelbaum.

Chairwoman Janet L. Yellen cited an unchanged outlook. (PHOTOGRAPH BY AL DRAGO/THE NEW YORK TIMES) (A1); Shoppers at Macy's in Manhattan this month. Fed officials say the economy is growing at roughly its maximum sustainable pace. (PHOTOGRAPH BY JOHN TAGGART FOR THE NEW YORK TIMES) (A14)

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Business & Finance
What's News
Business & Finance

239 words
16 March 2017
The Wall Street Journal
J
A1
English

The Fed raised rates by a quarter point and said it would keep lifting them this year, citing confidence in the U.S. economy.

Treasury prices posted their biggest gain since June on the Fed move, with yields on the 10-year note falling to 2.50%.

U.S. stocks climbed, with all but one of the **S&P 500** sectors gaining. The Dow rose 112.73 to 20950.10.

Virtu offered to buy KCG for up to $1.33 billion, a deal that could help shore up businesses struggling with damped market **volatility**.

Auto executives say they can adapt to taxes or other import curbs, even as industry advocates insist such moves would dent results.

The administration reopened a review of vehicle-emissions standards, reversing an Obama-era decision to lock in future targets.

Bank loans are rising 4.6% annually, the slowest pace since 2014, despite signs that the U.S. economy is strengthening.

Retail sales rose just 0.1% in February from a month earlier, the smallest gain since last summer.

Tesla is offering $1 billion in stock and convertible notes as it prepares to launch its Model 3 car.

Amazon plans to offer its sellers in China the ability to fly their goods internationally as air cargo.

Monsanto's key chemical in its Roundup weedkiller doesn't cause cancer, European regulators said.

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THE WALL STREET JOURNAL.
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U.S. News: Growth Lags Behind Consumer Confidence

By Josh Mitchell
257 words
16 March 2017
The Wall Street Journal
J
A2
English

The **stock market** is booming and businesses and households are near their most confident in years. Yet the U.S. economy shows few signs of breaking out of its long stretch of subpar growth.

The latest evidence came Wednesday when the government reported that sales at the nation's retailers -- a key measure of consumer spending -- rose just 0.1% in February from a month earlier.

Americans cut spending on clothing, sporting goods, electronics and restaurant outings, leading to the smallest gain in retail sales since last summer.

Earlier reports showed a surging trade deficit in January and a recent drop in home sales, as measured by contract signings.

The economy appears to be stumbling once again in the first months of the year.

Forecasting firm Macroeconomic Advisers on Wednesday downgraded its projection of economic growth in the current quarter to an annual rate of 1.3%, from 1.4%. Barclays projected 1.4% growth, compared with 1.6% earlier.

Growth has averaged about 2% in the current expansion.

The data highlight a dichotomy of how people and businesses say they feel and how the economy is actually performing. Measures of optimism such as the University of Michigan's consumer sentiment reading are pointing up while measures of economic output are slowing.

Economists attribute the former to promises by President Donald Trump to stimulate growth by easing rules on businesses, boosting government spending and simplifying the tax code.

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THE WALL STREET JOURNAL.
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Property: Manhattan Market Gains Steam

By Josh Barbanel
543 words
16 March 2017
The Wall Street Journal
J
A16B
English

For weeks, several would-be buyers had been circling around a four-bedroom co-op with Juliet balconies facing Gramercy Park in Manhattan that was listed for $16 million. Before they got offers ready they were beaten by another party that stepped in and made a quick deal.

That is the new face of a more competitive Manhattan residential market in 2017, amid signs that a prolonged slowdown might be drawing to an end.

With the economy strengthening and the **stock market** rising, the Manhattan residential market rebounded sharply in the past few months, brokers said, as cautious buyers regained the resolve to make a deal. The number of contracts signed rose 24% in January and 16% in February, compared with the same months in 2016, according to figures from Brown Harris Stevens Analytics.

The bounce among properties listed for $5 million or more was even stronger, with the number of contracts signed up 28% in January and 43% in February.

During the months leading up to the November elections, the market slowed sharply because of uncertainty, brokers said. Since then -- and continuing into March -- a renewed optimism about the economy and surge in **stock-market** wealth have convinced buyers to make a deal now, rather than wait any longer, brokers said.

Although many properties still sell below asking prices, buyers no longer expect them to fall further, they said. Concerns about rising mortgage interest also motivated some buyers, brokers said.

That has translated into crowded open houses and a tick upward in the number of bidding wars, said Pamela Liebman, president of the Corcoran Group, a large New York-based brokerage.

"All of these people who have been hesitating, appear to be jumping in," she said.

Noble Black, a broker at Douglas Elliman, said he noticed a sharp change soon after the election.

"People who were sitting back and waiting realized the market wasn't going any lower," he said.

The rally has extended to the co-op market, said Donna Olshan, a broker who monitors contract signings on residences listed for at least $4 million.

In one week, the two largest contracts were both for co-ops, she noted. At the top of her list that week was the eighth and ninth floors at 24 Gramercy Park, the park-facing co-op that was listed in early January by Mary Ferraro of Halstead Property for $16 million. The contract price wasn't disclosed.

The resurgent market is giving some hope to sellers of expensive apartments. Last September, a five-bedroom condo at 80 Columbus Circle had been on the market on and off since June 2015 at prices as high as $36 million, before the asking price was cut to $29 million. On Monday, the asking price was raised by $4 million.

Elizabeth Sample, who had the listing with Brenda Powers, both of Sotheby's International Realty, said the price was raised after nearby apartment listed for $50 million sold in January for $38.9 million. It went into contract at the end of November.

"We have had two full-price offers and the owners have decided on an upward price adjustment," Ms. Sample said.

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REVIEW & OUTLOOK (Editorial)
The Fed's Era of Contentment

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The Federal Open Market Committee raised its interest-rate target by another quarter point to 0.75%-1% Wednesday, and markets cheered. Perhaps they noticed the relatively dovish tone of the Fed statement and that the Governors can't seem to believe the economy can grow faster than it already is. Thus the Fed might keep its pace of tightening more gradual.

"The simple message is the economy's doing well," said Fed Chair Janet Yellen in her press conference following the Open Market Committee's two-day meeting. "We have confidence in the robustness of the economy and its resilience to shocks."

The Fed also released its quarterly predictions for key economic indicators, and they were no more optimistic than in December despite buoyant **financial markets** and rising animal spirits. The median growth estimate for 2017 stayed at a less than rousing 2.1%, with only a tiny increase to 2.1% in 2018 (from 2%) and 1.9% in 2019. The Fed's seers say the jobless rate won't get below 4.5% and inflation won't rise above 2%.

Apparently the Fed thinks the U.S. economy has achieved a glorious equilibrium that will continue indefinitely. This is hard to believe given the new Republican government's focus on deregulation and tax reform. If this agenda is implemented, then growth is bound to pick up at least for a while. Ms. Yellen suggested at her press conference that the political forecast for policy changes was too uncertain to bake into Fed forecasts, but if growth does accelerate the Fed will have to scramble to catch up.

The Fed's tone was also magnified by the first dovish dissent since the end of 2014, as Minneapolis Fed President Neel Kashkari preferred to stand pat on rates. A few cynics observed that Mr. Kashkari is auditioning to get Ms. Yellen's job when her chairmanship expires next year, because President Trump likes low rates. That strikes us as a reach given that Mr. Kashkari thinks too much for himself to follow White House orders.

We'd prefer that the Fed begin to pare back the $4.5 trillion in assets on its balance sheet before it marches too much further up the interest-rate hill. The magnitude of those holdings continues to distort investment decisions. Rising rates mean the Fed will also increase its payments to banks for keeping excess reserves at the central bank. In essence the Fed will be paying banks more not to lend hundreds of billions of dollars in reserves in the private economy. This current era of Fed contentment may end sooner than many think.

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Business/Financial Desk; SECTB
Iceland Leaves Crash Behind, but Fears Another

By LIZ ALDERMAN; Egill Bjarnason contributed reporting.
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1
English

CORRECTION APPENDEDNine years after a giant banking crash made Iceland a symbol of the global financial crisis, the government on Tuesday effectively declared that financial stability had been restored as it ended longstanding restrictions on the flow of money into and out of the country.

Yet even as it closes a fraught chapter in its economic history, Iceland is facing new challenges with its growth rebounding -- some say too quickly for the country's own good. As the economy has stabilized, a jump in tourism is stoking a housing construction boom, potentially raising new risks of overheating and inflation.

Iceland's growth surge -- the economy expanded 7.2 percent last year -- represents a remarkable comeback since 2008, when the country's three main banks failed and its currency and economy fell into a tailspin. To prevent an outright collapse, the government imposed capital controls on businesses, pensioners and individuals.

''Without the capital controls, Iceland would have suffered a much more serious fate,'' said Yngvi Kristinsson, the chief economist for the Icelandic Financial Services Association, a consortium of banks and insurance companies.

Although untested at the time, the capital controls played a pivotal role in stopping panicked foreign investors and others from taking money out of Iceland and decimating its economy even further.

Initially designated for six months, they dragged on for nearly a decade as financial authorities restructured debts and sought to diversify the economy, which had thrived on fishing exports before pivoting to the lucrative, and ultimately perilous, realm of international finance. In that time, the government has been locked in a longstanding dispute with international investors, after freezing their assets amid the crash.

Iceland, a Nordic island nation of 330,000, has gradually been easing the controls for more than a year now, and their full removal on Tuesday signifies the country's return to international **financial markets**.

Countries generally try to avoid using capital controls except in desperate circumstances because restrictions on the free flow of funds can cripple businesses and cause hardship for households short of cash.

The capital controls have hit companies by deterring investment and raising borrowing costs. Their removal should help Icelandic firms that had not been allowed to invest in new operations outside the country.

''Good riddance,'' said Georg Ludviksson, the chief executive and a founder of Meniga, a digital banking software vendor based in Reykjavik. The company, with 80 employees, almost could not get 3.5 million euros, or $3.7 million, in foreign venture capital when it was set up in 2009.

''It was hard to convince foreign investors to bring money into a country with capital controls,'' Mr. Ludviksson said. The company had to apply to the central bank for an exception, which ''slowed us down,'' he added.

Yet the controls ultimately prevented a widespread economic crash in Iceland and shielded the economy from severe depreciation, the government said in a statement before their removal.

The combined assets of Iceland's three biggest banks were 14 times the size of the nation's economic output when the 2008 crisis hit. When the industry collapsed under $85 billion in debt, foreigners owned such a huge chunk of that figure that allowing them to take assets out would risk severely devaluing Iceland's currency, the krona.

The country's success in engineering a recovery stands in contrast to the efforts of Greece, which uses the euro and does not have its own currency to manage.

Greece has continued to falter since Athens imposed capital controls in 2015 as the country seemed to be veering toward abandoning the euro. Some restrictions have been eased, but they are mostly expected to remain in place for the foreseeable future. As long as Greece, now in its third international financial rescue program in seven years, continues to labor under a huge debt, economists see little hope of a recovery.

Iceland, by comparison, did not have a huge national debt overhang, although corporations and individuals owed large sums after the financial crash, which some are still working off.

The authorities forced creditors to take some losses, and among other things, the top executives of one of the biggest failed lenders, Kaupthing Bank, were sentenced to prison.

The government, working with the International Monetary Fund, took steps to ward off future crises, including strengthening regulatory oversight of banks and curbing foreign currency loans. The authorities also sought to tamp down the oversize presence of banks in the economy by encouraging growth in tourism, fisheries, tech start-ups and renewable energy.

With the cheap krona, tourism took off much faster than other new ventures because visitors could see the northern lights and the rugged Icelandic landscape at a steep discount.

Today, tourism has exploded into Iceland's biggest industry, overtaking fishing and banking. With the number of visitors approaching two million a year, tourism revenue topped $3 billion in 2015, a third of the country's export earnings. Tourism is also the single biggest employer, accounting for a tenth of jobs.

Over all, the unemployment rate has fallen to a near record low of 2.6 percent. Double-digit wage increases are crimping productivity and may encourage inflation, according to the Organization for Economic Cooperation and Development. Many Icelanders are pouring money into services and new construction, and cranes keep rising across the country.

And that seems to be the rub -- in a bid to reduce the country's reliance on finance, Icelanders are wondering if they may have planted the seeds of another bubble.

The current boom is healthier than the growth in the years leading up to the 2008 crash, which was driven by the flow of foreign funds, said Asgeir Jonsson, an economics professor at the University of Iceland.

Still, growth in the past six years ''has been led by mainly one sector of the economy,'' he noted.

''Iceland has become a very expensive destination, but the tourism sector keeps heating the economy,'' Mr. Jonsson said. ''What can be done to slow it, ban more visitors? Hardly.''

Correction: March 24, 2017, Friday

This article has been revised to reflect the following correction: A picture caption on March 15 with an article about the lifting of capital controls in Iceland, where the economy has been improving, misstated the type of construction equipment shown. They are machines that pump concrete; they are not cranes.

Follow Liz Alderman on Twitter @LizAldermanNYT.

Tourism has become Iceland's biggest industry, overtaking fishing and banking and contributing to a construction boom that has some Icelanders concerned. (B1); As many Icelanders, flush from double-digit wage increases, pour money into services and new construction, cranes like these are rising across the island nation.; Hotel guests in a thermal pool. Tourism, fueled partly by Iceland's hot springs, has exploded. (PHOTOGRAPHS BY BARA KRISTINSDOTTIR FOR THE NEW YORK TIMES) (B5)

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Bannon's Journey to Economic Nationalism --- Trump adviser cites father's 2008 financial trauma as a turning point

By Michael C. Bender
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A1
English

RICHMOND, Va. -- On Oct. 7, 2008, in the cramped TV room of his modest home here, Marty Bannon watched with alarm as plunging stock markets dragged down his shares of AT&T, the nest egg he built during a 50-year career at the company.

His five children, including current White House counselor and chief strategist Steve Bannon, had often joked growing up that their devout father, a product of the Great Depression, would sooner leave the Catholic Church than sell those shares. The stock symbolized his deep trust in the company and had doubled as life insurance for his children.

As he toggled between TV stations, financial analysts warned of economic collapse and politicians in Washington seemed to mirror his own confusion. So he did the unthinkable. He sold.

Marty Bannon, now 95 years old, still regrets the decision and seethes over Washington's response to the economic crisis. His son Steve says the moment crystallized his own antiestablishment outlook and helped trigger a decadelong political hardening that has landed him inside the West Wing, just steps away from President Donald Trump.

"The only net worth my father had beside his tiny little house was that AT&T stock. And nobody is held accountable?" Steve Bannon, 63, said in a recent interview. "All these firms get bailed out. There's no equity taken from anybody. There's no one in jail. These companies are all overleveraged, and everyone looked the other way."

No White House official has more influence on a wider portfolio of issues than Steve Bannon, who has become a litmus test for how people view the Trump administration. For supporters, he is helping to deliver on Mr. Trump's fiery populist promises, with their emphasis on punishing illegal immigrants and U.S. companies aiming to move jobs out of the country. The left has painted him as isolationist, sexist and anti-immigrant.

There were many factors that turned Steve Bannon into a divisive political firebrand. But his decision to embrace "economic nationalism" and vehemently oppose the forces and institutions of globalization, he says, stems from his upbringing, his relationship with his father and the meaning those AT&T shares held for the family.

"Everything since then has come from there," he says. "All of it."

Since teaming up with Mr. Trump in August, Mr. Bannon has played a lead role in honing the Republican message sharply criticizing open borders, the mainstream news media, Wall Street and Democratic opponent Hillary Clinton. He has helped write Mr. Trump's major speeches, played a key role in shaping the president's order to halt immigration from a handful of Muslim-majority countries and helped shape the cabinet.

He has long admired nationalist movements around the globe and has expressed antipathy toward the European Union. "Strong nations make great neighbors," he told The Wall Street Journal in November.

Steve Bannon idealizes the bygone corporate era that gave his father the kind of stability that he himself never pursued. Marty Bannon, who voted for Mr. Trump, sought a life of security, while the thrice-divorced Steve Bannon craves chaos and drama. He has served in the Navy, dabbled in penny stocks and was briefly in charge of Biosphere 2, a domed terrarium in Arizona.

After he found success in investment banking, he would fly his father for short vacations to New Orleans and California. In recent years, he has traveled monthly from Washington to Richmond for visits, and he talks to his father daily.

"He's the backbone of the country, the everyman who plays by the rules, the hardworking dad that delays his own gratification for the family," Steve Bannon says. "The world is probably 95% Marty Bannons and 5% Steve Bannons. And that's probably the right metric for a stable society."

After working at Goldman Sachs Group Inc., Steve Bannon became an Oscar-nominated producer in Hollywood and a libertarian-leaning conservative.

His film work grew more partisan after the 2008 financial crisis -- and after his father's fateful decision. He began creating documentaries, including a positive chronicle in 2010 of Sarah Palin's time as Alaska governor and as the party's 2008 vice presidential nominee. That work led to his introduction to Andrew Breitbart, a conservative provocateur who had launched his own news website.

Steve Bannon viewed Breitbart.com as a financial opportunity as much as a political move, his former colleagues say. The website he helped redesign in 2012 became a must-read for conservative political junkies and the alt-right, a loose agglomeration of groups with far-right ideologies.

Under his leadership, the site ran increasingly controversial headlines such as "The Solution to Online 'Harassment' Is Simple: Women Should Log Off," "There's No Hiring Bias Against Women In Tech, They Just Suck At Interviews," and "Hoist It High and Proud: The Confederate Flag Proclaims a Glorious Heritage."

The website's coverage was loathed by the targets of its stories and their allies. "A stone cold racist, and a white supremacist sympathizer," New York Rep. Hakeem Jeffries, a member of the House Democratic leadership team, said recently about Mr. Bannon, who denies both charges.

Steve Bannon says his ideology is less about Republicans and Democrats than about middle class versus elites -- nationalists versus globalists. He says that explains his opposition to open borders, political corruption and what he views as political correctness.

Still, Marty Bannon compares his son to his own father, who dropped out of school after third grade. "My dad was very smart -- street smart," he says. "He could pick up things by reading. Politics, he was very into it."

Marty Bannon grew up in Norfolk, Va., a military town, where he was schooled by nuns. He weighed vegetables and delivered groceries for extra money.

He saw steady work as a virtue. By age 9, he was caddying at a nearby golf course and dreaming of playing baseball for the New York Yankees.

He expected to become a priest as an adult, he says, but met his future wife and soon started his family. He eventually landed a job as a splicer's helper at AT&T, the same phone company his father worked for 48 years. Marty Bannon would work there for 50 years.

Marty Bannon says he started "on the poles, or in the sewers," eventually climbing into middle management. Shortly after Steve was born, he moved the family to suburban Washington before settling in Richmond in 1955, when his middle son was 2 years old.

"I had great faith in AT&T," Marty Bannon says. "At their peak they were the best company for service. That was inbred. Fire, flood, storm or whatever, they called you and you went. Whatever time of night. And you stayed out there until the job was finished."

In Richmond, he bought a three-bedroom, two-bathroom, Colonial-style home with white siding, black shutters and a covered front porch, where he has lived the past 58 years. It is the only house he has ever owned.

Steve Bannon and his friends grew up with chips on their shoulders in the former capital of the Confederacy, says Pat McSweeney, a boyhood friend of the Bannon family and former Virginia Republican Party chairman. Their race conferred a certain amount of privilege, but their Irish-Catholic backgrounds were out of place in the Southern Baptist town. The Benedictine school they attended was integrated.

As a youngster, Steve Bannon had a penchant for pulling his brothers into fights, but he also was a voracious reader who lapped fellow students in the school book club. He ordered books by the dozen, says Chris Bannon, his younger brother.

Steve and Chris shared a room with bunk beds and loved baseball. Lacking an overpowering fastball, Steve Bannon made his younger brother squat in the backyard day after day until his curveball was good enough to get him on the high-school team. "He played his way onto the team," Chris recalls. "He's a grinder."

His father also expected him to work. He cut grass, expanding his older brother's business from about a half-dozen to two dozen lawns. He spent one summer in a junkyard, unloading scrap metal from trains that came through town.

With his children's security a priority, Marty Bannon began accumulating phone-company stock, which AT&T occasionally made available to employees. He bought all he could, even taking out loans against insurance policies for some purchases. In his mind, the stock was a safety net for his family if something happened to him.

"You had to watch every penny," he says. "I was always worried that I would leave them without. I told myself I would never sell those stocks."

His children nicknamed him "Safety Sam."

"Steve and I would come to him with a great opportunity, tell him how we're going to turn it into a home-run and make all this money," says older brother Mike Bannon. "We'd go through the whole pitch and he'd say, 'What are the benefits?' If the benefits weren't great, he was against it. You could go from a $100,000 job to a $300,000, and still have to sell him on the benefits" -- the nonfinancial aspects of the job.

As Marty Bannon's five children completed college, got jobs and had children of their own -- there now are 19 grandchildren and 12 great-grandchildren -- he viewed the shares as an inheritance for his children, a lesson in the value of hard work and stability.

"I was going to give those to the kids, help them establish a new base," he says.

Then came the 2008 market chaos. "That day, I found out how dumb the people were who I thought were smart," he says. "They couldn't control the situation, and it escalated during the day. I said, this thing is going so fast I'm going to be totally wiped out."

Marty Bannon says he lost more than $100,000 because he sold the shares for less than he paid for them. It was a decision he made without consulting a broker or his family, including his two sons with investment backgrounds, who only learned about the sale days after it was finished. The shares subsequently regained much of their value.

"It wasn't a winner, so . . ." he says, trailing off. "Shame on me that I made that decision."

Steve Bannon was in daily contact with his father when Lehman Brothers Holding Inc. filed for bankruptcy and Washington politicians worked to put together a bailout package for Wall Street banks.

That Oct. 6, financial analyst Jim Cramer told "Today" show viewers to pull money from the **stock market** if they needed any cash for the next five years. Steve Bannon says the warning spooked his father.

"I could see his confidence in the system was shattered," Steve Bannon recalls. "He was older, in his 80s. But all these guys from the Depression, it's a risk-averse generation because of the horrible things they saw in their youth. He was rattled."

The way Steve Bannon sees it, the institutions his father put his faith in failed him. He says Wall Street greed created the bubble that put his father's investments at risk, and he blames the inertia of the Washington establishment for failing to prevent it.

"The problem we've had is that in the ascendant economy -- Silicon Valley, Wall Street, Hollywood -- the Marty Bannons of the world were getting washed out to sea, and nobody was paying attention to them," he says.

"His job was everything, but his paycheck was a way to be part of civic society. As a child he never talked at all about how high the AT&T stock was. It was the Little League season or the charity event at the church or the May queen."

Steve Bannon thinks U.S. companies should once again feel more responsible to their communities. "Why can't you revert back to a golden age?" he asks. "You can."

His father points out that thousands of Americans were hurt worse by the crisis, but he is still upset that "fat cats" were taken care while there was little help for the middle class.

"The government created this problem," Marty Bannon says. "The elites, they got bailed out. Everybody else in the country, whatever happened, happened, and they just had to move on."

(See related letters: "Letters to the Editor: Bannon Blames Wrong Folks for Father's Loss" -- WSJ March 24, 2017)

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Oil Sinks as Doubts Arise on Saudi Cuts --- U.S. crude is down 10% in past five sessions, as investors question production numbers

By Timothy Puko, Neanda Salvaterra and Benoit Faucon
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15 March 2017
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English

Oil prices fell to a new three-month low Tuesday on fears that Saudi Arabia is wavering in its commitment to cut production in order to ease oversupply.

It is the latest dose of skepticism from investors who have taken oil from calm to panic in less than a week. Oil is now down 10%, or more than $5 a barrel, in just five sessions -- after it spent nearly three months trading in a range of less than $5.

Traders were once soothed by promises from the world's largest exporters but now are questioning them. The Organization of the Petroleum Exporting Countries, and other major producers including Russia, agreed late last year to cut output by around 1.8 million barrels a day, around 2% of global production. Last week, traders sold off because those cutbacks have yet to stop U.S. stockpiles from growing. This week, caution spread as Saudi output may not be falling as promised.

U.S. oil has tied its longest losing streak since January 2016, seven sessions. On Tuesday, light, sweet crude for April delivery settled down 68 cents, or 1.4%, at $47.72 a barrel on the New York Mercantile Exchange. It has lost 10.5% during its losing streak and is at its lowest settlement since Nov. 29.

Brent crude, the global benchmark, lost 43 cents, or 0.8%, to $50.92 a barrel on ICE Futures Europe. It has lost 9.1% in a six-session losing streak, its longest losing streak since the autumn of 2016.

Crude prices flipped down from gains Tuesday morning after Saudi Arabia reported that it increased output in February by 263,000 barrels a day to over 10 million barrels a day overall, according to a report from OPEC. The Saudis alone have covered for many other countries that haven't met their promised production cuts, giving their output a central focus among oil traders.

Some did question whether the kingdom is really backing away from that effort. Its output remains below its production target of 10.058 million barrels a day. And, using outside sources of oil-production information, OPEC determined that Saudi Arabia actually cut its output further, a discrepancy that often happens with OPEC members.

But Saudi Arabia's statement that it was increasing production sent jitters through an already nervous market. Until now, the kingdom had been seen as the force keeping OPEC compliant with its production-cut agreement.

"What you're seeing right now is a signaling mechanism," said Jonathan Berland, senior managing director at Gresham Investment Management, which has about $7.4 billion in commodity assets. He said the country is positioning itself for coming OPEC negotiations. "They don't want to carry the entire weight of OPEC at their own expense."

OPEC's cuts have also yet to make a dent in global oil inventories -- its stated goal in reducing production. Commercial oil stocks in industrialized nations rose in January by 20.1 million barrels to just above 3 billion barrels.

But a Saudi oil official previously has said the impact of the cartel's efforts wouldn't be felt until late March because it takes 90 days for oil to reach Western markets from the moment it is pumped.

Several fund managers said that likely will end the selloff soon as inventories start to fall and investors begin to see the recent fall creating bargain oil prices.

"My expectation is that this is going to get bought," said Tim Pickering, president at Auspice Capital Advisors Ltd., which manages $300 million in assets out of Calgary, Alberta. "This is going to turn around pretty quick."

But not all are quick to dismiss the recent signs. U.S. production is rising, and the number of working rigs has doubled from last year's lows, meaning U.S. production could fill a lot of the shortfall even if OPEC does follow through on its promised cuts.

"We don't see global stock even drawing significantly this year," said Robert McNally, president of energy consultancy Rapidan Group.

On Wednesday, the U.S. Energy Department will release official weekly numbers on U.S. oil inventories.

The American Petroleum Institute, an industry group, said late Tuesday that its own data for the week showed a 531,000-barrel decline in crude supplies, a 3.9 million-barrel decrease in gasoline stocks and a 4.1 million-barrel fall in distillate inventories, according to a market participant.

The Federal Reserve meeting this week also may add some uncertainty to markets, as traders await a statement from the central bank following the two-day policy meeting that started Tuesday.

Gasoline futures gained 0.28 cent, or 0.2%, to $1.5835 a gallon, snapping a four-session losing streak. Diesel futures fell 0.87 cent, or 0.6%, to $1.4919 a gallon. It is now down for five-straight sessions and at its lowest settlement since Nov. 29.

Stephanie Yang contributed to this article.

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The New York Times

Business/Financial Desk; SECT
Why the Fed Has Historically Changed Interest Rates

By PRADNYA JOSHI
773 words
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NYTF
The New York Times on the Web
English

The Federal Reserve has been in the business of raising or cutting interest rates to better steer the changing dynamic of the American economy. Below are pivotal moments of rate changes in the last 40 years.

1979 TO THE 1980S

Battling Stagnation

Fed Chairman: Paul A. Volcker

In October 1979, Mr. Volcker held a late Saturday night news conference to announce a bold new package of measures to tame runaway inflation that was in part a result of **oil price** increases. The new policy raised the Fed's benchmark rate by 4 percentage points, to 15.5 percent, in a month. By late 1980, rates reached a record high of 20 percent.

Raising rates is often seen as a direct way to control inflation. Think of it as two sides of a seesaw: As one side goes up, it pushes the other down. Higher rates make it more expensive to borrow, slowing down an overcharged economy and restraining prices.

By using that tool in such powerful fashion, Mr. Volcker risked sending the economy into recession, which happened twice during his tenure (in 1980 and 1981-2). Among other things, his campaign brought about a spike in unemployment. And with interest rates so high, both political parties attacked the Volcker-led fight on inflation.

But by 1983, inflation had fallen below 4 percent, barely three years after a stretch in which it averaged 14.6 percent. Today, Mr. Volcker's actions are seen as setting the table for the long economic expansions of the 1980s and '90s. As a result of the Fed's intervention, both unemployment and inflation were tamed.

1987 TO THE 1990S

Black Monday and Economic Worries

Fed Chairman: Alan Greenspan

Just a few weeks into Mr. Greenspan's tenure in 1987, the Fed lowered rates after the **stock market** crashed, and he encouraged banks to continue lending.

In the early years of Mr. Greenspan's tenure, inflation rose above 5 percent as the economy improved, and he responded with a sharp increase in interest rates. He faced criticism for failing to cut rates quickly enough as the country fell into a recession in 1990-1.

But the 1990s were later marked by the longest peacetime expansion in the nation's history. Mr. Greenspan resisted pressure to raise interest rates as unemployment declined. He argued that increased productivity, including the fruits of the internet revolution, had increased the pace of sustainable growth.

SEPT. 11 ATTACKS AND AFTER

Rates at Historic Lows

Fed Chairman: Alan Greenspan

After having presided over what was known as the Great Moderation -- nearly two decades of strong growth, modest inflation and low unemployment, with just a few bumps along the way -- Mr. Greenspan was credited with acting quickly after the terrorist attacks of Sept. 11, 2001, and the ensuing recession.

Although the recession was brief, economic growth continued to be sluggish. By 2003, the Fed cut its benchmark rate to 1 percent, a 45-year low then regarded as the lowest viable level.

2004

Ending Stimulus

Fed Chairman: Alan Greenspan

As the economy revived, the Fed removed its stimulus program slowly, raising interest rates at 17 consecutive meetings. (Some economists now argue that the Fed should have moved more aggressively and that its slow retreat helped to fuel the housing bubble.)

2008

The Great Recession

Fed Chairman: Ben S. Bernanke

When Mr. Bernanke became chairman in 2006, the economy seemed to be humming along. But after the collapse in housing prices, the economy was plunged into what has become known as the Great Recession.

After the demise of Lehman Brothers in 2008 brought the financial system to the brink of disaster, Mr. Bernanke entered uncharted territory, pushing interest rates nearly to zero. With little leverage on rates, he also persuaded colleagues to start buying bonds, a supplemental strategy to stimulate the economy known as quantitative easing.

2012

Eyeing Inflation

Fed Chairman: Ben S. Bernanke

In January 2012, the Fed formally adopted a 2 percent inflation target, although it found itself at that point trying to raise inflation to that level rather than driving it down. The Fed was increasingly worried that sluggish inflation was restraining economic growth.

2015

Putting the Crisis Behind

Fed Chairwoman: Janet L. Yellen

In 2015, a year after Ms. Yellen took over as chairwoman, the Fed raised interest rates for the first time since the financial crisis. It cited the steady growth of employment and other economic measures, and signaled that it expected to raise rates more quickly in the coming years to prevent the economy from overheating.

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The New York Times

Business/Financial Desk; SECTB

How a Quarter-Point Rate Rise Hits Your Wallet

By NELSON D. SCHWARTZ
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Get ready to pay more to borrow.

When it comes to economics, certainty is usually elusive, but in the case of the expected decision by the Federal Reserve to raise short-term interest rates by a quarter-point on Wednesday, the impact on consumers is clear.

The typical credit card holder who is carrying a balance will quickly see annual interest charges rise to 16.75 percent from 16.5 percent. Rates on auto loans and home equity loans will also creep higher, as will mortgage rates, albeit over a longer period of time.

''It will be a direct pass-through to credit card holders,'' said Greg McBride, chief financial analyst with Bankrate.com. ''This is a rising tide that lifts all boats, and you're going to feel it in equal magnitude wherever you sit on the credit spectrum.''

Still, rather than focusing on the imminent move by the Fed, experts are warning that the long-term trajectory for borrowing costs will steadily move higher, especially if the central bank follows through on signals that it will raise rates twice more this year.

But although almost all borrowers will be affected, some will feel it much more than others. Here's how it's likely to play out.

Credit Cards

According to Mr. McBride, credit card costs are directly tied to the prime rate, which in turn is linked to the federal funds rate. The latter is what the Fed is set to increase Wednesday. As both these rates move higher, so will the adjustable annual interest rate on credit cards.

Over all, the anticipated quarter-point increase in the central bank's target for the benchmark fed funds rate is small, and it still leaves short-term borrowing costs near historical lows.

But because credit card debt is so much more expensive than other forms of credit, like a mortgage or a car loan, an already expensive way to borrow will become even more burdensome. Experts always advise paying monthly balances in full, but roughly 40 percent of consumers don't do that. And among this group, the typical balance stands at nearly $17,000.

The extra quarter-point's impact is small for now, equaling about $42 per year on that typical balance. But if the Fed moves two more times this year, that will add another $85 annually for the typical family that carries a balance on its cards.

Mortgages

Unlike credit card terms, which move according to short-term interest rates, mortgage rates generally follow the trajectory of the yield on **10**-**year Treasury** bonds. Bond yields have been moving higher, partly because of the Fed's intention to tighten monetary policy, but mostly because of indicators that the economy is getting stronger and the possibility that government borrowing will soar under President Trump.

Mortgage rates have already run up sharply since the election -- rates on a 30-year fixed mortgage now stand at about 4.25 percent, up from 4 percent late last year and 3.75 percent in early November, according to Inside Mortgage Finance.

"Investors expect the Fed to raise rates, and to some extent that's baked into the market and mortgage rates," said Guy Cecala, the company's chief executive and publisher. "But it's not lock step, and the Fed is a relatively minor factor in determining mortgage rates."

On the other hand, homeowners who have borrowed against properties using a home equity line of credit will feel a pinch much sooner. These rates are variable and will most likely rise by a quarter-point after a Fed move. With a typical balance equaling $30,000, that adds about $6.25 in monthly interest payments.

Still, even if home buyers won't really be put out by a single Fed move in March, tighter monetary policy and rising bond yields will gradually make mortgages significantly more expensive in the months ahead.

And because the outstanding balances of mortgages are so much larger than they are for credit cards or home-equity loans, the ultimate impact of higher mortgage rates is much more noticeable. For example, a rise of one percentage point on a mortgage of $500,000 will lift interest payments by nearly $5,000 in the first year of the loan.

As a result, more borrowers are looking at adjustable-rate mortgages, which lock in rates initially, but then let them float after five, seven or 10 years. Rates on five-year adjustable rate mortgage are about a full percentage point below what a 30-year fixed mortgage costs.

"We've been spoiled," said Mr. Cecala, noting that during the housing boom before the recession, 30-year mortgage rates stood at 6 percent. He doesn't expect a return to that level anytime soon, but he does expect rates on a 30-year, fixed-rate mortgage to hit 5 percent in 2018.

"I don't think there's any question that mortgage rates are heading to 5 percent or higher," Mr. Cecala said. "It's just a question of when."

Auto Loans

Although car loans will also get slightly more expensive, the quarter-point rise in financing costs comes on top of relatively low borrowing rates to begin with. Currently, consumers pay about 4.3 percent annually for a loan on a new car, while the rate on loans for used cars stands at 5 percent, according to Bankrate.com.

"The good news is that there is still intense competition in the auto lending landscape," Mr. McBride of Bankrate said. "Even with rates moving up, plenty of people are finding loans for 3 percent a year or lower."

What is more, as car loans are nowhere near the size of mortgages, the impact of the quarter-point increase is slight. The cost of a $25,000 auto loan looks to rise by just $3 a month.

Savings

Returns for savers, unlike those for **stock market** investors, have never recovered from the financial crisis of 2008 and the recession, when overall interest rates plunged. Short-term rates have crept higher since the Federal Reserve embarked on its path to normalize monetary policy in December 2015, but savers wouldn't know that: The typical savings account currently pays 0.1 percent per year.

"If it goes from 0.1 percent to 0.2 percent, who cares?" Mr. McBride said. "If you're waiting at your existing bank for better yields to land in your lap, you're going to be disappointed."

But that doesn't mean yield-starved savers have to settle for next to nothing. Mr. McBride notes that a handful of banks pay more -- much more -- on savings and money-market accounts. For example, PurePoint Financial offers a 1.25 percent yield on savings accounts with a minimum of $10,000 in assets, while Popular Direct pays 1.15 percent on savings accounts with at least $5,000.

PurePoint is a unit of MUFG Union Bank, whose Japanese parent is among the largest financial institutions in the world, and Popular Direct is an affiliate of the Puerto Rico-based Banco Popular. Both institutions get high ratings for safety and soundness from Bankrate.com.

In addition to earning more now, savers at these institutions will also see yields rise more quickly if the Fed continues to nudge rates higher in the months ahead.

"To see an improvement, you have to have your money at one of the banks that's paying the best yields," Mr. McBride said. "You've got to play in the right sandbox."

Auto loans would cost just a bit more with a quarter-point rise: Payments on a $25,000 loan would go up by about $3 a month. (PHOTOGRAPH BY SCOTT MCINTYRE FOR THE NEW YORK TIMES) CHARTS: Heading Higher Slowly: For consumers, borrowing will cost more as the Federal Reserve steadily tightens monetary policy. Although rates for mortgages (the largest source of debt for households) have crept up recently, they remain very low by historical standards. (Sources: Reuters; Bankrate.com; Federal Reserve Bank of New York)

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THE WALL STREET JOURNAL.
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World News: Central Banks Ready Rate Shift

By Harriet Torry and Paul Hannon
533 words
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A8
English

Major central banks meeting this week look set to indicate an improving global economy is turning the tide on a long era of ultralow interest rates and bond-buying programs.

The Federal Reserve is poised to raise rates and others are on hold, marking a turnaround from a year ago, when the U.S. central bank was holding steady and others were cutting rates or expanding their bond-buying stimulus efforts amid deflation fears and weak growth.

"There is no longer that sense of urgency in taking further actions," European Central Bank President Mario Draghi said last week, after the bank left its current policies in place and indicated that the ECB probably won't need to enact fresh stimulus to support the economy. "That urgency that was prompted by the risks of deflation isn't there," Mr. Draghi said.

Center stage is the Fed, which is all but certain to lift its benchmark short-term rate Wednesday and signal that more increases are likely in the months ahead, picking up the pace after moving just once a year in 2015 and 2016.

Central banks in the U.K. and Japan -- which were aggressively easing policy as recently as last summer -- are expected to leave borrowing costs unchanged at their meetings Thursday and could give more optimistic economic forecasts given low unemployment and rising inflation rates in both countries.

Monetary policy makers in Norway, Indonesia and Turkey also are expected to keep rates steady at meetings this week.

A pickup in inflation and signs of stronger global growth are the key developments of the past half-year, economists say. A deep rout in commodity prices since mid-2014 has stabilized in recent months, while U.S. consumer sentiment and stock markets have rallied since President Donald Trump's election on hopes of tax cuts, less regulation and more government spending.

The annual rate of inflation in the Organization for Economic Cooperation and Development's 35 members rose to 2.3% in January from 1.8% in December, its highest point since April 2012, largely on a jump in energy prices. Excluding food and energy, annual inflation rose only marginally to 1.9% from 1.8% in December, the OECD said.

"It does feel like the global economy that felt weak last year is doing a little better, growth has picked up in places, therefore monetary policy doesn't have to be so focused on downside risks," said Donald Kohn, a member of the Bank of England's Financial Policy Committee and former Fed vice chairman.

This contrasts with early last year, when several major central banks were cutting interest rates to ward off deflation and the Fed was holding off on rate increases because of slumping U.S. growth and **financial market** turbulence.

Now, almost no developed economy is considering further easing, and many emerging-market central banks are on hold as well.

Fed officials cut their benchmark federal-funds rate to near zero during the financial crisis and held it there for seven years, through the deep recession and fitful recovery.

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Equities: Three Stocks Get Boot From S&P 500 --- Beaten-down shares don't meet rejiggered guidelines

By Chris Dieterich
299 words
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The minders of the **S&P 500**, S&P Dow Jones Indices, on Friday rejiggered the guidelines for determining whether a company is considered large, medium or small, the latest sign that the market rally is kicking into high gear.

Effective immediately, stocks need to sport a total value of $6.1 billion to be included in the **S&P 500**. That is up 15% from the previous threshold, $5.3 billion.

The index provider periodically adjusts such thresholds to ensure its benchmarks reflect the marketplace. There have been eight such adjustments over the past decade, most recently in 2014. When stocks tumble, as they did in 2008, the index provider will lower the bar for market value.

To be considered for S&P's main midcap benchmark, a company now requires a market value of between $1.6 billion and $6.8 billion, up from between $1.4 billion to $5.9 billion. For small caps, the range becomes $450 million to $2.1 billion, up from between $400 million to $1.8 billion.

The rule changes put three beaten-down **S&P 500** stocks on the chopping block. Apparel retailer Urban Outfitters fell 3.8% and telecom firm Frontier Communications fell 1.4% Monday on news of their index exclusion, while solar-energy component maker First Solar added 1.3%.

Index changes for major benchmarks result in forced selling and buying as funds reshuffle their holdings.

Meanwhile, for companies that will soon join the **S&P 500**: Microchip-maker Advanced Micro Devices rose 2.7%, Alexandria Real Estate Equities rose 0.3%, and Raymond James Financial fell 0.3%

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Market Swings Hint at Data Leaks

By Mike Bird
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U.K. government-bond futures often move sharply in the 24 hours before sensitive economic reports are released, an analysis of trading data shows, a phenomenon that suggests some investors may be trading with knowledge of official statistics before they are made public.

The analysis highlights Britain's unusual practices in the handling of market-moving data: Over a hundred people, from Prime Minister Theresa May to dozens of policy advisers and press officers, can get to see some of the figures a day before they come out. In the U.S., the president and the chairman of the Council of Economic Advisers receive sensitive data such as GDP a day in advance. In several European countries, there is no prerelease access at all.

In 59.5% of 172 data releases between April 2011 and December 2016, U.K. government-bond futures correctly anticipated the rise or fall that happened when economic data were published, according to an analysis prepared for The Wall Street Journal by Alexander Kurov, associate professor of finance at West Virginia University.

There may be other reasons why markets move ahead of embargoed data.

Traders, for example, use privately collected economic data in a bid to estimate consumer-price inflation themselves.

But traders in other countries, such as the U.S., aren't anticipating economic data released by government departments with the same precision as it happens in the U.K., research shows.

Some senior British statisticians and policy makers have long feared that the U.K.'s wide early distribution of data creates a much greater risk of leaks and the potential that people could trade on data ahead of their release.

For U.K. unemployment data, for instance, 118 people have prerelease access, according to the Office for National Statistics.

"The more prerelease access you have, the more likely it is that these things are going to be leaked," said Hetan Shah, executive director of the Royal Statistical Society, the U.K.'s professional body for statisticians that has campaigned for several years to end such access.

In a review last year of U.K. economic statistics, former Bank of England Deputy Governor Charles Bean criticized what he called "laxity in compliance" with prerelease access rules. Mr. Bean recommended that the government keep the distribution of prerelease access to an absolute minimum.

In 2010, the U.K. Statistics Authority, the independent body responsible for the integrity of official U.K. data, recommended cutting the maximum prerelease period to three hours, partly on the basis that it would reduce the risk of leaks. The government rejected the proposal.

Large London-based traders approached by the Journal declined to comment.

David Clark, chairman of the Wholesale Markets Brokers' Association, a trade body for interdealer brokers, said that if trading on leaked data happens, "it happens to a much lesser degree than it did decades ago" because economic statistics don't surprise as much as they did.

Some traders and investors say they have long had suspicions about trading on potential data leaks.

"People watching the markets just had a feeling that something was going on, that markets were drifting into the number in a way that looked as though somebody, somewhere, knew it already," said Kevin Rodgers, a former trader who was Deutsche Bank's global head of foreign exchange up to 2014.

Policy makers have also noted that suspicious trading goes through fits and starts. Some officials believe, for instance, that there was a persistent leak of British gross domestic product data in 2009 and 2010, according to a former senior official familiar with the matter. This episode ended immediately after the May 2010 general election, when many of the individuals with prerelease access changed.

A spokeswoman for the Office for National Statistics, which produces official statistics, said it took the protection of unreleased data "extremely seriously."

A spokeswoman for the Cabinet Office, a department responsible for supporting the prime minister, said there were clear rules around prerelease access to official statistics and the government takes compliance with them "extremely seriously."

Officials say the wide and early briefing is so that lawmakers can prepare to present the data to the media and public.

The analysis conducted by Prof. Kurov looked at 207 releases of U.K. consumer-price inflation, industrial production and labor-market data over the five-year period.

Of those, 172 were generally considered by the market to be surprises, meaning that the figure came in above or below the consensus estimate among analysts.

In 59.5% of the cases in which bond futures reacted to unexpectedly strong or weak economic data, a move in the direction that would be consistent with the data had already been under way in the 60 minutes before the data announcement.

In the 60 minutes before data was published, bond-futures prices moved, on average, by 0.029% -- in the direction they would end up going after publication. That is more than one-third of total movement in the two hours surrounding the release.

Prof. Kurov also found that during the 24 hours before surprisingly strong or weak CPI and industrial-production data were released, the changes in bond-future prices were larger than the move in those prices in the hour after the release of the numbers.

"Based on what I see in the data in this case, it is very unlikely that we are looking at a random pattern," Prof. Kurov said.

The futures tended to sell off before an unexpectedly good reading, while gaining when the data was weaker than expected.

Strong economic data raises expectations that interest rates will go up. Rising interest rates push down **bond prices**.

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THE WALL STREET JOURNAL.
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Streetwise -- Be Careful: Volatility Is Hiding, Not Hibernating

By James Mackintosh
700 words
14 March 2017
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B1
English

One of the basic rules of markets is being violated. Investors usually hate uncertainty, but since the U.S. election, days of rising uncertainty have often been accompanied by higher stock prices.

The idea that riskier markets are worth more makes little sense, but the explanation may tell us something about the split between the views of professional traders and retail investors. As cash floods in from private investors it has pushed up the market overall, but has also led professionals to worry a little more about the risks -- both of a meltdown and, conceivably, a "melt-up," when the market soars 10% or more in short order. The prospect of either big losses or big gains prompts buying of options, pushing up their cost, proxied by implied **volatility**.

The puzzle shows up most clearly in the link between the VIX gauge of implied **volatility** and the **S&P 500**, although something similar has been going on with European shares and the VStoxx, the European VIX equivalent.

Days when the VIX or VStoxx goes up have normally in the past been days when the **stock market** falls, as higher expected **volatility** shows more risk is anticipated, justifying lower prices.

That link has partially broken down, with stock prices often rising when implied **volatility** rises, particularly last month. The 30-day correlation between the VIX and the **S&P 500**, a formal measure of how much they move together, is the highest since 2006, even as the absolute level of the VIX is very low compared with history.

Last month underlined the strange nature of the rally. Money pouring in from private investors helped push up the **Dow Jones Industrial Average** to 12 records in a row, even as other measures suggested growing caution. The wild optimism visible at the index level wasn't repeated under the surface, where defensive shares outperformed (ignoring the oil sector, sometimes classed as defensive and sometimes cyclical). Unlike a normal rally, smaller-company stocks underperformed too.

When traders are more cautious they tend to buy more put options to protect themselves against falling share prices, which pushes up implied **volatility**.

But **volatility** traders care as much about a melt-up in stocks as they do about the more common meltdown, and the risk of being caught out by a jump in shares is also seen to be rising.

Pravit Chintawongvanich at options broker Macro Risk Advisors in New York says the hunt for yield last year pushed more investors to sell call options as a way to generate income (although in reality they are selling potential future gains).

As the market goes up, those calls become a liability, prompting the investors to buy back calls to avoid being hit if there is a melt-up. The buying makes calls more expensive, and so pushes up implied **volatility**.

The pattern has been slightly less strong this month than last, with the VIX and **S&P 500** moving in the same direction on two out of seven trading days up toFriday'sclose. In February they moved together in seven out of 19 trading days, or 37% of the time, against just 18% in the 20 years up to November's U.S. election.

While the pattern of VIX changes has been eccentric, its actual level is extremely low: The VIX has been lower only 6% of the time since 1990. This is largely because the big swings by sectors within the **S&P 500** have largely offset each other, keeping realized **volatility** down, while strong inflows helped lift everything. Once inflows dry up or the sectoral rotations stop canceling out, **volatility** will no longer be hidden.

For now, the market is behaving oddly, and it shows the dilemma investors face. Stocks are expensive, yet the global economy has been picking up and the new U.S. administration promises corporate tax cuts and a fiscal boost.

Both meltdown and melt-up look more likely than usual. The calm on the surface of the **S&P 500** also means it is cheaper than normal to hedge against either, or both.

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THE WALL STREET JOURNAL.
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Equities -- Ahead of the Tape: Inflation: Price Is Right for the Fed

By Steven Russolillo
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English

It isn't just the healthy labor market giving the Federal Reserve enough confidence to raise interest rates; inflation is finally cooperating, too.

Two more reports on inflation are due this week before U.S. central bankers deliver their policy statement on Wednesday. After last week's upbeat employment data, reports on producer prices and consumer prices, due Tuesday and Wednesday morning, respectively, aren't expected to derail the Fed's plans. A rate increase this week appears all but certain, with the central bank likely to foretell more increases in the coming months.

The labor market has been steady for years, justifying a tighter Fed. But inflation -- the other half of the Fed's dual mandate -- has been a different story. The central bank's preferred inflation metric, the Personal Consumption Expenditures Price Index, has been below its 2% target for nearly five years. But other inflation indicators have picked up in recent months. And, perhaps more importantly, people are finally starting to expect more inflation in the future.

The Federal Reserve Bank of New York's monthly consumer survey for February, released Monday, showed that households expect inflation three years from now will be 3%, the survey's highest level since mid-2015. The New York Fed's report, which started almost four years ago, hit a low of 2.4% in June.

Inflation expectations over the coming 12 months in the University of Michigan's longer-running consumer survey have picked up as well, hitting 2.7% in February. That was up from 2.2% in December, which was only the second reading that low since the financial crisis. It is still shy of its 10-year average of 3.1%. Expectations matter because when consumers think inflation is headed higher, they tend to spend ahead of the price increases, effectively driving up inflation.

Investors should care, too. A study by Doug Ramsey, chief investment officer at Minneapolis-based Leuthold Group, found that inflation as measured by the producer price index for finished goods has been a good metric to gauge what the **stock market** might do next.

Over the past 70 years, the **S&P 500** has averaged 8% annualized gains when that PPI inflation indicator was between 2% and 4% -- it was 3.1% in January. The higher inflation gets, the lower the market's returns. The worst **S&P 500** annualized gains have come when this PPI indicator has been above 4%, according to Mr. Ramsey.

Inflation has been stubbornly low for years. Rising expectations are welcome as long as the increases are modest. Bigger increases could spur faster tightening. The Fed will be watching these trends closely.

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The New York Times

ECONOMIC TRENDS
Business/Financial Desk; SECTB
Easy Money Isn't So Easy for the Fed to Give Up

By NEIL IRWIN
1,053 words
14 March 2017
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NYTF
Late Edition - Final
1
English

When the Federal Reserve made its first tentative step toward ending its era of extraordinary monetary intervention, it earned a nickname: the taper tantrum. Global **financial markets** metaphorically bawled like a toddler on news that the Fed planned on ''tapering'' its stimulus program.

That was nearly four years ago. Ever since, the Fed has moved to decrease access to easy money with the caution of a technician defusing a powerful bomb. After raising its interest-rate target above near-zero levels in December 2015, the Fed waited a full year before doing so again, the slowest pace of rate increases in the modern history of the central bank.

But the era in which the Fed has moved so gingerly toward tighter money looks to be ending this week.

Under the chairwoman, Janet Yellen, the Fed is likely to raise its target interest rate a quarter of a percentage point on Wednesday -- a mere three months after the last one. It will probably signal that two more rate increases, barring economic setbacks, are on the way in 2017.

It's not the policy alone that is striking. Over several days this month, half a dozen senior Fed officials made public comments that suggested greater collective confidence and unanimity that the economy can handle tighter money than has been on display since the onset of the financial crisis nearly a decade ago.

Fed officials seem to believe that the United States economy is nearing its full economic potential, that the expansion is more sturdy than it was just a year ago, and that inflation is closing in on the 2 percent mark that the Fed aims for. The advent of unified Republican control of Congress and the White House also brings the possibility of tax cuts and other stimulative measures that would mean the economy needs less support from low interest rates to keep growing.

''Recent developments suggest that the macro economy may be at a transition,'' said Lael Brainard, a Fed governor, in a March 1 speech, describing a situation of ''full employment within reach, signs of progress on our inflation mandate, and a favorable shift in the balance of risks at home and abroad.''

Making the comments all the more notable: Ms. Brainard was perhaps the Fed's most vocal advocate of caution on rate increases just a year ago, arguing that geopolitical risks loomed large.

But something deeper may be afoot than just an improvement in the economic data. In both their tone and actions, Fed officials are displaying greater confidence that they know where the economy is heading -- namely that it is converging on a state of full employment and inflation near their 2 percent target.

''We are seeing an evolution away from a tactical approach toward a strategic approach,'' said Mohamed El-Erian, chief economic adviser at Allianz. ''Their stance now is that they will focus on the destination, not the journey, and that they will lead markets rather than be led by markets.''

Indeed, the biggest contrast with this time a year ago is that **financial markets** seem to believe it. At the start of 2016, Fed officials were envisioning raising rates four times over the course of the year, but bond market prices suggested investors weren't buying it and thought only one or two rate increases were on the way.

The markets were right. With some weak economic data and tumbling **oil prices** and **volatile** stock markets, the Fed stayed its hand.

The start of 2017 could hardly feel more different. Stock markets are booming, as are measures of consumer and business confidence. Economic data, including jobs numbers Friday, have been solid. Investors see a 60 percent chance that the Fed will raise rates three or more times this year, based on prices in futures markets Friday.

This time, in other words, the market actually believes the Fed will follow through with its plans to gradually raise rates.

One piece of evidence is that Fed officials, during the week of Feb. 27 to March 3, confidently signaled that a March 15 rate increase was imminent. By doing so before the February jobs report was released, they were making clear that even if that report had been soft, they were committed to rate increases.

The officials appear to have plotted a course to raise rates a few times a year with expectations of reaching the so-called neutral rate -- at which monetary policy is neither stimulating nor slowing the economy -- near the end of 2019. As of their December meeting, Fed leaders think that neutral rate is 3 percent.

But at the Fed, the momentum now evident in the economy feels hard won, and officials may be reluctant to risk it by tightening the monetary spigots prematurely.

Even if the central bank's most recent forecasts become reality, it will represent a historically slow pattern of monetary tightening -- four years to raise interest rates by about three percentage points. In the 1994 cycle, engineered by the chairman Alan Greenspan, a rate rise of that scale happened in just 13 months.

The big question for the months ahead is what it would take to change direction once again. Would a new soft patch in the economic data, a new bout of market turbulence or a new crisis lead Chairwoman Yellen and her colleagues to again retreat to the wait-and-see school of interest-rate increases?

''I do think there's some greater willingness to tolerate some shortfall in the data compared to expectations,'' said David Stockton, a senior fellow at the Peterson Institute for International Economics and a former Fed official. ''They are exhibiting more confidence in the economy, but that doesn't mean that confidence couldn't dissipate in the face of some scary event.''

The new, more confident, interest-rate-raising Fed will last, in other words, as long as events allow it to.

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

Alan Greenspan and Janet Yellen in 2013. Mr. Greenspan presided over faster a pace of rate increases in the mid-1990s. (PHOTOGRAPH BY PABLO MARTINEZ MONSIVAIS/ASSOCIATED PRESS) (B2)

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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
Shares Steady in Calm Before Potential Storm

By THE ASSOCIATED PRESS
684 words
14 March 2017
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NYTF
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4
English

Stocks held steady in a calm day of trading Monday, but the coming days are full of events that could swing markets.

The Federal Reserve may raise interest rates, more countries around the world may shake up the economic status quo, and several significant updates on the United States economy are due.

Still, the economic calendar was decidedly light on Monday, and the **Standard & Poor's 500-stockindex** flipped between modest gains and losses before closing at 2,373.47, up 0.87 of a point, or 0.04 percent. It remains within 1 percent of its record, which was set this month.

The **Dow Jonesindustrial average** fell 21.50 points, or 0.1 percent, to 20,881.48. The **Nasdaq composite** index rose 14.06 points, or 0.2 percent, to 5,875.78. Three stocks rose for every two that fell on the New York Stock Exchange.

Most investors expect the Fed to raise rates this week for only the third time since they went to nearly zero during the financial crisis in 2008.

Usually, rising interest rates are bad news for stocks because they make borrowing more expensive and can be a drag on economic growth. But many analysts say that as long as the pace is gradual, the expected increases will only be getting rates back to normal rather than slamming the brakes on the economy.

Investors will most likely focus more on what the Fed's chairwoman, Janet L. Yellen, says after the announcement than on the rate increase itself, which is expected to be only a quarter of a percentage point.

''What the market is curious about is: How many more rate increases will there be, and what is the primary data that would drive that?'' said J. J. Kinahan, chief market strategist at TD Ameritrade.

The job market has been on the upswing recently, and so has inflation. But a recent drop in the price of oil may pull down inflation levels, which could encourage the Fed to move more slowly. The government will offer updates this week on inflation at the consumer and wholesale levels, with reports on retail sales and other economic indicators.

Among the major movers, shares of Mobileye, an Israeli autonomous-driving company, surged after it agreed to sell itself to Intel for $63.54 a share in cash. Its shares listed in the United States rose $13.35, or 28.2 percent, to $60.62. Intel slipped 75 cents, or 2.1 percent, to $35.16.

The yield on the **10-year Treasury** note rose to 2.62 percent, from 2.58 percent late Friday, and is approaching its highest level since 2014.

Other central banks are also meeting on interest rates this week, including the Bank of England and the Bank of Japan.

Many economists expect the Bank of England to hold rates steady, but other action in London could garner more attention. The government could formally begin the process of exiting the European Union after a vote to leave last summer by one of a growing number of populations around the world trying to throw off the status quo.

In Europe, the CAC 40 in France rose 0.1 percent, the FTSE 100 in Britain rose 0.3 percent, and the DAX in Germany rose 0.2 percent.

The dollar largely held steady. It dipped to 114.77 Japanese yen, from 114.78 yen late Friday. The euro fell to $1.0660, from $1.0692, and the British pound rose to $1.2231, from $1.2177.

The price of a barrel of benchmark crude oil fell 9 cents to close at $48.40 a barrel. Brent crude, which is used to price international oil, slipped 2 cents to close at $51.35 a barrel in London.

Gold for the March contract rose $1.70 to settle at $1,202.40 an ounce.

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

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Markets & Finance: U.S. Rate Policy Risks Trouble For China

By Saumya Vaishampayan
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English

The Federal Reserve could revive a pesky problem for China's central bank Wednesday, depending on the signal it delivers about the path of U.S. interest rates.

A recent round of speeches by Fed policy makers already has investors fairly confident of an increase to short-term rates at this week's policy meeting. Any indication that officials are ready to lift rates more than the three times they currently project for 2017 could send the dollar higher.

That includes against the yuan, especially in the offshore market where it trades more freely than it does domestically.

The People's Bank of China will again have to closely monitor trading in hubs like Hong Kong for **bearish** yuan bets to ensure that the onshore and offshore markets don't diverge too much.

If enough negative yuan wagers accumulate, the PBOC might even decide to intervene in the offshore market, analysts say, as it has on several occasions in the past two years. A pullback in the dollar over the past two months has given the central bank some breathing room. The offshore yuan has gained 1.1% against the dollar this year, according to Thomson Reuters data.

Chinese officials "won't want to see the renminbi drop too fast because of the U.S. dollar's strength," said Ken Cheung, Asian foreign-exchange strategist at Mizuho Bank in Hong Kong. That is especially the case this year, when stability is the key goal of China's leaders. PBOC Gov. Zhou Xiaochuan said last week that the yuan's exchange rate will stay largely steady in 2017.

Pricing in the forwards market indicates the offshore yuan will weaken 3.2% in the next year to 7.12 to the dollar, according to Thomson Reuters. Depreciation expectations have picked up recently, though they remain less frenzied than at the start of this year when the forwards market pointed to one dollar buying 7.33 yuan in a year's time.

The evidence from the past two years suggests that the PBOC can very easily squeeze investors out of their **bearish** bets in Hong Kong, market participants say.

One option would be to direct state-owned banks to buy up yuan offshore, driving up the borrowing costs for the currency and so making it much more costly to short the yuan.

The pool of yuan floating around Hong Kong is shrinking -- yuan deposits tumbled nearly 40% in the year through January, according to the Hong Kong Monetary Authority -- making it less costly for the central bank to push up borrowing costs in this way.

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U.S. News --- THE OUTLOOK: Fed, Markets Align Despite Rate Rise

By Harriet Torry and Corrie Driebusch
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Investors widely expect the Federal Reserve to raise short-term interest rates this week, so why is the **stock market** so happy?

The prospect of higher borrowing costs has been a source of panic for stocks in the past, yet major stock indexes are hitting records. The reason: The economy is strengthening, U.S. corporate earnings are growing again, and rates aren't expected to rise much or quickly, investors and analysts said.

"It's not when the Fed tightens that causes a **bear market**, it's when the Fed tightens too much," said Richard Bernstein, chief executive of asset manager Richard Bernstein Advisors LLC.

The **S&P 500** has gained 16% since the Fed began to raise rates 15 months ago -- the best performance at this stage of a so-called tightening cycle, as such a series of rate increases is known, in two decades. Performance is measured as an S&P average based on the month of the rate increase.

On the surface, it's a counterintuitive development. While stocks have posted gains at this point in a tightening cycle about two-thirds of the time since the mid-1960s, rising rates are generally viewed as negative for shares. Higher borrowing costs dent corporate profits and household wealth, while they increase returns on savings. Back in 2013, markets sold off in a so-called taper tantrum on signals the Fed was preparing to wind down its bond-buying program, which aimed to spur hiring and inflation by holding down long-term rates.

"This tightening cycle is different," said Patrick Schaffer, global investment specialist at J.P. Morgan Private Bank. The Fed is moving rates only slightly higher from an already-low base and plans to raise them gradually.

A major tailwind for stocks are expectations the Trump administration will boost economic growth by cutting taxes, loosening regulation and spending more on infrastructure and the military, investors say. They see the prospect of a rate increase this week as confirmation the central bank sees a bright economic outlook.

"Markets and the Fed are on the same page," said Randall Kroszner, professor of economics at the University of Chicago Booth School of Business, and a former Fed governor.

That's a relatively new development. Since the Fed began raising rates in late 2015 after holding them near zero for seven years, markets consistently and correctly judged officials' forecasts about the pace of rate increases to be overly optimistic. At the start of last year, the Fed anticipated it would lift rates four times in 2016, in quarter-percentage-point steps. Instead, it moved just once, in December.

Market expectations for a rate increase at the Fed's meeting this Tuesday and Wednesday were minimal until just a few weeks ago. At its most recent meeting, Jan. 31-Feb. 1, it left its benchmark federal-funds rate unchanged in a range between 0.50% and 0.75%, and gave no hint then about when the next increase might occur. Traders then saw less than a 20% probability of a rate rise this month.

Since then the economy has stayed on track. Employers added 235,000 jobs in February and the unemployment rate fell to 4.7%. Inflation has ticked up closer to the Fed's 2% target, while earnings for companies in the **S&P 500** rose in the fourth quarter, marking the second straight quarter of earnings growth after five quarters of declines, according to FactSet.

Meanwhile, the **financial markets**' "Trump rally" has continued, sending the **Dow Jones Industrial Average** over the 21000 mark for the first time earlier this month.

The markets' strength, despite the Fed's rate increase in December and plans for raising them more this year, suggests officials have a window to raise rates again in March without triggering financial turmoil, investors say.

It's an opportunity Fed officials have signaled they're ready to take. Fed Chairwoman Janet Yellen said March 3 that a rate increase likely would be appropriate this month if economic data meet expectations, echoing earlier statements from senior Fed policy makers.

A Fed move this week would give it an early start on its plans to raise rates three times this year, likely in quarter-percentage-point steps, a pace it describes as "gradual." Market participants appear comfortable with that.

Fed-funds futures, used by traders to wager on interest-rate moves, see an 88.6% probability of a rate increase this month, and a 62.1% probability the Fed will lift rates a total of three times or more by the end of this year.

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Equities -- Ahead of the Tape: Fed and Markets on Same Page on Rates

By Steven Russolillo
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Financial markets and the Federal Reserve are finally speaking the same language on interest rates.

Friday's upbeat jobs report almost certainly means another rate increase at this week's Fed meeting, the first of three that central-bank officials forecast over the course of the year. Investors had been skeptical about that pace. Now, they are no longer fighting the Fed based on bets in the federal-fund futures market. That might explain why equity markets continue to take the prospect of higher interest rates in stride.

The **S&P 500** is already up 6% this year and hovers around record highs. The conventional wisdom now holds that rising rates reflect policy makers' expectations of an improving economy as a result of fewer regulations, lower taxes and more infrastructure spending.

"Getting the federal-funds rate closer to normal isn't a death knell for risk assets anymore," said Jason Trennert, chairman and chief executive of Strategas Research Partners LLC. "The Fed has a long way to go to get from super accommodative to even just accommodative."

Wariness was to be expected. For years, the Fed overpromised in its quest to normalize monetary policy. The Fed started 2015 by projecting three rate increases but only raised one time. It forecast four increases in 2016, but again only lifted rates once. In both years, investors correctly bet the Fed would underdeliver on its projections.

Now, the Fed and investors are moving in sync. Fed-fund futures show the odds of at least three rate increases this year have doubled over the past month, climbing to as high as 60% as of Friday, according to CME Group. Conversely, the odds of zero or one rate increase this year plummeted to 10% from 36% in early February.

One thing that could derail this lovefest between markets and the Fed is the dollar. The greenback is already strong, having hit a 14-year high in December against trading partners' currencies. Higher rates make dollar assets more attractive, driving up the currency. A strong dollar can hurt earnings of multinational corporations, many of which do the bulk of their business abroad.

"If the dollar were to get much stronger from here, that would slow the Fed down," Mr. Trennert says.

But until then, the Fed might actually speed up. J.P. Morgan Chase economist Michael Feroli predicts the updated "dot plot" of individual Federal Open Market Committee members' predictions on Wednesday will show their median projection calling for four rate increases in 2017, up from three at the end of last year.

There are many things that could spook investors in the weeks and months ahead. So far, a tighter Fed doesn't seem to be one of them.

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Markets & Finance: Markets Shrug Off Political Storms --- Volatility levels in stocks, bonds and currencies have eased; Avoiding major calls

By Saumya Vaishampayan
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If the world seems particularly unpredictable these days, no one appears to have told investors.

From the uncertainties around President Donald Trump's policies to the sudden belief that the Federal Reserve will raise interest rates this month, there are plenty of unsettling factors in the U.S. Other reasons to fret include France's close presidential election and heightened instability around North Korea.

Yet none of this is roiling **financial markets**. The level of **volatility** in global stocks, bonds and currencies -- evidenced by the prices for key derivatives known as options -- is close to catatonic.

Among the reasons: Subdued market swings in recent weeks are feeding into expectations things will continue this way. Big investors are steering clear of major calls on the market's direction. And despite the disquiet about politics, global economic growth has been steady.

There remains a "lack of conviction" among major institutional investors such as hedge funds, according to Rakesh Patel, head of equities for Asia Pacific at HSBC in Hong Kong. In turn, their demand for products such as options is mixed, as investors tend to buy these when they have a strong view about the market's direction or want to protect themselves against worst-case scenarios.

"There is an oversupply of **volatility** in the market," he said. "The ecosystem of **volatility** markets, whereby **volatility** is recycled from wealthy clients to banks and on to institutional investors, has broken down a bit."

Investors pay close attention to **volatility**, the amount an asset swings over a given period. Choppy stocks or bonds can be a turnoff for those who prefer steady returns but can present the brave with more opportunities for profit.

Most investors look at both realized **volatility**, a measure of an asset's recent swings, and implied **volatility**, which gauges expectations of future gyrations. The latter is derived from the price of options -- popular hedging instruments that give investors the choice to buy or sell assets at a certain price by a future date. The two measures are linked. If investors feel markets are relatively calm, they tend to be less willing to shell out for options, which depresses implied **volatility**.

Despite the surge in some markets since the American election in November, notably U.S. stocks, day-to-day moves have been subdued. The **S&P 500** posted no daily 1% swings in the first two months of the year, compared with three in November and December.

The CBOE**Volatility** Index, or VIX, which reflects investors' expectations for moves in the **S&P 500** over the next 30 days, has fallen this year, hitting 11.66 on Friday -- well below its 10-year average of 21. The Bank of America Merrill Lynch MOVE index, which measures expectations for swings in Treasurys, has also declined in 2017.

Emerging-market stocks have been calm too. The iShares MSCI Emerging Markets ETF posted seven swings of 1% or more in January and February, compared with 16 such moves in the last two months of 2016.

The CBOE Emerging Markets ETF **Volatility** Index in turn dropped to 15.23 last month, its lowest level since 2014. The index, which measures expectations for swings in the ETF, has since ticked higher, ending at 17.07 on Friday, but remains below its average of 24.5 based on data going back to March 2011.

Currency volatility has faded, too, given the pause in the dollar's postelection rally late last year. J.P. Morgan's gauge of emerging-market currency volatility fell to 9.26 on Tuesday, its lowest level since 2015 and below its 10-year average of 10.9. The index measures expectations for swings in currencies such as the Mexican peso, Brazilian real and Chinese yuan over three months.

The reluctance of influential investors to make major market bets, a factor in the volatility slump, is driven in part because many have already lost money this year as the postelection run-up in the dollar and Treasury yields cooled.

Market participants say investors are unwilling to wager on political uncertainties, such as the timing and extent of Mr. Trump's economic plans or coming elections in the Netherlands and France.

"At a time when the Fed is hiking interest rates and we've just had a massive reshape of U.S. politics, volatility does seem remarkably low," said Mirza Baig, head of foreign exchange and interest-rate strategy in Asia at BNP Paribas.

One explanation is that economic growth in the U.S., Europe and China has been decent, Mr. Baig said. The broad outlook is more settled than this time a year ago, when fears about China's economy stoked the last extended period of high volatility in global markets.

Andrew Peaple contributed to this article.

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Search Summary

Text	S&P 500 index or Dow Jones index or Bond yield or oil price or stock index or stock market or DJIA or SPX or equity market or Dow Jones Industrial Average or S&P 500 or Standard & Poor's 500-stock index or U.S. treasury rates or U.S. treasury yield or stock price or earnings suprise or earnings surprises or oil prices or Nasdaq Composite or standard & poor's 500 index or 30-year Treasury bond or 10-year Treasury bond or 30-year Treasury or 10-year Treasury or Bond prices or bull market or bear market or bull market or bear market or bullish or bearish or financial markets or financial market or volatile or volatility or Nasdaq
Date	03/01/2017 to 03/31/2017
Source	The New York Times - All sources Or The Wall Street Journal
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Industry	All Industries
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Language	All Languages
Results Found	205
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