The New York Times

Fundamentally
Business Day; Mutual Funds
The Bond Market Is Shifting, So Steady Yourself

By PAUL J. LIM
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The forces that rejuvenated the **stock market** late last year have changed the profile of the fixed-income market.

Heading into the fourth quarter, for example, funds that invest in long-term government debt had been up more than 13 percent for the year as investors favored relatively safe bets on a sluggish economy. But as market interest rates shot up on hopes of accelerating growth and fiscal stimulus from the incoming administration of Donald J. Trump — hopes that contributed to the big rally in stocks — long-term government bond funds fell by double digits in the final three months of the year and finished 2016 up just 1 percent. The Vanguard Long-Term Government Bond E.T.F., for instance, fell nearly 12 percent in the final three months of 2016 and finished the year up only 1.2 percent for the year.

At the same time, investor appetite for lower-quality bonds has been on the rise, with high-yield bonds up nearly 2 percent in the fourth quarter. The SPDR Bloomberg Barclays High Yield Bond E.T.F. has gained nearly 2 percent since Dec. 1 and returned 14.4 percent in 2016.

“In one fell swoop, the market was recalibrated,” said Carl P. Kaufman, managing director for fixed-income strategy at Osterweis Capital Management. “The question is: Does it continue?”

Mr. Kaufman said that investors aren’t likely to find that out until at least the first few months of the Trump presidency. But he said he thought “the markets are going to take a breather and see what happens until then.”

In the meantime, market strategists warn investors not to dramatically overhaul their core fixed-income strategy.

To be sure, many investors believe that the smartest strategy in 2017 is not to fight the Federal Reserve or fiscal stimulus.

With the Fed indicating that there could be three modest rate increases in 2017, after the central bank’s quarter-point rise in December, investors are generally being advised to “shorten up” their bond portfolios by putting new money to work in short-term debt that will lose less value than long-dated bonds when market rates rise.

Even if the Fed is overestimating the number of rate increases to come — as policy makers did in 2016, when they entered the year forecasting four rate increases but only delivered one — “you’re not being paid a lot to extend out” in terms of maturities, said Jeff Klingelhofer, a portfolio manager and managing director at Thornburg Investment Management.

At the same time, the Trump administration’s calls to lower household and corporate tax rates and to increase spending on infrastructure projects are expected to energize growth — or at the least breathe some new life into an aging economic recovery that’s been unfolding for nearly eight years. And these stimulative policies are generally viewed as a sign that it’s safe to bet on institutions with less-than-pristine credit.

But within this framework, fixed-income strategists advise investors to err on the side of caution.

“The markets have mostly overreacted at this point,” Mr. Klingelhofer said. “Most investors would agree that we’re in the later stages of this recovery — maybe we’re in the seventh inning, maybe the eighth, but we’re not in the second inning when it comes to growth.”

Therefore, he said, even if investors want to add to their high-yield exposure, the prudent move may be to focus on the higher-quality end of the junk bond spectrum — for instance with a bond rated BB or B.

Andrew C. McCormick, head of T. Rowe Price’s United States taxable bond team, said that with the Fed poised to continue lifting short-term rates, there may be a more attractive way to gain exposure to the noninvestment grade market: bank loan securities with interest rates that float with market rates.

Bank loan funds post gains when rates are on the rise, but this is particularly true now that the Fed’s December increase has pushed the three-month London Interbank Offered Rate, or Libor, up to 1 percent. While rates on bank loan securities generally float with the market, in many cases that only happens if Libor is at or above 1 percent.

With Libor at that threshold, this form of noninvestment grade debt should have more appeal.

Moreover, the typical bank loan fund has about one-tenth the exposure to the energy sector as high-yield bond funds do. While energy prices have recently stabilized, plummeting prices in 2015 led to a jump in the default rate for high-yield debt early last year.

Bank loans also sport ultrashort maturities. The average bank loan fund has a duration of less than 0.4 year, implying that if market rates were to rise by 1 percentage point, these funds would fall less than 0.4 percent in value. By contrast, the average duration of a junk bond fund is 3.6 years.

“You’re taking virtually no duration risk in bank loans,” says Kathy A. Jones, chief fixed-income strategist for the Schwab Center for Financial Research. Meanwhile, she adds, bank loan debt hasn’t had the run-up that high-yield bonds have enjoyed.

Kate Warne, an investment strategist with the brokerage Edward Jones, said investors shouldn’t assume too much when it comes to the bond market.

For example, while it may seem certain that rates are poised to rise, “the Fed has overestimated the number of rate hikes they expect pretty consistently,” she said. Moreover, with bond yields generally higher in the United States than overseas, foreign money will continue to pour into domestic bonds, which should keep a lid on how high rates can rise.

This is an argument for sticking with a traditional strategy like a bond ladder, she said, in which investors divide their fixed-income stake into bonds maturing in routine intervals to mitigate interest rate risks.

Rather than abandoning the laddered approach by selling longer-dated bonds, investors may choose to add to their cash stake to take advantage of rising rates sooner. “But don’t ignore intermediate- and long-term bonds,” she said.

Ms. Jones of Charles Schwab said that investors may think they know what’s to come in the economy or from the Trump administration in 2017, “but in reality, we are operating under a cloud of uncertainty. Everyone may be expecting taxes to be cut or counting on infrastructure spending, but we simply don’t know what the specific policy prescriptions will be,” she said.

* Investors Make **Bullish** Bet on Trump, and an Era of Tax Cuts and Spending

* Wall Street’s Annual Stock Forecasts: **Bullish**, and Often Wrong

* Junk Bonds: Never Stodgy and Steadier Than You Might Think

* Signs of Strain in the Stock and Bond Love Affair

Tim Cook

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The New York Times

Business Day; Mutual Funds
A Rising Market Now Confronts Heightened Risks

By CONRAD DE AENLLE
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The **stock market** has continued to reach new highs, troubled only fleetingly by rising interest rates, sluggish corporate earnings and new and uncomfortable political realities.

Monetary policy is tightening, government spending is expected to expand substantially, and, as the American presidential election and the vote in Britain to leave the European Union show, trade relations and other ties among nations may be fraying. How those trends progress should go a long way to determining the performance of stocks and bonds as the year moves along.

These aren't the only issues for investors to contend with, either. Economic indicators have perked up — unemployment in December, reported on Jan. 6, was 4.7 percent, and consumer confidence is near multiyear highs — but the earnings outlook remains subdued, stock valuations remain high and bond yields are low but rising. Under these circumstances, many investment advisers recommend taking only minimal, reasonably priced risks.

"I'm hard pressed to locate any investment where you can make a strong argument that it's undervalued," said Joe Davis, global chief economist at Vanguard and head of the firm's Investment Strategy Group. "Just as the economic environment seems to be improving, the investment environment is more challenging. Investors have more risk in their portfolios than at any time since 1999."

Ben Inker, co-head of asset allocation at the GMO investment firm, likewise finds "plenty of things to worry about."

The **Standard & Poor**'**s 500**-**stockindex** early this month traded at about 26 times the earnings that the constituent companies reported in the previous year, higher than at almost any time in history. One reason that investors are willing to pay so much is that they see even less value in other assets.

"The rest of the world looks scarier than the U.S.," Mr. Inker said. "Who would want to touch Europe? Who would want to touch emerging" markets? As scary as they may appear, he recommends investing in emerging stock markets as the best of a series of difficult choices. "It's not that we have high hopes for the emerging world this year," he said, "but they're priced for a really bad outcome. The U.S. is priced for a really good outcome."

American stocks had a really good outcome in 2016. The **S**.**&P**. **500** rose 9.5 percent, to 2,238.83, including a 3.3 percent gain in the fourth quarter.

The average domestic stock fund in Morningstar's database rose 3.3 percent in the quarter and 10.9 percent on the year. Leading the way in the quarter, with double-digit gains, were portfolios that focused on financial services, smaller companies, energy and industrials.

Whether managers make the most of it, David Kelly, chief global strategist at J. P. Morgan Asset Management, finds solid prospects in American stocks this year, more than many of his peers do.

He favors sectors most sensitive to rising growth, such as financial services, technology and consumer discretionary stocks.

"The general trend of government policy will be pretty pro-business and much more friendly to the U.S. corporate sector than it has been," he said. But he said that "the Republicans may get sidetracked by antitrade rhetoric."

President-elect Donald J. Trump has proposed raising tariffs on imported goods, and some Republicans in Congress have proposed changing corporate tax rules to reward exporters and punish importers. Economists generally agree that higher tariffs reduce competitiveness and drive up prices of imported goods, including parts supplied to American manufacturers.

Mr. Kelly is also wary of Mr. Trump's pledges to increase government spending on infrastructure projects.

"There isn't actually any money in the budget to fulfill his agenda," he said. "Congress may decide not to worry about it and push up the debt, and we'll end up with more debt and inflation."

And we may have higher interest rates, too. The Federal Reserve raised rates in December, only the second time in a decade. Mr. Kelly expects three, possibly four, increases this year.

The more forbidding rate environment may account for much of the run-up in bond yields last year. Yields on **10-year Treasury** issues rose to 2.44 percent at the end of December from 1.36 percent in early July, with most of the increase occurring just after Election Day, according to Bloomberg.

Bond funds lost 1 percent in the fourth quarter, depressed by the 11.8 percent plunge in portfolios that specialize in long-term government issues. For the full year, according to Morningstar, the average bond fund was up 5.9 percent, helped by double-digit gains in riskier categories like high-yield and emerging market debt.

Laird Landmann, co-director of fixed income at the TCW fund-management company, said he saw little to recommend to investors because "asset prices are getting out of whack with the economy."

Inflation is likely to keep rising, he predicted, perhaps exceeding 2.5 percent this year.

His advice is to play it safe and stick with Treasury bonds, certain mortgage-backed securities not issued or guaranteed by the federal government, and bonds issued by American banks.

"It's hard to buy things after eight years of a credit cycle," Mr. Landmann said. "Wait for it to turn; that's the discipline of being a value investor."

When considering any benefits of spending measures introduced by Mr. Trump and Congress, it's important to remember that they wouldn't be spread far and wide. Hope that the global recovery might at last get some legs helped emerging stock markets last year, but they gave back about seven months' worth of gains in the week after the election, as investors weighed the prospect of Mr. Trump's protectionist campaign language being translated into action.

The average emerging market stock fund lost 5.5 percent in the fourth quarter but still gained 9 percent for the year. International stock funds over all fell 2.8 percent in the quarter and rose 4.9 percent on the year.

Some of the worst-performing stock markets were in countries on which Mr. Trump has focused. Mexico lost 8 percent in 2016, and the Shanghai Composite index in China was down more than 12 percent, although funds concentrating on China and its surroundings rose 0.7 percent.

The president-elect's outlook "is clearly antiglobalization," said Rick Schmidt, co-manager of the Harding Loevner Emerging Markets Fund.

"Trade is going to have a bigger impact on some markets than others," he said. "In emerging markets, clearly there are places where risk hasn't retreated. Mexico is No. 1, China is No. 2."

"Whether he can implement" his agenda "is one thing, but you have to assume he means it," Mr. Schmidt added. "It would be dangerous not to take him at his word."

Just as Mr. Inker prefers emerging markets because the risk they entail comes at the right price, Mr. Schmidt sees some of the best opportunities this year in beaten-down markets like Mexico.

Elsewhere, he finds India overpriced, and he is avoiding utilities and Chinese banks, although he likes banks in other countries.

Mr. Kelly also sees emerging markets as cheap and therefore good long-term plays, and he likes European stocks over the long haul, too.

While emerging markets are appealing to many based on their valuations, Mr. Landmann warned that they may be particularly vulnerable to potential missteps in a Trump presidency.

“Markets are not going to crash necessarily, but you could see crashes in more fragile areas like China,” he said.

Mr. Davis, at Vanguard, advised investors to make sure they are globally diversified and not overly dependent on American markets. He also encouraged them to expect less. “One risk for equity markets for 2017 is they are pricing in 4 percent economic growth,” he said. “I think that’s unlikely; they seem to be discounting risks to free trade.”

The economy has been growing at barely half that rate. “I’m not **bearish** on the economy,” Mr. Davis said, “but I think expectations on returns need to be lowered.”

Mr. Inker also suggested that investors keep their enthusiasm in check.

“I would have thought that the prospect of surprising statements coming out of the White House in the form of tweets would generate uncertainty, and markets don’t like uncertainty,” he said. “So far the U.S. market has not seemed to mind. We’ll have to see. This is uncharted territory.”

* Ahead of Trump Presidency, Global Investors Sell Bonds and Grab Stocks

* The Market and the ‘Trump Effect’: What Do the Tea Leaves Say?

* Turbulence and Uncertainty for the Market After ‘Brexit’

* ‘Trump Effect’ Is Already Shaping Events Around the World

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The New York Times

Business Day; DealBook
At BlackRock, Dip in 2016 Profit Reflects Shift to Lower-Cost Funds

By LANDON THOMAS Jr.
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BlackRock, the world's largest publicly traded money manager, reported a slight decrease in profit for its full fiscal year on Friday, reflecting the jittery mood of investors and the broader **volatility** of stock and bond markets in 2016.

Earnings per share for the year fell 2 percent, to $19.29.

For the asset management giant, the last quarter of 2016 was a continuation of a long-term trend: While investors poured money into the firm's family of exchange-traded funds, they withdrew assets from BlackRock's actively managed stock funds, which, in tune with the broader industry, have been lagging their benchmarks.

BlackRock's assets under management finished the year at $5.1 trillion, compared with $4.6 trillion in 2015.

Its stock and bond E.T.F.s, which trade under the iShares brand name, took in $140 billion of investor money in 2016. The funds track a variety of indexes and charge fees that are substantially lower than those of traditional mutual funds, something that has added to their appeal in recent years.

BlackRock now oversees $1.2 trillion in E.T.F.s, compared with $1 trillion in 2015, and leads the market by a large margin in this regard.

In an interview, Laurence D. Fink, BlackRock's chief executive, said inflows of investor money to the firm rose sharply in the weeks after the election, which, he said, was the result of retail and institutional investors shifting money from cash into stocks.

And while he said the **stock market** received a lift from promises Donald J. Trump made in terms of cutting taxes and getting the government to spend more, he offered words of caution about the Trump effect on the global economy.

"If you are a diversified global investor, bonds have fallen since the election and, in dollar terms, lots of international investments are down," said Mr. Fink, referring to the bond sell-off and the strong performance of the dollar. "People are so euphoric about U.S. stocks, but people with broader portfolios have not done that well."

Mr. Fink has been named to a panel of corporate chief executives who will be advising Mr. Trump on financial and economic policies, with the first meeting expected to be held in Washington sometime next month.

Investor money is going into E.T.F.s that follow the main equity benchmarks. While the $14 billion that investors pulled from BlackRock's other retail and institutional equity funds last year is small compared with the $5.1 trillion that the firm now manages, the outflows — and the mediocre performance of these funds — highlights a major challenge for Mr. Fink, the firm's founder.

The firm's fast-growing E.T.F. business, as well as its Aladdin platform, which provides risk oversight services to a growing number of investment firms, are substantially outpacing BlackRock's more traditional stock-picking business.

Mr. Fink recently hired an executive to oversee BlackRock's equity investments, Mark D. Wiseman, who will focus on these performance challenges.

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Streetwise: Trump Market Rally Hits a Speed Bump

By James Mackintosh
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13 January 2017
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English

Markets responded to Donald Trump's rambling news conference this week by dumping Trump. The dollar and pharmaceutical and biotechnology stocks were sold, bonds were bought and stocks once regarded as out of favor with the president-elect outperformed.

This could be taken as a sign that investors prefer their presidents to be presidential. But it was also a confirmation of a move under way in the **stock market** for more than a month. The postelection Trump rally ran out of steam by mid-December as hopes of a boom faded.

For the first month after the election, the market anticipated faster economic growth. Cyclical stocks most sensitive to the economy grew fast, while defensive shares best able to protect against a downturn lagged far behind. In the past month the optimism evaporated, with defensive sectors beating cyclicals and Treasury yields coming down slightly (in spite of a boost to cyclicals this year as economic data beat expectations.)

There is more to the Trump reverse than just a changing bet on economic growth, though. The market's change of mind is visible across many of the stocks that became ways to bet for or against the new administration:

Defense companies initially jumped, helped both by traditional Republican commitments to military spending and Mr. Trump's promise during the election to end the defense cuts imposed by the 2013 budget sequester. But the 9% surge in the sector that took Boeing, Raytheon, General Dynamics and Lockheed Martin up far faster than the market fell short in mid-December. Mr. Trump took to the 21st century bully pulpit -- Twitter -- to attack the cost of Lockheed's F-35 jet fighter, and after that the sector went nowhere.

Infrastructure spending is one of Mr. Trump's signature plans. Not surprisingly, builders and construction suppliers soared after the election, with the construction-materials sector up 13% a month later. U.S. Steel leapt 72%, and U.S. Concrete 30%, while many smaller suppliers had double-digit gains. Since then the sector has fallen 4%, as doubts set in about how much the government will actually spend, and how fast.

FANG stocks -- Facebook, Amazon.com, Netflix and Google, now Alphabet -- had a bite taken out of them after the election. They suffered both because their ability to deliver growth would be less appealing if the economy expands faster, as growth would be easily available elsewhere, and because the technology sector broadly supported Democrats. All four, and the sector, fell during the rising market for the first month after the vote, but have since powered ahead, perhaps helped by Mr. Trump's meeting with tech leaders in mid-December.

Obamacare stocks that benefit from the Affordable Care Act were hurt badly by the election result, with Centene, HCA Holdings and Universal Health Services down 9% to 14% by Dec. 9. Since then Centene and HCA have made more than 8%, and UHS is up slightly.

Smaller companies would be a double winner from Republican tax plans. Uncertainty remains about how Mr. Trump's plan will be reconciled with those pushed by House Speaker Paul Ryan, but both want to simplify and cut corporate tax rates and use the tax system to penalize imports. Small companies are less able to structure their businesses to use tax loopholes than the multinationals, so would gain more from a lower tax rate. They also tend to have more of a domestic focus, so should do relatively better than their bigger rivals from import restrictions.

The Russell 2000 index of small-capitalization stocks beat large companies by the most after the election than any similar-length period since before the dot-com bubble burst in 2000, rising 16% by Dec. 9 against 5% for the megacap Russell Top 50 index. Since then the megacaps have risen, while the Russell 2000 has fallen back.

Student-loan servicer Navient, split out of Sallie Mae in 2014, was another Trump triumph for shareholders. Hillary Clinton's plan to forgive student loans would have hurt Navient, so Mr. Trump's election gave its shares a 29% boost in the first month. Again, the trend reversed, with Navient down 3% since then.

Mexico provides the obvious exception to the rule. The peso fell right after the election, and continued to fall, hitting record lows during Mr. Trump's news conference. It rebounded as the dollar pulled back, and on Thursday morning was having its best day since before Christmas, but remains the obvious victim of the new U.S. leader.

None of these reverses stopped the **S&P 500** from hitting a record last Friday, when the Dow industrials came within less than a point of 20000 for the first time.

The case for buying shares now is that the loss of enthusiasm for Mr. Trump is just a pause after a rally driven by hope, while investors wait for signs of how the new president will behave.

The concern is that the U-turn in Trump trades is a signal that the market is already paying more attention to Mr. Trump's potential negatives, such as attacks by tweet on individual companies, aggressive diplomacy against China and the risk of a trade backlash.

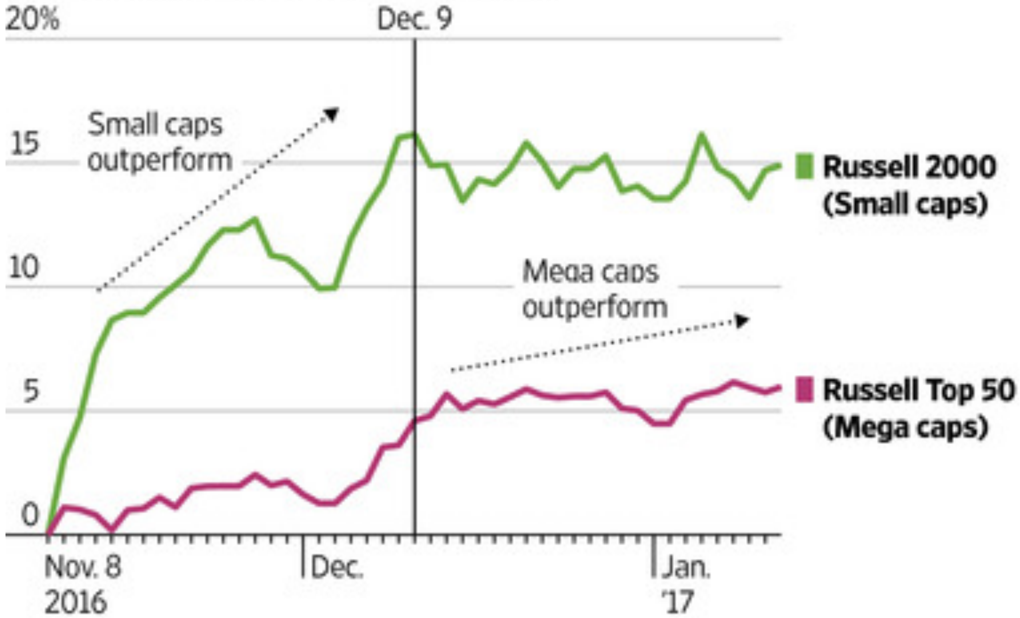
Either way, his news conference certainly didn't help.

Market Wearied of Trump Trade

The post-election rally favored smaller stocks and economically-sensitive cyclicals, but faded in mid-December.

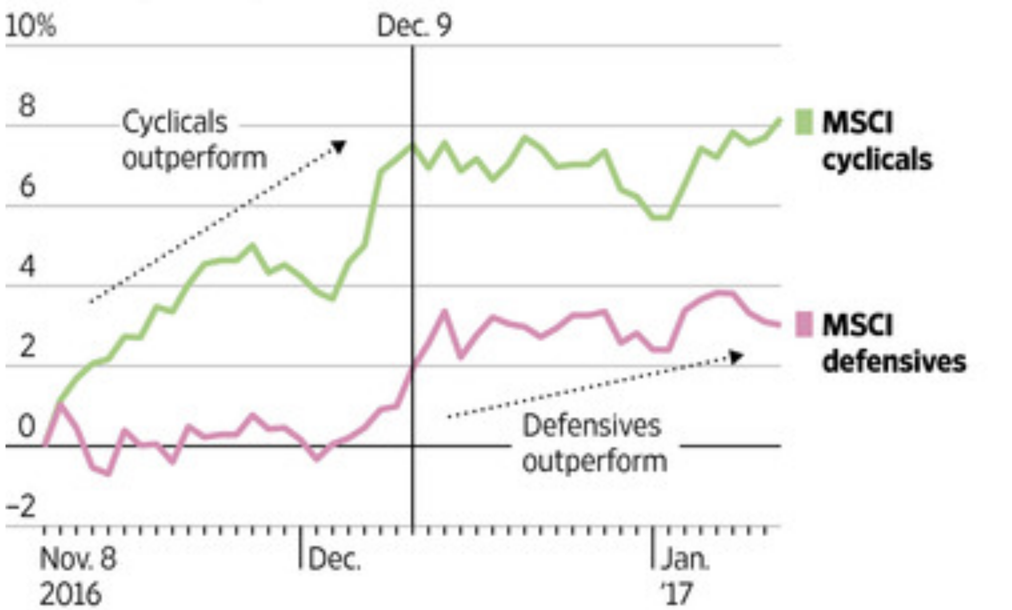
Russell indexes

Percentage change since U.S. election



U.S. cyclical and defensive stocks

Percentage change since U.S. election



Note: Through Wednesday

Source: Thomson Reuters

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Traders Brace for Big Bank Swings

By Gunjan Banerji
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English

As earnings season kicks off this week, the options market is signaling that a pause may be looming for the euphoric rally in bank stocks.

Since mid-December, investors have boosted the number of **bearish** options on financial shares at a faster pace than for **bullish** contracts -- a reversal from the weeks immediately after the U.S. election.

Open interest, or total contracts outstanding, for puts, which gives the right to sell, on the Financial Select Sector SPDR Fund, has jumped 28% since Dec. 19, data from Trade Alert show. Meanwhile, open interest for calls, options to buy, on the exchange-traded fund has increased 10% in that period.

Still, skew, or the difference between the price of puts versus calls, for the financials ETF is at the lower end of its range in the past year, meaning the cost for protection from losses is still relatively low, Trade Alert data also show.

Financial shares have been the best-performing group in the **S&P 500 index** since Nov. 8, 2016, as investors bet that a Donald Trump presidency will usher in a new era of looser regulation and higher inflation. But in the new year, the sector has increased 0.5%. Fourth-quarter earnings reports trickling out this week will test the resiliency of the 17% rally in the sector, analysts and traders say.

"The big question now is whether this move is overdone. Will more interest-rate increases materialize in 2017, boosting banks' profitability, or will we see rising rates fizzle like in 2016?" said Christian Magoon, chief executive and founder at Amplify ETFs, which creates new exchange-traded funds. "I lean toward fizzle now and think XLF and financials have gotten ahead of themselves."

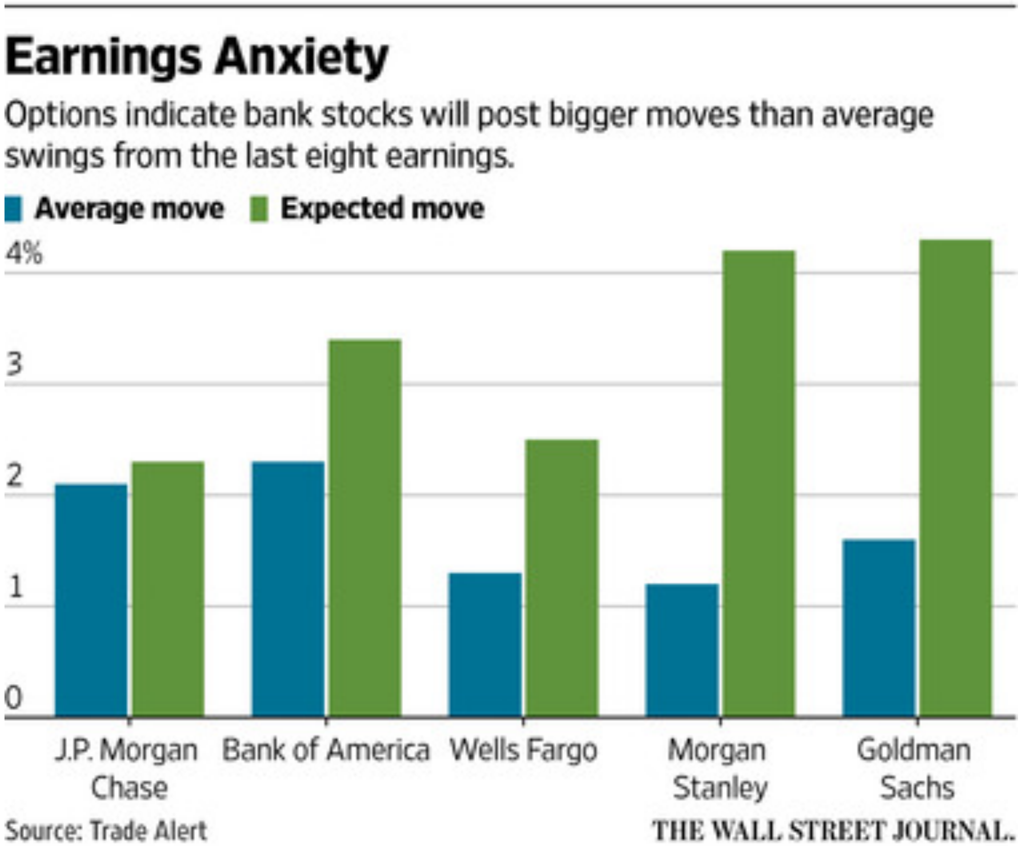
Options also are indicating **volatility** surrounding earnings for some of the biggest banks, said Alex Kosoglyadov, director of equity derivatives at BMO Capital Markets.

Traders are betting on a 2.3% swing in J.P. Morgan Chase & Co. shares after the lender releases earnings Friday, Trade Alert data show. That is higher than the 2.1% average move by the stock after the last eight earnings reports, the data show. The expected move is based on the prices of an options strategy called a straddle, which involves buying a call and a put at the same strike.

The options market also is pricing in swings of 3.4% and 2.5% for Bank of America Corp. and Wells Fargo & Co., respectively -- bigger than the average moves of 2.3% and 1.3% after past earnings reports. Results from both banks are also due Friday.

Options traders see a 4.3% swing by Goldman Sachs Group Inc. after earnings, compared with the 1.6% average move, Trade Alert data show. For Morgan Stanley, that move is projected to be 4.2%, well above the 1.2% mean. In a note this week, Citigroup Inc. analyst Keith Horowitz said the rally in bank shares since the election leaves little room for error, telling clients to sell shares of Goldman Sachs.

"The crazy **bullish** XLF call-buying of December has really not been present in the new year," said Ilya Feygin, managing director at WallachBeth Capital.



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U.S. News: U.S. Watch

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ECONOMY

Jobless Claims Edge

Higher to Start Year

The number of Americans who applied for first-time unemployment benefits rose last week from near a four-decade low, but the figure remains at a level indicating steady job creation.

Initial jobless claims, a measure of how many workers were laid off, increased 10,000 to a seasonally adjusted 247,000 in the week ended Jan. 7, the Labor Department said Thursday. Economists surveyed by The Wall Street Journal expected 255,000 initial claims.

Jobless claims for the previous week were revised higher by 2,000 to 237,000. That was still the second-lowest reading since 1973.

The data indicates layoffs remain subdued despite recent announcements from Macy's Inc., Sears Holdings Inc. and other large employers that they are reducing staff.

"Jobless claims remain in a very constructive range and are still evidence of an environment in which turnover is low and employers are generally content to maintain and expand their payrolls," said Jim Baird, chief investment officer at Plante Moran Financial Advisors.

The four-week moving average of adjusted claims, which evens out weekly **volatility** in the data, fell by 1,750 to 256,500 last week.

-- Eric Morath

ENVIRONMENT

Obama Expands

National Monuments

President Barack Obama on Thursday created three more national monuments and expanded two others, adding more than 50,000 acres to the 550.7 million on land and sea he has preserved under the Antiquities Act since taking office eight years ago.

The three new monuments mark points of history in the civil-rights movement. Those include the site where Freedom Riders were attacked in 1961 in Anniston, Ala.; a motel where Martin Luther King Jr. stayed in Birmingham, Ala.; and the site of one of the country's first schools for freed slaves, in Beaufort County, S.C.

The president also expanded two monuments created on the West Coast in 2000 by President Bill Clinton. Mr. Obama added 6,200 land acres to the California Coastal National Monument, which already has protected waters offshore under a previous declaration. Features under the expanded protection include historic lighthouses and coastal grasslands.

The most contentious action was a 48,000-acre expansion of the Cascade-Siskiyou National Monument along the Oregon-California border, which environmental groups and Democratic lawmakers had pushed for to protect a unique ecosystem where three mountain ranges converge.

-- Jim Carlton

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Treasury to Auction $120 Billion in Debt

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The Treasury Department will auction $120 billion in securities next week, comprising $13 billion in new debt and $107 billion in previously sold debt. Details (all with minimum denominations of $100):

-- Tuesday: $45 billion in four-week bills, a reopening of an issue first sold on Aug. 18, 2016, maturing Feb. 16, 2017. Cusip number: 912796KH1.

Also, $34 billion in 13-week bills, a reopening of an issue first sold on Oct. 20, 2016, maturing April 20, 2017. Cusip number: 912796KT5.

Also, $28 billion in 26-week bills, a reopening of an issue first sold on July 21, 2016, maturing July 20, 2017. Cusip number: 912796KB4.

Noncompetitive tenders for the four-week bills must be received by noon EST Tuesday and competitive tenders, by 1 p.m.

Noncompetitive tenders for both the 13- and 26-week bills must be received by 11 a.m. Tuesday and competitive tenders, by 11:30 a.m.

-- Thursday: $13 billion in **10**-**year Treasury** inflation-protected securities, dated Jan. 31, 2017, maturing Jan. 15, 2027. Cusip number: 912828V49.

Noncompetitive tenders for the TIPS must be received by noon EST Thursday; competitive tenders, by 1 p.m.

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Amazon to Add 100,000 Jobs as Brick and Mortar Keeps Crumbling

By NELSON D. SCHWARTZ and NICK WINGFIELD
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Amazon's new warehouse in Baltimore is a rare economic bright spot there, employing 3,000 people full-time in a city ravaged by poverty and a lack of opportunities for less educated workers.

And with Amazon's announcement Thursday that it plans to hire 100,000 new employees in the next 18 months, the Baltimore facility and at least 70 other Amazon fulfillment centers across the country stand to be among the biggest beneficiaries.

Fifteen miles away in the suburbs, all that is left of Owings Mills Mall is rubble, demolition having started in the fall, after the last anchor stores, Macy's and J. C. Penney, closed within months of each other.

The contrast between the two scenes is an example of what the economist Joseph Schumpeter termed "creative destruction," the inevitable process in which new industries rise and replace old ones.

But creation tends to get more press than destruction, and the announcement from Amazon is no exception.

The company's hiring plans are certainly good news. But to understand the forces roiling the American economy, it's key to remember that online retailing has destroyed many times that number of positions at malls and shopping centers across America.

That's not necessarily a bad thing over the long term. Greater productivity is essential for economic growth, and, according to the company, the 100,000 figure includes highly paid engineers and software developers in addition to hourly warehouse workers. But for people caught on the wrong side of that transition in the short term, it's the equivalent of an economic hurricane.

"There are huge benefits to consumers from Amazon," said Lawrence Katz, an economics professor at Harvard who studies labor and technological change. "But the workers they are hiring aren't the same ones being laid off."

Even since New Year's Day, the traditional retail sector has absorbed more blows. Macy's said last week that it would eliminate 10,000 positions, and the Limited announced this week that it would close all 250 of its stores, eliminating 4,000 jobs.

The Amazon announcement comes as the company is introducing automation that could one day cost jobs. It uses robots in many of its warehouses, though it says they work in conjunction with people instead of replacing them.

Moreover, with the rise of automation, the future of once-solid trades like truck driver and delivery worker is in doubt, threatened by the likes of driverless cars and drones. And that has prompted an intense debate among economists and some policy makers about just what society and especially government owes these workers.

One place to start, Mr. Katz said, would be for the government to provide more funding for retraining and also develop a wage insurance program to cover differences in salaries as workers migrate to new, lower-paid jobs from disappearing, higher-paid ones.

"The economy as a whole gains from creative destruction, but we don't put many resources into training displaced workers," he added. "That's a real problem, and in practice, we need to do much more."

The half-full glass in all of this is greater productivity — an economic force that has been otherwise lacking during the recovery from the Great Recession, said Michael Feroli, chief United States economist at J. P. Morgan.

Productivity in the retail sector, online and offline, jumped 3 percent in 2015 compared with a measly 0.8 percentage point for business over all, he said. The typical online retailer generates $1,267,000 in sales per employee versus $279,000 at bricks-and-mortar stores.

Along with making online retailers much more efficient, that difference also helps explain why Amazon is a **stock market** darling while Macy's and J. C. Penney are laggards.

"You can't complain about low productivity and then complain about job reallocation in the same breath," Mr. Feroli said.

Still, a lot of jobs are being reallocated in a fairly short time, in an economy that has only begun to pick up speed recently for many Americans.

Mr. Feroli calculates that if it were not for online retailers, of which Amazon is by far the biggest, there would be 1.2 million more retailing jobs in the United States. There are 16 million retail workers in the United States, according to the Bureau of Labor Statistics, a figure that includes online sellers like Amazon and traditional stores.

In the last four years, traditional retailers have cut more than 200,000 jobs, according to Challenger, Gray & Christmas, a Chicago outplacement firm.

The seasonal bump in store hiring, a familiar economic story each fall, is also ebbing, according to Challenger. During the holiday shopping season last year, stores added 100,000 fewer temporary workers than in 2013.

"The number of jobs we are losing in retail outpaces the number being created in the sectors that are taking their place," said Andrew Challenger, vice president of the firm. For example, transportation firms and warehouses are hiring, but not as quickly as bricks-and-mortar stores are laying off workers, he said.

Many of the jobs included in the figure Amazon announced on Thursday had already been disclosed by the company, which routinely reveals how many people it plans to hire in different localities when it opens new fulfillment centers.

The company has become far more vocal about telling its employment story over the past half-decade, which is partly a reflection of the rapid expansion of its network of warehouses devoted to packaging and shipping products to customers. The expansion began in earnest around 2011, when Amazon began hammering out agreements with state governments to collect sales tax from Amazon customers in those states.

At the same time, Amazon decided to make fast shipping a priority, something possible only if it opened more warehouses closer to where customers live.

The 100,000 hires it plans for the next 18 months represent a 56 percent increase in the 180,000 full-time United States employees it had at the end of 2016. Amazon has more than 300,000 full- and part-time employees globally.

That attention could be politically beneficial for Amazon as Donald J. Trump assumes the presidency. Last year during the presidential campaign, Mr. Trump singled out Amazon and its founder, Jeff Bezos, as having a "huge antitrust problem." Mr. Trump suggested that Mr. Bezos was using his ownership of The Washington Post to discourage political scrutiny of Amazon.

But Mr. Bezos was among a group of technology-sector executives who met with Mr. Trump last month, and after Amazon's announcement of its hiring plans on Thursday, Mr. Trump's press secretary said "the president-elect was pleased to have played a role in that decision."

Drew Herdener, an Amazon spokesman, declined to comment.

Amazon has said that its employment figures alone do not capture its full effect on jobs. On Thursday, the company said its marketplace business, through which independent merchants sell goods on the company's site, sustained 300,000 additional jobs in the United States.

In the meantime, a new open-air shopping center is planned for the vast rubble-strewn site in Owings Mills, Md., where shoppers once flocked to Macy's and J. C. Penney. The demolition should wrap up by spring, although no date has been set for the opening of the new mall, nor have tenants been announced.

* Department Stores, Once Anchors at Malls, Become Millstones

* Macy’s Will Cut 10,000 Jobs After Poor Holiday Sales

* Robots Will Take Jobs, but Not as Fast as Some Fear, New Report Says

* In Obama’s Farewell, a Warning on Automation’s Perils

An Amazon facility in New York, part of a rapidly expanding network of distribution centers. | Bebeto Matthews/Associated Press

Document NYTFEED020170113ed1d001rx

THE WALL STREET JOURNAL.
U.S. EDITION

Mexico's Peso Falls As Woes Escalate

By Ira Iosebashvili and Robbie Whelan
675 words
12 January 2017
The Wall Street Journal
J
B1
English

Global investors are fleeing Mexico's **financial markets**, sending the peso to record lows on mounting concerns that Donald Trump's trade policy could end the country's privileged status among developing countries.

The peso on Wednesday tumbled to another all-time low against the dollar as Mr. Trump pledged to change U.S. trade policy with Mexico. "Mexico has taken advantage of the United States," he said during his press conference. "It's not going to happen anymore."

The Mexican currency weakened 0.3% -- at 21.8609 from 21.8009 late Tuesday -- again frustrating Mexican central-bank efforts to slow the currency's decline. Bank officials said Tuesday that they spent $2 billion last week to prop up the peso, which has weakened 16% against the dollar since the U.S. election.

The selloff underscores fears that the economic gains Mexico has made over the past two decades could reverse, as the incoming Trump administration takes a confrontational stance that could bring tariffs and border-control measures that once appeared unthinkable.

The North American Free Trade Agreement, which in 1994 created a free-trade zone among Mexico, the U.S. and Canada, cracked open the American consumer market to Mexican businesses in a way no other emerging market has ever enjoyed. Nafta has also brought relative stability to the peso after a series of currency crises, a factor in reassuring foreign buyers of Mexican bonds and other assets.

Now, that advantage could be in jeopardy if Mr. Trump follows through on pledges to renegotiate the agreement. Mexico's benchmark **stock index** has dropped 5.2% since the U.S. election through Wednesday. Yields on 10-year Mexican government debt, which move in the opposite direction of price, jumped to 7.689% from about 6% before Mr. Trump's victory. Mexican asset prices could come under further pressure in coming weeks, analysts and investors said, as the administration's nominees to government positions spell out their positions.

"A renegotiation of Nafta would basically kill Mexico's growth model," said Juan Carlos Rodado, director of Latin American research at investment bank Natixis.

This reversal of fortune shows how Mexico may be paying a price for becoming so dependent on one strong trading partner. About 80% of Mexican exports go to the U.S.

Foreign investors were net sellers of $1.4 billion in Mexican short-term debt in December, reducing holdings by 11%, according to data from Natixis and Banco de Mexico. That was the biggest one-month selloff in nearly 10 years, in percentage terms.

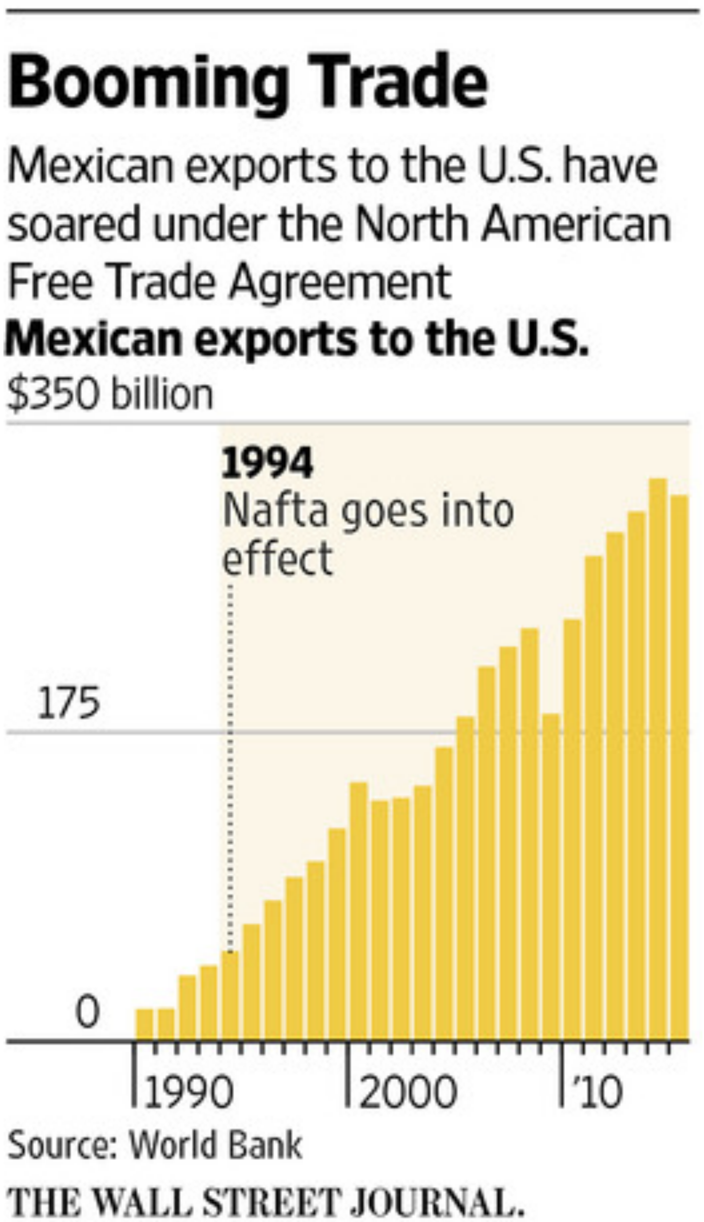
Mexico's economy could fall into recession, shrinking by as much 3.3% in 2017, if the U.S. imposes tougher trade terms, Mr. Rodado said. The International Monetary Fund estimates that Mexico's economy expanded 2.1% in 2016. Almost 30% of the country's gross domestic product comes from trade with the U.S., Natixis estimates.

Fitch Ratings in early December cut its rating outlook on Mexico's long-term debt to negative from stable, a sign that currency depreciation resulting from Mr. Trump's victory had increased uncertainty to the point that it could hurt Mexico's public finances.

"No one is willing to stick their neck out and take a shot on Mexican assets right now," said Win Thin, an emerging-markets strategist at Brown Brothers Harriman & Co.

A weak currency often comes with benefits by making a country's exports more competitive. But a falling peso may not boost the Mexican economy as much as a weakened currency did for other developing countries. If Mr. Trump carries out his threat to put tariffs on Mexican goods, duties on Mexican products could partially offset the competitive advantage from a weaker peso, economists said. "If you impose tariffs, Mexican exporters will be less profitable," said Alberto Ramos, chief Latin American economist at Goldman Sachs Group Inc.

David Luhnow and Anthony Harrup contributed to this article.



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THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Trump Assails Drug Industry, Prices

By Joseph Walker
466 words
12 January 2017
The Wall Street Journal
J
A4
English

Donald Trump attacked the pharmaceutical industry in his first news conference as president-elect, accusing drugmakers of "getting away with murder" and pledging to "save billions of dollars" by changing how the U.S. purchases drugs.

"Pharma has a lot of lobbies, a lot of lobbyists and a lot of power," Mr. Trump said Wednesday. "And there's very little bidding on drugs. We're the largest buyer of drugs in the world, and yet we don't bid properly. And we're going to start bidding and we're going to save billions of dollars over a period of time."

Mr. Trump's comments shook the **stock market** and shares of drugmakers fell. The **Nasdaq** Biotechnology index fell nearly 3% Wednesday. Shares of Pfizer Inc. were down 1.9%, while Bristol-Myers Squibb Co. was off 5.3%.

Drugmakers are under increasing political scrutiny for their aggressive pricing of prescription drugs, which cost the U.S. health-care system $324.6 billion in 2015, a 9% increase from 2014, according to the Centers for Medicare and Medicaid Services.

In response to Mr. Trump's remarks, the drug industry's main trade group said that the U.S. already has a competitive marketplace for purchasing drugs, where private health insurers negotiate lower prices.

"We look forward to working with the new administration and Congress to advance proactive, practical solutions to improve the marketplace and make it more responsive to the needs of patients," the Pharmaceutical Research and Manufacturers of America said.

Mr. Trump's relatively brief remarks on Wednesday, made early during a news conference focused on other topics, didn't include any new policy proposals or a timeline for when he would pursue the changes. It is unclear how important a priority drug prices will be for the new administration, and whether he will win backing from the Republican-controlled Congress.

While Mr. Trump said that the U.S. would become more aggressive in bidding for drugs, it was unclear what that would entail. "The other thing we have to do is create new bidding procedures for the drug industry because they're getting away with murder," Mr. Trump said.

Mr. Trump said during his presidential campaign in January 2016 that he supported allowing Medicare, which covers prescription drugs for seniors and the disabled, to directly negotiate prices with drugmakers -- something it is currently barred by law from doing.

The pharmaceutical industry is deeply opposed to the government negotiating drug prices, which it views as akin to price controls.

Mr. Trump called the drug industry "a disaster," and chided it for not manufacturing enough of its products in the U.S. and moving to overseas locations.

Bad Medicine

Pfizer and Bristol-Myers Squibb were among pharma stocks to fall after Trump's remarks

Change in share price from Tuesday's close, one-minute intervals

Source: WSJ Market Data Group

THE WALL STREET JOURNAL.

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The New York Times

Business/Financial Desk; SECTB
Nasdaq Rises to Fifth Record in a Row

By THE ASSOCIATED PRESS
682 words
12 January 2017
The New York Times
NYTF
Late Edition - Final
2
English

Energy companies led Wall Street modestly higher Wednesday, raising the Nasdaq composite index to its fifth record close in a row.

The Dow Jonesindustrial average rose 98.75 points, or 0.5 percent, to 19,954.28. The Standard & Poor's 500-stockindex added 6.42 points, or 0.3 percent, to 2,275.32. The Nasdaq gained 11.83 points, or 0.2 percent, to 5,563.65. The index has risen every day this year.

Rising crude oil prices lifted energy companies, including the oil rig operator Transocean, which rose 4 percent. Traders also bid up utility stocks.

Health care stocks fell after President-elect Donald J. Trump spoke about the need for the government to stem drug costs by revising bidding procedures. Endo International, a pharmaceuticals company, led the decliners in the S.&P. 500, sliding 8.5 percent.

The stock market alternated between small gains and small losses much of the day, as investors sized up outlooks from several companies before corporate earnings reports.

"The heavy load comes in the coming weeks," said Tim Dreiling, regional investment director for U.S. Bank's Private Client Reserve. "There's a little bit of a wait and see on what those earnings numbers look like."

Not all drug companies had a bad day.

Merck rose 2.9 percent on news that the Food and Drug Administration will do a quick review of one of the company's drugs for its potential to treat a type of lung cancer. The stock added $1.71 to $61.63.

Big companies start reporting fourth-quarter earnings this week. On Friday, JPMorgan Chase, Wells Fargo and Bank of America will release results.

On Wednesday, investors watched companies that released earnings or forecasts of coming quarterly results.

Supervalu, a grocery operator, slid 7.5 percent after announcing a weak third-quarter profit, partly because of falling food prices. The stock shed 36 cents to $4.43.

Signet Jewelers cut its profit forecast for the fourth quarter and the current fiscal year, noting that its holiday sales fell 5 percent. The stock declined $2.76, or 3.2 percent, to $84.70.

BorgWarner, an auto parts supplier, slid 1.6 percent after it issued a profit and sales forecast that fell short of Wall Street's expectations. The stock fell 65 cents to $40.12.

The major indexes in Europe were mixed. Germany's DAX rose 0.5 percent, while France's CAC 40 was essentially flat. Britain's FTSE 100 gained 0.2 percent.

In Asia, a strong earnings forecast from Samsung Electronics helped drive gains on the South Korean stock market, where the Kospi added 1.5 percent and hit its highest close in more than a year. Japan's Nikkei 225 rose 0.3 percent. Hong Kong's Hang Seng gained 0.8 percent.

Australia's S&P/ASX 200 added 0.2 percent.

Benchmark United States crude rose $1.43, or 2.8 percent, to close at $52.25 a barrel in New York. Brent crude, which is used to price oil sold internationally, gained $1.46, or 2.7 percent, at $55.10 a barrel in London.

Bond prices rose. The yield on the **10**-**year Treasury** note fell to 2.37 percent from 2.38 percent late Tuesday.

In currency markets, the dollar fell to 115.41 yen from 115.63 yen late Tuesday. The euro rose to $1.0571 from $1.0559. The pound, which has been declining amid concern that Britain might break off completely from the European Union's single market, gained ground on the dollar. The British currency strengthened to $1.2208 from $1.2167.

Among metals, the price of gold rose $11.40 to $1,195.60 an ounce. Silver slipped 2 cents to $16.83 an ounce. Copper was little changed at $2.61 a 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 WALL STREET JOURNAL.
U.S. EDITION

Markets & Finance: NYSE Opens Up Trading on Floor --- Any one of 8,600 U.S. stocks, ETFs from rival exchanges could be bought and sold there

By Alexander Osipovich
558 words
12 January 2017
The Wall Street Journal
J
B11
English

The New York Stock Exchange plans to allow trading of all U.S. stocks and exchange-traded funds on its historic trading floor in lower Manhattan, ending a restriction that limits floor trading to securities listed on NYSE or a smaller sister exchange.

The plan, announced Wednesday, reflects the exchange operator's insistence on retaining the floor -- and even investing in it -- in an era when U.S. stock markets have gone overwhelmingly electronic.

About 3,500 securities can be traded on the NYSE floor. The vast majority are NYSE-listed stocks, while about 350 are securities listed on NYSE MKT, a sister exchange that specializes in small and midcap stocks. Under the plan, any one of the roughly 8,600 stocks and ETFs traded in the U.S. could be bought and sold on the NYSE floor, including those listed on NYSE rivals **Nasdaq** Inc. and Bats Global Markets Inc.

Some also see the 224-year-old exchange's move as a response to IEX Group Inc., the upstart trading venue featured in Michael Lewis's 2014 book, "Flash Boys." IEX says it wants to level the playing field between ultrafast traders and traditional investors, and its debut as a full-fledged exchange last year has put pressure on incumbents to demonstrate that their markets aren't unfairly rigged in favor of high-frequency trading firms.

The move isn't likely to make a difference to the vast majority of U.S. investors, but it could affect financial firms that handle big stock trades and pay close attention to whether those trades are being executed at the best price.

NYSE, a unit of Intercontinental Exchange Inc., is unique among U.S. stock-exchange operators in offering a "hybrid" model that allows both electronic and floor-based trading. It stuck with the floor even after its 2013 acquisition by ICE, which has a history of acquiring legacy exchanges and shutting down their trading floors.

NYSE said its model is fairer to slower brokers and investors who don't have the technology advantages of ultrafast traders. That is because incoming orders on all-electronic exchanges go into queues where they are executed on a first-come, first-served basis. In contrast, NYSE gives its floor brokers access to orders sitting further back in the queue, which reduces the importance of submitting orders as quickly as possible.

Unlike NYSE, most of the 13 U.S. stock exchanges in operation today allow trading of any security no matter where it is listed. The restriction that limits floor trading largely to NYSE-listed stocks is a legacy from the days when the exchange was the dominant player for listings of big U.S. companies and largely insulated from competition.

A company that "lists" on an exchange must abide by that exchange's financial requirements, and the exchange handles its initial public offering. But Securities and Exchange Commission rules permit the company's shares to be traded on multiple exchanges. That allows exchanges to compete for business from brokers seeking to match buyers and sellers, regardless of whether they are that company's listing venue.

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THE WALL STREET JOURNAL.
U.S. EDITION

Oil Prices Gain Even As Supply Expands

By Alison Sider
341 words
12 January 2017
The Wall Street Journal
J
B12
English

Oil prices climbed Wednesday after data showed that refiners processed a record amount of crude and that supplies drained from the main storage hub in Cushing, Okla.

The market shrugged off data showing that stockpiles of crude oil and gasoline swelled last week and U.S. oil production rose, and focused on indications that Russia and Saudi Arabia are complying with promised production cuts.

U.S. crude futures rose $1.43, or 2.81%, to $52.25 a barrel on the New York Mercantile Exchange -- their largest daily gain since Dec. 1. Brent, the global benchmark, rose $1.46, or 2.72%, to $55.10 a barrel on ICE Futures Europe.

U.S. refiners churned 17.1 million barrels of crude into fuel daily last week, according to the U.S. Energy Information Administration -- the highest weekly figure in data going back to 1982. And stocks at the Cushing storage hub, which have been on the rise in recent weeks, fell by 579,000 barrels.

"That takes the pressure off any talk of storage at Cushing filling up," said Bob Yawger, director of the futures division at Mizuho Securities USA.

But the amount of crude in storage nationwide increased by 4.1 million barrels during the week -- well above the rise of 700,000 barrels traders and analysts polled by The Wall Street Journal expected. The EIA data also showed big gains in stockpiles of gasoline and diesel during the week.

U.S. production jumped to more than 8.9 million barrels a day during the week -- its highest level since April.

Some analysts said crude's rise is a sign that prices are unlikely to drop much below $50 to $51. Others expect the positive sentiment won't last and **oil prices** will give way to pressure from the rising dollar and swelling production.

"I'm surprised we've gotten this much momentum," said Tariq Zahir, managing member of Tyche Capital Advisors.

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THE WALL STREET JOURNAL.
U.S. EDITION

Autos: Gas Prices Take Backseat for Auto Makers --- Car companies launch more profit-driving SUVs, pickups even as pump costs rise

By Chester Dawson
651 words
11 January 2017
The Wall Street Journal
J
B8
English

Auto makers, betting that rising gasoline prices won't spoil America's love affair with pickups and SUVs, are increasing their exposure to a light-truck segment that let the industry down a decade ago.

Executives say it's different this time. Today's sport utilities and pickup trucks are lighter and carry smaller engines, helping achieve better fuel economy than the gas guzzlers that once jammed American dealer lots.

"There's some major differences," Ford Motor Co. Chief Executive Mark Fields said in a recent interview, referring to the current vehicle model mix. "We're much better prepared as a company and in our product lineup to handle that."

Analysts expect pump prices to potentially rise to near $3 a gallon in 2017, a trend that could reduce spending power for American buyers who increasingly opted for heavier vehicles in recent years. Key vehicles being launched at the Detroit auto show this week, including an updated version of General Motors Co.'s Chevrolet Traverse SUV, are responsible for a disproportionate portion of auto makers' profits.

About 60% of the 17.5 million light-vehicles sold in 2016 were considered light trucks, according to Autodata Corp. Pickups and SUVs make up more than half of Ford's pretax operating profit in North America and two-thirds of GM's pretax operating profit in the region, according to a Citigroup Inc. research note in June.

Growing reliance on bigger vehicles mirrors a trend that stung domestic auto makers a decade ago. Ignoring warnings that gasoline prices were creeping up, car companies were caught flat-footed when prices eclipsed $4 a gallon, triggering a collapse in truck demand that drained cash reserves.

Gasoline prices averaged $2.14 a gallon last year, the lowest level since 2004, according to the U.S. Energy Information Administration. The drop in gasoline prices over the past two years coincided with slump in crude-**oil prices** after Saudi Arabia said in late 2014 that it would no longer curb output.

But in November the Saudis and other members of the Organization of Petroleum Exporting Countries reached a deal to cut production, stabilizing crude prices above $50 a barrel. Since then, gasoline prices have risen steadily to an average of $2.38 a gallon in the U.S.

"Prices this year are going to be considerably higher than in 2016," said Tom Kloza, global head of energy analysis at OPIS, a petroleum pricing consultancy. "They're going to get to the point that people start talking about them again," he said, estimating the average U.S. price of gasoline will peak this year above $2.80 a gallon.

"If we see a spike in prices, there'll be an immediate drawback in demand" for light trucks, said Ivan Drury, a Santa Monica, Calif.-based senior analyst at Edmunds.com.

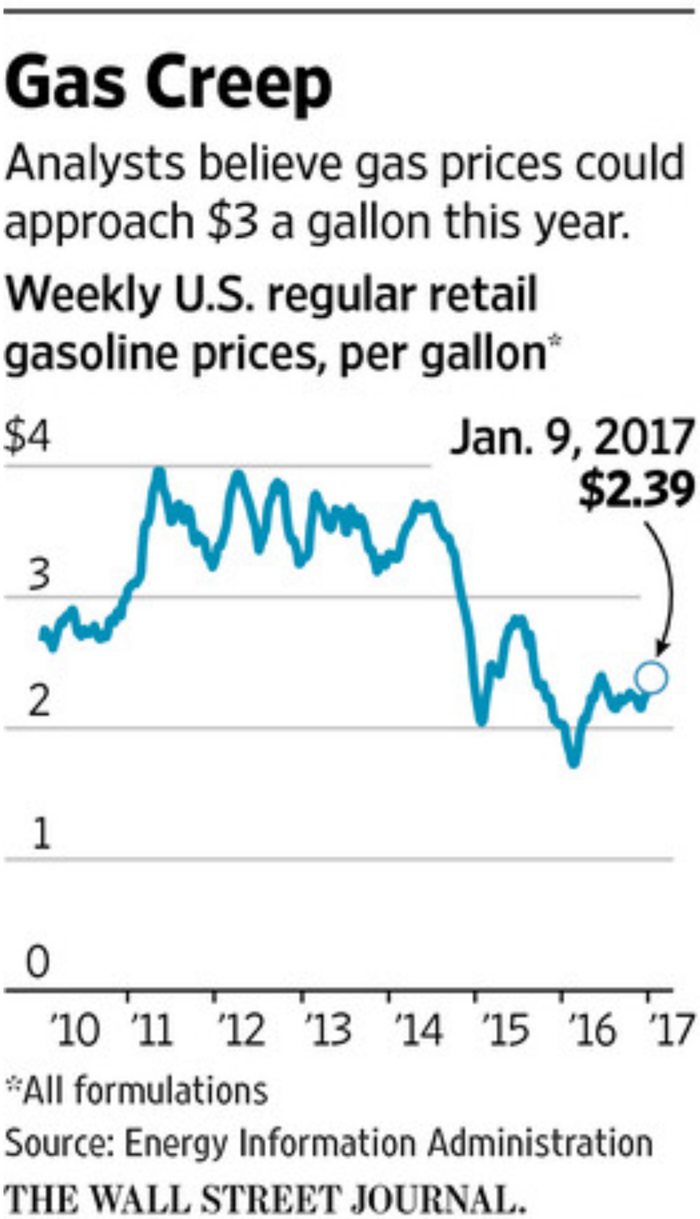
Auto makers aren't buying it.

Ford on Monday said it will revive the Bronco SUV and Ranger small pickup trucks, a nod to a broader industry expectation that the U.S. market has undergone a structural shift. While some auto makers are investing heavily to revamp popular sedans -- including Toyota Motor Corp.'s iconic Camry -- most are scrambling to add light-truck production capacity while paring back passenger-car production.

"It appears to me that it's a permanent trend," Fiat Chrysler Automobiles NV Chief Executive Sergio Marchionne said Monday. The company has killed off its Chrysler and Dodge brand small cars and will sell a lineup almost entirely of SUVs and trucks.

"People have abandoned the sedan as being a traditional mode of transportation," Mr. Marchionne said. "If you can afford something, you much prefer a SUV."

Adrienne Roberts and Mike Colias contributed to this article.



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THE WALL STREET JOURNAL.
U.S. EDITION

Some Analysts Warn on Bank Stocks After Rally

By Chris Dieterich
444 words
11 January 2017
The Wall Street Journal
J
B13
English

Have bank stocks climbed too far, too fast?

Financial stocks have risen 17% since U.S. elections in November, making them the top-performing sector in the **S&P 500** in that span, by far. The group has been buoyed by expectations for relaxed banking regulation under the new administration and greater lending profitability as a result of higher interest rates.

Investors turned **bullish** literally overnight, pumping $7.5 billion into the Financial Select Sector SPDR exchange-traded fund, ticker XLF, since Nov. 8 -- third-most among all ETFs, according to FactSet.

Strong gains prompted one analyst to recommend booking profits ahead of a wave of earnings announcements from the big banks starting this week. Bank of America Corp., Wells Fargo & Co. and J.P. Morgan Chase & Co. all are due to report results on Friday.

Citigroup banking analyst Keith Horowitz in a note Tuesday told clients to sell shares of Goldman Sachs Group Inc.; the Wall Street firms is up 33% since Nov. 8.

Mr. Horowitz said the 23% climb for the KBW **Nasdaq** Banking index since the election leaves little room for error for banks.

"The bull case we are hearing on the banks is that they are broadly under-owned, they benefit from higher rates and better economic growth, and they are less risky now due to higher capital levels," he wrote. "While this is all true, we think this is mostly reflected in the recent performance of the group."

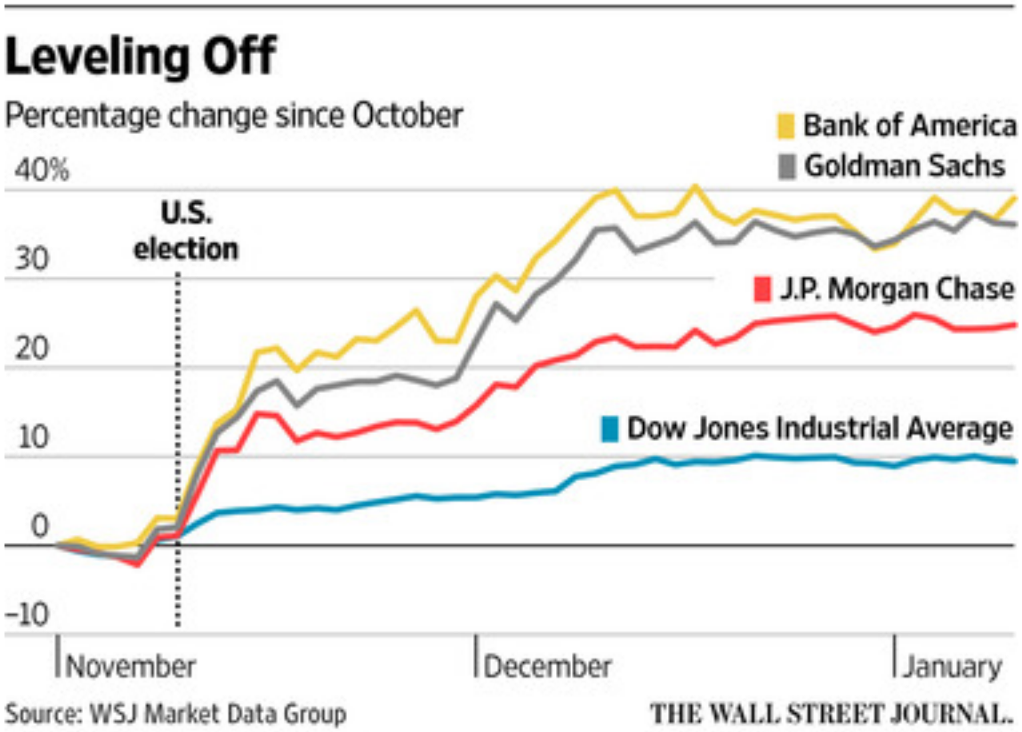
Mr. Horowitz likewise cut his rating of Comerica, which has climbed 34% since the election, for valuation reasons.

Shares of Goldman Sachs fell 0.1% on Tuesday while Comerica added 0.1%.

Separately, Julian Emanuel, strategist at UBS, noted a worrisome disconnect: While retail investors continue to pump money into bank and financial stocks, hedge funds and other professional managers already recently have been taking money out, according to the firm's in-house flow data on clients' behavior.

"The sharp rally in financials since Donald Trump's election, buoyed by higher interest rates and a steepening yield curve, may be due for a tactical pause," Mr. Emanuel wrote. "Retail flow, especially into ETF products, remains positive, further supporting the idea that the sector could pull back, especially if earnings don't surpass the 'high expectations bar' or if managements provide a less optimistic outlook for 2017."

Mr. Emanuel recommends buying protective put options in the Financial Select Sector SPDR ETF that expire next month. Buyers of puts generally profit from declines in the shares of the underlying asset.



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THE WALL STREET JOURNAL.
U.S. EDITION

Bonds Rebound, and Companies Dive In --- Investment-grade debt sales are the most at the start of a year in two decades

By Ben Eisen
647 words
11 January 2017
The Wall Street Journal
J
B14
English

So much for the death of the bond market.

For all the talk in recent months of how faster economic growth and higher inflation would spur a sustained move out of fixed-income investments and into stocks, **bond prices** so far have rallied in 2017 while share-price index gains have slowed.

The yield on the **10**-**year Treasury** note has fallen 0.066 percentage point this year to 2.379%. Bond yields fall when prices rise. That is good news for a market that got hit hard at the end of last year, and it has meant more gains for other bonds, particularly those issued by highly rated companies.

U.S. investment-grade companies, including financial institutions, have issued $61.9 billion of debt in the year through Tuesday, the most for any comparable period in records going back to 1995, according to data provider Dealogic.

Among the biggest issuers in the U.S. in 2017 are Toyota Motor Corp., Deutsche Telekom AG and Daimler AG. The 10-year portions of each sale all traded at a smaller yield premium over Treasurys on Tuesday than when they were issued, a sign that investor appetite for the bonds has been healthy.

The 2017 rebound in **bond prices**, as nascent as it may be, reflects a sort of goldilocks scenario for large companies, in which investors expect a solid economy and easing taxes and regulations to fuel a renewed boom in corporate profits. That trend, analysts said, is likely to lead to further gains in corporate-debt prices, further driving down yields and potentially enabling more borrowing at relatively low rates.

"I think there was an element of pent-up demand," said Jon Duensing, deputy chief investment officer at Amundi Smith Breeden, who said his firm had participated in a handful of the recent bond sales.

The healthy demand for new deals counteracts suggestions that investors were apt to exit from the bond market for stocks after the presidential election. Many investors said President-elect Donald Trump's plans to roll back regulations, cut taxes and enact infrastructure spending would send economic growth higher and push inflation up sharply.

Those prospects helped push Treasury yields higher. The yield on the 10-year note rose nearly three-quarters of a percentage point between the presidential election and mid-December. That pushed down returns on high-grade corporate debt and other bonds.

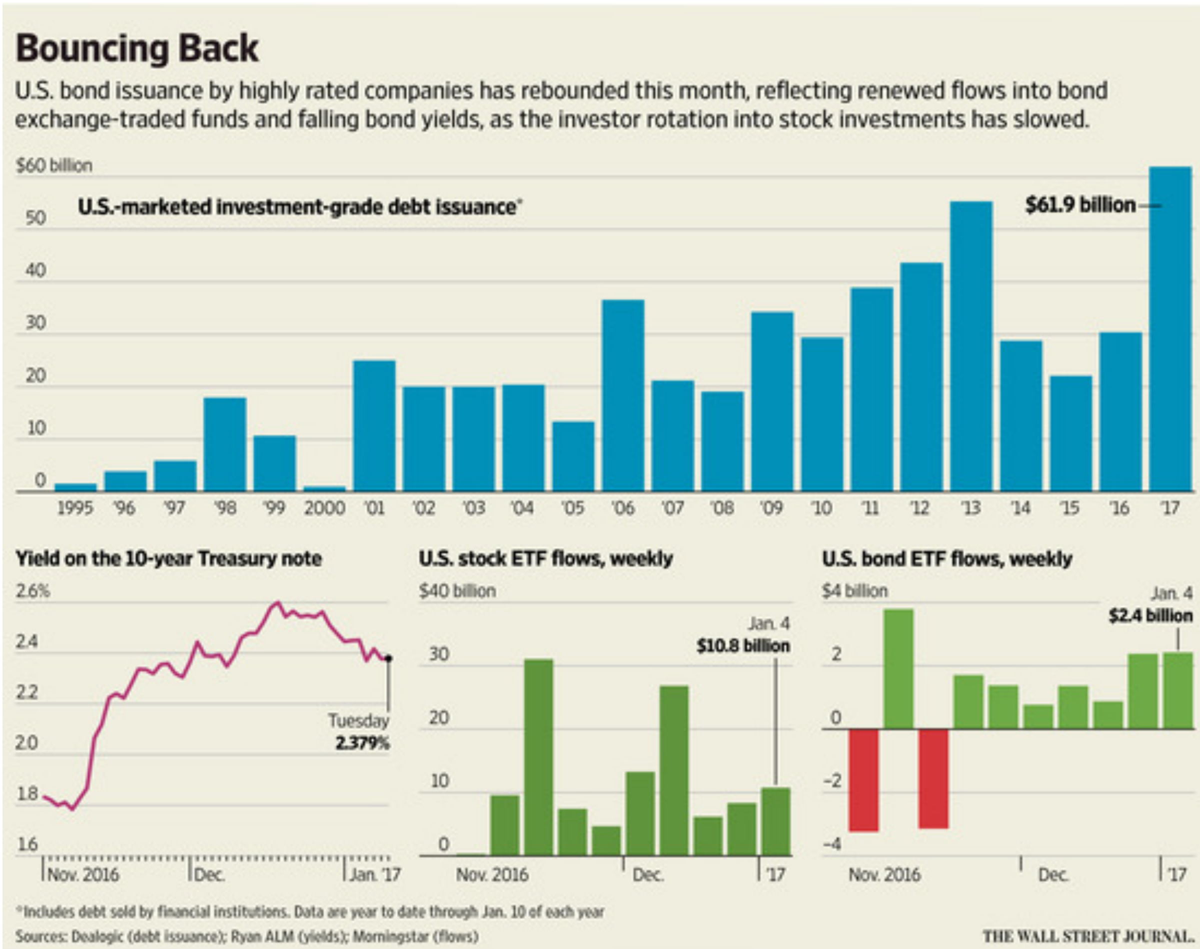
But the "reflation trade" took a pause in mid-December, helping fuel a rebound in investment-grade corporate bonds. Since the start of the year, U.S. investment-grade corporate bonds have returned 0.6% this year through Monday, according to Bloomberg Barclays index data. The **S&P 500 index** is up 1.3% through Tuesday.

It isn't just high-grade corporate debt that has been doing well. The market for junk-rated corporate bonds capped its biggest annual returns last year since 2009.

One reason analysts said that investors aren't running for the hills is that some can't. The Federal Reserve owns $4.2 trillion of Treasury and other bonds, but by virtue of its own rules can't rotate into stocks. Insurance companies also own $3.2 trillion of corporate bonds, which amount to about 70% of their debt holdings, and guidelines typically prohibit such a rotation, according to research published last week by Goldman Sachs Group Inc.

To be sure, households have more flexibility to switch from bonds into stocks. But debt holdings amount to almost the lowest share of household financial assets in three decades, according to the Goldman Sachs report. That means there are plenty of potential buyers of bonds.

Sam Goldfarb contributed to this article.



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The New York Times

Dismal Science
The Upshot

Why Most Economists Are So Worried About Trump

By JUSTIN WOLFERS
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English

If the November election was intended as a rejection of elites, of expertise and of the sort of technocratic advice that economists often give, it's a punch that has landed.

In somber analyses, huddled hallway conversations and pointed asides during endless panel sessions at the annual conference of economists last weekend in Chicago, the major theme was a sense of anxiety about the incoming Trump administration. This foreboding was evident in roughly equal measure among conservative and liberal economists. But it is in direct contrast with the feelings of small-business owners and Wall Street traders.

Most of my fellow economists remain convinced that university-trained economists can offer useful insight to the new administration. Few believe it will matter. The life force that animates the econ tribe — that what they're doing matters — has been drained away.

Few see useful channels for influence. Partly this reflects President-elect Donald J. Trump's legislative plans. On issues like restricting trade, directly intervening to assist specific industries or corporations, targeting tax cuts to the wealthy, his agenda stands as a rejection of the advice that mainstream economist have typically offered.

And partly this reflects Mr. Trump's appointments. Few of his key economic advisers have any economics training, and the only official who identifies as an economist — Peter Navarro, who earned a Harvard Ph.D. in economics and will head up the newly formed National Trade Council — stands so far outside the mainstream that he endorses few of the key tenets of the profession.

Concern about the role of economic advice translated into concern about the economy. Over three days of intense discussions, I didn't encounter a single economist who expressed optimism that Mr. Trump's administration would be good for the economy. The optimists were those who thought Mr. Trump would not have the energy to actually implement his agenda; the pessimists' thoughts veered toward disaster.

I feared that I might have been talking with an unrepresentative group until I stumbled upon a recent survey of leading academic economists showing a similar pattern. Of the 31 respondents to the University of Chicago's IGM Economic Experts Panel, 28 disagreed with the claim that the "seven actions to protect American workers" in Mr. Trump's 100-day plan would improve the economic prospects of middle-class Americans. The dissenters were two economists who were uncertain, and one who had no opinion.

The pervasive pessimism among professional economists stands in stark contrast with the judgment of **financial markets**, which rose strongly in the wake of Mr. Trump's election, and have remained buoyant since.

It also puts economists at odds with the judgments of small-business owners. According to the latest survey from the National Federation of Independent Businesses, the balance of members who expect general business conditions to improve has moved drastically. In October, the pessimists who saw business conditions as likely to worsen outnumbered the optimists by seven percentage points; the latest survey from December shows that the optimists now outnumber the pessimists by 50 percentage points. It's an extraordinary shift — one the association described as "stratospheric."

I'm not quite sure how to reconcile these conflicting signals. One possibility is that Mr. Trump remains something of an unknown, and each group is filling in the blanks differently. Small businesses, pleased to see a businessman in the White House, might be tempted to believe the best. By contrast, there's a reason that economics is called the dismal science, and few economists trust politicians — of either stripe — to get things right. Greater uncertainty gives economists a broader canvas upon which to project their pessimism.

But it may also be that these groups are describing different things. Businesses and markets care about profits. Economists focus on workers as well as the businesses they work for, on buyers as well as sellers, and on new firms as much as existing firms. Mr. Trump's anti-regulatory zeal may help businesses but hurt workers; his anti-trade agenda could help sellers but hurt buyers; and his instincts to protect existing jobs may advantage existing businesses at the expense of the next generation of entrepreneurs.

Or perhaps the optimism of small-business owners is about what they think is most likely to happen, particularly in the short run. My conversations with economists revealed them to be more focused on the long run, particularly on the risk of really bad outcomes. By this view, the short-term optimism may be well placed, but should be juxtaposed with the possibility of a trade war, a catastrophic economic decision like defaulting on the national debt or a foreign policy disaster. Nearly every economist I spoke with said the risk of these left-tail events had risen.

Perhaps this fear makes sense: It's the double whammy that worries economists, that Mr. Trump's populist pose assigns less value to economic expertise, while also creating the conditions under which it's most likely to be needed.

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Justin Wolfers is a professor of economics and public policy at the University of Michigan. Follow him on Twitter at @justinwolfers.

* The Major Potential Impact of a Corporate Tax Overhaul

* How Obama's Jobs Record Stacks Up

The mood among economists in a meeting in Chicago was as dreary as one of the city's winter days. | Peter Thompson for The New York Times

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The New York Times

Business/Financial Desk; SECTB

Nasdaq Reaches a Fourth Straight Record High

By THE ASSOCIATED PRESS
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3
English

The Nasdaq composite index notched its fourth straight record-high close on Tuesday, eking out a modest gain on a day when the other major stock indexes on Wall Street barely budged.

Consumer-focused companies, banks and health care stocks were among the biggest gainers. Real estate companies lagged the most. Energy stocks also fell after a drop in crude oil prices.

The Dow Jonesindustrial average slipped 31.85 points, or 0.2 percent, to 19,855.53, while the Standard & Poor's 500-stockindex closed was unchanged, at 2,268.90. The Nasdaq composite increased 20 points, or 0.4 percent, to 5,551.82. The index has closed higher the past six days in a row.

Encouraging reports about small business confidence and job openings helped keep stocks up early in the day. But the indexes had begun to waver by midafternoon.

''I do think the market stays kind of quiet until it really hits earnings season,'' said David A. Chalupnik, head of equities for Nuveen Asset Management. ''The market will really start to take its direction when earnings season starts in full, and that's Friday.''

Illumina jumped 16.6 percent after it reported better-than-anticipated fourth-quarter sales. The company also introduced a new genetic sequencing system called NovaSeq. The stock led the gainers in the S.&P. 500, adding $23.50, to $165.04.

Alaska Air Group rose 5.2 percent after the airline, which bought Virgin America in December, reported strong monthly results. The stock gained $4.53 to $92.

Zimmer Biomet, a medical device maker, added 6.2 percent after it projected better-than-expected fourth-quarter sales. The stock rose $6.67, to $113.67.

Other companies' outlooks put traders in a selling mood.

Ascena Retail Group slumped 10 percent after slashing its profit forecast, citing holiday season sales, which fell for most of its store chains, including Ann Taylor, Lane Bryant and Dressbarn. The stock lost 60 cents, to $5.41.

Investors bought shares of Pacific Continental Bank on news that the holding company that controls it would be bought by Columbia Banking System for $644 million. Pacific Continental shares added $5.35, or 25.7 percent, to $26.15. Columbia shares slid $1.26, or 2.9 percent, to $42.05.

Major stock indexes in Europe notched gains, led by Britain's FTSE 100, which rose 0.5 percent, closing at a new high for the ninth day in a row. Germany's DAX added 0.2 percent, while the CAC 40 of France inched up 0.01 percent. In Asia, Japan's Nikkei 225 index dropped 0.8 percent, while the Kospi in South Korea slipped 0.2 percent. Hong Kong's Hang Seng added 0.8 percent.

United States benchmark crude oil lost $1.14, or 2.2 percent, to close at $50.82 a barrel in New York. Brent crude, which is used to price oil sold internationally, fell $1.30, or 2.4 percent, to close at $53.64 a barrel in London.

Several natural gas companies closed lower. Williams Companies was down the most among stocks in the **S**.**&P**. **500 index**, sliding $3.43, or 10.7 percent, to $28.50. Oneok lost $1.41, or 2.45 percent, to $56.07.

Bond prices fell. The yield on the **10**-**year Treasury** note rose to 2.38 percent from 2.37 percent late Monday.

The pound held steady at $1.2167. The dollar fell to 115.63 yen from 116.01 in late trading Monday. The euro fell to $1.0559 from $1.0567.

In metals trading, the price of gold edged up 70 cents to $1,184.20 an ounce. Silver added 17 cents, or 1 percent, to $16.85 an ounce. Copper rose 7 cents to $2.61 a pound.

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

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Markets Watch

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CURRENCIES

Peso, Lira Fall Again

As Dollar Rolls On

The dollar rose to record highs against the Mexican peso and Turkish lira Tuesday, as political and economic concerns continued to bedevil the emerging- market currencies.

Late Tuesday, the dollar was up 1.9% to 21.81 against the Mexican peso. Against the Turkish lira, the U.S. currency rose nearly 2% to $3.7885.

Mexico's economy has come under pressure on worries that U.S. President-elect Donald Trump will follow through on pledges to renegotiate key trade agreements with the country. Turkey's economy contracted in the third quarter for the first time since 2009, as the country grapples with accelerating inflation and political uncertainty.

"The selling in these currencies has been relentless," said Win Thin, a strategist at Brown Brothers Harriman.

The Wall Street Journal Dollar Index, which gauges the U.S. currency against a basket of 16 others, was slightly higher at 92.71. The dollar fell 0.2% against the Japanese yen to 115.76 yen.

-- Ira Iosebashvili

COMMODITIES

Coffee Prices Climb

Amid Brazil Worries

Coffee prices rose Tuesday on concerns that dryness in Brazil could continue to affect coffee crops.

Arabica coffee for March delivery was up 2.4% to close at $1.477 a pound on the ICE Futures U.S. exchange, its highest close since Nov. 30.

Brazil is the largest coffee producer in the world, and rainfall in areas growing the mild-flavored arabica bean have been 60% below normal so far this month and 97% below normal in areas that grow robusta coffee, typically used in instant-coffee blends, according to WeatherBELL Analytics in New York.

In other markets, raw sugar for March was up 0.3% to close at 20.48 cents a pound, cocoa for March rose 1.1% to settle at $2,207 a ton, frozen concentrated orange juice for March was up 2% to end at $1.827 a pound and March cotton jumped 0.3% to end at 73.19 cents a pound.

-- Julie Wernau

REGULATION

CFTC's Chief Warns

On Rules Rollback

Timothy Massad, the outgoing chairman of the Commodity Futures Trading Commission, warned the incoming Donald Trump administration against rolling back postcrisis financial regulation.

"My belief is that to repeal or dismantle the reforms we have implemented would be a major mistake," Mr. Massad said Tuesday during a speech at the London School of Economics. "Their repeal would not contribute to improving the economic conditions that might have given rise to populist discontent expressed in recent elections."

Financial overhauls introduced after the financial crisis, such as the 2010 Dodd-Frank Act, could however be improved upon, he said.

"As regulators, we should approach our jobs with a degree of humility," he said. "**Financial markets** develop so quickly. It is difficult to write rules that work the way you want them to."

U.S. regulators should focus on central clearinghouses, market liquidity, automated trading and the risk of cyberattacks, he said, although "it is unclear what will happen" amid increasing signs of a potential repeal of postcrisis regulation.

House Republicans, in a push to ease financial regulations they perceive as unduly rigorous, already are working on demolishing some of Mr. Massad's initiatives.

The House is expected to vote as early as Wednesday on legislation that would hamper the commission's attempts to complete rules aimed at curbing speculation in commodities such as gold and oil.

"We have been working on this rule and I had hoped to finalize it," Mr. Massad said, adding it is up to the next commission to take up the matter.

-- Nina Trentmann

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The New York Times

Business/Financial Desk; SECTB
Shares of Energy Companies Slip, Pushing Wall Street Indexes Mostly Lower

By THE ASSOCIATED PRESS
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2
English

A slide in oil and natural gas companies led Wall Street stock indexes mostly lower Monday, even as the **Nasdaq composite** index eked out another record.

Energy sector stocks declined the most, weighed down by lower prices for crude oil and other energy futures. Utilities and phone company stocks also fell sharply. But gains among health care and technology shares helped lift the **Nasdaq**, extending a winning streak into its fifth day.

All told, the **Dow Jonesindustrial average** fell 76.42 points, or 0.4 percent, to close at 19,887.38. The **Standard & Poor's 500**-**stockindex** slid 8.08 points, or 0.4 percent, to 2,268.90. The **Nasdaq** rose 10.76 points, or 0.2 percent, to 5,531.82.

Without major new economic data, investors mostly focused on company earnings and several corporate deals, including UnitedHealth's $2.3 billion cash-and-stock buyout of Surgical Care Affiliates.

The market's post-election rally sputtered the last week of December. So far this year, the major stock indexes have mostly inched higher. That could change toward the end of the week, when the next big wave of company earnings starts rolling in.

''It really gets down to earnings now,'' said Jim Davis, regional investment strategist at the Private Client Group at U.S. Bank. ''The last few quarters, the bar has been set pretty low -- basically flat earnings growth. Investors are expecting some earnings growth this year.''

Disappointing quarterly earnings pulled Acuity Brands, a maker of lighting products, down nearly 15 percent, making it the biggest decliner in the **S**.**&P**. **500** on Monday. The company's results fell well short of what analysts had expected. The stock slid $34.85 to close at $202.51.

Investors rewarded strong earnings from Global Payments, an electronic payment processing company. Shares of it climbed 7.2 percent. The stock led all the gainers in the **S**.**&P**. **500**, adding $5.34 to close at $79.79.

Company deals sent some stocks higher. Insurer UnitedHealth's bid for Surgical Care Affiliates drove up shares of the surgical-care-center operator by $7.90, or 16.2 percent, to close at $56.65. UnitedHealth slipped 46 cents, or 0.3 percent, to $161.95.

VCA vaulted 28.3 percent after the pet health care company agreed to be acquired by the food and drinks company Mars for around $7.7 billion. The deal also included $1.4 billion in debt. Shares in VCA added $20.02 to close at $90.79.

Several oil and gas companies also experienced losses as energy futures fell. Southwestern Energy fell 50 cents, or 4.9 percent, to $9.75, and Range Resources lost $1.47, or 4.3 percent, to $32.76. Devon Energy was off $2.09, or 4.3 percent, at $46.58.

United States benchmark crude oil fell $2.03, or 3.8 percent, to settle at $51.96 a barrel in New York. Brent crude, which is used to price oil sold internationally, slid $2.16, or 3.8 percent, to close at $54.94 a barrel in London.

Markets overseas were also mixed. In Europe, the DAX in Germany fell 0.3 percent, the CAC 40 in France slid 0.5 percent, and the FTSE 100 in Britain rose 0.4 percent. Earlier in Asia, Hong Kong's benchmark, the Hang

Seng Index, rose 0.3 percent, and the Kospi in South Korea slipped 0.1 percent. Markets in Japan were closed for a holiday.

Bond prices rose. The yield on the **10**-**year Treasury** note fell to 2.37 percent from 2.42 percent late Friday.

The pound fell to $1.2158 from $1.228, its lowest level since October, after indications that the British government was inclined to fully break from the European Union's single market. The dollar fell to 116.01 yen from 117 yen in late trading Friday. The euro rose to $1.0567 from $1.0533.

In metals trading, the price of gold rose $11.60, or 1 percent, to settle at $1,183.50 an ounce.

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

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THE WALL STREET JOURNAL.
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Streetwise: Three Economists Walk Into A Bar...

By James Mackintosh
915 words
10 January 2017
The Wall Street Journal
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B1
English

Why did God create economists? To make weather forecasters look good.

The joke is an old one, but it has been given new life after the chief economist of the Bank of England -- among the most important jobs in the profession -- compared economics to one of the biggest forecasting failures of the weathermen.

Andy Haldane is optimistic that, like meteorology after its fiasco, applying more data and advanced computing can help economic forecasting recover from its failure to predict the financial crisis of 2007 to 2009.

He shouldn't be. The problem isn't that forecasting the weather and forecasting economics are different (though they are, in important ways I'll come back to.) The problem is that they are very similar, both trying to predict complex systems that can be tipped from one state to another by very small changes.

There is a reason weather forecasters can't tell you whether it will be raining on your birthday next year: It is just too difficult. Responsible meteorologists put long-range probabilities on very broad categories ("wet," "dry," "average") over long periods, not precise predictions for particular days or even months.

The same is true for the economy, where there are just too many variables. What will U.S. growth be in 2017? The correct answer is "it depends."

If Donald Trump exercises his powers as president to impose hefty tariffs on Chinese and Mexican imports, and they retaliate, it is likely to be much lower than if he doesn't. If oil is $20 a barrel, growth will be very different from $150 a barrel. A war in the Middle East, a Chinese credit catastrophe, **stock-market** crash or new eurozone crisis would all be likely to hit growth. And those are just a few obvious risks, without even thinking about unexpected bank failures or John Maynard Keynes's elusive "animal spirits."

Yet, economists stand ready with an answer: The U.S. will grow 2.25% this year, according to the average forecast collected by Consensus Economics last month. There is a range (the lowest is 1.7%, the highest 3%), but economists have been more tightly clustered at the end of a year only twice since Consensus started collecting data in 1989.

History suggests investors should put little trust in the number. As Mr. Haldane pointed out last week, economics is hopeless at predicting big turning points in the economy, precisely the moments you most want advance warning.

Studies by Prakash Loungani, chief of development economics in the International Monetary Fund's research department, and collaborators have shown the failure to forecast recessions. Not one of the 62 recessions in 2008 and 2009 world-wide was predicted by the average collected by Consensus Economics by September of the year before. For the U.S., the economy has only ever been forecast to shrink after a recession has already begun.

"I'm a bit puzzled as to why so much attention is given to the point estimates for forecasts," Mr. Loungani says.

Economics can be useful, but only when used correctly to assess different scenarios. Specific forecasts for the economy must come with probabilities and clear assumptions -- and the assumptions need to be critically examined by users of the forecasts, not hidden in the models or the appendix.

The importance of the assumptions was made obvious by the recession forecast produced by the U.K. Treasury ahead of June's Brexit vote. It assumed monetary policy would be unchanged and the prime minister would, as promised, immediately trigger the process for leaving the European Union.

Both assumptions proved wrong, and the U.K. economy has so far been fine.

The problem wasn't the economics, but the (political) choices of assumptions, mostly ignored at the time by those warning against Brexit and afterward by critics. The prime minister quit, the BOE reacted to worries about the economy by cutting rates, and the Brexit process still hasn't begun.

This is where the biggest difference from meteorology comes in: Weather forecasts don't change the weather, but economic forecasts can change the economy. If a central bank forecasts a recession, it is likely to cut rates as a result, which may prevent the recession. Politicians who warned that triggering Brexit would cause recession have been cautious, at least so far.

The feedback effect of forecasts is one reason Mr. Haldane's hope of economics improving as has weather forecasting is unlikely to be realized.

Another is that while big data is producing lots of interesting results, as with MIT's efforts to monitor inflation via online prices, it is inevitably incomplete. As UBS economist Paul Donovan points out, by ignoring the offline economy it excludes "the increasingly vocal minority who've been left behind."

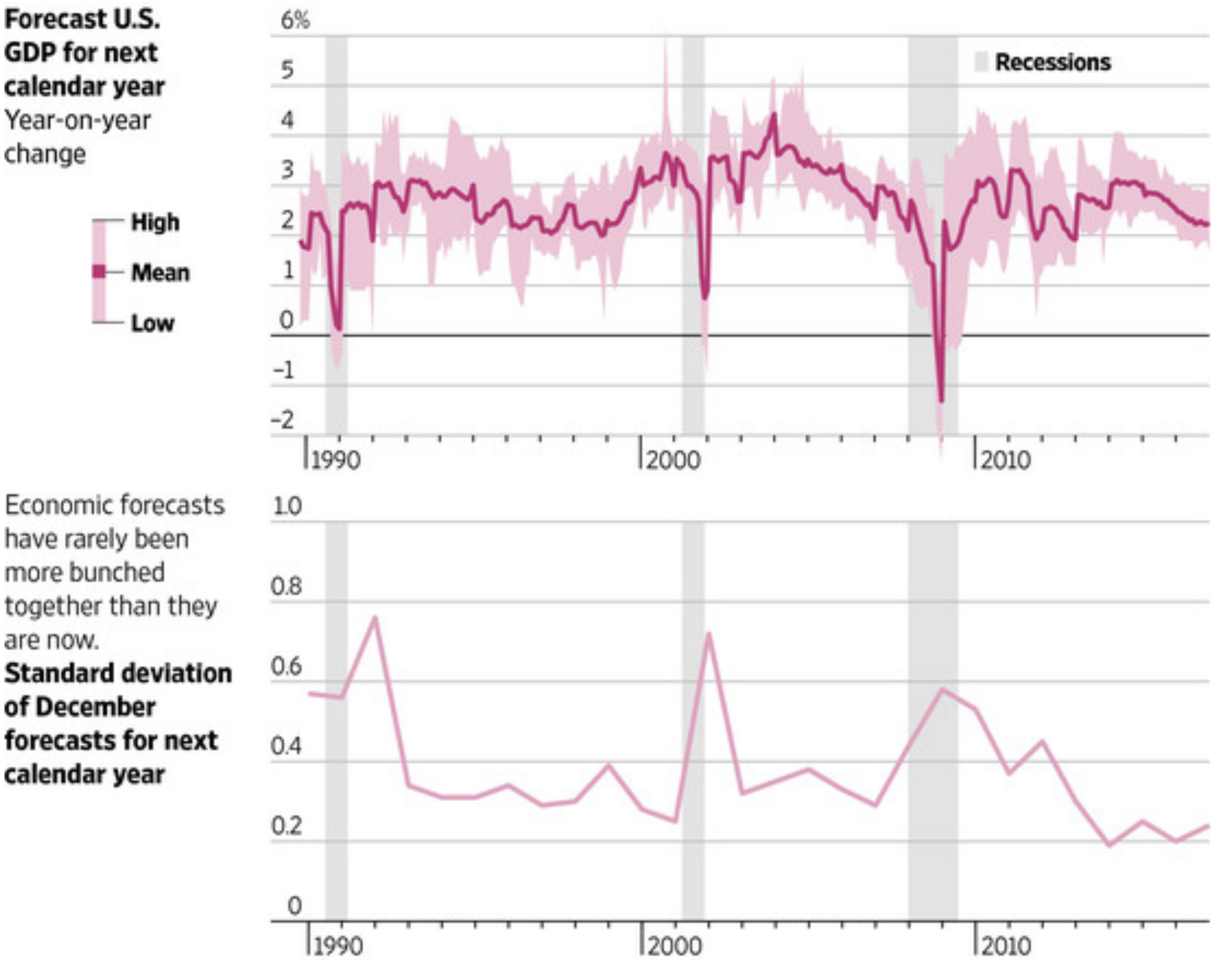
Perhaps the best investment use for economic forecasts is as a monitor of excessive confidence, some-thing that often indicates that the market's run too far in one direction.

At a time that uncertainty about economic policy is supposedly soaring, the close agreement among economists about the growth outlook suggests that they are unprepared for surprises. A year ago, such agreement was one more sign of crowd-ed positions in markets, and it was quickly followed by plunging shares and bond yields.

After the stunning Trump-inspired switch from bonds to shares, the market looks similarly vulnerable to any bad news today.

Rosy Forecasts

Economists surveyed by Consensus Economics have forecast a shrinking U.S. economy only when a recession was already underway.



Sources: Consensus Economics via FactSet

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The New York Times

DEALBOOK
Business/Financial Desk; SECTB
Critics Say Rich Appointees Can Dodge a Tax Bill. That's Not the Case.

By ANDREW ROSS SORKIN
1,277 words
10 January 2017
The New York Times
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1
English

''Not only is Donald Trump giving a gang of billionaires control of our government, he's offering them a special tax break just for signing up.''

That was Senator Elizabeth Warren, Democrat of Massachusetts, last week criticizing what has been called a ''loophole'' in the tax code that allows government appointees to defer paying taxes on stock sales. These appointees -- who currently include some of the wealthiest people in the country -- are typically required to sell all of their stock in individual companies to comply with conflict-of-interest rules, and this tax-deferring aspect of a 1989 law is meant to help offset that requirement.

(President-elect Donald J. Trump is not covered by the same rules. But that's another column.)

You're going to be hearing a lot about this ''loophole'' over the next couple of weeks, if you haven't already, as Mr. Trump's nominees -- many of them billionaires with huge holdings that they will most likely have to sell -- get grilled in hearings and their financial disclosure forms become public.

If you just read the headlines, you might be convinced that Mr. Trump's nominees were about to receive the windfall of the century, a gift that would allow them to eliminate capital gains taxes on much of their wealth.

''Have you heard about the latest tax shelter for the super-rich?'' Brett Arends, a MarketWatch columnist, wrote, suggesting that a government appointee ''can cash out all his big stock gains and pay zero -- read that again: zero -- tax. Cha-ching!'' Others have described it as an extraordinary method to duck taxes.

But that's not how the tax rule works. The rule has been repeatedly misconstrued and misexplained, including by me.

The actual law, which was put in place by President George Bush, governs what is known as Section 1043 of the tax code. It allows government appointees to apply to the Office of Government Ethics to receive approval to defer paying capital gains on stock sales as part of any divestment plan that is required by their office.

As long as appointees sell all of their stock and then reinvest it in Treasuries or mutual fund indexes that don't pose a conflict with their roles in the administration, the capital gains are deferred until they sell the Treasuries or mutual funds.

But notice this: The taxes are not eliminated. Not at all. They will eventually have to be paid.

The idea behind the tax law was to make it less unattractive for people with wealth to pursue a role in public service, given that those people are forced, often within a short window of time, to sell all assets that could pose a conflict in their new role.

For example, Gary D. Cohn, the president of Goldman Sachs, who was recently appointed to lead Mr. Trump's National Economic Council, will have to sell all his stock in Goldman. Or take Rex Tillerson, Mr. Trump's pick to be secretary of state, who will be divesting his shares in Exxon Mobil. Ordinarily, doing so would cause them to have a tax bill worth tens of millions of dollars. Instead, they will most likely put their assets in index funds or in a diversified blind trust, and then pay the tax bill on those assets when they sell them.

Henry M. Paulson, the former chairman and chief executive of Goldman Sachs, is perhaps the most famous appointee to have used the tax deferral, when he became secretary of the Treasury under President George W. Bush in 2006. People noted at the time that Mr. Paulson was the beneficiary of a law that had been signed by his new boss's father.

The tax treatment has been called a boondoggle for the rich. Ms. Warren, along with three other senators -- Sheldon Whitehouse of Rhode Island, Tammy Baldwin of Wisconsin and Dianne Feinstein of California, all Democrats -- have introduced legislation to limit to $1 million the amount of capital gains that can be deferred, preventing, as they put it, ''billionaires from reaping outsized tax write-offs.''

A Wall Street Journal analysis suggested the executives could save tens of millions in dollars in taxes.

''It's inappropriate for the federal government to provide excessive tax breaks to Cabinet members in return for complying with ethics rules,'' Ms. Feinstein said in a statement last week. ''Public service is an honor, and billionaires shouldn't require federal tax breaks for their service.''

But the senators seem to not appreciate that the tax law is hardly an inducement to leave a high position for public service. To believe that the tax treatment is a huge boon would oddly assume that a chief executive was leaving for the government because he or she was preparing to dump all of the stock in their company in the next three months.

That is unlikely. Most executives like to control their finances, something that they effectively give up when selling.

If there is a benefit, it is the ability for an executive to diversify out of their own stock into other assets. Some lawyers have called it the equivalent of a ''tax-free loan.'' But, again, if the political appointees want to cash out to buy a house or a boat or whatever you think a billionaire is supposed to buy, they will pay the full tax bill.

Indeed, the tax code ensures that the tax basis in the assets they are forced to sell transfers to the Treasuries or mutual funds they purchase, so the tax bill remains the same when they cash out.

Executives like Steven T. Mnuchin, the Treasury secretary nominee, and Wilbur Ross, the choice for commerce secretary, may actually lose money on some of the assets they have to sell. Many of their holdings are in illiquid assets, like private equity funds, that they may have to sell at a discount.

There has been a lot of conjecture among the Manhattan business cognoscenti that somehow the tax treatment could allow someone like Mr. Ross, who is 79, to avoid paying taxes entirely if he reinvested his assets in **30**-**year Treasury** bonds that outlive him. But under the tax rules, his estate would eventually have to pay the taxes.

There has even been speculation that clever appointees could roll their stock into Treasuries and then take out a loan against the underlying assets. That's true, but they'd be taking a risk on the value of those Treasuries. And even without a political appointment, they could have taken out a loan against their stock before, so the tax treatment doesn't change the underlying equation.

There are a lot of important issues to examine and reasons to worry about the remarkable conflicts of interests that Mr. Trump and his cabinet selections may present.

But -- in this instance -- the tax treatment they receive is not one of them.

From left: Gary D. Cohn, President-elect Donald J. Trump's choice to lead the National Economic Council; Steven T. Mnuchin, the Treasury secretary pick; Rex W. Tillerson, the secretary of state selection; and Wilbur Ross, the commerce secretary nominee. (PHOTOGRAPHS BY HILARY SWIFT FOR THE NEW YORK TIMES; EDUARDO MUNOZ ALVAREZ/A.F.P. -- GETTY IMAGES; DANIEL KRAMER/REUTERS; EVAN VUCCI/A.P.) (B1); Wilbur Ross, the nominee for commerce secretary, leaving Trump Tower last month. Executives like Mr. Ross may actually lose money on some of the assets they have to sell. (PHOTOGRAPH BY CHRISTOPHER LEE FOR THE NEW YORK TIMES) (B4)

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The New York Times

Business/Financial Desk; SECTB
Bitcoin Technology to Power Database Used by World's Largest Banks

By NATHANIEL POPPER
901 words
10 January 2017
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4
English

After months of talk and hype, the world's biggest banks have taken the first steps toward moving a significant piece of financial infrastructure onto a so-called blockchain -- the technology introduced to the world by the virtual currency Bitcoin.

The company that serves as the back end for much Wall Street trading -- the Depository Trust and Clearing Corporation, or D.T.C.C. -- said on Monday that it would replace one of its central databases, used by the largest banks in the world, with new software inspired by Bitcoin. The organization, based in New York, plays a role in recording and reporting nearly every stock and bond trade in the United States, as well as most valuable derivatives trades.

IBM, which has been making a big push into blockchain technology, will be leading the project for the D.T.C.C. and aims to have it fully functioning by early next year.

"This is a real tangible step into what could be a very different future for Wall Street," Michael C. Bodson, the chief executive of the D.T.C.C., said in an interview.

The announcement is one of the most advanced steps yet in Wall Street's continuing effort to harness the technological concepts underlying Bitcoin.

Financial institutions around the world have been fascinated by Bitcoin not because of the **volatile** virtual currency itself, but because it introduced a new way of executing and recording financial transactions without a central authority.

All Bitcoin transactions take place on a global financial ledger known as a blockchain, which is maintained and updated by a network of thousands of computers around the world, similar to the way that Wikipedia is kept up by diffuse volunteers rather than by a single company.

Wall Street has been drawn to the blockchain concept because it allows information to be recorded in real time without the bottleneck that central authorities generally introduce. The decentralized nature of the technology also makes it harder for attackers, or hackers, to take control of the network.

The D.T.C.C. project will not use Bitcoin's blockchain. Instead it is building something similar to a blockchain, known as a distributed ledger, which multiple financial institutions can update and view at the same time. Unlike Bitcoin's blockchain, the D.T.C.C. ledger will be open only to invited participants.

Mr. Bodson said the basic promise of a distributed ledger is that it provides "one version of the truth that everyone shares and everyone utilizes."

The new ledger will replace an existing database, known as the Trade Information Warehouse, that records information about every credit default swap trade that comes through the D.T.C.C. Credit default swaps, which played a major role in the 2008 financial crisis, are essentially bets on the success of bonds.

The D.T.C.C. oversaw about $11 trillion in credit default swaps trading last year, or 80 percent of all trades in the global market. Banks rely on the Trade Information Warehouse to determine when payments are due and what size they will be.

Because the database will be edited in group fashion, the hope is that it will provide a more streamlined and reliable source of information.

Mr. Bodson said that if the database was successful, the D.T.C.C. could use the technology to move money rather than just record information.

Over the last few years, most banks have announced efforts to explore the potential utility of blockchain technology. This has gone to the highest levels, with some central banks talking about moving their own national currencies onto some sort of blockchain.

But while there have been endless announcements about tests and proofs of concept, almost no one has disclosed plans to actually use a blockchain or distributed ledger in the real world.

Until now, the most discussed announcement came from the Australian stock exchange, which said in early 2016 that it had hired an American software company, Digital Asset Holdings, to build a distributed ledger for its back-end systems. The Australian exchange, though, has said it has not made a final decision on whether it will move to the new technology.

The D.T.C.C. has been talking publicly about its interest in the blockchain for a while, and last year it announced that it had successfully completed a test of a distributed ledger database in its credit default swaps trading business. Mr. Bodson said that since then the D.T.C.C. had determined that a distributed ledger would be cheaper to run than its existing system.

The D.T.C.C. tests were done using a distributed ledger technology created by a start-up, Axoni, that will also be involved in the project, along with R3, a consulting firm working with dozens of banks on blockchain projects, and IBM.

''The fact that they are taking this as seriously as they are is indicative of the broad-felt sense in the financial community that this technology is here to stay,'' Charley Cooper, a managing director of R3, said of the D.T.C.C.

A Bitcoin A.T.M. in Manhattan. Technology inspired by Bitcoin will soon be used to record trades of credit default swaps. (PHOTOGRAPH BY DANNY GHITIS FOR THE NEW YORK TIMES)

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THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Oil and Gas Slump Expected To Crimp Revenue in Texas

By Dan Frosch
596 words
10 January 2017
The Wall Street Journal
J
A2
English

Oil and gas markets are beginning to bounce back, but a protracted downturn will have a marked impact on Texas' budget over the next two years, state finance officials said Monday.

Texas' available revenue for 2018 and 2019 is projected to drop by 2.7%, compared with the current two-year budget period, state Comptroller Glenn Hegar said in a financial forecast for Texas lawmakers before they convene Tuesday for the state's legislative session.

Texas, which accounts for roughly 9% of U.S. economic output, helped push the nation out of the recession, partly because of shale drilling. But sagging **oil prices** stunted the state's recent economic successand made Texas a drag on the nation's economy.

According to figures released on Monday, after a nearly 6% increase in gross state product in 2015, Texas' economy is estimated to have grown by only 0.2% during the last fiscal year, barely avoiding contraction.

"Ongoing weakness in activity related to oil and natural gas has been a drag on state economic growth,"Mr. Hegar said.

In particular, Mr. Hegar noted the drop in total sales-tax collections in Texas' mining sector -- made up primarily of the oil and gas industry.

Remittances from companies in the mining sector dropped 52% in 2016 to the lowest levels the state has seen since 2010. And last year, Texas' mining sector accounted for just 2.9% of sales-tax collections, down from 6.1% the previous year. The oil and gas industry's struggles also affected other areas, as well, such as manufacturing and trade, Mr. Hegar said.

"This was not unexpected," said Sherri Greenberg, a professor at the Lyndon B. Johnson School of Public Affairs at the University of Texas at Austin. "When you see a big drop in oil and gas, we know there will be a hit to the state budget here."

Ms. Greenberg said there would likely be a debate in the Legislature over whether the state should dip into its Rainy Day Fund to help make up for the revenue decline or cut services.

Issues likely to be affected by the revenue forecast during the legislative session are education spending and the state's beleaguered foster-care system. The state is currently operating under a two year budget of $106.2 billion that was passed in 2015.

Still, Mr. Hegar said there were signals that the energy sector in Texas was recovering and the state's economy was well-positioned to weather the revenue dip.

Tax collections from oil production are projected to generate $4.7 billion in 2018 and 2019, a 32% increase from tax collections during the current two-year budget period, Mr. Hegar said.

Natural-gas tax collections are predicted to rise over the same time frame -- from $1.3 billion to $1.7 billion in 2018 and 2019.

Overall economic growth was projected to rise as well, by 2.5% in 2017 and 3% the following year. The state's unemployment rate -- which is 4.5 % -- is expected to remain relatively unchanged in the coming years, Mr. Hegar said.

The cautionary revenue forecast didn't come as a surprise to Texas lawmakers as they prepare to iron out the state's budget.

"Texans expect their government to live within its means, and I fully expect to sign a budget that does just that," said Texas Gov. Greg Abbott, a Republican, in a statement following the forecast.

Document J000000020170110ed1a0000v

THE WALL STREET JOURNAL.
U.S. EDITION

Farmers Get Creative as Prices Skid --- Faced with a corn glut and volatile markets, a small group is trying new routes to profits

By Jesse Newman
818 words
10 January 2017
The Wall Street Journal
J
B11
English

Instead of selling all of this fall's record corn harvest to ethanol plants or foreign livestock farmers, Jim and Jamie Walter are turning a portion into a more lucrative product: whiskey.

The father-and-son Illinois farmers are among a small group finding unique ways to wring money from their crops, while a commodity glut pushes grain prices to multiyear lows. They hope satisfying a consumer shift toward locally made, high-quality products will be more reliably profitable than turbulent global grain markets.

"It was obvious to us that it was not a long-term business model," Jamie Walter said of the farm's reliance on crop prices that have swung wildly this decade. Now, the fifth-generation farming family that owns Walter Farms is branching out with their Whiskey Acres Distilling Co., in its third year crafting corn and wheat into liquor for sale about 100 kilometers away in Chicago.

"By creating a value-added product it gave us the opportunity to succeed," he said, adding that building the $1 million distillery with partner Nick Nagele was an alternative to amassing debt to expand their 2,000-acre farm. "We wanted to establish our own pricing power."

Corn and wheat prices on the Chicago Board of Trade have plunged nearly 60% since recent peaks in 2012. Soybeans have decreased 44% during the same period. As a result, farm incomes have fallen by half from record highs in 2013. Many farmers will incur losses this year, economists say.

Since World War II, grain farmers have sought to boost profits mostly by increasing yields, driving down costs and expanding their operations. Bigger, more sophisticated equipment and high-tech seeds have encouraged a trend toward larger, more capital-intensive farms.

Now, growing demand for locally produced food and drinks is coinciding with concerns about **volatile** crop prices, providing an opportunity for farmers to try shrinking the gap between their crops and consumers.

"Without question, most producers are looking for ways to improve margins," said Mark Jensen, chief risk officer at Farm Credit Services of America.

In 2012, farmers raising crops on good land in central Illinois earned about $341 per acre of corn, according to agricultural economists at the University of Illinois. This year, those farmers are expected to lose $30 per acre.

Dairies and orchards long ago opened their doors to day-trippers eager to buy artisanal cheeses and apple cider. Livestock producers have introduced heritage breeds and grass-fed animals that put their names on the menus of high-end restaurants.

These days, some farmers are converting their grain into booze and flour for baked goods themselves. Growers have opened mills on their farms, or switched to planting grains used to make tortillas and chips.

"I'm expecting to see this as a trend that accelerates the longer that prices and incomes are depressed," said Randall Westgren, professor of agricultural and applied economics at the University of Missouri. Mr. Westgren predicted farmers would pool their investments to launch expensive consumer-facing businesses together.

Farmers such as the Walters are still rare. On-farm grain processing requires a significant investment, and the current system of selling crops to grain elevators, which supply food makers, livestock producers and exporters, remains an efficient way to market grain for many growers.

Increasingly, however, some are switching to seeds that haven't been genetically modified, which can be cheaper and appeal to customers willing to pay a premium for products made with non-GMO crops.

Others are branching into livestock, putting up hog or chicken barns in which to feed animals for a larger producer in return for a steady wage.

Mike Doherty, senior economist at the Illinois Farm Bureau, said many of those eager to wean themselves off commodity markets are young farmers joining their parents' business during a downturn.

"Prices are so low and the cost of production is not dropping fast enough," he said. "They're looking at doing something that's smaller-scale but higher-profit by getting closer to the consumer."

Tom Hunton added a stone mill to his Oregon farm in 2011 after the recession undermined prices for specialty crops he grows, including grass seed for lawns and golf courses. His Camas Country Mill now turns wheat from his 3,000-acre farm into flour for bakeries and restaurants in Portland and Seattle.

Chipotle Mexican Grill Inc. is a customer, as are schools and restaurants as distant as New York. Mr. Hunton's proceeds from the soft-white wheat he sends through his mill work out to $8 a bushel, compared with $4.60 a bushel for grain he recently shipped to Portland for export to countries such as Japan and Korea.

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THE WALL STREET JOURNAL.
U.S. EDITION

Banking & Finance: Indonesia to Rein In Dealers

By I Made Sentana and Ben Otto in Jakarta, Indonesia, and Rachel Rosenthal in Hong Kong
615 words
9 January 2017
The Wall Street Journal
J
B8
English

Indonesia plans stricter rules for market reports written by banks acting as primary dealers for government bonds, days after severing ties with J.P. Morgan Chase & Co. over what officials here said was a faulty equities downgrade.

Talk of such a move is highlighting the potential conflicts banks face in Southeast Asia's largest economy as they try to provide unbiased research to investors and banking services to clients they evaluate.

Finance Ministry officials told The Wall Street Journal on Saturday that they could begin discussing new policies Monday for the 19 financial institutions that act as primary dealers in Indonesia's regular government domestic bond auctions. The ministry appoints banks and securities firms as primary dealers to buy government bonds in auctions and then resell them in the secondary market.

"Our goal is to ensure that banks don't release unnecessary reports that could destabilize the market, and that they differentiate between reports for internal circulation and those for public consumption," said Schneider Siahaan, director of debt portfolio and strategy for the ministry.

"Basically, it is about how to minimize the negative tone, how to minimize negative repercussions," he added.

Robert Pakpahan, director general of budget financing and risk management, said the ministry isn't considering banning market-research reports. He added that it was too early to speculate on the final nature of a change in policy, given that no formal meetings on the matter have taken place.

The discussions stem from a Nov. 13 report about the global repercussions of Donald Trump's election victory in the U.S., in which J.P. Morgan downgraded its rating on Indonesian equities to underweight from overweight, saying that a rise in bond-market **volatility** "increases emerging-market risk premiums." The largest U.S. bank by assets also made smaller downgrades to Brazilian and Turkish equities.

Indonesian finance officials said in recent days that the research lacked credibility and could destabilize the country's financial system. The government has cut its business partnerships with J.P. Morgan, including removing the bank from a list of primary dealers for government-bond auctions.

An economist at a local primary dealer said J.P. Morgan had been the only primary dealer to issue such a downgrade during a **volatile** time for emerging markets after Mr. Trump's election.

In the banking world, securities analysts are supposed to provide independent, unvarnished investment advice to their commission-paying clients, but a negative word can alienate clients on the other side -- the stock and bond issuers that pay banks large fees to help them raise capital. That can cost bankers access to corporate executives or government officials and lose them business from the offended issuers.

"It will make banks cautious" in Indonesia, said Kay Van-Petersen, global macro strategist at Saxo Bank in Singapore. "The research side is hard to justify. The big business is from the underwriting and getting the fees."

He said any move wouldn't necessarily affect investor interest in Indonesia, where a $900 billion economy for years has posted growth of around 5% or better. Emerging-market investors "are used to that kind of stuff," he said.

Major foreign primary dealers in Indonesia, including Citigroup, Deutsche Bank AG, HSBC Holdings PLC and Standard Chartered PLC, declined to comment.

J.P. Morgan has said that it is working toward a resolution with the Finance Ministry. The bank said its business in Indonesia continues to operate as usual and that the effect on clients is minimal.

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THE WALL STREET JOURNAL.
U.S. EDITION

Ahead of the Tape
Biotech Sector Looks Ahead to 2017

By Charley Grant
418 words
9 January 2017
The Wall Street Journal
J
B9
English

In biotech, it is how you start the year that counts.

Investors will get a good look at how 2017 is shaping up starting Monday when the 35th annual J.P. Morgan Health-care Conference kicks off in San Francisco.

The event is the most important conference of the year for the industry, with more than 350 health-care companies of all sizes giving presentations to roughly 10,000 attendees over four days.

In past years, companies have used the conference stage to announce new clinical data, give sales and profitability guidance and announce acquisitions or research partnerships.

Such announcements are important for any industry but, in speculative corners of the **stock market** like biotech, where sentiment plays a major role in how stocks perform, the conference can leave an especially strong impression on investors. As such, industry performance in the month of January has lately been a harbinger of the year to come.

From 2012 through 2015, the S&P Biotechnology Select Industry index returned an average of 11.4% in January.

In those four years, the average annual return for the index was 34%.

Last year, however, the script flipped: A conference relatively light on excitement helped cause the index to shed 28% in January.

Though some modest rallies followed that brutal month, the damage was done: The index fell 16% for the full year.

The biotech **bear market** emerged just as new drug approvals hit a major lull. The Food and Drug Administration approved 22 of them in 2016, down from an average of 38 over the prior four years.

Worries over the sustainability of high drug prices in an election year also helped spark the selloff.

But last year's pain brings the benefit of lower expectations. With the froth in the market having been greatly reduced, positive surprises can reasonably be expected to push stocks higher.

And while drug pricing hasn't faded altogether from the list of investor worries, the political risks the sector faces are less likely to flare up with the 2016 election in the rearview mirror. Invest-ors would like to hear that drug companies feel their pricing power is intact.

A return of recent years' euphoria might be too much to ask, but a return to business as usual for the industry would still leave plenty of room for a cheerful start to the new year.

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THE WALL STREET JOURNAL.
U.S. EDITION

Investing in Funds & ETFs: A Quarterly Analysis --- Fixed-Income Investing: Why You Should Be Wary of Junk Bonds --- Investors need to better understand the current risks

By John Coumarianos
733 words
9 January 2017
The Wall Street Journal
J
R8
English

With interest rates so low, many retirees have been turning to junk bonds to generate income. They better know what they are doing.

Junk bonds are high-yielding bonds with a credit rating of BB or lower, issued by companies with cash flows so undependable that an economic hiccup could prevent them from meeting interest and/or principal payments.

At times, junk bonds can be good investments, though currently there is reason for caution. Here's how to figure out when junk bonds are worth the risk -- and when owning them can lead to trouble.

In deciding whether to buy junk bonds, investors often look at the "spread," or difference in yield, between junk bonds and a safe 10-year U.S. Treasury note. Historically, junk has offered an average of 5.8 percentage points more than Treasurys, though the spread has ranged from 21 points to 2.4 points. (A bigger spread means investors are getting larger interest payments to compensate them for the risk of default.)

Defaults among junk-bond issuers seem to have a pronounced cycle, occurring at very low rates for years and then spiking at 10% or more such as in 2001 and 2009. Defaults cause junk-**bond prices** to plummet and yield spreads to widen as frightened investors dump their holdings. It turns out, when spreads get wider than average from panic selling -- as in early 2016, when they climbed above 8 points -- it is usually a good time to buy, as investors can benefit from both higher yields and the potential for price appreciation.

The current spread between junk bonds and the **10**-**year Treasury** is around 3.3 points, according to data from the St. Louis Federal Reserve, making junk bonds less attractive. Some investors, though, still consider that spread wide enough.

But investors need to look beyond the simple yield spread before making a bet on junk bonds.

Junk bonds have defaulted historically at an average rate of 4.2% a year, according to data from Standard & Poor's. That is more than the current spread, meaning the extra yield investors hope to capture by owning junk could easily evaporate. Investors tend to forget this, especially during periods of low defaults.

Defaults don't always wipe out investors -- typically they will recover 40% (of the par value of the bond) from a default. Still, when one accounts for both defaults and recoveries, the loss rate on junk bonds has averaged about 2.5% a year.

Taking into account the loss rate from defaults gives a different picture when evaluating junk bonds.

Today, if historical default and recovery rates persist, an investor should pocket around 3.7% from a portfolio of junk bonds. That's more than the 2.5% or so return that one can get from a 10-year U.S. Treasury, but, at a difference of 1.2 percentage points, it is historically less than investors have been willing to accept from junk bonds on this loss-adjusted spread analysis.

We pieced together historical spreads and adjusted them for historical loss rates. We found that, on average, investors have demanded a 2.8-point return over Treasurys after accounting for historical losses from junk bonds, which is more than double the current loss-adjusted spread.

During periods of complacency, investors typically are willing to accept a much lower cushion to own junk bonds. (The opposite is true during times of panic.) On occasion, the market has been so inefficient that junk bonds have been priced to deliver a lower return than Treasurys, assuming historical loss rates.

We are likely in the complacency stage now. The excess return is so small that if loss rates are higher than average in this cycle, junk-bond investors will do worse than U.S. Treasury owners. Default and recovery rates are hard to predict, but since the end of the financial crisis, junk-bond issuance has been prolific.

Given that, the current potential reward from junk doesn't seem high when judged against the risk.

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THE WALL STREET JOURNAL.
U.S. EDITION

Investing in Funds & ETFs: A Quarterly Analysis --- How to Play the Small-Stock Comeback --- A lot of pros think the recent rally in small-cap stocks is more than just a postelection blip; but investors need to be selective

By Suzanne McGee
1,404 words
9 January 2017
The Wall Street Journal
J
R1
English

Can small stocks build on their recent outsize gains, or was 2016 an anomaly?

That's a particularly crucial question for those who watched the small-stock rally unfold on the sidelines and now wonder anxiously whether it's too late to get a bit of the action.

Here's how strong last year's rally was: As 2016 drew to a close, Chip Reed, a portfolio manager at Atlanta Capital Management in Atlanta, was preparing to head off to a client meeting to apologize for posting a total return of only 19% for the year. That may sound absurd, after a year in which the **S&P 500 index** rose 9.5% and provided a total return, including dividends, of 12%.

But Mr. Reed manages portfolios of smaller and midcap stocks, and suddenly, those are the kinds that are dominating the market. A small-stock fund manager isn't in a position to crow, relatively speaking, even with a 20% gain for the year. "Money was just flying into these stocks, especially into the [small-cap] banks," Mr. Reed says.

What happened? After what Mr. Reed calls "the worst start of any year" that he can recall -- with the Russell 2000 small-**stock index** stuck in a **bear market** in early February, down 26% from its high in 2015 -- small stocks regained their footing by midyear, playing catch-up as the profit picture began to improve for some companies and investors began to look more favorably on mining and energy stocks of all sizes following signs of strength in commodity prices.

Then small stocks exploded the day after the presidential election, in part due to bets that smaller companies -- which skew toward domestic rather than international business -- would benefit more than others from President-elect Donald Trump's policies. With a gain of 11% in November alone, the Russell 2000 ended the year with a 19.5% advance and a total return of 21.3%.

Some analysts think this is more than just a postelection bounce for small stocks (generally defined as those with market values below $2 billion). They point to encouraging trends in corporate profits and those expectations for friendly government policies. But others advise caution, mainly because of the heights reached by valuations in the rally, and emphasize that investors who want into the market need to be selective.

Investors in small-stock mutual funds had plenty to celebrate last year, with some reaping gains well beyond the Russell index's stellar advance. According to data from Thomson Reuters Lipper, while large-cap funds posted average returns ranging from 1.8% (for growth funds) to 14.6% (for value funds), small-cap value funds, in particular, easily beat all of the other nonspecialist stock-fund categories, recording an average return of 26.8%.

The list of top-performing U.S.-stock managers in 2016, as measured by The Wall Street Journal's Winners' Circle contest, was dominated by small-stock skippers. The managers of Aegis Value Fund (AVFAX), a small-stock value fund, blew away the field with a 70.7% total return for the year to win the contest, followed by several other small-stock fund managers with 30%-plus gains. (More on the contest, page R2.)

Chasing this kind of outperforming asset class is tricky, however, even if the rally does continue. It's possible that more gains lie in store, says Dan Suzuki, senior U.S. equity strategist at Bank of America Merrill Lynch. But the market already has priced in a lot of good news, he adds, and valuations are high. "You want to be more cautious than usual; the bull case for small stocks is very much based on sentiment," he says.

For those who want to join the party, it's important not to just grab anything with a small-cap name and hope to replicate the overall performance of the small-cap sector, Mr. Suzuki says. Only 45% of small-cap funds were beating their benchmark as of the beginning of December, he says.

And investors need to be sure of exactly what they're buying, Mr. Suzuki says. Many small-stock fund managers own a smaller percentage of the stocks in their benchmark than a large-cap manager would of **S&P 500** stocks, he says, leaving more room for their funds to stray from the benchmark's performance. And some fund portfolios may include midcap stocks.

There are a number of possible headwinds for small stocks, chief among them the fact that Federal Reserve policy makers have resumed raising interest rates precisely as small-stock valuations have moved into nosebleed territory.

"There's a bit of a raging debate within my group about whether the optimism has gone too far," says David Lafferty, chief market strategist at Natixis Global Asset Management, who says he is among those who are cautious, especially in the wake of the postelection rally. "Last year you had the long-term asset-allocation argument in your favor -- that these stocks outperform over the long run -- and you had valuation in your favor." Today, he says, the magnitude of the rally has weakened those arguments for new investment in small stocks, though these shares still give an investor diversification.

A year ago, few investors would have been prepared to bet that such a dramatic outperformance was on the cards. The Russell had been a laggard for years. Some analysts, however, had been anticipating a recovery because of an upswing in small companies' profits, and some see corporate earnings continuing to support the market.

"The profits recession is ending, and we began seeing some incremental improvement in December" of 2015, says Lisa Kirschner, director of research for Richard Bernstein & Associates.

Among all stock groups, Ms. Kirschner says, smaller stocks had the biggest improvement in earnings growth, on a year-over-year basis, between the second and third quarters of 2016, and that puts the rally on a solid footing.

"We see an earnings-driven market that we think will continue into 2017," she adds. "These are quite positive indicators, even though at some point, these companies will run into a tug of war" between higher interest rates and rising profits.

Ms. Kirschner sees potential for the small-stock rally to broaden.

So far, she says, it has been driven by the most cyclical parts of the market, as those companies' profits come off a cyclical bottom. That's why it's the small-cap value funds that are leading the way, rather than small-cap growth funds, which as a group returned 10.1% in 2016. But she expects more companies to report earnings growth.

"Value is a typical outperformer," she says. "These cyclical components tend to outperform first and fastest, then others play catch-up."

Whatever the near-term profit outlook, much of the impetus behind the spectacular rally in smaller stocks since Mr. Trump's election has to do with expectations for the longer-term impact of the president-elect's policies on this group.

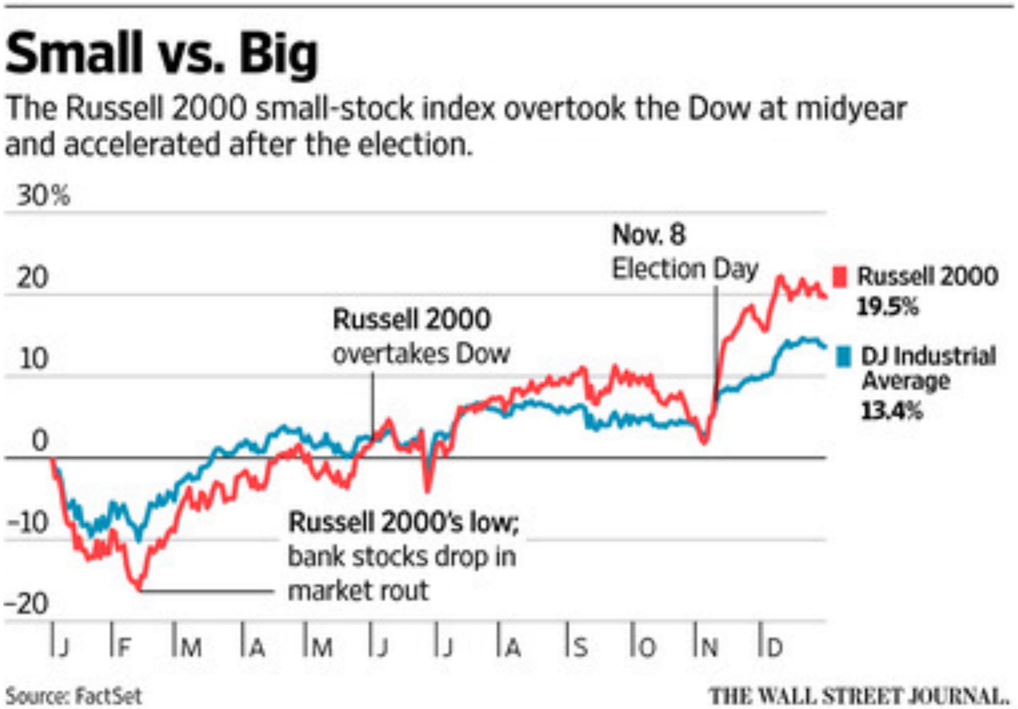
Those investors who have piled into small stocks since Election Day are making a straightforward bet. Mr. Trump's platform has a protectionist tilt, and small stocks tend to have a domestic focus. Logically, they should thrive, at least on a relative basis, in an anti-free-trade environment.

And since smaller companies struggle to benefit from the tax-reduction strategies that their larger counterparts can use readily, Mr. Trump's pledge to cut the corporate tax rate also should boost small-cap profits.

Meanwhile, financial stocks are the biggest sector in the Russell 2000, and the many smaller banks in the Russell have soared as investors react to promises to cut financial regulations.

Overall, argues Mr. Lafferty, the market environment remains positive, "but you have to have to those earnings materialize, because the high valuations are hanging over this market now. You've already generated a lot of the performance you're going to get" without additional gains in earnings.

Ms. McGee is a writer in New England. She can be reached at reports@wsj.com.



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THE WALL STREET JOURNAL.
U.S. EDITION

Investing in Funds & ETFs: A Quarterly Analysis --- Quarterly Monitor: U.S.-Stock Funds Rose 10.8% for Year As 'Flows' Reversed

By William Power
436 words
9 January 2017
The Wall Street Journal
J
R2
English

As startling as Election Day was to many voters and commentators, it turned the mutual-funds world on its head, too.

Most investors know all about the **stock-market** rally that ensued as investors bet on a stronger economy and higher interest rates. The rally pushed the total return of the average diversified U.S.-stock fund to 10.8% for 2016, according to Thomson Reuters Lipper data. U.S.-stock funds had been up only 3.7% through October.

Even more striking were the fund flows after Election Day. For most of the year, investors had been sending their cash to bond-focused funds, and moving it out of stock funds. But in November and December, an estimated $45.67 billion flowed to mutual funds and exchanged-traded funds investing in U.S. stocks, while about $14.68 billion flowed out of bond funds, based on Investment Company Institute data through Dec. 28, the latest available.

Here is how abrupt the change was: The full-year results for fund flows still look like it was a "Bond Year for the Ages" because of how strong the bond rally was during the first three quarters: For all of 2016, a net $193 billion flowed to bond mutual funds and ETFs, according to the estimates, and $62.91 billion flowed out of U.S.-stock funds.

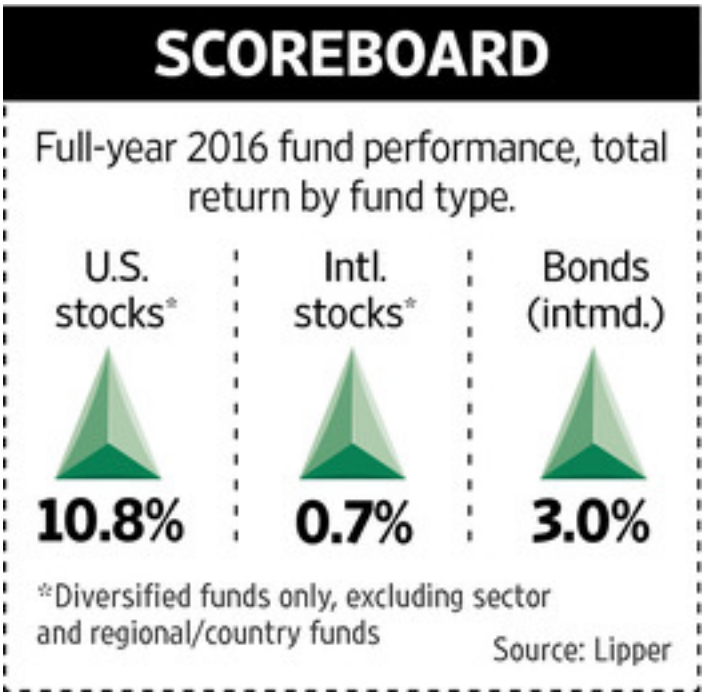
Similarly, the performance of bond funds was positive for 2016 despite ending weakly. Funds focused on intermediate-maturity, investment-grade debt, the most common type, rose 3.0% for the year after absorbing a 2.7% fourth-quarter drop.

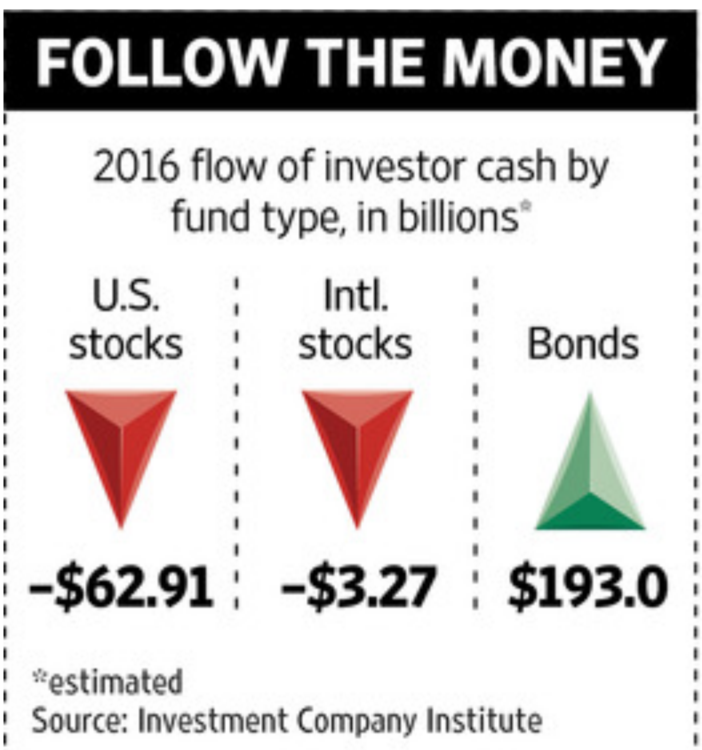
And no surprise: Funds focusing on international stocks were trumped by U.S.-focused ones. International-stock funds rose just 0.7% in 2016, undercut by a minus-2.6% fourth quarter.

A Super Bowl Bust for Investors

For a rare time, the Super Bowl **stock-market** predictor didn't work. As tracked by market analyst Robert H. Stovall, the Dow tends to rise in the year that an original NFL team wins the game, and falls otherwise. Last year's win by Denver, which came from the old AFL, incorrectly predicted a drop for 2016. Despite the fumble for the quirky predictor, it has worked after 40 of the 50 Super Bowls -- an 80% completion rate.

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





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Heard on the Street
What to Make of Markets' Calm

By Justin Lahart
458 words
9 January 2017
The Wall Street Journal
J
B10
English

[Financial Analysis and Commentary]

The world seems a very uncertain place lately. But try telling that to the **stock market**.

To judge from the news headlines, the past year has been full of dangerous surprises. Last winter, a mix of debt, emerging-market, dollar and commodity-price woes set off recession warnings. Next, there was Britain's vote to leave the European Union. And then came the upending of the U.S. political status quo with the election of Donald Trump.

Indeed, as measured by an economic-policy uncertainty index developed by economists Scott Baker, Nick Bloom and Steven Davis, this counts as a perilous period. Yet the **stock market** hasn't only been unusually calm, it has been calmer than usual. The standard deviation of the **S&P 500**'s daily moves in 2016 -- its typical swing -- was 0.8% versus 1% in 2015. Last quarter, the **stock market** posted its calmest performance in a decade.

The decline in **volatility** has been matched by a decline in the Chicago Board Options Exchange**Volatility** Index, or VIX.

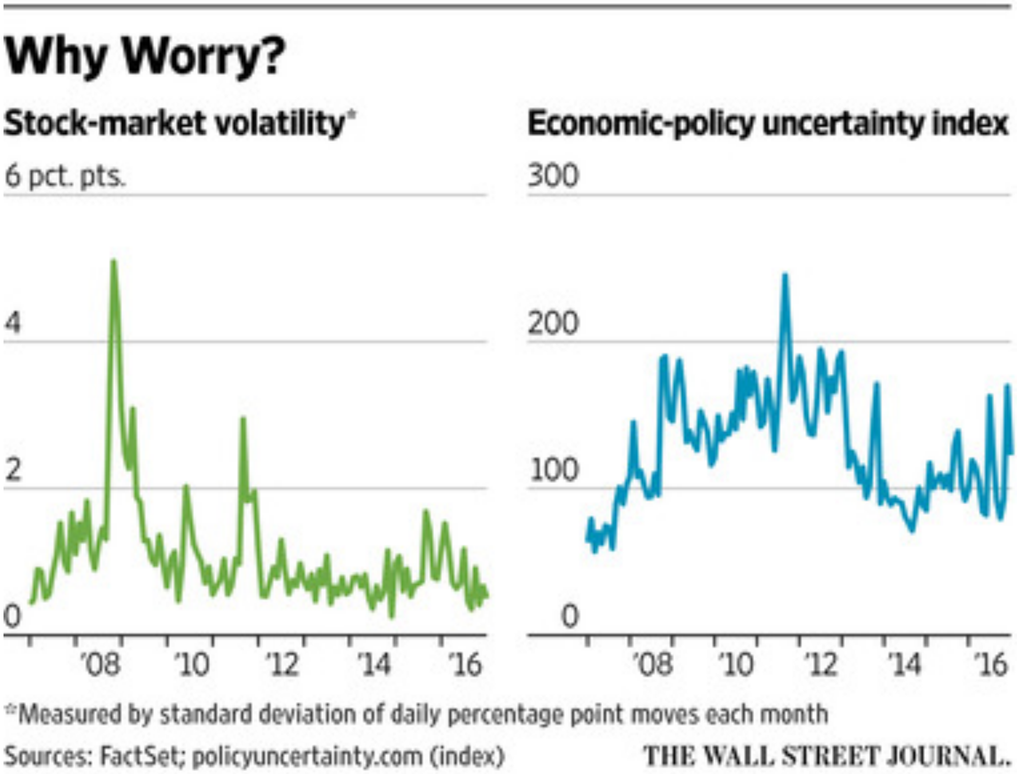
The VIX measures how much options to protect against **volatility** cost; right now those costs are low, suggesting investors aren't worried about what is coming down the pike.

It is an odd situation. The policy uncertainty index is based on criteria including flagged word combinations in news articles and the level of disagreement among economic forecasters. In the past, when it has been high, **stock-market volatility** and the VIX have been high as well.

Volatility has always been a bit of a puzzle. Stocks shake around a lot more than the underlying fundamentals suggest they should. But now would be a funny time for the market to start acting the way financial theorists say it should. Another possibility is that **stock-market** investors don't care all that much about politics, and since the recent round of uncertainty is political in nature (as opposed to the uncertainty surrounding the 2008 financial crisis), it isn't hitting stocks.

The problem there, says Mr. Bloom, is that the market clearly does care about politics -- witness its move since Election Day. He thinks a more likely reason **volatility** is low is that the hurdles the economy could face in the new political climate, such as the erection of trade barriers or a hard tack against immigration, aren't going to come about in the very near term.

Put differently, investors aren't looking much further than the ends of their noses, and it won't be until their noses run up against real trouble that they are likely to react.



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THE WALL STREET JOURNAL.
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This May Be Start of Something Really Big --- As Dow nears 20000, some observers think underinvestment will push stocks further

By Colin Barr and Aaron Kuriloff
1,062 words
9 January 2017
The Wall Street Journal
J
B10
English

Perhaps this rally hasn't ended. Perhaps it has just begun.

The **Dow Jones Industrial Average** on Friday closed at 19963.80, as it nears 20000 and extends an upswing that began in the depths of the financial crisis. When it arrives at 20000, it will be the Dow's 14th thousand-point milestone since then and on track for the second-fastest on record.

The stock rally ranks among the least-beloved in history, traders and analysts say. The technology bust and the financial meltdown taught individuals to shy away from stocks and to embrace bonds and cash. Investors poured $381 billion into bond mutual and exchange-traded funds between the start of 2014 and October, according to EPFR Global. Over the same span, they pulled a net $16 billion from stock funds.

It is a strategy that many have pursued to their detriment. The Dow has returned 274%, including price gains and dividends, since its 2009 bottom. The 10-year U.S. Treasury note has returned 33% over the same span. Now, with many on Wall Street raising their estimates for U.S. economic growth in coming years following the surprise election of Donald Trump, swapping out of bonds for stocks is an idea that is coming up more in conversation.

"People are saying, is it safe to get in now" to the **stock market**, said James D. McDonald, chief investment strategist at Northern Trust Corp. in Chicago, with $946 billion in assets under management.

Some analysts view this underinvestment as a tailwind for stocks, which they also contend look relatively attractive to many other investments based on measures such as corporate earnings, dividend yields and the economic outlook. While the U.S. economic expansion already ranks among the longest on record, few see signs that a slowdown is imminent. And if investors gain confidence, they could pour money into stocks and drive major indexes still higher.

For now, "people still feel the market going up is temporary and speculative," said Richard Bernstein, chief executive of Richard Bernstein Advisors, a New York investment adviser with $3.1 billion in assets under management.

Roughly 46% of investors were **bullish** as of Jan. 4, according to the weekly survey by the American Association of Individual Investors. That is above the long-term average of 38% but far below the peaks of 75% reached in January 2000 and 58% in 2007. Investors often use the survey as a contrarian indicator, selling when **bullish** sentiment reaches highs and buying when bearishness spikes.

One investor who embodies these conflicting impulses is Al Tomei, a 75-year-old from Los Angeles who retired as a facilities planner for the Los Angeles Unified School District.

He maintained a split portfolio of half bonds and half stocks as recently as 2007, when the Dow peaked above 14000 before losing more than half its value in the financial crisis. The Dow lost 32% on a total-return basis in 2008.

Since then, Mr. Tomei has kept about 80% of his portfolio in bonds. He is now thinking about moving back toward a 50-50 split, concerned that Mr. Trump's plans to increase fiscal spending and cut taxes will boost inflation, chipping away at the value of bonds' fixed payments. The Dow's total return was 16% in 2016, roughly half of that since Mr. Trump's Nov. 8 election.

Mr. Tomei worries that stocks are due for a correction after the gains of the past year, which he views as being fueled by external factors such as stock buybacks and central- bank stimulus rather than fundamental improvements in the U.S. economy. He is holding 4% to 5% of his assets in cash for now and looking for opportunities to buy stocks cheap.

"Everything I've read is that stocks are richly priced and when they're richly priced, the odds of them going higher are not particularly good," said Mr. Tomei.

Valuations are indeed stretched relative to history, said Messrs. Bernstein and McDonald. Stocks in the **S&P 500** traded Thursday at roughly 21 times their past 12 months of earnings, up from a 10-year average of 16, according to FactSet. But they say the valuations aren't extreme given how low interest rates remain relative to history, a condition that tends to push investors into stocks as a higher-yielding alternative, while keeping borrowing costs low for companies.

Bond yields have surged by more than a percentage point since hitting all-time lows this past summer, with the **10**-**year Treasury** yield rising to 2.417% on Friday.

The dividend yield on the **S&P 500** was roughly 2% Friday, according to S&P Dow Jones Indices. That makes stocks competitive with bonds as a source of income, while offering greater potential for asset appreciation, several investors said.

Other metrics look relatively good for stocks as well. Corporate earnings, a major driver of **stock-price** gains over time, have begun rising after a sharp decline during the 2014-2016 energy bust. Strong earnings growth can mitigate valuation concerns, Mr. Bernstein said. Analysts expect **S&P 500** earnings to rise 11% from a year ago in the first quarter, according to FactSet.

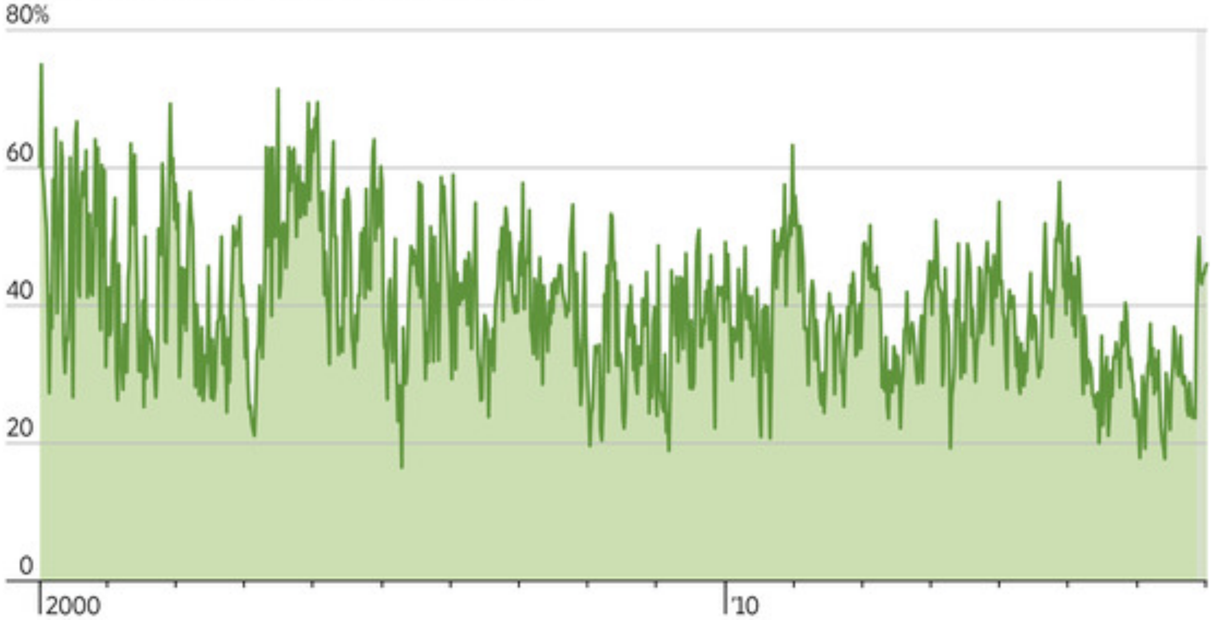
Mr. Bernstein said his firm began buying cyclical stocks such as energy, materials, technology and financial firms in the first quarter of 2016, when market-based inflation expectations began rising. He said Mr. Trump's promise of fiscal stimulus "creates an almost unprecedented" stockpile of fuel for further stock gains. Stimulus plans typically are enacted at an earlier stage of the economic cycle when unemployment is higher. Mr. Bernstein said: "4.7% joblessness plus fiscal stimulus -- whoa! That hasn't happened in my career."

Yet some remain unconvinced, scarred by the financial crisis and concerned that both stocks and bonds remain expensive. Many investors are holding cash, "waiting for the market to fall or worried about investing because they believe prices are too high," said Eric D. Nelson, managing principal at Servo Wealth Management, an investment adviser in Oklahoma City. "Honestly, I can't remember the last time I encountered an investor who is fully invested."

Warmed Over

Bullish investor sentiment has ticked up since the U.S. election, but remains far below levels typically seen at market highs—a fact that many strategists view as supporting further stock-price gains.

Percent of investors who are bullish*



A key measure of inflation expectations has surged in the second half, sharply diminishing deflation fears.

5-year, 5-year forward inflation expectation rate†

*Weekly survey in which AAII members are asked: Do you feel the direction of the market over the next six months will be up (bullish), no change (neutral) or down (bearish)? †A measure of expected inflation (on average) over the five-year period that begins five years from today.
Sources: Federal Reserve Bank of St. Louis (expectation); American Association of Individual Investors (survey)

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Investing in Funds & ETFs: A Quarterly Analysis --- Investing for Retirement: Target Funds' Bold Mix --- The popular funds, meant to adjust for risk, can be weighted more toward stocks than you think

By Michael A. Pollock
943 words
9 January 2017
The Wall Street Journal
J
R2
English

Some advisers might hesitate to put 60% of a 62-year-old client's money into stocks, especially if it comprised the bulk of savings for a person close to retiring.

But that's how some participants in employer-sponsored retirement plans may be invested if they hold a target-date mutual fund.

Is this something for target-fund holders to be fearful about? Not necessarily, say most experts. But investors should be aware of it, so that they can adjust their holdings if necessary to better align with their investment goals and risk tolerance.

Target-date funds, which automatically adjust their stock/bond/cash mix as time passes, are designed to invest heavily in stocks early in an investor's working life, when he or she presumably can better tolerate **stock-market** risk. Then, the funds slowly shift to a more conservative mix. It's a strategy for helping people avert a savings shortfall -- but also one that fails to account for individual differences in risk tolerance, an investor's other assets or really anything besides age.

So, regardless of how they might feel about it, people who plan to retire in 2020 could now have an equity allocation of around 60% in target-date funds managed by Wells Fargo, T. Rowe Price and Fidelity Investments, among others. While many plan participants pay little attention to such details, "it's really important that people understand what they are invested in, because asset allocation is a key driver of returns," says Peter Andersen, chief investment officer at Fiduciary Trust Co., a Boston-based wealth-advisory and investment-management firm.

People who feel queasy about taking that much equity risk might switch to holding more cash or bonds outside an employer-sponsored retirement plan, or consult an adviser for an overall mix that might help them sleep better without sabotaging their long-term savings strategy, financial experts say.

Target-date funds have become a major way Americans save for retirement since the Labor Department about a decade ago said that if retirement-plan participants didn't designate how their contributions should be invested, the money could automatically be channeled into target-date funds.

Of nearly 20 million participants in plans overseen by Fidelity, 69% own a target-date fund. About 44% of those investors have all of their assets in such a fund.

Fidelity's funds are designed to help investors accumulate enough money to maintain the same standard of living after retiring, says Andrew Dierdorf, who helps manage the funds. While there always will be market **volatility**, investor holdings in target-date funds recover from downturns over long periods, he says -- even as severe as the one in 2008 and 2009, he adds. Aside from the strategic downward glide path in equity exposure, Fidelity also modestly tweaks allocations in its funds based on market developments.

T. Rowe Price, another large administrator of retirement plans, offers two target-date strategies. One puts the stock allocation at 55% at the retirement date, while a newer one has a lower 42.5% equities holding at that date. People who expect to make a lump-sum withdrawal from their plan at retirement sometimes prefer a lower stock allocation because they believe that such an approach will provide more certainty about having adequate funds then. But analysis looking back over multiple market periods suggests that a fund with a higher equity allocation actually will produce better results, the firm has concluded.

Wells Fargo says its target-date funds maintain a "meaningful" level of equities exposure to help investors reach their retirement goals, while using **volatility**-management tools to help moderate the impact of short-term market gyrations on portfolios.

Investors in the target-date funds offered by retirement plans typically get better returns than other mutual-fund investors, according to research by Morningstar Inc. That's because retirement plans automatically deduct money from every paycheck and use it to buy more shares of a fund, regardless of whether markets are up or down. That means some of the purchases are made after prices have fallen to more attractive levels because of a market correction.

Without such discipline, fundholders often halt investing -- or even pull money out -- after prices have fallen and buy after prices already have risen, says Jeff Holt, associate director for manager research at Morningstar.

That analysis may not reassure plan participants whose life savings have taken a hit in a major market downdraft, though. In 2008, some target-date 2040 funds lost about as much as the 39% plunge in the **S&P 500 index**. Many of those same funds now have equity allocations north of 80%, so they could lose 8% or more in value if stocks broadly fell about 10%, notes Todd Rosenbluth, director of ETF and mutual-fund research at CFRA, a provider of financial data and analysis.

Still, financial experts caution that people who are fearful about market **volatility** should think twice before shifting to a significantly more conservative allocation in a 401(k) plan. Many Americans already are well behind in meeting their retirement income goals.

Not meeting those goals really is the risk those people face, "not the roller-coaster ride in the markets," says Josh Cohen, who heads the defined-contribution area at Russell Investments.

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Investors Renew Bets On a Junk-Bond Rally

By Sam Goldfarb
654 words
9 January 2017
The Wall Street Journal
J
A1
English

An uptick in earnings among riskier U.S. companies is bolstering investor confidence that an epic rally in junk bonds can go on a little longer.

After six consecutive quarters of year-over-year declines, earnings of companies with low credit ratings rose 14% in the second quarter and 72% in the third quarter, according to Bank of America Merrill Lynch. At the same time, defaults slowedfollowing a wave of bankruptcies in the energy sector.

Because of those factors, some investors and analysts say junk bonds -- issued by companies that are often small and burdened with debt -- could do much better than might be expected after such a strong year.

The average junk-**bond yield** was5.86%Thursday, a two-year lowbut above the sub-5% levels it reached in 2014. Despite the low yields, many investors still view junk bonds as attractive at a time when the **10**-**year Treasury** note yield is below 2.5% and stock valuations are widely seen as inflated.

Among the many junk-rated companies that had better earnings was Sprint Corp., which reported a 17% increase from a year earlier in adjusted earnings before interest, taxes, depreciation and amortization in the quarter ended Sept. 30. Its 7.625% bonds due 2025 most recently traded at around 107 cents on the dollar, up from 75 cents on the dollar last June, according to MarketAxess.

The Bloomberg Barclays U.S. Corporate High Yield Index returned 17.1% in 2016. That was its best total return since 2009 and better than those produced by all three major stock indexes, as well as investment-grade corporate bonds and U.S. Treasurys.

Such a performance almost certainly can't be replicated in 2017. Unlike with stocks, there is a limit to how much bonds can rally because they mature at 100 cents on the dollar.

As **bond prices** rise, their yields decline. Before last year, junk bonds had produced double-digit returns four times in the previous 10 years, and each time returns were much lower the following year.

Still, many investors and analysts are fairly optimistic about how junk bonds will perform.

Of six large banks surveyed by The Wall Street Journal, four project positive returns for junk bonds in 2017.

J.P. Morgan Chase & Co. is the most **bullish**, predicting an 8% return. Wells Fargo & Co. is projecting 5% to 6%, while Bank of America Merrill Lynch is estimating 4% to 5% and Goldman Sachs Group Inc. is expecting 3.2%.

"High yield is a pretty resilient asset class," saidJohn McClain, a high-yield-bond portfolio manager at Diamond Hill Capital Management in Columbus, Ohio.

Though the market hit a rough patch in early 2016 as recession fears increased and sellers had trouble finding buyers, "that got fixed very quickly," he added.

Of course, junk bonds still face risks. They are especially sensitive to economic downturns, sometimes picking up signs of stress before the **stock market** does.

Though they aren't as vulnerable to rising Treasury yields as investment-grade corporate bonds, junk bonds likely would decline in price if the Federal Reserve raises interest rates more quickly than expected and government-bond yields increase sharply. That is especially true for higher-rated bonds with lower yields.

One wild card is the volume of new bonds added to the market.

While bond sales tend to drop off during times of market stress, robust issuance can also depress prices of outstanding debt because of supply-demand dynamics.

Unlike investment-grade bonds,which set a record for issuance in 2015 and nearly matched that total last year,the volume of new high-yield bonds has declined in recent years. It totaled $261 billion in 2016, compared with $269 billion in 2015 and a record $359 billion in 2013, according to Dealogic.

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How Index Funds Democratize Investing

By Barbara Novick
889 words
9 January 2017
The Wall Street Journal
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A17
English

In 1952 Harry Markowitz, as a University of Chicago student working on his Ph.D. dissertation, codified one of the enduring beliefs of investing: the value of diversification. Since then, the benefits of diversification have become widely recognized by regulators, financial advisers and individual investors -- as well as the Nobel committee, which awarded its economics prize to Mr. Markowitz in 1990. The ability to mitigate risk by spreading assets across sectors, industries and companies is a foundational component of good, smart investing.

More recently, these benefits have become increasingly accessible. Index funds, including products such as exchange-traded funds, or ETFs, track market indexes like the **S&P 500**, offering investors the benefit of broad, diverse holdings combined with low cost. As a result, index funds have been a major force in democratizing access to diversified investment portfolios for even the smallest investors.

Index funds, by simply tracking transparent, public indexes, reduce portfolio management costs. They are also highly scalable, which enables costs to be spread across a large investor base. In other words, they are diverse not only in their holdings, but also in their ownership.

Yet index funds have come under fire recently from a handful of academics, including Martin Schmalz of the University of Michigan and Sahil Raina of the University of Alberta, who have hypothesized that index investing discourages competition among the companies in which the funds invest -- for example, driving up ticket prices in the airline industry.

The original statistical papers, which are still working papers and have not passed peer review, have nonetheless led to a second generation of legal policy papers suggesting that index funds violate antitrust laws. The most prominent of these papers is "A Proposal to Limit the Anti-Competitive Power of Institutional Investors," circulated in late November by professors from the University of Chicago Law School and Yale University.

These papers lack economic logic and factual support from the real world. For instance, why would passive managers want airline prices to be higher given that air travel is a cost for nearly every other business that is owned by the index funds? And if index funds diminish competition, why would the average tenure of companies' inclusion in the **S&P 500** be shorter in the index era than in 1958, or even 1980?

The remedies that the papers suggest are also troubling. Some academics propose: first, prohibiting managers of index funds from voting on behalf of shareholders; and second, limiting investment by index funds to one company per sector, thereby eliminating the benefit of diversification that investors have relied on since Mr. Markowitz first published his research more than 50 years ago.

Given the critique leveled at index funds over the years for being "passive" -- not only on asset allocation but also on ownership responsibilities -- it is puzzling to read recommendations that propose suppressing the voting of shares. Index investors, by nature, are generally long-term investors, and will remain invested in a stock for as long as it is included in a given index. This is in contrast to an active fund that can sell a stock if it loses confidence in a company's future.

That is why, acting as fiduciaries to their clients, asset managers work with companies on issues of corporate governance and vote against management when engagement fails. But that engagement is focused on critical issues relating to a firm's governance, such as board composition and effectiveness. It does not involve discussion of pricing, product strategy, or other issues that are the day-to-day work of the firm's management.

The second proposed remedy questions the fundamental premise of index funds, and indeed modern portfolio theory. By restricting managers to invest client assets in no more than one company per sector, index funds would no longer meet their objective of tracking market returns. This undermines the concept of index investing -- investors would be forced to decide which fund manager might select the highest performing company in each sector, just as they do for active funds. This would destroy one of the fundamental benefits that index funds have provided individual investors.

The U.S. economy is large, diverse and vibrant. New companies are formed every day, and companies in the U.S. need to go out and prove themselves to customers to win business. Some succeed and others fail. For every Amazon, there's a Borders. For every Netflix, there's a Blockbuster Video. Under Armour went from a basement in Washington, D.C., to an $11 billion company in 20 years. Some of the largest companies in the S&P -- Google, Facebook and Amazon -- are also some of its youngest.

Index funds help all investors participate in these important investment opportunities. They offer market returns at low cost and democratize access to diversified investment portfolios to a degree that was at one time unreachable for the everyday investor. Can these funds continue to be improved through more efficient operation and more effective engagement or corporate governance? Certainly, but not by eroding the very qualities that have made them such an attractive option for the average investor.

Ms. Novick is a co-founder and vice chairman of BlackRock, the world's largest asset manager.

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Investing in Funds & ETFs: A Quarterly Analysis --- Exchange-Traded Funds: The 5 Trends You'll See in ETFs in 2017

By Ari I. Weinberg
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R7
English

That exchange-traded funds will continue to vacuum up assets in 2017 is a given. But will ETF issuers find better ways for investors to make money, or merely fight among themselves for market share?

In 2016, ETFs -- which are similar to mutual funds but trade like stocks -- gathered $280 billion. Assets closed the year at $2.17 trillion in stock, $436 billion in fixed-income and $175 billion in commodity, currency and other ETF strategies, according to data tracker XTF. But the year was also punctuated by a price war and record ETF closures, at 127.

In fact, despite the asset growth, product innovation is on a plateau. According to Elisabeth Kashner, director of ETF research at FactSet, only 11 out of 237 funds launched in 2016 exceeded $100 million in assets, half as many as in 2015. Diminishing marginal returns on new index products will likely lead to continued consolidation among ETF issuers and a more aggressive push by traditional fund issuers for active (or quasi-active) products in more-tradable wrappers, such as actively managed ETFs or a new structure dubbed NextShares introduced by Eaton Vance last February. NextShares trade on an exchange like an ETF, but don't disclose their holdings daily, as almost all ETFs do.

Here are five trends that will move the ETF market in 2017:

1. Lower expenses on funds (but still with other costs to pay)

"Much of index-fund outperformance can be attributed to the cost differential," said Vanguard Chairman William McNabb at November's Evidence-Based Investing Conference in New York. And Vanguard, which manages $3.3 trillion in the U.S., including $612 billion in ETFs, closed out 2016 by announcing that expense ratios had been reduced on 11 of its ETFs as assets continued to climb.

While some of the plainest ETFs feature expense ratios below 0.05%, including products from Vanguard, BlackRock and Charles Schwab, the new flank of the fee fight will be in the growing market for "smart beta" ETFs, which weight their holdings according to complex formulas including **volatility** and valuation, among other factors.

Fees shouldn't blind investors to other costs related to ETFs, however, such as premiums and discounts relative to a fund's intraday net asset value (iNAV), trading spreads and commissions.

"Investors continue to learn more about the different facets that go into ETF prices and why they cost what they do," says Tim Coyne, head of global capital markets for State Street's SPDR ETFs.

2. Resolving the adviser-conflicts rule

The Department of Labor Fiduciary Rule, colloquially known as "the DOL," is slated to take effect on April 10. The rule requires retirement-account advisers to always act in the best interests of their clients, free of conflicts driven by product sales and asset churn. A report by McKinsey & Co. in November called the rule "one of the largest shocks to the wealth management industry in over 40 years."

The rule's opponents say it will limit access to advice. The Trump administration or new Congress could try to head it off. But even if they do, ETFs and low-cost index funds are still expected to see a rush of new assets as advisers have already taken the spirit of the new rule to heart. The investment tide continues to move against funds with sales loads or trailer fees that compensate advisers or platforms.

"Whether DOL moves forward or shifts in the future is less important than the fact that brokerage firms have already started down the path of announcing fee-structure changes and shifts for retirement and other advised accounts," says Todd Rosenbluth, director of mutual and ETF research at CFRA Research in New York.

3. A bigger smart-beta push

Smart-beta ETFs, ascendant for years, are extending their purview to include new approaches to fixed-income, value and dividend investing.

In fact, smart-beta ETFs are attracting institutional investors and emerging as a real challenger for higher-cost quantitative strategies and even hedge funds. U.S.-listed smart-beta ETFs in 2016 drew more than $41 billion in assets through Nov. 30, ending the period with $540 billion, according to Morningstar.

Investors still want to see evidence of outperformance and risk control. BlackRock, meanwhile, has cut expenses on its multifactor ETFs and filed for approval to bring out mutual-fund versions of its U.S.-listed size, factor, value and momentum "tilt" ETFs.

4. Transformers: Expect more robot/human combinations

A few years ago, upstart "robo advisers" were looking to feast on brokers and financial advisers by offering sophisticated, tax-aware investment portfolios with automated rebalancing built almost exclusively on ETFs.

But as the world of automated advice expanded to established brands and workplace retirement plans, an approach that still features a human component is winning the day -- led by Vanguard and its Personal Advisor Services accounts and Charles Schwab's announcement of a competing hybrid product.

More customized advice in workplace plans is coming, too, including incorporation of and adjustment for employee assets outside of the plan.

5. And staying 'active' can pay off

For some active investors, the past year showed the benefits of overweighting or underweighting specific ETFs -- and rebalancing frequently enough to capture gains before any reversion to the mean. For example, iShares MSCI Mexico Capped ETF (EWW) became an active proxy for investors speculating on the future of U.S.-Mexico trade during the election season, and flows into financial ETFs jumped in December amid talk of a looser regulatory regime for banks.

Active trading in ETFs, however, requires knowledge of what differentiates ETFs with similar exposures, and an understanding of the potential investment implications of domestic and international policy and rhetoric. In other words, a buy-and-hold investor might do better to focus on trend No. 1: enjoying the low costs of a broad-market fund.

Mr. Weinberg is a writer in Connecticut. He can be reached at reports@wsj.com.

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Investing in Funds & ETFs: A Quarterly Analysis --- Fundamentals of Investing: Investors' Secret Weapon For Yield: Preferred Stock --- They are almost forgotten, but this stock/bond hybrid -- and funds focusing on them -- can pay off

By Jeff Brown
1,015 words
9 January 2017
The Wall Street Journal
J
R5
English

Financial advisers repeatedly warn investors against "reaching for yield," or taking on too much risk to boost income with relatively high-yielding junk and foreign bonds. The temptation for many investors is strong, with the 10-year U.S. Treasury note currently yielding a scant 2.417% despite a postelection bump.

But what if you could earn 6% or 7% in a security that is safer than a junk bond and is issued by a sound U.S. company? Many preferred stocks pay dividends in that range, some even more. For instance, the current annualized dividend yield for the iShares U.S. Preferred Stock (PFF) exchange-traded fund is 5.85%, close to the 6.07% yield of a leading junk-bond fund, the SPDR Bloomberg Barclays High Yield Bond ETF (JNK), but with less risk.

Less risk doesn't mean no risk. Prices of preferred stock tend to fall as interest rates rise, as prices of bonds do, and rates now appear to be on an upward trajectory. And preferred stocks may not provide the same portfolio protection in a **stock-market** slide that bonds do. But some advisers see an opportunity for income-oriented investors.

"We believe preferred securities are now attractive," says Jay Hatfield, president of Infrastructure Capital Advisors in New York, given the drop in their prices in recent months and their relatively high yields. "Preferreds have declined 7.5% since their August highs" in response to increases in long-term Treasury yields, he says. And they are trading at "an attractive spread" to **30**-**year Treasury** bonds, he says, yielding nearly 3 percentage points more than the government securities on average.

Preferreds are a cross between stocks and bonds. Each has a face value, or par value, like a bond, and pays a fixed dividend based on that value. Investors in preferreds rank above holders of common stock but below bondholders in receiving any assets left if the issuer is liquidated. Preferred dividends must be paid before a company's common-stock dividends, and if suspended may have to be made up before the company resumes common-stock dividends.

In most respects, preferreds behave like bonds. Prices in the secondary market can rise and fall with interest rates and with the issuer's creditworthiness, while not generally changing with the company's fortunes as much as common stocks. While bonds have long or short maturities, preferreds generally don't mature for 25 years or longer, if at all. To get your principal back, you generally must sell in the secondary market.

A preferred stock may trade at a discount or premium to its par value and, like many corporate and municipal bonds, can be called at a preset price, generally par -- that is, the company has the right to buy it back, usually at face value, producing a gain or loss for investors depending on their purchase price.

Calls are most likely when falling interest rates give issuers a chance to retire older issues by selling new ones with lower yields, much as a homeowner would refinance a mortgage. So an investor whose preferred shares are called is likely to find lower yields available when reinvesting that money.

Calls are less likely when rates are rising, as they are now. But the call feature can still have an impact on investors: It generally means that gains in a company's preferred shares won't match those of its common shares in a **bull market**.

Though preferreds can add diversification to a portfolio, they don't necessarily balance a portfolio the way bonds do, says Matt Hylland, founder of Hylland Capital Management in Virginia Beach, Va. "Bond investors are used to the value of bonds rising as equity prices fall, which provides nice diversification for their portfolio, but preferred-share investors were given quite the surprise when the 2008-09 financial crisis brought a 50%-plus drop in the value of their 'bondlike' investment," he says. The iShares U.S. Preferred ETF, he notes, fell from $50 a share in mid-2007 to $19 in March of 2009. The fund is now trading at $37.90, and has stayed in a narrow range since 2010.

The chief hazard with preferreds today is the risk of rising interest rates driving down their prices. "As we return to a more 'normal' interest-rate environment, we can expect funds to flow out of preferred stocks and into bonds and to some extent into common stocks, with a predictable decline in preferred-stock prices," says Dave Louton, a finance professor at Bryant University in Smithfield, R.I.

But Richard H. Konrad, managing partner at Value Architects Asset Management in Hoboken, N.J., says preferred stocks are still a good alternative to bonds today.

Roughly 80% of all preferred securities are issued by the financial sector, and "U.S. bank balance sheets are much stronger and better capitalized than they have been for years," Mr. Konrad said in a recent note to clients. He added that in the relatively benign interest-rate scenario that most economists envision, with rates rising gradually and slowly, "preferred stocks with their higher coupons should perform relatively well compared to their bond equivalents."

Individual investors can have a hard time selecting preferreds, given the need to study call provisions, credit ratings and tax treatment, so for index-oriented investors Mr. Konrad recommends a fund like PFF or PowerShares Preferred Portfolio (PGX), another ETF currently yielding around 6%. Because preferreds aren't studied as widely as common stocks and bonds, experts can find bargains, he says, suggesting investors consider an actively managed fund like the Cohen & Steers Preferred Securities & Income fund (CPXIX), currently yielding about 5.8%.

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Investing in Funds & ETFs: A Quarterly Analysis --- Sorry, the 'January Barometer' Is a Market Myth

By Mark Hulbert
854 words
9 January 2017
The Wall Street Journal
J
R1
English

The **stock market** in January has no special ability to forecast the future.

That may surprise a lot of investors, since a popular urban myth on Wall Street is that the market's performance in January predicts which direction stock prices will take for the full year. The problem is that there is little statistical support for that belief.

According to the Stock Trader's Almanac, this supposed pattern -- variously known as the January Indicator or the January Barometer -- was devised by the legendary market guru Yale Hirsch in 1972.

You don't have to look very far to find the shortcomings of the January Barometer. You may recall that January 2016 was one of the worst Januarys for the **stock market** in U.S. history, with the **S&P 500 index** sliding more than 5%. An investor guided by the January Barometer would have gotten out of stocks in early February, at what turned out to be some of the worst prices of the entire year -- and missed the more than 15% rally the market mounted from early February through the end of the year.

In fact, the January Barometer has been right only 64% of the time since 1972. For a sense of how faulty that is, consider this: If there was a rule that simply predicted the market would go up every year, it would have been right 76% of the time over the same period.

Some January Barometer devotees nevertheless insist that its record is better than these statistics suggest. For example, Jeffrey Hirsch, Yale Hirsch's son and editor of the Almanac Investor newsletter, reports that the Barometer has an 86.4% accuracy rate since 1950. But I believe that success rate is inflated, for a couple of reasons.

The first is that, when calculating it, Mr. Hirsch's approach is to ignore those years in which the indicator's failures were supposedly minor -- "flat years" in which the market moved less than 5% in the opposite direction to that which was forecast. (Including those eight 5%-or-less years immediately shaves 12 percentage points off the Barometer's performance.) The second factor inflating the Barometer's reported success rate is including in that record's calculations the years before its discovery in 1972.

Both of these statistical no-no's are symptoms of an all-too-common practice known as data mining -- slicing and dicing the data until they produce the desired conclusion.

The younger Mr. Hirsch nevertheless stands by the January Barometer, insisting that its record is "extraordinary." In an interview, he argued that the indicator's record has been particularly impressive during years in which the market rose in January. In such years since 1972, it has been right 85% of the time -- better than the 76% success rate since then of a rule predicting the market would always rise.

It isn't clear that even this improvement in success rate from 76% to 85% is statistically significant, however. That's because of another, less obvious, form of data mining, according to Campbell Harvey, a finance professor at Duke University's Fuqua School of Business.

In an interview, Prof. Harvey explained that before the January Barometer was "discovered," many other hypotheses undoubtedly were explored by myriad market observers who over the years have combed through **stock-market** history in search of apparent seasonal patterns.

With each additional hypothesis that is explored, Prof. Harvey argues, it becomes more likely that one of them will appear to have a phenomenal record but in fact be worthless going forward. To compensate for this increased likelihood of error, he adds, it's important to employ increasingly stringent standards of statistical significance with each additional hypothesis that is tested.

To be sure, this type of data mining isn't unique to the January Barometer. On the contrary, Prof. Harvey -- president of the American Finance Association, an organization of finance academics -- said in his presidential address to the association last week in Chicago that this problem affects much of academic finance research as well. Many of the supposed patterns on which some market timers and traders base their strategies would be found to be no more than statistical flukes if their track records were properly adjusted for the data mining involved in their discoveries, Prof. Harvey said.

The best advice for most individual investors, therefore, is to buy and hold a diversified group of quality stocks -- without regard to whether the **stock market** is up or down this month. If a correction or **bear market** would be intolerable, you should reduce your equity exposure now, with the **stock market** at or near all-time highs, rather than wait until the bottom of a decline to discover that you don't have what it takes to hold through thick and thin.

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The New York Times

ECONOMIC VIEW
Money and Business/Financial Desk; SECTBU
Major Changes Loom for Corporate Taxes

By NEIL IRWIN
1,316 words
8 January 2017
The New York Times
NYTF
Late Edition - Final
5
English

The United States system for taxing businesses is a mess. If there's one thing nearly everyone can agree upon, it is that.

The current corporate income tax manages the weird trick of both taxing companies at a higher statutory rate than other advanced countries while collecting less money, as a percentage of the overall economy, than most of them. It is infinitely complicated and it gives companies incentives to borrow too much money and move operations to countries with lower tax rates.

Now, the moment for trying to fix all of that appears to have arrived. With the House, Senate and presidency all soon to be in Republican hands and with all agreeing that a major tax bill is a top priority, some kind of change appears likely to happen. And it may turn out to be a very big deal, particularly if a tax plan that House Republicans proposed last summer becomes the core of new legislation.

Among Washington's lobbying shops and policy analysis crowd, it's known as a ''destination-based cash flow tax with border adjustment.'' It's easier to think of it as the most substantial reworking of how businesses are taxed since the corporate income tax was introduced a century ago. And it could, if enacted, have big effects not just in the tax departments of major corporations but in global **financial markets** and the aisles of your local Walmart.

This possible revamping of the corporate tax code is less politically polarizing than the debates sure to unfold in the months ahead over health care, or even over individual income taxes. But the consequences for business -- and for the long-term trajectory of the economy -- are huge.

The basic idea behind a D.B.C.F.T. (to use the abbreviation that has taken hold in a particularly nerdy corner of Twitter) is this: Right now companies are taxed based on their income generated in the United States. But there are countless tricks that corporate accountants can play to reduce the income companies report and to reduce their tax burden, and those tricks distort the economy.

Two prime examples are transferring intellectual property to overseas holding companies and engaging in corporate inversions that move a company's legal headquarters to a country with lower taxes. Moreover, because interest payments on debt are tax-deductible, the current system makes it appealing to take on as much debt as possible, even though that can increase the risk of bankruptcy when a downturn comes along.

The House Republicans' approach, instead of taxing the easy-to-manipulate corporate income, goes after a firm's domestic cash flow: money that comes in from sales within the United States borders minus money that goes out to pay employees and buy supplies and so forth. There's no incentive to play games with overseas companies that exist only to exploit tax differences or to relocate production to countries with lower taxes because you'll be taxed on things you sell in the United States, regardless.

''With an income tax, one of the key issues is 'how do you measure income,' '' said Alan Auerbach, an economist at the University of California, Berkeley, who is a leading advocate of the idea. ''But with cash flow you just follow the money.''

And the tax, Mr. Auerbach argues, could spur business investment while not encouraging companies to rely on debt. It allows companies to enjoy the tax savings of capital investments immediately rather than depreciating them over time. And it doesn't give favorable treatment to debt, as opposed to equity.

That alone would amount to a major shift in the tax system. Congressional staff members, the incoming administration and armies of lobbyists will spend countless hours hammering out the details of any such proposal: how it might be phased in, and how to treat financial services, and much more.

Some of the most complex, and politically problematic, elements of the plan revolve around its treatment of international trade, which creates winners and losers. And some of those potential losers are powerful.

Consider what border adjustment means: When an American company exports goods under this new tax system, it would not pay any taxes on its international sales, while its imports would be taxed. So a company that spent $80 making something that it sold overseas for $100 would pay no tax on its earnings. A company that imported goods worth $80 from abroad and them sold them domestically for $100 would pay tax on the full $100.

At first glance this looks as if it would boost exports and reduce the trade deficit. Indeed, it might prove politically promising for advocates of the strategy to pitch the plan as one that would do this.

Many economists think it won't work that way, however. That's because as soon as a cash-flow-based tax with border adjustment looks likely to become law, the value of the dollar should rise in currency markets. And that stronger dollar could eliminate the apparent pro-export, anti-import effects of the tax. The dollar could rise by, say, 20 to 25 percent, and the trade balance could remain about where it started.

Essentially, moving to this system means betting on a ''textbook economic theory,'' as analysts at Evercore ISI put it, becoming a reality even though the effect hasn't been tested in practice.

If the dollar doesn't strengthen as expected, for example, import-dependent industries, especially those with lean profit margins, could face disaster. That helps explain why some of the stiffest opposition to this tax overhaul is coming from the retail industry. Essentially, economists are telling them ''trust us, our models say the currency will adjust and it will all come out in the wash,'' but if the models are wrong, for companies like Walmart, Target and many others that sell large volumes of imported goods, their viability could be threatened.

If the models turn out to be right, there is a different set of risks. The United States dollar is the linchpin of the global financial system, and a large move in its value triggered by changes in domestic tax policy could have unforeseen effects.

Many companies worldwide, especially banks and especially in emerging markets, have debt denominated in dollars, which would become more of a burden after a new dollar appreciation. A big dollar rise would also effectively shift trillions in wealth from American investments overseas toward global investors with assets in the United States.

As Jared Bernstein of the Center on Budget and Policy Priorities has noted, we don't really know what the distributional consequences of this tax overhaul would be. It could increase the costs of imported goods that the poor spend a disproportionate portion of their income on, like clothing and gasoline. That would be bad news for poorer Americans even as it makes the overall economy more efficient.

There's still a lot of work to be done to understand the far-reaching consequences of the D.B.C.F.T. (also, work to be done to find a catchier name). But there's a broader point about the nature of any major policy reform. The benefits of a reworked corporate tax code would emerge slowly; these disruptions and costs could arrive almost instantly.

No matter the outcome, 2017 will be a fascinating year in which core components of the tax system -- with long-lasting economic consequences -- will be up for grabs.

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Major retailers who sell imported goods, like Walmart, are potential losers in a move toward a cash-flow-based corporate income tax. (PHOTOGRAPH BY DOLLY FAIBYSHEV FOR THE NEW YORK TIMES)

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Oil Rises on Belief In OPEC's Plans

By Kevin Baxter and Jenny W. Hsu
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B9
English

Oil prices closed out a fourth consecutive week of gains, as confidence in lower production levels outweighed building oil products in storage.

Light, sweet crude for February delivery settled up 23 cents, or 0.4%, on Friday at $53.99 a barrel on the New York Mercantile Exchange. Prices fluctuated between gains and losses throughout the day, going as high as $54.32 and as low as $53.46. Brent, the global benchmark, settled up 21 cents, or 0.4%, at $57.10 a barrel.

Prices were buoyed by Royal Dutch Shell PLC's decision to close down the 140,000-barrel-a-day Trans-Niger Bonny Light pipeline. The company cited a fire for the shutdown, but the situation highlights the continuing struggle with attacks on Nigeria's oil infrastructure.

"The Nigerian government is reportedly restarting to pay peace allowance to militants. This will probably ease things, but it will take time before world refiners regain confidence about the reliability of Nigerian supplies," said oil analyst Olivier Jakob from Switzerland-based Petromatrix.

For the week, U.S. crude and Brent both gained 0.5%.

Oil prices had been choppy after the U.S. Energy Information Administration on Thursday reported a significant drawdown of 7.1 million barrels from stockpiles in the week of Dec. 30 due to lower imports, upending the market's expectations for an increase or a smaller decrease.

However, the large growth in distillates and gasoline stocks -- of 10.1 million barrels and 8.3 million barrels, respectively -- is considered **bearish** and a reflection of poor demand, said analysts at Societe Generale.

The data also showed U.S. production of crude grew by 4,000 barrels a day in the same week, a figure that is likely to rise in the postholiday period.

As U.S. production continues to creep up, members of the Organization of the Petroleum Exporting Countries are starting to pull back on output to meet the 32.5 million barrels-a-day ceiling pledged at the cartel's Nov. 30 meeting.

Saudi Arabia, the de facto leader of the cartel, took the lion's share of the cut. The Wall Street Journal reported Thursday the kingdom made good on its pledge by cutting its January daily production by 468,000 barrels.

"Saudi Aramco has made it clear that it plans to cuts production and this will hopefully convince other producers to fully comply with the promised cuts," said Edward Bell, an analyst from the Dubai-based Emirates NBD bank.

Gasoline futures settled down 0.2% at $1.6340 a gallon and diesel futures settled up 0.5% at $1.7032 a gallon.

Stephanie Yang contributed to this article.

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The New York Times

EDITORIAL
Editorial Desk; SECTA
The Biggest Losers as Interest Rates Rise

By THE EDITORIAL BOARD
584 words
7 January 2017
The New York Times
NYTF
Late Edition - Final
18
English

The era of superlow interest rates, which began in 2008, will draw to a close this year if, as expected, the Federal Reserve lifts rates to fend off inflation from tax cuts and spending increases under a Trump administration.

Bondholders would take a hit because **bond prices** fall when interest rates rise, but that should not take investors by surprise. Corporations, which have gorged on debt in recent years, are also likely to find rate increases manageable, because many have issued long-term bonds or amassed large cash cushions, thus shielding themselves from rate shocks.

But the end of rock-bottom rates represents a huge missed opportunity for generations of Americans. Congress could have -- and should have -- used those near-zero rates to borrow money to rebuild the country's decrepit infrastructure, which would have sped up the recovery by creating jobs and set the stage for growth long into the future.

That chance was squandered. After Republicans won control of the House in 2010, they managed to shift the debate from economic-recovery spending to deficit reduction. They did this despite evidence that the still-weak economy required more, not less, federal aid, and even threatened to default on the national debt unless federal spending was slashed. In 2013 and 2014, the budget was cut so deeply that the government sector subtracted from economic growth. In 2015, the government added nothing to growth. In 2016, it added a smidgen.

The result has been a lopsided recovery. Prices for stocks, bonds and real estate, which benefit from monetary stimulus, have surged. Wages, which would have benefited from federal spending to bolster the economy, have lagged, widening the gap between the wealthiest Americans and everyone else.

The policies Donald Trump talked about in the campaign, if enacted, would take a different route to the same disturbing place. For example, deregulation would stimulate the economy -- in part, by removing restraints on reckless lending, borrowing and production. Tax cuts for the rich are likely to send asset prices even higher while worsening the budget deficit.

A growing economy accompanied by a growing deficit is a recipe for still higher interest rates. Since Mr. Trump was elected, the yield on a benchmark **10**-**year Treasury bond** has already risen to 2.4 percent from 1.8 percent, a sign that investors expect inflation.

With interest rates rising, a big infrastructure plan becomes increasingly less feasible, which reinforces the pro-tax cut, anti-spending attitude of congressional Republicans. This week, top Republicans dismissed the possibility of near-term action on infrastructure, despite Mr. Trump's pledge to make it part of his first-100-days agenda.

The Federal Reserve's policy of rock-bottom rates helped to avert what would have been even greater devastation from the Great Recession. Even now, the Fed should continue to keep rates as low as possible for as long as possible to help bring down underemployment: The number of working people who cannot find full-time hours remains elevated even as unemployment has declined.

Still, the Fed cannot by itself repair a badly damaged economy. So the country is in an unhappy position. Interest rates are poised to rise, but there is no credible plan from Mr. Trump for broad and stable prosperity.

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DRAWING (DRAWING BY DANIEL ZENDER)

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THE WALL STREET JOURNAL.
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U.S. News: Jobs Legacy Mixed as Obama Exit Looms

By Eric Morath
369 words
7 January 2017
The Wall Street Journal
J
A2
English

President Barack Obama is leaving his role as the economy's steward with a mixed labor-market performance on his record.

The final full month of Mr. Obama's term was the 75th straight in which U.S. employers added jobs. It extended the longest such stretch on record, dating back to 1939. The unemployment rate was well below a peak of 10% early in his presidency.

However, those achievements were marred by trends including a long run of weak wage gains, the lowest share of adults in the labor force in four decades and an elevated number of Americans stuck in part-time jobs.

The U.S. economy added 11.3 million jobs during the presidency of Mr. Obama through December -- fourth-most among presidents in the post-World War II era. Among recent two-term presidents, that compares with only 2.1 million jobs added under George W. Bush, but 22.9 million under Bill Clinton and 15.9 million under Ronald Reagan.

No president can dictate the economy's performance single-handedly, and much depends on the economy each president inherits. That will leave open for debate how Mr. Obama, who took office during a deep recession, performed.

"Far too many workers have been left behind," said Rep. Pat Tiberi, an Ohio Republican and chairman-designate of Congress's Joint Economic Committee. The tax code and regulations limited businesses' "ability to create jobs, causing many Americans to simply give up looking for work."

The economy Mr. Obama will hand over to Republican President-elect Donald Trump is starkly different from the one Mr. Obama had as he took office. The **Dow Jones Industrial Average** sat below 9000 at the end of 2008, having fallen about 33% over the previous year. The index closed just below 20,000 Friday.

"The economy is so vastly different today than eight years ago," said Jason Furman, chairman of the White House's Council of Economic Advisers. Mr. Obama "doesn't want his successor going through what he went through, as we faced a really terrifying brink of the abyss."

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THE WALL STREET JOURNAL.
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REVIEW & OUTLOOK (Editorial)
Obama's Last Jobs Report

453 words
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A12
English

As President Obama ends his second term, his supporters are proclaiming that he will leave behind a "booming" economy. You wouldn't know that from the December jobs report, the last full-month report of his Presidency, which was as lackluster as the overall Obama expansion.

The Labor Department's survey of employers found that the economy created 156,000 new jobs in the last month of 2016, down from the 12-month average of 180,000. Some 12,000 of those were government jobs, including 5,000 for the feds.

The numbers were even less inspiring in Labor's household survey, which found only 63,000 net new jobs in the month. The household survey tends to better capture job growth among small businesses and it is the basis for the monthly unemployment rate, which ticked up to 4.7% from 4.6%. The labor participation rate remained where it was a year earlier at 62.7%, which is at the February 1978 level.

Financial markets nonetheless rallied on the news, perhaps because investors took heart from the increase in wages. Average hourly earnings rose by a healthy dime to $26, after falling two cents in November. Wages rose 2.9% for 2016, which is a major improvement over the 2% trend of the Obama era. At long last tighter labor markets are yielding the income gains that were so elusive thanks to the historically slow economic growth rate of the post-2009 expansion.

All of this is a double-edged sword for Donald Trump as he moves into the Oval Office and tries to make good on his pledge to lift incomes. On the one hand, labor shortages in much of the country will bid up wages for skilled positions in particular, especially if his tax cuts and deregulation lift the GDP growth rate to 3% or 4% a year.

On the other hand, the current expansion is already seven and a half years old, which is long in the tooth by historical standards. Faster growth will have to come from rising capital investment, which has been anemic during the Obama years. If that boosts productivity, wage gains would accelerate and those gains could even begin to attract the tens of millions of workers who have left the labor force since 2009. The labor participation rate could begin to climb again despite the growing pace of Baby Boomer retirements.

None of this is a prediction because new policies are a long way from passing Congress. But the good news is the U.S. now has a chance to leave the slow-growth era behind.

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Heard on the Street
Why Beijing's Grip on Yuan Is Becoming Tenuous

By Anjani Trivedi
461 words
7 January 2017
The Wall Street Journal
J
B10
English

[Financial Analysis and Commentary]

Even a slight loss of currency control to markets is still not within Beijing's reality. After spending a year trying to communicate with markets about its currency-management process, Beijing is resorting to what it knows best: clamping down. The battle will only get tougher.

Beijing is now finding that the influence of global **financial markets** within its own markets is bigger and harder to control than before. In a reverse deja vu of sorts, China's yuan traded freely offshore unexpectedly appreciated swiftly this week and offshore borrowing costs surged to more than 60%. Exactly a year ago, the currency fell sharply as borrowing costs surged to similar levels. As a resurgent dollar gave way to emerging-market currencies this week, China's hopes for an orderly depreciation were dashed.

For months, as Beijing guided its currency weaker onshore, no panic ensued. Investors increasingly pushed the offshore currency weaker, testing the limits of Beijing's appetite for a weak yuan. As it reached a point beyond Beijing's comfort, the government stepped in. And as the U.S. Federal Reserve caught investors off guard with minutes of its latest meeting, the U.S. dollar weakened and the yuan's move spiraled. So, here we are, once again in tenuous territory.

Beijing's efforts to manage optics may go in vain. Take the largely arbitrary, but apparently trade-weighted, central-bank currency basket. To lessen the blow from swings in global currencies, Beijing took to watering down **volatile**, major currencies since they have the largest impact. The trouble is, it seems to have overlooked the basket in recent days.

Global forces are now far more painful to deal with as China attempts to open up its markets. Tighter U.S. policy, as well as a weak euro and yen, have made sticking to promises of currency-basket management difficult. Swift depreciation of large trading partners' currencies poses an obstacle to economic growth. As is well-documented, a stronger dollar has drawn billions of dollars out of the country, and encouraged the hoarding of foreign-currency assets. That has made conducting monetary policy at home in China more about risk control than maintaining economic growth, further diminishing Beijing's ability to control the yuan's rapid descent.

Investors shouldn't misunderstand this as a prolonged reversal of the yuan's path weaker; it is merely a pit stop. Just like an interest-rate rise in the U.S. exacerbated pain in China's stumbling bond and money markets, a stronger dollar will only serve to double the pain in China's currency battle.

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The New York Times

Business/Financial Desk; SECTB
Shares Fall for Retailers and Banks

By THE ASSOCIATED PRESS
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6 January 2017
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Late Edition - Final
5
English

Stocks on Wall Street slipped Thursday as interest rates dropped and banks took sharp losses. Department stores tumbled as Macy's and Kohl's plunged after weak holiday-season reports that led the chains to cut their profit forecasts.

After a solid but uninspiring report on private hiring in December, **bond prices** jumped and yields fell, which sent banks down. The dollar declined. Other industries that have climbed since the election, including industrial and basic materials companies, also slipped. The **Dow Jonesindustrial average** was down as much as 131 points at midday, but the losses later eased as shares of companies that pay big dividends traded higher.

Health care and technology stocks edged higher, and the **Nasdaq composite** recovered from an early loss to set another record.

The Dow sank 42.87 points, or 0.2 percent, to 19,899.29. The **Standard & Poor's 500-stockindex** lost 1.75 points, or 0.1 percent, to 2,269. The **Nasdaq composite** rose 10.93 points, or 0.2 percent, to 5,487.94. The Russell 2000 index of small-company stocks surrendered 16.02 points, or 1.2 percent, to 1,371.94.

Macy's said it will cut 10,000 jobs, and both it and Kohl's reported declines in a key sales measure for November and December. Macy's, which has lost half its value over the last two years, tumbled $4.98, or 13.9 percent, to $30.86, and Kohl's slumped $9.87, or 19 percent, to $42.01. Nordstrom and J.C. Penney both sank 7 percent.

Bond prices jumped. The yield on the **10-year Treasury** note fell to 2.35 percent from 2.44 percent. Citigroup lost $1.07, or 1.7 percent, to $60.34, and Fifth Third Bancorp declined 78 cents, or 2.8 percent, to $26.64.

The dollar continued to slip below its recent 14-year highs. It fell to 115.56 yen from 117.34 yen. The euro rose to $1.0596 from $1.0485.

With the dollar skidding, the price of gold jumped $15.90, or 1.4 percent, to $1,179.70 an ounce.

Benchmark crude picked up 50 cents to $53.76 a barrel in New York. Brent crude added 43 cents to $56.89 a barrel in London.

The FTSE 100 index in Britain inched up 0.1 percent to set another record high. Japan's benchmark Nikkei 225 index fell 0.4 percent and the Kospi of South Korea edged 0.2 percent lower.

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

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The New York Times

Business Day; Economy
Recovery Finally Yields Big Gains for Average Worker's Pay

By NELSON D. SCHWARTZ
1,200 words
6 January 2017
05:00 AM
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NYTFEED
English

It has been a long time coming — eight years, in fact — but the economic recovery is finally showing up in the average American worker's paycheck in a big way.

There have been plenty of winners in the recovery, which began in mid-2009: companies, homeowners, investors and, especially, households at the apex of the economic pyramid. But the paucity of gains in take-home pay has stoked anxiety and frustration for many others, a factor in the wave of discontent that President-elect Donald J. Trump rode to victory in November.

But even as Mr. Trump prepares to succeed President Obama in two weeks, the Labor Department reported on Friday that average hourly earnings rose by 2.9 percent last year, the best annual performance since the recovery began.

And many economists expect the trend to gain momentum this year, as a tighter labor market forces employers to pay more to hire and retain workers. "This is a turning point for the overall economy," said Diane Swonk, a veteran independent economist in Chicago.

While wage growth was robust last year, government data for December showed a more tepid increase in employment, with 156,000 jobs added during the month, and a slight uptick in the unemployment rate to 4.7 percent.

Until recently, a rise in salaries one month would peter out the next, but the upward trajectory in 2016 reflects wage gains even for Americans at the low end of the pay scale, Ms. Swonk said. Leisure and hospitality workers, for example, saw hourly earnings jump 4.4 percent from a year earlier, equal to the increase enjoyed by employees in the surging technology sector.

To be sure, a number of the economic problems cited by Mr. Trump during the campaign remain: millions of former workers not even looking for jobs, ebbing factory positions and fewer opportunities for the 55 percent of Americans without college degrees or other post-high school credentials.

"Strong economic growth doesn't really matter if it's not widely distributed," Ms. Swonk said. "You can have a better economy but still not good enough for people who aren't participating at all."

A more comprehensive government barometer of unemployment, which includes workers forced to take part-time jobs because full-time positions were not available, stood at 9.2 percent in December, a much higher level than at this point in past recoveries.

But rising wages should counter the economic undertow, especially if the gains remain broad-based. And while a 2.9 percent increase may not sound like much, it goes much further because inflation is about 1.7 percent.

Economists expect wages to rise by up to 3.5 percent in 2017 — still below the gains many workers saw in the recovery of the mid-2000s, and in the tech-fueled boom of the late 1990s.

Although not reflected in the December figures, many low-wage workers are getting raises this year because of state increases in the local minimum wage. Some of the increases were substantial, with Arizona, Maine and Washington each raising the floor by $1.50 or more an hour.

Even in California, where, at 50 cents an hour, the wage gain is not as steep, one in 10 workers has gotten a raise. And minimum-wage gains can have a spillover effect, pushing up pay for workers just above the bottom salary tier.

For all his criticism during the campaign of Mr. Obama's economic stewardship, Mr. Trump will inherit an economy that is fundamentally solid. Consumer sentiment, corporate profits and the **stock market** are all at or near multiyear highs.

On Friday, Wall Street embraced the not-too-hot, not-too-cold labor market figures, lifting the **Dow Jonesindustrial average** close to 20,000 and a new nominal record.

Investors and traders are watching the jobs data closely for clues about when the Federal Reserve Board may next raise interest rates.

Last month, the Fed increased interest rates for only the second time in a decade, and policy makers signaled that three more increases could come this year. The wage gains are among the reasons the Fed is likely to stick to that plan, Ms. Swonk, the Chicago economist, said.

Monthly job creation last year was well below the 236,000 average for hiring in 2014 and 2015. But with the economy close to what Fed policy makers and other experts consider full employment, employers are increasing wages, to retain workers and to attract new ones.

While the minimum wage increases provide a floor when it comes to pay, the ceiling continues to rise in fields like financial services, sales and technology, said Tom Gimbel, chief executive of LaSalle Network, a Chicago staffing company.

"Across the board, I see more aggressive salaries being offered by corporations than at any time in the last 10 years," Mr. Gimbel said.

Seasoned sales representatives are drawing base salaries of $150,000 a year, compared with $125,000 two years ago, according to Mr. Gimbel. Entry-level software developers who once started at around $50,000 a year can now command $70,000.

Other executives in the Midwest also report upward pressure on wages, including in grittier settings than the white-collar fields where engineers and financial professionals cluster.

At Lou Malnati's Pizzeria, which has 46 restaurants in the Chicago area and one in Phoenix, entry-level pay in hourly positions like server, cook and dishwasher is now about $11.50 an hour, compared with $10 an hour three years ago.

Mark Agnew, the chain's president, said most of the increase was a result of the steady rise in Chicago's minimum wage, which has gone from $8.25 in 2014 to $10.50 now. It is set to hit $13 by summer 2019.

"We want to stay ahead of the minimum wage because we want to attract the best talent," Mr. Agnew said. A substantial portion of the chain's 3,000 workers have been with the company for more than 10 years, a rarity in the high-turnover restaurant industry that is another benefit of the slightly higher wages.

Economists and politicians have long debated whether raising the minimum wage ultimately hurts workers as companies cut positions or leave them unfilled in the face of rising labor costs.

So far, that has not been the case at Lou Malnati's, Mr. Agnew said. The chain has opened about a dozen new locations in the past three years, adding about 600 workers to its payroll over all.

"It's very tricky, and I know the minimum wage may erode job creation in some industries," he said. "But in my own company, it hasn't hurt hiring."

* Where Trump Sees Economic 'Disaster,' Experts See Something More Complex

* President Obama Is Handing a Strong Economy to His Successor

* Fed Raises Key Interest Rate, Citing Strengthening Economy

A job fair in Brighton, Colo., on Dec. 14. For all his criticism of President Obama's economic stewardship during the campaign, Donald J. Trump inherits an economy that is fundamentally solid. | Matthew Staver/Bloomberg

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THE WALL STREET JOURNAL.
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Markets & Finance: Bank of Mexico Moves to Bolster the Peso

By Anthony Harrup
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English

MEXICO CITY -- The Bank of Mexico stepped into the exchange market Thursday for the first time in almost a year to support the peso, which hit new lows against the U.S. dollar on fears that protectionist measures by the incoming administration of U.S. President-elect Donald Trump could hurt the country's trade and investment.

The foreign-exchange commission, formed by central bank and Finance Ministry officials, said the dollar sales were to provide liquidity and ease the exchange **volatility** of recent days, and kept open the possibility of additional interventions.

A central-bank official confirmed the bank was active in the exchange market early Thursday.

The peso sank to an all-time low against the dollar this week after Ford Motor Co. said it was canceling a planned $1.6 billion investment in a new assembly plant in Mexico that had been criticized by Mr. Trump. The decision led to concerns that other investments could be discouraged, limiting an important source of foreign income in Mexico.

The Bank of Mexico last intervened in the exchange market in February 2016, when it sold $2 billion after the peso reached new lows on the decline in **oil prices**, which affect Mexico's trade balance and federal government revenue.

At that time, the central bank also raised interest rates and suspended its scheduled dollar auctions in favor of spot interventions. The scheduled auctions, which took effect if the peso depreciated a set amount in a day, were depleting reserves without any notable benefit for the currency.

Mexico's foreign reserves ended 2016 at $176.5 billion, little changed from the end of 2015. The amount of the dollar sales will be reflected in next week's reserves report.

Thursday's decision to intervene was justified as the peso is excessively undervalued, Goldman Sachs economist Alberto Ramos said in a note. He estimated that the real effective exchange rate -- which takes into account a basket of currencies, trade and inflation -- has depreciated 41% since mid-2013.

"The current peso weakness is unprecedented outside the grip of a major crisis and is also visibly weaker than the level reached during the 2008-09 global financial crisis," he said.

The peso gave back some of its initial gains and was trading in Mexico City at about 21.4365 to the dollar around 1:15 p.m. EST, according to Infosel, compared with 21.5260 at the close Wednesday. It touched an all-time low of 21.6220 on Wednesday, Banco Base said.

The peso depreciated 17% against the dollar in 2016, affected by a widening trade deficit, increasing public debt levels that prompted ratings firms to change the sovereign credit outlook to negative and the impact of lower **oil prices** on the finances of state oil company Petroleos Mexicanos. Mr. Trump's rise in polls and eventual election victory also put pressure on the peso.

Concerns about the impact that a weaker currency could have on inflation, which accelerated toward the end of last year, prompted the Bank of Mexico to raise interest rates five times in 2016, increasing the overnight rate target to 5.75% from 3.25%.

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THE WALL STREET JOURNAL.
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Gusher of Speculation Drives Oil Rally --- Wagers pile up that OPEC's output cut will push up crude prices; 'put up or shut up time'

By Alison Sider and Erin Ailworth
979 words
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The Wall Street Journal
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B12
English

OPEC's recent agreement to limit crude production is unleashing a tide of speculative bets on rising **oil prices**, raising the prospect that the oil market could reverse suddenly if the group fails to deliver.

U.S. crude prices have soared 19% since the Organization of the Petroleum Exporting Countries agreed on Nov. 30 to its first supply reduction since 2008. Other non-OPEC producers signed on to the output cut, which amounts to almost 2% of global daily oil production, aimed at shrinking a global glut that has weighed on prices for two years.

Investors are more **bullish** on **oil prices** than they've been since the summer of 2014, the last time **oil prices** were over $100 a barrel.

Since just before the OPEC deal, money managers have increased the number of positions on rising crude prices by 7%, bringing the total number of bets to 358,573. That figure is seven times the number of bets on the price falling, according to data from the Commodity Futures Trading Commission.

For the week ended Dec. 27, the most recent figures available, wagers became even more one-sided: New bets on rising crude prices outnumbered wagers that the price would fall by more than 35 to 1, CFTC data showed.

This positioning puts the oil market in a vulnerable state, some analysts said. Cuts from OPEC members may end up disappointing investors, given the 13-member group's mixed history of compliance with its production quotas. Any sign that OPEC is not following through could set off a "cascade of selling" as speculators liquidate positions, said Carsten Fritsch, an analyst at Commerzbank AG.

"It's quite a shaky situation," he said.

Analysts are already on high alert. Crude prices got a brief boost on Thursday amid indications that Saudi Arabia is following through with its promised output cuts. But questions remain about whether some OPEC members like Iraq and non-OPEC countries like Russia will stick to the agreement.

"The market has priced in something that has not happened yet," said Michael Wittner, head of oil research at Societe Generale SA. "Now it's put up or shut up time." Still, he said the large **bullish** position won't necessarily throw markets off kilter.

"Those investors actually have a lot of dry powder" to keep pouring money into oil markets, Mr. Wittner said.

On Thursday, crude for February delivery gained 0.9%, to $53.76 a barrel, on the New York Mercantile Exchange. The news about the Saudi output cuts helped support prices after data showed large additions to gasoline and diesel stockpiles.

The U.S. Energy Information Administration reported that crude-oil stockpiles declined by a larger-than-expected 7.1 million barrels in the week ended Dec. 30. Analysts and traders surveyed by The Wall Street Journal had forecast a decline of two million barrels on average.

Meanwhile, inventories of refined fuels surged, with 8.3 million barrels added to gasoline inventories and a 10.1 million-barrel increase in distillates, signaling weak demand.

Some investors said oil supply and demand were coming back into balance even before major producers agreed to cut output. They expect that process to continue, even with a gradual increase in U.S. production and less-than-perfect compliance with the OPEC accord.

"At some point in the future will we oversupply the market again? Sure. But not in the next six months, probably not the next 12," said David Zusman, chief investment officer of Talara Capital Management.

The recent rally will face tests beyond OPEC compliance, such as rising output from countries not included in the accord, like Libya and Nigeria. They aim to add hundreds of thousands of barrels of oil to the market this year.

And U.S. drillers are already putting rigs back to work. Production increased in October to 8.8 million barrels a day. If it continues to ramp up, it could quickly cause OPEC's agreement to fray.

"A U.S. output level north of nine million barrels a day would allow U.S. producers to grab a significant portion of OPEC's market share -- likely forcing a gradual breakdown of OPEC's agreement, possibly as early as next spring," Jim Ritterbusch, president of Ritterbusch & Associates, wrote in a note last month.

Analysts at Piper Jaffray Cos. expect U.S. production to return roughly to its peak level, projecting output could reach 9.6 million barrels a day by the end of the year. That's a 400,000 barrel-a-day increase from their forecast before OPEC's agreement. If the bank's new projection is on track, the increase in U.S. output could completely offset the cuts pledged by Russia.

And the last month of stable, high **oil prices** opened a window for U.S. producers to lock in prices for output over this year. Crude futures six months from now are even higher than February prices at more than $56 a barrel. Oil for delivery in December has traded at about $57.

That's more than enough for many shale producers to turn a profit, some observers said. ARM Energy, which helps producers hedge, is advising clients to secure higher prices now in case they don't last, said Tom Heath, ARM president for financial advisory.

Several shale producers have already increased their budgets and are considering more ambitious production plans in 2017.

PDC Energy Inc. said in December that it plans to spend $750 million this year, an increase of more than 80% from the $410 million it budgeted for 2016, as it increases production by more than 40%.

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THE WALL STREET JOURNAL.
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Bitcoin's Stormy Thursday: First a Rally, Then a Plunge

By Paul Vigna
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B1
English

Bitcoin approached record highs and then fell sharply into a **bear market** -- all in one morning. Even for the **volatile** eight-year-old currency, Thursday wasn't just another day.

The digital currency plummeted as China's yuan strengthened. Bitcoin, after coming within a hair of a record high on some exchanges, fell more than 20% in a matter of hours, then recovered a bit in U.S. trading. Late Thursday, it was trading at $971.26, down 14%.

According to CoinDesk, the news and research website, the price fell from about $1,150 at 2 a.m. Eastern time to $887 around 8 a.m., a drop of 23% in six hours. At one point, the currency had fallen more than $200 in one hour.

Many pointed to China, an important source of bitcoin demand. After weakening for months, China's yuan surged to its highest level against the dollar since mid-November, after the People's Bank of China sought to squeeze liquidity in the market and drive the yuan higher.

Bitcoin, a cryptocurrency that is maintained by a decentralized network of users and not subject to government control, has been rising sharply since the autumn, after a preprogrammed cut in the supply of newly minted coins designed to limit supply. Prices rose further after the U.S. election, India's move to restrict large-bill cash payments and the Federal Reserve's interest-rate increase in December.

Prices rose as high as $1,153 on the Bitcoin Price Index maintained by CoinDesk, near the intraday record of $1,166 from November 2013. The closing high is $1,147, from December 2013.

Then it all came crashing down. Combined with what looked like extreme overbought conditions -- the currency had been up about 60% since Donald Trump's election win -- China's move sparked a selloff that surprised traders.

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Options: VIX, Stocks Rise Together --- Barometer of market turbulence flashes a warning with sign of increased hedging

By Gunjan Banerji
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B11
English

The historical relationship between Wall Street's "fear gauge" and U.S. equities faltered last month, in a sign that investors are demanding protection against wild swings in stocks as the market flirts with all-time highs.

The CBOE**Volatility** Index, or VIX, is derived from the prices of **S&P 500 index** options and is a barometer of expectations for **stock-market** turbulence. The correlation between the VIX and the benchmark **S&P 500** typically is negative, meaning when stocks slide, the VIX tends to rise and vice versa.

But in December, the VIX and **S&P 500** rose together for six days, or 50% of the days that stocks climbed during the month, according to Russell Rhoads, director of education at CBOE Options Institute. That is higher than the historical average of about 20%, he said.

The simultaneous gains by the VIX and stocks signal investors are hedging more, even amid rallies in equities, said Stewart Warther, BNP Paribas SA's U.S. equity and derivatives strategist. The traditional inverse relationship between the two could continue to weaken during the next year, he noted.

"If the market grinds up, we would expect it to do so in a **volatile** fashion" in 2017, Mr. Warther said.

The VIX and **S&P 500** moved higher together on Dec. 13, for instance, as the equity benchmark reached a record level of 2,271.72. Now, the **S&P 500** is back near that level, closing 0.1% from the all-time high on Thursday.

Recent gains also have left the U.S. market at its priciest in almost 13 years. The **S&P 500** trades at 19.1 times profits in the past year, the highest valuation since February 2004, according to FactSet data.

"What transpired in December was a perfect storm of opportunity for hedgers," said Don Dale, managing principal at risk solutions group Derivaguard Advisors, referring to people who trade the VIX or use it to hedge against the **stock market**. "The markets had broken out to the upside and all-time highs, but the VIX was near the lower-end of traditional end-of-year ranges. This enabled the correlation breakdown to transpire."

The correlation between the VIX and **S&P 500** was negative 0.44 in December -- a threshold that hasn't been crossed since 2012, according to data from CBOE's Mr. Rhoads. The December figure is higher than for the rest of 2016, which is minus-0.82, he said.

The VIX's average last year was about 16, below the gauge's mean from the prior year. But periods of extended tranquility were disrupted by bursts of panic around events such as the British vote to exit from the European Union and the U.S. election.

Markets in 2016 also shifted quickly from high stress to calm. As a Donald Trump win appeared imminent on Nov. 8, **S&P 500 index** futures fell 5% overnight before reversing losses to close higher the next day, according to Bank of America Corp. **Volatility** also quickly died down after Brexit.

Bank of America's Benjamin Bowler forecasts more prolonged shocks in the market alongside higher turbulence overall in 2017. The Federal Reserve's quantitative-easing program and policy of keeping interest rates near zero had engineered an era of unusually depressed **volatility**, said Mr. Bowler, global head of equity derivatives research at Bank of America. "2017 is about looking forward to a world where ultimately central banks have less control," he said.

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Streetwise: Hope Springs but Profit Pitfalls Lurk

By James Mackintosh
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B1
English

The **stock-market** rally since the election is a triumph of hope over experience.

Investors hope Republican control of both Congress and the White House will mean looser regulations, lower taxes and a stronger economy, boosting corporate profits and so the value of shares. Experience should tell them that hopes of far higher earnings blossom every year, before being dashed.

This time might be different. Both President-elect Donald Trump and the Republicans in Congress have radical plans to reshape corporate taxation, and a big fiscal stimulus from tax cuts and infrastructure spending is promised.

Shareholders seem even more convinced of the potential gains than the perennially hopeful Wall Street analysts. Not only have earnings projections gone up since the election, there also has been a big jump in the valuation of every dollar of future earnings. The 12-month forward price/earnings ratio -- using Thomson Reuters IBES operating earnings -- is up to 17.2 from 16.2. That is the highest since the optimism of spring 2015, when forward P/Es reached their highest in more than a decade.

Yet in 30 years of forecasts collected by IBES, only twice have **S&P 500** companies delivered earnings higher than first predicted by Wall Street. To repeat the feat would require either that forecasts are subdued, as those made in 2003 were by the memory of recession, or a late-cycle profits boom, as happened in 2006 as leverage and the subprime bubble fueled growth.

Both are possible. Earnings have gone nowhere for two years thanks to the collapse in profits in the oil and banking sectors, whose outlooks are being reassessed by analysts.

If that recovery continues -- and it can't hurt that Mr. Trump has picked Big Oil and Goldman Sachs Group Inc. executives for top cabinet positions -- it will underpin profits for the wider market.

Mr. Trump's stated plans could lead to a bout of economic exuberance, too. Despite near-full employment, he wants an unfunded tax cut and big infrastructure spending, the latter mostly from the private sector. In the short run, this should help the economy, boost revenue and thus bolster profits, even if focusing tax cuts on the rich achieves much less than a broader-based cut. In the longer term, of course, fiscal stimulus would raise inflationary pressures and the danger that the Federal Reserve is forced to raise rates to compensate. But that is a concern for another day.

Unfortunately for investors, it is far from clear how much stimulus will be injected into the economy or when it will come, let alone which sectors will benefit. As the Fed's December minutes released this week put it, policy makers think it is "too early to know what changes in these [fiscal] policies would be implemented and how such changes might alter the economic outlook."

The rapid swing from defensive to economically sensitive stocks since the election shows investors are a lot more confident than the Fed in Mr. Trump's impact on the economy.

Still, lower corporate taxes seem a surefire way to boost earnings.

Calculating earnings "is a 20-variable problem, and we're all trying to isolate to one," said Adam Parker, chief U.S. equity strategist at Morgan Stanley. "But it's fair to say that the tax effect is the biggest effect" on earnings.

He thinks lower corporate taxes could add 10% to earnings by the end of 2018, while higher revenues from stimulus add about half that. But he warns that about half of the tax gains are likely to be passed on to consumers or offset by other tweaks to the tax code, while the stronger dollar could wipe out almost half the benefit of stimulus.

At the moment, the consensus of analysts predicts earnings growth of about 12% this year and next. That is the most optimistic they have been at the start of a year since January 2011, when earnings growth of 13% was expected for each of the next two years. Earnings growth hit that mark in 2011 but fell far short in 2012.

Perhaps this time the optimism will prove justified. The clear danger is that once Mr. Trump's plans hit congressional reality, they will be watered down or take longer to implement -- and that investors aren't prepared for such setbacks.

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China Targets Currency Bears, Drives Up Yuan Against Dollar

By Saumya Vaishampayan in Hong Kong, Lingling Wei in Beijing and Carolyn Cui in New York
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A1
English

A crackdown by the People's Bank of China on wagers against the yuan propelled the currency to its largest-ever two-day gain against the dollar, highlighting the rising tension in foreign-exchange markets over the outlook for China.

The Chinese central bank tightened liquidity in Hong Kong on Thursday and Friday by instructing the nation's banks to withhold funds from other banks, a move that drove the yuan in offshore trading to its highest level since early November. The rate that banks charge each other in Hong Kong's overnight lending market leapt from 17% on Wednesday to 61% on Friday, the highest in a year.

Analysts and investors attributed the swings to factors including the central bank's desire to punish short sellers by pushing up the cost of betting that the yuan will fall, a position that has become increasingly popular in markets as China's growth slows and its debt burden rises.

"The PBOC is again sending a strong signal to markets that the yuan's value remains under its control and that it will forcefully resist any one-way bets developing against the currency," said Eswar Prasad, a professor at Cornell University and a former head of the International Monetary Fund's China division.

The yuan soared 1.2% on Thursday to 6.7883 against the dollar in offshore trading. The currency strengthened 2.5% Wednesday and Thursday in Hong Kong. The gains were short-lived, though. The yuan fell 0.5% early Friday in the offshore market, even after China in its daily fixing set the yuan 0.9% stronger against the dollar -- its biggest increase since July 2005.

The central bank's actions rippled through global markets on Thursday. The yuan's gains, following a long period of retreat, shook the status quo that has mostly held since the November U.S. election of Donald Trump, prompting investors to sell many investments that have been popular and buy ones recently out of favor. The Dow industrials dropped 42.87 points to 19899.29 and the yield on the 10-year U.S. Treasury note fell 0.08 percentage point to 2.37%, while the dollar declined against the euro and yen.

The value of the Chinese currency and the pace of capital outflows from China rank among the most closely scrutinized trends in **financial markets**. Many investors view a disorderly slowdown in China's economy as one of the chief risks to global economic-growth expectations for 2017.

Borrowing costs for offshore yuan have been rising in recent months as the pool of the Chinese currency in Hong Kong continues to shrink. Beijing has stepped up efforts to stem capital outflows by imposing stricter rules on foreign-exchange transactions. An expected increase in the value of the dollar, with the Federal Reserve raising interest rates, stands to place more downward pressure on the yuan.

Fears that China would sharply devalue the yuan helped fuel six weeks of global market mayhem at the start of 2016. In that episode, as well as in September 2015, the Chinese central bank intervened in both onshore and offshore markets by buying up the yuan through state-run banks, traders said at the time.

"The risk to China in 2017 is the same risk it faced in 2016, which is a strong dollar," said David Loevinger, a managing director at TCW Group and a former Treasury coordinator for China affairs.

Many analysts view China's economy now as healthier than it was then, but fears of a confrontation with the Trump administration over trade and currency policy have added a new source of anxiety.

Over the past year, China's central bank has periodically sought to boost the yuan in the Hong Kong market by instructing Chinese banks in the city to withhold funds from other banks. The resulting liquidity shortages raise the cost of wagering against the currency. Economists and officials say yuan liquidity in Hong Kong became tighter again in the past couple of days as a result of the central bank's efforts to discourage **bearish** bets on the Chinese currency.

"The tightened policies are aimed at defeating those hoping to pile on bets against the renminbi," said a government adviser, referring to the central bank's most recent moves.

To bet on a drop in the yuan, investors often "short" the currency by borrowing yuan in Hong Kong, swapping them for dollars and later swapping them back at a more favorable rate. As the cost of borrowing yuan rises, so does the cost of that trade. That can force investors to buy back yuan in Hong Kong, driving the currency higher.

In one sign of the intense liquidity squeeze spurred in part by PBOC action, banks in Hong Kong were forced to turn to the Hong Kong Monetary Authority, the city's de facto central bank, to borrow yuan in order to cover positions or meet obligations. By midmorning Thursday, they had drained the HKMA's 10 billion yuan pool of intraday funding and tapped two other yuan-funding pools. The banks' actions were "reasonable given the tight market liquidity," a monetary authority spokesman said, adding that authorities would continue to closely monitor the offshore yuan market.

Analysts say Beijing still faces a struggle to arrest the yuan's weakening. Businesses and individuals concerned about domestic asset bubbles and the uncertain outlook for China's economy are looking for returns outside the country.

The recent yuan rally "doesn't change my long-run outlook for a weaker Chinese currency," said Jens Nystedt, an emerging-markets portfolio manager at Morgan Stanley Investment Management in New York.

Chinese authorities have increased their efforts to stem the outflow of yuan in recent weeks with measures that include controls on outbound investments by Chinese companies and tighter rules on Chinese residents' converting yuan into foreign currencies.

This week, China's central bank also has been setting the yuan's official daily "fix" against the dollar at stronger-than-expected levels.

Gregor Stuart Hunter contributed to this article.

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THE WALL STREET JOURNAL.
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Markets & Finance: Retrial of Ex-Bond Trader Begins --- Jesse Litvak's lawyer likens his sales tactics to those of a used-car salesman, not fraud

By Erica Orden
531 words
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B10
English

NEW HAVEN, Conn. -- The retrial of a former bond trader in a securities-fraud case that provoked changes to Wall Street sales tactics opened Thursday with the trader's attorneys casting his techniques as no more manipulative -- or harmful -- than the fast-and-loose claims of a used-car salesman.

To federal prosecutors in the Connecticut U.S. attorney's office, however, former Jefferies Group LLC bond trader Jesse Litvak bilked customers out of $2 million by inflating the prices he said he paid for residential mortgage-backed bonds, thereby causing hedge funds and professional investment managers to overpay for the bonds.

"Working it for you, bro," an attorney for Mr. Litvak said to the jury during his opening remarks, reading from messages the attorney said Mr. Litvak sent while negotiating a trade. "I'm riding my seller like Seabiscuit," the attorney, Dane Butswinkas, continued. "Winner, bro."

In Mr. Butswinkas's telling, the messages reflected tactics that verged on pathetic -- attempts to hoodwink savvy institutional investors whose "special, secret, computer-driven" ways to calculate their desired prices always overrode whatever Mr. Litvak told them.

Mr. Litvak's techniques, Mr. Butswinkas said, were akin to those of "your local used-car salesman. The kind of statements we have learned -- and these sophisticated investment companies have learned -- to take with a grain of salt."

Mr. Litvak's retrial is the latest step in a case that began in 2013, when federal prosecutors first charged him with securities fraud. In 2014, a jury found him guilty of fraud for misleading customers about the price he paid for residential mortgage-backed bonds.

A year ago, a federal appellate court cast doubt on the conviction and threw out parts of the case. It ordered the securities-fraud charges to go before a new jury.

While the court ruled that a judge had unfairly prevented Mr. Litvak from introducing testimony that he contends would have shown that bond buyers don't rely on the price a broker paid for a security when making deals, it didn't reject the legal theory that misleading customers on **bond prices** could be considered fraud.

On Thursday, Assistant U.S. Attorney Heather Cherry described to the jury during the government's opening statements a scenario in which Mr. Litvak's customers -- however sophisticated -- were completely reliant on him for information about the price of a bond.

"The buyers and sellers really had little choice but to rely on what Mr. Litvak told them about the negotiations," Ms. Cherry said.

Ms. Cherry also recalled one of Mr. Litvak's clients, Michael Canter, a public-private investment fund manager, whom she said confronted Mr. Litvak after mistakenly receiving a spreadsheet that disclosed previously unknown pricing information negotiated by Mr. Litvak.

In response, she said, Mr. Litvak "admitted that he was untruthful." Mr. Canter, who testified at Mr. Litvak's first trial, is expected to testify during his retrial.

The retrial is expected to last three weeks.

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The New York Times

Common Sense
Business Day; Economy
For Winning Investors of 2016, Trump Looms Large in New Year

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Last year was one of unusually big surprises for markets — none more so than the election of Donald Trump. Not only were many money managers and experts dead wrong about his chances, but they were doubly wrong in betting on a big market sell-off in the event he won.

Mr. Trump's victory kicked off a continuing stock rally that left the **Standard & Poor's 500-stockindex** up nearly 10 percent by the end of the year, a gain few anticipated a year ago.

But there were other major moves in markets last year. After interest rates hit what some have called a 5,000-year low (but who's counting?) — and moved into the through-the-looking-glass realm of negative returns in some parts of Europe — they suddenly reversed course in the United States, rising abruptly toward the end of the year as expectations for growth and inflation soared.

Even more striking was the abrupt turn in oil and commodity prices, which rippled through the economy and markets. A year ago they were in free fall, with no end in sight. But after hitting a 13-year low of less than $27 a barrel on Feb. 11, they ended the year above $53.

A year ago, investors were treating oil and commodity companies like Freeport McMoRan (a stock I highlighted last year) as all but dead. By the end of the year, its stock had more than doubled — a reminder that contrarian bets, when they prove right, can deliver huge returns.

Again this year, I turned to some prominent investors and market experts who successfully maneuvered through what turned into a treacherous year, asking them for insights into how they did it and what they expect in 2017.

The Contrarian

"I was ridiculed," Anthony Scaramucci told me this week, referring to his early and vocal support for Donald Trump. Unlike many on Wall Street, the outspoken Mr. Scaramucci — the founder of SkyBridge Capital, host of a revived "Wall Street Week" television show on the Fox Business Channel and author of several books on business and investing — went all in for Mr. Trump after initially backing Jeb Bush.

Nor did the so-called Trump rally come as a surprise to him. "To put it simply, if you get a 35 percent corporate rate reduced to 15 percent or even 20 percent, you're looking at a 30 percent earnings increase for most companies," he told me as he took a short break from the Trump transition team.

SkyBridge focuses mostly on hedge funds and other so-called alternative investments, but also offers a high-yielding stock mutual fund, the SkyBridge Dividend Value Fund. The fund gained over 15 percent last year, handily outpacing the **S**.**&P**. **500**.

As a long-only fund — one that invests in securities for their potential gains and doesn't short stocks, or bet on potential declines — "we benefited enormously from the Trump win," Mr. Scaramucci said. "It's true that contrarians often get things wrong. But when they get it right, there's a tidal wave. Trump is an example. The conventional wisdom was that he couldn't win. Assets were priced relative to the conventional wisdom. So when he did win, there was huge upside."

Mr. Scaramucci attributes his contrarian view of Mr. Trump in part to the fact he lives on Long island, a stone's throw from his working-class parents, and not among the Manhattan elite, even though he's an alumnus of

Harvard Law School and Goldman Sachs. “Everyone in the local bar, from the bluest- to the whitest-collar workers, was voting for Trump,” he said.

But Mr. Scaramucci isn’t blindly contrarian. He did initially bet wrong on Mr. Bush. “I pivoted,” he said. “Everyone makes mistakes. The question is, How do you adapt? All entrepreneurs have to do that.”

Now Mr. Scaramucci is in the Trump inner sanctum as a member of the transition team, in a position not only to predict the future, but also to help shape it.

Not surprisingly, he’s **bullish** on the economy and **stock market** for 2017. He expects the kind of high-dividend, value-oriented stocks his fund invests in (some of its biggest holdings last year were Best Buy, Caterpillar and Boeing) to do well unless “we get to hyper-growth, in which case there will be a rotation to growth stocks.”

He said fears of a Trump-induced trade war were overblown. “No one wants a trade war,” he said. “All we’re calling for are fairer free-trade arrangements around the world.”

He added: “We’re not coming at this from a position of ideological purity. There are a lot of practical business people in the room. We’re not asking if something is right or left, but whether it’s right or wrong.”

The Socially Responsible Investor

Jerome L. Dodson is the founder and president of Parnassus Investments, and lead portfolio manager for the Parnassus Endeavor Fund. He champions the notion of doing well by doing good. “Certain social and environmental values are really important to us,” he told me this week.

His fund doesn’t invest in fossil fuels. He seeks out companies that treat their employees well and where turnover is low.

In a highly competitive world where cutthroat capitalists scoff at such values, he’s also emerged on top: His Parnassus Endeavor Fund is ranked by Morningstar as the No. 1 fund in its category (large-cap growth) over one-, three-, five- and 10-year periods — a remarkable feat.

Mr. Dodson follows a highly disciplined approach that considers only companies trading at less than two-thirds of their intrinsic value — a subjective assessment of the actual value of a company, without regard to its market price — which makes him as much a value investor as a growth investor.

He doesn’t worry much about typical macro events or predictions, like the outcomes of presidential elections, the direction of interest rates, or **oil prices**. He doesn’t claim to be much of a forecaster, and said he was surprised that two of his fund’s positions — John Deere, the farm equipment icon, and Cummins, the engine maker — ended up doing so well last year. “All you can do is look for good companies that are undervalued,” he said. “There is no way to know when they’re going to go up.”

A typical investment for his fund was the chip maker Micron Technology, whose shares had been battered by declining revenue and a global chip glut. Mr. Dodson calculated that Micron shares were trading at just one-third of their intrinsic value when he bought them for an average of $10.80 a share. Equally important, Micron “is a great place to work, with good employee benefits and relatively low turnover,” he said. Last year it was the Endeavor Fund’s largest holding.

This week it was trading above $22, more than double the fund’s average cost. “We are holding onto the stock but wouldn’t buy a lot more today,” Mr. Dodson said.

Indeed, with the market so high, it’s getting hard for Mr. Dodson to find stocks that meet his intrinsic value criteria. Ideally, he’d like to have about 40 stocks in the fund. Currently he has just 25.

“It’s fair to say I’m cautious about the coming year,” he said. “That’s because valuations are so high.”

Still, “if Trump can deliver some of what he’s talking about, which is tax cuts and infrastructure spending, and the economy starts growing at 3 percent, then earnings will increase, causing the price-to-earnings ratio to come down,” he said. “That would make me more positive about 2017.”

The Oil Expert

Will resurgent **oil prices** continue to drive markets?

In all likelihood, yes, said Damien Courvalin, head of energy research for the Goldman Sachs's global investment research commodities team. Mr. Courvalin makes a rare return appearance this year, after pretty much nailing it in his forecast for 2016. Last year he predicted further weakness in **oil prices**, followed by a recovery by the year's end — which is just what happened.

This year Mr. Courvalin and his team are predicting $59 a barrel for Brent crude over the next three to six months, with prices stabilizing in the longer term at $55 to $60.

That's because a price much above $60 is likely to cause a supply surge, especially from United States shale producers.

But Mr. Courvalin said investors should focus less on price than on inventory. When high current inventories drive down spot prices, high-cost producers are at a disadvantage, but can still sell forward futures contracts at a premium. More normalized inventories lower or eliminate that incentive and reduce price **volatility**, which is a benefit to low-cost producers like Russia and Saudi Arabia.

Because of that shift in the forward futures curve, there is upside potential for oil and commodities investors even if price gains in the spot market are modest. "You want to see demand levels that are strong, and we're getting there," he said.

This has little to do with Mr. Trump or his policies. While the president-elect is seen as likely to encourage higher United States energy production, a higher supply will be offset by stronger demand and a stronger dollar. In any event, it's likely to take years for any Trump policies to affect market supply and demand.

"We expect oil demand to be good next year," Mr. Courvalin said. "We're at a point in the business cycle where you can expect to see much better returns from commodities than from equities, based on historical patterns."

* The Market and the 'Trump Effect': What Do the Tea Leaves Say?

* Trump-Size Idea for a New President: Build Something Inspiring

* Trump's Victory Bodes Well for Investors — for Now

A dump truck unloading ore into a crusher at Freeport McMoRan's Grasberg copper and gold mining complex in Indonesia in 2015. The copper producer was a contrarian bet in 2016, but finished the year with its **stock price** more than doubled. | Dadang Tri/Bloomberg

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THE WALL STREET JOURNAL.
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U.S. News -- Capital Account: Pro-Business Stances Don't Ensure Growth

By Greg Ip
839 words
5 January 2017
The Wall Street Journal
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A2
English

The surge in the **stock market** since Donald Trump was elected president in November raises the prospect that a surge in business and investor confidence is about to lift the U.S. out of the low-growth rut it's been in for the last eight years.

Ray Dalio, chairman of Bridgewater Associates, a gigantic hedge fund that manages about $160 billion, speculated in December that the shift to the business-friendly Mr. Trump from the interventionist-minded Barack Obama could do more for growth than any tax or spending policy.

"This new administration hates weak, unproductive socialist people and policies, and it admires strong, can-do, profit makers," he wrote. The coming shift will "probably be even more significant than the 1979-82 shift from the socialists to the capitalists in the U.K., U.S. and Germany when Margaret Thatcher, Ronald Reagan and Helmut Kohl came to power."

Is he right? Business capital spending plans have yet to pick up, but that could be in the offing. One measure of manufacturing activity hit a two-year high in December.

Confidence can be a powerful tailwind, especially for markets. In 1936 John Maynard Keynes wrote how individuals act more on "animal spirits -- a spontaneous urge to action" than a quantitative assessment of the future. Two years later he gently warned President Franklin D. Roosevelt against vilifying business: "If you work them into the surly, obstinate, terrified mood, of which domestic animals, wrongly handled, are so capable . . . in the end public opinion will veer their way."

Eventually, though, that confidence must be validated by results. In 2012, Shinzo Abe's landslide victory in Japan sent Japanese stocks soaring. The economy didn't follow. "Mr. Abe's mere 'willingness' to undertake strong policy actions was sufficient to power a sustained and significant rally," wrote Stephen Jen, a hedge-fund manager, last month. "Questions about his 'ability' to succeed only became relevanttwo years later."

Mr. Obama never welcomed hatred of business as Mr. Roosevelt did, but his actions displayed mistrust of laissez-faire capitalism. He significantly expanded regulation over finance, health care and energy, and brought record fines against corporate wrongdoing.

Mr. Dalio has tallied the cumulative experience of the top eight officials in administrations going back to John F. Kennedy. Mr. Obama's administration had by far the least business experience; Mr. Trump's will have the most. Add in government and military experience, and Mr. Trump's administration lags behind only George W. Bush.

But this says nothing about the economy. Per capita economic growth was strongest under Mr. Kennedy, and Bill Clinton ties Mr. Reagan for second place, though the Democrats' administrations had little business experience. Growth was weakest under the Bushes, whose administrations had the most business experience. This proves that other things, including demographics, productivity and Federal Reserve policy, matter more than business credentials.

It also matters how business leaders apply their experience to government since what is good for an individual company may not be good for the country. The bankrupt steel companies that Wilbur Ross, now nominee to be Mr. Trump's commerce secretary, restructured benefited from higher steel tariffs in 2002, but thousands of steel-using companies lost out. The opposition by Exxon Mobil Corp. Chief Executive Rex Tillerson to Western sanctions on Russia for annexing Crimea served his shareholders; whether they served the U.S. is more questionable. In his own business Mr. Trump routinely paid lenders and suppliers less than he owed. That probably isn't a good model for the federal government.

The vision and judgment of a leader matter more than where it's acquired. Margaret Thatcher and Ronald Reagan owed their views more to the economists Friedrich Hayek and Milton Friedman than any experience with business. By sticking with tight monetary policy when many begged for it to end, they crushed inflation, which laid groundwork for a powerful **bull market**.

Capable businessmen and women can certainly help. George Shultz, who ran the engineering giant Bechtel Corp., and Robert Rubin, who was Goldman Sachs Group Inc.'s CEO, were highly effective as secretaries of state and the Treasury for Mr. Reagan and Mr. Clinton, respectively, because of the judgment they brought to both business and government.

On the other hand, few presidents entered office with a better business resume than Herbert Hoover. He'd made his fortune in mining and his reputation managing war relief and as commerce secretary. The stock rally that greeted his election in 1928 was the last to rival Mr. Trump's. His postelection stock rally is among the strongest on record.

Yet Mr. Hoover couldn't stop the Depression, in part because he sought purely private-sector solutions to problems that needed government intervention.

If his rally is going to have a happier ending than Mr. Hoover's, Mr. Trump should ensure he seeks economic advice from outside the board room.

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The New York Times

Business/Financial Desk; SECTB
Prices Rise on Sales of Shares of Consumer-Focused Companies

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

Stocks on Wall Street climbed Wednesday as investors bought shares of companies focused on consumers, including automakers and retailers. The **Standard & Poor's 500-stockindex** finished one point below its record high.

General Motors and Ford jumped as car companies reported generally strong sales for December. Companies that mine for metals and make chemicals and other materials climbed as the dollar receded a bit from its recent highs. The Russell 2000 small-cap **stock index** outpaced other major indexes and missed a record close by a whisker.

The **Dow Jonesindustrial average** added 60.40 points, or 0.3 percent, to close at 19,942.16. The index was held back by small losses for Exxon Mobil, the energy giant, and Travelers, the insurer.

The **S.&P. 500-stock index** jumped 12.92 points, or 0.6 percent, to 2,270.75. The **Nasdaq composite** index rose 47.92 points, or 0.9 percent, to 5,477. The Russell 2000 advanced 22.46 points, or 1.6 percent, to 1,387.95.

Investors snapped up consumer-focused stocks, including apparel and accessories retailers and discount store chains. Urban Outfitters is down about 11 percent since the election and Gap has fallen almost that much.

"They were afterthoughts in a lot of respects," said Julian Emanuel, an equity strategist for UBS. But he said he expected those stocks to rise this year because consumer confidence remains high.

Companies that sell clothes, jewelry, athletic gear and discount goods have fallen or lagged behind the market over the last two months. That changed a bit on Wednesday. Gap rose 72 cents, or 3.1 percent, to $24.20. Dollar Tree, a discount retailer that had slumped since late November, picked up $2, or 2.6 percent, to $79.45.

Under Armour added 81 cents, or 3.1 percent, to $26.57, and the auto parts supplier Delphi Automotive gained $2.50, or 3.7 percent, to $70.04. Delphi said Wednesday that it had bought Movimento, an automotive software company.

General Motors said its total United States sales climbed 10 percent last month from a year ago, and its stock rose $1.94, or 5.5 percent, to $37.09. Ford climbed 58 cents, or 4.6 percent, to $13.17.

Companies that mine for metals and make basic materials rose as the dollar slipped away from recent highs.

Freeport-McMoRan climbed $1.05, or 7.6 percent, to $14.83 as the price of copper jumped. Other materials makers also rose.

The dollar slipped to 117.60 yen from 117.68 yen. The euro edged up to $1.0467 from $1.0410.

Oil prices bounced back from early losses. Benchmark crude picked up 93 cents, or 1.8 percent, to $53.26 a barrel in New York. Brent crude, used to price international oils, gained 99 cents, or 1.8 percent, to $56.46 a barrel in London.

Bond prices inched higher. The yield on the **10-year Treasury** note fell to 2.44 percent from 2.45 percent.

Gold picked up $3.40 to $1,163.80 an ounce and silver added 14 cents to $16.55 an ounce. Copper closed up 7 cents, or 2.7 percent, at $2.56 a pound.

France's CAC 40 and the DAX in Germany both finished little changed. The FTSE 100 of Britain rose 0.2 percent to set another high. Japan's benchmark Nikkei 225 added 2.5 percent in its first trading day of 2017. That was partly because the weak yen will help Japanese exporters like Honda. South Korea's Kospi gained nearly 0.1 percent, and Hong Kong's Hang Seng dipped 0.1 percent.

Traders on Wednesday, when investors bought up shares of General Motors and Ford and apparel retailers and discount chains. (PHOTOGRAPH BY JUSTIN LANE/EUROPEAN PRESS AGENCY) 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 WALL STREET JOURNAL.
U.S. EDITION

Equities: Don't Bet on Quiet For Stocks in 2017

By Akane Otani
304 words
5 January 2017
The Wall Street Journal
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B11
English

Last year's U.S. stock-trading volumes were the highest since 2011, with an average of 7.2 billion shares changing hands each session, according to The Wall Street Journal's Market Data Group.

Why? Blame it on a number of market shocks: the global selloff at the beginning of the year, the U.K.'s June vote to leave the European Union (the day after, 13.9 billion shares traded), uncertainty in the fall around the Federal Reserve's rate path, and Donald Trump's election victory (the day after, 11.9 billion shares changed hands). So will trading volumes quiet down in 2017?

To be sure, things seem peaceful at the moment.

The CBOE**Volatility** Index, or VIX, which measures investors' expectations for **stock market** swings over the next 30 days, has floated around 12 for most of the past two months. That's low when compared with its levels around the events that rattled the markets last year: The VIX surged to 23 before the U.S. election, 26 around Brexit and as high as 28 at the peak of last year's February selloff.

Here's the catch: Many analysts and investors, citing uncertainties ahead that could throw the market off its course, expect **volatility** to pick up over the rest of the year.

Investors have bet heavily that the Trump administration will cut taxes, loosen regulations, and provide fiscal stimulus. But right now that is all theoretical, and even if such proposals become reality, each could fall short of expectations. Beyond the beltway, corporate earnings could wind up disappointing investors, and the Fed could increase rates faster than expected.

That could spark more trading frenzies in 2017.

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THE WALL STREET JOURNAL.
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Mexico's Peso Declines Anew as Ford Shifts Gears on Plant

By Ira Iosebashvili
507 words
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B10
English

Anyone who thought the peso's punishing selloff might get a break after the U.S. election has been disappointed.

Mexico's currency tumbled to a record low against the dollar on Wednesday, a day after Ford Motor Co. said it canceled plans for an auto assembly plant in the country after criticism from President-elect Donald Trump.

Ford said Tuesday that it wouldn't build a $1.6 billion assembly plant in Mexico. Instead, it will build small cars in an existing Mexican factory and invest $700 million in a Michigan facility that will build electric vehicles.

Investors hammered the peso. On Wednesday, the dollar rose 1.6% against the Mexican peso, to 21.45, a fresh high for the greenback.

Ford's move seemed to stoke investor fears that Mr. Trump is following through on his campaign pledge to renegotiate major trade pacts.

Mexico could be hurt the most. Nearly 80% of the country's exports, including nine out of every 10 cars manufactured in the country, are shipped to the U.S., according to UBS Group AG data.

Mr. Trump "is having a tangible effect on relations between the U.S. and Mexico, and he's not even in office yet," said Win Thin, a currency strategist at Brown Brothers Harriman.

The plunging peso has sparked fresh inflation in Mexico, helping fuel a run-up in gasoline prices that has ignited protests in recent days.

Fuel prices may rise an additional 15% next year, mainly due to higher **oil prices** and a weak peso, Mexico's main gasoline trade group, Onexpo, said in December.

Mexico's central bank raised borrowing costs in each of its last three meetings in a bid to slow the peso's decline, taking its overnight rate to the highest level since 2009. Nevertheless, the peso has fallen about 15% since early November, putting it among the world's worst-performing currencies. By contrast, the Brazilian real is nearly unchanged against the dollar in the same period.

Many economists expect the Bank of Mexico to keep raising rates next year more aggressively than the Federal Reserve, because higher yields in the U.S. make the peso less attractive for investors.

Yields on Mexico's 10-year government bond have risen to 7.6% from around 6% in October, reflecting higher interest rates and increased stress in the country's economy.

It is unprecedented for a U.S. president to have such sway over a country's currency, Mr. Thin said.

Mr. Trump has also pledged to crack down on immigration from Mexico, which could affect the flow of dollars going from Mexicans in the U.S. back to their home country. The U.S. is the source of 98% of remittances to Mexico.

"Any deterioration in U.S.-Mexico relations could have severe repercussions for the Mexican economy and markets," analysts at UBS said in a December report.

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The New York Times

Opinion
2016 in Charts. (And Can Trump Deliver in 2017?)

By STEVEN RATTNER
1,208 words
3 January 2017
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English

2016 in Charts. (And Can Trump Deliver in 2017?)

By Steven Rattner

By any measure, 2016 was a momentous year, capped by the shocking victory of Donald J. Trump. As his choices for his cabinet were unveiled, a sea change in the path of government policy appeared inevitable. What is less clear is whether Mr. Trump's proposals will help those who put him in office; the postelection **stock market** euphoria was more about an expected surge in corporate profits than new hope for the working class.

Lost in the Trump tsunami was the strong economy that President Obama will be leaving him. Unemployment is down to 4.6 percent, the lowest since August 2007 and a stunning decline from the 7.8 percent when Mr. Obama took office. The economy has expanded by nearly 15 percent (adjusted for inflation), the **stock market** has nearly tripled, auto sales have notched records, the federal deficit has been cut by more than half and house prices nationally are above past peaks. Even real median incomes ended marginally higher.

To be sure, for many, the news remained bleak. Manufacturing jobs, which recovered weakly after the recession, fell by 60,000 this year through November, keeping totals well below past highs. Michigan had about 900,000 factory jobs in 2000; that's now down to just 600,000. Pay increases remain elusive. Real wages for manufacturing workers in Michigan have dropped from $28 per hour in 2003 to $20 now. The culprits: increased automation and competition from lower-wage countries like China and Mexico. No surprise that so many Americans workers are unhappy.

Here's a shocker: Death rates for middle-aged white Americans have been rising, even as they have been falling for their counterparts in almost every other developed country. The principal reasons are not disease, but suicides and drug and alcohol overdoses. In the same vein, while rich Americans have been living longer, the least well-off are experiencing shorter life spans. It's not hard to understand how for many working-class people, the stresses of lost jobs and declining incomes have led to significant health problems and even death.

Immigration became a hot-button topic in part because of the perception that new arrivals take jobs from Americans and in part because growing diversity can make white Americans uncomfortable. Mr. Trump exploited these fears during his campaign, with his wall and calls to deport illegal arrivals. But in fact, the number of illegal immigrants in this country has been declining. Meanwhile, a conservative think tank estimated that deporting approximately 11 million undocumented individuals would cost $400 billion to $600 billion, take 20 years and reduce gross domestic product by 5.7 percent ($1.6 trillion.)

More Americans died in domestic terrorist incidents in 2016 than in any year since 2001. However, those 63 deaths, while tragic, are about the same as the number of Americans killed annually by lawn mowers. For those elsewhere in the world — particularly the Middle East — the news was much worse; deaths from terrorism are still very much on the rise.

The emotions stirred by Mr. Trump were also manifested in a surge in racial tensions. Through early November in New York, for example, the police department recorded 345 reports of hate crimes, compared to 253 during the same period last year. In just the two weeks after the election, 30 were reported, compared to only six in the same two weeks of 2015. A spate of hate crimes was also reported nationally for a similar period. More complete national data for 2016 is not yet available, but in 2015, anti-Muslim hate crimes jumped by 67 percent, the highest level since the 2001 terrorist attacks.

The Republican efforts to get rid of the Affordable Care Act received a boost just before Election Day with the release of statistics showing that typical midlevel premiums for those who purchase insurance through the federal health care exchange will rise by 25 percent in 2017. In some states, the jumps will be far larger; 116 percent in Arizona, for example. But lost in the uproar was the fact that only about 3 percent of Americans buy unsubsidized insurance — and the remarkable accomplishment that more than 20 million people have received insurance through Obamacare while the proportion of uninsured Americans has dropped to less than 9 percent, the lowest on record.

Election Day exit polls were revealing. Among voters with a high school education or less, Mr. Trump improved on Mitt Romney's margin in 2012 by 12 percentage points. Amazingly, Mr. Trump also outperformed Mr. Romney among all nonwhite groups: blacks, Hispanics and Asians. Equally surprisingly, Hillary Clinton improved upon President Obama's support among women by only a single percentage point. On the other hand, Mrs. Clinton did better than Mr. Obama among higher-income Americans and those with college educations. All told, while Mrs. Clinton lost the Electoral College vote, she won the popular vote by nearly 2.9 million, compared a margin of about five million for President Obama in 2012.

Much to the surprise of **stock market** analysts (myself included), share prices turned upward almost immediately when Mr. Trump's win became evident. The market quickly concluded that the president-elect's plans for huge tax cuts — especially for business — combined with his determination to lessen Washington's heavy regulatory hand augur well for corporate profits. For example, bank shares jumped on the prospect for both a repeal of the Dodd-Frank regulatory reform law as well as anticipated higher interest rates stemming from larger projected budget deficits. Similarly, industries like steel would benefit from Mr. Trump's plan to ramp up spending on building projects.

The incoming president has said repeatedly that he would provide the middle class with a "massive tax cut"; his selection for Treasury secretary, Steven Mnuchin, has maintained that the wealthy would receive "no absolute tax cut." Mr. Trump's plan, as published on his campaign website, says otherwise. It includes a $6 trillion tax reduction over the next decade, vastly tilted toward business and the wealthy. An estimated 83 percent of the benefits would go to the top 20 percent of Americans and 51 percent to the top 1 percent by 2025. A middle-class taxpayer would receive an average tax benefit of $1,090; a typical member of the top 1 percent would get $317,100.

These huge tax giveaways — along with Mr. Trump's promises to increase infrastructure spending and not touch Social Security and Medicare — would blow up the deficit and add $4 trillion to the national debt over the next 10 years over and above current projections. That's made particularly ironic by Mr. Trump's claim in a Washington Postinterview that he would eliminate our current $19 trillion of debt over eight years through better trade deals and economic growth. The sharp increase in interest rates since the election — mortgage costs are up by about a half a percentage point — can be directly attributed to investors' fears of rising deficits and debt and the likelihood that the Federal Reserve will respond by raising interest rates more quickly.

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Dollar Kicks Off New Year on High Note --- Encouraging factory data buoy greenback, propelling currency to a 14-year high

By Chelsey Dulaney
794 words
4 January 2017
The Wall Street Journal
J
B16
English

Fresh signs of a U.S. economic upturn sent the dollar to a 14-year high, adding to Wall Street expectations the currency will continue to rise in 2017.

The Institute for Supply Management's manufacturing index rose to its highest level in two years, pushing the WSJ Dollar Index up 0.3% Tuesday to its loftiest level since mid-2002.

The dollar is up 0.7% in the first two trading days of the year, on top of a 3.1% advance in 2016. The currency's gains are generally good for Americans, boosting their purchasing power and reducing inflation, but they are closely watched in **financial markets** because they make repaying dollar loans costlier for many emerging-markets nations.

President-elect Donald Trump's victory on Nov. 8 ignited rallies in the dollar and U.S. stocks and sent Treasury bonds to their worst month in years. Now, traders are turning their attention to Friday's nonfarm-payroll report and Mr. Trump's inauguration speech Jan. 20.

Analysts will be watching the jobs report for signs of robust growth that could enable the Federal Reserve to keep pushing up short-term interest rates, which typically boosts the dollar. They will watch the inaugural for signs that a Trump administration will follow through on plans to cut taxes and introduce fiscal stimulus, plans that have fueled the recent rallies in the dollar and stocks.

"The question is, can Trump's administration accomplish everything they think they can?" said Steven Englander, head of G-10 foreign-exchange strategy at Citigroup Inc. "The market is obviously partially pricing this in, but they need more information to justify moving from expectations to reality."

In the futures market, hedge funds and other speculative investors have built up a net $25 billion in bets that the dollar will rise, according to Commodity Futures Trading Commission data through Dec. 27. That falls short of the nearly $50 billion in **bullish** bets on a stronger dollar during its 2014 rally, according to CFTC data.

The dollar's recent rally has paled in comparison to previous bouts of dollar strength. In 2014-2015, as the Federal Reserve prepared to raise interest rates, the WSJ Dollar Index rose more than 20%. The global financial crisis buoyed the dollar by roughly 8% in 2008.

If Mr. Trump is able to push through his proposed package of tax cuts, trade policy changes and fiscal spending, Mr. Englander foresees a powerful dollar rally. He thinks the euro would fall more than 13% against the dollar to below $0.90, while the dollar could surge to above 130 yen, from current levels of 118 yen.

"If Trump were to very concretely say, 'This is what we're going to do,' that would be enough to give the dollar more legs," said Mr. Englander. "That's what the market is waiting for."

Late Tuesday in New York, the euro bought $1.0406, from $1.0477 late Monday, while the dollar was at 117.75 yen, from 117.61 yen Monday.

Despite a unified Republican government, analysts warn that Mr. Trump's proposals are likely to face hurdles and delays.

The U.S. tax code hasn't been rewritten since 1986 and changes are likely to be controversial, while Mr. Trump's big fiscal-spending proposals have already rankled some Republicans.

The dollar's path is also dependent on the Fed's willingness to raise interest rates this year.

Higher rates boost the value of the dollar by making U.S. assets more attractive to investors seeking yield.

A strong dollar has derailed the Fed's plans for raising rates in the past, but the global economy appears to be absorbing the strength of the dollar better this time around. The 2014-2015 rally in the dollar helped trigger market routs in August 2015 and January 2016 as investors worried about the pressure a strong U.S. currency puts on exporters, commodity prices and emerging-market nations such as China.

The Fed will release minutes from its December meeting on Wednesday, which could offer insight into its thinking on Mr. Trump's fiscal stimulus plans and the negative pressures of the dollar.

While the Chinese government is struggling to defend its economy from pressures stemming from a strong dollar, U.S. stocks have pushed to record levels.

Paul Ashworth, chief U.S. economist at Capital Economics, said in a research note that the data are "another indication that the negative impact stemming from the big surge in the dollar in 2014 and 2015 is now fading rapidly."

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Equities -- Ahead of the Tape: Yellow Flag Waves Over Auto Stocks

By Steven Russolillo
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4 January 2017
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B15
English

Seo: Until auto sales kick back into high gear, auto stocks might struggle to do the same.

The robust stretch of U.S. auto sales has finally peaked.

With December and full-year 2016 results due Wednesday, auto makers might eke out another record year of sales, thanks to low gas prices boosting the appeal of light trucks and sport-utility vehicles. Analysts at J.D. Power forecast auto makers sold 1.6 million cars in December. The resulting 2016 total of 17.5 million would barely exceed 2015's figure.

Kelley Blue Book analysts aren't as optimistic, predicting full-year sales will fall short of 2015's record by 0.1%. And they forecast 2017 sales in the range of 16.8 million to 17.3 million, some 1% to 3% lower from a year earlier.

No matter how 2016 shakes out, growth has stalled after six consecutive years of substantial annual gains. Shares of the big auto makers haven't felt much love from Wall Street, either. General Motors Co. and Ford Motor Inc. both underperformed the **S&P 500** last year. Even upstart Tesla Motors Inc.'s stock fell in 2016, its first calendar year decline in its six years as a public company.

Much of the relative weakness in auto stocks has to do with the cyclicality of the business. Good times don't last forever. Neither does cheap financing, which has been a boon to the auto market for years. The average finance rate on 48-month, new-car loans was just 4.3% through August, according to the Federal Reserve. The rate exceeded 6% as recently as 2010. Easy lending conditions might have helped prop up sales in the short term but could prove problematic for longer-term demand.

GM, Ford and Fiat Chrysler Automobiles NV are also pulling back on first-quarter production. All three auto makers said they scheduled as much as three weeks of down time in factories for this month, more than usual, in an attempt to clear inventory, particularly sedans and minivans. Profit-sapping incentives are increasingly driving sales.

Warning lights are flashing on auto loans, too. At the end of 2016, some auto lenders warned that default rates were creeping up. Used-car prices were also falling faster than many anticipated, leading to lower recovery amounts when borrowers do default. If lenders are ultimately forced to tighten credit standards, that could hurt car sales.

As a result, auto maker stocks are rightly cheap. Ford fetches 7.5 times projected earnings 12 months out. GM trades at six times forward earnings. Both valuations were much higher a few years ago.

But that isn't much solace. Until auto sales kick back into high gear, these stocks might struggle to do the same.

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Oil Firms Thrive After Share Sales

By Ryan Dezember
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English

Energy companies that took the risky step of selling shares in the past two years to survive the vicious collapse in **oil prices** finished on top in 2016, rewarded as U.S. **oil prices** closed 2016 up 45% and with many investors betting crude could rise even higher.

More than 70 North American energy companies sold about $57 billion of shares in follow-on stock offerings during the past two years. Many of these shares spent stretches trading below their offering prices, hurting investors who wagered on companies that failed to find footing as well as investors who sold out before shares rebounded. A handful of the stock sellers went bankrupt as the price of oil fell by more than half.

But most survived, defying widespread predictions that the plunge in crude and high levels of debt would force many more producers out of business.

Instead, these stock offerings allowed them to pay down debt and hold on long enough for **oil prices** to recover and their shares to rebound into a rising **stock market**.

Collectively, shares sold over the past two years are valued at more than $14 billion above their offering price, according to a Wall Street Journal analysis of Dealogic data and securities filings.

Oil-and-gas companies were star performers in 2016. Energy shares in the **S&P 500** rose 24%, tops in the index of big companies. They also led the broader Russell 1000 index, up 22%. More than 40 U.S. oil producers gained at least 30%, including Parsley Energy Inc. and RSP Permian Inc., which reached all-time highs, and Cimarex Energy Co. and Concho Resources Inc., which came close. Shares of Resolute Energy Corp., a Denver company that drills in Utah and Texas, shot up 847%.

Selling stock to pay down debt "breaks a lot of rules in corporate finance" because it swaps cheap capital [debt] for more-expensive funding, said Ira Green, head of capital markets at energy-focused investment bank Simmons & Co. "It was survival mode."

Many of these oil-and-gas companies had few options. The bond market became unavailable to them as crude prices plunged. Banks, which lend to energy producers against the value of their untapped oil-and-gas reserves, also cut back credit lines as the value of this collateral fell.

Private-equity investors, meanwhile, were generally hesitant to invest until they were sure commodity prices had bottomed. These firms also often insist on a level of control that many oil-and-gas companies were unwilling to give.

Some analysts say oil is poised to rally further, which could extend the recent gains. The Organization of the Petroleum Exporting Countries in November agreed to production cuts, helping to send crude prices to their highest level of 2016. The election of Donald Trump, who has pledged to reduce regulation and promote more drilling, could provide another boost to the industry.

Companies' fortunes could reverse if they produce too much oil and leave markets out of balance, or if OPEC fails to implement its output cut.

Yet many North American producers have also spent the past two years wringing costs to help them drill profitably at current prices. On Tuesday, oil topped $55 a barrel for the first time in 18 months before retreating. Crude for February delivery fell $1.39, or 2.6%, to settle at $52.33 a barrel on the New York Mercantile Exchange.

Even so, more than 110 U.S. and Canadian oil producers filed for bankruptcy protection over the past two years. By contrast, only a handful of companies that raised capital through the **stock market** filed for chapter 11.

The busiest month for follow-on offerings was February, when **oil prices** bottomed at $26 a barrel. Oil-and-gas producers raised $7.4 billion selling stock to investors eager to buy at the bottom.

"That low of a price was unsustainable," said Matthew Stephani, senior portfolio manager at Cavanal Hill Investment Management, which manages $7.3 billion and bought new shares sold by Encana Corp. and three companies that sell services and supplies to producers.

The bust began in mid-2014, when **oil prices** fell from above $100 a barrel. OPEC pushed them lower that autumn when it decided to keep pumping freely, and a global crude glut dragged prices below $30 before they recovered.

The energy-stock offerings started even as prices were in retreat. A January 2015 deal from Diamondback Energy Inc., which wanted to reduce debt, helped jump-start these sales. Credit Suisse Group AG bankers suggested that the Midland, Texas, company sell shares -- and do so in a few hours before the market opened to lessen the impact **volatile oil prices** would have on an offering done in the typical manner over a few days.

Diamondback sold about $100 million of shares and its stock rose 9% that day. The outcome, unusual because adding stock typically pushes down the price as earnings are spread over more shares, touched off a wave of follow-on offerings. Diamondback's move ensured it could continue to drill its prized prospects in West Texas and allowed investors to buy into a less-indebted company at a discount.

Rob Santangelo, the Credit Suisse banker who led the Diamondback offering and dozens of subsequent deals, told executives and investors that he believed many oil producers would emerge from the bust stronger. "We found a lot of public capital willing to make that bet, and so far it's been a good bet," he said.

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The New York Times

Law of Averages
The Upshot
It's Time to Ignore Advice About Which Stocks to Buy in 2017

By DAMON DARLIN
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It's that time of year when financial advice sites issue their lists of the "Stocks to Buyfor 2017."

Before you take them up on their suggestions, let's look at how well such portfolios did in 2016.

The portfolios of stocks they were telling you to buy generally did much worse than the **stock market** over all. The results underline what many personal finance experts recommend: Invest in a broad, low-fee mutual index fund. (The Times's "Your Money" columnist wrote more on this here.)

In 2016, the broad S.&P. **stock index** increased 9.5 percent. But if you invested in Forbes's 2016 list, your money grew about 7 percent. Kiplinger's was about half that. A list that appeared on the Money magazine site garnered 4.9 percent, and Barron's returned 5.3 percent.

One such list at CNBC did a little better than most at 10.6 percent. But Vanguard's Total **Stock index** fund returned 12.5 percent in the same period.

We even calculated these returns by assuming that any of the dividends were reinvested, but still none beat the widely owned index fund.

There is nothing wrong with these lists if you are using them as mere suggestions of what companies might be worth investigating. There were some bona fide winners on almost every list: Goldman Sachs, Kennametal, Ellie Mae, Douglas Dynamics, T-Mobile, Burlington Stores. You might not have heard of some of those companies, so it's not a bad place to look for ideas.

But the problem with such lists is that they encourage people to approach investing the wrong way. Unsophisticated investors are being persuaded that they should own a sheaf of stocks. But as you can see, even when the stocks are recommended by professional money managers and filtered through some of the best financial journalists, they don't do as well as the averages.

The best advice remains the same: If you have money you want to play with, go have some fun with a few stocks that you can monitor closely. If you keep it simple, it's easier to track and respond.

But for the rest of us, the smart investment is those index funds. They cost less than stocks or other funds. They remove most of the emotion from your decision making, which is the cause of a lot of bad decisions. That's your best bet in 2017.

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* Faster Growth? Two Things Trump Supporters Won't Like

* The **Stock Market** Looks Awfully Expensive Since the Trump Rally

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U.S. News: Manufacturing Finishes 2016 With Best Growth in Two Years

By Ben Leubsdorf
484 words
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The Wall Street Journal
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A3
English

The U.S. manufacturing sector entered the new year with the wind at its back, finishing 2016 with its strongest growth in two years.

The Institute for Supply Management on Tuesday said its purchasing-managers index rose to 54.7 in December from 53.2 in November, hitting its highest level since December 2014. A reading over 50 indicates expansion; the gauge has signaled growth in nine of the past 10 months.

Factory activity strengthened in late 2016 as gauges of U.S. consumer confidence surged following the Nov. 8 presidential election.

"This is a reflection of consumer activity, and I think people are just feeling better for whatever reason about the economy," said Bradley Holcomb, who oversees the ISM survey.

The new-orders index surged to 60.2 in December from 53.0 the prior month, and the production index was up to 60.3 last month from 56.0 in November. The employment index increased to 53.1 last month from 52.3 the previous month.

The index tracking new export orders rose to 56.0 in December from 52.0 in November. The dollar began to rise against other major currencies after the election of President-elect Donald Trump, a potential worry for U.S. manufacturers seeking to sell products overseas because a strong dollar makes exports more expensive for foreign customers.

But the recent rise has so far been more modest than the dollar strengthening seen in 2014 and 2015, and should have a smaller effect on the factory sector, said Paul Ashworth, chief U.S. economist at Capital Economics. "Maybe it takes a point or two off the index at some point this year, but it's not going to drive it below the 50 mark," he said.

Inflation also was on the rise last month, with the index tracking prices paid for raw materials jumping to 65.5 from 54.5 in November, its 10th consecutive month of growth. In all, 11 of 18 sectors tracked in the report grew in December.

Factory activity has been choppy in recent years. The ISM gauge signaled contraction in late 2015 and early 2016 as manufacturers were squeezed by the energy sector's slump and the strong dollar. But the manufacturing sector began to find its footing last year, aided by a stabilization in global **oil prices**.

Still, the industrial side of the economy remains weak. Federal Reserve data showed manufacturing output rose a meager 0.1% in November from a year earlier, while total industrial production -- including production from mines and power plants -- declined 0.6% on the year.

Growth has been more robust in service industries, which account for the bulk of U.S. employment and economic output, and broad economic activity has continued to expand.

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THE WALL STREET JOURNAL.
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Equities: Bonds Start Year With a Thud

By Min Zeng
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English

Prices of government bonds on both sides of the Atlantic ended the first trading session of 2017 on a down note, as global manufacturing and inflation reports brightened the economic outlook and sapped demand for relatively safer assets.

The yield on the **10**-**year Treasury** note closed at 2.450%, compared with 2.446% at the end of 2016. Yields rise as **bond prices** fall.

Government bond yields in Europe rose broadly. The yield on the 10-year German bund rose to 0.25%, and the yield on the 10-year U.K. gilt increased to 1.31%, according to Tradeweb.

Selling was the strongest during the early morning, as the **10**-**year Treasury** yield rose above 2.5%. The U.S. bond market's price declines then narrowed as investors' appetites for riskier assets pulled back.

Tuesday's price swings in the **financial markets** reflect concerns over the momentum of the reflation trade that had been a key theme since the U.S. election.

Investors have bet that the prospect of large government spending, lower taxes and lighter regulations will lead to stronger growth and higher inflation. Inflation chips away at bonds' fixed returns over time and is a big threat to long-term government bonds.

The yield on the **10**-**year Treasury** note has climbed from 1.867% on Election Day on Nov 8.

Many big banks expect bond yields to rise further this year. In a Wall Street Journal survey of 16 big banks last month, Deutsche Bank AG expected the 10-year yield to rise to 3.1% at the end of 2017. Credit Suisse Group AG and the Royal Bank of Canada both expected 3%.

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Heard on the Street
Overheard

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English

[Financial Analysis and Commentary]

Here's a bittersweet economic indicator: U.S. divorces reached a 40-year low, according to a report from Bowling Green State University.

With nearly every barometer from confidence to the **stock market** looking up, the number of people splitting up behaved like the country was in a recession in 2015, the last year for which data are available. That seems counterintuitive because many couples argue about money and those arguments would tend to worsen during lean times. In fact, divorces tend to drop during recessions and spike as recoveries get under way. For example, according to research by Pew, divorces fell during the Great Depression and during the financial crisis.

The reason is perverse: Couples may want to split but doing so is costly. Once the economy recovers, legal advice and separate living arrangements suddenly become affordable and unhappy couples rush to untie the knot.

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Banking & Finance: Bond Trader's Retrial Set to Open

By Sara Randazzo
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English

A securities-fraud case that triggered widespread changes to sales tactics on Wall Street is once again in the spotlight as a former Jefferies Group LLC bond trader goes back on trial Wednesday in New Haven, Conn.

A jury in 2014 found the former trader, Jesse Litvak, guilty of fraud for misleading customers about the price he paid for residential mortgage-backed bonds. A federal appellate court cast doubt on the conviction a year ago, throwing out parts of the case and ordering the securities-fraud charges to go before a new jury.

The case, first brought by the Connecticut U.S. attorney's office in January 2013, accused Mr. Litvak of swindling customers out of $2 million by inflating the prices he said he paid for securities. Those misstatements violated securities laws, prosecutors claim, and caused hedge funds and professional investment managers to overpay for bonds.

The case caused many banks to re-evaluate their policies and cast a harsher eye toward negotiating tactics often considered commonplace sales puffery. Federal prosecutors have since brought civil and criminal charges against several other bond traders for similar sales tactics. A second conviction of Mr. Litvak could further bolster those efforts.

Jury selection is scheduled to begin Wednesday in the three-week retrial. A spokesman for the U.S. attorney's office and Mr. Litvak's lawyers at Williams & Connolly LLP declined to comment.

The Second U.S. Court of Appeals ruled in December 2015 that a judge unfairly blocked Mr. Litvak from introducing testimony that could have assisted his defense. That testimony, Mr. Litvak contends, would have shown that bond buyers don't rely on the price a broker paid for a security when making deals. Unlike stocks or other securities sold on open exchanges, bonds are sold in an opaque market, with prices negotiated through brokers.

"It's certainly fairer to defendants to put this expert testimony in," securities-law expert John Coffee of Columbia Law School said. "On the other hand, I think juries may give more weight to an investor saying, 'We really want to know this [pricing information] for the following reasons.'"

The jury will hear details of trades Mr. Litvak made between 2009 and December 2011 while employed in the Stamford, Conn., office of brokerage firm Jefferies. Prosecutors say that, on average, he made $100,000 more in profits for Jefferies on each transaction than his customers were led to believe.

Mr. Litvak was sentenced to two years in prison and fined $1.75 million. He has been out on bail since his arrest, and he relocated to Florida in 2015, court filings show.

The appellate court, while ordering the retrial, didn't discount the underlying legal theory of the case: that misleading customers on **bond prices** could be considered fraud. "Without knowledge of Litvak's actions, the financial consequences of negotiations colored by false representations were virtually undiscoverable in the opaque RMBS market," the court wrote, referring to residential mortgage-backed securities. Defaults on mortgages that underpinned some of these securities were a major driver of the 2008 financial crisis.

Unlike in the first trial, the jury won't be asked to find that Mr. Litvak defrauded the government, charges that were dismissed by the Second Circuit. Because of that, Mr. Litvak has argued that the jury shouldn't be able to hear that many of his customers were funds backed by the U.S. government's banking bailout, called the Troubled Asset Relief Program, which authorized private money managers to use taxpayer funds to buy troubled securities. U.S. District Judge Janet Hall disagreed, ruling that prosecutors can say government money was used.

While the jury will be able to hear some broader context on the bond market, the judge ruled that Mr. Litvak can't present testimony that broker-dealers at other firms similarly inflated **bond prices**, or show evidence of changes to compliance programs on Wall Street after his indictment. Mr. Litvak has argued that showing standards were tightened only after his indictment supports his point that the kinds of misrepresentations he made weren't previously seen as a problem in the industry.

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Banking & Finance: Bank's Report Leads Indonesia to Cut Ties

By Ben Otto and I Made Sentana
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JAKARTA -- Indonesia's government has cut its business partnerships with J.P. Morgan Chase & Co., saying the bank's recent rating downgrade of the nation's stocks, based in part on Donald Trump's U.S. election win, could destabilize Indonesia's financial system.

J.P. Morgan had multiple business partnerships with the government of Southeast Asia's largest economy, including acting as one of several banks appointed to receive penalty payments from Indonesians in a tax-amnesty program aimed at boosting funding for President Joko Widodo's ambitious infrastructure projects. J.P. Morgan is one of the largest foreign banks operating in Indonesia.

In a letter announcing the decision, the Finance Ministry's treasury directorate general said that, effective Jan. 1, it was ending all partnerships with J.P. Morgan because of the bank's research.

In a Nov. 13 report about the global repercussions of Mr. Trump's victory, J.P. Morgan downgraded its rating on Indonesian equities to "underweight" from "overweight," noting that a rise in bond-market **volatility** "increases emerging-market risk premiums" and "potentially stops/reverses flows into emerging-market fixed income."

"There are losers from Trumponomics," the report said. An underweight rating means the bank expects an investment to underperform others over the next six to 12 months. The bank also downgraded Turkish equities to underweight and Brazil to neutral.

J.P. Morgan will also no longer act as a government-appointed primary dealer in government domestic bond auctions, nor as a panelist for Indonesia's global dollar-bond offerings, Robert Pakpahan, Indonesia's director general of budget financing and risk management, said Tuesday. The bank's research wasn't credible and accurate, he said.

"We don't close ourselves to assessment because it's important for us to improve ourselves," Finance Minister Sri Mulyani said. "But the institutions with big names have very high responsibility in creating positive psychology instead of doing [something] misleading."

J.P. Morgan declined to comment on Indonesia's views. The bank said its business in Indonesia continues to operate as usual and that the effect on clients is minimal. It said it is working with the Finance Ministry to resolve the issue.

J.P. Morgan has worked on six debt deals for the Indonesian government since 2012 worth $13.7 billion, including a $3.4 billion deal it worked on with other banks in June last year, according to Dealogic.

On Nov. 14, the day after J.P. Morgan's report, the yield on Indonesia's 10-year government bond shot up 0.466 percentage point, its biggest intraday jump since January 2011, to 7.895%. Yields rise as prices fall.

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401(k) Pioneers Lament What They Started --- Retirement-saving vehicles fall short of early backers' rosy expectations

By Timothy W. Martin
1,988 words
3 January 2017
The Wall Street Journal
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English

Herbert Whitehouse was one of the first in the U.S. to suggest workers use a 401(k). His hope in 1981 was that the retirement-savings plan would supplement a company pension that guaranteed payouts for life.

Thirty-five years later, the former Johnson & Johnson human-resources executive has misgivings about what he helped start.

What Mr. Whitehouse and other proponents didn't anticipate was that the tax-deferred savings tool would largely replace pensions as big employers looked for ways to cut expenses. Just 13% of all private-sector workers have a traditional pension, compared with 38% in 1979.

"We weren't social visionaries," Mr. Whitehouse says.

Many early backers of the 401(k) now say they have regrets about how their creation turned out despite its emergence as the dominant way most Americans save. Some say it wasn't designed to be a primary retirement tool and acknowledge they used forecasts that were too optimistic to sell the plan in its early days.

Others say the proliferation of 401(k) plans has exposed workers to big drops in the **stock market** and high fees from Wall Street money managers while making it easier for companies to shed guaranteed retiree payouts.

"The great lie is that the 401(k) was capable of replacing the old system of pensions," says former American Society of Pension Actuaries head Gerald Facciani, who helped turn back a 1986 Reagan administration push to kill the401(k). "It was oversold."

Misgivings about 401(k) plans are part of a larger debate over how best to boost the savings of all Americans. Some early 401(k) backers are now calling for changes that either force employees to save more or require companies to funnel additional money into their workers' retirement plans. Current regulations provide incentives to set up voluntary plans but don't require employees or companies to take any specific action.

A 401(k) is an employer-sponsored plan that allows workers to place pretax wages into a savings account. Companies aren't required to make matching contributions, but they often do as an employee perk. Unlike defined-benefit pensions, which provide set payouts for life, 401(k) accounts rise and fall with **financial markets**.

The advent of 401(k)s gave individuals considerable discretion as to how and even whether they would save for retirement. Just 61% of eligible workers are currently saving, and most have never calculated how much they would need to retire comfortably, according to the Employee Benefit Research Institute and market researcher Greenwald & Associates.

Financial experts recommend people amass at least eight times their annual salary to retire. All income levels are falling short. For people ages 50 to 64, the bottom half of earners have a median income of $32,000 and retirement assets of $25,000, according to an analysis of federal data by the New School's Schwartz Center for Economic Policy Analysis in New York. The middle 40% earn $97,000 and have saved $121,000, while the top 10% make $251,000 and have $450,000 socked away.

And the savings gap is worsening. Fifty-two percent of U.S. households are at risk of running low on money during retirement, based on projections of assets, home prices, debt levels and Social Security income, according to Boston College's Center for Retirement Research. That is up from 31% of households in 1983. Roughly 45% of all households currently have zero saved for retirement, according to the National Institute on Retirement Security.

More than 30 million U.S. workers don't have access to any retirement plan because many small businesses don't provide one. People are living longer than they did in the 1980s, fewer companies are covering retirees' health-care expenses, wages have largely stagnated and low interest rates have diluted investment gains.

"I go around the country. The thing that people are terrified about is running out of money," says Phyllis C. Borzi, a U.S. Labor Department assistant secretary and retirement-income expert.

Some savers underestimate how much they will need to retire or accumulate too much debt. Lucian J. Bernard is among those wishing he had a do-over. The 65-year-old lawyer from Edgewood, Ky., doesn't have much savings beyond a small company pension and Social Security. He cashed out a 401(k) in the 1980s to fund law school and never replenished it. He implores his daughter to start saving.

"It's a little easier saying it than doing it," he says.

Defenders of the 401(k) say it can produce an ample retirement cache if employers provide access to one and people start saving early enough. People in their 60s who have been socking away money in 401(k)s for multiple decades have average savings of $304,000, according to the Employee Benefit Research Institute and Investment Company Institute.

"There's no question it worked" for those who committed to saving, says Robert Reynolds, who was involved in Fidelity Investments' first sales of 401(k) products several decades ago.

He considers himself among the success stories. At 64, he could retire comfortably today after saving for three decades. "It's a very simple formula," he says. "If you save at 10% plus a year and participate in your plan, you will have more than 100% of your annual income for retirement."

The 401(k) can be traced back to a 1978 decision by Congress to change the tax code at line 401(k) so top executives had a tax-free way to defer compensation from bonuses or stock options.

At the time, defined benefit-pension plans, which boomed in popularity after World War II, were the most common way workers saved for retirement.

A group of human-resources executives, consultants, economists and policy experts then jumped on the tax code as a way to encourage saving. Ted Benna, a benefits consultant with the Johnson Companies, was one of the first to propose such a move, in 1980, leading some in the industry to refer to him as the father of the 401(k).

Selling it to workers was a challenge. Employees could put aside money tax-free, but they were largely responsible for their own saving and investment choices, meaning they could profit or lose big based on markets. They also took home less money with each paycheck, which is why 401(k)s were commonly called "salary reduction plans."

Traditional pension plans, on the other hand, had weaknesses: Company bankruptcies could wipe them out or weaken them, and it was difficult for workers to transfer them if they switched employers.

Companies embraced the 401(k) because it was less expensive and more predictable to fund than pensions. Company pay-ins ended when an employee left or retired.

Employees, for their part, were drawn to an option that could provide more than a company's pension ever would. Two **bull-market** runs in the 1980s and 1990s pushed 401(k) accounts higher.

Economist Teresa Ghilarducci, director of the Schwartz Center for Economic Policy Analysis, says she offered assurances at union board meetings and congressional hearings that employees would have enough to retire if they set aside just 3% of their paychecks in a 401(k). That assumed investments would rise by 7% a year.

"There was a complete overreaction of excitement and wow," says Kevin Crain, who as a young executive at Fidelity Investments in the 1990s recalled complaints about some of its funds underperforming the **S&P 500**. "People were thinking: Forget that boring pension plan."

Two recessions in the 2000s erased those gains and prompted second thoughts from some early 401(k) champions. Markets have since recovered, but many savers are still behind where they need to be.

Ms. Ghilarducci says she came to realize the401(k) math she used in the 1980s and 1990s no longer works. The 7% annual compounded investing returns, a pillar of the concept, now seems too rosy. She now believes setting aside 3% of salary isn't enough.

The downturns showed Mr. Benna of Johnson Companies that individual savers have too many opportunities to make mistakes, such as yanking money out during market downturns or selecting unsuitable investment mixes for their ages. He also notes that money managers can charge fees that eat away at savings.

"I helped open the door for Wall Street to make even more money than they were already making," he says. "That is one thing I doregret." Mr. Benna retired at age 49 after selling his consulting firm in 1990. He doubts "any system currently in existence" will be effectual for the majority of Americans.

There have been several attempts to make the 401(k) more effective by changing the behavior of savers and companies.

A 2006 U.S. law made it easier for companies to enroll workers automatically in 401(k) plans. Some firms then raised workers' default contributions by 1 percentage point a year until they hit a cap as a way of encouraging more savings.

Participation levels have improved, but about one-third of workers traditionally refuse to join their company's 401(k) plans despite perks such as employer-matching contributions.

The Obama administration made a push to get people to save more for retirement, even outside the realm of the 401(k). It introduced a regulation that encourages states to set up retirement savings plans with automatic enrollment features for private-sector employees. The Labor Department has unveiled a proposal to enable large cities to create similar plans.

Opponents have said such plans crowd out competition from the private sector, and Congress blocked the Obama administration's attempts to create similar plans at the federal level.

Eight states, including Illinois, Massachusetts and California, have plans to set up their own programs for the uncovered that will offer guaranteed returns and provide incentives for small businesses to create accounts for people who don't have them. Dozens more are exploring the idea.

Some initial believers in the 401(k) think recent measures to boost savings don't go far enough. Ms. Ghilarducci wants to ditch the 401(k) altogether. She and Blackstone Group President Tony James are recommending a mandated, government-run savings system that would be administered by the Social Security Administrationand managed by investment professionals.While both are Democrats, they believe their solution has bipartisan appeal.

"There are a lot of governors and mayors who are Republicans, and the first wave of the crisis will affect states and cities," Ms. Ghilarducci says.

She says she has already reached out to President-elect Donald Trump's advisers to float the plan.

Others are calling for a national mandate on savings or requiring companies to automatically enroll participants at 6% of pay. Sen. Marco Rubio, the Florida Republican, has proposed opening up the federal government's Thrift Savings Plan, the 401(k)-style plan for federal employees, to private-sector workers.

Some early 401(k) supporters are learning about its shortcomings firsthand. Mr. Whitehouse, the former Johnson & Johnson human-resources executive, says his 401(k) took a hit after 2008. He could retire if he had to, but if he wants to maintain his standard of living for several more decades, he must continue to work, he says.

The 65-year-old currently lives in Orlando and is in-house counsel for ABC Fine Wine & Spirits, a Florida chain with about 140 stores. He plans to work into his mid-70s.

It would be appealing, he says, to have an old-fashioned pension. "A pension is pretty valuable," he says.

(See related letters: "Letters to the Editor: 401(k)s Were Just One Part of the Solution" -- WSJ Jan. 19, 2017)

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Ahead of the Tape Street's Strategists Run as Pack in '17

By Steven Russolillo
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Wall Street strategists are abiding by a new motto these days: When in doubt, copy everyone else.

The turn of the calendar comes at a time when stocks are sitting near records. The combination of stretched valuations and the unknowns about Donald Trump's first year as president make 2017 a tough year to forecast.

That has made the herd mentality on Wall Street more pronounced than ever. A group of 15 Wall Street strategists expect the **S&P 500**, on average, to finish the year at 2356.

That is only about a 5% gain, the least optimistic this bunch has been since 2005, according to Bespoke Investment Group.

At the high end is RBC's Jonathan Golub, who forecasts 2500 by year-end. On the other side, David Kostin at Goldman Sachs Group Inc. and Bank of America Merrill Lynch's Savita Subramanian are among several strategists withtargets of 2300, just a slight rise from the end of 2016.

Within the consensus forecast is a telling trend: Few strategists are willing to deviate much from the pack.

The gap between the most optimistic and pessimistic forecasts is just 9%, the smallest on record dating back to 1999, according to Jason Goepfert, founder of Sundial Capital Research.

For instance in 2000, the most optimistic strategist thought the **S&P 500** would finish the year at 2800. The most **bearish** expected 1400. Neither was correct as the **S&P 500** dropped 23% that year, finishing at 879. The gap between the two has narrowed in the years since. And now, basically everyone has similar forecasts. "The biggest worry is that group-think is rampant," Mr. Goepfert said.

There is a bright side: Strategists are coming off a surprisingly accurate year. At the beginning of 2016, they forecast the **S&P 500** would finish at roughly 2200, just belowwhere it ended Friday.

That is rare; since 2000, they have predicted the **S&P 500** would gain about 10% a year, grossly overshooting the market's actual performance. And, on average, the consensus always has predicted annual gains, missing all five down years in that stretch. The only time strategists' forecasts were more accurate than last year was in 2005, when they missed the **S&P 500**'s 3% gain by only 0.2 percentage points.

Just like predicting the weather, forecasting the market is often a dubious exercise, not just for Wall Street strategists but other market soothsayers. A study by CXO Advisory Group collected more than 6,500 forecasts from 68 so-called market gurus.

More were wrong than right. And an accuracy rate as high as 70% was "quite rare," says Steve LeCompte of CXO.

Maybe there is a benefit to following the herd. When the consensus forecast is wrong, at least everyone will be wrong together.

(END)

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Heard on the Street
2016: The Recession That Wasn't

By Richard Barley
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[Financial Analysis and Commentary]

When the historians come to grips with 2016, they will have plenty of material to work with.

From Brexit to Donald Trump, the year has offered investors lots of surprises. But for markets, the things that didn't happen were just as important.

A big one: a recession. Early in 2016, investors feared a renewed economic downturn, with concerns centering on China. By early February the **S&P 500** was down more than 10% and bonds were surging. Commodities cracked, with **oil prices** falling below $30 a barrel.

But from that fear came consequences. The commodity rout extended the period of ultralow inflation. Central banks in developed markets became more dovish. The Federal Reserve, which came into 2016 talking about four rate increases, raised rates only once, in December. The dollar rally went on hold, potentially supporting emerging markets.

Investors, of course, are forward-looking. Prices are a function of competing views about the future that take into account the risks around the underlying central case.

That helps explain the swings in markets. Early in 2016 investors became too pessimistic. In the end, the underlying global economy was pretty stable.

But heading into 2017, particularly in the U.S., markets have embraced the reflation agenda. J.P. Morgan Chase noted recently that consensus forecasts for global growth in 2017 had barely moved since the U.S. election, while markets had clearly been more upbeat.

Expectations can be self-fulfilling. But for markets, a lot is riding on what Mr. Trump does -- and doesn't do -- starting Jan. 20.

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The Year Ahead 2017 -- U.S.: Trump to Take Office; Fed Performs a Balancing Act

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Donald Trump's inauguration will set off far-reaching change in Washington, as his nominees face Senate hearings and a Republican-led Congress begins to consider his agenda of tax cuts, deregulation and a rethinking of health care and immigration.

Meanwhile, the Federal Reserve aims to gently push interest rates higher as economic recovery continues without unnerving the **financial markets**. New Jersey and Virginia will elect governors, while several big cities will select mayors. And the Supreme Court could have a full bench of justices for the first time since last February.

-- Jan. 1: New York City opened Second Avenue subway line, first proposed in 1920

-- Jan. 3: 115th Congress convenes in Washington under GOP control

-- Jan. 20: Donald Trump takes office as 45th U.S. president

-- Jan. 25-27: House and Senate Republicans hold joint policy retreat, Philadelphia

-- Jan. 25-26: Senate Democrats hold retreat, Shepherdstown, W.Va.

-- Jan. 31-Feb. 1: Federal Reserve policy-setting committee's first meeting of 2017

-- Feb. 8-10: House Democrats hold retreat, Baltimore

-- Feb. 27-March 1: National Association of Attorneys General meeting, Washington

-- March 15: Fed policy statement, quarterly news conference

-- April 1: Potential recruits take Chicago police exam as city seeks to hire almost a thousand officers after violent 2016

-- April 7: Las Vegas federal court trial of Bundy family members stemming from 2014 U.S. land standoff in Nevada

-- April 17: Supreme Court could have a full bench of nine for arguments, first time since Justice Antonin Scalia's February 2016 death

-- May 16: Los Angeles Mayor Eric Garcetti up for re-election

-- June 13: Virginia primary will select candidates to replace Gov. Terry McAuliffe, who can't run again due to term limit

-- June 14: Fed policy statement, quarterly news conference

-- Sept. 20: Fed policy statement, quarterly news conference

-- Oct. 22-26: AFL-CIO's quadrennial convention, St. Louis

-- Nov. 7: Election Day. Gubernatorial races in Virginia and New Jersey, where Gov. Chris Christie can't run again due to term limit; New York Mayor Bill de Blasio seeks re-election

-- Dec. 13: Fed policy statement, quarterly news conference

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Year-End Review & Outlook (A Special Report): Markets And Finance --- Central Banks Loosen Their Grip

By Jon Sindreu
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For markets, the era of the central bank may be starting to draw to a close.

In 2017, tightening monetary policy and brighter economic fundamentals could ease markets from the grip of the central banks whose policy in recent years has dominated trading in bonds, shares and other assets.

That shift portends big changes for investors, who already are repositioning in anticipation. A long period of ultralow interest rates and central-bank asset buying has boosted the prices of bonds and safe stocks. Now, investors expect economic performance to catch up as a key driver, not least as they predict stimulus will stop expanding.

That means the riskier assets that benefit more from growth are expected to take their end-of-year rally into 2017, while bonds and more defensive stocks will continue to suffer.

Analysts also expect that investors will now focus more on company profitability and credit risk, as they spend less time analyzing central bankers' speeches word by word.

"We start going back to a world in which fundamentals matter a bit more," said Dean Turner, economist at UBS Wealth Management.

Since the financial crisis, central banks have unleashed large asset-buying programs and kept interest rates at historically low or even negative levels to help stimulate growth and inflation. The European Central Bank buys 80 billion euros ($84 billion) in government and corporate bonds a month. The Bank of England also buys corporate and government debt. The Bank of Japan even buys stocks.

A company's revenue tends to look more attractive when rates are low, which often boosts its stock. That helps explain why shares in the **S&P 500** are trading at 17 times the earnings they are expected to generate during the coming year, compared with a 10-year average of 14.4, according to data provider FactSet.

"The **stock market** hasn't been earnings-led for a long time, it's been bond-led," said Scott Meech, a fund manager at Swiss private bank Union Bancaire Privee.

But many investors now see a limit to central banks' stimulus. In December, the ECB extended its bond-buying program but plans to reduce its size starting in April, amid concerns that it was running out of assets to purchase. Shortly after, the Federal Reserve nudged up rates by a quarter of a percentage point and hinted at tighter policy in the future.

Some investors expect governments to fill the gap and take a bigger role in pushing growth and inflation. In the U.S., President-elect Donald Trump has pledged to increase infrastructure spending and ease financial regulation. Higher commodity prices also have boosted inflation expectations.

"Central banks, particularly the Fed, may well have less ability to tilt dovish if fiscal stimulus and deregulation help stimulate already recovering economies," said Arnab Das, head of emerging-markets economic research at Invesco.

Since November, those shares in the MSCI World index more exposed to economic swings, or cyclical stocks, have gained 10%.

Safer, or defensive, stocks on the index went up only 4.6%, despite having outperformed since the financial crisis. Relative to defensive stocks, the prices of cyclical shares are now at their highest since 2008.

By contrast, global bonds have lost 5% in the past two months.

The question is whether companies will prove profitable enough to justify the market's risky bets for 2017. Projected earnings per share for the coming year are at all-time highs for the **S&P 500** and have recovered for the Stoxx Europe 600 as well, after falling at the end of 2015.

"Earnings are an improving trend across the world," said Nigel Bolton, a fund manager at BlackRock Inc., the world's biggest asset manager with $5.1 trillion under supervision. "We are now in this sweet spot for equities."

In the third quarter, the U.S. economy expanded an annual rate of 3.2%, a two-year record. Investors are slightly more optimistic about economic prospects in the eurozone and Japan, two regions plagued by years of feeble growth. Stable 6.7% growth in China in the first three quarters of 2016 has calmed earlier fears of a painful crash.

"It's true that central banks are stepping away, but they are stepping away for a reason," said Fabio Bassi, chief European rates strategist at J.P. Morgan Chase & Co.

But risks remain: In recent years, corporate earnings have tended to disappoint. And the end of central-bank omnipresence, which is unlikely to fade quickly, has been called before.

Furthermore, the expected burst of government spending may not arrive. Fiscal policy remains subject to political constraints, such as fears about government debt piles.

"Absent the threat of a recession, we should not expect a broad plan to stimulate the economy financed by a deficit," said Didier Borowski, analyst at Amundi Asset Management, Europe's largest investor, which manages $1.1 trillion.

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Year-End Review & Outlook (A Special Report): Markets And Finance --- Europe's Growth Caught Between Politics, Policy

By Mike Bird
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R1
English

The big question for Europe in 2017 is whether fragile economic growth and unprecedented central-bank stimulus will be overtaken by populist politics.

European stocks could have a strong year if the antieuro populist candidates that have gained traction over 2016 fail to win elections, as polling suggests. But if populist candidates triumph in coming votes, the prospect of a eurozone breakup could return to markets.

Meanwhile, the world's two most important central banks -- the Federal Reserve and the European Central Bank -- continue to diverge in policy, putting downward pressure on the value of the euro. The Fed expects to lift interest rates three times in 2017; the ECB is still engaging in its bond-buying program.

The euro in December reached its lowest level against the dollar since 2003, falling to $1.0352. It declined 3.1% against the greenback in 2016 and is down 8.8% from its peak in May. It ended the year at $1.0520.

"A weaker euro is in the interest of the euro-area economy, and pressing down on shorter-dated yields is a good way to [keep the euro weak] at a time when the Fed is moving in the other direction," said Chris Scicluna, head of economic research at Daiwa Capital Markets Europe.

A combination of a weak euro, decent economic growth and a stronger performance for banks could be just what European investors have wanted for years, at least for those bold enough to remain in the market despite political turbulence.

In 2016, international money managers soured on Europe. In the first three quarters of the year, the eurozone suffered net outflows of about 405.4 billion euros ($423.8 billion), according to ECB data.

There are good reasons to think that 2017 will offer a repeat performance: Antieuro parties could score big wins in French, Dutch and German elections, putting the future of the European Union in question and risking a blow to the region's growth. The U.K. government aims to begin negotiations to leave the EU, expected to last two years, by the end of March.

In a poll of credit investors conducted in December by Bank of America Merrill Lynch, 60% said that "a greater euroskeptic push" was their primary expectation for European politics in 2017.

Though polling suggests French far-right candidate Marine Le Pen wouldn't beat center-right candidate Francois Fillon in the second round of the presidential vote scheduled in May, investors are mindful of the risk of a victory for an antieuro leader in the currency union's second-biggest economy. Ms. Le Pen has advocated that France leave the eurozone and return to the franc and has promised a referendum on the country's EU membership.

A Le Pen victory is possible, said Andrew Wilson, CEO of Goldman Sachs Asset Management in Europe, the Middle East and Africa. "It's not our central case, but I wouldn't describe it as a tail-risk event.

"It would raise the question for markets, can the euro project survive? It would be reminiscent of the European debt crisis," Mr. Wilson added.

Populist candidates also are up for election in Germany and the Netherlands in 2017. But many optimistic investors note that none of the elections scheduled looks likely to produce a victory for a populist candidate. Bookmakers Betfair estimate Ms. Le Pen's chances of winning the French election at 27%.

"It could be that in nine months' time we're saying we dodged the worst potential outcome and ended up with center-right governments or coalitions that could be quite market friendly," said Philip Dicken, head of European equities at Columbia Threadneedle Investments. "If earnings growth does come back in, couple that with lower valuations and better politics, and you could easily see the flows come back in."

Though populist Donald Trump's victory in the U.S. presidential election in November was followed by a **stock-market** rally, in Europe any positive impact of a populist win on stocks would likely be overshadowed by the renewed risk of the eurozone's breakup.

Stocks in the Euro Stoxx index trade at a price-to-book ratio of 1.67, considerably cheaper than the 2.8 ratio of their counterparts in the **S&P 500 index**.

Meanwhile, the eurozone economy ended 2016 with solid, if unspectacular, growth. The ECB projects eurozone gross domestic product growth of 1.4% in 2017. The European Commission's economic-sentiment index for the bloc in November rose to its second-highest level since the sovereign-debt crisis, at 106.5; the index's long-term average is 100.

Likewise, business surveys point to healthy expansion, and unemployment has dropped consistently through 2016 from 10.4% in January to 9.8% in October.

European stocks have lagged behind their U.S. peers in recent years. While the Stoxx 600 Europe index has risen about 70% since the end of 2011, the **S&P 500** has climbed more than 100%.

"Europe has been one of the biggest disappointments, but people got too negative," said Francois Savary, chief investment officer at Geneva-based Prime Partners "I see the scope to outperform the U.S. next year."

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THE WALL STREET JOURNAL.
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Year-End Review & Outlook (A Special Report): Markets And Finance --- New Era for Rates, Regulation Dawns For Investors --- Financial shares rallied on hopes that higher rates, lower taxes, fewer constraints and a stronger economy will grow bank profits

By John Carney
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R1
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The dual prospects of a Donald Trump presidency and further interest-rate increases lifted banks' shares in the closing weeks of 2016. This year will reveal whether a new economic order will actually emerge, and boost banks' businesses with it.

The outcome is crucial for both broader markets and the nation's outlook for growth. Financial stocks are a big part of the **S&P 500**, and banks' ability and willingness to lend could prove critical to the business boom the Trump administration aims to generate.

So far, markets are upbeat on the possibilities, betting banks will benefit from higher rates, that other businesses can tolerate them and that less regulation and lower taxes will help the economy overall.

The **S&P 500**, which plummeted at the start of 2016, closed the year up 9.5%. Meanwhile, the **Dow Jones Industrial Average** rose 13%.

The jubilation is particularly apparent among financial stocks: Among **S&P 500** sectors, financials were the second-best performer in 2016, up 20.1%.

The KBW Bank Index has risen about 22% since Election Day, hitting its highest level since 2009. That is a dramatic reversal for an index of large national and regional banks that had spent the first 10 months of the year below its year-prior levels and at some points hit multiyear lows.

The gains reflect investor expectations for the broader economy since the firms' big revenue generators -- lending, trading and capital-markets activity -- are closely correlated to economic growth, interest rates and the steepness of the yield curve, or the difference between long- and short-term rates. The bigger the difference, the better it is for banks because they borrow short term and lend long term. Expectations for higher rates and a steeper yield curve have been rising since the election, while the Federal Reserve has echoed that by signaling three more interest-rate increases could be in store in 2017.

Another plus for banks: the idea that the Trump administration will usher a less onerous regulatory environment. Less regulation could allow banks to boost profits and capital returns to shareholders.

If there is a problem for bank-stock investors, it is that shares are priced at levels that suggest the future is already here. "While we're constructive on banks, the rapid rise has us nervous," said Terry Gardner, a portfolio strategist at investment-management firm C.J. Lawrence.

And soaring share prices have pushed up some valuation measures sharply, in many cases beyond historical averages.

Shares of five of the six largest U.S. banks -- J.P. Morgan Chase & Co., Bank of America Corp., Wells Fargo & Co., Goldman Sachs Group Inc. and Morgan Stanley -- are trading at more than 13 times forward earnings estimates, compared with averages of between 10 and 12 times over the past 15 years, according to FactSet. Citigroup Inc. is the only laggard, trading at just shy of 12 times forward earnings, although that figure is still up sharply from less than 10 times before the election.

But valuations may appear lofty because many analysts haven't yet formally adjusted earnings forecasts in light of the election. If those climb, valuations will look more reasonable.

For example, a combination of accelerated share repurchases -- a possibility if the Trump administration appoints less-stringent banking regulators -- steeper yield curves, accelerated loan growth and more-robust trading and investment-banking revenue could push earnings per share for big banks up by 18% over analysts' pre-election estimates, according to Credit Suisse bank analysts.

And potential changes to corporate-tax rates could boost bank earnings further, even if some may take hits to tax assets on their books generated by prior losses. Sanford C. Bernstein bank analyst John McDonald recently estimated that cutting the corporate tax rate to 20% from the current 35% would raise Wells Fargo's earnings per share 18% above the firm's 2018 forecast. J.P. Morgan's earnings would rise by 13%, Bank of America's by 12% and Citigroup's by 10%.

Just how much benefit further regulatory changes could bring is less clear, although investors are betting they will do more good than harm.

As a candidate, Mr. Trump promised to roll back the Dodd-Frank Act, the postcrisis law that dramatically increased regulatory oversight of the U.S. financial system as a whole and banks in particular. In response, lenders have had to increase the amount and quality of their capital and available liquidity, revamp their trading operations, and extend the duration and stability of the debt they use to fund themselves.

Many observers have suggested that these changes are responsible in part for the low returns on equity banks have reported in recent years. Those low returns have depressed bank valuations.

But dramatic changes to the regulatory environment -- including a possible repeal of Dodd-Frank itself -- wouldn't immediately boost bank profitability. The changes banks have made to their operations and funding can't be instantly reversed, even if that were what banks wanted to do. And there are indications banks aren't looking for a complete reversal of regulatory direction.

"We don't need to tear up the rule book," said Francesca Carlesi, head of regulatory affairs at Deutsche Bank. "We need time to digest the rules we have."

Academic studies also suggest it can take banks several years to adjust to major shifts in regulation. In the short term, that could actually be a drain on earnings as banks may have to spend more to adjust compliance systems around new rules.

While banks have been the come-from-behind underdog stocks of 2016, little of their gains are due to anything the firms themselves have done. In 2017, their fates will also be largely decided by forces outside their control.

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DealBook
Business Day; DealBook
With Trump, an Economic Feast With Surprises on the Menu

By ANDREW ROSS SORKIN
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Ladies and gentlemen, please, please take your seats. It is time again for our annual DealBook closing dinner, where we look back at the year that was to toast and roast the year's deal makers and look ahead to what may come next.

Thank you all for coming to D.C. this year. A special thanks to the folks in the reservations department at the Trump International Hotel here who helped us rent this ballroom on last-minute notice. We know how booked up this place can get with foreign diplomats and leaders; we understand we were competing with a Russian delegation, an Israeli group and perhaps even Bob Dole, who was apparently trying to get the room on behalf of Taiwan.

We sweetened our offer by agreeing to buy everyone a bottle of the fragrance Empire by Trump. (We debated handing out another of his fragrances, Success by Trump, but we thought we'd wait to see how things go.)

Sitting on the dais tonight, the nation's new chief deal maker and the author of "The Art of the Deal," President-elect Donald J. Trump, along with — of course — his entire family. (And please keep off Twitter during the dinner. Sorry. I know, #sad.)

Over at the Government Sachs table is Goldman's new D.C. alumni committee: Steven T. Mnuchin, the nominee for Treasury secretary; Gary D. Cohn, Trump's appointee as director of the National Economic Council; Stephen K. Bannon, Mr. Trump's chief White House strategist; and Anthony (The Mooch) Scaramucci, who has been working as an adviser out of White House North. (O.K., the Government Sachs joke is getting old, but it's low-hanging fruit.)

Tim Cook of Apple is here. He's sitting, hopefully not too uncomfortably, at a table with James B. Comey from the F.B.I., who claims he lost his password to the scratched iPhone in his pocket and needs help. Sorry, Jim, this is not the Genius Bar; you'll need a subpoena for that one — and please don't announce anything until you're absolutely sure. Next to him is Larry Page of Google, holding court, again, on the importance of two-factor authentication for Gmail. (John D. Podesta clearly missed last year's dinner.) Mark Zuckerberg of Facebook looks as if he just sat down. And yes, Mark, this annual dinner column is fake news, but please don't filter it!

Jeff Bezos was kind enough to contribute a free Amazon Echo to everyone in attendance this year, so feel free to ask Alexa anything you want. Mr. Trump, please remember: It's a hot mike, so watch yourself with the P-word — Putin, that is. He is probably listening. Don't make Rex W. Tillerson of Exxon Mobil, our next secretary of state, have to call his "friend" to explain things.

On the menu this evening: crow. That's what we've been eating since most of us here completely missed the way the election would turn out. (Except for Nigel Farage at Table No. 3!) And by the way, the barbecue stations during cocktail hour were provided courtesy of Samsung's Galaxy Note 7.

Finally, for the business executives in the room who are wondering if this free meal violates your conflict-of-interest policy, don't worry; see what your legal department says when you tell it, "If it's good enough for the president, it's good enough for me."

Now, on to the toasts — and some predictions for the new year.

What's Next?

Let's start with predictions, given that everyone, myself included, seemed to be so wrong about everything in 2016 — Trump, Brexit, the way the **stock market** would go. Instead of offering conventional predictions, I'm going to offer up some Black Swans — things that were considered unthinkable but may now be thinkable, in a blue-sky, the-world-is-upside-down kind of way. Consider some of these thought experiments, if nothing else.

Here's a doozy: How about the possibility that Mr. Trump will grant Edward J. Snowden clemency as part of a handover with Putin? After all, the president-elect's former adviser, Roger Stone, has called another leaker, Julian Assange, a hero. What's to stop Mr. Trump from taking the same position?

This one may be slightly more plausible: Masayoshi Son, the billionaire controlling shareholder of Sprint — and a newfound friend of Mr. Trump's who pledged to invest $100 billion in the United States and create 50,000 jobs — makes a bid to merge Sprint with T-Mobile. Under most antitrust analysis, such a deal would be dead on arrival. But perhaps under a new business-friendly administration — and given Mr. Son's public support for the president-elect — the transaction gets the green light?

Here's another: With the possibility that the Trump's administration will undo net-neutrality laws that allow content companies to transmit unlimited data over cable company pipes, Netflix will finally accept a takeover bid — from Disney, which has been looking for a way to create an even stronger direct relationship with its customers. It would be Robert A. Iger's final megadeal before his contract expires in 2018. It would also pave the way for Mr. Iger to hire digitally savvy Sheryl Sandberg of Facebook, a Disney board member, to take over for him.

Final unthinkable prediction: Uber will buy its main competitor, Lyft. Uber lost about $800 million in its third quarter, even after selling its business in China to Didi Chuxing. Its China unit was bleeding some $2 billion in losses already. What does all this mean? The ride-sharing business is harder to turn a profit on than some people thought. Uber decided it was too hard to compete in China, so it sold to its larger competitor there for a 17.5 percent stake in the combined company. Yet Uber still needs to subsidize rides in many major American cities because it is in a heated battle with Lyft and others. Why not just buy Lyft, which has made noise about trying to sell itself and which remains unprofitable as well? Would regulators allow it? Sure. The reason these businesses have struggled is because there is almost too much competition in many markets.

Leaving Wells Fargo

John G. Stumpf, the chairman and chief executive of Wells Fargo, wasn't supposed to end his career this way. He is a reasonable and — dare I say — decent man, yet he led a bank engaged in one of the most blatant financial scandals in recent memory. Wells opened up millions of accounts without the permission of its customers, just to goose internal numbers. In truth, customers lost only $1.5 million, which, if we're being honest, is minuscule for a bank the size of Wells Fargo. The problem is that Mr. Stumpf treated it as a blip on the radar screen and ignored the significant damage his bank was doing to real people. And when he was called to account, he didn't have the right answers. Ultimately, he resigned, which was the right decision. But it could have — and should have — all been avoided.

The Theranos Mystery

Somehow, Theranos is still in business. Elizabeth Holmes is still the chief executive. And otherwise credible professionals like the lawyer David Boies remain on the company's board. This is all quite a head scratcher because the company's technology has been called a fraud; the government is investigating for fraud; the company's partners, including Walgreens, have dropped the service from its stores; and Ms. Holmes has been barred from the blood-testing business for at least two years in California. When does it end? We might have to wait until the film version comes out. Adam McKay, who wrote and directed "The Big Short," is working on a script for a movie tentatively titled "Bad Blood" and starring Jennifer Lawrence as Ms. Holmes.

Parting Word for Obama

President and Michelle Obama couldn't make it to dinner (the venue might have been a turnoff). But whatever you think of his stewardship of the nation, he deserves our thanks. For those of us who pay attention to economic statistics, Mr. Obama walked into the worst economic crisis in recent history. We are now in the longest economic expansion and monthly job creation in history. Was he alone responsible? No, but it happened on his watch. Could we have gone faster with different policies? Very possibly. We will see just how much faster we can grow and if there is a cost to doing so under the next administration. Was he perfect? Of course not. But in a town filled with scandals and red flags about conflicts of interest — which are often skewered in this annual column — the Obamas stand out for upholding the office with integrity.

The exterior of the Trump International Hotel, the renovated Old Post Office Pavilion in Washington. | Chad Bartlett for The New York Times | From left, Jeff Bezos of Amazon; Larry Page of Alphabet, Google's parent; and Sheryl Sandberg of Facebook at a meeting of tech industry leaders at President-elect Donald J. Trump's offices in Manhattan. | Kevin Hagen for The New York Times | Steven T. Mnuchin. nominee for secretary of the Treasury, on Capitol Hill. | Stephen Crowley/The New York Times | Anthony Scaramucci, a member of the transition team executive committee, speaking to reporters in the lobby of Trump Tower. | Sam Hodgson for The New York Times

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The New York Times

Business Day
'Apprentice' Returns, and December Jobs Data Are on the Way

By THE NEW YORK TIMES
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Here's a look at what's coming up this week.

MEDIA

With a new boss, a celebrity competition heads West.

It is lacking the usual leading man, who has moved on to bigger things. And the setting is now Los Angeles instead of an iconic Manhattan skyscraper. But the debut on Monday of "The New Celebrity Apprentice" (8 p.m., NBC) marks the return of a reality-television franchise that has been dormant since its star, Donald J. Trump, began a seemingly quixotic bid for president in 2015. Now, viewers may be tempted to split their time between assessing the show's new host, Arnold Schwarzenegger, and checking Mr. Trump's Twitter feed. Will the president-elect — who remains an executive producer — be watching, too? Michael M. Grynbaum

GOVERNMENT POLICY

A New Congress will convene on Tuesday.

The 115th Congress begins its session on Tuesday with Republicans in control of both chambers. Republicans plan to move quickly to change the tax code and repeal the Affordable Care Act. Democrats in the new Congress are set to oppose both measures, hoping to defend President Obama's legacy and to portray the Republican tax plan as a gift to the nation's wealthiest citizens. Zach Wichter

ECONOMY

The Fed will release minutes of a meeting last month.

The Federal Reserve will release, at 2 p.m. on Wednesday, the minutes of the last meeting in December of its Federal Open Market Committee. At the December gathering, Fed policy makers raised interest rates for the first time in a year, and for only the second time since the financial crisis and Great Recession. Although the move was expected, experts were surprised by signals that the Fed might raise rates three times in 2017, a faster pace than the Fed had indicated in September. As a result, this summary of the two-day meeting will be closely analyzed for clues to the Fed's thinking, and what path officials envision for monetary policy this year. Nelson D. Schwartz

December jobs data are coming.

On Friday at 8:30 a.m., the Department of Labor will report data on hiring and unemployment in December. Economists estimate that employers added 175,000 jobs, in line with the 178,000 gain in November, with the unemployment rate down to 4.6 percent. Average hourly earnings are thought to have advanced by 0.3 percentage point, bringing the 12-month advance to a healthy 2.8 percent.

This is the first unemployment report since the Federal Reserve raised interest rates in December, and experts will look for clues to when the Fed will move next. A monthly gain of more than 200,000 jobs would strengthen the argument of hawks who believe economic growth is strong enough to justify another rate increase sooner rather than later.

Later that morning, at 10, the Commerce Department will report on factory orders in November, with economists looking for a decline of 2.6 percent. Factory activity tends to be **volatile**, with big-ticket items accounting for large swings. A drop in aircraft orders accounts for November's expected decline. Core manufacturing otherwise remains stable, although the strong dollar lately may hurt production in the months ahead. Nelson D. Schwartz

AUTO INDUSTRY

Sales results for December are expected.

Automakers will report results on Wednesday for new car and truck sales in the United States in December, capping a year that appeared poised to match or possibly exceed the annual sales record of 17.47 million vehicles set in 2015. But while the overall pace of sales remained strong in 2016, some car companies have begun trimming production in anticipation of slightly softer demand in the year ahead. Companies are also adding incentives and other discounts to bolster sales of slow-selling passenger cars, as consumer tastes shift more toward sport-utility vehicles and pickup trucks. Bill Vlasic

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TECHNOLOGY

A big showcase for new devices opens in Las Vegas.

Expect announcements of new wearable gadgets, new virtual reality rigs and lots of headphones at the giant Consumer Electronics Show, which will run in Las Vegas from Thursday to Sunday. Unlike shows in previous years, this one lacks any discernible theme, and some of the largest tech companies are expecting a diminished role. Two chip-makers, Nvidia and Qualcomm, will deliver the most anticipated keynote speeches. Nissan and Huawei are also promising big news. Farhad Manjoo

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The New York Times

FAIR GAME
Money and Business/Financial Desk; SECTBU
Worker Does Own Inquiry Into Pension

By GRETCHEN MORGENSON
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English

As troubled pension funds go, the New York State Teamsters Conference Pension and Retirement Fund, with some $1.3 billion in assets, is by no means the largest. Neither is it in the direst financial shape, even though just 44.8 percent of its obligations are funded.

But given that participants in this fund may face benefits cuts of at least 20 percent, learning what went wrong could be instructive not only for other imperiled retirement funds but also for taxpayers who may have to cover the shortfalls.

Like many pension plans, the Teamsters fund was hurt badly by the steep market decline of 2008. Those overseeing the fund also tie its troubles to the decline of unionized employment in the trucking industry, which has translated into fewer contributions to the plan.

Both of those factors are real. But an examination of the fund identified other pernicious forces: most notably, illiquid, opaque and high-cost investments. At least 40 percent of the fund is in so-called alternative investments, including expensive private equity deals, hedge funds and real estate.

For a fund poised to suspend benefits, holdings like these are especially problematic.

Eileen Appelbaum, senior economist at the Center for Economic and Policy Research, a nonpartisan organization in Washington, said she was not surprised by the findings on the Teamsters fund.

''Wall Street promises these really high returns, but private equity has not delivered since 2006, and hedge funds have been losing money for a very long time,'' Ms. Appelbaum said. ''It's not a sensible way to proceed.''

Accrued liabilities in the Teamsters pension, which benefits 34,000 current and former truckers in New York, exceed its assets by $1.8 billion. A year ago, the fund's actuary certified that the plan was in a ''critical and declining status'' and projected an accumulated funding deficiency within four years. Within 19 plan years, the actuary said, the fund would be insolvent.

To tackle these woes, the pension trustees submitted an application in August to the United States Treasury to reduce benefits. The trustees acknowledged the pain and said their proposal was the only realistic way ''to save the fund from financial failure and help ensure that we are able to continue to pay benefits to all New York State participants in the future.''

Under the proposal, subject to certain limitations, all active participants in the pension would see their monthly benefits reduced by 20 percent; retirees and other nonactive participants would see a 31 percent reduction.

Some fund beneficiaries say the fund's decline took them by surprise; many have submitted comments to the Treasury against the plan.

One pension participant, Mark Greene, went further. Head of a nonprofit advocacy group called the Teamsters Alliance for Pension Protection, Mr. Greene, 44, raised money from fellow workers to study what had happened at the fund. He said it was the first such investigation among Teamsters pension funds as far as he knew.

"The plan has a terminal illness," said Mr. Greene, a UPS employee for 28 years who drives a rig out of Kingston, N.Y. "Was it the result of natural causes, or was it self-inflicted? Let's look at the role Wall Street played. That's why we're doing a forensic study."

The report is the first step in understanding what went wrong at the pension, Mr. Greene added. To conduct the analysis, he hired Edward Siedle, a former Securities and Exchange enforcement lawyer whose company, Benchmark Financial Services, investigates money managers for investors and pension beneficiaries.

Mr. Siedle did not gain access to all the fund documents needed to do an exhaustive review. But the materials he had showed that opacity, expenses and illiquidity among the pension fund's investments had risen significantly as its financial condition worsened. He estimated that the fund incurred $400 million in avoidable losses owing to underperformance and over $500 million in excessive expenses.

Eight trustees represent employers and workers in the Teamsters fund. Asked about the report's findings, Kenneth R. Stilwell, the fund's executive administrator, disputed them. In an email, he characterized the data in the report as "grossly inaccurate" and its conclusions "completely unreliable."

"The fund's investment performance has been strong," Mr. Stilwell added. "Since March 2009, the fund has returned 10.8 percent per year. In 2016, the fund has returned 9.2 percent through September." (Still, the fund's return from the **stock market**'s bottom of 2009 doesn't beat the gains in the broad **equity market** averages over that period.)

The trustees have told the plan beneficiaries that they have done everything possible to recover from the historic market losses in 2000 and 2008 and a declining active union population. And it is not surprising that the overseers of a troubled fund would quarrel with a post-mortem on its investment approach.

Indeed, Mr. Greene, the UPS driver, said he had encountered resistance when he suggested scrutinizing the pension fund. "Someone said, 'What gives you guys the right to have a forensic study of our plan?'" he recalled. "I said, 'It's our money.'"

The Teamsters fund is what's known as a multiemployer plan because it covers a group of workers paid by an array of employers. Such plans provide benefits to over 10 million participants across the country.

Troubled plans are in the minority. The Pension Benefit Guaranty Corporation, the government agency that backs the pensions of 40 million workers and retirees and takes over funds when they fail, estimated that multiemployer plans covering as many as 15 percent of those participants may become insolvent over the next 20 years. That percentage is sizable enough, though: The agency said its multiemployer insurance program was likely to run out of money by the end of 2025.

Participants in multiemployer plans are at far greater risk in a failure than those covered by a single employer. According to W. Thomas Reeder, the director of the Pension Benefit Guaranty Corporation, the maximum amount that a beneficiary would receive in a multiemployer plan collapse is a little under $13,000. Those in a failed single-employer plan could receive $60,000.

As for the Teamsters plan, it is unclear whether the proposed benefit cuts will be approved. The Treasury solicited comments on the proposal until recently, and it will rule in 2017.

Among those commenting on the proposal was Norman Stein, senior policy adviser at the Pension Rights Center, a nonprofit consumer organization focused on retirement security. He urged the Treasury to reject the plan, arguing that the pension's overseers did not take reasonable measures to avoid insolvency, such as reducing its expenses and replacing current trustees with an experienced professional.

If fund beneficiaries wind up incurring benefit cuts, Mr. Siedle, the pension investigator, said Wall Street should share in the pain too. "The fund is paying higher fees today than before it got into trouble," he said. "If you are going to impose an austerity program on recipients, then shouldn't you also impose an austerity program on its Wall Street providers?"

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DRAWING (DRAWING BY MINH UONG/THE NEW YORK TIMES) (BU6)

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The New York Times

Money and Business/Financial Desk; SECTBU
The High Price of Deutsche's Fall

By LANDON THOMAS Jr.
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In 2005, Deutsche Bank, then a powerhouse in the selling of risky derivatives on a global scale, was minting money.

To mark the moment, the bank's profit engine -- its global markets division -- commissioned a book about itself. The remembrance would celebrate how Deutsche Bank, once a sleepy lender to German car companies, had transformed itself in just 10 years into a force in financial engineering, selling interest-rate swaps, credit derivatives and opaque tax-slashing investment vehicles to the world's wealthy elite.

In the view of one senior executive, it all came down to masterly salesmanship by a single man, Anshu Jain, the chief promoter of the bank's hottest product: risk.

"The size just kept mounting and mounting," this person marveled in a passage in the book, referring to the growing demand for some of Deutsche's raciest fare. And it was Mr. Jain, the bank's eventual leader, who "dramatically accelerated that delivery of complex structures to the broader client base."

Today, these words read more like an epitaph than a commemoration. On Dec. 22, the bank agreed to pay $7.2 billion to settle a claim with the Justice Department that it pushed toxic mortgages on investors in the years leading up to the American housing bust.

The fine was one of the last -- and among the stiffest -- penalties imposed upon global investment banks by the Obama administration for their role in the financial crisis. And it was also a fitting coda to a turbulent 21-year run by the trading and banking unit at Deutsche that was inspired by three derivative specialists who had been poached from Wall Street years earlier.

In addition to Mr. Jain, they included Edson Mitchell, a charismatic builder of businesses at Merrill Lynch who, in 1995, was given a mandate by Deutsche to create a world-class investment bank in London and spare no expense in doing so.

Mr. Mitchell recruited two colleagues from Merrill to help him in his task. William S. Broeksmit, a derivatives trader with a risk manager's nose for spotting financial dangers, was one. And Mr. Jain, then just coming into his own as a purveyor of the exotic to hedge funds around the world, joined him.

Today, two of these three men are dead.

Mr. Mitchell died in a plane crash in 2000 at age 47. Mr. Broeksmit committed suicide in 2014 at 58.

As for the 53-year-old Mr. Jain, his carefully crafted plan to finish what his mentor, Mr. Mitchell, started at Deutsche Bank has ended in disappointment.

In the years since the financial crisis, many investment banks have had to pay significant amounts to atone for their various sins. And while the sum of Deutsche's fines is in the middle of the pack, the bank has been drawn into some of finance's furthest frontiers when it comes to the pursuit of profit.

Deutsche has been a primary offender in two of the biggest banking scandals of the past decade: promoting toxic mortgages to unwitting investors and manipulating for profit the main lending rate for banks in London. In the process, it has agreed to pay over $9 billion in fines and consumer relief. The bank has sold tax-reduction products to hedge funds, and is alleged to have helped Russian investors illegally move money overseas.

This is also a bank that marketed complex derivatives to Europe's sickliest bank, Monte dei Paschi in Italy. And it is one of the largest lenders to Donald J. Trump, having extended roughly $300 million in loans to the president-elect's businesses.

Analysts calculate that of the 20 billion euros in profits that Deutsche's trading and banking unit accumulated since 1995, as much as 15 billion euros will ultimately be returned to regulators via fines and penalties. Of course, not all of this lands in the lap of Mr. Mitchell -- and more recently, Mr. Jain.

The investment bank they created remains a power in bond and foreign currency trading worldwide. And from the beginning, it was overseen by a strong-willed German board that knew well the risks and rewards that came with such a business.

It is also the case that when Mr. Jain became co-chief executive of Deutsche in 2012, one of his first priorities was lowering the bank's risk, which he did by unloading opaque, hard-to-trade assets. In spring 2015, Mr. Jain put in place his own plan for reforming the bank, which his C.E.O. successor, John M. Cryan, has not entirely abandoned.

That said, Mr. Cryan has made it clear that his Deutsche Bank will be markedly different from Mr. Jain's. Since taking over last year, Mr. Cryan has preached simplicity, less risk, better internal controls and reduced reliance on derivatives. As for the investment bank he inherited from Mr. Jain, he has said that he is committed to it but that it will be a very different institution under him.

Through spokesmen, Mr. Jain and Deutsche Bank declined to comment.

Following Mr. Trump's election, Deutsche's stock has been on a tear, up over 30 percent on the hope that the combination of a banking-friendly president and a more cautious leadership under Mr. Cryan will help the bank chart a new path.

When an investment bank trips up in spectacular fashion, human misfortune is often a consequence. That could mean a cashiered chief executive seeing his career and reputation ruined. Or a rogue trader who loses billions of dollars and ends up in prison.

But there have been few instances in which the personal toll surrounding a bank's rise and fall has been as profound as this one.

Out of Chaos, Efficiency

By December 2000, Mr. Mitchell seemed to have accomplished the impossible. In just five years, he had hired thousands of traders and bankers from firms all over Wall Street (an effort that got a boost by the acquisition of Bankers Trust in 1999), forging not just a strong culture but also a highly profitable business.

While there were numerous deposit-driven banks in Europe that made a play for American investment banking business in the 1980s and 1990s, none did it with the zeal of Deutsche Bank under Mr. Mitchell and later Mr. Jain.

Even before he moved to London, Mr. Mitchell had developed a reputation for being one of Wall Street's premier recruiters, with a pied-piper-like ability to attract, and keep, the best traders and bankers around. He had a special methodology in his choosing, inclining toward those who came from big families and played team sports in college, because he felt that these traits would give him ''athletes'' capable of working well together in the large competitive grouping of a trading floor.

''It was as if entropy was his vision -- that out of this chaos would emerge a greater efficiency,'' said Kevin Ingram, a former top bond executive at Goldman Sachs whom Mr. Mitchell recruited in 1996 and who left Deutsche Bank in 1998 and later pleaded guilty to money-laundering charges. ''He did an extraordinary job in managing egos.''

At Merrill, Mr. Mitchell, Mr. Jain and Mr. Broeksmit had used their expertise in derivatives and swaps to carve out market share from established players like Goldman Sachs and Morgan Stanley. As Mr. Broeksmit would recount in an unpublished interview with a reporter for Bloomberg News, the strategy worked because of Mr. Jain's skill, while at Merrill, in enticing his hedge-fund clients into **volatile** yet profitable investments -- such as bond futures, swaps and other derivatives.

"He was persistent and persuasive and able to show it would make good economic sense," Mr. Broeksmit said, according to an email exchange with the reporter. Mr. Broeksmit's son, Val, provided documents and email communications from Mr. Broeksmit's files to The New York Times. A musician, the younger Mr. Broeksmit taught himself finance, and for several years he has been looking into his father's career at Deutsche in a search for answers as to why he took his life.

The plan was to use a similar strategy in London with Deutsche Bank.

"I remember Edson called me up and said, 'I have just been given the keys to the kingdom at Deutsche Bank -- we can do whatever we want,'" recalled Michael G. Philipp, one of the first Merrill executives to follow Mr. Mitchell to Deutsche; "2,500 people in 18 months -- it has never been done since."

Mr. Mitchell's untimely death in 2000 was a devastating blow to the bank and more so to his many friends and followers. But it did not alter the bank's mission, the mantle of which was eventually taken on by Mr. Jain.

By the time of the financial crisis, 90 percent of the bank's profits would come from the London-based global market's division -- fueled mostly by derivatives-driven trading bets and its dominant positions as a foreign currency trader.

All that changed in late 2008.

With one investment bank after another going bust, Deutsche's board had become increasingly concerned as to the bank's derivatives holdings, according to documents reviewed by The Times. In October 2008 the bank's derivatives exposure, net of cash collateral, was 181 billion euros, these documents show, a sizable sum given its equity cushion of just 30 billion euros.

Starting in 2007, Mr. Jain had already taken steps to materially reduce Deutsche's risk profile. However, he and his team pushed back hard against the view that the investment bank's power should be significantly curtailed.

"This underlines the paradox of D.B.," read a briefing paper for Mr. Jain prepared in advance of the bank's general executive committee meeting in mid-December 2008. "However much some at the G.E.C. would like to see D.B. return to its roots as a continental commercial bank, it is clear that international sales and trading will represent the bulk of value creation at D.B."

Sales and trading would also become the focus for regulators in Germany, London and the United States who, in the wake of the crisis, cracked down severely. The $7.2 billion penalty announced in December represents, in effect, the final bill to be paid toward the Mitchell and Jain plan of paying bankers outsize sums to take outsize risks in pursuit of outsize profits.

Of course, it was an approach that was endorsed by the leadership in Frankfurt, not least Josef Ackermann, Deutsche's chief from 2002 to 2012, who encouraged these bold gambits.

As the fines and scandals mounted, though, especially the rigging scheme involving a key interest rate known as the London Interbank Offered Rate -- in which Deutsche played a central role -- even bankers who had been along for the ride wondered if it had been worth it. "Shame on what is happening to DBK," wrote Martin Loat, a retired Deutsche Bank executive, to Mr. Broeksmit in December 2013, using the common shorthand of Deutsche's stock ticker.

"I was negative on big banks and very vocal to Joe on bonuses. The then-1.6 trillion euro balance sheet on 50 billion euros of equity was plain stupid. I also disliked credit derivatives with a passion. But Libor and other thefts -- that even ultra-cynic Martin never believed could happen," he wrote, referring to himself.

A Man of Loyalties

For many senior bankers, eye-watering losses and regulatory crackdowns are part of the cold calculation of a Wall Street career that can, quite suddenly, veer from triumph to ignominy.

Mr. Mitchell and Mr. Jain were such men -- exceedingly confident risk takers with thick public skins. Bill Broeksmit, a behind-the-scenes technician with an acute sense of the rights and wrongs in finance, was not.

And that is why his sad end carries a larger resonance as the business model that his two close colleagues put in place ultimately failed the institution and the many who had devoted their lives to it. He was, in many ways, the connective tissue linking Mr. Mitchell to his protégé Mr. Jain in their management of the bank.

Mr. Mitchell and Mr. Broeksmit were close friends, working together for more than a decade at Merrill and bonding over a shared love of Maine, where they decamped each summer. After Mr. Mitchell's death, Mr. Broeksmit would form a bond with Mr. Jain, offering advice to him, via official and unofficial channels, as to Deutsche's fluctuating risk profile.

Within Deutsche, Mr. Broeksmit was seen to be Mr. Jain's eyes and ears when it came to tracking various trading positions and risk exposures.

Mr. Broeksmit was always an ardent advocate for Mr. Jain. He was the Deutsche Bank executive who cited Mr. Jain's salesmanship abilities as a formative contributor to the bank's early success in the book that celebrated the unit's 10-year anniversary.

Mr. Broeksmit had originally been persuaded by Mr. Mitchell to move to London with the first wave of Merrill Lynch defectors in 1995 and 1996. As the brains behind Mr. Mitchell's ambition for Deutsche to become a leading derivatives bank, he was what financial hands call a plumber -- an expert in the piping and flow of money, largely unknown beyond the trading floor.

Bookish, though not without a touch of the trader's swagger, Mr. Broeksmit was also a man of loyalties, always quick to share the burdens of a friend in need. So when Mr. Jain asked him to take on a larger risk role at Deutsche in 2007, he said yes, even though he had been enjoying his more relaxed life as private consultant after stepping down as a full-time executive.

After a time, though, the drumbeat of investigations began to wear on him.

There was Deutsche's role in the rate-rigging scandal, for which it paid $2.5 billion, the highest sum of the roughly $9 billion paid by major investment banks.

There was a $55 million fine Deutsche had to pay for misstating its derivatives positions. And finally, there were the withering criticisms by the New York Fed regarding Deutsche's troubled American operations -- where, at the behest of Mr. Jain, Mr. Broeksmit had become a member of the board.

In the days after Mr. Broeksmit's death in early 2014, Mr. Jain ordered up a report, with help from outside lawyers, to determine whether the suicide had been work-related. Mr. Broeksmit's ties, direct or indirect, to Deutsche's many regulatory woes were examined in detail. In September of that year, the report concluded that there was "nothing that shows a direct link between Bill's death and his work at Deutsche Bank."

The executives who produced the report said that he was "not unhappy" during his last days at the bank in 2013. He had officially stepped down that summer, although, in his usual style, he was not cutting ties completely, staying on as a director at Deutsche's New York Bank. "Had my retirement luncheon hosted by Anshu last week," Mr. Broeksmit wrote to a friend that November. "It's the third time I have retired!"

A Guarded Private Life

The extent to which Deutsche's legal woes played a role in Mr. Broeksmit's untimely death remains a mystery.

In mid-2013, with investigations into Deutsche's conduct mounting, Mr. Broeksmit did pay a visit to a psychiatrist in London that became part of the coroner's examination into his death. According to the doctor's diagnosis, Mr. Broeksmit had "imagined being investigated, being prosecuted, losing his wealth and his reputation." But, in the same letter, the doctor said his patient recognized that these thoughts were not a "realistic possibility," even if they caused him sleeplessness and anxiety.

There are no records of Mr. Broeksmit paying further visits to a psychiatrist in the year before his death.

Outwardly, friends and colleagues do not recall Mr. Broeksmit showing signs of stress, although they do say he had always been very private in terms of his inner life. While he peppered his lawyers for updates on various investigations, he also made plans with a group of former colleagues to take a ski trip in February.

But on Jan. 26, 2014, instead of meeting his wife and son for lunch, Mr. Broeksmit slung a dog leash over a door in his London home, and hanged himself from it. Left by his side was a neat stack of company documents related to Deutsche's New York banking operations, and suicide notes addressed to relatives, as well as one to Mr. Jain.

"You were good to me," Mr. Broeksmit wrote to the man he had known for over 30 years, adding, "I am eternally sorry."

Anshu Jain was a force behind Deutsche Bank's appetite for risk. The bank has agreed to pay $7.2 billion to settle a claim that it pushed toxic mortgages on investors. (PHOTOGRAPH BY HENRY LEUTWYLER/CONTOUR BY GETTY IMAGES) (BU1); Top, Anshu Jain, left, and Jürgen Fitschen, co-chief executives of Deutsche Bank, at a shareholder meeting in 2015. Above, Edson Mitchell, who was given a mandate by Deutsche to create a world-class investment bank in London; and the London home where William Broeksmit, the brains behind Mr. Mitchell's ambition for Deutsche to become a leading derivatives bank, killed himself in 2014. (PHOTOGRAPHS BY THOMAS LOHNES/GETTY IMAGES; DEUTSCHE BANK; SUZANNE PLUNKETT/REUTERS) (BU5)

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Search Summary

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Date	01/01/2017 to 01/31/2017
Source	The New York Times - All sources Or The Wall Street Journal
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Results Found	201
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